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Public notice was given to *The Register-Guard* for publication on September 21, 2001.

**LANE TRANSIT DISTRICT
BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING**

**September 26, 2001
4:00 p.m.**

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

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
Hocken _____ Gaydos _____ Lauritsen _____
- III. APPROVE MINUTES OF MAY 29, 2001, MEETING
- IV. FARE POLICY
- V. DEBT FINANCING
- VI. FY 2002-2003 BUDGET DEVELOPMENT
- VII. ACCOUNTING ISSUES
- VIII. ADJOURN

Alternative formats of printed material (Braille, cassette tapes, or large print) are available upon request. A sign language interpreter will be made available with 48 hours' notice. The facility used for this meeting is wheelchair accessible. For more information, please call 682-6100 (voice) or 1-800-735-2900 (TTY, for persons with hearing impairments).

FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: September 26, 2001

ITEM TITLE: ACCOUNTING ISSUES

PREPARED BY: Diane Hellekson, Finance Manager

ACTION REQUESTED: None

BACKGROUND: As reported at the September Board meeting, changes in financial reporting rules require that LTD modify the way certain revenues are reported. Up to now, LTD reported revenues on what is called the modified accrual basis. For reasons that will become more obvious, others have called it the modified cash basis. This measurement focus stated that revenue is recorded when it is “measurable and available to liquidate current obligations.” Under the old rules, employer payroll taxes and self-employment taxes were not accrued at year end because they were neither measurable nor available. Payroll taxes are not measurable because the amount of the tax is not known until reported to the State 30 days after the end of the quarter to which the tax applies. Payroll taxes are not available because tax turnovers from the State are received 30–90 days (sometimes longer) after the period and are not, therefore, available to pay current liabilities of the quarter to which the tax applies.

Effective for the fiscal year just ended, the Governmental Accounting Standards Board (GASB) issued Statement 33, which clarified the application of modified accrual accounting with regard to taxes. For financial statement presentation, Statement 33 (GASB 33 in the jargon) applies a 60-day rule that requires that LTD must accrue back to the previous fiscal year, as revenue, an amount representing all payroll and self-employment tax receipts for 60 days after the end of the year.

The changes required by GASB 33 relate only to year-end financial statement reporting. Internal reporting to the Board can be done on the cash basis (revenues reported in the period actually received in cash), modified accrual, or full accrual basis. In the very short term, cash basis is the easiest and most accurate because it reflects known quantities. But it does not reflect payroll tax revenues that were actually earned 3–6 months ago. As such, the impact of old information may delay course corrections needed in today's economy. Interim reporting on the accrual basis will require an estimate of applicable corporate payroll on a monthly basis. This information is not currently available. Until such information

is readily available, interim reports would represent a “best guess” that has a substantial potential for error and manipulation.

No matter what basis is used for internal reporting, LTD is very likely headed for reporting on a full accrual basis under GASB Statement 34. Under the announced tiered implementation, LTD will be subject first to GASB 34 for fiscal year ended June 30, 2003. While this date sounds a long way away, LTD is currently in the beginning stages of the budget process for this very same fiscal year. The Board may wish to consider changes as to how revenue is estimated in the budget process in preparation for implementation of GASB 34.

While the application of GASB 34 is required under State of Oregon statutes, it is not completely accepted by professionals in governmental accounting. Response to questions and concerns raised by GASB 34 have already resulted in another statement (GASB 37) intended to clarify issues. Large governments (revenues over \$100,000,000) are required to implement by the end of fiscal year 2002. The impact of the reporting changes mandated by GASB 34 may not be fully known until the consumers of financial information (such as credit agencies, bond issuers, rating agencies, etc.) begin to see the effects on the financial statements of these large governments. Further changes are likely. Return to a more traditional way of reporting is certainly a possible outcome.

The issue may have more immediate consequences if LTD opts to sell traditional bonds to finance bus purchases. Bond professionals may require that LTD implement GASB 34 before the rating process can be completed.

There are three issues for committee consideration at this time:

1. What basis (cash, modified accrual, or full accrual) makes the most sense for the monthly Board reports?
2. Should LTD accelerate its move to the full accrual basis accounting?
3. What are the challenges to such a move a move at this time, and how can they be overcome before full accrual is required?

ATTACHMENTS: None

PROPOSED MOTION: None

FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: September 26, 2001

ITEM TITLE: BUDGET DEVELOPMENT

PREPARED BY: Diane Hellekson, Finance Manager

ACTION REQUESTED: None

BACKGROUND:

In order to prepare for the Leadership Council (LTD department managers) and Board of Directors strategic planning work sessions this fall, and also to involve the Board in budget development as early in the fiscal year as possible, staff are in the process of identifying the assumptions that will apply. There were economic uncertainties even before the tragic events of September 11. These uncertainties may be amplified by recent acts of terrorism, and there may be a ripple effect to the problems encountered in other areas and various industries.

Staff propose to begin the FY 2001-03 budget development process by identifying two different scenarios. The first would be framed with assumptions that are cautiously optimistic. The second set of assumptions would be cautiously pessimistic. Within the range defined by the two sets of assumptions, LTD's services (and service levels), projects, and acquisition plans would be prioritized.

The desired end product of the November two-day Board work session would be a clear understanding of what the priorities are and in what order they would be funded. If it were then determined that some priorities could not be funded, the budget development process could include a discussion of options (e.g., more debt, deferral of expenses, service level reductions). Staff hope to bring the Long-Range Financial Plan update and revised Capital Improvement Program to the full Board for approval as soon after the November strategic planning work session as possible.

At the September 26 meeting, committee members will be asked for input on the FY 2002-03 budget development process and framework assumptions. Staff request direction as the strategic planning work session materials are prepared and the Board calendar and work plan for the remainder of the current fiscal year are clarified.

ATTACHMENTS: None

PROPOSED MOTION: None

FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: September 26, 2001

ITEM TITLE: DEBT FINANCING

PREPARED BY: Diane Hellekson, Finance Manager

ACTION REQUESTED: None

BACKGROUND: In August, the Board approved the purchase of eighteen 40-foot Gillig buses at an estimated cost of \$4.8 million. LTD expects to take delivery of these buses in less than two years. This purchase, as well as the remainder of the fixed-route vehicles scheduled to be ordered in the current fiscal year, must be financed with some form of debt. Due to arbitrage rules, debt financing of major purchases cannot precede the delivery or any financial outlay for the purchases by more than two years. Therefore, LTD can proceed with planning for financing the Gillig vehicle purchase and finalize the form of financing anytime between now and the delivery of the buses. LTD can continue the discussion of other vehicle financing, but the two-year requirement prohibits further action until vehicles have been selected and realistic delivery schedules are known.

One delay that staff have encountered with the debt analysis to date is an inability to have FTA regulations on the use of federal funds clarified. LTD will be repaying vehicle debt with federal formula grant funds. FTA regulations clearly allow for federal funds to be used for lease purchase financing. There is no inclusion or exclusion of other forms of lending agreements. LTD has asked for a written opinion allowing federal funds to be used for repayment of other forms of debt but has not yet received a response.

At the September 26 meeting, staff will present a summary of debt options for financing the Gillig vehicles and will initiate a discussion of next steps.

ATTACHMENTS: New Low-Floor Bus Purchase

PROPOSED MOTION: None

FINANCE COMMITTEE AGENDA ITEM SUMMARY

DATE OF MEETING: September 26, 2001

ITEM TITLE: FARE POLICY

PREPARED BY: Andy Vobora, Service Planning Manager

ACTION REQUESTED: None

BACKGROUND: As part of the budget development preparation, and to let committee members know what the fare structure issues are as LTD begins new fall service and looks ahead to BRT, staff would like to engage members in a brief fare policy discussion. There are no advance materials for this agenda item.

ATTACHMENTS: None

PROPOSED MOTION: None

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Legal Notice

Date: May 11, 2020
To: Debbie Buzalsky, Legal Publications
The Register-Guard; Fax: 687-6668
From: Chris Thrasher, Administrative Secretary
Lane Transit District; Phone: 682-6109
RE: Notice of Board Committee Meeting
LTD Purchase Order #8287

**Please publish the following legal publication on Friday,
September 21, 2001.**

NOTICE OF LTD BOARD COMMITTEE MEETING

A meeting of the Finance Committee of the Board of Directors of Lane Transit District will be held on Wednesday, September 26, 2001, at 4:00 p.m., in the LTD Conference Room at 3500 East 17th Avenue, Eugene (in Glenwood). Items for discussion include the fare policy, debt financing, and the FY 2002-2003 budget development.

Alternative formats of printed materials (Braille, cassette tapes, or large print) are available upon request. A sign language interpreter will be made available with 48 hours' notice. The facility used for this meeting is wheelchair accessible. For more information, call 682-6100 (voice) or 1-800-735-2900 (TTY, through Oregon Relay, for persons with hearing impairments).

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MINUTES OF FINANCE COMMITTEE MEETING
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

September 26, 2001

Pursuant to notice given to *The Register-Guard* for publication on September 21, 2001, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 4:00 p.m. on September 26, 2001, at Lane Transit District, 3500 E. 17th Avenue, Eugene.

Present: Gerry Gaydos, LTD Board Member
 Pat Hocken, LTD Board Member
 Virginia Lauritsen, LTD Board Member

I. CALL TO ORDER

Ms. Hocken called the meeting to order at 4:05 p.m.

II. ROLL CALL

Also present were: Ken Hamm, General Manager; Diane Hellekson, Finance Manager; Carol James, Accounting Supervisor; Andy Vobora, Service Planning Manager.

III. APPROVAL OF MINUTES

Minutes of the May 29, 2001, meeting of the Board Finance Committee were approved 2:0, with Mr. Gaydos abstaining, as he was not present at the meeting.

IV. FARE POLICY

Mr. Vobora distributed copies of the Pricing Plan, Fare Structure, and Fare Policy and stated that it was time to start preparing for the next fare increase. Typically, fare instruments have been increased on a rotating basis. Although passes would be the next instrument in line for an increase next year, the Committee could recommend increasing any fare instrument.

Mr. Vobora posed two questions:

1. How aggressive does the Committee want to be with increasing fares?
2. What data would the Committee like to see prior to making decisions on fares?

Mr. Vobora stated that the following fare instruments should be evaluated:

- Youth fare
- Breeze fare at 25 cents for an 18-month period
- Circulator route fare at 25 cents
- LCC term pass
- Day Pass

In response to a question from Mr. Gaydos, Mr. Vobora stated that special event fares are typically left up to the event organizer. LTD charges a standard rate and the event organizer chooses whether to charge a fare to offset their charges.

In response to a question from Mr. Gaydos, Mr. Vobora stated that although it was too soon to tell the affect on ridership with the increase of the cash fare from \$1.00 to \$1.25; numbers may show an affected ridership on the weekends. Mr. Vobora noted that fare instruments are priced to move people toward prepaid fares but staff have not seen a shift toward the cheaper token.

Mr. Hamm stated that at one time there was an industry standard in terms of the discount over the cash fare for the month. Ms. Hellekson stated that LTD gives a deeper discount.

In regards to Group Pass rates, Ms. Hellekson noted that in the past the Group Pass rates had been revenue neutral. With the change in the Fare Policy last year, LTD can be more aggressive in increasing the rates.

Ms. Hocken stated that she was reluctant to increase cash fares next year. She would, however, like to look at the discounting of the passes and tokens.

Ms. Hocken asked if the youth fare could be subsidized with grant dollars to maintain the rate. Mr. Vobora stated that school districts have submitted grant proposals to the city for transportation funding. If awarded, those funds would probably go towards providing additional service. Mr. Vobora also had discussions with the school districts about using the Group Pass program.

Mr. Gaydos asked if it was too soon to report on Breeze ridership. Mr. Vobora stated that staff could get information by conducting rider surveys.

Ms. Hocken suggested meeting with LCC's new administration to discuss the LCC term pass.

In response to a question from Ms. Lauritsen, Mr. Vobora stated that tokens make up 4-5 percent of total ridership, passes make up 60-65 percent, and cash fares make up 30 percent; special events are excluded.

In summary, the Committee asked that staff report back with fare comparisons with other transit systems. Staff would also look into different types of fare instruments; in particular, one instrument that could perform multiple functions.

(Mr. Vobora left the meeting.)

V. DEBT FINANCING

Ms. Hellekson stated that due to arbitrage rules, debt financing of major purchases cannot precede the delivery or any financial outlay for the purchases by more than two years. The preference is to finance in batches of \$5 million. We are not there yet because not all vehicles have been selected. To date, the FTA has not clarified allowing federal funds to be used for repayment of other forms of debt financing.

Ms. James explained arbitrage rules as follows:

- \geq \$5 million – no arbitrage restrictions
- \$5 million to \$10 million – 90 percent of debt proceeds spent out in two years
- $<$ \$10 million – need specific arbitrage restrictions

Ms. Hocken asked if the timing would work to include the purchase of BRT vehicles for a total purchase of \$10 million two years down the road. Ms. James stated that a contract would need to be in place first. Ms. Hellekson stated that the first \$10 million in the budget did not include any BRT buses. We could substitute, however. Used buses could be used as collateral.

Ms. Hellekson stated that interest rates are falling, which is to LTD's benefit.

In response to a question from Ms. Hocken, Ms. Hellekson reported that a bank could close a loan deal in 30 days; the bond process would take considerably longer.

Ms. Hocken asked for an analysis that looked at all the options.

Ms. James noted that LTD planned to use formula money to purchase buses, which need to qualify under financing options through FTA. One FTA program that would allow us to finance debt is structured around the authorization period of the formula money, which is through September 2003. FTA will not allow us to pledge money we do not know we have yet.

Ms. Hocken asked if there were additional issuance costs associated with the bond issue that would not be there in a bank loan that would offset the difference in interest. Ms. Hellekson state that there could be.

The Committee suggested a meeting with stakeholders, bankers, investors, etc., to inform them of LTD's Debt Policy. Ms. Hocken suggested including members of the Chamber's Public Policy Committee.

Ms. Hellekson stated that staff should have more information on earmarks for the November 6 meeting of the Board Finance Committee.

VI. BUDGET DEVELOPMENT

Ms. Hellekson stated that due to economic uncertainties, staff proposed to begin the FY 2002-03 budget development process by identifying two different scenarios. The first would be framed with

assumptions that are cautiously optimistic. The second set of assumptions would be cautiously pessimistic. In October, LTD managers would prioritize services, projects, and acquisition plans in the order they would be funded. The LTD Board of Directors would then review this list at its two-day work session in November. The Committee approved this process.

Ms. Hellekson stated that payroll tax revenues would be affected by the numerous layoffs in the community and with the closure of large Group Pass holders.

Ms. Hellekson stated that there was flexibility with budget development. Staff have been meeting to discuss strategy and have been preparing for this downturn for some time.

(Mr. Hamm left the meeting.)

VII. ACCOUNTING ISSUES

Recent changes in financial reporting rules require that LTD modify the way certain revenues are reported. For years LTD has budgeted on a modified accrual basis. This measurement focus stated that revenue is recorded when it is "measurable and available to liquidate current obligations." Under the old rules, employer payroll taxes and self-employment taxes were not accrued at year end because they were neither measurable nor available. The new ruling states that LTD must accrue back to the previous fiscal year, as revenue, an amount representing all payroll and self-employment tax receipts for 60 days after the end of the year. These changes relate only to year-end financial statement reporting. Internal reporting to the Board can be done on a cash basis, modified accrual, or full accrual basis.

Cash basis is the easiest and most accurate because it reflects known quantities. It reflects payroll tax revenues that were actually earned three to six months ago. The impact of old information may delay course corrections needed in today's economy.

Accrual basis would require an estimate of applicable corporate payroll on a monthly basis. This information is not currently available. Reports would represent a "best guess" that has a substantial potential for error and manipulation.

LTD is very likely headed for reporting on a full accrual basis under GASB Statement 34. Ms. James stated that the full accrual approach does not work well for government reporting. It is a good method for businesses that have a relationship with actual exchange transaction, which taxes are not.

Ms. Hocken suggested including footnote explanations in the financial reports.

Mr. Gaydos stated that if we must go to accrual officially, we should do so as soon as possible and inform the Board of the financial condition.

(Mr. Gaydos left the meeting.)

Ms. Hellekson stated that staff would continue to report in a format that communicates to the Board, even if it is not in compliance with GASB, and then put the statements in compliance at year end.

Ms. Hocken stated that showing an estimate rather than a zero would be better when outside agencies are looking at our records for debt financing. Ms. Hellekson had a concern with working with estimates in that significant problems might not surface until the end of the fiscal year.

Ms. Hellekson stated that staff, as a test, would prepare the next financial report for the Board using two different formats.

VIII. NEXT MEETING

The next meeting of the Board Finance Committee has been scheduled for November 6, 2001. Agenda items would include review of the Capital Improvements Plan. Another meeting would be scheduled for early December 2001 to discuss budget development and the Long-Range Financial Plan.

IX. ADJOURNMENT

There was no further discussion and the meeting adjourned at 5:20 p.m.

(Recorded by Chris Thrasher, Lane Transit District)

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