Turnpike Task Force Final Report

October 18, 2006
Board presentation by Eric Kriss[1]

RECOMMENDATION

The September 20th Task Force Interim Report concluded that the Turnpike Authority (MTA) cannot continue "as is" and must implement significant operational and fiscal changes as soon as possible. After evaluating different scenarios, the Task Force recommends that MTA:

- ✔ stop operating the Western Turnpike (west of the 128 toll plaza) as a toll road by June 30, 2007
- ✔ in collaboration with the incoming Governor and legislature, enact legislation to end all MHS tolls (east of the 128 toll plaza), except on the airport tunnels, by December 31, 2007

WHY MTA CANNOT BE "FIXED"?

Over many decades, the MTA has evolved from a 1950-style independent authority with a simple, time bound mission into a rule-encrusted institution unable to reduce its own operating costs, integrate with the rest of state transportation infrastructure, or purge long-standing unfairness and adverse-impact issues. There is no incremental fix that can effectively alleviate this condition other than the elimination of the founding concepts of toll collection and "independent" operations.

Inefficient toll collection

The cost of manual toll collection has grown unacceptably high, creating large transaction yield losses and subsequent shortfalls in roadway maintenance. The introduction of electronic toll collection has helped somewhat, but the overall cost of collecting tolls remains far too high.

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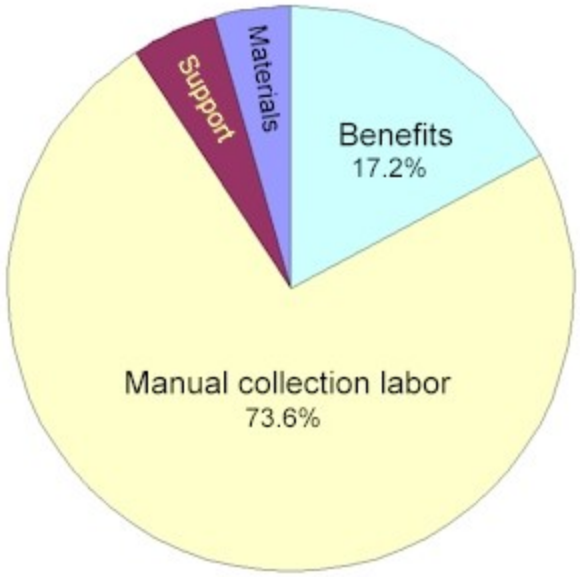
1 Task force members Eric Kriss, Peter Schwarzenbach, and Brad Crate received assistance from various MTA employees, KPMG (the independent auditor of MTA), ITD, DOR, ANF, OER, EOT, and other state agencies, departments, and authorities

Yield loss (collection cost as percent of revenue) – 2005 actual

Manual toll collection average	29.3%
Fast Lane electronic collection average	9.6%
State tax collection average (DOR)	0.7%
State gas tax collection average	0.1%

As shown in the table above, the cost of manual toll collection is *42 times* less efficient that average state revenue collection. Manual toll collection is, not surprisingly, driven by direct labor costs, as the chart[2] to the right illustrates. Cost reduction could, in theory, be achieved through wage and benefit reduction and/or workforce downsizing. However, existing labor agreements essentially prohibit MTA from negotiating meaningful wage or benefit cuts. Therefore, any cost reduction would need to rely entirely on workforce downsizing.



After an extensive review of the physical configuration of access points, the lowest collection cost alternative would be to adopt a no-ticket, one-way-entry system (similar to the airport tunnel tolls now) only at major interstate intersections. An optimistic estimate of possible cost reduction under such a system would be about 30%, achieved largely through job eliminations. Although subject to bargaining and other process steps, MTA does retain the contractual authority to reduce its labor force.

To be competitive with average state revenue collection, however, manual toll costs would need to be reduced by 97%, an unrealistic objective under any broad-based toll collection methodology.

The cost analysis above is for *average* costs; in fact, the detailed picture is much worse, since manual toll collection is entirely a fixed-cost operation due to restrictive work rules. This means that traffic frequency has a dramatic impact on per transaction costs.

2 *Support* includes depository bank services, audit staff, deposit and MTA couriers, and custodial services; *Materials* includes toll tickets, receipts, ribbons, equipment spare parts, and other equipment maintenance; *Benefits* includes health and other fringe costs for toll collectors and couriers, as well as related workers' compensation expense.

For example, say a minimally staffed toll plaza costs about $90 per hour. If only a single truck passes through, say between 4am and 5am at the Lee exit 2, the *average* cost per transaction is $90. If two trucks pass through, the average cost is $45, and so on. Some plazas on the Western MTA only collect non-passenger tolls, pushing the average cost per transaction even higher. Thus, for many locations and during low-traffic time periods generally, MTA actually loses money just on the collection activity itself. That means, in effect, that it would be less expensive to simply not collect any tolls at all in these situations.

Electronic collection (see table above) is three times more efficient than manual collection. Market dynamics, however, limit the penetration of this technology. Many infrequent and out-of-state drivers do not have transponders, and the percent of such vehicles has remained stubbornly at the 45% level in many states. Until a "no-transponder" information capture is practical, manual collection must be part of any overall toll system design.

The best setting for efficient toll collection, even with automated electronic systems, is high traffic, high value locations such as the airport tunnels. The table below estimates the relative yield loss of tunnel versus other toll collection as measured by collection cost per revenue dollar.

Location	Average toll	Manual yield loss	Total yield loss
Airport tunnels	$3.04	6.3%	4.8%
Allston, 128 plaza	$.90	26.3%	18.7%
Interstates	$1.40	20.6%	13.9%
All other locations	$1.15	38.8%	23.5%
Average yield loss for all state tax collection			0.7%

While still six times less efficient than average state tax collection, tunnel tolls may be justified on their relatively high maintenance cost and convenience economics. The conclusion is that, except for isolated locations like airport tunnels, a toll system does not meet any reasonable standard for efficient operation.

Highway integration

Without an extensive toll system, the logic of separate road maintenance for MTA versus other state highways falls apart. Meaningful integration requires the ability for management to deploy resources as needed, without unreasonable limitations. In addition, to ensure equity among transportation workers, comparable pay for similar jobs must be a guiding labor management principle.

Unfortunately, these requirements cannot be achieved under MTA existing labor agreements, and there is no comfort that future negotiations will yield any improvement. MTA work rules make management-directed assignments impossible to achieve in a timely and efficient manner. In addition, MTA currently pays an average 36% premium versus EOT for similar work.

Compensation comparison[3] (includes overtime)

Job description	MTA salary	EOT salary	Premium
Snow plow operators	$56,295	$50,110	12%
Mechanics	$62,746	$49,885	26%
Electricians	$81,734	$49,076	67%
Maintenance	$55,268	$38,633	43%
AVERAGE	**$64,010**	**$46,926**	**36%**

The only practical solution is for MTA to cease its road operations mission entirely, and transfer this responsibility to EOT.

Unfairness

The cost structure of MTA is borne only by those who pay tolls. Inefficient toll collection is like a hidden tax of about 20% even on those travelers who pay electronically, because the lost productivity reduces road maintenance for all Turnpike traffic. Toll collection differentially hits communities near Turnpike exits, making neighborhood trips that must involve the toll road much more expensive than in communities located elsewhere in the state (although this has been mitigated for some neighborhoods in the Boston area, yet another source of unfairness).

Turnpike users also pay their share of the gas tax[4], so, in effect, they are being taxed twice by the tolls and their related inefficiencies.

Within the MTA system itself, unfairness is created by allocating administrative overhead by highway miles rather than by the actual intensity of effort. As a result, Western Turnpike toll payers have subsidized MHS for years.

In addition, the complexity of CAT has greatly added to the intrinsic unfairness of the Turnpike over the past decade. Co-mingled finances and contemplated future operations of CAT by MTA means that those who use one 136-mile strip of road will end up paying a disproportionate share of the $15 billion CAT compared

3 Source: EOT and MTA payroll data

4 Turnpike users are entitled to a gas tax refund, and the method for collecting it was recently simplified. However, only those with an income tax liability can realize the benefit, and most tax filers do not claim credits that may be available to them.

to others in the state. There is no pubic policy objective that makes this desirable.

Economic and environmental impacts

Compared to other state highways, the toll entrance/exit system of the Turnpike creates additional traffic congestion. While no study can exactly measure lost economic output due to longer commuting times, here is a conservative estimate of the minimum impact of passing through MTA tolls under light traffic conditions:

Annual toll transactions	200 million
Delay to pay toll, average[5]	12 seconds
Lost labor hours per year	666,700 (assumes only one driver in vehicle)
Median MA income	$33 per hour
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Economic loss	$22 million per year

About $120 million in tolls are manually collected by MTA each year. Adding another $22 million in lost time equates to an minimum incremental 18% “wait tax”.

Tolls only multiply the backup effect of vehicles during peak commute times. Each additional minute of backup wait time equates to another $110 million in lost potential output.

In addition, vehicles waste gas while waiting in line. Five minutes of extra idling wastes about 0.04 gallons, or about $.10 in fuel cost. Toll waiting gas waste probably exceeds $2 million each year, or another 2% “wait tax”. Idling vehicles also emit carbon dioxide (CO_2), and toll lines cause about ¼ pound of excess carbon dioxide per vehicle to be released into the atmosphere (based on an average 5-minute wait during usual commute periods) which contributes to global warming.

To be acceptable, the economic and environmental waste implied by the congestion of toll lines must be countered by some compelling public interest objective. Back in the 1950's, when gas was cheap and air quality unnoticed, lower traffic densities made a toll road attractive for its unique financing capacity. Today, the imperatives are different, and there is no reasonable beneficial offset for the economic and environmental impact of toll collection on the scale practiced by MTA.

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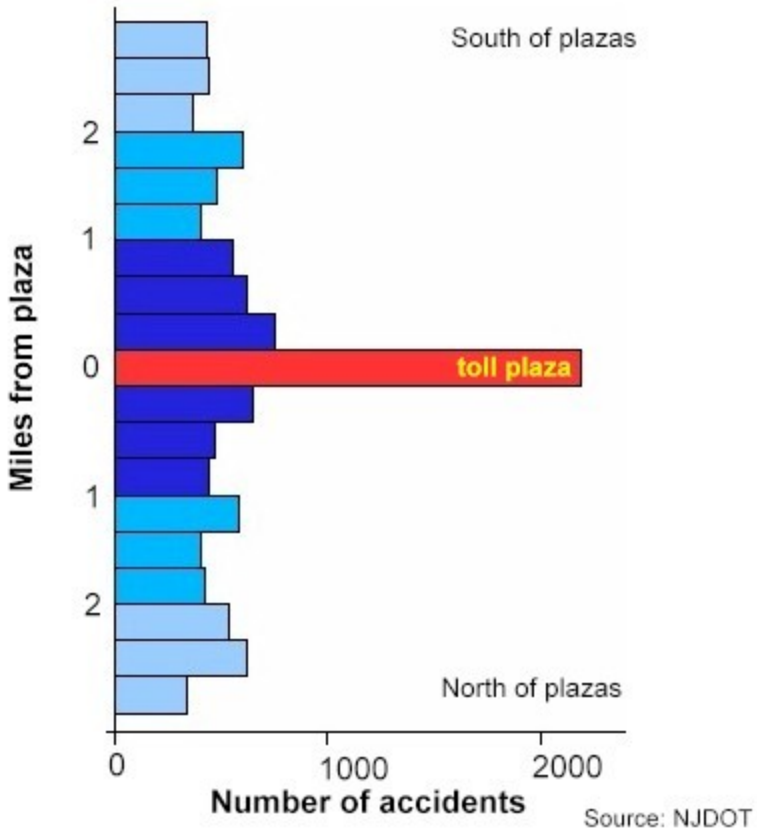
5 Based on TEMPORARY LOSSES OF HIGHWAY CAPACITY AND IMPACTS ON PERFORMANCE by S.M. Chin, et.al. prepared for U.S. DEPARTMENT OF ENERGY under contract DE-AC05-00OR22725; study reviewed 21 million vehicle-hours of delay in 1999 and found an average delay for 12 seconds per transaction, not including secondary backup effects.

Toll plaza safety

In April 2006, a preliminary report by the NTSB/Federal Highway Administration identified so-called barrier tolls like the MHS design among the least desirable of all traffic configurations. According to the NTSB, between 30% and 50% of all accidents on the Pennsylvania, Illinois, and New Jersey turnpikes take place at toll plazas.

An earlier 2002 New Jersey state analysis found a similar pattern. The graphic on the next page illustrates just how much barrier toll plazas compromise transportation safety. Like the more recent 2006 NTSB study, accidents clearly accumulate in the immediate vicinity of the plaza. Lacking some overriding public interest purpose, the logic of barrier toll collection, on its own, cannot be justified as a suitable transportation system alternative.

Data for this graph was derived from a 2002 NJDOT study by Edward Heeren that aggregated accident data between 1997-2000 on the Garden State Parkway within 2.8 miles of 11 toll plazas.



Unfortunately, the MHS portion of the Turnpike relies entirely on barrier toll plazas, making this part of the system inherently dangerous. In an era of terrorist threats, such a configuration becomes an additional public safety liability in a heavily urban area.

IMPLEMENTATION PLAN

Western Turnpike

Ending tolls on the Western Turnpike (west of 128 toll plaza) requires a series of discrete steps, as follows:

1. repay Western Turnpike outstanding debt of $199 million with existing resources
    - $90m general fund reserves
    - $22m debt service reserve
    - securitize or otherwise deploy service plaza revenue to retire or pay remaining balance; initial market assessment indicates sufficient financial capacity
2. transfer the Western Turnpike to the Commonwealth
3. EOT assumes operating control of roadway
4. all tolls west of the 128 toll plaza are removed

These steps do not require federal approvals or additional laws, and fall clearly within the authority of this board[6]. In fact, the legislature passed laws that anticipate such an action before 2017. Further, the Official Statement for the Western Turnpike bonds outlines a transfer to the Commonwealth by 2010. If the board acts expeditiously, all tolls can be removed from the Western Turnpike by June 30, 2007, well ahead of the previously established maximum time frame.

Metropolitan Highway System

Ending tolls on the MHS (east of 128 toll plaza) will require legislation because MTA does not have the explicit legal authority or the resources to accomplish this task alone. The steps are:

1. enact legislation to repay MHS debt with a new state bond issuance
2. transfer roadway to the Commonwealth
3. EOT assumes operating control
4. all tolls removed ***except*** on the airport tunnels
5. transfer tunnel toll collection to DOR

The board should address these steps in collaboration with the new Governor and legislature in early 2007, with the objective that all tolls, except airport tunnel tolls, be removed by December 31, 2007.

6 Mass Highway approval is required to accept the road under the existing state statute.

FINANCIAL IMPACT

The recommended plan:

1. saves between $69-105 million annually in overlapping highway operations, toll collection costs, and debt service
2. shifts the burden of on-going MTA deficits, I-90 maintenance, and CAT financing from toll payers to all tax payers

When financial, economic, environmental, safety, and equity factors are carefully weighed, the Commonwealth and its residents would enjoy a perpetual net benefit supported by a compelling public policy rationale.

WESTERN TURNPIKE ELIMINATION

MHS 2007 impact

Since this recommendation involves a two-step phase-out of MTA, it is important to acknowledge two immediate impacts on MHS as a stand-alone system. First, the long-standing practice of allocating administrative overhead by road miles will result in costs re-allocated back to MHS in the second half of 2007. Second, the MHS bond agreement triggers an increase in the expected coverage ratio from 1.35 to 1.40 in the event that the Western Turnpike is discontinued. Elimination of the Fast Lane discount, required in any event to meet the 1.35 coverage ratio in 2007, is one method of satisfying the 1.40 coverage ratio, and consolidation efficiencies can mitigate some overhead allocations.

The following tables shows the MHS 2007 budget impact of eliminating tolls on the Western Turnpike, and the coverage ratio[7] analysis.

Budget impact ($k)	**Calendar 2007**
MHS 2007 pro forma operating deficit AS IS	(37,471)
Fast Lane discount terminated	12,200
Administrative overhead re-allocation, 6 mo	(7,600)
Administrative consolidation efficiencies with EOT	4,000
Deficit post-WT elimination	(28,871)
NET SAVINGS IMPACT	**8,600**

Coverage ratio analysis	**Calendar 2007**
MHS 2007 pro forma revenues without Fast Lane discount	200,387
Debt service net of contract assistance	74,291
Operations and maintenance with net admin OH allocation	88,890
COVERAGE RATIO (1.40 required)	**1.50**

7 Coverage ratio = (revenue – O&M cost) / net debt service

Transition impact

The elimination of Western Turnpike tolls in the second half of 2007 (fiscal year 2008) would shift operations and maintenance costs to the state and simultaneously eliminate toll collection and duplicative highway costs.

2007 Commonwealth impact ($k)	**Calendar 2007**
WT O&M costs, 6 mo	(33,196)
WT State Police (currently paid by WT), 6 mo	(4,236)
Consolidation savings, WT with EOT operations	3,900
NET IMPACT	**(32,860)**

Commonwealth FY 2008 impact

The only impact of the Western Turnpike elimination on the Commonwealth's operating budget in FY 2008 would be the additional cost of State Police services on the western portion of I-90 plus snow and ice removal. Road-related costs would be funded through the state's capital plan, the same method that funds other state roads. The following table details the impacts on both operating and capital budgets.

FY 2008 impact Forecast ($k)	**State Police operating**	**EOT capital**	**Snow-ice operating**
Budget baseline	300,000	$850,000	$70,000
WT State Police transfer, 12 mo	8,500	0	0
WT O&M, net of savings	0	56,000	0
WT snow and ice removal, average	0	0	7,000
NET IMPACT	**8,500**	**56,000**	**7,000**
% Impact on baseline budget	**2.8%**	**6.6%**	**10%**

The total FY 2008 impact of eliminating the Western Turnpike would be $71.5 million in both capital and operating accounts. The fiscal impact on the Commonwealth in FY 2008 would be 0.1% and 2.1% on the operating and capital budgets, respectively.

COMBINED MHS – WESTERN TURNPIKE ELIMINATION
Long-term Commonwealth impact

The long-term impact on the Commonwealth is modest and decreasing as illustrated in the table below. Additional debt service, net of existing contract assistance, would result in a one-time increase of 5% in FY2008. The budgetary impact, net of retained revenues and consolidation savings, would diminish from $18 million in 2008 to zero in 2011, or less 0.1% of total resources.

This analysis does not address the significant deferred maintenance in transportation infrastructure statewide. Capital investment of $80-100 million annually is needed to maintain the existing MTA infrastructure.

The elimination of tolls by itself creates a public benefit because the yield loss due to collection no longer drains resources away from road maintenance. Added to the net savings from consolidation, the net public benefit is estimated to be between $69 – 105 million annually through 2011.

Long-term impact ($m)	**2008**	**2009**	**2010**	**2011**
Tunnel net revenue retained by state[8]	90.3	91.7	93.1	94.5
Other retained MTA revenue[9]	21.6	19.2	19.5	19.7
Turnpike O&M transferred to state[10]	(146.1)	(150.5)	(154.7)	(159.0)
Consolidation savings, MTA ops[11]	16.4	28.2	34.8	42.9
MHS debt service transferred to state[12]	(125.4)	(123.8)	(124.4)	(117.2)
Add back contract assistance	25.0	25.0	25.0	25.0
Net impact on state budgets[13]	**(118.2)**	**(110.2)**	**(106.7)**	**(94.1)**
MTA eliminated toll collection costs[14]	52.2	55.2	58.4	61.8
NET PUBLIC BENEFIT[15]	**68.6**	**83.4**	**93.2**	**104.7**

8 Assumes toll increase on tunnels, already scheduled for 2008 but exact toll increase subject to MTA board authorization, with traffic growth through 201, amounts net of DOR collection cost
9 Excludes all air rights income
10 Excludes capital investment and deferred maintenance liability of approximately $88 million 2008; future years will require investment in the $100 million range annually; toll collection costs eliminated from total
11 Consolidation savings are linked the the average 36% premium between MTA and EOT compensation for similar jobs; using a 75% labor factor on O&M, it is assumed that the premium will be reduced to zero over four years, with savings of 15%, 25%, 30%, and 36% between 2008 and and 2011
12 Terms and conditions of new bond financing yet to be determined; *pro forma* shows existing debt service obligation
13 Combined impact on both capital and operating budgets; net operating budget impact would actually be positive since revenue would be retained in the general fund, more than offsetting increased debt service (assuming O&M remains funded through the capital budget)
14 Estimated total MTA toll collection costs, less *pro forma* tunnel collection operations
15 Net public benefit = consolidation savings + eliminated toll collection costs

Turnpike Task Force Initial Report (Revised)

September 20, 2006 (Revised October 18, 2006)
Board presentation by Eric Kriss[1]

SUMMARY of the CURRENT CONDITION

The Massachusetts Turnpike Authority (MTA) is running an unsustainable long-term structural deficit of 10-20% caused by:

- ✔ financial strategies that back-loaded debt, bet on interest rates, and relied on complex real estate transactions and air rights development
- ✔ labor negotiations that yielded excessively high-cost union contracts burdened by unreasonable work rules, and were "locked-in" by an unprecedented ceding of executive authority
- ✔ budget priorities that under-invested in systems, internal controls, and roadway/bridge repairs in order to fund low labor productivity and unmanaged benefit growth
- ✔ top management, driven by a political patronage culture that implicitly permitted petty theft and poor performance, that failed to raise tolls and/or cut costs to meet CAT contributions

CONCLUSION

Fifty years after the Turnpike was created (the initial construction cost was $257 million), Massachusetts residents have a roadway, burdened with over $2 billion in debt, deferred maintenance, and operating at an unsustainable loss. MTA cannot continue "as is"; there must be significant operational and fiscal changes.

Note 1: Task force members Eric Kriss, Peter Schwarzenbach, and Brad Crate received assistance from various MTA employees, KPMG (the independent auditor of MTA), ITD, DOR, ANF, OER, EOT, and other state agencies, departments, and authorities

STRUCTURAL DEFICIT OVERVIEW

"As is" scenario

Calendar year ($m)	**2005**	**2006**	**2007**	**2008**
Operating revenue[1]	334,337	336,377	341,118	344,917
Roadway expenses	(270,334)	(289,973)	(316,542)	(349,984)
Operating income	64,003	46,404	24,576	(5,067)
Greenway, grants	(3,473)	(13,817)	(7,492)	(5,529)
CAT commitments	(13,586)	(63,695)	(7,239)	(284)
Capital investment[2]	(55,857)	(68,165)	(48,711)	(53,777)
Structural deficit	**(8,912)**	**(99,273)**	**(38,866)**	**(69,657)**
Deficit as % of op revenue	3%	28%	11%	20%

Note 1: Operating revenue subtracts non-cash land sales and swaption premium revenue recognition in 2005-08, but defines Commonwealth contract assistance as revenue, in conformance with MTA accounting methodology

Note 2: The level of pay-as-you-go capital required to maintain the current road and bridge infrastructure is estimated at $75 million in 2006, with inflationary increases of 5% each year. Based on a preliminary engineering assessment, capital investment of over $25 million was deferred in 2005-06, and similar deferrals are reflected in the *pro forma* above, thus understating the deficit under a fully funded capital program

Scenario assumptions:

1. Toll revenue grows at 1.5% historical average
2. Health care benefit costs continues to escalate at current 10% trend
3. No toll rate or other operating changes

Bottom line

MTA does not have the financial reserves to weather coming deficits if the authority pursues an "as is" operating plan.

FINANCIAL STRATEGY

Escalating debt payments

A prudent debt policy is one that evenly distributes the burden of future interest and principal payments, while a risky one loads such payments into the future without matched resources to handle the increasing burden.

- ✔ 2006 debt service of $100m will escalate 25% in 2008
- ✔ Peak debt load in 8 years will be 40% higher

Inadvertent interest rate speculation

Public institutions should not speculate in the derivatives market. To bridge budget deficits, MTA inadvertently placed a risky bet on future interest rates by failing to understand the implications of its trades. While MTA received $51m in cash, the potential exposure may trigger the need for significant new debt issuance in 2007. Advice MTA received from its financial advisor was flawed.

Opportunistic asset sales

In 2003 MTA sold off 90 acres, the Allston Landing South site, to Harvard University for $76 million. Although the cash was received in a single year, the proceeds were spread over 5 years, contrary to accepted accounting principles, to mask budget deficits between 2003 and 2007. The purpose of the sale was to close a short-term operating gap and thereby postpone tough decisions on toll increases and/or layoffs.

Unrealistic expectations

With costs going up six times faster than toll revenue, MTA has unrealistically planned on air rights and asset values to fill part of the gap. The CAT Kneeland Street headquarters, once valued around $94 million, was removed from the CAT finance plan after a failed RPF process, and air rights take years to realize.

COLUMBUS CENTER AIR RIGHTS EXAMPLE

- in 1997 (*BosBizJournal*) – Cassin/Winn start planning Columbus Center project
- 12/21/00 (BRA press release) – BRA adopts framework for Turnpike air rights
- 09/04/02 (*Architecture Week*) – Cassin/Winn “first of many” $400m project
- 10/20/04 (Steve Bailey column, *Globe*) – a “sensitive project” at $450m
- 03/09/05 (*NY Times*) – finally “in preparation” costing $500m
- 05/26/06 (MTA press release) – $600m project worth $80-100m to MTA
- 08/25/06 (*Globe*) – deal “at risk”, project costs now $650m

LABOR NEGOTIATIONS

Overcompensation

The toll collectors union contract sets the standard for high cost operations. The job of manual cash collection is generally not highly paid; bank tellers, for example, make about $11/hour, for an average salary of $30,000 (teller compensation, including benefits, tops out at about $41,000 according to PayScale, compensation consultants), and retail cashiers make even less (around $21,000).

In contrast to the private sector, MTA toll collectors average $56,300 in wages plus $9,880 in benefits, for total compensation of $66,180 plus 6 weeks of vacation, generous holidays, and 15 sick days each year. MTA employees contribute only 5% toward health care premiums, far below private sector averages. In addition, workers comp claims average over $3,280 per year per collector, making tollbooth duty seemingly one of the most hazardous jobs in the state economy.

Unreasonable work rules

Work rules, often not written into contracts, govern how the turnpike is run. Flexible work rules help boost labor productivity. MTA contracts unfortunately contain many unreasonable restrictions, such as:

- ✔ minimum 8 hour shifts making it impossible to efficiently staff for rush hour peak demand
- ✔ minimum staffing requirements
- ✔ onerous shift bid/reassignment procedures
- ✔ pay differentials, including two-hour overtime guarantee, for change in shifts/work days
- ✔ prohibitions on requiring traffic counts that increases the risk of toll collector theft

Unprecedented ceding of executive authority

MTA agreements expressly provide for automatic binding arbitration in the event immediate new contract agreement is not reached upon expiration. In practice, this makes any meaningful renegotiation impossible without ceding executive authority to an outside private arbitrator. The net effect of the arbitration provision is a perpetual cycle of passive “lock-in” to existing contracts.

MTA may have exceeded its authority in entering into these provisions because they constitute an unconstitutional delegation of power to a panel of private citizens in violation of Article 5 of the Massachusetts Constitution.

Excessive benefits

The following table compares MTA toll collectors benefits to those of other state employees.

Benefit description	MTA benefit level	State benefit level
Maximum vacation time	29 days	25 days
Vacation balance carryover	3 years	2 years
Offset for holiday work	2.5 days	2 days
Sick leave buy-back	50% plus 35% pool to offset retiree health insurance contribution	20%
Sick leave incentive	no co-pay < 3 days	none
Employee share health premiums	5%	20%
Longevity pay	up to $1000	none for non-public safety
Average wage increase (over 4 years)	12%	8%
Retroactive pay	full year (6/2003)	none

BUDGET PRIORITIES

Lack of internal controls

KPMG's 2006 management letter outlines a lack of internal controls and proper procedures. Of particular concern is the vulnerability of cash management, and the absence of meaningful procurement oversight.

Deferred roadway maintenance

EOT is currently evaluating the physical condition of MTA roadway and bridge infrastructure. Preliminary assessments indicate that bridges are in worse condition[1] than Commonwealth bridges generally, and that the average MTA roadway surface falls below the statewide MHD condition average. In addition, maintenance assets, like heavy equipment and plows, appear to be in poor condition.

MTA has followed a “pay-as-you-go” capital investment program for non-CAT assets for many years. In theory, pay-as-you-go can be a prudent way to handle capital projects if sufficient funds are made available. Unfortunately, as operating budgets tightened, the left-over “pay-as-you-go” dwindled, resulting in chronic under-investment.

Preliminary estimates indicate a persistent $25m annual shortfall that has now ballooned into a significant deferred maintenance liability.

Underfunded system development

MTA is responsible for nearly 200 million transactions annually, yet has aging and incomplete information systems. There is no centralized data center, no plan for adequate disaster recovery, no overall cash management system, and no automated internal audit. With these obvious IT shortfalls, prior management elected to invest in a non-essential system for capturing the Chairman's correspondence.

MTA does not conform to the open standards architecture previously adopted by the Commonwealth's executive branch.

Note 1: Of the 489 bridge structures in the MTA system, 12 are rated as structurally deficient and most need investment to remain in “good repair” condition.

MANAGEMENT

Petty theft

Cash collection provides many opportunities for theft. A lack of good internal controls and inadequate systems was abetted by the neglect of top management that failed to establish a positive culture of public service and integrity. A small toll audit group highlighted high risk operators, but little or no action was taken by prior management.

Here is an example from a single week for a single collector:

- August 13: Collector X is $166.25 short and indicates only one vehicle ran the lane
- August 14: $210.75 short and offers no explanation; confirmed by video observation
- August 15: $209.00 short and offers no explanation
- August 16: $157.25 short and offers no explanation

So Collector X apparently stole about $750 during the week of August 13, a rate that exceeds $30,000 annually.

Transparency

The logic of an independent authority rests on an independent board that exercises appropriate oversight. The MTA board did not previously review KPMG's annual independent audit, a serious omission. Meetings and agendas were surrounded in unnecessary secrecy while the board also ceded extraordinary powers to the chairman. The result was a loss of control over both operational and fiscal affairs, and a corresponding lack of disclosure about conditions that were known by MTA staff but not properly communicated by top management to the board and to the public.

Low productivity

Sick time abuse, questionable workers comp claims, outright theft, and poor performance was tolerated by top management who lacked any rigorous approach to address chronically low productivity.

Politicized decisions

The political tactic of delegating potentially unpopular toll increase decisions to an independent, and therefore “isolated” board, has failed to offer the predictability of toll level adjustments required by both bond holders and escalating operating budgets. At the same time, prior management, faced with looming deficits, failed to make any corresponding cost reductions.