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NEW YORK STATE THRUWAY AUTHORITY

PROPOSED TOLL INCREASES FOR JULY 2008 THROUGH JANUARY 2010

Report 2008-S-6

AUDIT OBJECTIVE

The objective of our audit was to determine whether the toll increases proposed by the New York State Thruway Authority beginning in July 2008 are necessary.

AUDIT RESULTS - SUMMARY

We found that the Authority has not made every reasonable effort to accurately estimate its Federal funding, prioritize its capital needs, reduce its operating costs, and maximize its revenues. We therefore conclude that the proposed toll increases for July 2008 through January 2010 may not be necessary, as presently envisioned. We urge the Authority's Board of Directors not to approve these proposed toll increases until it has considered the findings and recommendations contained in this audit report and has determined the extent to which the increases can be eliminated, reduced or postponed.

The New York State Thruway, which was opened to traffic in 1954, is the longest toll superhighway system in the United States. The Thruway is a self-supporting operation: its costs are intended to be fully covered by its tolls and miscellaneous income from its operations. An independent public benefit corporation, the New York State Thruway Authority, was created in 1950 to finance, construct, operate and maintain the Thruway.

In the early 1990s, the Authority's mission was expanded through a series of State laws that made the Authority responsible for two toll-free State highways (I-287 and I-84); the New York State Canal System; and various mandated economic development projects that were in some way related to the Thruway, I-84 or the Canal System. Since 1990, the Authority has spent more than $1 billion in Thruway revenue on these non-Thruway activities.

The Authority has instituted six general toll increases on the Thruway. The first took effect in 1959, and the most recent increase was approved in 2005 and completed in January 2008. In 2007, the Authority proposed a new series of toll increases that would take effect in July 2008, January 2009, July 2009 and January 2010. These toll increases are expected to generate a total of about $520 million in additional revenue for the Authority between 2008 and 2012.

According to Authority officials, this new revenue is needed to cover cash shortfalls projected for this five-year period. The Authority's revenue requirements are expected to increase during this period because of the funding demands of a $2.7 billion capital program that was initiated in 2005. In addition, Thruway toll revenue has been lower than expected because of motorists' response to high gas prices and their increased use of the discounted tolls available on the Thruway's electronic E-ZPass toll collection system.

The Authority is required by law to provide financial projections showing the need for, and implications of, its proposed toll increases. The proposed increases also must be addressed at a series of public hearings before they can be considered for approval by the Authority's Board of Directors. These public hearings are scheduled for the early part of 2008, and the Board of Directors is expected to vote on the proposed toll increases sometime in Spring 2008.

We audited the financial projections underlying the proposed toll increases for July 2008 through January 2010 (we did not examine the need for the previously approved toll increase taking effect in January 2008).

According to these projections, the Authority will need $520 million in additional toll and related revenue between 2008 and 2012. However, we found there are actions the Authority can take to reduce its need for additional toll revenue during this period.

The Authority can develop more realistic estimates of its likely Federal highway funding for the period. The Authority currently estimates that it will receive an average of only $4.9 million a year in such funding, even though its past average has been $33.5 million a year. The Authority could conservatively estimate an additional $125 million in Federal highway funding for the period, and thus reduce its projected need for additional toll revenue to some extent.

The Authority can defer non-essential capital projects not affecting highway/bridge structural conditions (such as maintenance building rehabilitations and E-ZPass lane creations). Due to a lack of prioritization, such projects are not readily identifiable on the Authority's capital plan. However, our analysis of part of the plan identified nearly $160 million in such projects. We recommend the Authority prioritize its capital projects, analyze the entire capital plan, and determine which of its non-essential projects can be deferred until after 2012.

The Authority can implement more aggressive cost-reduction measures. While it plans to implement a modest cost-containment initiative to keep the annual growth in its operating budget at 3.5 percent, it has not performed a comprehensive analysis of its operations to determine where costs can be reduced. We recommend such a top-to-bottom analysis be performed. We also determined that the Authority could be more aggressive in collecting millions of dollars in delinquent E-ZPass accounts (see Report 2006-S-101 for more details about this matter) and could do more to promote private sector sponsorship and advertising on the Thruway.

It should be noted that, between 2008 and 2012, the Authority expects it will have to spend about $395 million of Thruway revenue on a non-Thruway activity: the Canal System. Since it is not within the Authority's power to change the law giving it responsibility for the Canal System, our audit accepts that responsibility as a given and focuses on areas that are within the Authority's control. However, in our recent audit of the New York State Canal Corporation (see Report 2005-S-66), the Authority subsidiary responsible for the Canal System, we identified a number of weaknesses in controls over capital projects and noted that work on the 500-mile Canalway Trail was $17 million, or about 49 percent, over budget and at least two years behind schedule.

Our audit of the proposed toll increases also identifies opportunities for strengthening the management of the Authority's overall capital plan. In addition, we found that some of the Authority's financial projections are not supported by detailed documentation.

Our audit contains the following ten recommendations for the Authority:

- Ensure that the assumptions used in the revenue projection process are fully documented.

- Use a collection agency or some other means to improve the collection of delinquent E-ZPass tolls and related administrative fees from motorists who do not respond to standard billing notices.

- Evaluate the benefits of pursuing additional means of raising revenue through private sector advertising and sponsorship.

- Include a reasonable estimate for future Federal highway funding in the funding projections.

- Perform a comprehensive, top-to-bottom analysis of Authority operating costs to identify where costs can be reduced. In addition, in the future, perform this analysis in connection with all toll adjustment requests.

- Base all equipment replacement estimates on documented needs assessments.

- Develop management reports showing the progress to-date and dollars spent on each individual project item.

- Prioritize the projects and project items on future capital plans to facilitate any adjustments that may need to be made in response to unanticipated funding shortages.

- Identify the non-essential capital projects that are scheduled for 2008 through 2012, determine which of those projects can be deferred until after 2012, and determine how the Authority's funding needs for the Thruway would be affected if the projects were deferred.

- Document the basis for any estimates of inflationary increases in construction contracts.

We are pleased to note that the closing comments in the Authority's response to our audit reiterated that the public review process has only just begun that the recommendations contained in the draft audit report will be used, along with the public's input, to shape a toll adjustment that balances the need to provide high-levels of safety and service with the needs of people and communities served by the Thruway. However, the Authority's response also states that neither the audit findings nor the audit recommendations support the conclusion that the toll adjustment may not be necessary.

Auditor's Comments:

The latter statement is inconsistent with the former statement and is not an accurate summary of the actual audit conclusion. The actual, stated audit conclusion is that the proposed toll increases for July 2008 through January 2010, may not be necessary *as presently envisioned*. We arrived at this conclusion based on our audit findings that the Authority has not made every reasonable effort to accurately estimate Federal funding, prioritize its capital needs, reduce its operating costs, and maximize its revenues. Further, the findings support our urging that the Authority's Board of Directors not approve the proposed toll increases until it has considered the findings and recommendations contained in this report and has determined *the extent to which the increases can be eliminated, reduced or postponed.* We believe that New York State motorists and the public in general deserve nothing less.

A full copy of the Authority's response is included in this report as Appendix A. Our rejoinders to the Authority's response are included in this report as Appendix B, State Comptroller Comments.

This report, dated January 27, 2008, is available on our website at: www.osc.state.ny.us. Add or update your mailing list address by contacting us at: (518) 474-3271 or
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BACKGROUND

The New York State Thruway Authority (Authority) is a public benefit corporation created in 1950 by Article 2, Title 9 of the New York State Public Authorities Law for the purpose of financing, constructing, reconstructing, improving, developing, maintaining, and operating a highway system known as the Thruway. The Thruway is a 641-mile superhighway system crossing New York State. It is the longest toll superhighway system in the United States.

The construction of the Thruway began in 1950 and was completed in 1960. The first portion of the highway was opened to traffic in June 1954. The Authority issued bonds to finance the construction costs, and repaid the bonds from toll revenue and other miscellaneous income. The Authority issued subsequent bonds to finance repair and reconstruction work on the highway. The Thruway is a self-supporting operation: its costs are fully covered by its tolls and miscellaneous income generated from its operations.

Originally, the Thruway's tolls were to be eliminated when the initial bonds were repaid, and New York State was to assume responsibility for the costs of operating and maintaining the Thruway. However, in accordance with recommendations made in 1991 by a special State task force (the Thruway Authority Transition Advisory Council), it was decided that the tolls would stay and the Authority would continue to be responsible for the costs of operating and maintaining the Thruway. This decision was based, in part, on the fact that about one-third of the Thruway's toll revenue comes from out-of-State motorists.

In the early 1990s, the Authority's mission was expanded beyond its original purpose of operating and maintaining a self-supporting toll highway system. First, the Authority became responsible for the operation and maintenance of two toll-free highways that were owned by the State: the I-287 Cross-Westchester Expressway and I-84, which runs from Pennsylvania to Connecticut. I-287 connects to the Thruway and I-84 nearly intersects the Thruway (the construction of a connecting interchange is underway). The Authority assumed these responsibilities under legislation that was enacted in 1990 and 1991. Under the legislation, the New York State Department of Transportation continued to be responsible for capital improvements to the two highways.

Further legislation in 1992 made the Authority responsible for the New York State Canal System, a 524-mile navigable waterway consisting of various interconnected canals, canalized natural waterways, lakes and reservoirs. While the Canal System and the Erie Canal in particular, were once important to commerce, they are now used primarily for recreational and economic development purposes, such as tourism. Under the legislation, the New York State Canal Corporation was created as a formal subsidiary of the Authority, and was charged with operating, maintaining, constructing, reconstructing, improving, developing, financing and promoting the Canal System.

In addition, between 1992 and 1996, the Authority was required by other legislation to perform certain mandated economic development projects that were in some way related to the Thruway, I-84 or the Canal System. These projects included dredging, construction, reconstruction and rehabilitation work on the Syracuse and Buffalo Inner Harbors; the development and construction of the Syracuse Inter-Modal Transportation Center; the construction of an access highway connecting Stewart Airport to I-84; the rehabilitation of certain local bridges over the Thruway; and other smaller projects.

The Department of Transportation had been responsible for the Canal System as well as for I-287 and I-84, and had received State and Federal funding for their upkeep. When the Authority assumed responsibility for these operations, it began receiving some State and Federal funding to help pay for the additional responsibilities. However, the additional funding has covered only a small portion of the costs of these new operations, and the Authority has had to use revenue from Thruway operations to cover the balance.

Since 1990, the Authority has spent more than $1 billion of Thruway-generated revenue on the Canal System ($700.4 million), I-84 ($164.1 million), I-287 ($100.7 million), and the mandated economic development projects ($61.4 million).

Thruway Tolls

Toll revenue accounts for more than 90 percent of the Authority's total operating revenue. In 2006, the Authority collected a total of $554.4 million in toll revenue. Passenger cars, while accounting for almost 85 percent of the vehicles passing through toll collection points, provide only 60 percent of the toll revenue. Commercial vehicles, accounting for 15 percent of the trips, provide 40 percent of the revenue.

There are two types of toll systems on the Thruway: a controlled system and a barrier system. Most of the Thruway uses a controlled system, in which a ticket is provided to drivers when they enter the highway at controlled entry points, and must be surrendered by the drivers when they leave the highway, or the ticketed portion of the highway, at controlled exit points. The tickets are surrendered at toll booths, where a toll must be paid. The toll amount is based on the type of vehicle (e.g., passenger or commercial, with different rates for different sizes of commercial vehicles) and the distance driven.

In the unticketed portions of the Thruway, fixed tolls are collected at toll barriers. Commercial and passenger vehicles pay different fixed amounts at the barriers. About two-thirds of the toll revenue is collected on the controlled system, and one-third on the barrier system.

The Authority began using an electronic toll collection system (E-ZPass) at some of its collection points in 1993, and now collects more than 55 percent of the passenger car and almost 74 percent of the commercial vehicle toll revenue through this system. To encourage the use of E-ZPass, the Authority discounts the tolls for participating motorists.

The Authority also offers other discount programs, such as an annual permit plan for passenger cars using the controlled system, commuter rates at the Tappan Zee and Grand Island Bridges, commuter programs for certain of the toll barriers, and a volume discount program for commercial carriers.

Toll Increases

Since the start of toll operations in 1954, the Authority has instituted six general toll increases, as follows:

- In 1959, passenger car tolls were increased by 28 percent and commercial vehicle tolls were increased by 18 percent.
- In 1970, commercial vehicle tolls were increased by 19 percent.
- In 1975, passenger car tolls were increased by 16 percent in both the controlled system and at the barriers, and commercial vehicle tolls were increased by 8 percent at the barriers only.
- In 1980, passenger car tolls were increased by 25 percent and commercial vehicle tolls were increased by 30 percent.
- In 1988, passenger car tolls were increased by 32 percent and commercial vehicle tolls were increased by 38 percent.
- In 2005 a two-phase toll increase was approved. In that year, passenger car tolls were increased by 25 percent for cash customers and 12.5 percent for E-ZPass customers, and commercial vehicle tolls were increased by 35 percent for cash customers and 28.3 percent for E-ZPass customers. The second phase took effect in January 2008. On the controlled system, cash tolls increased by 10 percent for both passenger and commercial vehicles. On the barrier system, cash tolls increased by varying amounts (rounded to the nearest 25 cents) ranging from to 9 to 33 percent.

In 2007, Authority officials proposed a further series of toll increases. The proposed increases have yet to be approved by the Authority's Board of Directors, and must be subject to a public hearing process before they can be voted on by the Board. Authority officials expect the public hearing process to be completed in Spring 2008 and the Board to vote on the proposed increases at that time.

The proposed toll increases would take place from July 2008 through January 2010. Over this 19-month period, E-ZPass customers on the controlled system would see a cumulative increase of either 28 percent (passenger cars) or 21 percent (commercial vehicles), cash customers on the controlled system would see a cumulative increase of 10 percent, E-ZPass customers at certain toll barriers would see cumulative increases of between 17 and 75 percent, cash customers at certain toll barriers would see cumulative increases of between 5 and 38 percent, commuter rates would increase by varying amounts, and certain special commercial discounts would be eliminated. Specifically:

- In July 2008, all E-ZPass tolls would be increased. For passenger cars on the controlled system, the E-ZPass discount would be reduced from 10 percent (off the old cash rate) to 5 percent (off the new January 2008 cash rate). This would equate to a 16 percent increase in tolls, because the new 5 percent discount would be taken off cash rates that were increased by 10 percent in January 2008. For commercial vehicles on the controlled system, the E-ZPass discount would remain at 5 percent, but would be taken off cash rates that were increased by 10 percent in

January 2008. Consequently, the E-ZPass tolls for commercial vehicles on the controlled system would increase by 10 percent. E-ZPass tolls at the barriers would increase by varying amounts ranging from 10 to 40 percent for passenger vehicles, and 10 to 18 percent for commercial vehicles.

- In January 2009, there would be an across-the-board 5 percent increase on the controlled system (affecting both cash and E-ZPass customers, and both passenger and commercial vehicles). On the barrier system, there would be varying increases at some of the barriers. For passenger vehicles, these increases would range from 0 to 25 percent, for both cash and E-ZPass customers; for commercial vehicles, the increases would range from 5 to 15 percent, for both cash and E-ZPass customers. There would also be increases in commuter rates (generally 4 to 6 percent, except at the Tappan Zee Bridge, where there would be a 50 percent increase).

- In July 2009, certain special discounts would be eliminated for certain types of commercial vehicles (S class commercial vehicles, which are a type of tractor trailer).

- In January 2010, there would be another across-the-board 5 percent increase on the controlled system (affecting both cash and E-ZPass customers, and both passenger and commercial vehicles). On the barrier system, there would be increases in the cash and E-ZPass rates for commercial vehicles (and passenger cars pulling trailers) at the Tappan Zee Bridge and Spring Valley Barriers. There would also be further 5 percent increase in certain commuter rates.

The following table summarizes the cumulative effect of these proposed toll increases:

Cumulative Effect of Proposed Toll Increases July 2008 through January 2010	
Affected Motorists	**Cumulative Toll Increase**
E-ZPass passenger vehicles on controlled system *	28 percent
E-ZPass commercial vehicles on controlled system *	21 percent
Cash customers on controlled system *	10 percent
E-ZPass passenger vehicles at barriers	20 to 75 percent
Cash passenger vehicles at barriers	0 to 25 percent
E-ZPass commercial vehicles at barriers	17 to 33 percent
Cash commercial vehicles at barriers	5 to 14 percent
Commuter rates	10 to 50 percent**

* Due to rounding to the nearest five cents or nearest quarter, the actual increases on the controlled system may vary for some drivers, especially on short trips.

** Most commuters will incur an increase of 10 percent, but the Tappan Zee Bridge rate is increasing by one dollar, representing a 50 percent increase, while high occupancy vehicle commuter rates will be unchanged at the Tappan Zee Bridge.

According to Authority officials, the proposed toll increases are needed to cover cash shortfalls projected for the years 2008 through 2012. The Authority's revenue requirements are expected to increase during that period because of the funding demands of a $2.7 billion capital plan that was initiated in 2005.

Specifically, in accordance with the direction provided by the Authority's Board of Directors, the Authority is committed to funding at least 30 percent of its capital needs on a pay-as-you-go basis, and financing the rest through bond issuances. In addition, in accordance with further direction provided by the Board of Directors, the Authority is committed to maintaining a certain minimum ratio of net revenue to debt service (1.7 to 1). However, the Authority's financial projections show that, beginning in 2008, it will be unable to meet these standards.

Part of the reason for the projected cash shortfalls is the lower-than-expected traffic levels on the Thruway, and thus lower-than-expected toll revenues, as a result of the recent increases in fuel prices (highway systems across the county are experiencing similar reductions). Higher-than-expected use of E-ZPass, with its discounted toll rates, has also contributed to lower-than-expected toll revenues.

However, the funding demands of the capital plan are the main reason for the projected cash shortfalls. Authority officials note that the Thruway is entering its sixth decade of operation, and the need for reconstruction and rehabilitation of the aging infrastructure requires an increasing level of investment. The officials note that routine maintenance programs will not keep the 3,240 lane miles of highway and 807 bridges in good and safe operating condition.

Thruway Authority Budget

The Authority is an independent public benefit corporation managed by a seven-member Board of Directors. The Directors are appointed by the Governor with the advice and consent of the State Senate. The Authority has 3,407 of its own employees and fully reimburses the Division of State Police for the personal service costs incurred by 343 State Troopers who patrol the Thruway and I-84. Thus, the Authority effectively has a total staff of 3,750 employees.

The Authority's budget for 2008 totals $1.1 billion. About $355 million is budgeted for Thruway operating expenses, $491 million is budgeted for Thruway capital projects, $54 million is budgeted for Canal System operating expenses, $54 million is budgeted for Canal System capital projects, and $163 million is budgeted for debt service payments.

According to the budget, in 2008, the Authority expects to receive $597 million in toll revenue, $13 million in concession revenue from Thruway service areas, $8 million in interest income, $15 million in other miscellaneous income, $422 million in bond proceeds, $30 million in Federal funding, and $32 million in State and local funding.

AUDIT FINDINGS AND RECOMMENDATIONS

Overall Conclusions

In this audit, we examined the need for the toll increases proposed by the Authority beginning in July 2008. We did not examine the need for the previously approved toll increase taking effect in January 2008. This increase has already been through the public hearing process and was approved by the Authority's Board of Directors.

To determine whether the increases proposed for July 2008 through January 2010 are necessary, we examined the revenue, expense and other financial projections prepared by the Authority in support of the increases. Such projections are required by Section 2804 of the Public Authorities Law, which states that public authorities should provide, prior to the consideration of any future increase in tolls or fees for any highway, bridge or tunnel, a detailed report of the need and implication of such change in tolls or fees.

In this case, the detailed report justifying the Thruway toll increases was prepared by the Authority's independent traffic engineer, Stantec Consulting Services, Inc., a professional consulting firm operating throughout the United States and Canada. Stantec Consulting Services used financial information provided by the Authority in its projections. The projections cover the five-year period 2008 through 2012.

We examined whether the calculations used in developing the financial projections are accurate, complete and supported by appropriate documentation, and whether the assumptions used in developing the projections appear to be reasonable and are supported by appropriate documentation. We found that the calculations are accurate and are, for the most part, supported by appropriate documentation.

However, certain Federal funding is significantly underestimated, based on past experience, and it appears that several non-essential capital projects could be deferred until after 2012. We also determined that, while the Authority plans to implement a modest cost-containment initiative, it has not implemented serious cost-reduction measures. We further determined that Thruway revenues could be increased if certain new practices were implemented by the Authority. We therefore conclude that the proposed toll increases may not be necessary, as presently envisioned.

As is shown in the following table, there are opportunities for reductions in capital needs as well as additional Federal highway funding.

	In Millions					
	2008	**2009**	**2010**	**2011**	**2012**	**Total**
Additional Federal Highway Funding	$ 17.0	$ 27.6	$ 26.8	$ 24.5	$ 29.4	$125.3
Non-Essential Capital Projects *	$ 61.0	$ 59.9	$ 38.7			$159.6

* Additional non-essential capital projects could be identified if an appropriate analysis was performed for 2011 and 2012. Our analysis was restricted to 2008-10 due to the tight timeframes of our audit. Dollars represent the portion of non-essential projects funded by the Thruway.

The non-essential capital projects that we identified included new E-ZPass lanes ($92.4 million); new and rehabilitated State Police barracks, maintenance buildings and other Thruway facilities ($29.2 million); new electronic message signs and other components in the Authority's Intelligent Transportation System ($14.3 million); new Thruway noise barriers ($9.1 million), new parking spaces at Thruway service areas ($3.6 million); new pedestrian bridges on the Thruway ($2.8 million); and other smaller projects. All of these projects appear to be useful and beneficial, but since they do not affect highway/bridge structural conditions, it appears that they are non-essential and thus could be deferred.

It should be noted that deferring capital projects may not reduce the Authority's revenue needs on a dollar-for-dollar basis. This is because of the need for the Authority to maintain certain net revenue to debt service ratio, and because of the way capital projects are funded (through reserves and debt).

Our audit also identifies opportunities for the Authority to reduce its operating expenses and increase its revenues. Such cost reductions and revenue enhancements would further reduce the need for the proposed toll increases. For example, if the Authority used a collection agency for certain delinquent E-ZPass tolls and related administrative fees, it could initially collect an additional $6.4 million in revenue and later collect more such revenue.

Because the Authority has not made every reasonable effort to accurately estimate its Federal funding, prioritize its capital needs, reduce its operating costs, and maximize its revenues, we conclude that the proposed toll increases for July 2008 through January 2010 may not be necessary, as presently envisioned. We urge the Authority's Board of Directors not to approve these proposed toll increases until it has considered the findings and recommendations contained in this audit report and has determined the extent to which the increases can be eliminated, reduced or postponed.

Revenues and Other Funding

The Authority typically funds its operations from Thruway revenues, reserve balances, bond proceeds, Federal funds, and State and local funds. Thruway revenues accounted for 59 percent of the Authority's total funds (operating and capital) in 2007, and are expected to account for 57 percent of its total funds in 2008. The mix of other funding sources varies, as follows:

- reserve balances accounted for $107 million in 2007, and are expected to account for $0 in 2008,
- bond proceeds accounted for $233 million in 2007, and are expected to account for $422 million in 2008,
- Federal funds accounted for $44 million in 2007 and are expected to account for $30 million in 2008, and
- State and local funds accounted for $17 million in 2007, and are expected to account for $32 million in 2008.

We examined the accuracy and reasonableness of the Authority's estimates for its funding sources during the five-year projection period. We found that, with the exception of Federal funding for Thruway capital projects, the estimates appear to be reasonable. The estimates of Federal funding for Thruway capital projects appear to be understated by at least $125 million (an average of $25 million a year). We recommend the Authority adjust its estimates to recognize this likely revenue. In addition, we determined that Thruway revenues could be enhanced if certain new practices were implemented by the Authority.

Revenues

In its revenue projections for the five-year period 2008 through 2012, the Authority estimates its total annual revenues with and without the proposed toll increases. If there are no further toll increases after January

2008, the Authority estimates that its total revenues will increase from $608 million in 2008 to $655 million in 2012, an average increase of about 1.9 percent a year. If the tolls are increased as proposed, the Authority estimates that its total revenues will increase from $633 million in 2008 to $790 million in 2012, an average increase of about 6.2 percent a year.

The following table shows the annual differences in the two revenue projections. As is shown, over the five-year projection period, the proposed toll increases are expected to provide the Authority with $507.4 million in additional toll revenue and $12.8 million in additional non-toll revenue (mainly additional interest income), for an additional $520.2 million in total:

Revenue Projections
(Millions)

	2008	2009	2010	2011	2012	Total
Toll Revenue						
No Increases	$572.2	$580.3	$593.1	$606.2	$619.5	$2,971.3
With Increases	$596.9	$677.0	$719.1	$734.8	$750.9	$3,478.7
Difference	$ 24.7	$ 96.7	$126.0	$128.6	$131.4	$ 507.4
Non-Toll Revenue						
No Increases	$ 35.8	$ 34.9	$ 35.1	$ 35.2	$ 35.3	$ 176.3
With Increases	$ 35.8	$ 36.9	$ 38.3	$ 39.0	$ 39.1	$ 189.1
Difference	$ 0	$ 2.0	$ 3.2	$ 3.8	$ 3.8	$ 12.8
Total	$ 24.7	$ 98.7	$129.2	$132.4	$135.2	$ 520.2

The estimates of toll revenue are based on traffic projections, which were made by the Authority's independent traffic engineer (the same independent traffic engineer has been working with the Authority since its creation). In making these projections, the traffic engineer assumed that there would, initially, be some loss of traffic if tolls were increased as proposed. However, the traffic engineer believes these losses would be relatively small because "the Thruway offers large travel time advantages over the nearby routes, provides excellent services, and . . . even after the proposed adjustments, [the Thruway's tolls] generally will be lower than those of most toll facilities in the Northeast."

The traffic engineer further states that its estimates of traffic losses due to higher tolls are "based on previous experience on the Thruway when tolls were raised, and on recent experience on other toll facilities." The traffic engineer also assumes that traffic volumes will continue to be depressed by high fuel prices and motorists will continue to switch from cash payments to E-ZPass payments. The traffic engineer states that, in its opinion, its traffic projections are conservative.

Non-toll revenue includes concessions from restaurants and gas stations at service areas, interest on investments, fees from special permits (such as special hauling permits), rental income, E-ZPass violation fees, and other miscellaneous revenue. Concession and interest revenue account for most of this revenue (e.g., $20.7 of the $35.8 million in non-toll revenue estimated for 2008). The estimates of concession revenue are based on projections from existing concessionaire contracts and recent sales records. The estimates for the other types of revenue are based on past levels and any known changes that are likely to occur. Authority officials stated that they plan to increase certain fees and rents, and these planned increases were taken into account when the revenues were projected.

We examined the revenue projections for the five-year period. We verified the calculations used in the projection process and evaluated the reasonableness of the assumptions used by the traffic engineer. As part of our examination, we performed a detailed review of the model used by the traffic engineer in projecting toll revenues.

We found that the revenues projected by the traffic engineer for the five-year period appear to be reasonable. However, the model used by the traffic engineer could be improved if it used economic factors in its forecasting.

We also noted that some of the assumptions used by the traffic engineer in estimating traffic volume were not documented and, therefore, could not be audited. For example, the traffic engineer assumes that some motorists will seek alternative routes or switch from cash payments to E-ZPass as a result of the proposed toll increases, and adjusts the projected toll collections to account for these behaviors. While these general behavioral assumptions appear to be valid, there was no documentation explaining why toll collections were adjusted by the particular amounts shown in the model. Rather, these amounts were based on the traffic engineer's professional judgment.

To provide better assurance the projections are based on appropriate, verifiable factors, and to help ensure business continuity in case this particular traffic engineer is not available in the future, we recommend that the basis for the assumptions used in the projection process be fully documented.

While the revenues projected for the five-year period appear to be reasonable, we determined that Thruway revenues could be enhanced if certain new practices were implemented by the Authority. First, in a separate audit of the Authority (Report 2006-S-101, *Uncollected E-ZPass Tolls and Fees*), we found the Authority has no special collection practices for motorists who fail to respond to standard billing notices for unpaid E-ZPass tolls and related administrative fees. According to information prepared by the Authority, between January 1, 2000 and December 31, 2005, motorists failed to pay about $4.5 million in E-ZPass tolls and about $22.9 million in related administrative fees. While most of the motorists owed $20 or less in unpaid tolls, some repeat violators owed thousands of dollars.

Unlike two other New York State public authorities (the Metropolitan Transportation Authority and the Port Authority of New York and New Jersey), the Thruway Authority does not use a collection agency to pursue such debts. One collection agency estimated that it could collect $8.1 million of the Authority's outstanding amounts, which net of its fee, would bring in $6.4 million for the Authority. The collection agency could also collect additional amounts from delinquent motorists in the future. We therefore conclude that, if the Authority used a collection agency for difficult-to-collect E-ZPass tolls and related administrative fees, as we recommended in that audit, it could initially collect an additional $6.4 million in revenue and later collect more such revenue.

Thruway revenues could be further enhanced if additional actions were taken to promote private sector sponsorship and advertising on the Thruway. The Authority is already promoting such sponsorship at Thruway service areas, and realizing revenue as a result of the efforts. However, there is considerable opportunity for further efforts of this kind.

For example, in 2007, the Pennsylvania Turnpike entered into a three-year, $1.32 million sponsorship agreement with an insurance company to place the company's logo on the Turnpike's safety patrol trucks. The Pennsylvania Turnpike also generates about $600,000 a year in non-toll revenues by selling advertising space on toll booths, printing vendor coupons on the back of toll receipts, and displaying company names on ticket dispensing machines. In a current initiative, the Pennsylvania Turnpike is considering selling naming rights to its interchanges (Heinz Food is reportedly interested in having its name attached to Exit 57). We recommend the Authority evaluate the benefits of such revenue-enhancing options.

Bond Proceeds and Reserve Funds

The Authority's authorizing legislation provides for the ability to issue negotiable debt to finance capital projects for the Thruway and Canal System. The Authority issues General Revenue Bonds, which are secured by a first lien on all tolls, rents, fees and other income derived from the operation of the Thruway. Generally, the Authority funds a portion of its capital projects through these bonds, funding the remainder through cash reserves on a pay-as-you-go basis.

As of December 31, 2007, the outstanding debt on the Authority's General Revenue Bonds was $2.42 billion. The final maturity date on this debt is January 1, 2036. Debt service payments for 2008 will be $163.1 million. These payments are expected to rise to about $244.7 million in 2012.

The Authority recently issued bonds in March 2005, September 2005 and October 2007. The Authority used some of the proceeds from these bonds for its $2.7 billion multi-year capital program, which was initiated in 2005. However, the Authority also used a significant portion of these proceeds (about 67 percent) to refinance past debt and replenish declining cash reserves, as follows:

Issue Date	Proceeds	Available for Capital Plan	Amounts for Payment of Maturing Notes and for Refund of Prior Bonds	Deposit for Debt Service Reserve	Issuance Costs and Underwriters Fees
March 2005	$661,563,592	$25,000,000	$614,520,032	$11,492,500	$10,551,060
September 2005	$775,296,112	$200,000,000	$525,000,000	$36,897,557	$13,398,555
October 2007	$1,064,912,426	$550,859,889	$461,874,852	$36,221,068	$15,956,617
Totals	$2,501,772,130	$775,859,889	$1,601,394,884	$84,611,125	$39,906,232

To complete the funding of its multi-year capital program, the Authority plans to issue an additional $1.26 billion in debt during the five-year projection period.

The amount of additional bonds to be issued, and when they will need to be issued, depends on (1) the Authority's future cash position and (2) when the projects on the capital plan are actually initiated. On the first point, the greater the Authority's cash reserves, the less the need for bond proceeds to fund the projects. On the second, if projects fall behind schedule or are deferred, the need for project funding is postponed.

The Authority's financing projections take into account its commitments to (1) fund at least 30 percent of its capital needs on a pay-as-you-go basis by 2011 and (2) maintain a certain minimum ratio of net revenue to debt service. While the Authority's Fiscal Management Guidelines require a minimum ratio of 1.5 to 1, in accordance with direction provided by the Authority's Board of Directors, the Authority is committed to achieving a ratio of 1.7 to 1 by 2011. The Authority's General Revenue Bond Resolution requires that the debt coverage ratio be at least 1.2.

We examined the Authority's financing projections to verify their mathematical accuracy and determine whether they enabled the Authority to achieve the 30 percent pay-as-you-go rate and 1.7 debt coverage ratio. We found that the projections were mathematically accurate. We also found that the projections enabled the Authority to meet the two financing goals established by the Board of Directors.

In accordance with its General Revenue Bond resolution, the Authority has established the following four reserve funds:

- the Debt Service Reserve Fund, which is restricted to retain funds equal to the maximum amount of aggregate debt service for any 12-month period on all outstanding debt;

- the Construction Fund, which is restricted to hold moneys paid into it from the sale of bonds to pay for the costs of capital projects;

- the Reserve Maintenance Fund, which is restricted to hold funds required to be deposited each fiscal year, with a minimum of $30 million per year, for the purpose of paying specific costs relating to the capital plan and to pay debt service on bonds when deficiencies exist; and

- the Unrestricted Reserve, which includes any remaining balance of revenues after all other operating expenses, debt service reserves, and Reserve Maintenance reserves have been provided for. Unrestricted Reserves funds are used to pay for Canal System capital projects.

As of December 31, 2006, these reserves, excluding the Debt Service Reserve, totaled $211.9 million. At the end of the 2002 fiscal year, these reserves, excluding debt service, totaled $95 million. By the end of the 2005 and 2006 fiscal years, these reserves had risen to $194.9 and $211.9 million, respectively. According to Authority officials, this was due to construction delays primarily related to the Tappan Zee Bridge re-decking project. As of October 30, 2007, these reserves had declined to $156.1 million, consisting largely of bond proceeds from the October 2007 bond sale that will be used to pay for capital projects during the 2008 fiscal year.

We conclude that reserve balances are appropriate and the Authority has appropriately factored available reserve balances into its capital project financing plans.

Federal, State and Local Funding

The Authority receives relatively small amounts of Federal, State and local funding, and much of this funding is used for the Canal System. For example, in the 2008 budget, $17.4 of the $30.4 million in Federal funding is for the Canal System and $7.9 of the $31.8 million in State and local funding is for the Canal System. About $10.5 million in State funding represents the Department of Transportation's reimbursement for I-84 operating expenses. Additional amounts of State and local funding are shown in the Authority's budget, but these amounts are not actually received by the Authority; rather, they represent the State or local share for Thruway capital projects in which the Authority and the State or a locality share funding responsibility (such as bridges over the Thruway).

Each year, the Authority receives some Federal funding for certain designated capital projects on the Thruway. The Authority's 2008 budget contains $13.0 million in such funding. The State Department of Transportation, in conjunction with local transportation planning organizations, determines which Thruway projects receive Federal funding. Each year, the State receives Federal aid for highway projects, and the Department of Transportation meets with the local planning organizations to decide how the aid is to be allocated among the various eligible highway projects in the State. The Thruway is eligible for this funding under an agreement established in 1992 between the Authority, the Department of Transportation, and the Federal Highway Administration.

For the five-year projection period, the Authority estimated that it would receive $24.7 million in Federal highway funding (an average of $4.9 million a year). We examined the reasonableness of this projection and found that it was significantly understated, because no new Federal highway funding was projected for the period. The amounts projected related only to ongoing projects that were allocated Federal funding in prior years.

Authority officials acknowledge this understatement, stating that the amounts were not projected because they are not yet known. They noted that Federal highway funding for capital projects is allocated on an annual basis and future allocations cannot readily be predicted. Various highway projects in New York State are eligible for such funding, and there is no way of knowing how much total funding New York will receive or which particular projects will be allocated portions of this funding.

We acknowledge the uncertainty of these future funding amounts, but also note that, between 1988 and 2007, the Authority received an average of $33.5 million a year in Federal highway funding. It therefore seems that the Authority's projected average of $4.9 million a year in such funding is unreasonably low. While there is no way of knowing for certain how much new Federal highway funding the Authority will receive during the projection period, it is likely the Authority will receive some new funding.

Accordingly, we recommend the Authority adjust its projections to include a reasonable estimate for Federal highway funding. We note that the Department of Transportation estimates future Federal highway funding in its five-year projections. We therefore believe it is not unreasonable to expect the Authority to do the same.

It would be reasonable for the Authority to estimate at least $30 million a year in Federal highway funding (this is consistent with the past average of $33.5 million a year). Adjusted estimates in this manner would result in an additional $125.3 million being available for the period, as follows:

Federal Highway Funding Estimates	**In Millions**					
	2008	**2009**	**2010**	**2011**	**2012**	**Total**
Now	$13.0	$ 2.4	$ 3.2	$ 5.5	$ .6	$ 24.7
Anticipated	$30.0	$30.0	$30.0	$30.0	$30.0	$150.0
Difference	$17.0	$27.6	$26.8	$24.5	$29.4	$125.3

Recommendations

1. Ensure that the assumptions used in the revenue projection process are fully documented.

2. Use a collection agency or some other means to improve the collection of delinquent E-ZPass tolls and related administrative fees from motorists who do not respond to standard billing notices.

3. Evaluate the benefits of pursuing additional means of raising revenue through private-sector advertising and sponsorship.

4. Include a reasonable estimate for future Federal highway funding in the funding projections.

Thruway Operating Expenses

We examined the accuracy and reasonableness of the Authority's estimates for Thruway operating expenses during the five-year projection period. We found that the estimates are only a projection from past Authority spending practices. The Authority has performed no comprehensive analysis of its ability to reduce Thruway operating costs. We note that the new Director of the Massachusetts Turnpike Authority is performing such an analysis to determine where that Turnpike Authority's costs can be reduced. We recommend the Thruway

Authority perform a similar analysis to identify where its costs can be reduced.

Types of Operating Expenses

The Authority divides the Thruway's operating expenses into four general categories: departmental expenses, general charges, other operating expenditures, and reserves for claims and indemnities. In the Authority's budget for 2008, departmental expenses totaled $226.8 million, general charges totaled $118.8 million, other operating expenditures totaled $7.1 million, and reserves for claims and indemnities totaled $2.0 million, for a grand total of about $355 million.

Departmental expenses are incurred for Thruway maintenance ($71.3 million); toll collection ($43.9 million); State police services ($34.1 million); equipment and inventory management ($32.8 million); administration ($11.4 million); information technology ($10.3 million); finance and accounting services ($8.7 million); traffic services ($7.3 million); and engineering services ($6.9 million).

General charges are incurred for payroll benefits such as employee health insurance and pensions, E-ZPass account management, insurance premiums and surety bonds, and other miscellaneous expenses. Payroll benefits account for most ($95 million) of these expenses.

Other operating expenditures are made for small, non-capitalized equipment items and small, non-capitalized construction projects. Reserves for claims and indemnities relate to expenses that are incurred for personal injury lawsuits and other legal claims.

A total of 2,776 of the Authority's own employees and the 343 State Troopers are assigned to the Thruway, for a total Thruway staff of 3,119 (in addition, 89 staff are assigned to I-84 and 542 staff are assigned to the Canal Corporation). The Thruway staff positions (which include some vacancies) are assigned to the following areas of operations:

- administration, finance and information technology - 434
- operations (toll collection, State Police and traffic services) - 1,047
- engineering services - 201
- Thruway maintenance and equipment management - 1,437

The net personal service costs associated with these 3,119 staff accounted for about $287 million of the total $355 million (81 percent) in operating expenses included in the 2008 budget.

As noted, 89 Authority staff positions are assigned to the maintenance and operation of I-84. Beginning in November 2007, the maintenance and operations expenses of this toll-free State highway are to be fully reimbursed by the Department of Transportation pursuant to a one-year agreement between the Authority and the State (the agreement was made to compensate the Authority for toll revenue that was lost when tolls for all vehicles were removed at two Thruway toll barriers in Buffalo in October 2006). If the agreement is not renewed, the Department of Transportation will assume these responsibilities in the future. Since the Authority formally acquired the Cross-Westchester Expressway (I-287), the other toll-free State highway it maintains, its maintenance and operations expenses for I-287 are included among the overall Thruway maintenance and operations expenses (however, the State is still responsible for capital projects on this highway).

Thruway maintenance ($71.3 million) is by far the largest operating expense for the Thruway. It includes maintenance of the Thruway's roadway, bridges, and buildings and other structures, and snow and ice removal. The Thruway has 3,240 lane-miles of roadway and 362 buildings and other structures. The buildings and other structures include:

- 59 buildings at one central and four regional administrative headquarters,
- 146 maintenance buildings located throughout the State,
- 55 buildings at the Thruway's service areas,
- 49 interchange buildings for toll collection staff,
- 13 State Police barracks for the Troopers who patrol the Thruway,
- 12 toll barriers, and
- 28 radio towers and miscellaneous structures.

In addition, the Authority has full or partial maintenance responsibility for 807 Thruway bridges (the State shares in the responsibility for 68 overhead bridges).

The Authority also owns and operates a fleet of vehicles and maintenance/construction equipment, and operates an Intelligent Transportation System consisting of permanent overhead message signs, closed circuit televisions, and traffic count stations.

Projected Operating Expenses

In its projections for the five-year period 2008 through 2012, the Authority estimates that its operating expenses will increase from about $355 million in 2008 to about $400 million in 2012, an average increase of about 3.2 percent a year. These estimates are based on present-day costs, terms of existing labor contracts, changes in pension funding requirements, continued inflation for wages and operating and maintenance supplies, and a new cost-containment initiative.

Under the cost-containment initiative, the annual growth in the adjusted operating budget (the total operating budget less "other operating expenditures" and reserves for claims and indemnities) is not to exceed 3.5 percent. In addition to this small reduction in the growth of its annual operating budget, further savings are to be realized through the elimination of ten or more full-time staff positions in each year between 2008 and 2011. These staffing reductions are expected to generate $750,000 in savings in 2008, with the annual savings increasing to $3 million in 2011, when a total of at least 40 staff positions are to have been eliminated.

Other operating expenditures and reserves for claims and indemnities are generally projected at the same level throughout the five-year projection period (other operating expenditures are projected at $7.1 million in 2008 and at $6.25 million in each following year; reserves for claims and indemnities are projected at $2.0 million in each year).

It should be noted that, in making its expense projections, the Authority simply applied a 3.5 percent annual rate of growth to the prior year's total adjusted operating expenses. The Authority then subtracted the expected savings from the intended reductions in staff positions. There was no detailed analysis of specific Thruway operating expenses, even though different types of expenses may be affected by different factors. For example, the factors affecting toll collection costs (such as expected reductions in cash payments and expected increases in E-ZPass payments) are different than the factors affecting information technology costs.

There was also no analysis of the Authority's ability to reduce Thruway operating costs. It is possible that, in some areas of its operations, there may be waste or inefficiencies, and as a result, unnecessary costs are being incurred. Under the Authority's budgeting process (i.e., across-the-board 3.5 percent increases), any such inefficiencies would simply be perpetuated.

We further note that, in planning to reduce staffing levels by ten or more full-time positions a year, the Authority is not targeting specific types of positions for elimination and is not even targeting filled positions. Rather, any positions, including those that have been vacant for years, can be counted if they are eliminated.

For example, in 2008, the Authority planned to eliminate 12 Thruway positions. All 12 positions were vacant, and seven of the positions had been vacant for at least one full year. In fact, one of the positions (a stores clerk) had been vacant for more than four years (April 2003) and another (a toll collector) had been vacant for about three years (November 2004). We question whether the elimination of such positions truly qualifies as cost-containment.

We also note that Authority officials could provide no basis for their goal of eliminating at least 40 positions over the five-year projection period, just as they could provide no basis for their goal of limiting the increase in their operating expenses to 3.5 percent a year. While such cost reductions may, in fact, be the most the Authority can reasonably be expected to achieve, it is also possible that greater reductions can be achieved. In the absence of a comprehensive, top-to-bottom analysis of the Thruway's operating expenses, the adequacy of the Authority's cost-containment initiative cannot be evaluated.

Authority officials stated that, in their opinion, they already perform a comprehensive analysis of Thruway operating expenses during each annual budget cycle, as the budget requests from each operating unit are subject to thorough and rigorous reviews by the Authority's Department of Finance and Accounts. In addition, staffing levels are periodically reviewed and new positions require a cost-benefit review and justification prior to approval. The officials further noted that, during the development of the 2008 budget, the operating units were instructed to hold their expenses to 2007 levels, and to be prepared to justify any increases. They also noted that expenditures are constantly monitored and immediate action is taken whenever material variances from the budget are identified.

We acknowledge the efforts that have been made by the Authority to contain operating expenses. However, such efforts appear to be geared towards maintaining existing costs at their current levels, which is not the same as determining whether any of those costs can be reduced or eliminated. We found no indication the Authority has performed this type of analysis.

In addition, despite the Authority's efforts to contain its operating expenses, the expenses have been increasing at higher-than-expected rates. In 2004, in connection with the toll increases that were then proposed for 2005 and January 2008, the Authority projected its operating expenses for the next six years. In

2005, 2006 and 2007, the actual operating expenses (or projected actual for 2007 as of November 2007) exceeded the projections by 1.4 percent, 3.5 percent and 6.5 percent, respectively (the actual operating expenses in those years grew by 2.7 percent, 5.3 percent and 5.3 percent, respectively). For 2008, 2009 and 2010, the expenses projected in 2007 (in connection with the toll increases proposed for July 2008 and after) exceeded the expenses projected in 2004 by 8.1 percent, 9.2 percent and 10.0 percent, respectively. It thus appears that, unless a new approach is taken to cost containment, Thruway operating expenses could continue to increase at higher-than-expected rates.

To provide better assurance the operating expenses projected by the Authority for toll adjustment purposes are, in fact, subject to appropriate cost-containment efforts, we recommend the Authority perform a comprehensive, top-to-bottom analysis of Thruway operating costs in connection with all toll adjustment requests to identify where costs can be reduced. The Authority should consider whether this analysis should be performed by an independent party, as is the case with the Authority's revenue projections.

For example, we have a current audit in progress of State-wide overtime controls at the Division of State Police (Report 2007-S-16, *Overtime Controls*). This audit points out that State Troopers patrolling State roadways, including the Thruway, are paid overtime when they appear in local vehicle and traffic courts, during non-duty hours, to be available in case they are needed to provide testimony about traffic tickets they have issued to motorists on the Thruway. These overtime costs are fully reimbursed by the Thruway Authority.

However, we found that the Troopers are rarely asked to provide testimony during these appearances, and could wait to see if the cases actually go to trial before appearing in court. Some Commanders instruct their Troopers to take this approach, but others do not. If this approach were taken by State Troopers patrolling the Thruway, a significant portion of their overtime costs of nearly $1.9 million could have been avoided for the State fiscal year ending March 31, 2007.

We believe that, if other areas of the Thruway's operations were subject to the same type of scrutiny, or if other Thruway operating costs were analyzed in a thorough and comprehensive manner, similar opportunities for cost savings could be identified.

Recommendation

5. Perform a comprehensive, top-to-bottom analysis of Authority operating costs to identify where costs can be reduced. In addition, in the future, perform this analysis in connection with all toll adjustment requests.

Capital Projects

We examined the accuracy and reasonableness of the Authority's estimates for capital expenditures during the five-year projection period. Our review of a sample of capital projects indicates that the projects' cost estimates are supported by appropriate documentation and appear to be reasonable. We also found that the projects themselves appear to be useful and beneficial.

We further found the Authority appears to be capable of maintaining the planned capital activity which is entailed by its capital plan. However, our analysis of this capability was hampered, to some extent, by a weakness in the Authority's capital project management system, and we cannot conclusively state that the Authority will be able to complete all of its capital plan by 2011, as scheduled.

We also question whether it is necessary for the Authority to complete all the projects on the plan by that time. We identified several non-essential projects that do not affect highway/bridge structural conditions, and thus, could be deferred until after 2012. These projects were budgeted for a total of nearly $160 million in the three years we examined (2008 through 2010).

We note that such non-essential projects could not readily be identified, because the projects on the capital plan were not prioritized. We recommend the Authority prioritize its capital projects, analyze all five years of the capital plan, and determine which of its non-essential projects can be deferred until after 2012.

We also determined that there was no detailed support for $152 million in estimated equipment replacements and $61 million in estimated inflationary cost increases for construction materials. We recommend that these estimates be supported by detailed documentation.

Capital Plan

In 2005, the Authority initiated a multi-year capital plan that now totals $2.7 billion (the plan initially totaled $2.6 billion, but revisions in 2007 increased the plan to its current level). The plan has three major components:

- Thruway bridge and highway projects ($2.14 billion),
- Thruway equipment replacement and other facility capital needs ($334.5 million), and
- Canal System projects and mandated economic development projects ($265.3 million).

Authority officials expect the plan to be completed in 2011. In 2005 and 2006, capital expenditures from the plan totaled $145.4 million and $244.6 million, respectively; in 2007, they were expected to total $438.9 million. Thus, in the three years prior to the five-year projection period, capital expenditures from the plan are expected to total $828.9 million.

In the final four years of the plan (2008 through 2011), capital expenditures are expected to total $1.91 billion. In addition, in the final year of the five-year projection period (2012), capital expenditures are expected to total $429.4 million. Thus, during the five-year projection period, the Authority's capital expenditures are expected to total $2.34 billion, as follows:

Capital Expenditures		
Year	**Total (in Millions)**	**Actual or Estimated**
2005	$ 145.4	Actual
2006	$ 244.6	Actual
2007	$ 438.9	Estimated
Subtotal	$ 828.9	Estimated
2008	$ 545.4	Estimated
2009	$ 477.2	Estimated
2010	$ 456.6	Estimated
2011	$ 429.2	Estimated
Subtotal	$1,908.4	Estimated
Plan Total	$2,737.3	Estimated
2012	$ 429.4	Estimated
2008 - 2012	$2,337.8	Estimated

The dollar value of the Authority's current capital plan is much larger than the dollar value of its prior capital plans; the most recent multi-year capital plan, covering the period 1997 through 2002, totaled $1.55 billion. According to the Authority, the current capital plan was developed mainly to meet the need for increased reconstruction and rehabilitation of the Thruway's aging infrastructure, most of which is at least 50 years old, and to address congestion and delays from increasing traffic volumes on the Thruway.

The capital plan includes more than 300 individual projects. The expected construction costs for the 343 projects for which construction contracts have been awarded, or are about to be awarded, range from less than $100,000 to as much as $147 million, as follows:

- 10 projects are budgeted for between $50 million and $147 million in construction costs, for a combined total of $805.7 million in such costs (an average of nearly $81 million per project);

- 21 projects are budgeted for between $15 million and $49.9 million in construction costs, for a combined total of $432.6 million in such costs (an average of nearly $21 million per project);

- 60 projects are budgeted for between $5 million and $14.9 million in construction costs, for a combined total of $495.0 million in such costs; (an average of about $8 million per project)

- 252 projects are budgeted for less than $5 million in construction costs, for a combined total of $395.5 million in such costs (an average of about $1.6 million per project).

In addition to construction costs, project costs may also be incurred for feasibility studies, environmental studies, design services, inspection services, material testing, and other services.

The capital plan provides for 520 lane miles of new and/or rehabilitated highway; 196 new, rehabilitated or improved bridges; 69 new higher-speed E-ZPass lanes; six new dedicated E-ZPass lanes; seven new noise barrier locations; and 195 new parking spaces for trucks at service areas.

The capital plan also provides for toll barrier improvements and reconfigurations to enable non-stop travel from one end of the system to the other, including improved access to major connector roads such as I-84 and the Massachusetts Turnpike (I-90). The capital plan also includes the rehabilitation of certain interchange and connecting ramp pavement, and work at toll barriers includes elements required for the safe implementation of higher-speed E-ZPass lanes.

It should be noted that the capital plan does not include a major project that will likely have to be initiated in the foreseeable future: the replacement or reconstruction of the Tappan Zee Bridge, the largest bridge in the Thruway system. Opened to traffic in December 1955, the Tappan Zee Bridge was built to last 50 years. A $50 million re-decking project on the current capital plan is intended to keep the Bridge in service a while longer, but the current structure will soon have to be rebuilt or replaced.

The Authority is participating in a comprehensive study of the Tappan Zee Bridge I-287 Corridor in conjunction with the Department of Transportation and the

Metropolitan Transportation Authority, and proposals for the replacement or reconstruction of the Bridge are being considered. Any extended interruption of traffic across the Bridge would have a significant effect on Thruway revenue, because toll collections at the Bridge account for a significant portion of the Thruway's total toll revenue (about 18 percent in 2006).

According to the Authority's projections, if the bridge projects included on the capital plan are not implemented, the number of Thruway bridges in poor condition will nearly double by 2012, increasing from 39 to 77, and the number of bridges in good condition will decrease by 100, from 431 to 331. Even if all the bridge projects on the capital plan are implemented, the number of bridges in poor condition will increase to 45 and the number in good condition will decrease to 384. The following table summarizes the Authority's projections relating to bridge condition:

Bridge Condition Rating	Number of Bridges		
	Currently	With Capital Plan	Without Capital Plan
Good	431	384	331
Fair	337	378	399
Poor	39	45	77

Support for Capital Plan

To determine whether the capital expenditures projected by the Authority were supported by appropriate documentation and appeared to be reasonable, we performed two audit tests. In our first test, we reviewed a sample of capital projects. In our second test, we reviewed a sample of equipment replacements.

In our first test, we judgmentally selected a total of 30 capital projects for review. We selected 16 projects that were expected to have expenditures in 2008 and 14 projects that were expected to have expenditures in 2009. We selected different types of projects with relatively high-dollar amounts.

Included in our sample were bridge, highway, architectural, canal and Intelligent Transportation System projects. The 16 projects for 2008 accounted for $236.1 million of the capital project expenditures budgeted for that year, and the 14 projects for 2009 accounted for $112.4 million of the capital project expenditures budgeted for that year.

We then reviewed the documentation supporting the capital expenditures estimated for those 30 projects in those two years. We found that the estimates were adequately supported by the documentation and appeared to be reasonable. The estimates for the more complex projects were voluminous and detailed, and while the estimates for the less complex projects were not as detailed, they appeared to be sufficient for the nature and scope of the projects. The cost of some projects had increased since their initial estimates, but this appeared to be the result of inflation, and in some instances, changes in project scope.

In our second test, we judgmentally selected a sample of 78 equipment items projected for replacement in 2008. The 78 items were projected to cost $7.7 million, and thus accounted for 22 percent of the total $34.8 million in equipment replacements projected for that year. In selecting our sample, we selected a mixture of low, mid and high-dollar value items from certain administrative units (the Buffalo Division, State Police and Administrative Vehicles, and the units responsible for I-84 and I-287). Our sample included such items as State Police vehicles, administrative vehicles, construction equipment, snow plows, pressure washers, lawn mowers, and message sign boards.

We reviewed the documentation supporting these equipment replacements to determine whether the items qualified for replacement under the Authority's written equipment replacement guidelines. We found that 70 of the items appeared to qualify for replacement. We could not determine whether the remaining eight items qualified for replacement, because five of the items were not specifically listed in the equipment replacement guidelines and the documentation for the other three items did not contain enough information for a determination. However, for the purposes of our overall reasonableness test, it appears that the equipment replacements were, for the most part, appropriate and reasonable.

To estimate its capitalized equipment replacements for 2008, the Authority did a needs assessment and identified specific items that needed replacement. However, for 2009 through 2012, the Authority performed no needs assessment. Rather, it estimated total capitalized equipment replacements of $38.0 million in each of the four years. The Authority's Director of Fiscal Budget and Audit told us these estimates are temporary "placeholders" that are based on past experience. Estimates based on actual needs will not be developed until the budgets for those years are developed.

We asked for documentation to support the estimate of $38 million for 2009 through 2012, but no documentation was provided. We recommend the Authority base all equipment replacement estimates on documented needs assessments.

Reasonableness of Capital Plan

The amounts budgeted annually for capital expenditures in 2008 through 2011 (between $429 and $545 million) are much larger than any prior annual amounts actually expended by the Authority for capital projects. As is shown in the following tables, between 1996 and 2006 (the most recent year for which total actual capital expenditures were available), the Authority's capital expenditures ranged between $145.4 and $305.2 million, and averaged only $219.9 million:

Actual Capital Expenditures (in Millions)	
1996	$ 146.3
1997	$ 158.5
1998	$ 250.7
1999	$ 305.2
2000	$ 233.7
2001	$ 283.2
2002	$ 234.0
2003	$ 229.0
2004	$ 188.6
2005	$ 145.4
2006	$ 244.6
Average	$ 219.9

In addition, in 2003 through 2006, the Authority's actual capital expenditures were consistently lower than the amounts budgeted, as follows:

Year	**Amounts in Millions**		
	Budgeted	**Actual**	**Difference**
2003	$337.9	$229.0	$108.9
2004	$313.0	$188.6	$124.4
2005	$240.7	$145.4	$ 95.3
2006	$358.1	$244.6	$113.5

Therefore, to assess whether it was reasonable to expect the Authority to be able to complete the large amount of work contained in its current capital plan by 2011, we examined the reasons for the Authority's shortfalls in capital expenditures in 2005 and 2006 to determine whether those same reasons might affect the Authority's capital spending in 2008 through 2011. In addition, we analyzed the progress made, as of November 30, 2007, on (1) the capital projects budgeted for that year and (2) the contract award process for capital projects budgeted for 2008, the single largest year in the plan for capital expenditures ($545.4 million).

We found that, in 2005 and 2006, the shortfalls in capital expenditures were caused, to a large extent, by the delay in starting a single major project: the re-decking of the Tappan Zee Bridge. Since a delay on one project may be an isolated incident, we cannot infer from this one delay that similar spending shortfalls can be expected in 2008 through 2011.

In addition, we found that, as of November 30, 2007, the Authority had initiated 289 of the 306 project items budgeted for that year (some projects consist of only one "item," while others have multiple "items" - i.e., discrete parts), and incurred $295.4 million in capital expenditures from a budget of $438.9 million. Once again, delays on the Tappan Zee Bridge project were responsible for much of the spending shortfall. If this project were removed from consideration and the remaining budgeted amounts for the year were prorated to November 30, 2007, the expenditures as of that date accounted for 93 percent of the prorated budgeted amounts.

For 2008, we found that, as of November 30, 2007, the Authority had already awarded contracts for 251 of the 565 project items budgeted for that year, and was close to awarding contracts for 26 other project items. The contracts for the 251 items totaled about $284 million and the contracts for the 26 other items are expected to total about $12 million. It thus appears that the Authority is making fairly good progress on its capital plan for 2008.

On the basis of these analyses, we cannot conclusively state that the Authority will be able to complete all of its capital plan by 2011, but its performance in 2007 and its progress on 2008 indicate that the Authority is capable of achieving higher levels of capital expenditures than in the past.

According to Authority officials, the higher levels of spending projected for this capital plan are due, in large part, to inflationary increases in costs for certain construction materials. The officials also note that the project scopes on the current capital plan tend to be larger than the project scopes on past plans, because of the age of the Thruway and the increased need for major rehabilitation and reconstruction.

Our analysis of the Authority's progress on the capital projects budgeted for 2007 was hampered, to some extent, by a weakness in the Authority's capital project management system. The management reports used by engineering personnel are based on project items, while the management reports used by finance personnel are based on aggregate dollars spent. The only way to relate the two reporting systems, and thus determine how much has been spent on each individual project item to date, is to match the individual dollar figures from one report to the individual project item identification numbers on the other report. This is a laborious, time-consuming process.

As a result of this weakness in the Authority's capital project management system, it is difficult to determine the actual progress to date on the capital plan. The Board of Directors thus has no ready means of monitoring this progress, and may be unable to respond effectively when public officials seek information about the status of particular projects. We recommend the Authority develop management reports showing the progress to date and dollars spent on each individual project item.

Prioritization of Individual Capital Projects

The current capital plan contains more than 300 individual projects, and each project contains one or more project item. We reviewed descriptions of the project items and noted that some items are clearly more critical than others because they affect highway/bridge structural conditions. Despite these differences in importance, the projects and project items are not prioritized to facilitate any adjustments that may need to be made in response to unanticipated funding shortages. We recommend the projects and project items on future capital plans be prioritized to facilitate such adjustments.

In the absence of clearly indicated prioritization, essential project items cannot be distinguished from non-essential items without a detailed analysis of certain Authority records. We performed such an analysis for 2008 through 2010 to determine how the Authority's funding needs for the Thruway would be affected if non-essential project items (i.e., those not affecting highway/bridge structural conditions) were deferred until after 2012. We did not review any projects for 2011 and 2012 because of the time-consuming nature of the review and the tight timeframe for our audit. In performing our analysis, we included only that portion of the project funded by the Thruway.

We identified a total of 59 non-essential project items. The estimated cost of these 59 items, between 2008 and 2010, is $159.6 million. Included among the items are new E-ZPass lanes; new noise barriers; new parking spaces at service areas; new Thruway pedestrian bridges; new and rehabilitated Thruway facilities (such as State Police barracks, maintenance buildings and toll interchange facilities); new components for the Intelligent Transportation System; new canal trails; a project to keep the public informed about decisions relating to the replacement of the Tappan Zee Bridge; and the relocation of fiber optic cables installed along the Thruway.

Type of Project Item	Number	2008	2009	2010	Total *
E-Z Pass Lanes	11	$39,032,367	$40,058,942	$13,287,318	$92,378,627
New/Rehabilitated Facilities	6	$12,064,761	$9,440,647	$7,677,379	$29,182,787
Intelligent Transport System	8	$1,365,564	$6,716,826	$6,176,379	$14,258,769
Noise Barriers	9	$1,085,333	$996,667	$6,988,250	$9,070,250
Parking Expansion	6	$3,089,208	$498,000	$0	$3,587,208
Pedestrian Bridges	2	$2,783,600	$0	$0	$2,783,600
Canal Trails	15	$929,996	$760,367	$5,762	$1,696,125
Public Outreach and Fiber Optic Relocation	2	$629,285	$504,286	$0	$1,133,571
Inflationary Increases **	--	$0	$878,000	$4,596,979	$5,474,979
Total *	**59**	**$60,980,114**	**$59,853,735**	**$38,732,067**	**$159,565,918**

* - May not add up due to rounding.

** - As is explained below, the Authority projects annual inflationary cost increases for certain types of project items, and it appears that such increases are projected for 12 of the items in the table.

In noting that these items could be deferred because they do not affect highway/bridge structural conditions, we are not questioning the value and benefit of the items. They all appear to be useful items that would either improve Thruway service, address complaints about noise from the Thruway, meet established recreational goals, or meet other identified public needs.

However, these project items are clearly less critical than bridge and highway repair and reconstruction project items, and could be deferred if necessary. Indeed, some of these items were deferred in the past, when it became apparent that there was not enough funding available for all the items on the Authority's capital plan.

If these project items, and their costs, were deferred until after 2012, the Authority's revenue needs during the five-year projection period would be reduced (as was noted previously, the Authority's revenue needs would not be reduced on a dollar-for-dollar basis, because of the need for the Authority to maintain a certain debt coverage ratio and because of the way capital projects are funded). As is shown in the preceding table, during 2008, 2009 and 2010, these costs are projected to total $61.0 million, $59.9 million and $38.7 million, respectively. In addition, since some of the items are scheduled to extend into 2011, the revenue needs for that year would also be reduced.

We recommend the Authority perform, for 2008 through 2012, the same review we performed for 2008 through 2010. Specifically, we recommend the Authority identify the non-essential capital project items that are scheduled for all five years, and their related costs, to determine how the Authority's funding needs for the Thruway would be affected if the items were deferred until after 2012.

It should be noted that, as of November 30, 2007, contracts had been awarded, or were about to be awarded, for $102.9 million of the total $159.6 million in estimated project costs for 2008, 2009 and 2010. The work on these contracts can still be cancelled or suspended, because the contracts are contingent on the availability of funding, and sufficient funding would not be available if the proposed toll increases were not approved. However, such an action would have an effect on the contractors, and this effect would need to be taken into account in the decision-making process.

Estimated Inflationary Increases

During our review of project items, we determined that, beginning in 2009, the Authority was projecting an annual amount for inflationary increases on highway and bridge construction contracts. These increases represent the amounts by which the contract values are expected to increase from the dates the values are originally estimated to the dates the contracts are actually awarded. For the three-year period 2009 through 2011 (the three remaining years in the capital plan), the Authority projected a total of $61.2 million in such increases. About $15 million was projected for 2009, $18.9 million for 2010, and $27.3 million for 2011.

To estimate these increases, the Authority added between 5 and 7 percent to the sum of the affected contracts in the year the contracts were let. We acknowledge the need for the Authority to estimate such inflationary increases in costs. However, Authority officials could provide no documentation to justify the percentage increases that were estimated in each year and no project-by-project break down to support the total estimate for each year. As a result, we cannot evaluate whether the $61.2 million estimate of these costs is reasonable. We recommend the Authority document the basis for these estimates. We also note that, in applying the entire inflationary increases in the years the contracts were let, the Authority may be overstating the increases in those years. This is because some of the contract payments may not be made until subsequent years.

We further note that 12 of the 59 non-essential project items that we identified would qualify for inflationary costs increases. The Authority does not break down its $61.2 million estimate for inflationary increases on an item-by-item basis, but using the estimation methodology described by Authority officials, we estimate that $5.5 million of this amount would relate to these 12 non-essential project items. As a result, if these items are deferred until after 2012, the $61.2 million estimate for inflationary increases would be decreased accordingly.

Recommendations

6. Base all equipment replacement estimates on documented needs assessments.

7. Develop management reports showing the progress to date and dollars spent on each individual project item.

8. Prioritize the projects and project items on future capital plans to facilitate any adjustments that may need to be made in response to unanticipated funding shortages.

9. Identify the non-essential capital projects that are scheduled for 2008 through 2012, determine which of those projects can be deferred until after 2012, and determine how the Authority's funding needs for the Thruway would be affected if the projects were deferred.

10. Document the basis for any estimates of inflationary increases in construction contracts.

Non-Thruway Activities

In the early 1990s, the Authority was given four additional areas of responsibility that went beyond its original mission of constructing, operating and maintaining the Thruway: I-84, I-287, the Canal System, and various mandated economic development projects across the State. The Authority has spent more than $1 billion in Thruway revenue on operating expenses and capital projects in these four areas, as follows:

- Canal System - $700.4 million
- I-84 - $164.1 million
- I-287 - $100.7 million
- Economic development projects - $61.4 million

Unquestionably, if the Authority could have used that revenue for Thruway purposes, the current financial condition would be stronger. The Authority's Executive Director in a letter to the Deputy Secretary to the Governor on December 13, 2007, in response to questions about the proposed toll increases, noted that if the Authority had been able to retain this $1 billion in Thruway revenue and use it for Thruway purposes, "it would have been in a better position to weather the impact [of] current gas prices and reduced traffic."

Going forward, the Canal System is the only non-Thruway project that is expected to need significant amounts of Thruway revenue. I-84 is to be fully funded by the State, I-287 has been purchased by the Authority and made part of the Thruway, and the remaining mandated economic development projects are expected to need only about $105,000 in Thruway revenue.

The 524-mile Canal System consists of four Canals: the 338-mile Erie Canal, the 60-mile Champlain Canal, the 24-mile Oswego Canal, and the 92-mile Cayuga-Seneca Branch. Connections to the Syracuse and Rochester Harbors make up an additional 10 miles of the Canal System. The Canal System links the Hudson River with Lake Champlain, Lake Ontario, the Finger Lakes, the Niagara River, and Lake Erie. There are a total of 57 locks and 18 lift bridges in the Canal System.

While the Canal System may be used for commercial purposes, such as shipping and tour boats, it is used mainly for recreation. To help revitalize the Canal System and its surrounding communities, in 1992, the State Legislature created the Canal Recreationway Commission. The Commission was charged with developing a revitalization plan for the Canal System, and in August 1995, it presented such a plan: the Canal Recreationway Plan.

The Canal Recreationway Plan provides the criteria and framework for the development of the Canal System into a recreationway system and establishes the goals and objectives for increasing the Canal System's recreation use, promoting its historic heritage, and enhancing its economic development potential. The Plan recommends the construction of seven harbors at gateways and key destinations along the Canal System, and to improve canal frontage at lock sites and municipalities along the System, proposes 96 service port and lock projects of varying complexity. The Plan also proposes the creation of a continuous 500-mile trail spanning the entire length of the Canal System.

The Canal Corporation, a subsidiary of the Authority, was created in 1992 to operate and maintain the Canal System (the Department of Transportation previously had these responsibilities). The Canal Corporation's stated goal is "to transform the Canal System into a world class recreationway, with clustered development to foster recreation, tourism and economic development, while preserving the natural and historical environment of the System and its adjacent communities." In September 1995, the Canal Corporation adopted the Canal Recreationway Plan, and since that time, has initiated several of the projects contained in the Plan.

The Canal Corporation has a total of 542 authorized staff positions. In the Authority's budget for 2008, the Canal Corporation is budgeted $53.5 million for operating expenses and $54.1 million for capital projects. While the Canal Corporation receives some State and Federal funding ($25.2 million is estimated for 2008), most of its activities are funded by Thruway revenue ($80.4 million is estimated for 2008). The Canal Corporation also receives proceeds from certain specially designated Authority bonds ($2.0 million is estimated for 2008). The Canal Corporation generates revenue from leases on property that it owns along the Canal System. In 2006, such revenue totaled $1.65 million.

In its projections for the five-year period 2008 through 2012, the Authority estimates that the Canal Corporation's operating expenses will increase from $53.5 million in 2008 to $59.6 million in 2012, an average increase of about 2.9 percent a year. In addition, the Authority estimates that the Canal Corporation's capital expenditures will decrease steadily from $54.1 million in 2008 to $37.1 million in 2012, an average decrease of about 7.9 percent a year. The Authority estimates that a total of $395.3 million in Thruway revenue (an average of about $79 million a year) will be needed to cover the operating expenses and capital costs not covered by other funding sources, as follows:

Projections for Canal System
(In Millions)

	2008	2009	2010	2011	2012	Total
Operating Expenses	$ 53.5	$ 53.8	$ 59.0	$ 58.0	$ 59.6	$ 283.9
Capital Expenditures	$ 54.1	$ 44.7	$ 41.9	$ 41.2	$ 37.1	$ 219.0
Total	$107.6	$ 98.5	$100.9	$ 99.2	$ 96.7	$ 502.9
Non-Thruway Funding	$ 27.2	$ 18.6	$ 20.9	$ 22.9	$ 18.0	$ 107.6
Thruway Revenue	$ 80.4	$ 79.9	$ 80.0	$ 76.3	$ 78.7	$ 395.3

We did not evaluate the reasonableness of the projected operating expenses, but note that, as was the case with Thruway operating expenses, there was no detailed analysis of specific Canal Corporation operating expenses and no documentation analysis of the Corporation's ability to reduce its operating costs. For the capital expenditures, we found that the cost estimates for those projects were adequately supported by documentation and appeared to be reasonable. In addition, $1.7 million in canal trail projects were included among the non-essential project items that we identified.

In our recent audit of the Canal Corporation (Report 2005-S-66), we identified a number of weaknesses in controls over capital projects and noted that work on the 500-mile Canalway Trail was $17 million, or about 49 percent, over budget and at least two years behind schedule.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited the Thruway Authority's revenue, expense and other financial projections for the period January 1, 2008 through December 31, 2012, as presented in the report entitled *New York State Thruway Financial Requirements and Proposed Toll Adjustments.* This report shows the need for and implications of the Authority's proposed toll increases, as required by Section 2804 of the Public Authorities Law. We examined whether the calculations used in developing the financial projections were accurate, complete and supported by appropriate documentation, and whether the assumptions used in developing the projections appeared to be reasonable and were supported by appropriate documentation.

To accomplish our objective, we interviewed Authority officials and staff, and reviewed Authority records and documents. We also interviewed representatives of Stantec Consulting Services, the engineering firm which prepared the toll revenue projections, and reviewed their projection model. In addition, we drew upon information acquired in certain other recent audits we conducted at the Thruway Authority, the Canal Corporation, and the Division of State Police.

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 no affect our ability to conduct independent audits of program performance.

AUTHORITY

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

REPORTING REQUIREMENTS

A full copy of the Authority's response is included in this report as Appendix A. Our rejoinders to the Authority's response are included in this report as Appendix B, State Comptroller Comments.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chairman 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 recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Carmen Maldonado, Gerald Tysiak, Roger C. Mazula, Wayne Bolton, Raymond Barnes, Michael Brisson, Anthony Calabrese, Meredith Holmquist, Tom Marks, Frank McEvoy, Steve Elliott and Dana Newhouse.

John L. Buono
Chairman

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January 23, 2008

Mr. Jerry Barber
Assistant Comptroller
Division of State Government Accountability
Office of the State Comptroller
110 State Street — 11th Floor
Albany, NY 12236

Dear Mr. Barber:

Re: New York State Thruway Authority, Proposed Toll Increases for July 2008 through January 2010, Report 2008-S-6

Thank you for providing the Thruway Authority (Authority) with your office's draft audit on the Authority's proposed toll adjustment and offering staff the opportunity to comment on its contents. I would also like to thank your audit staff for the professionalism and expediency with which they performed the draft audit.

The draft audit confirms that:

- the Authority's $2.1 billion Multi-Year Highway and Bridge Capital Program (Capital Program) contains projects that are "useful and beneficial" and that the "projects' cost estimates are supported by the appropriate documentation and appear to be reasonable";
- funding demands of the Capital Program "are the main reason for the projected cash shortfalls";
- cost containment efforts already in place may "be the most the Authority can reasonably be expected to achieve";
- revenues projected by the Authority's traffic engineer "for the five-year period appear to be reasonable";
- reserve balances "are appropriate and the Authority has appropriately factored available reserve balances into its capital project financing plans";
- the Authority "receives relatively small amounts of Federal and State and local funding";

- the Authority's financial projections "enabled the Authority to meet the two financing goals established by the Board of Directors"; and

- obligations for non-Thruway related projects since 1991 climbed to over $1 billion in 2007 and that these obligations are statutorily mandated and outside of the control of the Authority. These mandatory projects include the New York State Canal System, I-84, I-287 and various economic development projects (such as the Buffalo and Syracuse Inner Harbors and the Stewart Airport access project). The draft audit further states that if the Authority did not carry these obligations, that its "financial condition would be stronger."

However, the draft audit's conclusion that the proposed toll adjustment may not be necessary is not supported by the findings or the recommendations contained therein. The Authority estimates that the total impact of the draft audit's recommendations is only a small fraction of the $520 million in additional revenue that is required to continue its planned infrastructure investments. Even if the Authority agreed and fully accepted the recommended Capital Program deferments and additional estimates of Federal aid (which it does not), the Authority estimates the cumulative impact through 2012 of the draft audit's recommendations to be $70 million. However, after adjusting for the recommendations that the Authority does not agree with, the estimate is reduced by more than one-half that amount. Considering the Authority's $520 million revenue need through 2012, neither estimate would offer the opportunity to significantly change the proposed toll structure. * Comment 1

Additional toll revenue provides enhanced debt service coverage ratios on a dollar-for-dollar basis and can be used to leverage the Capital Program. In contrast, in comparison to toll revenue, additional Federal aid and deferred capital projects have an indirect and less significant impact on the debt service coverage ratio and revenue needs as they reduce the level of debt required to support the Capital Program. Since debt that is issued to support the Capital Program is typically issued for a 30-year term, the annual debt service savings generated by reducing the amount of debt is approximately ten cents in annual savings for each reduced dollar of bonding.

The principal recommendations made in the draft audit to which the Authority takes issue include the following:

- **The Authority include higher estimates of future Federal aid in its Multi-Year Financial Plan.**

  Similar to its responsibility to operate and maintain the Canal System and I-287, the Authority has no unilateral control over whether or how much Federal aid it receives. Further, as described later in this letter, there are no agreements or commitments in place that would allow the Authority to receive additional Federal aid, and any such aid delivered to the Authority would be at the expense of the State's Transportation Infrastructure Capital Program. * Comment 2

* See State Comptroller's Comments, page 53

- **"Non-essential" projects, as labeled by the draft audit, should be deferred, including highway-speed E-ZPass, truck parking improvements, Intelligent Transportation Systems (ITS) and public outreach funds for the Tappan Zee Bridge.**

  *** Comment 3**

  Most of the 59 projects recommended for deferral in the draft audit (complete list enclosed as Exhibit 1) include projects that have clear safety benefits, as well as reduce congestion and address environmental concerns.

  In fact, more than $85 million of the $159 million in projects that are recommended for deferral in the draft audit are directly related to conversion of mixed mode mainline toll barriers to highway-speed E-ZPass, with physical separation of electronic (non-stop) and cash (stop) customers. These projects are consistent with the findings in a 2006 report by the National Transportation Safety Board, that such projects increase safety in toll plazas by limiting vehicle merging, weaving, queuing and differential speeds at these locations.

  Other projects the draft audit recommends for deferral include truck parking improvements at travel plazas and ITS improvements. The draft audit also recommends eliminating the remaining funding that is critical to complete the direct connection between I-84 and I-87 at Interchange 17, a project that is underway and nearing completion. Finally, the draft audit calls for the deferral of funding for a project to keep the public informed about decisions relating to the replacement of the Tappan Zee Bridge. The Authority does not agree that the aforementioned projects are non-essential; however, there are other projects in the deferral list that the Authority will analyze further to see if any savings can be found.

- **A "top-to-bottom" review of Authority operations be undertaken to find additional savings, despite low budget growth of 3.2 percent annually over the next four years.**

  *** Comment 4**

  The draft audit states that cost containment efforts already implemented at the Authority may, in fact, be the most the Authority can reasonably be expected to achieve. In fact, the Authority's overall operating expense budget is expected to grow significantly less than the 5.0 percent growth rate included in the proposed 2008–09 New York State Operating Funds Budget. While the draft audit does recognize that the Authority's operational growth is held to this low level, it does not recognize how this was achieved; namely, through the continuous and thorough reviews that are being performed by the Authority as part of its intensive budget and financial monitoring processes. The draft audit further fails to recognize the numerous, specific ways in which the Authority has been able to hold down the rate of its budget growth, despite the increase in mandatory and statutorily required expenses that it faces. The draft audit also does not characterize the magnitude of operating reductions that would have to be made and the impact those cuts will have on service levels in order to materially alter the proposed toll adjustment.

While the draft audit does not categorically confirm or refute the need for a toll increase, it states that the proposed toll increases may not be necessary, as presently envisioned. In December 2007, the Authority's Board, in fact, adopted a phased-in approach so that if either levels of traffic growth return or if the Authority's statutorily mandated financial obligations change, the Authority could

* See State Comptroller's Comments, page 53

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revisit the plan while remaining able to properly maintain the highway. As summarized above and noted in this letter, statements contained within the draft audit which question the overall need for a toll adjustment are simply not substantiated by the facts or the draft audit's findings. However, the Authority's proposal will be subject to a series of public hearings, with no final action taken until later this spring. Through the public process and consideration of the draft audit's recommendations, the toll adjustment, as currently proposed, may be modified.

Review of Specific Recommendations:

Recommendation 1. Ensure the assumptions used in the revenue projection process are fully documented.

The draft audit concluded that assumptions used in developing revenue projections appear to be reasonable and are supported by appropriate documentation. "We found that calculations are accurate and are, for the most part, supported by appropriate documentation." The draft audit goes on to say that the documentation of several assumptions, made by Stantec in its development of traffic and revenue projections, could be improved. The Authority will work with Stantec to ensure that its documentation in these areas is improved by the time the Authority Board considers any final toll adjustment.

Recommendation 2. Use a collection agency or some other means to improve the collection of delinquent E-ZPass tolls and related administrative fees from motorists who do not respond to standard billing notices.

* Comment 5

The Authority currently collects over 99 percent of the tolls owed to it and the Authority has worked diligently to improve its collection of E-ZPass tolls and related administrative fees that occur as a result of E-ZPass violations.

The Authority is currently seeking the services of a collection agency, and is hopeful that it will have a contract for collection services in place in 2008. While the draft audit indicates that one collection agency estimates that the Authority could net $6.4 million in revenue with the assistance of a collection agency, it is unclear how such an estimate was derived. The Authority estimates that once it has a collection agency under contract, it will initially collect $4.0 million and could collect $1.0 annually thereafter. As a result, while these efforts may provide the Authority with additional revenues, the level of revenues is not significant enough to impact the necessity for the proposed toll adjustment.

The Authority has also coordinated with the Port Authority of New York and New Jersey to work with high-volume rental car companies to collect the unpaid tolls and fees due to both authorities as a result of E-ZPass violations. Thus far, this effort has produced very successful results with respect to one such company and the Authority will continue those efforts with other such companies. In addition, the Authority is seeking a cost-effective mechanism to charge outstanding violations associated with commercial charge accounts directly to their monthly invoices. The Authority has been and will continue to explore these and other methods to address high-volume violators.

* See State Comptroller's Comments, page 53

Further, the Authority disagrees with the implication in the draft audit that E-ZPass administrative fees are an independent source of revenue. These administrative fees are designed to allow the Authority to recoup the administrative costs it incurs when it must perform extra work and activities in order to collect tolls that are owed as a result of both unpaid toll and negative balance violations. Because these funds are merely offsetting costs that the Authority would not ordinarily incur in its customary toll collection process, the Authority believes that the draft audit's reliance on administrative fees as an additional source of revenue is misplaced.

* Comment 6

The Authority has undertaken a number of different initiatives to deter E-ZPass violations and improve its collection rate when they do occur. For instance, the Authority has advanced legislation to try to obtain more meaningful statutory enforcement provisions. Public Authorities Law section 2985 provides a notice of liability (NOL) process that allows the Authority to utilize the local court system to adjudicate unpaid toll violations. While this statute provides civil penalties for adjudicated violations, all such penalties are paid to the local courts and/or the State's General Fund with the Authority receiving no share. Further, the statute does not permit the Authority to recover its lost toll revenue even when a person has been adjudicated a violator. Finally, while the NOL process allows for the suspension of the vehicle registration of a person who is adjudicated of five or more violations, the effect of the statutory language is that a person would have to be adjudicated of five or more violations within the same jurisdiction, rather than five or more violations in jurisdictions across the Thruway system. For the past 12 years the Authority has proposed legislation to address these deficiencies.

Recommendation 3. Evaluate the benefits of pursuing additional means of raising revenue through private sector advertising and sponsorship.

In 2000, the Authority engaged a firm to advertise and print coupons on the back of toll receipts. Over the course of the entire five-year pilot program, this initiative yielded approximately $121,000 in additional revenue — or about $24,000 per year. In 2005, the Authority issued a Request for Proposals for these services, to which the Authority received no responses. However, the Authority continues to explore the possibility of adding advertisements to its online and E-ZPass account statements, toll receipts, WiFi web access portals and/or kiosks located at travel plazas and will investigate the possibility of sponsorship of the travel plazas themselves.

In January 2008, at the Authority Board's direction, the Authority reached out to the International Bridge, Tunnel and Turnpike Association (IBTTA) and requested that IBTTA survey other organizations for their experiences with advertising and sponsorships. The Authority is currently awaiting IBTTA's response.

Federal Highway Administration (FHWA) rules and regulations, particularly the Federal Highway Beautification Act of 1965, the Manual of Uniform Traffic Control Devices and related regulations, place significant restrictions on signage that could be used for advertising and sponsorships due to highway safety and other concerns. In the past, the Authority has considered sponsorship opportunities at toll plazas, interchanges and travel plazas, but has concluded that the safety benefits underlying the federal signage restrictions outweigh the limited revenue that could be gained from

* See State Comptroller's Comments, page 53

an advertising or sponsorship program. The Authority will reach out to the FHWA and New York State Department of Transportation (DOT) to verify that these rules and regulations currently remain an impediment to enhanced signage for sponsorship and advertising opportunities.

Recommendation 4. Include a reasonable estimate for future Federal highway funding in the funding projections.

* Comment 7

The Authority does include a reasonable estimate of Federal aid in its Multi-Year Financial Plan. It would be imprudent for the Authority to plan for any additional Federal aid in the Multi-Year Financial Plan without specific agreements and authorizations in place.

All federal transportation funds allocated to New York State are provided to DOT and further appropriated as part of the State budget process. The draft audit states that between 1988 and 2007, the Authority received approximately $30 million in Federal funds on average per year. Prior to 2005, in addition to Federal aid earmarked for specific projects, the Authority received a portion of Federal Interstate Maintenance (IM) funds, which averaged approximately $20 million per year. Federal IM funds are allocated to states based on the mileage of their interstates and for New York State that mileage includes the interstate miles on the Thruway. However, in March 2005 the agreement between the Authority and DOT, which provided such allocation to the Authority, expired. Since the expiration of that agreement, all IM funds allocated to New York State are used to fund the State's transportation needs, excluding the Thruway. Since the Authority cannot unilaterally access Federal aid, it would be imprudent to budget for those funds without a formal agreement or commitment.

In addition to IM funds, other Federal funds have been provided by the DOT and Metropolitan Planning Organizations (MPOs) for highway and canal projects. In order to receive such funds, the Authority must pursue a lengthy process for aid for specific Thruway projects that fit within the MPO's regional transportation plan requiring it to compete with other transportation needs of municipalities within the MPO's area. To obtain this aid, the Authority must present specific projects to the MPO for consideration, receive approval by the MPO, be placed on the State Transportation Improvement Program (STIP) and finally receive DOT approval and Federal authorization. While the Authority regularly pursues aid via the MPOs, the aid is not guaranteed. As a result, as with IM aid, the Authority feels it unwise to budget for MPO funds without at least receiving most of the necessary approvals and having the eligible projects added to the STIP.

If the Authority were to receive $125.3 million in additional Federal highway funds through 2012, as suggested by the draft audit, the Authority would be able to reduce the amount of debt issued to support the Capital Program, reducing debt service costs and revenue needs by a total of only $15.7 million through 2012. As a result, $125.3 million in additional Federal aid, while certainly welcome, would create only a small impact on reducing deficits and improving the Authority's debt service coverage ratio.

* See State Comptroller's Comments, pages 53-54

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Further complicating the Federal aid highway issue, the recently released report of the National Surface Transportation Policy and Revenue Study Commission states that both the U.S. Department of the Treasury and the Congressional Budget Office indicate that by the end of Federal Fiscal Year 2009, the Highway Account of the Federal Highway Trust Fund will have a negative balance of between $4 and $5 billion if no corrective actions are taken. It is unclear whether the succeeding Federal transportation act will provide any new funds to states over and above the current authorizations or whether it will even maintain the levels of funding provided in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). This, coupled with the fact that DOT recently reported that unmet funding needs of its future capital programs could reach $100 billion over the next 20 years, will continue to make policy decisions concerning the distribution of federal highway aid for worthy projects in this state very difficult.

The Authority also receives Federal Enhancement Funds from DOT for operational support of the Canal System. In 2007, the Authority received $6.5 million in such aid to support the Canal's $96 million total annual budget. Based on conversations with DOT staff, the Authority is assuming that this level of assistance will continue in 2008. However, those conversations indicate that in future years DOT cannot guarantee this level of funding. As noted above, the level of future Federal aid to New York State, in general, is in question.

Recommendation 5. Perform a comprehensive, top-to-bottom analysis of Authority operating costs to identify where costs can be reduced. In addition, in the future, perform this analysis in connection with all toll adjustment requests.

*** Comment 4**

The Authority also places great emphasis on cost containment and the efficient operation of its highway and Canal System, and continuously evaluates its operations, as part of its intensive budget process. Unlike most public authorities, the Authority voluntarily sends its contracts to the Office of the State Comptroller (OSC) for review and approval providing an extra level of oversight to ensure the Authority receives best value in its procurements.

The Authority is faced with rising costs associated with operating and maintaining both the Thruway and Canal System, primarily from such mandated costs as fuel and energy, statutorily required diesel fuel emission standards, required alternative fuel usage and associated vehicle costs, and statutorily required work zone safety requirements. Despite these cost factors, the Authority estimates average annual operating expense growth of only 3.2 percent from 2008–2011. This average level of growth is lower than the 5.0 percent in the proposed 2008– 09 New York State Operating Funds Budget. Furthermore, if the Authority's average budget growth rate is adjusted to eliminate the aforementioned mandatory cost increases, discretionary operating growth will grow annually by less than 1 percent in these years, sending a strong signal that the Authority is and will continue to be committed to containing costs and restricting operating expense growth.

This constant review process has allowed the Authority to reduce headcount by more than 450 positions since 1995, with plans to reduce positions by at least another 50 jobs through attrition by the end of 2012. In addition to staff reductions, the following list highlights just a subset of cost saving actions the Authority has either already implemented or is planning to implement in 2008:

*** Comment 8**

* See State Comptroller's Comments, pages 53-54

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- consolidating staff and functions to improve efficiency of operation;
- reviewing each position vacancy to justify the need to hire;
- significantly limiting discretionary expenses, such as travel, sponsorships, subscriptions and attendance at industry events;
- deferring and eliminating equipment purchases and operating projects;
- canceling facility improvement projects;
- reducing the vehicle fleet by more than 40 vehicles;
- purchasing electric power from an energy cooperative;
- instituting a P-Card program to better control procurements and provide savings;
- restructuring the Authority's insurance portfolio to lower premiums;
- implementing a new Financial Management System that will eliminate the need to operate and maintain 26 separate systems;
- reducing non-safety related overtime hours;
- reducing workers' compensation costs through the collective bargaining process;
- increasing the employee share of health insurance for new employees through the collective bargaining process; and
- reducing prescription drug costs through the collective bargaining process.

It is important to note that the Authority has recently been contacted by the New York State Division of the Budget (DOB), which has been informed that OSC believes the Authority owes the State approximately $12.3 million in additional administrative fees dating back to 1994. These fees, known as an indirect cost assessments, are for overhead costs for the New York State Division of State Police. However, the Authority pays for the full cost of New York State Division of State Police Troop T's (Troop T's) operations, including its personal service costs, which was $50 million in 2007. This $50 million obligation already includes $1.5 million in administrative overhead fees paid to the State for the New York State Division of the State Police. DOB has relayed that OSC believes the Authority owes the State overhead assessments related to the New York State Division of State Police's buildings and utilities dating back to 1994. There are questions as to why the Authority should be paying the State for overhead building and utility costs related to non-Troop T operations. Due to the recent nature of the request, this $12.3 million potential payment is not accounted for in the Authority's Multi-Year Financial Plan and would further elevate the need for the Authority to pursue a toll adjustment.

*** Comment 9**

Finally, the draft audit suggests that pursuant to a Division of the State Police report (Report 2007-S-16, Overtime Controls), overtime costs for Troop T can be decreased. However, the Authority was not a participant in this report, nor has OSC shared it with Authority staff. As a result, the Authority cannot determine whether the $1.9 million in future savings is achievable. However, in September 2006, the Division of State Police instituted a new policy to reduce the need to always have a Trooper go to traffic court. Under the new policy, a Trooper only has to attend the adjudication of the traffic ticket if there is a trial. This new policy has already resulted in savings of over 5,000 hours of overtime in 2007. It should be noted that the policies of the Courts and District Attorneys differ throughout the State and uniform compliance efforts to support this new policy have been difficult. The Authority believes that an act of the Legislature could clarify and standardize the procedures and practices of vehicle and traffic adjudications statewide. While the Authority has a

* See State Comptroller's Comments, page 54

unique and close working partnership with Troop T, the Authority does not set any "policing" policy. For example, directions on issues such as attending court, rightfully belong to the Superintendent of State Police. Moreover, the legislatively mandated Work Zone Safety Act has added significantly more overtime hours (nearly 16,000 hours in 2007) for Troop T.

Another area that was brought up by OSC staff but did not make it into the draft audit deals with motor vehicle ticket revenue. While the Authority pays the full cost of Troop T, it receives no revenue from the over 200,000 tickets issued annually on the Thruway. This revenue instead goes to the local jurisdictions in which the ticket was written and the State.

Recommendation 6. Base all equipment replacement estimates on documented needs assessments.

The Authority does base all equipment and budget needs on documented needs assessments. The Authority undertakes an intensive budget and project review process that begins at least one to two years before equipment is replaced or a project is started. During this process, equipment and project funding requests, particularly those for large and more expensive technology-related projects and equipment, are scrutinized and planned well in advance of the year in which they would be funded.

Performing a specific needs assessment for each of the Authority's 7,205 pieces of equipment, ranging from a chainsaw to an excavator or a barge, from 2009 through 2012 would be a monumental task. This effort would be impractical, as it would require an inordinate amount of staff time, be quite expensive and not necessarily yield any more reliable information or cost savings. While it is difficult to detail what specific equipment would need to be replaced or what new technology would be available three or four years in advance, information on previous expenditures, useful lives of equipment and past information to support replacement needs for tools, computers, servers, network equipment, radio tower communication equipment, motorized equipment, heavy equipment, Troop T and administrative vehicles, is used to assist the Authority in future financial planning. As a result, the line item contained in the Authority's Multi-Year Financial Plan for equipment and projects takes into account these factors and historical trends.

*** Comment 10**

For example, the replacement process for maintenance equipment involves the application of well-established equipment replacement guidelines for each equipment type. Each Division reviews its equipment against the guidelines and then reviews in detail each piece of equipment that meets the replacement guidelines for maintenance and repair history to determine if it is economical to maintain the piece for another year. A team from Authority Headquarters then visits and inspects each piece of equipment recommended for replacement by the Divisions for consistency and concurrence that each piece does require replacement. The total list of equipment the meets this criteria and warrants replacement is then evaluated against available resources. Reductions are then made to the list to meet budgetary constraints on a priority basis. Snow and ice equipment receive first priority, followed by Troop T equipment; then others are reviewed on a case-by-case basis to determine which items are most critical based on work load, equipment usage, availability of similar equipment that could be shared, ability to rent equipment, etc. The review process for all technology

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projects is just as rigorous. In addition, given the rapidly changing technology environment, it is very difficult to plan, with any specific detail, technology projects in out years.

Finally, it is important to note that, as mentioned in the draft audit, the equipment budget for 2009 through 2012 is estimated at $38 million per year. This no-budget-growth scenario, coupled with the rising costs of equipment and projects seen industry-wide, illustrates the Authority's commitment to contain costs and restrict the amount of equipment and projects that get funded. As a result, the Authority feels that developing an additional needs assessment for projects and equipment funded in the out years of the current Multi-Year Financial Plan would not offer an opportunity to significantly adjust downward the estimated budgets to the degree required to lessen the Authority's revenue needs.

Recommendation 7. Develop management reports showing the progress-to-date and dollars spent on each individual project item.

The Authority currently has three sophisticated systems that together allow the Authority to accurately track progress, changes or modifications that are made to each project. Detailed information on each project, such as a project's funding source, actual costs expended to that project and funding balances, reside within these three easily retrievable systems. These three systems allow Authority staff to regularly update the Board and to respond promptly and accurately to requests for project information from elected officials, the public and the media. These systems include the Authority's Capital Program Management System, Contract Management System and Financial Management System. The Authority monitors and manages each project by using the information and reports generated from these three systems. However, the Authority agrees that an interface between these systems that could generate one combined report would be beneficial. As such, the Authority will look into assessing the cost of implementing such an interface as part of the Authority's ongoing Financial Management System project.

Recommendation 8. Prioritize the projects and project items on future capital plans to facilitate any adjustments that may need to be made in response to unanticipated funding shortages.

Contrary to the draft audit's findings, the Authority has a process that prioritizes projects. However, a simple numerical ranking of projects contained within the Capital Program may sound ideal, but is impractical from an engineering point of view. Decisions about whether a project remains in the Capital Program or whether the scope of a project is changed are based strictly on engineering decisions that require flexibility and consideration of the most current information available.

*** Comment 11**

For example, if funding for a bridge in the Capital Program is in jeopardy, for safety reasons the Authority may not be able to simply defer the project. Rather the scope of the bridge project may be changed from a replacement project to a rehabilitation project, focusing more on the immediate needs of the bridge until a replacement project can be funded. The same logic holds true for pavement projects. If funding for a full-depth pavement reconstruction is not available, then the Authority will likely rehabilitate the surface of the section of highway rather than cancel the project

* See State Comptroller's Comments, page 54

altogether. These types of project scope changes are critical for the Authority to properly maintain the highway in a safe and reliable condition.

Projects are prioritized for inclusion in the Capital Program after an extensive review and approval process. In this process, projects originate at the Division or Headquarters level based on overall condition data of the potential project. The capital and maintenance work history of the facility is then evaluated and various treatment options are considered. After a thorough review has been completed, recommended projects are considered by Headquarters engineering staff for final inclusion in the Capital Program. It should be noted that the draft audit found that the projects included in the Authority's Capital Program were useful and beneficial.

The Authority also has a Capital Program Group, whose staff are dedicated solely to the continual management of all the projects contained in the Authority's Capital Program. This team, with the assistance of Divisions and other Headquarters personnel, continuously monitors every project, recommending scope changes, deferrals and accelerations based on changing conditions. These recommendations are made to the Capital Program Management Executive Committee. This Committee is comprised of the Chief Engineer, the Chief Financial Officer and the Director of Maintenance and Operations. The Committee is charged with executive direction and oversight of the Capital Program and any changes recommended to be made thereto must receive the approval of all three members of the Committee.

As a result, the Authority's Capital Program management process and the strong reviews and controls imbedded within it, ensure that intelligent engineering, maintenance and financial decisions are being made and that changes in the funding or project environment are responded to effectively and efficiently.

Recommendation 9. Identify the non-essential capital projects that are scheduled for 2008 through 2012, determine which can be deferred until after 2012 and determine how the Authority's funding needs for the Thruway would be affected if the projects were deferred.

The Authority takes issue with what the draft audit refers to as "non-essential" projects and the draft audit's recommendation that they be deferred out of the current Capital Program. Many of the 59 projects that are recommended for deferral are related to increased safety and service to the users of the Thruway and environmental and congestion relief efforts that the Authority considers important.

For example:

- **Interchange 17** is a project that is ongoing and is nearing completion. This project provides a seamless connection between two Interstates (I-84/I-87) and also benefits economic development efforts at Stewart Airport. The project is a joint effort between the Authority and DOT, involving substantial Federal funds. The projects the draft audit targets for deferral are necessary for the reconstruction of Thruway maintenance, Troop T and toll collection facilities that had to be relocated to accommodate the re-engineered interchange. These facilities are currently in the construction stage.

- **Highway-Speed E-ZPass projects at Williamsville, Woodbury, Canaan and Yonkers**, which are included in the draft audit's category of "E-ZPass improvements," are much more than simple improvements to E-ZPass. Highway-speed barriers significantly reduce hazards that are currently associated with trucks and passenger vehicles needing to come to a complete stop at congested barrier plazas. The implementation of highway-speed toll collection will include the increased customer convenience through reduced wait times and the elimination of the need to slow down to pay a toll. This will potentially attract more users to the system. Less congestion at highway-speed toll plazas will result due to the higher throughput rates compared to cash transactions. Highway-speed toll collection will also improve air quality and reduce fuel consumption by sharply reducing the number of vehicles required to stop and idle while waiting to pay a toll. Overall noise associated with a toll barrier will be lessened by reducing the volume of traffic decelerating, stopping and accelerating to highway speeds. A significant reduction in tractor-trailer braking noise would be evident as well. Finally, significant operating efficiencies would result when comparing the operation of a highway-speed barrier to the traditional mainline barrier toll plaza, a major topic covered in this draft audit.

- **Truck parking improvements** help keep drowsy truck drivers off the highway and provide adequate and safe space for them to rest, improving their safety and the safety of other motorists. The Federal Motor Carrier Safety Administration estimates that 15 percent of truck-involved fatal crashes list truck driver fatigue as a primary or secondary factor in their cause.

- **ITS** projects improve the Authority's ability to detect and respond to incidents on the highway, assist in determining adverse weather and road conditions, deliver more timely traffic and detour information to customers, among other benefits.

In addition, while recommending deferral of these projects, the draft audit states that, "We found that the projects themselves appear to be useful and beneficial." In addition, several projects contained in OSC's recommended deferral list are to finance design work for safety-related projects whose construction will occur later in the current Capital Program. However, the Authority will assess the relatively small amount of other projects contained on the list, including canalway trails and noise barriers in Manchester, Lackawanna, Buffalo, New Rochelle and Yonkers, and determine if they can be deferred.

*** Comment 3**

Furthermore, since the Capital Program is largely financed with bond funds, the cash savings that would be generated from eliminating these 59 projects would be very limited. For example, as suggested by the draft audit, were the Authority to cut $159.6 million from the Capital Program, the Authority would issue $159.6 million less in bonds that would reduce debt service by a total of only $39.0 million cumulative through 2012. It is the debt service savings, not lower debt itself, that will benefit the Authority's balance sheet and debt service coverage ratio. As a result, the $159.6 million in projects the draft audit recommends for deferral would create only a small impact on reducing deficits and improving the coverage ratio, having a minimal effect on the Authority's need to adjust tolls. As outlined later in this letter, very significant reductions to important highway and bridge construction projects in the Capital Program would have to occur in order to have a significant

*** Comment 1**

* See State Comptroller's Comments, page 53

impact on the structure of the proposed toll adjustment, which would adversely affect safety and service all along the Thruway.

Recommendation 10. Document the basis for any estimates of inflationary increases in construction contracts.

The Authority regularly reviews and documents cost inflation on the more than 300 projects contained in the Capital Program. All across the nation project inflation in the highway and construction industry has been a major source of concern, increasing by 35 percent over the last three years, as seen in FHWA statistics. As previously mentioned, these inflation rates have already forced the Authority to make more than $300 million in deferral and scope changes to the Capital Program. The Authority recently set aside an additional $60 million in the Program to help absorb future inflationary costs. As noted earlier in this letter, the Authority feels that it has an effective project review process that is both well documented and based on a strong understanding of the industry and the costs within it. However, the Authority would welcome any insight OSC could provide concerning future inflation rates in highway and bridge construction.

* Comment 12

Justification for the Proposed Toll Adjustment:

In its sixth decade of operation, the necessity for reconstructing and rehabilitating the Thruway's aging infrastructure requires an increasing level of investment which greatly exceeds that of 10 or 20 years ago. The Authority currently has responsibility for 807 bridges and more than 2,430 lane miles of roadway. Since the Thruway opened in 1954, only 131 bridges have been replaced and only 254 lane miles have been reconstructed. The Capital Program adopted by the Authority Board in 2005 includes the replacement of an additional 20 bridges and reconstruction of 152 lane miles of roadway. The $2.1 billion dedicated in this current Capital Program retains the Authority's road and bridge condition ratings in "good" categories and will allow the Authority to comply with the maintenance covenant set forth in the Authority's bond resolution. The projects contained in the Capital Program and the level of investment are necessities. Furthermore, it is important to note that based on FHWA statistics, the Authority's Capital Program is expected to support more than 85,000 construction-related jobs.

As reported by the FHWA, traffic growth is below historical levels all across the nation's highways and interstates. That trend is expected to continue. As a result, the Authority and its independent traffic engineer, Stantec Consulting, are expecting lower than previously forecasted growth in traffic and toll revenue over the next four years. Without further action by the Authority, lower than projected growth in traffic levels would cause:

- significant operational deficits;
- debt service coverage ratios that drop below the limits established in the Authority's bond resolution and Board adopted Fiscal Management Guidelines; and
- pay-as-you-go financing levels of the Authority's Capital Program that drop far below 20 percent.

* See State Comptroller's Comments, page 54

In each case, the result is fiscally imprudent. In order for the Authority to close the aforementioned operational deficits, low-debt service coverage and low pay-as-you-go financing levels without raising tolls, more than $1.0 billion in essential capital projects would have to be cancelled over the next four years or operational expenses would have to be slashed by one-third. In other words, a $1.0 billion reduction in the Capital Program would be required (canceling all remaining capital projects from now until the end of 2011) or more than 1,000 employees would have to be laid off in order to avoid a toll adjustment. However, these significant capital and operational cuts would result in rapidly deteriorating road and bridge conditions and significant declines in levels of service. The impacts of either of these two options would lead to dramatic reductions in the safety of the Thruway's customers, violate the Authority's covenants with its bond holders and cost the State thousands of construction jobs.

Toll revenues account for more than 90 percent of the Authority's revenues. As noted in the draft audit, the Authority receives very little Federal or State aid and has been mandated by State statute to finance more than $1.0 billion in non-Thruway related projects since 1991 (i.e., Canal System, I-84 and I-287, among others). For operating expenses, as noted earlier in this letter, the Authority has a continuous internal budget and review process that has resulted in the imposition of stringent cost containment measures and reduced headcount. These measures, among other actions, are expected to limit the growth in the Authority's operating expenses to 3.2 percent from 2008 through 2011. This historically low-level of overall growth translates into growth less than 1 percent in discretionary operating expenses when considering the rapid increases in non-discretionary and mandatory costs (such as fuel and energy costs, new statutorily required diesel fuel emission standards and work zone safety policing). Were the Authority to consider drastically reducing operating expenditures beyond current estimates for 2008 through 2012, layoffs and reductions in safety and service would be required. As a result, the Authority is forced to consider whether to increase tolls or to dramatically reduce its capital program.

Prior to the Authority Board's approval to initiate the public process governing the proposed toll adjustment, the Authority retained Henningson, Durham and Richardson, Architecture and Engineering, P.C. (HDR) to provide an independent professional assessment of the capital projects programmed for 2008 through 2011. The scope of this assignment was to assess each project's consistency with the Authority's mission/goal of "offering a user-fee supported Highway and Canal system that delivers high levels of safety and service." HDR concluded that the projects in the Capital Program are consistent with the Authority's overall mission and, in general, confirmed that any delay in undertaking these projects in accordance with the proposed schedule would significantly hamper maintaining the system in a state of good repair. Not only would delays increase pavement distress and bridge deterioration, but would result in even greater levels of work requiring higher amounts of capital expenditures to achieve the same level of repair in the future.

The current $2.1 billion Capital Program was originally designed and approved by the Authority Board in 2005. Since the approval of the original program, construction costs have unexpectedly increased dramatically, averaging 35 percent over the last three years. As a result, the cost of projects in the Authority's Capital Program increased by more than $300 million, necessitating the

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delay of 40 projects, scope reductions on 9 projects and the deferment of 35 projects out of the current program.

The Authority is not inclined to further defer essential projects that would jeopardize the safety of its motorists. The Authority, consistent with its fiduciary responsibilities and the requirements of its bond resolution, has determined that initiating a toll adjustment process would be the best way to preserve the Capital Program and its financial health. However, the Authority believes that a balance can be found between its internal financial needs and the impact any changes may have on the customers and the State's economy. The Authority has sought to mitigate impacts on the highways most frequent users and has structured the proposed toll adjustment to be phased-in over several years. If traffic were to increase to previously expected levels, relief was given for the non-highway responsibilities that have been placed on Authority finances and/or increased Federal aid was diverted from DOT's capital program to the Authority, it would allow the Authority to revisit certain phases of the proposed toll adjustment.

In closing, the Authority would like to thank you and your staff for the time and attention paid in preparing this draft audit and the speed to which it had been completed. The Authority would also like to reiterate that the public review process has only just begun and that the recommendations contained in this draft audit will be used, along with the public's input, to shape a toll adjustment that balances the need to provide high-levels of safety and service with the needs of people and communities served by the Thruway.

Sincerely,

Michael R. Fleischer
Executive Director

Enclosure

EXHIBIT 1

Exhibit 1

OSC's List of "Non-Essential" Projects

No.	Project Description	Purpose	Status	Value
1	TANY 04-37A Reconstruction of Interchange 17 Connecting I-87 with I-84 near Newburgh (Contract 2)	To directly connect two major Interstate highways; and requiring the relocation of maintenance facilities	under construction	$11,378,809.90
2	Albany State Police Zone Headquarters: New Building (design only)	Replace an aging, undersized and inadequate facility	planned	$360,000.00
3	Construct New State Police Zone Headquarters and/or Rehabilitate Existing Barracks at Various Locations (designs only)	To replace aging, undersized and inadequate facilities	planned	$4,647,303.30
4	Berkshire and Kingston Maintenance Sections - Replace Existing Salt Storage Buildings	Current buildings are deteriorated and undersized - needed to keep highway safe in winter and protect environment from runoff	designed	$1,100,000.00
5	North Ave Pedestrian Bridge over Thruway - Construction Phase	To carry existing utilities - water, gas, electric, cable, phone over I-95 so that roadway bridge can be replaced	out for bid	$2,501,600.00
6	North Ave Pedestrian Bridge over Thruway - Design Phase	To carry existing utilities - water, gas, electric, cable, phone over I-95 so that roadway bridge can be replaced	completed *	$282,000.00
7	Public Participation and Outreach	A consultant contract to assist with public outreach on complex projects	ongoing	$733,571.44
8	Funding for Fiber Optic Cable Relocations during Construction	Numerous projects each year impact the existing fiber optic system in the Thruway corridor	ongoing	$400,000.00
9	Canal Structure Inspection System Enhancements	Enhancements to the CSIS computer system required for the upkeep of the canal infrastructure	under development	$200,000.00
10	Pavement Reconstruction for Woodbury Highway Speed E-ZPass w/Bridge Work, North of Current Barrier	An option considered for implementation of highway-speed E-ZPass at Woodbury Barrier	removed from program *	$2,042,553.12

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No.	Project Description	Purpose	Status	Value
11	Toll Barrier Reconstruction Including E-ZPass and Toll Utility Building Modifications - Design Phase	Design work for converting toll barriers to non-stop facilities for improved operation and lower costs	not assigned	$1,199,999.88
12	Woodbury Toll Barrier Reconstruction Including Highway-Speed E-ZPass - Design Phase	Design for implementation of highway-speed E-ZPass	completed *	$2,520,977.94
13	Woodbury Toll Barrier Reconstruction Including Highway-Speed E-ZPass - Construction Phase	Actual modifications to toll barrier to implement highway-speed E-ZPass and provide improved safety, operation and lower costs	contract let - to start in spring 2008	$71,423,146.26
14	Montezuma Environmental and Education Center	A federally sponsored project to build a roadside pull-off to allow travelers an opportunity to learn about the federal wildlife refuge	proposed	$1,500,000.00
15	Ulster and Malden Service Areas - Commercial Truck Parking Expansion 2008	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders, are a hazard to other motorists.	contract awarded - construction to start Spring 2008	$2,602,564.08
16	Guilderland and Pattersonville Service Areas-Commercial Truck Parking expansion 2008 (design only)	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders, are a hazard to other motorists.	under design	$86,644.02
17	Clarence Service Area Commercial Truck Parking Expansion 2007 (design only)	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders, are a hazard to other motorists.	under construction	$83,000.00
18	New Baltimore Service Area Commercial Truck Parking Expansion 2009 (design only)	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders, are a hazard to other motorists.	under design	$105,000.00

No.	Project Description	Purpose	Status	Value
19	Indian Castle and Schuyler Service Area Commercial Truck Parking Expansion 2009 (design only)	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders, are a hazard to other motorists.	proposed	$270,000.00
20	Cannan Toll Barrier Reconstruction to Implement Highway-Speed E-ZPass and Appropriate ITS Elements	Design and construction work for converting toll barrier to non-stop facility for improved operation and lower costs	proposed	$1,800,000.00
21	Williamsville Toll Barrier Relocation and Implementation of Highway-Speed E-ZPass	Study and design work for converting toll barrier to non-stop facility for improved operation and lower costs	study nearly complete, design getting started	$10,196,673.90
22	Plattekill and Modena Service Areas - Commercial Truck Parking Expansion - 80 new spaces at each service area (design only)	Lack of adequate truck parking is a national safety issue. Drowsy truck drivers on the highway, or trucks parked on ramps and shoulders are a hazard to other motorists.	design in progress	$440,000.00
23	I-95 Noise Wall Project	Bartow Ave, Bronx County	study completed	$1,912,820.48
24	I-87 Noise Wall Project	Yonkers, Westchester County	study completed	$200,000.00
25	I-90 Noise Wall Project	near Lakawana Toll Barrier, Erie County	design underway	$3,604,358.98
26	Noise Wall project	Pelham, Westchester County	removed from program *	$750,000.00
27	I-95 Noise Wall Project	New Rochelle, Westchester County	study completed	$1,184,820.48
28	I-190 Noise Wall Project	near Ogden Street Interchange, Buffalo	final design underway	$700,833.37
29	I-90 Noise Wall Project	Town of Manchester, Ontario County	proposed	$65,416.67
30	Yonkers Toll Barrier Reconstruction to Implement Highway-Speed E-ZPass and Appropriate ITS Elements	Study and design work for converting toll barrier to non-stop facility for improved safety, operation and lower costs	preliminary engineering	$1,695,853.98
31	Exits 21B and 22 - Additional Dedicated E-ZPass Lanes at Each Exit	To improve traffic flow and enhance customer service by providing a dedicated E-ZPass lane in each direction, 24/7	proposed	$1,012,637.00
32	Exits 20W, 26, 29, B2 - An Additional Dedicated E-Zpass Lane at Each Exit (design only)	To improve traffic flow and enhance customer service by providing a dedicated E-ZPass lane in each direction, 24/7	proposed	$66,666.67
33	Interchange 45 - Plaza and Pavement Rehab with E-ZPass Improvements	Pavement rehabilitation	final design underway	$4,261,090.93

No.	Project Description	Purpose	Status	Value
34	Interchange 56 - Additional E-ZPass Lane, Pavement Rehab, and PCC Joint Repairs	Pavement rehabilitation and E-ZPass improvements	construction completed	$2,774,610.12
35	Interchange 46 Plaza and Pavement Rehab with E-ZPass Improvements	Pavement rehabilitation and E-ZPass improvements	final design underway	$3,581,090.88
36	Term Agreement for Noise Wall Projects 2005-2008	Funding for design of noise walls	ongoing	$352,000.00
37	Term Agreement for Noise Wall Projects	Funding for design of noise walls	ongoing	$300,000.00
38	Installation of Fiber Optic Cable, Transmit, CCTV, DMS and ATC. Buffalo Region ITS -	Regional project in the Buffalo area funded by multiple agencies	construction nearing completion	$268,043.33
39	Syracuse Division - 8 DMS, 17 TRANSMIT and 18 CCTV	An ITS project in the Syracuse Division to enhance traffic management and safety	final design underway	$3,368,214.71
40	MP 600.6 NB NY Division Traffic Count Stations - 2 New Locations	Two traffic counting stations to be installed as part of a pavement	proposed for 2009	$49,028.60
41	New York Division - 10 DMS, 13 TRANSMIT, 26 TDS and 13 CCTV	An ITS project in the New York Division to enhance traffic management and safety	final design complete, 2008 letting	$4,900,898.57
42	Albany Division - 5 DMS, 2 TRANSMIT and 15 CCTV	An ITS project in the AlbanyDivision to enhance traffic management and safety	final design underway, 2009 letting	$3,343,588.84
43	Design Funding for ITS initiative	funding for design of ITS projects	ongoing	$156,250.00
44	Buffalo Division - 3 DMS, 16 TRANSMIT and 17 CCTV	An ITS project in the Buffalo Division to enhance traffic management and safety	final design complete, 2008 letting	$1,972,745.68
45	Pattersonville to Rotterdam Junction: Canalway Trail, Schenectady County	Canalway Trail Project	removed from program *	$68.43
46	Canajoharie to Fort Hunter: Canalway Trail, Montgomery County (construction)	Canalway Trail Project	completed *	$3,076.37
47	Fort Plain to Minden: Canalway Trail, Montgomery County (construction)	Canalway Trail Project	completed *	$1,498.87
48	Tonawanda to Amherst: Canalway Trail, Eric County (construction)	Canalway Trail Project	completed *	$130.00
49	Minden to Little Falls: Canalway Trail, Herkimer/Montgomery Counties (construction)	Canalway Trail Project	completed *	$8,582.88

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No.	Project Description	Purpose	Status	Value
50	Palmyra to Newark: Canalway Trail, Wayne County (construction)	Canalway Trail Project	completed *	$1,129.68
51	Canastota to Erie Canal Canalway Trail	Canalway Trail Project	final design complete, 2008 letting	$351,348.69
52	Amherst to Pendleton: Canalway Trail, Erie/Niagara Counties	Canalway Trail Project	final design complete, 2008 letting	$790,400.00
53	Schuyler to Utica: Canalway Trail, Herkimer/Onieda Counties	Canalway Trail Project	removed from program *	$107,476.50
54	Newark to Clyde: Canalway Trail, Wayne County	Canalway Trail Project	removed from program *	$5,408.66
55	Jacksonburg to Ilion Canalway Trail	Canalway Trail Project	final design complete, 2008 letting	$121,000.00
56	Clyde to Port Byron Canalway Trail	Canalway Trail Project	removed from program	$279,412.63
57	Jordan to Port Byron: Canalway Trail, Cayuga/Onondaga Counties	Canalway Trail Project	completed *	$2,609.44
58	Schuylerville: Canalway Trail, Saratoga County	Canalway Trail Project	under design, locality to let and construct	$17,701.34
59	Pittsford: Canalway Trail - Realignment, Monroe County	Canalway Trail Project	design complete, locality to let and construct *	$6,281.43
				$154,090,938.05
			inflationary increase	$5,474,979.00
				$159,565,917.05
	* projects that have been completed or removed from the Authority's Capital Program and therefore cannot contribute to a reduction in expenditures			

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Comment
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* See State Comptroller's Comments, page 54

APPENDIX B - STATE COMPTROLLER COMMENTS

1. Our actual conclusion, as stated in the report, is that "the proposed toll increases for July 2008 through July 2010 may not be necessary, *as presently envisioned*" [emphasis added]. We arrived at this conclusion based on our audit findings that the Authority has not made every reasonable effort to accurately estimate Federal funding, prioritize its capital needs, reduce its operating costs, and maximize its revenues. Our audit was not designed to compute the toll increases. Rather, our audit was intended to determine whether the Authority had done enough to justify its proposed toll increases. In the course of a few weeks, we were able to identify several significant cost-saving and revenue-enhancement opportunities, causing us to conclude that the Authority needs to take the additional steps recommended in this report.

2. We continue to believe it is unreasonable for the Authority to estimate that it will receive no new Federal aid for capital projects after 2007.

3. It appears that the Authority has already begun to determine whether some of its capital projects could be deferred, as we recommend. We urge the Authority to continue this process for its entire capital plan, and to prioritize its entire capital plan, as we also recommend.

4. As we note in our report, despite the Authority's efforts to contain its operating expenses, the expenses have been increasing at higher-than-expected rates. We also saw no evidence that the Authority had performed a top-to-bottom analysis of its operations for the purpose of identifying possible cost reductions, as opposed to merely containing the growth in cost increases. As the Authority notes, we did not "characterize the magnitude of operating reductions that would have to be made." This was because such a characterization was not the purpose of our audit. Rather, our audit was intended to determine whether the Authority had done enough to justify its proposed toll increases.

5. We note that the Authority has made little progress in its efforts to obtain the services of a collection agency. Authority officials told us they were seeking such services more than a year ago, when we were auditing the Authority's E-ZPass collection practices. We believe this lack of progress supports our conclusion that the Authority has not made every reasonable effort to reduce costs and maximize revenues. We also note that the $6.4 million estimate for E-ZPass collections was based on information provided to us by the Authority during our audit of its E-ZPass collection practices.

6. We question the Authority's claim that its E-ZPass administrative fees represent the recovery of its collection costs. A collection agency would incur the costs of collection.

7. The Authority states that it may not receive new Federal funding for capital projects because the funding agreement between the Authority and DOT expired in 2005. The Authority indicates that it would not be prudent to estimate any new Federal funding for capital projects because such funding is not guaranteed. However, we note that the Authority continued to receive new Federal funding for capital projects in 2006 and 2007, at levels consistent with historical trends.

Therefore, while we acknowledge a degree of uncertainty from the lack of a formal agreement, we believe it is unreasonable to estimate that the Authority will receive no such funding, when it has consistently received the funding in the past even after the agreement expired.

8. We encourage the Authority to take such steps to reduce its operating costs, but continue to recommend that a comprehensive, top-to-bottom analysis of its operations be performed to identify all possible cost reductions.

9. In a letter dated June 28, 2007, to the Division of the Budget, OSC stated that, $12.3 million in administrative fees related to State Police indirect costs were outstanding. The letter requested that the Division of the Budget further consider the situation and make a determination.

10. We are not suggesting that the Authority perform a full needs assessment for each individual item of equipment. Rather, we are recommending that the Authority's estimates of future capital equipment needs be based on a systematic and documented process. For example, certain replacement cycles may be appropriate for certain types of equipment, such as vehicles. We also note that the Authority has not modified its future estimates of capital equipment items, even though it will no longer be responsible for the maintenance of I-84.

11. The Authority states that it does have a process for prioritizing capital projects, in that priority projects are included on the capital plan. However, there are no priority distinctions among the projects included on the plan, and we believe such distinctions should be made to better enable management to make decisions when funding is not available for all the projects included on the plan.

12. As we note in the report, the Authority's $60 million estimate for inflationary increases is not documented.

13. The Authority states that some of the projects classified as non-essential have been completed or removed from the program. This is not consistent with the information that was provided to us by the Authority during our audit. Also, if this is so, the Authority's capital projections were overstated by the amounts of these projects.