



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AD-HOC FINANCIAL RECOVERY COMMITTEE**

Wednesday, June 2, 2010

3:00 P.M.

VTA River Oaks Campus
Auditorium
3331 North First Street
San Jose, CA

AGENDA

- 1. CALL TO ORDER/ROLL CALL**
- 2. PUBLIC PRESENTATIONS:** This portion of the agenda is reserved for persons desiring to address the Committee on any matter not on the agenda. Speakers are **limited to 2 minutes**. The law does not permit Committee action or extended discussion on any item not on the agenda except under special circumstances. If Committee action is requested, the matter can be placed on the next agenda. All statements that require a response will be referred to staff for reply in writing.
- 3. CHAIRPERSON'S REPORT**
- 4. Review Draft Financial Stability Policy.**
- 5. ADJOURN**

NOTE COMMITTEE MEMBERS: In order to establish a quorum for this meeting, members are asked to call Board Office at (408) 321-5680 or E-mail: board.secretary@vta.org before 5:00 p.m. on the day prior to the meeting. Thank you for your cooperation.

In compliance with the Americans with Disabilities Act (ADA), those requiring accommodations or accessible media for this meeting should notify the Board Secretary's Office 48 hours prior to the meeting at (408) 321-5680 or E-mail: board.secretary@vta.org or TDD (408) 321-2330. VTA's Homepage is located on the web at: <http://www.vta.org>

NOTE: THE COMMITTEE MAY TAKE ACTION ON ANY ITEM IDENTIFIED ON THE AGENDA.

DRAFT
MAY 27th, 2010

Financial Stability Policy
VTA Transit Enterprise Fund

This Policy establishes guidance on expenditure prioritization and the key principles that VTA shall use to prudently align its operating costs with its available resources.

Guidance on Expenditure Prioritization

In developing VTA's Biennial Operating Budget and associated financial plans, VTA shall prioritize its activities in the following order. This prioritization guidance shall be used both when budget reductions are required in order to keep spending consistent with available revenues, and when increases in operating revenues permit VTA to devote additional resources to its transit-related activities.

1. Preserving the existing level of transit service provided to VTA riders to the greatest extent possible. The service plan shall be developed in accordance with VTA's Transit Sustainability Policy and service design guidelines.
2. Activities that directly support the provision of transit service, i.e., only those core operating and administrative functions that are necessary and essential to support the provision of the existing level of transit service, both in terms of the types of functions required and level of resources needed to support service.
3. Support for transit service provided by VTA partner agencies (e.g. Caltrain, ACE, Dumbarton Express, etc...).
4. Activities that clearly contribute to increasing VTA's operating funding (e.g. fare programs, joint development, advertising, etc...).
5. Activities that provide information to riders, employees, stakeholders and the public.
6. Activities that would prudently expand VTA transit service, when sustainable revenues are available to support the service growth.

Key Principles

VTA shall abide by the following key principles affecting budget development, financial planning and employee relations:

- **Revenue Enhancement Committee** - VTA's Board of Directors shall establish a Joint Labor/Management Task Force responsible for advising the Board on possible mechanisms for increasing VTA's operating revenues, and for developing specific recommendations to the Board regarding revenue measures that could be implemented administratively by VTA, measures that would require legislative action, and measures that would require voter approval. Such measures are to include, but not be limited to, potential fare adjustments (including possible changes to existing fare programs such as the EcoPass that promote transit ridership), parcel tax, sales tax and benefit assessment districts.
- **Operating Reserve at 15%** - VTA shall take the necessary steps to protect its financial liquidity by building and maintaining an Operating Reserve equal to 15 percent of annual operating expenses. To the extent that the Operating Reserve level falls below the 15 percent threshold, during the next biennial budget process, VTA must identify measures necessary to reach the 15 percent threshold within a [3 year] period, and begin implementation of some or all of those measures, or of appropriate alternative measures, during the next biennial budget process.
- **Control Cost Growth** - VTA shall take appropriate steps to ensure that its operating costs do not grow faster than its reasonably anticipated operating revenues. Unless required by Federal, state or local law, measures that increase operating expenses should not be implemented until the funding for those increases has been identified with reasonable certainty.
- **Negotiate Sustainable Bargaining Unit Agreements** - In developing cost reduction strategies and plans, and in negotiating labor agreements, VTA shall work collaboratively with its employee bargaining units to identify ways to protect the agency's financial condition and liquidity, including ways to control the cost to the agency of employee benefit programs, while also preserving the jobs of VTA's employees to the extent possible. Consideration shall be given to partnering with Santa Clara County and other cities within the county to provide the greatest leverage in negotiating with benefit providers.
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- **Use Contracted Services** - VTA shall periodically evaluate the use of contracted services for the delivery of service on selected VTA transit routes, and the delivery of other services utilized in the course of operating and supporting VTA transit service. In making decisions regarding the use of contracted services, VTA should compare the expected impacts on cost, safety, reliability and customer service associated with contracted service delivery, and any related long term financial risks, against the performance and cost of utilizing VTA staff in delivering those same services.
- **Limit Use of Capital Funding** - When determining whether to use all or a portion of its eligible capital funding for operating-related purposes, such as preventive maintenance, VTA should attempt to balance the needs of its day to day operations with its longer term needs to preserve, protect and renew its capital assets. 100 percent of eligible capital funding may be used for operating purposes for a limited period, but should not be used for operating purposes on an ongoing basis.

DRAFT
June 1, 2010

Financial Stability Policy
VTA Transit Enterprise Fund

This Policy establishes guidance on expenditure prioritization and the key principles that VTA shall use to prudently align its operating costs with its available resources.

Guidance on Expenditure Prioritization

In developing VTA's Biennial Operating Budget and associated financial plans, VTA shall prioritize its activities in the following order. This prioritization guidance shall be used both when budget reductions are required in order to keep spending consistent with available revenues, and when increases in operating revenues permit VTA to devote additional resources to its transit-related activities.

1. Preserving the level of fixed route transit service and paratransit service provided to VTA riders to the greatest extent possible. The service plan shall be developed in accordance with VTA's Transit Sustainability Policy and service design guidelines.
2. Activities that directly support the provision of transit service, i.e., only those core operating and administrative functions that are necessary and essential to support the provision of the existing level of transit service, both in terms of the types of functions required and level of resources needed to support service.
3. Support for transit service provided by VTA partner agencies (e.g. Caltrain, ACE, Dumbarton Express, etc...).
4. Activities that clearly contribute to increasing VTA's operating funding (e.g. fare programs, joint development, advertising, etc...).
5. Activities that provide information to riders, employees, stakeholders and the public.
6. Activities that would prudently expand VTA transit service, when sustainable revenues are available to support the service growth.

Key Principles

VTA shall abide by the following key principles affecting budget development, financial planning and employee relations:

- **Revenue Enhancement Committee** - VTA's Board of Directors shall establish a Joint Labor/Management Task Force responsible for advising the Board on possible mechanisms for increasing VTA's operating revenues, and for developing specific recommendations to the Board regarding revenue measures that could be implemented administratively by VTA, measures that would require legislative action, and measures that would require voter approval. Such measures are to include, but not be limited to, potential fare adjustments (including possible changes to existing fare programs such as the EcoPass that promote transit ridership), parcel tax, sales tax and benefit assessment districts.
- **Operating Reserve at 15%** - VTA shall take the necessary steps to protect its financial liquidity by building and maintaining an Operating Reserve equal to 15 percent of annual operating expenses. To the extent that the Operating Reserve level falls below the 15 percent threshold, during the next biennial budget process, VTA must identify measures necessary to reach the 15 percent threshold within a [3 year] period, and begin implementation of some or all of those measures, or of appropriate alternative measures, during the next biennial budget process.
- **Control Cost Growth** - VTA shall take appropriate steps to ensure that its operating costs do not grow faster than its reasonably anticipated operating revenues. Unless required by Federal, state or local law, measures that increase operating expenses should not be implemented until the funding for those increases has been identified with reasonable certainty.
- **Negotiate Sustainable Bargaining Unit Agreements** - In developing cost reduction strategies and plans, and in negotiating labor agreements, VTA shall work collaboratively with its employee bargaining units to identify ways to protect the agency's financial condition and liquidity, including ways to control the cost to the agency of employee benefit programs, while also preserving the jobs of VTA's employees to the extent possible. Consideration shall be given to partnering with Santa Clara County and other cities within the county to provide the greatest leverage in negotiating with benefit providers.
- **Use Contracted Services** - VTA shall periodically evaluate the use of contracted services for the delivery of service on selected VTA transit routes, and the delivery of other services utilized in the course of operating and supporting VTA transit service. In making decisions regarding the use of contracted services, VTA should compare the expected impacts on cost, safety, reliability and customer service associated with contracted service delivery, and any related long term financial risks, against the performance and cost of utilizing VTA staff in delivering those same services.
- **Limit Use of Capital Funding** - When determining whether to use all or a portion of its eligible capital funding for operating-related purposes, such as preventive maintenance, VTA should attempt to balance the needs of its day to day operations with its longer term needs to preserve, protect and renew its capital assets. 100 percent of eligible capital funding may be used for operating purposes for a limited period, but should not be used for operating purposes on an ongoing basis.

Ad Hoc Financial Recovery Committee

Key Principles

June 2nd, 2010

The following Key Principles establish a framework for policy direction to the Santa Clara Valley Transportation Authority Board of Directors and staff during the creation the biennial budget and when addressing unforeseen changes in the Authority's revenue.

Revenue Enhancement Committee - VTA's Board of Directors shall establish a Joint Labor/Management Task Force responsible for advising the Board on possible mechanisms for increasing VTA's operating revenues, and for developing specific recommendations to the Board regarding revenue measures that could be implemented administratively by VTA, measures that would require legislative action, and measures that would require voter approval. Such measures are to include, but not be limited to, potential fare adjustments (including possible changes to existing fare programs such as the EcoPass that promote transit ridership), parcel tax, sales tax and benefit assessment districts.

Pros – Provides a forum where ideas to increase revenue through creative solutions can be tested to determine their feasibility before sending to the Board for policy implementation Also provides an avenue for utilizing the expertise of VTA's employees in developing solutions to the revenue enhancement challenge.

Cons – Ideas will take different time periods to come to fruition. These ideas may not be implemented soon enough to address the significant operating budget shortfall that is expected to occur by FY2012.

Alternatives – Create a Revenue Enhancement Committee of the Board of Directors (i.e. similar to the Administration & Finance Committee).

Operating Reserve at 15% - VTA shall take the necessary steps to protect its financial liquidity by building and maintaining an Operating Reserve equal to 15 percent of annual operating expenses. To the extent that the Operating Reserve level falls below the 15 percent threshold, during the next biennial budget process, VTA must identify measures necessary to reach the 15 percent threshold within a [3 year] period, and begin implementation of some or all of those measures, or of appropriate alternative measures, during the next biennial budget process.

Pros – A reasonable reserve policy protects VTA against the vagaries of the economy. It allows for service levels and employment levels to be maintained in times of lowered revenues. This serves as an 'insurance policy' or 'rainy day fund' during emergency situations. The lack of a reasonable reserve places the VTA at risk of service reductions and layoffs in even minor fluctuations in revenue.

Cons – VTA's operating reserve is expected to be close to 5 percent of the operating budget by the end of FY2011. In order to rebuild VTA's reserve to the 15 percent level, difficult policy choices will be required, in the form of spending reductions and enhanced revenues.

Alternatives – Establish the Operating Reserve target at a lower level, such as 10 percent. However, a 10 percent reserve is lower than VTA's traditional target, and provides a significantly smaller cushion against future unexpected fluctuations in revenues or expenses.

Ad Hoc Financial Recovery Committee

Key Principles

June 2nd, 2010

Control Cost Growth - VTA shall take appropriate steps to ensure that its operating costs do not grow faster than its reasonably anticipated operating revenues. Unless required by Federal, state or local law, measures that increase operating expenses should not be implemented until the funding for those increases has been identified with reasonable certainty.

Pros – This purpose of this principle is to ensure that VTA does not take on current or future financial liabilities that it cannot afford.

Cons – Adhering to this principle could require difficult policy choices affecting future employee compensation and service levels.

Alternatives – None. Controlling future cost growth is an essential component of ensuring VTA's financial sustainability.

Negotiate Sustainable Bargaining Unit Agreements - In developing cost reduction strategies and plans, and in negotiating labor agreements, VTA shall work collaboratively with its employee bargaining units to identify ways to protect the agency's financial condition and liquidity, including ways to control the cost to the agency of employee benefit programs, while also preserving the jobs of VTA's employees to the extent possible. Consideration shall be given to partnering with Santa Clara County and other cities within the county to provide the greatest leverage in negotiating with benefit providers.

Pros – Employee wages and benefits constitute 70% of VTA's operating budget. Controlling those operating expenses is a key means to achieve financial stability. By establishing a policy that controls the growth of benefit plans through employee contributions, expense caps, tiers, partnerships and/or other methods, VTA can, over time, negotiate compensation packages that permit the agency to improve its financial stability.

Cons – Employees, who bargained in good faith for their current benefit packages, may experience increased costs for medical and/or other benefits. In addition, if a multi-tiered compensation system were to be implemented, new employees, performing the same work as other employees, could do so in exchange for lesser benefits and compensation.

Alternatives – None. Implementing measures that control the cost of employee benefits is essential to ensuring VTA's financial sustainability.

Use Contracted Services - VTA shall periodically evaluate the use of contracted services for the delivery of service on selected VTA transit routes, and the delivery of other services utilized in the course of operating and supporting VTA transit service. In making decisions regarding the use of contracted services, VTA should compare the expected impacts on cost, safety, reliability and customer service associated with contracted service delivery, and any related long term financial risks, against the performance and cost of utilizing VTA staff in delivering those same services.

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Pros – Potentially enables VTA to deliver services in a more cost effective manner. Enables the organization to expand and contract with differing revenue levels without the necessity of layoffs to VTA employees.

Cons- If not properly implemented, may result in a lesser quality of service and greater depreciation of VTA equipment.

Alternatives- Use only in-house resources to deliver services.

Limit Use of Capital Funding - When determining whether to use all or a portion of its eligible capital funding for operating-related purposes, such as preventive maintenance, VTA should attempt to balance the needs of its day to day operations with its longer term needs to preserve, protect and renew its capital assets. 100 percent of eligible capital funding may be used for operating purposes for a limited period, but should not be used for operating purposes on an ongoing basis.

Pros – Maintaining a reasonable level of equipment replacement provides a better level of service for transit users. By carefully balancing the use of these funds, VTA should be able to preserve service levels, jobs and equipment reliability.

Cons – Reducing the amount of Federal funds used for operating purposes may require VTA to identify additional operating spending reductions or enhanced revenues.

Alternatives – Continuing to use all eligible capital funds for operating purposes to help maintain service levels and employment while awaiting an economic rebound.

Note: 2000 Measure A Program – By Board Policy, and in accordance with a Court ruling based on the text of the ballot initiative, a limited amount of revenue collected from the 2000 Measure A Sales Tax may be used to fund VTA's operations. Increasing the amount of Measure A funds diverted to operations will seriously compromise the VTA's ability to deliver the projects promised to the voters under this program.