



Getting the MTA Back on Track

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Executive Summary

The Metropolitan Transportation Authority (MTA) is responsible for operating the largest mass transit system in the nation, with an average weekday ridership in 2009 totaling nearly 5.1 million. The MTA's services, including bringing riders to the central business district where the majority of jobs are located, are inextricably linked to the economies of New York City and the surrounding metropolitan communities. The Office of the State Comptroller (OSC) has a long history of providing comprehensive oversight and monitoring of the MTA. In the past 15 years, OSC has completed more than 100 audits and financial and policy-related reports regarding the MTA, addressing a wide variety of taxpayer concerns.

This comprehensive approach to oversight has been significantly expanded under Comptroller DiNapoli. Since 2007, OSC has issued 23 reports on the MTA, including 12 audit reports and 11 reports examining MTA finances and operations.

On August 30, Comptroller DiNapoli announced his plan to launch a forensic audit to determine whether there is fraud and abuse in connection with overtime pay at the MTA and its constituent agencies. In addition, there are currently, 12 other MTA audits in process, including one audit that is being performed jointly with the New York City Comptroller's Office.

Taken as a whole, this work gives a portrait of a public authority that has not been accountable to the public – a public authority that has missed many opportunities to use

OSC Monitoring of MTA Found:

Financial Outlook – Unsustainable spending has created larger and growing budget gaps

Annual spending increases for last 5 years averaged 7 percent.

Revenues increased through new taxes and fees, and 44 percent hikes in fares and tolls.

Initial actions to close budget gaps focused more on service cuts than reducing wasteful spending.

Use of Overtime – Spent \$586 million in OT in 2009

Acceptance of high OT has been ingrained in management culture.

OT budgets are seriously flawed and OT is often unnecessary.

Recommendations could save \$56 million annually.

MTA Real Estate – Not managed effectively

Required lists of holdings and values are not published.

Rental units are often not marketed and rents are not always competitive.

Revenue from sales of property or property rights is not maximized.

Procurement of Fuel – Not managed effectively

Failure to use cheaper alternative bus fuel cost extra \$39 million.

Fuel purchases and quality were not accounted for.

Use of Consultant Contracts – Not managed effectively

Outside consultants were hired without determining if services could be done in-house.

Capital Security Plan – Not managed effectively

Costs for Phase 1 have increased \$242 million (41 percent) amid numerous delays.

Only 7 of 16 security projects are complete.

public resources effectively and needs to do more to contain costs. When facing difficult revenue limitations, instead of looking within to eliminate unnecessary expenses or develop innovative cost-saving initiatives, the MTA has relied on increased revenues from the State in the form of new taxes and fees, on significant increases in fares and tolls and on severe service reductions.

Since September 2009, OSC has released eight audits and financial and policy-related reports. **Six of these reports show increasing budget gaps, \$296 million in wasteful spending and unrealized opportunities for savings, and poor management practices that have resulted in added costs and missed deadlines (highlighted below).** The MTA needs to reduce costs and wasteful spending to leverage opportunities to increase revenue in ways other than fare and toll hikes, and, to manage programs and operations more effectively. While the new MTA leadership has stated its commitment to reducing waste and inefficiencies, and some progress has been made to date, much more needs to be done.

Financial Outlook – April 2010

An updated assessment of the MTA's financial outlook in April 2010 found that MTA spending for the last five years has grown at more than twice the inflation rate, with growth averaging 7 percent annually – a rate that exceeds the growth of recurring revenues. Operating costs have increased at unsustainable levels and significant cost increases are projected for the future. Revenues have been raised through increases in fares and tolls totaling nearly 44 percent since 2002. Additional New taxes and fees approved by New York State were added in 2009. While the MTA has identified actions to narrow the projected budget gaps, its first actions relied heavily on service reductions. Despite these and other actions, the April report found that a significant budget gap

remained in the current year and next year's budget gap totaled \$537 million, which could grow to \$860 million depending on the outcome of certain budget risks. The report concluded that fares and tolls may increase faster than currently planned by the MTA unless it controls unnecessary costs. OSC urged the MTA to eliminate waste and inefficiencies to avoid further cuts in services.

MTA Use of Overtime

This audit found that the MTA has not effectively managed and controlled overtime use. Rather, there has been a culture of acceptance among MTA managers regarding overtime. No real efforts have been made to change longstanding practices that resulted in routine, and often unnecessary, overtime. The MTA Central Office accepts overtime budgets for the constituent agencies without question. Between 2006 and 2009, MTA annual overtime costs increased from \$476 million to \$586 million (23 percent), with overtime for many employees approaching or exceeding annual salaries. Indeed, in 2009, overtime pay for 3,269 employees equaled at least 50 percent of their salaries, with overtime for 145 employees exceeding their salaries. The audit found that routine track maintenance is often performed on overtime, because workers' regular shifts often coincide with peak service periods, when tracks are unavailable. Also, much overtime results from replacing workers who call in sick, without considering if replacements are really needed. Many employees working overtime have no justification for doing so, and some may not actually work all overtime claimed. Corrective actions identified by the audit could save more than \$56 million annually in reduced overtime.

Real Estate Management

This audit found that the MTA has not demonstrated effective management of its vast real estate portfolio. The MTA does not publish a list of all its real estate holdings and

it does not track the value of the properties as it is required to do. Auditors found that the MTA spends \$25 million a year for rent without considering if its own vacant office space could meet its needs. It also does not work to ensure that its rental units are marketed, that rental unit rates are competitive or that tenants in default are assessed interest and late payments. In selling properties and property rights, the MTA has not worked to maximize sales amounts. For example, the MTA sold a 50 percent share in one property to the City of New York. The total value of the property was \$487 million. However, the City paid just \$200 million, leaving the MTA potentially short \$43 million on the transaction.

Bus Fuel Procurement

This audit found that the MTA spent \$39 million more than it should have on diesel fuel due to wasteful practices and improper oversight. Despite the availability of an environmentally friendly and effective cheaper alternative, the MTA extended a contract to continue purchasing jet/kerosene fuel for its buses. The contract extension also increased the purchase price of the fuel by 55 cents per gallon and required purchase of at least 50 million gallons. Not only could the MTA have avoided these extra costs by contracting to purchase the cheaper alternative fuel, but it could have continued to purchase the jet/kerosene fuel under a contract held by the Office of General Services for an average of 29 cents per gallon less than the contract extension amount. The audit also found that the MTA could neither account for the fuel it purchased nor ensure its quality.

Professional and Miscellaneous Services Contracts

This audit found that professional and miscellaneous services contracts have cost an average of \$1.5 billion annually, and have consumed up to 15 percent of the MTA's annual operating budget in recent years. The

MTA has not taken steps to determine if these services could be performed in-house, or if these contracts are the most cost-effective option available. Auditors found that the MTA contracted for some services that would appear to be within their in-house capabilities. The MTA should consistently document the need to contract out for such services. For example, the audit identified 860 contracts totaling nearly \$1 billion that the MTA awarded for engineering and architecture services, maintenance services, consulting services, and waste removal. The MTA also awarded contracts for real estate management, tree trimming and bus engine repair, despite the existence of in-house staff that perform similar services. The audit highlighted the potential for the MTA to save \$176 million through a 10 percent reduction in consultant contracts consistent with the Executive's recommendation for across-the-board cuts.

Capital Security Plan

An updated analysis of the MTA's capital security plan found that despite eight years of problems, delays and significant cost overruns, a number of important security improvements, such as hardening of MTA facilities against a terrorist attack, have been implemented. However, Phase 1 of the plan remains incomplete and the MTA is at risk of not completing its electronic security program due to a lack of funds. Costs for the 16 construction projects under Phase 1 of the plan have increased 41 percent, to \$833 million over original estimates. Further, only seven of 16 projects have been completed, while nine remain under construction (68 percent complete). Delays for the implemented projects range from eight months to 38 months. The MTA has acknowledged that the remaining \$59 million allocated to the electronic security program will not be enough. That project had been managed by Lockheed Martin and was plagued with lengthy delays and serious problems that could compromise its

functionality. While two MTA operating agencies are now receiving some benefits from the electronic security program, three others are lagging far behind. Completion of the project, originally planned for August 2008, is now estimated at June 2012. In the meantime, Lockheed Martin has filed suit to terminate the contract and the MTA has countersued.

Recommendations

These audits and reports highlight the wide-ranging problems facing the MTA. Serious and significant reform must take place for the MTA to function effectively. At the time these reports were released, OSC made the following recommendations:

Financial Outlook – April 2010

Include a comprehensive plan to close the remaining budget gap for 2010 and balance next year's budget in the MTA July 2010 Financial Plan for 2011. (*The MTA's July 2010 Plan did close the 2010 budget gap.*)

Focus on eliminating waste.

Use of Overtime

Actively manage and reduce overtime costs, and set and monitor reduction goals.

Require constituent agencies to justify annual overtime budgets and restrict overtime to what is necessary.

Follow up on audit-identified questionable overtime transactions.

Work to establish caps on the amount of overtime compensation considered for pension calculations.

MTA Real Estate

Publish required list of real estate holdings and implement single system accounting for all MTA properties and values.

Develop and implement strategic rental marketing plan.

Improve rent collection; maximize revenue from property disposal and sale of air rights.

Procurement of Fuel

Monitor and evaluate fuel marketplace and regulations in order to be prepared for needed future changes.

Explore alternative fuel contracting strategies.

Finalize and implement policies and procedures for fuel accountability.

Use of Consultant Contracts

Require constituent agencies to document the need for outside services.

Explore alternative approaches, such as having multiple agencies contract jointly for outside services, having one constituent agency perform needed services for multiple agencies, or using State and City contracts.

Quickly complete review of outside contracts by constituent agencies and scale back where possible to reduce costs.

Periodically evaluate continued need for outside contracts.

Capital Security Plan

Work to complete implementation of remaining Phase I projects.

Conclusion

Implementation of these recommendations will go a long way toward helping the MTA get back on track. In the days ahead, OSC will continue to report on MTA operations and activities, and make recommendations for improvements. Audits currently in process include cash management, the capital plan, use of federal stimulus funds, fleet maintenance of buses and subways, achievement of minority- and women-owned business enterprise (M/WBE) goals and service interruptions.