# 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, 2017 and 2016

(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 years ended December 31, 2017 and 2016, 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 d/b/a Metra, as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

*Other Matters*

**Required Supplementary Information**

U.S. generally accepted accounting principles require that management's discussion and analysis (on pages 3 through 24, and required supplementary information on pages 58 through 60), 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 audits were conducted for the purpose of forming an opinion on Metra's basic financial statements. The schedule of revenues 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 revenues 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 May 31, 2018 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 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 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
May 31, 2018

## 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, 2017 and 2016. 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 25.

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 2017 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.


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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 travelling 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 2017 and 2016, Metra's on-time performance was over its internal benchmark of 95.0% every month, except December 2017. Metra's overall on-time performance was 95.8% in 2017 and 96.1% in 2016.

During 2017 and 2016, Metra benefitted from a decrease in fuel prices. Ridership revenues were very close to budget projections in 2017 and 2016.

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 2017 and 2016. 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.

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


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

During 2016, Metra returned several rehabilitated or remanufactured vehicles to service. Thirty four cars (28 Amerail, 6 Budd) and five locomotives were rehabilitated in-house, and three locomotives remanufactured by an outside supplier.

Metra is renewing its IT systems, replacing mainframe systems with a modern ERP system. Phase one was successfully implemented on January 1, 2016, phase two was successfully completed June 2017, phase three is scheduled to be completed end of 2018 and phase four to replace the revenue accounting system is scheduled to be completed before the end of 2019. Efforts will continue until the renewal of Metra's software, hardware, and networks is complete.

### Basic Financial Statements

The *Statements of Net Position* presents current, noncurrent assets, deferred outflows and inflows 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 *Statements of Revenues, 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 revenues 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 *Statements 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

*2017 Financial Summary*

- *Net position* decreased $11.4 million, or 0.4%, to $3,124.7 million at December 31, 2017. Net position represents total assets plus deferred outflows of resources minus total liabilities and deferred inflows of resources.

- *Capital assets – net* decreased $26.7 million, or 0.9%, to $2,945.8 million in 2017 reflecting capital acquisitions less depreciation incurred in 2017.
- *Passenger revenue* increased $13.3 million, or 3.9%, to $355.3 million in 2017.
- *Other operating revenues* increased by $4.6 million, or 12.5%, to $41.4 million in 2017.
- *Nonoperating revenues* decreased $31.9 million, or 5.0%, to $601.9 million in 2017.
- *Total operating expenses before depreciation* increased $19.8 million, or 2.7%, to $761.6 million during 2017.

## 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.

### *2017 vs. 2016 Analysis*

*Statements of Net Position*

Total net position represents the difference between the total assets and deferred outflows of resources, and the total liabilities and deferred inflows of resources. As shown in Table 1a, Metra's total net position at December 31, 2017 decreased by $11.4 million, or 0.4%, from December 31, 2016. Current assets increased by $36.9 million, or 8.7%, to $459.2 million. Capital assets decreased by $26.7 million, or 0.9%, to $2,945.8 million. Current liabilities increased $10.9 million, or 5.4%, to $211.4 million. Long-term liabilities increased by $8.4 million, or 10.3%, to $89.8 million. Due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, Metra recorded deferred outflows of resources of $22.1 million and $24.0 million and deferred inflows of resources of $1.3 million and $0.8 million in 2017 and 2016, respectively.

**Table 1a**

**Condensed Statements of Net Position**

(Amounts in millions)

| | | December 31 | | Change increase (decrease) | |
|---|---|---|---|---|---|
| **Assets** | | **2017** | **2016** | **Dollars** | **Percent** |
| Current assets | $ | 459.2 | 422.3 | 36.9 | 8.7 % |
| Capital assets – net | | 2,945.8 | 2,972.5 | (26.7) | (0.9) |
| Total assets | $ | 3,405.0 | 3,394.8 | 10.2 | 0.3 % |
| **Deferred outflows of resources** | | | | | |
| Deferred outflows of resources | $ | 22.1 | 24.0 | (1.9) | (7.9)% |
| **Liabilities** | | | | | |
| Current liabilities | $ | 211.4 | 200.5 | 10.9 | 5.4 % |
| Long-term liabilities | | 89.8 | 81.4 | 8.4 | 10.3 |
| Total liabilities | $ | 301.2 | 281.9 | 19.3 | 6.8 % |
| **Deferred inflows of resources** | | | | | |
| Deferred inflows of resources | $ | 1.3 | 0.8 | 0.5 | 62.5 % |
| **Net Position** | | | | | |
| Net investment in capital assets | $ | 2,945.8 | 2,972.5 | (26.7) | (0.9)% |
| Unrestricted net assets | | 178.9 | 163.6 | 15.2 | 9.3 |
| Total net position | $ | 3,124.7 | 3,136.1 | (11.4) | (0.4)% |

Key changes include the following:

- *Current assets* increased by $36.9 million, or 8.7%, to $459.2 million primarily due to increases in cash, cash equivalents by $0.3 million, or 300.0%, investments by $40.9 million, or 17.6%, accounts receivable – other, net by $5.9 million, or 120.4%, materials and supplies by $1.8 million, or 12.2% and prepaid expense by $0.5 million, or 23.8%, which were partially offset by a decreases in accounts receivable – grant projects by $9.9 million, or 14.2%, accounts receivable- RTA financial assistance by $2.5 million, or 2.5%.
- *Capital assets – net* decreased by $26.7 million, or 0.9%, to $2,945.8 million primarily due to decrease in capital projects in progress by $10.4 million, or 100%, accumulated depreciation by $243.2 million or 5.7%,

which were partially offset by increases in land by $0.8 million, or 0.5%, rolling stock of $66.5 million, or 2.8%, roadways and passenger stations by $130.2 million, or 3.1%, support equipment and infrastructure (net of retirement) by $29.4 million, or 5.5%.

- *Current liabilities* increased by $10.9 million, or 5.4%, to $211.4 million, primarily due to increases in accrued wages and benefits payable by $12.2 million, or 27.2%, accrued claims – current by $1.4 million, or 15.1%, and unearned revenue by $3.4 million, or 30.6%, which were partially offset by a decrease in accounts payable by $6.2 million, or 4.6%,
- *Long-term liabilities* increased by $8.4 million, or 10.3%, to $89.8 million, primarily due to increases in long-term portion of accrued claims by $2.9 million, or 9.1%,provision for post-retiree health benefits by $3.3 million, or 23.6%, net pension liability by $2.8 million, or 16.2%, which were partially offset a decrease in other long-term liability by $0.6 million, or 3.3%.

*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, 2017 and 2016 ($11.3) million and $42.2 million, a 126.9% decrease in change in net position from the year ended December 31, 2016. Total operating revenues increased by $17.9 million, or 4.7%, from 2016. Total operating expenses before depreciation increased by $19.8 million, or 2.7%, from 2016. Total nonoperating revenues decreased by $31.9 million, or 5.0%, from 2016.

**Table 2a**

**Statements of Revenues, Expenses, and Changes in Net Position**

(Amounts in millions)

| | December 31 | | Change increase (decrease) | |
|---|---|---|---|---|
| | **2017** | **2016** | **Dollars** | **Percent** |
| Operating revenues: | | | | |
| Passenger revenue | $ 355.3 | 342.0 | 13.3 | 3.9 % |
| Other | 41.4 | 36.8 | 4.6 | 12.5 |
| Total operating revenues | 396.7 | 378.8 | 17.9 | 4.7 % |
| Operating expenses: | | | | |
| Transportation | 249.5 | 245.2 | 4.3 | 1.8 % |
| Fuel and motive power | 49.5 | 54.9 | (5.4) | (9.8) |
| Engineering | 149.8 | 135.2 | 14.6 | 10.8 |
| Mechanical | 174.3 | 174.6 | (0.4) | (0.2) |
| Administration | 98.8 | 100.8 | (2.0) | (2.0) |
| Claims and insurance | 25.4 | 16.8 | 8.6 | 51.2 |
| Downtown stations | 14.3 | 14.3 | — | — |
| Total operating expenses before depreciation | 761.6 | 741.8 | 19.8 | 2.7 % |
| Operating loss before depreciation | (364.9) | (363.0) | (1.9) | 0.6 % |
| Depreciation | 248.2 | 228.6 | 19.6 | 8.6 |
| Operating loss | (613.2) | (591.6) | (21.6) | 3.7 % |
| Nonoperating revenues: | | | | |
| Financial assistance | 601.9 | 633.8 | (31.9) | (5.0)% |
| Total nonoperating revenues | 601.9 | 633.8 | (31.9) | (5.0)% |
| Change in net position | $ (11.3) | 42.2 | (53.5) | (126.9)% |



(Continued)

*Total operating revenues* increased by $17.9 million, or 4.7%, from 2016. Principal changes are discussed below:

*Passenger revenue* increased $13.3 million or 3.9% in 2017. This increase was due to a 5.8% net increase in fares, effective February 1, 2017 offset by a decrease in ridership. Below is a table comparing ridership by line for 2017 and 2016:

**Table 3a**

**Passenger Trips By Line**

(In thousands of passenger trips)

| Rail line | 2017* | 2016* | Increase (Decrease) | Percent |
|---|---|---|---|---|
| Burlington Northern/Santa Fe | 16,227 | 16,325 | (98) | (0.6)% |
| Metra Electric | 8,150 | 8,642 | (492) | (5.7) |
| Heritage Corridor | 727 | 718 | 9 | 1.3 |
| Milwaukee–North | 6,819 | 6,935 | (116) | (1.7) |
| Milwaukee–West | 6,350 | 6,621 | (271) | (4.1) |
| North Central Service | 1,684 | 1,730 | (46) | (2.7) |
| Rock Island | 7,924 | 8,113 | (189) | (2.3) |
| SouthWest Service | 2,457 | 2,538 | (81) | (3.2) |
| Union Pacific–North | 9,029 | 9,220 | (191) | (2.1) |
| Union Pacific–Northwest | 10,910 | 11,184 | (274) | (2.4) |
| Union Pacific–West | 8,332 | 8,375 | (43) | (0.5) |
| Total passenger trips | 78,609 | 80,402 | (1,793) | (2.2)% |

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

*Other operating revenues* increased by $4.6 million, or 12.5%, primarily due to increases in advertising revenue by $0.6 million, or 17.5%, half-fare subsidy by $0.5 million, or 47.7%, interest income by $1.5 million, or 151.5%, miscellaneous income by $1.4 million, or 20.6%, parking revenue by $0.8 million, or 545.8%, trackage revenue by $0.8 million, or 4.8%, which were partially offset by decreases in joint facility income by $0.2 million, or 17.7%, and leases and rental income by $0.8 million, or 13.3%.

*Nonoperating revenues* decreased by $31.9 million, or 5.0%, to $601.9 million, primarily because of a decreases in IDOT grants by $6.7 million, or 102.7%, RTA grants by $47.5 million, or 53.4%, and RTA sales tax by $2.1 million, or 0.5%, which were partially offset by increases in federal grants by $19.1 million, or 13.1% and local grants by $5.3 million, or 725.8%.

*Total operating expenses before depreciation* increased by $19.8 million, or 2.7%, due to increases in claims by $8.2 million or 64.7%, to $20.9 million, insurance by $0.4 million, or 9.0% to $4.5 million, fringe benefits by $2.7 million, or 1.1%, to $234.4 million, and purchases by $25.5 million, or 34.7%, to $98.8 million, partly offset by



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decreases in fuel by $4.4 million, or 8.8%, to $45.3 million, motive power by $1.0 million, or 19.8%, to $4.2 million, material costs by $7.1 million, or 12.9%, to $48.0 million, utilities by $2.9 million, or 14.4%, to $17.4 million, labor by $1.5 million, or 0.5%, to $288.1 million.

Metra consumed 26.2 million of gallons of diesel fuel with an average price $1.73 per gallon in 2017 vs. 25.8 million of gallons of diesel fuel with an average price $1.93 per gallon in 2016.

Metra consumed 74.7 million KWH of motive power in 2017 at an average price of 0.0558 per KWH vs. 71.3 million KWH of motive power in 2016 at an average price of 0.0728 per KWH. Savings to motive power are due to the lower average price for motive electricity.

*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, 2017 and 2016, Metra had invested approximately $7.5 billion and $7.3 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, 2017 and 2016 totaled approximately $2.95 billion and $2.97 billion, respectively, (see Table 4a). This amount represents a net decrease (including additions and disposals, net of depreciation) of $26.7 million or 0.9% over the December 31, 2016 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** | **2017** | **2016** | **Dollars** | **Percent** |
| Federal Transit Administration | $ 3,730.4 | 3,571.0 | 159.4 | 4.5 % |
| Illinois Department of Transportation | 660.8 | 661.0 | (0.2) | — |
| Regional Transportation Authority | 2,053.9 | 2,014.9 | 39.0 | 1.9 |
| Northern Indiana Commuter Transportation District | 6.4 | 6.4 | — | — |
| Metra | 1,017.2 | 998.9 | 18.3 | 1.8 |
| Total capital assets | 7,468.7 | 7,252.2 | 216.5 | 3.0 % |
| Accumulated depreciation | (4,522.9) | (4,279.7) | (243.2) | 5.7 |
| Total capital assets, net | $ 2,945.8 | 2,972.5 | (26.7) | (0.9)% |

Major capital asset expenditures during 2017 and 2016 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. In 2017 and 2016, Metra made payments totaling $10.6 million and $35.6 million, respectively, toward the purchase of new Highliner railcars for the Metra Electric District. Metra expended $66.5 million and $63.1 million for 2017 and 2016, respectively, to upgrade and maintain its existing fleet through remanufacturing, rehabilitations, and replacement of major subassemblies.
- 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 2017 and 2016 by expending $23.1 million and $27.6 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 2017 and 2016 were $90.8 million and $86.9 million, respectively. The largest component of the expenditures in this category for 2017 and 2016 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 programmed $331.2 million.
- *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 2017 and 2016 were $26.6 million and $22.6 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 2017 and 2016 were $18.1 million and $7.6 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 2017 and 2016 were $1.0 million and $0.7 million, respectively.

### *2016 vs. 2015 Analysis*

*Statements of Net Position*

Total net position represents the difference between the total assets and deferred outflows of resources, and the total liabilities and deferred inflows of resources. As shown in Table 1b, Metra's total net position at December 31, 2016 increased by $42.2 million, or 1.4% from December 31, 2015. This is primarily due to increases in current assets and net capital assets. Current assets increased by $55.3 million, or 15.1%, to $422.3 million. Capital assets increased by $20.1 million, or 0.7%, to $2,972.5 million. Current liabilities increased $1.2 million, or 0.6%, to $200.5 million. Long-term liabilities increased by $11.7 million, or 16.8%, to

$81.4 million. Due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, Metra recorded deferred outflows of resources of $24.0 and $44.5 million and deferred inflows of resources of $0.8 million and 1.0 million in 2016 and 2015, respectively.

**Table 1b**

**Condensed Statements of Net Position**

(Amounts in millions)

| | | December 31 | | Change increase (decrease) | |
|---|---|---|---|---|---|
| **Assets** | | **2016** | **2015** | **Dollars** | **Percent** |
| Current assets | $ | 422.3 | 367.0 | 55.3 | 15.1 % |
| Capital assets – net | | 2,972.5 | 2,952.4 | 20.1 | 0.7 |
| Total assets | $ | 3,394.8 | 3,319.4 | 75.4 | 2.3 % |
| **Deferred outflows of resources** | | | | | |
| Deferred outflows of resources | $ | 24.0 | 44.5 | (20.5) | (46.1)% |
| **Liabilities** | | | | | |
| Current liabilities | $ | 200.5 | 199.3 | 1.2 | 0.6 % |
| Long-term liabilities | | 81.4 | 69.7 | 11.7 | 16.8 |
| Total liabilities | $ | 281.9 | 269.0 | 12.9 | 4.8 % |
| **Deferred inflows of resources** | | | | | |
| Deferred inflows of resources | $ | 0.8 | 1.0 | (0.2) | (20.0)% |
| **Net Position** | | | | | |
| Net investment in capital assets | $ | 2,972.5 | 2,952.4 | 20.1 | 0.7 % |
| Unrestricted net assets | | 163.6 | 141.5 | 22.1 | 15.6 |
| Total net position | $ | 3,136.1 | 3,093.9 | 42.2 | 1.4 % |

Key changes include the following:

- *Current assets* increased by $55.3 million, or 15.1%, to $422.3 million primarily due to increases in investments by $53.2 million, or 29.8%, accounts receivable – grant project by $13.6 million, or 24.2%, accounts receivable – financial assistance-RTA by $4.4 million, or 4.7%, accounts receivable and prepaid expense by $0.4 million, or 23.5%, which were partially offset by a decrease in cash, cash equivalents by 4.3 million, or 97.7%, accounts receivable – other by $6.3 million, or 56.3%, and material and supplies by $5.6 million, or 27.6%.

- *Capital assets – net* increased by $20.1 million, or 0.7%, to $2,972.5 million primarily to increases in rolling stock by $179.4 million (net of retirement), or 8.0%, roadways and passenger stations by $120.9 million, or 3.0%, support equipment and infrastructure by $24.5 million, or 4.8%, which were partially offset by a decrease in capital projects in progress by $76.0 million, or 88.0%.
- *Current liabilities* increased by $1.2 million, or 0.6%, to $200.5 million, primarily due to increases in accounts payables by $1.0 million, or 0.7%, accrued wages and benefits payable by $0.1 million, or 0.2%, and the current portion of the accrued claims liability by $0.3 million, or 3.3%, which were partially offset by the decrease in unearned revenues by $0.1 million, or 0.9%.
- Long-term liabilities increased by $11.7 million, or 16.8%, to $81.4 million, primarily due to increase in long-term portion of accrued claims by $6.1 million, or 23.7%, and provision for postretiree health benefits by $21.5 million, or 197.2%, which were partially offset by the decreases in net pension liability by $15.8 million, or 47.7%.

*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 2b, Metra's change in net position for years ended December 31, 2016 and 2015 was $42.2 million and $49.6 million, a 14.7% decrease in change in net position from the year ended December 31, 2015. Total operating revenues increased by $1.8 million, or 0.5%, from 2015. Total operating expenses before depreciation increased by $15.8 million, or 2.2%, from 2015. Total nonoperating revenues increased by $18.0 million, or 2.9%, from 2015.

**Table 2b**

**Statements of Revenues, Expenses, and Changes in Net Position**

(Amounts in millions)

| | December 31 | | Change increase (decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | Dollars | Percent |
| Operating revenues: | | | | |
| Passenger revenue | $ 342.0 | 337.4 | 4.6 | 1.4 % |
| Other | 36.8 | 39.6 | (2.8) | (7.1) |
| Total operating revenues | 378.8 | 377.0 | 1.8 | 0.5 % |
| Operating expenses: | | | | |
| Transportation | 245.2 | 235.2 | 10.0 | 4.3 % |
| Fuel and motive power | 54.9 | 77.8 | (22.9) | (29.4) |
| Engineering | 135.2 | 129.8 | 5.4 | 4.2 |
| Mechanical | 174.6 | 158.5 | 16.1 | 10.2 |
| Administration | 100.8 | 94.4 | 6.4 | 6.8 |
| Claims and insurance | 16.8 | 15.0 | 1.8 | 12.0 |
| Downtown stations | 14.3 | 15.3 | (1.0) | (6.5) |
| Total operating expenses before depreciation | 741.8 | 726.0 | 15.8 | 2.2 % |
| Operating loss before depreciation | (363.0) | (349.0) | (14.0) | 4.0 % |
| Depreciation | 228.6 | 217.2 | 11.4 | 0.1 |
| Operating loss | (591.6) | (566.2) | (25.4) | 4.5 % |
| Nonoperating revenues: | | | | |
| Financial assistance | 633.8 | 615.8 | 18.0 | 2.9 % |
| Total nonoperating revenues | 633.8 | 615.8 | 18.0 | 2.9 % |
| Change in net position | $ 42.2 | 49.6 | (7.4) | (14.7)% |

*Total operating revenues* increased by $1.8 million, or 0.5%, from 2015. Principal changes are discussed below:

*Passenger revenue* increased $4.6 million or 1.4% in 2016. This increase was due to a 2% net increase in fare revenue effective February 1, 2016. Below is a table comparing ridership by line for 2016 and 2015:

**Table 3b**

**Passenger Trips By Line**

(In thousands of passenger trips)

| Rail line | 2016* | 2015* | Increase (Decrease) | Percent |
|---|---|---|---|---|
| Burlington Northern/Santa Fe | 16,325 | 16,400 | (75) | (0.5)% |
| Metra Electric | 8,642 | 9,055 | (413) | (4.6) |
| Heritage Corridor | 718 | 724 | (6) | (0.8) |
| Milwaukee–North | 6,935 | 7,095 | (160) | (2.3) |
| Milwaukee–West | 6,621 | 6,772 | (151) | (2.2) |
| North Central Service | 1,731 | 1,758 | (27) | (1.5) |
| Rock Island | 8,113 | 8,305 | (192) | (2.3) |
| SouthWest Service | 2,538 | 2,604 | (66) | (2.5) |
| Union Pacific–North | 9,220 | 9,249 | (29) | (0.3) |
| Union Pacific–Northwest | 11,184 | 11,302 | (118) | (1.0) |
| Union Pacific–West | 8,375 | 8,367 | 8 | 0.1 |
| Total passenger trips | 80,402 | 81,631 | (1,229) | (1.5)% |

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

*Other operating revenues* decreased by $2.8 million, or 7.1%. Decreases in half fare subsidy by $0.6 million or 37.5%, shared asset revenue (joint facility credits) $1.1 million or 55.0% and miscellaneous income by $4.0 million or 39.6% were partly offset by increases in investment income $0.9 million or 300.0%, and lease revenues $1.5 million or 32.6%.

*Nonoperating revenues* increased by $18.0 million, to $633.8 million, primarily because Metra's federal grants increased by $4.7 million, or 3.3%, to $145.5 million, state and RTA grants increased by $7.4 million, or 8.3%, to $96.2 million and Metra's statutory share of Regional Transportation Authority (RTA) Sales Tax and Public Transportation Funds increased by $6.0 million, or 1.6%, to $392.1 million.

*Total operating expenses before depreciation* increased by $15.8 million, or 2.2%, as health, pension, and postretirement benefits increased by $33.4 million, or 16.8%, to 231.8 million, material costs increased by $16.0 million, or 41.3%, to $54.7 million, utilities increased by $2.8 million, or 16.0%, to $20.3 million, claims increased by $0.7 million or 5.8%, insurance increased by $1.1 million, or 36.7% to $4.1 million, partly offset by decreases in fuel by $22.0 million, or 30.6%, to $50.0 million, motive power by $0.9, or 14.8%, to $5.2 million, purchases by $11.6 million, or 16.9%, to $57.2 million, and labor by $3.4 million, or 1.2%, to $289.7 million.

Metra consumed 25.8 million gallons of diesel fuel with an average price $1.93 per gallon in 2016 vs. 27.3 million gallons with an average price $2.62 per gallon in 2015. Mild weather enabled considerable reductions in the fuel consumed to keep locomotives warm in winter to ensure smooth operation for the morning rush hour, resulting in substantial fuel savings. In 2016, a drop in crude oil prices resulted in favorable diesel fuel prices.

Metra consumed 71.3 million KWH of motive power in 2016 at an average price of 0.0728 per KWH vs. 81.7 million KWH in 2015 at an average price of 0.0750 per KWH. Savings to motive power are due to the phase out of old Highliner cars and mild winter.

*Capital Assets*

Latest assessments by the RTA suggest the amount of money needed to return Metra's assets to a "State of Good Repair" (SOGR) over the 2017-26 period is approximately $12 billion (in 2016 dollars). The difference between SOGR and present conditions is that SOGR implies assets being used no longer than their designed life. Metra's present operating practice is to use continued remanufacturing and rehabilitation of rolling stock to safely use assets far beyond their designed life. The practice of asset life extensions through asset renewals is economical, but it also has certain practical limits, which is why Metra is attempting to move forward with certain asset replacement programs.

Approximately a quarter of the funding required to attain SOGR is available from currently known sources. 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, 2016 and 2015, Metra had invested approximately $7.0 billion and $6.9 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, 2016 and 2015 totaled approximately $2.67 billion and $2.85 billion,


(Continued)

respectively, (see Table 4b). This amount represents a net decrease (including additions and disposals, net of depreciation) of $177.6 million or 0.7% over the December 31, 2015 balance.

**Table 4b**

**Capital Assets by Funding Source**

**Current Year to Prior Year Analysis**

(Amounts in millions of dollars)

| Funding source | | December 31, 2016 | December 31, 2015 | Change increase (decrease) Dollars | Change increase (decrease) Percent |
|---|---|---|---|---|---|
| Federal Transit Administration | $ | 3,571.0 | 3,428.5 | 142.5 | 4.2 % |
| Illinois Department of Transportation | | 661.0 | 654.5 | 6.5 | 1.0 |
| Regional Transportation Authority | | 2,014.9 | 1,926.0 | 88.9 | 4.6 |
| Northern Indiana Commuter Transportation District | | 6.4 | 6.4 | — | — |
| Metra | | 998.9 | 988.2 | 10.7 | 1.1 |
| Total capital assets | | 7,252.2 | 7,003.6 | 248.6 | 3.5 % |
| Accumulated depreciation | | (4,279.7) | (4,051.2) | (228.5) | 5.6 |
| Total capital assets, net | $ | 2,972.5 | 2,952.4 | 20.1 | 0.7 % |

Major capital asset expenditures during 2016 and 2015 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. In 2016 and 2015, Metra made payments totaling $35.6 million and $34.6 million, respectively, toward the purchase of 160 new Highliner railcars for the Metra Electric District and obtained delivery of 32 Highliner railcars. Metra expended $63.1 million and $48.9 million for 2016 and 2015, respectively, to upgrade and maintain its existing fleet through remanufacturing, rehabilitations, and replacement of major subassemblies.
- 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 2016 and 2015 by expending $27.6 million and $44.4 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 2016 and 2015 were $86.9 million and $64.5 million, respectively. The largest component of the expenditures in this category for 2016 and 2015 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 million in total. Metra has awarded and programmed $341.5 million.
- *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 2016 and 2015 were $22.6 million and $16.3 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 2016 and 2015 were $7.6 million and $15.0 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 2016 and 2015 were $0.7 million and $2.6 million, respectively.

### 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.

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, which is combined with 15% of Sales Tax I to form the basis of discretionary funding. 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.

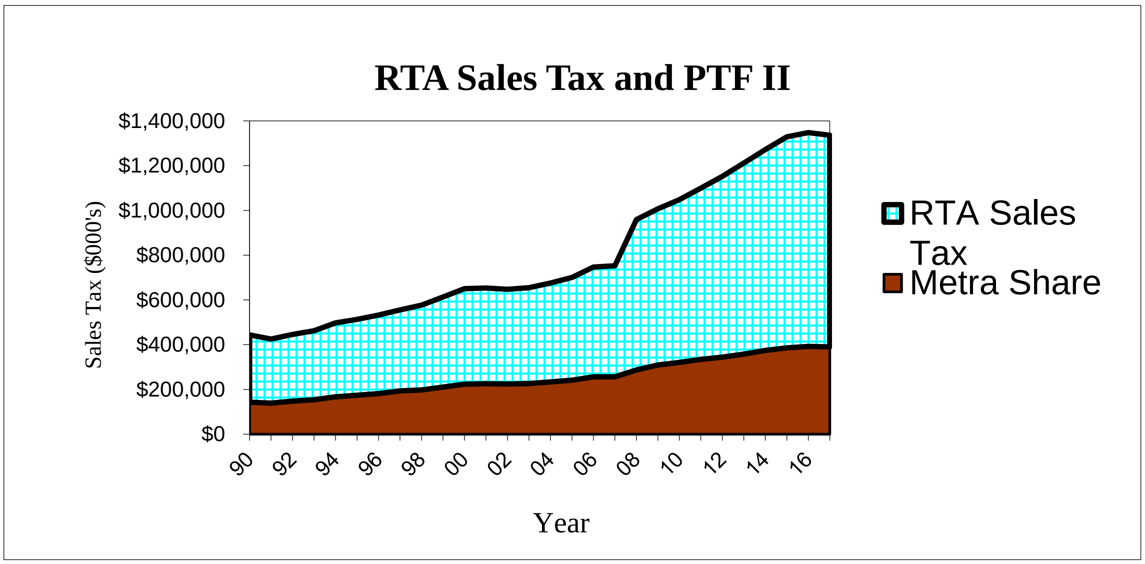
The RTA Act, as amended in 2008, increased the RTA sales tax by an additional 0.25% in all six counties of the RTA region (Sales Tax II), increased the Real Estate Transfer Tax (RETT) in the City of Chicago by 0.3%, and provided additional Public Transportation Funds equal to a 5% match of Sales Tax 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 2017 and 2016 as follows:

- $152.1 million to Pace ADA Paratransit Service
- $24.1 million to Pace Suburban Community Mobility Fund (SCMF)
- $12.1 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 2017 Sales Tax I and combined Sales Tax II/PTF II totaled $878.6 million and $457.4 million, respectively. Metra's statutory shares $290.4 million and $99.1 million, respectively) together represent 29.2% of total RTA Sales Tax and PTF II revenue sources.

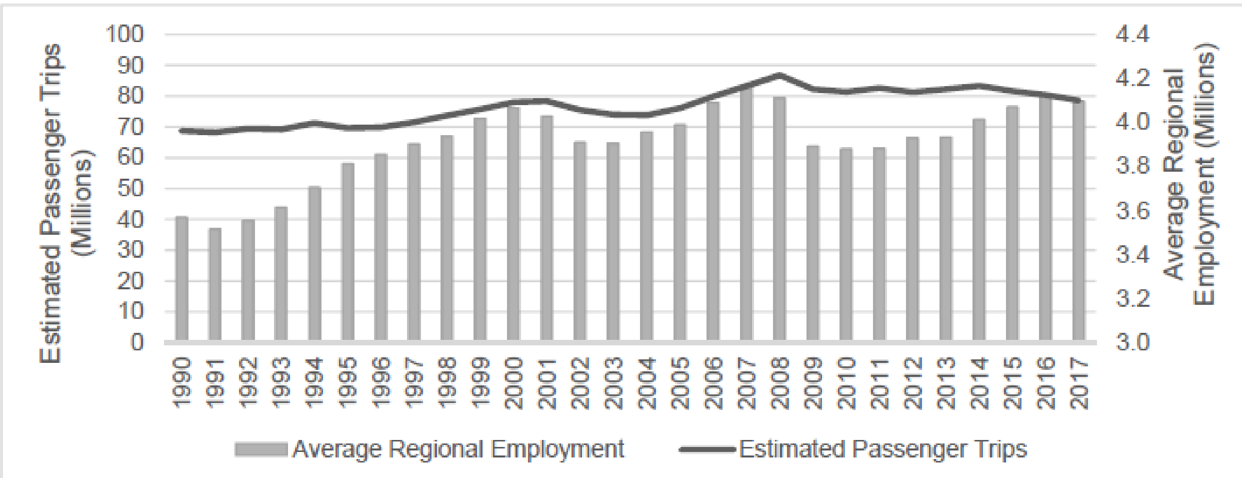
**Figure 1: Sales Tax and Metra Statutory Share**




## 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 2017 was 0.7% higher compared to 2016. Employment remains below pre-recession levels. In 2017, approximately 4.09 million persons were employed in the Chicago region. This is comparable to 2000, 2006, and 2015.

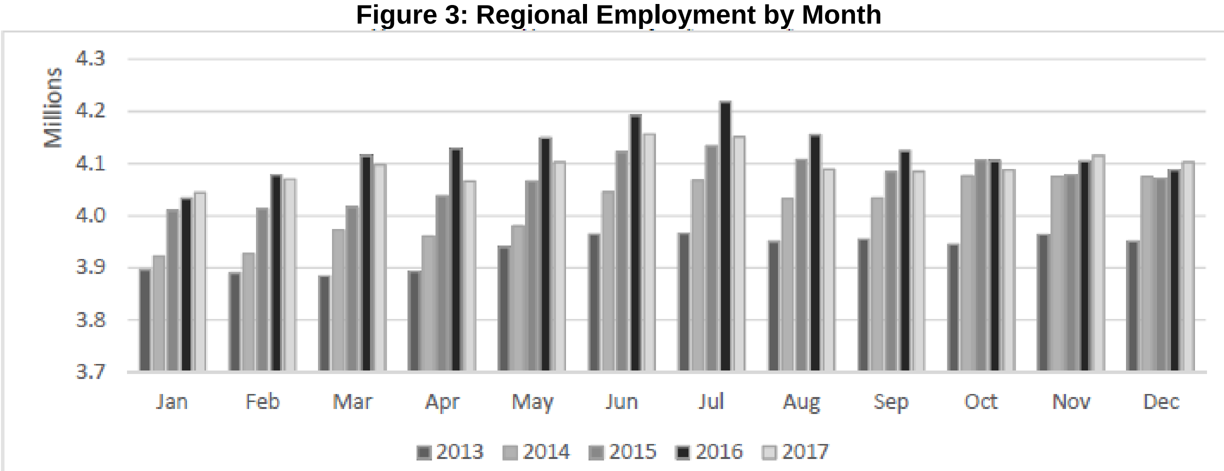
**Figure 2: Annual Average Regional Employment**




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 County. Government workers are not included in these estimates.

Figure 3 shows regional employment by month for 2013 through 2017. In 2017, regional employment was down in nine months compared to 2016. This reverses a positive trend of year-over-year gains in regional employment that began in mid-2012.

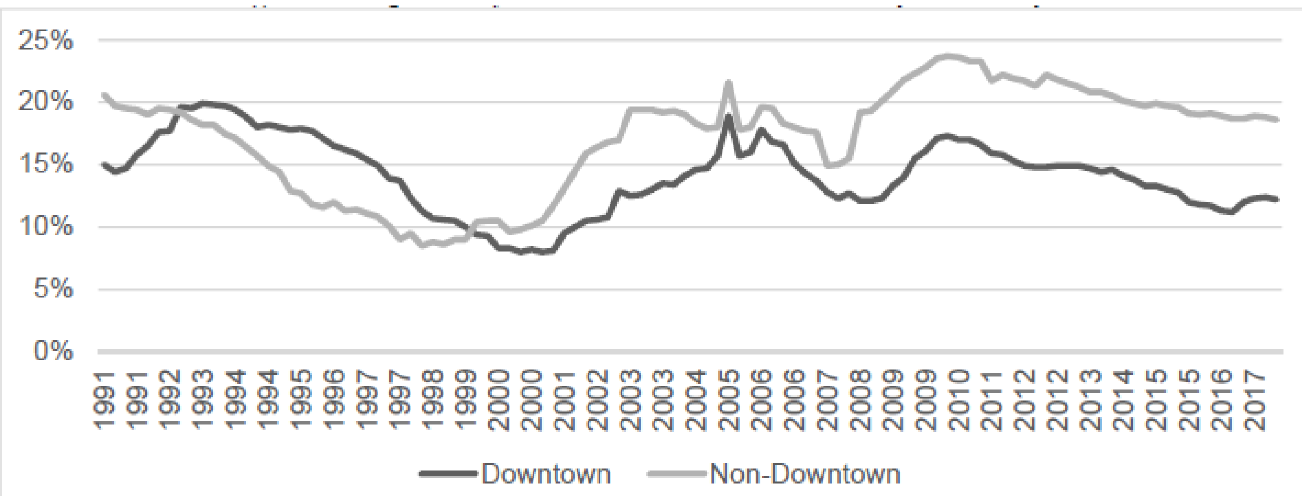
**Figure 3: Regional Employment by Month**




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%. The difference between downtown and outside-of-downtown occupancy has been steady since the Second Quarter of 2008.

**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)

Statements of Net Position

December 31, 2017 and 2016

| **Assets** | | **2017** | **2016** |
|---|---|---|---|
| Current assets: | | | |
| Cash, cash equivalents, and investments: | | | |
| Cash and cash equivalents | $ | 351,491 | 131,512 |
| Investments | | 272,808,624 | 231,874,033 |
| Total cash, cash equivalents, and investments | | 273,160,115 | 232,005,545 |
| Accounts receivable: | | | |
| Grant projects | | 59,963,846 | 69,858,887 |
| Financial assistance – RTA | | 96,180,192 | 98,714,714 |
| Other, net | | 10,837,438 | 4,874,698 |
| Total accounts receivable | | 166,981,476 | 173,448,299 |
| Materials and supplies | | 16,499,010 | 14,674,016 |
| Prepaid expense | | 2,603,384 | 2,129,993 |
| Total current assets | | 459,243,985 | 422,257,853 |
| Capital assets: | | | |
| Land | | 154,145,871 | 153,263,036 |
| Rolling stock | | 2,478,517,500 | 2,412,012,452 |
| Roadways and passenger stations | | 4,275,345,522 | 4,145,088,876 |
| Support equipment and infrastructure | | 560,668,489 | 531,472,733 |
| Less accumulated depreciation | | (4,522,864,679) | (4,279,706,129) |
| Capital projects in progress | | – | 10,412,541 |
| Total capital assets | | 2,945,812,703 | 2,972,543,509 |
| Total assets | $ | 3,405,056,688 | 3,394,801,362 |
| **Deferred Outflows of Resources** | | | |
| Deferred outflows of resources – pension related | $ | 22,145,406 | 23,975,067 |



(Continued)

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

(Public Entities, doing business as Metra)

Statements of Net Position

December 31, 2017 and 2016

| **Liabilities** | | **2017** | **2016** |
|---|---|---|---|
| Current liabilities: | | | |
| Accounts payable | $ | 128,642,818 | 134,760,284 |
| Accrued wages and benefits payable | | 57,063,497 | 44,883,827 |
| Accrued claims – current | | 10,672,100 | 9,325,300 |
| Accrued post-retiree health benefits – current | | 452,934 | 452,934 |
| Unearned revenue | | 14,541,674 | 11,114,762 |
| Total current liabilities | | 211,373,023 | 200,537,107 |
| Long-term liabilities: | | | |
| Accrued claims | | 34,743,464 | 31,794,633 |
| Net pension liability | | 20,073,805 | 17,255,480 |
| Accrued post-retiree health benefits | | 17,292,264 | 14,005,779 |
| Other long-term liabilities | | 17,706,241 | 18,356,880 |
| Total long-term liabilities | | 89,815,774 | 81,412,772 |
| Total liabilities | | 301,188,797 | 281,949,879 |
| **Deferred Inflows of Resources** | | | |
| Deferred inflows of resources – pension related | | 1,271,417 | 769,774 |
| **Net Position** | | | |
| Net position: | | | |
| Net investment in capital assets | | 2,945,812,703 | 2,972,543,509 |
| Unrestricted net assets | | 178,929,176 | 163,513,263 |
| Total net position | $ | 3,124,741,879 | 3,136,056,772 |

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)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Operating revenues: | | | |
| Passenger revenue | $ | 355,260,071 | 341,966,405 |
| Other | | 41,364,794 | 36,769,535 |
| Total operating revenues | | 396,624,865 | 378,735,940 |
| Operating expenses: | | | |
| Transportation | | 249,482,585 | 245,206,437 |
| Fuel and motive power | | 49,486,295 | 54,903,637 |
| Engineering | | 149,818,931 | 135,236,022 |
| Mechanical | | 174,260,083 | 174,610,326 |
| Administration | | 98,837,616 | 100,785,115 |
| Claims and insurance | | 25,370,297 | 16,787,259 |
| Downtown stations | | 14,337,100 | 14,275,150 |
| Total operating expenses before depreciation | | 761,592,907 | 741,803,946 |
| Depreciation | | 248,198,353 | 228,551,503 |
| Total operating expenses | | 1,009,791,260 | 970,355,449 |
| Operating loss | | (613,166,395) | (591,619,509) |
| Nonoperating revenues: | | | |
| Federal | | 164,576,390 | 145,486,952 |
| Local | | 437,275,112 | 488,285,786 |
| Total financial assistance | | 601,851,502 | 633,772,738 |
| Total nonoperating revenues | | 601,851,502 | 633,772,738 |
| Change in net position | | (11,314,893) | 42,153,229 |
| Net position at beginning of year | | 3,136,056,772 | 3,093,903,543 |
| Net position at end of year | $ | 3,124,741,879 | 3,136,056,772 |

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)

Statements of Cash Flows

Years ended December 31, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received from fares | $ | 355,811,849 | 342,043,014 |
| Cash received from other operating revenue items | | 36,658,991 | 41,322,394 |
| Cash paid to and on behalf of employees for services | | (502,598,126) | (495,312,496) |
| Cash paid for claims | | (16,602,308) | (6,308,166) |
| Cash paid to contractual service providers and suppliers | | (226,547,550) | (201,594,932) |
| Net cash used in operating activities | | (353,277,144) | (319,850,186) |
| Cash flows from noncapital and related financing activities: | | | |
| Cash received from RTA sales tax and other local noncapital assistance | | 394,982,431 | 387,685,664 |
| Cash received from noncapital state assistance | | 1,618,197 | 1,618,197 |
| Cash received from noncapital federal assistance | | 2,402,240 | 2,921,032 |
| Net cash provided by noncapital and related financing activities | | 399,002,868 | 392,224,893 |
| Cash flows from capital and related financing activities: | | | |
| Cash received from capital grants | | 207,001,361 | 238,755,626 |
| Cash paid to acquire and construct capital assets | | (211,572,506) | (262,256,338) |
| Net cash used in capital and related financing activities | | (4,571,145) | (23,500,712) |
| Cash flows from investing activities: | | | |
| Cash received from the sale of investment securities | | 1,334,011,930 | 949,550,750 |
| Cash paid for the purchase of investment securities | | (1,374,946,530) | (1,002,694,989) |
| Net cash used in investing activities | | (40,934,600) | (53,144,239) |
| Net increase (decrease) in cash and cash equivalents | | 219,979 | (4,270,244) |
| Cash and cash equivalents, beginning of year | | 131,512 | 4,401,756 |
| Cash and cash equivalents, end of year | $ | 351,491 | 131,512 |



(Continued)

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

(Public Entities, doing business as Metra)

Statements of Cash Flows

Years ended December 31, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | | |
| Operating loss | $ | (613,166,395) | (591,619,509) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Depreciation | | 248,198,353 | 228,551,503 |
| Provision for claims | | 20,897,939 | 12,685,018 |
| Settlement of claims | | (16,602,308) | (6,308,166) |
| Half-fare revenues | | (1,483,367) | (1,004,464) |
| (Increase) decrease in assets: | | | |
| Accounts receivable | | (6,097,570) | 5,742,985 |
| Materials and supplies | | (1,824,994) | 5,584,477 |
| Prepaid expense | | (473,391) | (398,376) |
| Increase (decrease) in liabilities and deferred inflows: | | | |
| Accounts payable | | (6,117,466) | 940,092 |
| Accrued wages and benefits payable | | 12,179,670 | 94,601 |
| Net pension liability | | 2,818,325 | (15,807,246) |
| Accrued post-retiree health benefits | | 3,286,485 | 3,144,962 |
| Other long-term liabilities | | (650,639) | 18,356,880 |
| Net deferred outflow and inflow of resources | | 2,331,302 | 20,296,110 |
| Unearned revenue | | 3,426,912 | (109,053) |
| Total adjustments | | 259,889,251 | 271,769,323 |
| Net cash used in operating activities | $ | (353,277,144) | (319,850,186) |

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, revenues are 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 fixed assets, allowances for doubtful accounts, reserves for employee-benefit obligations, and other contingencies.

### *(c) Cash and Cash Equivalents*

For purposes of the statements 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.

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 statements 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, ticket-by-mail, 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 Revenues

Metra has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including passenger revenue and other nonpassenger operating revenue. Nonpassenger operating revenues include half-fare revenues, joint facility revenue, interest income, lease and rental income, advertising income, and other miscellaneous nonfare generated income. Nonoperating revenues include 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 $389.5 million and $390.7 million, and non-statutory share of RTA sales tax proceeds was approximately $0.5 million and $1.4 million, respectively, during the years ended December 31, 2017 and 2016. RTA capital funding was $39.0 million and $89.0 million during the years ended December 31, 2017 and 2016. Illinois Department of Revenue's share of capital financing funding was $0.0 million and $6.5 million, and a local share was $6.0 million and a reduction of $0.7 million during the years ended December 31, 2017 and 2016, respectively. In 2017, Metra received an advance of $3.5 million in ICE funding from RTA. Metra received $2.5 million of operating assistance in 2017 from RTA. In 2017, Metra used $1.8 million in ICE funding to defray the cost associated with the Ventra Mobile Application. In 2016, Metra received an advance of $4.8 million in ICE funding from RTA. Metra did not receive any operating assistance in 2016 from RTA. In 2016, Metra used $2.3 million in ICE funding to defray the cost associated with the Ventra Mobile Application.

### (m) Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement preparation.

### (n) New Accounting Pronouncements

Effective in 2018, Metra will be required to implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). GASB Statement No. 75 will require state and local governments using the resource measurement focus for financial reporting to recognize a liability for postemployment benefits other than pensions (OPEB) as employees earn the OPEB benefits through service. Additionally, GASB Statement No. 75 includes substantive changes to the methods and assumptions used to determine the actuarial valuation for financial reporting purposes.



(Continued)

## (3) Cash, Cash Equivalents, and Investments

### *(a) Cash, Cash Equivalents, and Investments*

Cash, cash equivalents, and investments are reported in the statements of net position as of December 31, 2017 and 2016 as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Cash and cash equivalents: | | | |
| Bank deposits, working cash, certificates of deposit, and cash equivalents | $ | 351,491 | 131,512 |
| Investments, including board-designated funds | | 272,808,624 | 231,874,033 |
| Total | $ | 273,160,115 | 232,005,545 |

Included in investments are board-designated funds (totaling $260,524,583 at December 31, 2017 and $191,793,488 at December 31, 2016) 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 $8,394,218 and $4,762,134 at December 31, 2017 and 2016, respectively $3,469,038 and $4,762,134 were covered by FDIC insurance or by collateral held by third party at December 31, 2017 and 2016, respectively.

### *(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



(Continued)

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, 2017 and 2016, 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, 2017 and 2016:

| Investment type | Investments as of December 31, 2017 Fair value | Investment maturities Less than one year |
|---|---|---|
| U.S. Treasury Securities | $ 104,456,630 | 104,456,630 |
| U.S. agencies | 47,726,990 | 47,726,990 |
| Illinois Funds (local government investment pool) | 31,225,984 | 31,225,984 |
| Money market | 22,756 | 22,756 |
| Commercial paper | 89,376,264 | 89,376,264 |
| Total | $ 272,808,624 | 272,808,624 |

| Investment type | Investments as of December 31, 2016 Fair value | Investment maturities Less than one year |
|---|---|---|
| U.S. Treasury Securities | $ 90,712,910 | 90,712,910 |
| U.S. agencies | 35,855,830 | 35,855,830 |
| Illinois Funds (local government investment pool) | 29,565,259 | 29,565,259 |
| Money market | 2,520,846 | 2,520,846 |
| Commercial paper | 73,219,188 | 73,219,188 |
| Total | $ 231,874,033 | 231,874,033 |

### *(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, 2017 are as follows:

**Credit Ratings Investments Held as of December 31, 2017 (S&P)**

(As a percentage of total fair value for investment securities)

| Investment type | | Fair value | Percent | S&P |
|---|---|---|---|---|
| U.S. Treasury securities | $ | 104,456,630 | 38.3 % | AA+ |
| U.S. Agencies | | 47,726,990 | 17.5 | AA+ |
| Illinois Funds | | 31,225,984 | 11.4 | AAAm |
| Money market | | 22,756 | — | AAAm |
| Commercial paper | | 89,376,264 | 32.8 | A1P1 |
| Total investments at fair value | $ | 272,808,624 | 100.0 % | |

Credit ratings for Metra's investments as described by Standard & Poor's at December 31, 2016 are as follows:

**Credit Ratings Investments Held as of December 31, 2016 (S&P)**

(As a percentage of total fair value for investment securities)

| Investment type | | Fair value | Percent | S&P |
|---|---|---|---|---|
| U.S. Treasury securities | $ | 90,712,910 | 39.1 % | AA+ |
| U.S. Agencies | | 35,855,830 | 15.5 | AA+ |
| Illinois Funds | | 29,565,259 | 12.8 | AAAm |
| Money market | | 2,520,846 | 1.1 | AAAm |
| Commercial paper | | 73,219,188 | 31.5 | A1P1 |
| Total investments at fair value | $ | 231,874,033 | 100.0 % | |



(Continued)

### *(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 5.0% or more of the total investments, and the percent of the fair value to total investments, as of December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **Issuer** | **Fair value** | **Percent** | **Fair value** | **Percent** |
| U.S. Agencies: | | | | |
| Federal Agricultural Mortgage Corp. | $ — | — % | 14,943,900 | 7.5 % |
| Federal Home Loan Bank | 17,832,250 | 6.5 | 16,920,010 | 8.5 |
| Commercial paper: | | | | |
| Dealer Capital Access Trust LLC | — | — | 10,490,178 | 5.3 |
| Chesham Finance LLC | 14,891,325 | 5.5 | — | — |
| Halkin Finance LLC USC | 14,888,864 | 5.5 | — | — |
| Ridgefield Funding Co. | 14,880,044 | 5.5 | — | — |
| White Plains Capital | 14,903,475 | 5.5 | — | — |

### *(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:

U.S. Treasury securities (Level 1) – Unadjusted quoted prices in active markets for identical assets.

U.S. Agencies and Commercial paper (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, 2017** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable assets (Level 3)** |
|---|---|---|---|---|---|
| U.S. Treasury securities | $ | 104,456,630 | 104,456,630 | — | — |
| U.S. Agencies | | 47,726,990 | — | 47,726,990 | — |
| Commercial paper | | 89,376,264 | — | 89,376,264 | — |
| Investments measured at fair value level | | 241,559,884 | 104,456,630 | 137,103,254 | — |
| **Investments not measured at fair value** | | | | | |
| Illinois Funds | | 31,225,984 | | | |
| Money market | | 22,756 | | | |
| Total investments | $ | 272,808,624 | | | |

| Investments by fair value level | | December 31, 2016 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable assets (Level 3) |
|---|---|---|---|---|---|
| U.S. Treasury securities | $ | 90,712,910 | 90,712,910 | — | — |
| U.S. Agencies | | 35,855,830 | — | 35,855,830 | — |
| Commercial paper | | 73,219,188 | — | 73,219,188 | — |
| Investments measured at fair value level | | 199,787,928 | 90,712,910 | 109,075,018 | — |
| **Investments not measured at fair value** | | | | | |
| Illinois Funds | | 29,565,259 | | | |
| Money market | | 2,520,846 | | | |
| Total investments | $ | 231,874,033 | | | |

## (4) Capital Assets

In 2010, Metra entered into a seven-year contract totaling $577.7 million with a vendor to furnish 160 new electric multiunit gallery type (Highliner) railcars and associated spare parts. The total project cost is $586.2 million. Funding for this contract is provided primarily by bonds issued by the State of Illinois and administered by the RTA under a grant contract agreement with Metra. The vendor furnished Metra with an irrevocable letter of credit (LOC) in an amount equal to funds advanced to the vendor to cover start-up costs until the new Highliner railcars are delivered. All cars have been received and the related LOC was reduced to zero in 2017.

In 2017, Metra entered in to agreements with vendor to receive 7 new trailer cars at no cost to Metra.Two cars and related engineering costs are to satisfy the liquidated damages related to the original contract.Five cars are in exchange for Metra not executing the VRE option.The vendor furnished Metra with an irrevocable letter of credit (LOC) in the amount of $25M in 2017.The LOC amount will be reduced as the cars are delivered.

The following schedules summarize the capital asset activity of Metra for the years ended December 31, 2017 and 2016:

| | 2017 | | | |
|---|---|---|---|---|
| | Beginning balance | Additions | Reductions | Ending balance |
| Capital assets, not being depreciated: | | | | |
| Land | $ 153,263,036 | 882,835 | — | 154,145,871 |
| Capital projects in progress | 10,412,541 | (10,412,541) | — | — |
| Total capital assets, not being depreciated | 163,675,577 | (9,529,706) | — | 154,145,871 |
| Capital assets being depreciated: | | | | |
| Rolling stock | 2,412,012,452 | 66,505,048 | — | 2,478,517,500 |
| Roadways and passenger stations | 4,145,088,876 | 130,256,646 | — | 4,275,345,522 |
| Support equipment and infrastructure | 531,472,733 | 34,235,558 | (5,039,802) | 560,668,489 |
| Total capital assets being depreciated | 7,088,574,061 | 230,997,252 | (5,039,802) | 7,314,531,511 |
| Less accumulated depreciation: | | | | |
| Rolling stock | (1,117,684,913) | (95,214,323) | — | (1,212,899,236) |
| Roadways and passenger stations | (2,727,658,281) | (129,726,361) | — | (2,857,384,642) |
| Support equipment and infrastructure | (434,362,935) | (23,257,669) | 5,039,802 | (452,580,802) |
| Total accumulated depreciation | (4,279,706,129) | (248,198,353) | 5,039,802 | (4,522,864,679) |
| Total capital assets being depreciated, net | 2,808,867,932 | (17,201,101) | — | 2,791,666,832 |
| Total capital assets, net | $ 2,972,543,509 | (26,730,807) | — | 2,945,812,703 |



(Continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Beginning balance | Additions | Reductions | Ending balance |
| Capital assets, not being depreciated: | | | | |
| Land | $ 153,263,036 | — | | 153,263,036 |
| Capital projects in progress | 86,438,384 | — | (76,025,843) | 10,412,541 |
| Total capital assets, not being depreciated | 239,701,420 | — | (76,025,843) | 163,675,577 |
| Capital assets being depreciated: | | | | |
| Rolling stock | 2,232,644,622 | 179,367,830 | — | 2,412,012,452 |
| Roadways and passenger stations | 4,024,210,897 | 120,877,979 | — | 4,145,088,876 |
| Support equipment and infrastructure | 506,994,804 | 24,477,929 | — | 531,472,733 |
| Total capital assets being depreciated | 6,763,850,323 | 324,723,738 | — | 7,088,574,061 |
| Less accumulated depreciation: | | | | |
| Rolling stock | (1,028,381,487) | (89,303,426) | — | (1,117,684,913) |
| Roadways and passenger stations | (2,605,312,362) | (122,345,919) | — | (2,727,658,281) |
| Support equipment and infrastructure | (417,460,777) | (16,902,158) | — | (434,362,935) |
| Total accumulated depreciation | (4,051,154,626) | (228,551,503) | — | (4,279,706,129) |
| Total capital assets being depreciated, net | 2,712,695,697 | 96,172,235 | — | 2,808,867,932 |
| Total capital assets, net | $ 2,952,397,117 | 96,172,235 | (76,025,843) | 2,972,543,509 |



(Continued)

## (5) Long-Term Liabilities

Long-term liabilities activity for the years ended December 31, 2017 and 2016 was as follows:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Reductions | Ending balance | Due within one year |
| Accrued claims | $ 41,119,933 | 20,897,939 | (16,602,308) | 45,415,564 | 10,672,100 |
| Net pension liability | 17,255,480 | 10,895,495 | (8,077,170) | 20,073,805 | — |
| Accrued post-retiree health benefits | 14,458,713 | 3,286,485 | (452,934) | 17,292,264 | 452,934 |
| Other long-term liabilities | 18,356,880 | — | (650,639) | 17,706,241 | — |
| Total | $ 91,191,006 | 35,079,919 | (25,783,051) | 100,487,874 | 11,125,034 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Reductions | Ending balance | Due within one year |
| Accrued claims | $ 34,743,081 | 12,685,018 | (6,308,166) | 41,119,933 | 9,325,300 |
| Net pension liability | 33,062,726 | 9,551,507 | (25,358,753) | 17,255,480 | — |
| Accrued post-retiree health benefits | 11,313,751 | 3,597,896 | (452,934) | 14,458,713 | 452,934 |
| Other long-term liabilities | — | 18,356,880 | — | 18,356,880 | — |
| Total | $ 79,119,558 | 44,191,301 | (32,119,853) | 91,191,006 | 9,778,234 |



(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, 2015 | $ | 34,743,081 |
| 2016 provision | | 12,685,018 |
| 2016 payments | | (6,308,166) |
| Balance, December 31, 2016 | | 41,119,933 |
| 2017 provision | | 20,897,939 |
| 2017 payments | | (16,602,308) |
| Balance, December 31, 2017 | $ | 45,415,564 |

## (7) Postemployment Healthcare Plan

*Plan Description*. Metra provides limited health benefits to retired management employees for Medicare supplemental insurance under a single employer plan established by Metra’s Board. Metra also provides health benefits to retired contract police officers, under a union contract, between 60 and 65 who retired with 10 or more years of service.

*Funding Policy*. Funding is provided by Metra on a pay-as-you-go basis with no contribution from the retiree. Metra’s contributions were $452,934 for the year 2017 based on the annual actuarial determination.

*Annual OPEB Cost and Net OPEB Obligation*. Metra’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined bi-annually in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.* The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed


(Continued)

30 years. The following table shows the components of the Metra's annual OPEB cost for 2017 and 2016, the amount actually contributed to the plan, and changes in the Metra's net OPEB obligation:

**Annual OPEB Cost and Net OPEB Obligation**

| | | 2017 | 2016 |
|---|---|---|---|
| Annual required contribution | $ | 3,088,777 | 3,088,777 |
| Interest on net OPEB obligation | | 650,642 | 509,119 |
| Adjustment to annual required contribution | | — | — |
| Annual OPEB cost | | 3,739,419 | 3,597,896 |
| Contributions made | | (452,934) | (452,934) |
| Increase in net OPEB obligation | | 3,286,485 | 3,144,962 |
| Net OPEB obligation beginning of year | | 14,458,713 | 11,313,751 |
| Net OPEB obligation end of year | $ | 17,745,198 | 14,458,713 |

Metra's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

| | | Annual OPEB cost | Percentage of annual OPEB cost contributed | | Net OPEB obligation |
|---|---|---|---|---|---|
| Year ended: | | | | | |
| December 31, 2017 | $ | N/A | N/A | $ | N/A |
| December 31, 2016 | | 3,597,896 | 12.6% | | 14,456,713 |
| December 31, 2015 | | 2,912,514 | 15.6% | | 11,313,751 |

N/A - Actuarial report not performed in 2017

*Funded Status and Funding Progress*. As of December 31, 2016, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $30.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $44.8 million, and the ratio of the funded accrued actuarial liability to the covered payroll was 68.4%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions*. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the most recent actuarial valuation performed for the plan, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is based on the expected long-term investment returns on the employer’s own investments and an annual healthcare cost trend rate of 7.0% initially, reduced by decrements to an ultimate rate of 6.2% by 2040. Both rates included a 3.0% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2017 was 27 years.

Union employees are eligible to receive retiree health benefits through a defined contribution plan established under the Railway Labor Act called the Railroad Employees National Early Retirement Major Medical Benefit Plan (the Plan) administered by United Healthcare. Eligible individuals are those who retire at age 60 with 30 or more years of service in the railroad industry. Metra is required to pay a rate premium per participating employee, which is calculated by the Plan on an annual basis. Metra contributed $4,418,458 and $3,551,114 for the years ended December 31, 2017 and 2016, respectively.

### (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 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 statements of net position as of December 31, 2017 and 2016. Employee contributions were $2,508,186 and $1,804,731, respectively, for the years ended December 31, 2017 and 2016.

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 $7,470,126 and $6,619,066, respectively, for the years ended December 31, 2017 and 2016.

Metra is required to contribute to various defined contribution plans in accordance with union agreements. Employer contributions to these plans were $2,543,872 and $2,393,471 for the years ended December 31, 2017 and 2016, respectively.



(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, 2017 | | |
|---|---|---|---|
| | Union Pacific | BNSF | Total |
| Operating revenues: | | | |
| Passenger revenue | $ 127,048,281 | 75,646,101 | 202,694,382 |
| Other revenue | 888,455 | 117,354 | 1,005,809 |
| Total operating revenues | 127,936,736 | 75,763,455 | 203,700,191 |
| Operating expenses: | | | |
| Carrier-level expenses paid by carrier: | | | |
| Transportation | 77,055,701 | 31,404,050 | 108,459,751 |
| Engineering | 48,736,155 | 7,272,845 | 56,009,000 |
| Mechanical | 54,510,103 | 25,267,874 | 79,777,977 |
| Administration | 9,340,944 | 7,094 | 9,348,038 |
| Total carrier-level expenses | 189,642,903 | 63,951,863 | 253,594,766 |
| Deficit (excess) funding | 61,706,167 | (11,811,592) | 49,894,575 |
| Centralized expenses paid by Metra: | | | |
| Diesel fuel | 18,864,161 | 8,141,180 | 27,005,341 |
| Claims and insurance | 2,177,794 | 1,924,106 | 4,101,900 |
| Downtown stations | 1,373,347 | 5,291,316 | 6,664,663 |
| Total in-kind expenses | 22,415,302 | 15,356,602 | 37,771,904 |
| Total operating expenses | 212,058,205 | 79,308,465 | 291,366,670 |
| Purchase of service carriers' operating loss | $ (84,121,469) | (3,545,010) | (87,666,479) |

| | Year ended December 31, 2016 | | |
|---|---|---|---|
| | Union Pacific | BNSF | Total |
| Operating revenues: | | | |
| Passenger revenue | $ 120,969,964 | 71,415,721 | 192,385,685 |
| Other revenue | 947,828 | 145,708 | 1,093,536 |
| Total operating revenues | 121,917,792 | 71,561,429 | 193,479,221 |
| Operating expenses: | | | |
| Carrier-level expenses paid by carrier: | | | |
| Transportation | 79,447,040 | 31,570,807 | 111,017,847 |
| Engineering | 42,572,268 | 4,867,015 | 47,439,283 |
| Mechanical | 61,140,996 | 23,644,764 | 84,785,760 |
| Administration | 5,747,165 | 6,487 | 5,753,652 |
| Total carrier-level expenses | 188,907,469 | 60,089,073 | 248,996,542 |
| Deficit (excess) funding | 66,989,677 | (11,472,356) | 55,517,321 |
| Centralized expenses paid by Metra: | | | |
| Diesel fuel | 20,481,220 | 11,199,080 | 31,680,300 |
| Claims and insurance | 1,228,328 | 686,584 | 1,914,912 |
| Downtown stations | 1,416,802 | 5,255,273 | 6,672,075 |
| Total in-kind expenses | 23,126,350 | 17,140,937 | 40,267,287 |
| Total operating expenses | 212,033,819 | 77,230,010 | 289,263,829 |
| Purchase of service carriers' operating loss | $ (90,116,027) | (5,668,581) | (95,784,608) |

## (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, 2017 were as follows:

| | | |
|---|---|---|
| 2018 | $ | 10,485,975 |
| 2019 | | 4,830,068 |
| 2020 | | 2,003,117 |
| 2021 | | 2,005,128 |
| 2022 | | 2,007,177 |
| 2023–2027 | | 8,532,440 |
| 2028–2032 | | 5,935,920 |
| 2033–2037 | | 5,935,920 |
| Thereafter | | 9,497,472 |
| Total | $ | 51,233,217 |

Total rent expense aggregated $15,734,947 and $16,136,520, respectively, for the years ended December 31, 2017 and 2016.

Grants – At December 31, 2017 and 2016, Metra had $367.3 million and $382.7 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 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 projected unit credit 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 smoothes 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.

***Net Pension Liability.*** For Metra's fiscal year ended December 31, 2017, measurements as of the reporting date are based on fair value of assets as of December 31, 2016 and the total pension liability is based on an actuarial valuation performed as of January 1, 2016 with liabilities rolled forward to the measurement date of December 31, 2016. Metra's proportionate share of net pension liability was $20,073,805 as of December 31, 2017. Metra's proportionate share of net pension liability was $17,255,480 as of December 31, 2016.

Metra's proportion of the collective net pension liability is consistent with the manner in which contributions to the pension plan were determined. The schedule of employer allocations shown below presents the actual fiscal year contributions used within the proportionate share calculation for each employer and the respective allocation percentage. For Metra's fiscal year ended December 31, 2017, for purposes of allocating the beginning net pension liability for 2017, the Plan utilized contributions reported during fiscal year 2016. (As a December 31, 2016 actuarial valuation is used (and then rolled forward), it is proper to show 2015 and 2016 below.)

| | 2016 Actuarially determined contribution | 2016 Metra proportionate share | 2015 Actuarially determined contribution | 2015 Metra proportionate share |
|---|---|---|---|---|
| Metra | $ 5,062,642 | 53.10 % | $ 6,785,849 | 49.90 % |

 (Continued)

The table below shows Metra's proportion of the changes in the collective net pension liability during the measurement year based on the measurement date of December 31, 2015. For Metra's fiscal year ended December 31, 2016, measurements as of the reporting date are based on fair value of assets as of December 31, 2015 and the total pension liability is based on an actuarial valuation performed as of January 1, 2015 with liabilities rolled forward to the measurement date of December 31, 2015.

| | 2015 Actuarially determined contribution | 2015 Metra proportionate share | 2014 Actuarially determined contribution | 2014 Metra proportionate share |
|---|---|---|---|---|
| Metra | $ 6,785,849 | 49.90 % | $ 6,466,096 | 47.24 % |

***Pension Expense.*** The annual pension expense recognized represents the changes in net pension liability, deferred outflows and deferred inflows plus the employer contributions. Metra's total pension expense for 2017 was $10,895,495 and for 2016 was $9,551,507.

***Deferred Outflows and Inflows.*** In 2017, deferred outflows and inflows 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 2016, this average is 5.0301 years. Contributions made during fiscal year 2017, subsequent to the measurement date of December 31, 2016, totaled $5,745,866. The table below summarizes Metra's proportionate share of the deferred outflows and deferred inflows of resources that are to be recognized in future pension expenses as of December 31, 2017.

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Contributions made subsequent to measurement date | $ 5,745,866 | — |
| Changes in assumption | — | 718,351 |
| Net difference between projected and actual earnings on pension plan investments | 9,966,111 | — |
| Difference between expected and actual economic experience | 4,316,855 | — |
| Change in employer proportionate share | 2,116,574 | 553,066 |
| Total | $ 22,145,406 | 1,271,417 |

The $5,745,866 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, 2018.

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: | | |
| 2018 | $ | 3,992,106 |
| 2019 | | 3,992,106 |
| 2020 | | 3,992,106 |
| 2021 | | 3,109,313 |
| 2022 | | 42,492 |
| | $ | 15,128,123 |

Deferred outflows and inflows 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 2015, this average is 5.0769 years. Contributions made during fiscal year 2016, subsequent to the measurement date of December 31, 2015, totaled $5,062,642.

The table below summarizes Metra's proportionate share of the deferred outflows and deferred inflows of resources that are to be recognized in future pension expenses as of December 31, 2016:

| | | **Deferred outflows of resources** | **Deferred inflows of resources** |
|---|---|---|---|
| Contributions made subsequent to measurement date | $ | 5,062,642 | — |
| Changes in assumption | | — | 769,774 |
| Net difference between projected and actual earnings on pension plan investments | | 13,748,145 | — |
| Difference between expected and actual economic experience | | 2,457,037 | — |
| Change in employer proportionate share | | 2,707,243 | — |
| Total | $ | 23,975,067 | 769,774 |

The $5,062,642 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, 2017.

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: | | |
| 2017 | $ | 4,787,599 |
| 2018 | | 4,787,599 |
| 2019 | | 4,787,599 |
| 2020 | | 3,728,895 |
| 2021 | | 50,959 |
| | $ | 18,142,651 |

***Assumptions.*** The total pension liability for the measurement date of December 31, 2016 was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---|---|
| Valuation date | January 1, 2016 |
| Actuarial cost method | Entry age normal |
| Asset valuation method | Five-year smoothed market |
| Amortization method | Level dollar closed |
| Remaining Amortization Period | 29 |
| 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. |



(Continued)

The total pension liability for the measurement date of December 31, 2015 was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---|---|
| Valuation date | January 1, 2015 |
| Actuarial cost method | Entry age normal |
| Asset valuation method | Five-year smoothed market |
| Amortization method | Level dollar closed |
| Remaining Amortization Period | 29 |
| 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. |

***Discount rate.*** A single discount rate of 7.50% was used to measure the total pension liability for both 2016 and 2015 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:

| | 2017 1% Decrease (6.5%) | 2017 Current discount rate (7.5%) | 2017 1% Increase (8.5%) |
|---|---|---|---|
| Metra's proportionate share of net pension liability | $ 36,448,868 | 20,073,805 | 5,992,645 |

| | | 2016 1% Decrease (6.5%) | 2016 Current discount rate (7.5%) | 2016 1% Increase (8.5%) |
|---|---|---|---|---|
| Metra's proportionate share of net pension liability | $ | 31,807,887 | 17,255,480 | 4,736,680 |

***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, 2016 and experience study for the period January 1, 2010 through January 1, 2015. 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, 2016, 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 % | 5.92 % |
| Small/Mid Cap Equity | 8.0 | 6.71 |
| International Equity | 10.0 | 6.95 |
| Emerging Market International Equity | 6.0 | 9.49 |
| Core Bonds | 15.5 | 1.17 |
| Multi-Sector Fixed Income | 12.5 | 2.76 |
| Private Equity | 8.0 | 8.73 |
| Private Real Assets | 5.0 | 6.54 |
| Real Assets (Core) | 8.0 | 4.62 |

## (12) 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 2017 and 2016 for accrual of benefits under the RTA Pension Plan.

*Changes of assumptions*. The amounts reported in 2017 and 2016 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)

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Proportion of net pension liability | 53.10 % | 49.90 % | 47.24 % |
| Proportionate share of net pension liability | $ 20,073,805 | $ 17,255,480 | 33,062,726 |
| Covered-employee payroll | 54,032,768 | 49,388,696 | 43,086,132 |
| Proportionate share of net pension liability as a percentage of its covered-employee payroll | 37.15 % | 34.49 % | 76.74 % |
| Plan fiduciary net position as a percentage of the total pension liability | 87.38 | 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 |
|---|---|---|---|---|---|---|
| 2017 | $ | 5,745,866 | 5,745,866 | — | 54,032,768 | 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 | 92.48 |
| 2014 | | 6,466,096 | 13,357,146 | (6,891,050) | 40,833,326 | 15.84 |
| 2013 | | 6,615,046 | 10,060,571 | (3,445,525) | 35,170,174 | 18.81 |
| 2012 | | 6,462,000 | 9,767,882 | (3,305,882) | 30,970,263 | 20.87 |
| 2011 | | 5,802,000 | 5,802,000 | — | 29,227,299 | 19.85 |
| 2010 | | 5,652,000 | 5,652,000 | — | 31,227,197 | 18.12 |
| 2009 | | 4,733,557 | 4,733,557 | — | 35,175,784 | 13.46 |
| 2008 | | 4,814,200 | 4,814,200 | — | 36,205,757 | 13.30 |

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 Funding Postemployment Healthcare Plan Progress (Unaudited)

| Funding progress | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Actuarial valuation date** | | **Actuarial value of assets * (a)** | **Actuarial accrued liability (AAL) – entry age (b)** | **Unfunded AAL (UAAL) (b-a)** | **Funded ratio (a/b)** | **Covered payroll (c)** | **UAAL as a Percentage of covered payroll ((b-a)/c)** |
| December 31, 2017 | $ | — | N/A | N/A | — | N/A | N/A |
| December 31, 2016 | | — | 30,622,115 | 30,622,115 | — | 44,773,274 | 68.4 |
| December 31, 2015 | | — | 28,819,616 | 28,819,616 | — | 43,086,132 | 66.9 |
| December 31, 2014 | | — | N/A | N/A | — | N/A | N/A |
| December 31, 2013 | | — | 21,642,832 | 21,642,832 | — | 42,704,042 | 50.7 |
| December 31, 2012 | | — | N/A | N/A | — | N/A | N/A |

| Employer contributions | | | |
|---|---|---|---|
| **Year ended** | | **Annual required contribution** | **Percent contributed** |
| December 31, 2017 | $ | 3,088,777 | 14.7% |
| December 31, 2016 | | 3,088,777 | 14.7% |
| December 31, 2015 | | 2,459,580 | 18.4 % |
| December 31, 2014 | | 1,561,644 | 29.0 % |
| December 31, 2013 | | 1,645,461 | 27.5 % |
| December 31, 2012 | | 1,635,554 | 27.7 % |

* Not a prefunded plan. An actuarial valuation was not performed in 2012, 2014, and 2017.

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, 2017

| | Final budget | Actual | Favorable (unfavorable) |
|---|---|---|---|
| Revenues: | | | |
| Passenger revenue: | | | |
| Passenger revenue | $ 357,500,000 | 355,260,071 | (2,239,929) |
| Reduced fare reimbursement | 3,100,000 | 1,483,367 | (1,616,633) |
| Total operating passenger revenues | 360,600,000 | 356,743,438 | (3,856,562) |
| Other revenue | 28,922,004 | 39,881,427 | 10,959,423 |
| Total operating revenues | 389,522,004 | 396,624,865 | 7,102,861 |
| Operating expenses: | | | |
| Transportation | 260,422,499 | 249,482,585 | 10,939,914 |
| Fuel and motive power | 57,591,384 | 49,486,295 | 8,105,089 |
| Engineering | 146,772,908 | 149,818,931 | (3,046,023) |
| Mechanical | 181,216,695 | 174,260,083 | 6,956,612 |
| Administration | 104,680,146 | 98,837,616 | 5,842,530 |
| Total administration and regional services | 750,683,632 | 721,885,510 | 28,798,122 |
| Claims and insurance | 13,939,923 | 25,370,297 | 11,430,374 |
| Downtown stations | 16,550,445 | 14,337,100 | (2,213,345) |
| Total operating expenses | 781,174,000 | 761,592,907 | (19,581,093) |
| Loss before depreciation, financial assistance, and leasehold-related interest income and expense | $ (391,651,996) | (364,968,042) | 26,683,954 |
| Note: | | | |
| Amounts excluded from the operating budget-basis expenses for recovery ratio calculations | | | |
| Security expense | $ 17,254,050 | 21,599,760 | 4,345,710 |
| Funded depreciation included in operating expenses | 3,824,030 | 3,137,638 | (686,392) |
| Lease of transportation facilities | 19,921,920 | 18,695,576 | (1,226,344) |
| Bond service and fees | | 27,015 | 27,015 |
| Total deductions | $ 41,000,000 | 43,459,989 | 2,459,989 |

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, 2017

| | NIRCRC | Union Pacific | BNSF | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Passenger revenue* | $ 152,565,689 | 127,048,281 | 75,646,101 | 355,260,071 |
| Other revenue | 39,259,996 | 621,431 | | 39,881,427 |
| Reduced fare reimbursement | 1,098,989 | 267,024 | 117,354 | 1,483,367 |
| Total operating revenues | 192,924,674 | 127,936,736 | 75,763,455 | 396,624,865 |
| Operating expenses: | | | | |
| Carrier-level expenses paid by carrier: | | | | |
| Transportation | 141,022,834 | 77,055,701 | 31,404,050 | 249,482,585 |
| Engineering | 93,809,931 | 48,736,155 | 7,272,845 | 149,818,931 |
| Mechanical | 94,482,106 | 54,510,103 | 25,267,874 | 174,260,083 |
| Administration | 89,489,578 | 9,340,944 | 7,094 | 98,837,616 |
| Total carrier-level expenses | 418,804,449 | 189,642,903 | 63,951,863 | 672,399,215 |
| Centralized expenses paid by Metra: | | | | |
| Diesel fuel | 18,315,260 | 18,864,161 | 8,141,180 | 45,320,601 |
| Motive electricity | 4,165,694 | | | 4,165,694 |
| Claims and insurance | 21,268,397 | 2,177,794 | 1,924,106 | 25,370,297 |
| Downtown stations | 7,672,437 | 1,373,347 | 5,291,316 | 14,337,100 |
| Total centralized expenses | 51,421,788 | 22,415,302 | 15,356,602 | 89,193,692 |
| Total operating expenses | 470,226,237 | 212,058,205 | 79,308,465 | 761,592,907 |
| Operating loss | $ (277,301,563) | (84,121,469) | (3,545,010) | (364,968,042) |
| Calculation of Revenue Recovery Ratio (Unaudited): | | | | |
| Amounts excluded from the operating budget-basis expenses: | | | | |
| Security expense | | | | $ 21,599,760 |
| Funded depreciation included in expenses | | | | 3,137,638 |
| Lease of transportation facilities | | | | 18,695,576 |
| Bond service and fees | | | | 27,015 |
| Total exclusions | | | | 43,459,989 |
| Amounts added to the operating budget-basis revenues: | | | | |
| Senior free ride allowance | | | | $ 2,100,000 |
| Revenue Recovery Ratio ($396,624,865+ $2,100,000)/($761,592,907 – $43,459,989) | | | | 55.5 % |

* Includes $32,100,000 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 $26.1 million and $22.1 million available to Metra for the years ended December 31, 2017 and 2016, respectively. 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 at 52.9% and 52.4% in 2017 and 2016, respectively. Metra's actual farebox recovery ratio on an operating budget-basis was 55.5% and 54.3% in 2017 and 2016, respectively.

## (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.