

Date: \_\_\_\_\_ February 20, 2008

Committee Meeting Date: \_\_\_\_\_ N/A

Board Meeting Date: \_\_\_\_\_ March 6, 2008

**BOARD MEMORANDUM**

**INFORMATION ITEM**

**TO:** Santa Clara Valley Transportation Authority  
Board of Directors

**THROUGH:** Michael T. Burns  
General Manager

**FROM:** Jerry G. Mikolajczyk  
Financial Advisor

**SUBJECT:** Financial Management Improvement Update

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**FOR INFORMATION ONLY**

**BACKGROUND:**

VTA Board Chairperson Liz Kniss requested that a presentation be made to the Board of Directors and to the public outlining the improvements in financial management practices of VTA during the tenure of Interim Chief Financial Officer, Jerry G. Mikolajczyk, April 2007 to January 2008.

In 2006, the VTA initiated an Organizational and Financial Assessment to evaluate its performance and identify opportunities for improvement. In March 2007, the report on the Organizational and Financial Assessment of VTA (the "Assessment") was released.

Among other things, the Assessment concluded that the VTA suffered from weaknesses in financial management processes, policies and practices, including those relating to internal audit functions, cash management, budgeting and expenditure controls. The Assessment also made a number of specific organizational and financial management recommendations including a change in the leadership of the financial organization.

**Action taken by VTA:**

On April 5, 2007, VTA's Board approved a contract to engage Jerry G. Mikolajczyk as Chief Financial Officer for an interim basis, and a contract with Karen Antion Consulting LLC ("KAC") to provide professional services in support of implementing primarily the Assessment's recommendations. On June 1, 2007, VTA's General Manager announced a transformation organization structure for the VTA that incorporates many of the recommendations from the Assessment. VTA's General Manager appointed a transformation team to work with KAC to develop and implement the transformation plan. On January 22, 2008, Joseph Smith commenced as the permanent Chief Financial Officer.

## **DISCUSSION:**

### **Financial Improvements April 2007 through January 2008:**

- Implemented a cash management reporting system for all of VTA's Funds.
- Improved the annual operations and capital budgeting process within VTA.
- Improved the Budget Variance reporting procedure to include forecasting of year end results.
- Reorganized the Fiscal Resources organization to improve functionality and provide for a succession plan.
- Developed financial stability and sustainability strategies.
- Improvements made to the procurement processes for material and commodity purchases.
- Improvements made to the contract procurement process.
- Began internal control review to implement the spirit of Sarbanes-Oxley.
- Improvement in categorizing cost estimates as to types of estimates to provide the degree of project definition and the level of uncertainty.
- Improvement made to the methodology of applying General and Administrative (ICAP) costs to operations and to capital projects.

### **Benefits of Financial Improvements:**

- Debt Reduction Funds established with reallocation of cash for both the Enterprise fund and the Measure A Fund totaling \$116 million.
- 2000 Measure A outstanding debt reduced by \$72.2 million.
- VTA net cash position increase of \$204.5 million between March 31, 2007 and January 31, 2008 net of debt reduction of \$72.2 million.
- Implemented various cash management procedure improvements resulting in increased cash balances and interest income, such as:
  - Accounts Payable terms and conditions enforced on contracts with annual potential savings of \$200,000.
  - Accelerated billings on grants resulting in receipt of \$150 million in less than 90 days providing VTA with accelerated investment income of \$2.5 million.
- Three Cost Plus Fixed Fee contracts converted to Lump Sum contracts resulting in risk mitigation and cost control with lower administrative costs for VTA and contractors.
- Internal control reviews are improving and strengthening internal controls, policies and procedures.
- VTA's credit rating upgraded by two of the national credit rating agencies.
- Reduce variable interest rate risk on portion of outstanding debt.
- Portion of Long-Term debt refunded with savings of \$1.6 million.
- FY08 & FY09 Adopted Biennial Budget process was streamlined with meaningful presentation of the budgets to the Board of Directors.
- The adoption of AACE (the Association for the Advancement of Cost Engineering) recommended Practice 18R-97 Cost Estimate Classification System for defining the estimate class to the degree of project definition which will allow management and the Board of Directors to have a confidence level of the estimate, the "Cone of Uncertainty".

- The new methodology of ICAP allocation will provide an accurate and equitable basis for allocating General and Administrative costs to operations and capital projects.

**Moving Forward:**

- Implementation of the spirit of Sarbanes-Oxley.
- Financial certifications by staff from supervisor to General Manager.
- Expenditure control.
- Establishing investment and risk management strategies.

**Fiscal Impact:**

- VTA has realized additional revenues and savings as a result of the financial improvements.
- Improved financial management of VTA's assets.

**Summary:**

- VTA is improving its financial controls and management of VTA's assets.
- Financial control evaluation is a constant process.
- VTA is a secure and stable operating entity that is a going concern.

Prepared by: Jerry G. Mikolajczyk

ATTACHMENT