MINUTES OF BUDGET COMMITTEE MEETING

LANE TRANSIT DISTRICT

Wednesday, April 23, 2003

Pursuant to notice given to *The Register-Guard* for publication on April 6, 2003, and April 16, 2003, 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, April 23, 2003, at 6:30 p.m., in the LTD Board Room at 3500 East 17th Avenue, Eugene.

	Board Members	Appointed Members
Present:	Susan Ban	Michael Bean
	David Gant	Betsy Boyd
	Gerry Gaydos	Russ Brink
	Pat Hocken	Elaine Guard
	Dave Kleger	Dean Kortge
	Virginia Lauritsen	Maureen Sicotte
	Hillary Wylie	Darrel Williams

CALL TO ORDER AND ROLL CALL: Board President Hillary Wylie called the meeting to order at 6:36 p.m. General Manager Ken Hamm called the roll. The following people were also present:

Mark Pangborn, Assistant General Manager
Diane Hellekson, Budget Officer
Carol James, Accounting Manager
Ron Berkshire, Director of Maintenance
Mark Johnson, Director of Transit Operations
Stefano Viggiano, Director of Development Services
Terry Parker, Accessible Services Manager
Andy Vobora, Service Planning & Marketing Manager
Jo Sullivan, Clerk to the Board
Linda Lynch, Government Relations Manager
Steve Parrott, Information Technology Manager
Charlie Simmons, Facilities Services Manager
Chris Thrasher, Recording Secretary

WELCOME AND INTRODUCTIONS: Ms. Wylie welcomed everyone and thanked them for their participation.

Mr. Hamm welcomed all and asked that Committee members and staff introduce themselves. He stated that FY 2002-2003 has been a challenging year for public agencies as well as private businesses due to the economy. LTD has worked hard to hold the line on expenses. In looking at the FY 2003-2004 budget, there are challenges and opportunities. Numbers will reflect flattening of revenues and increases in operating expenses. The

Capital Improvements Program will show aggressive programs. He appreciated the Committee's commitment and participation.

NOMINATION
ELECTION

ELECTION OF OFFICERS: Ms. Lauritsen nominated Mr. Kortge, seconded by Mr. Kleger, for the position of Committee Chair. The Committee, by majority vote, elected Mr. Kortge as Committee Chair. Mr. Bean volunteered for the position of Committee Secretary. The Committee, by majority vote, elected Mr. Bean as Committee Secretary.

APPROVAL OF MINUTES: Minutes of the April 24, 2002, and April 25, 2002, Budget Committee meetings were approved by consensus.

PUBLIC COMMENT: Mr. Kortge opened the meeting for public comment. There was no public commit, and the public comment session closed.

LOGISTICS AND AGENDA REVIEW: Ms. Hellekson welcomed everyone and reviewed the general logistics for the meeting, which included asking questions, meeting times, refreshments, and an emergency phone number.

She added that the law requires there to be citizen involvement in budget development for public entities. This Budget Committee includes seven LTD Board members and seven citizen members. The Budget Committee's goal is to approve the proposed budget, and the LTD Board has until June 30, 2003, to adopt the budget. The LTD Board has the authority to amend the approved budget on a limited basis without reconvening the full Committee.

The Committee was asked to keep in mind the following meeting goals:

- Where is LTD programmatically and financially?
- Given the need for tradeoffs, are proposed priorities appropriate for the short and long term?
- Are resources allocated in accordance with priorities and LTD's mission?
- Is the plan prudent?

Ms. Hellekson encouraged Committee members to review the budget notebook, which is the budget document, if they had not done so already. The presentation would include a financial overview, as well as discussion of key issues and tradeoffs, the General Fund, Special Transportation Fund, Capital Improvements Program, and capital funding issues. The Committee would have ample opportunity for discussion throughout the presentation.

BUDGET PRESENTATION: A PowerPoint presentation was used as an aid.

Financial Overview. Ms. Hellekson said that there were two budget themes for FY 2003-2004: (1) resolve uncertainties while stabilizing fixed-route service, and (2) use FY 2003-2004 as a transition year to plan for future changes. One uncertainty was the challenge of the payroll tax refund, which is currently in tax court. A decision in favor of LTD would generate an additional $1 million.

With the Board's approval, staff proposed a status quo budget for all four funds—General Fund, Special Transportation Fund, Capital Projects Fund, and Debt Service Fund.

Last year at this time, actual payroll tax receipts were down for the first time in ten years with Oregon's economy being one of the worst in the country. Interest rates on investments dropped from 6 percent to 3 percent and continued to fall. Operating expenditures were greater than revenues even after eliminating 11 administrative positions and 2 Amalgamated Transit Union (ATU) positions.

Steps taken in response to a down economy and escalating operating expenses included increasing all passenger fare instruments, increasing rates for special services (e.g., UO football), cutting fixed-route service by approximately $800,000, and discontinuation of transfers from the General Fund to the Capital Fund.

As a result, short-term operating expenditures were reduced. However, operating expenditures for Years 2-5 were still expected to be greater than revenues. Local capital previously set aside for future grant match would be exhausted. Also contributing to this factor, expenses came in higher than estimated and more local match was required as a result of receiving more formula funds due to the transportation management area (TMA) status. Ms. Hellekson noted that additional reductions may be required in future years.

In terms of revenue estimates for FY 2002-2003, payroll taxes received a one-time hit of approximately $539,000 due to a refund approved by the Oregon Department of Revenue. In addition, the ongoing effect of the exemption that was granted would result in a loss of $170,000 a year in payroll tax revenue. The decision was appealed by LTD. On the positive side, the Autzen Stadium expansion and new Eugene Library construction projects contributed to increased payroll tax revenue. Year-to-year loss on payroll taxes was 1.8 percent; in contrast, TriMet's year-to-year loss was 13 percent. Fares were approximately 5 percent ahead of last year actual, special event services revenue almost doubled from last year as a result of raising rates, and overall revenues were about as budgeted.

In terms of expenditure estimates for FY 2002-2003, Personnel Services were under budget due to efficiencies in run cuts, significant increase in project overhead (staff time) charged to capital projects, retirements not filled until recently, and medical insurance premium co-payments. In the Materials and Services category, fuel prices were up and down, parts expenses were reduced due to new buses, and discretionary expenses were eliminated.

The starting point was Operating Resources, which was the schedule of combined five-year projections, showed a modest overall growth. Operating Requirements showed an estimation of under $18 million for Personnel Services expenses in the current year, which was due to wages being charged to capital and vacated positions not being filled right away. The proposed budget for FY 2003-2004 assumed (1) a number of those positions would return to the Operating Fund, and (2) all vacant positions approved by the budget would be filled. In summary, the growth rates for expenses were predicted to be higher than revenue growth rates.

Strategic issues were identified by senior staff: (1) direction from the LTD Board for no fare increases and no additional service cuts, (2) re-negotiation of an ATU contract, and (3) Special Transportation funding.

Adjustments were then made to the budget, which brought the revenues and expenditures more in line. Operating expenditure reductions were shown for Years 2-4 with the possible reduction of project staff or savings realized from more efficient technology. Also, an increase in operating expenditure was shown due to an increase in the Springfield Station operating expense with the opening of the new station in Year 2.

Even with the proposed reductions, deficit spending was projected for the combined five-year operations summary. The good news, however, is that through nine months of the current fiscal year, there is a projected operating surplus of $1.3 million, which buys time. Ms. Hellekson added that no transfers to capital were contemplated through Year 5.

As a TMA, LTD would receive substantially higher federal 5307 formula funds annually beginning in 2003. Local match requirements would also increase. Staff believed it would be prudent to include only the match amounts as a transfer to capital from the operating fund. Ms. Hellekson stated that if funds are not appropriated or obligated within three years, they would be lost. Also, local match must be appropriated in order to receive additional earmarks.

Ms. Hellekson stated that LTD could fund a deficit for some time because the operating reserves in the General Fund are higher than they need to be by Board policy.

In response to a question from Ms. Hocken, Ms. Hellekson stated that the surplus from the current fiscal year would carry forward as beginning working capital and was included in the total revenue number.

A schedule of combined five-year projections for capital projects showed that capital needs were substantial—approximately $17 million in the current year and over $22 million for next year.

Mr. Hamm stated that formula funds for an urban area over 200,000 could only be used for capital expenditures. Ms. Hellekson noted that, before becoming a TMA, LTD never used capital funds for operations. She reasoned that it did not seem prudent to balance the General Fund budget with a revenue source over which we have no local control and because it seemed logical that a local transportation system should not have to rely on non-local funds for its continued existence.

In response to a question from Mr. Gaydos, Ms. Hellekson stated that payroll tax revenue would be pledged in order to debt finance, and 5307 formula funds would be used to repay the debt. Debt service would not be issued in the current fiscal year. The first issue would be for the 18 low-floor Gillig buses and 5 articulated buses in the middle of FY 2003-2004.

Transferring funds from the General Fund to the Capital Fund still did not solve the deficit problem. Three ways to address revenue shortfalls included increasing revenues, reducing expenses, or a combination of both. Also, capital projects could be pushed out a few years.

In response to a question from Ms. Hocken, Ms. Hellekson stated that the proposed budget did not include a transfer to capital. The proposed budget was a status quo and transition year budget. Changes probably would occur the following year.

Key Issues and Objectives. Ms. Hellekson identified the following key issues and objectives as ways to balance the budget:

- Balance the needs of the present with those of the future
- Trim General Fund expenditures to align with expected revenues
- Control future expenditure growth
- Hold the current course while assessing/resolving financial uncertainties
- Invest local dollars in capital projects
- Maintain quality and standards
- Maintain LTD's mission and vision
- Preserve assets
- Commit to BRT Phase 1

General Fund Proposed Budget. Ms. Hellekson stated that passenger fares and group pass revenues are important because they represent rider buy-in. Group pass revenue has grown steadily over the years and passenger fares showed a 5 percent growth over last year. Farebox recovery ratio has been fairly consistent over the years. The projection for FY 2003-2004 is 18.5 percent. An 80:20 ratio is typical for transit properties our size.

Ms. Boyd asked if adding more group pass participants had adverse impacts on the passenger fares. Ms. Hellekson stated that when the group pass program was created, fare replacement had to be neutral. Now, fare replacement has to be revenue positive.

Revenue projections for FY 2003-2004 included no increase to fares and self-employment tax, and a 2 percent increase in payroll and state-in-lieu taxes. Ms. Hellekson noted that the proposed budget did not assume recovery of the payroll tax refund.

Mr. Gaydos asked for a projection that would show the impact on the budget if the taxes grew by less than 2 percent.

In response to a question from Mr. Kortge, Ms. Hellekson stated that the majority of state-in-lieu tax revenue comes from University of Oregon wages. The only reason for a major drop in revenue would be if there were personnel layoffs.

Ms. Hellekson told the Committee that in the summary tables "actual" was compared to "estimated" and "budget" was compared to "proposed." In reviewing the General Fund Resources Summary, the estimated total resources revenues showed a 1 percent increase over the previous year and the proposed budget versus current year budget was up 11.4 percent.

Ms. Hellekson showed in a pie chart a breakdown of the proposed General Fund revenues: Payroll Taxes, 66 percent; Passenger Fares, 18 percent; State-in-lieu Taxes, 5 percent; Self-employment Taxes, 4 percent; Other Operating, 4 percent; Operating Grants, 2 percent; and Interest, 1 percent. She noted that interest in previous years had been 5 percent.

Ms. Hellekson stated that in summary the General Fund Requirements showed a 4.5 percent reduction in estimated current year versus actual last year due to a decrease in Personnel Services. Proposed budget versus current year budget was up 11.4 percent.

In response to a question from Mr. Kortge, Ms. Hellekson stated that transferring payroll expenses counts toward match money.

Ms. Sicotte asked for confirmation that by transferring money and doing an 80/20 split, 80 percent of charged costs are offset and 20 percent counts as match. Ms. Hellekson agreed and added that the 20 percent match comes out of a local fund that is set aside in capital. In the short term, it helps control expenses but it only works as long as the project remains active.

Changes in requirements from the current year included the following:

- Annual wage increase of 2 percent semiannually for contract employees and 2 percent average for most administrative employees
- Expected employee health insurance benefit increase of 20 percent
- Decrease in parts costs related to newer fleet
- Fuel price assumption at $.93 per gallon

In regards to the health insurance benefit, Ms. Wylie asked if employees participation would increase. Ms. Hellekson stated that it could decrease if employees decide to change from the managed care plan to the base plan. Employees who are on the managed care plan currently pay $77 per month. That amount would increase by 20 percent next year.

In response to a question from Mr. Bean, Ms. Hellekson stated that the current health care provider is PacificSource. Mr. Hamm noted, however, that LTD currently was out for bids for health care provider.

In response to a question from Ms. Hocken, Ms. Hellekson stated that employees contribute to the health care benefit only if they choose a plan other than the base plan. Otherwise, 100 percent of the premium is be paid by LTD. Changes may occur next year when the ATU contract is renegotiated. Administrative employees would not be asked to contribute sooner because (1) there is a fairness issue, and (2) the number of administrative employees is so low that it would not make a significant difference.

The purchase of 18 new Gillig buses would result in a decrease in parts costs.

Fuel prices have been up and down over the past year with the average price per gallon at $.9024 through March 2003. Mr. Gaydos thought the $.93 per gallon budgeted for next year was low due to the recent diesel fuel issue at the federal level. However, OPEC projections have indicated a market glut.

Ms. Hellekson stated that changes from the current year included a reduction in marketing expenses as well as an increase in property and other insurance related to the market and September 11, 2001. Market conditions, to a degree, are driven by the accounting scandals that have resulted in major lawsuits.

In response to a question from Ms. Lauritsen, Mr. Vobora stated that marketing costs were trimmed by transferring to reimbursables (e.g., sports shuttles advertisement was charged back to UO) and by cutting back on advertising.

Mr. Williams thought that a 20 percent increase in liability insurance was high. Ms. Hellekson stated that LTD had a number of substantial claims last year, including a fatality.

Ms. Hellekson showed in a pie chart how personnel allocation was distributed by department with Transit Operations making up 70 percent, Maintenance making up 16 percent, Development Services making up 6 percent, Finance and Information Technology making up 4 percent, General Management making up 2 percent, and Human Resources and Insurance making up 2 percent. She noted that 86 percent of total Personnel Services goes directly toward bus trips on the road. Development Services was artificially low because it has a number of positions that are currently assigned to capital projects. More detail was available in the budget notebook.

Another pie chart showed the breakdown of Materials & Services appropriations: Fleet Services (for fuel and bus parts), 39 percent; Facilities Services (for cleaning supplies, repair, tools), 10 percent; Insurance, 18 percent; Transit Operations (for uniforms), 7 percent; Marketing, 8 percent; and Other Departments, 18 percent.

Ms. Hellekson showed a pie chart that broke down the General Fund appropriations: Personnel Services, 74 percent; Materials & Services, 17 percent; Special Transportation, 5 percent; and Insurance & Risk, 4 percent. She noted that Personnel Services made up three quarters of the appropriations because LTD is a service business; the percentage has remained stable over the years. Special Transportation services are federally mandated.

A number of uncertainties remained for the General Fund:

- Results of the payroll tax case
- Likelihood of payroll tax increase
- Results of health insurance arbitration
- Likelihood of loss of Special Transportation funding from the State
- Fuel prices

Ms. Hellekson stated that a major taxpayer filed for a refund based on an argument that LTD believed was invalid. It was ratified by the Oregon Department of Revenue, and we have appealed it in tax court. LTD filed a Motion for Summary Judgement. All parties agree that this matter will likely be settled by Summary Judgement. A hearing has been scheduled for July 21 with a decision due in mid-September 2003. A favorable decision would mean a refund to LTD of $1 million. This amount includes a refund of payroll tax from businesses acquired by the defendant that had stopped paying the payroll tax as long as three years ago.

In response to a question from Mr. Bean, Mr. Pangborn stated that the $10,000 spent for legal fees on this case was small in comparison to the return should the decision be in LTD's favor. Ms. Hellekson reminded the Committee that the potential refund was not included in the budget for FY 2003-2004.

Ms. Hellekson stated that a payroll tax increase could increase revenue by $300,000 the first year and, at the end of a ten-year period, revenue would increase by $3 million a year.

The budget reflects an assumption for a win regarding the health insurance arbitration. A loss could mean direction to make things whole for the current fiscal year and make a correction for next year, or we could have to bargain for a change through the ATU contract.

The budget also reflects an assumption for a loss of $250,000 in Special Transportation funding from the State.

Ms. Boyd asked if there were sufficient resources for government relations to manage all the issues. Ms. Lynch replied that the Oregon Transit Association (OTA) is lobbying for the payroll tax increase. Although LTD would receive additional funds, the major benefactor would be TriMet in Portland where additional funding is needed for future MAX lines. In regards to Special Transportation, the Human Services Coalition is focusing more on issues other than transportation services.

In summary, Ms. Hellekson restated that the budget proposal for the General Fund showed $32,589,770 in total resources and total requirements, which was an 11.4 percent increase over the appropriations for the current year. This reflected an increase in Personnel Services and Materials & Services, a big increase in Insurance, and a larger transfer of funds to the Special Transportation Fund.

(The Committee took a 10-minute break.)

Ms. Hocken asked if there would be an advantage to budgeting a transfer from the General Fund to the Capital Projects Fund on the off chance that some of the uncertainties came out to our advantage, e.g., favorable decision regarding the payroll tax refund. If it seemed prudent to do so, it would make the balance sheet on capital reserves look better for debt financing. Ms. Hellekson stated that it was important to appropriate for the money. There is a timing issue, however. She asked that the Committee first look at how the funds interrelate with each other. She believed that in the short-term money should stay in the operating fund until that fund is balanced.

Mr. Williams was under the impression that demand-response service was contracted out and asked why LTD would need to pay for a new facility. Ms. Hellekson stated that although the service is contracted, LTD pays 100 percent of the expenses plus Ms. Parker's salary. LTD pays for the rental of the RideSource facility. Staff believed it made more sense to own the new facility rather than rent.

Mr. Kortge proposed that the Budget Committee consider a policy statement that would limit the contribution to employee health insurance to a percentage (e.g., 15.3 percent) of administrative salaries rather than pass on a 20 percent medical cost increase. He noted that private businesses have had to go this route to control costs. Mr. Bean agreed with the proposal stating that his agency does the same.

Mr. Hamm stated that the size of the group determines the insurance rates. By splitting insurance benefits for contract and administrative employees, the size of the groups are smaller, which makes it more difficult to get a good rate.

Mr. Kortge clarified that the same health plan could be kept for both groups as a whole but the District would only pay a certain percentage for the administrative employees.

Ms. Hocken stated the importance of positioning the District for ATU negotiations and had a concern about asking administrative employees to contribute differently.

Mr. Kortge believed it was appropriate for administration to administer the benefits and for the Board of Directors to set the limit.

Mr. Hamm stated that benefit discussions were taking place in preparation for ATU negotiations. In 2001, the administrative side of the organization saw a reduction in staff as well as travel and training. Merit increases were trimmed from 6 percent to 3 percent over the last two years. He was concerned that this could push the administrative employees toward another organizing effort.

Ms. Hellekson understood that companies are asking for more employee contribution. Benefits have changed over the last few years with increases to co-pays for office visits and prescription drugs and elimination of subsidies for managed care.

Mr. Kleger believed the Board should build the documentation to support a change but should hold the line this year.

Ms. Wylie thought the recommendation made good sense but wanted to make sure Mr. Hamm had a full basket of tools as he entered contract negotiations.

Ms. Ban believed the request was realistic. The question, however, is how to get there when you are working with a fixed pot because of growth. She noted that significant changes are happening in the private sector and believed that government agencies were out of step.

Ms. Lauritsen stated that other public agencies in Springfield are having the same discussion.

Mr. Gant saw the risks but also saw the benefits.

Ms. Hocken stated that the Eugene School District has required employees to contribute to health insurance for at least five years. Next year they plan to join with the Oregon School Board Association's insurance carrier plan because they can get a better deal going with a larger group. She recommended that the Board Human Resources Committee look into the issue further.

Ms. Hellekson ended by saying that there is an equity message and a fairness issue in choosing the means to get there.

Mr. Kortge, as a consumer representative of the Board, just wanted the recommendation recorded in the minutes. He noted that today's typically plan was a 50 percent co-insurance plan.

Special Transportation Fund Proposed Budget. Accessible Services Manager Terry Parker stated that in addition to overseeing accessible policies on fixed-route service, she also manages the Special Transportation Program.

Special transportation contracted services of LTD included RideSource, a nonprofit agency that is funded by the General Fund; Rhody Express, a local shuttle service in Florence that is operated by a private taxi provider; and Diamond Express, which operates between Eugene and Oakridge and is available for the general public. These agencies serve persons who are elderly and disabled around Lane County.

Contract services that are provided within the LTD service area included the following:

- RideSource, which is operated by Special Mobility Services and is the ADA-required service
- South Lane Wheels, which is based in Cottage Grove and also serves Creswell
- Transit Host and Training Program, which is contracted with Alternative Work Concepts who performs vocational and work training for people with severe disabilities
- White Bird Clinic for people who have mental and emotional difficulties

Contract services that are provided outside the LTD service area included the following:

- Diamond Express, which is operated by Special Mobility Services to serve Oakridge
- Rhody Express, serving Florence
- South Lane Wheels, serving Dorena, Lorane, and other rural areas
- RideSource Escort, provides medical trips within Lane County through a partnership with the Senior Companion Program, which is based at Lane Community College, and LCOG Senior and Disabled Services

Ms. Parker stated that In-District resources are drawn from the LTD General Fund for the RideSource and Alternative Work Concepts contracts; State Special Transportation Fund, which is funded by cigarette tax revenue; and Medicaid and other social service contracts.

Out-of-District resources come from the State Special Transportation Fund, Federal Small City & Rural Assistance, and Medicaid and other social service contracts (e.g., United Way, Community Sharing).

To meet federal guidelines under the American with Disabilities Act, LTD is required to provide complementary paratransit service within a three-quarter mile boundary of the LTD core fixed-route service. Complementary paratransit is for people who cannot use fixed-route service due to a disability. Riders must qualify to use the program. RideSource is a curb-to-curb service, which is the minimum ADA requirement. RideSource Shopper, although it does not meet ADA requirements, transports the same people but at a less expensive cost. The Transit Host and Training Program trains people to use fixed-route service instead of using RideSource.

LTD provides additional services that are not ADA required. These programs exist because of Special Transportation funding that is matched with federal funds. RideSource and Medical Escort; White Bird Clinic; and Small City & Rural Elderly & Disabled Services and services that are most at risk.

The budget proposal for the Special Transportation Fund showed $2,503,470 in total resources and total requirements. For FY 2003-2004, provider contracts were kept at status quo.

Ms. Hellekson stated that is important to maintain the non-RideSource programs because group rides or fixed-route service cost $3 per trip as compared to RideSource service at a cost of $18 per trip.

Mr. Kortge asked why the Special Transportation Fund was increasing by 18.3 percent or $660,000. Ms. Parker stated that it had to do with the cost per ride, miles traveled, and the intense use of the ride. People are using RideSource more than once or twice a month. Since RideSource is small, it does not take much for costs to increase. Mr. Hamm stated that the total In-District amount of $524,000, which LTD pays for, remained flat from last year's estimated amount. However, the Out-of-District amount of $106,800, which LTD does not pay for, increased. The increase also included the new service to Oakridge, as well as increases to grant amounts and contingency.

Ms. Parker stated that even if all other revenues stay flat and there is an increase in costs, the General Fund compensates. Those monies do not run through the Special Transportation budget.

In response to a question from Ms. Sicotte, Ms. Parker stated that very little of the increase was due to discretionary services, e.g., door-to-door service. Most was in the RideSource Program itself. Door-to-door service relies on volunteers. The expense is in fleet management. The Alternative Work Concepts contract actually saved money by training people to use the less expensive fixed-route service. The loss of revenue and increase in costs contributed to the 18.3 percent increase.

In response to a question from Mr. Kleger, Ms. Parker stated that five years ago the current RideSource facility went to a yearly lease. At that time, LTD started looking for a new location but has yet to find a centrally located facility with a reasonable lease and a place to park vehicles. A $1.2 million state grant was awarded to build a new facility.

ADJOURNMENT: With no further discussion, the meeting adjourned to 6:30 p.m., on Thursday, April 24, 2003, in the LTD Board Room.

Darrel Williams

Committee Secretary