



BOARD OF DIRECTORS' WORKSHOP MEETING

March 23, 2007

MINUTES

1. CALLED TO ORDER

The Workshop Meeting of the Santa Clara Valley Transportation Authority's (VTA) Board of Directors was called to order by Chairperson Chu at 9:11 a.m., Holiday Inn San Jose, Mediterranean Center, 1740 North First Street, San Jose, California.

2. ROLL CALL

Members Present

Nora Campos
David Cortese
Dean J. Chu, Chairperson
Don Gage
Breene Kerr
Liz Kniss, Vice Chairperson
Sam Liccardo
Laura Macias
Chuck Reed
Dolly Sandoval
Greg Sellers
Forrest Williams
Ken Yeager, Ex-Officio

Members Absent

None

Alternates Present

Pete McHugh

Alternates Absent

Dominic Caserta
Judy Chirco
Kathleen King
Roland Velasco

* Alternates do not serve unless participating as a Member.

A quorum was present.

3. PUBLIC PRESENTATIONS

Tim Pitsker, Interested Citizen, urged the Board of Directors to save the \$44 million that VTA plans to spend on the Dumbarton Rail Project. He commented that the Dumbarton Rail Project as currently envisioned is dead, because the project requires the purchase of tracks from Union Pacific Railroad (UPRR). He noted that the amount requested by the UPRR is cost prohibitive and stated the project would have marginal benefit to Santa Clara County.

Board Member Kerr asked Mr. Pitsker if he represented some organization other than himself. Mr. Pitsker noted that he was appointed by Fremont Mayor Bob Wasserman as one of two citizen representatives from the City of Fremont to the Metropolitan Transportation Commission (MTC) relating to the project.

Board Member Kerr noted that he is a member of the Dumbarton Rail Corridor Project Policy Advisory Committee and at the urging of VTA, the Committee is looking into the financial situation. He commented that the Dumbarton Rail Project would benefit the North County.

Noel Tebo, Modern Transit Society, made reference to the excellent points and recommendations contained in the Organizational and Financial Assessment Executive Report. He commented that the most important issue has to do with the financial problems of the BART to San José Project. Mr. Tebo commented that for the last five years the Modern Transit Society and other advocacy groups have been telling the VTA Board, Committees, and staff that the BART Project is too expensive, will waste 75 percent of a 30-year tax, and will virtually do nothing to solve the congestion problems. Mr. Tebo indicated that the Board should redirect BART funds to take advantage of newer technology. The Modern Transit Society suggests much smaller, lightweight frequent trains traveling on a network to take the commuter closer to their destination.

4. Presentation on the Findings and Recommendations from the Organizational and Financial Assessment and Discuss Implications and Next Steps

Michael T. Burns, General Manager, provided a PowerPoint Presentation entitled, "Organizational and Financial Assessment, General Manager's Overview." He reported that the Organizational and Financial Assessment was initiated at the direction of the VTA Board of Directors and himself. He noted the intent was to receive an independent assessment of VTA's weaknesses and areas that needed improvement. The selection of the consultant was done through a selection committee made up of VTA Advisory Committee Chairpersons and there was no VTA staff involvement. Mr. Burns noted that the overall objective is to improve VTA for the benefit of the residents, visitors, and persons employed in Santa Clara County.

Mr. Burns referenced the Organizational and Financial Assessment Executive Report and noted that the Report would be supplemented with a comprehensive technical memorandum that will contain more detailed information on the individual investigations that the consultant team performed.

Mr. Burns referenced the Assessment Findings and indicated that the recommendations are categorized into three general areas: 1) Governance; 2) Organizational Structure; and 3) Financial Management.

Board Member Liccardo took his seat at 9:23 a.m.

Mr. Burns indicated that Governance largely applies to the Board, Board activities and structure. He noted that the Executive Report contains numerous recommendations and findings and added that the Board, Standing and Advisory Committees, and staff must work together to prioritize the recommendations for implementation. He indicated that after discussions with the Board Chairperson and pending Board direction, much of the work will take place at the Administration and Finance (A&F) Committee. He added that each A&F Committee agenda will include a review and prioritization of the recommendations for implementation. The A&F process will include a report back to the Board with the first report scheduled for May 2007.

Mr. Burns referenced the Organizational Structure recommendations and noted that he supports many of the recommendations on the structural realignment contained within the Executive Report. Mr. Burns indicated that he would work with the Executive Team over the next 30 days to define the structural changes to the organization and would provide a report back to the Board.

Mr. Burns noted that the Executive Report was made available on VTA's website and a memorandum was issued to interested stakeholders. He indicated that the consultants will meet with the Executive Staff and he will also hold a General Forum for VTA employees to provide a briefing on the findings contained in the Executive Report.

Mr. Burns referenced Financial Management and noted that he will engage the temporary services of a firm that supplies highly qualified, experienced financial management to help build the systems, create the processes, procedures, and the controls that VTA needs to implement in its financial management area. The services are necessary while VTA looks for a permanent Chief Financial Officer.

Mr. Burns reported that the assessment is one of several efforts that VTA has underway. The Transit Sustainability Policy (TSP) is also another part of the foundation of the future of VTA as is the Comprehensive Operations Analysis (COA). A detailed presentation on the COA will take place at the April 5, 2007 Board meeting. Mr. Burns noted that those three activities serve to form the foundation for the future of VTA.

Mr. Burns thanked everyone involved in the process and noted that the identification of problems will help VTA make the necessary improvements within the organization.

Mr. Burns introduced Paul Clifford of the Hay Group and Project Manager for the Organizational and Financial Assessment, noting that the Hay Group was the lead organization on the initiative.

Mr. Clifford provided background information on the Hay Group. He directed attention to the PowerPoint Presentation entitled, “Santa Clara Valley Transportation Authority Organizational and Financial Assessment Executive Report,” and provided a presentation on the “Project Background and Approach.” He reported that the project began about six or seven months ago, and represents an independent assessment aimed at informing VTA as it sets itself on the appropriate path toward a sustainable future. He noted that the findings and analysis of the Hay Group can be categorized as focusing on two areas: 1) VTA’s past performance against its past plans; and 2) VTA’s future performance based on VTA’s current strategy and plans.

Mr. Clifford reported that the Hay Group developed recommendations for transitioning VTA to an organization that enjoys the confidence of the Board, public and its customers through: a) an inclusive and effective governance structure; and b) an organization that operates transparently and is responsive to the public. The Hay Group developed recommendations for building a sustainable organization structured to: a) promote efficiency, accountability and creativity; and b) successfully implement VTA’s strategy at a predictable and reasonable cost.

Mr. Clifford referred to “Project Approach” and indicated that the Hay Group assembled a national team of consultants representing three different firms. The team’s members possessed a unique mix of Board level experience, executive experience, and technical expertise in the areas encompassed by the Requests For Proposal (RFP).

Mr. Clifford reported that the Hay Group collected and reviewed a large volume of VTA documentation such as: 1) Business Plans, 2) Board Policies; 3) organization charts; 4) job descriptions; 5) media reports; and 6) past studies. Over 80 interviews were conducted and the interviews included Board and Advisory Committee members, VTA Executive Management, stakeholders, such as the Silicon Valley Leadership Group (SVLG), Union representatives, and vendors. Based upon the information received, the project team began to develop their preliminary findings. The Hay Group team then held a series of meetings to share findings from different angles and perspectives and integrated their preliminary findings and analysis. Based on this process, the following three focus areas were identified by October 2006: 1) Governance; 2) Finance; and 3) Organizational Structure. During late 2006 and into early 2007, the findings, recommendations, and actual deliverables were developed. The Hay Group team met extensively, finalized the analysis and preliminary deliverables and shared the information with VTA management. The Hay Group then developed the Executive Report and Technical Memorandum.

Mr. Clifford noted that the following persons of the Hay Group team will present the findings and recommendations in the three focus areas: 1) Karen Antion, Karen Antion Consulting, “Governance”; 2) Mark Perreault, Rachlin Cohen & Holtz, “Finance”; and 3) George McCormick, Hay Group, “Organizational Structure.”

Ms. Antion noted that she is the President of Karen Antion Consulting and a long-time transit industry executive. She was a founding Board Member for the New York Independent System Operator, has served on the Board for eight years, and today serves

as Chairperson. Ms. Antion commented that she is familiar with the challenges of taking an organization from a start-up as VTA was in 1995-1996 through the maturation process that is before the VTA Board today.

Ms. Antion provided a presentation on the “VTA Historical Context.” She reported that a review of VTA’s Enabling Legislation indicates that VTA is an organization that has very broad powers. VTA serves both as a Congestion Management Agency (CMA) and as a transit agency, which is fairly unique in the industry. As a result, VTA has the responsibility to alleviate congestion in the region, improve mobility, and plan for, construct, and operate the transit systems. Ms. Antion reported that VTA began during the boom years and went through a period of unprecedented growth. She reported that if VTA hopes to achieve sustainability in the future, the Board will have to consider making changes to the governance, organizational structure, and to its financial policies and practices.

Ms. Antion noted that the vision of VTA in 1996 states: “VTA is here to provide transportation services to anyone to take them anywhere.” She stated that this is a broad vision and VTA should ask, “Is that an appropriate vision in the context of VTA’s financial realities?” She noted that VTA will receive some answers from the Comprehensive Operations Analysis (COA) and added that VTA will need to make decisions about the future of the transit system.

Ms. Antion reported that the Organizational and Financial Assessment results call for a transformational initiative to redefine VTA’s governance, organizational structure, and financial policy and practices.

Ms. Antion provided a presentation on the following Hay Group finding in the Governance area: “A. VTA has Lost its Regional Focus and Strayed from its Core Business.” Ms. Antion referred to the interviews conducted with past and present Board members and Chairpersons, as well as stakeholders, and stated that the Hay Group believes VTA’s governance structure can and has worked for VTA. Ms. Antion noted that Board members have indicated that some transportation solutions only benefitted local areas and not the entire region. This has resulted in an underutilized system with low ridership and farebox recovery. Ms. Antion noted that VTA needs to focus on providing transportation services that serve the region.

Ms. Antion referred to VTA’s funding and indicated that there is a focus on providing funding for construction projects without the requisite operating budgets to operate those facilities. The project funding has not been secured entirely and the Measure A Plan is the best example of that. She noted that the Hay Group is convinced that good governance can refocus VTA on its core mission.

Ms. Antion provided a report on the following finding in the Governance area: “B. VTA Governance Does Not Operate as Designed.” She reported that the Board has two primary responsibilities, a policy responsibility and a fiduciary responsibility. Under the fiduciary responsibility, the Board has the responsibilities of care and loyalty.

Ms. Antion reported that the Hay Group found that VTA has governance challenges and opportunities. She referred to Board turnover and noted that VTA needs to go back to the appointing authorities and notify them that they should appoint qualified members who can serve a full two-year term.

Ms. Antion referred to the VTA Standing Committees and noted that in addition to the current three committees, the Hay Group recommends the establishment of an Audit Committee. She reported that most public agencies today are adopting the spirit of “Sarbanes-Oxley”, and the value in implementing Sarbanes-Oxley would provide VTA with an Auditor General reporting directly to the Board. The Board would have an independent look at the operation and finances to assure that controls are in place and the finances are appropriately managed.

Ms. Antion referred to the VTA Advisory Committee structure and noted that the structure is intended to serve the purpose of providing a forum for interested parties, experts, and stakeholders to participate in the governance process. The value that this brings to the Board is that it helps build regional consensus and helps the Board by having the Advisory and Standing Committees inform its policy discussions.

Ms. Antion provided a report on the current Advisory Committee structure. She noted that proposals are 100% completed when presented to the Advisory Committees, and the Advisory Committees have described their responsibilities as a rubber stamp responsibility. The Advisory Committees do not have an opportunity to provide the Board with policy guidance.

Ms. Antion noted the Board’s concern about the inadequate financial information that has been provided. She indicated that the data is not provided in a clear manner to enable a Board member to make an informed decision. She noted that often times the Board is presented with recommendations from the financial staff that have long-term implications.

Ms. Antion indicated that as a regional body that has many jurisdictions, difficult tradeoffs are required. She noted that the Board often postpones difficult decisions and postpones decisions that perhaps could have been made with the adequate financial information and understanding about the urgency of timing.

Ms. Antion referred to the Hay Group’s findings in the governance area and noted that it has been found that the structure is sound, but the Board must revisit the policy issues related to its policy role and fiduciary responsibilities.

Board Member Macias referred to the issue of representation and noted that the 13 smaller cities do not have many opportunities to serve on the Board due to the rotation schedule. She asked if the Hay Group has looked at other models and how the small cities needs are met. Ms. Antion noted that the Hay Group has heard the frustration of some of the smaller cities. She noted that the Hay Group has looked at various models, but this model has worked for this region.

Board Member Kerr referenced the comments made about Board member education and expressed concern about adding requirements. He noted the value of serving on the Policy Advisory Committee (PAC) prior to serving on the Board. Board Member Kerr commented that he is looking for innovative ways to get Board members up to speed, so that they can make good decisions.

Ms. Antion indicated that the Board has been served well by members that have served on the PAC and then served on the Board. She added regarding Board member education, the Hay Group does not intend to burden the Board with additional work. Ms. Antion referred to the Board Orientation Program that occurred in the past and noted the need for VTA to prepare a new program that focuses on policy decision-making.

Board Member Sellers asked Ms. Antion to address: 1) How can Board members who also represent local jurisdictions work to change their mindset to think regionally versus locally so that local interests do not take priority over VTA; and 2) How can the Board process be restructured so that Standing Committees and Board meetings work more effectively. He expressed concern about the Board rotation schedule, Board turnover, and the length of time needed for Board training. Further, he expressed support for the current practice of utilizing PAC as a training ground for Board members.

Ms. Antion noted the need to go back and educate the appointing authorities about the Board's roles and responsibilities. She added that the Board should know that it can represent their local interests and be a member of a region.

Ms. Antion noted that with regards to the Standing Committees, Board members have to have the same set of interests and expectations, there has to be a level of trust, and they have to decide who is going to represent their interests on each committee.

Board Member Campos commented that she agrees with the comments made about VTA's mission being too broad. She commented that when she was appointed to the VTA Board she did not feel that there was a regional vision.

Board Member Campos referenced the comments made about VTA's structure working well and asked what the Board should focus on to become more effective from a regional standpoint. Ms. Antion noted the need to go back to the appointing authorities and the need for the Board to develop a common vision and set of expectations for themselves.

Board Member Cortese noted his support of the Executive Report and stated that it goes well beyond some of the work that was done by the Ad Hoc Financial Stability Committee with regards to governance. He referred to the discussion about a transformational change needing to take place and commented that the Board needs to set a new policy direction. Board Member Cortese commented that the organization has become too staff driven. He indicated that VTA does not have a committee, such as a "Rules Committee" found in the City of San José. The Rules Committee helps create agendas and keeps the focus on policy. Board Member Cortese stated that the Board should create a Board committee or subcommittee to set the agenda.

Ms. Antion supported Board Member Cortese's statement that the Board needs to set the policy direction, noting that this is the Board's primary responsibility. She stated that to accomplish the suggestions of Board Member Cortese, the General Manager should develop a two-year work plan. In lieu of creating a new committee, the Board Chairperson and each of the Standing Committee Chairpersons would convene as an Ad Hoc Committee. Once the Board approves the work plan, the Ad Hoc Committee would meet with the General Manager to review the work plan.

Board Members Gage and Sandoval left their seats at 10:18 a.m.

Board Member Kerr congratulated Mr. Burns on bringing the Organizational and Financial Assessment forward. He commented that he is in favor of a strong General Manager who makes courageous decisions and provides the Board with a vision. Board Member Kerr indicated that as Chairperson of the Administration and Finance Committee, he is concerned with the limited input members have with the placement of items on the agenda.

Board Member Sandoval took her seat at 10:21 a.m.

Alternate Board Member McHugh echoed Board Member Kerr's comments regarding Mr. Burns and commented that the assessment and recommended changes were based on his request for such an evaluation.

Board Member Gage took his seat at 10:22 a.m.

Mark Perreault, Principal at Rachlin Cohen & Holtz, indicated that Rachlin Cohen & Holtz conducted the financial assessment portion of the Organizational and Financial Assessment. He noted that such an assessment requires an evaluation of the problems of the organization. He added that each of the weaknesses highlighted in the assessment can be fixed.

Mr. Perreault provided a presentation on the following findings in the Finance area: "C. VTA's Financial Capacity and Future are Uncertain and Unstable" and "D. VTA Must Consistently Avoid Conflicts." He reported that VTA's financial statements are called a "Comprehensive Annual Financial Report", are audited by VTA's external auditors, and prepared once a year. He noted that the financial statements do not indicate anything about the future of an organization and are based on past historical accounting numbers. He added that the standard for financial viability is to look at one year ahead. If an organization can adequately take care of its liabilities for the coming year, then there is no growing concern problem, and the organization is financially viable.

Mr. Perreault referred to future liabilities and noted that all of VTA's construction projects, pension liabilities, and retiree health liabilities are not captured in its annual financial statements. He noted that VTA's annual financial statements are not adequate for presenting the true financial picture that is necessary to make decisions to move forward.

Mr. Perreault reviewed his overall findings and noted that VTA does not adequately present the General Manager and the Board with a comprehensive look at the various projects. This comprehensive analysis would allow the General Manager and the Board to determine what VTA can afford within its expected revenue and provide a model that is reasonably balanced. Mr. Perreault commented that capital assets are put into place without consideration of the future cost of maintenance necessary to operate these assets.

Board Member Kerr left his seat at 10:28 a.m.

Mr. Perreault reported that as of June 2006, VTA had \$55 million of operating reserves and \$49 million of restricted reserves. He indicated that their key finding is that VTA's reserves are too thin for a \$400 million organization with \$7 billion of capital projects.

Board Member Kerr took his seat at 10:31 a.m.

Mr. Perreault reported that it has been found that VTA's sales tax is volatile and unpredictable and that a vast majority of VTA's revenues come from its sales tax. During 2006, VTA took in about \$197 million in sales tax, and because of the way that purchases happen in Santa Clara County, VTA is already going to be short approximately \$35-\$40 million in 2007. VTA's annual financial statements do not include its pension and retiree health benefits, and unfunded obligations, which between the two plans, totals \$200 million. It has been found that the returns on VTA plans could be overly aggressive.

Mr. Perreault referred to the issue of internal controls and noted that during the assessment, it was found that VTA's internal control function had been eliminated. He noted that VTA operationally is a complex organization and its internal controls are nothing more than checks and balances. This should start at the Board level with an Auditor General who reports to the Board and provides independent oversight for the Board to allow the Board to exercise its fiduciary responsibilities. He noted that an independent internal audit function reports to the Auditor General who reports to the Board, and this group of people ensures that checks and balances are designed and adhered to properly.

Mr. Perreault referenced the budgeting issue and noted that VTA historically budgets in two-year cycles. It has been found that VTA basically balances its budgets for two years without taking into consideration many of its future liabilities. It has also been found that cash-flow management is kind of in its infancy at VTA and cash management needs to be designed and performed on a daily basis, so that the General Manager is aware of VTA's cash position at all times.

Board Member Macias queried if there were legislative controls that VTA should have adhered to. Mr. Perreault indicated "no", and that VTA's audited financial statements are governed by generally acceptable auditing standards.

Alternate Board Member McHugh left his seat at 10:35 a.m.

Board Member Macias queried if there was a credit rating for VTA. Mr. Perreault indicated that VTA has credit ratings for its public bonds that are issued. He noted that Standard & Poor's Corporation (S&P) and Fitch Ratings rate VTA's bonds. The reason why VTA has good bond ratings is because it has a giant capacity to collect sales tax into the future.

Board Member Kerr referenced the underfunded Retiree Health Benefits Plan issue and commented that he has been informed that VTA is doing better than most public agencies. Mr. Perreault commented that the concerns of other agencies are irrelevant to how VTA manages its own financial responsibilities.

Alternate Board Member McHugh took his seat at 10:42 a.m.

Board Member Kerr commented that VTA's Capital Expenditure Plan depends heavily on bond indebtedness. He referred to the bonds issued to pay for the BART engineering costs, the bonds issued prior to that in a similar fashion, and the plan that includes issuing approximately \$2 to \$4 billion of bonds. He asked what is the appropriate balance for an agency like VTA as it tries to deal with inflation and tries to build projects sooner rather than later. Mr. Perreault indicated that he does not have a quantitative answer in terms of how much should be issued. VTA should issue bonds based on a fully documented plan that goes out for a long period of time, and it should take into account the timing of the cash flow in relation to the construction and receipt of the sales tax. VTA should also review how much interest expense it wants to bear.

Board Member Liccardo referenced the conclusions contained on Pages 11 and 12 of the Executive Report. He also referenced the comments made about VTA finding ways to diversify its revenue sources. He indicated that in recent years, VTA embarked on trying to generate revenue from land it owns to develop Transit Oriented Development (TOD).

Board Member Liccardo queried about other ways VTA can generate revenue given the limited tolerance for new taxes. He also referred to the Hay Group's recommendation with regards to private/public partnerships and commented that he is not sure how many companies are interested in funding transit lines where farebox returns are not 100%. Mr. Perreault indicated that VTA should explore this area and that broad recommendations were provided to VTA for their review. He added that the Hay Group performed a strategic assessment and did not get into the details of telling VTA how it would go about generating these public/private partnerships and generate more revenue. Ms. Antion indicated that the generation of more revenue is an area that needs exploration. She noted that one of the findings is that VTA has an expansive real estate portfolio that is not completely inventoried and not managed as a portfolio to maximize revenue.

Board Member Liccardo referred to the following statistic citing contained on Page 11: "From 2004 to 2006, recurring revenue as a percentage of total revenue increased from 27% to 49%" and asked for clarification. Mr. Perreault noted that it relates to the 2000 Measure A sales tax.

Vice Chairperson Kniss referred to governance and noted that it would be extraordinary difficult to change the governance as it currently exists. She commented that she had discussions with the founding Board members and persons in Sacramento and noted that the political will is not there to change the governance. She added that the political nature of the VTA makes a regional focus difficult to accomplish.

Vice Chairperson Kniss noted that there has been a great emphasis on building projects and not how to operate them.

Ms. Antion stated that she understands the difficulty in achieving the recommendations. She added that VTA is a business and needs to operate like a business. She commented that while the Board must answer to an electorate versus shareholders, the VTA is still a business and the Board needs to make difficult decisions.

Board Member Sandoval referred to the question asked by Board Member Liccardo in regards to issuing bonds. Board Member Sandoval asked if there were best practices that Mr. Perreault's organization and the Hay Group can present to the Board. Mr. Perreault indicated that there are and that he would be happy to provide them. Board Member Sandoval noted the importance of the Board knowing, from an outside organization's view point, what are the measures that the Board should hold itself accountable to when assessing bond financing.

Vice Chairperson Kniss and Board Member Macias left their seats at 10:51 a.m.

Board Member Sandoval referred to the discussion about the 2000 Measure A Expenditure Plan and commented that she thinks it is unfair to say that the Board was unaware of the 20% unfunded mechanism. She noted that every discussion she has had as a member of the Policy Advisory Committee, Board, and as the Chairperson of the Transit Planning and Operations (TP&O) Committee has mentioned that unfunded liability. She commented that she believes the Board should commit to moving forward with the engineering phase of a project. She noted that expending funds now will save money and time in the future. Board Member Sandoval indicated that she does agree that planning the operational costs of projects is important. She indicated her support of the points raised on VTA's in-house financial infrastructure and noted that she looks forward to the General Manager's timeline on implementation of the duties that can be done in-house.

Vice Chairperson Kniss took her seat at 10:53 a.m.

Board Member Macias took her seat at 10:54 a.m.

Board Member Gage noted that the Board needs to move toward looking at regional issues. Board Member Gage noted that planning a transportation system must involve a 20 to 30 year horizon. He referred to the BART Project funding issue and asked if the Hay Group recommendations provide information on an acceptable level of risk when planning for the future. Mr. Perreault indicated that he does not believe that a risk assessment is contained in the Hay Group's recommendations. He noted the Hay Group has found that historically the Board is not provided with adequate financial information

needed to make decisions. The Hay Group found models that had undocumented assumptions and sales tax revenues in place that are not feasible.

Board Member Gage indicated that during the development of the 2000 Measure A Revenue and Expenditure Program, there was no financial data available for BART. He asked what other agencies use as a rule of thumb when trying to determine whether or not they can afford a project. Ms. Antion responded that an organization should have estimates of the funds available and anticipated revenue to fund the program. The organization then needs to make a policy decision to move forward with a plan that has unfunded projects or a plan that only includes funded projects and adds more projects as more funding becomes available.

Board Member Gage left the meeting at 11:07 a.m.

Board Member Liccardo left his seat at 11:07 a.m.

Board Member Williams queried if the Hay Group looked at what VTA did for prior sales tax measures such as Measure A/B. He noted that many of the projects were delivered ahead of schedule, on budget, and that some reasonable assumptions about risk were made even though funds were not available for every project. He asked how this success compares to where VTA is today.

Board Member Reed left his seat at 11:08 a.m.

Ex-Officio Board Member Yeager left the meeting at 11:09 a.m.

Ms. Antion indicated that in terms of Measure B, the Hay Group reviewed the audits that were conducted and noted that Measure B appears to have been managed by the Board as a balanced program where projects moved in and out as funding was available. The policy question in front of the Board today is if this is the appropriate way to manage the 2000 Measure A Program.

Board Member Reed took his seat at 11:12 a.m.

George McCormick of the Hay Group provided a presentation on the following Hay Group findings in the Organizational Structure area: "E. VTA's Organization Reflects a Lack of Focus on the Core Business, which Presents Significant Weaknesses Relative to Future Needs." He reported that VTA has significant misalignments at the C-Level of VTA. This level includes the General Manager and Division Chiefs. He referred to the General Manager position and noted that the Hay Group has assessed that the way the General Manager position is designed is not very effective.

Mr. McCormick reported that the General Manager has a span of control of nine direct reports. He stated that the General Manager also has become the Project Manager for the critical Silicon Valley Rapid Transit (SVRT) Corridor Project. He noted that as a result, the General Manager cannot play the strategic role that the Hay Group believes is the main responsibility of the position. Mr. McCormick added that the problems are increased because the General Manager does not serve on the Board of Directors. He

stated that the General Manager should have an executive team that will share the burden of understanding the issues and help in making decisions.

Board Member Liccardo took his seat at 11:18 a.m.

Alternate Board Member McHugh asked about the benefits of the General Manager serving as an Ex-Officio member when he already reports to the Board. Mr. McCormick noted that as a Board member, the Chief Executive in the public and private sector has a much tighter strategic linkage as a Board member. He indicated that while many organizations do not implement this recommendation, the Hay Group typically recommends that it be the case where possible.

Mr. McCormick continued his presentation on the following finding in the Organizational Structure area: “E. VTA’s Organization Reflects a Lack of Focus on the Core Business, which Presents Significant Weaknesses Relative to Future Needs.” He referred to the C-Level interviews conducted by the Hay Group and noted that it was found that there is no cohesive team under the General Manager. He noted that VTA does not have a Chief Engineer, which for an organization of this size in complexity, is somewhat noteworthy. The Hay Group has found that the Construction Division has heavy involvement in financial tracking and measuring financial performance. The Fiscal Resources Division plays more of an accounting role and does not have the robust relationship with the rest of the organization that one typically finds in a business that is basically capital intensive. Mr. McCormick noted the systemic weaknesses in financial management policies and processes.

Mr. McCormick provided a report on the opportunities for improving accountability-based management. He noted that roles, particularly for senior management, have not been established and there is a tendency to self-define roles. The Hay Group found that VTA has performance measures, but they are not based on executive outcome. Finally, he noted that executive behavior is not tracked and management are not held accountable for poor performance and bad behavior.

Vice Chairperson Kniss left the meeting at 11:26 a.m.

Ms. Antion provided a presentation on the following top nine Hay Group recommendations:

Recommendation No. 1 - Implement Governance Processes and Practices to Enable Transformation

A. Adopt the spirit of Sarbanes-Oxley

Ms. Antion reported that the Hay Group recommends that the Board adopt the spirit of Sarbanes-Oxley and that the Board implements a program of Sarbanes-Oxley compliance. The following items are the elements of what would represent a Sarbanes-Oxley implementation: a) Establish an Audit Committee as a Standing Committee of the Board; b) Implement an Auditor General function; c) Establish

Board training on duties and responsibilities; d) Focus the Board on its fiduciary responsibilities; and e) Conduct annual Board self-evaluation.

B. Make the Board structure function effectively

Ms. Antion reported that the Hay Group recommends that VTA adopt the following recommendations to improve Board functions: 1) Make the General Manager an Ex-Officio Member of the Board; 2) Develop an annual Board Work Plan; 3) Revalidate the Board's role in VTA policy making; 4) Revisit the Board's Standing Committee structure in 2008; 5) Reduce the number of Advisory Committees; 6) Change the Oath of Office to require a regional focus; 7) Improve the conduct of Board and Committee Meetings; and 8) Improve the quality of information that the Board receives.

With regards to the reduction in the number of Advisory Committees, Ms. Antion reported that the Hay Group is recommending that VTA incorporate the duties of the Technical Advisory Committee into the mission and responsibilities of the Policy Advisory Committee. It recommends that the seats on the Policy Advisory Committee continue to be held by the elected officials, but designate the alternate seats to be the top job in each jurisdiction, such as the City Manager or Chief Engineer.

Recommendation No. 2 - Operate VTA Like a Business

Ms. Antion reported that VTA needs to operate like a for profit business with a focus on financial viability, while fulfilling its non-profit regional transportation mission.

Recommendation No. 3 - Align VTA's Mission With Its Operating Practices

Ms. Antion reported that VTA needs to revisit its vision and mission and to focus on transportation as a core business. VTA also needs to develop an overall transformation strategy and plan. She noted that the Hay Group recommends that key positions be filled, such as the Interim Chief Financial Officer.

Recommendation No. 4 – Align the Organization Structure and Executive Team with the New Strategy

Ms. Antion noted that the Hay Group recommends substantial changes to the organizational structure to help communicate and implement the transformation strategy. The Hay Group has developed the following organizational structures: 1) Longer Term Structure; and 2) Transitional Structure.

Ms. Antion directed attention to the chart entitled “Longer-Term Structural Recommendations.” She referred to VTA as a business and noted there are three lines of business, the Congestion Management Agency (CMA), Engineering Construction Group, and Transit Operations. Today, VTA is running that as three separate lines of business and the Hay Group recommends integration of all three. The Hay Group recommends

that VTA hire a Deputy General Manager that would not only have the responsibility for those three lines of business, but ultimately would have the responsibility for integrating those three lines of business. By hiring a Deputy General Manager, the Board is elevating the job of the General Manager and taking the General Manager out of an operational role.

Board Member Liccardo referred to the structure that would manage the transformation and queried if it should be an outsider. Ms. Antion responded that whether it is an insider or outsider, the model can work either way, and is appropriately the General Manager's decision.

Board Member Cortese commented that he does not think one can underestimate the importance of defining how the Board oversight is going to occur. He queried if an Ad Hoc Group consisting of Board members would be established to help facilitate with the oversight role. Ms. Antion noted that Board oversight is absolutely critical and must be defined. Ms. Antion suggested that the Board take its Administration and Finance Committee and look at its charter to include this set of responsibilities. She also noted that given the extent of the recommendations, it is not uncommon to hold meetings every other week. Ms. Antion noted that the oversight will take approximately 18 months.

Recommendation No. 5 – Improve VTA's Financial Condition and Stability

Ms. Antion reported to improve VTA's financial condition and stability the Hay Group recommends the following actions: 1) Balance VTA's 30-Year Revenue and Expenditure Plans; 2) Develop an effective asset management system (cash, real estate, and capital project planning and maintenance); 3) Strengthen financial reporting for VTA decision-making; 4) Include financial policy as a prominent part of the Board's fiduciary duty; and 5) Identify and promote financial strategies within VTA, such as: a) explore measures to reduce unfunded pension and retiree healthcare obligations; b) create new revenue sources for VTA; c) close the gap between capital project demands and funding; and d) reduce reliance on operating reserves.

Recommendation No. 6 – Build VTA Commitment for the Commercial Development Program

Ms. Antion reported that in order for the Commercial Development Program to succeed, VTA leadership needs to commit to the Commercial Development Program's goals and objectives, and adhere to the policy and procedures recommended by VTA's development experts. This commitment should include establishing an account for the revenues generated by the Program and to consider a policy for the utilization of these revenues.

Recommendation No. 7 – Make VTA a Better Place to Work

Ms. Antion reported that VTA should implement the following recommendations to improve its work environment: 1) Establish norms for the conduct of business; 2) Communicate the need for and purpose of VTA's new Mission, Strategy, and

Structure; 3) Establish and communicate roles and responsibilities on a broad basis; 4) Establish and implement a performance management system; and 5) Create and implement an organizational development plan, making training a priority.

Recommendation No. 8 – Upgrade the SAP System

Ms. Antion reported that VTA needs to immediately initiate a project to upgrade the SAP system and needs to consider implementing new modules that support VTA's operational and financial transformation initiatives.

Recommendation No. 9 – Develop a Labor Negotiation Strategy that is Aligned with VTA's Financial Capabilities

Ms. Antion reported that VTA should develop a labor contract negotiation strategy that reflects the context of VTA's existing financial constraints. The strategy should include changes in pay, benefits structure, and retirement provisions.

Ms. Antion noted that the Executive Report contains a synopsis of the nine recommendations.

Board Member Reed thanked the previous Board and the General Manager for conducting the Organizational and Financial Assessment.

Board Member Williams asked if Board members will receive the results of recommendations when they are implemented. Mr. Burns noted that any implementation plan will have expected outcomes as part of the recommendation. Board Member Williams requested that the consultants provide their input on the impact of implementing the recommendations. Mr. Burns noted that detailed information is contained in the Technical Memorandum.

Board Member Kerr left the meeting at 11:59 a.m.

Ross Signorino, Interested Citizen, congratulated Mr. Burns for conducting the Organizational and Financial Assessment and noted that the Hay Group presented a good outline of recommendations. Mr. Signorino commented that he would have liked to have seen information on "how do we use the infrastructure in place."

Ed Rast, Interested Citizen, thanked the VTA Board for conducting the Organizational and Financial Assessment and noted the need for improvement in governance and fiscal accountability. He expressed concern about the Board's need for public accountability and noted that when elected officials join the Board of Directors, they have a role and responsibility to report on a regional basis to everyone in the County of Santa Clara. He noted that VTA needs significant improvement in public accountability, VTA public outreach, and in the reporting of information to the residents of Santa Clara County. Mr. Rast also suggested that evening and/or weekend meetings be held to allow for public participation.

Aaron Morrow, Interested Citizen, echoed Mr. Rast's comments. He indicated that he was speaking on behalf of himself today, but noted that he is the Committee for Transit Accessibility (CTA) First Vice Chairperson. Mr. Morrow commented that VTA needs to look closely at the recommendations that come out of not only the CTA, but their Advisory Committees. He noted that many recommendations have been made to the Board as far as an audit team to look after the whole picture of the financial outlook of VTA. He indicated that he does not think that motions brought forth by the Advisory Committees are closely viewed.

Chairperson Chu recognized Carl Guardino, the new California Transportation Commissioner for the State of California.

Mr. Guardino commented that he looks forward to working with VTA and the Board as he takes on this new role as one of nine members on the California Transportation Commission. He complimented the Board, Mr. Burns, and the Management Team and noted not every organization is willing to put a mirror up to itself and conduct a close examination of its organization. He complimented VTA in doing what is best for the community, taxpayers, and for the people who are so dependent on VTA services. Mr. Guardino commented that as VTA implements what it thinks is appropriate, he will work with VTA as a partner, both from his perspective as a member of the California Transportation Commission, his role as a private citizen, and through his organization at the Silicon Valley Leadership Group.

Board Member Macias commented on the Executive Report and noted that she has had many of the same concerns during her time on the Board and as a Policy Advisory Committee member. She noted that the Board needs to be very realistic about the process and that change will be difficult.

Board Member Sandoval echoed Board Member Macias' comments and noted that the Board must now revisit the Core Principles/Guidelines recently adopted by the Board. She also stated that the Board should use the Comprehensive Operations Analysis to make determinations on projects and routes that will affect VTA's ridership and the services that VTA provides to its community.

Board Member Sandoval referred to the discussion that will take place in May 2007 regarding implementation of the recommendations and anticipates at that time that Mr. Burns will delineate which action/recommendation will be forwarded to which committee, so that members have an opportunity to debate some of the recommendations.

Alternate Board Member McHugh left the meeting at 12:11 p.m.

Chairperson Chu thanked the Hay Group for conducting the Organizational and Financial Assessment and for providing the Executive Report.

On order of Chairperson Chu, there being no objection, the Board of Directors received a presentation on the Findings and Recommendations from the Organizational and Financial Assessment and discussed implications and next steps.

5. **ADJOURNMENT**

On order of Chairperson Chu, there being no objection, the Board of Directors Workshop Meeting was adjourned at 12:12 p.m.

Respectfully submitted,

Tracene Y.Crenshaw, Board Assistant
VTA Board of Directors