MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

December 15, 2003

Pursuant to notice given to *The Register-Guard* for publication on December 13, 2003, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 4:00 p.m. on December 15, 2003, at Lane Transit District, 3500 East 17th Avenue, Eugene.

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

I. CALL TO ORDER

Ms. Hocken called the meeting to order at 4:10 p.m.

II. ROLL CALL

Ms. Hocken noted that she and Mr. Gaydos were present. The following LTD staff also were present: Diane Hellekson, Ken Hamm, Mark Pangborn, Carol James, Mary Neidig, Mark Johnson, and Andy Vobora.

III. APPROVAL OF MINUTES

Mr. Gaydos moved, seconded by Ms. Hocken, to approve the minutes of the November 3, 2003, meeting of the LTD Board of Directors Finance Committee. The motion passed unanimously.

IV. GROUP PASS PRICING

Mr. Vobora, Service Planning & Marketing manager, stated that in response to a request from the committee at the November 3 meeting, staff estimate that the amount of revenue that would be generated from a 5.9 percent increase to group pass prices would be an additional $53,000 in fare revenue. This increase would be based upon the three-year rolling average of District cost increases. A large part of this increase can be attributed to the District's recent addition of LCC to the group pass program. It is staff's recommendation for implementation in January 2005, which would mean that most businesses in the group pass program would not have seen an increase for two years.

(Ms. Lauritsen arrived.)

The Committee approved forwarding the proposal to the full LTD Board.

V. SPECIAL SERVICE PRICING

Mr. Vobora stated that a couple of years ago staff looked at the process for pricing and discounts associated with special service. That process resulted in a fully allocated rate and the discounted community service rate. In light of the budget situation and staff time involved in implementation, staff recommend pricing all special service at the fully allocated rate. The fully allocated rate, at a minimum, covers all overhead costs and depreciation of the vehicles. The risk would be possible damage of relationships with event organizers who may see the increase as too high. If LTD were not used, revenues from special service would decrease. However, none of the expenses associated with the event would be incurred.

Mr. Gaydos asked if there was a way to add flexibility to the policy. Mr. Vobora stated that currently LTD does not give breaks on the rates. With charters, LTD may donate service as a partnering opportunity. Promotional opportunities allow for waiving of charges. Mr. Vobora stated that the Federal Transit Administration is adamant about using the fully allocated rate for charter service.

In response to a question from Ms. Lauritsen, Ms. Hellekson stated that indirect costs are charged at 100 percent, including depreciation.

Mr. Pangborn believed that politically it is better to charge one rate because tax dollars subsidize the service. The UO pays the fully allocated rate for football shuttle service. Ms. Hellekson stated that LTD could save money if the UO would include the shuttle fare in their ticket price; however, UO is hesitant to do so.

VI. BUS ADVERTISING CONTRACT RENEWAL

Mr. Vobora stated that Obie Transit Advertising, the company contracted to provide advertising on LTD buses, has seen a significant downturn in business nationally over the last couple of years. Two years ago, Obie staff approached LTD with a proposal to reduce the cash guarantee from $419,000 annually to $300,00 annually. The remaining $119,000 would be offered in transit advertising trades with LTD. This arrangement has worked well for LTD marketing as budgets for advertising have been reduced over the same period. Recently, Obie has proposed renegotiation of the contract. Mr. Vobora distributed copies of their proposal, which is to set a revenue-sharing percentage of 40 percent of net advertising sales. Based upon their projection for 2004, approximately $730,000 in gross sales, LTD would receive $246,000 in advertising revenue. This proposal reduces revenue by $54,000.

LTD has three options:

1. Accept the proposal at 40 percent revenue sharing and trust that Obie will meet their sales projections.

2. Request a higher percentage in revenue sharing.

3. Reject the revenue-sharing offer, which could result in Obie canceling their contract with LTD.

If we were to go out to bid, there is concern that Obie would be the only bidder. The only other possible bidder, Viacom, does not have a sales staff in the area and did not bid last time.

Mr. Hamm, LTD general manager, preferred to go out to bid rather than take Obie’s first offer. Mr. Vobora stated that the bid process could take eight weeks, which in the meantime no income is generated.

In response to a question from Mr. Hamm, Mr. Vobora believed that most of the advertising on the buses was local versus national.

Ms. Hellekson believed it would have been better to go out to bid before the current agreement ended; however, the current agreement could be extended an additional six months.

Mr. Vobora stated that another option would be to propose a counteroffer. TriMet renegotiated a 51 percent revenue-sharing standard. In response to questions from Ms. Lauritsen, four to five national companies were sent the last Request for Proposal (RFP) three years ago. Obie was the only company that responded. Although we asked for 50 percent in the RFP, we did not get it.

In response to a question from Mr. Hamm, Ms. Hellekson stated that there does not appear to be any difference whether the contract is on the calendar year versus the fiscal year.

In response to a question from Mr. Gaydos, Mr. Vobora stated that Obie has annual contracts on their bigger sales.

The committee approved extending the current contract for up to a year.

In response to a question from Ms. Hocken, Mr. Vobora stated that the new fleet for regular service has less space for advertising; therefore, advertising on RideSource buses would offer more space.

Ms. Hellekson stated that the downside, if Obie were to say no, would be the loss of $246,000.

Mr. Gaydos recommended renegotiating and rebidding.

Ms. Hocken asked what would happen to accounts if Obie no longer had the contract. Mr. Vobora stated that Obie receives monthly payments and production costs are amortized over a 12-month period. There is an out clause in the contract with a termination process. Ms. Hocken asked for a description of the out clause.

VII. FINANCIAL PLANNING ASSUMPTIONS

Ms. Hellekson stated that the Leadership Council had worked on a number of scenarios since the Board retreat in November. She referred the committee to the latest scenarios, which were included in the agenda packet:

- Version 8.a.1 – LTD proceeds with the EmX Pioneer Parkway Corridor project, and then goes on to the Coburg Road Corridor project.
- Version 8.a.2 – LTD completes the Pioneer Parkway Corridor project but defers or cancels the Coburg Road Corridor project.
- Version 8.a.3 – Both the Pioneer Parkway and Coburg Road projects are deferred until at least FY 2012-2013.

All three scenarios hold the following General Fund assumptions constant:

- The payroll tax increase will be implemented on January 1, 2005.

- Personnel services expenditure growth can be contained within a specified limit.

- Transfers to capital in order to maintain local match for expected future federal formula funds will continue over the life of the eight-year projection.

- LTD will win the payroll Tax Court case.

- The General Fund will be balanced by a combination of expenditure reductions, including service cuts, that will be implemented over the three-year period FY 2004-2005 through FY 2006-2007.

Although the Board wanted to implement the payroll tax increase January 1, 2006, staff found that no matter how the scenarios were worked, there would not be enough money and it did not make sense to cut additional service.

There still is no information regarding the payroll Tax Court case. We have not built in any increased revenue assumptions for the major construction projects that are in the planning stage (e.g., UO arena, Federal Court House, PeaceHealth, Riverbend Hospital, McKenzie-Willamette Hospital). These projects could offset payroll tax losses in the event LTD loses the Tax Court case.

Using fairly conservative revenue estimates and tight expense projections, Leadership Council projected that it would take $2 million over a three-year period to balance the Operating Fund ($500,000 the first year, $1 million the second, and $500,000 the third year).

In response to a question from Mr. Gaydos, Ms. Hellekson stated that increases to the payroll tax must start on the calendar year. If the increase were to be implemented January 1, 2005, there is a lot of work to be done.

Ms. Hocken asked when the Board would need to make a decision on the implementation date. Ms. Hellekson stated that a decision could be made to leave the option open at the time the budget is adopted and believed a decision in summer would give plenty of time for the implementation process.

In response to a question from Mr. Gaydos, Ms. James, accounting manager, stated that LTD would run out of cash in Year 6 of the third scenario (no transfers to capital, defers Coburg Road and Pioneer Parkway Corridors). However, we would still be able to purchase buses. In the second scenario (completes Pioneer Parkway Corridor, defers Coburg Road Corridor), LTD would run out of cash in Year 3.

Mr. Gaydos believed all three scenarios made sense; however, the Board needs to have the discussion on how to preserve the core system.

Mr. Hamm noted that staff had not selected a preference.

Ms. Hocken asked if staff had explored bonded debt to enable the construction of the Pioneer Parkway Corridor. Ms. Hellekson stated that we have the ability to borrow; however, there are limits depending on the form of debt. Revenue bonds do not require a vote but would be limited to annual debt service not to exceed 10 percent of annual payroll tax receipts. At current rates, that is about $25 million in debt.

Ms. Hellekson stated that the vehicle purchases would be secured by annual payroll tax receipts but would be repaid by federal formula funds. Staff have discussed including a United Front request for $6 million to purchase bus rapid transit (BRT) vehicles. Receipt of that funding, would free up borrowing power.

Ms. Hellekson stated that the larger pot of money is general obligation bonds, which would require a vote. The limit would be 3 percent of the property value, which has not been determined.

In response to a question from Mr. Gaydos, Mr. Vobora stated that of the $500,000 in cuts proposed for the first year, staff are looking at a service cut of around $300,000.

In response to a question from Ms. Lauritsen, Ms. James stated that LTD has programmed two purchases of 30 buses at $300,000 per bus. Since the buses are debt financed, only interest expense and local match would be saved by reducing the number purchased in a certain year and purchasing later.

Ms. Lauritsen asked that staff look at a Pioneer Parkway Lite version in comparison to the full Pioneer Parkway version. Ms. Hocken believed that currently LTD was in an ideal situation to do Pioneer Parkway as efficiently as possible because it is new right-of-way versus interfering with existing businesses and residences. She recommended looking at a version that reduces the cost of the project by 20 percent.

Ms. Hocken asked if it made sense to dedicate payroll tax revenue to capital rather than ongoing operations, especially if we were to get a windfall. Ms. Hellekson stated that the concern is that we do not know what the economy is going to do and that the windfall may already be accounted for in the current assumptions.

The Autzen Stadium expansion project occurred during the period when there was the biggest drop in payroll tax receipts. LTD saw only a 2 percent decrease in payroll tax revenue whereas TriMet saw 13 percent.

Ms. Hellekson stated that self-employment tax was originally dedicated to capital until the Board felt uncomfortable restricting it.

Mr. Gaydos believed that the assumptions were good and it was a good way to present it.

The Committee approved taking the information to the full Board in a work session in January. Ms. Hellekson stated that a fourth scenario would be created which incorporates a variation of Version 8.a.2. Mr. Gaydos asked for condensed, simplified information in addition to the detailed information.

VIII. NEXT MEETING

No date was set for the next meeting.

IX. ADJOURNMENT

There was no further discussion and the meeting adjourned at 5:30 p.m.

(Recorded by Chris Thrasher, Lane Transit District)