
Office of Inspector General

Audit Report

INADEQUATE PLANNING, LIMITED REVENUE, AND RISING COSTS UNDERMINE EFFORTS TO SUSTAIN WASHINGTON, DC'S UNION STATION

Federal Railroad Administration

Report Number: FI-2014-033

Date Issued: April, 1, 2014





Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION**: Inadequate Planning, Limited Revenue,
and Rising Costs Undermine Efforts To Sustain
Washington, DC's Union Station
Federal Railroad Administration
Report No. FI-2014-033

Date: April 1, 2014

From: Calvin L. Scovel III
Inspector General

Reply to
Attn. of: JA-20

To: The Secretary
Federal Railroad Administrator

Union Station is Washington, DC's main multimodal transportation hub as well as a commercial retail center. Each year, it serves millions of rail passengers, transit riders, residents, and tourists. The Station is a Federal heritage asset,¹ owned by the Federal Railroad Administration (FRA). In 1983, the Department of Transportation (DOT) created the Union Station Redevelopment Corporation (USRC) to manage and oversee Union Station's operations. Presently, Union Station is undergoing repairs, major interior renovations, and other significant changes to improve access to trains, Metrorail, and buses. These high-dollar investments warrant increased oversight to avoid cost overruns, wasted funds, and damage to Union Station's historical and functional value.

The Ranking Member of the U.S. House Committee on Transportation and Infrastructure and former Ranking Member of its Subcommittee on Economic Development, Public Buildings, and Emergency Management requested that we assess the oversight of Union Station's development, operations, and maintenance. Accordingly, we (1) examined Union Station's oversight structure, (2) evaluated USRC's current and future plans for Union Station, and (3) assessed USRC's reserve funding and Union Station's revenue and debt challenges.

To conduct this audit, we reviewed applicable legislation and documentation, including USRC Board meeting minutes, and interviewed DOT and USRC

¹ Federal heritage assets are owned by the Federal Government, but not used by the Federal Government in its operations, and typically have historic, artistic, or significant architectural characteristics.

personnel. We conducted this audit from April 2012 through November 2013 in accordance with generally accepted Government auditing standards. See Exhibit A for more detail on our scope and methodology.

We also conducted a quality control review of USRC's 2011 financial statement audit to determine if the audit was performed in accordance with applicable standards. The results of this review were issued in a separate report.²

RESULTS IN BRIEF

As required by the Union Station Redevelopment Act,³ DOT limited the Federal role in managing Union Station by assigning this responsibility to USRC. When DOT created USRC in 1983 as a separate not-for-profit corporation, two of the five seats on USRC's Board of Directors were assigned to the Department, giving DOT a 40-percent presence on the Board. In October 1985, FRA leased Union Station to USRC with extended lease options totaling 99 years, all of which were exercised. As required by the lease, USRC subleased most of the Station to a real estate developer, and in early 2007, with Board approval, the sublease was assumed by another real estate investment company. Because the lease and sublease are in effect until 2084, DOT's oversight of Union Station and its authority over USRC will be limited for another 7 decades. While FRA retains authority for adopting and enforcing building and safety codes, this authority has not been effectively executed, raising concerns about potential lapses in safety oversight.

DOT and FRA have relied on USRC to effectively manage Union Station. However, USRC has not adequately planned for Union Station's future. Notably, USRC's master plan⁴ for the Station, last issued in 2010, has not been updated to identify funding sources for key projects or plans of other stakeholders, such as Amtrak.⁵ USRC is in the process of hiring a contractor to update its master plan in coordination with Amtrak and other stakeholders. In the meantime, USRC cannot effectively coordinate with stakeholders or make meaningful progress in improving the Station's utility as a transportation hub. In addition, USRC has not conducted a thorough study to project the remaining useful life of the Station's critical systems—including mechanical, electrical, and plumbing systems—and the cost to maintain and replace them over time. Until this study is completed,

² *Quality Control Report of Audited Financial Statements for Fiscal Years 2011 and 2010 Union Station Redevelopment Corporation*, OIG-QC-2013-100, June 20, 2013. OIG reports and testimony can be found on our Web site at www.dot.oig.gov.

³ Public Law 97-125

⁴ A master plan, which should be comprehensive in nature, contains ongoing and planning projects, interactions and coordination with related or affected parties, current and future funding requirements, and project timeframes.

⁵ The National Railroad Passenger Corporation (Amtrak), created pursuant to the Rail Passenger Service Act of 1970 (Public Law 91-518) to provide intercity passenger train service throughout the U.S., receives billions of dollars for capital and operating expenses from FRA.

USRC will be challenged to identify, prioritize, and plan for costs related to improvements, repairs, and maintenance.

Union Station's capital maintenance reserve fund is at risk of depletion and faces a potential shortfall of more than \$5 million by September 30, 2014. However, the actual extent of the shortfall cannot be accurately estimated because the condition of various building components is unknown. In addition, a 2007 amendment to USRC's 1985 sublease with the station developer limited USRC's revenues from Union Station's retail operations, which had decreased since 2000. Further, the leasehold sale in 2007 resulted in USRC incurring unforeseen tax liabilities, including \$3.8 million in back taxes to the DC Government. Capital reserve funding shortages, debt, new costs and limited revenues hinder USRC's ability to maintain and preserve Union Station.

We made five recommendations to improve the management and oversight of Union Station.

BACKGROUND

Union Station is served by Amtrak, commuter rail, Metro (the Washington metropolitan area's transit system), and charter and intercity buses. As a major tourist attraction, retail destination, and transportation hub, the Station is visited by over 30 million people annually. It is also listed on the National Register of Historic Places.

Since its opening, Union Station has undergone several transfers of ownership, renovations, and expansions.

- **1908: *Union Station opens as a railroad terminal.*** The Washington Terminal Company⁶ (WTC) built the Station and was its first owner. The Station reached its peak operations during World War II, after which its revenues and physical condition deteriorated as train travel declined.
- **1968: *Congress passes the National Visitor Center Facilities Act of 1968.***⁷ The act required the Department of the Interior (DOI) to enter into agreements and leases with the Station's owner for its use as a national visitor center. Subsequent to the act, WTC conveyed the Station's ownership to the Terminal Realty Baltimore and Terminal Realty Penn Companies,⁸ which leased Union Station to DOI for \$3.3 million annually.

⁶ A private corporation owned by The Baltimore and Ohio Rail Road Company and The Philadelphia, Baltimore and Washington Railroad Company.

⁷ Public Law 90-264

⁸ Two companies also owned by The Baltimore and Ohio Rail Road Company and The Philadelphia, Baltimore and Washington Railroad Company.

- **1976-1978: *The National Visitor Center opens and closes.*** On July 4, 1976, DOI opened the National Visitor Center. In April 1977, the Government Accountability Office (GAO)⁹ noted that the National Visitor Center was incomplete and that Union Station had serious structural defects.¹⁰ In addition, the center failed to generate much public interest and revenue, and in 1978, DOI closed the center.
- **1981: *Congress passes the Union Station Redevelopment Act.***¹¹ The act authorized DOI to transfer its rights and interest in Union Station to DOT, and gave the Secretary of Transportation responsibility for the Station's restoration and renovation as a multiple use transportation terminal and commercial complex. However, the act provided DOT with a goal of withdrawing the Federal Government from any active role in the operation and management of the Union Station complex as soon as practical. The act further required that this be accomplished in a manner consistent with three additional goals: (1) preserve the exterior façade and other historically and architecturally significant features; (2) restore and operate a portion of the Station as a rail passenger station, together with holding facilities for charter, transit, and intercity buses in the complex; and (3) develop a commercial complex that will, to the extent possible, financially support the complex's continued operation and maintenance.
- **1983: *DOT creates USRC to oversee restoration and redevelopment.*** USRC is a not-for-profit incorporated in Washington, DC, run by its president and a small supporting staff. DOT created USRC for the purpose of overseeing the Station's multi-million dollar restoration and redevelopment to transform it into a modern transportation hub as well as a shopping and tourist destination. Certain USRC actions and decisions require approval by USRC's Board of Directors. The Secretary of Transportation or his designee chairs the Board, and the FRA Administrator or his designee is a Board member. The other Board members are the President of Amtrak (Vice Chair), the Mayor of the District of Columbia, and the President of the Federal City Council, or their designees.¹²

⁹ At the time, GAO was the General Accounting Office.

¹⁰ General Accounting Office, *The Status and Problems in Constructing the National Visitor Center* (PSAD-77-93), April 4, 1977

¹¹ Public Law 97-125

¹² The Federal City Council is a body of business leaders created in 1954 for the purpose of enhancing and expediting improvements in Washington DC. It is not a government entity.

- **1985:** *FRA leases¹³ Union Station to USRC, and under the terms of the lease, Union Station is subleased to a real estate developer for 29 years, with options to extend the lease up to five 14-year terms.*
- **1987:** *Major restoration is completed at a cost of approximately \$200 million and FRA purchases Union Station from the Terminal Realty Baltimore and Terminal Realty Penn Companies for \$10 million.*
- **2006:** *The Federal Government sells the air rights above Union Station's tracks and platforms to Akridge, a locally based commercial real estate firm, for \$10 million.¹⁴ Akridge plans to build Burnham Place, a 3 million square foot mixed-use development, above the Station's rail yard.*
- **2009:** *Members of the House Transportation and Infrastructure Committee call for expanding and improving the Union Station complex, and enhancing the facility as a major evacuation center in the event of an emergency.¹⁵*

Union Station is currently undergoing repairs, major interior renovations, and other significant changes to improve access to trains, Metro, and buses. In addition to the planned construction of Burnham Place, changes include the renovation of Columbus Circle outside the Station, and repairs to correct damage caused by the August 2011 earthquake that occurred on the East Coast.

FEDERAL LAW AND PAST AGREEMENTS LIMIT DOT'S ABILITY TO OVERSEE THE STATION

As mandated by the Union Station Redevelopment Act, DOT limited the Federal role in managing Union Station by assigning this authority to USRC. While FRA retains authority for establishing and enforcing building and safety codes, this authority has not been effectively executed, raising concerns about potential lapses in safety oversight.

¹³ At the time, FRA, on behalf of the Secretary, controlled Union Station under a lease assigned by the Department of the Interior. Although the agreement between DOT and USRC is technically a sublease, we refer to it as a lease to distinguish this agreement from the sublease with the commercial operators.

¹⁴ The General Services Administration sold the air rights.

¹⁵ "The Congressional Vision for a 21st Century Union Station: New Intermodal Uses and a New Union Station Livable Community," Hearing Before the Subcommittee on Economic Development, Public Buildings, and Emergency Management of the Committee on Transportation and Infrastructure, House of Representatives, July 22, 2009.

Past Agreements Have Limited DOT's Authority over Union Station

The Union Station Redevelopment Act of 1981 called for DOT to rehabilitate and redevelop the Union Station complex and to limit—as soon as practical—the Federal Government's role in the Station's management and operation. To accomplish this, DOT created USRC in 1983 as a not-for-profit under DC law, and in 1985, FRA leased Union Station to USRC with options to extend the lease for 99 years. As part of this lease, FRA delegated its authority for managing, developing, restoring, and overseeing Union Station—as well as protecting the Federal Government's interest in the complex—to USRC. In effect, DOT and FRA placed a Federal building under the control of a private entity.

USRC subleased the Station to Union Station Venture (USV) with extended lease options for 99 years to develop and manage retail and office space. In early 2007, USV sold its leasehold interest to Union Station Investco (USI) for \$160 million. USI also exercised all options to extend the sublease, locking in its relationship with USRC through 2084.

A Board of Directors oversees USRC and sets policies, holds quarterly meetings, and votes on proposed actions to ensure USRC makes sound decisions. Of the five seats on this Board, two (40 percent) are held by the Department and three (60 percent) are held by non-Federal members. While the arrangement between DOT, FRA, USRC, and the Board meets the intent of the act to withdraw the Federal Government from any active role in the operation and management of the Union Station complex, it greatly limits DOT's authority over USRC and its ability to oversee and control decisions on how Union Station is managed, financed, and maintained for years to come. Ultimately, USRC and USI, not DOT, provide direct oversight for Union Station's development and operations. Specifically, USRC oversees the restoration and renovation of the Station's historical features, day-to-day operations, and maintenance; and USI oversees the retail and office space, as well as the construction and installation of tenant improvements.

FRA's Role in Adopting and Enforcing Building and Safety Codes Is Not Well Defined

Standard building operation practices call for identifying an office or individuals that will serve as the authority having jurisdiction (AHJ),¹⁶ the extent of the AHJ's authority, and the process for evaluating compliance with and enforcing building and safety codes. Union Station has been operating without a clearly defined AHJ for adopting and enforcing building and safety codes after completion of the initial redevelopment in 1988.

¹⁶ Officials with AHJ authority typically are responsible for public safety related to buildings and structures.

The lack of clarity around Union Station's AHJ became apparent after the August 2011 earthquake, which caused pieces of the plaster ceiling in the main hall and concourse to fall. USRC, FRA, and the insurance company each contracted for engineering studies of the ceiling and the structural supports that keep the ceiling in place. Assessments and repairs of the damage to the ceiling are ongoing. However, during the course of our audit we determined that a more comprehensive structural analysis, as is recommended by the National Institute of Standards and Technology,¹⁷ was not requested, raising concerns about the Station's safety and who bears responsibility for establishing and enforcing building safety codes.

In June 2012, FRA affirmed that it is Union Station's AHJ. However, FRA has yet to clarify and communicate the extent of its AHJ authority, or to designate individuals or offices within FRA to assume responsibility for AHJ tasks. FRA has not informed Union Station stakeholders, including USRC, about all building and safety code requirements that might apply to the Station. Given the extent of the damage and the number of people who visit the Station each day—estimated at 90,000—this lapse in oversight raises substantial concerns about the current and future safety of the complex and its development, especially in light of plans calling for Union Station to be a future evacuation center.

USRC HAS NOT ADEQUATELY PLANNED FOR UNION STATION'S FUTURE

USRC's master plan for expanding and improving Union Station is out of date. Notably, it does not consider the potential effects of Amtrak's master plan, including the expected loss of Union Station's largest source of income if the parking garage is demolished in order to expand station platforms and tracks. In addition, USRC has not conducted a thorough reserve study to estimate major rehabilitation costs or performed a comprehensive assessment of the impact of the 2011 earthquake on Union Station.

Union Station's Master Plan Is Out of Date

Effectively managing Union Station—which involves controlling diverse funding streams; setting priorities; and coordinating with the Federal Government, the DC Government, and other stakeholders—requires a sound master plan. During a July 2009 hearing, the House Transportation and Infrastructure Committee's Subcommittee on Economic Development, Public Buildings, and Emergency Management asked USRC to update its master plan to include expanding and improving the Union Station complex, and enhance the facility as a major

¹⁷ National Institute of Standards and Technology's *Standards of Seismic Safety for Existing Federally Owned and Leased Buildings*, NIST GCR 11-917-12, December 2011.

evacuation center. In response, USRC issued its updated master plan in 2010. However, the plan does not address critical changes to the facility such as those included in Amtrak's master plan, issued on July 25, 2012. For example, USRC's master plan currently does not identify or address:

- The potential replacement of Union Station's parking garage—the largest source of the Station's income—which Amtrak's master plan calls for demolishing in order to expand station platforms and track.
- Eleven projects that were on hold pending the issuance of Amtrak's master plan, including construction of a connector road for evacuating the U.S. Capitol complex.
- Funding sources for three of nine projects that USRC leads, including \$28 million in improvements to safety and security and development of anti-terrorism measures.

According to the Government Finance Officers Association,¹⁸ master plans should be supported by realistic planning documents and solid financial policies to implement goals. USRC's master plan also depends on other stakeholders' plans that have projects with unknowns such as funding issues that may require congressional approval. For example, Amtrak's master plan for Union Station calls for an investment of approximately \$7 billion, and since Amtrak depends heavily on Federal support, it is anticipated that Federal funding would be needed before Amtrak can move forward with its plan.

In April 2012, USRC issued a request for proposal to hire a consultant to update its master plan, but later recalled it to address Amtrak's new master plan. Currently, the Board and FRA are evaluating what steps to take in the master planning process. The lack of a complete, up-to-date master plan for Union Station could lead to increased inefficiencies, unnecessary spending, and the indefinite postponement of projects.

USRC Has Not Conducted a Thorough Reserve Study to Estimate Capital Maintenance Costs

USRC has not conducted an in-depth evaluation of Union Station's physical systems and an analysis of its reserve funds to identify the expected costs of building maintenance activities and estimate the amount of reserve funds needed to conduct future maintenance and replacements.¹⁹ Based on thorough on-site

¹⁸ Professional association of approximately 17,500 State, provincial, and local government finance officers in the United States and Canada.

¹⁹ As a Federal heritage asset and unlike other buildings with more limited useful lives, Union Station, with its beaux arts architecture and other historical features, is expected to be preserved indefinitely.

inspections, a reserve study details anticipated replacements or repairs to common-area elements and recommends annual reserve funding to cover capital expenditures for an extended period of time. For example, a reserve study would assess the useful life of the mechanical, electrical, and plumbing systems; estimate the cost to maintain these systems and replace them at the end of their useful life; and describe funding needs for these activities. A well-prepared reserve study can avert special assessments and assure managers, board members, and property owners that future major property expenses are identified early and that a funding plan is in place to pay for those expenses.

The absence of planned reserves may result in USRC not having funds available as systems require replacement. The lack of funds would in turn delay replacing obsolete systems, decrease Union Station's utility, and contribute to the deterioration of its historic features.

The Lack of an Up-to-Date Building Evaluation for Union Station Hinders Planning for Needed Repairs

The latest building assessment report on Union Station, issued in September 2011, presented the results of pre-earthquake inspections that focused on the Station's existing mechanical, electrical, and plumbing systems. The report documented safety concerns that required immediate attention, including exposed electrical wiring and insufficient smoke detectors and fire sprinklers. Following the earthquake, initial studies were conducted to assess the extent of the damage to the ceiling. During the course of our audit, FRA requested that USRC perform an in-depth structural analysis of the Station, which is ongoing.

USRC has not fully differentiated earthquake-related damages from age-related or pre-existing damages, as USRC might need to cover repair costs not related to the earthquake. Until this study is complete, there is the potential for further safety risks at Union Station.

FINANCIAL CHALLENGES AND A DWINDLING CAPITAL MAINTENANCE RESERVE FUND COMPOUND USRC'S ABILITY TO SUSTAIN UNION STATION

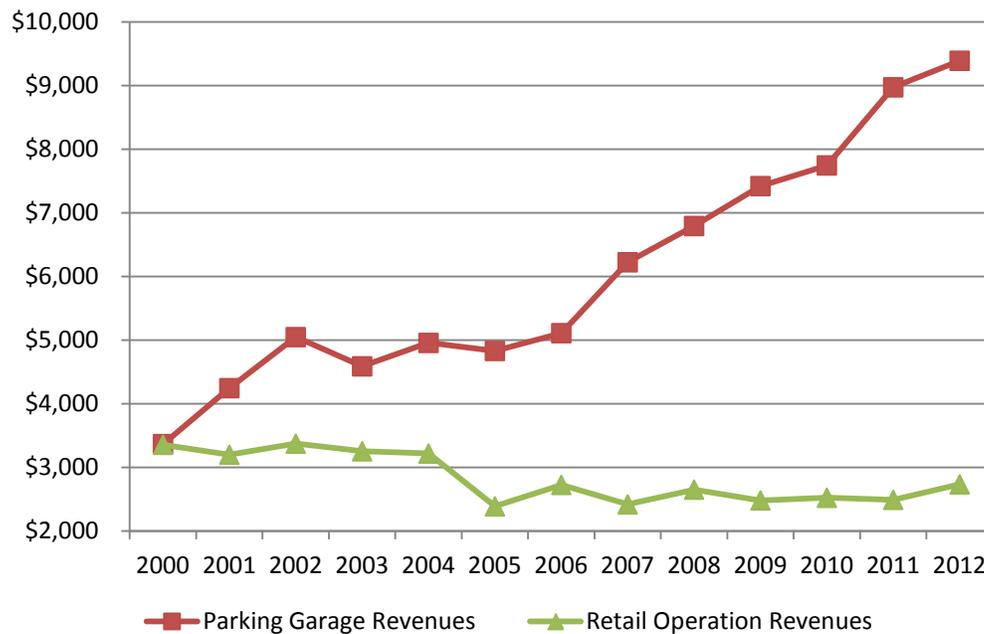
Limited revenues coupled with debt and escalating and unforeseen costs have created significant financial challenges for USRC in Union Station's development, operations, and maintenance. At the same time, Union Station's capital maintenance reserve fund (CMRF) is at risk of depletion and faces a potential shortfall of more than \$5 million in fiscal year 2014.

Union Station’s Revenues Are Insufficient and at Risk

While Union Station is primarily a multiple-use transportation terminal and secondarily a commercial complex, the Union Station Redevelopment Act intended the commercial operations to provide most, if not all, of the funding needed to support Union Station operations. However, revenues from parking garage and lease operations—Union Station’s two main revenue sources—may not be sufficient to sustain USRC or the Union Station complex. Union Station’s revenues are used to cover USRC’s operating costs, repay loans, and to pay for station repairs and maintenance.

While revenues from garage operations have increased, revenues from commercial operations have decreased over the past few years. Specifically, between fiscal years 2000 and 2012, parking revenues increased from \$3.4 million to \$9.4 million, while commercial operations revenues decreased from \$3.4 million to \$2.7 million (see Figure 1).

Figure 1. Parking and Retail Revenues for Fiscal Years 2000 Through 2012, in thousands of dollars



For the foreseeable future, retail operation revenues will only increase marginally—generally between 2 and 2.5 percent annually—due to an amendment to the sublease between USRC and the retail developer of commercial operations, which the Board of Directors approved. This lease establishes a pre-determined payment schedule for the developer through 2084. By approving the schedule

through 2084, USRC drastically reduced its ability to negotiate more favorable terms.

Debt and Costs Further Erode Station Resources

Debt along with escalating and unforeseen costs have created financial challenges for USRC. For example:

- In July 2005, USRC borrowed approximately \$38 million to expand the Station's parking facilities. In June 2011, USRC refinanced the debt into a term note, which includes an interest rate swap,²⁰ and loan agreement that matures in June 2021. To secure the loan, USRC offered the bank the parking garage operators' contract as collateral. The loan also requires USRC to maintain certain unrestricted cash levels. The outstanding debt and annual payments are significant, and a substantial amount will be due when the agreement matures. Specifically, as of September 30, 2013, USRC will owe more than \$28 million on the loan and will be making annual payments of approximately \$1.9 million. At the agreement's maturity, approximately \$21.5 million will still be due.
- To help alleviate the overcrowding of buses in the Union Station parking garage and allow for expanded use by intercity bus carriers, USRC invested approximately \$2.5 million in a property owned by the District of Columbia to develop off-site parking for intercity buses that are between runs. However, ongoing litigations and legal injunctions against USRC and the District of Columbia concerning environmental impact have delayed opening the lot and could require USRC to permanently close the facility before it opens.
- In 2007, at the time of the lease transfer between USV and USI, the D.C. Government reevaluated the leasehold interest for the purpose of assessing an annual possessory interest tax.²¹ As a result, USRC had to pay \$3.8 million in back taxes and will have to pay approximately \$400,000 annually in future taxes. USRC and its legal advisors were unaware that USRC may be responsible for the tax.
- As of July 2013, USRC estimated that total repair costs for damages caused by the August 2011 earthquake are \$16.5 million and earthquake repairs are scheduled to continue into fiscal year 2016. As of August 2013, USI's insurer

²⁰ An interest rate swap is a contract between two entities where they agree to exchange, at specified intervals, the difference between fixed contract rates and floating rate amounts calculated by reference to agreed principal amounts. Entities enter these agreements, which are considered derivative financial instruments, to hedge interest rate risk.

²¹ D.C. Government imposes possessory interest tax on property lessees who operate a business on land owned by government entities, including the Federal Government, which are exempt from real property tax. D.C. Government enacted possessory interest tax, which is determined in a manner similar to the real property tax imposed on private property owners, in 2000 to place businesses operating on exempt land on par with taxable private property owners.

had advanced \$6 million for repairs, and discussions about repair cost coverage were ongoing.

These unforeseen costs further diminish USRC's resources and risk the sustainability of Union Station.

USRC's Maintenance Reserve Fund Faces a Potential Shortfall of More than \$5 Million in Fiscal Year 2014

Per their agreement, USRC and USI make equal monthly contributions to CMRF, which pays for repairs to the Station's plumbing, electrical, and other systems, as well as minor improvements to the Station. For fiscal year 2013, the monthly contributions are approximately \$53,000 from each party. The agreement also established an inflation-adjusted ceiling for the fund, and any expenditures made in excess of the fund balance become USRC's responsibility. As of December 31, 2012, the fund ceiling was approximately \$8.5 million.

At the conclusion of the last financial statement audit—for the period ending September 30, 2012—the CMRF balance was \$3.2 million. Based on current projections (see Table 1), the CMRF will have a \$5.4 million shortfall by September 30, 2014. Further, by the end of fiscal year 2017, USRC expects to have a cumulative shortfall of \$16.2 million, which it will have to cover.

Table 1. Projected Capital Maintenance Reserve Fund Status in thousands of dollars

	Fiscal Year				
	2013	2014	2015	2016	2017
Beginning Balance & Cash Inflows					
Beginning Balance	3,248	1,996	(5,356)	(10,791)	(15,171)
Annual Contributions	1,396	1,424	1,453	1,482	1,512
Funds Available	4,644	3,420	(3,903)	(9,309)	(13,659)
Cash Outflows					
Anticipated Expenses	2,648	8,776	6,888	5,862	2,538
Balance/Shortfall	1,996	(5,356)	(10,791)	(15,171)	(16,197)

Source: USRC.

To cover these and other costs—including its loan repayment for the garage expansion—USRC will have to dip into its cash balance. However, USRC's cash balance decreased from approximately \$27.3 million at the beginning of fiscal year 2013 to \$20.2 million at the end of fiscal year 2013. Without a higher fund

ceiling and increased contributions to CMRF, USRC may be forced to prioritize maintenance activities and defer certain repairs until funds become available.

CONCLUSION

Achieving Congress' vision for Union Station requires careful planning, close oversight, and adequate funding. However, current financial projections in light of known debt, emerging costs, and limited available funding raise concerns about USRC's ability to ensure Union Station remains a vital multi-modal transportation hub and tourist destination, as well as a profitable commercial complex. Until the Secretary and FRA take action to address planning and funding issues, Union Station remains at risk of falling into a state of disrepair that in the past led to the Station's closure and the need for costly renovation.

RECOMMENDATIONS

We recommend that the Secretary and the Federal Railroad Administrator, or their designees, as Chair and member of the Union Station Redevelopment Corporation Board of Directors pursue actions to:

1. Complete a thorough reserve study for Union Station.
2. Update Union Station Redevelopment Corporation's Union Station Master Plan to include coordination with Amtrak, Akridge, and other related stakeholders.
3. Evaluate all possibilities to maximize revenues from
 - a. Union Station Redevelopment Corporation's leases and garage operations, and
 - b. other funding opportunities, including grants, which could be used to fund Union Station's needed repairs, upgrades, and improvements to prevent the facility's deterioration and enhance Union Station's role as a multimodal transportation hub.

We also recommend that the Federal Railroad Administrator:

4. Define and communicate the extent of FRA's authority in the AHJ role to the appropriate parties; designate individuals or offices within FRA to assume responsibility for AHJ tasks; and oversee compliance with building and safety codes, and their process for reviewing and enforcing building code and safety issues that may arise.
5. As AHJ, direct USRC to

- a. conduct a building assessment to identify and quantify deficiencies on nonstructural components, and
- b. perform a full structural analysis on the building's structural components.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided the Secretary and FRA with our draft report on November 14, 2013, and received FRA's comments on February 10, 2014, which are included in their entirety as an appendix to this report. FRA concurred with recommendations 2 and 4 and provided responsive planned actions and reasonable implementation timeframes. FRA generally concurred with the remaining recommendations, but we are requesting additional clarification on its planned actions.

In response to recommendation 1—that DOT pursue actions to complete a thorough reserve study for Union Station—FRA stated that it has requested that the March 2014 Board of Directors meeting agenda include a discussion of the reserve study, and noted that the Corporation projects its cash balance will approach \$41 million by the close of fiscal year 2018. Based on this pending action, FRA asked that OIG close this recommendation. With an outstanding debt of more than \$28 million on USRC's garage loan—and a looming payment of approximately \$21.5 million to close out the loan in 2021—as well as CMRF's projected shortfalls through fiscal year 2017, we believe it is important that USRC complete a thorough reserve study. As stated in our report, the absence of planned reserves may result in USRC not having funds available when systems require replacement. As a result, we consider this recommendation to be unresolved until FRA or USRC agrees to conduct a reserve study, and provides the study's scope and a date when they anticipate it will be completed.

In its response to recommendation 3—that the USRC Board of Directors pursue actions to maximize revenues and explore other opportunities to fund Union Station's current and future needs—FRA stated that the Corporation has already identified several sources for additional funding and provided examples of grants and gifts recently obtained. FRA also indicated that the agenda for the spring 2014 Board of Directors meeting will include further discussion on revenue and funding opportunities and, therefore, requested that we close this recommendation. We commend FRA and the Board of Directors on their efforts to explore other funding opportunities; however, FRA did not provide sufficient information in its response to demonstrate that it had completed actions to fully address our recommendation. We request that FRA provide additional information on its strategy and ongoing plans to identify and pursue additional revenue streams. As stated in our report, revenues from parking garage and lease operations are limited and may not be

sufficient in the long term to sustain USRC or the Union Station Complex. Therefore, the recommendation remains open, pending receipt of additional information.

In its response to recommendation 5—that FRA as the AHJ direct USRC to conduct a building assessment and perform a full structural analysis on the building’s structural components—FRA agreed that building assessments and structural analyses are important, but stated that directing USRC to conduct a building assessment or full structural analysis are Board responsibilities, not FRA’s as the AHJ. In our opinion, since FRA has not clarified its AHJ role, it remains unclear who is responsible for ensuring building assessments and structural analyses are performed. FRA also indicated that USRC completed a revised building assessment in November 2013, and that it would conduct a peer review of the Corporation’s planned 2015 seismic assessment to determine if additional structural analyses were needed. Therefore, FRA asked us to close the first part of recommendation 5. While the actions proposed or taken meet the intent of this recommendation, we are keeping this recommendation open pending our review of USRC’s completed building assessment, and FRA documentation showing its conclusions on the adequacy of USRC’s seismic assessments and the need for any additional structural analyses.

ACTIONS REQUIRED

FRA’s planned actions for recommendations 2, 4, and 5 are responsive and we consider these recommendations resolved but open pending completion of planned actions. In accordance with DOT Order 8000.1C, we request that FRA provide additional clarifying information for recommendations 1 and 3, and provide their response within 30 days of this report.

We appreciate the courtesies and cooperation of the Office of the Secretary of Transportation, Federal Railroad Administration, and USRC and its representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1959; or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427.

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cc: DOT Audit Liaison, M-1
FRA Audit Liaison, RAD-41

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this congressionally requested performance audit from April 2012 through November 2013 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to (1) examine Union Station's oversight structure, (2) evaluate USRC's current and future plans for Union Station, and (3) assess USRC's reserve funding and Union Station's revenue and debt challenges.

To address our first objective we requested USRC's policies and procedures related to the operations, maintenance, and development of Union Station and its parking garage. We conducted an assessment to ascertain whether USRC's policies and procedures were adequate to effectively manage and monitor activities that fall within its responsibilities, such as managing the developer lease with Union Station Investco, LLC (USI) and the parking garage operations agreement with Union Station Parking Garage, LLC (USPG). We also reviewed the policies and procedures to determine how USRC monitors project and improvement activities occurring at the Station.

We interviewed USRC's management to obtain an understanding of USRC and its operations, including the possessory interest tax dispute between the D.C. Government and USRC and USI. We also interviewed FRA officials to identify FRA's level of involvement with USRC and its oversight of Union Station.

Additionally, we attended USRC's Board of Directors' meetings to obtain an understanding of issues affecting USRC and Union Station, and to determine the level of oversight the Board exercises over USRC. We reviewed USRC's master plan to identify the status, ownership, and costs of Union Station's current and planned projects. In addition, we reviewed Amtrak's master plan to determine how it impacts USRC and Union Station.

To assess potential safety concerns, we reviewed and evaluated various reports from FRA, USRC, and USI's consultants to identify activities conducted that were related to the August 2011 earthquake and applicable code requirements. We also reviewed applicable building codes and standards, and information from the General Services Administration related to roles and responsibilities of authorities having jurisdictions over Federal buildings. We performed site visits to observe the condition of Union Station and its parking garage.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Louis C. King	Assistant Inspector General for Financial and Information Technology Audits
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APPENDIX. AGENCY COMMENTS



U.S. Department
of Transportation

Federal Railroad Administration

MEMORANDUM

INFORMATION: Management Response to
Subject: Office of Inspector General Draft Report
on Washington, DC's Union Station

Date: February 10, 2014

From: Joseph Szabo 
Federal Railroad Administrator

To: Louis King
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
the Attn of: ROA-03

Thirty years ago, the Department of Transportation (DOT), on behalf of the Federal government, started an unprecedented public private partnership that transformed Washington, D.C.'s Union Station (the Station) into an important multimodal transportation facility, lively commercial area, and unique historic treasure. As the southern end of the Northeast Corridor, the Station is one of Amtrak's busiest, serving millions of riders every year. The Station is also Washington Metro's highest volume rail transit stop and an important hub for intercity and local buses. Merchants have transformed the Station into a regional and neighborhood retail center in an area with few nearby alternatives. Every year, hundreds of thousands of U.S. and foreign visitors marvel at the Station's dramatic Main Hall and historic features. The Federal Railroad Administration's (FRA) stewardship and the Union Station Redevelopment Corporation's (the Corporation) leadership and oversight enabled this success, consistent with the statutory objective that the Federal government should withdraw from any "active role in the operation and management of the Union Station complex..."¹

The powerful 2011 earthquake that shook the Station's physical, management, and oversight infrastructure started a new growth and improvement era. New Corporation leadership and staff, with FRA and DOT oversight, are spearheading unprecedented building investments of Station-generated funds and pursuing the most comprehensive master planning effort in Station history. Stakeholder engagement will be a hallmark of the planning process. Moreover, the Station is gaining new functions, such serving as an emergency center in various disaster scenarios.

¹ *The Union Station Redevelopment Act*, Public Law 97-125.

The Office of Inspector General's (OIG) review began at a unique moment in the lifespan of the Station and finished with the Corporation embracing the challenges ahead. As DOT and FRA staff shared with OIG during this audit, we do not agree with all of OIG's characterizations in the report. However, we agree that OIG's recommendations will support the Corporation's activities now underway to ensure the Station's continuing success for decades to come. Thus, our comments at this stage focus on the recommendations.

Recommendations and Responses

Recommendation 1: "We recommend that the Secretary and the Federal Railroad Administrator, or their designees, as Chair and member of the Union Station Redevelopment Corporation Board of Directors, pursue actions to complete a thorough reserve study for Union Station."

Response: Concur – Each Board meeting includes discussion of Corporation financials, including projections about additional reserves available to the Corporation. About one-half of Station-generated revenue covers the Corporation's operating costs, loan repayments, Station repairs, and maintenance. Remaining revenue, about \$5 million per year, funds the Corporation's cash reserve account. By 2018, the account balance will approach \$41 million after completion of earthquake and building repair investments, according to Corporation projections.

FRA requested that the agenda for the Board's March 2014 meeting include discussion of the reserve study as well as the financials. Therefore, we request that OIG close this recommendation.

Recommendation 2: "We recommend that the Secretary and the Federal Railroad Administrator, or their designees, as Chair and member of the Union Station Redevelopment Corporation Board of Directors, pursue actions to update the Union Station Redevelopment Corporation's Union Station Master Plan to include coordination with Amtrak, Akridge, and other related stakeholders."

Response: Concur – With extensive master planning activities well underway, DOT and FRA expect the Corporation to complete the master plan update by the end of fiscal year 2015.

The Corporation recruited a new principle planner to guide this work and develop a consolidated capital projects program for all Station associated infrastructure, coordinate planning activities with Station stakeholders, and ensure that the Corporation maintains a well-qualified and effective team of internal and external resources to conduct analyses, assessments, and studies as needed. The Corporation

Appendix. Agency Comments

is now sponsoring master plan activities with Amtrak and Akridge. It signed contracts for essential related studies, including the existing conditions survey and the mechanical, electrical, and plumbing design study, and is pursuing additional procurements, such as the historic preservation plan and rail operations feasibility study.

Recommendation 3: “We recommend that the Secretary and the Federal Railroad Administrator, or their designees, as Chair and member of the Union Station Redevelopment Corporation Board of Directors, pursue actions to evaluate all possibilities to maximize revenues from Union Station Redevelopment Corporation’s leases and garage operations, and other funding opportunities, including grants, which could be used to fund Union Station’s needed repairs, upgrades, and improvements to prevent the facility’s deterioration and enhance Union Station’s role as a multimodal transportation hub.”

Response: Concur – The Corporation has already identified additional funding. For example, the D.C. Department of Transportation awarded the Corporation a \$354,000 Transportation Alternative Program grant to complete pedestrian walkway enhancements on the bus deck. In November 2013, American Express gave the Corporation \$350,000 to help re-gild the Main Hall ceiling that was damaged during the 2011 earthquake.

FRA requested that the agenda for the Board’s spring 2014 meeting include further discussion of revenue and funding opportunities. Therefore, we request that OIG close this recommendation.

Recommendation 4: “We also recommend that the Federal Railroad Administrator define and communicate the extent of FRA’s authority in the AHJ role to the appropriate parties; designate individuals or offices within FRA to assume responsibility for AHJ tasks; and oversee compliance with building and safety codes, and their process for reviewing and enforcing building code and safety issues that may arise.”

Response: Concur – The authority having jurisdiction (AHJ) role FRA exercises consists of identifying applicable building code provisions that govern construction at, and operation and maintenance of, the Station. The AHJ role also encompasses FRA performing the building inspection function that the local jurisdiction, in this case the District of Columbia, would otherwise exercise.

To clarify FRA’s AHJ role, the Administrator will issue, within 90 days of the date by which OIG resolves this recommendation, a memorandum that explains our authority, processes, and delegation.

Recommendation 5(a): “We also recommend that the Federal Railroad Administrator, as AHJ, direct USRC to conduct a building assessment to identify and quantify deficiencies on nonstructural components. 5(b): We also recommend that the Federal Railroad Administrator, as AHJ, direct USRC to perform a full structural analysis on the building’s structural components.”

Response: Concur in part – As building owner, FRA recognizes the importance of timely, comprehensive information about the facility’s components. The AHJ role does not properly extend to directing USRC to conduct a building assessment or full structural analysis, which are responsibilities that the Corporation’s Board should exercise.

In November 2013, the Corporation received the completed building systems assessment. The report, an update to the September 2011, initial report, identifies and quantifies deficiencies on nonstructural components, including mechanical, electrical, fire alarm and fire suppression, communications, plumbing, and exterior enclosure, among other systems. Therefore, we request that OIG close part (a) of this recommendation.

FRA, as AHJ, will peer review the Corporation’s upcoming seismic assessment and related recommendations of the entire historic station building and the link structure to the track areas. FRA will determine whether the seismic assessment complies with appropriate codes and standards and is sufficient to fulfill part (b) of this recommendation. If FRA determines that additional tasks are necessary to fulfill part (b), FRA will so advise OIG and develop a timeline and resources by which to complete the additional tasks. FRA expects the Corporation to complete the seismic assessment by the end of December 2015.

We appreciate this opportunity to offer additional perspective on the OIG draft report. We also appreciate the courtesies of the OIG staff in conducting this complex review. Please contact Rosalyn G. Millman, Planning and Performance Officer, at (202)384-6193, with any questions or requests for additional assistance.