MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

September 26, 2001

Pursuant to notice given to *The Register-Guard* for publication on September 21, 2001, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 4:00 p.m. on September 26, 2001, at Lane Transit District, 3500 E. 17th Avenue, Eugene.

Present: Gerry Gaydos, LTD Board Member
Pat Hocken, LTD Board Member
Virginia Lauritsen, LTD Board Member

I. CALL TO ORDER

Ms. Hocken called the meeting to order at 4:05 p.m.

II. ROLL CALL

Also present were: Ken Hamm, General Manager; Diane Hellekson, Finance Manager; Carol James, Accounting Supervisor; Andy Vobora, Service Planning Manager.

III. APPROVAL OF MINUTES

Minutes of the May 29, 2001, meeting of the Board Finance Committee were approved 2:0, with Mr. Gaydos abstaining, as he was not present at the meeting.

IV. FARE POLICY

Mr. Vobora distributed copies of the Pricing Plan, Fare Structure, and Fare Policy and stated that it was time to start preparing for the next fare increase. Typically, fare instruments have been increased on a rotating basis. Although passes would be the next instrument in line for an increase next year, the Committee could recommend increasing any fare instrument.

Mr. Vobora posed two questions:

1. How aggressive does the Committee want to be with increasing fares?
2. What data would the Committee like to see prior to making decisions on fares?

Mr. Vobora stated that the following fare instruments should be evaluated:

- Youth fare
- Breeze fare at 25 cents for an 18-month period
- Circulator route fare at 25 cents
- LCC term pass
- Day Pass

In response to a question from Mr. Gaydos, Mr. Vobora stated that special event fares are typically left up to the event organizer. LTD charges a standard rate and the event organizer chooses whether to charge a fare to offset their charges.

In response to a question from Mr. Gaydos, Mr. Vobora stated that although it was too soon to tell the affect on ridership with the increase of the cash fare from $1.00 to $1.25; numbers may show an affected ridership on the weekends. Mr. Vobora noted that fare instruments are priced to move people toward prepaid fares but staff have not seen a shift toward the cheaper token.

Mr. Hamm stated that at one time there was an industry standard in terms of the discount over the cash fare for the month. Ms. Hellekson stated that LTD gives a deeper discount.

In regards to Group Pass rates, Ms. Hellekson noted that in the past the Group Pass rates had been revenue neutral. With the change in the Fare Policy last year, LTD can be more aggressive in increasing the rates.

Ms. Hocken stated that she was reluctant to increase cash fares next year. She would, however, like to look at the discounting of the passes and tokens.

Ms. Hocken asked if the youth fare could be subsidized with grant dollars to maintain the rate. Mr. Vobora stated that school districts have submitted grant proposals to the city for transportation funding. If awarded, those funds would probably go towards providing additional service. Mr. Vobora also had discussions with the school districts about using the Group Pass program.

Mr. Gaydos asked if it was too soon to report on Breeze ridership. Mr. Vobora stated that staff could get information by conducting rider surveys.

Ms. Hocken suggested meeting with LCC's new administration to discuss the LCC term pass.

In response to a question from Ms. Lauritsen, Mr. Vobora stated that tokens make up 4-5 percent of total ridership, passes make up 60-65 percent, and cash fares make up 30 percent; special events are excluded.

In summary, the Committee asked that staff report back with fare comparisons with other transit systems. Staff would also look into different types of fare instruments; in particular, one instrument that could perform multiple functions.

(Mr. Vobora left the meeting.)

V. DEBT FINANCING

Ms. Hellekson stated that due to arbitrage rules, debt financing of major purchases cannot precede the delivery or any financial outlay for the purchases by more than two years. The preference is to finance in batches of $5 million. We are not there yet because not all vehicles have been selected. To date, the FTA has not clarified allowing federal funds to be used for repayment of other forms of debt financing.

Ms. James explained arbitrage rules as follows:

- $\geq$ $5 million – no arbitrage restrictions
- $5 million to $10 million – 90 percent of debt proceeds spent out in two years
- < $10 million – need specific arbitrage restrictions

Ms. Hocken asked if the timing would work to include the purchase of BRT vehicles for a total purchase of $10 million two years down the road. Ms. James stated that a contract would need to be in place first. Ms. Hellekson stated that the first $10 million in the budget did not include any BRT buses. We could substitute, however. Used buses could be used as collateral.

Ms. Hellekson stated that interest rates are falling, which is to LTD's benefit.

In response to a question from Ms. Hocken, Ms. Hellekson reported that a bank could close a loan deal in 30 days; the bond process would take considerably longer.

Ms. Hocken asked for an analysis that looked at all the options.

Ms. James noted that LTD planned to use formula money to purchase buses, which need to qualify under financing options through FTA. One FTA program that would allow us to finance debt is structured around the authorization period of the formula money, which is through September 2003. FTA will not allow us to pledge money we do not know we have yet.

Ms. Hocken asked if there were additional issuance costs associated with the bond issue that would not be there in a bank loan that would offset the difference in interest. Ms. Hellekson state that there could be.

The Committee suggested a meeting with stakeholders, bankers, investors, etc., to inform them of LTD's Debt Policy. Ms. Hocken suggested including members of the Chamber's Public Policy Committee.

Ms. Hellekson stated that staff should have more information on earmarks for the November 6 meeting of the Board Finance Committee.

VI. BUDGET DEVELOPMENT

Ms. Hellekson stated that due to economic uncertainties, staff proposed to begin the FY 2002-03 budget development process by identifying two different scenarios. The first would be framed with assumptions that are cautiously optimistic. The second set of assumptions would be cautiously pessimistic. In October, LTD managers would prioritize services, projects, and acquisition plans in the order they would be funded. The LTD Board of Directors would then review this list at its two-day work session in November. The Committee approved this process.

Ms. Hellekson stated that payroll tax revenues would be affected by the numerous layoffs in the community and with the closure of large Group Pass holders.

Ms. Hellekson stated that there was flexibility with budget development. Staff have been meeting to discuss strategy and have been preparing for this downturn for some time.

(Mr. Hamm left the meeting.)

VII. ACCOUNTING ISSUES

Recent changes in financial reporting rules require that LTD modify the way certain revenues are reported. For years LTD has budgeted on a modified accrual basis. This measurement focus stated that revenue is recorded when it is "measurable and available to liquidate current obligations." Under the old rules, employer payroll taxes and self-employment taxes were not accrued at year end because they were neither measurable nor available. The new ruling states that LTD must accrue back to the previous fiscal year, as revenue, an amount representing all payroll and self-employment tax receipts for 60 days after the end of the year. These changes relate only to year-end financial statement reporting. Internal reporting to the Board can be done on a cash basis, modified accrual, or full accrual basis.

Cash basis is the easiest and most accurate because it reflects known quantities. It reflects payroll tax revenues that were actually earned three to six months ago. The impact of old information may delay course corrections needed in today's economy.

Accrual basis would require an estimate of applicable corporate payroll on a monthly basis. This information is not currently available. Reports would represent a "best guess" that has a substantial potential for error and manipulation.

LTD is very likely headed for reporting on a full accrual basis under GASB Statement 34. Ms. James stated that the full accrual approach does not work well for government reporting. It is a good method for businesses that have a relationship with actual exchange transaction, which taxes are not.

Ms. Hocken suggested including footnote explanations in the financial reports.

Mr. Gaydos stated that if we must go to accrual officially, we should do so as soon as possible and inform the Board of the financial condition.

(Mr. Gaydos left the meeting.)

Ms. Hellekson stated that staff would continue to report in a format that communicates to the Board, even if it is not in compliance with GASB, and then put the statements in compliance at year end.

Ms. Hocken stated that showing an estimate rather than a zero would be better when outside agencies are looking at our records for debt financing. Ms. Hellekson had a concern with working with estimates in that significant problems might not surface until the end of the fiscal year.

Ms. Hellekson stated that staff, as a test, would prepare the next financial report for the Board using two different formats.

VIII. NEXT MEETING

The next meeting of the Board Finance Committee has been scheduled for November 6, 2001. Agenda items would include review of the Capital Improvements Plan. Another meeting would be scheduled for early December 2001 to discuss budget development and the Long-Range Financial Plan.

IX. ADJOURNMENT

There was no further discussion and the meeting adjourned at 5:20 p.m.

(Recorded by Chris Thrasher, Lane Transit District)
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