



ADMINISTRATION & FINANCE COMMITTEE SPECIAL MEETING

Thursday, May 23, 2007

MINUTES

1. CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:07 p.m. by Chairperson Kerr in Wing 120, San Jose City Hall, 200 East Santa Clara Street, San Jose, California.

ROLL CALL

Members Present

Breene Kerr, Chairperson
Chuck Reed
Forrest Williams

Members Absent

Don Gage, Vice Chairperson

Alternates Present

Pete McHugh

Alternates Absent

Dominic Caserta
Judy Chirco

* Alternates do not serve unless participating as a Member.

A quorum was present.

2. PUBLIC PRESENTATIONS

There were no Public Presentations.

3. Organizational and Financial Assessment

Michael T. Burns, General Manager, reported that the Board directed that the Administration and Finance (A&F) Committee act as the overseer for the Organizational and Financial Assessment Implementation Plan related to the Governance, Finance, and Organizational issues. At the April 5, 2007 Board of Directors meeting staff was directed to come back with a detailed workplan and scope of services for the June 7, 2007 Board Meeting. The intent of the May 23, 2007 A&F Committee Special Meeting is to gather input to prepare the final documents for the June 7, 2007 Board of Directors meeting.

Mr. Burns introduced Jerry Mikolajczyk, Acting Chief Financial Officer; Karen Antion, Karen Antion Consulting; and Ann Carey, Executive Assistant to the General Manager; as staff leads to provide a brief overview on the Governance, Finance, and Organization Transformation Project.

Chairperson Kerr asked why the Financial and Organizational Transformation were being conducted at the same time. Mr. Burns responded that the Financial and Organizational Transformation go together since one works with the other. He added that the Financial Transformation will directly impact the Organizational Structure.

Jerry Mikolajczyk, Acting Chief Financial Officer, referenced the “Interim Chief Financial Officer (CFO) Deliverables 6 Month Schedule,” highlighting: 1) Implement Cash Management System; 2) Update and validate 30 Year Measure A Plan; 3) Update and Validate Annual Operations and Capital Budgeting Process; 4) Conduct limited Financial Analyses and Presentation to the Board; 5) Attend C-Level Meetings; 6) Limited Personnel Supervision; and 7) Begin Development of Financial Stability Strategies.

Implement Cash Management System

- Short Term – 2 Year based on Biennial Budget;
- Long Term – 30 Year Plan;
- Traffic Congestion Relief Program (TCRP) billing - \$151 million; and
- Measure A Bond Redemption \$138 million.

Update and Validate 30 Year Measure A Plan

- Review 30 Year Plan;
- Master Plan Development; and
- 30 Year Plan Validation.

Update and Validate Annual Operation and Capital Budgeting Process

- 2008 – 2009 Biennial Budget;
- Cost Center Budgeting;
- Cost Center Reporting – SAP;
- Cost Center Reporting; and
- Cost Center Forecasting.

Conduct limited Financial Analyses and Presentation to the Board

- Ongoing Review and Analysis.

Attend C-Level Meetings

- Ongoing Attendance of C-Level Meetings.

Limited Personnel Supervision

- Ongoing Staff Management and Leadership;
- Develop Redefined FR Organizational Chart; and
- Implement FR Organizational Chart.

Begin Development of Financial Stability Strategies

- Review of SAP Upgrade – Public Sector;
- Internal Control Review;
- Review Policy and Procedures ad Strength; and
- Sarbanes-Oxley Spirit.

Mr. Mikolajczyk stated that many of the recommendations need to be initiated immediately but noted that it may take longer for implementation, but everything should be in place for the new Chief Financial Officer. He stated that VTA will establish plans for every project to include cost estimates to construct and operate the projects.

Alternate Board Member McHugh arrived at the meeting at 12:16 p.m.

Mr. Mikolajczyk commented that staff is currently working to expedite VTA's billing procedures process. He stated that the billing procedures process is a high priority and enables VTA to receive project funding faster. He reported that staff recently sent an invoice for payment to the California State Department of Transportation (Caltrans) in the amount of \$77 million for the Transit Congestion Relief Program (TCRP) projects.

Chairperson Kerr suggested that staff establish an information sheet on how VTA is benefiting by hiring Mr. Mikolajczyk as the Acting Chief Financial Officer.

Mr. Mikolajczyk stated that staff has conducted an assessment of the cash requirements for the Measure A Projects and examined the cash flow based on appropriations and expenditure levels. He stated that based on the information, staff recommends that VTA pay down the debt on the 2000 Measure A Sales Tax Bonds Series 2006F-G.

Mr. Burns stated that the recommendation does not require Board authorization, but staff will provide a report to the Board of Directors. He added that VTA will receive State funding for the next phase of the BART Extension Project; therefore, the 2000 Measure A funding for the BART Project is available to be allocated to other 2000 Measure A Projects.

Mr. Mikolajczyk stated that the development and implementation of policy and procedures with proper internal controls is very important to VTA's Governance, Finance, and Organization Transformation Project to ensure that VTA is effective.

Mr. Mikolajczyk referenced the Deliverables 6 Month Plus Schedule, highlighting: 8) Full Implementation of Budget Cycle; 9) Full Implementation of Measure A Planning Cycle; and 10) Identify and Promote Financial Strategies.

Full Implementation of Budget Cycle

- 2008 – 2009 Biennial Budget;
- Cost Center Budget;
- Cost Center Reporting – SAP;
- Cost Center Reporting; and
- Cost Center Forecasting.

Full Implementation of Measure A Planning Cycle

- Master Plan Development.

Identify and Promote Financial Strategies

- Reduce Unfunded Pension and Retiree Strategy, Mission, and Structure;
- Generate new Revenue Sources;
- Close gap on thirty-year Expenditure Plan; and
- Reduce reliance on Operating Reserves.

Alternate Board Member McHugh asked about the Auditor General as it relates to VTA's internal controls. Mr. Burns responded that the Auditor General is related to VTA's internal controls and is part of the Governance Section of VTA's Transformation Project.

Mr. Burns stated that the September 28, 2007 Board Workshop will be devoted to VTA's Bond and Debt Policy.

Chairperson Kerr expressed support and noted that VTA's Bond and Debt Policy is a key issue.

Mr. Mikolajczyk referenced the Deliverables 12 Month Plus Schedule, highlighting: 11) Develop and Implement Financial Stability Strategies; 12) Implement new Financial Reporting and Analysis; 13) Establish VTA's Internal Control Program; 14) Full Financial Analyses and Presentations to the Board; 15) Establish Investment and Risk Management Strategies; 16) Serve as C-Level Advisor; 17) Implement Asset Management Controls over Real Estate; and 18) Address Risk Management Concerns.

Mr. Burns referenced the Deliverables 12 Month Plus Schedule, noting that at this time there are no schedules; however, he assured that the deliverables will be incorporated as VTA moves forward with the Governance, Finance, and Organization Transformation Project. He stated that the schedule is a working document and some deliverables will require more time than others. Mr. Burns noted that everything should be in place by the time the new Chief Financial Officer is on-board.

Chairperson Kerr requested that staff monitor and provide information on the cost savings established as a result of the new CFO. Chairperson Kerr stressed the importance to provide the Board of Directors with information regarding the costs and benefits associated with the new CFO, Consultants, and implementation of the recommendations.

Karen Antion, Karen Antion Consultant, LLC., provided a brief overview of the "Governance, Finance, and Organization Transformation Project," highlighting: the Project Overview, Project Scorecard – Phase 1, Project Scorecard – Phase 2, and Project Consultant Rates.

Ms. Antion reported that the project objective is to implement priority Governance, Finance, and Organizational recommendations within VTA from the Assessment. Ms. Antion stated that the Project Overview Phase 1 is underway and the Scope of Work includes: 1) Develop and Manage a Project Work-Plan and Scorecard; 2) Develop and

execute a Communications Plan; 3) Implement Governance Processes & Practices to enable Transformation; and 4) Implement Executive Level Transformation Organization.

Ms. Antion continued that part of VTA's Transformation will include: 1) Establishment of an Audit Committee as a Standing Committee of the Board of Directors; 2) Implement an Auditor General Function; and 3) Schedule Board Workshop on VTA's Vision and Mission Statement. Ms. Antion stressed the importance for VTA to implement the spirit of Sarbanes-Oxley Act into the organization.

Chairperson Kerr asked why the Audit Committee would be separate from the Administration and Finance (A&F) Committee. He referenced the Organizational and Financial Assessment recommendation to reduce the number of committees within the organization and queried about the addition of the Audit Committee.

Ms. Antion responded that the recommendation was to reduce the number of Advisory Committees. Ms. Antion stated that the Audit Committee will serve as a Standing Committee of the Board of Directors to provide policy oversight for VTA. The Audit Committee will assist in fulfilling the Board of Directors fiduciary obligations for safeguarding VTA's financial integrity and ensuring internal controls.

Mr. Burns stressed the importance for an Audit Committee to be charged with the duties and responsibilities to oversee, regulate, and inspect VTA's activities to ensure transparency throughout the organization.

Ms. Antion stated that an Independent Auditor General will report to the Audit Committee and noted that the Audit Committee is separate and apart from the A&F Committee since they serve different functions to the Board of Directors.

Chairperson Kerr asked if the Santa Clara County Board of Supervisors has an Audit Committee. Alternate Board Member McHugh responded that the County does not have an Audit Committee but an Internal Audit Function that reports to the Finance Committee.

Alternate Board Member McHugh requested that additional information and description of the Audit Committee and Independent Auditor General be distributed to the Board Members to ensure that the committee does not duplicate other committee activities. Ms. Antion responded that this information would be provided to the Board.

Mr. Burns stated that the Organizational and Financial Assessment identified the lack of an Audit Committee as a organizational weakness.

Ms. Antion continued that one of the recommendations is to revise VTA's Mission Statement to focus on Transportation as a Core Business. VTA's Vision and Mission Statement needs to be more focused and financially achievable. Ms. Antion stated that a revised Vision and Mission Statement will provide a framework for VTA to establish and implement a transformational strategy that moves the organization towards sustainability.

Ms. Antion stated that the Project Overview Phase 2 will allow VTA to continue to implement priority Governance, Finance and Organizational Recommendations.

Ms. Antion stated that the Scope of Work includes: Implementation of Governance Processes and Practices to enable Transformation and Implement Division and Program Specific Recommendations.

Implementation of Governance Processes and Practices to enable Transformation

- Continue with Board training on duties and responsibilities;
- Develop and implement Board of Directors Self Assessment Program;
- Improve the quality of information that the Board receives;
- Improve the Conduct of Board and Committee meetings;
- Revise the Administrative Code and Oath of Office; and
- Develop an Annual Work Program for the Board and its Committees.

Program Specific Recommendations

- Develop and implement the complete Transformation Organization Structure;
- Real Estate Portfolio Management; and
- Implement Division and Program Specific Recommendations.

Ms. Antion stressed the importance to develop a project plan and a scorecard for the A&F Committee and Board of Directors continued review.

Ms. Antion stated that the Project Scorecard Phase 1 and Phase 2 includes: 1) Project Phases; 2) Cost Estimate; 3) Estimated Hours; 4) VTA Budget; 5) Responsible Lead for Karen Antion Consultant, LLC.; 6) Responsible VTA Staff; and 7) VTA Board/Committee Involvement in the project.

Mr. Burns stated that the Project Scorecard will include the accomplishments and completed projects.

Ms. Antion stated that the plan is to keep track of the total costs and the benefits of the work completed.

Ms. Antion commented that Phase 1 Projects total approximately \$167,000 related to the Consulting Contract activities approved at the April 5, 2007 Board of Directors Regular meeting. Ms. Antion stated that Phase 1 Projects include: 1) Project Management; 2) Implementation of Governance Recommendations; 3) Implementation of Organizational Recommendations; 4) Providing Strategic Oversight for SAP Upgrade; and Developing Strategies with the General Manager on the Transformation Program Initiatives.

Ms. Antion commented that Phase 2 and Additional Task Projects total approximately \$370,660 related to the Consulting Contract activities. Ms. Antion commented that Phase 2 Projects include: 1) Project Management; and 2) Implementation of Governance Recommendations; 3) Implementation of Organizational Recommendations; 4) Complete the Implementation of the Transformation Organization Structure; 5) Real Estate Portfolio Management; 6) Implement Division and Program Specific Recommendations; and 7) Information Technology.

Ms. Antion commented that Additional Task Projects include: 1) Implement Division and Program Specific Recommendations; 2) Information Technology; 3) Administrative

Services Division; 4) Make VTA a Better Place to Work; 5) Implement Division and Program Specific Recommendations; 6) Engineering and Construction Division; 7) Procurement; and 8) Develop Strategies with the General Manager on Transformation Program Initiatives.

Ms. Antion stated that the recommendation is to include a series of three Board Workshops related to VTA's Vision and Mission Statement, Sarbanes-Oxley Act Practices, and Ethics, and Good Government Training. The Project Overview Program is designed and intended to work collaboratively with VTA and the Consulting Team to ensure that VTA is prepared to move forward successfully with the transformation and includes a series of activities geared to improving the efficiency and effectiveness of VTA's organization.

Chairperson Kerr queried about the long-term marketing efforts to attract more youth riders to VTA's transit system. Ms. Antion responded that at this time there is no overall plan to improve ridership since there is no communication plan that directly supports this concern.

Ms. Antion stated that the intent is to restructure and create an External Affairs Department, which will include Marketing and Public Affairs, Government Affairs, and the General Manager. The External Affairs Manager will be responsible to develop a long-term strategy to encourage and improve ridership on VTA's system.

Mr. Burns stated that the Project Overview Program is a dynamic plan and as the plan moves forward it will include the assistance of the A&F Committee.

Board Member Williams requested that staff provide information on previous success experiences with other organizations by implementing the Governance, Finance, and Organization Transformation Project recommendations. Ms. Antion responded that she has previous successful experiences working with several organizations to address challenges to make their organization more effective by implementing these recommendations.

Board Member Williams asked what is VTA's first issue requiring change. Mr. Burns responded that the first priority is to do everything possible to reduce congestion and improve mobility.

Ms. Antion commented that the transformation is a multi-prong approach. Ms. Antion stressed the importance of the Comprehensive Operations Analysis (COA), which is to better align the service of the organization with the needs of the individuals in the County. She stressed the importance to improve the Governance, Finance, and Organizational Structure of VTA.

Ms. Antion stressed the importance of an effective Board of Directors to make good timely decisions, set the visions and priorities of the organization, and to ensure the success of the organization. She added that an effective structure developed and implemented by the General Manager is highly critical as well as the financial management of the organization.

Jerry Grace, Interested Citizen, queried about the impact of the Governance, Finance, and Organization Transformation Project to VTA in the future. Chairperson Kerr responded that the Governance, Finance, and Organization Transformation Project will benefit VTA.

Alternate Board Member McHugh stated that the Project will provide a better efficient structure for VTA and allow the organization to exist and provide services if the Hay Group Recommendations are successfully implemented.

Board Member Williams stated that the A&F Committee and Board of Directors will continue to monitor the changes as they are implemented.

M/S/C (McHugh/Williams) to approve submitting a recommendation to the June 7, 2007 Board of Directors Regular Meeting regarding the Organizational Assessment Implementation Plan.

Board Member Reed requested that staff provide additional information regarding the Project Consultant Rates related to the estimated travel expenses of \$3,500 per month.

4. Announcement

There were no Announcements.

5. ADJOURNMENT

On order of Chairperson Kerr, there being no objection, the Committee meeting was adjourned at 1:14 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Board of Directors