



**Regional Transportation Authority
Chicago Transit Authority
Pace Suburban Bus Division**

Executive Compensation Review

May 2012

Project Overview

The Regional Transportation Authority (“RTA”) has engaged Grant Thornton LLP (“GT”) to conduct a review and assessment of the executive compensation programs at the Chicago Transit Authority (“CTA”), Pace Suburban Bus Division (“Pace”) and at the RTA for the time period beginning January 1, 2006 through December 31, 2010. The primary objective of the review is to identify all elements of CTA, Pace, and RTA’s executive compensation, benefits and other employment arrangements and assess compliance with their respective Board policies and procedures.

Project Approach

To meet the engagement objectives, Grant Thornton LLP (“GT”) elected a three-phase approach as follows;

Phase I – Project Initiation and Information Gathering

In this initial phase, GT met with the RTA project sponsors to;

- Confirm the overall project objectives, approach, timing and deliverables;
- Collect the relevant data needed to accomplish the project objectives;
- Identify the executive positions to be covered utilizing established criteria developed in concert with the RTA, Pace, CTA and GT; and
- Review all compensation and benefit plan documentation covered in order to obtain a complete understanding of each plans’ operations, internal policies, guidelines and control procedures.

Phase II – Executive Compensation Compliance Review

Based on the information gathered in Phase I, GT formulated a comprehensive review process for each plan to determine compliance with each of the agency’s policies, procedures and guidelines. The review procedures were specific to each compensation and benefit program including;

- Base salaries
- Bonus / variable compensation
- Retirement benefits
- Deferred compensation arrangements
- Paid time off (i.e. vacation, sick leave, personal, etc.)
- Expense reimbursements (i.e. meals, entertainment, travel and lodging)
- Other benefits identified in phase I

The review procedures considered the interrelationships between the various compensation and benefit arrangements as well as the internal control procedures and policies with individual

employees. Upon approval of the review procedures by the RTA, GT conducted on site interviews in conjunction with the review of the documentation received in Phase I to determine each agency's adherence to and compliance with all internal policies, procedures and guidelines related to the executive compensation and benefit programs covered by the project.

Phase III – Competitive Market Analysis

Under Phase III, GT conducted a competitive market analysis in order to determine the reasonableness of the pay levels for each of the selected executive positions (approximately 10 positions per agency) included in this project. Market data was obtained from selected comparator organizations (identified and approved by the RTA, CTA, and Pace) as well as proprietary and external survey data sources. Based on the market data, each executive position base salary was benchmarked by determining the variance between the market 25th, 50th and 75th percentile.

Testing

Based on the testing procedures reviewed and approved by the RTA, GT tested the following compensation elements for each executive (listed under Exhibit A in the addendum for each of the three agencies) for the time period 2006 through 2010:

- **Base Salary** - GT reviewed the base salaries for each executive to determine if such salaries were being paid appropriately and if any salary adjustments obtained the proper approval in accordance with written policy;
- **Non-Base Salary** -GT reviewed any non-base salary payments to determine if such payments obtained the proper approvals based on written documentation;
- **Retirement Benefits** – GT reviewed plan documentation to determine eligibility requirements and benefit entitlements;
- **All Other Compensation / Perquisites** – GT reviewed other compensation paid to executives based on documentation obtained including basis for determining payment amounts and approvals in accordance with written policy;
- **Travel and Entertainment** – GT reviewed reimbursed expenses received by each executive over the course of the review period to determine if such reimbursements were made in accordance with policy;
- **Vacation** - GT reviewed the vacation accruals and benefits for each executive to determine adherence with written policy;
- **Paid Time Off** – GT reviewed paid time off and sick reserve bank policy for each Executive and agency;
- **Separation Payments** – GT reviewed separation payments made to those executives who terminated employment to determine if such payments were in compliance with written policy and received proper approval.

During the course of this review, executive compensation programs and executive positions reviewed may not have been consistent over the period of this assessment due to amendment,

termination, or adoption of programs as well as employee turnover, reclassification, or promotions.

Our observations and recommendations were based solely on interviews conducted or information received from each agency.

In preparing our report, we have relied upon information provided to us by the RTA, CTA and Pace regarding policies, plan participants, and actual payments made to each executive. We did not complete an audit or independent verification of this information. The accuracy of the report is dependent upon the accuracy and completeness of the underlying information and must be thoroughly reviewed by the RTA in a timely manner to verify that they are accurate and complete.

The organization understands that management is also responsible for the adoption of sound principles, and for establishing and maintaining effective internal controls that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions.

Our services are not, and should not be construed as, constituting advice regarding the tax treatment or tax structure of any matter. Accordingly, any written advice is not intended by Grant Thornton to be used, and cannot be used, by any person for the purposes of avoiding penalties that may be imposed under the Internal Revenue Code or any state, local, or foreign legal authority.

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**Regional Transportation Authority
("RTA")**

Executive Summary

During the course of our review, we did not find any material violations of any laws, ordinances, regulations or policies established by the RTA. As noted on the following pages, policies regarding pay adjustments, bonuses, retirement, expense reimbursements, paid time off and severance were for the most part adhered to. In those cases where we noted exceptions, the RTA was able to provide reasonable explanations for those variances noted. These explanations are cited in the applicable sections of our report.

Recommendations

Based on the review, the following recommendations are presented to the RTA for consideration. Such recommendations are designed to improve overall program governance and executive compensation effectiveness based on best practices.

1. Executive Compensation Governance

The focus of our project has been to confirm that various compensation and benefits payments made to each executive have been in accordance with established agency policy or procedure. It does not address whether the policy or procedure in and of itself is appropriate, competitive or best practice. The primary role of a governing Board and by delegation, a Compensation Committee, is to ensure that compensation and benefits policies satisfy such standards, and answer fundamental questions such as:

- Are the senior executives being appropriately compensated?
- Is their compensation reasonable related to personal and corporate performance?
- Are their post-employment benefits properly related to the overall benefit to the RTA and reasonable in amount?
- Is there effective oversight of management's compensation?

Based on our understanding, the Chairman of the Board has responsibility for reviewing the compensation and recommending salary adjustments for the Executive Director based on annual performance. As noted by the Executive Director's Employment Agreement, these recommendations are generally approved by the Chairman of the Board and reviewed by the Coordinating Committee of the Board of Directors. Per our understanding, the RTA has since formed a formal committee to review compensation matters. To ensure that the committee's function is consistent with best practice, the RTA should review its responsibilities to determine if it covers such matters as;

- Establish, monitor, review and revise, at least annually, performance guidelines for the Executive Director and guidance for the development of RTA business strategy;
- Assist the board in assessing and evaluating the Executive Director's performance;
- Review and recommend the Executive Director's compensation, including salary, incentives, benefits and other perquisites;
- On the recommendation of the Executive Director, approve the appointment of, and annual compensation plans for, each member of senior management, including salary, incentives, benefits and other perquisites;

- Regularly establish, review and monitor succession plans (including emergency succession plans) for all key management personnel (including the Chairman of the Board and the Executive Director);
- Report on executive compensation utilizing outside professional sources;
- Review, approve and monitor, on a regular (and at least annual) basis, the agency's compensation and benefits programs, developed by management;
- Review and approve, with senior management, annual agency-wide compensation guidelines, including for the development and administration of executive short-term bonus plans;
- Review with management on a regular basis to satisfy itself that the RTA's human resources policies comply with applicable laws and regulations;
- Review management's recommendations regarding hiring, firings, transfers and promotions of senior officers and related severance packages;

We believe that a heightened emphasis on the independent governance of executive compensation will enhance overall Board oversight of the agency's executive compensation policies and practices.

RTA Response: The RTA annually reviews policies and procedures for the Agency. Some of the recommendations are in place such as the ones related to merit increases and reviewing policies and procedures annually. Staff has not received performance based merit increases in several years however programs are in place once increases are implemented again. In addition, the Compensation Committee has addressed some of the concerns. We will take all the recommendations under advisement as we continue to look at our policies and procedures going forward.

2. Executive Compensation Philosophy

It was noted during our review process that the RTA had a formal pay philosophy for years 2006 through 2010. An executive compensation philosophy translates an organization's vision, strategy and values into a framework that guides the design and decision making of base salary, short-term incentives, recognition and benefits. It sets the parameters on how the RTA wants to compete in the market for executive talent. The RTA should consider reviewing its formal executive compensation philosophy in order to ensure it is consistent with the framework of its executive compensation and benefit programs.

RTA Response: For the years this review covers (2006 – 2010), the RTA had a different compensation program with a formal written philosophy. The RTA uses the same philosophy for the new compensation program and will review it periodically to ensure relevance.

3. Base Salary

It was determined that the RTA's overall base salaries appeared competitive with base salaries of similar positions in the comparator organizations with the exception of those positions noted in the competitive market analysis. However, as we noted, no base salary adjustments have occurred since 2007 with exception of one executive whose base salary was adjusted due to reorganization. For 2012, U.S. base salaries are projected to rise 3%¹. With this increase, the RTA could expect further erosion in

¹ *2011-2012 Culpepper Global Salary Budget Survey*

their competitive market position with respect to base salary. This becomes a critical issue when organizations are trying to retain their executive talent at a time when the economy is improving. To address this issue, the RTA should consider reviewing the compensation of those executives who are currently below the competitive market average.

RTA Response: The RTA will take this recommendation under advisement.

4. Performance Review Frequency

The RTA policy appears to consider periodic performance reviews. The RTA should consider a formal midterm performance review in addition to the annual review in order to gauge job satisfaction and executive performance against annual goals. While compensation is the most common component of retention plans, research has shown that a broader portfolio of tactics focused on the specific needs and engagement drivers of the individual is more effective. As a best practice, such plans tend to focus on the development needs and career interest of key talent and stress effective communication to maintain employee engagement during periods of instability. The RTA should also resume monitoring executive salaries by utilizing outside market data and if warranted, adjust salary bands to reflect market changes.

RTA Response: The RTA currently conducts mid-year informal performance appraisals for all employees including senior staff. New employees also receive a review after 6 months of employment. This would include senior staff. The RTA currently has a compensation firm monitoring market data for all employees including senior staff.

5. Separation Policy

It was noted during our review process that the RTA did not have a formal separation policy. Per our understanding, each employee is entitled only to unused vacation pay and any unpaid earnings (unless stipulated in a formal contract). The RTA may want to consider establishing a formal policy for its executives in order to standardize its process and avoid any unauthorized practices that may not be in the best interest of the RTA.

RTA Response: The RTA will take this recommendation under advisement.

Base Salary

Review Procedures

Based on the testing procedures approved by the RTA, we reviewed the base salary for each of the executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 in order to:

- Confirm that salaries fell within the established pay ranges pursuant to policy (Employee Handbook Addendum I, p. 54, amended in 2005 and 2010);
- Confirm appropriate approvals were obtained for base salary adjustments;
- Compare base salary amounts to prior periods to assess the reasonableness of any adjustments;
- Confirm base salaries are being paid appropriately and according to approved written policy (Employee Handbook Article 5.6), plans and documentation;
- Confirm current salaries are consistent with amounts recorded on the payroll system records and tax documentation (i.e. W-2s);
- Assess whether performance evaluations produced consistent base salary adjustments; identify exceptions, rationale and whether appropriate approvals were obtained.

Policy Procedure Standard

Base Salary Range

The RTA maintains a salary administration program which is applied to all employees including the executive team. The salary administration program is structured so that all such positions are evaluated and assigned a salary range based upon the Hay Job Evaluation system. Each salary range consists of a minimum, midpoint and a maximum which is reviewed and adjusted (if necessary) on an annual basis with the Executive Director's approval.

Base Salary Adjustments

The Executive Director has the authority (by statute) to make and or approve any salary adjustments to executive base pay based on merit, promotion and extraordinary performance as outlined under section 5.7 of the RTA Employee Handbook Compensation Policy ("Compensation Policy"). The Executive Director reports to the Chairman of the Board who is responsible for evaluating performance and recommending any base salary adjustments pursuant to Article 3, Section 3.2 (Salary Adjustments) and Article 9 (Performance Standards Evaluation) of the Employment Agreement between the RTA and the Executive Director.

Performance Evaluation

Pursuant to section 5.6(C) of the RTA Compensation Policy, each executive is evaluated on an annual basis and assigned a performance rating based on their performance against assigned goals and

objectives. The performance rating the executive receives on his/her performance appraisal determines the merit increase amount to be awarded in accordance with the Merit Increase Guide-chart published each year. In accordance with Section 5.6(C) of the Compensation Policy, no merit increase will cause an employee's salary to exceed the maximum of the assigned salary range. Therefore, an employee is ineligible for further merit increase once their base salary reaches the maximum of their assigned salary range.

In the event of extraordinary performance, the Executive Director has the authority of recognizing such performance by either in the form of a cash award (if budget permits) or additional vacation days so long as such employee's vacation benefit time does not exceed 25 working days in a calendar year (Section 5.7 of the Compensation Policy).

Observations

- Pursuant to our review, all base salaries fell within their assigned ranges for each executive;
- Salary ranges were last updated 2010;
- Based on documentation reviewed, all base salary adjustments received proper approval in accordance with policy (section 5.6(G));
- Annual salary adjustments appeared reasonable based on annual performance ratings. For 2006, salary adjustments ranged from 3% to 3.8% and for 2007, salary adjustments ranged from -2.12% to 5%;
- For calendar years 2008 and 2009, no base salary adjustments occurred with exception of Executive A (3.55% increase effective October 3, 2008). For 2010 – only one adjustment occurred for 16.53% (Executive H) which was due to an expansion of the employee's role due to organizational changes in the RTA;
- It was noted that the RTA instituted a furlough program in 2010 in order to reduce costs. This resulted in a reduction in base salaries for that year;
- It was noted that the merit guide chart was last updated in 2004 and continued to be used through 2009;
- Executive A's performance evaluation and pay adjustments are governed under Article 3 of the Employment Agreement which states that on or about each anniversary of the Effective Date, Executive A's base salary may be increased in an amount up to 5% annually as the Chairman shall determine based on the performance review conducted by the Chairman as described under Article 9 of the Agreement. Per our review, base salary adjustments did not exceed the 5% limit during the review period as specified under the Agreement;
- Reported compensation was within 5% variance to what was reported on Form W-2 with exception of three employees;
 - Executive A – W-2 compensation ranged from 16% to 22% above the documented annual compensation for tax years 2006 - 2010;
 - Employee D – W-2 compensation was 17% higher than documented salary in 2010;
 - Executive E – W-2 compensation was 13% higher than documented salary in 2007.

However, through further inquiry with RTA's payroll department, it was identified that the variance was due to the following:

- Executive A – inclusion of disability insurance premiums, life insurance, and employer paid 457 retirement plan contributions (as provided for under his employment agreement);
- Executive D – Carryover vacation payments;
- Executive E – Severance payments and carryover vacation payments.

Exceptions

Based on our review of the documentation for the nine executives included in the scope of this engagement, no exceptions were noted.

Bonus/ Variable Compensation

Review procedures

Based on the testing procedures reviewed and approved by the RTA, we reviewed any bonus payments (including sign-on bonuses) for each of the nine executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 in order to:

- Verify that such bonus payments obtained the proper approval in accordance with internal policy;
- Confirm that bonus amounts agreed with the amounts approved and were properly documented in accordance with policy;
- Assess whether performance evaluations produced consistent bonus payouts, identify exceptions, rationale and whether the appropriate approvals were obtained;
- Identify if such bonuses were “discretionary” or performance based incentives.

Policy Procedure Standard

Cash bonuses may be awarded in recognition of extraordinary performance as outlined under the Extraordinary Performance Recognition Program (Section 5.7 of the Compensation Policy). All bonuses must have the approval of the Executive Director. Any bonus payments made to the Executive Director must be recommended by the Chairman of the Board and approved by the RTA Board of Directors. There is no formal policy regarding sign-on bonuses.

Observations

- No sign-on bonuses were noted within the review period;
- Over the course of the review period, only four bonuses were awarded to the executives included in the scope of our review;
- Based on our review of the documentation, all cash bonuses were paid pursuant to the Extraordinary Performance Recognition Program;
- All bonuses obtained the proper approval (approved by the Executive Director) as required by policy;
- Bonus payments ranged from \$1,500 to \$3,000 per person. Such payments were purely discretionary (as decided by the Executive Director) and not based on any set policy range or fixed amount.

Exceptions

No exceptions to policy were noted.

Competitive Market Analysis

Methodology

In order to assess the market competitiveness of selected benchmark positions covered under the scope of this engagement, market data was obtained from comparable peer organizations (“Comparators”) identified by the RTA (see comparator organization chart below) as well as information obtained from the American Public Transportation Association (“APTA”) survey.

Peer Group Development

The RTA selected peer organizations that operate in the local and national markets in order to gauge the competitiveness of its base salaries. The peers include service providers and agencies that the RTA believes are comparable due to the nature of their responsibilities and the positions within each of the organizations. While the structures and operations of the organizations selected may be dissimilar to the RTA, the market for talent at the senior level is comparable for purpose of this study.

Organizations
Metra
Chicago Transit Authority
Pace
Chicago Metropolitan Agency for Planning
Illinois State Tollway Authority
Illinois Department of Transportation
Sound Transit - Seattle
South Florida Regional Transit Authority
Southeastern Pennsylvania Transportation Authority
Los Angeles County Metropolitan Transit Authority

Market Review

In order to ensure proper job matches, the RTA completed the process of matching the benchmark positions to the survey positions based on their knowledge of the roles, responsibility, content and reporting levels for each job. Each position was carefully examined and matched to the appropriate survey positions utilizing this knowledge base versus matching the jobs solely on job titles. To account for the differences in the dates upon which the market data was collected, all market data was aged to a common date (January 1, 2011) based on salary increased projections provided by World at Work in order to ensure consistent point-in-time comparisons.

Market Competitiveness Assessment

In order to determine the level of market competitiveness, the compa-ratio was calculated on each position. The compa-ratio is expressed as a percentage and is determined by computing the ratio of the position’s actual pay to the market median. The market median represents the 50th percentile of the salaries reported by the comparator survey group and is used as a standard in determining market competitiveness. Based on relevant compensation theory, a compa-ratio percentage which falls within an 85% to 115% range is considered competitive.

<u>Actual Pay vs. Market Median</u>	<u>Degree of Competitiveness</u>
More than 115%	Highly Competitive
85% - 115%	Competitive
75% - 84%	Less than Competitive
Less than 75%	Significantly Less than Competitive

However in analyzing such ratios, other factors need to be considered in determining if such ratio is justified such as;

- Length of time the incumbent has been in the position
- Job performance
- Incumbent’s responsibilities and scope of services
- Organizational size (in terms of employees, budget, assets, revenue etc.)

Market Analysis Results

Based on the market analysis, the following results are reported for the RTA:

Executive Positions	Comparators (Compa-Ratio)
Executive Director	111.50%
General Counsel	78.71%
Deputy ED Governmental Affairs	93.58%
Senior DED – Finance, Perf Mgt, CFO	102.54%
Deputy ED, Administrative Services	84.96%
Deputy ED Communications	84.61%
Senior DED Planning	110.03%

Observations and Recommendations

Overall, the RTA's base salaries appear competitive with base salaries of similar positions in the comparator organizations with the exception of those positions with compa-ratios below 85%. For those positions, it is recommended that the RTA evaluate the positions to determine if the current salary levels are appropriate by factoring in level of experience, tenure in the position and job performance.

Retirement Benefits and Perquisites

Review Procedures

Based on the testing procedures developed and approved by the RTA and GT, the following tests were performed for the pay periods beginning January 1, 2006 and ending December 31, 2010;

- We reviewed the retirement plan assumptions for accuracy and compliance with the plan terms and verified that each executive met the eligibility requirements as outlined under the plan documents;
- We confirmed the accuracy of the retirement plan balances based on contributions, earnings, accruals and withdrawals;
- We reviewed and tested one sample transaction for each of the executives, and one overall transaction for the pension calculation (one executive retiring during period);
- We reviewed the additional perquisites received by each of the executives and confirmed the executive's eligibility, approvals and amounts received are within approved or established policy.

The scope of our review covered the RTA/Pace 401(k) Plan, RTA 457 Plan and RTA Pension Plan.

Policy Procedure Standard

RTA/Pace 401(k) Plan

- **Eligibility** – Pursuant to the Section 5.01 of the RTA/Pace 401(k) Plan document, employees are eligible to participate in the RTA/Pace 401(k) Plan after 60 days of continuous employment.
- **Employer Contributions** - Under Article VI, Section 6.04 of the RTA/Pace 401(k) Plan and Trust, RTA, in its sole discretion may elect to make annual contributions to the RTA/Pace 401(k) Plan, in addition to contributions provided under Section 6.01 of Article VI, for any Plan Year on behalf of any group of employees designated by RTA. The contribution described under Section 6.04 of the RTA/Pace 401(k) Plan document is referred to as a “Special Contribution” Article VII 7.01 of the RTA/Pace 401(k) Plan states that the administration of the Plan shall be the responsibility of the Committee. Special Contributions are fully vested and not subject to forfeiture at the time of contribution.
- **Compensation** – As defined under Section 4.04 of the RTA/Pace 401(k) Plan document, eligible compensation is W-2 compensation less fringe benefits, expense reimbursements and imputed income from employer paid life insurance.
- **Employee Elective Contributions** - Eligible employees may contribute on a pre-tax basis up to the dollar limit set forth under the Internal Revenue Code (IRC) 402(g) with the exception of tax year 2006. For that tax year elective contributions were limited to the lesser of 17% of

annual compensation or the IRS limit in effect. The IRS limit was \$15,000 for 2006 and \$15,500 for 2007 and 2008. For tax years 2009 and 2010, the IRS limit was \$16,500. Those employees 50 years of age or older may contribute an additional \$5,000 per year for tax years 2006, 2007, 2008, 2009 and \$5,500 for 2010.

RTA 457 Deferred Compensation Plan (“457 Plan”)

- Eligibility - Pursuant to Article IV of the 457 Plan document, employees are eligible to participate in the 457 Plan by entering into a Joinder Agreement prior to the beginning of the calendar month in which the Joinder Agreement is to become effective to defer compensation not yet earned. A new employee may defer compensation in the calendar month during which he/she first becomes an employee if the Joinder Agreement is entered into on or before the first day on which the employee performs services for the RTA.
- Employer Contributions - The RTA does not make any contributions to the 457 Plan on behalf of any executive with exception to Executive A as outlined under his employment agreement.
- Employee Contributions - Eligible employees may contribute up to the annual dollar limit as set forth under IRC §402(g) as stated above.

RTA Pension Plan (Pension Plan)

The Pension Plan is a multiple employer defined benefit plan which covers all the employees of the RTA, Metra and Pace, who are not covered by a union pension plan. The responsibility for administering the plan is divided among the RTA Board of Directors, a Board of Trustees, an Administrative Committee and a Board of Trustees.

- Eligibility – Employees are eligible for participation on the first day of the month coinciding with or next following their date of employment;
- Retirement Benefits – Participants are entitled to an annual pension benefit upon retirement at age 65, generally a percentage of average annual compensation in the highest three years of service, whether consecutive or not, multiplied by number of years of credited service. However, the Pension 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 Pension Plan permits earlier retirement with reduced benefits at age 55 after completing 10 years of credited service. Participants may receive their full vested benefit if they are at least age 55 and their combined age and service equal 85 or higher (known as the “Rule of Eighty-Five Early Retirement”).

Perquisites

Pursuant to our review, we did not note any perquisites made available to the executives group.

Observations

- Based on our review of the eligibility requirements for each of the Plans, participating executives met the age and service requirements as outlined under the 401(k) Plan, 457 Plan and Defined Benefit Plan documents;
- Only Executive A received employer contributions to both the 401(k) Plan and 457 Plan for tax years 2006 - 2010 pursuant to Section 4.2 of his Employment Agreement which was approved by the RTA Board of Directors;
- During the review period, Executive A appeared to be the only executive to retire and receive a pension benefit during this time. To determine the accuracy of the pension amounts, we recalculated the benefits in accordance with Section 6.1 of the RTA Pension Plan document and determined such amounts were correctly completed.

Exceptions

No exceptions were noted.

Travel and Entertainment

Review Procedures

Based on testing procedures reviewed and approved by the RTA, GT reviewed the travel and entertainment expenses for the periods beginning on January 1, 2006 to December 31, 2010 in order to:

- Confirm that expenses were reimbursed according to policy and procedures and that appropriate approvals were obtained;
- Verify that appropriate procedures were followed for identifying taxable compensation with respect to expenses and identify any potential issues;
- Review and test 16 sample transactions from testing period ranging from \$20.00 to \$2,818.73.

Policy Procedure Standard

During the testing period, it was noted that the RTA maintained a written travel, business and relocation expense policy (Expense Policy) in order to provide a consistent method for reimbursing employees for reasonable and authorized expenses incurred in the performance of RTA duties. The Expense Policy covers approved meals, transportation costs, lodging and miscellaneous expenses, providing that the appropriate documentation is submitted to substantiate such expenses. In order to be reimbursed for business related expenses, executives must submit an expense report and obtain approval from the Executive Director. In the case of the Executive Director, approval must be obtained by the Chairman of the Board.

To facilitate the purchase of business and travel related expenses, executives are provided a RTA credit card. The policy governing the use of the card is outlined under a memorandum dated April 15, 2008 from Manager, Procurement & Contracting. Per the memorandum, each card holder receives a credit card statement in the mail each month that details the charges made to their designated credit card. When the credit card statement arrives, the cardholder is responsible for forwarding the card statement along with supporting documentation to substantiate the purchases made. Such expenses must be reported on the executive's Travel & Expense Report (T&E) and submitted to the SDED, Finance & Administration for review and then to the Executive Director for approval. In addition to the RTA credit card, each executive can participate in the ProCard Purchasing System ("ProCard"). The ProCard is a special type of electronic credit card which allows the executive to purchase items or services that are for RTA's use and follows the same guidelines set forth in the RTA T&E Policy. The expenses purchased on the ProCard are submitted on the executive's T&E Report and require the same approvals as expenses purchased on the RTA credit card. The ProCard cannot be used for personal purchases and are subject to a set dollar limit and frequency use.

Observations

Based on the documentation reviewed, all expenses were properly substantiated and obtained the proper approval.

Exceptions

No exceptions noted.

Vacation/ Paid Time Off

Review Procedures

Based on testing procedures developed and approved by the RTA and GT, GT performed the following tests for the period beginning January 1, 2006 and ending December 31, 2010 in order to;

- Review associated documentation for 9 executives during testing period based on provided data;
- Confirm that sick leave, vacation and other paid time off days were accrued (credited) and subtracted (debited) from the executive's pool according to approved written policy;
- Verify that cash payments for sick leave, vacation and other paid time off days were in compliance with policy and do not exceed the balance of the executive's pool.

Policy Procedure Standard

RTA had a "time away from work" policy (PTO Policy) in place through section 4.11 of the Employee Handbook for the testing period of 2006-2010. During this time, all executives were given a Paid Time Off (PTO) bank of a specified number of hours based on the policy schedule and hire date. PTO days can be used for any purpose such as rest, relaxation, personal, illness, or holidays not designated by the RTA, and used in increments of one-half hour or more at a time based on appropriate approvals.

If the employee's PTO bank has been exhausted, the PTO Policy stipulates procedures for a reserve sick bank to be exhausted before short-term disability begins. Employees will be allowed to carry over time in the reserve sick bank from year to year, but will not be paid for unused reserve sick bank time upon termination.

Under the RTA Vacation policy (section 4.11 part C, Employee Hand Book), executives may be eligible for a rate designated by the Executive Director, not to exceed 20 working days per calendar year.

As defined under the policy, executives unable to take their vacation within 24 months from the date it was accrued must request to have their unused vacation time over 24 months carried over to the following year accompanied by written approval from the Executive Director. Upon termination, executives will be paid for accrued, unused vacation.

Observations

- GT noted one exception with regard to Executive D whereby adjustments were made to his sick leave account due to an internal audit review but no documentation was found explaining the adjustment. Upon further review, RTA verified that such adjustments were due to the transfer of PTO hours in each of the years in question. It was verified that such transfer was approved and properly recorded in the Employee Accrual Daily report.
- No exceptions were noted with regard to vacation and sick leave accruals.

Exceptions

No exceptions noted.

Separation Payments

Review Procedures

Based on procedures developed by the RTA and GT, we performed the following tests for the period beginning January 1, 2006 and ending December 31, 2010;

- Reconcile all documents relevant to separation payments (employment agreements, severance plans, etc.) to (i) identify any inconsistencies related to the specific circumstances that would trigger payments or the provision of the benefits; (ii) describe and quantify the estimated payments and benefits; (iii) identify any material conditions or obligations applicable to the receipt for payments or benefits; (iv) analyze any other material factors.
- Identify specific cases where separation payments were made and confirm that such payments were in conformity with approved written policies. If such payments were not in conformity with written policies, confirm that additional approvals were obtained.
- Review data related to 4 executives separated during testing period, totalling 7 transactions (multiple transactions per executive due to vacation pay out and final salary.)

Policy Procedure Standard

In accordance with RTA Employee Handbook, upon termination an employee will be paid remaining wages earned (payable in arrears) (Section 5) and payout of any unused vacation (Section 4.11 (C)). The RTA does not currently have a formal separation policy in place regarding severance payments.

Observations

- During the testing period, only four employees under review separated from employment with the RTA. Each employee received payments for wages earned but not paid and unused vacation as required under the policy in place regarding salary payable (Employee Handbook Section 5) and unused vacation payouts (Employee Handbook Section 4.11 (C)).
- In 2007 Executive E separated from employment with the RTA. Per the separation agreement and the related HR action item documentation and approvals, Executive E was to be paid “a lump sum amount of \$38,517.75 no later than February 29, 2008.”

Exceptions

No exceptions noted.

Appendix

RTA Exhibit A RTA Positions Reviewed

Executive	Position
Executive A	Executive Director 2006-2010
Executive B	Chief Financial Officer 2006-2010
Executive C	Sr. DED - Strategic Planning & Regional Programs 2006-2010
Executive D	Sr. DED - Legal & Governmental Affairs 2006-2010
Executive E	DED - Planning 2006-2007
Executive G	Director - Administration 2006
Executive H	Director - Administrative Services - 2010
Executive I	DED - Research Analysis & Policy Development 2007-2010
Executive J	Director – Communications 2006-2010

Exhibit B Documentation Reviewed

WP #	Document	File Name
R1	RTA Audit Committee Charter - Effective 2/17/2011	Audit Committee Charter.docm
R2	RTA Board of Directors Bylaws - Effective 2/17/2011	Committee Bylaws.docm
R3	RTA Board of Directors Ordinance	Committee Ordinance.docm
R4	RTA Compensation Committee Charter - Effective 2/17/2011	Compensation Committee Charter.docm
R5	RTA Finance Committee Charter - Effective 2/17/2011	Finance Committee Charter.docm
R6	RTA Planning and Administration Committee Charter - Effective 2/17/2011	Planning and Administration Committee Charter.docm
R7	Pace/Metra/RTA 401(k) Summary Plan Description	401K Plan and Trust.pdf
R8	RTA Deferred Compensation Plan Trust Declaration	457 Trust Declaration.pdf
R9	RTA Revised 2004 Employee Handbook	2005 - Employee Handbook.pdf
R10	RTA 2011 Senior Staff Current Salary	2011 Senior Staff Current Salary.xls
R11	RTA 2011 Benefits Summary	2011.doc
R12	RTA Exec B - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec B.pdf
R13	RTA Deputy Executive Director, Communications Job Description	DED Communications 2011.doc
R14	RTA Deputy Executive Director, Research, Analysis & Policy Development Job Description	DED Research Analysis & Policy Development.doc
R15	RTA Director, Administrative Services Job Description	DEDirector Administrative Services 2008.doc
R16	RTA Exec E Salary Adjustments/Performance Reviews	Exec E.pdf
R17	RTA Deputy Executive Director, Governmental Affairs Job Description	Deputy Executive Director Government Affairs 2011.doc
R18	RTA Division Manager, External Audit Job Description	Division Manager External Audit 2008 (June).doc
R19	RTA Exec G Salary Adjustments/Performance Reviews	Exec G.pdf
R20	RTA Executive Director Job Description	Executive Director 2010.doc
R21	RTA Extraordinary Performance Awards Listings	Extraordinary Performance Awards Listing.xls
R22	RTA Exec I - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec I.pdf
R23	RTA Exec D - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec D.pdf
R24	RTA Exec J - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec J.pdf
R25	RTA Manager, Internal Audit & Review Job Description	Manager Internal Audit Review 2009 (Jan).doc
R26	RTA Exec H - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec H.pdf
R27	RTA Exec C - Salary Adjustments/Employment Notices/Job Descriptions/Performance Reviews	Exec C.pdf
R28	RTA Senior Staff Members from 2006 - 2010	RTA Covered Execs.pdf
R29	RTA Amended and Restated Pension Plan (Effective 1/1/2011)	RTA Pension Plan 2011.pdf
R30	RTA Position Classification and FY 2011 Salary Plan	RTA Position Classification and Salary Plan.pdf
R31	RTA Salary Ranges 2005 - 2010	Salary Ranges 2005 - 2010.xls
R32	RTA Exec A - Salary Adjustments/Payment Summaries/Employment Notices/Job Descriptions/Performance Reviews	Exec A.pdf
R33	RTA 2005 Report on Review of the Internal Controls of RTA's Pension Plan	2005 RTA Audit RTA Pension Plan.pdf
R34	RTA 2007 Report on Review of the Internal Controls of RTA's Pension Plan	2007 RTA Audit RTA Pension Plan.pdf
R35	RTA ProCard Credit Purchasing System Manual	old ProCard_manual.pdf
R36	RTA Procedures for Procurement Division's ProCard	paper_card_proce_1199.pdf
R37	RTA Senior Staff Members from 2006 - 2010 Time Off Activity	RTA - Covered Executive Time Off Activity.pdf
R38	RTA Procedures for RTA Credit Cards	RTA Credit Card Procedures.pdf
R39	RTA Furlough Program Fiscal Year 2010	RTA Furlough Program_2010.pdf
R40	RTA Health Plan 2000	RTA Health Plan 2000.pdf
R41	RTA Ins Medicare Supplemental	RTA Ins Medicare Supplemental.pdf
R42	RTA Parking Policies	RTA Parking.pdf
R43	RTA 2009 Pension Plan Financial Statements	RTA Pension 2009 FINAL.pdf
R44	RTA 2001 Amendment to Pension Plan	RTA Pension Plan 2001.pdf
R45	RTA 2005 Amendment to Pension Plan	RTA Pension Plan 2005.pdf
R46	RTA 2009 Amendment to Pension Plan	RTA Pension Plan 2009.pdf
R47	RTA 2010 Amendment to Pension Plan	RTA Pension Plan 2010.pdf
R48	RTA Amended and Restated Pension Plan (Effective 1/1/2011)	RTA Pension Plan 2011.pdf
R49	RTA 2002 Amendment to Pension Plan	RTA Pension Plan Amendment 2002.pdf
R50	RTA Pension Plan Third Amendment 2006	RTA Pension Plan Third Amendment 2006.pdf
R51	RTA Petty Cash Disbursement Policy	RTA Petty Cash Policy.pdf
R52	RTA Methodology for Benchmarking Procedure	RTA Benchmark Methodology 062311.docx
R53	RTA A37 Benchmarking Comparable Companies	RTA Comparators - 110111.xlsx
R54	RTA Executive Salary List	RTA Current Salaries.xls
R55	RTA Testing - Salary Levels, Adjustments, Payouts, Performance Criteria	RTA Test 1.xlsx
R56	RTA Testing - Bonus Reconciliation, Sign-On Bonus Approvals	RTA 2.1.2.2.xlsx
R57	RTA Testing - Separation Payments	RTA Test 6.1.6.2.xlsx

R58	RTA Testing - PTO, Sick, Vacation Accruals	RTA_Testing_5.1(2).xls
R59	RTA 401(k) Plan and Trust 2009	RTA 401 (K) Plan and Trust.pdf
R60	RTA Travel, Business & Relocation Expense Policy	RTA Travel and Expense Policy.pdf
R61	RTA Pension Actuarial Data (2006 - 2010)	RTA pension actuarial data.pdf
R62	RTA Exec A Penion Calculation	Exec A Pension Calculation.pdf
R63	RTA Exec A Employment Agreement	Exec A Contract.pdf
R64	RTA Senior Deputy Executive Director, Planning & Regional Programs 2007 Job Descriptio	Senior DED Planning and Regional Programs 2007.doc
R65	RTA-Metra-Pace 401 (K) Metra, Pace, RTA 1999 Summary Plan Description	401 (K) Metra, Pace, RTA 1999.pdf
R66	RTA-Metra-Pace 401 (K) Metra, Pace, RTA 2007 Summary Plan Description	401 (K) Metra, Pace, RTA 2007.pdf
R67	RTA-Metra Health Care Plan 2007	RTA-Metra Health Care Plan 2007.pdf
R68	RTA-Metra-Pace Deferred Compensation Plan	RTA-Metra-Pace 457.pdf
R69	RTA-Metra-Pace Benefit Plan Design Changes	RTA-Metra-Pace Health Plan - Misc.pdf
R70	RTA-Metra-Pace Pension Plan 2003	RTA-Metra-Pace Pension Plan 2003.pdf
R71	RTA-Metra-Pace Pension Plan 2007	RTA-Metra-Pace Pension Plan 2007.pdf
R72	RTA PACE CTA Comparable Company Documentation	Comp Breakdown for Report.xlsx
R73	RTA-Metra-Pace Testing - Travel & Entertainment	TEST 4.1 All Agencies.xlsx
R74	RTA-Metra-Pace Cumulative Testing Notes/Comments	Testing Notes.docx
R75	RTA Benchmarking Survey Data	Copy of FINAL Salary Survey 1-18-11.xlsx

**Chicago Transit Authority
("CTA" or "Authority")**

Executive Summary

During the course of our review, we did not find any material violations of any laws, ordinances, regulations or policies established by the CTA. As noted on the following pages, policies regarding pay adjustments, bonuses, retirement, expense reimbursements, paid time off and severance were for the most part adhered to with the exception of those policies we noted in our report. In those cases where we did note exceptions, the CTA was able to provide us with reasonable explanations for the cause of those variances noted. These explanations are cited in the applicable sections of our report.

Recommendations

Based on our review, the following recommendations are submitted to CTA for consideration. These recommendations are designed to improve overall program governance and executive compensation effectiveness based on best practices.

1. Executive Compensation Governance

The focus of our project has been to confirm that various compensation and benefits payments made to each executive have been in accordance with established CTA policy or procedure. It does not address whether the policy or procedure in and of itself is appropriate, competitive or best practice. The primary role of a governing Board and by delegation, a Compensation Committee, is to ensure that compensation and benefits policies satisfy such standards, and answer fundamental questions such as:

- Are the senior executives being appropriately compensated?
- Is their compensation reasonable related to personal and corporate performance?
- Are their post-employment benefits properly related to the overall benefit to the CTA and reasonable in amount?
- Is there effective oversight of management's compensation?

Based on our understanding, the Chairman of the Board has responsibility for reviewing the compensation and recommending salary adjustments for the President based on annual performance. It is also our understanding that the CTA Board of Directors has a committee that is responsible for reviewing compensation matters presented by the Chairman. Although we believe this arrangement has effectively served the Authority well in the past, the CTA Board may want to consider formalizing a Compensation Committee with responsibilities for such matters as;

- Establish, monitor, review and revise, at least annually, performance guidelines for the President and guidance for the development of CTA's business strategy;
- Assist the board in assessing and evaluating the President's performance;
- Review and recommend the President's compensation, including salary, incentives, benefits and other perquisites;
- On the recommendation of the President, approve the appointment of, and annual compensation plans for, each member of senior management, including salary, incentives, benefits and other perquisites;

- Regularly establish, review and monitor succession plans (including emergency succession plans) for all key management personnel (including the Chairman of the Board and the President);
- Report on executive compensation utilizing outside professional sources;
- Review, approve and monitor, on a regular (and at least annual) basis, the Authority's compensation and benefits programs, developed by management;
- Review and obtain approval, with senior management, annual Authority-wide compensation guidelines, including for the development and administration of executive short-term bonus plans;
- Review with management on a regular basis to satisfy itself that CTA's human resources policies comply with applicable laws and regulations;
- Review management's recommendations regarding hiring, firings, transfers and promotions of senior officers and related severance packages.

We believe that a heightened emphasis on the independent governance of executive compensation will enhance overall Board oversight of the Authority's executive compensation policies and practices.

CTA Response: The Chicago Transit Board has a Committee on Human Resources that was approved through Board Ordinance 88-133, section 48.1. Large scale compensation issues are presented to the Committee on Human Resources for review. Also, CTA provides the Chicago Transit Board a quarterly report on non-bargained for compensation, per Board Ordinance 010-114, section 6.

2. Executive Compensation Philosophy

It was noted during our review process that CTA did not appear to have a formal overall stated total rewards philosophy regarding executive pay. An executive compensation philosophy translates an organization's vision, strategy and values into a framework that guides the design and decision making of base salary, short-term incentives, recognition and benefits. It sets the parameters on how CTA wants to compete in the market for executive talent. We believe that the CTA should consider establishing a formal executive compensation philosophy in order to determine the framework of its executive compensation and benefit programs.

CTA Response: CTA will look into a formal executive compensation philosophy. CTA does monitor pay for all positions and aims to pay employees fairly and equitably, within the financial constraints of the organization. CTA realizes the importance of pay in the effort to attract and retain qualified talent.

3. Base Salary

It was determined that CTA's overall base salaries appeared competitive with base salaries of similar positions in the comparator organizations with the exception of those positions noted in the competitive market analysis. To address those executives below market average, CTA should consider reviewing the compensation of those executives in order to determine if any pay adjustments are warranted. CTA should note that for 2012, U.S. base salaries are projected to rise 3%². With this

² *2011-2012 Culpepper Global Salary Budget Survey*

increase, CTA could expect further erosion in their competitive market position with respect to base salary. This becomes a critical issue when organizations are trying to retain their executive talent at a time when the economy is improving. As noted during the review period, CTA has already experienced excessive turnover within its executive ranks.

CTA Response: CTA will look into RTA's recommendation to increase the salaries of executives who fall below the market average. CTA realizes the importance of having a strong leadership team and retaining executive talent, while staying within the financial constraints of the organization. CTA will look into creating measures that ensure CTA is able to attract and retain executive talent.

4. Performance Review Frequency

CTA should consider a regular performance review process in order to gauge job satisfaction and executive performance against annual goals. While compensation is the most common component of retention plans, research has shown that a broader portfolio of tactics focused on the specific needs and engagement drivers of the individual is more effective. As a best practice, such plans tend to focus on the development needs and career interest of key talent and stress effective communication to maintain employee engagement during periods of instability.

CTA Response: CTA's current Management Plan includes the development of a new tool to objectively evaluate employee performance in 2012 and is investigating the best method to re-institute this tool in managing and measuring performance on a regular basis. Also, CTA has a performance management team that has developed companywide metrics that are measured and reviewed on a monthly basis.

5. Performance Management

It was noted that CTA does not maintain a formal performance evaluation program for its Executives. The President has responsibility for evaluating executive performance. However, it is our understanding that this is done on a discretionary basis. As noted above, an effective performance management program is critical during periods of instability. Based on best practices, an effective performance management program is designed to provide feedback to employees on how effectively they are performing in their jobs based on established goals and objectives linked to the organization's business plan and long-term strategy. By establishing defined goals and objectives, the executive is better informed on what must be accomplished within the review period as well as the standards or criteria for determining whether the defined goals have been accomplished. A formal review process will provide the President with an opportunity to provide feedback on how well his/her direct reports are performing against their defined goals as well as any issues affecting job performance.

CTA Response: CTA's current Management Plan includes the development of a new tool to objectively evaluate employee performance in 2012 and is investigating the best method to re-institute this tool in managing and measuring performance on a regular basis. Also, CTA has a performance management team that has developed companywide metrics that are measured and reviewed on a monthly basis.

6. Market Adjustments

It was noted that CTA's salary structure has not been updated since 2002 nor has the CTA done any merit increases since 2006. In order to ensure that the CTA maintains a competitive salary program, it should continue monitoring executive salaries by utilizing outside market resources to determine if any salary adjustments are warranted and to make any necessary adjustments to its salary ranges to reflect changes in market conditions.

CTA Response: CTA regularly participates in and receives a variety of externally conducted salary surveys for both benchmark positions and those positions specific to the transit industry (Mercer, Towers-Wyatt, APTA, etc.) CTA will continue to monitor salaries and salary ranges using these sources.

7. Separation Policy

It was noted during our review process that CTA did not have a formal separation policy regarding severance payments. In accordance with the CTA Vacation Benefit Policy (Section F), upon termination employees will be paid for earned vacation days remaining in the current vacation year. Per our understanding, each employee is entitled only to unused vacation pay and any unpaid earnings (unless stipulated in a formal contract). The CTA may want to consider establishing a formal separation policy for its executives in order to standardize the process and avoid any unauthorized practices that may not be in the best interest of the CTA.

CTA Response: CTA complies with local, state and federal law regarding separation payments of earning and unused vacation. CTA will look into a formal separation policy.

Base Salary

Review procedures

Based on the testing procedures reviewed and approved by the RTA, we reviewed the base salary for each of the executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 to:

- Confirm that salaries fell within the established pay ranges pursuant to policy;
- Confirm appropriate approvals were obtained for base salary adjustments;
- Compare base salary amounts to prior periods to assess the reasonableness of any adjustments;
- Confirm base salaries are being paid appropriately and in accordance with approved written policy, plans and documentation;
- Confirm current salaries are consistent with amounts recorded on the payroll system records and tax documentation (i.e. W-2s);
- Assess whether performance evaluations produced consistent base salary adjustments; identify exceptions, rationale and whether appropriate approvals were obtained;
- Review and test associated documentation for 29 executives during the review period.

Policy Procedure Standard

CTA maintains a salary administration program as outlined in the CTA Salary Administration Manual (“Manual”) for Exempt Employees dated December 2003. The Manual serves as a guideline for CTA management to:

- Determine starting rates of pay;
- Evaluate job performance for determining employee’s compensation and potential for promotion, pay adjustments, job transfers, and demotions.

Pursuant to Section 2.0 of the Manual, the Vice President of Human Resources is responsible for monitoring the utilization and effectiveness of the Salary Administration Program (“Program”) and recommending changes to the Executive Vice President of Management and Performance³ as necessary. The Manager II, Compensation and Classification⁴ (“Manager II”) is responsible for the administration and operations of the Program. Each department manager is responsible for conducting periodic reviews on his or her employees’ performance as well as recommending personnel actions including salary adjustments, promotions etc.

In accordance with section 3.0 of the Manual, jobs are placed in salary grades based on Hay Job Evaluation and market pricing results. The CTA conducts periodic market reviews to determine

³ The title “Executive Vice President of Management and Performance,” effective during the review period, is now titled “Chief Administrative Officer.”

⁴ The title “Manager II, Compensation and Classification” effective during the review period, is now titled “General Manager of Compensation, Benefits and HRIS.”

external market competitiveness to determine if any adjustments to the salary structure are required. In the event there are structure adjustments, such changes are presented by the Vice President of Human Resources and reviewed by an internal Compensation Committee (consisting of the Executive Vice President, Management and Performance and Sr. Vice President/ Treasurer of Finance Budget, Capital⁵).

In accordance with section 3.5 of the Manual, salary adjustments are based on evaluated performance and must be approved by the department head and submitted to the Manager II, Compensation and Classification. In order to effectuate the salary adjustment, the department supervisor must submit a change notice which is then approved by the Vice President of Human Resources.

In the event of an exception to policies, such exception must be submitted to the Manager II, Compensation and Classification with a written explanation substantiating the recommendation from the Vice President of the department. Final approval must be obtained by the Vice President of Human Resources.

Performance Evaluation

In accordance with Section 3.4 of the Salary Administration Manual, CTA conducts an annual performance review on each employee utilizing a five point rating scale. It is the CTA's intent to make salary adjustments and implement personnel actions based on an employee's evaluated performance.

Observations

- All executive's base salaries fell within their assigned grade with exception of the Vice President of Security (above the range) and the Vice President of Legislative Affairs (below the range). Per section 3.5 of the Salary Administration Manual, an adjustment which results in salary exceeding the maximum of the salary band must be approved by Manager II, Compensation & Classification and Vice President of Human Resources. For salaries below their assigned band, the salary will be adjusted to the minimum of their assigned band at such time of their annual performance review (Section 3.2 of the Manual) providing that they have a performance rating of 3.0 or greater. Based on the documentation, proper approval was obtained with regard to these two instances;
- Based on the documentation reviewed, it appears that the current salary structure was put in place November 2, 2002. The salary structure has not been updated since this date;
- Based on documentation provided, there was insufficient data to determine a percentage increase from one year to the next since most individuals had only one year of documentation. Per the CTA, CTA has not made any merit adjustments since 2006;
- For listed documentation of increases, all approvals were obtained in accordance with policy;
- Section 3.4 of the Manual indicates that performance evaluations are to be conducted annually or on an as-needed basis. As noted, we did not see any evidence that performance reviews have

⁵ The title "Sr. Vice President/Treasurer of Finance Budget, Capital" effective during the review period, is now titled "Chief Financial Officer."

been done during the review period nor any merit increases (see note above per CTA comment);

- It was noted in a letter dated October 9, 2006, any employees classified as an EVP will be removed from the Performance Management Program (Pay for Performance) and annual performance reviews. Instead, such positions will be monitored by the President. Additionally, such positions will no longer receive merit increases in the same manner as those participating in the Performance Management Program as outlined above. Increases will be determined by the President. As a result of this policy change, we did not note any formal review process or salary adjustments for EVP positions. Second, we did not see any documentation indicating that this policy has changed other than the letter cited above;
- Based on our discussions with the CTA, it was indicated that the CTA is currently revising its Salary Administration Manual and updating its policies for 2012;
- It was noted that the CTA instituted a furlough program during the period 2009-2010, resulting in a reduction of overall compensation;
- It was noted that a number of variances existed between the executive's documented salary and reported W-2 compensation. Variances ranged from -29.38% to 41.12% (27 observations over the review period). Upon further review, it was determined that such variances were due to the furlough program instituted by the CTA, (which caused a reduction in documented compensation), promotions, retirement plan contributions and vacation buybacks. Out of the 27 cited cases, 6 were due to promotions/adjustments, 14 were due to pre-tax plan contributions, 4 were due to vacation buybacks, and 3 were due to resignations.

Exceptions

No exceptions were noted.

CTA Comments:

Human Resources is in the process of updating the salary administration manual to more closely reflect current policies.

The Vice President of Security was formerly the Chief of Security. The change in title occurred during the audit period. The Vice President of Security's salary is within the salary band of a Vice President and comparable to other Vice Presidents at CTA.

The Vice President of Legislative Affairs was formerly the Chief Development Officer, which is a position in a higher salary band. The change in title occurred during the audit period. The Vice President of Legislative Affairs' salary is within the salary band of a Vice President and comparable to other Vice Presidents at CTA.

Bonus/ Variable Compensation

Review procedures

Based on the testing procedures reviewed and approved by the RTA, we reviewed any bonus payments (including sign-on bonuses) for each of the executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 in order to:

- Verify such bonuses obtained proper approval in accordance with internal policy;
- Confirm that bonus amounts agreed with amounts approved and were properly documented in accordance with policy;
- Assess whether performance evaluations produced consistent bonus payouts, identify exceptions, rationale and whether appropriate approvals were obtained;
- Identify if such bonuses were “discretionary” or performance-based incentives.

Policy Procedure Standard

CTA does not maintain a formal bonus policy.

Observations

Based on our review, we did not see any documentation outlining a formal bonus program nor did we see any evidence that bonuses were awarded on a discretionary or formal basis during the review period.

Exceptions

No exceptions were noted.

Competitive Market Analysis

Methodology

In order to assess the market competitiveness of selected benchmark positions covered under the scope of this engagement, market data was obtained from comparable peer organizations (“Comparators”) identified by the RTA (see comparator organization chart below) as well as information obtained from the American Public Transportation Association (“APTA”) survey.

Peer Group Development

The Compensation Peer Group was compiled using groups previously developed by the State of Illinois Office of the Auditor General (OAG), the RTA and the CTA.

The OAG identified peer organizations in conjunction with the performance audit of the Service Boards the RTA and the CTA; the report was released in March 2007. The RTA and the CTA selected peer agencies based on the size of the metropolitan area served, the urban versus suburban character of the service area, the size of the transit services, and operating characteristics such as speed, trip length, and whether urban bus services operated in conjunction with rapid transit services. The size of the transit system was based on the number of stations served for rail modes. Acknowledging that the structures and operations of the organizations selected may be dissimilar to the CTA, the market for talent at the senior level are comparable for purpose of this study.

Organizations
Metra
Pace
Regional Transportation Authority
Metropolitan Transit Authority - New York City Transit
Southeastern Pennsylvania Transportation Authority
Los Angeles County Metropolitan Transit Authority
Metropolitan Atlanta Transit Authority
Washington Metropolitan Area Transit Authority
Massachusetts Bay Transit Authority
New Jersey Transit
Miami-Dade Transit Authority

Market Review

In order to ensure proper job matches, the RTA completed the process of matching the benchmark positions to the survey positions based on their knowledge of the roles, responsibility, content and reporting levels for each job. Each position was carefully examined and matched to the appropriate survey positions utilizing this knowledge base versus matching the jobs solely on job titles. To account for the differences in the dates upon which the market data was collected, all market data was aged to a common date (January 1, 2011) based on salary increased projections provided by World at Work in order to ensure consistent point-in-time comparisons.

Market Competitiveness Assessment

In order to determine the level of market competitiveness, the compa-ratio was calculated on each position. The compa-ratio is expressed as a percentage and is determined by computing the ratio of the position’s actual pay to the market median. The market median represents the 50th percentile of the salaries reported by the comparator survey group and is used as a standard in determining market competitiveness. Based on relevant compensation theory, a compa-ratio percentage which falls within an 85% to 115% range is considered competitive.

<u>Actual Pay vs. Market Median</u>	<u>Degree of Competiveness</u>
More than 115%	Highly Competitive
85% - 115%	Competitive
75% - 84%	Less than Competitive
Less than 75%	Significantly Less than Competitive

However in analyzing such ratios, other factors need to be considered in determining if such ratio is justified such as;

- Length of time the incumbent has been in the position
- Job performance
- Incumbent’s responsibilities and scope of services
- Organizational size (in terms of employees, budget, assets, revenue etc.)

Market Analysis Results

Based on the market analysis, the following results are reported for the CTA:

Executive Positions	Comparators (Compa- Ratio)
President	78.42%
General Counsel	100.00%
Chief Administration Officer	81.01%
Chief Operating Officer	84.30%
Chief Infrastructure Officer	86.27%
Chief of Staff, President's Office	96.06%
Chief Technology Officer	96.34%
Chief Safety & Security Officer	96.53%
Chief Financial Officer	111.14%

Observations

Overall, CTA's base salaries appear competitive with base salaries of similar positions in the comparator organizations with the exception of those positions with compa-ratios below 85%. For those positions, it is recommended that the CTA evaluate the positions to determine if the current salary levels are appropriate by factoring in level of experience, tenure in the position and job performance. **CTA Comments:**

CTA Comments:

CTA will continue to monitor salaries to ensure consistency and equity and will review those salaries that were below the salaries of similar positions in comparator organizations.

Retirement Benefits and Perquisites

Review Procedures

Based on testing procedures developed and approved by the RTA and GT, the following tests were performed for the pay periods beginning January 1, 2006 and ending December 31, 2010;

- We reviewed the retirement plan assumptions for accuracy and compliance with the plan terms and verified that each executive met the eligibility requirements as outlined under the plan documents;
- We confirmed the accuracy of the retirement plan balances based on contributions, earnings, accruals and withdrawals;
- We reviewed and tested one sample transaction for the 29 executives;
- We reviewed the additional perquisites received by the executives and confirmed the executive's eligibility, approvals and amounts received are within approved or established policy.

Policy Procedure Standard

The scope of our review covered the CTA 401(k) Plan, CTA 457 Plan and CTA Pension Plan (collectively referred to as "Plans").

CTA 401(k) Plan ("401(k) Plan")

The 401(k) Plan is a participatory defined contribution plan covering all full time employees of the CTA. The CTA's Deferred Compensation Committee serves as the Plan Administrator who is responsible for the operations and administration of the 401(k) Plan;

- Eligibility – Full time employees may begin participation in the 401(k) Plan on the date they commence employment with the CTA.
- Employer Contributions - Per our understanding, the CTA does not make any non-elective contributions to the 401(k) Plan.
- Employee Elective Contributions - Eligible employees may contribute on a pre-tax basis up to the dollar limit set forth under Internal Revenue Code (IRC) § 402(g). The IRS limit was \$15,000 for 2006, \$15,500 for 2007 and 2008, and \$16,500 for 2009 and 2010. Employees who are 50 years of age or older may contribute an additional \$5,000 per year for 2006, 2007, 2008 and 2009 and \$5,500 for 2010.

CTA 457 Deferred Compensation Plan (“457 Plan”)

- Eligibility - Pursuant to Article IV of the 457 Plan document, Employees are eligible to participate in the 457 Plan by entering into a Joinder Agreement prior to the beginning of the calendar month in which the Joinder Agreement is to become effective to defer compensation not yet earned. A new employee may defer compensation in the calendar month during which he/she first becomes an employee if the Joinder Agreement is entered into on or before the first day on which the employee performs services for the CTA.
- Employer Contributions - The CTA does not make any contributions to the 457 Plan.
- Employee Contributions - Eligible employees may contribute up to the annual dollar limit as set forth under IRC §402(g) as stated above.

Retirement Plan for Chicago Transit Authority Employees (Pension Plan)

The Pension Plan is a single employer defined benefit plan which covers substantially all employees of CTA who meet the eligibility requirements as set forth under Section 4 of the Pension Plan document. The Board of Trustees consists of 11 members, and is responsible for administering the Pension Plan.

- Eligibility – Section 4.1 of the Pension Plan document states that all employees are eligible to participate in the Pension Plan so long as they are employed by the CTA in an occupation or position to which this plan applies to. An individual is classified as an employee for purposes of the Pension Plan if they complete 12 months of continuous service with the CTA and is classified as a full time permanent employee.
- Employer/Employee Contributions - Pursuant to Section 7 of the Pension Plan document, the Pension Plan is funded by both employee and employer contributions. Effective December 1, 1995 the Pension Plan was amended to provide that CTA will contribute 6% of total compensation and the employee will contribute 3% of total compensation. This was later amended in 2008 to increase CTA’s contribution to 12% and the employee’s contribution 6% and again on January 1, 2010 by increasing the agency’s contribution to 10.69% and the employees to 8.345% of compensation.
- Retirement Benefits - Participants are entitled to an annual pension benefit (referred to as a retirement allowance) upon retirement at age 65, equal to a percentage of average annual compensation equal to the highest four years of completed continuous service, multiplied by number of years of credited service. However, the Pension Plan provides that upon early retirement, benefits will be reduced by a defined percentage for participants who received credit for prior service with an eligible employer. The Pension Plan permits earlier retirement with reduced benefits at age 55 after completing 10 years of credited service.

Perquisites - Per our understanding, the CTA does not offer any perquisites to its executives. This was confirmed with the General Manager of Human Resources.

Observations

- Based on our review of the eligibility requirements for each of the Plans, participating executives met the age and service requirements for the 401(k) Plan, 457 Plan and Defined Benefit Plan;
- To determine the accuracy of the pension amounts, we reviewed and recalculated Executive A-1's pension benefits in accordance with Section 8.1 of the CTA Pension Plan document. Based on our review, we did not identify any inaccuracies in the benefit calculations.

Exceptions

No exceptions noted.

Travel and Entertainment

Review Procedures

Based on the testing procedures reviewed and approved by the RTA, GT reviewed the travel and entertainment expenses for the periods beginning on January 1, 2006 to December 31, 2010 in order to:

- Confirm that expenses were reimbursed according to policy and procedures and that appropriate approvals were obtained;
- Verify that appropriate procedures were followed for identifying taxable compensation with respect to expenses and identify any potential issues;
- Review and test 38 sample transactions from testing period ranging from \$30.51 to \$2,548.78 for 29 executives.

Policy Procedure Standard

For the period 2006 to 2010, expense reimbursements were governed under Administrative Procedure #1501 (Expense Account Reimbursement). The Administrative Procedure (AP) sets out the terms and conditions for reimbursement of authorized expenditures to employees. In accordance to the AP;

- Reimbursements are limited to allowable expenses with a documented CTA business purpose and submitted with original receipts. Expenses not properly substantiated may not be reimbursed;
- To be reimbursed for allowable expenses, the employee must submit proper documentation on the Expense Account Form (Form 2122) with a written explanation of the valid CTA business purpose;
- Requests for allowable business meals along with expenses outside the terms of the policy must be approved by the President's Office as outlined under the AP;
- Only upon approval, the Expense Account form is then submitted to accounts receivable for processing and payment.

Expense reimbursement for CTA travel, are governed under Administrative Procedure #1505. In accordance to the AP, CTA will reimburse employees for expenses incurred for traveling outside of the Chicago Metropolitan area, seminars and training attendance providing that they complete a Travel, Seminar and Job Training Authorization Form (Form 2011) and obtain the authorization of the President (for EVP positions). Travel authorization is given only to the extent it has been determined that the purpose of the trip is beneficial to the CTA. A travel control number is assigned to each trip taken and is recorded on all travel related documents submitted. Expenses covered include ground transportation, lodging, meals (daily maximum allowance \$30.00), telephone calls (limit 15 minutes for personal calls or \$10.00 per trip phone call purchase).

Observations

- Per our review, all expenses reimbursed during the review period were properly substantiated and approved in accordance with requirements outlined under the CTA expense policies in effect;
- It was noted AP #1501 and #1505 were updated effective 8/1/2011.

Exceptions

No exceptions noted.

Vacation/ Paid Time Off

Review Procedures

Based on the testing procedures reviewed and approved by the RTA, GT reviewed sick leave, vacation and paid time off incurred by the executives covered under the scope of this review in order to;

- Review associated documentation for 29 executives during testing period based on provided data;
- Confirm that sick/vacation/ other paid time off days were accrued (credited) and subtracted (debited) from the executive’s pool according to written policy;
- Verify that cash payments for sick/vacation / other paid time off days are in compliance with policy and do not exceed the balance of the executive’s pool.

Policy Procedure Standard

Sick Leave – Pursuant to Policy AP 131, an employee may receive up to 26 weekly payments in the event of accidental injury off duty, sickness or a medical condition if they are a full time employee with at least one year of service.

Vacation - Pursuant to Policy AP 101 (in effect 06/16/95), executives above the Pay Level 216 are entitled up to 7 weeks of vacation per year pending on years of service:

Years of Continuous Service	Weeks
Less than 5 years	3 weeks
5 years but less than 10	4 weeks
10 years but less than 20	5 weeks
20 years but less than 25	6 weeks
25 years or over	7 weeks

- Up to three weeks of vacation may be carried over to the next year subject to approval by the President (for executive level employees).
- In accordance with Policy AP101, Section IV - Buy Back Provisions, Executives may sell back to the CTA, vacation accrued in excess of three weeks by submitting to Payroll Operations a buy back payment request.
- The maximum permissible amount of vacation that may be sold back to the CTA is three weeks.
- This policy was amended January 1, 2010.

Observations

Vacation and sick leave accruals were properly accounted for and consistent with policy.

Exceptions

No exceptions noted.

CTA Comments:

CTA has amended the vacation policy for non-bargained employees and has switched to a current year accrual model, effective June 1, 2012. The most vacation days a non-bargained for employee can now accrue is twenty-five (25) days. The rate of accrual is based on the employee's length of service.

Vacation buy-back is no longer offered.

CTA has amended the sick leave policy for non-bargained employees and has switched to an accrual model, effective June 1, 2012. Non-bargained employees accrue sick leave at the rate of one half (1/2) day per pay period. The maximum sick leave accumulation allowed at any one time is twenty-six (26) work days.

For prolonged illness, employees are eligible for short term disability coverage after seven (7) days of illness at 60% of pay or long term disability after six (6) months of illness. The long term disability coverage will be voluntary benefits the employee can purchase. Coverage will be based on the coverage purchased.

An employee is not paid for accrued but unused sick days upon separation from the CTA.

Separation Payments

Review Procedures

Based on procedures developed by the RTA and GT, we performed the following tests for the period beginning January 1, 2006 and ending December 31, 2010;

- Reconcile all documents relevant to separation payments (employment agreements, severance plans, etc.) to (i) identify any inconsistencies related to the specific circumstances that would trigger payments or the provision of the benefits; (ii) describe and quantify the estimated payments and benefits; (iii) identify any material conditions or obligations applicable to the receipt for payments or benefits; (iv) analyse any other material factors.
- Identify specific cases where separation payments were made and confirm that such payments were in conformity with approved written policies. If such payments were not in conformity with written policies, confirm that additional approvals were obtained.

Policy Procedure Standard

CTA does not maintain a formal separation policy for its executives. In the event an executive terminates employment from CTA, they are entitled to any unpaid wages and accrued unused vacation (Per policy AP 101).Observations

The only observed payments at separation were unpaid wages and accrued unused vacation.

Exceptions

No exceptions noted.

CTA Comments:

CTA complies with local, state and federal law regarding separation payments of earning and unused vacation. CTA will consider a formal separation policy.

Appendix

CTA Exhibit A CTA Positions Reviewed

Executive	Position
Executive A-1	President 2006-2007
Executive A-2	President 2007-2009
Executive A-3	President 2009-2010
Executive B-1	General Counsel 2004 -2006
Executive B-2	General Counsel 2007-2008
Executive B-3	General Counsel 2010
Executive C -1	Chief Operating Officer 2006-2009
Executive C-2	Chief Operating Officer 2009-2010
Executive D	Chief Infrastructure Officer 2006-2010
Executive E -1	Chief of Staff 2006-2007
Executive E-2	Chief of Staff 2007-2009
Executive F	Chief Technology Officer 2009-2010
Executive G	Chief Safety/Security Officer 2008-2010
Executive H	Chief Financial Officer 2009-2010
Executive I	EVP Transit Operations 2006-2007
Executive J	EVP Management & Performance 2006-2009
Executive K	VP Performance Management 2007-2009
Executive L-1	EVP Construction, Engineering & Facilities 2006
Executive L-2	EVP Construction, Engineering & Facilities 2006-2007
Executive M	Chief Information Officer 2008-2009
Executive N	VP Planning 2006-2010
Executive O	VP Strategic Initiatives 2007-2009

Executive P	VP Facilities & Maintenance 2007-2009
Executive Q	VP Security 2006-2010
Executive R	First Deputy General Counsel 2006-2009
Executive S	VP Legislative Affairs 2008-2010
Executive T	Chief Administrative Officer 2009-2010
Executive U-1	Inspector General 2006-2009
Executive U-2	Inspector General 2009-2010

Exhibit B Documentation Reviewed

WP #	Document	File Name
C1	CTA Unpaid Holidays and Unpaid Furloughs 2010 Policy	AP 1050 Unpaid Budget-Required Furlough Days Unpaid Holidays 10-5-09.pdf
C2	CTA Unpaid Holidays and Unpaid Furloughs 2011 Policy	AP 1050 Unpaid Furlough Days (2011).pdf
C3	CTA Craft Coalition Employees Required Furlough Days and Holidays 2011 Notice	AP 1051 Craft Coalition Unpaid Budget-Required Furlough Days.pdf
C4	CTA Unpaid Holidays and Unpaid Furloughs 2011 Policy - Revised	AP11 1050 Unpaid Furlough Revision.pdf
C5	CTA Unpaid Holidays and Unpaid Furloughs 2010 Policy - Revised	AP1050.pdf
C6	CTA 457 Plan and Trust	CTA 457 Plan and Trust - ICMA.pdf
C7	CTA STD Injury/Off-Duty Sickness Policy	CTA AP 131 STD 2006-2010[1].pdf
C8	CTA Petty Cash Funds Policy	CTA AP 163 Petty Cash 2006-2010.pdf
C9	CTA Non-Work Related Injury or Illness Procedure	CTA AP 1010 STD 2010.pdf
C10	CTA Vacation Benefit for Exempt Employees	CTA Vacation Benefit - Exempt.pdf
C11	CTA Expense Report Policy 2006-2010	CTA AP123 Expense Report 2006-2010.pdf
C12	CTA Bridge of Service Policy 2006-2010	CTA AP135 Bridge 2006-2010.pdf
C13	CTA Vacation Buyback Policy 2006-2010	CTA AP154 Vacation Buyback-union 2006 - 2010.pdf
C14	CTA Vacation Benefits for Non-Union Employees	CTA AP1001 - Vacation.pdf
C15	CTA Bridge of Vacation Allowance Policy	CTA AP1002 Bridge of Vacation.pdf
C16	CTA Expense Account Reimbursement Policy	CTA AP1501 Expense Report.pdf
C17	CTA Expense Reports 2006-2010	CTA Expenses.pdf
C18	CTA Job Change Letters and Supporting Info	CTA Offer Letter_Change Info_Salary Bands[1].pdf
C19	CTA Payroll Data 2006-2010	CTA Pay Data.xls
C20	CTA Peer Group Development	CTA - Compensation Peer Group Development.doc
C21	CTA Peer Group Analysis	CTA Comparators - 111611.xlsx
C22	CTA C-Suite Salaries	CTA Current Salaries.xlsx
C23	CTA W-2 Info 2006-2010	CTA W-2 Info.pdf
C24	CTA Memo from President - Unpaid holidays etc.	President's revocation memo.pdf
C25	CTA Unpaid Holidays and Unpaid Furloughs 2009	Unpaid Holidays and Unpaid Furloughs for 2009.pdf
C26	CTA Salary and Bonus Testing	CTA Test 1.xlsx
C27	CTA PTO Accruals Testing	CTA PTO Accruals.xlsx
C28	CTA Expense Testing	CTA Expenses Test 4.xlsx
C29	CTA Employee Salary Administration Manual	2002 Salary Administration.pdf
C30	RTA PACE CTA Comparable Company Documentation	Comp Breakdown for Report.xlsx

**Pace Suburban Bus Division
("Pace")**

Executive Summary

During the course of our review, we did not find any material violations of any laws, ordinances, regulations or policies established by Pace. As noted on the following pages, policies regarding pay adjustments, bonuses, retirement, expense reimbursements, paid time off and severance were for the most part adhered to. In those cases where we noted exceptions, Pace was able to provide GT with reasonable explanations for the cause of those variances noted. These explanations are cited in the applicable sections of this report.

Recommendations

Based on our review, the following recommendations are submitted to Pace for consideration. These recommendations are designed to improve overall program governance and executive compensation effectiveness based on best practices.

1. Executive Compensation Governance

The focus of our project has been to confirm that various compensation and benefits payments made to each executive have been in accordance with established agency policy or procedure. It does not address whether the policy or procedure in and of itself is appropriate, competitive or best practice. The primary role of a governing Board and by delegation, a compensation committee, is to ensure that compensation and benefits policies satisfy such standards, and answer fundamental questions such as:

- Are the senior executives being appropriately compensated?
- Is their compensation reasonable related to personal and corporate performance?
- Are their post-employment benefits properly related to the overall benefit to Pace and reasonable in amount?
- Is there effective oversight of management's compensation?

Based on our understanding, the Chairman of the Board has responsibility for reviewing the compensation and recommending salary adjustments for the Executive Director based on annual performance. As noted by the Executive Director's Employment Agreement, these recommendations are generally reviewed by a committee designated by the Chairman. However, it is our understanding that the Pace Board does not have a formal compensation committee focused on executive compensation matters. Although the committee designated by the Chairman may perform a similar function as a compensation committee performs for a corporation in the private sector, the Pace Board may want to consider formalizing this role by creating a separate compensation committee with responsibilities for such matters as;

- Establish, monitor, review and revise, at least annually, performance guidelines for the Executive Director and guidance for the development of Pace business strategy;
- Assist the board in assessing and evaluating the Executive Director's performance;
- Review and recommend the Executive Director's compensation, including salary, incentives, benefits and other perquisites;

- On the recommendation of the Executive Director, approve the appointment of, and annual compensation plans for, each member of senior management, including salary, incentives, benefits and other perquisites;
- Regularly establish, review and monitor succession plans (including emergency succession plans) for all key management personnel (including the Chairman of the Board and the Executive Director);
- Report on executive compensation utilizing outside professional sources;
- Review, approve and monitor, on a regular (and at least annual) basis, Pace's compensation and benefits programs, developed by management;
- Review and approve, with senior management, annual agency-wide compensation guidelines, including for the development and administration of executive short-term bonus plans;
- Review with management on a regular basis to satisfy itself that Pace's human resources policies comply with applicable laws and regulations;
- Review management's recommendations regarding hiring, firings, transfers and promotions of senior officers and related severance packages;

We believe that a heightened emphasis on the independent governance of executive compensation will enhance overall Board oversight of Pace's executive compensation policies and practices.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

2. Executive Compensation Philosophy

It was noted during our review process that Pace did not appear to have a formal overall stated total rewards philosophy regarding executive pay. An executive compensation philosophy translates an organization's vision, strategy and values into a framework that guides the design and decision making of base salary, short-term incentives, recognition and benefits. It sets the parameters on how Pace wants to compete in the market for executive talent. We believe that Pace should consider establishing a formal executive compensation philosophy in order to determine the framework of its executive compensation and benefit programs.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

3. Base Salary

It was determined that Pace's overall base salaries appeared competitive with base salaries of similar positions in the comparator organizations with the exception of those positions noted in the competitive market analysis. To address those executives below market average, Pace should consider reviewing the compensation of those executives to determine if any pay adjustments are warranted. Pace should note that for 2012, U.S. base salaries are projected to rise 3%⁶. With this increase, Pace

⁶ 2011-2012 Culpepper Global Salary Budget Survey

could expect further erosion in their competitive market position with respect to base salary. This becomes a critical issue when organizations are trying to retain their executive talent at a time when the economy is improving.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

4. Performance Review Frequency

Pace should consider a midterm performance review in addition to the annual review in order to gauge job satisfaction and executive performance against annual goals. While compensation is the most common component of retention plans, research has shown that a broader portfolio of tactics focused on the specific needs and engagement drivers of the individual is more effective. Such plans tend to focus on the development needs and career interest of key talent and stress effective communication to maintain employee engagement during periods of instability.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

5. Performance Management

It was noted that Pace does not maintain a formal performance evaluation program for its Executives (other than the Executive Director). The Executive Director has responsibility for evaluating executive performance however, it is our understanding that this is done on a discretionary basis. As noted above, an effective performance management program is critical during periods of instability. Based on best practices, an effective performance management program is designed to provide feedback to employees on how effectively they are performing in their jobs based on established goals and objectives linked to the organizations business plan and long-term strategy. By establishing defined goals and objectives, the executive is better informed on what must be accomplished within the review period as well as the standards or criteria for determining whether the defined goals have been accomplished. A mid-term review process may provide the Executive Director with an opportunity to provide feedback on how well each executive is performing against defined goals as well as any issues affecting job performance.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

6. Market Adjustments

In order to ensure that Pace maintains a competitive salary program, it should continue monitoring executive salaries by utilizing outside market resources to determine if any salary adjustments are warranted and to make any necessary adjustments to its salary ranges to reflect changes in market conditions.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

7. Separation Policy

It was noted during our review process that Pace did not have a formal separation policy. Per our understanding, each employee is entitled only to unused vacation pay and any unpaid earnings (unless stipulated in a formal contract). Pace may want to consider establishing a formal policy in order to standardize its process and avoid any unauthorized practices that may not be in the best interest of Pace.

Pace Response: Pace will include a review of the Executive Compensation Report at the next Pace Audit Committee meeting in June. At that time a response will be formulated and forwarded to the RTA.

Base Salary

Review procedures

Based on the testing procedures reviewed and approved by the RTA, GT reviewed the base salary for each of the executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 in order to:

- Confirm that salaries fell within the established pay ranges pursuant to policy;
- Confirm appropriate approvals were obtained for base salary adjustments;
- Compare base salary amounts to prior periods to assess the reasonableness of any adjustments;
- Confirm base salaries are being paid appropriately and according to approved written policy, plans and documentation;
- Confirm current salaries are consistent with amounts recorded on the payroll system records and tax documentation (i.e. W-2s);
- Assess whether performance evaluations produced consistent base salary adjustments; identify exceptions, rationale and whether appropriate approvals were obtained;
- Review associated documentation for 11 executives during testing period based on provided payroll, salary, and personnel data.

Policy Procedure Standard

Pace maintains a salary administration program which is applied to all employees including executive positions reporting to the Executive Director. The salary administration program is structured so that all such positions are evaluated and assigned a salary range based upon the Hay Job Evaluation system. Each salary range consists of a minimum, midpoint and a maximum which is reviewed and adjusted (if necessary) on an annual basis with the Executive Director's approval.

Base Salary Adjustments

Pursuant to Policy HR-18, any changes to compensation for the positions reviewed (with the exception of the Executive Director) requires the approval of the Executive Director and Chairman of the Board. Pursuant to the Executive Director's Employment Agreement, any base salary adjustments to the Executive Director must have the approval of the Pace Board.

Performance Evaluation

Pace does not maintain a formal job evaluation process to assess executive performance. Performance evaluations are left to the discretion of the Executive Director. With regard to the Executive Director position, the Pace Board or a committee of the Pace Board (as designated by the Chairman) is responsible for evaluating performance based on specific established goals and objectives.

Observations

- Pursuant to our review, all base salaries fell within each executive's assigned salary grade with the exception of one position as noted below;
- All base salary adjustments were properly documented and approved;
- In two events, there were administrative base salary adjustments that exceeded 5%. Based on the documentation, in 2006, Executive J received a 6.3% increase labelled administrative salary adjustment. In 2007, Executive H received an 18.05% increase labelled administrative salary adjustment. Per our review, each adjustment was properly documented and not considered an exception to policy;
- We noted variances between documented salary and the salary reported on Form W-2 for all executives. Per our review, we were able to determine that the variance was due to imputed income for life insurance coverage (excess of \$50,000), merit pay, personal use of agency vehicles, vacation carryover and or buy backs, and health club membership fees (paid by Pace).

Exceptions

No exceptions noted.

Bonus / Variable Compensation

Review procedures

Based on the testing procedures reviewed and approved by the RTA, GT reviewed any bonus payments (including sign-on bonuses) for each of the executives defined in the scope of this engagement for the period beginning January 1, 2006 through December 31, 2010 to:

- Verify such bonuses obtained proper approval in accordance with policy;
- Confirm that bonus amounts agreed with amounts approved and were properly documented in accordance with policy;
- Assess whether performance evaluations produced consistent bonus payouts, identify exceptions, rationale and whether appropriate approvals were obtained;
- Identify if such bonuses were “discretionary” or performance based incentives;
- Review 13 transactions based on associated documentation for executives receiving discretionary bonuses from 2006-2009.

Policy Procedure Standard

Based on our discussions with Pace’s Sr. Compensation & Pension Benefits Administrator, Pace does not maintain a formal bonus policy. Bonus payments awarded were generally discretionary on the basis of extraordinary performance or in lieu of a merit increase if the employee was at the maximum of their range.

Observations

- No sign on bonuses were noted during the review period;
- Discretionary bonuses were awarded by the Executive Director to 3 executives in 2006, 2007, 2008 and 2009 on the basis of performance.
- Bonus payments ranged from \$1,000 to \$6,730.

Exceptions

No exceptions were noted.

Competitive Market Analysis

Methodology

In order to assess the market competitiveness of selected benchmark positions covered under the scope of this engagement, market data was obtained from comparable peer organizations (“Comparators”) identified by the RTA (see comparator organization chart below) as well as information obtained from the American Public Transportation Association (“APTA”) survey.

Peer Group Development

The RTA and Pace selected peer agencies based on the size of the metropolitan area served, the urban versus suburban character of the service area, the size of the transit services, and operating characteristics such as speed, trip length, and whether urban bus services operated in conjunction with rapid transit services. The size of the transit system was measured in total passenger trips provided, vehicles operated in peak services, directional route miles. Acknowledging that the structures and operations of the organizations selected may be dissimilar to Pace, the market for talent at the senior level are comparable for purpose of this study.

Organizations
Metra
Chicago Transit Authority
Regional Transportation Authority
Orange County Transit Authority
San Mateo County Transit of San Francisco
Alameda-Contra Costa Transit, Oakland
VIA Metropolitan Transit San Antonio
Dallas Area Rapid Transit
Metropolitan Transit Harris County
Santa Clara Valley Transportation
Metro – Houston
San Diego Metropolitan Transit
Tri-County Metropolitan- Oregon
Regional Trans District Denver

Market Review

In order to ensure proper job matches, the RTA completed the process of matching the benchmark positions to the survey positions based on their knowledge of the roles, responsibility, content and reporting levels for each job. Each position was carefully examined and matched to the appropriate survey positions utilizing this knowledge base versus matching the jobs solely on job titles. To account for the differences in the dates upon which the market data was collected, all market data was aged to a common date (January 1, 2011) based on salary increased projections provided by World at Work in order to ensure consistent point-in-time comparisons.

Market Competitiveness Assessment

In order to determine the level of market competitiveness, the compa-ratio was calculated on each position. The compa-ratio is expressed as a percentage and is determined by computing the ratio of the position’s actual pay to the market median. The market median represents the 50th percentile of the salaries reported by the comparator survey group and is used as a standard in determining market competitiveness. Based on relevant compensation theory, a compa-ratio percentage which falls within an 85% to 115% range is considered competitive.

<u>Actual Pay vs. Market Median</u>	<u>Degree of Competiveness</u>
More than 115%	Highly Competitive
85% - 115%	Competitive
75% - 84%	Less than Competitive
Less than 75%	Significantly Less than Competitive

However in analyzing such ratios, other factors need to be considered in determining if such ratio is justified such as;

- Length of time the incumbent has been in the position
- Job performance
- Incumbent’s responsibilities and scope of services
- Organizational size (in terms of employees, budget, assets, revenue etc.)

Market Analysis Results

Based on the market analysis, the following results are reported for Pace:

Executive Positions	Comparators (Compa- Ratio)
Executive Director	77.85%
General Counsel	74.36%
Deputy ED, External Relations	103.02%
Department Manager, HR	78.41%
Deputy ED, Internal Services	106.88%
Deputy ED, Strategic Services	118.40%
Deputy ED, Revenue Services	97.22%
Chief Internal Auditor	96.98%
CFO	83.59%
North Regional Manager	101.68%

Observations

Overall, Pace's base salaries appear competitive with base salaries of similar positions in the comparator organizations with exception of those positions with compa-ratios below 85% or above 115%. For those positions, it is recommended that Pace evaluate the positions to determine if the current salary levels are appropriate by factoring in level of experience, tenure in the position and job performance.

Retirement Benefits and Perquisites

Review Procedures

Based on the testing procedures developed and approved by the RTA and GT, the following tests were performed for the pay periods beginning January 1, 2006 and ending December 31, 2010;

- GT reviewed the retirement plan assumptions for accuracy and compliance with the plan terms and verified that each executive met the eligibility requirements as outlined under the plan documents;
- GT confirmed the accuracy of the retirement plan balances based on contributions, earnings, accruals and withdrawals;
- GT reviewed and tested one sample transaction for each of the 11 executives;
- GT reviewed each of the additional perquisites received by the executives and confirmed the executive's eligibility, approvals and amounts received are within approved or established policy.

The scope of our review covered the RTA 401(k) Plan and the RTA Pension Plan.

Pursuant to the terms of the Plans, Pace is included as a Participating Employer in the RTA Pension plan and 401(k) Plan.

Policy Procedure Standard

RTA/ Pace 401(k) Plan (401(k) Plan)

- **Eligibility** – Pursuant to the Summary Plan Description (SPD) - Employees are eligible to participate in the Plan after 60 days of continuous employment.
- **Employer Contributions** - Under Article VI, Section 6.04 of the 401(k) Plan , Pace in its sole discretion may elect to make annual contributions to the 401(k) Plan, in addition to contributions provided under Section 6.01 of this Article VI, for any Plan Year on behalf of any group of employees designated by Pace. The contribution described under Section 6.04 of the Plan document is referred to as a “Special Contribution” Article VII 7.01 of the 401(k) Plan states that the administration of the 401(k) Plan shall be the responsibility of the Committee.
- **Compensation** - Defined under Section 4.04 of the 401(k) Plan document as W-2 compensation less fringe benefits, expense reimbursements and imputed income from employer paid life insurance.
- **Employee Elective Contributions** - Eligible employees may contribute on a pre-tax basis up to the dollar limit set forth under the Internal Revenue Code (IRC) 402(g) with the exception of tax year 2006. For that tax year elective contributions were limited to the lesser of 17% of annual compensation or the IRS limit in effect. The IRS limit for the following tax years were \$15,000 for 2006, \$15,500 for 2007 and 2008, and \$16,500 for 2009 and 2010. For those

employees 50 years of age or older, they may contribute an additional \$5,000 per year for 2006, 2007 and 2008 and \$5,500 for 2010.

Conversion of Sick Time to 401(k) Account - Pursuant to Policy HR-17, Pace employees may convert unused sick time into their 401(k) account at such time they terminate their employment with Pace based on specific requirements of the Policy. An employee who leaves Pace voluntarily, has at least 10 years of credited service, but is not retirement eligible will receive 60% of the value of his/her sick balance in the form of an employer contribution to the RTA 401(k) Plan. An employee who leaves Pace voluntarily and is retirement eligible will receive 100% of the value of his/her sick balance in the form of an employer contribution to the RTA 401(k) Plan. This conversion is subject to the IRS 401(K) plan contribution limits.

RTA Pension Plan (Pension Plan)

The Pension Plan is a multiple employer defined benefit plan which covers substantially all the employees of Metra, Pace and RTA who are not covered by a union pension plan. The responsibility for administering the plan is divided among the RTA Board of Directors, a Board of Trustees, an Administrative Committee and a Board of Trustees.

- **Eligibility** – Employees are eligible for participation on the first day of the month coinciding with or next following their date of employment.
- **Retirement Benefits** – Participants are entitled to an annual pension benefit upon retirement at age 65, generally a percentage of average annual compensation in the highest three years of service, whether consecutive or not, multiplied by number of years of credited service. However, the Pension 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 Pension Plan permits earlier retirement with reduced benefits at age 55 after completing 10 years of credited service. Participants may receive their full vested benefit if they are at least age 55 and their combined age and service equal 85 or higher (known as the “Rule of Eighty-Five Early Retirement”)

Perquisites

Under policy HR-11, Pace offers each executive an Executive Health Physical Benefit Plan which provides each member of senior management a comprehensive health assessment and wellness program customized to their individual needs. The maximum total payment for non-covered medical expenses is \$500 per year. The payments are reported to Finance Department and are treated as a taxable fringe benefit (reported on the employees Form W-2).

Observations

- Per our review, each executive met age and service requirements to participate in the RTA Pension Plan, RTA/ Pace 401(k) Plan.
- No “special contributions” (as defined by the plan) were made to any executive during the review period with the exception of Executive A. Beginning 2007 special contributions equal to \$22,859.72 per year were contributed to Executive A’s 401(k) account. Per letters date January 1, 2007 and October 14, 2010, such payments were approved by the Chairman of the Board.
- Based on the documentation received, only Executive E retired during the review period. Pursuant to our review of the pension calculation, the benefit amount determined was correctly calculated in accordance with Article VI section 6.1 of the RTA Pension Plan document.

Exceptions

No exceptions noted.

Travel and Entertainment

Review Procedures

Based on testing procedures reviewed and approved by the RTA, GT reviewed the travel and entertainment expenses for the periods beginning on January 1, 2006 to December 31, 2010 in order to:

- Confirm that expenses were reimbursed according to policy and procedures and that appropriate approvals were obtained;
- Verify that appropriate procedures were followed for identifying taxable compensation with respect to expenses and identify any potential issues;
- Review and test 17 sample transactions from testing period ranging from \$10.10 to \$1,344.07 for 11 executives.

Policy Procedure Standard

Pursuant to Policy F1-01, Pace will reimburse its employees for expenses incurred which are directly related to the active conduct of official business. Such expenses are reimbursable only if they are reasonable, necessary and properly documented. All reimbursable expenses (except payment of tolls and taxicab tips) must be supported by itemized receipts. Any exception to this policy must be approved by the responsible Deputy Executive Director with budget authority. Any exceptions related to expenses incurred by employees reporting directly to the Executive Director must be approved by the Executive Director. All requests for out-of-region travel must be submitted to the Executive Director for review and approval. Out-of-region travel expenses are reimbursable only if a Travel Request Form (Form No. S1918) has been approved by the Executive Director.

Pace provides each executive with a Purchasing Card, a commercial credit card to be used exclusively for purchasing goods and services for Pace business. The purpose of the Pace Purchasing Card is to provide users with the means to make small dollar purchases by supplementing the use of petty cash, check requests and purchase orders. Cardholders can also make individual purchases as governed by policy FI-01 for travel and business related expenses and policy FI-06 for direct purchases of supplies and services in lieu of check requests. Single purchases and monthly limits are determined by the Program manager or Program Administrator in conjunction with the executive requesting the card. All expenses must be substantiated with a receipt which includes the business purpose and total amount charged. With regard to travel related purchases, approval must be obtained before any transaction can occur unless such person has the authority. However, they cannot make their own travel arrangements. This has to be done through the designated Travel Coordinator.

Observations

Based on the documentation reviewed, all expenses were properly substantiated and received proper approval as required under Policy F1-01.

Exceptions

No exceptions were noted.

Vacation/ Paid Time Off

Review Procedure

Based on the testing procedures reviewed and approved by the RTA, GT reviewed sick leave, vacation and paid time off incurred by the executives covered under the scope of this review in order to;

- Confirm that sick/vacation/ other paid time off days were accrued (credited) and subtracted (debited) from the executive’s pool according to written policy;
- Verify that cash payments for sick/vacation / other paid time off days are in compliance with policy and do not exceed the balance of the executive’s pool;
- Review associated documentation for 11 executives during testing period based on provided data.

Policy Procedure Standard

Sick leave

Sick time off is covered under the Paid Time Off provisions in the Pace Employee Handbook. Paid Time Off may be used for non-work related illness or injury.

Sick-time conversion to RTA/ Pace 401(k) Plan:

Under policy HR 17, employees may transfer unused accrued sick leave to the RTA/ Pace 401(k) Plan when he/she terminates employment or retires from Pace. The employee must have 10 years of credited service as defined by the RTA Pension Plan, to be eligible for sick time conversion to their 401(k) account. The maximum amount of time that may be converted is 40 hours annually, subject to the qualified plan limit.

Vacation

Vacation (Policy HR-05):

The schedule of vacation days provided to employees is determined by their years of service in the employment of Pace. The calculation of years of service includes the year in which the anniversary date falls.

Vacation Schedule

Years of Service	Vacation Days
0-4 years	10 days
5-9 years	15 days
10 + years	20 days

Vacation time is earned on a current year accrual basis and is provided to employees at the beginning of each following calendar year of their employment. Up to five (5) days of vacation time may be carried over into the succeeding calendar year. Carryover sought for additional days requires the written approval of the Executive Director. The cumulative carryover limit is 10 days.

Employees in Grade M3 and above earning a minimum of three weeks' vacation may receive pay in lieu of vacation, provided that the employee has taken two weeks off from the vacation accrual made available in the current year and has used any vacation time carried over from the previous year (subject to approval in accordance with Policy HR-05).

In the event an employee terminates employment, any accrued unused vacation will be paid to such employee.

Observations

- Based on our review, exceptions were noted in 2007, 2008 and 2009 for Executive D, I, and J regarding carry-over of sick leave. It was noted that there were carry overs of sick time without explanation or documentation. Per our discussions with Pace, these exceptions resulted from each executive converting unused leave time to sick time. Upon further review, we were able to reconcile these differences by determining the number of hours of unused leave time that was converted to sick time for each of the executives in question and applying it to the balance they accrued in the current year.
- No other exceptions were noted with respect to vacation accruals or sick leave.

Exceptions

No exceptions were noted.

Separation Payments

Review Procedures

Based on procedures developed by the RTA and GT, GT performed the following tests for the period beginning January 1, 2006 and ending December 31, 2010 in order to;

- Reconcile all documents relevant to separation payments (employment agreements, severance plans, etc.) to (i) identify any inconsistencies related to the specific circumstances that would trigger payments or the provision of the benefits; (ii) describe and quantify the estimated payments and benefits; (iii) identify any material conditions or obligations applicable to the receipt for payments or benefits; (iv) analyse any other material factors;
- Identify specific cases where separation payments were made and confirm that such payments were in conformity with approved written policies. If such payments were not in conformity with written policies, confirm that additional approvals were obtained.

Policy Procedure Standard

Pace does not maintain a formal separation policy for its employees. Executives are entitled only to payment for any remaining wages and unused vacation upon separation of employment.

Observations

Only one Executive terminated services during the review period (Executive E). Such Executive was paid for only unused vacation and unpaid earned income.

Exceptions

No exceptions were noted during the review period.

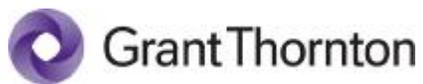
Appendix

Pace Exhibit A
Pace Executive Positions Reviewed

Executive	Position Title
Executive A	Executive Director 2006-2010
Executive B	Deputy Executive Director Strategic Services 2006-2010
Executive C	Deputy Executive Director Internal Services 2006-2010
Executive D	Regional Division Manager 2006-2010
Executive E	General Counsel 2006-2008
Executive F	General Counsel 2008-2010
Executive G	Chief Financial Officer 2006-2010
Executive H	Deputy Executive Director External Relations 2006-2010
Executive I	Chief Internal Auditor 2006-2010
Executive J	Deputy Executive Director Revenue Services 2006-2010
Executive K	Manager Human Resources 2006-2010

Exhibit B Documentation Reviewed

WP #	Document	File Name
P1	PACE Compensation Peer Group Considerations for Inclusion	Pace - Compensation Peer Group Development.doc
P2	PACE Monthly Benefit Premiums (2006 - 2011)	PACE benefit premiums.pdf
P3	PACE Executive Employment Agreement	PACE employee agreement.pdf
P4	PACE Executive Check Request Form for Reimbursement	PACE exec health program.pdf
P5	PACE Payroll Detail (2006 - 2010)	PACE payroll detail.pdf
P6	PACE Recommended Peer Group	PACE peer group.pdf
P7	PACE Policies - Vacation/Benefit Approval/Sick Time to 401(k)/Exec Health/T&B Expense	PACE policies.pdf
P8	PACE Reimbursed Expenses (2008 - 2010)	PACE reimbursed expenses.pdf
P9	PACE RTA Pension Plan Payment Info	PACE retirement benefit payment.pdf
P10	PACE Benchmarking Comparable Companies	Pace Comparators - 111611.xlsx
P11	PACE Testing - Salary Levels, Adjustments, Payouts, Performance Criteria	PACE Test 1.xlsx
P12	Pace Testing - PTO, Sick, Vacation Accruals	PACE_Testing_5.1.xlsx
P13	PACE Employee PTO Accruals	PACE PTO Accruals.pdf
P14	Pace Executive Salary List	Pace Current Salaries.pdf
P15	PACE Salary Ranges (2006 - 2010)	PACE salary ranges.pdf
P16	RTA-Metra-Pace 401 (K) Metra, Pace, RTA 1999 Summary Plan Description	401 (K) Metra, Pace, RTA 1999.pdf
P17	RTA-Metra-Pace 401 (K) Metra, Pace, RTA 2007 Summary Plan Description	401 (K) Metra, Pace, RTA 2007.pdf
P18	RTA-Metra Health Care Plan 2007	RTA-Metra Health Care Plan 2007.pdf
P19	RTA-Metra-Pace Deferred Compensation Plan	RTA-Metra-Pace 457.pdf
P20	RTA-Metra-Pace Benefit Plan Design Changes	RTA-Metra-Pace Health Plan - Misc.pdf
P21	RTA-Metra-Pace Pension Plan 2003	RTA-Metra-Pace Pension Plan 2003.pdf
P22	RTA-Metra-Pace Pension Plan 2007	RTA-Metra-Pace Pension Plan 2007.pdf
P23	RTA PACE CTA Comparable Company Documentation	Comp Breakdown for Report.xlsx
P24	RTA-Metra-Pace Testing - Travel & Entertainment	TEST 4.1 All Agencies.xlsx
P25	RTA-Metra-Pace Cumulative Testing Notes/Comments	Testing Notes.docx



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