MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

ADJOURNED MEETING/STRATEGIC PLANNING WORK SESSION

Thursday, March 6, 1986

Pursuant to notice given at the February 19, 1986 regular meeting and to *The Register-Guard* for publication on March 1, 1986, an adjourned meeting of the Board of Directors of the Lane Transit Distict was held on Thursday, March 6, 1986 at 6:00 p.m. at the Red Lion Motor Hotel, 3280 Gateway Road, Springfield.

Present: Peter Brandt, Treasurer
Janet Calvert, President, presiding
Janice Eberly, Vice President
Joyce Nichols
Rich Smith
Phyllis Loobey, General Manager
Jo Sullivan, Recording Secretary

Absent: Larry Parducci, Secretary
Gus Pusateri

CALL TO ORDER: The meeting began at 6:00 p.m. with dinner and an introduction of the issues by the General Manager. The purpose of the meeting was to discuss the possible loss of federal funds and to begin dicussions regarding the most appropriate course of action in dealing with a revenue shortfall. Ms. Loobey stated that the strategic planning work sessions were being held quarterly at Board direction, in order to prepare better for the future, whether good or bad times are ahead. She said that it appeared that the District was approaching some of the bad times, and that there would be difficult issues for the staff to bring before the Board. Staff were asking for Board direction ahead of time so that what they would be contemplating in response to issues that arise would be in compliance with the Board's desires. Additionally, staff wanted to insure that the Board members, as the District's policy makers, had enough information on which to base decisions in the future.

Ms. Loobey explained that what the staff needed from the Board that evening was a consensus that allows staff to move on to the rest of the fiscal year and budget making process, as well as an understanding of what kinds of materials and information the Board members would like to receive on the issues being discussed. Two specific areas which could change transit dramatically are the escalating costs of liability insurance and the Gramm-Rudman-Hollings law. Ms. Loobey stated that these are two areas which the transit industry may not be able to influence.

EXPLANATION OF CHARTS: Mark Pangborn, Director of Administrative Services, discussed seven charts which outlined fares, ridership, hours of service, productivity, budget expenses and revenues, cost per trip, and farebox-to-operating cost ratio (FTO) for the last 15 years, and called attention to the District's accomplishments in the past five years. He explained that four charts (average annual cash fare; total person trips; LTD service; and passenger revenues) were gross measures of the District's operation, and the three others (system productivity; farebox-to-operating cost comparision; and operating costs per trip) measured the efficiency of service. Mr. Pangborn defined productivity as person trips per vechicle hour, and showed that when the charts for productivity and service were compared, it was possible to tell if productivity was retained when service cuts were made.

Mr. Pangborn also discussed trends indicated on the charts. First, starting in 1972 the District had fairly constant and good growth until the gas crisis in 1979, when "everybody" got on the bus. Peaks were reached in ridership, productivity, service, and passenger revenues. Secondly, as gasoline again became more available, the Board raised the average cash fare from 28 cents to 46 cents (actual cash fare from 35 cents to 60 cents). Ridership and revenues dropped immediately, and service had to be cut. As the community went further into a recession, revenues were lower and the District concentrated on increasing system efficiency and productivity. Beginning in 1981, slow and gradual gains in service began to show on the charts, and productivity, revenue, and ridership also started increasing. Mr. Pangborn stressed the direct relationship in all these areas.

Ms. Loobey commented that the stability of the system is very important for LTD's consumers, and that any dramatic changes in service or fares cause changes in operating cost per trip and the farebox-to-operating cost ratio. When the community knows that the service will not change every three months and costs will remain stable, ridership is also constant and begins to increase. She added that when services remain stable but the FTO rises, it is a sign that the District is doing a credible, good job in the community.

Mr. Pangborn called the Board's attention to the general fund financial projections found in the agenda packet handed out that evening. It is anticipated that any additional revenues this year will go into the Risk Management Fund at the end of the fiscal year. For next fiscal year, if services and the payroll tax rate are kept at the current level, the budget should be virtually balanced. Mr. Pangborn stated that the real problems begin in the following year (FY 87-88), based on two areas: an anticipated 20 percent decrease in federal funding next year and the year after, and potential costs for risk management next year of $1,052,000. There is some potential for legislative relief in the insurance area; otherwise, in order to avoid paying those kinds of costs for liability insurance, the District would have to assume more risks.

In discussing ways to balance the budget in the event of revenue loss in the next year or two, assuming current levels of service are maintained, Mr. Pangborn listed the options of increasing revenues or cutting expenses, or a combination of the two. Of concern to staff is the

District's ability to respond to community requests for service in the next couple of years. The longer the time line is for planning, he said, the more options the District will have in which to respond. Ms. Loobey added that it is obvious that stability of the system, for which the staff and Board have worked so hard in the last five years, has been achieved and has been a positive factor in the accomplishments shown on the seven charts.

Mr. Pangborn stated that staff's best guess for FY 87-88 is that LTD will still receive $500,000 in federal operating assistance, but there is no way to know for sure at this time. If the District were to lose all $893,000, that would translate to 30,000 service hours, which would be the same as not offering any weekend or evening service. If LTD had to delete this kind of service at the same time it is being asked to provide additional services to specific areas for economic activity, there would be difficult questions to answer in order to make such decisions.

Mr. Pangborn stated also that staff realize that the Board is very sensitive to the issue of the payroll tax and what happens with it. He said LTD is a very efficient, effective transit system that is going to have to make some cuts unless additional revenue sources are found. He noted that raising fares beyond the Board-adopted policy of keeping fares in line with the inflation rate has the potential of ending in a downward spiral. If service is cut drastically, it will affect service all day long, passengers will be lost, and the operating (fto) costs will go up. If the District is unable to maintain system stability, the result will be a downward spiral. There aren't many sources the District can tap in order to maintain stability; the most immediate source of revenue is payroll tax revenues. The stability cannot be maintained by cutting administrative costs, but somewhat more money can be saved by a higher level of self-insurance, up to the level of $300,000, for example. Many of these issues will have to be explored in more detail before the District gets to the point of making those kinds of adjustments.

Mr. Pangborn wanted to know what additional information the Board members needed or wanted before working on a plan of action for Fiscal Year 1987-88. He said staff did not believe that this discussion was beginning too early; they just hoped it wasn't too late.

Dr. Smith agreed that it was necessary to think that far ahead, and wondered what might happen to the District's capital projects. Ms. Loobey replied that, to her best knowledge, the Section 3 capital money will be available. The question is whether or not the District will have the local match, since $150,000 in local match is needed per year for the facility and bus replacement. The District has saved quite a bit of money toward local match up to this point, in anticipation of the new facility, but will also need to save for the future.

Dr. Smith asked whether new buses or the facility were more important. Ms. Loobey replied that this was a difficult question, because the District could not become more efficient in the present facility. She said staff had hoped to be able to move by 1988, but the time line is now stretching out. Dr. Smith then asked if the District would see any savings from efficiencies in the new facility. Ms. Loobey replied that there would not be enough of a savings to not do something about additional revenues. Dr. Smith thought it was fairly certain that, because of the enactment of Gramm-Rudman and the continued shrinking of federal funds for transit, the District would have to look at this issue fairly pessimistically. He thought the Board should deal with the issues of risk management, service, and taxes, and wondered how much the District can risk in assuming insurance risks. Ms. Loobey stated that the District has a choice in assuming more risks. There is presently a statutory limit in Oregon of $100,000 per incident, or $300,000 in situations where more than one person is involved. LTD could self-insure up to the $300,000 level, after looking at what makes sense in terms of long-term costs and investments, etc. She said the District needs to look at this area carefully, to see if it makes sense to self-insure rather than to pay insurance companies very high rates to pay any claims.

Mr. Brandt wondered what the basis for projecting the insurance costs was, and said he thought it was a waste of time to talk about at this point. Since the District had no reasonable way of predicting things two years down the road, he was not in favor of stashing away a "kitty" for things which might happen that far in the future. He thought the 1986-87 budget looked pretty good, and that the Board should not have to worry about raising revenues. He also wondered why administrative costs were going up almost 20 percent. Mr. Pangborn said this included money which had not been spent this year for litigation fees, but staff's best guess was that the District may be in litigation regarding 13(c) again next year, so those funds would be budgeted. Mr. Brandt stated that any shortage in payroll taxes could be made up in one year, so he thought the taxes should not be raised now. Ms. Loobey stated that if the District has only three months' notice of a shortfall, trying to make up the difference in three to six months will be a lot harder on the system than if it were spread out over a year. In 1980, the District was forced to cut service by 30 percent and lay off 19 people because of a $300,000 shortfall. She thought it was also prudent to try to anticipate as much as possible what would be happening with costs.

Dr. Smith thought the Board should be pessimistic about money from the federal government, and that the citizens are not going to vote in more taxes. He thought the County, itself, would have to raise taxes, and LTD would just be another taxing agency in that county. He didn't think the District would be a high priority in terms of taxes. He thought maybe the District needed to raise its productivity standards, and to look at little jumps in taxes rather than all at one time.

Ms. Nichols thought it was wise to anticipate needs, but said it bothered her to see that staff were planning $1 million for insurance. She thought the District should find a way to tax into the insurance companies for the payroll tax. She wasn't sure she could sign off on a budget with that much money in it for something which wouldn't even have claims that would be paid. She said she would look at Gramm-Rudman as a separate issue, and agreed it would be a high priority. Ms. Loobey mentioned that, when the loss ratio was higher and the District was facing higher premiums, costs were brought down through a program of cost control. She said she would not recommend "going bare" as some other transit districts have done. She added that it takes about a year to set up a cycle of self-insurance. Ms. Nichols said she would like to see information about what makes sense as far as starting the process of accepting more risks now.

In discussing the risk management page of the agenda packet, Mr. Pangborn said staff had been talking to a specialist retained by the District. Insurance costs for this year would be $482,000; next year's projections are partly a result of fear that the surprises that happened this year in the industry could happen again. He said that staff would come back to the Board when more is known about this area. He added that if the District cut $400,000 in 1987-88, it would still be looking at a $400,000 deficit. The problem of diminishing federal revenues still remains. Mr. Brandt wondered if staff were suggesting that the District raise taxes now to have a slush fund for 1977-78. Ms. Loobey said that staff were suggesting that the District has a problem and that the Board and staff need to look at ways to deal with it. Dr. Smith mentioned raising the tax a little now and a little later, but Mr. Brandt stated that he did not like that mentality. He said if the District cannot hold costs down, it shouldn't be raising rates.

Dr. Smith wondered what it would mean if the productivity standards were raised; how much the District would save in terms of cutting service and personnel, lost revenues, etc. Ms. Loobey replied that cutting service always reduces costs, but has a ripple effect thoughout the system. Ms. Calvert commented that the most effective way to run service is to offer purely commuter service, but that causes cuts in service to people who really need it, and makes the service of not much use to anyone. Mr. Brandt wondered about the District's costs per route and payroll tax and passenger revenues related to those routes. He wondered how many routes are being run to tap into somewhere where there is a plant or something, and how much revenue is being generated in doing so. He wondered also if the law specifically said that the District can only charge payroll taxes to areas which it serves, or if an area can be encircled and have to pay. Ms. Loobey said the District does not serve every quadrant that pays the payroll tax; for instance, LTD does not serve the airport, but businesses along airport way pay the payroll tax. At the end of a route, businesses pay taxes within a five-mile circumference.

Mr. Brandt wondered if the revenues covered the costs of providing services to such places as Lowell. Mr. Pangborn replied that it is assumed that urban service covers those costs. Several Board members stated that they would like to see figures on how much specific routes are costing and what the revenues for those routes are.

Ms. Eberly wondered about the other side of the coin: adding service. If it doesn't really cost more to run buses farther out, then she wondered what would be the criteria to answer requests for additional service. If the passenger revenues don't really make sense, what would be the criteria to say yes or no? Ms. Loobey said that in the past, service has been added after staff determined a reasonable expectation that service would grow enough in a year to meet the productivity standards.

Mr. Brandt said he was surprised that the FY 86-87 projections are as good as they look, and wondered if staff were being conservative in their revenue projections from payroll taxes. He thought they needed to start talking about and refining the budget figures for FY 87-88, and to research whether or not the present insurance figures are really in the ballpark, in order to be fairly certain whether or not any deficit could be made up in one year. He said that the payroll tax could be raised one-tenth of one percent and the District would be in good shape to cover $1 million. However, he said, if the shortfall would be closer to $2 million and the District could only raise $1 million, then he would be concerned and would think that the District would need to look farther into the future than one year. He asked how staff had projected the federal funding. Mr. Pangborn replied that the projection had been based on the anticipated loss of 20 percent per year over five years.

Dr. Smith asked how privatization would affect LTD. Mr. Pangborn said that contracting out would affect expenses, and that UMTA assumes that private providers can provide services and maintenance cheaper than transit properties can provide them in-house. He said that contracting out is done after accepting bids, and that the District could accept bids under certain conditions. He said that staff's concern about privatization at this point is with the labor contract.

Ms. Calvert commented that it would be likely that there would be a higher percentage of administrative costs because contracts have to managed. Dr. Smith wondered if staff were sure the District would be receiving the federal money, and staff replied that they were not. Ms. Loobey stated that the privatization issue looms very large in whether or not the District receives those funds.

Mr. Brandt wondered how staff could prove that maintenance work couldn't be done cheaper if subcontracted. Tim Dallas, Director of Operations, said it was not impossible, but it would be difficult to subcontract it all. He explained that LTD used to have bus engines overhauled outside the District, but that prices started climbing and the quality declining, so the decision was made to do it in-house. Some things of a lesser nature are now being subcontracted out, and Mr. Dallas said it was staff's sense that LTD would continue to subcontract things which are easy to subcontract. He said he did not know how much it would cost to subcontract the whole maintenance program. There is not a ready provider in the Eugene-Springfield area that can take on a maintenance program of this size. Some smaller transit properties used to subcontract their maintenance work, but found they could do it cheaper in-house.

However, he said he couldn't say that would be true for LTD without going through the process to find out.

Mr. Brandt remarked that the new facility would be $9 million and possibly $15 million before it was finished, which would equal a lot of future years' maintenance and repair if subcontracted. Mr. Dallas replied that a subcontractor would have to have a similar facility in order to do the District's maintenance, which would have to be capitalized out, and LTD would end up paying for those costs. Ms. Loobey commented that LTD has a lot of functions such as farebox pulling and security issues which are now tied in with the maintenance functions. Mr. Brandt asked if staff could obtain comparison information from bus systems that do subcontract their maintenance functions. Mr. Dallas stated that very few transit properties do subcontract out, but that Springfield School District does subcontract its bus maintenance, which could be compared with the Eugene School District, which handles bus maintenance internally. Costs could be compared on a cost per mile basis.

Mr. Brandt cautioned that the District would have to be selective in what it subcontracted, and Dr. Smith worried that the federal government would make the District do it no matter what the results. Mr. Brandt mentioned the general public concept that government agencies are not run efficiently. Ms. Nichols wondered what the market would bear, and if there would be more than one provider in the area to bid on subcontracting. Dr. Smith stated that the District needed to let its congressmen know that it is necessary to have a minimum number of subcontractors before it is an acceptable practice. Ms. Loobey said that, in essence, the law is saying that conditions in Eugene are the same as in New York City. Mr. Dallas stated that the law also does not take into account the efficiency of individual systems. Mr. Brandt stated that anyone would have to go a long way to find a public agency that has kept expenses down and not raised revenues, as LTD has been able to do. He said that this is why LTD has been getting positive feedback in the community. He commented again that if more people are not working in the community, then LTD should not be increasing service.

Mr. Dallas summarized by stating that the federal government wants to take its share of revenues away, and the expenses for one of the District's costs for doing business, insurance coverage, was increasing dramatically, and staff needed to know how to deal with those components when all other costs remain equal. Ms. Loobey stated that she is not embarrassed to go tell anyone in the Chambers of Commerce that this is the District's record, and now these are its needs, but that doesn't mean that LTD is going to forfeit the last five years and the recognition that the District could have raised taxes before but didn't, and if it does so now, it is because it is necessary. Ms. Calvert thought that when the federal revenue and risk management picture becomes clearer, the District could increase taxes by small degrees, rather than waiting till the budget year. Dr. Smith concurred.

Mr. Brandt stated that he would not recommend spending any money researching the insurance coverage problem. He thought that the outrage of the populace might lead to the rights of people to sue, etc., being taken away. Mr. Dallas stated that some trial lawyers are talking about taking the state tort limits to federal courts, saying that the state laws are unconstitutional. This would not happen all at one time, he said, but it is to be hoped that LTD would not become a test case. He said the District could take a risk and pay out of next year's service, which is putting the service at risk, or it could take the risk and fund itself, but it takes money up front to build a fund.

Mr. Dallas asked the Board several questions about putting the risk on service or future payroll tax increases: what the mix is which the Board would consider; how the Board members wanted to make that decision when it had to be made; how much service the Board would be willing to risk; etc. Dr. Smith wanted to look at service expenses and revenues by route, as Mr. Brandt had requested. He also wanted constant updates on the District's risks as the year progresses, so taxes could be raised in smaller increments as needed.

Mr. Pangborn commented that an optional revenue source is the imposition of a self-employment tax. Dr. Smith thought that it was not fair that a small group of self-employed people did not pay the tax. Mr. Brandt stated that he did not have a problem with a self-employment tax as long as it was limited, because maybe half of a self-employed persons' earnings have to be carried back into the business, and earnings are not really related to salary. Ms. Calvert thought that the state law defines how that is to be done and that LTD could not put a limit on it. Mr. Dallas stated that there must be equity between the two taxes. Mr. Pangborn said a self-employment tax would mean $200,000 in additional revenues. Ms. Loobey stated that the District had a draft ordinance and had researched the issue previously. Ms. Calvert explained that when the District considered a self-employement tax before, it also planned to lower the payroll tax rate, in order to broaden the tax base and make it more equitable, not just increase revenues.

Ms. Loobey added that Tri-Met is planning an income tax without a vote of the people. Mr. Pangborn explained that LTD could enact an income tax and it would become law, but there would be a 90-day peiod for an initiative petition if the Board does not refer the tax to the people for a vote, and the issue could be put on the ballot if a required number of signatures is collected. The required number of signatures is five to ten times higher than before, so Tri-Met is hoping that no one can obtain enough signatures within the 90-day period. Mr. Brandt said he could guarantee it would be on the ballot within a year, anyway. He said he could also guarantee that if the District starts tampering with taxes, it would be asking for a lot of trouble, and that people paying the payroll tax would be looking at the issue very closely. He didn't think an income tax would be any more equitable than a payroll tax. He commented that the payroll tax is really an employee-paid tax, rather than employer-paid, since most companies look at what they would pay employees and subtract the amount for taxes. Otherwise, clients or customers pay. He stated that a lot of people in this community think that 20 percent paid by the riders is not enough, and they do not want to pay more before the riders do. The fact that LTD is one of the few agencies operating within a budget that is less than it could be getting in revenues impresses a lot of people, said Mr. Brandt, and he was in favor of staying there as long as the District could.

Ms. Loobey stated that part of the reason for bringing these issues before the Board that evening was to warn the Board that the District is moving to a downside year, to the best of staff's information, and to take the prudent step to begin planning for that year, in order to protect the present level of service.

Ed Bergeron, Marketing Administrator, stated that the message regarding what to do about expenses was loud and clear. However, he said, part of the reason this came before the Board was that staff are not sure the problems can be handled on the expense side alone, and believe that revenues have to be dealt with at some point. He said that staff realize that the District will get some "heat" no matter what it decides to do, and wondered if the Board wanted staff to float some trial balloons on some of these issues, to see what would be the least offensive, or if the Board would rather decide the issue as a policy issue, based on what they already knew.

Ms. Calvert said it would be nice to get input, but she recalled that in the self-employment tax issue, the Board only heard from people who would be newly taxed. No one came forward to tetify in support of the tax. Dr. Smith wondered why staff didn't talk to the Chambers about this problem, but Ms. Loobey said the Chambers did not take sides on this issue becasue it was an issue that would have divided their memberships. Mr. Brandt thought the Board should decide this issue as policy makers. Mr. Bergeron commented that this particular issue was decided at a Board meeting, and the only contact with the Board was from those opposed.

Mr. Bergeron wondered if the Board wanted staff to begin to lay the groundwork in the community. Dr. Smith thought the District should solidify its base now, by letting people in the community know what the District is thinking about doing and why. Ms. Calvert thought the public should know that the District is looking at potential problems and solutions, without raising revenues at this time. Ms. Nichols thought the public should also know that the District is trying to manage through these issues, and Dr. Smith thought they should be reminded that the District has kept the payroll tax rate below what it could be. Ms. Calvert thought that if the District does raise the payroll tax rate, the self-employment tax should be imposed at the same time. Mr. Brandt stated that the taxpayers and public only need three months' notice; that the LTD tax is not that significant of a tax, but more of an irritant.

Ms. Calvert thought some information should be going to the community ahead of time, such as in the annual Report to the Business Community.

Ms. Nichols thought that any prudent business is going to think about changes in the federal laws, and the insurance issue is also important right now. She didn't want the community to be able to say they never heard about these issues in advance from LTD. She thought the business community should be told the good news and the bad; that they should hear that LTD is struggling with these issues and also what the possible solutions might be, and what they could do to help. She didn't think that surprises served anyone's interest. She also thought that the payroll tax was not as trivial as Mr. Brandt had suggested, in most people's minds.

Mr. Brandt commented that the business community gets tired of paying to haul people around who are living off the system, and that the community needs to perceive that the ridership is of the right makeup or mix. Ms. Loobey stated that the profile of the average rider shows that it is a 22- or 23-year-old rider who works downtown. Only 30 percent of the riders actually transfer. Mr. Brandt asked about a breakdown of costs to show how much money goes to support those people, and how much to the others. He thought that if the District really wanted to cut costs, it would cut the number of services that are run at other than peak times; that service would be run in the morning and evening, and the daytime runs with empty buses would be cut back. Dr. Smith wondered if it was cheaper to run express service, and if it would be better to run more frequent express service during the peak hours. Mr. Brandt suggested running express buses at alternate stops, instead of having every bus stop at every bus stop. Ms. Loobey commented that an important factor in being able to run such service is frequency of service. Mr. Dallas commented that productivity continued to climb because services were honed down to specific levels.

MOTION
VOTE

With no further discussion, Dr. Smith moved that the meeting be adjourned. Ms. Nichols seconded, and the meeting was unanimously adjourned at 10:05 p.m.

Board Secretary

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