

MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

BUDGET COMMITTEE MEETING

Wednesday, May 21, 2014

Pursuant to notice given to *The Register-Guard* for publication on April 27 and May 14, 2014, and distributed to persons on the mailing list of the District, the Board of Directors of the Lane Transit District held a budget committee meeting on Wednesday, May 21, 2014, beginning at 6 p.m., in the LTD Board Room at 3500 East 17th Avenue, Eugene.

Present: Dean Kortge, Chair
Dwight Collins
Michael Dubick
Ed Gerdes (7:20 p.m.)
Gary Gillespie
Jon Hinds
Ed Necker
Don Nordin
Doris Towery
Gary Wildish
Carl Yeh
Ron Kilcoyne, General Manager
Jeanne Schapper, Clerk of the Board
Lynn Taylor, Minutes Recorder

Absent: Jody Cline
Julie Grossman
Terry Smith

CALL TO ORDER/ROLL CALL – Ms. Towery called the meeting of the Lane Transit District Budget Committee to order and called the roll.

WELCOME AND INTRODUCTIONS - Ms. Towery welcomed those present, and staff members introduced themselves.

General Manager Ron Kilcoyne thanked committee members for their service. He said the proposed budget was based on long-range assumptions discussed by the Board and Budget Committee members at the strategic work session held in March 2014. He was pleased to note that the District was in good financial shape and the committee would not be faced with any difficult decisions.

MOTION ELECTION OF OFFICERS – Mr. Wildish nominated Dean Kortge as chair of the Lane Transit District Budget Committee.

VOTE There being no other nominations, Mr. Kortge was elected chair by the following vote:
AYES: Collins, Dubick, Gillespie, Hinds, Kortge, Necker, Nordin, Towery, Wildish, Yeh
(10)

NAYS: None
ABSTENTIONS: None
EXCUSED: Cline, Gerdes, Grossman, Smith (4)

MOTION Mr. Necker nominated Dwight Collins as secretary of the Lane Transit District Budget Committee.

VOTE There being no other nominations, Mr. Collins was elected secretary by the following vote:
AYES: Collins, Dubick, Gillespie, Hinds, Kortge, Necker, Nordin, Towery, Wildish, Yeh (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: Cline, Gerdes, Grossman, Smith (4)

PUBLIC COMMENT – There was no one wishing to address the committee.

MOTION **APPROVAL OF MINUTES (May 15, 2013)** – Mr. Necker moved approval of the May 15, 2013, Budget Committee minutes as submitted. Mr. Nordin provided the second.

VOTE The minutes were approved as follows:
AYES: Collins, Dubick, Gillespie, Hinds, Kortge, Necker, Nordin, Towery, Wildish, Yeh (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: Cline, Gerdes, Grossman, Smith (4)

FISCAL YEAR (FY) 2014-15 PROPOSED BUDGET PRESENTATION – Finance Manager/CFO Todd Lipkin stated that under Oregon's Local Budget Law the Budget Committee was required to review, discuss, amend if necessary, and approve the proposed budget, then forward it to the Board of Directors for adoption. He said the budget was based on the assumptions discussed at the March 14, 2014, strategic work session of the Board and Budget Committee.

Highlights and Priorities – General Manager Ron Kilcoyne reviewed highlights of FY 2013-14, among them technology to enhance the District's continual improvement efforts, long-range planning activities, community partnerships, EmX implementation and ridership achievements, and construction activities. He discussed priorities for the coming year in the following categories:

- Grow ridership - restoration of services in some areas, targeted marketing efforts to encourage increased usage, addition of real-time passenger information on the LTD website, implementation of new fare management system
- Improve efficiency - implementation of TransitStat database system to enhance the District's ability to address problems and achieve goals
- Desired level of transit service - determine potential demand, identify benefits to the community, engage the community broadly in discussion of possible service scenarios and long-term growth

- Sustainability - continue implementation of Environmental & Sustainability Management System (ESMS) and Green Team efforts to enhance sustainability throughout the District's operations

Mr. Kilcoyne said FY 2014-15 projects included beginning the West Eugene EmX Extension construction, completion of District reorganization, completion of the Main Street-McVay Transportation Study, beginning the Northwest Eugene-Lane Community College Transportation Study and procurement process for fare management system, and procurement of three hybrid-electric articulated buses and 10 hybrid-electric 40-foot buses.

Reorganization – Mr. Kilcoyne said one of the impetuses behind the reorganization was to restructure the District in a way that would help it move forward and become more nimble and effective; the other was to address the fact that many senior staff in key positions were leaving. He compared previous and current organization charts and said the intent was to reorganize departments by their expected outcomes: attract customers, satisfy and retain customers, and provide support. He briefly explained the functions of the new departments stating that combining related functions under a single leader ensured good communication, collaboration, and support. New departments and their directors were: Customer Service and Planning - Andy Vobora, Operations & Customer Satisfaction - Mark Johnson, and Administrative Services - Mary Adams. He said the Executive Office included Board support functions and Government Relations.

Mr. Lipkin explained FTE allocation of department directors in the proposed budget by areas of responsibility, or divisions, within each department. He noted that there was a new division - Internal Audit - within the Administrative Services department that would separate that function from Finance. He said Operations & Customer Satisfaction also included a new division - Intelligent Transportation Systems - that was responsible for all of the bus and fare management technologies. He highlighted that the proposed budget contained the same FTE as last year, and the new structure and allocation of director positions would ensure that costs and FTEs were accounted for appropriately.

In response to a question from Mr. Kortge, Mr. Lipkin explained that there was no reduction of bus operator FTE in the budget; the shift in FTE allocation in Transit Operations represented reallocation of a portion of the director FTE to other functions within the Operations & Customer Satisfaction department.

General Fund – Mr. Lipkin reviewed the budget presentation format, which would include comparisons of next year's proposed budget to estimates of current-year expenditures.

Personnel Services: Mr. Lipkin stated that the proposed budget was a 6.4 percent increase over estimated expenditures because the \$125,000 service addition was all personnel services, positions vacant during the current year that would be refilled, anticipated wage increases for administrative and Amalgamated Transit Union (ATU) employees, projected increase in medical insurance, and changes to retirement plans.

Mr. Lipkin said the ATU plan was currently funded by a \$4.89 per hour per employee contribution and the same dollar amount was proposed for FY 2014-15, although the draft actuarial evaluation effective January 1, 2014, projected a rate of \$4.60 to \$4.70. Continuing to pay the higher rate would help fund the plan's unfunded liability, which had gone from a funded status of 54.6 percent to 61.7 percent. He said the valuation would not be finalized until labor negotiations

were completed. A joint ATU/administration work group was proposing a new pension model for the ATU plan, which would remain a defined benefit plan, but would apply any future increases in the multiplier only to future years of service. He said the evaluation model would assume increases in the multiplier, which the current model did not. He said the work group was also proposing a matching program of 50 percent up to an employee's 6 percent deferral. This would encourage people to save for their own retirement.

Mr. Kortge asked if the matching program was an added benefit and whether employees could opt out. Mr. Lipkin said it was an additional benefit, but the cost for the new plan was projected to be the same as the old plan, with future costs increasing at a much lower rate. Employees could opt out after six months.

Mr. Wildish asked if the unfunded liability reflected the payment of \$4.89 per hour and market activity during the past 12 months. Mr. Lipkin replied that while the some higher contribution made some difference, it was very good market performance during 2013 that was primarily responsible for the decrease in the unfunded liability.

In response to a question from Mr. Collins, Mr. Lipkin said LTD made a \$1 million contribution to the plan in 2009, and the proposed new model would continue to reduce the ATU pension plan's unfunded liability.

Mr. Lipkin said the previous Administrative pension plan had been closed and a defined contribution plan with a matching component opened. He said the new plan was funded through a percent of wages for current-year earned benefits and a fixed amount to fund the unfunded liability. During the past two years, LTD had paid 11.5 percent of wages to fund current benefit accruals and that would increase to 12.5 percent next year. Also during the past two years, LTD had paid \$556,000 toward the unfunded liability and that would increase to \$672,000. He said changing to the new plan would not necessarily save money in the short-term, but it would in the long-term as people retired and new employees were enrolled in the lower cost new plan. He said the Administrative plan had the same match and opt-out provisions as the proposed ATU plan.

In response to a question from Mr. Wildish, Mr. Lipkin said the 6 percent match was pre-tax dollars.

Mr. Lipkin finished the personnel costs presentation with a pie chart demonstrating FTE allocation by department.

Materials and Services: Mr. Lipkin said fuel was currently budgeted at \$3.75 per gallon, with expenditures at \$3.11 and projected to remain under budget through the remainder of the fiscal year. He said \$3.75 was the amount included in the proposed budget, with sufficient fuel in storage to ensure that cost would not be exceeded. He said the estimated cost for parts was below the current budgeted level because a recall of tires resulted in no-cost replacements for many vehicles. He said proposed increases in professional services would fund Point2point projects and implementation of the Intelligent Transportation Services (ITS) technology. Increases were also proposed for the costs of training new staff and utilities rates.

Insurance and Risk Services: Mr. Lipkin reviewed proposed increases in insurance and payroll-related costs.

Transfers: Mr. Lipkin said the current transfer to Accessible Services was estimated to be 12.6 percent less than budgeted, with a 14 percent decrease in the proposed budget due to new funds provided by the legislature.

Mr. Kortge observed that while the new funds were appreciated, it was uncertain whether they would be available in future years, and Accessible Services remained a growing expense in the District's budget. Mr. Lipkin agreed and said the goal was to reduce the General Fund's liability for that. Mr. Kilcoyne said an LTD legislative priority was to advocate for an ongoing allocation of funds to support Accessible Services in future years as the demand for service increased.

Mr. Necker commented that the last large legislative allocation for disabled and elderly transportation was in 1999, and funding had not been consistent in subsequent years.

Mr. Lipkin said there was a small transfer from the General Fund to Medicaid to fund the match for the non-medical transport grant program for people who choose to remain in their homes instead of moving to a care facility; those trips were far less expensive than providing ADA (Americans with Disabilities Act) trips. He said the significant increase in the Capital Projects Fund transfer was primarily due to the purchase of new buses and rebuild of some buses in the current fleet to no-emission electric propulsion.

Mr. Gerdes arrived at 7:20 p.m.

Resources: Mr. Lipkin said fare revenue was estimated to be slightly below what was budgeted in the current year, and a modest increase of 2.7 percent was proposed for FY 2014-15. The proposed budget also included 5 percent increase in payroll taxes, 6.7 percent increase in self-employment taxes, and no increase or decrease for state-in-lieu taxes. He noted that payroll tax revenue had been slowly increasing since FY 2001-02.

Mr. Lipkin stated that in 2011 the District began using a larger amount of its federal formula funds for preventive maintenance in order to preserve service. That amount - \$4.1 million - had remained constant through the current year and was also proposed for FY 2014-15. He said an increase in formula funds over that period allowed the District to budget almost \$2 million for capital needs.

Mr. Kortge asked if the District was able to accomplish all necessary preventive maintenance with \$4.2 million. Mr. Lipkin said preventive maintenance needs were being met, and LTD actually exceeded FTA's standards. He said the formula funds were only one source of preventive maintenance dollars; there were other funding sources within the District's budget, such as payroll tax and fare revenues, that provided additional dollars.

Regarding Point2point, Mr. Lipkin said the base funding remained flat, and staff was sustained through a variety of grant-funded activities. He said revenue from other sources also remained flat but noted that the estimate for the current year included a \$200,000 SAIF dividend. Dividends were determined annually by the SAIF Board and, therefore, not specifically budgeted for. He used a pie chart to illustrate the proportion of the budget each revenue source represented.

Mr. Nordin inquired about the higher number of preventable accidents in November/December 2013 as shown on page 136 of the proposed budget document. Mr. Johnson replied that severe

weather conditions were responsible; however, great improvement was shown in February 2014 when there were no preventable accidents recorded during the snow and ice storm.

Mr. Gerdes asked if all LTD employees were eligible for sick leave. Ms. Adams said the District had a sick leave policy under which employees accrued one day per month and were eligible to take sick leave after several months; in some cases employees were required to maintain a minimum balance of sick leave hours. She said LTD was monitoring the City of Eugene's consideration of a sick leave requirement applicable to anyone working within the city to determine what impact it might have on the current LTD policy and future budgets.

Accessible Services Fund – Mr. Lipkin listed the variety of paratransit and related services within the Accessible Services Fund. He said funding for services was provided through grants and a transfer from the General Fund. He said the cost of providing service continued to climb due to increased demand and higher fuel prices.

Mr. Gillespie asked if the use of smaller vans had an impact on costs. Mr. Vobora replied that a variety of different vehicle sizes had always been used, and staff continued to evaluate the appropriate mix to best provide services.

Mr. Kortge asked if the leveling out of demand for RideSource rides was due to the District's program to encourage use of the fixed-route system whenever possible. Mr. Vobora said that was possible, along with a shift of RideSource users to Medicaid rides; it was a complex picture and staff would need time to analyze the trend.

Mr. Kortge said the likelihood that demand would double within ten years was daunting.

Mr. Necker said another possible reason for the flattening in demand was that the RideSource Call Center was required to seek the least expensive transportation.

Continuing, Mr. Lipkin said LTD acted as a pass-through agency for rural services, although the District did manage the vehicles. He said state funding remained fairly flat, with some expansion in the Florence area.

Mr. Necker remarked that the designation of Oakridge's Diamond Express as a fixed route would require complementary paratransit, and, therefore, a dial-a-ride service was being established, which would require additional funding.

Mr. Lipkin said other services within the Accessible Services area included Mobility Management, Crucial Connections, veterans' transportation, and Lane County coordination. He said a large increase in transportation assessments under Mobility Management was projected; those were grant-funded, with a 20 percent match requirement. The Capital Projects Fund transfer for vehicle purchase was also shown in order to provide a complete budget picture of Accessible Services.

Mr. Lipkin reviewed the resources for funding Accessible Services, including state and federal funds, farebox revenue, grant funds, and a transfer from the General Fund. He pointed out that the proposed General Fund transfer was 14 percent lower for FY 2014-15, but the Long-Range Financial Plan included a significant increase in future years.

In response to a question from Mr. Nordin, Mr. Lipkin said LTD only received 5311 funds for Florence and Oakridge service.

Medicaid Fund – Mr. Lipkin said the community care organization (CCO) for Lane County was Trillium, with which LTD's RideSource Call Center was a significant partner in enhancing access to health care through the provision of non-emergency medical transportation, coordination of medical appointments transport, and access to a pool of quality transportation services providers. He said the CCO model was implemented in July 2013, and impact on the General Fund was minimal. He said the goal of the partnership was to provide the least cost-most appropriate transportation benefit to eligible participants.

Mr. Lipkin reviewed the services and activities within the Medicaid Fund budget and the resources for funding them, which were primarily Medicaid funds with a small General Fund transfer. He commended Trillium for being a good partner and willing to provide funding for additional services.

Mr. Kortge asked if LTD would be responsible for repayment if a participant was found to be ineligible for services or otherwise abused the system. Mr. Lipkin said that Trillium had legal liability to the federal agencies, but certain liabilities were passed along to LTD; however, if LTD showed due diligence for eligibility determination and verification, it was unlikely the District would be required to repay costs, although he could not confirm that.

Capital Projects Fund – Mr. Lipkin pointed out that it was necessary to budget the full amount for Frequent Transit Network (EmX system) projects in order to enter into contracts for construction, although expenditures were anticipated to be much smaller. He reviewed the other projects within the Capital Projects Fund budget. He said funding resources included federal and state grants, plus transfers from the General Fund and Accessible Services Fund.

Summary – Mr. Lipkin briefly reviewed summaries of the General Fund operating and non-operating budgets, Accessible Services, Medicaid, and Capital Projects Funds and proposed appropriations.

COMMITTEE DISCUSSION/POLLING OF COMMITTEE MEMBERS – Mr. Gerdes asked how much had been budgeted toward reducing the unfunded liability of pension plans and what their status would be next year. Mr. Lipkin replied that the estimate for the ATU plan was that it would be 61.7 percent funded, up from 54.6 percent; LTD was contributing \$4.89 per hour to that, although the current actuarial analysis only required \$4.60 to \$4.70 per hour. He said that it was likely a change to the plan would be implemented as a result of labor negotiations, which would make any increase in the multiplier for years of service applicable only to future years of service, which would help to control costs.

Mr. Gerdes asked about additional service on the fixed-route system. Mr. Vobora said that service on holidays had been added back, and there had been some expansion of service on certain routes, with plans for future service in certain areas with the construction new student housing, the Veterans Administration clinic, and a hospital in Junction City.

Mr. Gerdes was pleased that the Board had decided to postpone a decision on increasing the payroll tax rate. He commented that the business community might more readily embrace an increase if LTD stressed that a majority of the increase would be used to expand services.

Community conversation could then address what services people would like to see increased. He said that any dollars available now could be used to pay down the pension plans' unfunded liabilities, and then service increases could be implemented when there was additional payroll tax revenue.

Mr. Necker referred to page 41 of the budget document and asked why only Medicaid was budgeted under the RideSource Call Center and not non-medical transport. Mr. Lipkin replied that non-medical costs were included in the service rate and not budgeted separately.

Mr. Collins observed that it did not appear a projected 5 percent growth in payroll tax revenue would be sufficient to pay for the additional FTEs required for expansion of services. He asked how future revenues and expenditures would be balanced to avoid a deficit. Mr. Lipkin replied that the Long-Range Financial Plan projected the addition of the West Eugene EmX service and assumed the payroll tax rate would increase in January 2017 in order to balance the plan.

Mr. Kortge asked that the Board review LTD's policy of paying retirees for medical insurance. He did not feel it was good public policy, particularly in comparison to other local public entities. He said some of the policy related to negotiated benefits and was not an appropriate subject for the Budget Committee, but hoped the Board would give it some consideration.

Mr. Gerdes asked for clarification of the Budget Committee's role with respect to changes to the proposed budget. Mr. Kortge said the committee was making recommendations to the Board when the budget came before it for adoption. Changes could be made to the budget before it was forwarded to the Board for adoption.

Mr. Gerdes preferred to see service increases postponed until discussions could be held with the business community and any additional dollars channeled toward paying down the unfunded liability of pension plans. Mr. Kilcoyne said the Board had already approved the service increases, and LTD had publicized that they would be implemented. Ms. Towery added that the addition of service had been discussed at the joint Board/Budget Committee strategic work session in March and that recommendation had helped inform the Board's decision to add back service.

Mr. Gerdes said he did not regard the work session discussions as recommendations but rather as brain-storming sessions. He said recommendations did not occur until the Budget Committee had presented a budget to the Board for adoption.

Mr. Vobora commented that the issue related to when a service package had to be adopted. He noted that the cost of adding services was \$125,000 and said the service planning staff could consider Mr. Gerdes' concerns in the timing of future planning and budgeting cycles.

Mr. Kortge agreed with Mr. Gerdes. He felt the work session discussions were more conceptual in nature and had not regarded them as actual recommendations. Mr. Kilcoyne said that issue would be clarified at future budget and long-range planning work sessions.

Mr. Lipkin pointed out that \$12.8 million in working capital was projected, and the Budget Committee could propose putting more dollars toward funding pension plan unfunded liabilities at a level comparable to the cost of increasing service levels.

Mr. Gerdes recommended putting an additional \$125,000 from working capital toward the unfunded liability. He said the Board and Budget Committee had been making efforts for the past several years to address the issue, and he hope to see the plans fully funded at some point.

Mr. Wildish asked how much additional revenue the \$125,000 expansion of service would generate. Mr. Vobora estimated a 20 percent return from farebox revenue.

Mr. Kortge agreed with Mr. Gerdes that it was a critical responsibility of the Budget Committee to focus on the unfunded liability and supported the concept of making additional funds available for that purpose. He suggested that the funds could be reallocated from the amount budgeted for fuel as the projected cost was likely to be higher than actual expenditures. Mr. Lipkin said if the committee wished to retain the same expenditure level, it could move \$125,000 from fuel to the unfunded liability; if the cost of fuel was higher than anticipated contingency funds could be used.

Mr. Collins observed that an additional contribution of \$125,000 toward the unfunded liability would make little impact on the actual percentage. Mr. Kortge agreed but said the action was symbolic and made a statement of financial responsibility by the Budget Committee.

MOTION Mr. Necker moved to take \$125,000 from the operating contingency and put it toward the unfunded liability in the FY 2014-15 budget. Mr. Wildish provided the second.

Mr. Lipkin clarified with the committee that the intent was to increase the budget \$125,000 by taking the funds from the operating contingency, rather than decreasing funds budgeted for fuel by that amount. He asked how the committee wished to have the funds applied to the pension plans.

Mr. Gerdes suggested applying the funds to the administrative pension plan as a reward to administrative employees for agreeing to change their plan from a guaranteed benefit to a guaranteed contribution plan.

In response to a comment from Mr. Gerdes, Mr. Gillespie said that it was unrealistic to fully fund a pension plan as those funds became stagnant.

Mr. Kortge said the Board's goal was to fund the plans at 70 percent. He explained that the intent of Mr. Necker's motion was to take \$125,000 from the operating contingency and put it toward the administrative pension plan.

MOTION Mr. Necker moved to take \$125,000 from the operating contingency and put it toward the unfunded liability in the FY 2014-15 budget. Mr. Wildish provided the second.

VOTE Mr. Kortge took a roll call vote, and the motion was passed by the following vote:
AYES: Dubick, Gerdes, Gillespie, Hinds, Kortge, Necker, Towery, Wildish, Yeh (9)
NAYS: Collins, Nordin (2)
ABSTENTIONS: None
EXCUSED: Cline, Gerdes, Grossman, Smith (3)

Mr. Kortge determined that there were no further amendments to be proposed.

MOTION APPROVAL OF BUDGET – Mr. Gillespie moved that the LTD Budget Committee approve the proposed Fiscal Year 2014-15 Budget as amended and forward it to the LTD Board of Directors for adoption. Mr. Hinds provided the second.

VOTE The motion was approved as follows:
AYES: Collins, Dubick, Gerdes, Gillespie, Hinds, Kortge, Necker, Nordin, Towery, Wildish, Yeh (11)
NAYS: None
ABSTENTIONS: None
EXCUSED: Cline, Grossman, Smith (3)

Mr. Gerdes commented that there had been other instances in the past when he thought an item or issue was at the discussion stage, but then was implemented or acted upon by the Board before being fully evaluated in consultation with the Budget Committee. He felt the same thing had happened again and asked how that could be avoided in the future. He gave as an example the discussion regarding a payroll tax increase and the Board's decision to commission a study of the region's economic recovery in preparation for authorizing that increase. He said a group was supposed to be formed to identify additional criteria for the Board to consider before adopting a payroll tax increase.

Ms. Towery pointed out that the Board had not made a decision regarding implementing a payroll tax increase; the economic performance study was required before that subject could be addressed. Mr. Kilcoyne added that the Board met with business and community leaders in January 2014 to discuss and determine what additional criteria would be included in the study.

Mr. Gerdes said the meeting occurred after the consultant was hired to conduct the study. He anticipated that meeting would occur before a consultant had been hired.

Mr. Kortge commented that the Board was required to conduct a study of economic performance before it could move forward with a discussion of increasing the payroll tax. Mr. Kilcoyne said LTD would make it clear in future Budget Committee meetings what aspects of the discussion were brain-storming and what were considered as direction from the committee.

Mr. Kortge requested that there be a discussion of LTD's retiree health benefit at a future Budget Committee meeting.

Mr. Dubick said that meetings of LTD's Board of Directors Finance, Human Resource, and Service Committees were public and invited Budget Committee members to attend. He said many of the issues raised during annual retreats and budget meetings had already been discussed at length in committee meetings, and those discussions could help Budget Committee members gain a broader understanding of issues within the District and the rationale behind timing and actions.

Mr. Kortge asked if pension trust meetings were open to the public. Ms. Adams said those meeting were now open and committee members were welcome to attend.

Mr. Vobora said staff had been discussing, as part of restructuring the District's strategic plan, the rhythm of the organization's business. He said that typically the strategic work sessions had

occurred much earlier in the year and returning to that schedule would better synchronize budget discussions with the timing of certain activities.

Mr. Wildish commented that some deadlines, such as changes to fares and service, related to contact with customers and occurred at specific times. It would be very helpful to conduct the strategic work session earlier in that cycle.

ADJOURNMENT

Mr. Kortge adjourned the meeting at 8:30 p.m.


Board Secretary