

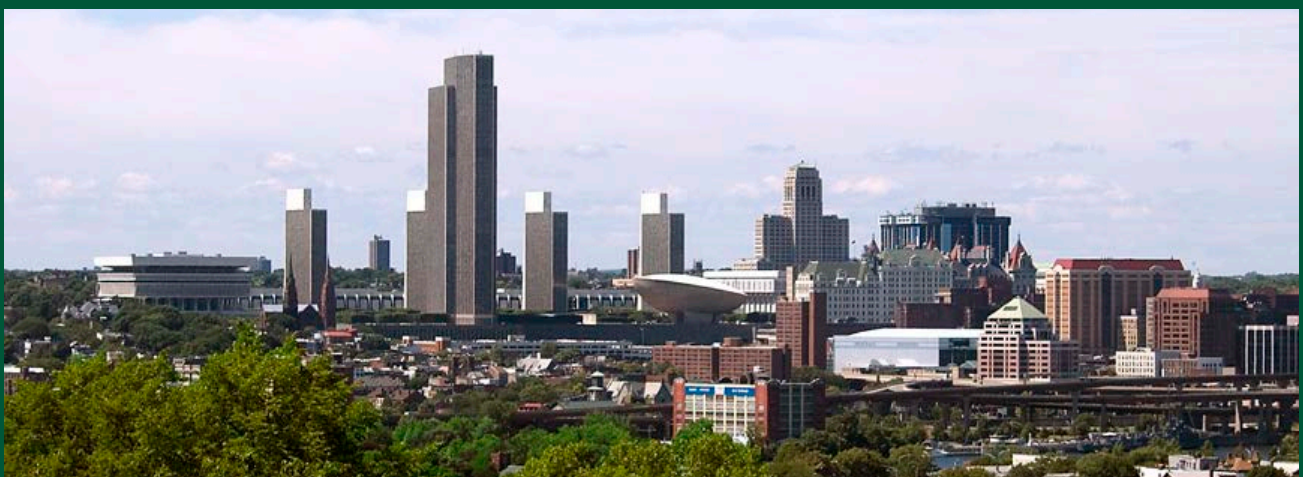


New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Effectiveness of Cost Containment Initiatives

New York State Thruway Authority



Report 2015-S-59

November 2016

Executive Summary

Purpose

To determine what cost containment initiatives the New York State Thruway Authority (Authority) has undertaken and how effective it has been in reducing overall costs. The audit covers the period January 1, 2012 through January 13, 2016.

Background

The Authority is responsible for overseeing and maintaining the Thruway, a 570-mile tolled highway system that includes eight major bridges and maintenance responsibility for 809 other bridges that carry local roads and State highways over and under the Thruway, as well as for operation of the State's 524-mile Canal System. Some segments of the Thruway and its bridges are over 60 years old and are nearing the last stages of their projected useful lives. In 2014, the Authority expended about \$1.1 billion (excluding costs for the New NY Bridge Project), including approximately \$711 million to support Thruway operations, \$281 million for its capital program, and \$66 million for New York State Canal Corporation (Canal Corporation) operations. Although the Authority's fiscal condition has shown some improvement in recent years, significant financial concerns still remain. For example, the Authority's use of debt increased and, as a result, its total liabilities rose nearly 80 percent, from \$3.5 billion in 2010 to \$6.4 billion in 2014.

Key Findings

- The Authority has implemented several cost reduction strategies, ranging from deferring capital repairs and improvements to increasing operational efficiencies and exploring new revenue opportunities. However, the Authority has not measured the total impact of its overall efforts. The extent of its measurement of savings is limited to payroll and benefit expenses, with estimated savings averaging about \$26 million per year between 2010 and 2014.
- As a result of its efforts, the Authority's operating revenues are presently sufficient to cover its day-to-day operating expenses. However, some sections of the Thruway and its bridges are over 60 years old and are at or nearing the end of their projected useful life span. Yet the Authority estimates that only about 10 percent of the roadway and 20 percent of the bridges have been replaced or reconstructed. The Authority estimates that the current cost to return the highway to its original condition would total about \$13 billion.
- Notwithstanding recent State appropriations and current plans to transfer responsibility for the Canal System to the New York State Power Authority, the Authority's current revenue structure will likely not be sufficient to cover its ongoing and future capital needs, particularly in light of the Thruway's age and the extent of deferred projects and maintenance. Currently, the Authority lacks a formal comprehensive long-term strategy to address these shortcomings.

Key Recommendation

- Develop and implement a long-term comprehensive strategic plan to address funding needs to pay for repairs to and/or replacement of components of the Authority's aging infrastructure.

Other Related Audits/Reports of Interest

[New York State Thruway Authority: Mission Statement and Performance Measures \(2013-S-9\)](#)

[New York State Thruway Authority: Status of the Board-Approved Capital Plan for 2005-2011 \(2008-S-48\)](#)

[New York State Thruway Authority: Proposed Toll Increases for July 2008 Through January 2010 \(2008-S-06\)](#)

**State of New York
Office of the State Comptroller**

Division of State Accountability

November 17, 2016

Ms. Joanne M. Mahoney
Chair
New York State Thruway Authority
200 Southern Boulevard
Albany, NY 12209

Dear Ms. Mahoney:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Effectiveness of Cost Containment Initiatives*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

The New York State Thruway Authority (Authority) is responsible for overseeing and maintaining the Thruway, a 570-mile tolled highway system that includes eight major bridges as well as maintenance responsibility for 809 other bridges that carry local roads and State highways over and under the Thruway. The first section of the Thruway opened in September 1951, and the final segment of the mainline from Buffalo to New York City opened in August 1956. Since 1992, the Authority, through its subsidiary public corporation, the New York State Canal Corporation (Canal Corporation), also has jurisdiction and control over the 524-mile Canal System. Portions of the Canal System opened as early as 1825. The Authority's mission is to offer a user-fee supported Highway and Canal System that delivers high levels of safety and service. The Authority's primary priority is safety.

In 2014, the Authority expended about \$1.1 billion, which included approximately \$711 million to support Thruway operations, \$281 million for its capital program, and \$66 million for Canal Corporation operations. Not included in these figures are the costs associated with the New NY Bridge Project, which the Authority began in 2013 to replace the Tappan Zee Bridge, its existing Hudson River crossing. At the time, the Authority estimated the project would cost about \$3.9 billion and be completed in 2018.

During parts of the past decade, the Authority's fiscal condition declined due to many factors, as noted in two reports, issued in May 2012, by two consultants hired by the Authority. The reports note that the Authority faced substantial challenges, which strained its ability to maintain its financial strength while funding the capital needs of the aging Thruway and Canal systems. Some of these challenges included the additional responsibilities for maintaining portions of Interstates 287 and 84 and the Canal System, beginning in the early 1990s. These additional responsibilities diverted some Authority resources from its original core functions. According to the reports, other factors contributed to its fiscal decline, including a deep and lengthy national and State recession, which reduced total Thruway traffic by more than 10 percent between 2005 and 2011, thus reducing toll revenue. Over the years, to make up for a growing and recurring revenue gap, the Authority has often opted to use short-term debt to fund its long-term financing needs.

In addition, our prior audit report entitled *Proposed Toll Increases for July 2008 Through January 2010* (issued in January 2008) identified several areas where the Authority could potentially increase revenues, such as collecting delinquent tolls and evaluating additional means of raising revenue through private sector advertising and sponsorships. The report also noted the Authority had not performed an analysis of areas where costs could be reduced, nor had it prioritized projects on future capital plans to identify non-essential projects that could be deferred. Our current audit focused on assessing the Authority's efforts to control its costs and increase revenues to improve its fiscal condition.

Subsequent to the aforementioned audit, the Authority took steps to improve its fiscal condition. For example, Authority management has generally held operating expenses to budgeted amounts. Additionally, from 2010 through 2014, the Authority's operating expenses (excluding

depreciation) decreased 8.5 percent, while its revenues increased 3.6 percent. However, significant financial concerns still remain. Specifically, the Authority's annual operating losses (after depreciation) have increased from \$126 million in 2010 to \$227 million in 2014. For the same period, the Authority's use of its prior year reserve balances (excluding the New NY Bridge Project) has increased significantly from \$9.7 million to \$86.6 million. In addition to using its reserves, the Authority's borrowing has increased and, as a result, its total liabilities have risen nearly 80 percent, from \$3.5 billion in 2010 to \$6.4 billion in 2014.

To continue to reduce its spending, for the 2015 modified budget, the Authority took a new approach. In the past, in seeking to close potential gaps, management would determine an amount to cut from its prior year, or baseline, budget. The revised process now includes reviewing core functions, related data, and how they function to build the budget. For example, to prepare the budget, management reviews core fleet and equipment asset needs, the performance measures it wants to meet, and the core staffing levels needed to maintain operations. Further, the Authority continuously monitors its expenses against the budget to react to changing situations more timely.

Audit Findings and Recommendations

We found the Authority has made progress in implementing a cost reduction and containment focus throughout its management of the organization. The Authority has implemented various cost reduction strategies and explored several new revenue opportunities, some of which were suggested in prior audits or in consultant studies commissioned by the Authority. At the same time, the Authority has not fully measured the impact of its overall cost control efforts. The extent of its measurement of savings is limited to payroll and benefit expenses, which it estimates have averaged about \$26 million per year between 2010 and 2014.

Some sections of the Thruway and its bridges are over 60 years old – and at or near the end of their projected useful life spans. However, the Authority estimates that only about 10 percent of the roadway and 20 percent of the bridges have been replaced or reconstructed. As a result, although Authority financial statements demonstrate that current operating revenues are sufficient to cover the Authority’s current day-to-day operating expenses, there is considerable risk that revenues will not be sufficient to cover future needs, particularly as they relate to long-term capital projects. Further, the Authority lacks a formal comprehensive long-term strategy to address this matter.

More recently, the State has provided substantial financial assistance to the Authority by shifting the costs of certain activities to various agencies and by directing extra funds to the Authority. In early 2016, plans were announced as part of the 2016-17 Executive Budget to transfer responsibility for the Canal System to the New York Power Authority (NYPA). This transfer, which will be effective January 1, 2017, will obviate the Authority’s fiscal responsibility for the Canal System. However, as part of this arrangement, the Authority will again assume responsibility for the personal service costs associated with the State Police who patrol the Thruway. Also, the State appropriated nearly \$2 billion (in total for fiscal years 2015-16 and 2016-17) to defray some of the Authority’s costs for the New NY Bridge Project and other system needs.

Nonetheless, despite cost control efforts and State financial assistance, the Authority’s fiscal condition will likely continue to be challenging due to the levels of capital funding required to maintain its aging roadways, bridges, and buildings as well as other budgetary needs. Consequently, we recommend the Authority develop and implement a long-term comprehensive strategic plan to address its funding needs to pay for repairs to and/or replacement of components of the Authority’s infrastructure.

Cost Savings and Revenue Enhancements

The Authority has taken several steps to control spending, primarily by reducing personal service costs and spending on both capital projects and motorized equipment. It has also implemented a system to reduce toll evasion and investigated other efforts to generate revenue. However, the total impact of these efforts is not readily quantifiable because the Authority did not have a formal structured process to capture or otherwise estimate data on savings and efficiencies, except in the area of personal service costs.

Personnel Costs

Data for the period 2010 through 2014 shows the Authority reduced its permanent, temporary, and provisional workforce by 12.6 percent (from 2,775 to 2,426), while slightly increasing its part-time toll collector positions from 1,136 to 1,173. These actions brought employee costs down to about \$172 million. As a result, the Authority estimates it saved an average of about \$26 million in payroll and benefit expenses each year between 2010 and 2014. Key to this effort is that the Authority implemented policies and procedures that required justification and management approvals for hiring or promoting employees. Our test of 70 employee hiring and promotional transactions found appropriate justification and approval in all cases.

Capital Projects

We also found the Authority routinely completes annual condition evaluations for each of 70 separate planning segments along the Thruway, in part to meet its budgetary requirements and prioritize projects, but also to decide which projects should have their timing or scope adjusted. Bridges are assessed biennially. Although the Authority actively manages its capital program to meet its budget, it faces significant capital needs due to the age of the roadway. Some segments of the Thruway and its bridges are over 60 years old. In general, the estimated useful life of a highway is recognized to be 30 years, with improvements adding approximately 10 years to the useful life. Bridges have an estimated useful life of 45 years and improvements can add another 15 years. Over its lifetime, the Authority estimates that only 20 percent of the Thruway bridges and 10 percent of the complete roadway, including the substructure, have been replaced. Therefore, significant capital spending will continue to be needed in the foreseeable future. Authority officials estimate the cost to repair the Thruway to its original condition is about \$13 billion. This estimate does not include projects to solve congestion or to address flooding issues, which are prevalent in some areas of the Thruway.

The Authority reviews and revises its capital program continuously as part of its effort to contain costs. On occasion, the Authority will reduce budgeted costs for some projects to offset unexpected cost increases on others. However, the Authority does not have a formal structured process to track and quantify its expected and actual savings related to each project. Most recently, the Authority re-evaluated its capital program as part of its 2015 modified budget, reducing the overall budget. As a result of this evaluation, the five-year capital program was reduced (excluding the New NY Bridge Project) from about \$2.3 billion in the original budget to about \$1.9 billion in the modified budget. This evaluation included removing about 70 capital projects from the capital program.

To analyze the Authority's cost containment efforts within its capital program, we focused our review on the 2015 modified budget capital program that listed 244 projects valued at \$1,272,302,571. We compared the 2015-2019 Project Letting List for its modified budget to the Letting Lists for previous capital programs back through the 2010-2014 capital program that totaled \$1,188,830,000. We found 126 projects had been delayed, while only 10 were accelerated during the five-year period. About \$47.1 million of the \$83.5 million increase was due to 16 new projects added to the plan during the five-year period. The remaining \$36.4 million is attributable to increased cost estimates for 33 projects, combined with decreased estimated costs for 18 others.

These project deferments and budget revisions to estimated project costs further demonstrate the Authority's efforts to prioritize projects and to meet its capital program budgets.

Motorized Equipment

The Authority assesses the condition of its motorized equipment annually to determine which pieces need to be replaced, and prepares written justifications for the replacements. When equipment is determined to be no longer economical to repair or cannot be brought into compliance with safety standards, the item is then scheduled for replacement. The Authority budgets and spends about \$6 million for equipment purchases annually. Our testing of 20 equipment purchases totaling \$2.7 million found all of the purchases were properly documented and justified.

We also found the Authority takes additional steps to control its equipment spending. For example, the Authority continues to share equipment with the Department of Transportation (DOT), under an agreement the parties entered into in August 2001. In December 2015, the Authority approved new minimum equipment levels and replacement standards to further rightsize and standardize their vehicle and equipment fleet.

Revenue Collection

To improve toll collection, the Authority implemented an Automatic Vehicle Classification system, which more properly reclassifies vehicles used by E-ZPass traffic travelers and charges the appropriate toll. The Authority reports that this has reduced the level of E-ZPass fraud and abuse and, on average, has resulted in an additional \$418,000 per month in electronic tolls between February 2014 and April 2015. The Authority has also recently instituted an all-electronic toll system on the Tappan Zee Bridge. The full effect of this system on toll collection is yet to be seen. Finally, the Authority has also explored additional revenue enhancements, including raising revenue through private sector advertising and sponsorships, such as selling advertisement space and leasing Authority land for a solar farm. However, as of December 2015, these efforts had not proven successful.

State Financial Assistance

In addition to the Authority's efforts to control costs, it has also received significant assistance from the State in recent years, including:

- In October 2010, responsibility for the operation and maintenance of Interstate 84 was transferred from the Authority back to the DOT, saving the Authority over \$11 million annually. This action came in exchange for an annual loss of approximately \$14.1 million in revenue from removing the toll barriers at Black Rock and City Line on Interstate 190 of the Niagara Section of the Thruway.
- Beginning in calendar year 2013, the State assumed responsibility for the personal service costs associated with the State Police who patrol the Thruway, thereby saving the

Authority about \$33.7 million in salary and about \$16.5 million in benefit costs each year through December 2015.

- In its 2015-16 budget, the State allocated nearly \$1.3 billion to the Authority to cover certain costs related to the New NY Bridge Project, bridge-related transportation improvements, and other costs including capital programs. The Authority has indicated that this funding has helped to maintain tolls at current levels for 2016. According to the Authority's 2016 Budget, the funding will be allocated as follows:
 - New NY Bridge Project: \$471 million in 2015 and \$279 million in 2016; and
 - System-wide maintenance and repair projects: \$191 million in 2016 and \$344 million in 2017 and 2018.

Subsequent Items That Could Impact Costs and Revenues

At the November 9, 2015 Authority Board of Directors meeting, the Executive Director first announced there was no need for a toll increase through the end of 2016. Subsequently, the 2016-17 State Budget included the following items:

- Transfer of responsibility for the Canal Corporation to NYPA effective January 1, 2017. With this transfer, the Authority will lose its current budget supplement, although NYPA will reimburse the Authority for costs to operate and maintain the Canal System from April 1 through December 31, 2016. The Authority will also again be responsible for the personal service costs associated with the State Police who patrol the Thruway. The Authority estimates that these changes, collectively, will be budget neutral.
- An additional \$700 million investment for the Thruway Stabilization Program, which will support the New NY Bridge Project as well as other transportation infrastructure needs, including related debt service obligations, on the rest of the Thruway.

Additionally, the Authority announced the formation and membership of the New NY Bridge Toll Advisory Task Force (Task Force). The Task Force is expected to review rates, potential commuter discount options, a resident discount program, and commercial vehicle rates. The intent is to secure additional funding for the New NY Bridge Project. The Task Force was expected to make recommendations to the Authority's Board of Directors in the summer of 2016. However, as of the end of our audit fieldwork, the Task Force had not yet met and no future meetings had been scheduled.

Recommendation

1. Develop and implement a long-term comprehensive strategic plan to address funding needs to pay for repairs to and/or replacement of components of the Authority's aging infrastructure.

Audit Scope and Methodology

Our audit determined what cost containment initiatives the Authority has undertaken and how effective it has been in reducing overall costs. The audit covered the period January 1, 2012 through January 13, 2016.

To accomplish our objectives and assess related internal controls, we interviewed officials from offices throughout the Authority, including: Maintenance and Operations, Engineering, Administrative Services, Finance and Accounts, Information Technology, and the Canal Corporation. We also reviewed budgets, capital programs, audited financial statements, independent consultant reports, policies and procedures, and board meeting minutes. Additionally, we reviewed the revised financial plan summaries for 2011 through 2015 to identify proposed revisions and savings to the budgets.

To determine if the Authority followed its policies and procedures, we selected a judgmental sample of 50 employees from a population of 2,794 employees who were on the Authority's payroll on both January 3, 2012 and December 1, 2015. Twenty-five of the 50 employees were selected due to a higher risk related to the number and amount of salary adjustments they had received. The remaining 25 were selected for various other reasons, including but not limited to, large salary increases without a change in position or no salary increases during our scope period. For the 50 employees sampled, we examined whether or not they were receiving salary increases in accordance with Authority policies. Additionally, we selected a sample of 20 of 2,593 employees who had been hired or rehired during our scope period and reviewed position requests to determine if the hiring was justified.

Our audit also focused on the 750 equipment items purchased after January 1, 2012, with a purchase price of \$23.7 million. From this total, we selected a judgmental sample of 20 items with a purchase price of \$2.7 million, or about 11 percent of the total purchase price. Our sample selection was based on cost and multiple purchases of the same item. To determine if the purchases were justified, we reviewed the Authority's justifications for the replacement of the sampled equipment.

We conducted our performance audit 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.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational

independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

Reporting Requirements

We provided a draft copy of this report to Authority officials for their review and formal comment. We considered officials' comments in preparing this final report and attached them in their entirety to the end of the report. In their response, Authority officials indicated that they will consider our recommendation to develop a more comprehensive strategic plan to address capital needs.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chair of the New York State Thruway Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and if the recommendation was not implemented, the reasons why.

Contributors to This Report

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Vision

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Authority Comments



ANDREW M. CUOMO
Governor

**Thruway
Authority** | **Canal
Corporation**

JOANNE M. MAHONEY
Chair

BILL FINCH
Acting Executive Director

September 9, 2016

Mr. John Buyce, Audit Director
Office of the New York State Comptroller
Division of State Accountability
110 State Street
Albany, New York 12201

Dear Mr. Buyce:

This letter is in response to the NYS Office of the State Comptroller's ("OSC") Draft Audit Report 2015-S-59 ("Audit Report"), which assesses the effectiveness of New York State Thruway Authority's Cost Containment Initiatives for the period January 1, 2012 through January 15, 2016.

The New York State Thruway Authority would like to thank the Comptroller's audit staff for recognizing the progress made toward implementation of a cost reduction and containment focus throughout the Thruway Authority. The Board of Directors, management and staff have worked hard to implement various cost reduction strategies during the audit period, and we will continue to utilize these strategies moving forward. For example, to continue to reduce spending, the Thruway Authority's Modified 2015 Budget included the review of core functions such as fleet and equipment asset needs along with the essential staffing needs to maintain operations. In addition, your office acknowledged the Thruway Authority's efforts to control spending through reductions in personal service, capital projects and motorized equipment costs.

We will continue to assess and prioritize necessary investments in the Thruway Authority's infrastructure as we develop and implement our annual capital spending plan. We will also consider the recommendation to develop a more comprehensive strategic plan to address our capital needs beyond our current five-year capital plan.

The Thruway Authority would like to thank the Office of the State Comptroller for their professionalism and thorough review of our records during this audit engagement.

Sincerely,

Bill Finch

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