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COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Financial Statements and Supplementary Information

December 31, 2018

(With Independent Auditors' Report Thereon)

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

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Independent Auditors' Report

The Board of Directors
Commuter Rail Division of the
Regional Transportation Authority and the
Northeast Illinois Regional Commuter Railroad Corporation
(Public Entities, doing business as Metra):

Report on the Financial Statements

We have audited the accompanying financial statements of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Illinois Regional Commuter Railroad Corporation, both doing business as Metra (Metra), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Metra's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Illinois Regional Commuter Railroad Corporation, both doing business as Metra, as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 7 and 12 to the basic financial statements, Metra adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 16, and required supplementary information on pages 44 through 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on Metra's basic financial statements. The schedule of revenue and expenses – budget to actual (budgetary basis), the budgetary basis schedule of operations, and notes to supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenue and expenses – budget to actual (budgetary basis), the budgetary basis schedule of operations, and notes to supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2019 on our consideration of Metra's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Metra's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metra's internal control over financial reporting and compliance.

KPMG LLP

Chicago, Illinois
June 19, 2019

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) relates to the financial position and results of operations of the Commuter Rail Division of the RTA (Regional Transportation Authority) and the NIRCRC (Northeast Illinois Regional Commuter Railroad Corporation – a public entity doing business as Metra).

Railroad operations performed directly by the NIRCRC as well as the results of operations of PSA (Purchase of Service Agreement – operations contracted to third parties) carriers are collectively known as "Metra." MD&A offers an analysis of Metra's financial position and results of operations during the years ended December 31, 2018 and 2017. Management's discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts. Please read it in conjunction with Metra's financial statements, which begin on page 17.

Except as otherwise indicated, all financial information herein is in United States dollars and determined on the basis of United States governmental accounting standards. Metra's objective is to provide meaningful and relevant information reflecting Metra's financial position and results of operations.

In certain circumstances, Metra may make reference to certain Non-Generally Accepted Accounting Principles (GAAP) measures that from management's perspective are useful measures of performance. The reader is advised to read all information provided in the MD&A in conjunction with Metra's 2018 financial statements and accompanying notes.

Business Profile

Metra is engaged in the commuter rail business. Metra's hub-and-spoke network of 11 lines comprising approximately 1,200 miles of track spans the six county area of Northeast Illinois and extends slightly into Kenosha County, Wisconsin. Metra's network provides Metra customers access to and from downtown Chicago. Metra operates out of four major terminals in downtown Chicago.

Metra's operating revenue is largely derived from passenger fares. Smaller amounts of revenue come from advertising, trackage fees, maintenance fees charged to railroads who operate upon Metra's operating tracks and the sale of construction and related services to various entities.

Metra supports about half of its operating costs (excluding depreciation) from operating revenue and about half from state/local funding. State/local funding is partly from PTF (Public Transportation Funds) from the State of Illinois General Fund, partly from dedicated sales taxes. PTF and applicable sales tax revenue are remitted by the State of Illinois to the RTA who disburses these funds to itself, Pace (Suburban Bus), CTA (Chicago bus/subway/elevated train), and Metra according to legislated formulas. The RTA has some leeway over how these funds are distributed.

Corporate Organization

Metra manages its rail operations as follows. PSA providers (Northern Indiana Commuter Transportation District – NICTD, BNSF Railway and Union Pacific Railroad) run their operations with some guidance from Metra staff. NIRCRC operations are managed directly by Metra personnel.

Metra runs its operations by function. The Mechanical (maintain rolling stock), Transportation (operate rolling stock), and Engineering (maintain track, right of way and structures) departments report to the Deputy Director of Operations, who reports to the CEO. Finance, Legal, and HR report to the CEO. Certain other administrative functions report to the Deputy Director of Administration who reports to the CEO.

Strategy Overview

Metra's focus is on transporting the citizens of Northeast Illinois in a safe, efficient fashion. Metra's goal is to be internationally recognized as a premier commuter railroad. Metra's commitment is to create value for the taxpayers of Illinois by delivering operational excellence. Most of Metra's business is done during the rush hour, primarily from people coming from outlying areas to Downtown Chicago but also some people traveling from Downtown to outlying areas (the reverse commute).

Metra's corporate goals are generally based on the following: Achieving a solid safety record, achieving a solid on-time performance record, maintaining its assets in a state of good repair and maintaining financial viability and stability.

Metra's business model is anchored on these four core principles: providing reliable service, controlling costs, committing to safety and developing people.

The basic driver of Metra's business is demand for reliable, efficient, cost-effective commuter transportation. As such, Metra's focus is to provide a high level of service to its riders, operating safely and efficiently, meeting short- and long-term financial commitments.

In 2018, Metra missed its 95% on-time performance goal with an annual percentage of 94.8%. Metra achieved its on-time performance goal six out of 12 months of the year, with a low of 92.3% in February 2018. Metra's overall on-time performance was 94.8% in 2018 and 95.8% in 2017.

During 2018, Metra experienced an increase in fuel prices. Ridership revenue was close to budget projections in 2018 and 2017.

To continue providing quality service, Metra needs to keep its asset base in good repair. Metra continues to seek federal and state funding towards this end. No unusual state or federal grants of any size were received during 2018 and 2017. Metra also continues to seek to provide internal sources of capital funding through raising revenues and controlling costs. Metra has achieved for several years and continues to target at least $5 million in operating efficiencies every year to further constrain fare increases.

Metra's ability to develop good people is a key factor in Metra's success. Metra is focused on recruiting well qualified people, and providing for their development so they can enjoy a long career at Metra. Metra works hard to develop its workforce through formal and on-the-job training. Metra provides many of its own skilled trades through apprenticeship programs; many Metra contract people progress through the ranks to junior and senior management positions.

(Continued)

Frequent renewal of equipment is a key to system reliability. Metra has an extensive program in which it rehabilitates cars and locomotives in house; locomotives are also remanufactured by external suppliers. Metra presently has in progress two families of cars being rehabilitated in-house, one family of locomotives being rehabilitated in-house and one family of locomotives being remanufactured at an external supplier.

During 2018, Metra returned several rehabilitated vehicles to service. Thirty eight cars (34 Nippon and 4 Budd) and five (5) locomotives were rehabilitated in-house and ten (10) locomotives by an outside supplier.

During 2017, Metra returned several rehabilitated vehicles to service. Forty three cars (10 Amerail, 26 Nippon, and 7 Budd) and seven (7) locomotives were rehabilitated in-house and ten locomotives by an outside supplier.

Metra is renewing its information technology (IT) systems, replacing mainframe systems with a modern enterprise resource planning (ERP) system. Phase one was successfully implemented on January 1, 2016, phase two was successfully completed June 2017, phase three payroll was completed in February 2019 and phase four to replace revenue accounting is scheduled to be completed by October 2019. Efforts will continue until the renewal of Metra's software, hardware, and networks is complete.

Basic Financial Statements

The *Statement of Net Position* presents current, noncurrent assets, deferred outflow and inflow of resources, and liabilities on a full accrual basis. Assets are recognized when acquired and liabilities are recognized when goods and services are provided to Metra.

The *Statement of Revenue, Expenses, and Changes in Net Position* presents Metra's revenue, expenses, and the net impact these activities had on its fiscal well-being, identified as "Change in net position." The timing of the recognition of revenue and expenses is often different from the related cash transactions, because under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, not when the cash is received or disbursed.

The *Statement of Cash Flows* presents information relating to when cash is received or dispersed for operating activities, noncapital and related financing activities, capital and related financing activities, and investing activities. The net change in cash and cash equivalents provides a view of Metra's ability to meet financial obligations as they mature.

Notes to the financial statements are an integral component of the report, because important background information that may not be reflected on the face of the statements is disclosed. Details on Metra's accounting policies, cash holdings, capital assets, and other important areas may be found in the notes.

Financial Summary

2018 Financial Summary

- *Net position* increased $35.9 million, or 1.1%, to $3,160.6 million at December 31, 2018. Net position at January 1, 2018 was restated by $7.8 million to $3,117.0 million due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for*

Postemployment Benefits Other Than Pensions. Net position represents total assets plus deferred outflow of resources minus total liabilities and deferred inflow of resources.

- *Capital assets* – net increased $4.7 million, or 0.2%, to $2,950.5 million in 2018 reflecting capital acquisitions less depreciation incurred in 2018.
- *Passenger revenue* increased $14.7 million, or 4.1%, to $370.0 million in 2018.
- *Other operating revenues* increased by $5.6 million, or 13.5%, to $47.0 million in 2018.
- *Nonoperating revenues* increased $59.1 million, or 9.8%, to $661.0 million in 2018.
- *Total operating expenses before depreciation* increased $17.0 million, or 2.2%, to $778.6 million during 2018.

Financial Analysis

Following are condensed comparative financial statements, which highlight key financial data. Certain significant year-to-year variances are discussed following each respective statement.

2018 vs. 2017 Analysis

Statements of Net Position

Total net position represents the difference between the total assets and deferred outflow of resources, and the total liabilities and deferred inflow of resources. As shown in Table 1a, Metra's total net position at December 31, 2018 increased by $35.9 million, or 1.1%, from December 31, 2017. Current assets increased by $68.9 million, or 15.0%, to $528.1 million. Capital assets increased by $4.7 million, or 0.2%, to $2,950.5 million. Current liabilities increased $19.1 million, or 9.0%, to $230.5 million. Long-term liabilities increased by $2.9 million, or 3.2%, to $92.7 million. Due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* Metra recorded deferred outflow of resources of $9,569 and deferred inflow of resources of $2.5 million in 2018.

(Continued)

Table 1a

Condensed Statements of Net Position

(Amounts in millions)

		December 31		Change increase (decrease)	
Assets		**2018**	**2017**	**Dollars**	**Percent**
Current assets	$	528.1	459.2	68.9	15.0 %
Capital assets – net		2,950.5	2,945.8	4.7	0.2
Total assets	$	3,478.6	3,405.0	73.6	2.2
Deferred Outflows of Resources					
Deferred outflows of resources – pension related	$	12.2	22.1	(9.9)	(44.8)
Deferred outflows of resources – OPEB related		—	—	—	—
Liabilities					
Current liabilities	$	230.5	211.4	19.1	9.0
Long-term liabilities		92.7	89.8	2.9	3.2
Total liabilities	$	323.2	301.2	22.0	7.3
Deferred Inflows of Resources					
Deferred inflows of resources – pension related	$	4.5	1.3	3.2	246.2
Deferred inflows of resources – OPEB related		2.5	—	2.5	100.0
Net Position					
Net investment in capital assets	$	2,950.5	2,945.8	4.7	0.2
Unrestricted net assets		210.1	178.9	31.2	17.4
Total net position	$	3,160.6	3,124.7	35.9	1.1

Key changes include the following:

- *Current assets* increased by $68.9 million, or 15.0%, to $528.1 million primarily due to increases in cash, cash equivalents by $15.9 million, or 50.4%, investments by $42.4 million, or 17.5%, accounts receivable – grant projects by $11.4 million, or 19.0%, accounts receivable – RTA financial assistance by $5.2 million, or 5.4%, and prepaid expense by $2.5 million, or 94.4%, which were partially offset by decreases in accounts receivable – other, net by $6.9 million, or 63.3%, and materials and supplies by $1.7 million, or 10.2%.
- *Capital assets – net* increased by $4.7 million, or 0.2%, to $2,950.5 million due to increase in capital outlays being $4.7 million higher than the year's depreciation expense.

(Continued)

- *Current liabilities* increased by $19.1 million, or 9.0%, to $230.5 million, primarily due to increases in accounts payable by $24.0 million, or 18.6%, accrued claims – current by $2.6 million, or 24.0%, and unearned revenue by $1.7 million, or 11.5%, which were partially offset by a decrease in accrued wages and benefits payable by $9.6 million, or 16.8%.
- *Long-term liabilities* increased by $2.9 million, or 3.2%, to $92.7 million, primarily due to increases in long-term portion of accrued claims by $6.9 million, or 19.8%, which were partially offset a decrease in net pension liability by $10.4 million, or 51.6% and provision for post-retiree health benefits by $0.9 million, or 2.0%.

Statements of Revenues, Expenses, and Changes in Net Position

Change in net position represents the difference between operating loss and financial assistance. As shown in table 2a, Metra's change in net position for years ended December 31, 2018 and 2017 was $43.5 million and ($11.2) million, a 488.4% increase in change in net position from the year ended December 31, 2017. Total operating revenues increased by $20.3 million, or 5.1%, from 2017. Total operating expenses before depreciation increased by $17.0 million, or 2.2%, from 2017. Total nonoperating revenues increased by $59.1 million, or 9.8%, from 2017.

Table 2a

Statements of Revenues, Expenses, and Changes in Net Position

(Amounts in millions)

	December 31		Change increase (decrease)	
	2018	**2017**	**Dollars**	**Percent**
Operating revenue:				
Passenger revenue	$ 370.0	355.3	14.7	4.1 %
Other	47.0	41.4	5.6	13.5
Total operating revenue	417.0	396.7	20.3	5.1
Operating expenses:				
Transportation	248.8	249.5	(0.7)	(0.3)
Fuel and motive power	63.0	49.5	13.5	27.3
Engineering	137.6	149.8	(12.2)	(8.1)
Mechanical	179.7	174.3	5.4	3.1
Administration	106.1	98.8	7.3	7.4
Claims and insurance	28.8	25.4	3.4	13.4
Downtown stations	14.6	14.3	0.3	2.1
Total operating expenses before depreciation	778.6	761.6	17.0	2.2
Operating loss before depreciation	(361.6)	(364.9)	3.3	(0.9)
Depreciation	255.9	248.2	7.7	3.1
Operating loss	(617.5)	(613.1)	(4.4)	0.7
Nonoperating revenue:				
Financial assistance	661.0	601.9	59.1	9.8
Total nonoperating revenue	661.0	601.9	59.1	9.8
Change in net position	$ 43.5	(11.2)	54.7	488.4

Total operating revenue increased by $20.3 million, or 5.1%, from 2017. Principal changes are discussed below:

Passenger revenue increased $14.7 million or 4.1% in 2018. This increase was due to a 7.0% net increase in fares, effective February 1, 2018 offset by a decrease in ridership. Below is a table comparing ridership by line for 2018 and 2017:

Table 3a

Passenger Trips By Line

(In thousands of passenger trips)

Rail line	2018*	2017*	Increase (decrease)	Percent
Burlington Northern/Santa Fe	15,823	16,227	(404)	(2.5)%
Metra Electric	7,716	8,150	(434)	(5.3)
Heritage Corridor	728	727	1	0.1
Milwaukee – North	6,610	6,819	(209)	(3.1)
Milwaukee – West	6,144	6,350	(206)	(3.2)
North Central Service	1,641	1,684	(43)	(2.6)
Rock Island	7,578	7,924	(346)	(4.4)
SouthWest Service	2,421	2,457	(36)	(1.5)
Union Pacific – North	8,690	9,029	(339)	(3.8)
Union Pacific – Northwest	10,598	10,910	(312)	(2.9)
Union Pacific – West	8,139	8,332	(193)	(2.3)
Total passenger trips	76,088	78,609	(2,521)	(3.2)

* Includes free senior rides; does not include Northern Indiana Commuter Transportation District (NICTD)

Other operating revenue increased by $5.6 million, or 13.5%, primarily due to increases in advertising revenue by $0.1 million, or 2.9%, interest income by $6.7 million, or 257.3%, leases and rental income by $0.2 million, or 4.4%, parking revenue by $0.6 million, or 62.7%, trackage revenue by $0.5 million, or 2.8%, half-fare subsidy by $0.2 million, or 12.7%, which were partially offset by decreases in miscellaneous income by $2.5 million, or 32.4%.

Nonoperating revenue increased by $59.1 million, or 9.8%, to $661.0 million, primarily because of increases in RTA grants by $58.8 million, or 151%, and RTA sales tax by $13.3 million, or 3.4%, which were partially offset by decreases in federal grants by $9.9 million, or 18.4%, and local grants by $3.3 million, or 54.6%.

Total operating expenses before depreciation increased by $17.0 million, or 2.2%, due to increases in claims by $3.4 million or 16.4%, to $24.3 million, fuel by $12.5 million, or 27.6%, to $57.8 million, motive power by $1.0 million, or 24.2%, to $5.2 million, material costs by $2.5 million, or 5.3%, to $50.5 million, utilities by $3.5 million, or 20.4%, to $20.9 million, and labor by $15.5 million, or 5.4%, to $303.7 million, partly offset by decreases in fringe benefits by $19.9 million, or 8.5%, to $214.5 million, and purchases by $1.6 million, or 1.7%, to $97.2 million.

Metra consumed 26.8 million of gallons of diesel fuel with an average price $2.16 per gallon in 2018 vs. 26.2 million of gallons of diesel fuel with an average price $1.73 per gallon in 2017.

Metra consumed 77.0 million KWH of motive power in 2018 at an average price of $0.0672 per KWH vs. 74.7 million KWH of motive power in 2017 at an average price of $0.0558 per KWH.

Capital Assets

Since its creation in 1984, Metra has had a capital program primarily geared toward rebuilding, modernizing, and improving worn assets; this policy continues. The purpose of the capital investment policy is to maintain safe, reliable, and quality services and facilities for its customers and workers, while improving the efficiency and cost-effectiveness of its operations. Metra has always given a high priority to preservation and modernization of the existing system. Every year Metra undertakes a multitude of projects to preserve and improve Metra's capital assets. These projects help provide continued on-time and reliable public transportation services in an efficient and cost-effective manner.

As of December 31, 2018 and 2017, Metra had invested approximately $7.7 billion and $7.5 billion, respectively, in capital assets including land, stations, maintenance facilities, rolling stock, track, structures, and signal and communication equipment as well as other support equipment. Net of accumulated depreciation, Metra's net capital assets at December 31, 2018 and 2017 totaled approximately $2.951 billion and $2.946 billion, respectively, (see Table 4a). This amount represents a net increase (including additions and disposals, net of depreciation) of $4.7 million or 0.2% over the December 31, 2017 balance.

Table 4a

Capital Assets by Funding Source

Current Year to Prior Year Analysis

(Amounts in millions of dollars)

		December 31		Change increase (decrease)	
Funding source		**2018**	**2017**	**Dollars**	**Percent**
Federal Transit Administration	$	3,883.7	3,730.4	153.3	4.1 %
Illinois Department of Transportation		660.8	660.8	—	—
Regional Transportation Authority		2,151.7	2,053.9	97.8	4.8
Northern Indiana Commuter Transportation District		6.4	6.4	—	—
Metra		1,024.8	1,017.2	7.6	0.7
Total capital assets		7,727.4	7,468.7	258.7	3.5
Accumulated depreciation		(4,776.9)	(4,522.9)	(254.0)	5.6
Total capital assets, net	$	2,950.5	2,945.8	4.7	0.2

Major capital asset expenditures during 2018 and 2017 included the following:

- Metra's *Rolling Stock* program seeks to ensure that an adequate number of locomotives and commuter railcars are available to meet the current and future service needs of the system. This program includes rehabilitation of, and improvements to, existing vehicles. Metra expended $71.6 million and $66.5 million for 2018 and 2017, respectively, to upgrade and maintain its existing fleet through remanufacturing, rehabilitation, and replacement of major subassemblies. 2018 expenditure includes purchase of seven (7) used coaches, and fifteen (15) used F59PH-3 locomotives.
- The *Track and Structure* program provides for the continued rehabilitation and upgrading of Metra's commuter railroad rights-of-way. In addition to maintaining operational safety, the rehabilitation of track and structures results in reduced train running times, fewer interruptions in service, greater passenger comfort, and efficient use of plant and equipment. Metra has developed a cyclical program of track rehabilitation, which includes all commuter rail lines within the region. Project priorities are decided based on train volumes, speed restrictions, age and condition of the roadbed, and track speeds essential to maintaining on-time performance. Structure projects serve objectives that are similar to those of the track program. Since 1990, when Metra's comprehensive plan for bridge rehabilitation and replacement began, the structure program has focused on the commuter rail bridges identified as high priorities for action. The Capital Program continued the implementation of these programs in 2018 and 2017 by expending $74.8 million and $23.1 million, respectively, in funding for the rehabilitation, replacement, and upgrade of bridges, track, and structures.
- *Signaling, Electrical, and Communications* systems and equipment improvements are designed to maximize commuter operating efficiencies, maintain reliability of rail service, and provide a safe system of dispatching and centrally controlled train movements. Signaling systems and switches control usage of track. Much of this equipment is concentrated at "interlockings," which are control systems where two railroads cross each other or where many trains change tracks. The smooth, dependable operation of these interlockings is critical for maintaining on-time performance. Metra also continues its program to improve communication systems, allowing for the provision of timely information to its customers. Signaling, electrical, and communications expenditures in 2018 and 2017 were $60.6 million and $90.8 million, respectively. The largest component of the expenditures in this category for 2018 and 2017 has been for Positive Train Control (PTC). PTC is a communication-based train control safety system intended to prevent train collisions. PTC is presently estimated to cost $385.0 million in total. Metra has awarded and obligated $331.2 million of the $385.0 million total.
- *Support Facilities and Equipment* includes maintenance yards, layover and storage facilities, and support vehicles and equipment that are essential to maintaining reliable and efficient commuter services. Support facilities and equipment expenditures in 2018 and 2017 were $26.0 million and $26.6 million, respectively.
- *Commuter Stations* are portals to the Metra system and very often to the communities in which they are located. Stations must be functional and compliant with the Americans with Disabilities Act, as well as inviting to Metra customers. Commuter stations expenditures in 2018 and 2017 were $16.5 million and $18.1 million, respectively.

- The *Commuter Parking* program is designed to expand parking capacity to relieve overcrowding at existing facilities and to accommodate future ridership growth. Parking improvements are constructed in a manner to ensure conformance with the requirements of the Americans with Disabilities Act. Commuter parking expenditures in 2018 and 2017 were $1.0 million.

RTA Sales Tax and Public Transportation Funds

RTA Sales Tax and Public Transportation Funds (PTF) have been the primary sources of funding for the RTA and the three Service Boards (Metra, Chicago Transit Authority (CTA) and the Suburban Bus Division (Pace)) for over three decades. The RTA Sales Tax is authorized by Illinois statute and imposed by the RTA in the six-county northeastern Illinois region. The RTA Sales Tax is collected by the Illinois Department of Revenue, paid to the Treasurer of the State of Illinois, and held in trust for the RTA outside the State Treasury. Proceeds from the RTA Sales Tax are paid directly to the RTA on a monthly basis, without appropriation, by the State Treasury or on the order of the State Comptroller. During 2016, 2017, and 2018, the state held back a percentage of sales tax as collection fees. The collection fees are continuing in 2019.

The original RTA sales tax (Sales Tax I) is levied at 1.0% in Cook County and 0.25% in the collar counties of DuPage, Kane, Lake, McHenry, and Will. The RTA distributes 85% of Sales Tax I receipts to the Service Boards according to a statutory formula. The remaining 15% of Sales Tax I is retained by the RTA to fund regional and agency expenses before being allocated at the discretion of the RTA Board. Metra receives 55% of the Service Board statutory share of Sales Tax I collected in Suburban Cook County and 70% of the share collected in the collar counties.

The Public Transportation Fund is State-provided funding initially comprising a 25% match of Sales Tax I receipts (PTF I). RTA retains 100% of PTF I, and then distributes it as "discretionary" (i.e. not allocated by statute) funding, traditionally 98% to CTA, 2% to Pace. RTA retains 15% of Sales Tax I for its own use. PTF revenues are payable to the RTA upon State appropriation. None of the PTF revenues are actually paid to the RTA until the RTA certifies to the Governor, the State Comptroller, and the Mayor of the City of Chicago that it has adopted a budget and two-year financial plan as called for by the RTA Act.

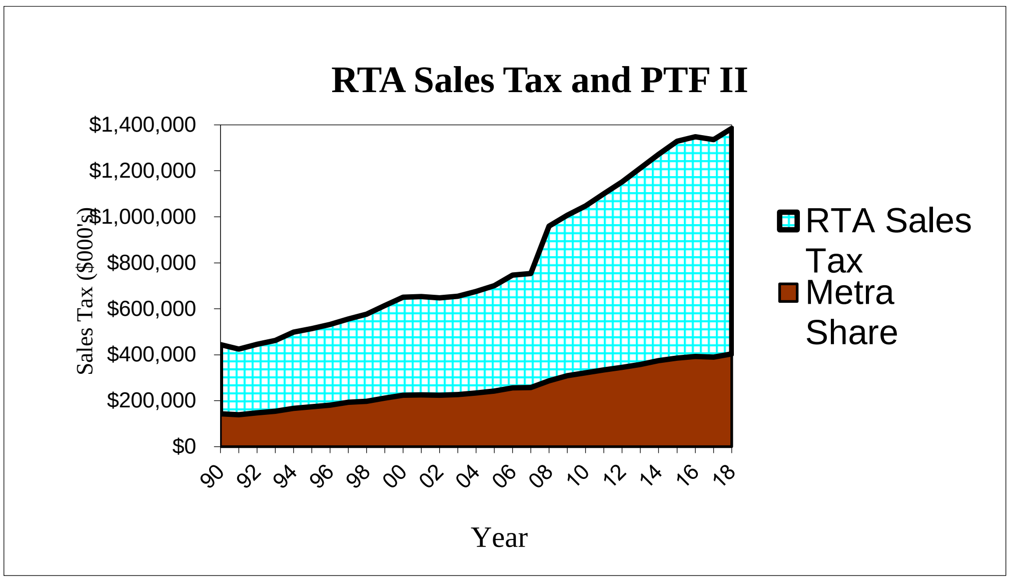
The RTA Act, as amended in 2008, increased the RTA sales tax by an additional 0.25% in all six counties of the RTA region (Sales Tax II), increased the Real Estate Transfer Tax (RETT) in the City of Chicago by 0.3%, and provided additional Public Transportation Funds equal to a 5% match of Sales Tax I receipts and a 30% match of Sales Tax II receipts and RETT receipts (PTF II). By statute, CTA receives all revenue from the RETT increase and 25% PTF match on the RETT. Sales Tax II and remaining PTF II (i.e., 5% match on Sales Tax I, 30% match on Sales Tax II, and 5% match on the RETT) were distributed to the three Service Boards and the RTA in 2018 and 2017 as follows:

- $156.8 million to Pace ADA Paratransit Service
- $25.1 million to Pace Suburban Community Mobility Fund (SCMF)
- $12.5 million to the RTA Innovation, Coordination, and Enhancement (ICE) Fund

After these deductions, all remaining Sales Tax II and PTF II proceeds are distributed as follows: 48% CTA, 39% Metra, and 13% Pace Suburban Service.

The graph below shows the annual Sales Tax I collected in the six-county region since 1990, together with the Sales Tax II and PTF II collected beginning in 2008. Year 2018 Sales Tax I and combined Sales Tax II/PTF II totaled $914.4 million and $470.2 million, respectively. Metra's statutory shares $301.9 million and $101.3 million, respectively, together represent 29.1% of total RTA Sales Tax and PTF II revenue sources.

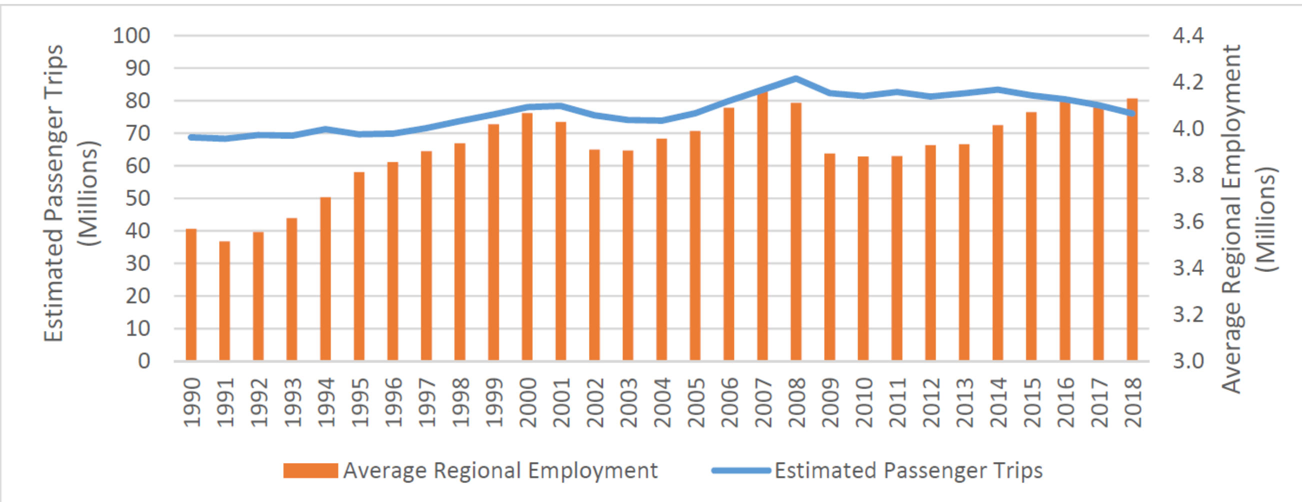
Figure 1: Sales Tax and Metra Statutory Share



Employment

Since approximately 90% of passenger trips taken on Metra are for work, the health of the regional economy, specifically in terms of employment levels, greatly influences Metra ridership (see Figure 2). Regional employment has generally grown since 1990. The economic downturn following the September 11, 2001 attacks and the 2007 to 2009 economic recession (affecting 2008 through 2010 employment averages) are the exceptions. Average regional employment for 2018 was 0.8% higher compared to 2017. Employment remains below pre-recession levels. In 2018, approximately 4.1 million persons were employed in the Chicago region. This is comparable to 2008 and 2016.

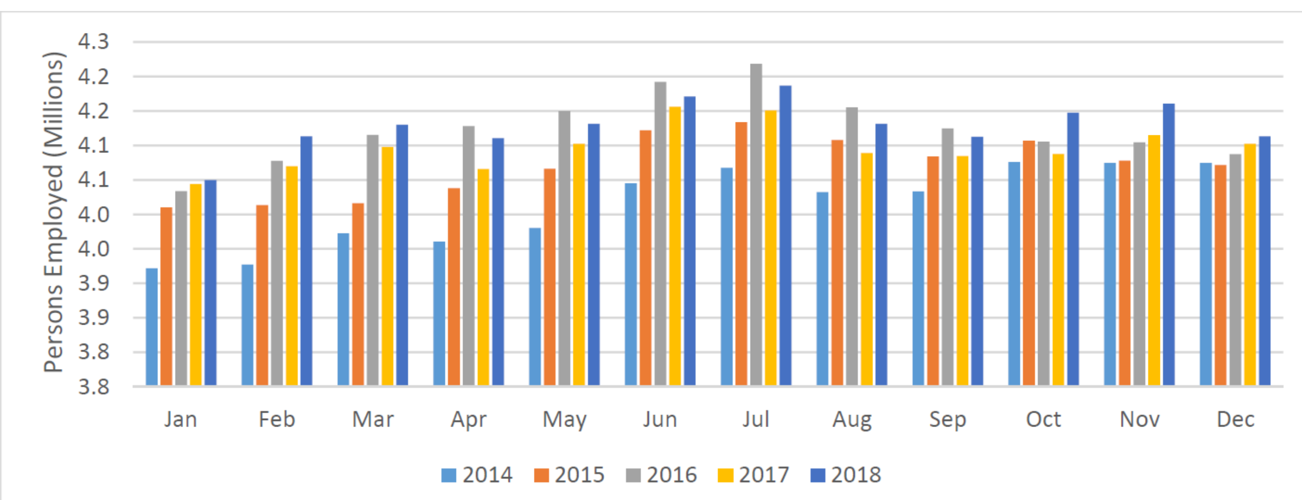
Figure 2: Annual Average Regional Employment



Source: Illinois Department of Economic Security. Includes employees covered under the State's Unemployment Insurance Act. Includes employment figures for Cook, DuPage, Kane, Lake, McHenry, and Will Counties. Government workers are not included in these estimates.

Figure 3 shows regional employment by month for 2014 through 2018. In 2018, regional employment was up for all months compared to 2017.

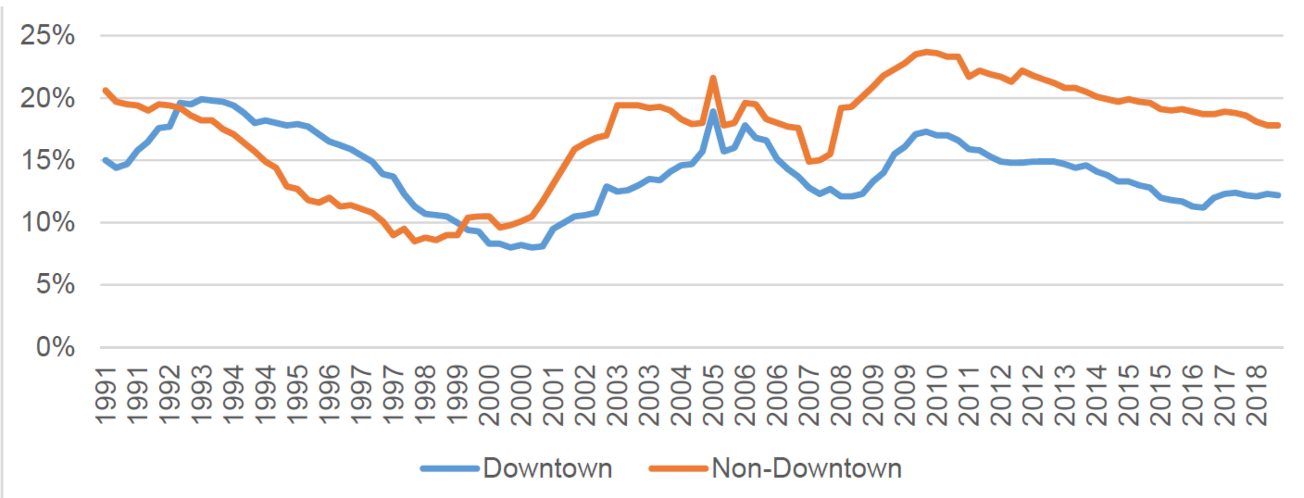
Figure 3: Regional Employment by Month



Source: Illinois Department of Economic Security. Includes employees covered under the State's Unemployment Insurance Act. Government workers are not included.

The shift in the share of total employment towards downtown Chicago is evident in office occupancy rates (see Figure 4). Downtown Chicago office occupancy rates remained constant near 85.1% between the First Quarter of 2012 through the first half of 2013. Beginning in the Third Quarter of 2013, the occupancy rate began to climb. By the Fourth Quarter of 2016, the rate had gone up to 89%. Occupancy rates dropped slightly to 87.8% by the Fourth Quarter of 2017. Office occupancy rates outside of downtown were relatively unchanged in 2017 compared to 2016. The Fourth Quarter of 2016 was 81.3% and the Fourth Quarter of 2017 was 81.4%. In the Third Quarter of 2018, the downtown office occupancy rate was 87.8%, and the suburban rate was 82.2%. The difference in downtown and outside-of-downtown occupancy has been steady since the Second Quarter of 2008 (see Figure 4).

Figure 4: Quarterly Office Space Occupancy Rates (% of Available Space Occupied)



Source: CB Richard Ellis

Debt Administration

Metra has no long-term or short-term debt. The Regional Transportation Authority Act, as amended by the Illinois legislature in January 2008, authorizes Metra to issue up to $1 billion in bonds for capital projects.

Contacting Metra's Financial Management

This report is designed to provide Metra's customers, vendors, and the general public with a general overview of Metra's finances and to show Metra's accountability for the money it receives. If you have questions about this report or need additional information, contact the Office of the Controller at 547 W. Jackson, Chicago, IL 60661, or www.metrarail.com.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Statement of Net Position

December 31, 2018

Assets

Current assets:		
Cash, cash equivalents, and investments:		
Cash and cash equivalents	$	47,516,208
Investments		283,943,448
Total cash, cash equivalents, and investments		331,459,656
Accounts receivable:		
Grant projects		71,373,385
Financial assistance – RTA		101,391,522
Other, net		3,974,347
Total accounts receivable		176,739,254
Materials and supplies		14,808,333
Prepaid expense		5,060,687
Total current assets		528,067,930
Capital assets:		
Land		154,145,918
Rolling stock		2,649,689,455
Roadways and passenger stations		4,137,958,820
Support equipment and infrastructure		785,626,137
Less accumulated depreciation		(4,776,957,640)
Total capital assets		2,950,462,690
Total assets	$	3,478,530,620

Deferred Outflow of Resources

Deferred outflow of resources – pension related	$	12,241,672
Deferred outflow of resources – OPEB related		9,569
Total deferred outflow of resources	$	12,251,241

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Statement of Net Position

December 31, 2018

Liabilities		
Current liabilities:		
Accounts payable	$	152,594,007
Accrued wages and benefits payable		47,470,994
Accrued claims – current		13,232,500
Accrued post-retiree health benefits (OPEB) – current		988,913
Unearned revenue		16,217,891
Total current liabilities		230,504,305
Long-term liabilities:		
Accrued claims		41,612,301
Net pension liability		9,706,064
Accrued post-retiree health benefits (OPEB)		41,345,656
Total long-term liabilities		92,664,021
Total liabilities	$	323,168,326
Deferred Inflow of Resources		
Deferred inflow of resources – pension related	$	4,541,412
Deferred inflow of resources – OPEB related		2,476,145
Total inflow of resources	$	7,017,557
Net Position		
Net position:		
Net investment in capital assets	$	2,950,462,690
Unrestricted net assets		210,133,288
Total net position	$	3,160,595,978

See accompanying notes to financial statements.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2018

Operating revenue:		
Passenger revenue	$	370,028,145
Other		47,028,904
Total operating revenue		417,057,049
Operating expenses:		
Transportation		248,777,911
Fuel and motive power		63,007,193
Engineering		137,605,389
Mechanical		179,672,343
Administration		106,085,079
Claims and insurance		28,787,256
Downtown stations		14,644,567
Total operating expenses before depreciation		778,579,738
Depreciation		255,853,179
Total operating expenses		1,034,432,917
Operating loss		(617,375,868)
Nonoperating revenue:		
Federal		154,700,902
Local		506,298,006
Total financial assistance		660,998,908
Total nonoperating revenue		660,998,908
Change in net position		43,623,040
Net position at beginning of year, restated		3,116,972,938
Net position at end of year	$	3,160,595,978

See accompanying notes to financial statements.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Statement of Cash Flows

Year ended December 31, 2018

Cash flows from operating activities:	
Cash received from fares	$ 371,928,263
Cash received from other operating revenue items	52,130,814
Cash paid to and on behalf of employees for services	(523,359,405)
Cash paid for claims	(14,890,514)
Cash paid to contractual service providers and suppliers	(218,911,500)
Net cash used in operating activities	(333,102,342)
Cash flows from noncapital and related financing activities:	
Cash received from RTA sales tax and other local noncapital assistance	400,524,258
Cash received from noncapital state assistance	1,537,287
Cash received from noncapital federal assistance	760,236
Net cash provided by noncapital and related financing activities	402,821,781
Cash flows from capital and related financing activities:	
Cash received from capital grants	254,503,084
Cash paid to acquire and construct capital assets	(265,922,981)
Net cash used in capital and related financing activities	(11,419,897)
Cash flows from investing activities:	
Cash received from the sale of investment securities	1,421,355,813
Cash paid for the purchase of investment securities	(1,463,739,377)
Net cash used in investing activities	(42,383,564)
Net increase in cash and cash equivalents	15,915,978
Cash and cash equivalents, beginning of year	31,600,230
Cash and cash equivalents, end of year	$ 47,516,208

(Continued)

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Statement of Cash Flows

Year ended December 31, 2018

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(617,375,868)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		255,853,179
Provision for claims		24,319,751
Settlement of claims		(14,890,514)
Half-fare revenue		(1,672,121)
(Increase) decrease in assets and deferred outflows:		
Accounts receivable		6,997,930
Materials and supplies		1,690,677
Prepaid expense		(2,457,302)
Deferred outflow of resources		9,894,165
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable		17,955,085
Accrued wages and benefits payable		(9,592,503)
Net pension liability		(10,367,741)
Accrued post-retiree health benefits (OPEB)		(879,437)
Deferred inflow of resources		5,746,140
Unearned revenue		1,676,217
Total adjustments		284,273,526
Net cash used in operating activities	$	(333,102,342)

See accompanying notes to financial statements.

(1) Organization

The Commuter Rail Division (CRD) of the Regional Transportation Authority (RTA) and the Northeast Illinois Regional Commuter Railroad Corporation (NIRCRC) were established by Regional Transportation Authority Act (the RTA Act) to operate commuter rail service in the six-county region of Northeast Illinois. The CRD and NIRCRC are governed by the Commuter Rail Board (CRB) and collectively do business using the trademark name of "Metra." The CRB is responsible for establishing policy for the day-to-day operations, capital investments, finances, fare levels, and service and facilities planning for Metra.

Metra operates and manages the Rock Island, Milwaukee Road, Metra Electric, Heritage Corridor, North Central Service, and South West Service commuter lines. Metra also contracts for commuter rail service on other lines through purchase of service agreements executed with the Union Pacific Railroad (UP), BNSF Railway (BNSF), and Northern Indiana Commuter Transportation District (NICTD).

Metra also leases track rights to NICTD, Amtrak, CSX Corporation, Canadian Pacific Railway, Chicago Rail Link, Union Pacific Railroad, Norfolk Southern Railway, Wisconsin and Southern Railroad, Wisconsin Central Ltd. (Canadian National), and Iowa Interstate Railroad.

The RTA Act provides for funding of public transportation in the six-county region of Northeast Illinois. The RTA Act requires that at least 50% of system wide operating costs, excluding depreciation and certain other items, are financed through passenger fares and other revenues. The RTA serves as the oversight, funding and regional planning agency for the bus and rail services provided by Metra, Chicago Transit Authority (CTA), and the Suburban Bus Division (Pace). The RTA distributes funding for public transportation in the six-county area and establishes funding marks and recovery ratios for each service board on a budgetary basis.

Reporting Entity – As defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- Fiscal dependency on the primary government.

The RTA Board does not control the selection of any members of the Metra Board. Members of the Metra Board cannot serve on the RTA Board. The Metra Board approves the level of service, passenger fares, and operating policies and is accountable for fiscal matters, including ownership of assets, relations with federal and state transportation funding agencies that provide financial assistance, and the preparation of operating budgets. The Metra Board is also responsible for the purchase of services and approval of contracts relating to its operations.

 (Continued)

Based on these factors and applying the aforementioned criteria used to determine financial accountability, strictly for technical financial reporting purposes, management does not consider Metra to be a component unit of the RTA.

As described above, Metra has contracts with certain rail carriers. With the exception of deficit funding and "in-kind assistance" specifically defined in these agreements, Metra is not financially accountable for these carriers, and they are not considered to be a part of the Metra financial reporting entity.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements of Metra are maintained in accordance with U.S. generally accepted accounting principles (U.S. GAAP) applicable to governmental entities. The accounts of Metra are organized as an enterprise fund type and are used to account for Metra's activities similar to a private business enterprise on the accrual basis of accounting. Therefore, revenue is recognized when earned, and expenses are recorded at the time liabilities are incurred.

Nonexchange transactions, in which Metra receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is first permitted, and expense requirements, in which the resources are provided to Metra on a reimbursement basis.

(b) Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful life of capital assets, allowances for doubtful accounts, reserves for employee-benefit obligations, and other contingencies.

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, Metra considers all highly liquid investments with a maturity at the time of purchase of three months or less to be cash equivalents.

(d) Investments

Metra categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on valuation inputs used to measure the fair value asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

(Continued)

The investments that Metra may purchase are limited by Illinois law to the following: (1) securities that are fully guaranteed by the U.S. government as to principal and interest; (2) certain U.S. government agency securities; (3) certificates of deposit or time deposits of banks and savings and loan associations, which are insured by a Federal corporation; (4) short-term discount obligations of the Federal National Mortgage Association; (5) certain short-term obligations of corporations (commercial paper) rated in the highest classifications by at least two of the major rating services; (6) fully collateralized repurchase agreements; (7) the State Treasurer's Illinois Funds; and (8) money market mutual funds and certain other instruments.

The Illinois Funds is an external investment pool administered by the State Treasurer. The fair value of Metra's share in the fund is the same as the value in the pool shares. Although not subject to direct oversight, the Illinois Funds is administered in accordance with the provisions of the Illinois Public Investment Act, 30 ILCS 235.

(e) Materials and Supplies

Materials and supplies are recorded at average cost.

(f) Capital Assets

Capital assets are recorded at cost, less accumulated depreciation. The cost of maintenance and repairs is charged to operations as incurred. Metra currently capitalizes assets, which have a useful life of more than one year, a unit or group cost of more than $5,000, and are purchased with grant money or are not intentionally acquired for resale. Depreciation is calculated by class of assets using the straight-line method over the estimated useful lives of the respective assets, as follows:

	Years
Rolling stock, roadways, and structures	10–35
Furniture, fixtures, and office equipment	2–10

(g) Compensated Absences

All employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned, but only to the extent it is probable that Metra will compensate the employee through cash payments conditioned on the employee's termination or retirement. Compensation for holidays and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate.

Metra accounts for compensated absences under GASB Statement No. 16, *Accounting for Compensated Absences*, whereby the applicable salary-related employer obligations are accrued in addition to the compensated absences liability. The amount is recorded as a portion of accrued wages and benefits payable on the statement of net position.

(h) Retained Risk Programs

Metra provides for retained risk programs for public liability, property damage, and Federal Employers Liability Act (FELA) claims. In 1993, the RTA, as authorized under the Joint Self-Insurance Fund, obtained liability insurance as part of the retained risk programs currently maintained by Metra. Claims are recorded in the year of occurrence (see note 6). Metra directly administers the public liability, property damage, and FELA programs.

(i) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the RTA Pension Plan (RTAPP) and additions to/deductions from RTAPP's fiduciary net position have been determined on the same basis as they are reported by RTAPP. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(j) Net Position

Net position is displayed in two components, as follows:

Net Investment in Capital Assets – This consists of all federal, state, and local grant funded capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – This consists of the remaining components of net position that do not meet the definition of "net investment in capital assets."

(k) Passenger Revenues

Metra sells full and reduced fare, one-way, 10-ride, monthly, weekend, and special event tickets. Metra tickets are sold through various distribution channels, including train stations, on-train personnel, Ventra mobile application, vending machines and group sales. Passenger revenues are recognized in the following manner. Passenger revenues for one-way tickets are recorded when the tickets are sold. Passenger revenues for tickets sold by on-train personnel are recorded when the tickets are sold. Passenger revenues for monthly tickets are recorded in the month the ticket is valid for. Passenger revenues for monthly tickets sold prior to the month of validity are recorded as unearned revenues. Passenger revenues for weekend tickets are recorded in the month the tickets are sold. Passenger revenues for tickets sold through Ventra mobile application are recognized when activated by customers. 10-ride tickets sold through the Ventra mobile application are monitored for sold to use status; this methodology is applied to record unearned revenue for 10-ride tickets sold through other channels.

(l) Classification of Revenue

Metra has classified its revenue as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including passenger revenue and other nonpassenger operating revenue. Nonpassenger operating revenue includes reduced fare, joint facility revenue, interest income, lease and rental income, advertising income, and other miscellaneous nonfare generated income. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

Metra’s nonoperating revenue includes federal, state, and local grant reimbursements, sales tax revenue, and other operating assistance distributed through appropriations from the RTA. Metra’s statutory share of RTA sales tax proceeds was approximately $403.2 million, and nonstatutory share of RTA sales tax proceeds was $0, during the year ended December 31, 2018. RTA capital funding was $97.9 million during the year ended December 31, 2018. Federal share of capital funding was $154.7 million, Illinois Department of Revenue’s share was $0, and a local share was $2.7 million during the year ended December 31, 2018. In 2018, Metra received an advance of $3.5 million in innovation, coordination, and enhancement (ICE) funding from RTA. Metra received $2.5 million of operating assistance in 2018 from RTA.

(3) Cash, Cash Equivalents, and Investments

(a) Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments are reported in the statement of net position as of December 31, 2018 as follows:

Cash, cash equivalents, and investments:		
Bank deposits, working cash, certificates of deposit, and cash equivalents	$	47,516,208
Investments, including board-designated funds		283,943,448
Total	$	331,459,656

Included in cash, cash equivalents, and investments are board-designated funds (totaling $288,266,499 at December 31, 2018) consisting of RTA advances, capital commitments, long-term provisions, and funds for operations.

Metra initially deposits cash in accounts maintained in Federal Deposit Insurance Corporation (FDIC) insured banks located in Illinois and earns interest as provided under Federal Reserve Bank regulations. Funds may be invested in registered time deposits and other interest-bearing accounts in FDIC-insured institutions. Funds can also be invested in U.S. government obligations, commercial paper, collateralized repurchase agreements arranged through various banks and brokerage firms, and other investments as permitted by Metra's investment policy.

(b) Custodial Credit Risk – Deposits

Custodial credit risk, as it relates to deposits, is the risk that in the event of a financial institution failure, Metra's deposits may not be returned. Metra's investment policy requires deposits in excess of FDIC coverage be collateralized with securities or financial instruments permitted by the Public Funds Investment Act with maturities not exceeding five years. Metra's bank balances were $3,406,486 at December 31, 2018; $4,356,430 were covered by FDIC insurance or by collateral held by third party at December 31, 2018.

(c) Custodial Credit Risk – Investments

Custodial credit risk, as it relates to investments, is the risk that, in the event of the failure of the counterparty, Metra will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. Metra's investment policy requires that safekeeping and collateralization is in compliance with the requirements of the Public Funds Investment Act.

(d) Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Metra's investment policy seeks to ascertain safety of principal and to attain a market average or better rate of return, taking into account risk, constraints, cash flow, and legal restrictions on investments. Metra's policy is to routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments to assess the effectiveness of the portfolio in meeting the safety, liquidity, rate of return, diversification, and general performance objectives, and to adjust the portfolio accordingly. Metra did not have long-term investments in its portfolio at December 31, 2018, and, therefore, had no material exposure to interest rate fluctuations. The following schedule reports the fair values and maturities (using the segmented time distribution method) for Metra's investments as of December 31, 2018:

		Investment maturities	
Investment type		**Fair value**	**Less than one year**
U.S. Treasury securities	$	114,248,600	114,248,600
U.S. agencies		65,348,750	65,348,750
Commercial paper		104,346,098	104,346,098
Total	$	283,943,448	283,943,448

(e) Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. Metra's investment policy is to apply the prudent-person rule, which states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived. Metra's investment policy limits investments in short-term obligations of corporations organized in the United States with assets exceeding $500 million if (i) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and which mature not later than 180 days from the date of purchase; (ii) such purchases do not exceed 10% of the corporation's outstanding obligations; and (iii) no more than one-third of Metra's funds may be invested in short-term obligations of corporations.

Credit ratings for Metra's investments as described by Standard & Poor's at December 31, 2018 are as follows:

Credit Ratings of Investments Held as of December 31, 2018 (S&P)
(As a percentage of total fair value for investment securities)

Investment type	Fair value	Percent	S&P
U.S. Treasury securities	$ 114,248,600	40.0 %	AA+
U.S. agencies	65,348,750	23.0	AA+
Commercial paper	104,346,098	37.0	A1P1P2
Total investments at fair value	$ 283,943,448	100.0 %	

(f) Concentration of Credit Risk

Concentration of credit risk occurs when investments in one issuer exceed 5% of the investment portfolio (lack of diversification). Metra's investment policy is in accordance with the Illinois Public Funds Investment Act and states that commercial paper purchases should not exceed 10% of the issuing corporation's outstanding obligations.

Following are the investments by issuer that exceeded 5% or more of the total investments, and the percent of the fair value to total investments, as of December 31, 2018:

Issuer		Fair value	Percent
U.S. agencies:			
Federal Home Loan Bank	$	40,621,000	14.3 %
Commercial paper:			
White Plains Capital		14,921,785	5.3

(g) *Fair Value Measurement of Investments*

Fair value is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. the exit price). Fair value measurements are determined within a framework that utilizes a three-tier hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Unadjusted quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, either directly or indirectly.

These inputs include:

(a) quoted prices for similar assets in active markets

(b) quoted prices for identical or similar assets in markets that are not active

Investments by fair value level		December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable assets (Level 3)
Commercial paper	$	104,346,098	—	104,346,098	—
U.S. agencies		65,348,750	65,348,750	—	—
U.S. Treasury Securities		114,248,600	114,248,600	—	—
Investments measured by fair value level	$	283,943,448	179,597,350	104,346,098	—

(4) Capital Assets

In 2018, Metra entered into a contract with Progress Rail to purchase 21 used locomotives. The total value of this contract is $26.5 million or $1.26 million per locomotive. The locomotives are in working order, but need minor train-control reconfigurations and a fresh paint scheme. Fifteen locomotives were received by December 2018, with the remainder to be delivered in 2019.

In 2018, Metra began a bridge replacement and expansion project on the Milwaukee District West Line over the Fox River in Elgin. The existing bridge is a single track bridge and causes a bottleneck at this location. The new bridge will be two separate spans which will improve commuter and freight rail operations in the area. The first new span is expected by management to enter into service in summer 2019, with the project fully completed in May 2020.

In 2018, work began in earnest on a multi-bridge rehabilitation and bridge fill project on the Union Pacific North Line at a location known as Deering where the line crosses the Chicago River. The project will rehabilitate both the actual steel bridge over the river as well as the bridge over Webster Avenue. The project will also remove a no longer needed bridge and fill in the embankment, thus removing a future need to maintain that bridge and ensuring a better operating environment. Management expects this project to be completed in late 2019.

In 2018, Metra continued the multi-year effort to install Positive Train Control (PTC). Highlights from 2018 include completing the physical installation of all wayside and on-board components, completing staff training, beginning the Revenue Service Demonstration (RSD) on the Rock Island District mainline, and receiving FRA extension to complete the overall project in 2020. Work during the next two years will include testing on all other lines followed by full interoperable operations on all lines by the end of 2020.

The following schedule summarizes the capital asset activity of Metra for the year ended December 31, 2018:

	Beginning balance	Additions	Reductions	Ending balance
Capital assets, not being depreciated:				
Land	$ 154,145,918	—	—	154,145,918
Capital projects in progress	—	—	—	—
Total capital assets, not being depreciated	154,145,918	—	—	154,145,918
Capital assets being depreciated:				
Rolling stock	2,578,115,414	71,574,041	—	2,649,689,455
Roadways and passenger stations	3,985,080,321	152,878,499	—	4,137,958,820
Support equipment and infrastructure	751,335,729	36,050,625	(1,760,217)	785,626,137
Total capital assets being depreciated	7,314,531,464	260,503,165	(1,760,217)	7,573,274,412
Less accumulated depreciation:				
Rolling stock	(1,328,735,860)	(89,493,452)	—	(1,418,229,312)
Roadways and passenger stations	(2,599,770,827)	(135,823,546)	—	(2,735,594,373)
Support equipment and infrastructure	(594,357,991)	(30,536,181)	1,760,217	(623,133,955)
Total accumulated depreciation	(4,522,864,678)	(255,853,179)	1,760,217	(4,776,957,640)
Total capital assets being depreciated, net	2,791,666,786	4,649,986	—	2,796,316,772
Total capital assets, net	$ 2,945,812,704	4,649,986	—	2,950,462,690

(5) Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2018 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued claims	$ 45,415,564	24,319,751	(14,890,514)	54,844,801	13,232,500
Net pension liability	20,073,805	10,746,573	(21,114,314)	9,706,064	—
Accrued post-retiree health benefits	43,214,006	3,179,857	(4,059,294)	42,334,569	988,913
Total	$ 108,703,375	38,246,181	(40,064,122)	106,885,434	14,221,413

(Continued)

(6) Retained Risk Programs

A liability for each retained risk is provided based upon the estimated ultimate cost of settling claims using a case-by-case review and historical perspective. Changes in the retained risk portion of injury and damage, and Federal Employers Liability Act (FELA) accounts were as follows:

Balance, December 31, 2016	$	41,119,933
2017 provision		20,897,939
2017 payments		(16,602,308)
Balance, December 31, 2017		45,415,564
2018 provision		24,319,751
2018 payments		(14,890,514)
Balance, December 31, 2018	$	54,844,801

(7) Post-Employment Benefits Other Than Pensions (OPEB)

Plan description. The Metra Retiree Healthcare Program, a single employer defined benefit OPEB plan, provides healthcare benefits to retired noncontract employees, executive and senior management employees, board members, and contract police officers eligible for the Healthcare Reimbursement Program. The OPEB plan is administered by Metra. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits provided. Metra provides the premium for Supplemental Medical Coverage for the lifetime of the retired participant. Alternatively, the participant may elect Metra pay an amount not exceeding the premium otherwise payable toward the purchase of alternative coverage selected by the participant.

Employees covered by benefit terms. At December 31, 2017, the following employees were covered by the benefit terms:

Active noncontract employees	$	605
Active senior executive employees		8
Active board members		2
Noncontract retirees with METRA sponsored insurance		150
Noncontract retirees receiving a subsidy		158
Contract police retirees		12
Senior executive retirees		14
Total	$	949

Total OPEB liability. Metra's total OPEB liability of $42,334,569 was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2017.

(Continued)

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	December 31, 2017
Measurement date	December 31, 2018
Discount rate	3.71% at December 31, 2018
Actuarial cost method	Entry age normal
Contribution policy	Benefits are financed on a pay-as-you basis
Inflation rate	2.75%
Wage inflation	3.25%
Salary increases	Based on the January 1, 2018, actuarial valuation of the RTA Pension Plan. Salary increases depend on age and decreases ratably from 8.75% at age 20, to 5.5% at age 30, to 4.25% at age 40, to 3.75% at age 50, and to 3.25% at age 65. Salary increase includes a 3.25% wage inflation assumption.
Retirement age	Based on the January 1, 2018, actuarial valuation of the RTA Pension Plan. Separate retirement rates are developed for members who are eligible for unreduced or reduced pension plan benefits which depend on age and service at retirement.
Healthcare cost trends rates	For plan years after 2018, trend starts at 8% and 9.5% for non-Medicare cost and post-Medicare costs, respectively, and gradually decreases to an ultimate trend of 4.5%. Additional trend rate of 0.51% is added to non-Medicare cost after 2022 to account for the excise tax.
Mortality	Pre-retirement : RP2014 Employee Mortality Table Post-retirement: RP 2014 Healthy Annuitant Mortality Table
Aging factors	Based on the 2013 SOA Study "Health Care Costs – From Birth to Death"
Expenses	Health administrative expenses are included in the premium rates and development of the per capita claims costs.

Because OPEB plan benefits are financed on a pay-as-you-go basis, the discount rate was based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date.

Changes in the Total OPEB Liability:

		Total OPEB liability
Balance at December 31, 2017	$	43,214,006
Changes for the year:		
Service cost		1,700,908
Interest on total OPEB liability		1,467,760
Differences between expected and actual experience		11,189
Changes in assumptions		(2,895,269)
Benefit payments		(1,164,025)
Net changes		(879,437)
Balance at December 31, 2018	$	42,334,569

Changes in assumptions reflect a change in the discount rate from 3.31% to 3.71%.

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

Sensitivity of total OPEB liability to changes in the discount rate. The following table presents the total OPEB liability of Metra, as well as what Metra's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current discount rate:

	1% Decrease 2.71%	Current single discount rate assumption 3.71%	1% Increase 4.71%
$	50,145,470	42,334,569	36,193,569

(Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of Metra, as well as what Metra's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates. The key trend rates are 8% in 2019 decreasing to an ultimate trend rate of 5.01% in 2026, for non-Medicare coverage, and 9% in 2019 decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage:

	1% Decrease (a)	Current healthcare cost trend rates assumption	1% Increase (b)
$	35,388,203	42,334,569	51,315,910

a) One percentage point decrease in healthcare trend rates is 7% in 2019 decreasing to an ultimate trend rate of 4.01% in 2026, for non-Medicare coverage, and 8.5% in 2019 decreasing to an ultimate trend rate of 3.5% in 2029 for Medicare coverage.

b) One percentage point increase in healthcare trend rates is 9% in 2019 decreasing to an ultimate trend rate of 6.01% in 2026, for non-Medicare coverage, and 10.50% in 2019 decreasing to an ultimate trend rate of 5.50% in 2029 for Medicare coverage.

OPEB Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended December 31, 2018, Metra recognized OPEB expense of $2,751,164. At December 31, 2018, Metra reported deferred outflow of resources and deferred inflow of resources related to OPEB from the following sources:

		Deferred outflow of resources	Deferred inflow of resources
Difference between expected and actual experience	$	9,569	—
Changes in assumptions		—	(2,476,145)
Total	$	9,569	(2,476,145)

Amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2019	$	(417,504)
2020		(417,504)
2021		(417,504)
2022		(417,504)
2023		(417,504)
2024		(379,056)
	$	(2,466,576)

(8) Deferred Compensation Plans

Metra offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan, available to all qualified full-time Metra employees, permits deferral of a portion of compensation until future years. The deferred amount is not available to employees, other than participant loans, until termination, retirement, death, or unforeseeable emergency.

All assets of the deferred compensation plan are held in a separate trust in accordance with Section 1448 of the Small Business Jobs Protection Act of 1996. As a result, such amounts are not subject to the claims of Metra's general creditors, and deferred compensation plan assets are not presented on Metra's statement of net position as of December 31, 2018. Employee contributions were $1,977,605 for the year ended December 31, 2018.

Metra also offers its employees a defined contribution plan in accordance with Internal Revenue Code Section 401(k). The plan, available to all qualified full-time Metra employees, permits the income tax deferral of a portion of compensation until future years. The amount deferred is generally not available to employees, other than through participant loans, until termination, retirement, or death. A third-party trustee forwards the participants' contributions to the investment companies selected by the individual participant. Employee contributions were $7,706,150 for the year ended December 31, 2018.

Metra is required to contribute to various defined contribution plans in accordance with union agreements. Employer contributions to these plans were $2,800,211 for the year ended December 31, 2018.

(Continued)

(9) Purchase of Service Carriers' Expenses

The following details the revenue and expense activity of Metra's Purchase of Service Carriers (PSA) carriers, which are included in the financial statements of Metra. The in-kind expenses include expenses Metra has paid on behalf of the participating commuter rail carriers for assistance, such as fuel and insurance coverage.

	Year ended December 31, 2018		
	Union Pacific	**BNSF**	**Total**
Operating revenues:			
Passenger revenue	$ 132,479,258	78,955,427	211,434,685
Other revenue	1,362,550	304,134	1,666,684
Total operating revenues	133,841,808	79,259,561	213,101,369
Operating expenses:			
Carrier-level expenses paid by carrier:			
Transportation	79,656,136	31,901,596	111,557,732
Engineering	50,112,770	7,290,862	57,403,632
Mechanical	58,554,750	27,233,717	85,788,467
Administration	7,533,225	11,907	7,545,132
Total carrier-level expenses	195,856,881	66,438,082	262,294,963
Deficit (excess) funding	(62,015,073)	12,821,479	(49,193,594)
Centralized expenses paid by Metra:			
Diesel fuel	24,199,046	10,209,066	34,408,112
Claims and insurance	2,882,940	1,720,422	4,603,362
Downtown stations	1,520,489	5,392,894	6,913,383
Total in-kind expenses	28,602,475	17,322,382	45,924,857
Total operating expenses	(33,412,598)	30,143,861	(3,268,737)
Purchase of service carriers' operating loss	$ (33,412,598)	30,143,861	(3,268,737)

(10) Commitments

Leases – Metra has entered into several noncancelable operating leases, primarily for the use of passenger terminals, which expire on various dates through 2045. Future minimum rental payments under all noncancelable operating leases having initial or remaining terms in excess of one year as of December 31, 2018 were as follows:

2019	$	4,830,068
2020		2,003,117
2021		2,005,128
2022		2,007,177
2023		2,009,252
2024–2028		7,710,372
2029–2033		5,935,920
2034–2038		5,935,920
Thereafter		8,310,288
Total	$	40,747,242

Total rent expense aggregated $13,117,305 for the year ended December 31, 2018.

Grants – At December 31, 2018, Metra had $356.4 million in obligations related to federal, state, and local capital grant contracts that are in progress.

(11) The Regional Transportation Authority Pension Plan

The Regional Transportation Authority Pension Plan (the Plan) is a multiple-employer cost-sharing, defined benefit pension plan. The Plan covers substantially all salaried employees of the RTA and its Commuter Rail and Suburban Bus Divisions (Metra and Pace, respectively), who are not otherwise covered by a union pension plan. The responsibilities for administering the Plan are divided among a Board of Trustees, a Retirement Committee, a Plan Administrator, and the RTA Board of Directors (RTA Board). The Plan issues a separate financial report that includes financial statements and required supplementary information. More information regarding the elements of the Plan's basic financial statements can be obtained by writing to Metra, 547 West Jackson Blvd, Chicago, IL 60661 or by calling (312) 322-6346 to request a copy of the financial report.

Employees are eligible for participation on the first day of the month that coincides with or follows their date of employment. Participants are entitled to annual pension benefits upon normal retirement at age 65, generally a percentage of the average annual compensation in the highest three years of service, whether consecutive or not, multiplied by the number of years of credited service.

Pension Benefits. The Plan provides that, upon retirement, benefits will be reduced by a defined percentage for participants who received credit for prior service with an eligible employer. The Plan permits early retirement with reduced benefits at age 55 after completing 10 years of credited service. As a result of the August 1, 1999 amendment to the Plan, participants may receive their full vested benefits if they are at least 55 years of age and their combined age at retirement and credited years of service equals eighty-five or higher (known as Rule of Eighty Five Early Retirement). The Plan provides for benefit payments to beneficiaries subject to the election of the participant. In addition, the lump sum payment form is no longer an optional form of payment for participants that have not earned credited service prior to January 1, 2011. This change did not affect the valuation results. An employee is eligible for a disability pension if he or she becomes disabled after the completion of 10 years of credited service, and is no longer receiving long-term disability benefits under a separate RTA benefit plan, or after reaching age 65, whichever is later.

Contributions. The Plan is funded solely by employer contributions, which are actuarially determined under the entry age normal method. The pension plan document defines the employers' funding policy as contributions at least equal to an amount determined advisable by the Plan's actuary to maintain the Plan on a sound actuarial basis. For the purpose of determining contributions, the Plan uses an asset smoothing method which smooths asset gains and losses over a five-year period. The minimum contribution is the sum of the normal cost and the 30-year amortization of the unfunded liability. If participants terminate continuous service before rendering five years (10 years prior to January 1, 1987) of credited service, they forfeit the right to receive the portion of their accumulated benefits attributable to employer contributions. All forfeitures are applied to reduce the amount of contributions otherwise payable by the employer. Metra's pension contribution for 2018 was $6,352,468.

Net Pension Liability. For Metra's fiscal year ended December 31, 2018, measurements as of the reporting date are based on fair value of assets as of December 31, 2017 and the total pension liability is based on an actuarial valuation performed as of January 1, 2017 with liabilities rolled forward to the measurement date of December 31, 2017. Metra's proportionate share of net pension liability was $9,706,064 as of December 31, 2018.

Metra's proportion of the collective net pension liability is consistent with the manner in which contributions to the pension plan were determined. Shown below presents the actual fiscal year contributions made by Metra and used within the proportionate share calculation and the respective proportionate allocation percentage. For Metra's fiscal year ended December 31, 2018, for purposes of allocating the beginning net pension liability for 2018, the Plan utilized contributions reported during fiscal year 2017. (As a December 31, 2017 actuarial valuation is used (and then rolled forward), it is proper to show 2017 and 2016 below.)

	2017 Actuarially determined contribution	2017 Metra proportionate share	2016 Actuarially determined contribution	2016 Metra proportionate share
Metra	$ 5,745,866	54.30 %	$ 5,062,642	53.10 %

(Continued)

Pension Expense. The annual pension expense recognized represents the changes in net pension liability, deferred outflow and deferred inflow plus the employer contributions. Metra's total pension expense for 2018 was $9,158,456.

Deferred Outflow and Inflow. In 2018, deferred outflow and inflow of resources can arise from differences between expected and actual experiences, changes in assumptions, differences between projected and actual earnings, changes in the employer's proportion and the difference between the employer's contributions and the employer's proportionate share of contributions as well as contributions made subsequent to the measurement date. The difference between projected and actual earnings on investments is recognized over a period of five years. The net effect of changes in assumptions and the change in the employer proportionate share of contributions are amortized over the average of the expected remaining service lives of all employees. For 2017, this average is 5.0469 years. Contributions made during fiscal year 2018, subsequent to the measurement date of December 31, 2017, totaled $6,352,468. The table below summarizes Metra's proportionate share of the deferred outflow and deferred inflow of resources that are to be recognized in future pension expense as of December 31, 2018.

	Deferred outflow of resources	Deferred inflow of resources
Contributions made subsequent to measurement date	$ 6,352,468	—
Changes in assumption	281,173	420,469
Net difference between projected and actual earnings on pension plan investments	—	3,139,079
Difference between expected and actual economic experience	4,080,891	—
Change in employer proportionate share	1,527,140	981,864
Total	$ 12,241,672	4,541,412

The $6,352,468 reported as deferred outflow of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows and deferred inflows of resources will be recognized as pension expense in the following periods:

Year ended December 31:	
2019	$ 4,592,014
2020	2,946,217
2021	(2,765,790)
2022	(3,447,971)
2023	23,322
	$ 1,347,792

Assumptions. The total pension liability for the measurement date of December 31, 2017 was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Asset valuation method	Five-year smoothed market
Amortization method	Level dollar closed
Remaining Amortization Period	28
Life expectancy assumed	RP2014 Combined Mortality Table
Rate of return	7.50%
Salary increases	3.25% to 8.75% including inflation
Inflation	2.75%
Retirement age	Age based table of rates that are specific to the type of eligibility condition.

The actual assumptions used in the January 1, 2017 valuation were based on the results on the actuarial experience study for the period January 1, 2008 to January 1, 2013.

Discount rate. A single discount rate of 7.50% was used to measure the total pension liability for both 2017 and 2016 measurement dates. This single discount rate was based on the future expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at the actuarially determined contribution rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents Metra's proportionate share of the Plan's collective net pension liability, calculated using a single discount rate of 7.50%, as well as what the proportionate share would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

		2018 1% Decrease 6.50%	2018 Current discount rate 7.50%	1% Increase 8.50%
Metra's proportionate share of net pension liability	$	27,314,394	9,706,064	(5,419,674)

Long-Term Expected Rate of Return. The assumed rate of investment return was adopted by the Plan's trustees after considering input from the Plan's investment consultant and actuary. Additional information about the assumed rate of investment return is included in the actuarial valuation report as of January 1, 2018 and experience study for the period January 1, 2011 through January 1, 2016. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of January 1, 2017, these best estimates are summarized in the following table:

Asset type and class	Target asset allocation	Long-Term expected real rate of return
Large Cap U.S. Equity	15.0 %	6.30 %
Small/Mid Cap Equity	8.0	6.90
International Equity	10.0	6.50
Emerging Market International Equity	6.0	10.30
Core Bonds	15.5	1.30
Multi-Sector Fixed Income	12.5	1.50
Private Equity	8.0	7.80
Private Real Assets	5.0	5.40
Real Assets (Core)	8.0	3.80
Hedge Funds	5.0	3.10
Global Asset Allocation	5.0	2.80
Cash	2.0	0.20

(Continued)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan's financial report.

(12) Adoption of New Accounting Principle – Restatement

In accordance with Metra's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the financial statements. See note 7. As part of the adoption, the financial statements have been restated as of January 1, 2018, as follows:

Net position as of December 31, 2017, as previously reported	$ 3,124,741,879
Cumulative effect change in accounting principle	(7,768,941)
Net position as of January 1, 2018, as restated	$ 3,116,972,938

(13) Contingencies

Litigation – Metra is a defendant in a number of legal actions. These actions have been considered in estimating and funding Metra's retained risk liability program. The total of amounts claimed under these legal actions, including potential settlements, could exceed the amount of the accrued claims. In the opinion of Metra's management, the retained risk funding and Metra's limited excess indemnity insurance coverage from commercial carriers are adequate to cover the ultimate liability of these legal actions, in all material respects.

Grants – Metra receives moneys from federal, state, and local government agencies under various grants. The costs, both direct and indirect, charged to these grants are subject to audits and disallowance by the granting agency. It is the opinion of management of Metra that any disallowances or adjustments would not have a material adverse effect on the financial position of Metra.

Changes of benefit terms. No changes were made in 2018 for accrual of benefits under the RTA Pension Plan.

Changes of assumptions. The amounts reported in 2018 are based on the expectation of retired life mortality RP-2014 Mortality Tables.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Required Supplementary Information – Schedule of Proportionate Share of Net Pension Liability and Related Ratios – (Unaudited)

		2018	2017	2016	2015
Proportion of net pension liability		54.30 %	53.10 %	49.90 %	47.24 %
Proportionate share of net pension liability	$	9,706,064	20,073,805	17,255,480	33,062,726
Covered-employee payroll		56,653,562	54,032,766	49,388,696	43,086,132
Proportionate share of net pension liability as a percentage of its covered-employee payroll		17.13 %	37.15 %	34.94 %	76.74 %
Plan fiduciary net position as a percentage of the total pension liability		94.32	67.38	87.70	73.28

* This schedule is intended to show 10 years of information. Since 2015 is the first year for this presentation, no other data is available. Additional years will be included as they become available.

See accompanying independent auditors' report.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Required Supplementary Information – Schedule of Pension Contributions – (Unaudited)

Fiscal year		Actuarially determined contribution	Actual contribution	Contribution deficiency (excess)	Covered Payroll	Actual contribution as a% of covered payroll
2018	$	6,352,468	6,352,468	—	56,653,562	11.21 %
2017		5,745,866	5,745,866	—	54,032,766	10.63
2016		5,062,642	5,062,642	—	49,388,696	10.25
2015		6,785,849	39,848,577	(33,062,728)	43,086,132	92.49
2014		6,466,096	13,357,146	(6,891,050)	40,833,326	32.71
2013		6,615,046	10,060,571	(3,445,525)	35,170,174	28.61
2012		6,462,000	9,767,882	(3,305,882)	30,970,263	31.54
2011		5,802,000	5,802,000	—	29,227,299	19.85
2010		5,652,000	5,652,000	—	31,227,197	18.10
2009		4,733,557	4,733,557	—	35,175,784	13.46

See accompanying independent auditors' report.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Required Supplementary Information – Schedule of Changes in Metra's Total OPEB Liability and Related Ratios – (Unaudited)

Total OPEB liability:		
Service cost	$	1,700,908
Interest		1,467,760
Changes of benefits terms		—
Difference between expected and actual experience		11,189
Changes of assumptions		(2,895,269)
Benefit payments		(1,164,025)
Net change in total OPEB liability		(879,437)
Total OPEB liability – beginning		43,214,006
Total OPEB liability – ending	$	42,334,569
Covered-employee payroll	$	56,653,562
Total OPEB liability as a percentage of covered-employee payroll		74.73 %

* This schedule is intended to show 10 years of information. Since 2018 is the first year for this presentation, no other data is available. Additional years will be included as they become available.

See accompanying independent auditors' report.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Schedule of Revenues and Expenses – Budget to Actual (Budgetary Basis) – (Unaudited)

Year ended December 31, 2018

	Final budget	Actual	Favorable (unfavorable)
Revenue:			
Passenger revenue:			
Passenger revenue	$ 374,700,000	370,028,145	(4,671,855)
Reduced fare reimbursement	3,138,000	1,672,122	(1,465,878)
Total operating passenger revenue	377,838,000	371,700,267	(6,137,733)
Other revenue	33,299,000	45,356,782	12,057,782
Total revenue	411,137,000	417,057,049	5,920,049
Operating expenses:			
Transportation	265,749,399	248,777,911	16,971,488
Fuel and motive power	54,670,705	63,007,193	(8,336,488)
Engineering	154,221,582	137,605,389	16,616,193
Mechanical	185,049,062	179,672,343	5,376,719
Administration	108,326,426	106,085,079	2,241,347
Total administration and regional services	768,017,174	735,147,915	32,869,259
Claims and insurance	13,961,485	28,787,256	14,825,771
Downtown stations	15,250,341	14,644,567	(605,774)
Total operating expenses	797,229,000	778,579,738	(18,649,262)
Loss before depreciation, financial assistance, and leasehold-related interest income and expense	$ (386,092,000)	(361,522,689)	24,569,311
Note:			
Amounts excluded from the operating budget-basis expenses for recovery ratio calculations:			
Security expense	$ 21,824,644	19,904,850	(1,919,794)
Funded depreciation included in operating expenses	3,438,579	3,512,122	73,543
Lease of transportation facilities	16,783,462	19,476,890	2,693,428
Bond service and fees	—	—	—
Total deductions	$ 42,046,685	42,893,862	847,177

See accompanying independent auditors’ report and notes to supplementary information.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(Public Entities, doing business as Metra)

Budgetary Basis Schedule of Operations – (Unaudited)

Year ended December 31, 2018

	NIRCRC	Union Pacific	BNSF	Total
Operating revenue:				
Passenger revenue*	$ 158,593,460	132,479,258	78,955,427	370,028,145
Other revenue	44,484,565	810,641	61,576	45,356,782
Reduced fare reimbursement	877,655	551,909	242,558	1,672,122
Total operating revenue	203,955,680	133,841,808	79,259,561	417,057,049
Operating expenses:				
Carrier-level expenses paid by carrier:				
Transportation	137,220,178	79,656,136	31,901,597	248,777,911
Engineering	80,201,757	50,112,770	7,290,862	137,605,389
Mechanical	93,883,876	58,554,750	27,233,717	179,672,343
Administration	98,539,948	7,533,225	11,906	106,085,079
Total carrier-level expenses	409,845,759	195,856,881	66,438,082	672,140,722
Centralized expenses paid by Metra:				
Diesel fuel	23,426,209	24,199,046	10,209,065	57,834,320
Motive electricity	5,172,873	—	—	5,172,873
Claims and insurance	24,183,893	2,882,940	1,720,423	28,787,256
Downtown stations	7,731,184	1,520,489	5,392,894	14,644,567
Total centralized expenses	60,514,159	28,602,475	17,322,382	106,439,016
Total operating expenses	470,359,918	224,459,356	83,760,464	778,579,738
Operating loss	$ (266,404,238)	(90,617,548)	(4,500,903)	(361,522,689)

Calculation of revenue recovery ratio (unaudited):	
Amounts excluded from the operating budget-basis expenses:	
Security expense	$ 19,904,850
Funded depreciation included in expenses	3,512,122
Lease of transportation facilities	19,476,890
Bond service and fees	—
Total exclusions	42,893,862
Amounts added to the operating budget-basis revenues:	
Senior free ride allowance	$ 2,100,000
Revenue recovery ratio ($417,057,049+ $2,100,000)/($778,579,738 – $42,893,862)	57.0 %

* Includes $20,300,000 farebox revenue dedicated to capital.

See accompanying independent auditors' report and notes to supplementary information.

(1) Budget and Budgetary Basis of Accounting

Metra is required under Section 3B.10 of the Regional Transportation Authority (RTA) Act to submit for RTA review and approval of a comprehensive annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on an accrual basis of accounting consistent with U.S. generally accepted accounting principles.

The RTA allocates funding based on the budgets of the service boards rather than actual operating deficits. All annual operating appropriations lapse at fiscal year-end. Favorable variances from budget remain available to Metra and can be used for capital projects with RTA approval. There is favorable budget variance of $24.6 million available to Metra for the year ended December 31, 2018. The RTA monitors Metra’s actual financial performance against the budget on a quarterly basis.

(2) Farebox Recovery Ratio

Operating Budget-Basis Farebox Recovery Ratio – The operating budget-basis farebox recovery ratio represents the ratio of total operating revenue to total operating expenses before depreciation. As allowed under the RTA Act, funded depreciation for both direct operations and commuter rail carriers participating through purchase of service agreements, security expenses, the proceeds and related interest income and expense from the lease transactions, and certain payments with respect to transportation facilities are excluded from the calculation. In order to meet its statutory requirement of a system-wide farebox recovery ratio of at least 50% or more, the RTA establishes farebox recovery ratios for each of the Service Boards and the CTA. Metra’s budgeted farebox recovery ratio was 54.7% in 2018. Metra’s actual farebox recovery ratio on an operating budget-basis was 57.0% in 2018.

(3) Purchase Service Carrier Agreements

Metra has agreements with participating commuter rail carriers to assist in providing service to Metra’s customers. The budgetary basis schedule of operations includes expenses, such as fuel and insurance coverage that Metra has paid on behalf of the participating commuter rail carriers for such assistance.