MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

May 16, 2002

Pursuant to notice given to *The Register-Guard* for publication on May 14, 2002, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 4:00 p.m. on May 16, 2002, at Lane Transit District, 3500 E. 17th Avenue, Eugene.

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

I. CALL TO ORDER

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

II. ROLL CALL

Ms. Hocken noted that she and Ms. Lauritsen were present. Also present were: Ken Hamm, General Manager; Diane Hellekson, Director of Finance and Information Technology; Carol James, Accounting Manager; and Andy Vobora, Service Planning & Marketing Manager.

III. APPROVAL OF MINUTES

Ms. Lauritsen moved, seconded by Ms. Hocken, to approve the minutes of the March 12, 2002, meeting of the LTD Board of Directors Finance Committee. The motion passed unanimously.

IV. GROUP PASS PRICING POLICY

Mr. Vobora distributed copies of the pricing section in the Group Pass Program Policy. He asked the Committee to consider revised language in subparagraph 1 regarding the base rate.

In response to a question from Ms. Lauritsen, Mr. Vobora stated that “non-taxpayer” referred to those agencies that do not pay the payroll tax, i.e., nonprofit agencies, City of Eugene, LCC.

Mr. Vobora referred the Committee to another handout that showed what three large organizations paid in 2001 and 2002 on the Group Pass Program. The 2002 costs showed the result of the implementation of the new base rate effective January 1, 2002. For some organizations, the increase was significant, e.g., Sacred Heart Medical Center’s rate increased 17.65 percent. The handout also showed costs for 6 percent (best estimate based on what market would bear), 7.6 percent (three-year rolling average), and 9.1 percent (two-year rolling average) increases.

Ms. Hellekson stated that calculations were done when the Fully Allocated Cost Plan was completed. At that time, staff believed those numbers were more than the market would bear for a number of organizations. A 6 percent increase was a best-estimate maximum for a transition year.

Ms. Hocken stated, and staff agreed, that it would be better to make a smaller increase to keep the contracts active. Originally the program was set up to be revenue neutral and later that language was removed from the policy. Although the market is an important consideration, she did not want to forego all increases because we were afraid of the market. The Committee suggested language that read: "The base rate will increase annually **by an amount not to exceed** the three-year rolling average of operating costs realized by the District."

Mr. Vobora stated that the changes would be effective January 1, 2003. He reported that contract negotiations with UO students had been completed. UO administration and UO students were looking at bringing the two programs into harmony. Mr. Vobora was not sure if they could combine the contracts.

(Mr. Gaydos arrived at 4:20 p.m.)

In response to a question from Ms. Lauritsen, Ms. Hellekson said that the student contract negotiations were conducted through the ASUO vice president.

V. DEBT FINANCING

Ms. James distributed copies of a handout entitled Potential Debt Financings. She also distributed copies of the winning proposals for Financial Advisor Services and Bond Counsel.

Western Financial Group, the financial advisors, was the only proposer. Ms. James had worked with two members of their staff on municipal financing as part of previous employment. A tentative meeting was scheduled with Pat Clancy on June 5 at 10:00 a.m.

LTD had three proposals for Bond Counsel, and Stoel Rives was selected based on its exposure to working with Tri-Met on federal projects. A meeting was scheduled with Edward Einowski on May 28, at 1:30 p.m.

In response to a question from Ms. Hocken, Ms. James stated that Western Financial Group would advise on structuring debt issues, long-range strategies, maximum exposure, amount that can be borrowed, and type of bond and backing. They would also shepherd the bond through the rating process, if needed.

Ms. Hocken asked how they are to be compensated. Ms. James stated that they would be compensated on an hourly basis.

Ms. Hellekson stated one advantage of using a financial advisor was to avoid having to go through a competitive process if we were to do it all ourselves. The advisor determines size and structure. No matter what is done, there needs to be a bond counsel opinion for each issue.

Ms. James stated that the bond counsel sits as the protectors of the bond holders as far as issuing an opinion that it is tax exempt and is a legitimate, legal structure before bonds are issued. It also would provide us with opinions as to how the legal issues work, particularly in regards to the FTA. They, too, would be compensated on an hourly rate.

Ms. James stated that the potential debt financing information handout was developed as a starting point. It is the role of the financial advisor to determine the proper strategy for debt financing.
Ms. Hellekson stated that it was expected that an order for revenue buses would be placed early in FY 2002-03. Timelines for the other projects on the list were unknown.

In response to a question from Ms. Hocken, the column titled "When" indicated when the money was expected. Ms. Hellekson noted that LTD could borrow up to two years ahead of purchase outlay.

In regards to BRT vehicles, an order could be backed up two years from a delivery date once a vehicle was identified. Ms. James believed that a contract with the manufacturer would be needed to support the debt. Could probably do if we structured the debt as a full faith and credit for the organization. Ms. James did not think the FTA would approve using formula or grant money to pay for debt service in this latter form of debt.

Mr. Gaydos believed the public would not approve using full faith and credit.

Ms. James believed that we would get a better interest rate it the project was backed with a specific revenue stream. She did not recommend backing with payroll taxes, but it could be necessary to get the best rate.

With not knowing about the provisions of the reauthorization until next summer, Ms. Hocken asked how a lender might react. Ms. James believed the financial advisors would be able to provide that answer.

Mr. Hamm stated that formula funds have been around for a long time. He believed that the basic structure in place now would stay solid. There are no guarantees for the funding sources.

Ms. Hellekson stated that this discussion on debt financing is the first of many to come. It would be a key component to capital planning for the next 20 years.

Mr. Gaydos hoped that other agencies would contribute funds for construction of the BRT phases.

Given OTC's reluctance to fund the Belt Line/Gateway improvements, Ms. Hocken asked if some of Pioneer Parkway BRT could be considered as part of the project as a match. Ms. Hellekson stated that conversations have already begun. The property, however, is not owned by the state.

Ms. Hocken asked if some of the smaller projects on the list could be grouped together. Ms. Hellekson stated that some projects group more logically than others, e.g., land, facilities. Ms. James stated that there could be a better strategy for some of the projects, e.g., bank note.

Ms. Hocken cautioned staff about getting money for BRT buses too soon in advance because of the uncertainty of the delivery date.

Mr. Hamm reported that the businesses and APTA were looking at restructuring the purchasing guidelines. Ms. Hellekson stated that currently federal regulations prohibit paying in advance with federal funds.

Mr. Gaydos recommended informing the public that bonds are being issued not because we are in economic trouble but rather as a necessary component to funding a transit system in a solid, conservative way.

Ms. Hocken recommended stressing that bonds would be paid back through a revenue stream that could only be used for capital.

Mr. Gaydos suggested using a surcharge on payroll tax to fund debt before other groups tap into the resource.

Mr. Hamm said that Tri-Met was looking at raising the cap on the payroll tax and would like LTD to join the effort. Ms. Hellekson stated that Medford was going after the payroll tax for their transit system, and Salem and Albany were studying the issue.

Mr. Gaydos preferred not to dedicate any additional amount only to capital.

Mr. Hamm stated that Tri-Met has looked at other options for dedicated money strictly for maintaining.

Ms. Hellekson said that the self-employment tax originally was sold to the public on the basis of support for special projects and it had been shown as part of the transfer to capital in prior years. The Board undid that a couple of years later in order to be more flexible with fund use.

IX. ADJOURNMENT

There was no further discussion and the meeting adjourned at 4:52 p.m.

(Recorded by Chris Thrasher, Lane Transit District)