Public notice was given to *The Register-Guard* for publication on March 2, 2012.

LANE TRANSIT DISTRICT
BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING

March 5, 2012
4:00 p.m. – 5:30 p.m.

LTD Conference Room A
3500 East 17th Avenue, Eugene (in Glenwood)

AGENDA

Page

I. CALL TO ORDER (Dean Kortge)

II. ROLL CALL (Dean Kortge)

Dubick _______ Kortge ______ Necker ________

III. APPROVAL OF MEETING MINUTES

- Minutes of the March 21, 2011, LTD Board Finance Committee meeting 2
- Minutes of the April 26, 2011, LTD Board Joint Finance and Human Resources Committee meeting 4
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VII. NEXT MEETING

VIII. ADJOURN

The facility used for this meeting is wheelchair accessible. If you require any special physical or language accommodations, including alternative formats of printed materials, please contact LTD's Administration office as far in advance of the meeting as possible and no later than 48 hours prior to the meeting. To request these arrangements, please call 541-682-6100 (voice) or 7-1-1 (TTY, through Oregon Relay, for persons with hearing impairments).

MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

March 21, 2011

Pursuant to notice given to *The Register-Guard* for publication on March 18, 2011, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Finance Committee was held on March 21, 2011, at Lane Transit District, 3500 East 17th Avenue, Eugene.

PRESENT - Mike Dubick, Dean Kortge, Ed Necker

CALL TO ORDER – Mr. Kortge, chair of the committee, called the meeting to order at 3:58 p.m.

ROLL CALL – All committee members were in attendance. The following LTD staff also were present: Diane Hellekson, Mark Pangborn, Todd Lipkin, Mary Adams, Andy Vobora, Jeanette Bailor, and Chris Thrasher.

MINUTES – Minutes from the October 12, 2010, meeting of the Finance Committees were approved.

GROUP PASS PROGRAM – Mr. Vobora, director of service planning, accessibility, and marketing, provided a history of the group pass program. Over the 23 years the program has been in existence, a number of factors have changed to a point where there may be a need or desire to revisit whether the group pass program should continue in its current form:

- Bus capacity, throughout the system, is at a premium during peak travel times.
- Routes serving large group pass organizations are becoming oversubscribed.
- Resources are unavailable to meet the growing demand for service.

In response to a question from Mr. Dubick, Mr. Vobora stated that the current monthly rates are $4.57 per participant of a taxpaying business and $5.32 per participant of a non-taxpaying business, which is approximately 10 percent of the cost for a monthly pass. Businesses must pay for a minimum of 10 individuals. Mr. Vobora noted that LTD rates are low compared to other transit agencies throughout the nation.

Mr. Vobora stated that there are currently 89 businesses in the program with an approximate total of 65,000 participants. This includes 25,000 in the Student Transit Pass Program (middle and high school students) and 40,000 UO and LCC students. PeaceHealth, who currently buys monthly passes as needed, is considering returning to the program.

Mr. Pangborn, general manager, stated that funding for the Student Transit Pass Program comes from the Oregon Department of Energy's Business Energy Tax Credit in the amount of $1.3 million per year. In turn, businesses in the program are eligible to request a tax credit through this program. The Legislature is currently considering eliminating this program or reducing funding.

In response to a question from Mr. Necker, Mr. Pangborn stated that no rate increase is proposed for calendar year 2012.

The committee approved staff to conduct more research.

SERVICE BOUNDARY ISSUE – Mr. Vobora stated that a taxpaying business in the River Road area, a mile north of the urban growth boundary, believed that 2½ miles from LTD service was not a reasonable distance to access transit. Staff is analyzing the effects of changing the boundary to three-quarters of a mile from service, which would be consistent with the RideSource standard.

SERVICE WITHDRAWAL REQUEST – Mr. Vobora stated that a business owner in Cottage Grove is considering petitioning for withdrawal of Cottage Grove bus service. The owner would need signatures from 15 percent of the electoral to present to the LTD Board, which in turn the Board could approve the change through a resolution. According to law, the petition process can only be done once every five years, which means that 2011 is a year where someone could affect a change through the petition process. Another option would be to work directly through the city council, which could be done any time as long as the Board is agreeable.

Staff would attend a Cottage Grove City Council meeting on April 11, 2011, to provide an update on ridership, budget, etc., and would be prepared to discuss the process for the withdrawal request.

APRIL 11 WORK SESSION AGENDA – Ms. Hellekson, director of finance and information technology, reviewed a tentative agenda of the April 11 Special Joint LTD Board and Budget Committee work session. The primary focus of the work session is to review the Long-Range Financial Plan and set priorities, and discuss the pension plans, health care, and wages.

Mr. Kortge suggested adding discussion regarding (1) current payroll tax revenue and how much is received because of construction projects, and (2) cost of running EmX versus regular service.

LEGAL SERVICES RFP – Jeanette Bailor, purchasing manager, stated that it is a Federal Transit Administration requirement to select legal counsel through a competitive process. Although contracts are typically five-year contracts, the current legal services contract was established in 1998 and was extended based on findings that it was to LTD's benefit to stay with the same firm. The committee had no changes to the draft request for proposals (RFP) and interview questions, and a final RFP would be mailed to local firms on March 28, 2011. The committee, acting as the Legal Counsel Selection Committee, would review submitted proposals; interview firms, if necessary; and recommend a firm for approval by the full Board at the May 18 meeting.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 5:03 p.m.

(Recorded and transcribed by Chris Thrasher, Lane Transit District)

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MINUTES OF THE JOINT HUMAN RESOURCES
AND FINANCE COMMITTEES MEETING
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

April 26, 2011

Pursuant to notice given to *The Register-Guard* for publication on April 22, 2011, and distributed to persons on the mailing list of the District, a joint meeting of the Lane Transit District Board of Directors Human Resources and Finance Committees was held on Tuesday, April 26, 2011, in the District's Board Room at 3500 East 17th Avenue, Eugene.

Present: Dean Kortge, Finance Committee Chair
Gary Gillespie
Ed Necker

Mark Pangborn, General Manager
Mary Adams, Director of Human Resources and Risk Management
David Collier, Senior Analyst, Human Resources and Risk Management
Diane Hellekson, Director of Finance and Information Technology
Susan Oldland, Human Resources Administrative Secretary, Recording Secretary
Pete Sturdivan, Milliman

Absent: Michael Dubick, Human Resources Committee Chair

CALL TO ORDER: Mr. Kortge called the meeting to order at 4:07 p.m. and called the roll.

LTD PENSION PLAN PROPOSALS: Ms. Adams provided a recap of the process to date regarding discussions for possible changes to LTD's two pension trust plans:

- February 7, 2011, Board Human Resources Committee met to discuss a process for reviewing pension plans, develop a schedule, and determine who should be involved.
- March 4, 2011, Board Human Resources Committee met to discuss models developed by Milliman, the actuary for the plans.
- Values Questionnaire on Retirement Benefits was completed by all Board members and responses were discussed at an April 11, 2011, Board work session.
- Results of the Board work session, which was also attended by five citizen members of the LTD Budget Committee, were given to Milliman to design one or more plans that would match the Board's direction.

Mr. Sturdivan was in attendance to present pension plan options that would be more cost effective for the District. He reviewed the values developed by the Board on April 11, which was included in the agenda packet.

From an HR perspective, the retirement program is one of the components used for recruiting and retaining. In terms of recruitment, you look at how it compares to other plans. In terms of retaining, does the plan consist of elements that make an employee want to stay?

Mr. Sturdivan distributed copies of Milliman's "Retirement Program Analysis" and presented three options for the committee to consider:

- Proposal 1 - "Cash Balance Plan" - a modified defined benefit plan that expresses benefits in terms of account balances. The contributions made to the plan are made to a hypothetical account on the participant's behalf, and the District would determine the rate of interest to be earned on that account. The benefit is typically paid out as a lump sum at retirement, but it could also be annuitized.

- Proposal 2 - "Defined Contribution Plan" - provides a benefit based on the accumulation of predetermined contributions. It differs in that the contribution made to the fund on the participant's behalf is the obligation of the District. The benefit is paid as a lump sum, rolled over, or annuitized.

- Proposal X - "Combination Plan" - a defined benefit plan and a defined contribution plan. The current administrative retirement program is a combination plan. The structure can take advantage of good features of both designs, including lifetime benefits and portable benefits.

Current administrative employees are covered by a "Defined Benefit Plan," which provides a definitely determinable monthly benefit at retirement. Typical monthly benefits are expressed as a flat dollar rate per year of service or a flat percentage of final average salary per year of service. Ms. Hellekson stated that 143 employees (90 ATU and 53 administrative) are currently active in the 457(b) deferred compensation plan. Employees have the option to opt in and out at any time. The District does not provide a match.

Mr. Sturdivan referred the committee to page 8 of the "Retirement Program Analysis" handout for a comparison of the current plan and the three proposed options.

Mr. Pangborn stated that the goal for creating a new plan is to reduce cost to the District.

Mr. Sturdivan believed that the Combination Plan is the best structured in terms of delivery of retirement benefits although it would be more expensive and more complicated than the other two options. The investment risk, however, is out of balance.

Ms. Hellekson stated that in the past ATU-represented employees opposed a straight Defined Contribution Plan because they did not believe the membership can be adequately educated to make the right decision regarding retirement. She liked the Cash Balance Plan because it guarantees the employee does not lose anything. The employee can time the retirement based on what the annuity market offers.

Mr. Sturdivan referred the committee to page 11 of the "Retirement Program Analysis" handout for a comparison of replacement income. In addition, a comparison of the estimated program costs (page 12) showed 17.8 percent for the Current Plan, 8.5 percent for the Cash Balance Plan, and 8.7 percent for the Defined Contribution Plan. He noted that the benefits for the proposed options were roughly half that of the Current Plan.

Bob Macherione, 1994 Brewer, Eugene, stated his concern that the unfunded liability of the pension plans was not on LTD's balance sheets. Ms. Hellekson stated that although it is not required to be stated on the balance sheet, it is disclosed in the note section in the *Comprehensive Annual Financial Report*.

Mr. Sturdivan continued with the following observations on benefits and costs:

- The Cash Balance Plan and the Defined Contribution Plan are designed to cost the District approximately 8-9 percent of covered pay, including matching contributions.

- The Cash Balance Plan comes with small risk of increasing contributions because the valuation interest rate is lower and the normal cost is also lower.

- The current benefit structure is significantly richer than the proposed structures. This may pose challenges for attracting and retaining future employees.

- If the current benefit structure's defined contribution component could be eliminated or reduced, that would immediately save the District significant revenue and bring greater parity between old and new benefit structures.

- Female members tend to do better than males under defined benefit structures because of their longer expected lifetimes.

- All costs and benefits discussion are draft quality and are intended for discussion purposes only. When the District wishes to cost out a final plan design, we will prepare fully peer-reviewed results.

In developing the costs of cash balance benefits for new members, Milliman reflected the age and gender mix of new ATU hires from 2003-2007 still working as of January 1, 2008. This work was applied to administrative members on the assumption that cash balance plan costs would not vary significantly by population group. Based upon 2009 valuation data from the District, Milliman constructed an "average" administrative member as male, working 2,080 hours per year and earning approximately $65,000 in 2010. Milliman also used a $65,000 salary as a basis for plan benefits and plan costs as a percentage of payroll.

The assumed investment assumption was 6.5 percent per year, net of investment fees, for determining the entry age normal cost for the current benefit structure and the preretirement defined contribution investment return. For the cash balance structure, Milliman used an assumed investment assumption of 6 percent per year prior to retirement. For converting cash balance and defined contribution benefits to annuities at age 62, interest rates were assumed to be 5.5 percent per year. Salaries were assumed to increase 3 percent per year, and a general price inflation of 2.5 percent per year was assumed.

Mr. Sturdivan added the following additional actuarial assumptions:

- RP-2000 Mortality Table with a three-year setback for males and females. For example, someone age 60 will actually experience the mortality of a 57-year-old person.

- Unless otherwise noted, actuarial assumptions were retained from the 2009 Actuarial Valuation for the current benefit structure.

- Cash balance costs are based upon work performed for the ATU/District pension work group. Milliman believes these estimates are sufficient for current discussion purposes.

- All employer defined contributions (including match) will become vested.
- 80 percent of active members were assumed to participate and be eligible for the matching contributions up to the 3 percent level.

Mr. Kortge recommended eliminating the Combination Plan option. He preferred the Cash Balance Plan.

Ms. Hellekson believed contract employees would not agree to a traditional defined contribution plan. She liked the Cash Balance Plan.

Mr. Gillespie asked if there was a way to turn the cash balance plan into a dual plan with a “kicker” should the investments be higher. Mr. Sturdivan believed it was possible by adding an ad hoc improvement to the interest crediting rate for any particular year.

Mr. Gillespie asked if a surplus could be applied to the unfunded liability. For example, if the rate of return was 15 percent and you credit 7 percent and take 3 percent to apply to the unfunded liability. Mr. Sturdivan stated that you could bifurcate your contribution amount. For example, 4 percent would go toward funding the plan and 2 percent would go toward paying off the unfunded liability, if the plan became unfunded.

Ms. Hellekson stated that the new plan would be 100 percent funded.

Mr. Gillespie would like to see a variation in the Cash Balance Plan if you had an exceptional year and/or another bleak (2008) year.

Ms. Adams stated that Everett Moreland, attorney at Herschner Hunter, would provide a legal review of any proposed plan.

In response to a question from Mr. Collier, Mr. Sturdivan stated that there are a number of ways to design the matching contribution.

Mr. Sturdivan stated that another option might be OPSRP, which is the PERS Tier 3 plan. Mr. Gillespie stated that OPSRP is a very simplistic plan.

The committee asked for Milliman to provide another level of costing and plan design on the Cash Balance Plan and the Defined Contribution Plan to be presented as a work session item at the June 2011 Board meeting.

ADJOURNMENT: There was no further business, and the meeting was adjourned at 5:57 p.m.

Transcribed by Chris Thrasher, Administrative Secretary.

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Recording Secretary

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MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

May 6, 2011

Pursuant to notice given to *The Register-Guard* for publication on May 5, 2011, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Finance Committee was held on May 6, 2011, at Lane Transit District, 3500 East 17th Avenue, Eugene.

PRESENT - Mike Dubick, Dean Kortge, Ed Necker

CALL TO ORDER – Mr. Kortge, chair of the committee, called the meeting to order at 9:05 a.m.

ROLL CALL – All committee members were in attendance. The following LTD staff also were present: Diane Hellekson, Jeanette Bailor, Jeanne Schapper, and Chris Thrasher.

EXECUTIVE (NON-PUBLIC) SESSION PURSUANT TO ORS 192.660(2)(a), EMPLOYMENT OF INDIVIDUAL AGENT – Mr. Necker moved that the Board meet in Executive Session pursuant to ORS 192.660(2)(a), to consider the employment of legal counsel. Mr. Dubick provided the second. Motion was approved.

The Finance Committee entered executive Session at 9:06 a.m.

RETURN TO REGULAR (OPEN) SESSION – The Finance Committee returned to regular session at 12:03 p.m.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 12:03 p.m.

(Recorded and transcribed by Chris Thrasher, Lane Transit District)

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MINUTES OF MEETING OF THE HUMAN RESOURCES AND FINANCE COMMITTEES
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

January 24, 2012

Pursuant to notice given to *The Register-Guard* for publication on January 22, 2012, and distributed to persons on the e-mail list of the District, a joint meeting of the Lane Transit District Board of Directors Human Resources Committee and Finance Committee was held at 4:30 p.m. on Tuesday, January 24, 2012, in the District's board room at 3500 East 17th Avenue, Eugene.

Present: Dean Kortge, Chair
Michael Dubick
Ed Necker
Gary Gillespie

Mary Adams, Director of Human Resources and Risk Management
Diane Hellekson, Director of Finance and Information Technology
Ron Kilcoyne, General Manager
Carol James, Chief Accountant/Internal Auditor
Todd Lipkin, Finance Manager
Mark Johnson, Director of Transit Operations
David Collier, Senior Human Resources Analyst
Susan Oldland, Human Resources Administrative Secretary
Jeanne Schapper, Clerk of the Board
Will Clark-Shim, Milliman Consulting Actuary, via teleconference
Chris Thrasher, Recording Secretary

CALL TO ORDER – Mr. Kortge called the meeting to order at 4:30 p.m. and reviewed the agenda.

LTD PENSION PLAN ACTUARIAL ASSUMPTIONS: A new defined contribution pension plan for administrative employees hired on or after January 1, 2012, was approved by the LTD Board of Directors in 2011. Mr. Clark-Shim of Milliman joined the meeting via conference phone to review options regarding the original "legacy" administrative pension plan, which closed to new entrants January 1, 2012. The committee was asked to provide guidance regarding how to determine how the current plan assets are valued and the length of time the District should take to pay off the plan's unfunded actuarial liability.

Mr. Clark-Shim referred the committee to a letter dated December 19, 2011, which was included in the agenda packet. He stated that the contribution rate for paying off unfunded actuarial liability and covering administrative expenses would consist of 11.5 percent of covered pay **plus** one of three options: 20-Year Layered (current plan) from $567,000 in the first year down to $517,000 in the fourth year; 20-Year Fresh Start at $556,000 per year; and 30-Year Fresh Start at $492,000 per year. For comparison purposes, the recommended 2011-2012 contribution was 18.3 percent of payroll. If calculated in the same manner, the 2012-2013 contribution schedules would be 23.7 percent, 23.5 percent, and 22.1 percent of payroll for the three options, respectively.

MOTION After a lengthy discussion, Mr. Gillespie proposed a motion, seconded by Mr. Necker, to eliminate the 30-Year Fresh Start option.

VOTE The motion was approved unanimously by a separate vote of the Board HR Committee and the Board Finance Committee members.

Ms. Hellekson stated that the 20-Year Fresh Start option, with the fixed amount, would be easier to budget than the 20-Year Layered option. She noted that an actuarial evaluation is done once every two years and amounts could change. Mr. Clark-Shim stated that changes in assumptions can change the amount of the recommended contribution. Also, the standards for determining the expected rate of return are changing, resulting in less latitude.

Mr. Clark-Shim stated that the Plan's investment returns are "smoothed" over a three-year period in order to reduce the effect of investment return volatility on contribution rates. It is Milliman's opinion that it would be best to select an asset smoothing method with a long-term focus. It is not a good idea to selectively reset the asset value to the market value (and smooth going forward) when the market value of assets exceeds the smoothed value of assets. However, with the closure of the Plan, a one-time reset to market value to offset the effect of the Plan closure might help transition to the new contribution calculations.

The committee preferred the 20-Year Fresh Start option and asked staff to proceed with making the changes.

Mr. Kortge opened discussion regarding the 7.5 percent rate of return assumption. Mr. Clark-Shim stated that Milliman's modeling as of June 30, 2011, which assumed a 2.75 percent inflation rate, showed an expected return over 30 years of approximately 7 percent. It would be desirable to have a more conservative investment allocation as employees retire.

Mr. Dubick believed it made sense to be more conservative with investments as employees near retirement. We should be looking at an expected rate of return that is more conservative than present.

Mr. Necker agreed with Mr. Dubick.

Mr. Gillespie favored waiting a year to review.

Mr. Kortge asked the audience if they had any questions.

Bob Macherione, 1994 Brewer, Eugene, asked what the rate of return has been over the last ten years. Mr. Clark-Shim replied the ten-year rate of return has been bleak.

Brian Weaver, 1365 Grant Street, Eugene, believed that the 100-year average was 5 percent. Mr. Clark-Shim stated that real rate of return may be net of inflation. When 3 percent is added for inflation, the 7-8 percent average is entered.

Mr. Clark-Shim disconnected from the meeting.

MEDICARE SUPPLEMENT BENEFIT: Ms. Adams provided information regarding the Medicare supplement benefit, in response to questions raised at a previous Board meeting. For many years LTD has provided a subsidy toward the cost of retiree health care. The subsidy, last increased in the 2007-10 Collective Bargaining Agreement, is $250 per month toward the cost of the retiree health care plan if the employee is not Medicare eligible (under age 65), and

$125 per month toward the cost of a Medicare supplement once the retiree is Medicare eligible. Since this is a subsidy toward the cost of the monthly premium, LTD pays the monthly premium and bills retirees for any balance due. This administrative process is time consuming. LTD offers five Medicare supplement plans, three of which that cost less than $125 per month. Total cost to the District is approximately $124,000 per year.

Mr. Kortge wanted the committee to consider whether it was necessary to pay a subsidy for retirees who are 65 and older and asked if it was a policy the Board wanted to continue. He noted that Medicare supplement plans can be purchased without paying a premium.

Ms. Hellekson stated that the benefit and amount were bargained as part of the ATU contract.

In response to a question from Mr. Gillespie, Ms. Adams stated that the estimated cost to administer the plans is $6,000 per year.

Ms. Adams stated that LTD currently offers five plans because of complications where retirees live. Not all plans are portable.

In response to a question from Mr. Necker, the benefit could be eliminated, through bargaining, for current recipients.

Ms. Adams stated that Oregon law requires that employers offer a COBRA health care plan to retirees for a period of 18 months.

Mr. Kortge noted that LTD offers Medicare Advantage plans rather than Medicare supplement plans. Ms. Adams did not know any reason why LTD could not offer the supplement plans instead.

Ms. Hellekson stated that providing a benefit to a retiree is non-taxable; providing payment on the other hand is taxable. The $125 benefit can be split between the employee and spouse.

Mr. Jozef Siekiel-Zdzienidei, 1025 Taylor Street, Eugene, asked if the benefit was offered for recruitment purposes. Ms. Adams described it as a retention benefit. Large employers might use it in recruiting packages.

Mr. Dubick excused himself and left the meeting.

The committee members thanked Ms. Adams for providing the information.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 5:45 p.m.

Transcribed by Chris Thrasher, LTD Administrative Secretary.

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Recording Secretary

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AGENDA ITEM SUMMARY

DATE OF MEETING: March 5, 2012

ITEM TITLE: LTD FARE INCREASE ANALYSIS

PREPARED BY: Andy Vobora, Director of Service Planning, Accessibility, and Marketing

ACTION REQUESTED: Discussion and Direction

BACKGROUND:

The District's fare policy states, "When considering changes to the fare, the Board will consider:"

- The effects of the change on Title VI populations
- The inflation rate
- Ridership and revenue trends
- Local economic trends
- Trends in automobile-related costs, such as gas
- Service changes
- Economic impact on customers
- Market conditions and opportunities
- The District's financial situation
- The District's goals and objectives

Staff will present a review covering each of these considerations and request direction from the committee.

The Title VI analysis, which looks at the effects of a fare change on minority and low-income riders, has been completed following a review of the 2011Origin and Destination Rider Survey.

The District's fare policy continues to support rotating fare price increases, which means that the District should evaluate a cash fare increase for 2012. The last cash fare increase occurred in 2008 when adult prices increased from $1.25 to $1.50. An increase to $1.75 translates into a 16.7 percent increase or just over 4 percent annually. The Portland Consumer Price Index increased 0.2 percent to 3.8 percent (or an average of 1.6 percent) during the past four years. An increase smaller than 25 cents also is feasible and is a strategy that a number of other districts have implemented in recent years.

A change in cash fares also affects day pass pricing, which is currently calculated at two times the cash fare. An increase in the adult cash fare also provides the opportunity to evaluate an increase in the Ride*Source* fare. The Accessible Transportation Committee has traditionally been very supportive of maintaining the Ride*Source* fare at the American's with Disabilities Act limit of two times the adult cash

fare. If the District were to increase the adult cash fare by 25 cents and make commensurate changes in the day pass and Ride*Source* prices, day passes and Ride*Source* fares would increase to $3.50.

Group pass pricing changes are traditionally made annually; however, the Board has, in response to the economic downturn, chosen not to increase prices during the past three years. An increase in the rate would not affect current participants until contracts are renewed in January 2013. Rates stand at $4.57 per participant per month (taxpayer rate) and $5.32 per participant per month (non-taxpayer rate). The group pass policy allows the Board flexibility in setting prices and provides the following language to guide the Board's discussion: "The base rate will be increased annually, not to exceed the three-year rolling average of LTD cost increases." LTD's three-year rolling average is 5.8 percent, which would set the upper limit of an increase at $4.84 (taxpayer rate) and $5.63 (non-taxpayer rate). Companies continue to opt in and out of the program based upon their own financial circumstances and the use of the program by their employees. The loss of the Business Energy Tax Credit program does not appear to have had a negative impact on whether businesses continue to participate in the group pass program. An increase in the price will cause some businesses to reevaluate their participation.

ATTACHMENT: None

PROPOSED MOTION: None

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AGENDA ITEM SUMMARY

DATE OF MEETING: March 5, 2012

ITEM TITLE: LTD CHARTER SERVICE PRICING

PREPARED BY: Andy Vobora, Director of Service Planning, Accessibility, and Marketing

ACTION REQUESTED: Discussion and Direction

BACKGROUND:

The District's fare policy includes the Charter Service Policy, which states that "charter service pricing will be based upon the sum of all direct and indirect operating costs, measured at a rate per schedule hour of service (rounded up to the nearest whole dollar) as outlined in the District's Fully Allocated Cost Plan."

The Fully Allocated Cost Plan currently accounts for the depreciation of capital assets at their full value. This methodology overstates the cost due to the fact that the District funds the purchase of capital assets through grants and anticipates using grants to replace these assets in the future. By calculating the fully allocated cost using a 20 percent depreciation cost structure, the rate the District charges event organizers for charter service is more reasonable and competitive. The newly developed rates will continue to fully cover all operating costs and account for the local share of depreciation of capital assets.

Staff will present the results of an analysis using this new methodology and ask the committee for direction.

ATTACHMENT: None

PROPOSED MOTION: None

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FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: March 5, 2012

ITEM TITLE: PENSION PLAN RETURN ON INVESTMENT ASSUMPTION ANALYSIS

PREPARED BY: Diane Hellekson, Director of Finance and Information Technology

ACTION REQUESTED: None

BACKGROUND:

Board of Director and Budget Committee members have expressed concern about how realistic the current 7.5 percent rate of return assumption is in light of the long economic downturn and financial market volatility. Lane Transit District staff requested an analysis of alternative assumptions from Milliman, the actuarial firm that serves both LTD pension plans. That analysis is attached and will be the basis for discussion of the issue at the March 5 Finance Committee meeting.

ATTACHMENT: Milliman Report, February 29, 2012

Q:\Reference\Board Packet\2012\03\Finance Committee 03-05-12\pension roi assumption analysis.docx

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milliman.com

February 29, 2012

VIA E-MAIL

Ms. Diane Hellekson
Lane Transit District
3500 E. 17th Avenue
P.O. Box 7070
Eugene, Oregon 97401-0470

RE: LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL NO. 757, PENSION PLAN
LANE TRANSIT DISTRICT SALARIED EMPLOYEES' RETIREMENT PLAN
EFFECT OF CHANGING INVESTMENT RETURN ASSUMPTION

Dear Diane:

As requested, we have reviewed the effect of changing the investment return assumption for the Lane Transit District ATU and Salaried Employees pension plans.

This letter discusses the basis for determining the expected rate of investment return, and then shows the potential effects of changing that assumption.

BASIS FOR INVESTMENT RETURN ASSUMPTION

Actuarial Standards of Practice

Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, provides guidance on selecting economic assumptions for valuing defined benefit plans. Because no one knows what the future holds, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes.

The standard calls for the actuary to develop a "best-estimate range" for each economic assumption, and then recommend a specific point within that range. Each economic assumption should individually satisfy this standard, and each economic assumption should be consistent with every other economic assumption over the measurement period.

Under current GASB accounting standards, the investment return assumption "should be based on an estimated long-term investment yield for the plan…." That is, the investment return assumption should reflect the expected return on a plan's asset allocation.

Expected Investment Return - Milliman

Milliman maintains an internally developed model for estimating expected returns on investments. For the LTD trusts' current asset allocation, the model produces the following statistics:

Best-estimate range: 8.70% to 5.72% over a 30-year period

Median expectation: 7.20%

Under this model, the current 7.50% assumption represents the 56th percentile. That is, over a 30-year period, we would expect the return on investments to exceed 7.5% about 44% of the time, and fall short 56% of the time.

In developing these expectations, we used the Plans' long-standing inflation assumption of 3.0%. The Plans' asset allocation was based upon information provided by RV Kuhns. It can be broadly described as 24% fixed income, 15% real return strategies, and 61% diversified equity.

The actuarial standards used to determine investment return assumptions are under revision. Multiple proposals have been circulated, and it is not clear what the final revised standards will contain. However, revised standards are reasonably likely to narrow the range of acceptable investment return assumptions.

Expected Investment Return – RV Kuhns

Based on our conversations with RV Kuhns, we understand their *preliminary* expected rate of investment return for the Plans' current asset allocation is approximately 6.25%. About half of that difference can be attributed to RV Kuhns' lower expected inflation of 2.5% per year. The other half of the difference appears attributable to RV Kuhns' lower expected real returns on equities and fixed income investments.

RV Kuhns is currently preparing an asset allocation study. If this asset allocation study results in changes to the Plans' investments, the actuarial assumption of the investment return may be affected. Generally, the asset allocation decision should be made first, based upon characteristics such as risk tolerance and investment horizon, and the actuarial investment return assumption should follow based on the asset allocation.

Effect of Inflation Assumption

The current 3.0% inflation assumption is a building block for the current investment return assumption. If the District changes the investment return assumption, it could consider changing the inflation assumption as well.

Changing the inflation assumption would affect the assumption for future rates of salary increase for the Salaried Plan. If the District lowers the inflation assumption, it would generally be appropriate to lower the future salary increase assumption as well.

The ATU Plan does not have any assumptions besides investment return which rely on the underlying inflation assumption.

Our projections in this letter generally do not assume any changes to the inflation or salary increase assumptions. However, we have placed a footnote by the Salaried Plan results at a 6.0% investment return assumption to show the effect of concurrently lowering the inflation assumption to 2.5%. As you can see, lowering the inflation and salary increase assumptions would slightly offset the Salaried Plan's cost increase which otherwise results from lowering the investment return assumption.

Effect of Salaried Plan Closure

With the closure of the Salaried Plan to new entrants, the investment horizon of that Plan will slowly begin to shorten. As the investment horizon of the Salaried Plan shortens, eventual changes to asset allocation may lead to reductions in the investment return assumption. This process will be gradual, and may not require immediate action.

If the ATU Plan remains open, its investment horizon may remain roughly level, and it would begin to diverge from that of the Salaried Plan. In the long run, it may be appropriate for the ATU Plan and Salaried Plan to have different investment return assumptions.

Assumptions for Other Public Pension Plans

We looked for published studies of other public plans' investment return assumptions. The National Association of State Retirement Administrators (NASRA) produces an annual study which includes information on investment return assumptions. For the plans surveyed, the most common investment return assumption was 8.00%, with a significant number of plans using 7.75% and 7.50%. Most plans are assuming annual inflation rates of 3.00% or 3.50%.

The plans surveyed by NASRA are mostly statewide systems with over $1 billion in assets. Smaller plans will tend to have fewer investment opportunities and higher expense loads on investments. Therefore, the NASRA survey returns are probably best considered as an "upper bound" for the LTD plans.

We also reviewed investment return assumptions used for several smaller Oregon public plans served by our office. Through approximately 2000, the common investment return assumption was 8.0%. At present, most plans use an investment return assumption of 7.5% to 7.0%.

It is important to note that different plans will use different investment return assumptions based upon their own asset allocation and their demographic composition (e.g. ratio of active to inactive members). While the assumptions used by other plans are a useful frame of reference, the investment return assumption for LTD's plans should ultimately reflect their own individual circumstances.

EFFECT OF INVESTMENT RETURN ASSUMPTION

Attached are two exhibits which summarize the estimated effect of a different investment return assumption as of the most recent valuation date for the two plans.

As you can see, a lower investment return assumption decreases the Plans' funded status, and increases their contribution requirement.

It is important to realize, however, that the investment return assumption is not a primary driver of the long-term costs of the Plans. In the long run, the costs of the Plans will be determined by actual contributions, benefit payments, and investment returns. A lower investment return assumption – assuming no change in asset allocation – essentially sets a more conservative budget and increases the probability that the actual investment returns will meet or exceed the assumption.

ASSUMPTIONS AND METHODS

These projections are based upon the most recent valuation reports, dated January 1, 2010 for the ATU Plan and July 1, 2009 for the Salaried Plan. Except as otherwise indicated in this analysis, the explanatory notes contained in those reports, including statements of reliance and limitations on use, continue to apply.

Our estimates are also based on the following information:

- Estimated market value of assets of $16.2 million as of December 31, 2011 for the ATU Plan and $11.6 million as of June 30, 2011 for the Salaried Plan, as reported by Kernutt Stokes. Recent cash flows were also reported to us with this information.

- For the Salaried Plan,

  - Preliminary July 1, 2011 valuation results herein reflect updated census data which will be summarized in our final valuation report.

  - Updated assumptions were summarized in our November 10, 2011 letter to Todd Lipkin re June 30, 2011 CAFR information.

  - Based upon discussions with the District, we also used the 20-year "fresh start" amortization method described in our December 19, 2011 letter to Diane Hellekson.

  - We assumed an estimated 2012-2013 Salaried Plan payroll of $4.653 million.

- For the ATU Plan,

  - The hourly contribution rate for the 2011-2012 fiscal year is $4.26 per compensable hour.

- Future ATU compensable hours of 472,000 per year.
- We have increased the annual expected administrative expenses from $50,000 per year to $60,000 per year.

We may also review an update to the mortality table for the ATU plan (currently RP-2000 blue collar, projected to 2010) for the 2012 actuarial valuation. Assuming an update to the mortality table increases liabilities by 2%, the hourly contribution rates shown in Exhibit 1 could be $0.15 to $0.20 higher.

The expected investment returns discussed in this letter are “geometric” or “compound” returns. For long-term valuation models, compound returns generally reflect the range of expected outcomes.

CERTIFICATION AND CAVEATS

In preparing our report, we relied without audit upon financial data furnished by RV Kuhns and Kernutt Stokes. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law.

Actuarial computations presented in this report are for purposes of determining the recommended annual contribution rates for the Lane Transit District and Amalgamated Transit Union, Local No. 757, Pension Trust and the Lane Transit District Salaried Employees’ Retirement Plan. Determinations for purposes other may be significantly different from the results contained in this report. Accordingly, different determinations may be needed for other purposes.

Milliman’s work product was prepared exclusively for Lane Transit District for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the Lane Transit District’s operations. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman’s work product who desires professional guidance should not rely upon Milliman’s work product, but should engage qualified professionals for advice appropriate to its own specific needs.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

We are actuaries for Milliman, Inc. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We will be available to discuss these estimates and issues at the next meeting.

Sincerely,

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

William H. Clark-Shim, FSA, EA, MAAA
Consulting Actuary

PRS:whc
encl.

LANE TRANSIT DISTRICT AND AMALGAMATED TRANSIT UNION, LOCAL 757, PENSION PLAN

Investment Return Assumption Study

Estimated January 1, 2012 Valuation Results
Based on January 1, 2010 Actuarial Valuation and December 31, 2011 Financial Data

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Estimated Funded Status as of January 1, 2012

(dollar figures in millions)

Investment Return Assumption	7.5% per Year	7.0% per Year	6.5% per Year	6.0% per Year
Actuarial Accrued Liability	$31.4	$32.9	$34.5	$36.3
Actuarial Value of Assets	17.0	17.0	17.0	17.0
Deficit using Actuarial Value	14.4	15.9	17.5	19.3
Funded Ratio (based on Actuarial Value)	54.2%	51.7%	49.3%	46.9%

Estimated Contribution Rates for Fiscal Year Beginning July 1, 2012

Investment Return Assumption	7.5% per Year	7.0% per Year	6.5% per Year	6.0% per Year
Hourly Contribution Rate (1)	$4.73	$5.08	$5.43	$5.82
Total Annual Contribution	$2,233,000	$2,398,000	$2,563,000	$2,747,000

(1) *Note that these rates are estimated. The actual rate will depend on the Plan's January 1, 2012 Actuarial Valuation. The rate is especially sensitive to the Plan's expectation for future compensable hours.*

472,000 compensable hours are assumed to be worked per year.

Contribution rates shown herein could increase a further $0.15 - $0.20 per hour in the event that the mortality assumption is updated in the 2012 ATU plan valuation.

Exhibit 2

LANE TRANSIT DISTRICT SALARIED EMPLOYEES' RETIREMENT PLAN

Investment Return Assumption Study

Estimated July 1, 2011 Valuation Results

Estimated Funded Status as of July 1, 2011

(dollar figures in millions)

Investment Return Assumption	7.5% per Year	7.0% per Year	6.5% per Year	6.0% per Year
Actuarial Accrued Liability	$16.8	$17.7	$18.6	$19.6
Actuarial Value of Assets	11.6	11.6	11.6	11.6
Deficit using Actuarial Value	5.2	6.1	7.0	8.0
Funded Ratio (based on Actuarial Value)	69.0%	65.5%	62.4%	59.2%

Estimated Contribution Rates for Fiscal Year Beginning July 1, 2012

Investment Return Assumption	7.5% per Year	7.0% per Year	6.5% per Year	6.0% per Year
Normal Cost Rate (1)	11.5%	12.7%	13.9%	15.3% (3)
Unfunded Liability and Expenses Contribution	$556,000	$627,000	$698,000	$769,000
Total Estimated Contribution (2)	$1,093,000	$1,216,000	$1,345,000	$1,481,000 (3)
Estimated Percent of Payroll	23.5%	26.1%	28.9%	31.8% (3)

(1) *These rates are based upon the 20-year "fresh start" method described in our December 19, 2011 letter to Diane Hellekson.*

(2) *Total estimated contributions are based upon the normal cost rate times expected payroll, plus the unfunded liability and expenses contribution. Annual payroll of $4.653 million is assumed for these purposes.*

(3) *If the inflation and salary increase assumptions were reduced by 0.5% per year for all future years, these results would instead be 14.6% of payroll for normal cost, $1,433,000 for total contributions, and 30.8% of payroll for total contributions.*