MINUTES OF FINANCE COMMITTEE MEETING

LANE TRANSIT DISTRICT BOARD OF DIRECTORS

February 7, 2006

Pursuant to notice given to *The Register-Guard* for publication on February 5, 2006, a meeting of the Lane Transit District Board of Directors Finance Committee was held at 7:30 a.m. on February 7, 2006, 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 7:35 a.m.

ROLL CALL – It was noted that all members of the committee were present. The following LTD staff also attended: Diane Hellekson, Mark Pangborn, Carol James, Andy Vobora, Mary Neidig, Terry Parker, Todd Lipkin, Steve Parrott, Mark Johnson, and Charlie Simmons.

MINUTES – The minutes of the January 12, 2006, meeting were approved unanimously.

GROUP PASS PRICING – Mr. Vobora, director of marketing and communication, stated that the Finance Committee, at its January 12, 2006, meeting, discussed a change to pricing methodology outlined in the Group Pass Policy. This involved moving away from calculating price changes based on the three-year rolling average of LTD costs to using the Consumer Price Index (CPI). After further discussion, staff recommended that the committee consider a pricing methodology that uses the current methodology, while paying particular attention to the CPI. Staff believed that the cost to provide service is reflected in the three-year rolling average method, but by using the CPI method, the District's goal of maintaining and improving farebox recovery will become more difficult. Staff believed that the three-year rolling average pricing method, which resulted in a 9 percent increase for the coming year, was too aggressive for some of the group pass participants. Staff subsequently recommended leaving the language in the policy as is and increase the group pass price by 6 percent for calendar year 2007, which is a rate between the three-year rolling average and the Portland CPI which stands at 2.5 percent. Higher fuel costs and labor attributed to the three-year rolling average.

The committee approved proceeding forward with communication to group pass organizations for review and comment. Staff will bring a resolution to the full Board for approval in April.

SPECIAL SERVICE PRICING – Mr. Vobora referred the committee to the Fully Allocated Cost Plan that was included in the agenda packet. Each year staff updates the Fully Allocated Cost Plan following adoption of the previous year's audit report. Following the completion of the fiscal year, actual expenses are affirmed through the audit process, which provides the basis for updating the Fully Allocated Cost Plan. The updated plan provides the District the information from which to change special service pricing. Due to increases in costs resulting from fuel and personnel services cost increases in FY 2004-05, the fully allocated rates will increase significantly for the coming year.

The District determines special service rates based on event size and complexity. Most events pay what is called the "level one" rate, which is equal to the sum of direct costs plus one-half of the indirect cost. Currently, UO football shuttles is the only event paying the "level two" rate, which is the

fully allocated rate. The level one rate will increase from $78 per hour to $92 per hour, and the fully allocated rate will increase from $91 per hour to $104 per hour. Staff believe some special event organizers may be unable to continue providing shuttle services through LTD at that rate. The UO is aware of the proposed rate increase to $104 per hour for football shuttles, which is a total increase of approximately $41,000. The increase for the Oregon Country Fair would result in an additional $7,800.

Mr. Gant asked that the special events organizers be given advance notice for their budgeting purposes.

The committee and staff believed it is important to have a consistent policy but also one that could be modified for special circumstances.

The committee gave its approval to move forward.

MEDICAID MEDICAL TRANSPORTATION CALL CENTER & BROKERAGE – Ms. Parker, accessible services manager, stated that since the Board's initial discussion last September, staff has researched call centers and brokerages with TriMet, Albany, Salem brokerages, and other transit agencies around the country. The state of Florida and the City of Pittsburgh have programs similar to what LTD proposes.

Ms. Parker noted that possible flaws included financial risk and software packaging.

In response to a question from Mr. Kortge, Mr. Parker stated that Medicaid management means determining rider and service eligibility and who pays before scheduling and providing Medicaid trips. To a small degree this service is currently being provided by LCOG Senior & Disabled Services, but the state is requiring a more extensive management process.

Mr. Gant asked if the software would manage reimbursement. Ms. Parker stated that currently the state provides fee for service in Lane County; the rest of the state has moved toward brokerages. A brokerage takes all the calls for medical trips and verifies eligibility. Currently, case managers verify eligibility for Medicaid. A brokerage is a better way to manage the public dollars that are being used to get people to and from their medical trips.

What does not occur today in Oregon is a system like RideSource that provides a certain number of rides with a publicly funded fleet and takes the Medicaid rides and imposes, when possible, some sharing. LTD proposes putting those two pieces together to eliminate single-person trips whenever possible; however, sometimes single-person trips are required, e.g., hospital discharges and stretcher cars.

Staff discovered that you need control of the entire fleet to maximize for 100 percent of the rides. LTD has contracts with South Lane Wheels in Cottage Grove and RideSource in Eugene, Springfield, and Oakridge. Other trips would be outsourced to taxis and other providers in the community. LTD's goal is to get more efficient and fully paid trips.

Mr. Kortge asked if a private organization could provide the service. Ms. Parker stated that the organization would need to be fairly sophisticated. LTD will go out to bid for this service. Special Mobility Services bid on brokerage services in Spokane. There are also national companies that provide brokerage service.

Mr. Gant asked if there was a model to measure the results.

(Mr. Simmons arrived.)

Ms. Parker stated that the state keeps annual data on all seven state brokerages. All rates and budgets have been analyzed and a preliminary budget has been created, which Ms. Parker distributed.

Mr. Kortge asked if the program would be a fee for service contract. Ms. Parker stated that the fee is based on cost per ride, which includes operation of the brokerage. The program would need to be self-sustaining and would include a two-year development phase. Every start-up brokerage has doubled its projected ride rates.

Ms. Parker stated that another issue is where to house the program. The current RideSource facility could house two people. If more than two people were needed to run the program, there is a facility on the RideSource property that could be renovated.

Ms. Hellekson, director of finance and information technology, stated the following reasons she believed the Board might want to move forward with this project: (1) efficiency, (2) better service by providing locally, and (3) possibility it could level off the subsidy that the General Fund is providing to the Accessible Services Fund. Ms. Parker stated that experience shows that if transit is not involved, the human service brokers dump their rides onto the transit system because it is a least cost provider.

The committee approved presenting the information to the full Board in March. Mr. Gant hoped this would be an opportunity for positive press.

PENSION PLANS – Ms. Neidig, director of human resources, stated that the ATU and Salaried Employees pension plans are underfunded. Mr. Pangborn added that the Board is obligated to fully fund both plans. A fund manager was hired to project the level of interest a new program could earn for the trusts. Copies of "Pension-Related Issues and Options" were distributed. These options—pension funding, interest rate assumption, and COLA--were also presented to the Board Human Resources Committee on January 24.

In response to a question from Mr. Kortge, Ms. Neidig stated that the responsibility for the Salaried Employees pension plan lies with the Board; trustees have the responsibility for the ATU pension plan in which the District has 2 of the 4 votes.

Mr. Pangborn stated that for the last 23 years the interest rate assumption has been 8 percent. Ms. Neidig stated the possibility that if the policy were not changed, over time things could settle out.

LTD's new fund manager, R.V. Coons, recently developed recommendations for both plans. Based on prior investment history and by hiring specific fund managers, he believed LTD could achieve a 7.25 to 7.5 percent interest rate return. However, we could not achieve an 8 percent return with our current risk profile. R.V. Coons then developed an asset allocation plan that met LTD's risk profile and the funds' needs. From there they picked the best performing managers with some leeway. Coons would monitor the performance and advocated not moving money around. LTD actuary, Peter Sturdivan of Milliman USA, believed that 8 percent is still attainable but is at the top end of the range.

Ms. Neidig referred the committee to an ATU pension funding policy study on page 19 of the agenda packet. Based on 100 percent funding of the plan, the study showed the required contribution at 8 percent, 7.5 percent, and 7 percent interest rate return assumption over a 24-, 20-, and 15-year amortization period. The Salaried Employees pension plan funding study showed the required contribution at the same interest rate return assumptions but over a 20-, 15-, and 10-year amortization period.

Ms. Hellekson stated two reasons for underfunding of the ATU pension plan: (1) rate of return assumption was unrealistic, and (2) granting of unfunded benefits.

(Mark Johnson arrived.)

Ms. Neidig stated that for the ATU pension plan a 20-year amortization at 7.5 percent interest rate return assumption would require an additional $165,000 annual contribution; the Salaried Employees plan would require an additional $90,000 using the same assumptions. The average employee service is approximately 20 years. The Salaried Employees pension plan was moved to a 20-year amortization three years ago. Ms. Neidig believed that consistency between the funds is important.

Ms. Hellekson noted three possible approaches: (1) level dollar amortization method, (2) level percent of pay amortization method, and (3) $2 million upfront contribution.

Mr. Pangborn noted that the 2000 ATU contract changed the contribution.

(Mr. Simmons left.)

In response to a question from Mr. Gant, Ms. Neidig stated that the assumed interest rate is reviewed every two years at the trustee level with the Board president serving as a trustee. Mr. Pangborn added that the trustees meet with the fund manager on a quarterly basis. Mr. Gant asked that the policy be changed to include an annual review by the Board.

Staff asked that the committee make a recommendation to the Human Resources Committee. The committee agreed on 20 years amortization for both plans and asked staff to provide a calculation at a 7.25 percent interest rate return.

LONG-RANGE FINANCIAL PLAN - Ms. Hellekson presented a new version of the eight-year financial plan. The new version changed the assumption of 8 percent payroll tax receipt growth in the current fiscal year and FY 2006-07 and changed the return on investment assumption for both pension plans from 8 percent to 7.5 percent with a 20-year amortization of the two plans' unfunded liabilities. It also assumed, as in the previous version, that we would not borrow until needed. Therefore, the transfers to Capital continue throughout the plan and we borrow $3.5 million in Year 4. It also draws down the reserves to the $2 million limit by Year 4. Personnel Services assumptions included continuation of benefits at current levels and a $300,000 provision for new positions.

This plan minimizes borrowing and gives LTD a couple of years while maintaining reserves at the current $3 million level. Ms. Hellekson stated her concern regarding the reduction of reserves to the $2 million level, which was seconded by Mr. Kortge. At some point, Capital reserves would need to be increased potentially to meet New Starts requirements.

Mr. Gant asked for a history of what was done with the $3 million reserve over time. Ms. Hellekson responded that LTD used $800,000 from reserves last year. Ms. James added that in 2001 staff positions were cut instead of using reserve dollars. Mr. Kortge stated that $1 million is for self-insurance.

Ms. Hellekson stated that reserves used to be 25-40 percent of operating costs, which was considered prudent. At the same time, interest earnings used to be a sizable part of LTD's operating subsidy.

Staff would provide a final proposal of the Capital Improvements Program (CIP) and Long-Range Financial Plan (LRFP) to the committee in March that includes retirement issue outcomes.

NEXT MEETING – Another meeting of the committee was tentatively scheduled for March 1.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 8:50 a.m.

(Recorded by Chris Thrasher, Lane Transit District)

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