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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 8, 2006

Mr. John G. Doyle
Chairman
Rochester-Genesee Regional Transportation Authority
1372 East Main Street
Rochester, NY 14609

Re: Report 2005-F-9

Dear Mr. Doyle:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution; and Section 2803 of the Public Authorities Law, we have followed up on the actions taken by officials of the Rochester-Genesee Regional Transportation Authority (Authority) to implement the recommendations contained in our audit report, *Capital Planning Practices - Rochester Central Station* (Report 2003-S-34).

Background, Scope and Objective

The Authority was established in 1969 by Article 5, Title 11-B, of the Public Authorities Law. Its purpose is to continue, develop, and improve transportation and related services in the Rochester area. Managed by a Chief Executive Officer who reports to a 13-member Board of Commissioners (Board), one of which is vacant, the Authority provides fixed-route public transit services, as well as mandated services, for the disabled within the City of Rochester and seven counties: Genesee, Livingston, Monroe, Wayne, Wyoming, Seneca, and Orleans. The Authority also provides shuttle bus services and acts as administrative host to the Genesee Transportation Council (GTC), the designated organization in the nine-county Genesee-Finger Lakes Region that oversees all transportation planning for that area.

Between the spring of 2001 and winter of 2003, the Authority completed conceptual design and preliminary engineering for a transit center, known at the time of our initial audit as the "Rochester Central Station," along with a master plan for potential secondary private development. The design for the Rochester Central Station project included a transit center combined with a 300,000 square foot class-A high-rise office building, commercial retail space, approximately 100 units of housing and a 1,000-car parking garage. The estimated construction cost for the Rochester Central Station was \$58.4 million. As of March 31, 2003, \$4,468,059 had been spent on the preliminary design phase. Between April 1, 2003 and March 31, 2005, the Authority spent an additional \$1,921,246 on the Rochester Central Station.

Subsequent to the completion of our initial audit, significant changes have taken place relative to the proposed Rochester Central Station. At the time of our initial audit the design and engineering of the proposed Rochester Central Station was the principal capital planning activity at the Authority. Subsequent to our initial audit, however, the Rochester Central Station has been redefined and recast into a new mixed-use complex now called "Renaissance Square." In June 2004, the Authority, in conjunction with Monroe County, the City of Rochester, and the Monroe Community College formed the Main & Clinton Local Development Corporation (LDC) to oversee the acquisition, construction and equipping of the joint development project. This project is supposed to combine a performing arts center, a new downtown campus for the Monroe Community College, and a transit center. In February 2005, the Authority entered into a Joint Development Agreement with Monroe County, the City of Rochester, and the Monroe Community College to proceed with the preliminary design phase of the joint development project. As of our follow-up audit, Monroe County represented the performing arts center portion of the project; the arts community was not formally part of this Agreement. According to Renaissance Square Project's Charter, the overall budget for the Project is \$230 million with an estimated construction completion date of September 2010. Also, the Authority's role in the design and implementation of this capital project is much altered with the Authority acting as a partner with other co-developers in a joint development arrangement. This dramatic change in project scope, and equally important in the Authority's role and responsibilities, has business implications that have a bearing on this follow-up audit. For the fiscal year ended March 31, 2005, for example, the Authority's audited financial statements included a loss on the impairment of capital assets of \$1.49 million associated with the Rochester Central Station. This loss on the impairment of capital assets reflects the Authority's judgment as to the extent of the prior capital expenditures that are not useable as they move forward with the current project.

Our initial audit report, which was issued on March 29, 2004, examined whether the Authority's decision to advance the Rochester Central Station project was based on sufficient study and analysis. Our report identified that key decisions by the Authority were not based on a sufficient level of study, which added to financial uncertainty about the project's economic benefits. In particular, formal needs analysis was not performed to determine that such a facility was actually needed and, if so, where the best site would be. In addition, a strategic decision to include an underground bus staging area was made with neither the cost nor feasibility of this approach being evaluated. We also found that many of the operating revenue factors cited by the Authority were based on unpredictable market conditions and that there was no documentation for some of the operating cost estimates. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of December 19, 2005 of the five recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Authority officials have made some progress in correcting some of the problems we identified. However, additional improvements are needed. Of the five audit recommendations, one recommendation has been implemented, two recommendations have been partially implemented, one recommendation has not been implemented, and one recommendation is no longer applicable.

Follow-up Observations

Recommendation 1

Undertake the planning of future transit projects by conducting appropriate studies and analysis and making decisions within a responsible time frame. Document and support all major decisions.

Status - Partially Implemented

Authority Action - Subsequent to our prior audit, the Authority discontinued the Rochester Central Station Project. In the fall of 2003, the Authority began discussions with Monroe County and the Monroe Community College regarding the concept of building a performing arts center and a new downtown campus for the Monroe Community College as well as a transit center. The Authority's consultant feasibility study dated January 9, 2004, concluded that co-locating the transit center with these two major facilities was physically and functionally feasible. The project is now known as the "Renaissance Square Project," and plans are to locate the project at the same location that was selected for the Rochester Central Station (Main Street and Clinton Avenue). We reviewed the planning documents related to the Renaissance Square Project and concluded that there have been no additional studies to assess the need for a downtown transit center or, if needed, the proper location. There has been no evaluation of other possible sites for such a mixed-use facility.

We reviewed the planning of two other transit projects that were on-going during our follow-up audit and concluded that Authority staff adequately documented the reasons for their decisions. We reviewed these two projects because they were the largest on-going capital projects other than the transit center excluding the replacement of buses and communication-oriented projects on the Authority's Six-Year Capital Program for fiscal years 2005-05 through 2010-11.

One project consists of several site improvements to the RTS Operations Center. This project included reconfiguring the driveway, adding a traffic signal on Main Street, adding lighting for security purposes, adding a bus staging area, and improving traffic circulation. The Authority's Capital Program budget for this project is \$1.07 million. Authority staff conducted a needs assessment to define the necessary improvements and documented the reasons for their decisions. Some improvements have already been completed.

The other project relates to bus storage for the Livingston Area Transit System. The Authority currently contracts with a vendor to provide office space, bus storage, and bus maintenance in lower Livingston County. The Authority conducted a needs assessment and documented the need for additional office space and bus storage facilities. The needs assessment included relocating the facilities to a centralized location in the county in order to improve the efficiency of county-wide bus service. Livingston County government had centralized its county highway department and this

location had adequate space to meet the Authority's needs. County officials entered into a joint development agreement with the Authority to provide the facilities. The Authority's Capital Program budget for this project is about \$1.5 million.

Recommendation 2

Involve all signers of the MOU - including City, County, and GTC officials – in a re-evaluation of the decision to be involved in a mixed-use project at the Main Street/Clinton Avenue site. Consider other locations that could accommodate a single inter-modal facility without having a negative effect on inter-city bus operations.

Status - Partially Implemented

Authority Action - In September 2003, the Authority undertook a feasibility study in conjunction with the Rochester Broadway Theater League and the Monroe Community College. The purpose of the study was to determine the feasibility of a combined development plan for a key site in the heart of downtown Rochester that would provide the city with a Transit Station, Performing Arts Center, and a new campus for Monroe Community College. The study concluded that a project including a transit station, an urban community college campus and a performing arts center was physically and functionally feasible. However, no additional sites were considered for a possible location of the transit center. In February 2005, the Authority's Board approved a Joint Development Agreement for the Preliminary Design Phase of the Renaissance Square Project among the Authority, Monroe County, the City of Rochester and the Monroe Community College.

Recommendation 3

Document the Board of Commissioner's involvement in the decision-making process for the transit center. Ensure that the Board formally approves, by resolution, all major program changes.

Status - Implemented

Authority Action - The Board has authorized all contract amendments, public review of environmental impact statement, and forming a subsidiary known as the Renaissance Square Corporation. The Board has also authorized the Renaissance Square Corporation to begin work on the transit center, and it has authorized the execution of a Joint Development Agreement for the Preliminary Design Phase among the Authority, Monroe County, the City of Rochester, and the Monroe Community College for the preliminary design phase of a joint development project that would include the transit center, a downtown college campus, and a performing arts center. The Board further authorized the creation of the Main & Clinton Local Development Corporation (LDC), and LDC became the project partners that would oversee the preliminary design phase of the project. The Main & Clinton Local Development Corporation hired consultants for the preliminary design phase. However, the Authority's Board was not involved in the approval of these contracts. They assert that this decision is under the jurisdiction

of the Joint Development Agreement. The Authority's Board will need to formally authorize proceeding with the project after the Preliminary Design Phase is completed and approved.

Recommendation 4

Re-examine the estimates calculated for annual operating revenues and costs for the transit center. Do not plan to rely on occupancy-based lease revenue to fund operating expenses.

Status - Not Applicable

Authority Action - With the change in project scope to a Joint Development project with Monroe County, the City of Rochester, and the Monroe Community College, the annual operating revenues and costs for the transit center will need to be recalculated as the preliminary design phase proceeds.

Recommendation 5

Report to the Board all costs related to the transit center project, including those paid from operating funds.

Status - Not Implemented

Authority Action - Authority management provides a budget status report each month to the Board. The budget status report provided to the Board for the June 30, 2005 Board meeting was the same format as what was used on March 31, 2003. The budget status report still does not include any amounts paid for capital projects from the Authority's operating funds. The budget status report as of May 31, 2005 still includes \$73,596 in expenditures that, although they pertained to the Rochester Central Station, were actually paid by the GTC. Also, the report still does not include the costs paid from operating funds in our initial report, including \$313,229 for advertising and \$6,849 for website development, as well as lobbying costs for the transit center. In addition, the Authority now leases spaces which is used for the Renaissance Square Project and provides staff for the project that are not included in the budget status report. Based on information provided by Authority officials, for the period January 3, 2005 through July 3, 2005, \$19,760 of payroll costs relate to the Renaissance Square Project. In September 2005, the Chief Financial Officer started presenting the Board with a new report format to separately track the project for its "joint development" stage. However, the new report format does not contain any of the amounts expended on the Rochester Central Station Project. The report shows that the budget for the current Joint Development Project - Preliminary Design Phase is \$10.3 million. As of July 31, 2005, \$85,000 of these expenses had been paid. Based on other information provided by the Authority, as of September 2, 2005, an additional \$292,000 in expenses is pending payment.

Authority staff should include all costs related to the Rochester Central Station Project in its report to the Board, including costs paid from operating funds, lease of space, and

chargebacks for staff time on project. It is particularly critical that these costs be accounted for since there is a joint development agreement whereby all eligible costs will be shared with all project partners.

Major contributors to this report were Gerald Tysiak, Roger C. Mazula, Wayne Bolton, and Bruce Brimmer.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Robert Barnes, Division of the Budget
Michael Jankowski, RGRTA Audit Committee Chairman
Mark Aesch, RGRTA Chief Executive Officer
Robert W. Frye, RGRTA Chief Financial Officer
Steven Hendershott, RGRTA Chief Operating Officer