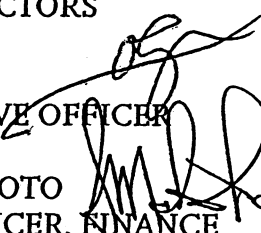





Metro

August 27, 2006

TO: BOARD OF DIRECTORS

FROM: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER 

THROUGH: TERRY MATSUMOTO
EXECUTIVE OFFICER, FINANCE
AND TREASURER 

SUBJECT: BOARD MOTION TO IMPLEMENT CAPITAL PROGRAM
CONTROLS

ISSUE

The Board passed a motion at the July 2006 meeting directing the CEO to report back to the Board with a policy that implements additional controls for the capital program to ensure that capital projects do not exceed the approved life-of-project budget. Specifically, the Board requested the following:

- 1) Establish guidelines for setting an appropriate contingency for every project.
- 2) Prohibit staff from exceeding the life-of-project budget without prior board approval.
- 3) Require, that when requesting an increase to the life-of-project budget, that staff provide realistic alternatives to increasing the budget.

DISCUSSION

The current policies and procedures in place for the capital program are located in the Financial Standards, approved annually by the Board, the Cost Management Procedures, internal procedures for management of capital projects and the annual budget. In addition to these guidelines, a variety of reporting tools and documentation provide project tracking and monitoring.

The Financial Standards set the policy for Board approvals regarding life-of-project budgets and requests for budget increases. The Financial Standards require that the Board approve a life-of-project budget for any project over \$5 million, including the scope of the project, the schedule, the expenditure plan, including a contingency amount, and the funding. For projects between \$1 million and \$5 million, the life-of-project budget for each project is approved as part of the annual budget process. Forecasted changes to any project over \$1 million must be approved by the Board prior to implementation of the change. This section will be clarified and reinforced in the next update of the Financial Standards.

The Cost Management procedures were issued by the Chief Financial Officer in May 2004. These guidelines require that all project budgets include a contingency and lay out the parameters for project managers to follow when establishing a project's contingency. An update to the Cost Management procedures will be distributed in September 2006 to further clarify the issues raised in the Board motion. In addition to strengthening the project contingency guidelines, a discussion of appropriate cost mitigation techniques will be added as well as a requirement to discuss viable alternatives to increasing the project budget when reporting on project cost increases to the Board.

The annual budget reinforces the life-of-project budget for each capital project. Quarterly reporting on each capital project directs management and the Board's attention to areas where capital projects are experiencing unforeseen project changes. Quarterly, each project manager is required to report on the progress of his/her project to Executive Management, including cost and schedule issues, contractor change notices, milestone adjustments, etc. This information is then summarized for the Board in the quarterly financial report. Effective with the FY06 4th Quarter Financial Report, this report has been modified to provide more detail to management and will be available on-line.

NEXT STEPS

Update the policies and procedures as identified above. Continue to report on the capital program progress as part of the Quarterly Financial Report.