SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AD-HOC FINANCIAL RECOVERY COMMITTEE

Wednesday, September 1, 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


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 (408) 321-2330 (TTY only). VTA’s Homepage is located on the web at: http://www.vta.org or visit us on Facebook http://www.facebook.org/scvta.

NOTE: THE COMMITTEE MAY TAKE ACTION ON ANY ITEM IDENTIFIED ON THE AGENDA.
VTA Expenditure Priorities, Key Financial Principles and Proposed Deficit Reduction Targets

Ad Hoc Financial Recovery Committee

Reflects Committee Comments – August 25, 2010
<table>
<thead>
<tr>
<th>Document</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guidance on Expenditure Prioritization</td>
<td>Approved on June 2</td>
</tr>
<tr>
<td>Key Financial Principles: Pros, Cons and Alternatives</td>
<td>Approved/Discussed on August 4 (Excluding Principle on Use of Capital Funds)</td>
</tr>
<tr>
<td>Deficit Reduction Targets by Category</td>
<td>Discussion Began August 4</td>
</tr>
</tbody>
</table>
Today’s Presentation

- “Guidance on Operating Expenditure Priorities, Key Financial Principles and Deficit Reduction Targets” prepared for today’s meeting

- Purpose is to provide a single document that shows how key financial principles are linked to deficit reduction targets, and to incorporate the pros, cons and alternatives associated with each financial principle
VTA Financial Stability Policy –
Guidance on Expenditure Prioritization

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

1. Preserving level of fixed route transit service and paratransit service provided to VTA riders to greatest extent possible
2. Activities that directly support provision of transit service, i.e., only those core operating, management and administrative functions necessary and essential to support provision of existing level of transit service, both in terms of types of functions required and level of resources needed to support service. Measured against industry standards and best practices. with consideration of efficiencies from reducing layers of management
3. Support for Regional Partnerships (e.g. Caltrain, ACE, Dumbarton Express, etc.) provided by VTA in consideration of other partners' contributions
4. Activities that clearly contribute to increasing, diversifying VTA’s operating funding (e.g. fare programs, joint development, advertising, and other opportunities for earned income)
5. Activities that provide information to riders, employees, stakeholders and the public
6. Activities that would prudently and strategically expand VTA transit service, when sustainable revenues are available to support the service growth

Ad Hoc Financial Recovery Committee
Key Financial Principles

Key Principles establish policy direction from VTA’s Board of Directors to staff for the creation of the biennial budget and when addressing the structural deficit in VTA’s operating budget.

The Key Principles have been numbered, and organized into two groups:

1. Principles assumed in the Long Range SRTP Financial Plan showing an average annual deficit of over $40 Million from FY2012-FY2019; and
2. Principles directly tied to a particular deficit reduction target
KEY PRINCIPLES ASSUMED IN DEVELOPMENT OF LONG RANGE SRTP PROJECTIONS
Principle Number 1: Operating Reserve at 15%

**Principle:** 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, which is equal to just under two months of operating cash flow requirements. To the extent that the Operating Reserve level falls below the 15 percent target, 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 during the next biennial budget process. **However, to the extent possible, VTA should avoid the implementation of service reductions as a means of achieving the 15 percent operating reserve target.**

**How Principle Relates to Deficit Reduction Target:**
- Assumed in identifying the baseline $40 Million target
- $40 Million target is projected to keep Operating Reserve level between 15 -20 percent from FY2012 to FY2015
- Operating Reserve level drops to 10 – 11 percent from FY2017 to FY2019
## Principle 1 - Operating Reserve

### Pros, Cons, Alternatives

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>protections VTA against the vagaries of the economy</td>
<td>Rebuilding operating reserve to the 15 percent level will require</td>
</tr>
<tr>
<td>serves as ‘insurance policy’ or ‘rainy day fund’ during emergencies</td>
<td>difficult policy choices - spending reductions and enhanced revenues</td>
</tr>
<tr>
<td>lack of a reasonable reserve increases risk of service reductions and</td>
<td></td>
</tr>
<tr>
<td>layoffs when there are even minor revenue fluctuations</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>establishes operating reserve target at a lower level, such as 10</td>
</tr>
<tr>
<td>percent</td>
</tr>
<tr>
<td>10 percent reserve is lower than VTA’s historic target, and provides</td>
</tr>
<tr>
<td>a significantly smaller cushion against future unexpected fluctuations in revenues or expenses</td>
</tr>
</tbody>
</table>
Principle Number 2: Limit Use of Capital Funding

**Principle:** 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, and maintain VTA’s vehicles, facilities and infrastructure in a “state of good repair.” 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. By FY2017, VTA should return to its historical practice of allocating 35 percent of eligible capital funding for operating purposes, and 65 percent for capital purposes.

**How Principle Relates to Deficit Reduction Target:**

- Affects amount of “flexible” FTA grant funds available for operating purposes, and therefore affects level of annual savings required to keep operating expenses in line with operating revenues
- Implementation of principle assumed in current SRTP projections

<table>
<thead>
<tr>
<th>5307 Funds ($M) Used for Operating</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$60</td>
<td>$43</td>
<td>$36</td>
<td>$30</td>
<td>$27</td>
<td>$24</td>
<td>$20</td>
<td>$15</td>
<td>$15</td>
<td>$16</td>
</tr>
</tbody>
</table>

Ad Hoc Financial Recovery Committee
Principle 2 – Use of Capital Funds for Operating
Pros, Cons, Alternatives

| Pros                                      | □ Maintaining a reasonable level of equipment replacement provides a better level of service for transit users |
|                                          | □ By carefully balancing use of these funds, VTA should be able to preserve service levels, jobs and reliability of equipment, facilities, and infrastructure |
| Cons                                     | □ Reducing amount of Federal funds used for operating purposes may require identifying additional operating spending reductions or enhanced revenues |
| Alternatives                             | □ Continuing to use all eligible capital funds for operating purposes helps maintain service levels and employment while awaiting an economic rebound, which increases risk of deterioration of assets, increased maintenance costs, and lower service quality and reliability |
Principle Number 3: Control Cost Growth

**Principle:** 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.

**How Principle Relates to Deficit Reduction Target:**

- Principle assumed in establishing $40 Million annual target during the SRTP period, in order to balance VTA’s operating expenses with its reasonably anticipated operating revenues.
Principle 3 – Control Cost Growth
Pros, Cons, Alternatives

<table>
<thead>
<tr>
<th>Pros</th>
<th>Purpose of this principle is to ensure that VTA does not take on current or future financial liabilities that it cannot afford</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cons</td>
<td>Adhering to this principle could require difficult policy choices affecting future employee compensation and service levels</td>
</tr>
</tbody>
</table>
| Alternatives | None  
Controlling future cost growth is an essential component of ensuring VTA’s financial sustainability |
PRINCIPLES DIRECTLY TIED TO DEFICIT REDUCTION TARGETS
Principle Number 4: Achieve Internal Efficiencies

**Principle:** Direct staff to meet the adopted Target Savings through a combination of internal efficiencies. *Such efficiencies to be achieved through a variety of systemic cost reduction actions, which are not one-time in nature.* Such actions may include, but are not limited to, the elimination of unfilled budgeted positions, savings associated with not filling staff positions that become vacant through attrition, other staff reductions, consolidation of services, reductions in ongoing cost commitments, etc... Such reductions shall be achieved to the greatest degree possible in a manner consistent with the preservation of service.

**How Principle Relates to Deficit Reduction Target:**

☑️Principle implemented by establishing annual deficit reduction target of $5 Million or 12.5% per year in “Internal Efficiencies” category
## Principle 4 – Internal Efficiencies

### Pros, Cons, Alternatives

| **Pros** | “Internal efficiencies” represent savings measures that reduce costs with little or no impact on service levels
- Some internal efficiency measures can be implemented without layoffs (e.g., by not filling positions that become vacant through staff attrition) |
| **Cons** | Certain measures may involve layoffs
- Other measures may reduce level of resources available for support functions, and negatively affect their performance |
| **Alternatives** | Alternatives would involve meeting deficit reduction targets solely through some combination of changes in employee expenses and service delivery |
Principle Number 5: Negotiate Sustainable Bargaining Unit Agreements

**Principle:** 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 VTA’s financial condition and liquidity, including ways to control the cost to VTA of employee benefit programs for bargaining unit and non-represented employees, while also preserving the quality and integrity of VTA services. 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.

**How Principle Relates to Deficit Reduction Target:** Principle implemented by establishing an annual savings target of $23 Million per year or 57.5% in the “Employee Expense” category
## Principle 5 – Sustainable Bargaining Agreements
### Pros, Cons, Alternatives

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Employee wages and benefits constitute 70% of VTA’s operating</td>
<td>□ Employees, who bargained in good faith for their current benefit</td>
</tr>
<tr>
<td>budget - controlling those expenses key to achieving financial</td>
<td>packages, may experience increased costs for medical or other benefits</td>
</tr>
<tr>
<td>stability</td>
<td>□ If a multi-tiered compensation system were to be implemented, new</td>
</tr>
<tr>
<td>□ By establishing a policy that controls growth of benefit plans</td>
<td>employees, performing the same work as other employees, could do so</td>
</tr>
<tr>
<td>through employee contributions, expense caps, tiers, partnerships</td>
<td>in exchange for lesser benefits and compensation.</td>
</tr>
<tr>
<td>and/or other methods, VTA can, over time, negotiate compensation</td>
<td>□ Changes to compensation system may negatively affect VTA’s ability</td>
</tr>
<tr>
<td>packages that improve its financial stability</td>
<td>to attract and retain employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ None</td>
</tr>
<tr>
<td>□ Implementing measures that control the cost of employee benefits is</td>
</tr>
<tr>
<td>essential to ensuring VTA’s financial sustainability</td>
</tr>
</tbody>
</table>
Principle Number 6: Use of Contracted Services

Principle:
A. 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.
B. This principle includes the provision of contracted services with partner agencies such as Caltrain, Altamont Commuter Express, Dumbarton Express, etc. Such contributions to be reduced proportionally to the total of VTA’s annual operating deficit.
C. VTA shall continually work with contracted service providers (OUTREACH, Santa Clara County Sheriff’s Department, Allied Barton, etc.) to maximize efficiency and control costs.

How Principle Relates to Deficit Reduction Targets: Principle implemented by establishing an annual deficit reduction target of $12 Million or 30% in the “Service Delivery” category, and may play a role in achieving Internal Efficiencies target of $5 Million or 12.5%.

Ad Hoc Financial Recovery Committee
## Principle 6 – Use of Contracted Services

### Pros, Cons, Alternatives

<table>
<thead>
<tr>
<th>Pros</th>
<th>✔ 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 of VTA employees.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cons</td>
<td>✔ If not properly implemented, may result in a lesser quality of service and greater depreciation of VTA equipment.</td>
</tr>
<tr>
<td>Alternatives</td>
<td>✔ Use only in-house resources to deliver services.</td>
</tr>
</tbody>
</table>
ANNUAL DEFICIT REDUCTION
TARGETS BY CATEGORY
## Annual Deficit Reduction Targets

**By Category**

<table>
<thead>
<tr>
<th>Category</th>
<th>Related Principle</th>
<th>Proposed Deficit Reduction Target</th>
<th>Percent of Total Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Efficiencies</td>
<td>Principles 4 &amp; 6</td>
<td>$5 Million</td>
<td>12.5%</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>Principle 5</td>
<td>$23 Million</td>
<td>57.5%</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Principle 6</td>
<td>$12 Million</td>
<td>30.0%</td>
</tr>
<tr>
<td>Overall Annual Target</td>
<td>Principles 1-6</td>
<td><strong>$40 Million</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
Next Steps

- **September 1st**: Vote by Ad Hoc Financial Recovery Committee on Principles/Deficit Reduction Targets
- **September 2nd**: Chair’s Report to Board of Directors’ Meeting on results of Committee’s work
- **October 7th**: Action Item at Board of Directors’ Meeting to establish policy level direction on targets for deficit reduction
Section I.
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 and in the best interest of the public.

2. Activities that directly support the provision of transit service, i.e., only those core operating, management 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. Measured against industry standards and best practices with consideration of efficiencies achieved by reducing layers of management.

3. Support for Regional Partnerships (e.g. Caltrain, ACE, Dumbarton Express, etc.) provided by VTA in consideration of other partners’ contributions

4. Activities that clearly contribute to increasing and diversifying VTA’s operating funding (e.g. fare programs, joint development, advertising, and other opportunities for earned income).

5. Activities that provide information to riders, employees, stakeholders and the public.

6. Activities that would prudently and strategically expand VTA transit service, when sustainable revenues are available to support the service growth.
Section II. Key Financial Principles 
(Revised August 25th, 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 the structural deficit in VTA’s operating budget.

The Key Principles have been numbered, and organized into two groups:

- Principles that are assumed in the development of the annual deficit reduction targets, but are not directly tied to a particular deficit reduction target category; and
- Principles that are directly tied to a particular Deficit Reduction target category.

Key Principles Assumed in Development of Deficit Reduction Targets

**Principle Number 1: 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, which is equal to just under two months of operating cash flow requirements. To the extent that the Operating Reserve level falls below the 15 percent target, 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 during the next biennial budget process. However, to the extent possible, VTA should avoid the implementation of service reductions as a means of achieving the 15 percent operating reserve target.

**How Principle 1 Affects The Development of Deficit Reduction Target:** This principle is assumed in identifying the baseline $40 Million annual deficit reduction target. This level of annual Deficit Reduction would keep the Operating Reserve level between 15 percent and 20 percent from FY2012 through FY2015. However, even with $40 Million per year in Deficit Reduction, current projections show the Operating Reserve level dropping down to 10 percent – 11 percent in FY2017 through FY2019.
Principle Number 2: Limit Use of Capital Funding\(^1\) - 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, and maintain a VTA’s vehicles, facilities and infrastructure in a “state of good repair.” 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. By FY2017, VTA should be to return to its historical practice of allocating 35 percent of eligible capital funding for operating purposes, and 65 percent for capital purposes.

How Principle 2 Affects The Development of Deficit Reduction Targets: This principle affects the amount of “flexible” FTA grant funds that are expected to be available for operating purposes, and therefore affects the level of annual Deficit Reduction required to keep VTA’s operating expenses in line with its operating revenues. Implementation of this principle is assumed in VTA’s current SRTP projections. The $40 Million annual deficit reduction target assumes that VTA will gradually scale back its use of 5307 funds for operating purposes between FY2012 and FY2017, and would return to using 35 percent of its 5307 funds for operating purposes and 65 percent for capital purposes by FY2017.

Principle Number 3: 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.

How Principle 3 Relates to Deficit Reduction Target: This principle is assumed in establishing the annual deficit reduction target of $40 Million per year during the SRTP period, in order to balance VTA’s operating expenses with its reasonably anticipated operating revenues.

Principles Directly Tied to Deficit Reduction Targets

Principle Number 4: Achieve Internal Efficiencies – Direct staff to meet the adopted Target Deficit Reduction through a combination of internal efficiencies. Such efficiencies to be achieved through a variety of systemic cost reduction actions, which are not one-time in nature. Such actions may include, but are not limited to, the elimination of unfilled budgeted positions, Deficit Reduction associated with not filling staff positions that become vacant through attrition, other staff reductions, consolidation of services, reductions in ongoing cost commitments, etc. Such reductions shall be achieved to the greatest degree possible in a manner consistent with the preservation of service.

\(^1\) 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.
How Principle 4 Relates to Deficit Reduction Target – This principle would be implemented by establishing a deficit reduction target of $5 Million or 12.5% Million per year in the “Internal Efficiencies” category.

Principle Number 5: 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 VTA’s financial condition and liquidity, including ways to control the cost to VTA of employee benefit programs for bargaining unit and non-represented employees, while also preserving the quality and integrity of VTA services. 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.

How Principle 5 Relates to Deficit Reduction Target: This principle would be implemented by establishing an annual deficit reduction target of $23 Million per year or 57.5% in the “Employee Expense” category.

Principle Number 6: Use of Contracted Services –

A) 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.

B) This principle includes the provision of contracted services with partner agencies such as Caltrain, Altamont Commuter Express, Dumbarton Express, etc. Such contributions to be reduced proportionally to the total of VTA’s annual operating deficit.

C) VTA shall continually work with contracted service providers (OUTREACH, Santa Clara County Sheriff’s Department, Allied Barton, etc.) to maximize efficiency and control costs.

How Principle 6 Relates to Deficit Reduction Target: This principle would be implemented by establishing a deficit reduction target of $12 Million or 30% in the “Service Delivery” category.
Section III. Annual Deficit Reduction Targets By Category

The table below summarizes the proposed annual deficit reduction targets by category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Related Principle</th>
<th>Proposed Deficit Reduction Target</th>
<th>Percent of Total Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Efficiencies</td>
<td>Principle 4</td>
<td>$5 Million</td>
<td>12.5%</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>Principle 5</td>
<td>$23 Million</td>
<td>57.5%</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Principle 6</td>
<td>$12 Million</td>
<td>30.0%</td>
</tr>
<tr>
<td>Overall Annual Savings</td>
<td>Principle 3</td>
<td>$40 Million</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Additional Recommendation for the Board’s Consideration:

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.

Please note that this principle does not relate to Deficit Reduction targets, which are required for the development of the FY2012-2013 biennial budget, because most significant revenue ideas could not be implemented before June 30, 2011. This concept would be considered for long term implementation.
Suggested Changes to Ad-Hoc Financial Recovery Committee Report (9.1.10)

Principle Number 2: 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, and maintain VTA’s vehicles, facilities and infrastructure in a “state of good repair.” 100 percent of eligible capital funding may be used for operating purposes but should be reviewed on an annual basis, for a limited period, but should not be used for operating purposes on an ongoing basis. By FY2017, VTA should return to its historical practice of allocating 35 percent of eligible capital funding for operating purposes, and 65 percent for capital purposes.

Principle Number 5: 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 VTA’s financial condition and liquidity, including ways to control the cost to VTA of employee benefit programs, while also preserving the jobs of VTA’s employees to the extent possible and protecting the quality and integrity of VTA services. 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.

Principle Number 6: Use of Contracted Services
A. 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.

B. With input from stakeholders, contracting principles should be developed and designed to consider the risks and rewards of contracting in and out. These principles should consider multiple service delivery options and contain a method for rigorous cost benefit analysis.

C. This principle includes the provision of contracted services with partner agencies such as Caltrain, Altamont Commuter Express, Dumbarton Express, etc. Such contributions to be reduced proportionally to the total of VTA’s annual operating deficit.

D. VTA shall continually work with contracted service providers (OUTREACH, Santa Clara County Sheriff’s Department, Allied Barton, etc.) to maximize efficiency and control costs.
## Current Proposed Annual Deficit Reduction Targets by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Related Principle</th>
<th>Proposed Deficit Reduction Target</th>
<th>Percent of Total Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Efficiencies</td>
<td>Principle 4</td>
<td>$5 million</td>
<td>12.5%</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>Principle 5</td>
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<tr>
<td>Service Delivery</td>
<td>Principle 6</td>
<td>$12 million</td>
<td>30.0%</td>
</tr>
<tr>
<td>Overall Annual</td>
<td>Principle 3</td>
<td>$40 million</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

## New Proposed Deficit Reduction Ranges by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Related Principle</th>
<th>Proposed Deficit Reduction Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Efficiencies</td>
<td>Principle 4</td>
<td>$5 - 15 million</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>Principle 5</td>
<td>$5 - 10 million</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Principle 6</td>
<td>$5 - 12 million</td>
</tr>
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<td>New Revenue</td>
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<td>Overall Annual</td>
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<td>$20 - 40 million</td>
</tr>
<tr>
<td>Savings Target</td>
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</table>
Ad Hoc Financial Recovery Committee
Guidance on Operating Expenditure Priorities, Key Financial Principles and Deficit Reduction Targets
Approved on September 1st, 2010

Section I.
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 and in the best interest of the public.

2. Activities that directly support the provision of transit service, i.e., only those core operating, management 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. Measured against industry standards and best practices with consideration of efficiencies achieved by reducing layers of management.

3. Support for Regional Partnerships (e.g. Caltrain, ACE, Dumbarton Express, etc.) provided by VTA in consideration of other partners’ contributions.

4. Activities that clearly contribute to increasing and diversifying VTA’s operating funding (e.g. fare programs, joint development, advertising, and other opportunities for earned income).

5. Activities that provide information to riders, employees, stakeholders and the public.

6. Activities that would prudently and strategically expand VTA transit service, when sustainable revenues are available to support the service growth.
Section II. Key Financial Principles

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 of the biennial budget and when addressing the structural deficit in VTA’s operating budget.

The Key Principles have been numbered, and organized into two groups:

- Principles that are assumed in the development of the annual deficit reduction targets, but are not directly tied to a particular deficit reduction target category; and
- Principles that are directly tied to a particular Deficit Reduction target category.

Key Principles Assumed in Development of Deficit Reduction Targets

Principle Number 1: 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, which is equal to just under two months of operating cash flow requirements. To the extent that the Operating Reserve level falls below the 15 percent target, 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 during the next biennial budget process. However, to the extent possible, VTA should avoid the implementation of service reductions as a means of achieving the 15 percent operating reserve target.

How Principle 1 Affects The Development of Deficit Reduction Target: This principle is assumed in identifying the baseline $40 Million annual deficit reduction target. This level of annual Deficit Reduction would keep the Operating Reserve level between 15 percent and 20 percent from FY2012 through FY2015. However, even with $40 Million per year in Deficit Reduction, current projections show the Operating Reserve level dropping down to 10 percent – 11 percent in FY2017 through FY2019.
Principle Number 2: Limit Use of Capital Funding¹ - 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, and maintain VTA’s vehicles, facilities and infrastructure in a “state of good repair.” 100 percent of eligible capital funding may be used for operating purposes, but should be reviewed on an annual basis.

How Principle 2 Affects The Development of Deficit Reduction Targets: This principle affects the amount of “flexible” FTA grant funds that are expected to be available for operating purposes, and therefore affects the level of annual Deficit Reduction required to keep VTA’s operating expenses in line with its operating revenues.

Principle Number 3: 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.

How Principle 3 Relates to Deficit Reduction Target: This principle is assumed in establishing the annual deficit reduction target of $40 Million per year during the SRTP period, in order to balance VTA’s operating expenses with its reasonably anticipated operating revenues.

Principles Directly Tied to Deficit Reduction Targets

Principle Number 4: Achieve Internal Efficiencies – Direct staff to meet the adopted Target Deficit Reduction through a combination of internal efficiencies. Such efficiencies to be achieved through a variety of systemic cost reduction actions, which are not one-time in nature. Such actions may include, but are not limited to, the elimination of unfilled budgeted positions, Deficit Reduction associated with not filling staff positions that become vacant through attrition, other staff reductions, consolidation of services, reductions in ongoing cost commitments, etc. Such reductions shall be achieved to the greatest degree possible in a manner consistent with the preservation of service.

How Principle 4 Relates to Deficit Reduction Target – This principle would be implemented by establishing a deficit reduction target range of $5 Million to $15 Million per year in the “Internal Efficiencies” category.

Principle Number 5: Negotiate Sustainable Bargaining Unit Agreements - In developing cost reduction strategies and plans, and in negotiating labor agreements, VTA shall work collaboratively

¹ 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.
Ad Hoc Financial Recovery Committee
Guidance on Operating Expenditure Priorities, Key Financial Principles and Deficit Reduction Targets
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with its employee bargaining units to identify ways to protect VTA’s financial condition and liquidity, including ways to control the cost to VTA of employee benefit programs for bargaining unit and non-represented employees, while also preserving the jobs of VTA employees to the extent possible and protecting the quality and integrity of VTA services. 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.

How Principle 5 Relates to Deficit Reduction Target: This principle would be implemented by establishing an annual deficit reduction target range of $5 Million to $13 Million per year in the “Employee Expense” category.

Principle Number 6: Use of Contracted Services –
A) 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.
B) With input from stakeholders, contracting principles should be developed and designed to consider the risks and rewards of contracting in and out. These principles should consider multiple service delivery options and contain a method for rigorous cost benefit analysis.
C) This principle includes the provision of contracted services with partner agencies such as Caltrain, Altamont Commuter Express, Dumbarton Express, etc. Such contributions to be reduced proportionally to the total of VTA’s annual operating deficit.
D) VTA shall continually work with contracted service providers (OUTREACH, Santa Clara County Sheriff’s Department, Allied Barton, etc.) to maximize efficiency and control costs.

How Principle 6 Relates to Deficit Reduction Target: This principle would be implemented by establishing a deficit reduction target range of $5 Million to $15 Million in the “Service Delivery” category.
Section III. Annual Deficit Reduction Targets By Category

The table below summarizes the proposed annual deficit reduction target ranges by category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Related Principle</th>
<th>Proposed Deficit Reduction Target Range</th>
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<tr>
<td>Internal Efficiencies</td>
<td>Principle 4</td>
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<tr>
<td>Employee Expenses</td>
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<td>Service Delivery</td>
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<td>Overall Annual Savings Target</td>
<td>Principle 3</td>
<td>$20-40 Million</td>
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</table>
Additional Recommendation for the Board’s Consideration:

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.

Please note that this principle does not relate to Deficit Reduction targets, which are required for the development of the FY2012-2013 biennial budget, because most significant revenue ideas could not be implemented before June 30, 2011. This concept would be considered for long term implementation.