Santa Clara Valley Transportation Authority

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

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Santa Clara Valley Transportation Authority's response as of July 2009

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct a review of the Santa Clara Valley Transportation Authority (VTA). Specifically, we were asked to assess VTA's governance structure and the level of oversight its board of directors (board) and its executive management exercises over operations and financial records—including strategic planning processes. The audit committee also asked us to review VTA's financial reporting structure, its forecasting methods, and its long-term financial planning. Finally, the audit committee asked us to examine VTA's project planning and monitoring processes.

VTA is an independent special district responsible for providing both transit services and transportation planning within Santa Clara County (county). It is governed by a board consisting of two members from the county Board of Supervisors, five members from San Jose City Council, and five members from the city councils of other cities in the county. In March 2007 the HayGroup, a consultant VTA hired, published a report that proposed a comprehensive overhaul of VTA's organizational structure and practices.

Finding #1: The average tenure of board members is the shortest among comparable transit agencies.

In comparing the structure of the board with those of five 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. In May 2008 the board approved changes designed to fix the rotation schedule problem, and a statutory change to the term length would only strengthen VTA's efforts in that regard.

Consequently, we recommended that VTA request the Legislature amend its enabling statutes to allow for a four-year board term. We also recommended that VTA 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, we recommended that VTA add board tenure to the performance measures it develops for its new strategic plan.

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.*

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» *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.*

VTA's Action: Partial corrective action taken.

VTA decided to not immediately pursue an increase in the statutory term length of its board members. Rather, VTA stated that it will monitor the effectiveness of the board's approved changes to encourage members to serve consecutive two-year terms, and will reconsider legislation if these policy changes do not result in longer average tenure for board members. To this end, VTA has added a measure of board tenure to its strategic plan and has its board secretary compile tenure data annually.

Finding #2: VTA could use its advisory committees more effectively.

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

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

VTA's Action: Partial corrective action taken.

VTA stated that it involved its advisory committees in a process of redefining their purpose and role. Subcommittees from each advisory committee reportedly met on a monthly basis to draft mission statements, update their bylaws, review the board workplan, and provide suggestions for improving the committee process for providing input to the board. The subcommittees formed a task force to jointly recommend strategies for ensuring early input on policy issues and opportunities for greater structural efficiency. VTA indicates that this task force's efforts will be summarized and reported in fall 2009. Finally, the bylaws of the citizens advisory committee have been amended to add a chairperson's report to the board and this regular report to the board commenced in October 2008.

Finding #3: 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's (GFOA) recommendations for strategic planning and found some components of a strategic plan but could not locate detailed action plans, measurable objectives, or performance measures linked to existing strategic goals. Therefore, we questioned whether, without all the required elements, these various plans truly satisfy the purpose of a strategic plan. VTA indicated that it will include a new strategic plan in its countywide long-range planning document, which it expects to publish at the end of 2008.

We recommended that VTA implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to the practices recommended by the GFOA. In addition, we recommended that VTA complete its plans to implement the HayGroup's recommendations related to governance and strategic planning.

VTA's Action: Corrective action taken.

VTA included a strategic plan, which it states follows GFOA guidelines, in the final draft of the long-range planning document it distributed to its advisory and standing committees for review in December 2008. The board officially adopted the document in January 2009. VTA indicates it has completed implementing all 11 HayGroup recommendations related to governance and strategic planning.

Finding #4: Changes to its capital budgeting and monitoring could improve VTA's finances and financial reporting.

Although VTA's financial reporting and planning generally follow best practices, we found that changing certain 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.

To make the best use of its resources, we recommended that VTA create regular processes in which its fiscal resources division communicates with other VTA divisions regarding the cash needs of projects and activities. We also recommended that VTA update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs. Additionally, we recommended that VTA complete its plans to implement the HayGroup's recommendations related to financial planning, monitoring, and reporting.

VTA's Action: Corrective action taken.

VTA stated that it revised an existing project-funding report to include all projects and instituted a monthly meeting in January 2009 at which fiscal resources staff meet with project managers, budget coordinators, and other stakeholders to review the report and discuss project-related issues. VTA also developed an expanded project-status report that lists the budget, total expenditures and commitments, and available funding for all capital projects.

VTA indicated that its capital budget for fiscal years 2010–11 and 2011–12, which was approved by the board in June 2009, includes planned spending by year, identifies capital carryover by source, and reports authorized project total costs. Of the 17 HayGroup recommendations related to financial planning, monitoring, and reporting, VTA indicates it has completed 15 with two others marked as "On-going". Of these two, VTA described significant progress being made in each area.

Finding #5: 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 Transit

Improvement Program (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. 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. We believe that any such assumptions about the source of projected revenues should be clearly explained. Furthermore as VTA's fiscal staff explained, VTA does not compare forecasts of capital spending documented in short-range plans with actual capital spending at the end of the year (as recommended by the GFOA).

To ensure realistic long-term financial planning, we recommended that VTA continue to update its planning tools and methodology and clearly explain assumptions that have material effects on overall forecasts. We also recommended that VTA regularly compile and report to management information that tracks all capital projects and compares spending and project progress to original projections.

VTA's Action: Corrective action taken.

VTA stated that it has continued to implement a new financial model that incorporates updated assumptions and will strive to include more thorough explanations of assumptions in future planning documents. As an example, VTA provided information showing that it revised and disclosed certain budget assumptions in response to deteriorating financial conditions. These assumptions were reviewed and discussed by the board in spring 2009. VTA added that it has expanded and enhanced its existing capital project monitoring report to include all capital projects and that progress and spending on all capital projects are now reported to the board regularly.

Finding #6: Deficiencies in project planning and inconsistent project monitoring could limit effective decision making.

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 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 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.

To ensure adequate control over its project planning process, we recommended VTA develop written policies and procedures for project planning and evaluation. Specifically, we recommended that VTA 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. In addition, to achieve consistency in its project monitoring, we recommended that VTA ensure that its project managers follow its construction administration manual or document when management has agreed to an exception. Finally, we recommended that VTA complete its plans to implement the HayGroup's recommendations related to project monitoring.

VTA's Action: Corrective action taken.

VTA created a comprehensive index of planning manuals listing and categorizing its planning, project development, and project evaluation guidance. VTA added that it revised the capital project request forms and instructions for the 2010 and 2011 biennial budget cycle to require the following: total estimated cost, monthly capital expenditure projections for the first two years and annual expenditures for 10 years, incremental operating costs for five years (if any), and potential funding sources for both capital and operating costs.

Additionally, VTA provided us with draft written procedures describing how management will consider and document requests for variances from the Construction Administration Manual and indicated that it has completed the three HayGroup recommendations related to project planning and monitoring.