



STEPHEN G. BLAND
Chief Executive Officer

November 30, 2007

The Honorable Jack Wagner
Auditor General
Commonwealth of Pennsylvania
229 Finance Building
Harrisburg, PA 17120

Dear Mr. Wagner:

The purpose of this letter is to document our response to the findings noted in your Performance Audit of the Port Authority of Allegheny County for the period July 1, 2002 to August 22, 2007, report dated November 2007. Findings two and three were previously addressed in our responses to you interim findings letters but will be updated in this letter.

Finding One: "The governing body of the financially troubled Port Authority of Allegheny County has included local but no state appointees even though state taxpayers provide the most money to keep the Port Authority operating."

Management Response:

The appointment of Port Authority Board Members is outside of the authority and control of the Board and staff. The process for appointing members of the Board of Directors is determined by state law (Second Class County Port Authority Act).

Finding Two: "The Port Authority was not accountable to taxpayers and, in fact, contributed to its own financial crisis by committing \$15.5 million to rent prime downtown office space unnecessarily."

Management Response:

Port Authority staff is conducting a cost-benefit analysis that includes the estimated cost of the rehabilitation of the Manchester building, as well as the moving costs and future maintenance costs. Our lease at the Heinz 57 Center expires in 2010, and immediate action to exit that lease would not be financially prudent, as Port Authority would still be responsible to fulfill its rental agreement.

Finding three: "The Port Authority gave excessive benefits to top executives, other staff, and retirees."

Management Response:

This addresses a topic over which the current Board has no control. Prior to the first audit report issued by State Auditor General Wagner earlier this year, Port Authority announced it was instituting a broad series of cost-savings initiatives to address the Pennsylvania Transportation Funding and Reform Commission's call for business reforms at the state's transit agencies. Due to current collective bargaining agreements, the following actions only affect management employees and the Port Authority Police:

- Accelerated the departure of employees in a Deferred Retirement Option Program
- Eliminated "lifetime healthcare" for those retiring after June 30, 2007
- changed the "buy-back" of previous employment time to only military years of service and instituted 10-year vesting period
- Eliminated a \$500 monthly pension supplement
- Increased employees' healthcare contributions to 2 percent of annual salary in Fiscal Year 2008 and 3 percent in FY 2009
- Fiscal Year 2008 salaries frozen
- The CEO's salary frozen through June 2009 (amounting to a three-year freeze) and elimination of his deferred compensation contribution by the Authority
- All senior management position salaries frozen through June 2008 (amounting to a two-year freeze) and elimination of their deferred compensation contribution by the Authority
- Eliminated use of accrued of sick leave toward pension service
- Reduced the number of senior managers from eight to five

Port Authority also eliminated 370 budgeted positions, including 50 administrative positions, and instituted 203 layoffs by June 30, 2007.

The Authority will realize more than \$11 million in savings in Fiscal Year 2008 alone as a result of the wage freezes, layoffs and changes to employee pensions and benefits.

We assume that the recommendation on Page 33 refers to healthcare costs for represented employees, which can only be addressed through collective bargaining.

Port Authority is prohibited by state law from changing the benefits given to current retirees.

Port Authority management and Board continue to address financial issues over which they have control. For instance, CEO Steve Bland eliminated use of a personal vehicle assigned to him; voluntarily took a three-year wage freeze; eliminated his deferred compensation; and reduced his vacation time.

Finding Four: "The Port Authority poorly planned or poorly implemented three of its most significant capital projects undertaken during the past ten years."

Management Response:

Port Authority follows all aspects of the federally-prescribed planning process for capital projects, which includes extensive public input, federal oversight and years of study, planning, design and engineering. (See attached chart)

Port Authority announced at its November 16, 2007 Operations and Consumer Relations Committee meeting that it will be taking over operation and maintenance of the Wabash Tunnel beginning January 1, 2008. We continue to look for ways to increase usage of the facility.

Port Authority continues to promote use of the South Hills Village garage. For example, the Port Authority is promoting use of the garage, as the free upper lot directly adjacent to the garage will close on December 1 – eliminating free parking for about 600 customers. In addition, the Authority previously entered into a revenue-generating lease agreement with Giant Eagle for 250 spaces.

Finding five: The Port Authority has increased its revenue from the sale of advertising space since the sale of advertising was taken over by Port Authority staff.”

Management Response:

The increased advertising revenues are part of our continuing efforts to generate new revenues. While we continue to work to meet or exceed recent revenue levels, it should be noted that Port Authority cannot realistically expect to attract large, single advertising contracts each year.

Prior Audit Finding One: The Port Authority’s control over its equipment inventory was deficient.

Management Response:

The Port Authority has addressed this prior audit finding with the establishment of specific policies and procedures. There has been ongoing training of fixed asset custodians and better communication between the fixed asset accountant and the fixed asset custodians. For most of fixed assets inventory, all of the problems have been corrected. The State Auditor General’s report focuses on a specific subset of fixed assets, the computer inventory. The Port Authority acknowledges that there were lapses in the execution of the asset policy and procedures as it relates to computers. There have been a significant number of personnel changes in the IT group. Many of the former custodians and management of IT have left the Port Authority.

As a result of the reorganization of the Port Authority that occurred on July 1, 2007, IT personnel now report to the Chief Financial Officer. The policies and procedures that were designed to establish accountability and control for computer equipment will be enforced more rigorously as these custodians are now under the direction of the CFO and are part of the finance department.

We appreciate the inclusion of some positive findings in the report by the State Auditor General as noted below in our resolution of prior audit findings. We will monitor these items and make sure that we continue to remain in compliance.

Port Authority complied with procurement laws, regulations and policies.

Port Authority complied with recommendations of the prior audit regarding control over its non-revenue vehicles.

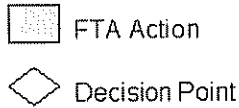
Port Authority complied with prior recommendations to develop and implement a work order system.

Port Authority established controls over bus maintenance overtime through both its budgeting process and payroll system.

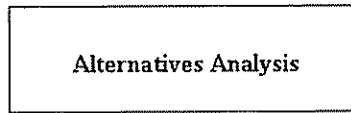
If you have any questions or comments on the above responses, please contact me.

Sincerely,

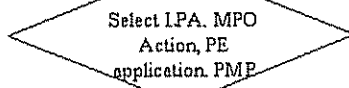
Stephen G. Bland
Chief Executive Officer



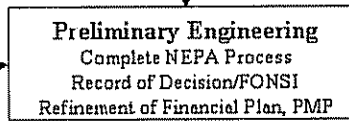
Corridor Planning



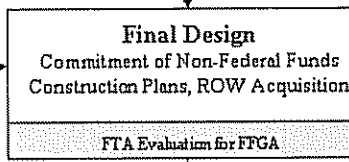
- FTA review of alternatives at beginning of alternatives analysis



- FTA approves New Starts baseline alternative



Preliminary Engineering

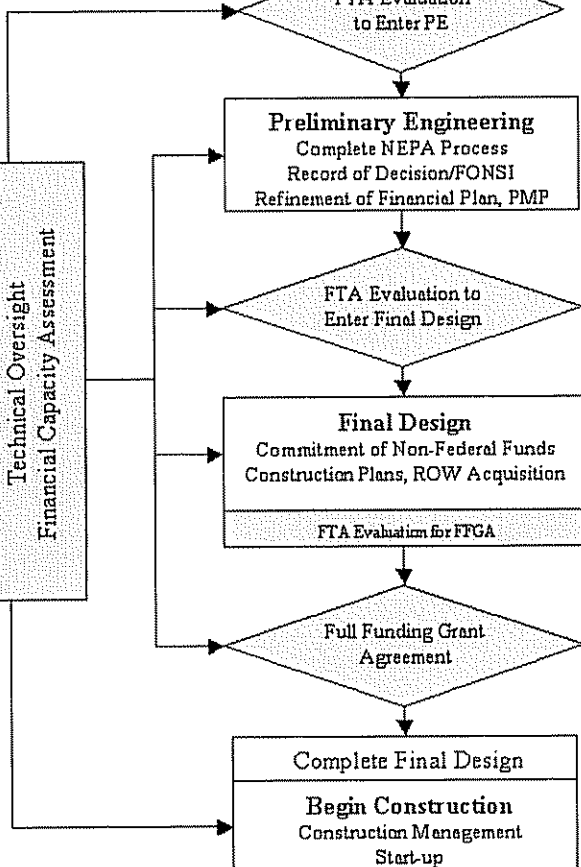
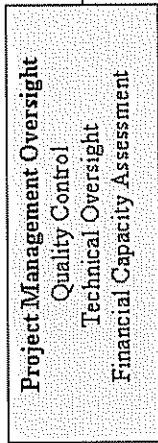


Final Design

- Before and after data collection plan



Construction



Port Authority of Allegheny County
Review of State Auditors Calculation of Share of Revenue

	FY2006		FY 2006	
	Per SAG		Per PAAC	
Fare	\$ 74,858,523 00		\$ 74,858,523 00	
Seniors - Lottery	\$ -		\$ (10,725,488 00)	
Access	\$ (4,433,000.00)		\$ -	
	\$ 70,425,523.00	23 5%	\$ 64,133,035.00	20 7%
Other	\$ 2,019,960 00		\$ 2,019,960 00	
Interest	\$ 1,885,422.00		\$ 1,885,422.00	
	\$ 3,905,382 00	1 3%	\$ 3,905,382 00	1 3%
Federal				
Capital Cost of Contracting	\$ 15,000,000 00		\$ 12,000,000 00	
Preventative Maintenance	\$ 6,600,000 00		\$ 6,600,000 00	
VOH	\$ -		\$ 1,958,928.80	
Access	\$ 4,433,000 00		\$ -	
ISRP	\$ -		\$ 12,800,000.00	
Flex 5307	\$ -		\$ 45,000,000.00	
	\$ 26,033,000 00	8 7%	\$ 78,358,928.80	25 3%
State				
Subsidy	\$ 82,574,840 00		\$ 82,574,840 00	
Capital Cost of Contracting			\$ 2,500,500 00	
VOH	\$ 2,488,661 00		\$ 489,732.20	
Asset Maintenance	\$ 25,816,923 00		\$ 26,738,956.03	
Flex	\$ 45,000,000 00		\$ -	
ISRP	\$ 16,000,000 00		\$ 3,200,000.00	
Access-Lottery	\$ -		\$ 12,303,872.00	
Seniors- Lottery	\$ 12,303,872.00		\$ 10,725,488.00	
	\$ 184,184,296 00	61 4%	\$ 138,533,388.23	44 8%
Local				
Subsidy	\$ 23,158,233.00		\$ 23,158,233 00	
Capital Cost of Contracting			\$ 499,500.00	
Asset Maintenance	\$ 1,844,066.00		\$ 922,032 97	
Swap	\$ (9,562,810.00)		\$ -	
	\$ 15,439,489 00	5 1%	\$ 24,579,765.97	7 9%
	\$ 299,987,690 00	100 0%	\$ 309,510,500 00	100 0%