

MINUTES OF LANE TRANSIT DISTRICT SPECIAL MEETING/WORK SESSION

LANE TRANSIT DISTRICT

Monday, April 11, 2011

Pursuant to notice given to *The Register-Guard* for publication on April 7, 2011, and distributed to persons on the mailing list of the District, the Board of Directors of Lane Transit District held a Special Meeting/Work Session on Monday, April 11, 2011, beginning at 1:00 p.m. in the LTD Board Room at 3500 East 17th Avenue, Eugene.

Present:

Lane Transit District:

Mike Eyster, President
Greg Evans, Vice President
Dean Kortge, Secretary
Ed Necker, Treasurer
Mike Dubick
Greg Evans
Doris Towery
Gary Gillespie
Mark Pangborn, General Manager
Jeanne Schapper, Clerk of the Board
Linda Henry, Minutes Recorder

Budget Committee Members

Peter Davidson
Warren Wong
Edward Gerdes
Jon Hinds
Don Nordin

CALL TO ORDER: Mr. Eyster convened meeting of the Lane Transit District (LTD) Board of Directors and Budget Committee Members to order at 1:00 and called roll.

Mr. Eyster announced that today's meeting was in lieu of the April 20, 2011, LTD Board of Director's meeting. He congratulated Gary Gillespie for his recent re-election as President of American Federation of State, County, and Municipal Employees Council 75.

WORK SESSION WITH LTD BOARD BUDGET COMMITTEE

Mr. Pangborn offered an overview of the budget process, noting that this was a tumultuous time in the public sector, with a potential shutdown of the federal government and a battle looming with the debt limit that may affect LTD. There also were challenges at the state level. Staff was taking a conservative view of what the outcome may be.

Current Long-Range Financial Plan Assumptions: Director of Finance and Information Technology Diane Hellekson provided a review of the current Long-Range Financial Plan assumptions. She said that most of the major assumptions that work session participants approved in December 2010 remained valid in February 2011 with one major exception. Fuel costs were revised upward before the revised plan was approved by the LTD Board. Since February 2011, fuel costs had continued to rise, and the \$3.00 per gallon average assumed for FY 2011-12 is no longer likely. Additionally, early in the current State Legislative session, it was assumed that the Business Energy Tax Credit (BETC) programs would continue, but it now appears that all BETC programs will sunset in FY 2011-12. Ms. Hellekson reviewed the general assumptions, strategic assumptions, and revenue and expense summaries. Staff recommended that the Board increase the assumption for the average cost of fuel in FY 2011-12 to \$3.75 per

gallon; eliminate revenue from the BETC program after the legislation sunsetted in FY 2011-12; and offset, but not replace, the loss of the Student Transit Pass Program with revenue from the sales of youth passes.

Mr. Davidson and Mr. Gerdes arrived at 1:05 p.m.

Local Economic Factors and Trends: Ms. Hellekson reviewed the local economic factors and trends, noting that the revenue had been fairly consistent for the period of 2007 to 2009. Staff recommended that the Board discuss the topic and, if there was consensus at the work session, staff would incorporate the input into future Long-Range Financial Plan revisions. The creation of a new restricted fund would require extensive research and effort by a work group, which would bring a recommendation to the full Board.

Mr. Pangborn stated that LTD did not face a deficit situation as previously predicted based on the assumptions of a modest growth in the payroll tax base and a loss of state revenue. LTD had planned to replace older, less-efficient buses by borrowing the money but received \$8.3 million from a grant from the federal government to fund 24 new buses.

State and Federal Climates: Director of Service Planning, Accessibility, and Marketing Andy Vobora said that additional funding for Accessible Services was obtained from the 2009 legislative session in an amount of \$1 million per year for over two years. This additional funding will not continue past FY 2010-11.

Lane Transit District also has requested matching funds for the West Eugene EmX Extension (WEEE), a request that is assumed will be funded. \$1.6 million in lottery bond funds, approved in the 2009 session, will be available to support the continued planning of a WEEE.

In response to a question from Mr. Eyster, Mr. Vobora gave his opinion that if LTD did not receive the second and third installments of lottery funds, the funds could be reallocated for education, economic development, and restoration programs in the state.

Mr. Pangborn added that the legislature had the authority to sell bonds backed by lottery dollars. If the WEEE project did not move forward, the State would reallocate LTD's allotment to other projects.

Mr. Vobora stated that in 2009 the Oregon Legislature approved an increase of the maximum payroll tax rate after January 1, 2015. The 2011 State Legislature was considering legislation that would place restrictions on raising the tax rate and in allocating capital funds for transit projects. The federal budget continued to be debated in Washington, D.C., leaving agencies with uncertainties regarding grant funding. It was clear that congressionally directed spending or earmarks would not occur through the appropriations process used in recent years. The Federal Transit Administration would offer grant opportunities that LTD could seek to pay for the Gateway Park & Ride project and the fourth EmX corridor planning. Federal formula funds (5307) were approved at current levels through the current federal fiscal year. Staff recommended that the Board should assume that BETC programs would be eliminated and 5307 funds would be maintained and increased to 2.5 percent under a new transportation bill.

Mr. Gillespie asked if federal rail funding that was being refused by some states would be reallocated.

Mr. Vobora stated that Mayor Kitty Piercy delivered letters related to rail funding signed by the mayors in cities along the Interstate 5 corridor to federal officials during the recent United Front trip.

Mr. Pangborn stated that the governors of Florida and Wisconsin had said they would not move ahead with federally funded rail projects. Some members of Congress wanted to cut those funds from the federal budget.

Fuel Cost: Director of Maintenance George Trauger reviewed the history of oil prices, noting that the price was around \$16 a barrel in 1999, and oil reached a peak of \$147 a barrel on January 2, 2008. The FY 2011-12 budget assumed diesel fuel would cost an average of \$2.40 per gallon, and actual costs from July 1, 2010, through April 6, 2011, were \$2.64 per gallon. Staff recommended the Board assume an average price of \$3.00 per gallon in FY 2011-12 and that the cost would increase 3 percent per year in the future.

New Investment Priorities: Ms. Hellekson said that while the possibility of new investment was not on the horizon for several years, staff believed it would be helpful to get a sense from the Board and Budget Committee on their priorities when opportunities arose in the future. Such opportunities could include the following:

- The creation of restricted operating reserves
- Restoration of service
- Expansion of service
- Reducing unfunded liabilities such as pension and Health Reimbursement Arrangement accounts
- Setting aside local match for future capital projects

Mr. Wong thought that all of the opportunities were worthwhile, but he was not convinced that restricted operating reserves provided additional protection for the funds. He suggested that the Board rank the opportunities for funding as money became available.

Mr. Dubick said that if the list was prioritized, he would put restricted operating reserves on the bottom of the list. He was concerned about unfunded liabilities and would prefer to address those issues first.

Mr. Kortge said prioritization implied addressing service issues. He suggested identifying and prioritizing service issues.

Mr. Nordin suggested making intermodal transport between buses and bicycles more visible, convenient, and easy. This would be highly visible at a relatively low cost.

Ms. Towery supported prioritizing the list and putting unfunded liabilities at the top of the list, followed by service. She added that prioritization would open up opportunities for additional public input and engage the public in a proactive way.

Mr. Hinds supported prioritizing the list to determine the long-term service flat-line base provided to the community in a manner that prevented the frequent increases and decreases to service levels.

Mr. Gillespie supported prioritizing the list. He heard no discussion by the Committee of increasing revenue through new revenue streams, noting he would like LTD to eventually go

fareless. He added that he wanted to improve the connection between LTD service and Amtrak arrivals from Vancouver.

In response to a question from Mr. Wong, Ms. Hellekson reviewed the operating reserve history, observing that payroll taxes stabilized in the late 1990s. The Board created the reserve, setting \$1 million for LTD's self-insured program, \$1 million for current-year working capital, and \$1 million for future working capital. She suggested the operating reserve should be revisited.

Mr. Wong supported revisiting the program, noting that the operating budget was increasing, and \$3 million needed to grow as the operating budget increased.

Mr. Gerdes agreed with prioritizing the list and putting unfunded liabilities at the top.

Mr. Dubick said that a sustainable level of service versus restoration or expansion of services should be prioritized before other issues were addressed.

Ms. Hellekson said that staff would develop a process for prioritizing for review by the Committee.

Mr. Eyster solicited feedback from the Committee on the assumptions that staff had presented to them.

Mr. Kortge expressed interest in the fuel price hedging issue. He expressed that if LTD's interest was in transporting people, its expertise may not be in hedging.

Mr. Eyster concurred with Mr. Kortge.

Mr. Trauger had discussed the issue with LTD's fuel supplier. He said hedging may be a way to hold the line with spiraling prices. Although it would add about seven cents per gallon, he understood the contract would be in effect for 30 days. If fuel costs decreased during the contract period, the lower amount would be paid.

Mr. Gillespie said that the problem was that LTD was not "big bank" and not "big oil," and was simply a pawn in their game. He thought that LTD would be better off estimating on the high side if it could adapt a lower price back into the General Fund revenue, rather than estimating on the low side and needing to make up the difference elsewhere. Previous data showed that when gas reached \$4.00 per gallon, everybody rode the bus. He was less conservative on the pension plan. He felt that there were so few people that had them; those that did not were in stress. A problem was that employers did not own up to their liability, and it was important for LTD to fund that liability. He noted that a number of people responded that LTD should encourage an early retirement plan, but public employers had been slow to move to that option.

Mr. Wong suggested that staff conduct a mid-year review of the FY 2011-12 budget looking at the cost of fuel, the actions of the 2011 Oregon Legislature and the U.S. Congress, and make necessary adjustments. It was possible that the budget line for fuel would be lowered and those funds reallocated to support something else.

Mr. Pangborn stated that LTD had done mid-year reviews in the past.

Ms. Hellekson added that mid-year reviews drove the combined citizen Budget Committee/Board work sessions in November and December.

Mr. Kortge thanked staff for reframing the information and creating a new business model on which to move forward.

In response to Mr. Eyster's question related to the payroll tax, Mr. Gerdes said that he was still pessimistic because of the loss of a huge segment of the manufacturing industry in the community, which would not be replaced by service sector employment. He thought that high unemployment rates would continue until those jobs were replaced.

Mr. Gillespie noted that jobs that had replaced those manufacturing jobs had lower wages, fewer benefits, and fewer hours.

The Committee took a short break.

Wages, Benefits, and Pensions: Mr. Pangborn said that wages and benefits had been one of the most current and contentious issues in public sector budgets, noting that 71 percent of the operating budget was wages and benefits.

Director of Human Resources and Risk Management Mary Adams said that LTD regularly reviewed wages and benefits to ensure that this part of the budget was well managed. She explained that the Board was recently given a pension values questionnaire to help with the design of a future pension plan. She reviewed the results of the questionnaire, and she explained that both pension plans were similar and had a defined benefit element. Both plans experienced significant losses in value during the 2008/09 investment market downturn and have had moderate recovery since. Due to the level of unfunded liability, the benefit would grow at a faster rate than projected revenues in the future. Approximately two-thirds of LTD's contributions to the union plan pay for the unfunded liability of the plan and one-third of the contributions pay for the future liability of the plan, while the formula was approximately 50/50 for the administrative plan.

Mr. Gerdes asserted that LTD needed to move towards a defined contribution retirement plan and away from a defined benefit retirement plan.

Ms. Towery concurred that there needed to be a shared responsibility and/or employees should contribute to the pension plan.

Mr. Wong supported a shared responsibility in conjunction with a 457 program, where the employee contributed to the retirement plan and perhaps took the responsibility for picking the investment options. The employer's contribution was more stable and would result in a defined benefit.

Mr. Gerdes believed in matches on the shared piece to incentivize people to participate in the plan by taking some responsibility for their retirement issues.

Mr. Gillespie stated that his employer, the City of Eugene, provided a matching contribution for its deferred compensation program for non-represented employees, but did not provide a matching contribution for represented employees. This had resulted in a move away from participation in the program by represented employees because they did not receive the match. He asserted that virtually no employee was equipped to deal with their own investment plan. He supported the shared responsibility, but there was an inherent inequality in the relationship.

Mr. Eyster said that as an employee, he preferred to have control over his investments rather than have them be controlled by his employer. He stated his opinion that LTD bus drivers were smart people and would have no problem directing their retirement funds. He said employees

should have the option to choose a professional investment manager. He leaned toward a defined contribution by LTD.

Mr. Dubick stated that an underlying issue was shifting the investment risk totally from the employer to totally the employee, as happened in the private sector. He encouraged creation of a future plan that would limit LTD's unfunded liability. He struggled with LTD treating employees in a paternalistic manner by totally directing their investments.

Mr. Gillespie noted that professional employees in the public sector were generally paid less than professional employees in the private sector, whereas classified employees in the public sector generally had better benefit packages than their private sector counterparts but were paid less. He asked how LTD would attract qualified professional employees if it did not have the ability to provide cost of living increases or other benefit enhancements.

Ms. Adams said that LTD's actuary would be asked to provide some draft designs that would meet the values discussed today for review by the Human Resources Committee on April 26.

Ms. Adams reviewed the recent history of the health plan at LTD. She noted that there was a need for plan changes. The current plan had a high utilization, and premium renewal quotes were more than 20 percent higher than the current year. She said that all employees were currently on the same health care plan, with higher deductibles than in previous years. LTD provided some reimbursement for those employees with higher plan utilization. LTD continued the model of a contribution towards the Voluntary Employee Beneficiary Account (VEBA) and a health reimbursement account for administrative and represented employees, to provide a source of funds for employees who experienced an unusual health year and for stop loss benefits for all employees. Under the new plan, there had been three months of utilization with about 20 percent lower utilization than the last two years. Other issues that would impact the health plan were new State of Oregon health exchanges, unknowns about federal reform, an aging workforce, and national trends towards obesity and poor health habits. Staff continued to research changes that would provide for better disease management, noting LTD currently had an aggressive disease management program for diabetic employees. LTD was participating in a two-year project with the Oregon Health Strategies project that assessed the costs of all benefits, including workers' compensation, group health, and absenteeism to determine where employers best spent their time and energy to reduce the overall costs of benefits.

Ms. Adams reviewed the history of the last four labor contracts. The 2000 contract included a 4 percent annual increase; the 2004 contract had a 2 percent annual increase; and the 2007 contract a 3.4 percent annual increase. The current one-year contract contained no increase. Negotiations were underway for the next contract. The national trend was approximately 2.5 percent in 2010. The transit industry had recognized the Country was in a recession, and recent contracts had changed substantially in the wage increase area. LTD was in the mid-range for bus operators and on the high side for mechanics.

Mr. Gillespie asked what the average overtime was for bus operators and mechanics.

Mr. Davidson left at 4:20 p.m.

Mr. Trauger said bus operators worked approximately 12,000 scheduled and unscheduled overtime hours annually.

Mr. Evans arrived at 4:22 p.m.

Mr. Trauger stated that the mechanics do not work much overtime.

Ms. Hellekson summarized the discussion: a new health plan would likely be in place by January 1, 2012; the Committee was okay with \$3.75 per gallon for fuel in 2011-12; all major assumptions needed to be revisited in the fall; and staff would create a process for prioritizing new investment opportunities. She said that Mr. Gerdes had asked if the retirement plans could lend money to LTD, and could the retirement plans invest in private businesses during the budget process last fall. Staff had researched the questions and determined that both actions were possible. This would be added to a future Finance Committee agenda for discussion.

RECESS: Mr. Eyster thanked Budget Committee members for attending the meeting. He called a brief recess at 4:25 p.m., noting that the Board would reconvene in Executive Session after the 10-minute recess.

RECONVENE: Mr. Eyster reconvened the meeting at 4:35 p.m.

EXECUTIVE SESSION: Mr. Kortge moved that the LTD Board of Directors meet in Executive Session pursuant to ORS 192.660(2)(d), to conduct deliberations with persons designated by the governing body to carry on labor negotiations. Mr. Necker provided the second.

VOTE The motion was approved as follows:

AYES: Dubick, Eyster, Necker, Evans, Towery, Kortge, Gillespie (7)

NAYS: None

ABSTENTIONS: None

EXCUSED: None

The Board entered executive (non-public) session at 4:35 p.m.

RETURN TO REGULAR (OPEN) SESSION: The Board returned to regular session at 5:35 p.m.

LANE TRANSIT DISTRICT

ATTEST:

Dean Kortge
Board Secretary

Jeanne Schapper
Clerk of the Board

Date Approved: October 19, 2011