MINUTES OF BUDGET COMMITTEE MEETING

LANE TRANSIT DISTRICT

Wednesday, April 23, 2008

Pursuant to notice given to *The Register-Guard* for publication on April 4 and April 14, 2008, and distributed to persons on the mailing list of the District, the Board of Directors of Lane Transit District held a Budget Committee meeting on Wednesday, April 23, 2008, beginning at 6:30 p.m., in the LTD Board Room at 3500 East 17th Avenue, Eugene.

	Board Members	Appointed Members
Present:	Gerry Gaydos, Board President Debbie Davis Mike Eyster Mike Dubick Greg Evans Ed Necker	Dwight Collins, Chair Dean Huber, Secretary Jon Hinds Russ Brink
Absent:	Dean Kortge	Peter Davidson Michael Langis Darrel Williams

CALL TO ORDER/ROLL CALL – Mr. Gaydos called the meeting of the Lane Transit District (LTD) Budget Committee to order.

ROLL CALL – Mr. Gaydos called the roll. The following staff also was present:

Mark Pangborn, General Manager
Stefano Viggiano, Assistant General Manager
Diane Hellekson, Budget Officer
Carol James, Accounting Manager
Todd Lipkin, Grant Administrator
George Trauger, Director of Maintenance
Tom Schwetz, Director of Planning and Development
David Collier, Senior Human Resources Analyst
Andy Vobora, Director of Service Planning, Accessibility, and Marketing
Mark Johnson, Director of Transit Operations
Steve Parrott, Information Technology Manager
Charlie Simmons, Facilities Services Manager
Jo Sullivan, Administrative Services Manager/Clerk of the Board
Chris Thrasher, Administrative Secretary
Kim Young, City of Eugene Minutes Recorder

WELCOME AND INTRODUCTIONS – Mr. Gaydos thanked those present for attending.

ELECTION OF OFFICERS

MOTION Mr. Gaydos moved to nominate Dwight Collins as committee chair and Dean Huber as committee secretary. Ms. Davis provided the second.

VOTE The motion was approved as follows:
AYES: Collins, Huber, Hinds, Brink, Davis, Dubick, Necker, Evans, Eyster, Gaydos (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: None

Mr. Collins assumed the gavel.

Mr. Huber arrived.

PUBLIC COMMENT – There was no one present in the audience who wished to speak.

APPROVAL OF MINUTES

MOTION Mr. Eyster moved that the committee approve the minutes of the April 25 and April 26, 2007, Budget Committee meetings. Mr. Gaydos provided the second.

VOTE The motion was approved as follows:
AYES: Collins, Huber, Hinds, Brink, Davis, Dubick, Necker, Evans, Eyster, Gaydos (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: None

FY 2008-2009 PROPOSED BUDGET PRESENTATION

Logistics and Agenda Review

Ms. Hellekson introduced the item, noting that a majority of the committee members must approve the budget. The Board of Directors had a limited ability to amend the budget. She noted the goals of the meeting (from handouts) and overviewed the agenda.

Performance

Mr. Pangborn noted the 15.6 percent increase in boardings and the continual increase in EmX use. He shared data about 12-month rolling average boardings, noting the impact of the school year and the implementation of the Franklin EmX Corridor.

Mr. Evans asked at what point LTD reached system capacity on the Franklin EmX route. Mr. Pangborn said that currently, vehicles on weekends with 20-minute headways are frequently standing room only and drivers considered certain trips to be reaching capacity. Mr. Vobora concurred and noted the additional impact the opening of the Pioneer Parkway EmX line would have on the system. Mr. Pangborn observed that LTD had expected a decrease in transfers to the 11 Thurston bus but instead staff actually had to increase service on the line by using articulated buses.

Responding to a question from Mr. Eyster, Mr. Pangborn said that productivity began to increase before EmX.

Mr. Pangborn shared data comparing LTD with other districts, noting the criteria used by staff to make the comparisons.

Mr. Pangborn said that LTD had succeeded in increasing ridership, which had implications for the future as it appeared that LTD would have to make service reductions.

Revenue/Expenditure History

Ms. Hellekson provided a presentation on LTD's revenue and expenditure history.

Long-Range Financial Plan

Ms. Hellekson emphasized the importance of the Long-Range Financial Plan (LRFP) to LTD. She shared a flow chart showing the plan review process and reviewed the assumptions in the plan.

Ms. Hellekson shared data regarding revenue and working capital projections. She noted that the Board had set, by policy, $3 million in reserves. To maintain that minimum, LTD would need to make a 3.5 percent service reduction in FY 2009-10. She reiterated the uncertain assumptions related to fuel and accessible services growth.

Ms. Hellekson indicated that LTD's ability to postpone capital improvements was limited. She noted the projects in progress or being contemplated. Mr. Evans asked if it would cost less money if LTD implemented the West Eugene EmX Corridor sooner. Ms. Hellekson deferred to Mr. Schwetz, who indicated LTD would like to do it sooner but was unsure whether or not that was possible. The faster the overall system could be built, the better. He said that LTD was starting to look at the details and confirmed that it was likely the FTA would be supportive if LTD fast-tracked its project. Mr. Pangborn noted that Salt Lake had accelerated work on its local light rail system partly by leveraging local money. Responding to a follow-up question from Mr. Evans regarding the source of that funding, Mr. Pangborn believed it was a local options sales tax.

Addressing the capital projects list, Ms. Hellekson noted the assumption that the new vehicles would be hybrid electric at a higher premium, and she believed the Board needed to test that assumption.

Responding to a question from Mr. Huber, Mr. Trauger said that LTD was realizing about a 4 percent increase in efficiency in the current hybrid vehicles. There was a long-term benefit. Ms. Hellekson said that maintenance was lower, but she did not know if the cost was worth it.

Responding to a question from Mr. Eyster, Mr. Simmons indicated that the funding proposed for remodeling the administration office would expand the footprint.

Ms. Hellekson reviewed the Capital Improvements Program allocations split, noting those allocations related to EmX.

Responding to a question from Mr. Necker, who asked about the progressive corridor enhancements program, Mr. Vobora responded that it was a precursor approach to the EmX system.

Ms. Hellekson reviewed an eight-year funding summary for capital projects.

Mr. Evans asked the impact of deferring maintenance in the short-term to get LTD "over the hump." Ms. Hellekson said that LTD did not have the option of deferring vehicle maintenance. LTD could defer facilities maintenance but that often eventually lead to the need for replacement. She said that LTD typically bought 12-year buses, with the longest-rated chassis, and ran them for at least 15 years.

Current Issues

Ms. Hellekson provided an overview of current issues with an impact on LTD. The "big three" were fuel, payroll tax receipts, and expenditure control. She said that LTD attempted to forecast what would occur in those areas. She shared information about the escalating costs of diesel fuel, noting that it had increased 58 percent in six months, with an annualized impact of $1 million on operating costs. There were no accurate long-term predictions about the cost of fuel. She reminded the committee of the assumption of $3.10 in the LRFP; the budget assumed $3.50 per gallon. Each 50-cent increase in fuel increased LTD's operating costs by $500,500. She suggested that LTD would be trading higher fuel costs for lower reserves. She reported that fuel costs were more than 40 percent of the total cost of materials and services, which had an impact on other areas, such as community outreach.

Ms. Hellekson shared a series of fuel scenarios and associated bar graphs illustrating the financial impact of each scenario.

<u>Fuel Scenario #1</u>

- Diesel fuel -- $3.50/gallon
- Accessible Services -- 15 percent increase
- Service -- 7 percent reduction

<u>Fuel Scenario #2</u>

- Diesel fuel -- $4/gallon
- Accessible Services -- 20 percent increase
- Service -- 11 percent reduction

Mr. Collins asked the impact of an 11 percent service reduction. Mr. Vobora estimated between 20-22 drivers would be eliminated. Staff would have to determine what the system looked like under that reduction, which he anticipated would be a restructuring given the percentage level involved. Possibilities included running buses less frequently on main corridors that are already at capacity, not running buses in neighborhoods, and eliminating Sunday service. In response to a question from Mr. Necker, Mr. Vobora stated that increased headways was another possibility.

Mr. Dubick noted that LTD does not have the ability to control costs in Accessible Services and asked if staff had a scenario with a 10 percent increase in Accessible Services and gas at $4 per gallon. Ms. Hellekson believed that scenario could be realistic.

Mr. Collins asked if reductions in service levels would lead to more use of Accessible Services. Ms. Hellekson said that it depended where LTD cut services. LTD was not obliged to have on-demand services where there was no fixed-route service. In response to a question from Mr. Eyster, Mr. Vobora said that LTD could look at that but would have to consider how many people it was disenfranchising from reaching critical appointments. Related issues were the impact on congestion and parking.

Mr. Necker observed that the only impetus for people with disabilities to ride LTD was the transit host. He suggested that LTD could increase the transit host program for less money than it spent on accessible services, but there would still be people unable to use the fixed-route system.

Mr. Evans assumed staff had incorporated increases related to labor costs into the projections. He did not think that a 7 or 11 percent reduction in service would be acceptable to the community and suggested the Board would need to think of how to generate other revenues to keep up.

Mr. Necker noted interest on the part of the City of Eugene in maintaining current services levels and questioned if the City would provide the needed funding.

Responding to a question from Mr. Eyster about the potential of action in the next legislative session, Mr. Viggiano said that it was possible the payroll tax could be increased. He believed that the elderly and disabled money was the best source of money in the short term, which would reduce the amount of money transferred to the service and could be used on fixed-route service.

Mr. Collins determined from Mr. Viggiano that it would take a statewide vote to change the State Constitution to allow the gas tax to be used for transit. Other states use gas tax for transit.

Mr. Pangborn said that Oregon had resisted increases in the gas tax over the past ten years. He believed that the price of fuel would drive the public to more fuel-efficient cars, and the State was already worried about the impact on future revenues. Mr. Necker pointed out that more people using mass transit meant fewer people buying gas.

Mr. Hinds said that the state of Washington was increasing refinement capacity. The prediction is that by 2011-12 there would be a drop in fuel prices, and if that could be accelerated, prices might decrease faster.

Mr. Lipkin pointed out that part of the increase in costs in Accessible Services could be attributed to increases in costs for Accessible Services vehicles, which also run on fossil fuels.

Ms. Hellekson shared two revenue scenarios and associated bar graphs illustrating the impact of the reductions envisioned in the scenarios.

Revenue Scenario #1

- 2 percent reduction in payroll tax increase in the current year
- 7.6 percent service reduction

Revenue Scenario #2

- 2 percent reduction in payroll tax increase in the current year
- Additional 2 percent reduction in payroll tax increase in Year 1
- 11.7 percent service reduction

Ms. Hellekson concluded with a scenario that resulted in a much worse reduction with even more community impact:

Fuel and Revenue Scenario

- 2 percent reduction in payroll tax increase in current year
- Additional 2 percent reduction in payroll tax increase in Year 1
- Diesel fuel at $4/gallon
- 20 percent Accessible Services increase
- 18.9 service reduction

Responding to a question from Mr. Dubick about the service reduction that had occurred in FY 2002-03, staff indicated there were two reductions: 8.9 percent and 5.7 percent. Mr. Gaydos noted that at that time, LTD had cut the more unproductive and marginal routes and any further cuts would have a greater community reduction.

Mr. Evans asked if there was a way to find additional revenue for transit in the form of payroll taxes or in the form of a local sales tax option. Mr. Pangborn suggested several strategies, including constitutional changes, sales tax, etc. He anticipated future Board discussion. Mr. Evans wanted to partner with other entities to create additional revenues as a more palatable approach to "going it alone." Mr. Pangborn agreed.

Mr. Dubick was concerned about a sales tax given its volatility in a recession. He thought that LTD needed a legislative solution that involved less volatile funds.

Mr. Necker suggested more revenues for special accessible services, noting its source of funding in the cigarette tax and the issuance of ID cards. He said the need for proof of citizenship had already reduced revenues from the ID card. Representative Terry Beyer had offered a cigarette tax proposal to assist accessible services, but the proposal did not go forward. He anticipated some relief from the next legislature given that the baby boomers were aging and service demand would grow. Mr. Dubick acknowledged that but was hoping for more service efficiencies.

Mr. Pangborn said that the earliest LTD could see relief for accessible services from the next legislature would be in May 2010.

Ms. Hellekson anticipated considerable more discussion in the next fiscal year.

In response to a question from Mr. Huber, Ms. Hellekson stated that LTD borrowed only for capital expenditures. She noted that borrowing was not a sustainable way to support the fixed-route service.

Ms. Hellekson reviewed the General Fund budget, sharing historic data and projections related to revenues from passenger fares, payroll-related taxes, and interest. She projected that in combination with beginning working capital, revenues for 2008-09 totaled $43,173,700.

Responding to a question from Mr. Brink, Mr. Vobora indicated there were two rates for event services, the higher rate being paid by the University of Oregon because of the scope of service. He confirmed that all event services covered direct costs.

Ms. Hellekson shared a pie chart illustrating proposed revenues.

Ms. Hellekson shared the budget for Personnel Services and noted the assumptions driving this area of the budget. She shared historic percentage changes and projected percentage changes in this area. She called attention to a pie chart showing the personnel allocation by department.

Ms. Hellekson reviewed the materials and services budget. She called attention to the contract for security and emphasized the importance of the investment, which continued to climb. She suggested it might be possible to deliver that service differently. Advertising dollars were also discretionary but had been cut considerably over the years. She said that staff proposed to maintain those expenditures while it discussed financial strategies for next year. Ms. Hellekson shared a pie chart illustrating appropriations in this area. She noted that 11 percent of the total was insurance and reviewed the projected costs in that area.

Ms. Hellekson reviewed the proposed General Fund transfers.

Ms. Hellekson reviewed transfers to the Accessible Services Fund.

Mr. Necker noted the change that occurred when LTD dropped the Honorable Rider age, which was intended to encourage people to use the fixed-route system.

Mr. Evans wanted to know if there was a consortium that LTD could enter into to reduce fuel costs. He asked if other local governments could be involved. Ms. Hellekson said that LTD was part of the Special Districts Association of Oregon, which banded together to increase buying power for things such as insurance. Mr. Trauger said that LTD investigated entering into consortiums with other transit providers without success. LTD was having some success buying fuel with the aid of the Oil Price Information Service (OPIS). LTD had actually outperformed other consortiums in that regard. Mr. Huber asked if LTD must partner with another public agency. Mr. Trauger said that LTD had not investigated partnering with private companies. Mr. Pangborn said that LTD would look into that.

Mr. Evans asked about the possibility that LTD could join a consortium to purchase health insurance. Ms. Hellekson said that because the union must consent, such changes could only be made during negotiations. She said that those agencies able to control insurance costs by single digits were doing well. Mr. Pangborn observed that insurance companies preferred a commonality of those covered. Ms. Adams was working to create a consortium clinic such as emergent care, which LTD could mange with other partners. Country Coach took a similar approach and was very successful. Ms. Hellekson said that those visits were taken out of emergency rooms and urgent care and went under the control of the clinic where costs could be monitored more closely.

Ms. Hellekson shared a pie chart illustrating General Fund appropriations. She emphasized the fact that labor costs were a majority of the cost of operating expenses, although fuel costs were making up a greater percentage. She called attention to uncertainties surrounding the General Fund, which included fuel prices, the impact of recession on payroll-related tax revenues, and growth in Accessible Services.

Ms. Hellekson overviewed the Reserves/Beginning Working Capital for FY 2007-08 and FY 2008-09, noting the beginning working capital was $2,658,000, which was below the Board policy but still adequate for a single fiscal year. It would give LTD time to decide how to address long-term service delivery issues.

Responding to a question from Mr. Collins, Ms. Hellekson said an increase in fuel prices to $4 per gallon would take $500,000 off the figure, and a 1 percent revenue decrease would be about $450,000. Mr. Collins asked if that was acceptable. Ms. Hellekson believed anything below $2 million was risky.

Ms. Hellekson overviewed the mission, programs, and services in the Commuter Solutions Fund. She reviewed the fund requirements summary and noted the proposed budget of $1,011,900. She noted that LTD contributed only $5,000 to the program.

Ms. Hellekson noted the services provided through the Accessible Services Fund. She shared a graph illustrating the increase in growth in Ride*Source* resources and miles. Ms. Hellekson reviewed the fund requirements summary and called attention to the proposed budget of $12,094,300. She reviewed the resources that currently supported the program. She said that the service competed for the same funds that supported the fixed-route system. She said that a ride on a Ride*Source* vehicle cost far more than a ride on the fixed-route system, and it was very liberating for a person to take the fixed-route service as Ride*Source* was more challenging to use.

Mr. Necker observed that Ride*Source* provided independence for people who could not ride the bus and helped prevent them from being recluses.

Ms. Hellekson reviewed the transfer from the General Fund to the Accessible Services Fund.

Mr. Evans believed that LTD was in good shape as far as accessible services compared to places like Austin, which was being sued for lack of community responsiveness.

Ms. Hellekson reviewed the Capital Projects Fund requirements summary and resources summary. She shared the fund balance numbers She said it was possible to transfer local money in the Capital Projects Fund to the Operating Fund although staff was not recommending that at this time.

COMMITTEE DISCUSSION

Mr. Collins questioned how much LTD should invest in the third EmX corridor given the anticipated impact on the fixed-route system. Mr. Eyster pointed out the impact on the matching money. Mr. Evans said that LTD had federal money it could not leave on the table. He thought that LTD was on the brink of a larger conversation and thought it had to grow the system. The third corridor was integral to the group. He wanted to bring in the local jurisdictions to provide money to ensure the corridor went forward. He thought Eugene would not be able to avoid it because of its focus on sustainability.

Mr. Pangborn said the bulk of the funding was federal and had yet to be appropriated, but LTD had started discussions about it. The second part of the funding was a local match, assumed to be about $20 million, which LTD did not have but which it would seek from the State legislature because of the precedent established by funding for TriMet. If those could be accomplished, LTD could move forward with no local money. A related issue was the need to fund the operations required to operate that corridor. He said that LTD would get to the point of identifying a preferred alternative and would discuss its options for funding at that time. That had a connection to the service reductions that LTD made. He said that LTD was adding service knowing reductions must be made, but it had to serve PeaceHealth, a major employer, and the opening of the Pioneer Parkway EmX Corridor. LTD service must be in place when the hospital opened its doors.

Mr. Huber said that one did not want to lose the opportunity, but he shared Mr. Collins's concerns. He asked about the cost of riding EmX as compared to the fixed-route system. Mr. Pangborn believed it would be less than the average of $2.89. LTD would save by adding to EmX and making reductions in the fixed-route system. He said that LTD staff would return to the committee for further discussion of that issue. He thought if it stopped now, LTD would be losing that opportunity.

Mr. Collins asked if staff had any ideas about filling the gap. Ms. Hellekson noted that the gap had grown because of fuel. Mr. Pangborn agreed. He said it happened at an unanticipated speed. Because fuel was such a large part of the operating budget, a small swing in the price of fuel had a large impact on LTD.

Mr. Brink asked what accounted for the increase in Ride*Source* usage. Mr. Vobora said that it was less an increase in usage than in trip dynamics; trips were longer, more complicated, and more time-consuming. There were costs associated with the waiting times for medical appointments. Mr. Necker added that there had been an increase in the number of people who qualified for the service. Members discussed the size of vehicles used by Ride*Source*. Mr. Pangborn emphasized the majority of the expense lay with the cost of the driver.

Ms. Hellekson reviewed the total FY 2008-09 proposed appropriation of $116,516,400, noting that it included the entire cost of the Pioneer Parkway EmX project.

Mr. Collins asked the committee if it wished to change any of the assumptions or if it wished to accept the budget as presented. Ms. Hellekson suggested that the key assumption was the price of fuel.

Responding to a question from Mr. Necker, Ms. Hellekson said that she believed if the committee agreed to sustaining the quality of fixed-route service and used a one-year period to address the shortfall, the reduction in reserves was acceptable. Mr. Pangborn called it the price LTD would pay to take the time to make the right decision for the community.

Mr. Dubick thought that because of the volatility of the market, it would be a gamble to change the fuel assumption, and he did not think changing it would make sense. He thought it was likely that LTD would revisit the issue when it had more experience with fuel prices.

Mr. Huber suggested that it would be more responsible to adjust the fuel assumption. He preferred to use $3.75 per gallon. Several committee members expressed support.

MOTION Mr. Huber moved that the committee adjust the fuel assumption to $3.75 per gallon. Mr. Gaydos provided the second.

Mr. Hinds was concerned about adding five new drivers with the potential that they would have to be laid off. He asked what LTD might gain by making a small reduction now to avoid the costs of training new operators. Ms. Hellekson said that previously LTD had not laid off a driver during service cuts and had been able to accomplish all its service reductions through attrition. Mr. Pangborn said that LTD would build attrition into that process. He expected to retain all the new drivers.

VOTE The motion was approved as follows:

AYES: Collins, Huber, Hinds, Brink, Davis, Dubick, Necker, Evans, Eyster, Gaydos (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: None

MOTION Mr. Evans moved to adopt the proposed budget with the adjusted fuel assumption. Mr. Eyster seconded the motion.

VOTE The motion was approved as follows:

AYES: Collins, Huber, Hinds, Brink, Davis, Dubick, Necker, Evans, Eyster, Gaydos (10)
NAYS: None
ABSTENTIONS: None
EXCUSED: None

ADJOURNMENT

Mr. Collins adjourned the meeting at 8:40 p.m.

Committee Secretary