



# Santa Clara Valley Transportation Authority:

It Has Made Several Improvements in Recent Years,  
but Changes Are Still Needed

July 2008 Report 2007-129



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July 31, 2008

2007-129

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Santa Clara Valley Transportation Authority (VTA) and our review of its governance structure, fiscal management, and project planning and monitoring.

This report concludes that the average tenure of VTA's board of directors (board) is shorter than that of comparable transit agencies because of a shorter statutory term length and a rotation schedule devised to share five of the 12 board seats. VTA has improved the operations of its board but could use its advisory committees more effectively in developing policies and building regional consensus. Moreover, VTA has been operating without a comprehensive strategic plan for the past two years, but is developing a new plan to be published at the end of 2008.

VTA's financial reports and plans generally conform to best practices, and recent improvements have made these reports clearer and more useful to decision makers. However, VTA's capital budgets could be improved by including clearer information about the timing of expected project costs. Such an understanding could help the organization manage debt, investments, and cash flows more effectively. Although VTA specified the assumptions behind its operating forecasts in its short-range transit plans, it did not do the same for its capital program forecasts. VTA is working to improve its long-term financial planning by establishing two debt reduction funds and updating its forecasting tools.

While VTA meets most best practices for project planning, it has not always identified funding for future operating costs or estimated the potential project revenues for its capital projects. In general, VTA has adequate policies in place to monitor projects, but it implements these policies inconsistently.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

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## Summary

### Results in Brief

The Santa Clara Valley Transportation Authority (VTA), one of the largest of more than 60 independent transit districts in California, has received criticism in recent years from, among other sources, an organizational and financial assessment published in March 2007 by a consultant VTA hired. Over the past year, VTA has responded to this assessment by making numerous improvements across its organization. Although VTA's practices conform to best practices in many instances, recent improvement efforts and plans have not adequately addressed criticisms that it neglects constituency input in its decision making and that it lacks precision in capital budgeting. Additionally, VTA's project-planning process is missing certain critical components, such as planning for future operating costs, and its project managers do not always comply with project-monitoring mechanisms. Thus, the quality of the information reaching VTA decision makers could be impaired. The collection of VTA accomplishments and remaining deficiencies indicates an organization striving for a high standard but still requiring some changes to reach it.

VTA, which is responsible for both transit services and transportation planning within Santa Clara County (county), is governed by a board of directors (board), which comprises 12 appointed officials who hold other elected offices, and is managed by a general manager who oversees seven divisions comprised of more than 2,000 employees. The board consists of two members from the Santa Clara County Board of Supervisors, five from the San Jose City Council, and five from the city councils of other cities in the county. A series of standing and advisory committees support the work of the board. Most of VTA's revenue comes from state, federal, and local grants and the local sales tax, which it uses to operate and improve a transit system that includes bus, shuttle, and light-rail services, as well as paratransit services for people whose disabilities prevent their accessing the other services.

A May 2004 report from a civil grand jury found the board too large, political, and transient to react to a host of problems, including the stalled implementation of a transit plan that featured an extension of the Bay Area Rapid Transit system into San Jose. About two years later, VTA hired a consultant—the HayGroup—to assess its organizational and financial status. The consultant's March 2007 report proposed a comprehensive overhaul of VTA's organization and practices. For example, while noting that the structure of the board could serve VTA well, the consultant recommended VTA address certain challenges, such as member turnover, to improve the board's effectiveness.

### Audit Highlights . . .

*Our review of the Santa Clara Valley Transportation Authority (VTA) revealed the following:*

- » *The average tenure of VTA's board of directors (board) is shorter than that of comparable transit agencies, which is attributable to a shorter statutory term length and a rotation schedule devised to share five of the 12 board seats.*
- » *Board operations have improved, but VTA could use its advisory committees more effectively in developing policies and building regional consensus.*
- » *VTA has been operating without a comprehensive strategic plan for the past two years, but the organization had some elements of a strategic plan during that period and is developing a new plan to be published at the end of 2008.*
- » *Financial reports and plans generally conform to best practices, and recent improvements have made these reports clearer and more useful to decision makers.*
- » *Capital budgeting could be improved by including clearer information about the timing of expected project costs. Such an understanding could help the organization manage debt, investments, and cash flows more effectively.*
- » *Although VTA specifies the assumptions behind its operating forecasts in its short-range transit plans, it does not do so for its capital program forecasts.*

*continued on next page . . .*

- » *VTA is working to improve its long-term planning by establishing two debt reduction funds and updating its forecasting tools.*
- » *While VTA meets most best practices for project planning, it has not always identified funding for future operating costs or estimated the potential project revenues for some capital projects.*
- » *VTA generally has adequate policies in place to monitor projects, but it implements them inconsistently.*

In comparing the structure of the board with those of other California transit agencies of comparable size and scope, we found the agencies' structures similar, but two differences in particular appear to be causing VTA to have the shortest board tenure of the six transit agencies: a shorter statutory term length and a rotation schedule devised to share board seats among the smaller cities in the county. VTA has already begun to fix the rotation schedule problem, and a statutory change to the term length would only strengthen VTA's efforts in that regard. Without further evidence that more significant changes to VTA's governance structure are needed, it appears reasonable for VTA to implement incremental changes to address these problems and evaluate their effect before considering more significant alternatives.

In response to the HayGroup report, VTA has also attempted to improve how participants in its governance structure—the board, board committees, and executive management—interact and deliberate. Specifically, VTA more clearly defined the work plans of the board's four standing committees and tried to reduce duplication in the assignments it gave those committees. VTA has also provided better board orientation and training materials.

In contrast to these improvements, VTA has not enhanced the operation of its five advisory committees, each of which represents a specific constituency, and has not completely changed the way it engages the advisory committees in the deliberative process. For example, rather than involve the pertinent advisory committees in its efforts to reform the board's rotation schedule, VTA presented a finished proposal for them to either accept or reject. Thus, even as VTA attempts to reform its governance structure, it continues to follow the same practice the HayGroup report specifically criticized; namely, advisory committees do not have an opportunity to consider policy and plans in the early stages of development so they can provide meaningful input to VTA staff and the board. Consequently, VTA continues to miss opportunities to gather diverse ideas and build regional consensus for its proposals.

After operating without a comprehensive strategic plan since at least 2006, VTA is preparing to publish a strategic plan at the end of 2008. The transportation plans that VTA officials said represented VTA's strategic planning process in the interim do not contain all the necessary elements and did not demonstrate one cohesive direction. Rather, the disparity in the documents indicates a shift in how VTA views its priorities—specifically, a disconnect between the official vision statement, which emphasized equity and was included in some documents, and a new efficiency-based approach included in others. Consequently, a new strategic plan that presents a unified direction for the organization is warranted.

Our review of VTA's financial reporting and planning revealed that it generally follows best practices in preparing its reports and plans. Additionally, VTA's fiscal staff have recently improved the value of those documents by including more historical and projected figures as well as more detailed and simpler-to-understand information. However, further changes to financial reports would allow VTA to more effectively plan and better evaluate its performance. In particular, revising its capital project budgets so that budgeted amounts represent what VTA actually plans to spend on its projects in a given year, and adding other more precise information, would provide the board with better information and could improve VTA's understanding of its cash needs for projects. In turn, a more accurate understanding of its cash needs could potentially reduce future financing expenses for capital projects.

The project-planning practices of VTA meet best practices in several areas, but opportunities for improvement remain. In particular, we found in our review of 10 selected projects that VTA created detailed plans for the projects but did not always anticipate the potential revenues a project might generate, secure necessary project funding for Measure A Transit Improvement Program projects, and identify the sources of funding for future operating costs. The principal causes of these deficiencies are that VTA has not documented its planning process and has not systematically required these elements of project planning. Consequently, VTA risks pursuing projects that it may not be able to financially support in the future.

VTA has established project-monitoring policies that, if followed for all construction projects, would ensure that it implements projects within a structure of appropriate control. However, VTA implements its project-monitoring policies inconsistently, allowing some project managers to reduce the frequency and level of content in required monitoring reports. As a result, accountability is reduced and critical information may not be reaching decision makers in executive management and on the board.

### **Recommendations**

To promote stability in its leadership and to bring the tenure of VTA board members in line with comparable transit agencies, VTA should request the Legislature to amend its enabling statutes to allow for a four-year board term.

To monitor the effects of changes in its governance structure that the board already approved and to determine whether additional changes are necessary, VTA should add board tenure to the performance measures it develops for its new strategic plan.



To demonstrate that it values the expertise of its advisory committees, VTA and its board should take actions to ensure that advisory committees are involved in the development of policy solutions.

VTA should implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to best practices.

To better monitor capital spending, VTA should regularly compile and report to management information that tracks all capital projects and compares spending and project progress with original projections.

VTA should update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs.

To ensure adequate control over its project-planning process, VTA should develop written policies and procedures for project planning and evaluation.

To achieve consistency in its project monitoring, VTA should ensure that its project managers follow its construction administration manual or document when management has agreed to an exception.

#### **Agency Comments**

VTA generally agrees with our findings and recommendations and outlines actions it plans to take in response to the recommendations. Notwithstanding this general concurrence, VTA raised some concerns about our conclusions regarding how it engages its advisory committees and on its project planning and monitoring activities.



## Introduction

### Background

The Santa Clara Valley Transportation Authority (VTA) is an independent special district responsible for providing both transit services and transportation planning within Santa Clara County (county). Its responsibilities include the following:

- Providing public transportation services—bus, shuttle, light rail, and paratransit for people whose disabilities prevent their accessing the other services.
- Partnering with other government agencies in regional commuter and intercity rail joint ventures.
- Providing countywide transportation planning and congestion management.
- Managing specific highway improvement and other transportation projects.

VTA is one of the more than 4,700 special districts in California included in the State Controller's Office (state controller) Special Districts Annual Report for fiscal year 2005–06. A special district is a local governmental entity, distinct from a city or county, created to deliver public services to a defined geographic area. Special districts possess many of the same governing powers as cities and counties. For example, they can issue debt, impose taxes, enter into contracts, employ workers, and acquire real property. However, unlike most other governmental entities, a special district comprises territory that can vary from a small portion of a city to a multicounty area. Further, a special district often performs only one function, such as electricity generation and distribution or waste disposal, whereas cities and counties perform a broad array of services. According to information published by the state controller, 62 special districts reported transit-related revenues and expenditures for fiscal year 2005–06. Based on expenditures reported for that year, VTA represents the third-largest transit district in California.

According to histories provided by VTA, public transit service in the county began in June 1972 with the creation of the Santa Clara County Transit District, which was overseen by the Santa Clara County Board of Supervisors (county supervisors). Effective January 1995 state law gave oversight of the district to a separate board of directors composed of city and county representatives and designated the transit district as the county's Congestion Management Agency,

making it responsible for managing the county’s plan to reduce congestion and improve air quality. Figure 1 is a map of the landmarks and major transportation lines VTA serves.

**Figure 1**  
Major Cities and Towns Within Santa Clara County and Caltrain and Light Rail Lines

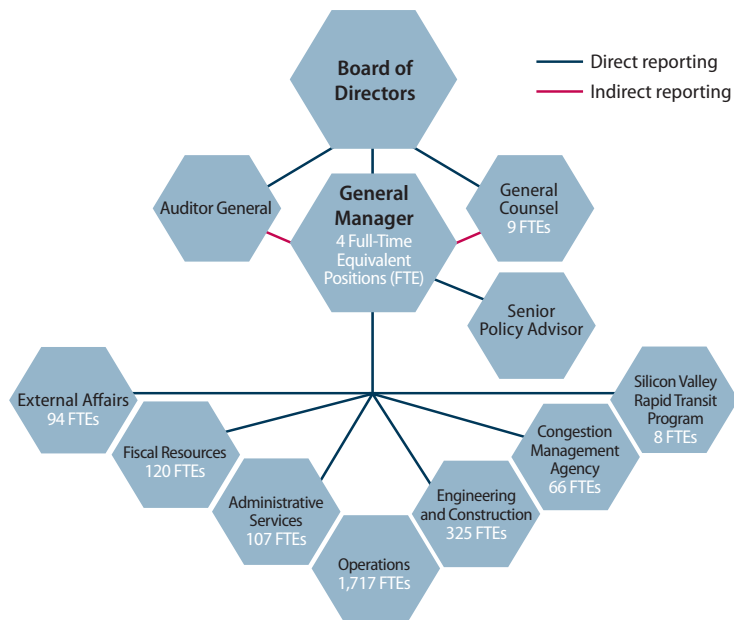


Source: Santa Clara Valley Transportation Authority.

### VTA’s Organizational Structure

VTA is governed by a board of directors (board) composed of 12 appointed officials who hold other elected offices. A general manager oversees the seven divisions of VTA comprising more than 2,000 employees. As indicated in Figure 2, VTA’s organization also includes a general counsel and an auditor general who report directly to the board, and a senior policy advisor who reports to the general manager.

**Figure 2**  
**Santa Clara Valley Transportation Authority's Organizational Chart**  
**January 2008**



Source: Santa Clara Valley Transportation Authority.

### ***Composition of the Board***

State law defines the board as the legislative body of VTA, which determines all questions of VTA policy. In accordance with statute and local agreement, the board consists of 12 members and five alternates appointed as follows:

- Two members and one alternate from the county supervisors.
- Five members and one alternate from the City Council of San Jose.
- Three members and one alternate selected by the city councils of Los Altos, Mountain View, Palo Alto, Santa Clara, and Sunnyvale and the Town of Los Altos Hills.
- One member and one alternate selected by the city councils of Campbell, Cupertino, Monte Sereno, and Saratoga and the Town of Los Gatos.
- One member and one alternate selected by the city councils of Gilroy, Milpitas, and Morgan Hill.

### Makeup of VTA Advisory Committees

**Bicycle and Pedestrian Advisory Committee:** one member from each of the 15 cities in Santa Clara County (county) and one member selected from the county at large.

**Citizens Advisory Committee:** 17 members representing community, business, and labor interests.

**Committee for Transit Accessibility:** 12 individuals with disabilities, nine representatives from local human service agencies, one representative from the paratransit broker and one board member.

**Policy Advisory Committee:** one council member from each city in the county and one county supervisor.

**Technical Advisory Committee:** one staff member from each city and from various other local government agencies.

Source: VTA Construction Administration Manual, November 2007.

To assist in its decision-making processes, the board established four standing committees: the Administration and Finance Committee, the Congestion Management Program and Planning Committee, the Transit Planning and Operations Committee, and the recently formed Audit Committee. Each standing committee consists of four board members. Additionally, the board brought together citizens and local officials to form five advisory committees. As shown in the text box, the advisory committees offer the board advice and recommendations on a broad range of topics. For example, to obtain advice on bus and rail system accessibility and on paratransit services, VTA formed the Committee for Transit Accessibility, consisting of 12 individuals with disabilities, nine representatives from the human service agencies, one nonvoting board member, and one nonvoting representative from VTA's paratransit contractor.

### Roles and Responsibilities of VTA Divisions

As shown in Figure 2 on page 7, the seven divisions within VTA vary in size. The divisions also have varying roles and responsibilities:

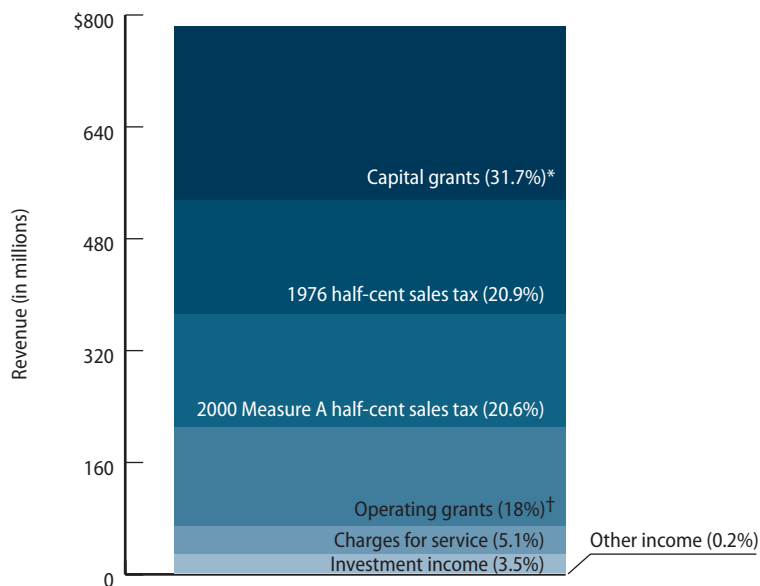
- *Administrative Services:* responsible for agency-wide human resources functions, safety management, and technology.
- *Congestion Management Agency:* conducts all of VTA's transportation planning activities and develops all projects through preliminary engineering and project approval; responsible for development of all of VTA's real estate holdings.
- *Engineering and Construction:* responsible for the design of all VTA projects once the planning and preliminary engineering is complete and the project is approved and funded; monitors the construction of VTA projects.
- *External Affairs:* responsible for developing and executing a cohesive communications, marketing, and government relations strategy and responsible for the board secretary function.
- *Fiscal Resources:* responsible for VTA's accounting and finance functions, contracts, and asset and risk management.

- *Operations*: operates, maintains, and provides security for VTA's transit system.
- *Silicon Valley Rapid Transit Program*: provides project oversight for the proposed extension of the Bay Area Rapid Transit (BART) system into San Jose.

### VTA's Sources of Revenue and Major Categories of Expense

Based on information contained in its audited financial statements, VTA received nearly 50 percent of its revenue from state, federal, and local grants and more than 40 percent of its revenue from sales taxes for its operations and capital projects in fiscal year 2006–07. As shown in Figure 3, most of the remaining revenues came from charges for services and investment income. VTA receives sales tax revenues from a 1976 half-cent sales tax and another half-cent sales

**Figure 3**  
Santa Clara Valley Transportation Authority's Revenue  
Fiscal Year 2006–07



Source: Santa Clara Valley Transportation Authority's (VTA) comprehensive annual financial report for fiscal year 2006–07.

\* Roughly \$191 million of these funds is from the Traffic Congestion Relief Program, which is administered by the California Transportation Commission in consultation with the California Department of Transportation.

† Although considered an operating grant in VTA's financial statements, roughly \$81 million of these funds is from VTA's share of the 0.25 percent sales tax collected in Santa Clara County. Another \$35 million of VTA's operating grants come from a Federal Transportation Administration grant.

tax from the Measure A Transit Improvement Program (Measure A program), which voters approved in November 2000 and VTA began collecting in April 2006. The Measure A program includes several improvement projects that VTA is expected to build using revenue collected over a 30-year period.

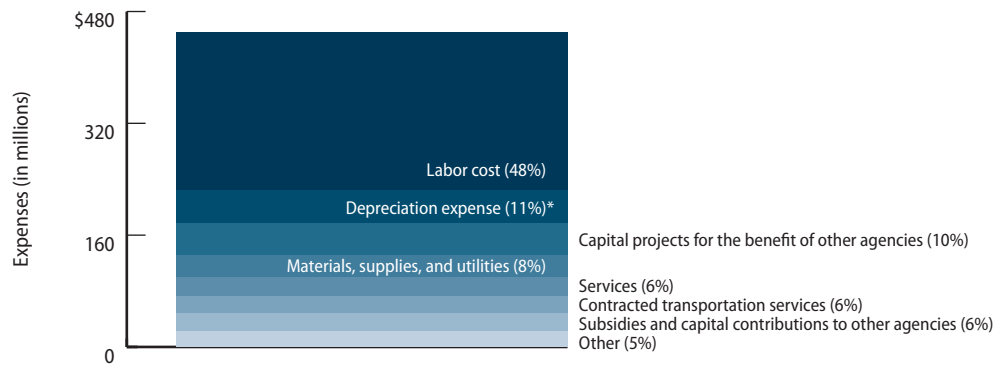
Not shown in Figure 3 on page 9 are revenues associated with the Measure B Transportation Improvement Program (Measure B program). As discussed in Chapter 3, some of the projects we reviewed were funded with Measure B program funds. As approved by voters in November 1996, Measure B authorized the county supervisors to collect a half-cent sales tax for general county purposes for a period of nine years. Collections of the tax began in April 1997. Then in March 1999, after some litigation-related delays, county supervisors and the board entered into an agreement to use Measure B program funds to complete a list of transportation improvements that voters approved at the same time they approved the Measure B program sales tax. Although that sales tax expired in March 2006, VTA management stated that the projects associated with the Measure B program are expected to continue until 2010.

Figure 4, which depicts VTA's operating and nonoperating expenses, shows that labor costs represented approximately half of VTA's expenses for fiscal year 2006–07. The next highest category of expense was the depreciation of VTA's more than \$2.5 billion in capital assets.<sup>1</sup> The third highest expense was for capital projects that VTA constructed for the benefit of other agencies. This category represents VTA costs, such as labor, directly associated with projects—typically highway improvements—administered on behalf of state or local government agencies; VTA bills these costs to the agencies and accounts for this revenue in the capital grants category.

Other major expenses include the purchase of materials and supplies, payment of utilities, procurement of services, and purchase of transportation services, such as paratransit shuttles. Finally, to expand the transportation options of its customers, VTA is a partner in various ventures, such as Caltrain (a commuter rail service that operates between San Francisco and Gilroy) and the Altamont Commuter Express Rail Service, and provides subsidies and capital contributions to support those ventures.

<sup>1</sup> VTA capitalizes the costs of improvements made to its transit system and then spreads these costs over the remaining useful lives of the related assets using a straight-line depreciation method.

**Figure 4**  
**Santa Clara Valley Transportation Authority's Expenses**  
**Fiscal Year 2006–07**



Source: Santa Clara Valley Transportation Authority's (VTA) comprehensive annual financial report for fiscal year 2006–07.

\* VTA capitalizes the costs of improvements made to its transit system and then spreads these costs over the remaining useful lives of the related assets using a straight-line depreciation method. In fiscal year 2006–07, VTA's net assets increased by \$377 million. The increase in capital assets, net of accumulated depreciation, was \$63 million. The remainder of the net asset increase was predominantly made up of additions to restricted cash and investments of \$204 million and additions to unrestricted cash and investments of \$71 million.

### Recent Reviews of VTA

In May 2004 the Santa Clara County Civil Grand Jury (grand jury) published a report criticizing the makeup of the board for being so large, political, and transient that it could not effectively oversee VTA. The grand jury found that because of these conditions, the board had not reacted with diligence to budget problems, had depleted financial reserves, and had borrowed against future tax revenues rather than resolve an ongoing operational deficit. Finally, the grand jury reported that the board had proceeded with a transit plan that could not accomplish all that was promised to voters and recommended that the board delay expenditures on the BART extension project to provide more complete funding for other transit options.

In January 2006, based on discussions with the general manager, the board's chair called for a comprehensive organizational and financial assessment of VTA. The general manager explained that shortly after his appointment, he and the board's chair and vice chair had a convergence of ideas that led to initiating the assessment. In particular, the general manager felt it was a good business practice to get an outside perspective on VTA's overall organization, and the board officers wanted a review of VTA's financial management and reporting to the board. Consequently, after a review of various consultant proposals, VTA hired the HayGroup to conduct the assessment. In March 2007 the HayGroup published a report that proposed a comprehensive



overhaul of VTA's organizational structure and practices. Among the findings and recommendations of the HayGroup are the following:

- The current governance structure could serve VTA well; however, the board faces several challenges, such as turnover and the lack of a formal orientation program, it must address to function effectively.
- VTA's organizational structure needs more clarity, focused accountability, and fiscal responsibility.
- VTA does not have the financial capacity to meet its goals and objectives over the coming decade.
- VTA's financial statements do not provide a true, complete picture of its performance, financial condition, and ability to meet its commitments, goals, and objectives.
- The board should adopt a new vision and mission for VTA, and executive management should develop a new strategic plan.

Appendix A contains a list of HayGroup recommendations related to the scope of our review, as well as a summary of the actions VTA has taken to address the recommendations.

### **Scope and Methodology**

In response to the findings and recommendations of the grand jury and the HayGroup, the Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct a review of the VTA. Specifically, we were asked to assess VTA's governance structure as follows:

- Determine whether the governance structure complies with statutes and allows for effective operations.
- Examine the processes for selecting board members and their tenure.
- Determine whether the roles and responsibilities of governance participants are clearly defined and communicated, and assess how well the participants communicate priorities, issues, resolutions, or actions.

The audit committee also asked us to assess the level of oversight the board and executive management exercise over VTA operations and financial records. In particular, the audit committee asked for

a review of VTA's strategic planning processes to determine how VTA sets goals, objectives, and priorities; measures and monitors progress toward achieving goals and objectives; and reprioritizes as needed. Further, we were asked to review VTA's financial reporting structure; its forecasting methods, comparing various forecasts from the prior three fiscal years to actual results; and its long-term financial planning.

Finally, the audit committee asked us to examine VTA's project planning processes by identifying and reviewing projects approved during fiscal years 2005–06 and 2006–07, including the BART extension project. For those projects, we were asked to determine what analyses were prepared as a basis for approving the projects and, to the extent possible, compare actual to projected costs, milestones, and outcomes to determine if goals were achieved.

To examine VTA's governance structure, we first reviewed relevant statutes and literature on transit governance. We then compared VTA's governance structure with the structure of five other transit agencies in California. Next we compared the tenure and transit experience of board members at all six agencies. Finally, we examined potential reasons why VTA board members have shorter tenure than board members at comparable transit agencies, including the process of selecting board members.

To evaluate the clarity of the roles and interactions of VTA's governance structure participants, we examined the results of the HayGroup assessment, determining what actions VTA had taken in response to the problems the consultant had identified, and we reviewed the interactions that took place during deliberations on two recent VTA reforms: a proposal to improve board tenure and the development of new agency vision and mission statements. We also examined VTA's current planning documents to determine what elements of a strategic plan exist and documented VTA's development of a new strategic plan to be published at the end of 2008.

To review VTA's financial reporting, forecasting, and planning, we obtained recommended practices from the Government Finance Officers Association (GFOA) and compared them with VTA's financial reporting, forecasting, and planning practices. We also examined the improvements VTA had made in these areas since the HayGroup published its assessment and compared VTA's forecasts for expenditures, revenue, and ridership to actual figures for the last three fiscal years.

Finally, to examine VTA's project planning and monitoring, we selected 10 projects approved in the biennial budget covering fiscal years 2005–06 and 2006–07. Appendix B contains a full

description of how we selected these projects. We then compared project planning and monitoring practices VTA displayed on the 10 projects to recommended practices published by the GFOA.

## Chapter 1

### THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY HAS BEGUN REFORMING ITS GOVERNANCE STRUCTURE AND PRACTICES BUT COULD DO MORE TO INCLUDE KEY STAKEHOLDERS IN ITS DECISION MAKING

#### Chapter Summary

With the help of a comprehensive and highly critical consultant's report published in March 2007, the Santa Clara Valley Transportation Authority (VTA) has undertaken an overhaul of its organization and practices. To increase the tenure of the members of its board of directors (board), which on average is far less than that of comparable transit agency boards, VTA has eliminated a rotation schedule set up to share board seats among smaller cities within Santa Clara County (county). With the future addition of a statutory change to the term length of its board members, which we are recommending, VTA might be able to enjoy the benefits of increased stability within its governing board. Without further evidence that more significant changes to its governance structure are necessary, it appears reasonable to implement these two incremental changes and evaluate their effects before making further changes to the board structure and selection process.

In response to the consultant's report, VTA is improving how participants in its governance structure—the board, board committees, and executive management—interact and deliberate. Specifically, VTA more clearly defined the work plans of the board's four standing committees and has tried to reduce duplication in the assignments those committees receive. As discussed in the Introduction, each of VTA's four standing committees has four board members and covers a specific purpose. VTA has also provided better board orientation and training materials.

In contrast to the improvements it has made, VTA has not enhanced the operation of its five advisory committees, each of which represents a specific constituency, and has not completely changed the way it engages these committees in the deliberative process. Consequently, VTA misses opportunities to gather diverse ideas and build regional consensus.

After operating without a comprehensive strategic plan since at least 2006, VTA is preparing to publish one at the end of 2008. The transportation plans that VTA officials said represent its strategic planning process in the interim do not contain all the necessary elements and do not demonstrate one cohesive direction. Rather,

the disparity in the plans demonstrates a shift in how VTA views its priorities. Consequently, a new strategic plan that presents a unified direction for the organization is justified.

### **Moderate Changes in VTA's Governance Structure Appear to Be Warranted**

Aside from one notable exception, the VTA board is structured similarly to other California transit agencies of comparable size and scope. However, the average tenure of its board members is the shortest of those agencies, indicating less stability among its members. For the period of our review, we identified two causes for this degree of turnover: the shorter length of term specified in statute for board members and a two-year rotation schedule, which was recently eliminated, for the five council member seats on the board not held by representatives from the city of San Jose. Although not unique to VTA, a board composed only of elected officials appointed from local jurisdictions also reduces board tenure, and critics have said this structure overburdens the officials and causes the interests of local jurisdictions to be placed ahead of countywide needs. However, arguments in favor of the structure have emphasized that, as an organization charged with transportation planning, VTA benefits from direct board representation from the entities—city councils, in particular—that can affect local land-use decisions. In the absence of evidence that another structure would yield significantly better results, we believe that VTA should implement and evaluate incremental improvements to its governance structure, such as increasing the term length of board members in statute and eliminating the two-year seat rotations, before considering other changes to the board structure and selection process.

#### **Conclusion of A Study of Transit Governance**

"No one governance structure . . . can guarantee success. Many different organization structures have been documented in this report and the successful operations span the range of governance structures."

**Note:** Published in 1999 by the Federal Transit Administration.

Studies on the governance of transit agencies have not yielded definitive results on what type of governance structure is most effective. A 1999 study of transit governance prepared for the Federal Transit Administration provided the most succinct conclusion, as shown in the text box. However, the studies have identified key traits of effective boards. For example, the study noted above identified shared vision, political accountability, stability, and a board's orientation toward policy as key traits of successful transit

agencies. The Transit Cooperative Research Program, which is funded through the Federal Transit Administration, stated in a 2002 study (2002 study) that a board's receipt of timely information, individual board member knowledge of transit, and clarity in roles and expectations strongly influence board effectiveness. From these studies, we selected two measurable attributes of successful transit

boards—board tenure and transit experience—and compared results for the board with the results of five other transit agency boards in California, as shown in Table 1. We also examined the governance structures of the six transit agencies to determine whether certain structures might lead to more stable boards with greater transit knowledge.

**Table 1**  
**Comparison of Board Structure and Characteristics for Six California Transit Agencies**

TRANSIT AGENCY	AGENCY INFORMATION			BOARD STRUCTURE		BOARD CHARACTERISTICS	
	TOTAL OPERATING EXPENSES (IN THOUSANDS)	POPULATION OF SERVICE AREA	FUNCTION	VOTING MEMBER REPRESENTATION (ALTERNATES)	TERM LENGTH	AVERAGE TENURE IN YEARS	AVERAGE TRANSIT EXPERIENCE SCORE*
Los Angeles County Metropolitan Transportation Authority	\$1,532,635	10,292,700	Planning, rail, bus	4 city council members 5 county supervisors 1 mayor, city of Los Angeles 3 mayoral appointees	City council members: 4 years Others: no designated term length	8.4	1.8
<b>Total</b>				<b>13 (0)</b>			
San Francisco Bay Area Rapid Transit District	625,938 <sup>†</sup>	3,228,605 <sup>‡</sup>	Rail <sup>‡</sup>	9 directly elected officials	4 years	8.9	3.3
<b>Total</b>				<b>9 (0)</b>			
Santa Clara Valley Transportation Authority	374,179	1,800,000	Planning, rail, bus	10 city council members 2 county supervisors	2 years	3.0	2.4
<b>Total</b>				<b>12 (5)</b>			
Orange County Transportation Authority	315,038	3,098,121	Planning, bus	10 city council members 5 county supervisors 2 public members	City elected directors: 1-2 years Supervisors and public members: 4 years	4.6	2.2
<b>Total</b>				<b>17 (0)</b>			
San Diego Metropolitan Transit System	270,339	2,224,021	Rail, bus	13 city council members 1 county supervisor 1 board-appointed chairman	No designated term length	10.0	1.7
<b>Total</b>				<b>15 (11)</b>			
Sacramento Regional Transit District	169,564	1,400,000	Rail, bus	8 city council members 3 county supervisors	4 years	6.9	1.5
<b>Total</b>				<b>11 (2)<sup>§</sup></b>			

Sources: Agency information from the 2007 comprehensive annual financial report of each agency (except as noted); board attribute information from agency Web sites, agency staff, and board members as of April 2008.

\* Board members' transit experience was categorized using a scale from 1 to 5, 1 representing no experience and 5 representing extensive experience, which we considered to be seven years or greater. We did not include alternates in our calculation of transit experience.

<sup>†</sup> Data from the agency's independent auditor's report for the fiscal years ended June 30, 2007, and June 30, 2006.

<sup>‡</sup> Data from the 2006 National Transit Database, Federal Transit Administration.

<sup>§</sup> This reflects the current board makeup, which could change because it is determined by the number of cities and counties annexed to, or contracting with, the district.

***The size and composition of VTA's board are similar to comparable transit agencies in California.***

Although a report from the Santa Clara County Civil Grand Jury (grand jury) published in May 2004 criticized VTA's board for being too large and too political, Table 1 on page 17 shows that the size and composition of VTA's board are similar to comparable transit agencies in California; the board of the Bay Area Rapid Transit (BART) District is the exception in both size and composition.

In a survey of more than 200 transit agencies nationwide, the 2002 study found that the average board size was nine members, indicating that the transit agencies we reviewed, which are some of the largest in terms of operating expenditures in California, tend to have larger-than-average boards. Although this may not be a surprising result given the size and complexity of the organizations these boards oversee, it is interesting to note that the same survey found that only 3 percent of transit agencies responding to the survey had boards directly elected by local voters—the method the BART District uses. The most common method of board selection cited by the respondents in the 2002 study was appointment by elected officials—the method used by five of the six transit agencies listed in Table 1.<sup>2</sup> These results do not refute the grand jury's claim that VTA's board is too large and too political but rather establish that the board size and composition are common among comparable transit agencies and suggest that our findings might have broad implication for other transit agencies facing similar concerns.

***The Average Tenure of Board Members Is the Shortest Among Comparable Transit Agencies***

Averaging just three years, the tenure of board members is shorter than all the comparable transit agencies included in Table 1. One reason for this condition is that the term length established in statute for board members is only two years—the shortest of all the comparable agencies. This explanation is supported by the short tenure and term length of Orange County Transportation Authority board members—the majority of which are city council members serving terms of one to two years. However, short term lengths do not fully explain short tenure because, while term lengths were often specified, the transit agencies we reviewed did not appear to have limits on the number of terms board members could serve—as demonstrated by the average tenures of most of the boards exceeding their term lengths. Consequently, a shorter term length may contribute to less tenure, but it is not the only cause. In

<sup>2</sup> The 2002 study did not distinguish between appointees who are elected officials, as are most board members of the transit agencies in Table 1, and appointees who are not elected officials.



fact, a rotation schedule of board member representation, which VTA has recently changed, may have had equal or more effect on VTA's average board tenure.

While computing the average tenure of board members, we noted a significant difference in the tenure of members from San Jose compared with the tenure of members from other cities. Specifically, the average tenure of members from San Jose was 3.5 years, while the average tenure of members from the other cities was 1.5 years. This appears to have been caused by the biennial rotation schedule set up to share seats among smaller cities in the county. Although the intention of the agreement appears to be designed to promote equity in representation, the effect was to reduce tenure and its associated benefits of experience and stability on the board. Further, the rotation schedule may have weakened the influence of smaller cities because their representatives on the board were more likely to be less experienced with the workings of VTA than their counterparts from San Jose.

Following the publication of the March 2007 HayGroup report, described in the Introduction, VTA established the Ad Hoc Committee on Governance (governance committee) to, among other tasks, review the term of board members and the procedures for their selection. In January 2008 the governance committee recommended a change in the groupings of cities and an elimination of the rotation schedule. After a period of deliberation, which we describe later in this chapter, the board adopted the parts of the proposal that involved eliminating the rotation schedule but postponed a decision regarding the city groupings until August 2008. The adopted change could help increase board tenure and establish more stability on the board by encouraging city groups to reappoint a board member to serve more than one term. However, because its enabling statute specifies a term length of two years, the VTA might not be able to require the city groups to appoint members to consecutive terms.

***Having Elected Officials Appointed to the Board Causes Some Problems but Might Also Provide Benefits***

Having elected officials appointed to a transit board, as VTA does, could reduce tenure because board members leave their positions on the board when they lose an election or confront term limits in their local jurisdictions. Further, critics of VTA have argued that this structure overburdens board members and advances the interests of local constituencies at the expense of countywide needs. However, an equally strong argument is that having elected officials serve on the board allows VTA to be more influential in aligning local land use decisions with the countywide transportation plan.

***A biennial rotation schedule set up to share seats among smaller cities in the county reduced tenure and its associated benefits of experience and stability on the board.***

The board is composed of 12 voting members and five alternates, all elected officials appointed to serve on the board by the jurisdictions they represent. These officials face elections and term limits within their jurisdictions that do not necessarily coincide with their terms on the board. Consequently, it is likely that VTA will at times lose board members before they have served their full two-year board terms. In addition, losing an election or completing the number of terms allowed within the represented jurisdictions limits existing board members' ability to serve additional terms on the board. Because many of the comparable transit agencies in Table 1 on page 17 face similar constraints, this would not explain VTA's relatively short board tenure. Rather, board turnover caused by elections and term limits would seem to be a shared problem among transit agencies whose boards are composed of elected officials appointed from various jurisdictions.

The grand jury report states that the commitment of board members' time to providing effective oversight of VTA can be significantly beyond what an elected representative in a secondary appointment can fulfill. We asked four board members about this issue, and the three that responded indicated that the workload is heavy, but each gave their perspectives of how and why they manage this burden. For example, one board member stated that serving on the board is a lot of work, especially for those who want to master the material presented at the meetings and be agents for change. However, she explained that the time burden placed on her by service on the board is mitigated by her keen interest in transportation. She further noted that she considers her board appointment and city council membership as volunteer positions that enable her to work toward improving her community. Finally, she said she has found VTA staff very willing to brief her on issues and to answer specific questions.

***Countywide transit boards made up of a significant number of elected officials from local jurisdictions face the problem of obtaining countywide cohesion from a group with local loyalties.***

Countywide transit boards made up of a significant number of elected officials from local jurisdictions also face the problem of obtaining countywide cohesion from a group with local loyalties. For instance, rather than officials elected or appointed to serve solely on the board, 10 of VTA's 12 board members are council members from area cities, and two are members of the Santa Clara County Board of Supervisors (county supervisors) representing particular districts. On the one hand, having its members be elected officials, rather than citizen appointees, may increase political accountability, as promoted by those who conducted the 1999 study described on page 16. On the other hand, that accountability is to local constituencies, rather than to the county as a whole. As the designated countywide planning agency, the board might be less able to make transportation decisions that benefit the county at large because of its members' local loyalties.

The senior policy advisor for VTA (policy advisor), who participated in the deliberative process that brought about the current board structure, acknowledged the difficulties of having elected officials serve on the board but stated that overall the practice has enabled VTA to achieve more than it otherwise could have. Specifically, the policy advisor said that in its transportation planning role, VTA has the need to connect local land use decisions to the countywide transit plan. By having direct representation from the local entities that can affect land-use decisions, VTA is uniquely positioned to obtain this congruence. The policy advisor further stated that a board made up of individuals appointed or elected at the countywide level would face a tougher challenge in working with city councils to affect land-use decisions.

In response to the problems of local constituency loyalty and the overburdening of elected officials, one board member we interviewed pointed out that increasing board tenure could in fact be the antidote to both problems. The board member explained that as board tenures increase, board members gain countywide perspective. In his experience on the board, he found that new members often came to the board knowing well the desires of their individual constituencies, but they needed time to gain a broader understanding of the transportation needs of the county. The board member also stated that it gets easier over time to manage the dual-responsibility workload as officials gain experience and knowledge about issues facing VTA and the complexities of their local jurisdictions.

### ***The Board Ranks High in Transit Experience, but Defining That Attribute Can Be Subjective***

Although VTA's governance structure does not have a specific mechanism requiring board members to have a certain amount of transit experience, the board held the second highest ranking of the six transit agency boards we reviewed, as shown in Table 1 on page 17. One explanation for this is the opportunity city council members and county supervisors have to be members of VTA's advisory committees—the Policy Advisory Committee (policy committee), in particular—before serving on the board. The policy committee provides input on VTA policies to the board and thus acts as a training ground for future board members. Five of the 12 current board members had experience sitting on the policy committee before becoming board members. Without that level of experience among its members, the board would have ranked lowest among the six transit agency boards.

***VTA's senior policy advisor said that having elected officials serve on the board allows VTA to better connect land use decisions with the countywide transit plan.***

For the purposes of our analysis, we considered transit experience to be any experience board members had before their board service that was directly related to transportation planning, development, or oversight. We obtained information on board members' transit experience by reviewing their personal biographies and asking each board member to either confirm or correct the information we presented. Thirty-six of the 77 board members we contacted responded to our request. For those who did not respond, we used the information gathered from their biographies. After identifying the transit experience, we scored the experience on a scale of 1 (no transit experience) to 5 (seven years or more of transit experience).

Although we attempted to objectively assess board members' transit experience, our analysis revealed that defining transit experience is a subjective endeavor. For example, while serving as a council member or county supervisor, an official is likely to be exposed to transit-related issues, but it is difficult to determine at what level and depth the elected official participated in the activity. Additionally, one board member might consider a particular activity as transit experience while another might not. Further, board members often have a wealth of public and private sector experience that could be equally as beneficial as transit experience. Although not directly related to transit, many aspects of an official's experiences—legal, real estate, environmental, economic development, public policy, and business—can intersect with transit issues.

*VTA's policy advisor explained that a board member's transit experience is important but is just one type of expertise that a well-balanced board should have.*

VTA's policy advisor echoed this thought when he explained that a board member's transit experience is important but is just one type of expertise that a well-balanced board should have. He suggested that in a board like VTA's, which oversees transportation planning, transit, and highway construction, expertise in land use is equally important. The policy advisor went on to say that no board member can be expected to be an expert in all fields. The overarching principle, according to the policy advisor, is that technical expertise can be hired—whether it be construction management, financial planning, or transit operations—and what an effective board really needs is committed members from various backgrounds who are adept at, or have experience in, policy making within large organizations.

### **VTA Has Improved the Way Its Board Operates, but It Could Use Its Advisory Committees More Effectively**

Since the release of the March 2007 HayGroup assessment, VTA has made key changes in the operations of its board. Specifically, VTA has updated committee work plans and reduced redundancies

in committee assignments. In addition, staff are working on a training program for board members and on refining the way information is presented to board members before meetings. However, despite strong criticisms from the HayGroup, VTA still limits its opportunities to obtain valuable input from its advisory committees and to foster regional consensus on transportation issues.

### ***VTA Responded to Criticisms by Transforming Its Board Operations***

In the roughly 15 months since the release of the HayGroup report, VTA has implemented some meaningful improvements in how its board operates and has more changes in process. As detailed in Appendix A, the HayGroup made several specific recommendations for VTA to improve its governance practices. Following are some of the concerns underlying those recommendations:

- Standing committees were duplicating efforts because they were all reviewing the same issues.
- VTA did not provide an orientation for incoming board and advisory committee members or an ongoing training program for established board members.
- The information packet VTA provided to board members before meetings was poorly designed and made it difficult for board members to fully prepare for meetings.
- Advisory committees lacked clear missions, and their work was not aligned well with VTA's mission and goals.

In response to the HayGroup's concerns, VTA hired a consultant and assigned key staff to manage the process of carrying out the HayGroup recommendations; it called the project the VTA Transformation Program. Executive staff at VTA said it has taken the following steps to address board operations:

- VTA created a template for committee work plans, and the board's four standing committees are now using it. The work of standing committees, which consist of four board members, is now being coordinated with the board calendar to ensure that standing committees review issues and prepare recommendations before board meetings. The executive committee and board chair are now assigning issues to each standing committee based on its area of expertise, thereby avoiding duplicate assignments.

- The board held workshops on the board's fiduciary responsibility and on debt issuance. Orientation materials are now available on compact disc, and VTA plans to develop an online training program for board members.
- VTA made several improvements to the materials it prepares for board meetings.
- VTA plans to review the purpose of and develop an annual work plan for each advisory committee.

***VTA Should Leverage Advisory Committees for Developing Policy Solutions and Building Regional Consensus***

Although forcefully criticized by the HayGroup for neglecting its advisory committees, VTA again did not involve pertinent advisory committees early in the policy development process when it addressed two recent reforms. Thus, VTA showed it still has not completely changed how it engages external stakeholders in dialogue.

The HayGroup stated the following in its report:

We find that the [Advisory] Committees do not have an opportunity to consider policy and plans in the early stages of their development so that they can provide meaningful input to the VTA staff and the Board. The opportunity for committees to participate in the review of policy in the early stages of development would also help to build consensus on issues as they are being developed so that true, regional solutions could evolve. More often than not, presentations from staff are provided to the Advisory Committees only when they are fully developed and planned for recommendation to the Board in an upcoming cycle. In these cases, the Advisory Committee's action is to "accept the report" from staff and report to the Board that they reviewed and accepted the staff report on the item. In most cases the Advisory Committees are not in a position to provide meaningful policy guidance to the Board.

When we analyzed the process VTA used to advance two recent reforms—the proposal to improve board tenure and the development of new agency vision and mission statements—we found that VTA continued to miss opportunities to effectively involve pertinent advisory committees in policy development. Specifically, VTA belatedly offered completed proposals to key advisory committees—the policy committee and the citizens

***VTA has continued to miss opportunities to effectively involve pertinent advisory committees in policy development.***



advisory committee (citizens committee)—for immediate responses and approval in one instance, and missed a chance to improve its relationship with its advisory committees in another.

To address board turnover and other governance challenges, the board chair appointed one board member to a governance committee in December 2007. According to VTA's policy advisor, that board member met with some community leaders to solicit input and eventually arrived at a proposal that was articulated with the help of VTA's transformation consultant and the policy advisor. The board chair then asked for a report from the governance committee to the board in February 2008.

In March 2008 VTA staff attended meetings of the policy committee and the citizens committee to present the governance committee proposal and to seek advisory committee recommendations to the board. The proposal called for a regrouping of board seats among cities other than San Jose, eliminating the rotation schedule among those same cities, encouraging consecutive terms for directors, and developing a process to select representatives who have the requisite experience. Minutes from the citizens committee meeting reveal some conditional support but also considerable concern about VTA presenting a proposal without allowing time for in-depth deliberation. Specifically, the discussion at the citizens committee centered on VTA's unsatisfactory process for developing the policy rather than on the policy itself.

Several members voiced concern that VTA was asking them to reach a decision before they had an opportunity to fully consider the issue. One member further stated that the proposal was unacceptable because the public was not allowed the opportunity to provide input. The former chair of the citizens committee explained to us that it is all too typical of VTA and the board to approach the advisory committees when it is effectively too late for the committees to influence outcomes, and the governance proposal was no exception. Ultimately, the citizens committee voted against the proposal and requested that the board readdress the governance issue using a process that involves all appropriate stakeholders.

The proposal that went before the board in May 2008 was no different from the proposal the governance committee originally prepared. The board's Administration and Finance Committee had recommended approval of the first three elements of the governance proposal related to the rotation schedule, board member terms, and board member qualifications, but it had recommended deferral of the fourth element related to city groupings. After debating whether or not to vote on the recommendation to change city groupings, the board adopted

*The former chair of the citizens advisory committee explained to us that it is all too typical of VTA and the board to approach the advisory committees when it is effectively too late for the committees to influence outcomes.*



three elements of the proposal and voted to postpone a vote on reconfiguring the city groupings until the August 2008 board meeting. Shortly after the May board meeting, the governance committee asked VTA's policy advisor to invite the citizens committee and the policy committee to each appoint two representatives to join the governance committee, which according to the policy advisor is now meeting on a weekly basis.

The process VTA used to develop its new mission and vision statements was more inclusive of board members and VTA staff, but VTA missed an opportunity to involve advisory committee members at the initial stage of the process. In February 2008 VTA conducted the Board of Directors Summit (summit) in which a facilitator led board members and VTA executive staff through the process of creating six possible vision statements. VTA then took the ideas expressed in the summit and produced a survey that solicited input from all VTA staff on VTA values and themes. VTA's Office of External Affairs combined the staff survey responses and the original board and executive staff summit ideas to draft vision and mission statements.

The external affairs officer presented the draft statements to all five advisory committees in April 2008, and advisory committee members had the opportunity to respond. The presentation of these statements in draft form is a legitimate way to obtain input from the advisory committees. However, given the history VTA has had with its advisory committees—as described by the HayGroup and the former chair of the citizens committee—VTA may have been wise to involve the advisory committees in the initial development of the draft statement. Such an effort may have further evidenced VTA's desire to involve in its decision-making process the cross section of community leaders, technical experts, and advocates that the advisory committees represent. Better relationships with its advisory committees would help VTA benefit from a valuable source of ideas and feedback that could help it improve and reform on a continuous basis.

According to VTA's policy advisor, reviewing the purpose and use of advisory committees is one of the many projects that VTA plans to include in its transformation program. This project will help define which issues should go to each committee and when. One change VTA is already planning is to provide the citizens committee with a regular opportunity to participate in board meetings. VTA's policy advisor acknowledges that reforming VTA's use of the advisory committees is a formidable task, especially because it requires not only tangible changes but also a cultural shift in values and the rebuilding of trust.

*VTA's policy advisor acknowledges that reforming VTA's use of the advisory committees requires a cultural shift in values and the rebuilding of trust.*

### VTA Has Been Operating Without a Comprehensive Strategic Plan Since 2006 but Is Crafting One to Include Within Another Planning Document

At least since 2006, VTA has not had a document purporting to be a strategic plan. Rather, as VTA officials explained, it has developed several planning documents that, taken together, represent VTA’s strategic plan. We compared those documents with the Government Finance Officers Association (GFOA) recommendations for strategic planning and, as Table 2 shows, found some components of a strategic plan but could not locate detailed action plans, measurable objectives, or performance measures linked to existing strategic goals. We question whether,

**Table 2**  
**Santa Clara Valley Transportation Authority’s Conformance With Recommended Practices in Strategic Planning**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
The strategic planning process must have the support of the organization’s chief executive.	Based on interviews, the general manager clearly supports the preparation of the new strategic plan to be adopted by the end of 2008.	Meets recommendation.
The inclusion of internal staff and external stakeholders in the strategic planning process is critical.	Santa Clara Valley Transportation Authority (VTA) shares planning documents with the board of directors (board) as they are developed and conducts public workshops to receive input. VTA plans similar outreach for the new strategic plan, although outreach to advisory committees is not noted in the strategic plan update.	Needs some improvement.
The plan should include a mission statement that clearly describes the purpose of the organization.	Although VTA’s official mission statement is included in some planning documents, the HayGroup criticized the statement for being overly broad. VTA is now working to create a new mission statement.	Needs some improvement.
An analysis of the agency’s external and internal environment and identification of critical issues must inform the plan.	VTA analyzed its external environment when it developed the <i>Valley Transportation Plan 2030 (VTP 2030)</i> . The HayGroup assessment, published in March 2007, provides an analysis of internal strengths, weaknesses, opportunities, and threats that will inform the new strategic plan.	Meets recommendation.
The plan should include a small number of broad goals and strategies to achieve these goals.	<i>VTP 2030</i> and the <i>Transit Sustainability Policy</i> include broad goals and strategies. VTA’s <i>Short Range Transit Plan 2008–2017</i> and the <i>Comprehensive Annual Financial Report</i> for fiscal year 2006–07 repeat goals and strategies from the earlier documents.	Meets recommendation.
Develop an action plan that describes how the agency will implement strategies and establish measurable objectives.	We did not find action plans or measurable objectives in the agency-wide plans and reports we reviewed.	Needs substantial improvement.
Develop performance measures that link to goals, strategies, actions, and objectives.	Key performance indicators are reported in the quarterly <i>Transit Operations Performance Report</i> , but are not explicitly linked to VTA goals, strategies, actions, and objectives.	Needs some improvement.
Approve and implement the plan. Continue to monitor progress and update the plan at regular intervals.	VTA has not had a comprehensive strategic plan with performance measurements since 2006.	Needs substantial improvement.

Sources: VTA’s planning documents; recommended practices published by the Government Finance Officers Association.

without all the required elements, these various plans truly satisfy the purpose of a strategic plan—to provide a framework for an organization to align its resources in support of its long-term goals for the future.

The initial strategic plan VTA produced stated that it covered the period 1996 through 2006. In 2001 VTA initiated plans for a full revision of the strategic plan. However, VTA's former board secretary explained that, because of an economic downturn at that time, the board decided it would be inappropriate to use time and resources to complete the new strategic plan. Rather, the board chose to focus on the existing goal of financial stability by establishing a business review team in February 2002, followed by the formation of a financial stability committee later that year. On completing those efforts, the board adopted the financial stability strategy in early 2004. *The Valley Transportation Plan 2030*, which was adopted in 2005 and serves as the countywide transportation plan, expanded on the financial stability strategy with a recommendation that VTA develop a transit expansion policy. This recommendation resulted in a new efficiency-based transit model called the Transit Sustainability Policy. VTA used the Transit Sustainability Policy to reevaluate its bus routes and,

according to the general manager, will eventually use it to examine all VTA transit services. This efficiency-based approach did not necessarily align with VTA's official vision statement, which emphasizes equity over efficiency (see the text box). VTA's modification of bus routes based on the new efficiency-based approach makes it apparent that the vision statement had already become obsolete in terms of affecting VTA decisions.

#### Santa Clara Valley Transportation Authority's Initial Vision Statement

Provide a transportation system that allows anyone to go anywhere in the region easily and efficiently.

Source: *Santa Clara Valley Transportation Authority, Strategic Plan 1996-2006*.

According to the general manager, the disconnect between the official vision and mission statements, which emphasize equity, and the new model, which emphasizes efficiency, is evidence of an organization in the process of change. The general manager explained that VTA stakeholders and even its leadership are a diverse group with often-shared but sometimes-conflicting values and opinions. Consequently, change requires appropriate timing and is not always linear from overarching vision down to fine details. Rather, the general manager noted, the experience of using the efficiency-based model to assess bus routes helped many VTA decision makers and constituents see how a vision and mission that incorporates efficiency could actually work. In February 2008 the board met to begin the process of developing new vision and mission statements, and according to the general manager, it plans to adopt these new statements in the summer of 2008.

The general manager stated that VTA is working on a new strategic plan to be included in its countywide long-range planning document, the Valley Transportation Plan 2035 (VTP 2035), which VTA expects to publish at the end of 2008. The general manager explained that he wants the strategic plan to be included within the existing planning document and updated periodically along with that document. The general manager also explained that he wants the strategic plan to be part of VTP 2035 because he believes that a transit agency's strategic and transportation plans should be directly linked. Although the approach the general manager describes appears reasonable, we caution VTA to include all GFOA-recommended elements of a strategic plan in its new strategic plan and to link those elements to one another by consistent themes that cascade through each element, from broad vision and mission statements to detailed action plans.

### **Recommendations**

To promote stability in its leadership and bring the tenure of board members in line with that of comparable transit agencies, VTA should request the Legislature to amend its enabling statutes to allow for a four-year board term.

VTA should monitor the effect of the governance changes approved by the board in May 2008 and determine whether additional changes to its governance structure are necessary. To this end, VTA should add board tenure to the performance measures it develops for its new strategic plan.

VTA should complete its plans to implement the HayGroup recommendations related to governance and strategic planning.

To demonstrate that it values the expertise of its advisory committees, VTA and its board should take actions to ensure that advisory committees are involved in the development of policy solutions. Such actions should include the following:

- Reassessing and stating the purpose and role of each advisory committee.
- Reviewing work plans for advisory committees to ensure the committees have an opportunity to review and provide input on issues in the early stages of development.
- Providing the citizens committee with an opportunity to address the board at every meeting, similar to the opportunity provided to the policy committee.

VTA should implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to the practices recommended by the GFOA.

## Chapter 2

### FINANCIAL REPORTING AND PLANNING GENERALLY MEET BEST PRACTICES, BUT CHANGES TO CAPITAL BUDGETING AND PLANNING COULD REDUCE FUTURE EXPENSES AND IMPROVE LONG-TERM FORECASTING

#### Chapter Summary

In preparing its financial reports and plans, the Santa Clara Valley Transportation Authority (VTA) generally follows best practices in government finance. Additionally, VTA fiscal staff have improved the value of those documents by adding more historical and projected figures as well as more detailed and simpler-to-understand information. However, further changes to certain areas of financial reporting and planning would allow VTA to more effectively plan and evaluate its performance. This is especially true for its planning of capital projects. Adding precision to capital project budgeting could help VTA better understand its cash needs, potentially reducing future financing expenses for capital projects.

Best practices are also evident, to varying degrees, in VTA's short-term forecasting and longer-term financial planning. For example, VTA has established two debt reduction funds and is conducting better planning for long-term liabilities. However, the organization could benefit from more effectively using some of its projections as planning tools and continuing its efforts to update forecasting.

#### Overall, VTA's Broad Array of Financial Reports and Plans Conform to Recommended Practices

VTA regularly produces reports that contain financial information. In speaking with fiscal staff, we determined that VTA publishes five main reports. After reviewing these reports, we found that VTA has generally followed recommended practices, which stress providing prompt and reliable information to decision makers. The following are the main reports that VTA produces:

- *Comprehensive Annual Financial Report (CAFR)*: includes annual independent audit of financial statements, which show VTA's financial position, results of operations, and cash flows.
- *Quarterly financial report to board of directors*: primarily presents operating revenues and expenses.

- *Monthly variance reports and monthly activity reports to management*: include year-to-date budgeted amounts versus actual revenues and expenses, as well as VTA's operating expenses and revenues for the month, and its cash position.
- *Biennial budget*: authorizes VTA spending for the two upcoming fiscal years.
- *Short-range transit plan*: released every two years but includes 10-year projection of expenses and revenues for operations and capital improvements.

The Government Finance Officers Association (GFOA) publishes recommended practices for governmental reporting and recognizes governmental reports that meet those standards. The GFOA-recommended practices stress the importance of providing the reliable and timely financial materials decision makers need to make well-informed choices and presenting information in ways that meet accounting standards. These best practices were especially apt for our analysis because VTA's fiscal staff said they follow GFOA guidance, and VTA's CAFR states it was prepared in accordance with GFOA guidelines. As Table 3 indicates, VTA's financial reports in general meet GFOA recommendations. The one area in need of improvement—capital budgets—will be addressed later in the chapter.

### **In Response to Concerns From Board Members and an Outside Evaluation, VTA Has Improved Its Reports and Plans**

In addition to GFOA guidance, VTA has received input about its financial reporting and planning from its board of directors (board) and an outside consultant VTA hired to assess its operations. Both the board and the consultant—the HayGroup—expressed concerns about VTA's financial reporting. The board and the Administration and Finance Committee (finance committee), which is composed of four board members, called for VTA to present additional financial information or explain financial information to the board more fully. Our review of board and finance committee minutes from the summer of 2005 through early 2008 revealed at least five comments calling for additional or more meaningful financial reporting. For example, in a May 2007 finance committee meeting, the vice chair of the committee requested that VTA provide all board members (not just finance committee members) with quarterly financial information.

In its March 2007 report, the HayGroup voiced similar concerns by stressing the importance of producing useful financial information and communicating it to the transit agency's decision makers. The



**Table 3**  
**Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Financial Reporting**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Issue a comprehensive annual financial report rather than just basic financial statements.	Issues comprehensive annual financial report that includes more than basic financial statements.	Meets recommendation.
Follow generally accepted accounting principles in the comprehensive annual financial report and have financial statements independently audited.	According to its independent auditor, Santa Clara Valley Transportation Authority's (VTA) financial statements follow generally accepted accounting principles and fairly present VTA's financial position, results of operations, and cash flows.	Meets recommendation.
Issue timely financial reports in order to inform decision makers.	Comprehensive annual financial report issued within six months of the end of fiscal year. A review of the past seven quarterly reports revealed that they were issued on average 6.5 weeks after the end of the reporting period.	Meets recommendation.
Capital budgets should include summaries of capital projects by fund and category, a schedule of completion of the project, and estimated funding requirements for the upcoming year(s).	Budgets do not always specify the timing of project completion or fully denote when funds are expected to be spent on individual projects.	Needs some improvement.

Sources: VTA's financial reports; recommended practices published by the Government Finance Officers Association.

HayGroup also provided specific recommendations to add or clarify certain financial reporting elements. In response, VTA implemented reporting changes that addressed many of the issues revealed by the HayGroup assessment. As noted in Appendix A, VTA adequately addressed one of the four recommendations and has made progress with the three remaining areas that pertain to financial reporting.

As summarized in Table 4 on the following page and detailed in the subsections that follow, VTA has made an effort to simplify reports and present information in context since the HayGroup assessment. We found the strongest evidence of these changes in the biennial budget for fiscal years 2007–08 and 2008–09, which includes more of a historical context and a more comprehensive presentation of the capital budgets than did past documents. Other major areas of improvement include changes to monthly financial reports to management and quarterly financial reports to the board. Those

changes include providing useful information, such as projections with explanations about variances from expectations, and issuing such information in a timely manner.

**Table 4**  
**Summary of Recent Improvements to Financial Reporting**

REPORT	CHANGE	IMPLEMENTATION
Comprehensive annual financial report	More financial summary information added	Fiscal year 2006–07 comprehensive annual financial report
Quarterly financial report	Regular fiscal reports presented to Administration and Finance Committee (finance committee) and the board of directors	Finance committee began receiving reports in fiscal year 2005–06, and board began receiving presentations on them in March 2008
Monthly variance and activity reports	Added clarifications, explanations	May 2007
Biennial budget	Added more useful summary information, added projections and historical context, and more clearly explained the capital budget	Biennial budget for fiscal years 2007–08 and 2008–09

Sources: Santa Clara Valley Transportation Authority's financial reports.

### ***CAFR Adds Some Summary Information***

VTA published its most recent CAFR after the HayGroup report, which criticized VTA's previous CAFRs for not providing a true, complete picture of VTA's performance; financial condition; and ability to meet its commitments, goals, and objectives. In contrast, an independent certified public accounting firm that audited VTA's financial statements concluded the reports fairly present VTA's financial position. In the transmittal letter accompanying its CAFR for fiscal year 2006–07, VTA stated it prepared the CAFR in accordance with GFOA guidelines. In addition, the GFOA recognized VTA with a Certificate of Achievement for Excellence in Financial Reporting for its fiscal year 2005–06 CAFR. Our review of recent CAFRs found no major changes in the types of information VTA reported. Rather, VTA added some summary information to the letter of transmittal in its fiscal year 2006–07 CAFR that highlights finances and explains major VTA initiatives. Although these improvements were minor, it appeared from our review that a major revision of these documents was not necessary.

### ***Staff Now Present Quarterly Financial Reports to the Board***

VTA's quarterly financial reports focus primarily on operating expenses and revenues. Fiscal staff who create the reports include explanations of budget variances for key categories. A manager in VTA's Fiscal Resources Division (fiscal resources) stated that staff began submitting the quarterly reports to the finance committee in fiscal year 2005–06. According to a member of the finance committee, the board did not consistently receive financial reports in the past. However, the board member stated he saw a dramatic difference when the interim chief financial officer was hired and began presenting financial information to the finance committee regularly. Board members not on the finance committee received the quarterly reports in their agenda packets, but the reports were not discussed formally during board meetings.

Beginning at the March 2008 board meeting, the board agenda has included presentation of the quarterly report as an agenda item. VTA's fiscal staff present the information and answer questions from board members. According to the recently hired chief financial officer, after these quarterly reports go to the finance committee, fiscal staff regularly present them to and discuss them with the board. This is part of VTA's goal to better present financial information on items that affect board members' fiduciary responsibilities.

### ***Monthly Variance and Activity Reports to Management Contain Added Details***

A VTA fiscal resources manager explained that fiscal staff present to management monthly variance reports comparing year-to-date budgeted and actual expenses and revenues. Revenues presented in the reports include fares and the half-cent sales taxes, and costs include labor and fuel. When the actual amount is 10 percent greater or less than budgeted, fiscal staff generally provide a written explanation of the difference. Fiscal staff explained that members of management discuss larger fluctuations as well as key categories that might show only slight differences. In May 2007 VTA added more detail to these reports to include notes on the basis of projections. Staff said they added this information in an attempt to present VTA's financial information in a useful format for the organization's decision makers.

In addition to these reports, fiscal staff present monthly activity reports during meetings with management. Included in these reports are summaries of disbursements, accounts receivable, fare revenues, insurance claims, and purchase orders, as well as a reporting of VTA's cash position.

### Improvements to VTA's Biennial Budget

- Budget summary provided.
- Projections of operating revenues and expenses for the following three years included.
- Outstanding debt summarized.
- Variances in operating budgets displayed for two previous fiscal years.
- Major budgetary changes explained.
- Revenues reported with historical context of six years.
- Expenses for budgeted years and two previous years provided, with percentage variances.
- Budget summarized by division.
- Projected operating costs for some, though not all, capital projects provided.

### *Changes to the Format of VTA's Biennial Budget Clarify Its Content*

The board approved the biennial budget for fiscal years 2007–08 and 2008–09 in June 2007, after receiving the HayGroup report. According to fiscal staff, the most recent budget aimed to simplify financial information, incorporate more historical data and projections, and include additional and more meaningful information in the capital budget. Specific improvements are shown in the text box. According to the chief financial officer, a goal is to prepare future budgets according to GFOA guidance to earn GFOA's Distinguished Budget Presentation Award.

### **Changes to Its Capital Budgeting Would Improve VTA's Financial Reporting**

Although VTA has increased the quality of its financial reporting, we found room for improvement in one major area, the capital budget, which includes construction costs and other expenses related to VTA's capital projects. The GFOA recommends that capital budgets include summaries of capital projects by fund and category, a schedule for completion of the projects, and estimated funding requirements for the future. Although VTA's capital budget contains summaries of capital projects, it does not always include the timing of project completion or the funding requirements for upcoming years. According to fiscal staff, budgeting for VTA's capital program is different from budgeting for operating expenses, in which expenditures are authorized for and spent during the specific period. For capital projects, funds are often authorized in one year but expected to be spent during multiple years. Amounts VTA does not spend on a project one year it carries over to the next year. Funds that represent VTA's share of capital projects are held in VTA's investments until they are needed. According to fiscal staff, past capital budgets have not necessarily reflected how much VTA expects to spend in a given year, but VTA is moving in this direction.

The lack of precisely reported plans to complete projects and identify when money is slated to be spent reduces the usefulness of the capital budget to VTA's decision makers. Specifically, VTA cannot effectively use the document to plan various projects, set and adjust the priorities of the capital program, and monitor cash flows.

### ***VTA Should Add Precision to Its Capital Budget Document***

VTA could benefit from increasing the detail of its capital project budgeting. Creating budgets that reflect project time frames and expected spending by year, for instance, could allow VTA to better allocate its resources. A review of its capital budgets revealed that VTA currently appropriates funds upfront and, in some cases, years before actual expenditures are to occur. Accounting reports VTA provided to us reflect actual spending on capital projects from VTA's local funds and Measure A Transit Improvement Program (Measure A program) categories during fiscal year 2006–07 at approximately \$131 million. VTA's financial statements for fiscal year 2006–07 show that VTA had remaining budgets in these categories of approximately \$162 million for capital projects. Although 63 percent of the amount represented funds from non-VTA shares (like federal and state grants), the remaining 37 percent (\$60 million) was VTA funds.

A review of other transit agencies' capital budgets revealed various presentations. However, many agencies included elements to more clearly reflect planned capital spending. Some best practices we identified from our review include specifying time frames for spending funds, multiyear historical spending, and clear explanations of year-to-year carryovers and their funding sources. With that information added, VTA's capital budget would be a more meaningful planning document.

The chief financial officer stated he will recommend that VTA update its next capital budget to include expected project costs, totals allocated through the end of the last fiscal year, amounts spent, spending sources (broken down by local, state, and federal), and new allocations by budget year for the two-year period. He said that budgeted amounts for the fiscal year would correspond with the amount VTA expected to spend or needed to obligate during that fiscal year.

### ***More Accurate Capital Planning Would Benefit VTA's Finances***

Strong fiscal planning is especially important for an organization like VTA that builds many complex, expensive projects over long periods. By improving its method of tracking the time when funds will be needed for capital projects, VTA could save money. As of the end of fiscal year 2006–07, VTA had \$746 million in outstanding bonds and trust certificates, which represented an increase of \$46 million from the previous year. According to a fiscal resources manager, if VTA better understood its cash needs for capital projects, it could plan more effectively when to issue bonds and potentially how best to invest its money. Specifically, a more

*According to a fiscal resources manager, if VTA better understood its cash needs for capital projects, it could plan more effectively when to issue bonds and potentially how best to invest its money.*

*VTA's experience with its variable rate bonds illustrates the market risks of certain kinds of debt and highlights the need for effective management of debt and cash flow.*

accurate understanding of cash flow could allow VTA to delay issuing debt until a time closer to when the funds were needed. Also, that information could benefit VTA's overall investments by allowing it the option of placing more of its funds in longer-term investments that could optimize its earnings.

The need to manage debt effectively became apparent with recent changes in the municipal debt market. Many municipal bond insurers have been downgraded, and those rating changes have affected variable rate bonds. As a result, VTA has seen its interest rates for variable rate bonds increase, which has affected the roughly \$236 million in debt related to VTA's Measure A program. In early 2008, the interest rate on VTA's debt payments for variable rate bonds began increasing from between 3 percent to 4 percent to an average of about 6 percent for the first five months of 2008, based on data provided by VTA. From the same data, which included information through May 2008, we found that the average interest rate for fiscal year 2007-08 was 4.9 percent, which is greater than the 4.35 percent a fiscal resources manager stated was budgeted for Measure A program variable rate bonds for that year. According to VTA's chief financial officer, for every 1 percent increase in the interest rate for these securities, VTA's interest expense increases by about \$45,900 weekly. Although VTA indicates that it is responding to the market changes, this example illustrates the market risks of certain kinds of debt and highlights the need for effective management of debt and cash flow.

In the July 2007 reorganization of fiscal resources, VTA recognized the benefit of better understanding cash flow as it builds projects and issues debt by adding an analyst position in the division's finance department to focus on cash flow related to capital projects. Further, the fiscal resources reorganization document describes the role certain fiscal staff play in coordinating with project managers to ensure the accuracy of capital budget requests and assisting with ongoing monitoring. However, in May 2008 a VTA fiscal resources manager explained that she did not expect the fiscal analyst position to be filled soon because of financial constraints.

In addition, VTA hired a consultant to model the timing of Measure A bond issuances and expected grant revenues. Measure A program projects, including the extension of the Bay Area Rapid Transit system into San Jose, represent the majority of VTA's large upcoming capital projects. The chief financial officer said that he would like to expand the role of the Capital Improvement Program Oversight Committee (oversight committee), which is made up of division chiefs at VTA who primarily review other capital projects, to begin reviewing Measure A projects. According to the chief financial officer, constant engagement among divisions is needed to ensure communication among those preparing the budget,



building projects, and managing investments and debt. He said that promoting this engagement will continue to be one of VTA's major focus areas. Implementing the changes to VTA's capital budgets that the chief financial officer described in the earlier section—in particular, having budgeted amounts for capital projects represent what VTA expects to spend during the year—will likely increase fiscal resources' ability to manage VTA's cash flow and will therefore increase its ability to more effectively manage its debt.

### Further Improvement in Forecasting Would Bring VTA Even More in Line with Best Practices

VTA meets, or partially meets, the GFOA-recommended practices in financial forecasting, but improvements are still needed. As indicated in Table 5, VTA forecasts major revenues and expenditures at least 10 years into the future—exceeding GFOA standards—but has not always clearly stated the assumptions behind the forecasts in its public reports. Additionally, although VTA management discusses variances between budgets and actuals for several operating categories, they do not make this comparison when evaluating capital budgets. As discussed in a later section, VTA's forecasts of expenditures, revenues, and ridership have mainly erred on the side of conservatism in recent years.

**Table 5**  
**Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Forecasting**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Major revenues and expenditures should be forecasted for at least three to five years beyond the budget period.	Major revenues and expenditures are forecasted for at least 10 years in short-range transit plans.	Meets recommendation.
Clearly state forecasts, along with their underlying assumptions and methodology.	Santa Clara Valley Transportation Authority (VTA) includes operating and capital program forecasts in its short-range transit plan and provides in the plan a set of financial assumptions underlying its operating forecasts. Similarly detailed assumptions were not included for its capital program forecasts.	Needs some improvement.
To improve forecasting, analyze variances between forecasted amounts and actuals.	On a monthly basis, VTA management discusses variances and reasons for significant differences. However, forecasts associated with the capital program are not later compared with actuals.	Needs some improvement.



*VTA's current short-range transit plan does not explain that a significant revenue source listed in the document has not been secured.*

***VTA Forecasts Revenues and Expenditures in Planning Documents but Does Not Fully Explain Assumptions or Compare Capital Program Forecasts to Actual Expenditures***

VTA forecasts major revenues and expenditures in its short-range transit plans and, while the assumptions behind its operating forecasts are specified, the same cannot be said of its capital program forecasts—revenue projections in particular. For example, forecasts for the Measure A program, which are documented in VTA's short-range transit plan published in January 2008, provide projections through fiscal year 2035–36 and include a revenue source that has not been secured. The projections contain a line labeled “VTA, Other Funding (includes new one-quarter cent tax).” The document does not explain that this source will only be available if voters approve the increase. Explaining assumptions behind projections is especially important when the figures account for a significant amount of the specified category. For the 2009–10 fiscal year, for example, the estimated revenue from the quarter-cent sales tax represents nearly 15 percent of total projected revenues from the Measure A program. According to the general manager, this line in the short-range transit plan should have specified that the revenue source would be the “revenue equivalent to a quarter cent sales tax,” as revenues other than a sales tax increase are possible. Although we recognize this distinction, we believe that any such assumptions about the source of projected revenues should be clearly explained. VTA has hired a consultant to update its forecasts and assumptions for the Measure A program and expects to complete a new revenue and expenditure plan this fall.

Aside from the capital program, VTA's biennial budgets could be considered two-year forecasts of operating revenues and expenditures. In this respect, the monthly variance reports described earlier in which VTA compares budgeted amounts to actual revenues and expenditures fulfills a portion of one of the GFOA-recommended practices we identified. However, because, as stated previously, VTA's past capital program budgets did not represent spending plans, the biennial budgets did not represent forecasts against which VTA can compare actual yearly expenditures. Rather, it is VTA's short-range transit plan that provides the yearly projected expenditures of its capital projects. However, as VTA's fiscal staff explained, they do not compare forecasts of capital spending documented in short-range plans with actual capital spending at the end of the year.

This is not to imply that VTA is not assessing capital spending at all. In fact, fiscal staff do analyze capital spending related to the Measure A program and the Measure B Transportation Improvement Program projects through monthly reviews of cost and schedule reports. Other types of projects are reviewed during

meetings of the oversight committee, which primarily oversees VTA transit-funded projects (projects that do not fall under specified voter-approved measures). During this analysis, staff review and discuss specific project management indicators, like the budget, commitments, actual spending to date, the previous month's spending, the estimated total project cost, the ratio of total incurred costs to the budget, and summary completion schedules. Although this ongoing monitoring at the project level is an important part of project management, it does not satisfy the GFOA-recommended practice of comparing forecasts to actuals because the activities did not appear to be part of an effort to improve forecasting.

### ***Enterprise Fund Forecasts Have Been Conservative and Fairly Accurate***

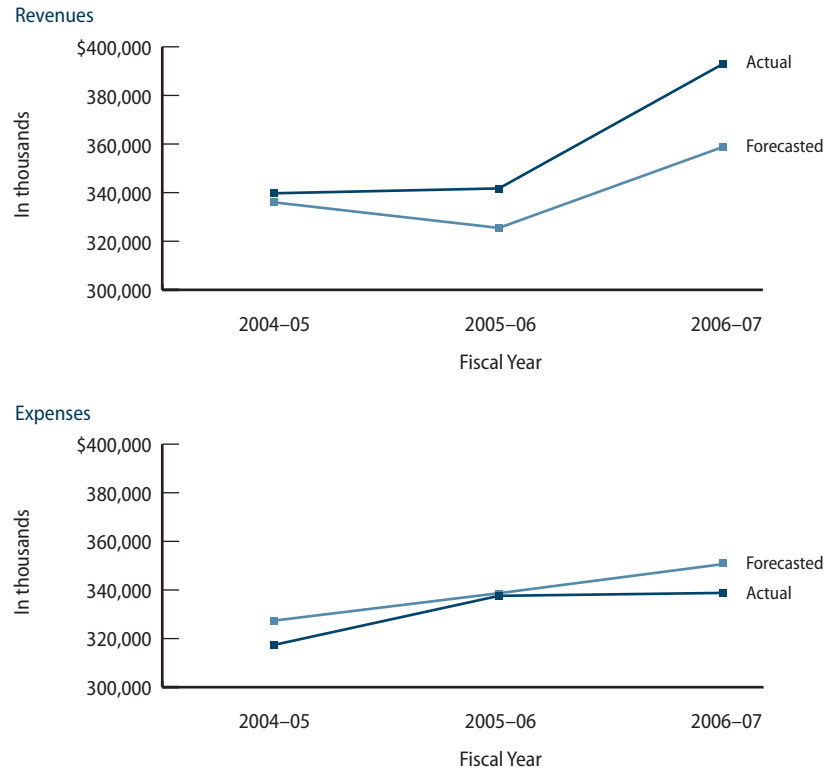
Recent forecasts of activity in VTA's Enterprise Fund, which includes operating expenses and revenues, have been fairly accurate. The Enterprise Fund covers the expenses of transit operations and certain capital projects, which are primarily funded through the basic sales tax and fares. VTA's projections for Enterprise Fund revenues and expenses, as documented in the short-range transit plan for fiscal years 2005–06 through 2014–15, were fairly accurate when compared to actual figures for fiscal years 2004–05 through 2006–07. As illustrated by Figure 5 on the following page, however, during those years, VTA on average underestimated revenues by 5.2 percent and overestimated expenses by 2.3 percent. According to a VTA fiscal resources manager, these projections represent VTA's approach of conservative forecasting.

### ***Ridership Forecasts Have Varied in Accuracy***

VTA forecasts its ridership for each fiscal year. The VTA manager responsible for preparing ridership forecasts provided us with an internal report, which he indicated was prepared in August 2003, that includes ridership forecasts for fiscal years 2003–04 to 2007–08. As indicated by Figure 6 on page 43, these forecasts were not consistently accurate, but VTA has presented conservative estimates in its forecasts for the last two fiscal years. For the 2004–05 fiscal year, VTA overestimated its ridership by about 6.7 percent. According to a VTA manager, the actual decrease in bus ridership likely reflected the reduction in services VTA made in January 2004 and the fare increase made in January 2005.

In contrast, VTA underestimated its ridership for fiscal years 2005–06 and 2006–07 by about 3.1 percent and 9.1 percent, respectively. According to a VTA manager, those projections are in line with VTA's conservative approach to forecasting. VTA saw a

**Figure 5**  
**Comparison of Enterprise Fund Revenues and Expenses**  
**Actual and Forecasted**



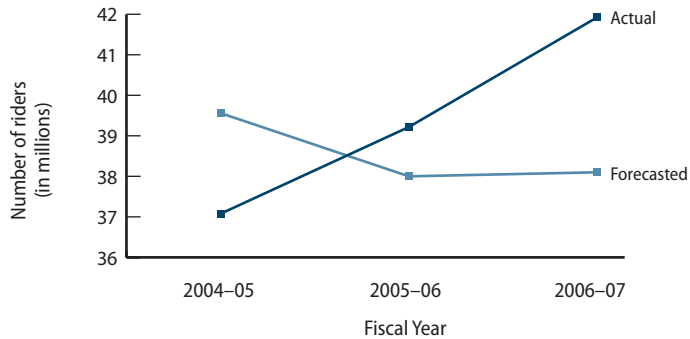
Sources: Santa Clara Valley Transportation Authority's (VTA) comprehensive annual financial reports for fiscal years 2004-05 through 2006-07 and short-range transit plan for fiscal years 2005-06 through 2014-15.

Note: Enterprise Fund expenses account for approximately 70 percent of VTA's total spending and consist of the provision of transit services and some capital project activities. It does not include construction of capital projects funded through voter-approved measures that VTA accounts for in the capital project fund.

larger-than-expected increase for those years because it underestimated ridership from new light-rail services that were added in fiscal year 2005-06. Both bus and rail ridership increased during the three-year period we reviewed.

VTA revises its ridership forecasts each fiscal year. For the three fiscal years mentioned above, these revised forecasts were closer to actual ridership; however, staff forecasted less ridership for all three years. An average of the three-year difference indicated a difference of about 1.8 percent per year.

**Figure 6**  
**Ridership, Actual and Forecasted**



Sources: Santa Clara Valley Transportation Authority ridership (forecasted and actual).

**VTA’s Long-Term Financial Planning Generally Meets or Is Moving Toward Meeting Recommended Practices**

VTA’s long-term financial planning meets GFOA-recommended practices in most cases, but it has not completely implemented changes to respond to the HayGroup’s recommendations. Specifically, VTA’s current long-term forecasts for the Measure A program do not realistically plan revenues in all areas. The HayGroup noted this issue and recommended that VTA better balance its revenues and expenditures. In response, VTA has been updating its forecasting methodology, and recent efforts have increased its compliance with the HayGroup recommendations.

GFOA publishes recommended practices for entities conducting long-term financial planning. As shown in Table 6 on the following page, VTA has already met or is in the process of conforming to these recommendations.

The HayGroup assessment called on VTA to balance its long-term revenue and expenditure plan, address unfunded liabilities, find additional revenue sources, better manage real estate, provide more training for organization leaders, update projections and models, conduct stress tests, standardize methodology for financial analysis, and establish more realistic fare revenue goals. VTA’s progress toward implementing the HayGroup recommendations is documented in Appendix A.

**Table 6**  
**Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Long-Term Planning**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Conduct long-term financial planning for each major fund for a horizon of at least five years.	Projections for major funds are for at least five years.	Meets recommendation.
The plan should include an analysis of the financial environment, revenue and expenditure forecasts, debt position, key indicators of financial health, and strategies for achieving and maintaining financial balance.	Plans include analyses of major categories like revenues and expenditures. According to fiscal resources staff, Santa Clara Valley Transportation Authority (VTA) is in the process of updating long-term planning tools to better analyze different scenarios.	Needs some improvement.
The plan should be communicated effectively to officials and the public.	In accordance with federal and regional requirements for certain transit agencies, VTA publishes short-range transit plans every two years that project 10 years forward and periodically publishes long-range plans that reflect a 25-year vision.	Meets recommendation.
The plan, and the forecasts contained therein, should be monitored and updated periodically.	Most projections are updated at least annually as part of annual updates for the short-range transit plan.	Meets recommendation.

Sources: VTA's short-range transit plan for fiscal years 2007–08 through 2016–17; recommended practices published by the Government Finance Officers Association.

***A Key Element of Its Current Forecasts for Long-Term Capital Projects Is Uncertain***

As explained earlier, VTA included a revenue source equivalent to a quarter-cent sales tax for the Measure A program in its long-term projections. This revenue source, which allows VTA to balance its revenues and expenditures for the Measure A program, has not been approved by voters or otherwise secured and may not materialize. Without the tax revenues for this major capital program, VTA would not have enough revenue to cover its expenditures. According to the chief financial officer, VTA includes the tax as a revenue source because it was included in the Measure A Revenue and Expenditure Plan that the board approved in 2006. As noted earlier, VTA hired a consultant to update its forecasts and assumptions for the Measure A program. VTA plans to hold a series of board and committee meetings throughout the summer and expects to complete a new revenue and expenditure plan in the fall.

Realistic forecasting is essential for VTA's long-term planning because the currently unsecured sales tax revenues represent a major source of projected revenues for the Measure A program. For the five-year period from fiscal years 2009–10 to 2013–14, VTA currently forecasts that the prospective quarter-cent sales tax will generate a total of about \$468 million in revenues. This represents nearly 9 percent of the total revenue forecast of \$5.42 billion for the Measure A program for that period. According to the chief financial officer, the consultant's analysis will consider different scenarios, including if there is no new revenue generated from a quarter-cent sales tax.

### ***Other Areas Represent Effective Planning***

To project revenues from the sales tax and grants and expenditures for major areas like wages and bus and light-rail operating costs, VTA uses models that rely on both internal and external information. These projections look at least five years into the future, and some include time frames of more than 20 years.

To form projections, VTA uses prior-year actual figures, notes multiyear trends when possible, and considers information like economic forecasts. For example, for wages of VTA employees who are represented by the Amalgamated Transit Union, VTA forecasted agreed-on wage increases from a multiyear contract and then estimated unknown wage increases in future years based on experience. VTA's model for these workers, who represent about half of its employees, also factors in step increases, historical retention rates, and other relevant data.

In its short-range transit plans, VTA publicly reports much of the information contained in long-term financial planning documents. Projections in the short-range transit plans are updated annually. The text box shows the categories projected. In addition, VTA's short-range transit plan includes forecasts for Measure A program revenues and expenses through 2036.

Among other studies VTA conducts when performing long-term financial planning are a long-term analysis of ridership demand and consideration of long-term liabilities. According to the principal transportation planner, VTA employs a travel-demand model, which provides long-term projections of ridership, as part of the organization's long-term planning. He explained that this model is based on various factors, including socioeconomic information, job

#### **Categories With 10-Year Projections in the Short-Range Transit Plan**

- Operating revenues
- Operating expenses and reserves
- Capital project expenses
- Capital project revenues
- Planned service levels

Source: Short-Range Transit Plan for fiscal years 2007–08 through 2016–17.

patterns, and rider surveys; employs various modeling techniques; and will inform VTA's Valley Transportation Plan 2035, among other long-range plans.

### ***Recent Changes Are Improving VTA's Planning Methods***

During the past year, VTA has made improvements to its long-term financial planning methods. Specifically, the board approved the Transit Enterprise Debt Reduction Fund and the Measure A Debt Reduction Fund in February 2008. These were funded through savings realized from earlier-than-expected grant recovery, reduced debt service costs, and special one-time funding. For example, VTA was able to transfer funds to debt reduction after an actuarial report concluded that it held surplus funds in its workers' compensation program. In general, the goals of the debt reduction funds include paying down existing debt and allowing VTA to replace capital assets without issuing new debt. VTA is also pursuing other revenue sources. The chief financial officer commented that he believes VTA could generate more than \$2 million by refinancing debt. Additionally, he said VTA is exploring the use of public-private and intergovernmental partnerships.

VTA is also updating its long-term forecasting tools. Specifically, VTA indicated that it is in the process of switching to a forecasting model created by the consultant it hired to update its Measure A revenue and expenditure plan. A VTA fiscal resources manager stated that the new model will allow VTA to more easily account for various scenarios, such as increases or decreases in services, and will add flexibility to VTA's overall forecasting as the most current information becomes available.

### **Recommendations**

VTA should complete its plans to implement the HayGroup recommendations related to financial planning, monitoring, and reporting.

To make best use of its resources, VTA should create regular processes in which fiscal resources communicates with other VTA divisions—especially the Engineering and Construction Division—regarding the cash needs of projects and activities. This communication process should include estimates of yearly project expenditures and regular updates to those projections based on actual results.



VTA should update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs.

To better monitor capital spending, VTA should regularly compile and report to management information that tracks all capital projects and compares spending and project progress to original projections. Information should be broken down by project but should also include total project progress and spending by source of funds.

To ensure realistic long-term financial planning, VTA should continue to update its planning tools and methodology and clearly explain assumptions that have material effects on overall forecasts.

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## Chapter 3

### DEFICIENCIES IN PROJECT PLANNING AND INCONSISTENT PROJECT MONITORING COULD LIMIT EFFECTIVE DECISION MAKING

#### Chapter Summary

The project-planning practices of the Santa Clara Valley Transportation Authority (VTA) generally conform to best practices, but certain deficiencies remain. In particular, we found that for the 10 projects we reviewed, VTA created detailed plans but did not always anticipate the potential revenues a project might generate, secure necessary project funding, and identify the sources of funding for future operating costs. The principal causes of the deficiencies are that VTA has not documented its planning process and has not systematically required these project-planning elements. Consequently, VTA risks pursuing projects that it may not be able to financially support in the future.

VTA has established a series of project-monitoring mechanisms that, if followed for all projects, would ensure that it implements projects within a structure of appropriate control. However, VTA implements its monitoring policies inconsistently, allowing some project managers to reduce the frequency and level of content in required monitoring reports. As a result, accountability is reduced and critical information may not be reaching decision makers in executive management and on the board of directors (board).

#### VTA's Project-Planning Process Lacks Elements of a Long-Term Approach

Although VTA meets most of the project-planning recommendations issued by the Government Finance Officers Association (GFOA), it lacks effective procedures for identifying the sources of funding of future operating costs or estimating the potential revenues its projects may generate. Consequently, VTA has approved some projects based on incomplete information.

When planning projects, VTA uses a variety of manuals and guidelines, such as the *California Department of Transportation Local Assistance Procedures Manual* and California Environmental Quality Act guidelines. However, it does not have a central document that defines when these manuals and guidelines are applicable or what types of plans and reports VTA requires at each stage of the project-planning process. Consequently, we interviewed staff to determine VTA's project-planning policies and procedures. At its most basic level, VTA's project planning is divided into

a planning phase and an engineering-design phase. During the initial planning phase, staff complete a project study that contains the scope of the project, some initial designs, and a potential completion schedule. VTA stated that it contracts with engineering firms for the formal design of the project and detailed time and cost estimates. VTA also stated that its contractors prepare the cost estimates, which VTA validates using an independent cost estimator with the final result being a project design that construction firms can bid on. Also during the design phase of applicable projects, VTA staff prepares an environmental impact report that contains formal public feedback on the project.

**We reviewed the following 10 projects:**

- Vasona light-rail extension
- Highways 85 and 101 North intersection improvements
- Route 17 improvements
- Bay Area Rapid Transit extension
- Caltrain South County capacity improvements
- Low-floor vehicle purchase
- Downtown platform retrofit
- Guadalupe Corridor platform retrofit
- Emissions retrofit of bus diesel engines
- Calaveras Boulevard improvements

Table 7 compares GFOA-recommended practices in project planning to the practices VTA used to plan the 10 projects we reviewed (see text box). Appendix B describes how we selected these projects. Of the seven recommended practices listed in Table 7, VTA met four: defining the scope and timing of projects, estimating all major project components, creating multiyear cost estimates, and estimating project expenditures and revenues. We determined that VTA needs improvement in meeting the other three recommended practices: estimating revenues a project may generate, securing adequate project funding, and identifying how future operating costs will be funded. As a result of these deficiencies, VTA risks pursuing projects that it may not be able to financially support in the future.

Eight of the 10 projects we reviewed would not likely generate additional revenue, but two would: the Bay Area Rapid Transit (BART) extension and the Vasona light-rail extension. Although it has estimated potential revenues for BART, VTA could not demonstrate that it estimated the specific revenues the Vasona light-rail extension could generate. VTA staff pointed us to the March 2006 short-range transit plan from which they indicated one could infer expected revenues and provided us with an operational analysis of the project. However, neither the operational analysis nor the short-range transit plan published in March 2006 discussed or indicated that VTA had identified potential revenues during the planning phase of the Vasona light-rail extension, which went into service in fall 2005.

As discussed in Chapter 2, VTA has not secured all the necessary funding for the Measure A Transit Improvement Program (Measure A program). In particular, the Measure A program revenue and expenditure plan adopted in 2006 and still in effect

**Table 7**  
**Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Project Planning**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Clearly define the scope and timing of a planned project.	Project scope is defined in the project study report or similar planning document.	Meets recommendation.
Estimate all major project components, including land acquisition, design, construction, contingency, and post-construction costs.	Santa Clara Valley Transportation Authority's (VTA) project files included detailed cost estimates for the seven projects we reviewed for which cost estimates were applicable. Two projects were not applicable because they each consisted of one contract that was competitively bid. The last project had not yet reached the stage where cost estimates would be prepared.	Meets recommendation.
Identify and use the most appropriate approaches when estimating project costs and potential revenues.	VTA uses engineers' estimates to verify bids on construction contracts. VTA did not specifically identify potential revenues for one of the two projects that could generate potential fare revenues.	Needs some improvement.
Plans for a multiyear project should include cost projections adjusted for anticipated inflation.	VTA prepared cost estimates for recent projects that account for inflation.	Meets recommendation.
Consider and estimate funding amounts from all appropriate funding alternatives, and secure identified funding.	VTA stated that it uses estimated local and federal funding as criteria for selecting local projects. However, VTA has not been able to secure full funding for Measure A projects.	Needs some improvement.
Anticipate the timing of project expenditures and revenues.	VTA has estimated the timing of project-related expenditures by preparing cost projections in its planning division.	Meets recommendation.
Quantify ongoing operating costs of a project, and identify the sources of funding for those costs.	For the two projects we reviewed that would result in a change to ongoing operating costs, VTA estimated these costs but did not identify the sources of funding for them.	Needs some improvement.

Sources: Government Finance Officers Association recommended practices for multiyear capital planning; VTA records related to 10 projects selected for review.

includes revenue equivalent to a quarter-cent sales tax increase that has not been approved by county voters or secured from other sources.

The GFOA recommends that an agency identify and plan for ongoing operating costs associated with capital projects. According to its staff, VTA has to be certain it can support a project before moving it forward. However, like the HayGroup, we found that VTA did not identify the funding source for the future operating costs of the two applicable projects we reviewed.<sup>3</sup> For example, our review of the planning documents for the BART extension found that VTA estimated operating costs but provided no plan for how

<sup>3</sup> Although we reviewed 10 projects, eight did not have an effect on operating costs. Consequently, only two projects in our review would have increased VTA's operating costs.

to pay for the excess operating costs over the additional revenues generated. Specifically, as of April 2008, VTA estimated that in the first full year of operation, the BART extension project would create \$67 million in revenue but have \$108 million in operating and capital costs. This is a concern because VTA's Measure A Revenue and Expenditure Plan includes revenue equivalent to a quarter-cent sales tax that has not been approved by county voters or funds secured from other sources to meet the more than \$40 million in excess operating costs. The chief of VTA's Congestion Management Agency explained that, because the identified revenue is insufficient to fully fund all of the Measure A program projects (including BART), the board is currently evaluating expenditure plan scenarios to determine the priority and timing of these projects.

As demonstrated by the BART extension project, failing to adequately estimate and plan for future operating costs can create a situation where policy makers cannot fully evaluate the merits or feasibility of a proposed project. In response to this deficiency, VTA has created new forms for planning capital projects that require future operating costs to be identified. However, the forms have yet to be used because no projects have been considered for funding since the forms were developed.

Although we found that VTA estimated when project-related expenditures and revenues would occur—thus meeting the GFOA recommendation—we still have concerns. As discussed in Chapter 2, VTA budgets do not fully denote when funds are expected to be spent on specific projects. Furthermore, VTA created large upfront appropriations for three of the seven projects we reviewed that were not Measure B Transportation Improvement Program (Measure B program) projects. Although the three Measure B program projects we reviewed reflected large, upfront appropriations in VTA's budget, it only received the funds from Santa Clara County on a cost-reimbursement basis. The Caltrain South County capacity improvements project provides an example of a project with large upfront appropriations. Specifically, VTA appropriated a budget of \$5.9 million in 2006 but spent only \$870,000 of the budget in that year. The next year, VTA increased the budget of the project by \$9 million but spent only \$1.7 million. In 2008 VTA increased the project's budget to a total of nearly \$33 million but has spent only a total of \$3.5 million as of February 2008.

We also had some concerns with the three additional projects that did not have large upfront appropriations. For example, the Calaveras Boulevard improvements project has incurred costs totaling less than half of the \$2.4 million budget in the three-year life of the project. The BART extension project had the lowest unspent appropriations as a percentage of its \$334 million budget. However, the unspent budget appropriations ranged

***VTA created large upfront appropriations for three of the projects we reviewed but did not spend these funds until years later.***

between \$48 million and \$180 million over the first four years of the project. As discussed in Chapter 2, when the board authorizes a budget for a project, VTA holds funds representing its share of the project appropriation in its investment fund. Through its policy of funding its share of the large appropriations before the funds are actually needed, VTA is tying up funds it could use elsewhere or may incur unnecessary debt service costs to obtain funds it does not yet need.

### VTA Uses a Combination of Systems to Evaluate Projects for Funding

We found that VTA's project-evaluation process included a combination of practices. Table 8 shows our comparison of GFOA-recommended practices with VTA practices in project evaluation, based on our review of 10 selected projects. We found that VTA met all three of the recommended practices listed in Table 8: using analytical techniques to evaluate projects, using a rating system to facilitate decision making, and seeking public input.

**Table 8**  
Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Project Evaluation

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Evaluate potential projects using analytical techniques, such as net present value, payback period, cost-benefit analysis, life cycle costing, and cash flow modeling.	Santa Clara Valley Transportation Authority (VTA) prepared an analysis of alternatives in the project study report or similar planning document for the six projects where such an evaluation would be applicable. The other four projects were not applicable because they were initiated as a result of changes to the transit system caused by other projects or by legal requirements.	Meets recommendation.
Use a rating system to facilitate decision making.	VTA uses a rating system based on preestablished criteria for facilities projects (three of the 10 projects we reviewed). <sup>*</sup> Projects funded by the Measure A program or with federal, state, or local funding (four of 10) are ranked during the long-term planning process. Measure B program projects (three of 10) were selected by a citizen's group as part of the ballot initiative process.	Meets recommendation.
Incorporate input from major stakeholders and the general public.	VTA uses various methods to incorporate public input, including open houses and mailers. Formal input is documented in the environmental impact report.	Meets recommendation.

Sources: Government Finance Officers Association recommended practices for capital planning; VTA records related to 10 projects selected for review.

<sup>\*</sup> Facilities projects are those designed to improve the existing transit system. Although VTA uses a rating system, all three of the facilities projects we reviewed were initiated either as a result of changes to the transit system or legal requirements and thus were not included in the regular rating process.



*Because VTA may not have sufficient funds for all projects mandated by the Measure A program, VTA plans to expand the role of the oversight committee to include reviewing Measure A program projects.*

VTA uses one of two rating systems when reviewing projects. During its long-range planning process, VTA reviews major projects using a set of criteria to rank projects for inclusion in its long-range plan. To receive funding, a project must be included in the long-range plan. In addition, the Capital Improvement Program Oversight Committee (oversight committee), which is made up of VTA division chiefs, meets quarterly to review capital projects. The Capital Improvement Program Working Group (working group), which consists of staff appointed by VTA division chiefs, rates facilities projects. The working group uses a criteria-based scoring system that focuses on maintaining the existing transit network. The oversight committee reviews and recommends facilities projects to the board. Because VTA has acknowledged that it may not have sufficient funds for all projects mandated by the Measure A program, which is the more recent of the two voter-approved initiatives, the chief financial officer stated that VTA plans to expand the role of the oversight committee to include reviewing Measure A program projects. Because Measure B program projects are nearing completion, this type of evaluation would not be necessary.

### **VTA Exhibited Inconsistent Project-Monitoring Practices**

Although VTA has policies to meet most of the GFOA-recommended practices we identified, its inconsistency in following its own guidelines can hinder monitoring by VTA management and the board. VTA stated that it issues contracts for all its construction work, so the main responsibility of staff during construction is to monitor the project and manage cost and scope changes. Project managers are integral in approving changes to the project. VTA's construction administration manual details the responsibilities of the project manager, as well as all other staff involved in the project-monitoring process. Table 9 compares GFOA-recommended practices with VTA policies and describes how closely VTA staff followed the policies in monitoring the 10 projects we reviewed.

Of the six recommended practices listed in Table 9, VTA met two: controlling changes to the scope of the project and reviewing the adequacy of project cash flow. To meet one GFOA-recommended practice in which it falls short, that of reviewing project-related financial transactions, VTA needs to staff its internal audits department. VTA needs improvement in the three remaining GFOA-recommended practices—comparing results with milestones, establishing triggers for project overruns, and ensuring that performance measures have been established—because VTA staff have inconsistently applied policies from the construction administration manual.

**Table 9**  
**Santa Clara Valley Transportation Authority's Conformance With Recommended Practices in Project Monitoring**

RECOMMENDED PRACTICE	PRACTICE OF SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	OVERALL CONFORMANCE
Ensure that a project plan, including milestones and performance measures, has been established.	Santa Clara Valley Transportation Authority's (VTA) policies require preparation of a contract implementation plan that outlines the scope of work in each construction contract along with budgets, start and completion dates, and the duration of each aspect of the project. However, we found evidence of contract implementation plans for only two of the seven construction projects we reviewed. The other three projects were purchase projects or had not yet reached construction and therefore we would not expect a contract implementation plan. VTA did maintain a master schedule for all of the projects we reviewed.	Needs some improvement.
Establish triggers and protocols for identifying and addressing project overruns.	VTA's policies require preparation of monthly cost control reports by project to provide current cost information, track changes from the approved budget, and anticipate the estimated total cost. These reports were prepared for seven of the nine applicable projects we reviewed but not for facilities projects.* VTA staff stated that they were preparing to provide cost control reports for facilities projects in the near future.	Needs some improvement.
Confirm that the project stays within the original scope or that changes to scope have been made consistent with an established process.	VTA's policies and procedures include specific processes for scope control and change management of construction projects, such as a committee that reviews and approves all changes to the scope of a project. The changes are then tied into cost reports so that they can be easily identified. Three of the 10 projects we reviewed had recent change orders and all were approved and tracked in monthly cost reports.	Meets recommendation.
Review project-related financial transactions for budget review, auditing, and asset management purposes.	VTA has instituted a multi-tier invoice review process. As of May 2008 VTA has yet to staff an internal audits function that would regularly review project-related financial transactions.	Needs some improvement.
Periodically review planned expenditure activity and the adequacy of cash flow.	VTA uses monthly cost reports as described above to review the adequacy of its cash flow for seven of the 10 projects we reviewed and create expenditure plans to review planned costs. VTA manages the cash flow of facilities projects* (two of 10) through the regular budget process. One of the 10 projects had not reached the stage where monthly cost reports would be necessary.	Meets recommendation.
Compare results with milestones and performance measures.	VTA's construction administration manual calls for monthly executive summary reports that describe results and performance based on the project's schedule. However, we found that this was done for only three of the seven construction projects we reviewed. These three as well as two other projects were included as part of quarterly summary reports. Two projects we reviewed had no summary reports that compared milestones and project performance. The other three projects were purchase projects or had not yet reached construction and therefore we would not expect a monthly summary report.	Needs some improvement.

Sources: Government Finance Officers Association recommended practices for capital project planning; VTA records related to 10 projects selected for review.

\* Facilities projects are those designed to improve the existing transit system.

VTA prepares monthly cost reports for active projects that break down costs, budgets, and remaining funds by detailed line items. VTA staff stated that these cost reports are important to managing the entirety of the project. However, VTA did not complete cost reports for facilities projects, although staff stated that VTA plans to complete these reports in the future. For construction projects, the VTA construction administration manual requires the project manager to prepare a contract implementation plan that outlines the organizational approach for implementing all of the component contracts of the project.

*Project managers created required contract implementation plans for only two of the seven construction projects we reviewed.*

However, VTA completed contract implementation plans only for certain projects. For example, one of the projects we reviewed, the Vasona light-rail project, had 31 construction contracts, and VTA prepared a contract implementation plan for this project. Conversely, the Caltrain South County capacity improvements project had eight construction contracts, but the project manager did not prepare a contract implementation plan. In fact, project managers created contract implementation plans for only two of the seven construction projects we reviewed.

Likewise, the construction administration manual calls for monthly executive summary progress reports, which managers of the projects we reviewed completed sporadically. These reports, which include information on costs incurred and project progress and schedule updates, were generally not completed. However, our review revealed that the project managers for the Vasona light-rail extension, Route 17 improvements, and the BART extension projects prepared these reports monthly. For measure-related projects (five of the seven applicable projects we reviewed including the three described above), project managers instead prepared executive summary reports for the entire group of projects and issued these reports quarterly. For facilities projects (two of the seven applicable projects we reviewed), construction staff stated that executive-level information consisted only of informal discussions. We would not expect monthly reports for the remaining three projects we reviewed because they involved a one-time purchase of equipment or had not reached the phase where monthly reports would be necessary. The head of the Engineering and Construction Division stated that the construction administration manual was finalized in November 2007 and the division is holding regular meetings with staff to review topics in the manual. He also noted that not all projects necessitate a contract implementation plan. However, when policies are applied on an inconsistent basis, VTA cannot ensure that decision makers are receiving necessary information.

### **Recommendations**

To ensure adequate control over its project planning process, VTA should develop written policies and procedures for project planning and evaluation.

To conform to GFOA-recommended practices, VTA should create policies and procedures to clearly identify all project costs and revenues, and to estimate and have a plan for funding the operating costs resulting from capital projects.

To achieve consistency in project monitoring, VTA should ensure that its project managers follow the construction administration manual or document when management has agreed to an exception.

VTA should complete its plans to implement the HayGroup recommendations related to project monitoring.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of the report.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

Date: July 31, 2008

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## Appendix A

### SANTA CLARA VALLEY TRANSPORTATION AUTHORITY'S PROGRESS IN IMPLEMENTING THE HAYGROUP RECOMMENDATIONS

As discussed in the Introduction, the Santa Clara Valley Transportation Authority (VTA) hired the HayGroup to comprehensively assess its organization and finances. In March 2007 the HayGroup issued a report that proposed an overhaul of VTA's organizational structure and practices. Table A lists key HayGroup recommendations that we identified as related to the scope of our review and describes VTA's progress in implementing the recommendations.

Some of the more significant HayGroup recommendations for which we did not track VTA's progress were related to the reorganization of VTA's divisions and reassignment of duties among its divisions. For example, one of the HayGroup recommendations not appearing in Table A was to reduce the number of divisions reporting directly to the general manager from nine to eight, allowing the general manager more time to focus on strategy and externally focused activities. Because the scope of our audit did not include an organizational review and focused instead on governance, financial planning and reporting, and project planning and monitoring, we did not attempt to track the changes VTA has made to its organizational structure. Therefore, Table A should not be considered a complete list of HayGroup recommendations and does not represent all the changes VTA has made since the HayGroup report.

**Table A**  
**Selected Recommendations From the March 2007 HayGroup Assessment and Actions of the Santa Clara Valley Transportation Authority**

SELECTED HAYGROUP RECOMMENDATIONS	ACTIONS SANTA CLARA VALLEY TRANSPORTATION AUTHORITY HAS TAKEN	OVERALL PROGRESS
<b>Governance Structure</b>		
Establish an audit committee as a standing committee of the board of directors (board) and an auditor general position that reports directly to the audit committee.	Santa Clara Valley Transportation Authority (VTA) has established an audit committee and will initially contract with an audit firm for internal audit services, including the auditor general.	▲
The board should appoint the general manager as an ex-officio, nonvoting member.	The board effectively addressed this issue by providing the general manager with a seat at the board table.	✓
Reduce the number of advisory committees by incorporating the duties of the Technical Advisory Committee into the responsibilities of the Policy Advisory Committee.	According to the senior policy advisor, VTA and the advisory committees are considering this issue, and the board has not yet taken a position.	✗

SELECTED HAYGROUP RECOMMENDATIONS	ACTIONS SANTA CLARA VALLEY TRANSPORTATION AUTHORITY HAS TAKEN	OVERALL PROGRESS
<b>Governance Practices</b>		
The general manager and board chair should reach out to appointing authorities to educate them on the need to appoint board members who can serve a two-year term, have transportation experience, and have a regional focus.	VTA's Ad Hoc Governance Committee chair, a board member, wrote to the mayor of each city in Santa Clara County to explain the new governance proposal that addressed the HayGroup recommendation. Further, the board adopted three of the four elements of the new governance proposal.	▲
Develop and require attendance at a board orientation and ongoing training program. Also, develop an orientation program for advisory committee members.	The board has held two training sessions for board members, and in 2009 its information technology department will make orientation and training materials available online. According to the senior policy advisor, VTA offers to meet individually with new board and advisory committee members to provide orientation and is planning a group orientation for 2010.	▲
Revise the board's package of materials to a format and review process that ensures meaningful, actionable policy recommendations and clear, concise supporting information.	According to the chief of external affairs, VTA has made some changes to make board materials easier to absorb, such as providing more summary information and notations with key information, and improving financial reports.	▲
Develop a specific mission statement for each advisory committee. Also, develop advisory committee workplans that ensure the committees can review and provide input on issues in the early stages of development.	According to the senior policy advisor, VTA will develop mission statements for the advisory committees later in 2008. Also, by standardizing work plans, VTA has improved the coordination and timing of issues amongst advisory and standing committees. However, based on our review, VTA has not completely changed the way it engages its advisory committees in the deliberative process.	✘
Board items should be reviewed and recommended by the appropriate advisory committee and then by the appropriate standing committee. The practice of having all committees review all items should be discontinued.	According to executive staff, VTA now assigns issues to standing committees to avoid duplication and based on each committee's area of expertise. VTA plans to revisit its process for assigning issues to the advisory committees.	▲
Define a process for the use of advisory committees as a forum to reach regional consensus.	According to the senior policy advisor, VTA will address this issue when it works on the mission statements for the advisory committees.	✘
<b>Strategic Planning</b>		
The board should adopt a new vision and mission for VTA that is more focused and financially achievable.	The board met in February 2008 to begin formulating new vision and mission statements. The general manager expects these statements to be adopted in the summer of 2008.	▲
VTA's executive management needs to develop a new strategic plan that includes a new set of quantifiable, measurable goals. A system should be developed to gauge ongoing performance.	The general manager stated VTA is developing a new strategic plan that will be part of the Valley Transportation Plan 2035, which will be published in late 2008. VTA indicated that the plan will include quantitative and qualitative targets and measures.	▲
<b>Financial Planning</b>		
Balance VTA's 30-year revenue and expenditure plans for Measure A Transit Improvement Program (Measure A program) funds and the Enterprise Fund.	VTA is working with a consultant to balance its 30-year revenue and expenditure plan for Measure A. A new plan is expected to be approved in the fall of 2008. Also, VTA is working with a consultant to update its Enterprise Fund assumptions.	▲
Explore measures to reduce unfunded pension and retiree health care obligations.	VTA has established the Transit Enterprise Debt Reduction Fund, one use of which could be to pay down these obligations.	▲
Create new revenue sources for VTA.	According to the chief financial officer, VTA is evaluating its debt to find savings through refinancing and is examining the possibility of public-private as well as intergovernmental partnerships.	▲
Inventory real estate holdings and develop strategies to maximize financial returns on its real estate, when appropriate.	According to the real property acquisition and management manager, VTA is updating software to better track its real estate holdings. The system is slated to be upgraded by the spring of 2009.	▲



SELECTED HAYGROUP RECOMMENDATIONS	ACTIONS SANTA CLARA VALLEY TRANSPORTATION AUTHORITY HAS TAKEN	OVERALL PROGRESS
Establish a training and communications forum for the general manager, board, and division managers to provide meaningful financial analysis.	In its monthly management meetings, VTA has added more discussion of financial information, such as variances from operating expense budgets. Also, fiscal staff began presenting quarterly financial reports to the entire board, rather than only to one committee.	▲
Establish a long-term process of capital asset planning that includes comprehensive plans for maintenance, replacement, or renovation of capital assets.	VTA includes plans pertaining to vehicle replacement in its short-term transit plan. Also, VTA staff noted that VTA is upgrading its software to better track and manage real estate assets.	▲
Update and fully document VTA's financial stability projections, models, and assumptions.	VTA is recalibrating its long-term ridership model, as well as updating its financial projections.	▲
Develop a capability through modeling, forecasting, and projecting to conduct stress testing and assess contingency scenarios.	VTA stated that the tools it is developing with the assistance of its contractor will be able to run different scenarios.	▲
Establish a standardized methodology for performing financial analysis on an initiative or project.	VTA plans to implement a project request form requiring specific analysis that will include the project's operating costs.	▲
Establish realistic expectations of fare revenue.	Planners are projecting more conservative fare revenues.	✓
<b>Financial Monitoring</b>		
Establish a cash management and reporting system that allows the general manager and board to proactively monitor VTA's expenditure plans and financial capacity.	VTA created monthly cash management reports and, according to VTA, began presenting the reports regularly during monthly executive meetings in the fall of 2007.	✓
Update policies and procedures for internal controls, cash management, budgetary and forecast controls, and investment monitoring.	VTA is currently updating these policies and procedures and expects to complete the implementation in two to three years.	▲
Establish a Measure A program bank account.	VTA does not have a Measure A program bank account, but staff explained that a planned software update includes a unique code for the Measure A program. Moreover, staff stated that the upcoming software update will ensure proper recording and reporting of Measure A program activities.	▲
<b>Financial Reporting</b>		
Establish a simple, standardized approach for presenting the financial impacts of initiatives and for reporting VTA's financial position.	VTA has improved and simplified its reporting of financial information to both management and the board. Monthly and quarterly reports provide decision makers with timely information. VTA is still adjusting some reporting documents, including its budgets, to improve usefulness.	▲
The annual capital budget should include all of VTA's capital asset projects. This section should be separated from other parts of the budget to allow for meaningful financial analysis.	The most recent budget presents this information much more clearly than did the past budget. However, VTA has said that it intends to use future budgets to act as more precise spending plans.	▲
Reconcile and report fund reserves at least quarterly.	Fund reserves are reconciled and reported in the quarterly statement of revenues and expenses provided to the board.	✓
Require annual pension plan presentations by the actuary to the board, including discussions of employer contribution rates and specific changes to rates.	Under the work plan for the Administration and Finance Committee, both the board and the committee will receive presentations from the actuary beginning in August 2008.	▲
<b>Project Planning</b>		
Implement a project delivery model that requires collaboration among the Congestion Management Agency, Engineering and Construction, Operations, Fiscal Resources, and Administrative Services divisions.	VTA staff stated that in response to the recommendation, they now conduct bimonthly meetings where all pertinent divisions are involved.	✓

SELECTED HAYGROUP RECOMMENDATIONS	ACTIONS SANTA CLARA VALLEY TRANSPORTATION AUTHORITY HAS TAKEN	OVERALL PROGRESS
<b>Project Monitoring</b>		
Impose budgetary expenditure controls that align with budgets.	Project managers closely watch project budgets by preparing and routing monthly cost reports. VTA is planning to prepare these reports for facilities projects in the future.	▲
The Engineering and Construction Division should work in a more integrated and transparent manner with the Fiscal Resources Division in forecasting the cash needs of construction projects.	The Engineering and Construction Division still takes primary responsibility for the financial planning of capital projects.	✘

Sources: *Santa Clara Valley Transportation Authority, Organizational and Financial Assessment*, published by the HayGroup in March 2007; Bureau of State Audits' analysis.

✓ = VTA has adequately addressed this recommendation.

▲ = VTA has made improvement in this area but has not addressed all aspects of the recommendation.

✘ = VTA has not adequately addressed this recommendation.

## Appendix B

### METHODOLOGY FOR SELECTING PROJECTS THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY APPROVED IN FISCAL YEARS 2005-06 AND 2006-07

We selected 10 projects to review the planning and monitoring processes of the Santa Clara Valley Transportation Authority (VTA). We set out to choose projects from those listed in the biennial budget for fiscal years 2005-06 and 2006-07. Before doing so, we used actual expenditures from those years to determine whether the budget contained all applicable projects. However, we determined that the budget did not include all Measure B Transportation Improvement Program (Measure B program) projects, and therefore we used the fiscal year 2006-07 Measure B Revenue and Expenditure Plan (Measure B report) to create a more complete list of projects. In addition, we found 37 projects representing \$15 million in expenditures during fiscal years 2005-06 and 2006-07 that were not listed in the budget or the Measure B report. We asked VTA why these projects were not included in the budget or Measure B report. To ensure that the explanations for the exclusions provided by VTA were correct, we reviewed three of the 37 projects totaling \$10.5 million in expenditures (70 percent). We had VTA provide documentation, mainly consisting of budget augmentations approved after the publication of the original budget, which explained why the projects were not in the original budget.

Satisfied that we were aware of all major projects, we judgmentally selected 10 projects based on the amount of funding set aside, the type of project (for example, rail, bus, light rail), and the type of funding (for example, local funds, Measure A or B funds). For our review, we selected seven relatively mature projects that had been under development for the past several years and three relatively new projects that had just recently entered development.

Table B on page 65 lists all VTA projects contained in the budget for fiscal years 2005-06 and 2006-07, the Measure B report, and those projects that were not included in either document. We display separately each project with a budget exceeding \$5 million and expenditures exceeding \$1 million during fiscal years 2005-06 and 2006-07 combined, or if it was a project we selected to review. To provide additional context for why we selected the three relatively new projects, we included VTA's remaining appropriation as of June 30, 2007, including any adjustments approved in its budget for fiscal years 2007-08 and 2008-09. Although VTA did not include projects funded solely by state funds in its fiscal year 2005-06 and 2006-07 budget, we selected as one of our three new projects the Calaveras Boulevard improvements project, which was funded solely

by state funds, to determine if VTA treated these types of projects any differently. The nine projects shown in VTA's budget comprise 33 percent of the budgeted funds shown in Table B and 61 percent of VTA's capital expenditures during fiscal years 2005-06 and 2006-07.

**Table B**  
**Summary of Capital Projects Approved During Fiscal Years 2005–06 and 2006–07**

	MAJOR FUND SOURCE	FISCAL YEARS 2005–06 AND 2006–07			FISCAL YEARS 2007–08 AND 2008–09	
		NUMBER OF PROJECTS	TOTAL BUDGET*	ACTUAL EXPENDITURES	NUMBER OF PROJECTS	REMAINING APPROPRIATION†
<b>Bus</b>						
Cerone Division rehabilitation and expansion	Local	1	\$24,820,000	\$2,450,184	1	\$575,000
Zero-emission bus	Measure A	1	14,051,000	1,982,956	1	592,000
Emissions retrofit of bus diesel engines‡	Local	1	5,378,000	1,872,867	1	2,648,000
Other bus	Local	10	92,734,705	2,852,586	10	111,074,000
<b>Subtotals</b>		<b>13</b>	<b>\$136,983,705</b>	<b>\$9,158,593</b>	<b>13</b>	<b>\$114,889,000</b>
<b>Rail</b>						
Vasona light-rail extension‡	Measure B	1	313,205,000	10,013,006	1	3,718,000
Low-floor vehicle purchase‡	Local	1	203,163,000	1,901,580	1	660,000
Low-floor vehicle purchase	Measure B	1	93,888,000	1,333,864	Completed	
Caltrain South County capacity improvements§	Measure A	1	15,000,000	2,587,148	1	70,173,000
Downtown-East Valley Capitol Express	Measure A	1	28,112,000	17,587,714	1	85,858,000
Other rail	Local	36	924,777,000	11,956,040	27	69,372,000
<b>Subtotals</b>		<b>41</b>	<b>\$1,578,145,000</b>	<b>\$45,379,352</b>	<b>31</b>	<b>\$229,781,000</b>
<b>Highway</b>						
85 and 101 interchange (Mountain View)‡	Measure B	1	125,294,000	25,436,328	1	4,256,000
I880 widening	Measure B	1	76,112,000	1,544,069	1	436,000
85 and 101 interchange (San Jose)	Measure B	1	68,380,000	3,648,225	1	1,492,000
237 and I880 interchange	Measure B	1	51,445,000	3,222,841	1	827,000
Route 17 improvements‡	Measure B	1	26,536,000	13,055,034	1	1,331,000
Route 152 project	Measure B	1	26,195,000	8,563,109	1	2,882,000
Route 85 noise mitigation	Measure B	1	8,044,000	6,166,456	1	159,000
Other highway	Measure B	5	159,766,000	545,052	4	3,774,000
<b>Subtotals</b>		<b>12</b>	<b>\$541,772,000</b>	<b>\$62,181,114</b>	<b>11</b>	<b>\$15,157,000</b>
<b>Passenger Facilities</b>						
Downtown platform retrofit§	Local	1	16,000,000 <sup>  </sup>	20,917,029	1	3,137,000
Guadalupe Corridor platform retrofit‡	Local	1	15,396,000	628,342	1	44,000
Other passenger facilities	Local	22	12,274,000 <sup>  </sup>	5,994,250	22	55,387,000
<b>Subtotals</b>		<b>24</b>	<b>\$43,670,000</b>	<b>\$27,539,621</b>	<b>24</b>	<b>\$58,568,000</b>
<b>Bay Area Rapid Transit Extension‡</b>	Measure A	1	333,856,000 <sup>  </sup>	123,544,686	1	307,406,000
<b>Other#</b>						
Radio communication systems	Local	1	20,183,000	2,137,460	1	388,000
Paratransit vehicles	Local	1	6,377,996	6,377,996	1	796,000
Other projects	Local	88	537,262,448	53,212,740	68	70,061,000
<b>Subtotals</b>		<b>90</b>	<b>\$563,823,444</b>	<b>\$61,728,196</b>	<b>70</b>	<b>\$71,245,000</b>
<b>Totals</b>		<b>181</b>	<b>\$3,198,250,149</b>	<b>\$329,531,562</b>	<b>150</b>	<b>\$797,046,000</b>

Sources: Santa Clara Valley Transportation Authority (VTA) biennial budgets for fiscal years 2005–06/2006–07 and 2007–08/2008–09, Measure B Revenue and Expenditure Plan, and VTA accounting system information.

Note: Projects are listed individually if they have a budget in fiscal years 2005–06 and 2006–07 greater than \$5 million and actual expenditures greater than \$1 million, or if they were selected as a project we reviewed.

\* Amounts from the VTA budget for fiscal years 2005–06 and 2006–07, Measure B Revenue and Expenditure Plan, and information provided by VTA, and represents the total cumulative amount budgeted without regard for expenditures incurred in prior years.

† Remaining appropriation as of June 30, 2007, including any adjustments approved in the biennial budget for fiscal years 2007–08 and 2008–09.

‡ Selected as one of seven mature projects.

§ Selected as one of three relatively new projects, two of which are shown here.

|| Project received a budget augmentation after the biennial budget for fiscal years 2005–06 and 2006–07 was approved.

# Includes project categories such as information technology and regular maintenance.

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*(Agency response provided as text only.)*

Santa Clara Valley Transportation Authority  
3331 North First Street  
San Jose, CA 95134-1906

July 18, 2008

Ms. Elaine M. Howle\*  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

On behalf of the Santa Clara Valley Transportation Authority (VTA), I would like to thank the Bureau of State Audits (BSA) for the opportunity to comment on this report. VTA essentially agrees with the report recommendations. We are especially encouraged by the findings that recognize the significant efforts that VTA has undertaken to advance recommendations contained in the Organizational and Financial Assessment report prepared by the Hay Group, including:

- The finding that VTA financial management follows best practices in government finances and that significant improvements in the financial area overall have been achieved.
- The finding that VTA has undertaken an overhaul of the organization and practices and specifically improved how participants in the governance structure—the board, board committees, and executive management—interact and deliberate.
- The finding that VTA has implemented some meaningful improvements in how the board operates and recognition that more changes are in process.
- The confirmation throughout the audit and as depicted in Appendix A that VTA has embraced the recommendations from the Hay Group report and that we are making progress with their implementation.

Notwithstanding VTA's general concurrence with the report findings and recommendations, we believe a number of statements in the report, in our opinion, are not representative of the current practice at VTA. These include the assertion that VTA neglects constituency input, presents finished proposals to advisory committees to either accept or reject, and has not enhanced the operations of its five advisory committees. VTA makes concerted efforts to involve the community and stakeholders in our planning processes, and we are very appreciative of their time and commitment to improving our services.

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We also see as unsupported the characterization of our project planning as "deficient" based on the way we have projected project generated revenue, project funding, and source of funding for future operations. The finding that VTA has not documented its planning process and has not systematically required these elements of project planning is simply not the case. The existing practice for estimating capital project revenues and costs employed by VTA includes estimates of all project capital costs for construction, right of way, design and planning as well as forecasts of long term operating cost and revenue of transit projects.

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\* California State Auditor's comments begin on page 77.



Ms. Elaine M. Howle  
July 18, 2008  
Page 2 of 2

The current VTA decision making policy and practice for determining the timing of project development, delivery, and deployment depend on the availability of both capital and operating funding. As noted in the Hay Group report, VTA has an outstanding track record and well-known reputation for delivering local and state construction projects on time and on budget.

③ We also contest the finding that because VTA does not follow the same project monitoring process consistently, accountability is reduced and critical information may not be reaching decision makers. While the audit sample found that exceptions to current procedures were made and not documented, this finding does not therefore establish that information was not provided to the appropriate decision making parties. Nevertheless, VTA agrees that it is advisable to have a procedure for documenting situations where a variance has been justified and approved by senior management, to ensure this information is available for future reference, and will implement this practice as noted in the attached response.

Attached to this letter is our specific response to each of the recommendations contained in the report. In addition to our response, we have included our action plan for follow up on the recommendations. Although we take exception to the characterization of certain conditions, we support the intent of the recommendations and have specific plans to follow up on all of them.

As noted in this report, VTA strives to meet high standards. We are committed to continuous improvement and welcome the input of BSA in assessing the progress that we've made in implementing the Hay Group recommendations that were released just over a year ago. VTA's Board and administration prioritized the various recommendations for improvement and we are following a measured plan to implement these recommendations over a number of months. Because we are approaching this implementation phase in stages, some areas of change will naturally reflect a more significant degree of progress, compared to other areas of improvement. We are pleased by the progress achieved so far. Overall, we agree with BSA's evaluation of our progress, and will use the report discussion and findings to inform our on-going implementation efforts.

BSA's report notes that VTA is a complex, multi-faceted organization. The BSA audit team was challenged to evaluate a broad scope-of-work within an ambitious timeframe, and we appreciate the efforts the team has made to understand how our Agency operations relate to this myriad of laws and regulations. Again, thank you for the opportunity to comment on this report. We commend Ms. Nancy Woodward, Mr. Ben Belnap, and their staff for their professionalism and diligence in the conduct of this review.

Sincerely,

(Signed by: Michael T. Burns)

Michael T. Burns  
General Manager

## ATTACHMENT

Attached are VTA's responses to the Bureau of State Audit Recommendations. We have numbered the recommendations beginning with those contained in the summary section of the report. Where the chapter recommendations repeat earlier recommendations, the summary recommendations are referenced as the appropriate response.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #1:** To promote stability in its leadership and to bring the tenure of VTA members in line with comparable transit agencies, VTA should request the Legislature to amend its enabling statutes to allow for a four-year Board term.

**VTA Response:** VTA agrees that increased tenure will benefit the organization. We recognize that rapid Board turnover poses a challenge for effective Board governance. Given the current two-year term length under state statute, the Board has approved the following actions at the April 3, 2008 meeting:

- Eliminate the concept of city groupings selecting their representative(s) through a rotation process. Each of the city groups will "select" their representative(s) to serve as a Director on the VTA Board.
- VTA Directors will still serve two-year terms. However, the appointing authorities will be encouraged to reappoint representatives to consecutive terms.
- Include a process for selecting VTA Directors within the city groupings. VTA Directors should have the required experience and qualifications in transportation.

**VTA Action Planned:** Following the advice contained in the BSA Audit, VTA will monitor the effectiveness of the Board's approved changes to encourage members to serve consecutive two-year terms. If this policy change does not result in longer average tenure for Board members, then VTA will reconsider legislation that would have the effect of extending terms.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #2:** To monitor the effects of changes in its governance structure that the Board already approved, and to determine whether additional changes are necessary, VTA should add Board tenure to the performance measures it develops for its new strategic plan.

**VTA Response:** VTA agrees that it is advisable to monitor the effects of changes in the Board's governance structure, and to evaluate whether additional changes are necessary.

**VTA Action Planned:** A measure of Board tenure will be added to strategic plan in fall 2008.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #3:** To demonstrate that it values the expertise of its advisory committees, VTA and its Board should take actions to ensure that advisory committees are involved in the development of policy solutions.

**VTA Response:** VTA agrees that advisory committees should be involved in the development of policy solutions. We value the expertise, advice, and time they commit to improving our services. Although we believe that we prioritize efforts to engage the public in our planning, we took the findings of the Hay Group report to heart, and in recent months, have taken additional steps to improve the way that we strategically bring policy items to the Advisory committees for their consideration and input. VTA works extensively with the community and our Advisory committees to benefit from their insights, including planning our Bus Service Redesign which was successfully launched earlier this year, creating our countywide Bicycle and Pedestrian plan, developing the county's long range transportation plan VTP 2035, and improving our light rail and bus services to meet evolving accessibility needs of seniors and disabled passengers.

④ It is our opinion that the two recent initiatives selected for analysis, out of dozens of policy proposals that were initiated in the past two years, are not fully representative of how VTA uses our Advisory committees. Coincidentally, VTA had only just begun work on both initiatives at the time that the audit began this spring, and both were in very early stages of the policy development process. In addition, both the Governance and the Vision/Mission updates were initiatives where the primary direction was appropriately coming directly from the Board, with the various Advisory committees being asked for input when appropriate to their scope of responsibility, as defined in the committee bylaws. For example, the proposed modifications to the Vision/Mission statements were taken to all Advisory committees, and their input was incorporated into the proposals that are currently being considered by the standing committees and ultimately will be taken to the Board. In the case of the Governance issue, this proposal was taken to the Advisory committees which have this type of subject matter covered within their bylaws, and to all the other committees as informational background, to keep all informed about major developments in VTA.

⑤ In neither situation were the Advisory Committees given finished proposals that they had to either accept or reject in their entirety. With respect to the Governance proposal, the proposal was generated by the Governance Subcommittee of the Board. This proposal was vetted through an extensive review process. Advisory committee members are encouraged to provide their input and suggestions for the standing committees' and the Board's consideration, and their input is reported orally, in memos, through committee and staff reports, and in the respective committee minutes. That said, VTA has specific plans for continued improvement of the way our Advisory committees function as part of the policy development process, including creating a unified work plan that includes the Advisory committee work plans, revisiting the committee bylaws to strengthen and clarify statements of duties and authority where necessary, and making other related changes as discussed in this report.

### VTA Response to Specific State Audit Recommendations

It should be noted that one of the specific audit suggestions for improvement, relating to work plans, is already being implemented. VTA has enhanced the quality of information flowing to the Board in the past year, as noted by the audit report, and this includes changes in the way that we coordinate committee workflow for Advisory, as well as Standing committees. All Standing committee and Advisory committee work plans have been included in Board packets, and starting this year we have created a combined work plan on our new Board automation system that reflects how items move through the various committees to reach the Board, to ensure everyone knows the points at which stakeholders will have input in the process. Currently this combined work plan shows the flow of items through the standing committees and the Board, and it is anticipated that the Advisory committee work plans will be incorporated in the next three months.

**VTA Action Planned:** VTA plans to involve the advisory committees in a process of redefining their purpose and role after the adoption of the Board's vision and mission statement. This process will involve clearly defining the areas of concern that each committee will have. Staff will modify current committee work plans to provide an annual view of major issues anticipated to come before the advisory committees to provide additional time for policy input. Finally, staff will recommend that the citizen's advisory committee chair have the opportunity to update the Board at each Board meeting in a similar manner to what is currently in place for the policy advisory committee.

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #4:** VTA should implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to best practices.

**VTA Response:** VTA agrees it is desirable to have a comprehensive strategic plan that conforms to best practices.

**VTA Action Planned:** As acknowledged in the Audit, VTA is in the process of creating a strategic plan as part of VTP 2035 that incorporates the recommendations made in this audit and will ensure that the new comprehensive strategic plan conforms to best practices.

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #5:** To better monitor capital spending, VTA should regularly compile and report to management information that tracks all capital projects and compares spending and project progress with original projections.

**VTA Response:** As stated in the audit report, VTA currently utilizes the Capital Improvement Program Oversight Committee (CIPOC) report for monitoring the VTA transit-funded projects which includes budget, commitments, actual expenditures to date, estimated total projects cost, and summary completion schedules. This report can be modified to serve as a more effective project oversight and planning tool. VTA agrees to continue to monitor capital spending, compile and report to management information that tracks all capital projects and compares spending and project progress with original projections.

**VTA Action Planned:** VTA will expand and enhance the existing capital project monitoring report to include all capital projects. In order to improve project management and forecasting, the report will be reviewed with project managers monthly and presented to executive management on a quarterly basis beginning with the period ending 12/31/08.

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #6:** VTA should update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs.

**VTA Response:** As stated in the audit report, several improvements were made in the most recent biennial budget to include additional and more meaningful information on the capital budget. Inclusion of the recommended items would continue to build on this foundation. VTA Agrees to report planned spending by year, identify capital carryover by source, and report authorized total project costs.

**VTA Action Planned:** VTA will continue the practice of including the total project appropriation, expenditures at fiscal year end, appropriation remaining, revised appropriation remaining, revised estimated total grants/reimbursements, revised total net VTA share. Also, VTA will implement planned spending by year, identify capital carry over by source, and report authorized project total costs in the fiscal years 2010 and 2011 biennial budget scheduled for June 2009 approval.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #7:** To ensure adequate control over its project-planning process, VTA should develop written policies and procedures for project planning and evaluation.

**VTA Response:** Currently, VTA utilizes all of the appropriate manuals, guidelines, and regulations required by federal, state and regional agencies that oversee and regulate the planning, programming, environmental clearance, design, right of way, and construction phase of capital projects. VTA has created and utilizes its own guidelines, procedure and manuals, to augment oversight agency requirements in each of these areas. As an example, VTA uses Board adopted criteria for selection and fund programming of projects. In addition, VTA also has established procedures to guide the capital project development process. VTA agrees it is important to ensure adequate control over its project-planning process, and will develop written policies and procedures for project planning and evaluation.

**VTA Action Planned:** VTA will formalize a process with policies and procedures that include a comprehensive index of manuals, regulations, and guidance documents and description of their appropriate use in the project planning, evaluation project development processes. VTA will submit a draft of the process to appropriate advisory committee for review in November 2008 and to Board committee in spring 2009. Policies and procedures will be in place for use in the FY2010/FY2011 Capital Budget deliberations.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #8:** To achieve consistency in its project monitoring, VTA should ensure that its project managers follow its construction administration manual or document when management has agreed to an exception.

**VTA Response:** VTA agrees. Currently VTA uses best practices for monitoring and managing project activities, which are tailored to the magnitude and type of project. VTA acknowledges the need to better document the project monitoring approach to be taken when it varies from the practices called for in the Construction Administration Manual.

**VTA Action Planned:** Establish a procedure by which management considers requests for variances from the Construction Administration Manual. Incorporate into the Construction Administration Manual by December 2008.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #9:** To promote stability in its leadership and bring the tenure of Board members in line with that of comparable transit agencies, VTA should request the Legislature to amend its enabling statutes to allow for a four-year Board term.

**VTA Response & Action Planned:** See Audit Recommendation #1

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #10:** VTA should monitor the effect of the governance changes approved by the Board in May 2008 and determine whether additional changes to its governance structure are necessary. To this end, VTA should add Board tenure to the performance measures it develops for its new strategic plan.

**VTA Response & Action Planned:** See Audit Recommendation #2

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #11:** VTA should complete its plans to implement the Hay Group recommendations related to governance and strategic planning.

**VTA Response:** Among the Hay Group recommendations on governance addressed so far, VTA has:

- Raised the profile of the General Manager in dealing with the Board at meetings;
- Developed a work plan for the Board that focuses on the Board's policy role and fiduciary responsibility;
- Created a new Mission and Vision Statement scheduled for approval at the August meeting;
- Established an Audit Committee to oversee both internal and external audit functions;
- Conducted Board Workshop on Fiduciary Responsibility;
- Ended the practice of having all items reviewed by all committees.

Among the Hay Group recommendations on strategic planning addressed so far, VTA has:

- Consolidated engineering and construction functions into one division;
- Created a SVRT Project Office reporting directly to the General Manager;
- Issued an update of the Construction Administration Manual;
- Established benchmarking and best practices for project delivery;
- Transferred all construction accounting activities to Fiscal Resources;
- Track and report the number and cost of staff resources supporting the construction program.

VTA agrees to complete its plans to implement the Hay Group recommendations related to governance and strategic planning.

**VTA Action Planned:** Continue implementing the Hay Group recommendations, with completion of the action items by spring 2009. The following items are well advanced:

- Issuing a Request for Proposal to acquire the services of an Auditor General;
- Considering the reduction of Advisory Committees through potential consolidation;
- Revising Advisory Committee work plans to provide an entire year program;
- Develop and implement a Project Delivery Model;
- Refine internal controls on consultant services;
- Assess the working environment from the perspective of line employees.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #12:** To demonstrate that it values the expertise of its advisory committees, VTA and its Board should take actions to ensure that advisory committees are involved in the development of policy solutions. Such actions should include the following: reassessing and stating the purpose and role of each advisory committee; creating work plans for advisory committees that ensure the committees have an opportunity to review and provide input on issues in the early stages of development; providing the citizens committee with an opportunity to address the Board at every meeting, similar to the opportunity provided to the policy committees.

**VTA Response & Action Planned:** See Audit Recommendation #3

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #13:** VTA should implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to the practices recommended by the GFOA.

**VTA Response & Action Planned:** See Audit Recommendation #4

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #14:** VTA should complete its plans to implement the Hay Group recommendations related to financial planning, monitoring, and reporting.

**VTA Response:** As acknowledged in Appendix A, VTA has made improvement in the areas of financial planning, monitoring and reporting. VTA agrees to continue to follow through with its plans to implement the Hay Group recommendations in relation to financial planning, monitoring, and reporting.

**VTA Action Planned:** VTA is currently in the process of implementing the Hay Group recommendations and will continue to do so in the coming year.

### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #15:** To make best use of its resources, VTA should create regular processes in which financial resources communicates with other VTA divisions—especially, the Engineering and Construction Divisions—regarding the cash needs of projects and activities. This communication process should include estimates of yearly project expenditures and regular updates to those projections based on actual results.

**VTA Response:** VTA's ability to deliver capital projects on time and on budget is well documented. As acknowledged in the Audit Report, the Chief Financial Officer had planned to have the Capital Improvement Program Oversight Committee (CIPOC) scope expanded to include the Measure A programs. The forum of the CIPOC would provide a venue for fiscal resources to be kept apprised of changes to capital program scope and schedule changes so that Fiscal Resources would be positioned to effectively manage the required cash flow and debt requirements to support VTA capital projects. VTA agrees that there should be regular processes in which Fiscal Resources communicates with other VTA divisions, and as such will work on improving the existing policies and procedures.



**VTA Action Planned:** Develop a reporting mechanism that includes budgeted, actual to date and projected expenditures by year, by project. Report to be reviewed with project managers monthly and presented to executive management quarterly with the period ending 12/31/08.

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #16:** VTA should update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs.

**VTA Response & Action Planned:** See Audit Recommendation #6

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #17:** To better monitor capital spending, VTA should regularly compile and report to management information that tracks all capital projects and compares spending and project progress to original projections. Information should be broken down by project but should also include total project progress and spending by source of funds.

**VTA Response & Action Planned:** See Audit Recommendation #5

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #18:** To ensure realistic long-term financial planning, VTA should continue to update its planning tools and methodology and clearly explain assumptions that have material effects on overall forecasts.

**VTA Response:** Long-term financial planning is an integral tool for assisting management in the decision making process. The audit report acknowledges VTA's plans of implementing the Hay Group recommendations which includes the review of Measure A forecasts and assumptions. This is also reflected in the detailed assumptions of VTA's FY 2008/2017 Short Range Transit Plan; on pages 58 and 59. VTA agrees to continue improving the planning tools and methodology, and to clearly explain assumptions.

**VTA Action Planned:** VTA will continue to implement the new financial model, which incorporates updated assumptions. VTA will strive to include more thorough explanations of assumptions in future planning documents.

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #19:** To ensure adequate control over its project planning process, VTA should develop written policies and procedures for project planning and evaluation.

**VTA Response & Action Planned:** See Audit Recommendation #7

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #20:** To conform to GFOA recommended practices, VTA should create policies and procedures to clearly identify all project costs and revenues, and to estimate and have a plan for funding the operating costs resulting from capital projects.

**VTA Response:** VTA agrees. The existing practice for estimating capital project revenues and costs employed by VTA includes estimates of all project capital costs for construction, right of way, design and planning as well as forecasts of long term operating cost and revenue of transit projects. The current VTA decision making policy and practice for determining the timing of project development, delivery, and deployment are dependent on the availability of both capital and operating funding.

**VTA Action Planned:** Formalize the existing policies (i.e. Transit Sustainability Policy) and cost estimating practices with written procedures.

VTA will establish a Fiscal Policy that proposed capital projects include:

- a) total project costs
- b) total annual operating costs resulting from the capital project
- c) estimated annual revenues derived from the implementation of the capital project

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #21:** To achieve consistency in project monitoring, VTA should ensure that its project managers follow the construction administration manual or document when management has agreed to an exception.

**VTA Response & Action Planned:** See Audit Recommendation #8

#### VTA Response to Specific State Audit Recommendations

**State Audit Recommendation #22:** VTA should complete its plans to implement the Hay Group recommendations related to project monitoring.

**VTA Response:** Significant progress has been made towards implementing the recommendations of the Hay Group, including completing the following activities:

- Consolidated all Engineering and Construction functions into a new Engineering & Construction division.
- Created a SVRT Project Office reporting directly to the General Manager.
- Issued an update of the Construction Administration Manual
- Established Benchmarking and Best Practices for project delivery.
- Transferred all construction accounting activities to Fiscal Resources.
- Tracking and reporting the number and cost of staff resources supporting the construction program.

VTA agrees to complete its plans to implement the Hay Group recommendations related to project monitoring.

**VTA Action Planned:** Continue implementing the Hay Group recommendations, with completion of the remaining action items by spring 2009. The remaining items which are well underway are:

- Develop and implement a Project Delivery Model.
- As the Construction Division relies heavily on consultant services, ensure internal VTA “checks and balances” are in place.

Assess the working environment from the perspective of line employees.

## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

To provide clarity and perspective, we are commenting on the response to our audit from the Santa Clara Valley Transportation Authority (VTA). The numbers below correspond to the numbers we have placed in the margin of VTA's response.

VTA misinterprets our report findings. We did not assert that VTA neglects constituency input; rather, this was a summary of criticisms raised by the HayGroup in March 2007 that we quoted on page 24 of the report. We concluded, based on our review of the process VTA used to implement two recent reforms, that VTA had not completely addressed these criticisms. Furthermore, we concluded on pages 24 through 26 that VTA had not enhanced the operations of its five advisory committees because it had not yet fully implemented the HayGroup recommendations related to its advisory committees—actions VTA continues to assert it will take.

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VTA misrepresents our report findings. We did not criticize the way VTA projected project-generated revenue, project funding, and source of funding for future operations; we criticized VTA for not being able to show that it had projected these items at all for certain projects. Moreover, as pointed out on page 49 of the report, we interviewed staff to determine VTA's project-planning policies and procedures because VTA has no central document that defines when these manuals and guidelines are applicable or what types of plans and reports VTA requires at each stage of the project-planning process. We also point out on page 52 of the report that VTA has developed new forms for planning capital projects that require future operating costs to be identified. However, VTA has not yet used the forms because it has not considered any projects for funding since the forms were developed. Nevertheless, we are pleased that VTA has committed to develop written policies and procedures for project planning and evaluation.

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We are puzzled by VTA's contention that our conclusion of critical information not reaching decision makers is incorrect. As we state in Table 9 on page 55, VTA did not prepare any executive summary reports for two of the seven construction projects we reviewed and included two others only in quarterly executive summary reports. Ostensibly, the VTA construction administration manual requirement for monthly executive summary reports is to keep the appropriate decision makers apprised of critical information concerning construction projects. Thus, we stand by our conclusion

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on page 56 of the report that VTA cannot ensure that decision makers are receiving the necessary information because it applies its reporting policies inconsistently.

- ④ We purposefully focused on how VTA was engaging its advisory committees related to more recent initiatives to determine whether VTA had changed from the behavior noted by the HayGroup as quoted on page 24 of our report, which emphasized that advisory committees have not had opportunities to consider policy and plans in the early stages of development. Specifically, we analyzed the process VTA used to advance two recent reforms—the proposal to improve board tenure and the development of new agency vision and mission statements—because the two were important policy changes for which VTA had no mandated requirements to involve its advisory committees. After a review of the facts, we concluded that VTA continues to miss opportunities to effectively involve pertinent advisory committees in policy development.
- ⑤ We disagree with VTA's statement that in neither situation were the advisory committees given finished proposals to consider. Our conclusion that the governance proposal was essentially a finished product when it was submitted to the advisory committees is based on our review of the timeline for developing the proposal, minutes from the advisory committee meetings, and interviews with advisory committee members. As we describe on page 25 of the report, the citizens advisory committee voted against the proposal and requested that the board readdress the governance issues using a process that involves all appropriate stakeholders. Further, we acknowledge on page 26 of the report that VTA used a more inclusive method to obtain input from the advisory committees for its new mission and vision statements.

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press