

BAY AREA RAPID TRANSIT DISTRICT - Financial Structure Project



Financial Structure Ad-Hoc Committee
November 16, 2023

BB&A

Bell Burnett &
Associates

Agenda

In today's Ad-Hoc Committee meeting, we will provide an update from our last meeting on September 14th, including:

- Current landscape and financial challenges.
- Key considerations.
- Recommended approach.
- Benefits of recommended approach.
- Implementation plan and timing.
- Change management strategy.

In each of the cases, we are seeking the Ad-Hoc Committee's thoughts and direction as how best to proceed.



Current Landscape

BART is the backbone of the region's public transit system, accommodating people of all income levels as well as youth, seniors, and people with disabilities.

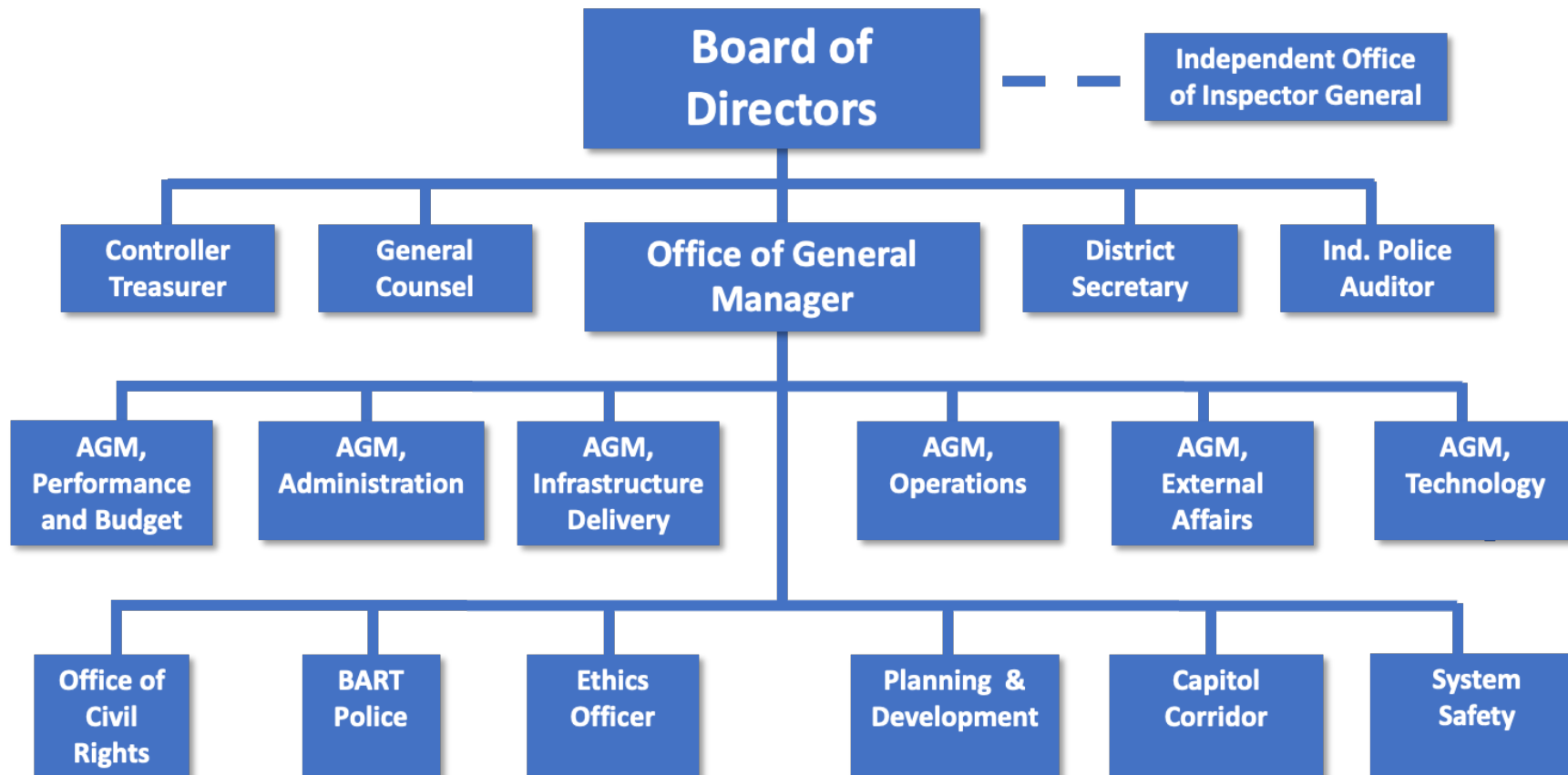
- BART system is essential to the health of our region's economy — connecting workers and businesses and relieving regional traffic congestion.
- Avg. Weekday Ridership continues to increase to 170,000 to 180,000⁽¹⁾.
- District is facing unprecedented financial challenges given the pandemic and the corresponding impact on ridership and operating revenues.

While BART has successfully managed its historic financial structure with clear delineation of roles and responsibilities, the stark financial reality merits further review of the District's financial organization.

- Bifurcation and spreading of financial duties throughout the organization is not optimal given current financial challenges.
- Long-standing policies and procedures may not be as efficient, transparent, and timely as the District would otherwise like.
- A central point of leadership, through a Chief Financial Officer (CFO), can be an important step in helping to address some of these challenges.

Current Organizational Landscape

The District currently has five Board appointed positions, six Assistant General Managers (AGM), reporting to the General Manager, and the Independent Office of the Inspector General (Governor appointed).



- 102 positions in the Office of Controller-Treasurer
- 41 positions in the Office of Performance and Budget

Current Financial Challenges

Creation of a CFO position will ultimately create greater accountability under the General Manager which will facilitate over time greater efficiency and transparency in managing the totality of BART's financial picture.

Focus Area	Current Challenge	Opportunity/Solutions	Restructure Support
Financial Reporting	1. Lengthy process to close monthly and yearly books.	• Streamline reporting process	• Greater management oversight and accountability.
	2. Lack of financial visibility impacts timely decision-making abilities, including forecasting and budget.	• Enforce on-time reporting by alleviating process pain points (TBC: additional resource support, opening up system access, etc.)	• Greater accountability to management.
	3. Lack of access to financial data across teams contributes to mixed understanding of financial status.	• Explore system improvement areas (PeopleSoft capabilities, opening up access for collaboration, etc.)	• One voice for financial leadership at executive level.
Financial Controls / Stewardship	1. Autonomy at Division level on financial management leads to individual approaches instead of holistic budgeting, tracking, and compliance.	• Develop formalized financial controls for all to follow	• One voice for financial leadership at executive level.
	2. Lack of enterprise or strategic view across finance.	• Ensure clear messaging and training on financial management	• Develop approach and accountability for enterprise-wide risk management.
	3. Lack of enterprise-wide risk management with current transactional focus on insurance.	• Hold teams accountable for going outside of process or over budget	• Greater management accountability.
Accts Payable	1. Takes a long time to pay vendor invoices.	• Streamline process (narrow approvals, speed up payment processing)	• Greater management oversight and accountability.
	2. Receiving submissions to A/P late.	• Enforce on-time submission deadlines	• Management emphasis/accountability.
	3. Approval process is lengthy (6-7 ppl).	• Hold teams / individuals accountable for delays	• Leadership.
Payroll	1. Requires staff overtime (TBC) to make payroll on-time each month	• Evaluate process and streamline	• Prioritize deadlines across organization.
	2. Seen as a very stressful process	• Determine system improvement areas	• Management support of process.

Key Considerations

- **Role of the CFO**
 - Strategic thinker and communicator with subject matter expertise in the day-to-day business functions.
 - Clear view of the overall organization.
 - Alignment of both strategic and fiscal objectives.
 - Ample and sufficient authority governing decision making.
- **Structure of any new financial organization**
 - Clear leadership roles and reporting lines.
 - Ensure that there is input from all stakeholders, including labor.
 - Determination of individual business functions that may fall under purview of CFO.
- **Timing of any change**
 - BART Act (“Act”) created the position of the Controller-Treasurer reporting to the Board.
 - Act will ultimately need to be amended to implement permanent change.
 - Can any productive interim steps be taken?
- **Change management**
 - Must consider review and changes to policies and procedures.
 - Needs input of new CFO.

Recommended Approach

We recommend today taking steps to help address the current financial challenges as opposed to waiting to implement meaningful change until the amendment of the Act:

- **Creation of the position of CFO reporting to the General Manager under which all financial functions would be located.**
- **CFO position should be filled in the next 6 months on interim basis with:**
 - New Financial Reporting function.
 - The decision on interim vs. permanent will be dependent on the potential candidates, especially with prospective need to amend the Act.
- **Careful review of existing financial policies and procedures.**
 - Adequate resources should be committed to the effort to affect the change required.
- **Permanent CFO should have input and guidance into the long-term organizational structure, including what business units could be created, moved, or otherwise consolidated under the CFO.**

Recommended Approach

A straight-forward approach: implement an Interim CFO structure now, consolidate current functions under the CFO, and begin process to amend the Act.



Timing: Immediate
Status: Board direction today but C-T at discretion of Board until Act is amended

NEW POSITION/GROUP

INTERIM REPORTING TO OFFICE OF CONTROLLER-TREASURER

INTERIM REPORTING TO OFFICE OF PERFORMANCE & BUDGET

(1) Preliminary; subject to change; FOR DISCUSSION PURPOSES ONLY.

Benefits of Recommended Approach

Existing business functions of both the Office of the Controller-Treasurer and Executive Office of Performance and Budget are vital to the organization.

- Work that existing employees in the Controller-Treasurer and Performance and Budget areas perform is necessary and critical to the success of the District and will remain so.

Creation of CFO position will provide greater accountability to the General Manager which will facilitate over time greater efficiency and transparency in managing the totality of BART's financial picture.

- Given the core responsibilities of the CFO - including the certification of the audit and compliance with Dodd Frank requirements - and the presence of the Office of the Inspector General, financial controls and stewardship of the current organizational structure should not be materially undermined.
- Finding the right candidate - who brings both strategic vision and day-to-day technical knowledge - and positioning this candidate with ample visibility and authority over the broader business functions of the District along with the necessary institutional support is critical.

While the recommendation herein is a good start, there are also longer-term considerations that the permanent CFO will want to evaluate, likely in Phase II, including:

- Enterprise Risk Management
- Enterprise Reporting
- Agreement Management
- Other(s)?

Implementation of Recommended Approach

There is benefit in streamlining financial decision making and reporting to ensure that the **limited financial resources** are deployed in the most efficient manner possible.

- CFO's primary responsibility will be to show District-wide leadership - working closely with the GM and DGM to drive and implement strategic direction.
- Providing the CFO with the authority and resources necessary to affect change is vital.
- While a new CFO, unto itself, will not address all of BART's fiscal challenges, it is certainly a **positive, proactive, and public step** in increasing long-term financial efficiency and transparency for the District.
- How change is communicated and implemented is **critical** in ensuring the benefits of any change are realized by the District, its customers, and its employees.



Timing

In all cases, a CFO structure is well worth considering. The question is if some of the benefits of implementing potential changes sooner merit the consideration of an interim CFO.

- Goal would be to retain an interim CFO, until the BART Act is amended.
- Proceed with Board direction to move all financial functions under the CFO.

FINANCIAL ORGANIZATION		2023	2024				2025			
ROADMAP		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Design	Organization Change Management Strategy									
	Board Approval	Roadmap								
Implementation	Amend BART Act w/State Legislature									
	Hire Interim CFO (potentially permanent?)			Target						
	Amend Reporting Structure									
	Consider New Financial Reporting Group									
	Process Review and Refinement						Phase I			
	Hire Permananet CFO (If necessary)									
Refinement	Review and Refine Organizational Changes							Phase II		

Conclusion and Next Steps

Based on the input and feedback of the Ad-Hoc Committee, we would propose to:

- Present final recommendation to the Board for consideration, potentially as soon as December 7th.
- Start legislative process to amend Act.
- Finalize job description and reporting lines for the CFO.
- Begin process to retain an interim CFO.
- Continue to implement the change management strategy as any recommendation is implemented.



Pause for Questions





FINANCIAL STRUCTURE PROJECT

ORGANIZATIONAL CHANGE MANAGEMENT STRATEGY

Ad Hoc Committee Meeting

NOVEMBER 16, 2023

Prepared by:

UPLIFT
COLLABORATIVE

Executive Summary

Introduction

- An organizational structure recommendation has been provided by BB&A.
- This Change Management Strategy was developed by UPlift Collaborative, a management consulting firm focused on organizational growth strategies and organizational change management (OCM), and outlines OCM strategies for BART based on the anticipated impacts of adopting a financial structure change.

What is OCM?

Organizational change management (OCM) is the discipline and processes that guide how we can prepare, equip and empower our people to successfully navigate transformational change.

Financial Structure Project Findings

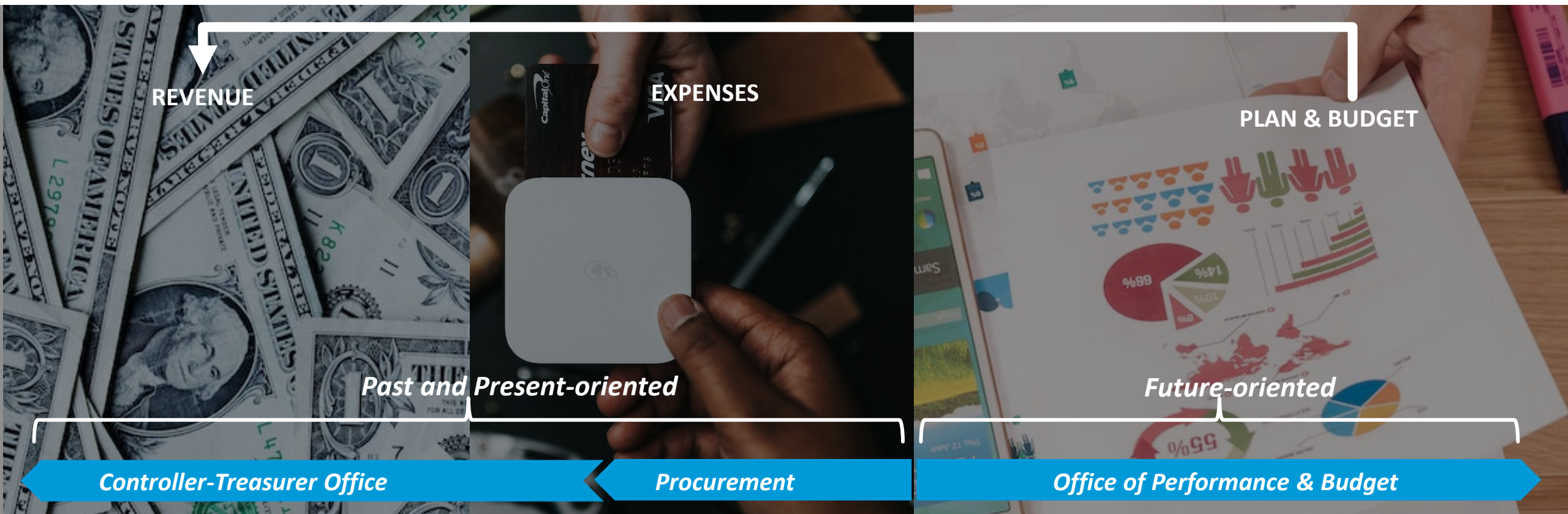
Historically, the financial functions of the District have been distributed amongst the Controller-Treasurer Office and Office of Performance and Budget, along with the Procurement Unit (currently located within the Administration Executive Office). This spread of financial functions makes it challenging to grasp a full and comprehensive financial picture for BART and lends to a number of inefficiencies and lack of transparency.

In an effort to achieve increased efficiency and transparency for District financial functions, it is imperative to have **a comprehensive view with singular leadership (e.g., CFO)** and the **right processes, policies and supporting systems to reinforce controls and streamline** all financial activities.

Structure change alone will not solve BART's financial challenges, it must be paired with an examination of the alignment of culture and optimization of processes and systems.

Case for Change analogy for consideration:

You know how much you have made (revenue) and you know how much you have spent (expenses), therefore, you can create a finance plan and try to maintain a budget.

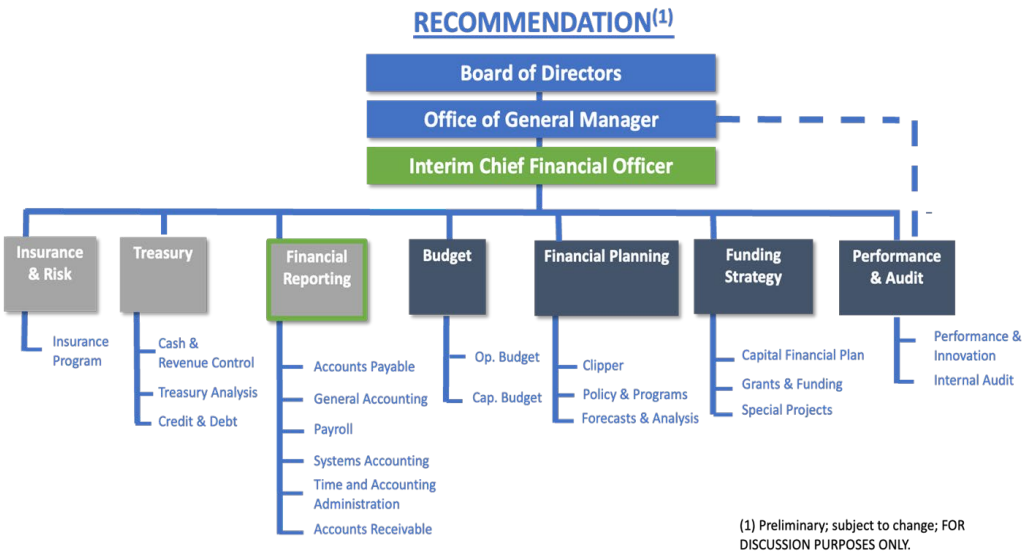


...at BART we have these **financial functions** spread across the organization.

The recommended financial structure provides a pathway forward for BART and includes organizational and business implications.

SCENARIO + ORGANIZATIONAL CHART*

Baseline: “Start now with Interim CFO”



- NEW POSITION/GROUP
- INTERIM REPORTING TO OFFICE OF CONTROLLER-TREASURER
- INTERIM REPORTING TO OFFICE OF PERFORMANCE & BUDGET

What this means to our people**:

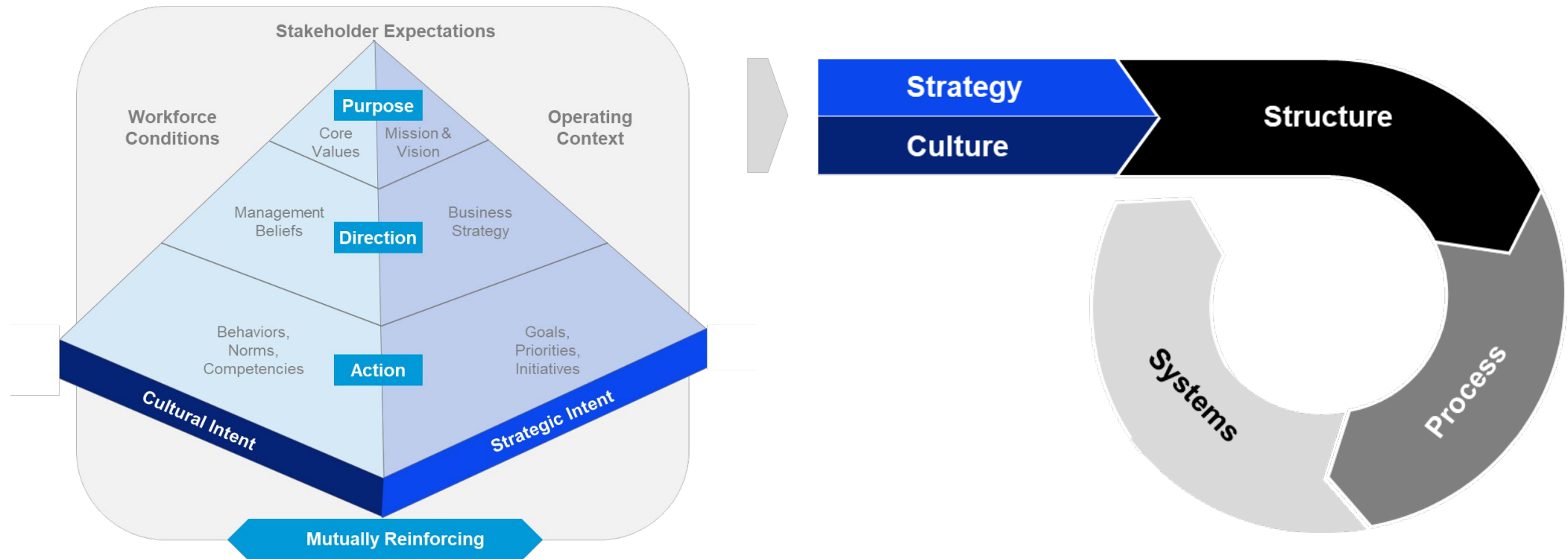
Timeline	Immediate shift of financial functions under interim CFO, but long timeline of 12-18 months (official BART Act amendment) for structural change to be complete.
Reporting Lines	<ul style="list-style-type: none">All financial functions, including new interim CFO, reporting to GM’s Office.All financial functions reporting to CFO, a shift in current finance reporting lines.
Functions	<ul style="list-style-type: none">Interim-CFO role as temporary leadership.New title of ‘Financial Reporting’ Group (previously ‘Asst. Controller’).
Other	<ul style="list-style-type: none">Org Levels: Potential changes with new CFO level.Culture: Two (or more) very different team cultures coming together.Efficiency: Functions under one group and authority; however, no other dedicated efficiency gains, process improvement or system enhancements, unless decided by GM and CFO.

*See BB&A Report for full detail. **Specific impacts by Department are outlined in the Impact Assessment

Beyond Structure: Making Change Stick

As a best practice, the strategy and culture of an organization inform and shape an organization's structure, which, in turn is supported by key processes and enablement tools and systems.

For BART, to increase financial efficiency, effectiveness and transparency – we must explore how we align our culture + strategy and optimization of processes and systems, in addition to the new organizational structure.



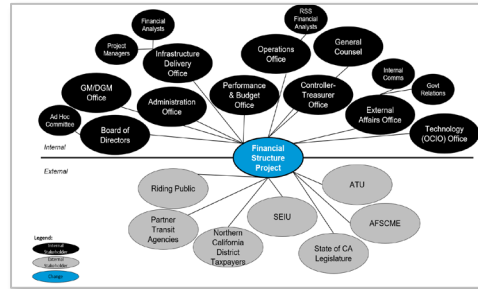
The District should connect strategic and cultural intent with the structure change, and link together the process and system enablers to reinforce intent and for benefits to be fully realized.

Comprehensive & Tailored OCM Strategy

A comprehensive and tailored organizational change management (OCM) strategy helps reinforce transformational change, like this financial structure effort.

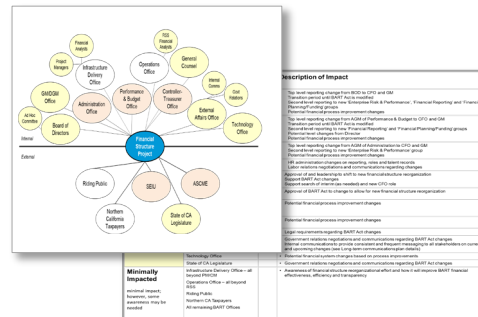
Research & Analyses

BART- specific OCM Strategy + Plan for Implementation



Stakeholder Analysis

- 30+ Stakeholder Interviews
- Detailed review of financial-related roles
- Stakeholder mapping

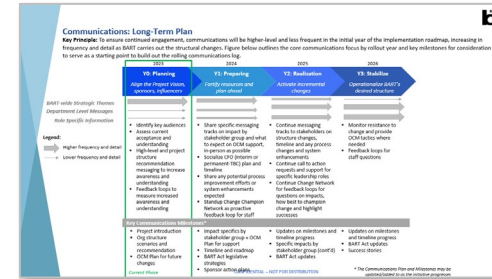


Impact Assessment

- Determine level of impact for each stakeholder group
- Organize stakeholder groups by level of impact and describe anticipated changes

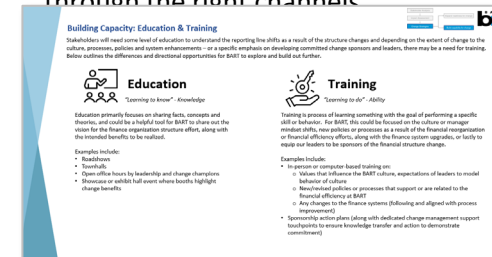
Change Readiness Survey

- Anonymous survey to core impacted stakeholder groups
- Understand “baseline” readiness for upcoming structure change



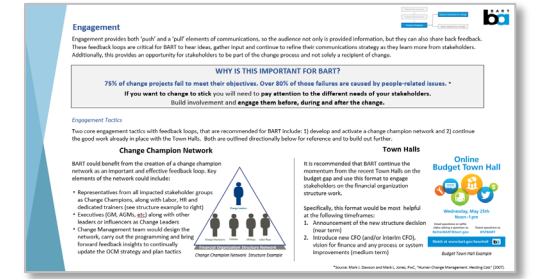
Communications Strategy

- Relevant and timeline information and updates - right message to the right stakeholders at the right time and through the right channels



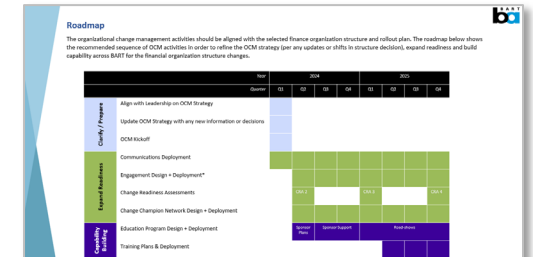
Education & Training

- Building relevant skills and knowledge required to make change stick



Engagement Support

- “Pull” mechanisms to establish feedback and bi-directional communications



OCM Roadmap

- Recommended timeline and phasing of key OCM activities

Why is OCM important for BART?

Investing in Change
Management

=

Investing in our People and
Reinforcing our Business Strategies

People-focused OCM strategies and support **will always be required** to successfully implement meaningful changes.

75%

of change projects
fail to meet their
objectives

80%

of those failures are
caused by people-
related issues. *

If you want the change to stick you need to pay attention to the different needs of your stakeholders. **Build involvement and engage them before, during and after the change.**

- The financial structure project is **one important step** in the continuing development and evolution of BART's financial optimization efforts.
- It is imperative that executive management **not only support system and process optimization** that coincide with financial structure changes, but also **apply change management support** at the proper level to support this evolution.

*Source: Mark J. Dawson and Mark L. Jones, PwC, "Human Change Management: Herding Cats" (2007).

OCM Deployment Roadmap

The organizational change management activities should be aligned with the selected finance structure scenario and rollout plan. The roadmap below shows the recommended sequence of OCM activities in order to refine the OCM strategy, expand readiness and build capability across BART for the financial structure changes.

		Year	2024				2025			
		Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Clarify / Prepare	Align with Leadership on OCM Strategy									
	OCM Kickoff									
Expand Readiness	Communications Deployment									
	Engagement Design + Deployment									
	Change Readiness Assessments		CRA 2				CRA 3			CRA 4
	Change Champion Network Design + Deployment									
Capability Building	Education Program Design + Deployment		Sponsor Plans	Sponsor Support			Roadshows			
	Training Plans & Deployment									

Recommended Next Steps

In order to activate the organizational change management (OCM) support for the financial structure change, BART should consider the following next steps.

STEP 1: DETERMINE THE MAGNITUDE OF CHANGE BEYOND STRUCTURE (2023)

What level of change does BART want and is willing to pursue (beyond org structure)?

- Processes
- Systems
- Culture



What resources do we need AND are we willing to invest in to support this change?

- Dedicated internal resources and/or
- Consultant support

STEP 2: BEGIN DEPLOYMENT OF FINANCIAL STRUCTURE CHANGE (Q1 2024)

STEP 3: DEPLOY OCM AND ADDITIONAL CHANGE BEYOND STRUCTURE (Q1 2024)

STEP 4: TRACK AND MEASURE IMPACT (2024 - 2025)

THANK YOU!

UPLIFT
COLLABORATIVE