MINUTES OF BUDGET COMMITTEE MEETING

LANE TRANSIT DISTRICT

ADJOURNED MEETING

Wednesday, May 4, 1994

Pursuant to notice given to *The Register-Guard* for publication on April 14, 1994, and at the April 27, 1994, budget meeting, and distributed to persons on the mailing list of the District, a meeting of the Budget Committee of the Lane Transit District (LTD) was held on Wednesday, May 4, 1994, at 7:30 p.m. in the LTD Board Room at 3500 East 17th Avenue, Eugene.

Present:

Board Members	Appointed Members
Kirk Bailey	Russ Brink
Rob Bennett	Mary Gilland
Steve Engel	Chris Larson
Tammy Fitch, Vice President	Tim Luck
Pat Hocken, President	Cynthia Pappas
Dave Kleger, Treasurer	
Thomas Montgomery, Secretary	

Phyllis Loobey, General Manager
Mark Pangborn, Budget Officer
Jennifer Self, Minutes Recorder

Absent:

Rick Crinklaw, Committee Secretary
Gerry Gaydos, Committee Chair

CALL TO ORDER: Ms. Hocken called the meeting to order in the absence of the Committee Chair.

PUBLIC COMMENT: There was no public comment.

APPROVAL OF MINUTES (APRIL 27, 1994): Due to the illness of the minutes recorder, the April 27, 1994, meeting minutes were not available prior to meeting time. The members were not asked to approve the minutes at that time.

CONTINUE BUDGET PRESENTATIONS:

Capital Improvements Program (CIP): Mr. Pangborn explained that capital was a major part of the budget, in a separate fund. He reminded the members that capital was anything that cost $100 and was functional for two or more years, and the reason LTD used that definition at such a low dollar amount was that there was substantial federal funding for capital. Consequently, if LTD defined as much as possible as capital, it would have to spend less money from its operational funds.

Mr. Pangborn discussed the various federal funding sources:

- Federal Transit Administration (FTA) Section 9 funds: given on an 80/20 match with a three-year limit;
- FTA Section 3 discretionary funds: applied for and given on an 80/20 match with a three-year limit;
- FTA Section 18 funds: for rural use only, given on an 80/20 match with a three-year limit;
- Federal Highway Administration (FHWA) funds: given on an 89/11 match or on a discretionary basis with a three-year limit; and
- State funds.

Mr. Pangborn commented that the Board had reviewed and approved the FY 94-95 budget requests, and that the following five years were used for planning purposes. He mentioned that in the "Revenue Rolling Stock" category for FY 94-95, LTD had purchases of bike racks only.

Bus Stations: Mr. Pangborn reported that $382,000 would be requested for FY 94-95, with $155,000 going toward bus shelters, pads, and benches. He commented that a typical bus shelter cost between $5,000 and $6,000 to build. He added that LTD planned to improve the University of Oregon North Station because more buses were using that station. A big expense would be to construct a Park and Ride Station at 58th Street and Main Street in Springfield. He commented that the next Park and Ride was planned for Coburg Road.

Eugene Station: Mr. Pangborn stated that this project was the biggest passenger boarding improvement. The station would cost $11.86 million, with Section 3 funds covering the primary amount of the cost. He added that $3.0 million would be spent in FY 94-95.

Bus Support: Mr. Pangborn stated that this category covered facilities improvement costs. The most significant costs would be for recycling bins for Maintenance and building a storage area on the LTD lot.

ADP Hardware/Software: Mr. Pangborn said that LTD had a commitment to automated data processing, both hardware and software.

Miscellaneous: Mr. Pangborn commented that some of the funds in this category would go toward upgrading the customer service telephone system, while the biggest expense would be the upgrading of the fleet radio dispatch system. He added that funds for the upgrade would come out of a bus grant, with part from the Section 9 funds.

Mr. Pangborn stated that the total FY 94-95 budget was for $4.4 million, with half allocated for the Eugene Station.

Proposed Budget Financial Analysis: Mr. Pangborn introduced Finance Administrator Tamara Weaver, who gave a global overview of the FY 94-95 Budget.

Ms. Weaver reported that the LTD budget fell within the Long-Range Financial Plan. The Long-Range Financial Plan projected sustainable service additions and maintained adequate reserves. She commented that staff's research would illuminate the issues of future funding and would provide a picture of what LTD hoped to with regard to service.

Ms. Weaver reminded the committee that LTD had raised its tax rate from .49 percent to .56 percent in January 1992, which enabled LTD to institute a comprehensive service redesign of the bus system. She commented that this project took over two years to complete. She referred the committee to a graph that exemplified how the raising of the tax rate helped LTD accomplish its goals by meeting the costs of service increases over that two-year span.

Ms. Weaver stated that as part of the written report she had provided a summary of the revenue and expenses for the next year's budget. She said that LTD's budget primarily consisted of payroll taxes (67 percent). State-in-lieu-of Payroll Tax payments added another 5 percent, so 72 percent of LTD's budget was based on wages within the community. The rest of the budget consisted of FTA operating grants, advertising, interest, and passenger revenues. She stated that LTD's primary expense was personnel costs, at 72 percent. She added that 21 percent of the expenses were for materials and services, and the rest consisted of risk costs and a general fund transfer to the Special Transportation Fund.

Ms. Weaver referred the committee to the Long-Range Financial Plan section in the budget document. She said that the long-range plan was used primarily to look at issues of the revenues, expenses, reserves, and service levels. She explained that early in the budget process each year, staff spent considerable time reviewing the estimated actual or current financial performance and projecting service levels that would be sustainable.

Ms. Weaver stated that the current budget projected a revenue increase of 3.3 percent and an increase in all of the operating expenses of 5.4 percent from the prior budget and 11.7 percent from the estimated actual. She said that staff had worked extensively with each of the individual expense components to develop projections for future budgets. She added that the increases made sense historically, and referred members to a graph that illustrated her point.

Ms. Weaver commented that the current budget showed 11.7 percent from the estimated actual, and staff were predicting a 2 percent margin, which would result in actual increases of 9.7 percent. She added that because of Oregon Budget Law, it was prudent to have a margin, because if the budget was exceeded in late June, the Board would not have time to correct this problem, and there would be a violation of have broken a law. She noted that a 2 percent expected margin was a good margin, and that this money was shown as being added to the reserves.

Ms. Weaver stated that staff had used the Long-Range Financial Plan for three years. She evaluated its effectiveness by comparing FY 94-95's estimates over the three-year period. She showed the committee the predictions from three years ago, noting that staff had predicted the FY 94-95 budget within a .7 percent margin.

Mr. Brink asked, given that personnel costs were over 70 percent of total expenses and actual personnel increases for the last four years had ranged from 7.5 percent and 10.2 percent, why staff used a flat 5.5 percent increase when they projected out for future years. Ms. Weaver said that staff used the 5.5 percent because, historically, that was the average amount, over a long period of time, that an individual received in total wage increase. The 5.5 percent was a projection of compensation increases, and increased employment would be shown on the line item, "Adding new service." The historical percentages included compensation and increases in staffing.

Ms. Weaver referred members to page two of the written financial analysis, and noted that in the current year there would be a budget variance of $1.2 million, and that $935,000 would be added to the beginning fund balance, so the fund balance would be approximately $3.2 million. She said that the labor contract had not yet been settled. If it was not settled by June 30, the balance would be larger by approximately $260,000.

Ms. Weaver commented that the revenue variance in the current budget was not significant, while the expense variance was significant, at 5.6 percent of budget. She referred members to a chart that illustrated the components of the expense margin. She noted that two of the margins were in Risk and Maintenance, and they were fuel costs and liability projections for self-insurance. She said that staff had moved those margins to reserves for the coming budget year. She added that the marketing margin came about as a result of a delay in the implementation of the marketing program, and the money would be rolled over into the program for the coming fiscal year. Ms. Weaver noted that $60,000 was not spent in the previous year for the severance plan because the Board had canceled a long-term plan because it was antiquated and no longer served its original purpose. She added that medical costs were not going to increase at all in FY 94-95. She also noted that the operating margin fluctuated greatly, partly because of unpaid time within the operator pay budget (lag time in replacing operators, unpaid sick time, and other unpaid leave).

Ms. Weaver stated that staff predicted that LTD would have a surplus of funds in the given fiscal year and through the next four years, but the fifth year prediction showed LTD running a deficit. She commented that staff would not worry about that fifth year unless next year's Long-Range Financial Plan showed the deficit moving in to the fourth or third year.

Ms. Weaver discussed revenue assumptions, saying that staff were recommending that the payroll tax rate be raised to .6 percent by January 1995. She referred members to a page in the financial analysis that enabled the members to see the percentage increases for each of the revenue items.

Ms. Weaver stated that expansion assumptions for the current year were that 2.5 percent service hours would be added, which would amount to 6,500 hours. She added that the cost per service hour was predicted to increase 5 percent.

Ms. Weaver directed the committee to page 10 in the budget book and noted that the information gave the members a breakdown of wages for union and administrative employees. The predictions for wage increases in the next five years were given on that page as well. She told the committee that a compensation study was currently underway, but had not yet been completed. To reflect that there might be additional costs in the future, Ms. Weaver noted that she had added 8 percent to the compensation predictions for FY 95-96.

Ms. Weaver directed the committee to a graph that reflected the history and current makeup of Capital Reserves. She commented that in June 1989, Capital Reserves were about $3.6 million; in June 1990, they were $3.6 million; and in June 1991, $1.9 million, due to a major bus purchase. She noted that in June 1991, LTD staff instituted the Long-Range Financial Plan and categorized the reserves into its major components. She commented that LTD attempted to accumulate money for bus purchases over a number of years. She added that LTD should end FY 94-95 with $4.0 million in capital reserves.

Ms. Weaver, in reference to operating reserves, directed members to a graph that described the operating reserves and working capital. She noted that in the proposed budget the committee would see a payroll tax fluctuation reserve of $1.9 million and a general operating reserve of $300,000, which would be used for any annual unexpected expense. She said that the payroll tax fluctuation reserve was more of a long-range reserve that could be used if, for instance, the economy slowed in a given fiscal year. She added that risk reserves contained $657,000 and noted that it was a relatively modest amount, which would cover most fairly extreme problems in any given year. Lastly, she noted that working capital reserves contained $267,000, which was the 2 percent margin to which she had earlier referred.

Ms. Weaver described the way in which reserves protected LTD from running over budget. She added that it was the Board's decision about what level of recession or economic slowdown to reserve for. She said that the current reserve level would not handle a recession such as the one that occurred in the 1980s. Ms. Weaver added that risk reserves would only be used for self-insurance needs.

Ms. Pappas asked to where the $935,000 would roll over. Ms. Weaver answered that this balance was included in the $1.9 million in the payroll tax fluctuation reserve. She added that to the extent that LTD "beat" its budget, the reserves would increase and improve LTD's position.

Ms. Weaver summarized by showing the members a graph of proposed changes in funding. It reflected the results of increasing the tax rate to .6 percent and the result of implementing the self-employment tax. She commented that the bottom line was that if LTD did not add any new revenue sources, the Long-Range Financial Plan would work for two years. Then, in the third year, all programs would need to be frozen and no new programs could be added. She pointed out that the current-year service increase was a modest 2.5 percent because the tax increases had not yet been implemented. Staff did not build a current-year budget based on revenues that did not yet exist.

Ms. Weaver concluded by saying that staff had presented a budget that met the condition of sustainability, while also allowing the District to operate prudently and address some of the aggressive transit needs of the community. She added that growth should flourish under the proposed budget plan with new revenue sources. She reminded members that they were only approving FY 94-95, and that each year would need to be approved as it approached.

Mr. Engel noted that over the years, the operational expenses increased by about 10 percent a year and the total revenue fluctuated only about 4 to 5 percent. He asked how expenses could fluctuate by more than revenue and LTD managed to sustain a workable budget. Ms. Weaver commented that this was why staff had created the Long-Range Financial Plan and continued to ask itself whether LTD could fund itself over time. Each year, LTD operated within current operating revenue and projected continuing to be able to do that for four years. She reiterated that the long-range plan relied upon the creation of new revenue sources; otherwise, LTD would have to cease growing in order to maintain its operational expenses under its operational revenue.

Mr. Engel asserted that he measured productivity by comparing operating expenses to service hours. He commented that the comparison totaled $45.50 actual for FY 93-94 and $49 for FY 94-95. He asked if that would increase by that amount each year. Ms. Weaver said that it was possible that LTD would have an dramatic increase during a year when the District added a program such as the new aggressive marketing program. However, she commented that each year actual numbers were used to compute a fully-allocated cost audit per service hour. This figure tended to vary from 1 percent to 6 percent. She noted that last year that number showed only a 1.1 percent increase while service had increased 6.6 percent. She commented that it was important to look at the real numbers rather than budgeted figures, which include estimates and margins.

Mr. Engel asked if there were a way that LTD could measure productivity in addition to the current mechanism. He commented that he had not seen any type of productivity analysis in the budget presentations. Ms. Weaver answered that, of course, LTD should be measuring productivity, and did do that. She asserted that she wanted the projections in the Long-Range Financial Plan to be good on the average, to primarily deal with the issues of sustainability and reserve levels. She added that the current presentation was about the budget and in relationship to long-range financial issues, and less about performance issues. Performance issues were dealt with more at a program level and were evaluated in the fall, after the audit. LTD staff made a performance-based presentation to the Board at that time.

Mr. Engel asked if he calculated costs for service hours for FY 93-94 actuals at $45, and the Board directed staff to have an FY 94-95 actual of $45, then would the budget proposal contain different numbers. Ms. Weaver answered, saying that it would be a different budget if the Board wanted the numbers to look a certain way, but if the actual goals and performance were focused upon, then the budget would remain the same. Comparing budget to actual always would be a bit problematic because of budget margins.

Mr. Engel commented that if LTD established a self-employment tax and increased the payroll tax to .6 percent, the District would have to rely upon growth in the community for revenue increases, which he thought was a risky way of doing business. He said he would feel more comfortable if he had productivity numbers. Ms. Weaver said that she would welcome doing more productivity analysis during the budgeting process and would be glad to give Mr. Engel the productivity reports prepared from the last audit.

<u>BUDGET COMMITTEE DISCUSSION AND ACTION</u>:

Mr. Engel commented that he was impressed with the knowledge of the staff and the efficiency of the presentations.

MOTION Mr. Montgomery moved, seconded by Ms. Gilland, to approve the FY 94-95 budget as presented.

Ms. Larson asked the Board members if the budget was consistent with their direction to staff. Ms. Fitch said that it was consistent in the current year, and she noted the importance of taking each year into consideration and holding staff accountable for creating a viable budget that fit the direction of the Board.

Mr. Bennett commented that the staff presentations were wonderful. He added that the increased marketing proposal was a serious statement, and it would be a major effort. He added that he wanted to learn more about the marketing side of LTD so that he could be accountable as a Board member. He commented that the Board was looking for ways to be more accountable within LTD's operation process.

Ms. Gilland commented that it was exciting to see more emphasis placed upon building reserves and more long-range planning.

Ms. Larson asked if part of the federal grant money being used for the Eugene Station was being set aside in its own reserve, so that there would be money to cover any audit costs. Ms. Weaver explained that LTD spent the money first and then received grant money from the federal government. She added that the internal controls were very good. Further, she noted that if LTD did have a major problem with the Eugene Station, then reserve money from future bus purchases could be borrowed to cover any extraneous costs. Staff would work to address this concern, which had also been expressed by Mr. Bennett.

Mr. Brink commented that he had said at a previous meeting that he would need to see some arguments, other than the equity argument, for the self-employment tax and increase in the payroll tax. He said that Ms. Weaver's analysis provided him with other arguments and it was outstanding work.

Ms. Loobey commented that there was a great deal of community support for LTD, and people were realizing that LTD was much more than just a bus company.

VOTE The motion passed unanimously, 12:0, with Mr. Gaydos and Mr. Crinklaw being absent.

ADJOURNMENT: There was no further discussion, and the meeting adjourned at 9:45 p.m.

Jim Zuck

Budget Committee Secretary