Santa Clara Valley Transportation Authority

Improvements Are Necessary to Strengthen Its Project Management and Financial Oversight

June 2024

REPORT 2023-101

CALIFORNIA STATE AUDITOR
621 Capitol Mall, Suite 1200 | Sacramento | CA | 95814

916.445.0255 | TTY **916.445.0033**

For complaints of state employee misconduct,
contact us through the **Whistleblower Hotline**:
1.800.952.5665

Don't want to miss any of our reports? Subscribe to our email list at **auditor.ca.gov**

Grant Parks *State Auditor*

Mike Tilden *Chief Deputy*

June 11, 2024
2023-101

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of the Santa Clara Valley Transportation Authority (VTA) regarding the agency's governance structure, project planning and management, financial viability, and fiscal oversight. VTA is a special district that provides transit services throughout Santa Clara County (county). The agency is governed by a Board of Directors (board) consisting of 12 directors who each represent various jurisdictions within the county.

VTA is responsible for planning and delivering improvements to county transit systems or transportation infrastructure. However, the agency needs to strengthen its planning and oversight of such capital projects. For example, when VTA estimates the costs of capital projects, it does not always estimate the cost to operate and maintain the project. Also, VTA's staff do not provide regular updates to the board about variances from the cost estimates it develops before the construction of a project. For example, the construction cost of one project we reviewed increased by about 24 percent from the start of construction. Without regular information about cost increases such as this one, the board has diminished insight into capital project performance.

The processes for appointing VTA's directors are not always transparent enough to ensure the appointment of directors with experience in transportation. For example, one group of cities in the county does not meet publicly when it decides who to appoint as its director. Once appointed, VTA's directors have briefer tenures than those of peer transit agencies, and this is due, in part, to the shorter term lengths that state law establishes for VTA directors compared to the term lengths of other agencies' directors. As a result, VTA's board has less experience overseeing the agency's operations than the boards of peer agencies.

Finally, VTA is in good financial condition but would benefit from adopting additional fiscal oversight practices. More than 60 percent of VTA's annual revenue comes from sales taxes, which are a time-limited and uncertain source of revenue. However, VTA has not determined how it will replace this revenue once some of the measures authorizing these taxes begin expiring in 2036. Additionally, VTA's staff do not report to the board about financial performance metrics, such as the cost per passenger trip, which is information that could assist the board in overseeing VTA's performance.

Respectfully submitted,

GRANT PARKS
California State Auditor

Selected Abbreviations Used in This Report

ACFR	Annual Comprehensive Financial Report
APTA	American Public Transportation Association
BART	Bay Area Rapid Transit
CalPERS	California Public Employees' Retirement System
CapMetro	Capital Metropolitan Transportation Authority
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EBRC	Eastridge to BART Regional Connector
FPPC	Fair Political Practices Commission
FTA	Federal Transit Administration
GAO	U.S. Government Accountability Office
GFOA	Government Finance Officers Association
LA Metro	Los Angeles County Metropolitan Transportation Authority
OCTA	Orange County Transportation Authority
OPEB	Other post-employment benefits
SacRT	Sacramento Regional Transit District
SCIP	Strategic Capital Investment Plan
SSTPO	Safety, Security, and Transit Planning and Operations
TCRP	Transit Cooperative Research Program
TriMet	Tri-County Metropolitan Transportation District of Oregon
VTA	Santa Clara Valley Transportation Authority

Contents

Blank page inserted for reproduction purposes only.

Summary

Results in Brief

The Santa Clara Valley Transportation Authority (VTA) is a special district responsible for ensuring that Santa Clara County's (county) transit and transportation needs are met. VTA provides transit services—including light rail and bus service—and traffic congestion management services throughout the county. A 12-member board of directors (board) governs VTA and sets VTA policy. Board directors are appointed by local elected officials from the city of San José, from the county, and from groups of smaller cities within the county. The head of VTA's Administrative Branch is the Chief Executive Officer (CEO), who oversees and manages all facets of the organization under policy direction from the board. This audit report concludes the following:

VTA Can Strengthen Its Planning and Oversight of Capital Projects and Better Inform the Board About Cost and Schedule Changes

- VTA addressed individual changes to its capital projects' costs and schedules in accordance with its procedures. However, VTA's cost estimates are neither comprehensive nor fully documented. VTA staff also do not regularly report to the board variances in cost or schedule in VTA's capital projects, leaving the board unaware of important details about these projects and diminishing the board's oversight of capital projects.

Legislative Changes Could Increase the Transparency and Effectiveness of VTA's Board

- The process for selecting directors for the board is not always transparent enough to ensure the appointment of directors experienced in transportation issues. For example, the mayors from one group of cities do not meet in public to deliberate regarding whom they will appoint as a director.

- The two-year term served by VTA's directors is established in state law and is shorter than the terms of most of their peers at other transportation agencies. In practice, VTA directors have shorter tenures, on average, than their peers, meaning that VTA's board has less experience overseeing the agency's operations than the boards of peer agencies.

VTA Should Adopt Several Additional Practices to Optimize its Financial Health and Strategic Direction

- VTA is in relatively good financial condition. The agency has consistently spent less than it received in revenue, and it has built sizeable reserves to prepare for unexpected financial events. However, VTA relies on an uncertain source—sales taxes—for more than 60 percent of its annual revenue, and it has not yet determined how it will replace this revenue once the measures authorizing these taxes begin expiring in 2036.

- Despite the importance of working from a strategic plan, VTA has been operating with an expired strategic plan since 2022. Further, VTA's strategic planning documents—the expired plan and a CEO's list of initiatives—do not contain measurable objectives, strategies for achieving particular objectives, or performance measures that would enable it to track its progress toward achieving its goals.

Agency Comments

VTA agreed with the recommendations we directed to it and indicated that it is committed to implementing them. However, VTA disagreed with the two recommendations we made to the Legislature regarding the transparency of the appointment of directors to its board and the term length for its directors.

Introduction

Background

The Santa Clara Valley Transportation Authority (VTA) is a special district responsible for providing transit services within Santa Clara County (county). VTA reports that it provides transit services to a 346-square-mile service area with more than 50 bus routes and more than 50 light rail stations. VTA also serves as the county's congestion management agency, which means VTA is responsible for developing, adopting, and updating a congestion management program that, among other things, contains traffic level-of-service standards for highways and roadways in the county. In these roles, VTA may design and construct state highways, create transit-oriented joint development projects, and provide bicycle and pedestrian facilities. The text box provides examples of VTA's responsibilities.

Examples of VTA's Responsibilities

- Providing public transportation services: bus, light rail, and paratransit.
- Developing countywide transportation planning.
- Managing specific highway improvement projects.

Source: VTA policy.

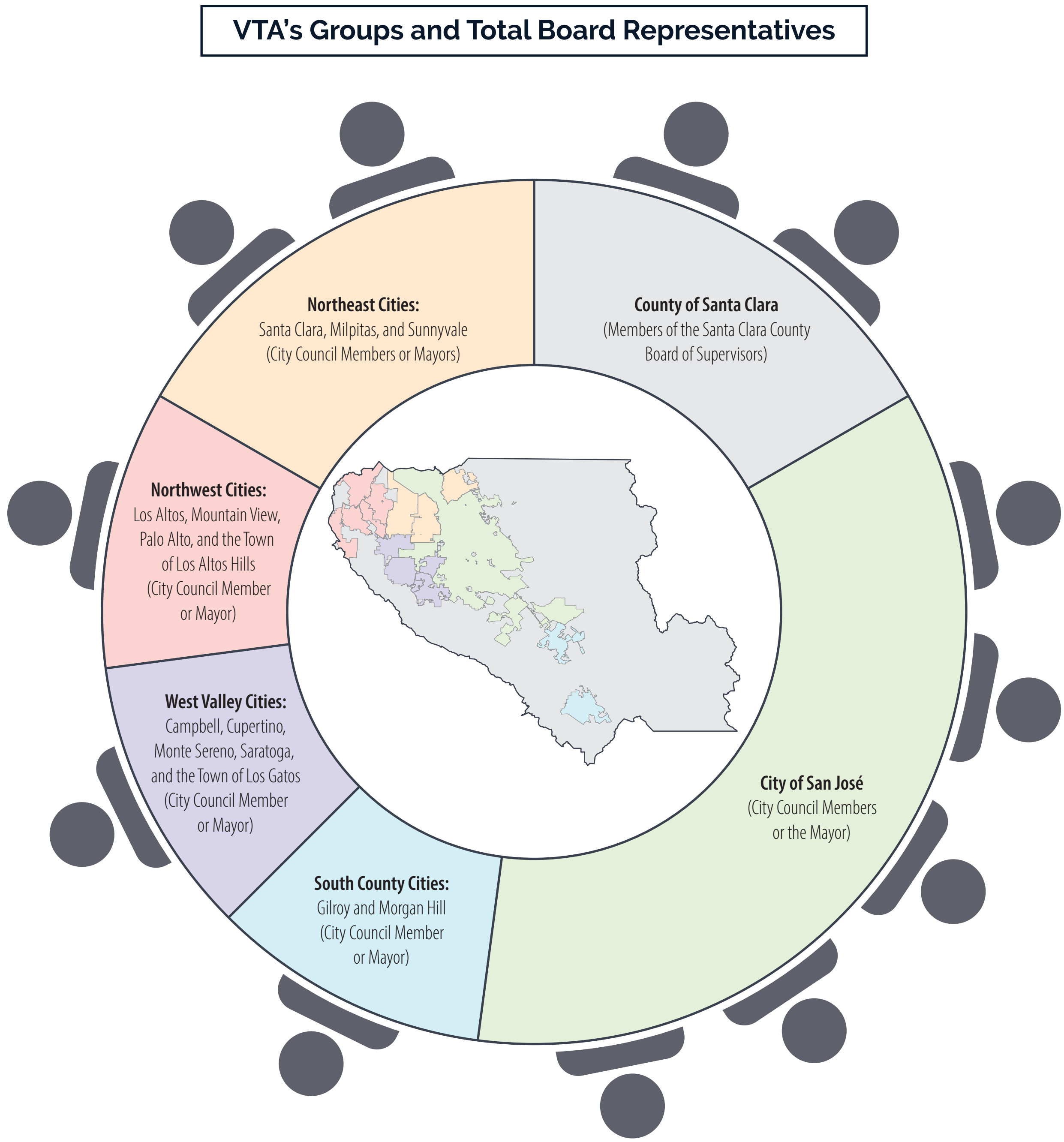
Structure and Responsibilities of VTA's Board of Directors

State law assigns responsibility for the governance of VTA to a board of directors (board). The law specifies that the board is composed of 12 members (directors), all of whom must hold office as either a mayor or city council member of a locality within the county, or as a member of the county board of supervisors.[1] According to state law, a director's term on the board may generally last for two years, but the law does not limit the number of terms a director may serve. Figure 1 shows that the directors are appointed from six different regions, or groups, within the county—each having a fixed number of directors.

Each group is responsible for appointing its directors to the board. State law requires that, to the extent possible, the individuals appointed to the board should have expertise, experience, or knowledge relative to transportation issues. For the city of San José (San José) and the county, state law specifies that the city council and the county board of supervisors must appoint their respective directors. However, the law provides that local agreements between the other cities in the county govern how the other directors are chosen. For example, the mayors from the West Valley Cities group appoint that group's director from a pool of mayors and city council members interested in serving on VTA's board, whereas the cities in the Northeast Cities group take turns appointing a director to the board, and that choice is approved by the city council of the city assigned the appointment.

1 According to state law, in some instances, the office of mayor, city council member, and county supervisor may be filled by an individual who is appointed. Nevertheless, for purposes of this report, we refer to all individuals who fill these positions as *elected*.

Figure 1
VTA's Board Is Composed of Elected Officials From the County and the Cities Therein



Source: State law and VTA's administrative code.

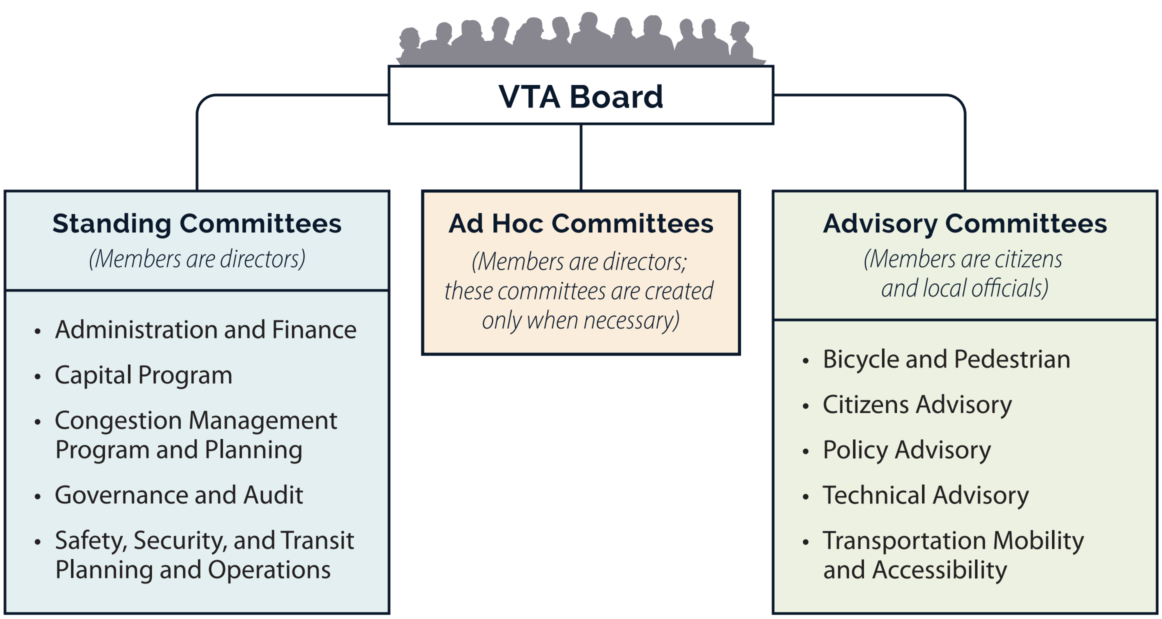
Broadly, VTA's board is responsible for monitoring VTA's operations and capital projects, as well as setting VTA policy. The text box lists examples of the board's duties. To assist it in carrying out its responsibilities, the board maintains several standing and advisory committees that are tasked with providing advice and nonbinding recommendations to the board on VTA policy. The board may also form ad hoc committees, composed of directors, to address and resolve specific problems or to achieve defined objectives as needed and for a limited duration. Figure 2 shows the three types of committees.

Examples of the Board's Responsibilities

- Setting transit rates and charges for the transit services VTA operates.
- Adopting VTA budgets.
- Determining the property and equipment to be owned or acquired by VTA to provide transit services.
- Selecting and evaluating the CEO.

Source: State law; VTA's rules of procedure; VTA policies.

Figure 2
VTA's Board Maintains Several Standing and Advisory Committees



Source: VTA administrative code and rules of procedure.

Each standing committee, composed of at least four directors, focuses on a specific area of responsibility. In contrast, advisory committees are composed of individuals who are not directors. Depending on the specific advisory committee, those individuals may be members of the public, organizational representatives, or local officials, or a combination of them. Similar to the standing committees, advisory committees exist to offer the board advice and nonbinding recommendations on topics relevant to their areas of responsibility. For example, the Bicycle and

Pedestrian Advisory Committee is responsible for providing advice regarding funding priorities for bicycle and pedestrian projects. Committee meeting agendas and documentation show that each standing and advisory committee has a work plan outlining items that the committee intends to address during prospective meetings. However, the board secretary—in consultation with, among others, the board's chairperson—is responsible for preparing the agenda for full board meetings.

VTA's Operations and Capital Projects

The head of VTA's administrative branch is its chief executive officer (CEO), who manages eight divisions. As Figure 3 details, each division carries out different elements of VTA's responsibilities. VTA's activities generally fall into two categories: those related to its general operations and those involving capital projects and maintenance. In total for fiscal years 2023–24 and 2024–25, VTA appropriated about $5.7 billion—which included $1.8 billion for operations and $3.9 billion for its capital program. VTA's operations primarily include the transit services that it provides to its residents—bus, light rail, and paratransit services. VTA's capital projects and maintenance functions include its efforts to maintain its capital assets in good repair and expand its services by building new infrastructure.

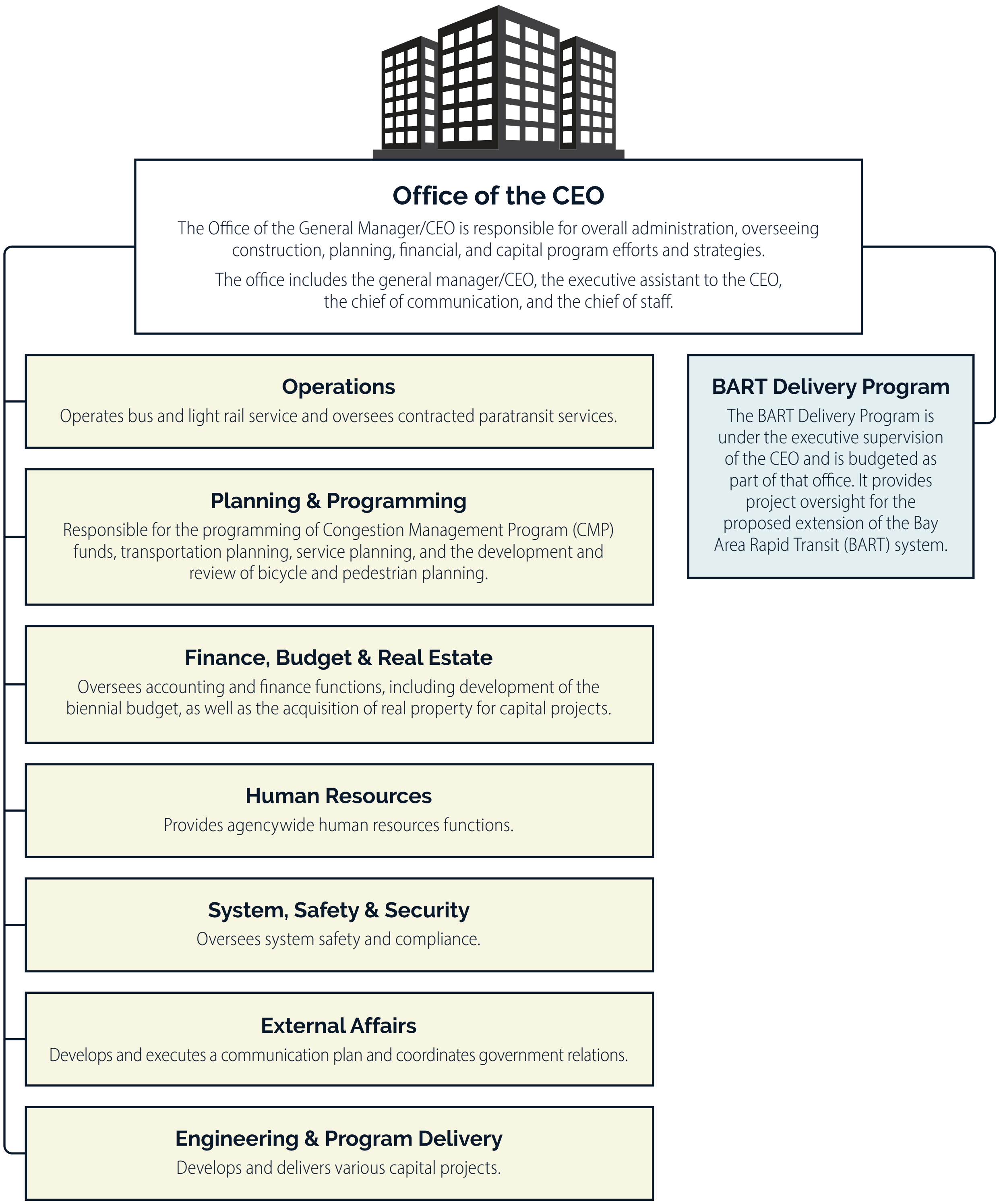
VTA's Engineering and Program Delivery division is responsible for the development and delivery of various capital projects under VTA's capital program, including transit and highway projects. Broadly, VTA is responsible for both the delivery and operation of transit projects, therefore it implements and maintains the assets related to transit projects. In contrast, VTA is generally responsible only for the implementation of highway projects, not their maintenance.[2] Finally, VTA has a division devoted entirely to the development of one capital project, the Bay Area Rapid Transit (BART) Silicon Valley Extension project.

Other Transit Agencies That We Compared to VTA

Several objectives the Legislature asked us to address as part of our audit led us to identify other transit agencies against which we could compare VTA. Throughout this report, we refer to these as VTA's *peer agencies*. We selected five specific entities as peer agencies based on their operating costs, the populations of their service areas, the types of transportation services they provide, and the compositions of their governing boards. Table 1 provides detailed information about these peer agencies and VTA.

2 A notable exception is VTA's Silicon Valley Express Lanes Program. VTA is the owner and operator of this program.

Figure 3
VTA's Eight Divisions Carry Out Different Functions



Source: VTA's 2024/2025 biennial budget.

Table 1
We Compared VTA With Five Peer Transit Agencies

	SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)	TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET)	CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY (CAPMETRO)	LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY (LA METRO)	SACRAMENTO REGIONAL TRANSIT DISTRICT (SACRT)	ORANGE COUNTY TRANSPORTATION AUTHORITY (OCTA)
Service Area	Santa Clara County, CA	Clackamas, Multnomah, and Washington Counties, OR	Travis and Williamson Counties, TX	Los Angeles County, CA	Sacramento and Yolo Counties, CA	Orange County, CA
Population of Service Area (2022)	1,895,000	1,558,000	1,331,000	10,395,000	1,333,000	2,944,000
Operating Costs (2022)	$424,438,000	$506,016,000	$283,570,000	$1,801,365,000	$215,479,000	$295,256,000
Cost per capita*	***$224***	***$325***	***$213***	***$173***	***$162***	***$100***
Selected Transportation Services Provided†	CMA, rail, bus, and transit services for individuals with disabilities	Rail, bus, and transit services for individuals with disabilities	Rail, bus, and transit services for individuals with disabilities	Rail, bus, and transit services for individuals with disabilities	Rail, bus, and transit services for individuals with disabilities	CMA, rail, bus, and transit services for individuals with disabilities
Eligible Candidates for the Governing Board‡	Specified elected officials	Elected officials and members of the public	Elected officials and members of the public	Specified elected officials and members of the public	Elected officials and members of the public	Specified elected officials and members of the public

Source: Federal Transit Administration (FTA) and National Transit Database transit agency data, transit agency documentation, state laws.

* The per capita cost is the cost per person in the transit service area.

† Congestion Management Agencies (CMA) are agencies responsible for, among other things, traffic level-of-service standards for highways and roadways. We identified select transportation services common among the agencies.

‡ In our report, we use the term *specified elected officials* to refer to directors who are required by law to hold a specific elective office—such as a city council member—to be eligible for appointment to the board of a transit agency. We refer to *elected officials* when we are discussing directors who are required or permitted by law to hold an elective office but do not need to hold a specific elective office to be eligible for appointment to the board of a transit agency.

Chapter 1

VTA CAN STRENGTHEN ITS PLANNING AND OVERSIGHT OF CAPITAL PROJECTS AND BETTER INFORM THE BOARD ABOUT COST AND SCHEDULE CHANGES

Key Points

- VTA generally followed capital project selection best practices but did not conduct cost-benefit analyses before selecting two capital projects. As a result, it is not clear whether one of these projects—an extension of VTA's light rail system—is the best use of the $653 million cost VTA plans to incur.

- VTA did not always estimate the costs of the operation and maintenance of its capital projects when it developed those projects. These estimates are essential to anticipating the expected long-term costs of the capital projects VTA pursues. Further, the methodologies for VTA's project cost estimates are only partially documented.

- VTA managed individual changes to project cost and schedule in accordance with its procedures. However, it does not report to the board about deviations from the estimated cost and schedule for capital projects. This lack of reporting diminishes the board's awareness of important details about these projects.

VTA Did Not Perform Cost-Benefit Analyses When It Planned Two Major Capital Projects

When transit agencies plan and select capital projects that expand their capacity, the agencies are committing to long-term, costly efforts with the goal of improving their operations and services. Accordingly, the process such agencies use to plan and select these projects must thoroughly examine the projects across several factors, including an area's transportation goals and the needs of the community. To assess VTA's project planning and selection practices, we compared VTA's processes for two capital projects—the Eastridge to BART Regional Connector (EBRC) and the Silicon Valley Express Lanes Program (express lanes program)—against selected best practices. We selected these projects because they are large projects to which VTA has appropriated funding within the past five years, and they are capital expansion projects, meaning the projects add assets to VTA's existing system. The text box provides information about the scope of each project. Table 2 summarizes the best practices we reviewed and our determination that VTA followed two of the three best practices for these projects.

VTA Capital Projects Reviewed

Eastridge to BART Regional Connector ($653 million): VTA plans to build approximately 2.4 miles of light rail track along East Capitol Expressway in San José, starting from its existing Alum Rock station. VTA will build two new light rail stations: an elevated station at Story Road and a ground-level station at VTA's Eastridge Transit Center. In order to build the light rail track and stations, VTA also plans to remove two existing High-Occupancy Vehicle (HOV) lanes along Capitol Expressway.

Silicon Valley Express Lanes Program ($1.1 billion): VTA has begun constructing express lanes to add the option for single-occupancy vehicles to pay a toll to use the HOV lanes on certain highways in the county. This program is a multiphase program with multiple projects. Some sections have been collecting toll revenue since 2012. One of the program's goals is to generate revenue for VTA's other transit and transportation improvements.

Source: VTA project documents and website.

Table 2
VTA Did Not Follow a Key Project Planning and Selection Best Practice

	DURING PROJECT SELECTION, A TRANSIT AGENCY SHOULD …		
	… SELECT PROJECTS THAT ALIGN WITH ITS IDENTIFIED NEEDS.	… CONDUCT A COST-BENEFIT ANALYSIS.	… SELECT PROJECTS THAT SHOW A LINK TO PERFORMANCE MEASURES.
EBRC	Yes	No	Yes
Express Lanes Program	Yes	No	Yes

Source: VTA project documentation; best practice resources from the Federal Transit Administration, the Federal Highway Administration, and the Government Finance Officers Association.

A key best practice for capital project planning and selection is that an agency implements projects that align with its identified needs. VTA has identified its needs in its Valley Transportation Plan 2040 (VTP 2040). In 2014 the board adopted this plan, which identifies capital programs, projects, and policies that the board plans to pursue through 2040. VTP 2040 outlines VTA's needs and goals, including accommodating growth in the region, maintaining VTA's transportation system in a state of good repair, and reducing vehicle miles and hours traveled in order to reduce emissions.

Both projects we reviewed align with needs identified in VTP 2040. Specifically, EBRC's expected benefits align with VTP 2040's goals of accommodating population growth, reducing vehicle miles traveled, and reducing emissions. VTA anticipated that the EBRC project will reduce emissions by more than 50,000 metric tons of carbon dioxide and reduce vehicle miles traveled by more than 124 million miles over the span of 50 years. Similarly, the express lanes program helps VTA achieve a different goal specified in VTP 2040: reduced reliance on state and federal funding. VTA expects the express lanes program to generate an average of $164 million per year by 2040—including $68 million per year to fund other transit services and transportation improvements. Additionally, the express lanes will likely continue to operate and generate revenue for VTA beyond the period covered by VTP 2040.

Although the two projects we reviewed are likely to address needs that VTA has identified, VTA's staff stated that they did not perform a cost-benefit analysis on either project when they proposed them to the board and received the board's approval. A cost-benefit analysis is a tool that transportation agencies use to quantify the benefits to society of implementing a transportation investment and to help determine whether a project is economically efficient. A project is *economically efficient* if its projected future benefits equal or exceed the project's life-cycle costs.

Despite the advisability of using a cost-benefit analysis to make project selection decisions, VTA did not perform a cost-benefit analysis that could have informed the selection of these two projects. VTA's chief engineering and program delivery officer (chief engineering officer) informed us that VTA does not conduct a cost-benefit analysis on projects unless it is required to do so to obtain external funding because such an analysis takes a considerable amount of staff resources to complete.

However, VTA's ridership projections for the EBRC project demonstrate the importance of a cost-benefit analysis because VTA is predicting only a small increase in ridership. We compared the number of riders VTA projects will ride its light rail system in 2043 if it constructs the EBRC project and the number it projects will ride the system if it does not. VTA's ridership projections show that VTA expects that the EBRC project—which is projected to cost $653 million—will increase light rail ridership by only 1.5 percent by 2043 when compared to the number of riders expected if it did not construct the project. This increase is the equivalent of about 2,500 additional riders per day in that year. The EBRC project's estimated costs are $272 million per added mile of track. Although a comprehensive cost-benefit analysis would likely include an examination of more factors than just ridership, such as the effects on greenhouse gas emissions and the effects on the surrounding community, the slim increase in overall ridership is a concerning sign for a project to which VTA is committing significant resources.

In response to these concerns about the EBRC project, VTA's CEO and its chief external affairs officer asserted that VTA has a commitment to the voters who approved Measure A to follow through on the project. Voters passed Measure A in 2000, and an allowable use of the sales tax revenue generated by that measure is the expansion of light rail into the East Valley region, where VTA plans to construct EBRC. Although the EBRC project is an allowable use of Measure A funds, the measure never required VTA to construct the EBRC project, and the project's scope does not include all parts of the projects described in the measure. Instead of connecting the East Valley to downtown through a new light rail corridor or through a direct route to downtown, as identified in the measure, the EBRC project adds 2.4 miles of light rail track to the end of an existing light rail line that only indirectly leads to downtown.

Although VTA told us that it generally does not complete cost-benefit analyses, it did conduct some cost-benefit analyses for the express lanes program. Specifically, its first analysis was for the third phase of the program and occurred 10 years after the board first approved the program and about two years after it made a $28 million appropriation to the third phase. This 2018 analysis demonstrated that this phase's expected benefits, valued at more than $1 billion, would exceed its costs by $534 million over 10 years. The analyses for the fourth and fifth phases also demonstrated that the phases' expected benefits would exceed their costs by $50 million over 10 years and $586 million over six years, respectively. VTA completed all three of these analyses using a template issued by the California Department of Transportation (Caltrans).

However, VTA did not complete similar analyses for the first two phases of this program. VTA highlighted for us that it had reviewed the feasibility of the express lanes program and secured external financing for the program's early phases, both of which it believed demonstrated that VTA had performed a review of the program's value. Although the feasibility study does include a review of the projected expenses and revenues for the program, a project's estimated direct expenses and resulting revenues are not as thorough as a full consideration of a project's costs and benefits to society, which would factor in other elements such as emissions and time saved or added to commutes in the region.

As indicated earlier, VTA's leadership shared that cost-benefit analyses can be costly to produce. More specifically, VTA shared its concern that some of its capital projects are not expected to cost enough to merit a cost-benefit analysis. For example, VTA pointed out that some capital projects are not major investments that expand transit services but rather smaller, less costly upgrades to existing facilities. One example from VTA's most recent biennial budget is the remodeling of conference rooms, which is expected to cost only $229,000. We agree that some projects are not costly enough to warrant a cost-benefit analysis. VTA would likely benefit from establishing a threshold cost to indicate when a project requires such an analysis.

Additionally, the Federal Transit Administration (FTA) and the Federal Highway Administration emphasize the importance of performance measures that help transit agencies assess whether projects are helping the agency meet its goals. VTA performed a comparison between the two projects and relevant transportation performance measures. In its Major Investment Study from December 2000 that aimed to provide a strategy for investing in VTA's transit system in the Downtown/East Valley region, VTA compared EBRC and other project alternatives against six performance measures. These measures included total riders, new riders, and low-income households served. The EBRC alternative ranked highest only for the new riders performance measure. Other alternatives—which were bus routes instead of light rail—served more low-income households at lower capital costs but were not supported during community outreach sessions because they ran only during commute hours, whereas EBRC would operate for a greater period of time each day. Because VTA has not yet constructed the EBRC project, it is too early to know whether the project will achieve its expected performance.

VTA also used performance measures to assess its express lanes program. VTA's Express Lanes Operations Report for fiscal year 2022–23 describes that vehicle speed in express lanes are above the 45 miles-per-hour performance goal that VTA adopted from certain federal express-lane standards, showing that the program is succeeding in keeping traffic moving at the speed desired by VTA. The toll systems manager, who oversees express lanes, also provided a variance report demonstrating that for express lanes currently in operation, actual revenue is greater than the amount VTA budgeted. For example, actual revenue for the first three phases of the express lanes program was nearly $7.8 million in fiscal year 2022, whereas VTA had planned for revenue to be less than $6 million.

More recently, VTA began evaluating and prioritizing capital projects by using its Strategic Capital Investment Plan (SCIP). VTA adopted the SCIP in 2022 to help prioritize its long-term capital needs and identify how it anticipates appropriating funding for its capital projects over the next six years. VTA's adoption of the SCIP aligns VTA with an FTA recommendation that agencies adopt a standard review and approval framework when determining which projects to select within their capital improvement plans. In particular, VTA staff prioritize a list of proposed capital projects according to weighted scoring criteria, such as increasing ridership, enhancing safety, and environmental sustainability, among other factors. Most factors are assigned a weight of either 15 or 20 percent, with environmental sustainability being granted the lowest weight of 10 percent. Using this list, VTA told us it then ranks the capital projects against additional factors, including financial considerations and board priorities. Staff then use the final list of capital projects in the SCIP to guide the development of the biennial budget, which is how the board appropriates funds for these projects.

Best Practices Can Help Agencies Better Manage Capital Projects' Costs, Schedules, and Changes

According to the Project Management Institute, project management is the application of knowledge, skills, tools, and techniques to project activities to meet a project's requirements. The institute explains that project management enables organizations to execute projects effectively and efficiently by helping them resolve problems, manage change, and manage constraints, such as scope, schedule, and costs. A variety of resources—shown in the text box—are available to agencies to guide their project management.

Transit and highway projects generally follow the project development process that Figure 4 shows: after initiating a project, agencies design the project, solicit and award the contract, construct the project, and finally close the project and begin its operation and maintenance.

Sources of Project Management Best Practices

- Project Management Institute:
  - Project Management Body of Knowledge Guide
- Federal Transit Administration:
  - Construction Project Management Handbook
  - Project and Construction Management Guidelines
- Federal Railroad Administration:
  - Capital Cost Estimating, Guidance for Project Sponsors
- California Department of Transportation
  - Project Development Procedures Manual
  - Preparation Guidelines for Project Development Cost Estimates, Cost Estimating Guidelines
  - Workplan Standards Guide
  - Capital Project Workplan Handbook
- U.S. Government Accountability Office:
  - Cost Estimating and Assessment Guide
- Transportation Research Board:
  - Guidebook for the Evaluation of Project Delivery Methods

Source: Auditor research.

Figure 4
Transit and Highway Projects Follow a General Project Development Process

Project Initiation and Development

During this phase, a transit agency …

- Selects a proposed project and appropriates funding to begin project development.
- Identifies the scope and design concept for a range of possible project alternatives, including a no-build alternative.
- Studies the environmental impacts of the project alternatives.
- Chooses a preferred project alternative.

Design and Preconstruction

During this phase, a transit agency …

- Develops the project design, including the plans, specifications, and construction quantity estimates.
- Works with property owners, if necessary, to obtain land.

Solicitation and Award of Contracts

During this phase, a transit agency …

- Advertises the project construction proposal and accepts construction cost proposals from interested parties.
- Compares contractor cost proposals with its own independent estimate. The outcome of this process is a contract with a fixed construction cost amount.

Construction

During this phase, a transit agency …

- Supervises the contractor's construction of the project in accordance with the contract.
- Conducts walkthroughs of the built project and completes documentation to confirm closeout of the construction contract.

Operation and Maintenance*

During this phase, a transit agency operates the transit project and maintains it in good repair.

Source: FTA and Caltrans guidance, interviews with VTA staff.

* Caltrans is responsible for the operation and maintenance of highway projects, with the exception of VTA's express lanes program.

As part of our audit, we reviewed VTA's procedures and its implementation of six capital projects—shown in the first text box—to determine whether they reflect project management best practices in the areas of cost, schedule, and change control. We focused on these areas at the request of the Legislature and also because they are important areas of project management.

VTA Capital Projects We Reviewed

Rail Rehabilitation Phase 7 (Rail Rehabilitation)—This project is part of an ongoing program to ensure that VTA's light rail track infrastructure remains in a state of good repair. Rail Rehabilitation includes a subset of four projects:

- Rail Replacement and Rehabilitation FY18 ($20.2 million): The majority of the work includes the repair and replacement of the Younger "Half-Grand" rail junction, including the installation of two new crossovers.
- Upgrade Ohlone/Chynoweth Interlocking ($4 million): The project includes making improvements to an interlocking at the Ohlone-Chynoweth light rail station.
- Light Rail Crossover and Switches FY16–17 ($8.4 million): The project involves the installation of crossovers and power switches at several locations.
- Rail Replacement and Rehabilitation FY16–17 ($4.5 million): This project includes rehabilitation and replacement of track components at various locations.

Santa Clara Pocket Track (Pocket Track) ($33.6 million): The project included the construction of a pocket track alongside existing track on Tasman Drive.

US 101/De La Cruz Boulevard/Trimble Road Interchange Improvement Project (US 101) ($75.4 million): The project includes various improvements at the US 101 interchange, including the replacement of an existing overcrossing structure over US 101 and the installation of bicycle and pedestrian facilities along De La Cruz Boulevard.

Source: VTA project documentation, VTA's website, and interviews with VTA staff.

VTA's Project Cost Estimates Are Not Comprehensive, and Its Cost Estimate Methods Are Not Sufficiently Documented

Project cost estimates are important to agencies as they make investment decisions, set budgets, procure firms to assist with project implementation, and monitor their projects to assess whether they are meeting expectations. Accordingly, it is important for agencies to develop cost estimates that are reliable. The second text box shows the four characteristics that the U.S. Government Accountability Office (GAO) *Cost Estimating and Assessment Guide* states make a cost estimate reliable. The guide also defines each of these traits. For example, a *comprehensive* cost estimate includes costs from the entire lifecycle of the project, including the operation and maintenance phase, and a *credible* cost estimate includes a consideration of the project's risks and the uncertainty around the project. Although the VTA cost estimates we reviewed exhibited some of these characteristics, they fell short in other areas.

Characteristics of a Reliable Cost Estimate

- Comprehensive
- Well documented
- Credible
- Accurate

Source: GAO's Cost Estimating and Assessment Guide.

For the projects we reviewed, VTA did not address the first of these elements: having comprehensive cost estimates. VTA did not always estimate the operation and maintenance costs for its capital projects as part of its project development, even though operation and maintenance costs are essential to knowing the long-term costs that an agency will incur by committing to a project. However, for the three projects we reviewed in which VTA expected to incur operation and maintenance costs, the project request forms did not include an estimate of how much those costs would be—instead two of the forms read "TBD," meaning the costs were yet to be determined. The other form noted that the operation and maintenance costs would be offset by the fare revenue from the project but did not specify how

VTA came to this conclusion. Because VTA did not develop operation and maintenance cost estimates for these projects, the agency was at a greater risk of not being prepared to pay for their ongoing costs.

VTA did not estimate operation and maintenance costs at the time of project proposal because it lacked procedures specifying that it should do so. The chief engineering officer confirmed that the Engineering and Program Delivery division does not estimate the operation and maintenance costs for projects and that VTA does not have written procedures for how it develops project cost estimates. He also stated that a separate VTA division estimates project operation and maintenance costs. However, when we spoke with that division and the CEO, neither could clarify the division with this responsibility. Adopting procedures for including operation and maintenance cost estimates could specify which division has responsibility for developing estimates for the operation and maintenance phase of a project. According to VTA, it is in the process of drafting a project administration manual.

The CEO shared that VTA will develop anticipated operation and maintenance costs for substantial projects like EBRC because such estimates are generally required as part of environmental documentation or seeking outside funding. For example, as part of its request for FTA grant funding for BART Phase II, VTA estimated that from fiscal years 2023–24 through 2042–43, VTA's total direct and fixed overhead operation and maintenance costs for its share of the BART system will be $1.9 billion. Although VTA estimates operation and maintenance costs for substantial projects, it is also important for VTA to develop operation and maintenance cost estimates for the remainder of its capital projects. VTA has a significant number of capital projects. Its 2024–2025 biennial budget included appropriations to 47 capital projects in just its transit capital program, which does not include the substantial projects to which the CEO referred. Therefore, it is important for VTA to understand the operation and maintenance cost implications of its projects, regardless of their size, because without doing so it cannot ascertain the cumulative impact on its financial condition.

We also found that in the projects we reviewed, the second element of a reliable cost estimate was missing: VTA did not fully document its cost estimates. Transportation projects include two key cost estimates, which the text box shows. In addition to the GAO guidance we discuss above defining a reliable cost estimate, guidance from the FTA, Federal Railroad Administration, and Caltrans also indicates that a well-developed cost estimate is documented, traceable, and includes documented assumptions the agency used to create the estimate.

Two Key Cost Estimates of Transportation Projects

Initial Cost Estimate—Referred to as "conceptual" or "order-of-magnitude" estimates. These estimates are developed when a quick estimate is needed and few details are available.

Baseline Cost Estimate—The control budget against which project cost performance is measured and change is controlled.

Source: FTA and the GAO.

However, VTA's documentation of its project cost estimates are not always aligned with this guidance. The documents we reviewed for VTA's initial cost estimates showed a reasonable explanation for the estimates that VTA developed given the nature of the cost estimate. As the text box indicates, the initial cost estimate is a rough order-of-magnitude estimate, so we did not expect VTA to keep detailed documentation to explain how it arrived at this estimate. VTA does not use the term *baseline* to refer to any of its cost estimates. Nonetheless, we observed that it treats its preconstruction cost estimates as baseline estimates. Preconstruction cost estimates are those cost estimates that VTA has developed by the time it has fully designed the project and awarded the construction contracts. To determine whether VTA documents its more developed project cost estimates, we reviewed VTA's preconstruction cost estimates, as the FTA indicates that an agency should establish a baseline cost by that point in the project process.

Although the preconstruction estimates we reviewed were composed of several different types of work on the project, including design, construction, and other costs, VTA could provide documentation of its methodology for only some of these costs. VTA provided us with the documented estimation methodology for the construction portions of the projects. VTA also provided some documentation for the design portions of the six projects we reviewed, but this documentation was not comprehensive across all of the projects. Specifically, VTA provided documentation of its design cost methodology for the majority of the design costs for the Rail Rehabilitation projects and the US 101 project. However, VTA had only partially documented its methodology for the Pocket Track project. VTA had documented its estimates for the design and construction portions of these projects because it needs that information when it enters into contracts, which it uses to hold contractors responsible for the costs of specific services.

However, VTA's project managers did not consistently retain documented methodologies for the development of other costs for its projects—that is, the costs not related to designing and building the project, such as fees, testing, and third-party costs. For example, the engineering group manager for VTA's highway program and the US 101 project manager confirmed that there was no documented methodology for the utility relocation and field operation costs for the project because they are placeholder estimates. Also, although VTA uses a staffing spreadsheet to estimate its own labor costs, it did not always keep copies of these spreadsheets. Among the six projects we reviewed, VTA had maintained complete documentation of labor estimates for only one project and retained partial documentation for another. Among the projects we reviewed, the magnitudes of the costs incurred without documented methodologies in relation to the overall project costs ranged from 13 percent to 38 percent.

VTA's deputy director of construction for transit engineering (construction deputy director) confirmed that VTA does not require its project managers to document the methodology used to develop their preconstruction estimates because it expects project managers to already have the technical expertise to create an estimate as part of their job qualifications and responsibilities. The GAO notes that undocumented cost estimates can lead to unanswerable questions about the estimate and make it harder for others who are unfamiliar with the project to use the estimate effectively. Furthermore, the lack of documentation creates difficulty when trying to conduct analyses of why actual costs differed from the estimates. By not requiring its staff to document their assumptions, VTA is at a higher risk for these effects.

Because VTA's cost estimates were partially undocumented, VTA cannot know how credible they are and therefore how well they align with the third element of a reliable cost estimate. The GAO states that credible cost estimates are developed with consideration for the sensitivity of the estimates' assumptions and the risks of the project. The GAO suggests that agencies develop estimates that help decision makers appreciate the range of costs that a project may incur so they can make informed decisions about the project. However, the cost methodology documents VTA provided during this audit did not show VTA had identified a range of costs or demonstrate the effects of changing assumptions. Nevertheless, we note that for the construction portions of the projects we reviewed, VTA compared its own estimate of costs against the estimates provided by bidders, which provides some independent validation of costs.

Finally, although VTA's cost estimates are incomplete, they were generally accurate for the phases of the project that they covered. For the costs it does estimate, VTA has provided its board with a schedule of expected accuracy for its cost estimates, with the degree of accuracy dependent on the state of a project's design. Table 3 shows VTA's expected accuracy ranges for the initial and preconstruction estimates.

Table 3
VTA's Cost Estimates for the Six Projects We Reviewed Generally Fell Within Accuracy Ranges

PROJECT	STATUS	INITIAL ESTIMATE *(ACCURATE IF WITHIN -50% TO +100%)*	PRECONSTRUCTION ESTIMATE *(ACCURATE IF WITHIN -10% TO +15%)*	CURRENT ESTIMATE	AMOUNT SPENT AS OF FEBRUARY 2024
Upgrade Ohlone/Chynoweth Interlocking*	Ongoing	$1,200,000	$4,600,000	$4,600,000	$3,880,000
variance from current estimate		*283%*	*0%*		
Rail Replacement and Rehabilitation FY18	Ongoing	17,100,000	18,440,000	20,240,000	19,010,000
variance from current estimate		*18%*	*10%*		
Light Rail Crossover and Switches FY16–17*	Ongoing	8,200,000	7,750,000	8,440,000	8,370,000
variance from current estimate		*3%*	*9%*		
Rail Replacement and Rehabilitation FY16–17	Ongoing	4,500,000	4,670,000	4,500,000	4,500,000
variance from current estimate		*0%*	*-4%*		
Pocket Track	Complete	21,550,000	24,810,000	33,630,000	33,630,000
variance from current estimate		*56%*	*36%*		
US 101	Ongoing	60,000,000	75,370,000	75,370,000	58,780,000
variance from current estimate		*26%*	*0%*		

Source: VTA capital project request forms, cost reports, cost estimates for each project, and criteria for cost estimate accuracy.

* The "Current Estimate" and "Amount Spent" columns include appropriated funds for another project.

= Accurate Estimate

= Inaccurate Estimate

The majority of the cost estimates for the projects we reviewed—10 of 12 estimates—fell within the expected accuracy ranges. The most significant outlier was the initial estimate for the Upgrade Ohlone/Chynoweth Interlocking project. The actual costs for this project were close to 300 percent higher than VTA's original cost estimate. According to documentation requesting the budget increase, the affected project area was larger than originally planned, and VTA did not anticipate the extensive system changes and equipment required to complete the project.

VTA Generally Followed Best Practices for Developing Its Project Schedules

Another key activity within project management is the development and management of an accurate and complete project schedule. According to the FTA, a schedule is one of the tools that project managers use to maintain accountability for the activities that take place during a project, anticipate upcoming activities, review progress, and modify work plans if necessary. The FTA's publication *Project and Construction Management Guidelines* provides examples of the different types of schedules that transit projects typically include. Among these is the Integrated Master Project Schedule (master schedule), which FTA advises should be developed early in the project lifecycle and should include information from all phases of the project lifecycle up to, but not including, the operation and maintenance phase. However, to build the master schedule, agencies must first define the specific actions necessary to produce the project's deliverables and then estimate the amount of time necessary to complete those activities.

Consistent with best practices, for the six projects we reviewed, VTA defined the specific project activities necessary to produce deliverables and estimated the duration of each activity. For example, VTA noted that specific actions, such as writing a memo to the board and obtaining board authorization to proceed, must happen before it could award the construction contract for the US 101 project. VTA also developed the estimated start and finish dates and the estimated number of days each activity would take. By following the advised scheduling practices, VTA helps ensure that it is developing detailed schedules that will more accurately reflect the time it will take to complete a project.

In addition, VTA met industry best practices and developed a master schedule for the projects we reviewed. FTA notes that a master schedule is the official project schedule and should display how the project will be logically implemented. According to VTA's project schedule guidelines, VTA's project manager or project controls unit prepares a draft master schedule upon initiating a project. In the projects' master schedules, we found that VTA included all project phases from inception to closeout, including design and engineering, bid and award, and construction. Because VTA implements master schedules, it ensures that it is developing a detailed overview of the project schedule that it can manage during the project.

Similar to our cost estimates review in the previous section, we calculated the variances between VTA's schedule estimates and its actual project timelines. Table 4 shows the variances for VTA's initial and preconstruction estimates for the projects we reviewed. The variances were in part the result of circumstances outside of VTA's control. For example, according to the project change orders, extensions to the Rail Rehabilitation schedule during the construction phase were caused in part by global supply chain issues and a May 2021 shooting incident at a VTA rail yard. Also, the project manager for the US 101 highway project shared that the design consultant developed an ambitious schedule for the project's design, but stakeholders such as Caltrans, the city of San José, and the Federal Aviation Administration took longer than expected to review the design of the project.

Table 4
VTA Had Different Schedule Estimate Variances for the Projects We Reviewed

PROJECT	STATUS	INITIAL COMPLETION ESTIMATE	COMPLETION ESTIMATE AT PRECONSTRUCTION	COMPLETION ESTIMATE AS OF APRIL 2024
Rail Rehabilitation*	Ongoing	4/3/2019	9/21/2021	6/28/2024
variance from current estimate (in years)		*5.2*	*2.8*	
Pocket Track	Complete	6/30/2015	1/8/2015	4/29/2016
variance from current estimate (in years)		*0.8*	*1.3*	
US 101	Ongoing	12/30/2023	12/28/2024	9/14/2025
variance from current estimate (in years)		*1.7*	*0.7*	

Source: VTA capital project request forms and schedules for each project.

* VTA managed all four Rail Rehabilitation projects under one schedule.

VTA Does Not Regularly Report Project Variances to the Board

The FTA and the Project Management Institute both advise that a project sponsor, such as VTA, have a process for managing changes to contracts that increase the cost, schedule, or scope of the project. The FTA explains that a change control process can enable decision-makers to make cost-effective decisions and help oversight staff identify errors as the source of the needed change. VTA's change management guidelines detail its process for managing changes to its construction contracts (change control process). That process includes documenting the following: the justification for any change, the effect on the project's cost and schedule where applicable, a cost analysis, a record of VTA's negotiation with the contractor, and approval by the change control board. The package of documents in which VTA presents these factors is called a *change order*, and each change order that changes the contract value by more than $50,000 or changes the contract's schedule must be approved by VTA's change control board. The change control board includes senior VTA staff and is responsible for reviewing and approving contract changes to ensure that, among other requirements, they are appropriate, necessary, and include required documents.

We examined a selection of 19 change orders that affected the costs or the schedules for construction contracts related to the six capital projects we reviewed. We found that VTA followed its procedures for handling these change orders, including obtaining approval from the change control board. Consistent with VTA's change management guidelines, the change orders we reviewed contained justifications for the changes, descriptions of the change orders' effect on the schedules where applicable, cost analyses, records of negotiation, and approval by the change control board. For example, VTA required a change order related to the Pocket Track project to account for lost productivity due to multiple factors, including design changes. These changes increased the cost of that particular construction contract, which had an original value of $13.7 million and had already undergone $1.6 million in prior contract changes, by another $1.7 million. The project documentation for the related change order contained the required elements, including a description of the justification for the changes and a detailed discussion of the negotiations with the contractor on the price of the changes.

VTA's staff also regularly monitor project cost and schedule information. Guidance from the FTA prescribes that agencies should monitor project costs and schedules through frequent reporting to management of the projects' approved and ongoing costs, as well as schedule progress. We reviewed VTA's capital project documentation and determined that VTA follows this guidance through various reporting and monitoring methods. For example, VTA utilizes monthly cost reports that monitor and report to VTA management cost information, such as the projects' approved budget, estimated total costs, and incurred costs. Also, VTA's technical services group manager told us that project managers and schedulers review and update project schedules on a monthly basis. Further, a deputy director of construction told us that every quarter he, the chief engineering officer, and VTA's project controls unit, review transit project cost and schedule information. We reviewed examples of the project reports that the managers evaluate at these meetings and verified that the reports show project cost and schedule information along with the current project phase.

However, VTA staff do not regularly inform the board about project cost or schedule variances. VTA's staff provide updates to the board about capital project budgets and funding levels in the biennial budget. For example, the budget includes information about total capital project costs, unspent funds, and funding sources for each project. However, VTA staff confirmed that it does not regularly update the board about variances in capital projects from the preconstruction estimates. For example, earlier in this section we discussed a change order to a construction contract originally worth $13.7 million. Cumulatively, as of the change order that we reviewed, the cost of that contract had grown to about $17 million, or about a 24 percent increase. Because VTA staff do not regularly inform the board about variances such as this one, the board's understanding of capital project performance is diminished.

In response to our concern that staff do not provide the board with updates about variances from the preconstruction estimated costs and schedule for VTA's capital projects, the staff liaison to VTA's Capital Program Committee agreed that there would be value in staff providing semiannual reports to that committee and the board. The staff liaison indicated that the reports should include updates comparing the cost and schedule estimates of capital projects at contract award to their actual cost and schedule for any projects that have had a material change to either factor. The staff liaison stated that he was unaware of a reason the board does not receive semiannual reports of capital projects but added that these reports would improve the board's understanding and management of VTA's capital programs.

Recommendations

To ensure that VTA's board is fully informed when approving projects, VTA should update its planning procedures by December 2024 to do the following:

- Establish a threshold for estimated project cost that defines when project planning must include the performance of a cost-benefit analysis.

- Conduct a cost-benefit analysis for all capital projects that meet or exceed that cost threshold.

To help ensure that it develops reliable cost estimates for its capital projects, VTA should develop procedures by December 2024 to do the following:

- Document the methodology for developing its capital project cost estimates, including costs other than those directly related to the design and construction of the project.

- Estimate the anticipated operation and maintenance costs for capital projects in development.

To help ensure that the board can monitor project costs and schedules, VTA should develop procedures by December 2024 to monitor project costs and schedules against preconstruction estimates and present this information as part of its semiannual report to both the Capital Program Committee and the board. This report should provide status updates on the agency's existing capital projects and identify deviations from projects' preconstruction estimates.

Chapter 2

LEGISLATIVE CHANGES COULD INCREASE THE TRANSPARENCY AND EFFECTIVENESS OF VTA'S BOARD

Key Points

- The 12 directors on VTA's board are elected officials who are chosen by elected officials, which makes the board similar to other transit boards. However, the director selection process is not always transparent enough to ensure the appointment of directors experienced in transportation issues.

- VTA directors have shorter terms than their peers on other transit boards, which leads to shorter tenure overall, lessening the overall experience level on the board.

- The board generally uses both its standing committees and advisory committees effectively to review policies and make recommendations to the full board.

- Although VTA has safeguards in place to ensure that directors adhere to their fiduciary duties, it should make improvements to promote accountability for financial interest disclosures and ethics training.

VTA's Director Selection Process Is Not Transparent Enough to Ensure the Appointment of Experienced Directors

The 12 VTA directors are public officials responsible for the strategic direction of VTA. Their decisions can affect the quality of life of everyone who lives within VTA's jurisdiction. Given the public nature of their positions and the degree of influence that directors have, it is important that, whenever possible, directors are individuals with experience in or knowledge about transportation. To assess VTA's process for selecting and appointing directors, we considered three factors: who selects the directors, who is eligible to serve as a director, and the selection approach used by those who select directors.

Specific elected officials appoint VTA's directors, a practice that makes VTA similar to other transportation agencies. State law requires the San José City Council to appoint the city's VTA directors and the Santa Clara County Board of Supervisors to appoint the county's directors. Further, state law specifies that agreements between the remaining cities in the county govern how their directors are chosen. We determined that as of December 2023, the directors that represent cities other than San José were appointed by elected officials. State law refers to those responsible for making appointments to the VTA board as *appointing powers*. We reviewed the appointments of each voting director as of December 2023, and determined that all were selected by the appropriate appointing powers.

Having elected officials appoint directors aligns VTA with the most common practice in the country. According to the American Public Transportation Association (APTA), 60 percent of transit boards are appointed by local or state officials, such as mayors, governors, or a legislative body, and only 3 percent of transit boards are directly elected.[3] The laws that create four of the five peer agencies we reviewed also specify that certain elected officials, such as city council members, mayors, and county supervisors, appoint all but three of the directors of those agencies.[4] VTA not only conforms to the most common practice nationwide but also has a practice similar to its peers.

State law restricts who can serve as a director and, within those restrictions, VTA has provided guidance to the appointing powers about the desirable traits for a director. As the text box shows, state law does not allow a member of the general public to serve as a VTA board director. Additionally, state law requires that, to the extent possible, directors be individuals with expertise, experience, or knowledge relative to transportation issues—a requirement we refer to in this report as the *experience requirement*. As of December 2023, all directors were the elected officials state law requires. However, as we note in more detail below, the appointing powers did not always demonstrate to the public that they fulfilled the experience requirement when appointing directors. In addition to the requirements in state law, VTA has published nonbinding guidance for the appointing powers about its expectations for directors. These expectations include the directors devoting an average of five to 10 hours per month to board and committee assignments, representing the interests of their constituency while endeavoring to achieve regional consensus, and keeping their respective jurisdictions informed on key issues.

Requirements for VTA Director Selection

- Directors appointed by a city must be a mayor or city council member, and directors appointed by the county must be a member of the board of supervisors.
- To the extent possible, appointing powers must select directors who have expertise, experience, or knowledge relative to transportation issues.

Source: State law.

The state law requiring that VTA's directors are specified elected officials is unique among the peer agencies we reviewed. The law that establishes SacRT does not restrict directorship to elected officials, although in practice the board—as of April 2024—is composed solely of city council members and county supervisors. Differently, the state law that governs CapMetro requires that three of its eight directors be elected officials but does not restrict the other five directorships to elected officials. In addition, the board of directors for LA Metro and OCTA are required by law to be composed of a combination of members of the public and specified elected officials, with the majority of directors on each board required to be those elected officials.

3 The American Public Transportation Association is an international nonprofit association that represents more than 1,500 public and private sector member organizations. According to the association's website, more than 90 percent of people using public transit in the United States and Canada ride on systems belonging to its members.

4 State law establishing SacRT's board does not specify the individuals within the appointing power who are responsible for appointing the agency's directors. Nevertheless, SacRT confirmed that in practice the directors are appointed by elected officials.

Restricting directorships to elected officials likely provides some benefits, but the practice also limits the expertise that appointing powers can access when making appointment decisions. In our July 2008 audit of VTA, we stated that having elected officials serve on the board may allow VTA to be more influential in aligning local land use decisions with the countywide transportation plan.[5] Additionally, elected officials—having gained support for their leadership—could serve as trusted messengers to their local jurisdictions on behalf of VTA. Nonetheless, because state law restricts other individuals from serving as directors, the pool of candidates for VTA's board is limited and excludes members of the public who have direct experience with transit or transportation issues. Overall, the law limiting directors to specified elected officials likely leads to a board with less experience with transit or transportation issues than one that could exist without such limits.

Nonetheless, the appointing powers could maximize the transit and transportation experience on the board by ensuring that their appointments comply with the experience requirement. Accordingly, we reviewed the ways in which a selection of appointing powers chose their directors to determine whether the appointment processes were public and demonstrated that the appointing powers complied with the experience requirement. Specifically, we reviewed the available public record of the meetings for the appointing powers that took place in January and February 2023, as presented in Figure 5.[6]

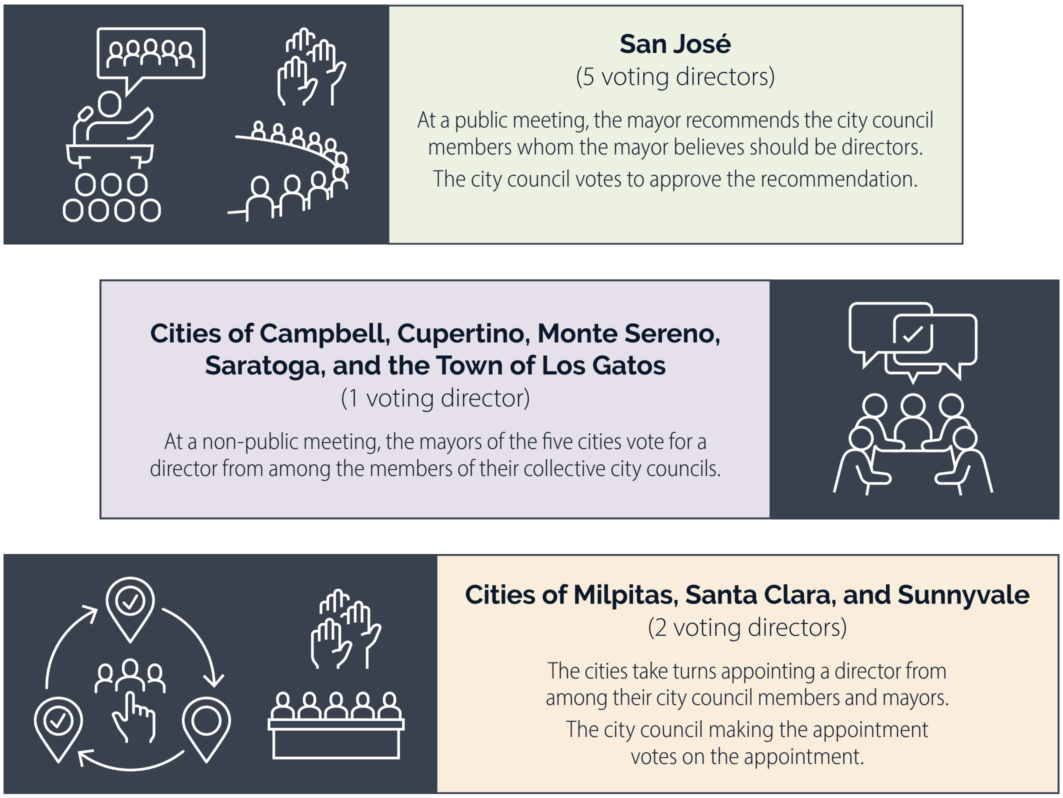
None of the appointing powers we reviewed have a formal process that requires them to publicly cite and document appointee qualifications. This lack of a formal public process may allow the appointing powers to circumvent the experience requirement. For appointments made by the cities of San José, Sunnyvale, and Santa Clara, the appointments were made at a public city council meeting. The city councils for San José and Sunnyvale discussed the general attributes of their appointees, including experience and the ability to work with others. For example, in January 2023, Sunnyvale's city council discussed its appointee's experience serving on VTA's policy advisory committee and the benefits that experience would provide to the individual as a director.

However, each of the appointing powers confirmed that it does not have a formal process to make public the qualifications of its appointees to VTA's board. As a result, appointing powers are able to make appointments without having affirmatively demonstrated to the public that their appointees have the relevant experience necessary to fulfill their responsibilities on VTA's board. For example, during Santa Clara's city council meeting in February 2023, it voted to approve the appointment of its VTA director without any discussion of that individual's qualifications or the extent to which it had considered other candidates who may have had transportation experience. Without a process in place requiring appointing powers to make public the qualifications of their appointees, VTA and the public are not always able to determine whether the appointing powers adhered to the experience requirement and appointed qualified candidates to VTA's board.

5 *Santa Clara Valley Transportation Authority: It Has Made Several Improvements in Recent Years, but Changes Are Still Needed*, *2007-129*, July 2008.

6 We did not review the appointment process for the city of Milpitas, because it appointed an alternate director in 2023, rather than a director.

Figure 5
The Appointing Powers We Reviewed Have Different Processes for Selecting Directors



Source: State law and VTA administrative code; documentation and interviews provided by each city group.

Note: The graphic does not include the selection processes for Santa Clara County, Gilroy, Morgan Hill, Los Altos, Los Altos Hills, Mountain View, or Palo Alto.

The remaining cities we reviewed—Campbell, Cupertino, Monte Sereno, Saratoga, and the town of Los Gatos—which represent a single city group, used the least transparent appointment process among the groups we reviewed. This process involves the mayors or other designated leaders of each city holding a meeting to determine who will be their appointed director. State law governing local government meetings requires that legislative bodies of local agencies—such as city councils—publicly report all actions taken by the body. However, this appointing power is not a legislative body and, as a result, it is not required by this law to hold a public meeting. Campbell's city manager confirmed that this appointing power's meeting is not public. Accordingly, the public does not know this group's reasons for its appointment decisions and has no assurance that the appointing power satisfied the requirement to appoint individuals with transportation experience to the extent it was possible to do so.

Because appointment decisions are not always deliberated and delivered in public, a significant safeguard for ensuring that appointing powers choose qualified directors is missing. VTA's CEO agreed that the appointing powers should be more transparent in the selection of their directors, but she also expressed her belief that VTA's enabling statute did not need to be amended to promote such transparency. Nonetheless, because VTA does not have the authority to mandate such transparency, legislative action would be required to compel more transparency in the appointment process.

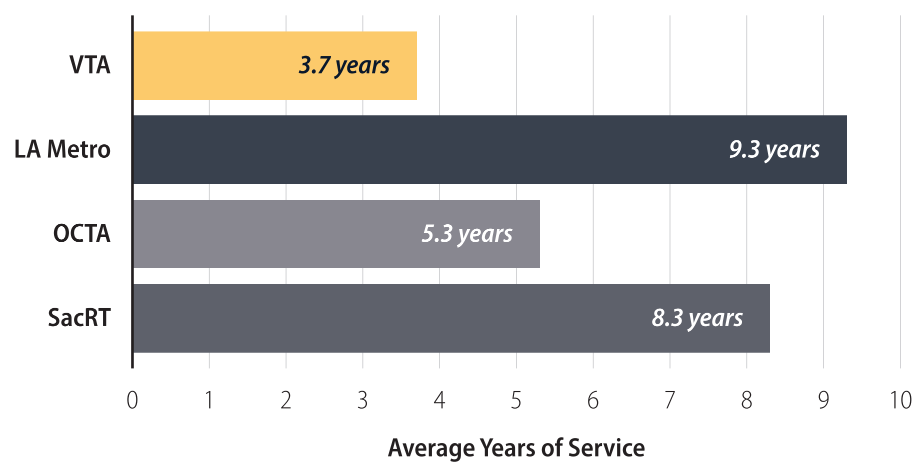
VTA Directors Have Briefer Tenures Than Their Peers at Other Transit Agencies

Although we could not identify any recommendations from authoritative sources specifying the number of years that a director should serve on a board of directors, we reviewed available guidance on board membership in the public sector and determined that having a mixture of experience levels on the board can provide benefits. For example, the California State Teachers' Retirement System's governance guidance states that effective boards have both short- and long-tenured directors to ensure that fresh perspectives are provided and that experience, continuity, and stability exist on the board.

The Transit Cooperative Research Program (TCRP)—a federally sponsored transportation research organization—reported that in response to a national survey of transit CEOs and board chairs, respondents said that some of their board members serve staggered terms to ensure that the board has both continuity and fresh ideas. The TCRP further reported that transit agency boards should have sufficient continuity and institutional memory to promote long-term planning and follow-through. These sources indicate that longer-tenured directors can benefit a board by providing stability and experience.

However, the average tenure of VTA's directors is shorter than directors' average tenure at the peer agencies we reviewed. Only three of the peer agencies—LA Metro, OCTA, and SacRT—maintained historical data regarding their directors' tenures. To assess the average tenure of directors at VTA and at these agencies, we identified all directors who served for any duration during the period of 2013 through 2023. We then calculated the average number of years those directors served regardless of when those years occurred. Figure 6 shows the results of our review and demonstrates that VTA's directors served for notably shorter periods, on average, than did their peers.

Figure 6
VTA Directors' Average Tenure Is Shorter Than Average Tenures of Directors at Peer Agencies



Source: Director tenure documentation provided by the agencies that maintain such data.

Note: CapMetro and TriMet did not maintain historical data on the tenure of their directors.

One contributing factor to shorter tenure among VTA's directors is VTA's shorter term lengths. As we describe in the Introduction, state law establishes the term length for VTA's directors generally at two years. State law allows up to 30 days beyond two years if a director's successor has not been appointed. However, this term length is generally half as long as the duration of the term lengths among VTA's peers. Three of the five peer agencies have four-year terms. Table 5 compares the term lengths of VTA directors and those of its peers. VTA's term lengths are also shorter than the national average. According to the TCRP, the average transit board member serves a three-year or four-year term.

Table 5
VTA's Directors Have Shorter Terms Than the Terms of Directors at Most of the Peer Agencies We Reviewed

AGENCY	DIRECTOR TERM LENGTH
VTA	2 years
CapMetro	2 years
LA Metro	4 years
SacRT	4 years
TriMet	4 years

Source: State laws creating these agencies.

Note: We do not include OCTA in the table because state law does not standardize the term lengths for most directors on the board for OCTA. Instead, state law allows the appointing powers that place directors on OCTA's board to set the directors' term lengths. The exception is the public members who have term lengths of four years prescribed in state law.

Another factor contributing to VTA's shorter director tenures has been the city groups' appointment decisions. Directors who were appointed by the city groups that have only one board director representative as well as the Northeast Cities group all had shorter tenures than the directors representing San José and the county, who had average tenures of roughly four and eight years respectively. The state law that creates VTA does not establish a limit on the number of terms that a person can serve as a VTA director—meaning that so long as a person continues to serve as an eligible elected official in their respective jurisdiction, a city group could reappoint that individual as their designated director indefinitely. In fact, the South County group, composed of Gilroy and Morgan Hill, has reappointed individuals to consecutive terms, resulting in that group having directors with the longest average tenure of any of the non-San José city groups at an average of nearly three-and-a-half years. The remaining non-San José city groups have generally rotated which cities appoint a director to the board, and those directors have an average tenure of about two-and-a-half years. Although that practice allows for the city groups to rotate which city has a director on the board, it generally detracts from the overall tenure and experience level of the board.

In previous reviews of its board tenure, VTA has received recommendations to extend its term length to four years. Our July 2008 audit found that VTA director tenure was shorter than tenures at comparable transit agencies at that time, and we recommended that VTA request a change to state law that would allow it to implement a four-year term. Similarly, a 2019 grand jury review of VTA noted that extending the term length of its directors to four years would increase the average tenure of board members and help provide continuity on the board. In May 2019, a VTA ad hoc board enhancement committee began meeting to review VTA's governance practices. This committee commissioned an independent study that ultimately recommended that VTA's board adopt a four-year term for its directors.

Despite these recommendations to pursue a four-year term length for its directors, VTA has not done so. In response to our July 2008 recommendation, VTA stated that the board had recently voted to keep a two-year term for its directors and encouraged the appointing powers to reappoint board members to consecutive terms. A VTA staff report in August 2020 to the Governance and Audit committee in response to the 2019 study of VTA's structure reached similar conclusions. Although staff noted that it takes a VTA director about two years on average to become comfortable and effective in their role, the staff recommended that VTA keep the two-year term length. The staff report noted that the two-year term length allowed city groups to remain flexible with their appointments, whereas a four-year term can limit their flexibility and options.

Because state law establishes the length of VTA's directors' terms, legislative action will be necessary to lengthen those terms. In July 2008 our office reported that extending the terms to a four-year period was appropriate and recommended that VTA pursue this change to the law. Nearly 16 years have passed since we made that recommendation, and VTA's tenure remains lower than its peers. Therefore, we believe that the Legislature should take action to extend the term length for VTA directors to four years, more closely aligning VTA with its peer agencies and helping to ensure that it is composed of individuals with the experience to lead VTA.

VTA's Use of Alternate Directors Does Not Lower the Attendance of Regular Directors

When directors cannot attend a board or committee meeting, VTA uses alternate directors to attend the meetings in their absence. According to state law, in addition to the 12 directors, there must be two alternate directors, one from the county and one from San José. Further, state law permits the other cities to agree to have alternate directors. VTA's administrative code states that alternate directors will attend board meetings, attend assigned standing committee meetings, and sit for and vote in place of their director if that director is absent. Alternate directors are not required to attend board meetings unless the director they are an alternate for cannot attend, although they are allowed to attend even when the director they serve as an alternate for is already in attendance.

We also reviewed guidance from the TCRP on board governance and management of transit agencies. The guidance noted that boards may use alternate directors; however, the guidance we reviewed neither recommended nor discouraged the practice. Of the five peer agencies we reviewed, only SacRT uses alternate directors. The law establishing SacRT allows the entities appointing directors to the board to also select alternate directors.

External reviewers have expressed concern about VTA's use of alternate directors. In 2019 the Santa Clara County Civil Grand Jury released a report on VTA's governance and remarked that alternate directors may cause directors to deprioritize meeting attendance. Also in 2019, VTA contracted for a governance assessment, and the scope of work included evaluating VTA's governance compared to other transit agencies. The firm that conducted the assessment recommended that VTA stop using alternate directors, stating that the alternate directors are often not needed to achieve a quorum and their average attendance rate is low—indicating that the board often does not rely on the alternates.

However, the existence of alternate directors does not appear to have affected director attendance, which was generally high. We reviewed VTA director attendance data from 2020 through June 2023. VTA directors attended 92 percent of board meetings and 83 percent of committee meetings, which are relatively high attendance rates. Further, VTA staff and directors noted that there is value in having alternate directors, including the fact that serving as an alternate director can provide experience and exposure to VTA that could prepare an alternate to become a director. In our review of board tenure we noted that several directors who served during the past ten years had started as alternates. Given the relatively high attendance rate of regular directors and the potential benefits of alternate directors, we did not conclude that VTA should discontinue its use of alternate directors.

VTA's Board Generally Uses Its Committees Effectively by Consulting Them About Relevant Policies and Incorporating Their Input

As we describe in the Introduction, VTA maintains several standing and advisory committees. VTA's administrative code, rules of procedure, and committee bylaws assign a title, duties, and responsibilities to each committee. For example, the Capital Program Committee is responsible for reviewing and recommending to the board policies pertaining to VTA's capital projects. According to the TCRP, transit agencies create committees to accomplish specific tasks and to address needs that the board is responsible for governing. The TCRP adds that committees make recommendations to the full board for approval. To assess whether VTA uses its committees effectively, we reviewed each standing and advisory committee's involvement in the development of five VTA policies, which the text box lists. For each policy, we assessed three areas: whether all of the applicable standing and advisory committees provided their perspective or advice on the policy, whether the committees provided that perspective or advice before board approval, and whether VTA staff presented the committees' perspective or advice to the board.

Policies We Reviewed for Board Committee Involvement

- Biennial budget for fiscal years 2024–25 and 2025–26
- Strategic Capital Investment Plan
- Visionary Transit Network Plan
- 2023 Transit Service Plan
- 2016 Measure B 10-Year Program and Biennial Budget Principles.

Source: VTA policies.

For the five policies we reviewed, the board's committees generally reviewed the policies and provided advice or recommendations when the policies were relevant to the committees' areas of responsibility. For example, the Capital Program Committee reviewed and provided advice on VTA's Strategic Capital Investment Plan (SCIP), but it did not review the 2023 Transit Service Plan, which was outside of the committee's purview because it focused on changes to VTA's services rather than its capital programs.

In total, across the five policies we reviewed and VTA's 10 standing and advisory committees, we identified 34 instances in which a committee's responsibilities appeared to overlap with the policies we reviewed. In all but eight of these cases, VTA's committees reviewed the relevant policy. In four of these eight cases, VTA had reasonable explanations for why the apparently relevant committees did not review a particular policy. One example of this type of exception is the approach VTA took to review its biennial budget. Although the Safety, Security, and Transit Planning and Operations (SSTPO) Committee is responsible for making recommendations to the board about transit planning, capital projects, and operations and marketing, it did not review the biennial budget. However, the staff liaison to this committee explained that, although the biennial budget allocates funds for transit projects and operations, the committee did not review the budget because it does not relate to the planning or development of projects with respect to their safety or security—which is a focus of the committee's responsibilities. We find this explanation reasonable.

Nevertheless, we found four instances in which committees likely should have reviewed a policy but did not do so. As mentioned above, the Capital Program Committee reviewed the SCIP, but no advisory committees reviewed that policy. According to the staff liaison for the committee, VTA chose to focus the involvement of its standing committees to just the Capital Program Committee because it is the committee with primary responsibility for this plan and doing so alleviated the workload of the other committees. We agree that this rationale is reasonable but note that it meant two advisory committees—the Policy Advisory Committee and the Technical Advisory Committee—did not review the SCIP when they likely should have given their purviews. For example, the Policy Advisory Committee—which is made up of members who represent VTA's member cities—is responsible for advising the board on multiple issues, including long-range transportation planning, VTA's budget, and service modifications, and as a result could provide valuable stakeholder input on the SCIP. The staff liaison agreed that it was a good idea for VTA to solicit stakeholder input on the SCIP and that, looking forward, VTA should present matters regarding the SCIP to relevant advisory committees.

In addition, we found two other instances in which a committee was not involved in a policy related to its responsibility. Specifically, the Bicycle and Pedestrian Advisory Committee, which is responsible for providing advice to the board on funding priorities for bicycle and pedestrian projects, did not review the program principles that guide funding for the 2016 Measure B Program—a program that in part funds bicycle and pedestrian projects of countywide significance—for a 10-year period. The committee's staff liaison acknowledged that not involving the committee was an oversight by VTA's staff. Similarly, the Capital Program Committee also did not review the principles for the 2016 Measure B Program, which funds capital projects that are in part managed by VTA. As a result, the committee missed an opportunity to fulfill its responsibility to review the efficacy of a policy that influences how the agency intends to fund VTA capital projects.

In all cases when committees reviewed policies, they did so before the board made an approval decision. We reviewed the meeting minutes of 36 committee meetings and found that the committees generally reviewed policies at least one month before staff presented the policy to the board. This timeline indicates that VTA staff should have sufficient time to respond to committees' advice and adjust policies before presenting them to the board. In fact, we saw those types of adjustments occurring when we reviewed the materials presented to the board.

Staff presented the committees' input or recommendations to the board. For example, when the SSTPO Committee received the 2023 Transit Service Plan—VTA's plan for bus and light rail services in 2023—committee members thanked the staff for developing the policy based on market- and data-driven analyses that also focused on equity. The SSTPO Committee subsequently recommended the policy to the board for approval, and staff presented that recommendation to the board. We also identified instances when committees recommended that staff amend or refine a policy to reflect a desired change that committee members requested. For example, during the development of the principles for the 2016 Measure B 10-Year Program, the Administration and Finance Committee recommended that staff amend the principles to include the percentage of funds allowed to be spent on each program category, consistent with the measure's ballot language. The version of the policy that staff presented to the board included the committee's recommended changes.

VTA Could Strengthen Its Safeguards to Better Ensure That Directors Uphold Their Fiduciary Duties

Fiduciary Duties of VTA Directors

- Duty to be diligent and informed
  Directors should consider all relevant information before making decisions, understand the complete financial consequences of policy proposals, and work through the CEO to provide direction to VTA staff.
- Duty to be responsible and loyal
  Directors should make decisions that are in the best interest of VTA and the VTA territory, subordinate the interests of individual directors or local jurisdictions, think regionally, and act in the best interests of all stakeholders, on behalf of VTA as a whole.

Source: VTA new director orientation training.

It is important that government officials exercise their fiduciary duties to ensure that they are acting in the best interest of the people and institutions that they serve. VTA's Code of Ethics states that directors are required to carry out their duties in the best interest of the agency and all agency stakeholders, which includes the residents of Santa Clara County. VTA further defines each director's fiduciary duties in its new director orientation, where it explicitly specifies two duties, which the text box shows.

Determining that a director has breached their fiduciary duties is a difficult task, potentially requiring evidence of the director's intention or state of mind when the director took certain actions. Therefore, we instead reviewed the extent to which VTA has created an environment that encourages directors to uphold their fiduciary duties. During our review, we observed several positive signs.

We found that VTA clearly communicates its expectations of directors. A key example is the content of its new director orientation, which is excerpted in the text box. The new director orientation also lists the types of activities that directors undertake that will require them to uphold their fiduciary duties, such as adopting the budget for VTA, making decisions related to capital projects, and managing VTA's assets. Moreover, consistent with best practices from the GAO, VTA has established its Code of Ethics that outlines the ethical responsibilities and standards of conduct to which directors must adhere, including the responsibility to promote the best interest of the public when determining VTA policy.

Further, the process by which directors make VTA policy encourages accountability. Earlier we describe how we reviewed the process by which VTA considered and adopted five key policies. Discussions on these policies occurred in public meetings at both the committee and full board level. Discussing and making decisions on VTA policy in public promotes accountability because it requires directors to make decisions subject to public comment and critique.

VTA's process for reviewing policies in committee also supports directors fulfilling their duty to be informed before making policy decisions. Our review of the board's involvement in the five policies revealed that directors received information and proposals on the policies prior to voting on them. For example, during the development of the SCIP, the directors on the Capital Program Committee held five separate meetings from April 2021 through April 2022 to review, amend, and refine the SCIP prior to its presentation to the board, suggesting that directors exercised diligent review of the policy.

To determine the extent to which VTA directors consulted with their city staff and city councils prior to voting on a policy, we interviewed four VTA directors who represented different city groups, and they said that under certain circumstances they do consult or share information with their respective city staff or city council members. For example, one director shared that he discusses matters related to the upcoming BART project with his city staff. We reviewed the meeting agendas of 30 city council meetings that took place within two months before the board voted on one of the five policies that we discussed earlier, but we did not see these policies on the agendas for discussion at the council meetings we reviewed.

Nevertheless, VTA's directors do receive input and recommendations from city staff and city council members through the advisory committees on which those individuals sit. Such advice can help the board build regional consensus and make decisions on issues that are in the best interest of the county. VTA has five advisory committees that represent county stakeholders and the various jurisdictions within the county by including city staff and city council members, as well as other members of the community as committee members. These committees provide stakeholder perspective to the board before it votes on a policy. For example, the Citizens Advisory Committee—a committee of 13 individuals representing different stakeholder groups in the county—provided its perspective to the board and recommended that the board adopt the Visionary Transit Network, a vision and framework for fast and reliable transportation services. Because directors receive input and recommendations from the public and key stakeholders on policy proposals prior to adoption, the board is better able to make decisions that are in the best interests of the agency and the county.

Despite these positive elements, VTA could strengthen its safeguards to hold directors accountable to their fiduciary duties. One way that a director could violate their fiduciary duties would be to make decisions for their own benefit or financial interest instead of for the benefit or financial interest of VTA and its constituents. Generally speaking, this type of decision making could constitute a conflict of interest. We assessed VTA and the 27 directors who served on the board from 2021 through 2023, including alternates, for adherence to several requirements and best practices that are intended to help prevent conflicts of interest, as described in the text box. We found that the directors generally adhered to these requirements and best practices. For example, as required by state law, VTA has a conflict-of-interest code to govern the directors' requirement to disclose reportable financial interests. However, VTA could enhance its approach to two statutory requirements regarding conflicts of interest—disclosing economic interests and completing ethics training.

Key Requirements and Best Practices to Detect and Prevent Conflicts of Interest

1. **Establish a conflict of interest code**—Agencies must adopt and promulgate a conflict-of-interest code that identifies positions within the agency that are required to report financial interests and what interests they should report.
2. **File statements of economic interest**—Directors must disclose specified financial interests and sources of income.
3. **Conduct biennial ethics training**—Certain local agency officials, including directors, must receive an ethics training at least once every two years.
4. **Establish a standard of conduct**—Agencies should establish standards to communicate expectations concerning ethical values and can use policies to communicate those standards.

Source: State law, GAO best practices, and VTA Conflict of Interest Code.

We reviewed the directors' adherence to state law requiring that certain officials disclose particular economic interests which is done by filing a Statement of Economic Interests (Form 700). We requested the Form 700s filed by each director who served in 2021 or 2022 and by all directors who assumed their directorship in 2023 and found that 25 of the 27 directors we reviewed submitted their Form 700s. If an official does not submit the Form 700, state law requires that the entity's filing officer report the official to the appropriate agencies, which may include the California Fair Political Practices Commission (FPPC). Failure to appropriately file a Form 700 may subject the official to criminal or civil penalties.

For the two directors who did not submit their forms—one current and one former director—VTA's board secretary explained that although VTA sends reminders to directors who have not submitted their forms, the agency does not report delinquent filers to the FPPC because she believes it is the county's responsibility—not VTA's—to report these directors to the FPPC. The county sent notifications to both directors to inform them that it had not received their forms and that it would report them if they remained in violation of their reporting requirements. In March 2024 VTA's board secretary indicated that the agency would send reminders to both directors to submit their forms. Although we agree that the county, as VTA's filing officer, is required to report relevant violations to the FPPC, the state law governing the filing of Form 700s does not prohibit VTA from also reporting the directors. Because VTA did not report these two directors to the FPPC, VTA has not taken steps to hold all of its own directors accountable for disclosing their financial interests.

We also reviewed VTA directors' compliance with a state ethics training requirement and found that the agency does not have a process to monitor whether directors complete this training. State law requires that certain local officials receive an ethics training course every two years. An analysis of the bill enacting that requirement suggested that the intent of the requirement was to enhance officials' understanding of how to use public resources and adhere to ethics guidelines set forth in state law. To determine whether VTA directors completed their required ethics training course, we requested from VTA's board secretary the 27 directors' most recent course completion certificates that they should have received from 2019 through 2023. VTA was unable to locate certificates for four of the directors. One of these individuals no longer serves on VTA's board as of April 2024, suggesting that the director may not have fulfilled the ethics training requirement before leaving the board. The board secretary stated that the Office of the Board's Secretary (secretary's office) has attempted to collect the ethics training course completion certificates for these four individuals. However, the board secretary explained that VTA does not have a process to track which directors have submitted their certificates. Instead, she stated that the secretary's office sends emails to VTA's directors reminding them to take their ethics training and submit their certificate to the secretary's office. Because VTA does not have a process in place to track whether directors complete their ethics training, it cannot be assured that all of its directors are properly trained about their ethical obligations.

Finally, recommendations that we have made throughout this report could also strengthen VTA's safeguards against breaches of fiduciary duties. For example, creating cost-benefit analyses of capital projects will better illustrate the benefits and tradeoffs of approving certain investments. This practice could in turn enhance directors' ability to make decisions in the best interests of the agency and the county. Expanding the agency's oversight of its budget, which we discuss later in the report, will provide more information to directors about VTA's efficiency in using its resources to benefit its residents. Finally, as we also explain later in the report, developing a new strategic plan that articulates clear direction about the agency's measurable goals would provide a clear indicator of what directors should be considering when making decisions.

Recommendations

Legislature

To ensure that VTA's appointing powers appoint directors based on their relevant qualifications, the Legislature should amend state law to require that VTA's appointing powers make public, consistent with applicable privacy protections, their rationales for the appointments they make to VTA's board, including a description of the appointee's relevant experience and qualifications related to transit and transportation.

To make VTA's term lengths more consistent with those of its peer transit agency boards and to help increase the overall experience and stability of board membership, the Legislature should amend state law to increase the length of VTA directors' terms to four years.

VTA

To ensure that VTA receives stakeholder input on the Strategic Capital Investment Plan (SCIP), the agency should ensure that it presents all subsequent updates to the SCIP to the appropriate advisory committees, solicits their input, and presents that input to the board.

To ensure that it more effectively safeguards against a breach of fiduciary duty, VTA should complete the following by December 2024:

- Establish a policy requiring relevant staff, including the secretary's office, to report to the FPPC those directors who do not submit their Form 700s in a timely manner.

- Establish a process for verifying whether directors have completed their biennial ethics training and following up to remind those who have not done so to complete the training.

Chapter 3

VTA SHOULD ADOPT SEVERAL ADDITIONAL PRACTICES TO OPTIMIZE ITS FINANCIAL HEALTH AND STRATEGIC DIRECTION

Key Points

- Although VTA is in relatively good financial condition—with its revenues regularly exceeding its expenses and a sizeable reserve for unexpected economic conditions—more than 60 percent of its annual revenue comes from sales tax revenue, an uncertain revenue source. VTA has not determined how it will replace this revenue source as sales tax measures begin to expire.

- VTA creates financial forecasts 10 years into the future, showing that it is following a key financial planning best practice. However, VTA's forecasts do not always include multiple expense scenarios, limiting its ability to set its budget with multiple situations in mind.

- VTA did not consistently monitor its budget for variances between actual spending and planned spending and does not report key financial metrics to its board. As a result, VTA has less insight than it otherwise would into where it may need to improve its operations.

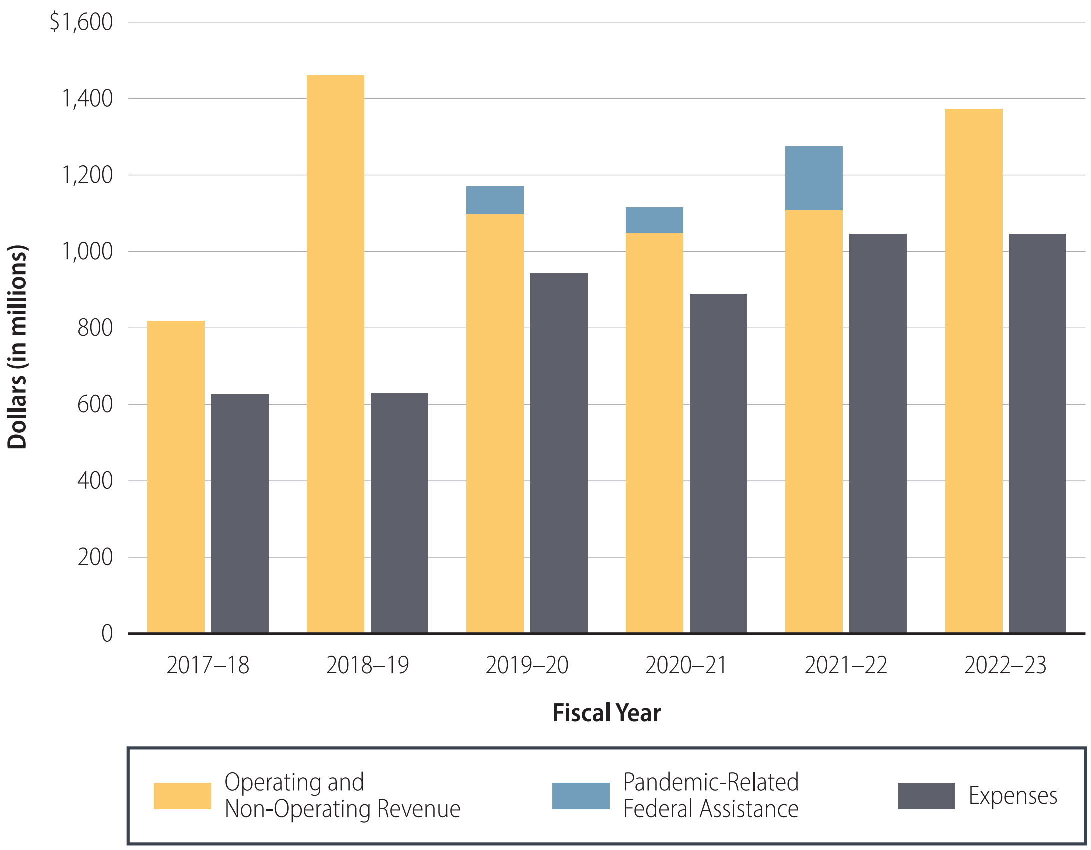
- VTA's strategic plan expired in 2022, and neither the expired plan nor interim strategic initiatives VTA has pursued have included measurable objectives that VTA or the public could use to determine whether VTA is making progress towards its strategic goals.

VTA Is in Relatively Good Financial Health but Would Benefit From Taking Additional Actions to Better Ensure Its Continued Viability

For a government agency, maintaining a good financial condition is essential to ensuring that it can continue to meet stakeholder needs. There are several indicators that can demonstrate whether a government is financially healthy. Accordingly, we assessed VTA by considering the following: whether the agency has been in a spending deficit or surplus, whether it has maintained the recommended level of reserve funding, the uncertainty of its revenue sources, and the size of and ways that it is funding its pension and other post-employment benefits (OPEB) expenses.

For the past six fiscal years, VTA has consistently reported higher revenues than expenses. Figure 7 shows VTA's total revenues and expenses, including the amount of revenue it received from COVID-19 pandemic-related federal assistance. Despite a decrease during the initial period of the pandemic, VTA's overall annual revenue has grown since fiscal year 2017–18. Moreover, the growth in revenue has generally aligned with the growth in VTA's expenses over the past six fiscal years, during which VTA recorded a 68 percent increase in revenue and a 67 percent increase in expenses.

Figure 7
VTA's Revenue Was Consistently Higher Than Its Expenses Over the Past Six Fiscal Years



Source: VTA's Annual Comprehensive Financial Reports for fiscal years 2017–18 through 2022–23.

Note: The spike in revenue in fiscal year 2018–19 was caused by the realization of 2016 Measure B sales tax revenue after a court ruling on the legality of the measure.

For a three-year period spanning from fiscal years 2019–20 through 2021–22, VTA relied significantly on pandemic-related federal assistance to support its major operating fund, the VTA transit fund. During this period, the fund operated at a deficit in one year—meaning that its change in net position was negative—and would have been in a similar situation in all three fiscal years had it not been for that federal assistance. Nonetheless, these federal funds were awarded in recognition of an extraordinary disruption to transit operations caused by circumstances outside the control of agencies like VTA. Accordingly, we do not find the reliance on such funds to be a sign of mismanagement by VTA. In fact, when these federal assistance programs stopped providing funds in fiscal year 2022–23, VTA continued to avoid operating at a deficit.

VTA has accumulated significant reserve funding. The California Special Districts Association recommends that special districts such as VTA establish policies that set a target level of reserves to maintain based on a percentage of regular operating revenues or regular operating expenditures, depending on which element is more predictable. In addition, the Government Finance Officers Association (GFOA) recommends that general purpose governments maintain at all times a minimum unrestricted fund balance of no less than two months' of either operating revenues or operating expenditures. As of June 30, 2023, VTA had three reserves, each with its own dedicated use as Table 6 shows.[7] In fiscal year 2022–23, VTA nearly exactly met the reserve target for its operating reserve—15 percent of the operating budget. Although this amount on its own does not quite reach the level recommended by the GFOA, VTA has other reserves to supplement its operating reserve. Accordingly, VTA is currently well-positioned to address unexpected swings in its revenues and expenditures, which ultimately can reduce the effect of that uncertainty on the residents it serves.

Table 6
VTA Has Established Reserves

RESERVE TYPE	PURPOSE	RESERVE AMOUNT AS OF JUNE 30, 2023 (IN MILLIONS)	DID VTA MEET THE RECOMMENDED RESERVE AMOUNT?
Operating Reserve	To ensure that sufficient funds are always available in the event of either unanticipated shortfalls in revenue from sources other than sales tax or unavoidable expenditure needs.	$91	Yes
Sales Tax Stabilization	To mitigate the impact of sales-tax-receipt volatility on service levels and on the operating budget.	$35	Meets maximum allowed in reserve
Debt Reduction	To enhance VTA's fiduciary governance practices and ensure that funds are available to sustain a capital program that maintains VTA's infrastructure and keeps assets in a state of good repair. May be used to reduce long-term liabilities or to provide funding for approved transit-related capital improvements and replacement of capital assets.	$375	N/A*

Source: VTA fiscal year 2022–23 Annual Comprehensive Financial Report; VTA policy.

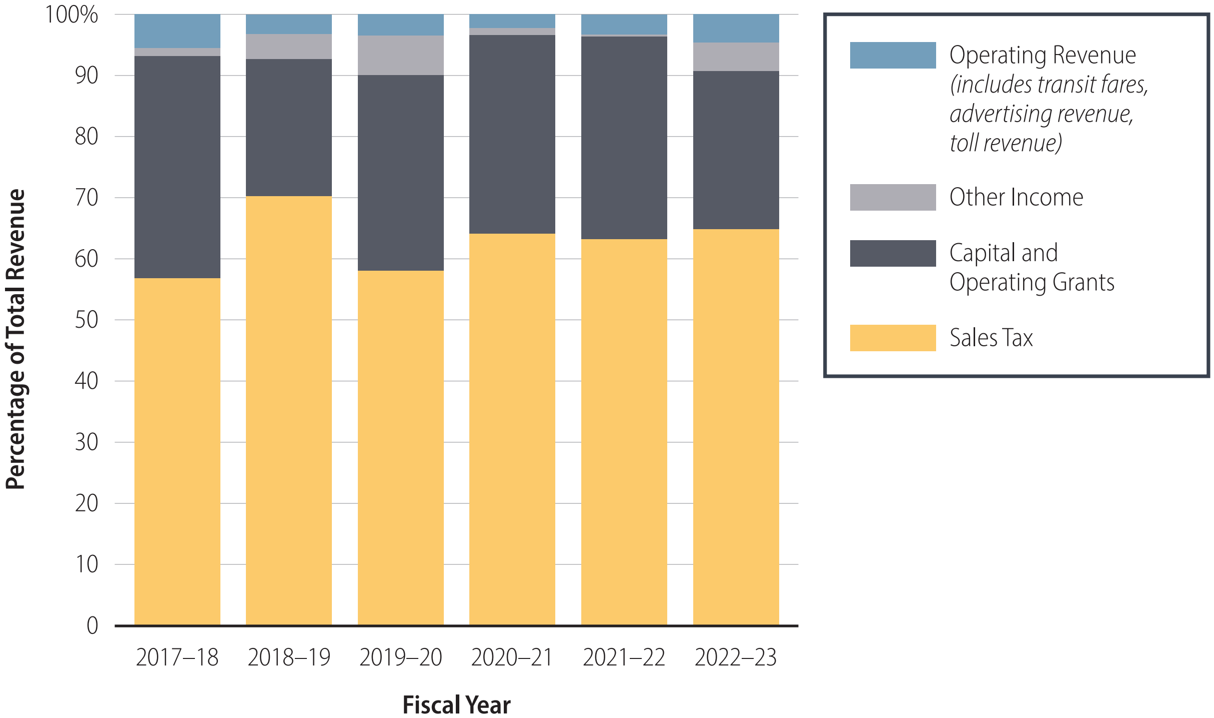
Note: In March 2024, the board approved a transfer of $115 million from the Debt Reduction Reserve to help fund the EBRC Project.

* VTA's Debt Reduction Reserve does not have a targeted level of funding or a cap on the available balance. Once the targeted balances have been met for the Operating Reserve and the Sales Tax Stabilization Reserve, any additional amounts are added to the Debt Reduction Reserve.

7 VTA established the Transit Operations Capital reserve in fiscal year 2023–24 with a $100 million transfer from the Debt Reduction reserve. The Transit Operations Capital reserve was created to be the primary funding source for VTA's biennial transit operations capital program.

In part, VTA's reserve policies reflect its vulnerability to changes in the economy. A large percentage of VTA's revenue—on average more than 60 percent over the past six fiscal years—is derived from sales taxes, a revenue source that fluctuates with the economy. Figure 8 shows the different revenue sources that VTA relied on during this period and the proportion that each source represented of its total revenue.

Figure 8
Sales Tax Revenue Is Consistently the Largest Portion of VTA's Total Revenue



Source: VTA's Annual Comprehensive Financial Reports for fiscal years 2017–18 through 2022–23.

As the figure shows, a very small percentage of VTA's total revenue is operating revenue, which is a category that includes its fare revenue. Instead, VTA primarily relies on sales tax revenue as well as state and federal grants to maintain its operations. The degree to which VTA relies on sales tax revenue (non-operating revenue) is common among its peers. Among the five agencies to which we compared VTA, only one—TriMet—did not rely on sales tax as a revenue source. TriMet instead relies on payroll and self-employment taxes that it uses in similar proportion to the sales taxes used by other agencies. Three of the other four agencies relied on sales tax revenue as the source for at least 50 percent of their annual revenue. Further, VTA maintains a sales tax revenue stabilization reserve specifically dedicated to sales tax revenue shortfalls, ensuring that it is at least partially insulated from the effects of economic downturns.

The more concerning element of VTA's dependence on sales tax revenue is that the revenue is time-limited. VTA's sales tax revenue is generated from four sales tax measures, three of which have sunset dates, as the text box describes. In fiscal year 2022–23, revenue from these three sales tax measures made up 69 percent of all of VTA's sales tax revenue. These revenue sources must eventually be replaced if VTA is to maintain operations and capital expenditures at present levels. The earliest expiration date of these measures occurs in 2036.

VTA Sales Tax Measures and Their Sunset Dates

VTA relies on four sales tax measures for the majority of its revenue.

1976 Measure A: A 1/2-cent sales tax authorized for the continued operation and development of transit service in Santa Clara County. *No sunset date.*

2000 Measure A: A 1/2-cent sales tax authorized for various transportation-related expenses, including the expansion of bus and light rail service throughout Santa Clara County and the purchase of vehicles for senior and disabled passenger access. *Sunset date is March 31, 2036.*

2008 Measure B: A 1/8-cent sales tax authorized to operate, maintain, and improve the BART extension. *Sunset date is June 30, 2042.*

2016 Measure B: A 1/2-cent sales tax authorized for various transportation-related expenses, including road and highway improvements, completion of the BART extension through downtown San Jose, improvements to bicycle and pedestrian safety, and increased Caltrain capacity. *Sunset date is March 31, 2047.*

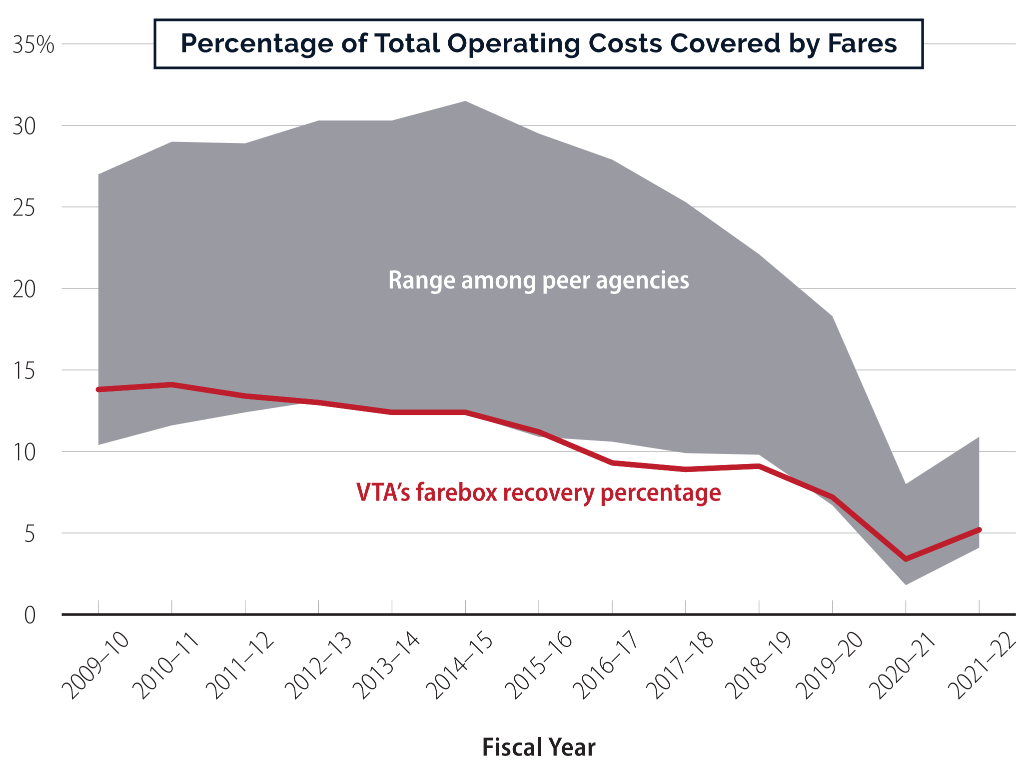
Source: Santa Clara County ballot measures.

Although the expiration of the first of these sales tax measures is 12 years from now, there are two compelling reasons why VTA should begin planning to identify and generate its replacement revenue sources now. First, if VTA determines that it wants to replace the existing measure with another sales tax, it will need to go through a potentially time-consuming process of drafting language for such a measure that it believes voters will approve, placing that measure on the ballot, and gaining voter approval. The California Constitution requires that such tax measures be approved by at least two-thirds of the voters. The longer VTA waits before deciding whether it wants to pursue a replacement sales tax measure, the less time it has to address the potential failure of such a measure to garner the required level of support. Secondly, VTA relies on sales tax revenue to fund its capital projects and support long-term efforts to maintain an adequate state of repair of its infrastructure and equipment. These projects can be in development for many years before beginning construction, and uncertainty about the availability of funding could hamper VTA's efforts to plan these projects and continue to address its needs. The existing Measure A sales tax is a demonstration of this principle. VTA has used the sales tax measure to fund multiple capital projects. Although it was approved by voters in 2000, Measure A did not take effect until 2006, when a different sales tax measure was scheduled to expire.

Two studies since 2018, both commissioned by VTA, have advised VTA to identify alternate revenue sources beyond sales tax revenue. In general, these studies were prompted by VTA's expectation that it may face deficit spending in future fiscal years. Although that scenario has generally not occurred, the studies show that VTA is aware of recommendations to diversify its revenue sources. According to its chief financial officer (CFO), VTA is still exploring additional revenue sources to replace the aging sales tax measures and has not yet identified the amount of additional funding that it will need. The CFO noted that VTA is exploring additional funding through the expansion of its express lanes system (which generates toll revenue), the renewal of sales tax measures, and transit-oriented development of its real estate holdings. For example, a March 2023 report on the estimated value of the private development of VTA's properties noted that further development of its real estate holdings, including commercial and residential development, could generate roughly $30 million in annual revenue for VTA by 2050.

Although VTA could also reduce its reliance on sales tax revenue by accessing more revenue through the fares paid by users of its transit system, the CFO indicated that it has not fully evaluated this option. The percentage of operating expenses that a transit agency covers with user fares is known as the *farebox recovery* ratio. We used fare and operating expense data from the National Transit Database (NTD), which is managed by the Federal Transit Administration (FTA), to calculate the farebox recovery ratio for VTA and the five peer transit agencies we reviewed. As Figure 9 shows, from fiscal years 2009–10 through 2021–22, VTA has had one of the lowest farebox recovery ratios. We acknowledge the balance VTA needs to achieve between keeping fares affordable to be providing a public service and subsidizing its operations through fare revenue. Nonetheless, without a full study of the issue—including examinations of how much ridership is affected by rates and whether rates could be increased without unacceptable losses in ridership—VTA cannot know for certain whether it is already at an optimal balancing point or whether, like its peers, it can cover a larger percentage of its operating costs with fare revenue.

Figure 9
VTA's Farebox Cost Recovery Ratio Is Among the Lowest of Its Peers



Source: National Transit Database transit agency data, fiscal years 2009–10 through 2021–22. Data for fiscal year 2022–23 were not available.

We found that despite the volatility in its sources of revenue, VTA's pension plans are generally in good condition, and its pension costs pose a low risk to its financial stability. VTA has two defined benefit pension plans: the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (ATU Plan) and the California Public Employees' Retirement System (CalPERS) pension plan. These pension plans offer retirement, disability, and death benefits for qualifying retired employees. VTA also has an Other Post-Employment Benefits (OPEB) plan, a defined benefit health plan that offers health benefits to its retired employees, including paid contributions toward retiree health plans.

We reviewed VTA's pension plans and OPEB funding levels by determining their funding ratio, which is the value of pension assets divided by its accrued liabilities. A funding ratio of 100 percent means that a plan has enough assets to cover its liabilities. According to VTA's fiscal year 2022–23 Annual Comprehensive Financial Report (ACFR), its OPEB trust has a funded ratio of 130 percent and, thus, is a low risk because its assets are able to fully cover its liabilities. However, its ATU plan and CalPERS plan have a combined funded ratio of 72 percent, which can pose a higher risk to its financial sustainability because the plans are not fully funded. Nonetheless, as the rest of this section details, VTA is adhering to practices that reduce this risk.

VTA's pension and OPEB funding practices generally align with established best practices. To provide reasonable assurance that the cost of employee benefits will be funded in a sustainable manner, the GFOA recommends that, on at least a biennial basis, governments obtain an actuarially determined contribution to serve as the basis for its employer contributions. VTA receives an annual actuarial valuation that determines its contributions for its ATU and OPEB plans. VTA's contributions for its CalPERS plan are determined by CalPERS.

The GFOA also recommends that governments contribute the full employer contribution amount each year in order to further promote the sustainability of their pension plans. Our review of VTA's audited financial statements and its actuarially determined contribution amounts found that VTA has met or exceeded its recommended contribution to its ATU plan from fiscal years 2019–20 through 2022–23. Similarly, its ACFR states that VTA made the actuarially determined contributions to its CalPERS plan in the same fiscal years. Since the actuarially determined contributions take into consideration the need to finance unfunded pension liabilities, VTA safeguards against future financial instability by making these contributions in full.

Further, the amount of these contributions does not pose a high risk to VTA's overall operations. When their pension and OPEB contributions are high, governments are at significant risk of needing to curtail other services or spending so that they can meet the pension and OPEB obligations. However, VTA's contributions represented very low percentages of its annual transit revenue in fiscal year 2022–23: about 5 percent for pension contributions and less than 1 percent for OPEB funding.

VTA's required pension contributions are likely to increase in the near future before they subsequently decrease over time. VTA's 2024 actuarial valuation of its ATU pension plan noted VTA's employer contributions are projected to increase through 2027. However, the 2024 valuation also noted that VTA's employer contribution rates have declined over the past decade as its employees increased their contribution rates. VTA's pension manager had an overall positive assessment of VTA's pensions' financial condition and expected that by continuing to make fully actuarially determined contributions, VTA will eventually fully fund the pensions. The pension manager also noted that VTA has made changes to how it calculates the cost of its unfunded liabilities over time in its ATU pension plan in order to reduce its unfunded liabilities over a 20-year period, and he added that it expects these changes will lead to a decline in required contribution amounts in the future.

VTA Has Projected Its Long Term Operational and Capital Needs in General Alignment With Best Practices

Guidance on financial planning for government agencies indicates that agencies should prepare financial plans that address their long-term ability to maintain operations and make investments in capital projects. The FTA has issued guidance to transit agencies about how to develop a financial plan in accordance with federal expectations. One of those expectations is that a transit agency's financial plan should include long-term plans and forecasts for the agency's revenues and costs to demonstrate that the agency anticipates having adequate revenue to pay for its costs. By developing these forecasts, an agency can demonstrate that it expects to be financially viable several years into the future.

In addition to the FTA guidance, the GFOA recommends that governments develop a range of possible forecast outcomes by using different scenarios. According to the GFOA, preparing projections under different assumptions, such as assumptions about economic conditions, permits decision-makers to consider the mix of revenue that would be necessary to provide various services. Similarly, the GFOA says that multiple expense projections can clearly identify the impact of different scenarios.

We focused our assessment of VTA's long-term financial forecasting on one of VTA's most significant funds and on the capital program that it is in part responsible for funding. The VTA Transit fund (transit fund) has a fiscal year 2023–24 operating budget of approximately $600 million, and it funded more than two-thirds of its operating activities—including its labor costs—in fiscal year 2023–24. Moreover, the transit fund contributes revenue to the VTA Transit Capital Program (transit capital program). The transit capital program helps VTA maintain capital infrastructure, keep capital assets in a state of good repair, and invest in improvements that are meant to enhance the safety, security, and efficiency of the transit system. The total appropriation for the transit capital program in VTA's biennial budget for fiscal years 2023–24 and 2024–25 is $163 million, of which the transit fund is budgeted to provide approximately $65 million.

In both of these areas, VTA has adopted most of the recommended practices for long-term forecasting that we reviewed. Most importantly, VTA produces long-term forecasts for both the transit fund's operating revenues and expenses and the transit capital program's funding needs. For the transit fund, VTA develops a two-year budget for the fund's revenues and expenses in its biennial budget and, using those two fiscal years as its base, projects the fund's revenues and expenses over the next eight fiscal years. VTA's projections account for factors that may affect sources of revenue and expenses, such as anticipated sporting events and other recreational activities that could increase ridership and, in turn, affect VTA fare revenues.

For the transit capital program, VTA develops a long-term forecast for the program as part of its SCIP. The SCIP identifies, within projected funding constraints, the program's funding needs and expected expenses over the next 20 years. By developing multiyear forecasts, VTA enhances its ability to assess whether it will have adequate revenue to pay for transit service expenses and to finance capital projects several years into the future.

VTA also adhered to the GFOA's recommendation to identify and clearly explain major assumptions used to inform its forecasts. For example, in its biennial budget, VTA assumes for the transit fund that ridership levels—which drive transit fare revenue—will increase between fiscal years 2023–24 and 2024–25 but remain approximately 10 percent lower than pre-pandemic levels. VTA explains in its budget document that although it expects that ridership will likely increase, hybrid work and telecommuting by businesses and schools may prevent transit ridership from making a full recovery to pre-pandemic levels. Similar to the transit fund's operating forecast, the SCIP identifies major relevant assumptions used to develop the forecast for the transit capital program, including the funding needs for future capital asset improvement projects—such as bus fleet electrification—and the maintenance required for the ongoing operation of light rail services.

The GFOA's guidance indicates that by developing multiple financial forecasts for its revenues and expenses, governments can better determine their needs under different economic realities. Consistent with this recommended practice, VTA develops three forecasts for the transit capital program, which it calls the *low, medium, and high* scenarios. Each forecast reflects the program's needs under different funding scenarios. Each funding scenario also describes the implications the forecast would have on VTA's ability to maintain and replace its capital assets. For example, the SCIP explains that the forecast reflecting the "medium" scenario—which the board ultimately directed staff to pursue in future plans and budgets—could in part allow the agency to replace bus fleets and light rail corridor electrification assets in the near term while maintaining assets on average in a state of adequate or good repair over a 20-year period. Because VTA develops multiple forecasts for the transit capital program, the board can develop a thorough understanding of the actions the agency must take to maintain the program's long-term viability.

For its transit fund revenues, VTA received from an external contractor three long-term forecasts of sales tax revenue under different economic scenarios. VTA used the "most likely" scenario provided by the contractor to develop the forecast for the 1976 sales tax and other major sources of sales tax-related revenues generated for the transit fund. Because sales tax—an inherently uncertain revenue source—constitutes more than 85 percent of the transit fund's budgeted revenues, VTA's review of multiple revenue forecasts helps to ensure that it considers potential scenarios that may influence its ability to support its operations several years into the future.

However, VTA does not develop multiple forecasts for the transit fund's operating expenses, which may limit VTA's insight into the long-term outlook for the transit fund. According to staff responsible for assembling the long-term forecast, VTA develops only one forecast for its operating expenses based on a single set of assumptions. As a result, VTA is unable to determine what the transit fund's operating expenses might be under different scenarios. For example, VTA does not consider varied degrees of staff vacancies and therefore cannot know the impact of those scenarios on its spending. It also lacks insight into the impact of fuel price spikes or declines on its ability to continue funding other budget priorities.

Further, VTA's single expense projection does not provide sufficient information to understand the impact of capital investments it is making. We reviewed whether VTA's expense projections anticipate operation and maintenance costs that will not occur until future budget cycles and found that VTA does not incorporate such costs. For example, VTA's forecast does not account for the $2 million in maintenance costs that VTA anticipates EBRC will incur on an annual basis once it becomes operational in 2029. Accordingly, VTA's forecast excludes factors that are likely to influence the transit fund's long-term viability.

VTA staff responsible for developing the transit fund forecast agreed that it would be beneficial to develop multiple expense scenarios. In January 2024, VTA entered into an agreement with a contractor to develop a new financial model that should allow VTA to develop multiple forecasts of its revenues and expenses under different economic assumptions. The deputy director-controller stated that these multiple forecasts will give VTA a stronger understanding of the revenues that it must raise to cover future expenses, something he acknowledged that VTA was limited in its ability to do with its current forecasting. He further stated that VTA intends to implement the new financial model by the time it begins developing its fiscal year 2026–27 biennial budget in the second half of 2024.

VTA Has Not Consistently Implemented Budget Monitoring Practices in Its Financial Decision-Making

According to the GFOA, regular monitoring of budgetary performance can provide an early warning of potential problems and time for decision-makers to consider actions they may need to take if there are major deviations between budgeted and actual spending. The GFOA recommends that governments have mechanisms in place to ensure compliance with the adopted budget and observes that a common mechanism is to conduct monthly or quarterly reviews of trends in actual expenditures and revenues compared to its budget. Further, the GFOA recommends that governments incorporate an examination of performance measures and linkages to financial outcomes into their budget monitoring processes. For a transit agency, these performance measures could include industry metrics such as farebox recovery rates or operating costs per trip. Finally, the GFOA states that it is important to establish formal processes for implementing budget monitoring responsibilities.

VTA indicated that it uses a variety of regular budgetary reviews. VTA's deputy director-controller stated that VTA's monitoring process consists of day-to-day tracking of expenditures by budget analysts within each division. Further, the deputy director-controller and VTA's budget manager said that VTA also conducts monthly reviews of spending trends and budget deviations. A key practice that the deputy director-controller explained is the quarterly review of actual spending against budgeted spending. According to the deputy director-controller, on a quarterly basis the budget department creates reports for each division regarding their budgeted-versus-actual expenditures (variance reports), and the budget department staff meets with the leadership from each division to review the reports and discuss any variances.

When we asked the CFO how VTA's board and staff respond to deviations between budgeted forecasts and the variance reports, he responded that VTA does not have a policy related to the variance reports that would require a specific action by VTA staff when deviations exceed a given threshold. The CFO said that the board makes inquiries of VTA staff related to the variance reports during board meetings, but he could not recall an example during his tenure of when the board requested a specific action as a result of the quarterly variance reports.

VTA could not demonstrate that it consistently generated the quarterly variance reports or held these meetings with division leadership. We requested a copy of the quarterly variance reports for three divisions from fiscal years 2021–22 and 2022–23—a total of 24 reports. However, VTA could provide only two of these reports, both from the second quarter of fiscal year 2022–23. According to the deputy director-controller, half of the quarterly meetings with divisional leadership were never scheduled, often because VTA did not have a budget manager at the time. In other cases, the deputy director-controller explained that he believed the meetings occurred but could not locate the related variance reports because of recent retirements from VTA. Without regular monitoring of budgetary performance, VTA is limited in its ability to identify and respond to deviations between budgeted and actual spending.

In contrast, VTA was able to demonstrate that it regularly presents agencywide variance reports to the board. We reviewed the meeting minutes from the Administration and Finance Committee from November 2020 through November 2023 and confirmed that VTA staff reported quarterly on agencywide operating budget variances, and that committee members generally discussed the reports. For example, in the committee's review of the statement of revenues and expenses from the first quarter of fiscal year 2020–21, committee members discussed VTA's use of Coronavirus Aid, Relief, and Economic Security Act funding and the degree to which the funding would cover an anticipated operating budget deficit.

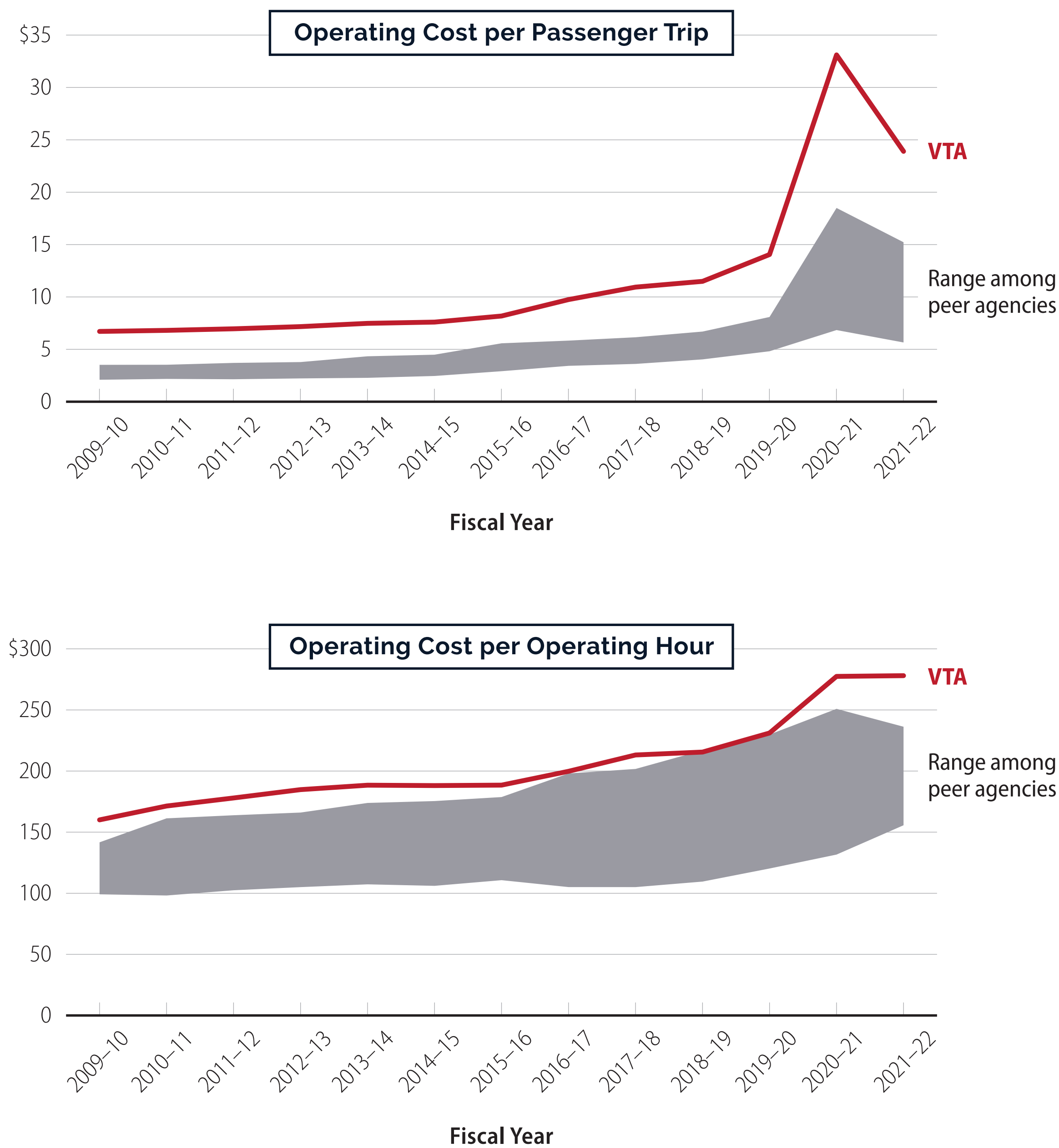
VTA has not adopted another recommended best practice for monitoring budget performance: the use of financial metrics as a part of budgetary oversight. VTA's CFO confirmed that the agency does not have specific financial metrics that it tracks or uses to report to the board about how well VTA is performing. Our review of eight board meetings from July 2022 through December 2022 confirmed that VTA staff generally did not present to the board updates on financial metrics, such as VTA's farebox recovery ratio. According to VTA's CFO, he is working with the finance department to determine the financial metrics and related goals on which the agency intends to report to the board. The CFO also stated that VTA intends to start delivering quarterly reports on these metrics and goals to the board by July 2024. He added that VTA intends to update the metrics and goals on an ongoing basis.

VTA is likely to find that tracking financial metrics improves its ability to enhance its operations. As we describe earlier, VTA's farebox recovery ratio is notably lower than that of its peer agencies. However, without regular updates on this metric, the board is left without reliable and easy access to information that could prompt it to reconsider VTA's fares. Similarly, the board would likely benefit from being regularly informed about how well VTA performs compared to its peers across other metrics. We reviewed the operating expenses that VTA and its peer agencies reported to the NTD for fiscal years 2009–10 through 2021–22. These expenses included labor costs, costs for vehicle fuel and other materials, and utilities. We also reviewed service hours and ridership data that these agencies reported to the NTD. Using these data, we calculated the total operating cost per passenger trip and the total operating cost per hour that a transit vehicle is in service.[8] As Figure 10 shows, VTA's operational costs across these two metrics were higher than any of the five peer agencies we reviewed. VTA's operating costs per trip peaked in fiscal year 2020–21 at $33.11 per trip—meaning that each trip taken by a passenger cost VTA about $33 in operating costs. The height of this peak was likely driven by the effects of the pandemic, but VTA's costs had nonetheless been higher than its peers' costs for some years before the pandemic affected its operations. These high operating cost metrics indicate that VTA is not operating as efficiently as its peers, which warrants VTA's further review to assess the causes. However, because VTA staff do not regularly report these types of data to the board, the board has a limited ability to monitor VTA's performance and direct VTA staff to identify and address causes.

Regular monitoring of these operational metrics is likely to be especially important to VTA as it continues to address declines in ridership. Metrics such as operational cost per trip measure how effective VTA is with its resources, which becomes more important as it faces changes in demand for its services. When we reviewed the number of passenger trips per service hour—essentially a measure of how many passengers are served compared to how many total hours VTA's vehicles are available to transport passengers—we found that in the four years leading up to the pandemic, VTA had a lower number of passengers per hour than most of its peers. This metric indicates that VTA may have been offering more transit service than its ridership required. Nonetheless, in the post-pandemic recovery, while ridership levels could still rise over time, it is likely too early to know whether VTA will continue to compare unfavorably to its peers. VTA's chief operating officer told us that both VTA staff and VTA's board are more focused on bringing the level of ridership up rather than the level of service down to meet reduced demand. Figure 11 shows that the trend in VTA's ridership was generally declining over the past nine years. As did its peers, VTA experienced a sharp decline in ridership due to the effects of the pandemic. Since then, ridership has not returned to its pre-pandemic levels.

8 For passenger trips, we used the metric *unlinked passenger trips*, which counts each time a passenger boards a transit vehicle regardless of how many vehicles the passenger uses to reach their destination. For the hours that vehicles were in service, we used the metric *vehicle revenue hours*, which measures the number of hours that vehicles are in revenue-generating service.

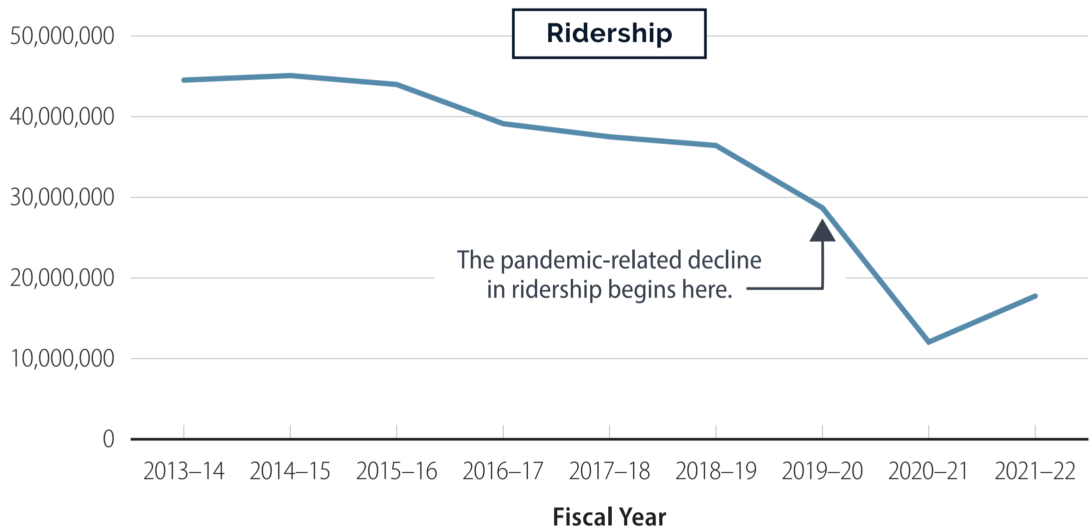
Figure 10
VTA's Operating Costs per Trip and per Operating Hour Have Consistently Been Higher Than Its Peers' Costs

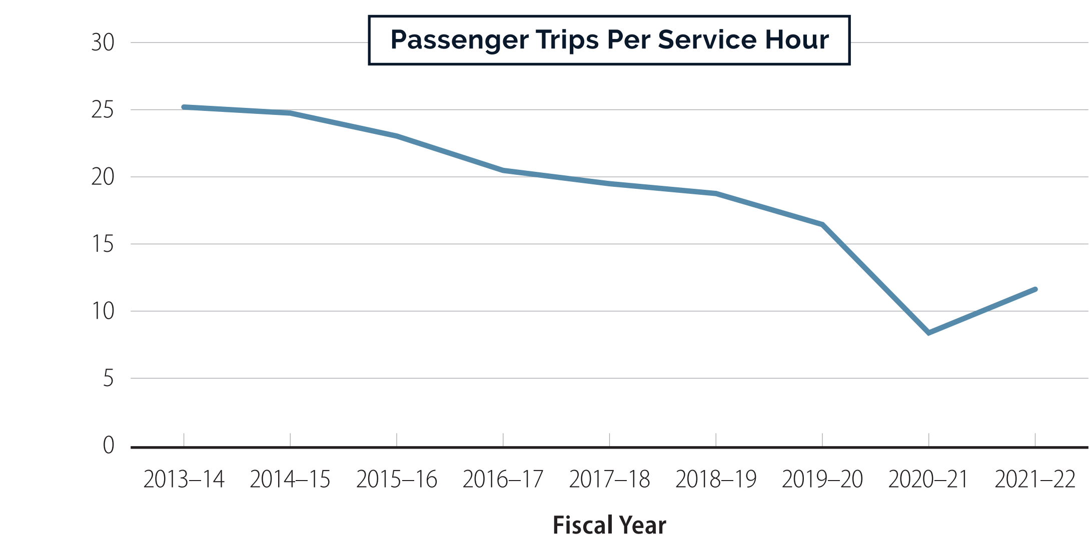


Source: NTD transit agency data, fiscal years 2009–10 through 2021–22. Data for fiscal year 2022–23 were not available.

Note: Operating cost per passenger trip is the cost VTA incurs to provide each trip taken by a passenger. For example, each trip taken by a passenger in fiscal year 2020–21 on average cost VTA approximately $33. Operating cost per operating hour is the cost to VTA to run its transit infrastructure for an hour. For example, in fiscal year 2020–21 it cost VTA about $277 to provide an hour of service.

Figure 11
VTA's Ridership Has Declined for Years, Even Before the Start of the Pandemic





Source: NTD transit agency data, fiscal years 2013–14 through 2021–22. Data for fiscal year 2022–23 were not available.

Finally, according to its budget manager, VTA has not documented any of its operating budget monitoring practices in written procedures. This lack of documentation raises the risk that its staff will not perform oversight activities. Documentation of an agency's procedures promotes various benefits: the documented procedures can clearly communicate expectations, helping to reduce inconsistency in practice. Documented procedures can also assist agencies experiencing staff turnover, because the documented procedures can guide newer staff who may not be as familiar with VTA's expected practices. In fact, VTA has experienced some turnover among its financial leadership in recent years—including its CFO, deputy director-controller, and budget manager. In light of the benefits of documenting procedures and the inconsistency we found in VTA's budget oversight practices, it would benefit VTA to formalize its expectations for budget oversight activities.

VTA Publicly Reports the Recommended Financial Information

To promote fiscal transparency, GFOA recommends that government agencies make high-quality financial information available on the agency's website. The GFOA also recommends that governments provide opportunities during the budget process for obtaining the input of stakeholders. Further, the GFOA recommends that governments obtain and publish independent expert reviews of their finances, such as annual external audits, to improve credibility with the public. The GFOA notes that when citizens have trust in government, they will be more willing to pay taxes, participate in community governance, and invest in the community.

VTA's biennial budget and its ACFR, which presents its comprehensive financial position, are available on its public website, including previous reports as far back as fiscal year 1995–96. VTA's biennial budget contains long-term financial forecasts and the underlying assumptions made in the forecasts. VTA's budget process includes the opportunity for the public to comment on its proposed budget. For example, an April 2023 board meeting included opportunity for the public to comment on the proposed budget for fiscal years 2023–24 and 2024–25. The proposed budget is also presented to various advisory committees to receive their input and recommendation—including the Policy Advisory Committee and Citizens Advisory Committee, both of which reviewed the proposed budget in May 2023, approximately one month before the board adopted the biennial budget. We reviewed VTA's ACFRs for fiscal years 2017–18 through 2022–23 and determined that an independent auditor issued an unmodified opinion on the financial statements in each year, meaning that the auditor concluded that VTA presented fairly, in all material respects, its financial position and changes in financial position for those years.

VTA Established Broad Strategic Goals Without Setting Specific Actions or Monitoring Processes

Strategic planning is an important process that can help an organization define its goals, establish how it will measure performance, and outline strategies that it will use to reach its goals. The TCRP states that strategic planning is a management tool used to define an agency's role, establish goals, measure performance, and guide business processes.

VTA's Strategic Goals

1. Optimize transit travel times and ensure they are preserved and continually improved.
2. Ensure that transit service, especially in core areas, is frequent (every 15 minutes or better).
3. Provide customer-focused information systems, and preserve and enhance reliable operations through transit-preferential treatments.
4. Create concepts, plans, designs, programs, and policies to optimize current conditions and identify and seize new opportunities.
5. Deliver projects and programs on time and within budget, and creatively pursue new construction, operational, and business practices that make VTA more efficient and successful.
6. Provide a comprehensive line of services, technical support, funding programs, and mobility solutions to the public and Congestion Management Program Member Agencies.
7. Address roadway congestion and all modes of transportation system operations by collecting and analyzing data, developing and applying technology, refining current practices, and implementing new planning and management tools.
8. Retain and increase the value of existing infrastructure and services, and optimize the utility of new investments and services.
9. Improve and expand mobility options by innovatively applying technology, planning, design, construction, operations, and business techniques.
10. Steady the organization and create clarity surrounding urgent initiatives in building VTA's team, retaining VTA talent, and restoring VTA service.
11. Elevate VTA staff and services with an emphasis on developing VTA workforce and delivering multi-modal projects and programs in an equitable and sustainable way.
12. Reach VTA's full potential through discernable culture change work and transformative community building that raises the transportation bar in the region.

Source: VTA's strategic planning documents.

Despite the importance of strategic planning, VTA's strategic plan is outdated, and VTA is currently operating with an alternate list of initiatives created by its CEO. VTA last developed a strategic plan in 2016, and that plan applied to the period of 2017 through 2022. In addition, in 2021, the CEO created *VTA Forward*, a list of initiatives that the CEO indicated was originally created as its strategic response to internal and external factors affecting VTA. The CEO stated that multiple crises since the start of the pandemic in early 2020 highlighted systemic issues that hindered the organization from moving forward. *VTA Forward* is focused on strengthening VTA and preparing it to take on future opportunities and challenges. The CEO told us that these two documents—the outdated strategic plan and *VTA Forward*—were the best source of VTA's vision and goals. However, she acknowledged that the strategic plan is outdated and said that most executive leaders at VTA do not use the plan. We refer to these two documents collectively as VTA's *strategic planning documents*.

Moreover, VTA's strategic planning documents do not contain all of the important elements of a strategic plan. For example, in the two documents combined, VTA has listed a total of 12 goals that it wants to achieve, as shown in the text box. However, all but one of these goals lack measurable objectives that would allow VTA or the public to determine whether it was making progress toward its goals. Further, VTA's strategic plan contains a goal to "optimize transit travel times and ensure they are preserved and continually improved." Yet the plan lacks any content on how VTA will determine whether it is making progress in this area. The one goal with a measurable objective is to ensure frequent service, with a measurable objective of transit availability every 15 minutes. The CEO agreed that VTA's strategic planning documents were missing goals with specific actions that VTA would take to achieve the goals. A related deficiency is that the strategic planning documents also do not identify the performance measures that VTA will use to determine whether it achieves the stated goals.

VTA had expected to complete additional plans that could have created these missing measurable objectives. VTA's strategic plan and biennial budgets indicate that the agency planned to measure its success in meeting its strategic goals through implementation of goals and metrics that would be included in a business plan. However, VTA never completed the business plan. With respect to the goals in *VTA Forward*, VTA also did not create measurable objectives by which it could determine whether it was achieving any of the stated goals in that list. The CEO indicated that factors such as the pandemic and aftereffects of a shooting incident at a VTA rail yard in 2021 affected the development of the business plans. She agreed that VTA lacks a performance measurement system for ensuring that actions are implemented and that VTA achieves the desired results.

Further, VTA's strategic planning documents do not always include specific strategies that VTA will use to achieve its goals. VTA's 2016 strategic plan contains no specific statements about the activities that VTA plans to engage in to achieve its goals. In fact, the plan explicitly states that it exists to guide the development of the business plans that would contain these strategies. In contrast, *VTA Forward* includes several statements about the actions that VTA planned to take to achieve the goals in that list. For example, to achieve the goal of developing its workforce, VTA described taking actions such as reforming its leadership development program and identifying and growing the leadership team's strengths through coaching.

Without a strategic plan that includes measurable objectives, related strategies, and defined performance measures, VTA is hindered from effectively ensuring that it meets its organizational goals, including goals valued by the public. According to the CEO, by November 2024 VTA plans to create a business plan for its outdated strategic plan and by 2026 create a new strategic plan. However, we question VTA's planned approach. As we note earlier, the CEO acknowledged that VTA's strategic plan is outdated and that executive leaders no longer refer to the plan. Additionally, it is unclear how much value VTA will derive from adopting a business plan for its expired strategic plan only to then replace the business plan approximately two years later with a new strategic plan. In response, the CEO stated that VTA needs a framework for the next two years and that a new strategic plan would take a longer time to create. Nonetheless, given the age of the outdated plan, it would be valuable for VTA to begin the creation of its new strategic plan as soon as possible to address its current needs.

VTA's CEO Evaluation Process Does Not Align With Best Practices

Organizations can promote accountability and effective performance by regularly reviewing how well staff fulfill their assigned responsibilities. For the CEO, these assigned responsibilities include ensuring the proper administration of all affairs of VTA. The APTA indicates that, by evaluating a CEO, a board can foster a productive relationship with the CEO. This relationship can in turn benefit both the agency and the people that it serves. The APTA also states that the evaluation process is effective when it includes agreement between the board and the CEO on job expectations and measurable outcomes that the board will use to evaluate the CEO.

VTA has a policy that establishes its process for evaluating its CEO. When VTA adopted its CEO evaluation policy in 2020, it noted that over the previous years it had evaluated the CEO inconsistently and that in some cases it had not always met its contractual requirements for review of the CEO. Therefore, the purpose of the 2020 policy was to correct VTA's approach to evaluating its CEO. According to the policy, the board's Governance and Audit Committee should receive an annual self-appraisal from the CEO, and the board chair should also collect input from each director about the CEO's performance and present that input to the committee in closed session. The committee is then required to present a confidential recommendation to the board about the CEO's performance to facilitate the board's discussion of the CEO's performance in closed session.

State open meeting laws authorize the board to conduct its evaluations of the CEO's performance in closed session. Under those laws, information relating to performance evaluations that is acquired by being present in closed session is confidential and cannot be disclosed. Because VTA evaluates the CEO's performance in closed session meetings, we cannot disclose any information about the evaluations obtained from the meetings. According to VTA's policy, the CEO's performance evaluation is based on performance objectives chosen by VTA's Governance and Audit Committee. However, the policy does not explicitly require these objectives to be communicated to the CEO. Further, the board's chair confirmed that the CEO's evaluation process is not based on documented goals or performance metrics. As a result, VTA's policy likely limits the board's ability to assess how well the CEO has helped VTA to achieve its stated goals and benefit the community.

VTA should take action to correct these deficiencies in its evaluation process after it has addressed issues with its strategic plan. As we note earlier, VTA lacks a current strategic plan with measurable objectives. Because the CEO is responsible for leading VTA, any future evaluation of the CEO should include a comparison of VTA's performance against such objectives. In October 2023, VTA entered into an agreement with a contractor to develop a new, documented process for evaluating the CEO's performance. According to the board chair, the new evaluation process will include an annual performance review by the board of the CEO based on performance goals and metrics related to VTA's objectives and strategic goals. The chair also said that the board and the CEO will meet on an annual basis to review the goals and update them as necessary to reflect the agency's objectives. Because the new evaluation process will enhance the board's ability to assess the CEO's performance based on performance goals and metrics, VTA's board should formally approve the new process and document it in VTA's administrative code.

Recommendations

To help ensure financial viability, VTA should determine by June 2025 the extent to which it can rely on revenue sources that are less uncertain than sales tax revenue. In reaching this determination, VTA should consider taking action to increase its farebox recovery ratio by, for example, raising fares or cutting expenses. VTA should then pursue any additional revenue sources it identifies to the extent possible.

To improve VTA's forecasts of future financial scenarios, VTA should begin forecasting multiple expense scenarios for its transit fund by December 2024 and use those scenarios to create a projection of expenses to present to the board. Further, it should incorporate into these projections any anticipated increases in operational costs because of capital projects.

To ensure that VTA is consistent in its budget monitoring and oversight, VTA should adopt documented procedures by December 2024 that include, at a minimum, the following:

- A process that VTA will use to examine variances between budgeted and actual amounts of revenues and expenses.

- The use of quarterly variance reports by both the board and VTA staff, and expectations for appropriate actions to be taken when significant deviations are identified.

- Assignments that show which staff will be responsible for performing and reviewing variance analyses, and ensure continuity of these reviews when there is turnover in key management positions.

To ensure that it is informed about VTA's performance against key financial indicators, the board should require VTA staff to regularly report on specified financial metrics—including its farebox recovery ratio, trips per revenue hour, and operating cost per revenue hour—beginning in December 2024 or sooner.

To ensure that VTA has a current strategic plan that incorporates best practices, VTA should create a comprehensive strategic plan by December 2025 that includes goals, measurable objectives, strategies, and performance measures to track progress. It should also adopt procedures to ensure monitoring of progress on the strategic plan and regular reporting to the board.

To help ensure that the CEO is guiding VTA to achieve its goals, the board should formally adopt by June 2025 the new evaluation process for its CEO and amend VTA's Administrative Code to document the process. The evaluation process should include performance expectations for its CEO based on the agency's objectives, including the goals in VTA's most current strategic plan. All subsequent updates to the evaluation process and its goals and metrics should be formally approved by the board.

Blank page inserted for reproduction purposes only.

Other Areas We Reviewed

To address the audit objectives approved by the Joint Legislative Audit Committee (Audit Committee), we also compared the board's responsibilities to those of its peer agencies. Additionally, to provide information about a significant capital project, we reviewed information about VTA's response to concerns expressed by the FTA over the second phase of VTA's Bay Area Rapid Transit (BART) capital project.

The VTA Board's Responsibilities Are Generally Consistent With Best Practices and Are Similar to the Responsibilities of Peer Agencies' Boards

The responsibilities of VTA's board align with best practices and are generally comparable to the responsibilities of the boards of the peer agencies. According to research sponsored by the FTA, the responsibilities of a transit board include making policy, upholding fiduciary duties, and overseeing the agency's CEO. We reviewed state law and relevant agency documentation and found that VTA's board is required to exercise these responsibilities. For example, according to the state law that establishes VTA, the board is responsible for determining VTA policy, adopting an annual budget, establishing rates for transit service, and determining the transit facilities that VTA should acquire and construct. As we stated earlier in the report, VTA's directors are also charged with several fiduciary responsibilities, including the responsibility to act in the best interest of the residents of the county and disclose reportable financial interests.

Available public records demonstrate that the boards of the peer agencies are often required to exercise similar responsibilities. For example, the statute that establishes SacRT states that the board is the district's legislative body, responsible for adopting an annual budget and adopting rules and regulations that govern the use of the district's transit facilities. Further, CapMetro's bylaws require that directors act collectively on behalf of the board in the best interest of the agency. In addition, we found that each peer agency's board is either required to, or has the authority to, appoint the agency's CEO. For example, the statute that establishes TriMet requires the board to select a general manager based in part on their past experience as a general manager. The publicly available documentation we reviewed did not make it clear whether VTA's peer agency boards have responsibilities similar to the ones we describe earlier that position VTA's board as the body responsible for evaluating the CEO's performance.

VTA Has Worked With FTA to Address Federal Concerns About VTA's BART Capital Project

In 2000 Santa Clara County voters approved Measure A, which included an extension of BART. The entire BART project is a 16-mile extension of the existing BART system. VTA is constructing and will own the project, and BART will maintain and operate service. VTA reports on its website that Phase I of the project opened for service in 2020. This phase extended service approximately 10 miles from Alameda County to North San José. We reviewed VTA's project planning for Phase II (BART project), an approximately six-mile extension that will bring service through three new underground stations in San José and end in the city of Santa Clara. According to VTA's auditor general's report on the project, the budget and schedule for the BART project have grown over time. In April 2021, VTA estimated a cost of $6.9 billion and date to begin service in May 2030, with contingencies that could delay the start of service until September 2032.

FTA has assigned a project management oversight contractor (oversight contractor) to assess VTA's project planning and federal funding applications. In July 2021, the oversight contractor issued a report evaluating VTA's risk assessment, project scope, schedule, and capital cost estimate for the BART project. The report included concerns that VTA's project planning was too optimistic for both the project cost and project schedule. The oversight contractor recommended that VTA increase the expected cost of the BART project by more than $2.2 billion, from $6.9 billion to more than $9.1 billion and push the expected date to begin service to June 2034.

According to the VTA manager in charge of the BART project (BART project manager), VTA does not have to report a specific corrective action plan describing how VTA will implement all of the oversight contractor's recommendations. Instead, he explained that VTA works collaboratively with the oversight contractor to address ongoing concerns. VTA has been able to demonstrate that it has addressed some of the specific concerns that the contractor identified. For example, according to the contractor's project monitoring report, when VTA submitted an application to FTA for funding in October 2022, VTA's cost estimate of $9.3 billion was greater than the $9.1 billion that the FTA's contractor estimated more than a year prior. Further, VTA's schedule estimate—with an estimated date to begin service of March 2033—was 15 months earlier than the contractor's recommended estimate. In its response to the contractor's 2021 assessment, VTA described differences of opinion related to a timeline for procuring a tunnel boring machine and the estimated tunneling rate as the primary reasons for differences in schedule estimates between VTA and the FTA's contractor.

Despite the scheduling difference, FTA approved VTA's initial application for a federal funding program that, according to VTA, can supply funding of nearly $6.3 billion if VTA ultimately succeeds in satisfying all federal requirements. The BART project manager explained that the project's progress through the FTA funding process is an indication of the confidence that the oversight contractor has that VTA is successfully addressing concerns. We concluded our audit fieldwork in April 2024. A report by the CFO to the board indicates that VTA submitted its application for the engineering phase of the federal funding process in March 2024. In that report, VTA estimated the project to cost $12.7 billion with an estimated date to begin service of March 2039. According to the report, if FTA accepts VTA's application for the engineering phase, VTA may then submit a final application to FTA for a full funding grant agreement.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code section 8543 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

GRANT PARKS
California State Auditor

June 11, 2024

Staff: Bob Harris, Audit Principal
Ralph M. Flynn, Senior Auditor
Amanda Millen, MBA, Senior Auditor
Mike Carri
Nathan Drake
William Goltra
Alexis Hankins
Roxanna Jarvis
Lily Nuñez, MPP

Legal Counsel: Abigail Maurer

Blank page inserted for reproduction purposes only.

Appendix A

Status of VTA's Implementation of Our Prior Audit Recommendations

The Audit Committee requested that we evaluate VTA's implementation of recommendations from our July 2008 audit of VTA.[9] In Table A, we present these audit recommendations and their current implementation status.

Table A
Status of VTA's Implementation of Recommendations From Audit Report 2007-129

	2007-129 AUDIT RECOMMENDATION	CURRENT IMPLEMENTATION STATUS*
Board Structure, Governance, and Strategic Planning		
1	To promote stability in its leadership and bring the tenure of board members in line with that of comparable transit agencies, VTA should request the Legislature to amend its enabling statutes to allow for a four-year board term.	Not implemented *As discussed in this report, VTA's term length is two years and not four, and VTA has decided to encourage appointing powers to reappoint directors rather than pursue a change to its term lengths.*
2	VTA should monitor the effect of the governance changes approved by the board in May 2008 and determine whether additional changes to its governance structure are necessary. To this end, VTA should add board tenure to the performance measures it develops for its new strategic plan.	Not current practice *As this report describes, VTA's strategic plan is outdated. Further, VTA's strategic planning documents lack performance measures related to board tenure.*
3	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: a. Reassessing and stating the purpose and role of each advisory committee. b. Reviewing work plans for advisory committees to ensure the committees have an opportunity to review and provide input on issues in the early stages of development. c. Providing the citizens committee with an opportunity to address the board at every meeting, similar to the opportunity provided to the policy committee.	Implemented *VTA has regularly updated the bylaws for each advisory committee, which include each committee's mission and purpose. The citizens advisory committee has a regular opportunity to address the board. Although our report notes that VTA did not involve advisory committees in the development of the SCIP, we noted that in most cases, committees were appropriately involved in policy review. Additionally, the board approves the meeting minutes packages for advisory committee meetings during which the workplans are established.*
4	VTA should implement its plan to create a comprehensive strategic plan and ensure that the new plan conforms to the practices recommended by the GFOA.	Not current practice *As this report describes, VTA's strategic plan is outdated and does not adhere to best practices.*
Project Management		
5	To ensure adequate control over its project planning process, VTA should develop written policies and procedures for project planning and evaluation.	Not current practice *As this report describes, VTA does not have procedures for cost estimation which is a key element of project planning and management, but it is developing a project administration manual.*

continued on next page . . .

[9] *Santa Clara Valley Transportation Authority: It Has Made Several Improvements in Recent Years, but Changes Are Still Needed, 2007-129*, July 2008.

	2007-129 AUDIT RECOMMENDATION	CURRENT IMPLEMENTATION STATUS*
6	To conform to GFOA-recommended practices, VTA should create policies and procedures to clearly identify all project costs and revenues, and to estimate and have a plan for funding the operating costs resulting from capital projects.	Not current practice *VTA does not have written procedures related to identifying project operation and maintenance costs. Further, as described in this report, VTA does not identify operation and maintenance costs for all of its projects.*
7	To achieve consistency in project monitoring, VTA should ensure that its project managers follow the construction administration manual or document when management has agreed to an exception.	Not current practice *According to VTA, it no longer uses its construction administration manual.*
	Financial Planning and Oversight	
8	To make best use of its resources, VTA should create regular processes in which fiscal resources communicates with other VTA divisions—especially the Engineering and Construction Division—regarding the cash needs of projects and activities. This communication process should include estimates of yearly project expenditures and regular updates to those projections based on actual results.	Not current practice *According to VTA, it had begun but has since stopped holding meetings between its fiscal team and project staff for these purposes.*
9	VTA should update its capital budget to more fully report planned spending by year, capital carryover by source, and expected total project costs.	Implemented *As this report discusses, VTA presents this information to the board as part of its budget.*
10	To better monitor capital spending, VTA should regularly compile and report to management information that tracks all capital projects and compares spending and project progress to original projections. Information should be broken down by project but should also include total project progress and spending by source of funds.	Not current practice *VTA does not compare its capital project costs to its original estimates or report variances from the original estimates to the board.*
11	To ensure realistic long-term financial planning, VTA should continue to update its planning tools and methodology and clearly explain assumptions that have material effects on overall forecasts.	Implemented *As noted in this report, VTA describes the major assumptions that impact its financial forecasts.*

Source: Audit report 2007-129; VTA documents and processes.

Note: This table does not include three recommendations from the report. All three of these recommendations asked VTA to continue plans it had to implement recommendations made by a consultant hired by VTA. Because the core of these recommendations were actions recommended by a third party and not the California State Auditor, we did not follow up on them during this audit.

* We describe the implementation status as *Not current practice* in cases where VTA had previously demonstrated that it had addressed the recommendation, but this audit determined that VTA is not following the practices described in the recommendation.

Appendix B

Scope and Methodology

The Audit Committee directed the California State Auditor to conduct an audit of VTA in relation to its governance structure, project planning and management, financial viability, and fiscal oversight. Table B lists the objectives that the Audit Committee approved and the methods we used to address them. Unless otherwise stated in the table or elsewhere in the report, statements and conclusions about items selected for review should not be projected to the population.

Table B

Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant state and federal laws and regulations related to the objectives listed below.
2	Assess VTA's governance structure and practices to determine whether: a. The roles and responsibilities of the VTA's board are comparable to that of other local transportation authorities. b. The VTA's board and management appropriately carry out their governance-related roles and responsibilities, including their oversight of agency funds and their implementation of management controls designed to detect and prevent waste, fraud, abuse, illegal conduct, mismanagement, and conflicts of interest. c. The VTA board member selection and tenure practices are effective and whether they align with state law and best practices. Determine the effectiveness of current statutes and whether the VTA could increase transparency related to the selection of its board members. Consider whether state law should be changed to improve performance. d. The VTA uses committees effectively and the extent to which advisory committees are involved in the development of policy. e. The VTA relies on alternate board members, the extent to which it did so, and whether the use of alternates reduced board member attendance and engagement. Further, assess the extent to which the VTA's use of alternates aligns with best practices and good governance policies. f. VTA board members perform their fiduciary duties with a focus on the county overall or on the city they may represent and the extent to which members representing cities confer with respective city staff and councils prior to votes.	• Interviewed VTA staff and identified documentation outlining the board's roles and responsibilities. • Identified five peer agencies to VTA based on service population, operating expenses, number of directors, director selection method, director term lengths, and services provided. Compared their boards' responsibilities with those of VTA's board. • Interviewed VTA staff and reviewed best practices related to standards of ethics as well as conflict-of-interest prevention and detection. • Reviewed VTA board directors' compliance with conflict-of-interest requirements and policies. • Interviewed VTA staff and reviewed best practices related to board tenure requirements. Reviewed board directors' tenure data and the peer agencies' tenure data. • Interviewed VTA staff and reviewed VTA's and peer agencies' board member selection practices. • Attempted to review four appointing authority meetings, during which appointments were discussed or made, to determine the extent to which the appointments were transparent. One of these meetings was not public and therefore we only reviewed three meetings. • Reviewed the roles and responsibilities for each standing and advisory committee. Identified five board-approved policies by reviewing significant policy actions taken by the board and choosing policies that represented the range of VTA's responsibilities. Reviewed the five board-approved policies to determine whether relevant committees received the policies for consideration prior to board adoption. • Interviewed VTA staff and reviewed VTA's use of alternate directors. • Reviewed VTA's attendance data to determine director attendance rates for January 2020 through June 2023. • For each of the five peer agencies, reviewed publicly available documentation and interviewed their staff to determine whether they have alternate board members. • Interviewed VTA staff and reviewed best practices for ensuring that board members are aware of and adhere to their fiduciary duties. • Reviewed city council meetings occurring before five VTA policy decisions to determine whether VTA policy was discussed at the council meetings. • Interviewed directors to determine whether they discuss VTA policy with city staff or city council members.

continued on next page . . .

	AUDIT OBJECTIVE	METHOD
3	Review the VTA's strategic planning by evaluating the following: a. VTA's strategic planning process, including how goals, objectives, and priorities are set and how performance is measured. b. Whether the VTA consistently met its strategic planning goals and objectives.	• Interviewed VTA staff and reviewed best practices related to strategic planning, including how VTA sets strategic goals, objectives, and priorities. • Because VTA's strategic plan did not include measurable objectives, we could not assess the extent to which VTA met its goals or objectives.
4	Evaluate the VTA's project planning and oversight by determining the following: a. The adequacy of the VTA's policies, procedures, and practices related to project planning, management, and monitoring. b. The extent to which the VTA provided adequate planning for a selection of large projects. c. The accuracy of the VTA's estimates for project costs and timelines. d. Whether the VTA could more efficiently and effectively achieve project objectives through the application of best practices.	• Interviewed VTA staff and reviewed best practices related to project planning and oversight of cost estimates, schedule estimates, and change control processes. • Selected two capital projects to review VTA's approach to project selection. Compared VTA's project selection practices against identified best practices. • Selected six capital projects by considering the status of project development, project cost with a focus on choosing higher cost projects, and type of project. Reviewed the six VTA capital projects to determine whether VTA applied best practices for project planning and oversight, including whether the projects' cost and schedule estimates were accurate. • Reviewed project documents related to Phase II of the BART project and interviewed VTA staff to determine the progress that VTA has made in addressing project risks identified in the FTA contractor's 2021 assessment.
5	Assess the VTA's financial viability by determining the following: a. The VTA's revenues, expenditures, and ridership for the last four years. b. Operating costs per trip for the last four years, the number of passenger trips per revenue hour, and farebox recovery. Compare the VTA's results in these categories to those of other similarly situated local transit agencies. c. The extent of financial planning for the next five and ten years and whether the VTA considered relevant factors during related planning.	• Interviewed VTA staff and reviewed best practices related to financial planning, including long-term financial forecasting. • Reviewed and assessed VTA financial planning documents and processes to determine the extent of VTA's financial planning and whether VTA considered relevant factors during the planning process. • Reviewed the ACFRs for VTA and the five peer agencies for fiscal years 2017–18 through 2022–23 to identify revenues and expenditures. • Obtained National Transit Database data to calculate the trips per hour, cost per trip, and farebox recovery for VTA and the five peer agencies for fiscal years 2009–10 through 2021–22.
6	Review the VTA's fiscal oversight by assessing the following: a. Its financial planning, reporting, and oversight structure and processes. b. The adequacy of its policies and procedures concerning fiscal transparency. c. The extent to which the capital budget reports include data on total project costs, unspent funds, and funding sources. d. Whether VTA officials review quarterly reports adequately and what actions the VTA takes when it does not achieve forecasted financial results.	• Interviewed VTA staff, reviewed VTA's practices for budget oversight, and compared them to best practices. • Reviewed VTA's fiscal transparency practices and compared them to established best practices. • Reviewed capital budget reports in the annual budget document to determine the extent to which they include data on total project costs, unspent funds, and funding sources. • Reviewed quarterly reports to determine how staff and the board respond to deviations between quarterly reports and financial forecasts.
7	To the extent possible, determine the extent to which the VTA has created an agency culture focused on effective and efficient performance and compliance.	• Interviewed VTA staff and reviewed best practices regarding board and agency actions that encourage effective and efficient performance and compliance. • Determined how VTA updates the board and relevant standing committees regarding the agency's financial health and performance measures. • Reviewed VTA's CEO evaluation process and compared it to best practices.

	AUDIT OBJECTIVE	METHOD
8	Evaluate the VTA's implementation of recommendations made as a result of the 2008 audit by the California State Auditor and whether implementation issues remain.	• Reviewed our July 2008 VTA audit and our subsequent status reviews. • Identified and documented recommendations made in our July 2008 audit. Omitted three recommendations made in our 2008 report. These recommendations asked VTA to continue plans to implement recommendations from a third party. Because the core of these recommendations were actions recommended by a third party and not the California State Auditor, we did not follow up on them during this audit. Using VTA material collected as part of answering the audit objectives above and our July 2008 audit recommendations, determined whether implementation issues remain.
9	Review and assess any other issues that are significant to the audit.	None identified.

Source: Audit workpapers.

Assessment of Data Reliability

The GAO, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of the computer-processed information that we use to support our findings, conclusions, or recommendations.

In performing this audit, we relied on the FTA's National Transit Database transit agency data to determine the operating costs, ridership, fares collected, and service levels for VTA and the peer agencies. We then used these data to calculate the operating cost per vehicle revenue hour, farebox recovery ratio, and operating cost per passenger trip for each agency. Because FTA collects these data from transit agencies throughout the county by reports that those agencies submit, it was not feasible to assess their reliability.

Further, we relied on VTA board director tenure data to determine the tenure of VTA's directors who served from 2013 through 2023. To gain assurance that the data contained a complete and accurate list of VTA's directors and their time in their positions, we compared the director tenure data with VTA board of directors meeting attendance roll call sheets and meeting minutes from January 2013 through December 2023 and found no material differences. We found the VTA data to be sufficiently reliable for purposes of determining the tenure of VTA's board directors.

We also obtained the board tenure data from three of the five peer agencies we reviewed—LA Metro, OCTA, and SacRT. However, because the peer agencies were not the subject of this audit, we did not assess the reliability of their data.

In addition, we relied on the VTA's director attendance data to determine the attendance rate for directors at board meetings and committee meetings from January 2020 through June 2023. To assess both the completeness and accuracy of VTA's attendance data, we reviewed a total of 29 meetings—14 board meetings and 15 committee meetings—and compared the director attendance data against independent information about these meetings. To assess for completeness, we compared the attendance data against the calendar of board and committee meetings on VTA's website and found no issues. To assess the data for accuracy, we compared the attendance data against meeting roll call sheets and traced key data elements. We identified only a single discrepancy in the record of attendance for directors. Consequently, we found these data to be sufficiently reliable for the purposes of determining VTA board director attendance at board and committee meetings.

Santa Clara Valley Transportation Authority

May 20, 2024

Grant Parks, California State Auditor*
621 Capitol Mall, Suite 1200
Sacramento, California 95814

Re: Response to Draft Report No. 2023-101-- Santa Clara Valley Transportation Authority

Dear Mr. Parks and Professional Staff:

We are grateful for the time and attention you took to conduct a thorough audit.

On behalf of the Santa Clara Valley Transportation Authority (VTA) Board of Directors ("Board"), this is to indicate that the VTA Board and Administration have reviewed California State Auditor (CSA) Draft Report 2023-101 ("Report").

VTA has a strong and long-term commitment to continuous improvement. Given this, VTA takes this process and all independent evaluations, both internal and external, very seriously and with an open mind. The high priority that VTA places on this process is demonstrated in many ways, two key examples being:

(A) To ensure that the Board is fully engaged in reviewing and addressing the Report's recommendations, a special closed session meeting was convened on May 16, 2024, as provided under Government Code Section 54956.75. This allowed VTA's governing body to discuss the recommendations and collaboratively evaluate VTA Administration's recommended responses and corresponding commitments to corrective action.

(B) VTA has since 2009 employed the expert risk advisory services of an independent Auditor General (AG) to assist the Board in fulfilling its fiduciary responsibilities of monitoring and managing risks and controls in financial reporting, financial integrity, program activities, and reputational risks. The outsourced AG is selected by and reports to the Board. This is a transparent process whereby AG reports and corresponding commitments to corrective action are reviewed and discussed in open session of the Board and publicly available.

The Report provided to VTA included 16 recommendations to VTA. Overall, VTA generally agrees with the recommendations stated in the Report and has committed to implement them. Several of the recommendations had been previously identified by VTA during the approximately one-year duration it took to complete this audit and thus are already underway. VTA's responses and commitment to corrective action for each of the 16 recommendations, which were unanimously approved by the VTA Board of Directors in closed session on May 16, 2024, are shown on Attachment A.

* California State Auditor's comments begin on page 77.

Grants Parks, California State Auditor
May 20, 2024
Page 2 of 2

In addition, we would like to share our perspectives about the two recommendations for the State Legislature and thus provided our input on them (Item #2.1 and #2.2 on Attachment A).

VTA will utilize its Auditor General to monitor and provide input on development and implementation of the corrective actions to help ensure they are both effective and incorporate best practices.

Lastly, in keeping with our continuous commitment to transparency, the Report will be included for public review at a future VTA Board meeting following CSA issuance of the final report scheduled for June 18, 2024. It will also be available on the VTA website.

Thank you for your careful consideration of our response.

Sincerely,

Cindy Chavez, Chairperson
VTA Board of Directors

Santa Clara Valley Transportation Authority
Solutions that move you

Santa Clara Valley Transportation Authority (VTA)
Responses to California State Auditor (CSA) Audit 2023-101 of VTA

Chapter 1 - *VTA Can Strengthen Its Planning and Oversight Of Capital Projects and Better Inform the Board About Cost and Schedule Changes*

	CSA Recommendation	VTA Response
1.1	To ensure that VTA's board is fully informed when approving projects, VTA should update its planning procedures by December 2024 to do the following: a) Establish a threshold estimated project cost that defines when project planning must include the performance of a cost benefit analysis. b) Conduct a cost benefit analysis for all capital projects that meet or exceed that cost threshold.	VTA agrees. VTA will define and implement a cost threshold for when a cost-benefit analysis must be completed. In addition, VTA will continue to follow Caltrans' Value Analysis process and prepare value analysis studies for projects that are $25 million and higher. Target Date: 12/31/2024
1.2	To help ensure that it develops reliable cost estimates for its capital projects, VTA should develop procedures by December 2024 to do the following: a) Document the methodology for developing its capital project cost estimates, including costs other than those directly related to the design and construction of the project. b) Estimate the anticipated operation and maintenance costs for capital projects in development.	VTA agrees. a) VTA will document our methodology for developing our capital project cost estimates including costs for all phases of the project. b) VTA includes anticipated operating and maintenance costs in our Capital Project Request Forms required for every project and will document the procedures in estimating these costs. (1) Target Date: 12/31/2024

Chapter 1 (continued)		
	CSA Recommendation	**VTA Response**
1.3	To help ensure that the board can monitor cost and project schedules, VTA should develop procedures by December 2024 to monitor project costs and schedules against pre-construction estimates and present this information as part of its semi-annual report to both the Capital Program Committee and the board. This report should provide status updates on the agency's existing capital projects and identify deviation from projects' preconstruction estimates.	VTA agrees. VTA currently monitors project costs and schedule and is currently enhancing its project status reporting to the Capital Program Committee and board. The project budget and schedule at the time of contract award will be monitored and reported, and procedures documenting this process will be developed. Target Date: 12/31/2024

Chapter 2 - *Legislative Changes Could Increase the Transparency and Effectiveness of VTA's Board*			
	CSA Recommendation		**VTA Response**
2.1	(State legislature) To ensure that VTA's appointing powers appoint directors based on their relevant qualifications, the Legislature should amend state law to require that VTA's appointing powers make public, consistent with applicable privacy protections, their rationales for the appointments they make to VTA's board, including a description of the appointee's relevant experience and qualifications related to transit and transportation.		This recommendation to amend state law for this requirement is not supported by VTA. Although the importance for requiring appointing authorities to make public the rationales for their VTA Board appointments is strongly supported, VTA feels that the same results can be accomplished via a simpler, faster method and thus instead recommends amending the VTA Administrative Code to add a provision requiring appointees to the VTA Board to complete a questionnaire before they can be sworn in. This public facing questionnaire will document their qualifications, availability, relevant experience (including business, finance, project management, and any other pertinent areas). In addition, the questionnaire will require an attestation from the appointee confirming their understanding and willingness to perform the responsibilities and requirements of a VTA Board Member. Furthermore, the appointing authority will be required to provide attestation indicating review and understanding of the considerations, requirements, and for serving on the VTA Board as well as the questionnaire from its appointee. 2

Chapter 2 (continued)		
	CSA Recommendation	**VTA Response**
③ 2.2	(State legislature) To make VTA's term lengths more consistent with those of its peer transit agency boards and to help increase the overall experience and stability of board membership, the Legislature should amend state law to increase the length of VTA directors' terms to four years.	We have concerns with the ability for this recommendation to be implemented due to the following: • Term limit variations between VTA's 16 appointing authorities (the 15 cities in Santa Clara County and the County of Santa Clara) • Variations in appointment cycles and lengths of the numerous appointing authorities • Four-year term could discourage qualified applicants unable to fulfill entire extended term • Could adversely impact jurisdictions sharing one seat – doubles rotational interval if that appointment method is utilized • Two current 2-year terms = one proposed 4-year term ④ Also, VTA, as a transportation agency (transit, state-required congestion management agency (CMA), and sales tax implementing authority) has somewhat different responsibilities and priorities from a transit-only Board but was only compared against transit-only boards. ③ VTA will continue its ongoing but recently enhanced efforts to illuminate the advantages and encourage appointing authorities to appoint individuals able to serve multiple terms. ③ VTA will also continue its practice of encouraging appointing bodies to reappoint members to successive terms, wherever feasible. In addition, VTA will strengthen our engagement with alternate board members by including them in appropriate board activities, including educational opportunities.

Chapter 2 (continued)		
	CSA Recommendation	**VTA Response**
2.3	To ensure that VTA receives stakeholder input on the SCIP, the agency should ensure that it presents all subsequent updates to the SCIP to the appropriate advisory committees, solicits their input, and presents that input to the board.	VTA agrees. Target Date: The Strategic Capital Investment Plan (SCIP) update is anticipated for late 2025.
2.4	To ensure that it more effectively safeguards against a breach of fiduciary duty, VTA should complete the following by December 2024: a) Establish a policy requiring relevant staff, including the secretary's office, to report to the FPPC those directors who do not submit their Form 700s in a timely manner. b) Establish a process for verifying whether directors have completed their biennial ethics training and following up to remind those who have not done so to complete the training.	VTA agrees. a) VTA staff, in consultation with Santa Clara County Filing Officer, will develop the policy and procedures to ensure timely reporting of Board Member Form 700 non-filers to the Fair Political Practices Commission (FPPC). b) VTA staff will develop a comprehensive solution that will monitor the submission of Board Member biennial ethics training and that will include a reminder system. Target Date: 12/31/2024 for both

Chapter 3 - *VTA Should Adopt Several Additional Practices to Optimize Its Financial Health and Strategic Direction*

	CSA Recommendation	VTA Response
3.1	To help ensure financial viability, VTA should determine by June 2025 the extent to which it can rely on revenue sources that are less uncertain than sales tax revenue. In reaching this determination, VTA should consider taking action to increase its farebox recovery ratio by, for example, raising fares or cutting expenses. VTA should then pursue any additional revenue sources it identifies to the extent possible.	VTA agrees. VTA is in the process of finalizing a comprehensive Long Range Financial Plan that will review the viability of all VTA's revenues and their sustainability, inclusive of operating cost efficiencies to improve financial metrics such as farebox recovery. Target Date: 6/30/2025
3.2	To improve VTA's forecast of future financial scenarios, VTA should begin forecasting multiple expense scenarios for its transit fund by December 2024 and use those scenarios to create a projection of expenses to present to the board. Further, it should incorporate into these projections any anticipated increases in operational costs because of capital projects.	VTA agrees. VTA is nearly complete in developing a more robust modeling tool to assist in long range financial planning. The Long-Range Financial Plan will enable VTA to understand the external economic factors and the risk they pose to our major revenue sources, like sales tax. We will be able to run scenarios based on various internal cost assumptions, revenue trends and external economic factors and how they all impact VTA's fiscal position. This plan will also address total cost of ownership for capital projects and include assumptions for operating costs related to those projects. Target Date: 12/31/2024

Chapter 3 (continued)		
	CSA Recommendation	**VTA Response**
3.3	To ensure that VTA is consistent in its budget monitoring and oversight, VTA should adopt documented procedures by December 2024 that include, at a minimum, the following: a) A process that VTA will use to examine variances between budgeted and actual amounts of revenues and expenses. b) The use of quarterly variance reports by both the board and VTA staff, and expectations for appropriate actions to be taken when the significant deviations are identified. c) Assignments that show which staff will be responsible for performing and reviewing variance analyses, and ensure continuity of these reviews when there is turnover in key management positions.	VTA agrees. Although VTA has been following this practice and presenting variance reports to internal stakeholders, finance committees, and the VTA board, we have not had documented procedures guiding the process of quarterly variance reviews with internal divisions. 5 We are working on finalizing a procedure for the budget office that will document the aforementioned process, use of the reports, and staff responsible for this recommendation. Target Date: 12/31/2024
3.4	To ensure that it is informed about VTA's performance against key financial indicators, the board should require VTA staff to regularly report on specified financial metrics---including its farebox recovery ratio, trips per revenue hour, and operating cost per revenue hour---beginning in December 2024 or sooner.	VTA agrees. VTA is in the process of identifying the various metrics to share and the cadence of reporting. Certain operational metrics, which have financial implications, are presently shared with committees and will be incorporated in full Board reports. It is anticipated that this will be an iterative process as VTA and the Board refine the reporting needs. Target Date: 12/31/2024

Chapter 3 (continued)

	CSA Recommendation	VTA Response
3.5	To ensure that VTA has a current strategic plan that incorporates best practices, VTA should create a comprehensive strategic plan by December 2025 that includes goals, measurable objectives, strategies, and performance measures to track progress. It should also adopt procedures to ensure monitoring of progress on the strategic plan and regular reporting to the board.	VTA agrees. VTA will prepare a comprehensive strategic plan. VTA staff will develop a workplan and schedule for the development of the five-year strategic plan for Board approval by the end of 2024. The strategic plan will be completed according to the schedule adopted by the Board. Target Date: Strategic Plan development work plan and schedule by 12/31/24. Completion schedule for Strategic Plan will be determined and defined in Board-approved work plan, and that timetable will be communicated to the State Auditor immediately following Board approval of the schedule.
3.6	To help ensure that the CEO is guiding VTA to achieve its goals, the board should formally adopt by June 2025 the new evaluation process for its CEO and amend VTA's Administrative Code to document the process. The evaluation process should include performance expectations for its CEO based on the agency's objectives, including the goals in VTA's most current strategic plan. All subsequent updates to the evaluation process and its goals and metrics should be formally approved by the board.	VTA agrees. Development of a revised evaluation process for the GM/CEO that includes expectations, goals, and performance metrics is underway and any subsequent updates to the evaluation process will be formally approved by the board. In addition, the VTA Administrative Code will be updated accordingly to reflect the revised process. Target Date: 6/30/2025

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

To provide clarity and perspective, we are commenting on VTA's response to our audit. The numbers below correspond to the numbers we have placed in the margin of its response.

VTA asserts that it includes anticipated operating and maintenance costs in its (1)
request forms for every capital project. However, as we discuss on pages 15 and 16 of our report, for the three capital projects we reviewed in which VTA expected to incur operation and maintenance costs, we did not identify such estimates in the request forms. Moreover, as we describe on page 16, we found that VTA could not clarify which of its divisions was responsible for estimating operation and maintenance costs.

VTA's suggested alternative to our recommendation, which it had not proposed to (2)
us before submitting its response letter, would create a split set of responsibilities that is not advisable. If adopted, VTA's approach would result in a situation in which appointing powers would continue to be responsible for selecting, to the extent possible, individuals who met the experience requirement we describe in the text box on page 24, and the appointees would be responsible for public disclosures of their experience levels. Because VTA's proposal would separate responsibility for making an appointment decision from the accountability for why appointing powers make these decisions, we believe the proposal is less preferred than our recommendation. Under our recommendation, the responsibility to appoint and the responsibility to describe the rationale for that appointment would belong to the same entities: the appointing powers. For this reason, we stand by our recommendation on page 36 that the Legislature amend state law to require specific disclosures from the appointing powers.

VTA indicates that several factors would make implementing a four-year term for its (3)
directors difficult. Most of these factors were among the reasons VTA decided not to pursue a four-year term in response to the 2019 study of VTA's structure we describe on page 29 or were shared with us by VTA during this audit. Accordingly, we were aware of these factors during our audit, did not find them persuasive, and still made our recommendation that the Legislature amend state law to increase VTA directors' term lengths.

Moreover, VTA's response to our recommendation is generally the same as its response to a similar recommendation we made in 2008. At that time, we found that VTA directors' tenure was shorter than the tenures of directors at comparable transit agencies. In response, VTA stated that it would encourage appointing powers to reappoint directors to consecutive terms. However, as Figure 6 on page 27 shows, VTA's directors continue to average shorter tenures compared to their peers. The fact that VTA's prior corrective action has not had the effect VTA desired over this nearly 16-year period was a key component of the analysis that led us to make our recommendation to the Legislature.

4 VTA is incorrect in its assertion that we compared it against boards of agencies with only transit responsibilities. As referenced in Figure 6 on page 27, we compared the average tenure of a VTA director against the average tenure of directors at three peer agencies, including the Orange County Transportation Authority (OCTA), which is also a congestion management agency (CMA). Moreover, Table 5 on page 28 explains the reason why it was not possible to compare VTA and OCTA with respect to their term lengths. Finally, VTA's response does not make clear why having different responsibilities from other agencies is a reason why its term lengths should be shorter than most of its peers.

5 VTA asserts that it is following the practice of presenting variance reports to internal stakeholders. However, our review determined otherwise. As we state on page 47, we attempted to review evidence of variance report meetings over a period of two fiscal years for three of VTA's divisions, for 24 total reports. However, VTA could provide evidence of only two of these reports. Nonetheless, we look forward to VTA's implementation of our recommendation to document procedures that detail its variance review process.