MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

SPECIAL BOARD MEETING

Monday, March 2, 2009

Pursuant to notice given to *The Register-Guard* for publication on February 26, 2009, and distributed to persons on the mailing list of the District, the Board of Directors of the Lane Transit District held a special Board meeting on Monday, March 2, 2009, beginning at 4:30 p.m., in the LTD Board Room at 3500 East 17th Avenue, Eugene.

Present: Mike Eyster, President
Michael Dubick
Greg Evans
Gerry Gaydos
Dean Kortge
Ed Necker
Doris Towery
Jon Hinds, Budget Committee Member
Warren Wong, Budget Committee Member
Peter Davidson, Budget Committee Member
Dwight Collins, Budget Committee Member
Mark Pangborn, General Manager
Jeanne Schapper, Clerk of the Board
Lynn Taylor, Minutes Recorder

**CALL TO ORDER/ROLL CALL** – Mr. Eyster convened the meeting and called the roll.

**PRELIMINARY REMARKS BY BOARD PRESIDENT** – None.

**ANNOUNCEMENTS AND ADDITIONS TO THE AGENDA** – Mr. Pangborn announced that construction on International Way for the Gateway EmX Extension was proceeding. He said that in order to meet timelines, the District had been negotiating with property owners for small parcels required for the Extension, but in some instances a price had not yet been agreed upon. The District would commence "quick take" procedures in the event that construction had to occur and the land was needed, although negotiations would continue with owners up to and through the process.

Mr. Necker asked if there was significant disparity in the figures. Assistant General Manager Stefano Viggiano replied that it varied, but that in some instances acquiring the property was a lengthy process when the owner was a national corporation. He said that the District had taken similar action with the Franklin corridor and other projects, and in almost all cases, the District had been able to negotiate a purchase.

Mr. Pangborn added that the Oregon Department of Revenue had approached the District about a tax amnesty program and asked Director of Finance and Information Technology Diane Hellekson to explain.

Ms. Hellekson responded that the Oregon Department of Revenue periodically offered an amnesty program for people who were delinquent on their personal income taxes and also offered similar amnesty programs regarding the self-employment tax. She said that LTD had successfully participated in amnesty programs in the past. She added that waiving penalties and interest resulted in the collection of taxes that were due to the District and improved its bottom line.

## FISCAL YEAR 2009-2010 BUDGET PLANNING

Mr. Pangborn provided an overview of the planning process and the information to be covered. He said that it will be a unique year because of the number of financial uncertainties facing the District and the many variables to be considered. He reiterated that the 14.5 percent service cuts originally planned could be reduced to 3 percent as a result of the District's receipt of federal economic stimulus dollars if the Board approved. The rationale for that percentage would be explained during the meeting, as would cost saving measures such as salary freezes for administrative staff. He indicated that the purpose of the meeting was to provide direction to staff on assumptions to be used in the development of the FY 2009-10 budget and the Long-Range Financial Plan (LRFP), as well as to provide direction on service changes to be implemented in FY 2009-10.

**Budgeting Assumptions** – Ms. Hellekson discussed local economic conditions. She said that the unemployment rate has been climbing steadily and steeply, but, based on building permits issued, there is $128 million in planned projects that will occur locally and potentially generate a considerable amount of payroll tax revenue. Construction projects over the next several years could be significant in preserving the District's resources during a period of job losses. She reviewed a history of payroll tax receipts and noted the decline in recent years.

Mr. Collins asked if it was possible to look back over the past several years and determine what percentage of payroll tax revenue was derived from construction projects. He observed that the revenue from those projects could remain flat as current projects were completed and new ones took their places. Chief Accountant/Internal Auditor Carol James said that there was no way to identify payroll tax revenue from particular construction projects.

Ms. Hellekson reviewed the three assumption options for payroll tax growth in the LRFP. For budget planning purposes, staff had used the middle option:

- High Option – Annual growth between FY 2009-10 and FY 2016-17: 1%, 2%, 3%, 4%, 5%, 6%, 6%, 6%
- Middle Option – Annual growth between FY 2009-10 and FY 2016-17: 0%, 0%, 3%, 4%, 5%, 6%, 6%, 6%
- Low Option – Annual growth between FY 2009-10 and FY 2016-17: -2%, 0%, 3%, 4%, 5%, 6%, 6%, 6%

Mr. Kortge asked if it was possible to get a sense of the total revenue generated from construction during the past five years. Ms. Hellekson said that the only approach might be to determine how much of a project's total cost was payroll and apply the payroll tax formula to that amount. She expressed that it was very difficult to track the hundreds of subcontractors who worked on projects to a particular project. Ms. James added that using building permits for this purpose was difficult as online access to Springfield projects was available only for the last year and to Eugene projects for the last four years.

Mr. Dubick asked if the middle option included an assumption of no increase in the payroll tax rate. Ms. Hellekson said that the only rate increase assumed in the projections was the current rate steps that increase to .7 percent on January 1, 2014.

Mr. Evans asked if the District was better able to capture the payroll tax revenue from subcontractors because the subcontractors were aware of the need to pay the tax. Ms. Hellekson stated that the assumption was that many contractors were not aware of the tax. The District would need to do everything possible to identify those that were not paying and notify the Department of Revenue's compliance staff.

Mr. Viggiano commented that there were bills in the legislature that could increase the payroll tax revenue in the future, including an acceleration to .7 percent in January 2010 and a payroll tax rate increase over a ten-year period based on the local economy. He added that staff recommended including neither option in the LRFP assumptions. He advised the Board that the District would receive stimulus funds from the American Recovery and Reinvestment Act in the amount of $6.47 million. Half of that amount could be used for fleet maintenance to offset operating costs, which would benefit the general fund budget; and the other half would be used to remodel the fleet maintenance building. He said that the funds had to be obligated within one year and that this one-time revenue was reflected in the LRFP. He said that Section 5307 funds were intended for capital, but could be used for vehicle and facilities maintenance and up to 10 percent could be used for paratransit. Staff were recommending using $1.2 million in 5307 funds for fleet maintenance in the current year and $1 million per year through the balance of the LRFP.

Mr. Necker asked if the funds could be used as a local match for replacement of paratransit vehicles. Mr. Viggiano replied that 5307 funds were federal funds and could not be used to match other federal funds.

In response to a question from Mr. Evans, Mr. Viggiano said that spending 5307 funds on fuel as part of the maintenance budget was an allowable expense.

Mr. Dubick inquired about the basis for assuming that 5307 funds would increase annually. Financial Services Manager Todd Lipkin responded that the assumption was based on historical funding levels and growth in passenger miles.

Mr. Viggiano said that the region received an annual allocation of federal Surface Transportation Program – Urban (STP-U) funds of approximately $2.5 to $3 million; the funds were flexible and could be used for transit. The Metropolitan Policy Committee (MPC) had asked LTD to develop a proposal to allocate some STP-U funds to transit to offset the potential service reductions. Mr. Viggiano stated that the District's proposal included $1.5 million in STP-U funds over the next four years that would be applied to fleet maintenance. He said that the proposal would be considered by the MPC as part of the package of STP-U allocations over the next three years. The LRFP assumed $500,000 in STP-U funds in years two, three, and four.

Mr. Evans asked if the Oregon Metropolitan Planning Organization Consortium (OMPOC) could be a vehicle for advocating for other MPOs in the State to develop a transportation agenda that would include transit. Director of Planning and Development Tom Schwetz responded that each MPO, because STP-U funds were discretionary, had typically allocated some amount to transit. Mr. Schwetz added that OMPOC tended to focus on legislative issues rather than the development of a uniform approach among MPOs for use of funds. Mr. Viggiano added that there was potential for long-term transit funding from STP-U funds, but that was contingent on finding a replacement for road funding.

Mr. Viggiano reviewed options for paratransit funding. He said that there were three proposals in the state legislature for increasing the tobacco tax, which could increase revenue by $350,000 to $1.1 million annually. None of the legislative proposals were assumed in the LRFP. He remarked that another option would be to use $700,000 from a $1 million discretionary grant from the Federal Transit Administration (FTA) to purchase RideSource vehicles – in lieu of using state funds received for that purpose, and $350,000 in state funds would be used for RideSource operations over the next two years. The final option would be to use eligible RideSource program expenditures for the Business Energy Tax Credit (BETC). This could generate approximately $650,000 per year in a pass-through tax credit. Staff recommend assuming the use of state funds for RideSource and $650,000 in BETC tax credits in the LRFP.

Mr. Viggiano explained that LTD would need a corporate partner willing to purchase the BETC credits and added that the credits could also be sold to several different partners.

Mr. Viggiano drew the Board's attention to the information on transit revenue options contained in the agenda packet and said that those had been discussed at previous Board meetings. The options that the Board had decided not to pursue could always be revisited at a later date, and none had been assumed in the LRFP.

Ms. Hellekson stated that the funded ratios of the pension plans had gradually eroded and that the local 757 plan was at 55.7 percent at the beginning of January 2008. She said that equated to $11.6 million that would be required to fully fund the plan. She related that the administrative pension plan was in slightly better shape, with 75 percent funded in June 2007; although that was estimated to drop to 61 percent in the next valuation unless contributions were bolstered. She said that staff recommended increasing the contributions to the retirement plans by $700,000 starting in FY 2009-10 and were considering structural changes to the plan.

Ms. Hellekson commented that fuel prices continued to be volatile and difficult to predict. She said that in an effort to take advantage of the current low price, staff were considering a bulk fuel purchase of approximately 400,000 gallons that could be stored in Coos Bay. She said that the current price was $1.20 per gallon, but staff recommend that the FY 2009-10 budget assume $2.00 per gallon, with a 3 percent cost increase per year.

In response to a question from Mr. Evans, Director of Service Planning, Accessibility and Marketing Andy Vobora said that there was a relationship between fuel prices and ridership increases, but there were other factors as well, that made it difficult to determine the specific impact of fuel prices. He said that the District had little capacity to absorb more demand for services.

In response to a question from Mr. Collins, Ms. Hellekson said that the District purchased approximately one million gallons of fuel annually and a $.10 increase in the price of fuel would equal $100,000.

Ms. Hellekson stated that an evaluation of Materials and Services expenditures by the Leadership Council had resulted in a savings of $300,000 in current costs. Staff recommend assuming those savings would continue throughout the LRFP. She added that administrative staff savings were realized by not filling a budgeted position and charging the maximum amount of time to capital grants by employees who work on capital projects. She said staff recommended a wage freeze for administrative staff in FY 2009-10.

Mr. Wong asked if furloughs had been considered as an option for reducing personnel costs. Ms. Hellekson replied that furloughs had been discussed when the District was facing 14.5 percent in service reductions. She said that this option was on a list of potential solutions if budget problems worsened. It is not being recommended at this time because furloughs affect not only employees, but the people that the District serve.

Mr. Evans asked if a ten-hour/four-day work week (with a closure on the fifth day) or adding more holidays had been considered. Ms. Hellekson responded that LTD was a seven-day per week operation. Those suggestions were on a list of options to discuss if necessary. Mr. Pangborn added that the stimulus funds would allow the District to meet the community's request to maintain service and jobs, and that decisions of that nature were being postponed until better information about state and federal funding situations was available.

Mr. Collins asked if the District was able to implement any energy savings incentives. Facility Services Manager Charlie Simmons said that incentives do exist for public buildings and were being pursued during facility design and operations. He added that the maintenance facility remodel would include an energy audit and incorporation of energy-saving strategies.

**Service Level for FY 2009-10 and Beyond** – Mr. Vobora reviewed the service reductions proposed for FY 2009-10. He said that the initial reductions were in response to an anticipated $3 to $4 million budget shortfall. Since that time, news that the District would receive federal stimulus dollars prompted a reevaluation of those cuts and development of a revised list of recommended reductions totaling 3.04 percent. He reiterated that the goal in system design was to maintain system coverage, frequency, and capacity of service. Service components to be restored included the 3X and 8X routes as well as miscellaneous 4J School District trips. Staff recommend that the annual service reduction package be reduced to 3.04 percent for Fall 2009.

Mr. Pangborn said that at a recent meeting with the Eugene City Council to discuss the STP-U funds, councilors emphasized the need to maintain service. The council was informed that allocation of STP-U funds would help to avoid or minimize service cuts and meet expectations for maintaining service.

Mr. Vobora noted that the Gateway EmX startup in 18 months was calculated into the LRFP.

In response to a question from Mr. Hinds, Mr. Vobora said that if the Board approved the revised list of service reductions, service on routes #18 and #13 would be restored.

**Budget Assumptions – Summary of Staff Recommendation** – Ms. Hellekson reviewed a spreadsheet summarizing the three payroll tax scenarios and the budget assumptions recommended by staff. She noted that considering more modest service cuts in Fall 2009 could mean the Board would again be faced with significant service cuts in the future. However, she also noted that the recommended plan bought the District more time.

Mr. Collins asked what revenue would replace the one-time stimulus funds. Ms. Hellekson responded that STP-U funds and reprogramming of 5307 funds to support operations in the out years would address that for a few years. She said that the point of a LRFP was to assure that LTD never operated at a deficit.

Mr. Pangborn remarked that an increase in cigarette tax revenue, if approved by the legislature, would also increase revenue.

Ms. Hellekson asked for responses from Board and Committee members to the staff recommendations. She reiterated that there needed to be agreement on assumptions in order for staff to develop a proposed budget.

Mr. Wong stated that the federal stimulus funds would buy one year, but he was inclined to use the worst case cigarette tax scenario in the plan. He was not comfortable with the data currently available or optimistic that the situation would improve over the next 12 to 18 months. He said that it might be helpful to research the types of constructions projects in 2007 and 2008 as it was likely new projects would simply maintain, not increase, payroll tax revenue. He was concerned with the impact of the economy on businesses and their payrolls and with the status of the pension plans. He worried that freezing wages could eventually result in an extremely large increase in wages in order to make up that amount. He agreed with a 3 percent service reduction in Fall 2009, with the caveat that a larger reduction might be necessary in the future. He suggested including the low figure for payroll, and if revenue was at the middle level as hoped, funds could be used to replenish pension funds, implement cost-of-living (COLA) increases, and build up reserves. He did not feel that there was enough data to take a moderate approach and suggested that the budget situation could be reviewed quarterly.

Mr. Davidson agreed with the Mr. Wong's concern about payrolls as many employers were freezing wages and reducing workforces. He was concerned that even the lowest tax base option was too optimistic. He also was concerned with the pension plans and agreed with the suggestion to review the District's financial status on a quarterly basis.

Mr. Pangborn explained that quarterly reviews were not feasible because service planners had to develop a specific set of reductions months in advance for Fall 2009 implementation. He said that even if new information that could affect service reductions became available in a couple of months, it would be too late to change service plans.

Mr. Wong said it appeared that significant service changes could only be made once a year. Mr. Vobora agreed. He said that redesigning service in order to make cuts was very complex and considerable lead time was required by planners and necessary for public outreach and involvement.

Mr. Wong concurred with a 3 percent service reduction because of the receipt of stimulus funds, with the understanding that much larger cuts might be needed once those funds were spent.

Mr. Necker asked why service reductions could not be at a 7 or 8 percent level instead of 3 percent. Mr. Vobora explained that the 3 percent reduction was a subset of the initial package of a 14.5 percent service reduction and would be easier to make because it allowed the base system to continue to operate. He said a higher reduction could be made if the Board wished, but it would take much more planning.

Mr. Pangborn said that cuts often had a domino effect and a cut in one route meant that other routes would be affected. He said that this was the dilemma that planners faced with a higher percentage of cuts and for that reason, the 3 percent level was being recommended. He added that one additional cut that could be made was elimination of the popular Breeze service.

Mr. Necker suggested that perhaps the frequency of Breeze service could be reduced instead of eliminating it entirely.

Mr. Collins asked for clarification as to what it meant to cut a percentage of service. Mr. Vobora explained that the percentage referred to the cost of service, but that it also meant some loss of ridership if some routes were eliminated. He added that it was necessary to maintain system connectivity in order to sustain service.

Mr. Collins indicated that he favored using the lowest option for payroll tax growth in the first year of the plan.

Mr. Hinds agreed with a 3 percent service reduction to eliminate low productivity routes. He said that using the stimulus funds as proposed would demonstrate the District's intention to preserve jobs and would put LTD in a good position for funding in the future. He pointed out that City of Eugene executive employees had agreed to a wage freeze and the union was discussing that possibility.

Mr. Dubick stated that based on a number of factors, including payroll tax receipts for the last quarter, he thought that using the middle option for payroll tax growth was reasonable. He felt that the legislative session would provide the District with additional funding for paratransit and an increase in the payroll tax rate.

Ms. Towery said that she also was inclined to support the middle option, but was concerned that the economy was going to worsen before it improved. She agreed with a 3 percent reduction in service; otherwise, an allocation of STP-U funds would be taken off the table if the full 14.5 percent in cuts occurred despite receipt of stimulus funds. She emphasized that it was important to communicate to the public that deeper service cuts might be necessary in future years. She agreed with a wage freeze for administrative staff.

Mr. Necker agreed with using the middle option for the payroll tax rate growth assumption and a freeze in administrative wages. He supported the 3 percent service cut with the caveat that there could be more service reductions in the future.

Mr. Gaydos agreed with Mr. Wong. He was concerned about revenue projections and the status of pension plans and felt that the lowest option was a more realistic approach. He sensed that LTD's partnership with the cities and the County could be undercut if the District did not use the stimulus funds effectively. He said that the 3 percent reduction in service was reasonable and that he appreciated the hard work and compassion of staff that was reflected in the recommendations.

Mr. Eyster asked if larger service cuts would be required if the lowest option for payroll tax growth was used in the plan. Ms. Hellekson replied that more cuts would not be required in Fall 2009, but problems in the future could be larger.

Mr. Eyster determined that the Board and Committee members supported a 3 percent service reduction, with the caveat that it might be necessary to eliminate other service, such as the Breeze, that did not significantly affect other parts of the system.

Mr. Wong said that there was a $500,000 difference in payroll tax growth options, and staff should be provided with direction on which option to use.

Mr. Eyster asked if that direction could be given in May when more financial data was available. Ms. Hellekson replied that regardless of the budget, the District would never spend money it did not have. If anticipated revenue was not realized, a correction would be made by reducing expenditures.

Mr. Lipkin said that a proposed revision of the LRFP would be developed for Board approval on March 31, but staff would be prepared to make changes at the last minute should actual figures be different from those projected. He said that staff could work with a range of growth assumptions between the middle and lowest options.

**ADJOURNMENT** – Mr. Eyster adjourned the meeting at 6:35 p.m.

Board Secretary

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