MINUTES OF BUDGET COMMITTEE MEETING
LANE TRANSIT DISTRICT

ADJOURNED MEETING

May 5, 1993

Pursuant to notice given to *The Register-Guard* for publication on April 1 and April 11, 1993, and at the April 21, 1993, Budget Committee meeting, and distributed to persons on the mailing list of the District, an adjourned meeting of the Budget Committee of the Lane Transit District was held at 7:30 p.m. on Wednesday, May 5, 1993, in the LTD Board Room at 3500 E. 17th Avenue, Eugene.

Present:

Board Members	Appointed Members
Jack Billings	Duane Faulhaber, Chair, presiding
Peter Brandt, Treasurer	Gerry Gaydos
Janet Calvert	Mary Gilland
Tammy Fitch, Vice President	Chris Larson
Pat Hocken	Tim Luck
Keith Parks, President	Cynthia Pappas

Phyllis Loobey, General Manager
Mark Pangborn, Budget Officer
Jo Sullivan, Recording Secretary

Absent:

Thom Montgomery, Secretary — Rick Crinklaw, Committee Secretary

CALL TO ORDER: Mr. Faulhaber called the meeting to order at 7:30 p.m. Mr. Brandt was not yet present.

PUBLIC COMMENT: Mr. Faulhaber asked for comment from the audience. There was none.

MOTION **APPROVAL OF MINUTES**: It was moved by Ms. Hocken and seconded by Ms. Gilland that the minutes of the April 21, 1993, Budget Committee meeting be approved

VOTE as distributed. The minutes were approved by unanimous vote, with Mr. Brandt not yet present.

CONTINUED BUDGET DELIBERATIONS:

Capital Improvements Program (CIP): Mr. Pangborn explained that the District had three funds: the General Fund; a new Special Transportation Fund, covering non-fixed-route service required by the Americans with Disabilities Act (ADA); and the Capital Fund. The Capital Improvements Program in the budget document showed capital planning in nine categories (office and miscellaneous, computer software/equipment, maintenance, passenger boarding improvements, facility, vehicles and accessories, bus-related equipment, service vehicles, and other) for FY 93-94 and the following five years. The Budget Committee was being asked to approve only the first year.

Mr. Pangborn stated that LTD was a fairly capital-intensive operation, because bus service could not be performed without adequate capitalization in terms of buses, shelters, transfer stations, etc. The District planned ahead for those purchases, and almost 80 percent of capital expenditures was federally-funded. The 20 percent local share essentially was from transfers from the General Fund, with occasional money from the State. It was rare that LTD would use 100 percent local money for capital purchases.

Mr. Pangborn described some of the capital items included in the CIP. The contract for expansion of the University Station would be signed within 30 days. The Eugene Station project was a one-time expenditure. Some facilities improvements were required by the ADA, and would total $30,000 during the next two fiscal years. The District would be purchasing 27 new buses within 60 to 90 days; the buses were scheduled to arrive on the property in the winter of 1994. He said that when President Clinton proposed economic stimulus money for transit capital, LTD hoped to use $2,500,000 of that money to purchase six or seven more buses, but Clinton's proposal had died, and LTD would neither receive nor spend that money.

The federal government was moving ahead with the paperwork to allow LTD to sell the 8th and Garfield facility to the Eugene 4J School District. Also, sometimes local developers were required to put in a transit station, so would buy a shelter from LTD, and LTD's budget would show both the expenditure and the reimbursement.

The FY 93-94 Capital Fund budget totaled $12,095,150. The six-year budget totaled $23,888,057.

Ms. Calvert asked if any improvements would have to be made to the Glenwood facility to meet ADA requirements. Facilities Maintenance Coordinator Charlie Simmons replied that there were a few changes that had to be made, but the facility basically met most ADA requirements. He said the District might need an automatic door opener on the front door, and might need to purchase tables with better clearance for wheelchairs.

Ms. Hocken asked if it made sense to leave the economic stimulus money in the budget. Finance Administrator Tamara Weaver replied that the budget probably would be adjusted for final approval at the June Board meeting, with a list of carry-forward capital projects and the removal of the economic stimulus funds.

Proposed Budget Financial Analysis: Ms. Weaver provided a global budget picture for the Budget Committee, including the current financial position (performance, capital reserves, operating reserves, and working capital) and the Long-Range Financial Plan (how the budget fit within a five-year time frame).

Mr. Brandt arrived at this point in the meeting.

Ms. Weaver explained that future years were included on the Long-Range Financial Plan to show trends or projections for the future, and that the farther out the projections were, they were not much more than a trend. She said that early in the budget process each year, staff spent a lot of time reviewing the estimated actual or current financial performance.

Ms. Weaver stated that payroll tax receipts would be about $380,000 higher than budgeted, and all other revenues combined would be higher than budget by about $100,000. Ms. Pappas asked if staff received direction to underspend their budgets. Ms. Weaver said that was the normal direction; staff respected the budget because it was carefully put together, but if they had a chance to save money, they would do so. Management's recommendation for the year-end budget variance of $495,000 plus $700,000 in expense variance was to transfer $900,000 to capital and keep $300,000 in working capital.

Ms. Weaver provided a history of capital transfers, in real numbers. The seven-year average was $1.1 million in transfers. For five years, the average was about $1.2 million. Those funds were used to build the Glenwood facility, purchase buses, and save for the Eugene Station. She said that the District typically paid a 20 percent match to receive federal funds for those projects, although the last bus purchase was at a 50 percent match.

Ms. Weaver also discussed capital reserves, stating that she expected the balance to be about $4 million, based on transfers from FY 89-90 to the present. She believed this to be a reasonable position. Local dollars reserved for the next bus purchase amounted to $1.5 million. The Eugene Station project currently had the local match to meet an $8.4 million federal grant. To save for the next bus purchase in FY 96-97, the District would need to reserve about $83,000 per year. No funds had been accumulated for the Fiscal Year 1999-2000 bus purchase, and the District would need to save about $180,000 per year for that. The annual contribution needed in the current year was $500,000.

Ms. Weaver stated that the second level of the District's financial position was how it was positioned in its operating funds. She explained that when LTD first collapsed its Risk Fund into the General Fund in FY 92-93, the District began accumulating working capital, beginning with about $400,000 and reaching about $1.8 million in FY 93-94. This amounted to approximately 12 percent of the District's budget, which many would consider to be the minimum level needed for reserving working capital. She said that staff would work with the Board to set policies for working capital levels.

Undesignated funds for the current year amounted to about 4 percent of the budget. Those undesignated funds had been utilized in the Long-Range Financial Plan in the following year. She handed out a sheet showing the bottom line of what the budget would look like in future years with no new revenue sources. This plan would require the District to completely use its undesignated working capital over a five-year period. However, she said, staff would not recommend following this plan for five years. If the assumptions held true in FY 94-95, staff would be tightening down the budget and looking for new revenue sources to meet some of the District's goals. This page showed that if the District's payroll tax was weak, LTD would survive for five years, but it was only survival, not strategic planning or growth. In order to meet the requirements of the Transportation Planning Rule, the District would need to consider whether it could implement and maintain 5 percent service increases per year, or other measures that might need to be taken. Working capital reserves was important because during the last 12 years, the local economy had increased six times and decreased six times, based on the number of people working, resulting in fluctuations in payroll tax revenues.

Ms. Weaver discussed the Revenue and Expense Summary sheet in the budget document. She said that funding reserves meant that the District would dedicate one-time cash surpluses and not spend those funds; this did not require a new revenue source. She added that reserves were savings for the future. The budget increased operationally about 9 percent. Operating expenses require ongoing revenue sources, unlike reserves. To allow comparability with prior years, the LRFP restated Special Transportation to reflect only the General Fund portion of the costs, and the actual insurance and liability costs for risk funding.

Mr. Luck asked what the budget comparison was when comparing the FY 93-94 budget to the estimated actual for FY 92-93. Mr. Brandt thought it was about 7 percent, and Ms. Weaver said she would be happy to compute that for the Committee. She stated that the budget had increased 9.1 percent. About one-third of that increase, almost $.5 million, was for base wage increases of 5.5 percent. Materials and Supplies increased about $77,000, or about 2.4 percent over the prior budget, amounting to about 1 percent of the total change. The total change to the base budget would be about 5 percent if there were no service increases.

Mr. Brandt thought that staff should compare the budget to the actual for FY 92-93, and then the percent increase would be a lot larger. Ms. Weaver referred to Ms. Pappas' question about why division administrators had underspent their budgets so much. She said that some budget policy says, "If you don't spend it, you lose it." LTD did not ascribe to that policy. Staff historically had been allowed to propose a budget based from their prior budgets, although in recent years, staff had begun to work from a base budget concept.

Ms. Weaver said that staff had proposed a 6.4 percent increase in service, following the 6.7 percent increase in FY 92-93, to complete the recommendations of the 1992-93 Comprehensive Service Redesign. Service increases in prior years were 2.2 percent, 2.1 percent, 1.8 percent, and 4.7 percent. The Long-Range Financial Plan currently being discussed balanced with increases of 4 percent in FY 94-95 and 2 percent in the following three fiscal years.

Ms. Weaver then discussed the revenue assumptions found on page 5 of the Long-Range Financial Plan. Staff were not recommending that the payroll tax rate increase in FY 93-94, but it was conceivable that it would have to increase in January 1995. If that were true, it would be discussed during the following year's budget process.

Ms. Pappas asked about increases in the payroll tax in January rather than in July. Ms. Weaver explained that January implementation dates used to be rigidly imposed by the State but no longer were; however, the State still strongly advised a January date because the tax rate could be published in the tax rate books.

Ms. Weaver stated that payroll tax revenues had experienced steady growth between FY 86-87 and FY 90-91, then dropped in FY 90-91. The projections into the future were fairly conservative, based on predictions of local economists, the State of Oregon, and employment specialists. Ms. Weaver explained that 70 percent of the District's revenue was based on the payroll tax, which moved with the economy. During the current fiscal year, payroll tax revenues had increased 1.25 percent over the same quarter in the previous year, followed by increases of 2.58 percent, 8.2 percent, and 16.8 percent. She said she did not understand why there were such large fluctuations, and was waiting for payroll tax receipts in the next quarter to see if that trend continued.

Ms. Weaver said that staff had covered the expenses in some detail, budget by budget, at the previous two meetings.

She then discussed generalized projections into the future, as shown on page 6 of the Long-Range Financial Plan. The outer years showed reasonable projections in growth. Service changes had been added as a separate line. The growth assumed the future implementation of the self-employment tax.

Mr. Billings asked if personnel costs included the service increase, and commented that more service translated into more employees. Ms. Weaver said that operator wages, parts, fuel, etc., would increase as a result of service increases, as had occurred in FY 92-93.

She discussed several positive or negative changes that could occur, such as changes in the payroll tax rate, passenger fares, or personnel costs. Increasing the tax rate by .0001 would result in an additional $175,000 annually for the District; by year five, the annual impact would be $213,000. She explained that if projections were off 1 or 2 percent either way, revenues could be from $600,000 to the good to $400,000 to the bad. If the District added 5 percent in service each year to the Long-Range Financial Plan, by the fifth year, with the current assumptions, the budget would decrease $1.5 million. On the other hand, adding 5 percent in service each year but increasing payroll tax projections by 2 percent each year and adding the self-employment tax in future years showed that the District could fund the 5 percent in service increases. Ms. Weaver explained that the staff assessed the Long-Range Financial Plan each year in relation to the total. An advantage of using a long-range planning process such as this was that the District would be able to react more quickly to changes in circumstances because of this detailed understanding of the budget and of the District's financial position.

Mr. Pangborn summarized the major elements of the budget. He stated that, as always, the major increase was to maintain the level of services. He said it was an ambitious plan to increase bus service to the community by 6.4 percent, which was being done in response to numerous requests. The budget also included additional service required by the ADA and a special emphasis on training, in response to special needs, such as transmission repair on the new buses and certain aspects of driver training. Staff had suggested a public education plan within the Marketing budget, on which there did not seem to be consensus among the Budget Committee members, so Mr. Pangborn presented a proposed motion that would require Board approval before public education plan money could be spent. He said that staff believed this to be a balanced budget with conservative projections, and one that would meet the long-range needs of the District.

Mr. Pangborn said that the Budget Committee's role was to either approve the budget or direct staff to make changes.

Ms. Fitch asked about increases to the Group Pass program contracts. Mr. Pangborn said that there would be inflationary increases of 4.7 percent in FY 93-94, and Ms. Weaver added that there had been an 8 percent increase the previous year. Mr. Pangborn said that there had been a proposal at the last Board meeting regarding a downtown Eugene shuttle. The Board could look at increasing the cost of group passes in downtown Eugene to fund the shuttle costs. Ms. Fitch asked if the farebox-to-operating cost ratio was slipping from 19 percent to 17.6 percent because the group pass price was not increasing, or because farebox revenues had not kept up. Ms. Weaver said that part of the percentage of slippage was due to the fact that the payroll tax rate had increased. She stated that the estimated actuals in future predictions were conservative, so it was better to look a the prior year's actual. The ratio had not slipped yet in relation to the Group Pass program, because of the 8 percent increase the prior year. Ms. Loobey said she believed another factor was that the District had implemented a major reworking of the service in September. Experience showed that it took about a year to a year and a half for ridership to materialize, and staff had not anticipated that the growth the District had been experiencing would repeat itself for a little while. The additional 6.4 percent in additional service in FY 93-94 also would take some time to result in ridership increases.

Mr. Brandt said he thought that what was happening was that the District was not getting the ridership for the increased costs, and was not keeping its rates up. When comparing Materials and Services and Personal Services with the actual budget, the costs increased 14 percent, while total passenger fares/ridership increased 3 percent. He thought there was a problem with that kind of results. He said that the District's costs were really going up; part was due to service increases, but part was due to large increases in other costs. He said that maybe Ms. Weaver was conservative on the revenue side, but he didn't like comparing percent increases to the previous year because it was deceiving and things got distorted.

Mr. Billings stated that the problem was that every year the budget was underspent by a predictable amount, so the Committee should be looking at actual to actual. Mr. Brandt said that money should not be budgeted this way and taken away from the taxpayers. Ms. Loobey thought the Committee also should compare base budget to base budget, because adding 6 percent service and hiring 16 additional people caused personnel costs to increase, and could not be compared to the prior year's budget.

Mr. Luck asked if a service increase also increased passenger revenues. Mr. Pangborn said that the District did not realize a one-to-one increase in passenger fares and service. Rather, the learning curve before people learn about and begin using the service would cause a delay in increased revenues. Another factor was how to encourage people out of their current modes of travel onto the bus. He stated that LTD was not a money-making proposition, with passenger fares at 17 to 18 percent of revenues. The District offered service where it appeared that it would generate ridership, and hoped to encourage people to ride. Planning Administrator Stefano Viggiano said there was a third reason: Every year, it took about 1.5 percent in service increases to keep pace with traffic congestion, additional ridership, etc. For example, adding time to a route to allow for increased traffic congestion or adding service to alleviate overloads actually meant increased costs to serve the same segment of the population that already was riding.

Mr. Viggiano explained the historical relationship between ridership and service, stating that the average increase in ridership had been about two times the average increase in service. In the past few years, the District had been experiencing operational problems with the increased traffic, etc., and service had not kept pace with ridership needs. The Comprehensive Service Redesign (CSR) the previous year addressed some of the problems that had been building over the years. He said that there currently was a lag, but staff expected the average annual increase in ridership to exceed the average annual increase in service in the long run. He explained that there were two main operational problems: (1) the bus runs behind schedule; and (2) the bus is overcrowded, and two buses are needed. Adding another bus for overcrowding doubled costs in the short run, without doubling ridership.

MOTION Ms. Pappas moved that the Budget Committee approve the proposed budget for Fiscal Year 1993-94. Ms. Hocken seconded the motion.

AMEND Ms. Hocken said she would like to offer an amendment that added qualifiers to the motion, by adding a statement that the proposed budget for Fiscal Year 1993-94 be approved on the condition that the public education portion of the Marketing budget would require specific Board approval before implementation. Ms. Pappas accepted the amendment, and Ms. Hocken accepted the amendment as the seconder.

Mr. Faulhaber said he thought there were policy decisions for the Board, one of which was the public education portion. He thought that the Budget Committee could make supporting statements, but the issues that Mr. Brandt had raised were more of a philosophy of how the District was run. Mr. Luck said that if the Committee gave approval, the Board could still say to cut some expenses. Ms. Loobey said that the Board still had to adopt the budget; the Budget Committee approved budgets for adoption by the Board, and the appropriation authority was with the Board. Therefore, the Board could put restrictions or make changes up to 10 percent in any category, but could not increase the amount of the budget. The Board could lower the budget or move up to 10 percent around within categories, such as service, reserves, etc., and the end results might be the same. She added that any underspent amount would be a cash carry-forward at the end of the year. Mr. Parks stated that the staff went through the process with the Board all during the year.

Ms. Gilland asked if Mr. Brandt's objection was similar to someone having more taxes than necessary during the year and receiving a rebate. She said this was a large budget, so staff would not want to overspend in case costs went way up or revenues went way down. Mr. Brandt said he thought it was misleading to say to the Budget Committee that costs increased 6 percent from budget when they actually increased 14 percent from actual. He thought the increases actually were more substantial than presented, and that there was a lot of unnecessary spending in this particular budget. He said he would spend more on service and cut back drastically on some of the other costs, and was just using the percentage increase to emphasize this point.

Mr. Luck asked if the cutting should be at the Budget Committee level. Mr. Brandt said he thought that was why the Budget Committee met, in order to hear additional response from the community. If the Budget Committee thought something was the way the community wanted it to be, that was strong direction to the Board. He said he thought this was a significant series of meetings. If the Committee voted to approve the budget, it was saying it liked what it saw; if the members did not like what they saw, they should talk about that.

Mr. Gaydos said he liked a lot of what he saw. He thought it was important to build reserves for bus purchases, operating, and capital, and he commended the District for doing so. He stated that LTD's revenue sources were not predictable, so he thought it was essential that there be some ability to deal with that issue, and he thought the budget was based on intelligent planning. He also thought it was excellent that there was a five-year plan. He stated that he happened to be supportive of the educational portion of the Marketing budget, and he thought the collaborative part of the campaign was important. He did not think other jurisdictions would pawn off their responsibilities, and he said this kind of education was an important part of LTD's responsibilities as well as Lane County's, Eugene's, etc. He said that LTD should not do it all, but should be part of the process. Mr. Gaydos stated that the Transportation Rule Implementation Plan (TRIP) would result in significant changes. He wasn't sure yet what the impacts on LTD might be or when they would happen, so he thought the reserve component was very important.

Mr. Gaydos said the budgeting was a "numbers game." He agreed with Mr. Brandt that it was confusing to compare the actual to the proposed budget, but his sense, in general, was that the figures were conservative enough that they made sense. With an increase in tax revenues of 3 percent a year, he would want to keep that in mind and plan not to increase expenses. In general, he said, he thought the budget was a good document, and he thought staff did a good job of explaining and anticipating the Committee's questions. He said he had learned through the process and appreciated staff's efforts. He recommended that the Committee move forward with the budget. He said he thought Mr. Brandt was correct in saying that every government unit was figuring out ways to do things cheaper. LTD also should be doing that, and because he knew that staff were trying to do that, he was comfortable with the budget.

Ms. Hocken said she wanted to make a comment that she knew the Committee could not deal with that evening. She said that staff were telling the Committee they were fairly certain the budget would be underspent throughout the year, and she would be interested in knowing where that would be. She stated that there was nothing wrong with contingencies and reserves, but at some point the Board should discuss whether the District should budget reserves and estimate categories closer to what staff thought actually would be spent, and create a policy.

Mr. Luck said that in his business, they budgeted what they thought would be spent on a specific line item, and it was okay to overspend within categories. He asked if there would be a way to budget toward more actual and have reserves or a cushion within categories.

Mr. Brandt said that the Board could call back the Budget Committee during the year for a supplemental budget if necessary, so the Board was not totally without flexibility. Mr. Luck repeated that in his company, there was nothing wrong with being over budget if the overage was justifiable. He thought that made it easier to compare from year to year. He said he understood why staff budgeted the way they did, but he thought the other way made comparisons easier.

Ms. Loobey said that the Board could hold a discussion about this issue. She explained that this was how the budget historically had been prepared. Ms. Gilland commented that if a philosophy stated that money would be lost if it were not spent, people would increase their spending. She added that a number of items in the budget, such as a couple of training courses and the survey on comparable salaries, were cut from the budget two years before. She thought they were good items and should stay.

VOTE Ms. Fitch called for the question. The motion to approve the FY 93-94 budget with the condition that the public education portion of the Marketing budget would require specific Board approval before implementation passed 9 to 2, with Mr. Brandt and Mr. Luck voting in opposition and all others in favor.

ADJOURNMENT: There was no further discussion, and the meeting was adjourned at 9:12 p.m.

Budget Committee Secretary