Advisory Committee Recommendations:

1. Organizational Assessment Report:
    - Develop mission statements for each advisory committee with goals/objectives that align with VTA mission/vision/values
    - Reduce the overlap between committees; if more than one select lead
    - Involve committees early in the process
    - Don't take all items to all committees; focus on areas of responsibility/expertise
    - Reduce the number of committees; merge TAC and PAC
    - Review the bylaws to be sure they reflect current mission/duties
    - Develop annual workplan
    - Offer orientation for new members

2. Bureau of State Audits Report:
    - Reassess/restate the purpose/roles of the committees
    - Develop work plans that involve committees early in process and tap expertise/focused areas of responsibility
    - Provide citizens with an opportunity to address board similar to PAC

B. VTA Governance Does Not Operate as Designed

Current Board Structure. The Congestion Management Agency's ("CMA's") governance structure served as VTA's governance model. The structure was designed to provide Santa Clara County and the cities within the county with an opportunity to participate in VTA's governance. Enabling legislation establishes VTA's Board as "...the legislative body of the district" that "shall determine all questions of district policy." The Board has broad powers as a public transit agency and as the CMA. These include the power to construct, improve and/or operate transit and paratransit services, state and county highways, roads, streets, bicycle, and transportation facilities.

The Board consists of twelve voting members who are appointed for two year terms by their respective appointing agencies from the county and cities. The Chair and Vice Chair serve one year terms and are elected by VTA's Board.

Standing Committees. VTA has three Standing Committees that serve as Board advisors on policy matters within their assigned areas of responsibility and other matters referred to them by the GM or Board Chair. The Standing Committees are specified in its Administrative Code and can be changed by the Board as appropriate. VTA's Standing Committees are:

- Administration and Finance Committee: pertaining to VTA's financial management and general administration;
- Transit Planning and Operations Committee: pertaining to VTA's transit planning, capital projects, transit operations, and marketing; and
- CMP and Planning Committee: pertaining to congestion management program and development of countywide transportation plans.

Advisory Committees. The Board has also established five Advisory Committees that provide advice to the Board on policy issues referred to the Committee either by the Board or the GM. These Advisory Committees also facilitate communications between the community, other agencies, and VTA, to build necessary consensus for policy decisions. Like the Standing Committees, the Advisory Committees are specified in the Administrative Code and can be changed by the Board as appropriate. VTA's Advisory Committees are:

- Policy Advisory Committee: advise on policy issues (unlike the other Advisory Committees, members of this Committee are elected officials);
- Technical Advisory Committee: advise on major policy and technical issues related to VTA projects and programs;
- Citizens Advisory Committee: advise on policy issues from a citizen's perspective, including community interests, business and labor groups, and city and county groupings, and serves as Measure A watchdog;

Use Advisory Committees to Inform Board Decisions. While the duties of each Advisory Committee are described in the Administrative Code, Hay did not find that the Committees have clearly articulated missions, goals and objectives. As a result, the Advisory Committees are not well aligned with VTA's mission. There is also a significant degree of overlap in the Advisory Committees' activities and work plans.

Hay found that these Committees do not have an opportunity to consider policies and plans in the early stages of their development. Early stage participation by these Committees would enable them to provide meaningful input and could help facilitate the development of a consensus on issues, so that true regional solutions can evolve. More often than not, staff presentations are made to the Advisory Committees only when a proposal has been fully developed and is planned for recommendation to the Board in an upcoming meeting. In these cases, the Advisory Committee action is to report to the Board that the staff report was accepted. The Advisory Committees have generally not been in a position to provide meaningful, regionally based policy guidance to the Board based on their own input, agreements and discussions.

Need to Embrace Fiduciary Responsibilities and Obligations. VTA's Board has a fiduciary responsibility to ensure that VTA remains financially sound and that its assets are appropriately protected. It is the responsibility of each Board member to understand the complete financial consequences of policy proposals for VTA's mission, financial condition, expenditures, and reserves. While the Board's fiduciary responsibility is clear in principle, VTA has not consistently taken actions to adhere to this responsibility.

- Making decisions where local interests take priority over VTA and the region's needs. The Board has approved capital projects and transit service plans that were political solutions to address the needs of local jurisdictions at the expense of the region's transportation needs. As a result, VTA has built transportation systems and has transit service plans that have low ridership and are expensive to operate and maintain.

- Making Decisions Without Adequate Financial Information. The Board members have reported that they have made significant financial decisions without being fully informed of their short and long term consequences for VTA's financial condition, reserves, or expenditures. Board members repeatedly expressed frustration that reports, recommendations, and information provided by VTA staff have not clearly and concisely presented the full current and future financial impact of policy proposals and alternatives. Many Board members have also expressed that VTA's Board package is not designed for ease of use when preparing for upcoming meetings (this is particularly an issue for Directors who do not have full time staff support).

- Review and adopt business policy at VTA (near term policy issues include the Transit Sustainability Policy, COA, Financial Policy to assure sustainability, Policy for Measure A Revenue/Expenditure Planning and Project Prioritization, and the Commercial Development Program);
- Review and approve changes to the Administrative Code to reflect changes in governance structure such as appointment of the GM to the Board, changes in Standing and Advisory Committees, changes in oath of office, etc.; and
- Provide oversight of VTA's financial management, policies, controls, practices, and financial statement disclosures.

Revalidate the Board's Role in VTA Policy Making. It is imperative that the Board engage its Standing and Advisory Committees to provide input into policy decisions for the benefit of regional stakeholders. The Board should remain focused on establishing general policies and charge the GM with responsibilities for developing initiatives and actions consistent with Board policy. The Board, in turn, will be able to evaluate whether the organization's programs are consistent with Board policy and whether the desired outcomes were achieved.

Revisit the Board Standing Committee Structure in 2008. As previously noted, Hay believes that the Standing Committee structure could be effective under good governance practices. However, we recommend that the Board revisit the Standing Committees' effectiveness during fiscal year 2008 as part of the annual Board self evaluation, and make any adjustments deemed necessary.

Reduce the Number of Advisory Committees. VTA should develop and evaluate a plan to incorporate the duties of the Technical Advisory Committee into the mission and responsibilities of the Policy Advisory Committee. VTA should also consider revising the membership so that elected officials would continue to serve as Committee members but designate the alternate position to be filled by the senior professional in the jurisdiction (City Manager). This approach would help ensure that the Policy Advisory Committee members have the benefit of business and/or technical analysis conducted by professional staff in their jurisdiction for the policy matters that they consider.

Change the Oath of Office to Require a Regional Focus. The GM and Board Chair should reach out to appointing authorities to educate them about the requirements of enabling legislation for their respective appointments to the Board. To serve the region and the jurisdiction effectively, VTA should consider changing its Oath of Office for the Board to include commitments to: (1) avoid the appearance of conflict; and (2) take a regional perspective when making policy decisions.

Conduct of Board and Committee Meetings. VTA's Board meetings need to be conducted in a collegial and professional manner, with a focus on pre-established agenda items set forth in Committee work plans that are mutually

developed by the Board and Committee Chairs. Items for Board action should first be reviewed and recommended by the appropriate Advisory Committee and then by the appropriate Standing Committee. The practice of having all items reviewed by all committees should be discontinued. Items that are recommended for approval to the Board by a Standing Committee should be reported out and a motion made by the Chair of the Standing Committee. The item should not be presented at the Board meeting. The Board should continue to use the Consent Agenda for appropriate items. Board members should be able to request that individual items be removed from the Consent Agenda and considered by the Board. Items on the Consent Agenda should not be presented at the Board meeting.

Improve the Quality of Information that the Board Receives. VTA staff should revise the structure and content of the Board Package of materials. Staff should also develop a format and a review process that ensures meaningful, actionable policy recommendations and clear, concise supporting information, including short and long term impacts on VTA's financial condition, expenditures, and reserves. The Board package should be designed to serve the needs of all Board members, including those Board members who do not have full time staff support.

B. Operate VTA Like a Business

VTA needs to operate more like a for profit business with a focus on financial viability and stability, while fulfilling its non profit regional transportation mission. In this way, VTA will enhance its ability to deliver the quantity and quality of regional transportation services in the most financially effective manner.

Establish Goals, Objectives and Performance Management Processes for the Executive Management Team. VTA should update the accountabilities for C-Level staff, taking special care to clearly define accountabilities for core leadership processes such as strategic planning, capital budgeting, and operations budgeting. In addition, interdependencies between the GM's role and the C-Level roles should be clearly defined. The GM and executive management team need to develop a new strategic business plan for the Agency. This new strategic business plan should be accompanied by goals that can be quantified and measured while at the same time tied to VTA's mission. Once the performance measures are established, a system should be developed which will allow for the integration of the organization's activities with the measures used to gauge their performance. These activities need to be managed to drive the results to the highest levels of performance.

VTA should ensure that it updates its executive performance management program to include communicating about performance, providing feedback, and holding executives accountable for their individual and collective impact. Performance metrics should consider measures that engage the interrelationships between VTA's strategy and its business/operational component.

Delegate Appropriate Authority, and Accountability. Hay recommends that VTA make substantial changes to its organizational structure to support the revised mission

The Vision Statement: The vision of the Santa Clara Valley Transportation Authority (VTA) is to provide a transportation system that allows anyone to go anywhere in the region easily and efficiently.

The Mission Statement: The mission of the Santa Clara Valley Transportation Authority (VTA) is to provide the public with a safe and efficient countywide transportation system. The system increases access and mobility, reduces congestion, improves the environment, and supports economic development, thereby enhancing quality of life.

This vision and mission which are very broad and seemingly expensive to achieve may have been appropriate in the economic environment of 1995. The Hay team recommends that the VTA Board of Directors gain a thorough understanding of the current and projected financial constraints and challenges facing VTA and develop a new vision and mission for the Agency for the next decade that can be accomplished within VTA's financial capacity.

Governance

As a first step in our assessment of the governance structure the Hay team reviewed and analyzed the VTA Enabling Legislation, the Administrative Code, and the By-Laws for each of the Advisory Committees. The team then conducted interviews with VTA Board Members, each of the Advisory Committee Chairs and a group of stakeholders. The Hay team has concluded that the governance structure currently in place has and can continue to serve VTA well. Conversations with current and recent board members and stakeholders, however, indicate that the board is facing a number of significant challenges that need to be addressed in order for the board to satisfy its responsibilities and function effectively as a regional decision-making body. Moreover, the Advisory Committees charged with supporting the Board of Directors have found their opportunity to help shape and recommend policy has been diminished and we did not find that they have a mission, with clear goals and objectives articulated. A detailed discussion of the Hay team's findings and recommendations for improving the effectiveness of VTA's governance structure can be found in a section of Part 1 entitled Review of VTA Governance Structure: Board of Directors, Advisory Committee Structure and Stakeholders.

Organization Structure

The analysis of VTA's organization structure was done at both the enterprise level as well as a detailed review of each division within the Agency. As a result of our analysis, the Hay team has determined that VTA's organization structure needs more clarity, focused accountability, and fiscal responsibility for all lines of business including: transit services, planning and congestion management, engineering and construction, management of capital projects including SVRT, fiscal resources, and administration. In addition, it is necessary to support the increasing criticality of an external focus for VTA leadership by reducing the General Manager's span of control and internal management requirements. The Hay team is recommending substantial changes to the organization

- An Audit Committee is not a standing committee of the Board. Most public sector agencies today, while not required to implement Sarbanes Oxley, are modifying their committee structure to include an Audit Committee to implement "the spirit" of this legislation as a means to satisfy the Board's fiduciary responsibilities.

Findings: Standing Committees

- The Standing Committees are specified in the Admin Code. VTA's Board appears to have the flexibility to define the Standing Committee structure. Changes to the structure can be made through changes in the Admin Code.
- The Standing Committee structure could be effective under good governance practices.
- Standing Committee activities should reflect their defined responsibilities. VTA currently has situations where "all items reviewed by all committees". For example, ideas are presented to all Committees to help predict the results of Board votes.

There is no Audit Committee, which could be organized as a Standing Committee of the Board.

Findings: Advisory Committee Structure

Provided that it has at least one Advisory Committee, VTA's Board has the flexibility to define its Advisory Committee structure. Changes to the structure can be made through changes in the Administrative Code.

From discussions with prior board members and stakeholders who were the original architects of the governance structure it is clear that the advisory committee structure was established to provide stakeholders with a forum to provide guidance to the Board as policy was being developed and considered. The history seems to indicate that this structure served the Board and VTA well during its early years as an organization. In more recent years, it appears as if the Advisory committees' opportunity to help shape and recommend policy to the Board has been diminished.

While the duties of each advisory committee are described in the Administrative Code and the By-laws of each Committee, we did not find that the Committees have a mission, with clear goals and objectives articulated. As a result we find that the committees are not well aligned with VTA's mission, goals and objectives. In addition, there is a significant degree of overlap in the activities and work-plans of the Committees. We find that the Committees do not have an opportunity to consider policy and plans in the early stages of their development so that they can provide meaningful input to the VTA staff and the Board. The opportunity for committees to participate in the review of policy in the early stages of development would also help to build consensus on issues as they are being developed so that true "regional" solutions could evolve. More often than not, presentations from staff are provided to the Advisory Committees only when they are fully developed and planned for recommendation to the Board in an upcoming cycle. In these cases, the Advisory committee's action is to "accept the report" from staff and

report to the Board that they reviewed and accepted the staff report on the item. In most cases the Advisory Committees are not in a position to provide meaningful policy guidance to the Board.

The Advisory Committee structure can provide the VTA Board with the benefits of an "historical perspective" and "institutional memory" on transportation issues that can often take many years to mature. Unlike the Board of Directors who serve two year terms and whose tenure on the Board can be shortened by term limits affecting their elected position, Advisory Committee members serve two years and may be appointed to successive terms (in the case of PAC, BPAC and CTA) or serve continuously until resignation or replacement by their respective appointing authorities (in the case of TAC and CAC). An effective Advisory Committee structure can also help the Board satisfy its responsibility for succession planning by serving as an effective structure in which to educate members on the intricacies of VTA's core businesses (Planning and Congestion Management, Engineering and Construction, and Transit Operations) and season elected official for future position on the Board of Directors.

Recommendations: Board of Directors and Standing Committees

The VTA Board of Directors should implement a program that will address the challenges currently facing the Board with the objective of improving their effectiveness as a regional policy board. The program should include the following elements:

- The General Manager should develop a work-plan for the Board Chair to focus the Board on its policy role and fiduciary responsibilities. Given VTA's current financial challenges, the need to make meaningful changes to its service plans and capital program priorities the Board should;
  - √ Review and approve VTA's Vision, Mission and Goals
  - √ Review and approve business policy at VTA (near term policy issues include the Transit Sustainability Policy, Comprehensive Operational Analysis, Financial Policy to assure sustainability, Policy for Measure A Revenue/Expenditure Planning and Project Prioritization, and the Commercial Development Program).
  - √ Review and approve required changes to the Administrative Code
  - √ Provide oversight of VTA's financial management, policies, controls, practices, and financial statement disclosures
- Establish an Audit Committee as a standing committee of the Board. Make a policy decision to implement the "spirit" of the Sarbanes Oxley legislation. Develop a charter that would require the Audit Committee to:
  - √ Approve and provide policy oversight for VTA's Audit Program

- Review and approve annual work-plans for the Board Advisory Committees.
- Consult directly with Board Advisory Committee Chairs on items requiring Board action.
- The General Manager and Board Chair should reach out to appointing authorities to educate them concerning the requirements of enabling legislation concerning their respective appointments to the Board. To serve the region and the jurisdiction effectively, candidates for the VTA Board should be available to serve a two year term, have knowledge and experience in transportation and have a "regional focus".
- The Board should appoint the General Manager as an "ex-officio, non voting member" of the VTA Board. This model, which has proven very effective in not-for-profit organizations and in private industry, will elevate and empower the General Manager as he works with regional stakeholders to represent the interests of VTA and its Board. Given the organizational and financial challenges facing VTA this recommendation together with the balance of the recommendations in this report is essential to VTA accomplishing its transformation and achieving its vision for a mature and financially sustainable organization.

Recommendations: Advisory Committee Structure

The VTA Board should approve the development and implementation of a program that will have the Advisory Committee structure serve the purpose for which it was originally intended - to provide stakeholders with a forum to provide meaningful and timely advice to the Board of Directors. This program should include the following elements:

- Develop a specific mission statement for each Advisory Committee that is aligned with VTA's mission, goals and objectives. Focus the responsibilities of each committee and avoid overlapping responsibilities. In the event of shared responsibilities between committees designate a committee as having the "lead responsibility".
- Reduce the number of Advisory Committees. Develop and evaluate a plan to incorporate the duties of the Technical Advisory Committee in to the mission and responsibilities of the Policy Advisory Committee. Consider revising the membership so that elected officials would continue to serve as Committee members but designate the alternate position to be filled by the senior professional in the jurisdiction (City Manager). This approach would ensure that the PAC members have the benefit of a business and/or technical analysis conducted by the professional staff in their jurisdiction for the policy matter they are considering.
- Revise each Committee's by-laws to reflect their new mission, responsibilities and duties.
- Develop an annual work-plan for each Advisory Committee. Each Advisory Committee's work-plan should include a review of items in the Committee's

specific area of responsibility that preview the policy matters that the Board will consider during the upcoming year. The work-plan schedule should ensure that the Committee has an opportunity to review and provide input to the item in the early stages of development and review the item in a final form with appropriate time to provide a timely recommendation to the Board. The Advisory Committee Chair should review the Committee's work-plan with the Board Chair and formally recommend the work-plan to the Board for approval.

- Define a process that would facilitate the use of the Advisory Committee structure as a forum to reach regional consensus.
- Develop an Orientation Program for each Advisory Committee that educates new members on the Committee's mission, goals, objectives and current year work-plan. Require attendance for incoming members.
- Revise the Board materials to include an Executive Summary of each item on the Agenda.

VTA Response to Specific State Audit Recommendations

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State Audit Recommendation #12: To demonstrate that it values the expertise of its advisory committees, VTA and its Board should take actions to ensure that advisory committees are involved in the development of policy solutions. Such actions should include the following: reassessing and stating the purpose and role of each advisory committee; creating work plans for advisory committees that ensure the committees have an opportunity to review and provide input on issues in the early stages of development; providing the citizens committee with an opportunity to address the Board at every meeting, similar to the opportunity provided to the policy committees.

VTA Response: VTA agrees that advisory committees should be involved in the development of policy solutions. We value the expertise, advice, and time they commit to improving our services. Although we believe that we prioritize efforts to engage the public in our planning, we took the findings of the Hay Group report to heart, and in recent months, have taken additional steps to improve the way that we strategically bring policy items to the Advisory committees for their consideration and input. VTA works extensively with the community and our Advisory committees to benefit from their insights, including planning our Bus Service Redesign which was successfully launched earlier this year, creating our countywide Bicycle and Pedestrian plan, developing the county's long range transportation plan VTP 2035, and improving our light rail and bus services to meet evolving accessibility needs of seniors and disabled passengers.

It is our opinion that the two recent initiatives selected for analysis, out of dozens of policy proposals that were initiated in the past two years, are not fully representative of how VTA uses our Advisory committees. Coincidently, VTA had only just begun work on both initiatives at the time that the audit began this spring, and both were in very early stages of the policy development process. In addition, both the Governance and the Vision/Mission updates were initiatives where the primary direction was appropriately coming directly from the Board, with the various Advisory committees being asked for input when appropriate to their scope of responsibility, as defined in the committee bylaws. For example, the proposed modifications to the Vision/Mission statements were taken to all Advisory committees, and their input was incorporated into the proposals that are currently being considered by the standing committees and ultimately will be taken to the Board. In the case of the Governance issue, this proposal was taken to the Advisory committees which have this type of subject matter covered within their bylaws, and to all the other committees as informational background, to keep all informed about major developments in VTA.

In neither situation were the Advisory Committees given finished proposals that they had to either accept or reject in their entirety. With respect to the Governance proposal, the proposal was generated by the Governance Subcommittee of the Board. This proposal was vetted through an extensive review process. Advisory committee members are encouraged to provide their input and suggestions for the standing committees' and the Board's consideration, and their input is reported orally, in memos, through committee and staff reports, and in the respective committee minutes. That said, VTA has specific plans for continued improvement of the way our Advisory committees function as part of the policy development process, including creating a unified work plan that includes the Advisory committee work plans, revisiting the committee bylaws to strengthen and clarify statements