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# Independent Financial and Performance Review of the North Texas Tollway Authority

Final Board Presentation  
October 18, 2011



- **Project Objectives, Scope and Approach**
  
- **Summary Strengths**
  
- **Key Observations and Recommendations**
  - Transparency
  - Organization
  - Procurement
  - Finance
  
- **Recommended Next Steps**

## Project Objectives:

- To ensure the effectiveness of the NTTA in carrying out its mission as the regional toll provider
- To evaluate the NTTA's financial, operating and administrative functions and assess whether the NTTA's goals and objectives are being achieved and the stakeholder concerns or needs are being addressed

## Project Scope:

### Transparency

- Governance (methods of Board's decision making, and Board and staff communication)
- Conflicts of interest and ethics for the NTTA Board, staff, and outside vendors
- Diverse composition of the NTTA Board

### Organization

- Evaluation of senior management performance and organizational structure and effectiveness
- Current business model and proper use of consultants in core business functions

### Procurement

- Authority-wide procurement policy and procedures compliance with Texas law
- Departmental standard operating procedures related to procurement activities
- Compliance with the NTTA's Diversity Policy in awarding contracts

### Finance

- Liquidity and debt coverage compliance
- Funding alternatives
- Administrative fees and collection practices

The County Judges from Collin, Dallas, Denton and Tarrant counties selected Alvarez & Marsal, and their partner firm, Animato, to conduct the review. The assessment began on July 5, 2011 and ended on October 18, 2011.

Firm	Team Member	Title	Focus Areas
Alvarez & Marsal	Ron Orsini	Managing Director	Project Leader
	Kevin McMahon	Managing Director	Organization
	John Cox	Senior Director	Transparency and Finance
	Trey Suttan	Director	Transparency and Finance
	Peter Mosley	Senior Associate	Transparency and Finance
Animato	Eric Noack	Vice President	Procurement
	Mary Jane Schuster	Vice President	Procurement and Organization

## Research:

- Conducted interviews with over 50 individuals, including:
  - All Board members and senior staff members
  - Representatives from all major consulting firms and other NTTA advisors
  - Former employees and Board members
  - Toll and transportation experts
- Conducted survey of all employees with 243 responses (37% of employees surveyed)
- Reviewed best practices in procurement, Board governance, and organizational effectiveness, as well as practices of other comparable toll authorities and Texas state law
- Reviewed NTTA documents, including financial reports, presentations, past assessments, correspondences, performance review materials, policies, contracts, and Board meeting transcripts
- Attended all Board meetings and workshops since June 25, 2011

## Approach:

- Confidential insights from individuals familiar with the NTTA were used as key inputs and used to identify common issues and relevant facts, but conclusions were not based on any single interviewee's opinion
- Focus was on:
  - The current situation at the NTTA and changes underway, not historical analysis
  - Identifying and correcting the root causes of issues, not just treating symptoms
  - Proper functioning of the various roles and not on individuals or personalities

## **The North Texas Tollway Authority is fulfilling its mission to “enhance mobility through responsible and innovative tolling solutions”**

- The authority has been successful in building and maintaining toll roads in a timely manner despite financial constraints and changes in leadership
- The authority’s high customer satisfaction and numerous awards in areas such as cashless tolling, customer service and budgeting have helped bolster the NTTA’s reputation as an international leader in the toll industry
- Relationships with relevant government entities have improved significantly in recent years
- The NTTA communicates key financial and operational information effectively and engages customers through innovative campaigns
- The NTTA is financially and operationally prepared for the implementation of SB 469
- The NTTA’s two key functions, Finance and Project Delivery, are working effectively
- The authority’s consultant/staff business model allows for faster ramping up and down of operations and specialists as needs change
- Solid business diversity structure is in place

## **Significant improvements have begun in recent months**

- Hiring experienced industry in-house General Counsel and the newly-adopted Legal Services protocol
- New procurement leadership, processes and controls
- A new performance management process for staff that drives “pay for performance”
- An agency-wide scorecard is now being used to monitor performance against goals

- **Governance**
- **Conflicts of Interest**
- **Board Make-Up**
- **Communications with the Public**
- **Communications with the Transportation Community**

## Observations

- Roles and responsibilities not clearly defined
- Executive director not briefing Board members on topics prior to Board meetings
- Board and staff not always clear on current topics or previous Board meeting decisions
- Board and ED have difficulty reaching decisions and achieving objectives
- The NTTA's priorities going forward are not clearly understood by some staff and Board members
- Internal Audit group serving an important role but not evaluating key areas
- Board chair abolished key committees in 2010

## Recommendations

1. Develop clear roles and responsibilities of Board, Board chair and Executive Director to ensure smoother operations and clarified expectations. (Detailed recommendations are in full report)
2. Responsibilities of Board committees, and the support from staff and external advisors, should be defined upfront and be realistic and manageable
3. Chair and ED should structure meeting agendas to focus attention on the most important policy decisions and updates
4. Board secretary should circulate Board materials in advance, clearly indicating which topics require decisions and which are for discussion/input
5. Board secretary should include relevant sections of Board meeting minutes from past meetings in the Board's materials when topics are revisited to ensure attendees have a common historical context
6. ED should engage directors within the guidelines of the Open Meetings Act to ensure they are well versed on critical topics and that directors' questions and concerns are considered
7. ED should ensure staff presentations remind Board members of prior decisions, anticipate questions, articulate recommendations, and include a business case for Board decision-making
8. Strategic planning process should include meaningful involvement from the Board; the Board and ED should manage to the plan
9. Reconstituted Finance & Audit Committee to actively assess risk areas and review annual internal audit plans. Priority audits should be conducted on the key end-to-end collections process and the third-party distributors of TollTags

## Observations

- The perception of conflicts of interest is widely held, and while our review did not find proven malfeasance or impropriety, the appearance of conflicts creates public and internal distrust
- NTTA does not have a separate and distinct policy or procedures in place for conflicts of interest, in contrast to the majority of similar organizations

## Recommendations

1. Board should draft governing policies for matters that might lead to or create the appearance of conflict, ensure its enforcement, and ask each Board and executive staff member to agree in writing to uphold the policy
2. At a minimum, the Board conflicts of interest policy should:
  - Define conflicts of interest
  - Specify persons who will be covered
  - Require regular disclosure of information related to conflicts of interest
  - Specify procedures for handling potential or actual conflicts when they arise
3. The NTTA should designate an Ethics Officer to oversee management of the process. This is commonly the in-house General Counsel
4. The Board should participate in annual conflicts of interest and ethics training

## Observations

- The Board is comprised of a healthy mix of leaders from the region with both public and private sector experience
- As a whole, the Board currently lacks depth in certain skills that would improve fiduciary oversight, such as corporate finance
- Composition of the NTTA's Board currently does not reflect the constituent population

## Recommendations

1. County Judges and Commissioners Courts should consider Board members' backgrounds and functional competencies collectively when appointing new directors with a particular emphasis on finance, the toll industry and regional transportation issues
2. County Judges and Commissioners Courts should strategically recruit across all demographics by leveraging Board member recommendations, cultivate ongoing relationships with community leaders and corporate organizations, and approach organizations with greater access to desired demographic groups

## Observations

- Communications group employs innovative tactics and awareness campaigns to engage customers
- NTTA does a good job of disclosing financial and operating reports
- Board does not always have a consistent message to the public, thus creating negative public perception

## Recommendations

1. Board communications to staff and the public should be consistent with the generally held views of the Board and its decisions
2. County Commissioners Courts should hold the Board accountable through appointments for resolving disagreements in working and committee sessions and effectively supporting and communicating Board decisions
3. Chair should be accountable for encouraging all directors to continue to request information and ask questions of staff in working and committee sessions to facilitate fully informed decisions at board meetings
4. Detailed Minutes from the Board Meetings should be posted on NTTA's website to be consistent with best practices

## Observations

- Relationships with relevant government entities are improving
- NTTA's near-term cash position will require new approaches to financing projects and greater collaboration with other transportation partners
- NTTA's reputation as a toll industry leader is strong, but executive management involvement at industry events has declined

## Recommendations

1. As part of an overall strategy, NTTA's Board and ED should continue to focus on building and strengthening relationships to enable future projects:
  - Federal and state: Federal DOT, TxDOT
  - Regional: RTC, RMA's, NCTCOG, Counties
  - Private: CDA developers
2. NTTA should play an industry leadership role by having key members of the management team – including the ED – attend and present at industry events and create an ongoing dialogue with leading agencies like HCTRA and Florida Turnpike

- **Employee Morale**
- **Performance Management**
- **Organizational Design**
- **Major Consultants**

## Observations

- Morale impacted due to cuts in staff programs (i.e. raises and other employee benefits), re-visiting issues/recommendations with the Board, lack of both shared agreement of agency priorities and general teamwork across executive management
- Executive Management and Board of Directors are perceived to be not in touch with day-to-day operations
- Perceived lack of trust exists between employees and management due to “fear of getting in trouble” if disagreeing with the Board, executive management or consultants

## Recommendations

1. Re-institute performance based pay increases to reward and drive performance
2. Board Chairman and ED should meet with a sampling of employees (core levels and functions) in focus groups to discuss the survey results and gain additional insight to these issues and develop improvement initiatives
3. Strengthen Operations focus of on-boarding materials for existing and new Board members
4. Board Chairman and ED should develop a marketing plan to communicate findings from the county review and proposed initiatives to address areas of concern
5. Administer engagement/morale survey in the next year after key changes/decisions have been made to monitor progress and shape future priorities
6. Improvements to communication, cooperation across the organization and with the Board are addressed in organizational structure and Board governance recommendations

## Observations

- NTTA has the tools, process and technology in place and is essentially compliant relative to Performance Plans and Reviews; evidence suggests a drive toward “pay for performance” culture
- There are key deficiencies in the ED Performance Planning and Review process
  - Contract renewal occurs two months prior to the annual review
  - ED’s goals had multiple iterations and were never formally approved
  - ED’s evaluation criteria not fully aligned with stated goals
  - Mid-year reviews or formal ongoing feedback have not been provided to ED
- Lack of formalized incentive plan for ED and ED direct reports to create shared accountability for Agency-wide goals and priorities

## Recommendations

1. Develop and publish annual business performance management calendar to align budgeting and planning with the annual performance management cycle
2. Leverage and build on agency scorecard (presented August 2011) to include core NTTA metrics
3. Design and develop annual Executive Incentive Plan (EIP) for the ED and ED direct reports.
4. Design, develop and approve ED personal goals to be ready for release with, or prior to, the communication of the approved budget annually.
5. Plan a minimum of one yearly interim review against performance goals between the Board and the ED
6. Provide annual Performance Management training on developing goals

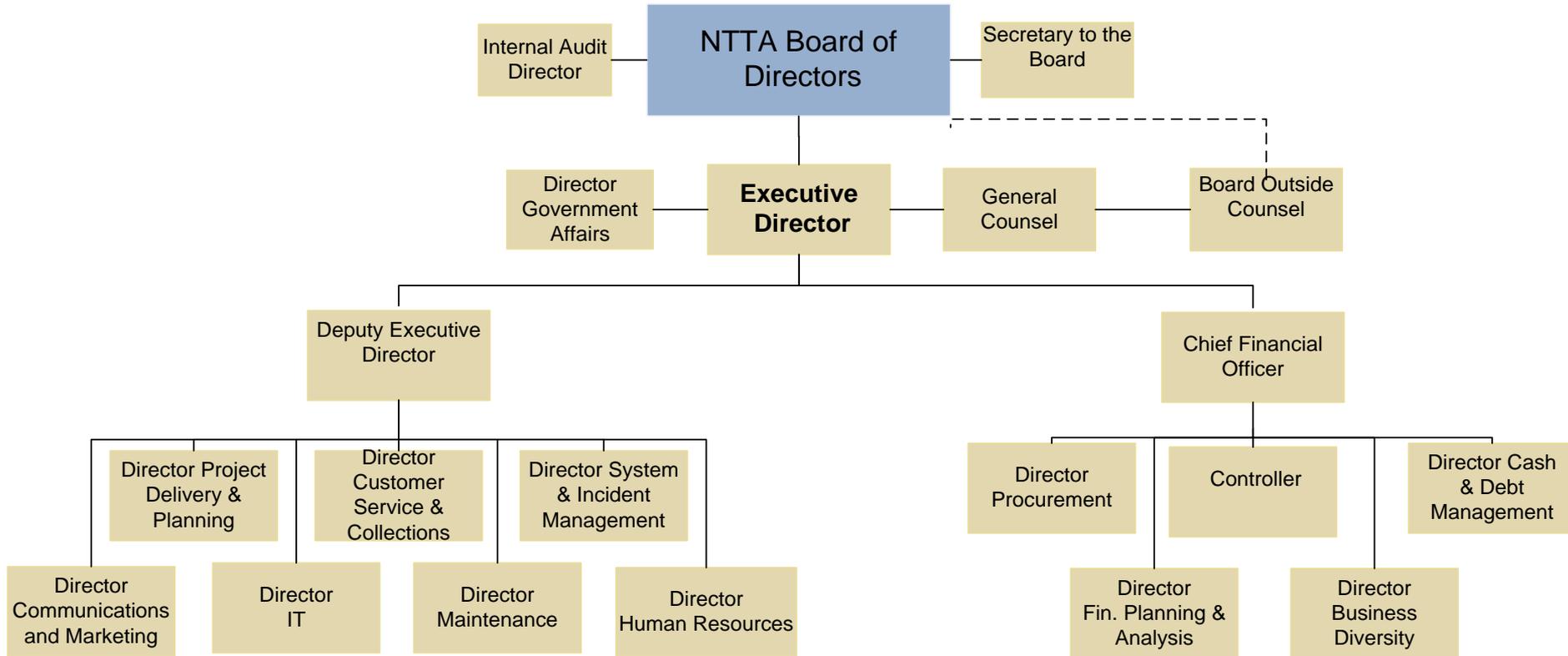
## Observations

- Organization has been successful building and maintaining roads despite changes in organization and leadership
- Executive Director's lack of building Board relationships or engaging the Board outside of formal meetings has created challenges with respect to lack of alignment and execution on key initiatives
- Redundant leadership in Project Delivery organization as project activity has slowed
- Key succession gaps exist in several departments
- "Silo mentality" - Lack of coordination/collaboration between AED's and other departments
- Customer service organization has grown rapidly with all-electronic tolling, and is in a chronic short-handed position
- Customer service and collections are handled by the same employees where different skills and approach are required
- Vacancy of Deputy ED requires more operational demands on ED and competes with time spent working with the Board or external relationships

## Recommendations

1. Reduce the number of direct reports to the Executive Director to include a CFO and Deputy Executive Director providing core organizational leadership, accountability for organizational decisions/direction, support cross organizational collaboration and allow ED to increase focus on external industry and Board relationships
2. Other direct reports to the Executive Director to include Government Affairs and General Counsel which should transition back to directly reporting to the ED with indirect reporting to Board of Directors
3. Conduct search for a candidate to fulfill a Deputy Executive Director, preferably with operational transformation/process improvement experience within the toll industry
4. Embed diversity function into the CFO organization for alignment with procurement function
5. Create a Financial Planning and Analysis organization within CFO organization to manage the budgeting process, agency scorecard and metrics, reporting and analysis
6. Embed Human Resources and Communications & Marketing into Operations to drive alignment and prioritization of functional support to Operations
7. Separate customer service and collections under Director of Customer Service and Collections
8. The NTTA Board should direct Executive Director to develop succession plans for key positions in the organization

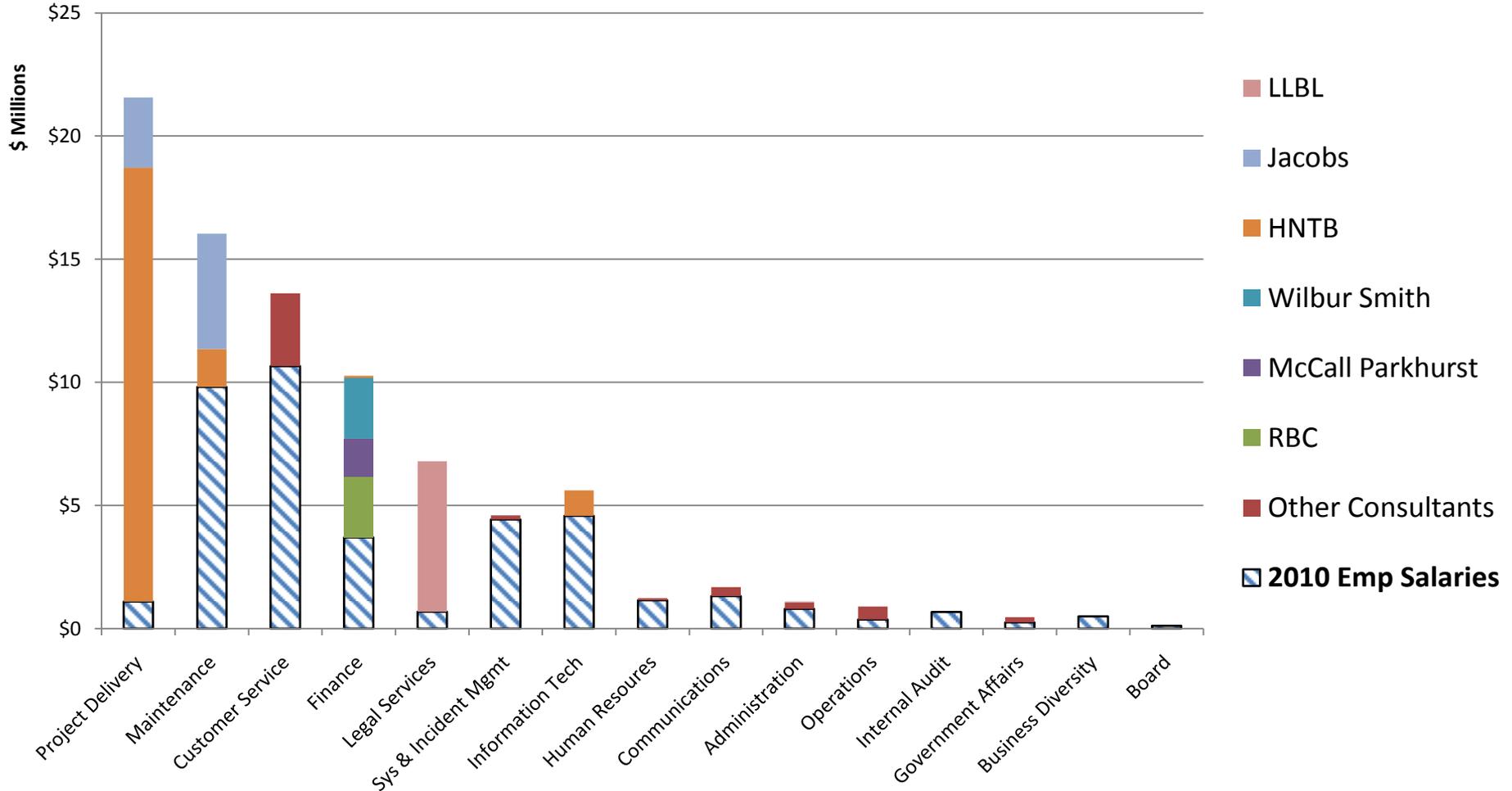
# Organization - Recommended Future State



## Observations

- Consultants have worked effectively with staff to deliver innovative solutions that have made NTTA a toll industry leader
- Consulting business model allows for faster ramping up of subject matter experts (SMEs) as needed and ramping down as projects end
- Certain consultants are required as part of the bond trust agreement and cannot be eliminated
- Due to their length of service as compared to Board members and ED, consultants are relied on to provide continuity and for their deep historical knowledge
- General Program Management (PMC) became a large part of the GEC contract during times of multiple projects, but there are perceived and potentially real conflicts of interest with combined GEC and PMC roles
- Outside General Counsel consultant has been given broad latitude with the NTTA, but being addressed by new Legal Services protocols and new in-house General Counsel
- Limited controls over some consultant scope of work and work authorization
- Board has not articulated an official business model nor shared views on proper use of consultants

# Employee and Major Consultant Cost by Function 2010



Note: Includes Salary and Consultant Expenses from All Funds and excludes discontinued Toll Collections and Vault Services

Source: NTTA Accounts Payable 2010 and Budget Summary

## Recommendations

1. Retain “lean” staff Business Model, but ensure critical core competencies exist in-house if there is a permanent need
  - Based on forecasted demand through 2016, consider bringing a limited number of PMC and Legal resources in-house
  - Consider greater outsourcing of customer service and collections if it is more cost effective and flexible to varying levels of need
2. Institute more defined roles and accountability, such as controls and monitoring of actual work expenses vs. work authorization (i.e. budget)
3. Ensure new Legal Services protocols are monitored and enforced, and provide clarification of what work falls under broad categories such as “General TxDOT Matters” and “under appropriate circumstances”
4. Build internal competency of legal services with new in-house General Counsel and reduce reliance on individual, third-party expertise
5. New in-house GC to review Legal Services protocols and propose any changes to the Board within 6 months
6. Split PMC and GEC contracts and re-procure under new procurement process to separate engineering firms, taking care to have a strong transition plan if needed

- **Major Consultants**
- **General Procurement**
- **Supplier Diversity**

## Observations

- The 2010 major consultant procurement process was poorly handled (see next page)
- Key improvements have been proposed by the new Director of Procurement but not formally adopted by the Board
- Proposed Board involvement in evaluating and finalizing the candidate short list may lead to potential ethics issues, inconsistent application of selection criteria, and appearance of distrust in staff

## Problems with the 2010 Procurement

### **Some Board members...**

- Did not trust staff's procurement process
- Did not provide sufficient upfront guidance on RFQs, selection process, and scoring criteria
- Lacked sufficient knowledge regarding the NTTA procurement policy and procedures and consultant transition plan
- Discussed procurements with involved consultants before Board final approval

### **Some staff...**

- On evaluation teams lacked necessary expertise for the procurement
- Did not thoroughly investigate credentials of all proposers

### **The procurement process allowed...**

- Simultaneous procurements to be conducted instead of staggering them during a busy time period
- The PMC and T&R procurement "winners" to be made public before Board approval
- Board committees not to be utilized on behalf of the full Board to research and confirm selection
- An Executive Committee of observers that stifled what would have been a more open and robust selection process
- Disagreement regarding how diversity should be scored
- A lack of clarity to some participants and bidders on whether to follow NTTA's Quality Management System (QMS) or official procurement policy and procedures

## Recommendations

1. Establish and enforce clear procurement policy and procedures including:
  - Strict clarification of permissible consultant, staff, and Board communications with clear understanding of the beginning and the end of procurement period
  - Whether QMS or another procedure is in force
2. Limit Board involvement in major consultant procurements to review and approval of:
  - Pre-advertisement RFQ, selection process, and scoring criteria
  - Staff's final recommendation
  - Final contract
3. Eliminate Executive Committee observers in the evaluation process to allow for sufficient discussion
4. Reassess bid evaluation committee composition based on pertinent knowledge and/or skills
5. Strengthen due diligence around vendor background and credentials
6. Clearly communicate diversity scoring criteria among all participants
7. Do not announce competitive procurement winners prior to Board approval
8. Prior to procurement decisions, request analysis by appropriate Board committee and have committee report conclusions to the full Board
9. Include stronger transition plan vetting with Board
10. Stagger procurements so each may be addressed with appropriate time and effort

## Observations

- The recently-hired Director of Procurement Services brings more sophisticated purchasing practices and vision
- The current NTTA procurement policy and procedure complies satisfactorily with Texas State Law
- Decentralized procurement model results in inconsistent application of procurement policy, procedures, and best practices
- Prior to the new sole source procedure, some sole source procurements have lacked proper approval and/or satisfactory quality control
- Procurement team capability needs strengthening to better support organization's needs

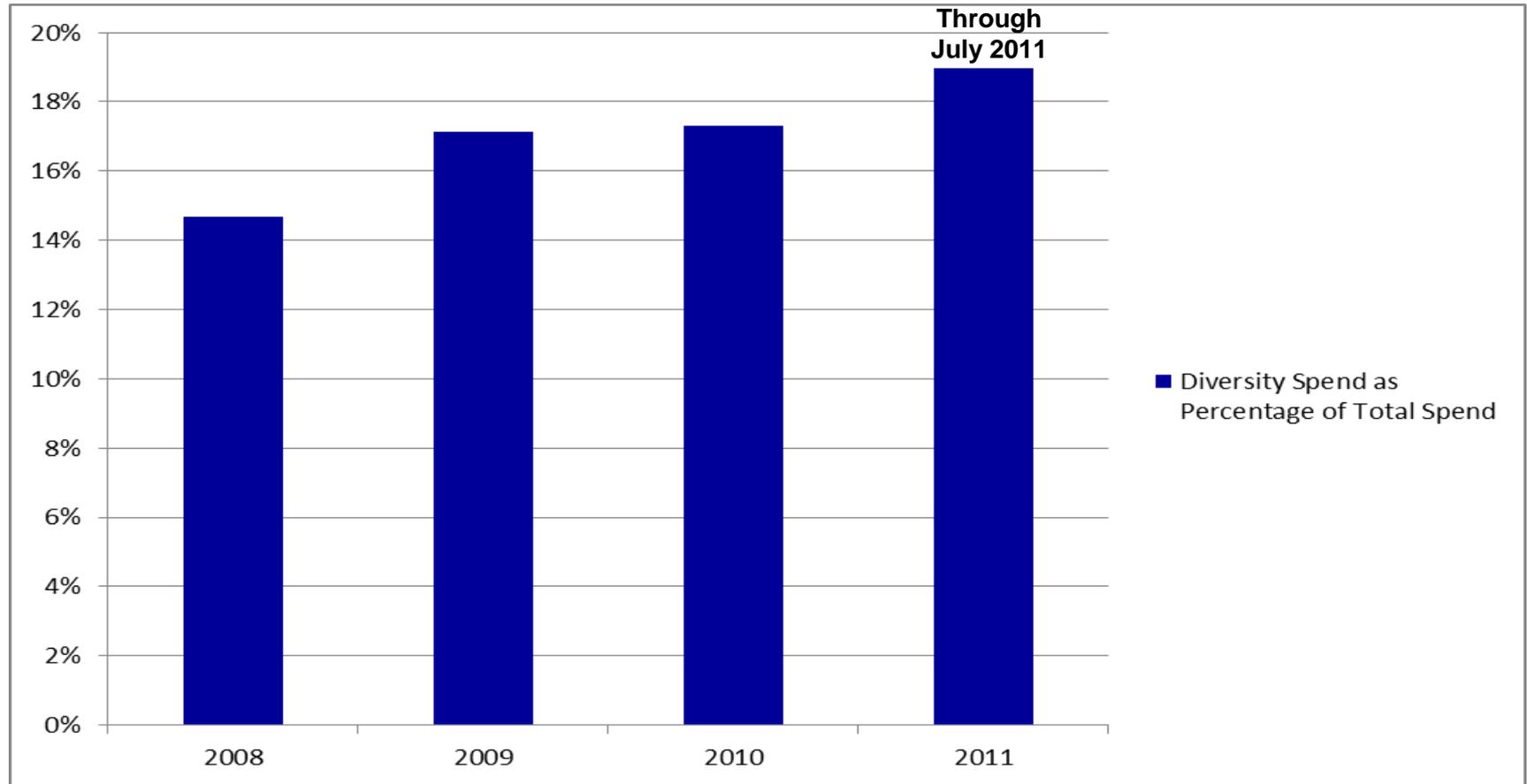
## Recommendations

1. For all procurements, increase Procurement Services Department involvement in requisition and purchase order processing prior to department's soliciting quotes, contracting, and receiving goods/services
2. Establish and enforce clear procurement policy and procedures including references to appropriate forms, handling of the 30% rule, Board approval (through Board consent agenda), short list process, and non-construction closeout
3. For sole sourced contracts, stringently enforce the new policy and institute a more thorough review of deliverables
4. Implement more robust reporting processes to allow workload and performance management
5. Identify staff skills needed, set up procurement certification plans, and train staff, including partnering with departments for construction business skills

## Observations

- Business Diversity Department (BDD) complies adequately with their own policy and procedures
- NTTA's BDD has expanded its efforts across multiple community businesses and organizations
- Significant progress has been made to increase diversity involvement at the NTTA
- Despite their compliance and supplier diversity achievements, some issues remain

NTTA's D/M/WBE diversity spend has continued to grow as a percentage of total spend since 2008



Source: 2011 Business Diversity Accomplishments Report

## Recommendations

1. Have Internal Audit schedule periodic reviews of BDD to evaluate control and governance processes
2. Contact firms such as Mason Tillman, governmental entities similar to NTTA, and other organizations to determine if comparable benchmark information is available
3. Pursue direct engagement of D/M/WBE legal services firms
4. To discover and define handling of potential cases of supplier diversity non-compliance, fraud, and/or abuse, include the following in the BDD policy and procedures and communicate to all participants:
  - NTTA Ethics and Fraud Hotline or other facility to receive confidential reports of issues
  - Handling and escalation protocol for resolving issues

- **Collections**
- **Analytics**
- **Forecasts**
- **Long-Range Planning**

## Observations

- The NTTA devotes significant resources to minimizing revenue leakage
- The NTTA needs stronger collections practices and enforcement tools
- The NTTA's margins are being impacted by decreased TollTag penetration
- Toll Service Agreements (TSAs) will amplify the effect of decreased TollTag penetration
- NTTA is prepared for the implementation of SB 469

## Recommendations

1. The NTTA should protect its margin by reducing the incremental cost of ZipCash transactions
2. The NTTA should renew its efforts, and invest marketing dollars to target ZipCash customers for conversion to TollTags
3. The NTTA should continue actively brainstorming, testing, and implementing collections process improvements. Consider automating and aggregating citation processing, AR factoring, separating collections from customer service personnel, outbound calls earlier in the collections process, and broader use of the JP courts in a cost effective manner

## Observations

- Finance department not currently staffed to handle the analytic burden of the entire organization
- Management lacks coordinated analysis between departments on key decisions

## Recommendations

1. Create a Financial Planning and Analysis department within Finance that combines the resources from existing departments, serves the entire organization, and leverages all of the systems tools (e.g. RITE, PeopleSoft, Hyperion) the organization has at its disposal
2. Executive Director should ensure staff proposals to the Board include a business case and sufficient analytical rigor
3. Hire a capable upper level manager to report to the CFO, serve the operating departments, coordinate the department's efforts, and deliver business case recommendations to the Board
4. Hire resources to add to the existing analytics capabilities

## Observations

- T&R forecast methodology is sound and the forecasts are generally accurate
- ZipCash collections forecast is conservative
- Cash flow model is not a useful operational tool for the NTTA
- NTTA's Cash flow can be estimated by using public information

## Recommendations

1. Continue to monitor the segment data and actively coordinate with the T&R consultant on operational assumptions
2. Continue to be conservative with cost budgets to avoid the need for amendments
3. Develop the capabilities to communicate cash flow to Board members
4. Provide in-depth revenue, capital and operating expense forecast details to the Board

## Observations

- Capital Plan allows for no additional debt service
- The “Pinch Point” was created by the 2008 series E notes, and has been well communicated to the Board
- State level political risks have been a catalyst for other tolling authorities to be downgraded by the rating agencies
- Current long-term plan is fundamentally conservative

## Recommendations

1. Have T&R and engineering consultant update financial and T&R projections for road feasibility analysis based on anticipated development start dates
2. In order to build roads faster, explore leveraging the system resources with outside parties similar to the Special Projects System for CTP and SH161
3. Include long-range planning discussions with key staff and Board as part of strategic planning exercise, and share plans with regional transportation leaders so they can plan accordingly
4. Stay proactive in legislative matters impacting the NTTA's financial outlook

- **Next 6 months**
- **Next 6-12 months**
- **Accountability**

## **Major recommended initiatives include:**

1. Develop and institute Board-staff governance model and expected working relationship
2. Develop and implement more transparent Board Conflicts of Interest and Ethics policies
3. Conduct procurement of major consultants with proposed improvements using a staggered approach
4. Finalize recommended organization structure
5. Have General Counsel deliver an evaluation of new Legal Services protocols and propose any suggested changes
6. Develop job description for Deputy Executive Director and begin national search
7. Institute enhanced oversight mechanisms and accountability for major consultants
8. Re-establish Board committees for Finance & Audit, Special Projects (SPOC), and Administration

## **Major recommended initiatives include:**

1. Develop an updated strategic and long-range plan and actively manage to it
2. Conduct comprehensive review of collections organization, processes, systems, and enforcement options by collections specialist, and institute identified improvements
3. Establish improved performance management process of Executive Director by the Board
4. Re-institute incentive pay structure
5. Have any new Board member appointments factor in demographic and functional backgrounds needed to improve fiduciary oversight
6. Fill remaining open positions in the proposed new organizational structure, including analytics function in Finance

## Every 3 months:

1. Provide progress report to County Judges and public on recommendations in this review



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