MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

November 8, 2005

Pursuant to notice given to *The Register-Guard* for publication on November 6, 2005, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 7:30 a.m. on November 8, 2005, at Lane Transit District, 3500 East 17th Avenue, Eugene.

PRESENT - Debbie Davis, David Gant, Dean Kortge

CALL TO ORDER – Mr. Kortge called the meeting to order at 7:30 a.m.

ROLL CALL – It was noted that all members of the committee were present. The following LTD staff also were present: Diane Hellekson, Ken Hamm, Carol James, Andy Vobora, Todd Lipkin, Mary Neidig, Mark Pangborn, and Stefano Viggiano.

CAPITAL IMPROVEMENTS PROGRAM – Ms. Hellekson, director of finance and information technology, stated that as a tee-up for the Board work session in December, the Finance Department develops a couple of versions of the Long-Range Financial Plan (LRFP) for preliminary strategy discussions. The Capital Improvements Program (CIP) is a major element of the LRFP. Ms. James, accounting manager, distributed copies of the current draft CIP for the committee's review, which included two funding scenarios.

Ms. Hellekson noted that recent cost estimates for the Pioneer Parkway EmX Corridor were over $38 million, with the lowest being $42.5 million. The current CIP still assumes $38 million because the intent at this point is to manage to the original budget.

Ms. James provided a walk-through of the CIP. She noted that the CIP is modified annually. The yellow highlighted areas indicate a change from the previous year in amount or year. The rust highlighted areas indicate a reduction in value. The yellow highlighted areas with no monetary amounts indicate areas for discussion.

Ms. James also distributed copies of "Federal Funding for Capital Projects," which explained funding sources. The largest funding source is formula funds (Section 5307) allocated annually by the Federal Transit Administration (FTA) based on population, service area, and other criteria. LTD currently receives approximately $4 million per year, all of which must be used for capital purchases and projects. LTD must spend more than $5 million and provide a $1 million match, usually from operations, in order to use the formula funds. For New Starts funding application, we must be able to show we have the match for any formula or discretionary funding and show that we can use the money. Discretionary monies for projects are identified first followed by 5307 dollars. Some projects, although not identified as formula projects, possibly could be funded by formula funds if necessary.

Surface Transportation Program (STP, STP-U) is part of highway funding. STP-U, for "urban," represents formula funds that are distributed to the local Metropolitan Planning Organization (MPO) for redistribution to all local transportation providers, including LTD. LTD has secured funds from this source for BRT planning, transportation demand management, and passenger amenities. STP funds pass through the state to supplement state money for highway maintenance and construction. The state legislature has mandated that some of the state's STP money be used for capital grants specific to transportation services for the elderly and disabled. A small amount is also mandated for urban transit fleet replacement.

Capital investment grants (Section 5309) are discretionary funding or earmarks for planning and construction projects. If not used properly, you could have questioned costs or disallowed costs, which means you might have to use local dollars to pay for the project. Once the money is spent for a particular project, it is difficult to move it into a formula grant.

LTD has secured funding, through SAFETEA-LU for the following:

- Pioneer Parkway EmX alternatives analysis ($1 million) – need $250,000 match in order to use
- New bus purchases ($2,985,714) – distributed over four-year period; may have to use short-term financing to purchase buses
- Progressive Corridor Enhancement ($2,477,586) – distributed over four-year period

Ms. James stated that the first page of the CIP lists projects; the second page lists funding sources. For New Starts funding application, a federal formula (5307) funding summary is included to show amounts used over a period of time and remaining match requirement. Two scenarios for cash reserves are shown: (1) assuming that transfers from the General Fund continue, and (2) assuming debt financing Pioneer Parkway EmX match. Ms. Hellekson noted that the debt assumption does not assign the debt to a project at this point.

Ms. Hellekson stated that the EmX projects dominate the CIP, with vehicle replacement as the second largest expenditure. The radio system also needs to be replaced.

In regards to cash reserves, Ms. Hellekson stated that the scenario that assumes transfers from the General Fund runs out of money in Year 4, which means additional revenue would be needed. The second scenario shows the assumption of $10 million debt financing in Year 3, which would carry us through the eight-year plan.

Mr. Hamm, general manager, stated that LTD is committed to $38 million for the Pioneer Parkway EmX project. Planning continues for the Harlow and Gateway Roads, and Beltline intersection.

Ms. Hellekson stated that the Board would be asked to approve the CIP and LRFP in January or February.

DEBT FINANCING – Ms. James distributed copies of a booklet regarding public debt and LTD's Debt Policy. The Board approved the policy in June 2001 in preparation for borrowing funds for a fleet replacement purchase. In the end, formula funds were used instead.

Mr. Kortge would like to get public buy-in before borrowing.

Ms. Hellekson stated again the importance of providing local match in order to get the formula funds. Funding could be lost if a local match is not provided.

LONG-RANGE FINANCIAL PLAN ASSUMPTIONS - Ms. Hellekson stated that balancing operations with capital improvement projects has always been a challenge. She asked the committee to consider the following Long-Range Financial Plan assumptions:

Revenue/Resource Options

- Full implementation of the payroll tax rate increase by 2013
- Scheduled fare increases – Implement in conjunction with payroll tax rate increases
- Ridership increases – LRFP has assumed level investment in terms of service. Is it realistic to assume ridership stays flat? Staff tend to be conservative because increased ridership does not generate increased revenue because few riders pay full fare.
- Stable local economy
- Modest local economic growth – Stable at 2 percent; modest at 3-4 percent
- Debt financing for local capital matching funds – A way to generate additional resources

(Mr. Vobora arrived.)

Expenditure Options

- Service levels – Last year's LRFP assumed flat service levels except for a bump when Pioneer Parkway EmX came on line. Leadership Council recommends adding 1 percent per year. May need to look at additional service to accommodate new growth. The bus operators and public who ride the buses believe service is at bare bones, and the Cottage Grove route is usually packed.
- Amalgamated Transit Union (ATU) 2007 contract – Conversations will begin in Spring 2006, with negotiation planning beginning Fall 2006. Current contract ends June 30, 2007.
- Annual COLA adjustments for administrative employees – Adjustments usually follow assumptions for contract negotiations.
- Health insurance – Original assumption was 15 percent; however, there will be no increase for 2006, which is attributed to the shift to a more consumer-managed health plan.
- Pension plan unfunded liabilities – Currently, the ATU plan is 59 percent funded, and the Administrative plan is 75 percent funded. Working toward full funding based on an 8 percent return could be spread out over a 20-year period but would make a mark on the budget. Current contribution as a percent of salary for administrative employees is 13.3 percent. For FY 2006-07, it increases to 14.8 percent. Mr. Hamm stated that there is consideration to move from a management company on the funds to a consultant.

- Retiree COLAs – Retirees were routinely granted COLAs until 1999 for the administrative plan and until 2000 for the ATU plan. Board member Gerry Gaydos, who is a trustee of the plans, would like to implement COLAs for both plans.

- Benefit restructuring – Restructured health insurance last year; could look at a two-tiered retirement system.

- Capital project funding, timing, and plans/components

Staff will build three LRFP scenarios for discussion at the December Board work session.

Mr. Kortge reported that he heard lots of concerns about service from bus operators at a recent Board "listening session." Mr. Vobora, director of marketing and communications, said that service planners were analyzing the 20 percent of runs that are "tight" using date from the new automated vehicle location system, which supplies actual arrival, departure, and boarding times.

(Mr. Hamm left.)

In regards to debt financing, Mr. Gant wanted further discussion as to when it is appropriate for a business, transit district, or a person to take on debt. He was appreciative that the Board so far had not dealt with debt. Ms. Hellekson stated that staff would model it well into the future.

FARE POLICY – Mr. Vobora, director of marketing and communications, distributed copies of an updated Fare Policy based on the committee's discussion at the last meeting. Changes included the following:

- Guideline #1 - **LTD staff will work with the Board Finance Committee to develop a recommendation for review by the LTD Board of Directors. The LTD Board of Directors will change fares through an amendment of the LTD fare ordinance, which requires a series of public hearings.**

- Guideline #2 – Items for consideration by the Board were listed as bullet points. Other factors **may** need to be considered from year to year. Mr. Gant suggested adding to the list the economic impact on low-income people.

- Guideline #7 – Increases to the base fixed-route fare generally should not exceed **10 percent** within a year **and changes should be rotated by fare category.** … Additionally, rotating fare increases by fare type allows customers to choose a fare type that is not increasing in cost that year.

- Fare Discounts – IRC 501 (19) agencies (e.g., American Legion Posts) were added to the list of eligible private nonprofit agencies. Already included are IRC 501 (c) (3) agencies, which are the nonprofit agencies that provide social welfare programs.

- Group Pass Program – In regards to pricing, the base rate will be increased annually, not to exceed **the change in consumer price index**. This is more typical to how businesses work. Mr. Vobora referred the committee to a table showing the history of consumer price index (CPI) increases in comparison with LTD's actual group pass rate increases. Annual increases seem to be acceptable to most businesses in the program. Mr. Kortge suggested, and Mr. Gant agreed, that a 4.5 percent increase every other year may be more appealing psychologically. The committee asked for more discussion.

PRICING PLAN - Mr. Vobora referred the committee to two tables that compared LTD with other transit agencies in regards to fares. Staff compared monthly pass prices and cash prices using the same peer group that was used during last year's budget process. TriMet was included in the comparison even though they are twice as large as LTD. The average cost for an adult monthly pass was $38.58, with LTD being slightly below at $35. The average cost for cash fare was $1.10, with LTD being slightly above at $1.25. Some systems offer annual passes but LTD chose to eliminate the annual pass years ago with the implementation of the group pass program. Virtually no other agency had a fare policy.

The Pricing Proposal Summary for FY 2006-07 included the possibility of a token price increase from $1.00 to $1.10 and the addition of the EmX fare at no cost. The increase in token price could generate an additional $25,000 in revenue.

An updated LTD Pricing History table included a list of CPI rate increases. It also showed suggested incremental price increases starting with tokens from $1.00 to $1.10 in FY 2006-07, passes from $35 to $38 in FY 2007-08, and cash fare from $1.25 to $1.35 in FY 2008-09.

The committee approved the process. Mr. Kortge believed that the taxpayer would like to see a "fair-share" model.

NEXT MEETING – The committee would not meet again until January 2006.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 8:45 a.m.

(Recorded by Chris Thrasher, Lane Transit District)

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