MINUTES OF BUDGET COMMITTEE

LANE TRANSIT DISTRICT

Wednesday, May 16, 2012

Pursuant to notice given to *The Register-Guard* for publication on April 22 and May 9, 2012, and distributed to persons on the mailing list of the District, the Board of Directors of the Lane Transit District held a Budget Committee meeting on Wednesday, May 16, 2012, beginning at 6 p.m., in the LTD Board Room at 3500 East 17th Avenue, Eugene.

	Board Members	Appointed Members
Present:	Mike Eyster, President	Dwight Collins
	Michael Dubick	Peter Davidson
	Greg Evans	Edward Gerdes
	Gary Gillespie	Jon Hinds
	Dean Kortge	Kay Metzger
	Ed Necker	Don Nordin
	Doris Towery	Warren Wong

CALL TO ORDER/ROLL CALL – Mr. Eyster called the meeting to order and called the roll. The following staff also was present:

Ron Kilcoyne, General Manager
Diane Hellekson, Director of Finance and Information Technology
George Trauger, Director of Maintenance
Andy Vobora, Director of Community Relations
Tom Schwetz, Director of Planning and Development
Mary Adams, Director of Human Resources & Risk Management
Mark Johnson, Director of Transit Operations
Todd Lipkin, Finance Manager
Carol James, Chief Accountant/Internal Auditor
Joe McCormack, Facilities Services Manager
Cosette Rees, CSC & Accessible Services Manager
Steve Parrott, IT Manager
Theresa Brand, Transportation Options Manager
Rand Stamm, Accessible Services
Susan Hekimoglu, Accessible Services
Chris Thrasher, Finance Administrative Secretary
Lynn Taylor, Minutes Recorder

WELCOME AND INTRODUCTIONS - Mr. Eyster thanked everyone for attending.

General Manager Ron Kilcoyne welcomed Budget Committee members. He noted that the District was in the process of consolidating Accessible Services and Customer Service Departments. He said Terry Parker, manager of the Accessible Services Program would be retiring soon, and Cosette Rees would move into the position of managing the combined programs.

MOTION **ELECTION OF OFFICERS** – Mr. Kortge nominated Peter Davidson as chair of the Lane Transit District Budget Committee.

VOTE There being no other nominations, Mr. Davidson was elected chair by the following vote:
AYES: Collins, Davidson, Dubick, Evans, Eyster, Gerdes, Gillespie, Kortge, Metzger, Necker, Nordin, Towery, Wong (13)
NAYS: None
ABSTENTIONS: None
EXCUSED: Hinds (1)

MOTION Mr. Kortge nominated Mike Dubick as secretary of the Lane Transit District Budget Committee.

VOTE There being no other nominations, Mr. Dubick was elected secretary by the following vote:
AYES: Collins, Davidson, Dubick, Evans, Eyster, Gerdes, Gillespie, Kortge, Metzger, Necker, Nordin, Towery, Wong (13)
NAYS: None
ABSTENTIONS: None
EXCUSED: Hinds (1)

PUBLIC COMMENT – Mr. Davidson invited comments from the public.

Bob Macherione, 1994 Brewer, Eugene said his concern with LTD budgets was that they did not provide for other post-employment benefits (OPEB), which were currently at $6 million and increasing at $650,00 annually. He felt leaving that unfunded meant the public would eventually have to deal with the crisis. He thought the budgets as written left insufficient reserves, jeopardizing services when there were financial fluctuations. He viewed furlough days as preserving jobs instead of laying off employees. He did not think that merit raise limits should have been increased to 5 percent from 2.5 percent.

MOTION **APPROVAL OF MINUTES** – Mr. Kortge moved approval of the May 26, 2011, Budget Committee meeting minutes as written. Mr. Dubick provided the second.

VOTE The minutes were approved as follows:
AYES: Collins, Davidson, Dubick, Evans, Eyster, Gerdes, Gillespie, Kortge, Metzger, Necker, Nordin, Towery, Wong (13)
NAYS: None
ABSTENTIONS: None
EXCUSED: Hinds (1)

Budget Committee members introduced themselves and gave brief background statements. Introductions continued from others in attendance.

FY 2012-13 PROPOSED BUDGET PRESENTATION

Director of Finance & Information Technology Diane Hellekson provided an overview of the budget process. She reminded the committee that it had the authority to modify the budget. She said once a budget has been approved by the Budget Committee, it would be forwarded to the LTD Board of Directors for adoption; any material changes to the budget once it was adopted would require calling the Budget Committee back into session. She asked the committee to consider the following factors in its review of the proposed budget:

- Are assumptions valid and appropriate?
- Are resources allocated in accordance with LTD's Strategic Plan?

- Are resources used effectively?
- Is there a better approach to the budget?

Mr. Kilcoyne highlighted FY 2011-12 accomplishments in the following areas:

- EmX milestones and ongoing projects
- Ridership and productivity
- Fleet expansion and upgrades
- Organizational changes
- Grant applications
- Implementation of new programs
- Infrastructure improvements
- Administration

Mr. Kilcoyne said priorities for FY 2012-13 included continuing to provide high-quality service and increase ridership, finalizing a labor agreement, ongoing EmX projects and planning activities, implementing a real-time passenger information system, completing the Long-Range Transit Plan (LRTP), and determining appropriate level of service and quantifying benefits.

Mr. Gillespie asked about progress in developing an application that would deliver schedule versus real-time information to smart phones and iPad devices. Mr. Kilcoyne said that was also a priority, but there were challenges to accomplishing that due to patent issues. He said the U.S. Department of Justice was examining the problem as it was inhibiting development of real-time information systems.

Mr. Gerdes asked if a policy regarding reserves had been developed. Ms. Hellekson replied that a reserves policy had been delayed by the change in general managers but remained on the priorities list. She noted that there was a reserves policy in place that guided the budget process and the intent was to examine that policy and determine if it needed to be updated.

Mr. Nordin asked if the new bikeshare program would be similar to those in Minneapolis and Washington, D.C. Mr. Kilcoyne said the program would be similar but on a smaller scale. He said LTD was working with the University of Oregon to implement a coordinated program with initially 100 bikes. Transportation Options Manager Theresa Brand added that LTD was in the process of completing a bike parking study.

Ms. Hellekson reviewed the performance statistics information distributed to the committee. Charts and graphs displayed data on average boardings, service hours, cost and boardings per revenue hour, and cost per boarding. LTD's performance also was compared to peer properties around the country. She said the proposed budget was a status quo budget that did not propose any cuts or additions to existing service.

Mr. Gerdes asked if the cost per hour included Ride*Source*. Ms. Hellekson replied that the statistics were for the fixed-route system only; paratransit statistics were developed separately because of the high cost of that service.

Mr. Davidson asked about the average farebox recovery per boarding. Finance Manager Todd Lipkin said it was approximately $.60.

General Fund – Ms. Hellekson reviewed the General Fund budget, which contained District operating costs, including fixed-route operations. She displayed data on the FY 2011-12 current budget and estimated actual resources and the proposed FY 2012-13 budget. She explained resources in the following categories: passenger fares, payroll-related taxes, preventive maintenance, Point2point, and other.

Mr. Kortge asked if the Board had to approve an increase in the payroll tax rate. Ms. Hellekson said the Legislature in 2003 increased the statutory limit from .06 percent to .07 percent and in 2005 the Board made a finding of economic recovery and modified the ordinance to make increases automatic until they reached .07 percent in January 2014. She said at this time there was no plan to increase the amount to the .08 percent level authorized by the 2009 legislative session.

Mr. Kortge pointed out that the federal funds for preventive maintenance represented 10 percent of the budget, which would pose a significant problem if those funds were no longer available. Ms. Hellekson said there were no proposals at the federal level to eliminate those funds, and if discretionary funds were folded into formula funds, the amount the District received in formula funds would increase.

Mr. Collins asked what those funds had been used for in previous years. Ms. Hellekson said they were used to purchase buses, although some had been used for operating expenses. Mr. Lipkin said that a significant portion of the District's planned capital improvements had to be postponed or eliminated when funds had to be diverted to preventive maintenance in order to sustain services.

Mr. Evans said a federal transportation bill was in conference committee to reconcile House and Senate versions. He said that it was a two-year instead of six-year bill because of the current budget situation. He said it appeared likely that the final bill would include 5307 funds.

Mr. Kortge asked if EmX buses were more expensive to maintain. Director of Maintenance George Trauger said EmX buses were not more expensive to maintain than other hybrid-electric articulated buses. He noted the carrying capacity of EmX vehicles was greater, and they were the equivalent of a bus-and-a-half to maintain. He said the tested life expectancy was 12 years, although the District's goal was 15 years in accordance with Board policy.

Director of Community Relations Andy Vobora observed that Special Services revenue could decline because of private providers' interest in that service. He said the University of Oregon was required by federal regulations to use private providers if available and interested.

Continuing, Ms. Hellekson reviewed General Fund proposed expenditures in the following categories: personnel services, materials and services, insurance and risk services, Accessible Services transfer, capital projects transfer, and reserves. She said wages had been contained over the past three years with wage freezes and furlough days, but some increase was anticipated when the labor contract is settled. Pension contributions would be somewhat mitigated by larger-than-necessary contributions in the current year, but would still increase by $100,000. Medical premiums were not expected to increase more than 10 percent after a 5 percent increase in 2012. A new pension plan was in effect for administrative employees hired after December 31, 2011. It was necessary to allocate a fixed amount for the old plan's unfunded liability, which would be $556,000 next year; new benefits accrued would be funded at 11.5 percent of salary. Administrative and Amalgamated Transit Union (ATU) employees were now on the same medical plan.

Regarding pension plans, Ms. Hellekson explained that the new administrative pension plan was a defined contribution plan, with all the risks shifted to the employee, and would eventually result in controlled costs. She said an assumed 7.5 percent rate of return was still in effect for the old plan. There were no current proposals to change the ATU pension plan. However, since there were three times as many employees in that plan, changes were necessary in the long-term to realize significant savings in pension costs. Actuarial evaluations were in progress for both plans and results would be reported to the Board.

Mr. Kortge said although the assumed rate of 7.5 percent was relatively conservative compared to other pension plans, he was not convinced it was achievable. He said changing the assumption could have an impact on the fixed-route service, and the Board was not prepared to take that step.

Mr. Davidson commented that there was an annual opportunity to change the assumption. He said the liability was largely determined by the interest rate; when rates were lower, the liability increased. He said it was important to be cognizant that the rate was used to extrapolate 20 years into the future.

Mr. Kortge said updated actuarial data indicated people were living longer, and it was important to review assumptions annually.

Mr. Wong asked if pension obligations bonds were a cost-beneficial option for paying off the unfunded liability on both plans. Ms. Hellekson said that question had not been pursued, pending determination of the borrowing capacity needed for vehicle acquisition, in the event discretionary federal funds were no longer available.

Mr. Wong encouraged staff to consider the pension obligation bonds if they were a viable option.

Mr. Gerdes concurred. He asked if restrictions on how funds could be invested within the pension plans could be made more flexible. Ms. Hellekson said the range of investments could be broadened, but legal counsel had cautioned that the choices should be extremely prudent because of the magnitude of potential risks.

Mr. Kortge said the pension board could look at other investment options, but he was concerned about risks and the fiduciary responsibility of the board.

Ms. Hellekson said that significant additional contributions to pension plans in two of the last three years had slowed the growth of unfunded liabilities, but the proposed budget did not include additional contributions because the new plan was intended to control liabilities and avoid impacting fixed route services.

Mr. Hinds arrived at 7:30 p.m.

Ms. Hellekson pointed out that the administrative and ATU employee's medical plans had merged in 2011. She said there were measures in place to reduce premium growth. In response to a question from Ms. Metzger, she said employees did not pay premiums, but costs were controlled in part through fairly high deductibles. Director of Human Resources and Risk Management Mary Adams added that health savings accounts were available to employees. She said premium costs had increased during the current year due to requirements to provide coverage for certain adult children and provided preventive care without co-pay. She said claims had decreased, and there was a greater focus on wellness and preventive care. She said the deductible was $1,500 per employee and $3,000 per family.

Ms. Hellekson commented that 66 percent of employees were in transit operations and 14 percent were in bus maintenance. She said the largest component of materials and services was fuel, although the District had been able to effectively control costs in the current volatile market, in part through storage. She said the addition of hybrid-electric buses to the fleet was improving overall gas mileage.

Mr. Davidson asked if LTD had considered derivatives to hedge against the cost of fuel in the future. Mr. Trauger agreed there could be savings associated with locking in a price for a specific period of time, but there was an associated cost because private industry needed to make money and project their own costs. He said the current procedures were working well to keep the District cost neutral.

Ms. Hellekson said the current budget transfer to Accessible Services would increase from $1.9 million to $2.25 million and would require a supplemental budget in June. The proposed budget included a $2.5 million transfer to Accessible Services.

Mr. Davidson asked if the Accessible Services budget would change because of community care organization (CCO) funding. Accessible Services Transportation Coordinator Rand Stamm replied that a CCO dealt with Medicaid funding, which was separate from general accessible services.

In response to comments from Mr. Kortge, Ms. Hellekson said the projected Accessible Services transfer amount continued to grow in the Long-Range Financial Plan (LRFP), despite LTD's extraordinary efforts to minimize it. Mr. Vobora said transit districts would approach the Legislature during the next session for funding to help support Accessible Services.

Mr. Davidson asked if additions to reserves were budgeted. Ms. Hellekson said the current policy specified there could be no less than $3 million in reserves, with $1 million in current-year working capital, $1 million for next year's working capital, and $1 million for self-insurance. She pointed out that those figures were the minimum, and actual reserves were higher. She said prior to that policy, reserves were maintained at 25 to 40 percent of operating expense; however, the current gap between payroll taxes and personnel services made it much more difficult to create reserves. The focus of the LRFP was maintaining the minimum reserves over the life of the plan, not necessarily increasing those reserves.

Mr. Evans asked staff for a synopsis of issues and options related to the cost of software so he could raise concerns with the American Public Transportation Association (APTA). IT Manager Steve Parrott agreed to meet with Mr. Evans on the issues.

Mr. Gillespie asked about the total number of vacant budgeted positions. Ms. Hellekson replied that there were no vacant bus operator positions. She said that some positions had been eliminated elsewhere in the organization and were no longer in the budget.

Mr. Kortge asked if the health savings accounts were reflected in the budget. Ms. Hellekson said the ATU account was fully funded, and funds were transferred at the beginning of the calendar year. The administrative account was managed on a cash basis and outstanding balances available were accrued but not funded.

Mr. Kortge urged that those types of liabilities be made clear to the public.

Mr. Eyster asked for feedback from the committee on the reserves policy.

Mr. Kortge asked what the operating budget had been when the current policy was established. Ms. Hellekson said the operating budget was about $30 million.

Mr. Wong believed it behooved the Board and staff to review the current policy, given economic conditions over the past three years. He was not convinced that a fixed dollar amount was an appropriate approach. He was not certain that there would be a return to the vibrant economy of the 1990s.

Mr. Collins agreed that the reserves policy should be revisited and reserves as a percentage of the operating budget considered. Ms. Hellekson said that building reserves would have to be accompanied by education of the public about the need for reserves.

Mr. Davidson said a balance sheet would help to inform the conversation about reserves and provide a picture of the extent of liabilities. Ms. Hellekson commented that financial reports on the LTD website included balance sheets for all funds.

Mr. Gerdes believed the amount of current reserves was acceptable, but the policy should be revised and he encouraged a review.

Mr. Hinds said reserves protected against potential cuts in service. Ms. Hellekson remarked in accordance with direction from the committee that staff would develop a process for prioritizing reserves to maintain a sustainable level of service.

Mr. Gerdes said the cost per boarding on the fixed-route system was $2.93, and it appeared the accessible services boarding costs was much higher. Ms. Hellekson said accessible services boardings typically cost six to seven times more than fixed-route boardings. Mr. Lipkin added that the amount was the cost to LTD; costs were also supplemented with pass-through funds.

Mr. Kortge asked for an accounting of the costs to operate EmX.

Accessible Services Fund – Mr. Lipkin reviewed the Accessible Services Fund requirements. He pointed out that the demand for ADA Ride*Source* service was steadily rising, and he expected the rate of growth to increase as the population aged. He explained Accessible Services Fund resources, including federal, state, and local funds, farebox recovery from Ride*Source,* and the General Fund transfer. He emphasized that LTD employed a variety of strategies to encourage use of the bus and mitigate the demand for Ride*Source*.

Mr. Gillespie commended Alternative Work Concepts and the services provided under contract to LTD.

Medicaid Fund – Mr. Lipkin reviewed fund requirements and resources. He said LTD served as the brokerage for Medicaid Non-Emergency Medical transportation and Medicaid Non-Medical transportation. He said the only non-federal resources in the Medicaid Fund were state funds used to match Medicaid Non-Medical federal funds.

Ms. Metzger asked how state legislation relating to CCOs would impact the Medicaid Fund in terms of the brokerage service. Mr. Stamm said LTD was very involved in the issue and the state was currently considering whether a governmental agency such as a transit district could contract with a CCO to provide the transportation portion of medical services. The Oregon Health Authority seemed to feel that was acceptable, but CCOs would be allowed rather than directed to consider such transportation contracts.

Mr. Gillespie asked if Medicaid paid for administration of the funds. Mr. Lipkin said LTD's administrative cost allocation plan was approved by Medicaid, and LTD's funds were not involved.

Mr. Dubick asked if there was a lag time in receiving reimbursement for expenses. Mr. Lipkin said that there was very little lag time under the new payment system, although the program carried a one-month reserve in the event of unexpected problem with reimbursements.

Capital Projects Fund – Mr. Lipkin said the Capital Improvements Program approved by the Board at its April 2012 meeting formed the basis of the budget. He reviewed the capital projects and noted that no vehicle purchases were planned. He said resources included state and federal funds, plus a General Fund transfer, with a beginning working capital balance of $1 million for next year.

Summary – Ms. Hellekson summarized that the proposed General Fund operating budget was $38,250,700, representing a 5.6 percent increase primarily due to increases in fuel and personnel services. The non-operating component, which included transfers, contingencies and reserves, was $13,045,700 and reflected a 3 percent increase. The Accessible Services Fund at $6,225,200, was increasing modestly, and the Medicaid Fund budget increased 3.1 percent to $5,213,100. She said the Capital Projects Fund decreased by 13.3 percent to $29,762,700, although expenditures would be much lower because most the $18 million for the West Eugene EmX Extension would not be spent during the next fiscal year. The total proposed budget was $92,497,400.

COMMITTEE DISCUSSION – Mr. Davidson thanked staff for the work involved in developing and presenting the budget. He called for questions and comments from committee members.

Mr. Gerdes asked for an explanation of how a finding of economic recovery would be made as part of the process of increasing the payroll tax rate to .08 percent. Ms. Hellekson said in the past LTD had used the model developed by TriMet, which required that the Board intuitively and collectively believe there had been solid recovery. At that point a study would be commissioned with an economic consulting firm to confirm that belief. When the report was completed, it was submitted to the Board, which could then adopt a finding of economic recovery based on that independently obtained information. She said the statute was vague about establishing standards for the economic recovery determination, but the finding was typically based on a certain number of quarters of gain.

Mr. Kortge commented that the Board had been cautious when it made a finding in the past and conducted extensive outreach during the process.

Ms. Adams said the business community paid close attention to the Board's actions in the matter of economic recovery.

Mr. Gerdes encouraged the Board to establish a standard for making a finding of economic recovery.

Mr. Collins said that past projections of revenues and expenses should be examined for accuracy when developing future projections. He urged a very conservative approach in the future in order to avoid significant service cuts or debt financing. Ms. Hellekson said the citizen members of the Budget Committee would be involved in defining optimal levels of services and priorities in the future.

Mr. Kortge concurred with Mr. Collins. He stressed the need to continue focusing on pension plans and health care costs as ongoing drivers in the personnel services budget.

Mr. Gillespie was encouraged by LTD's involvement in expansion of alternative transportation such as bike and carsharing programs, as well as development in downtown Eugene and data results from West Eugene EmX. He said a transit district's primary expense related to personnel, and it was important to compare LTD financially to other districts with labor agreements and similar costs. He believed the budget was cautiously conservative. He wanted to see the documentation associated with the last finding of economic recovery. He hoped to avoid a boom/bust cycle of offering services and then cutting them. He said it was important to explain to the public that there was no nexus between build out and operation of EmX and cuts to the fixed-route service, as was being claimed by some in the community.

Mr. Hinds was encouraged by the efforts to address the pension plan unfunded liabilities and the increases in ridership on EmX and the fixed-route system. He urged staff to aggressively pursue state and federal funding for Accessible Services to minimize to the extent possible the need for a General Fund transfer.

Mr. Gerdes asked if the Capstone project in downtown Eugene offered an opportunity with respect to the group pass program. He noted the Eugene City Council would be approving ordinances related to managing large apartment complexes. Ms. Hellekson replied that if residents of the project were University of Oregon students, they would be covered by the University's group pass program. Mr. Vobora added that the system could absorb the additional students commuting during the initial phases of the project, but there could be pressure on capacity during latter phases that could require that the University increase the amount of service it purchased.

POLLING OF COMMITTEE MEMBERS – Mr. Davidson polled Budget Committee members on the proposed budget. Each member indicated that he or she supported the budget as presented.

MOTION **APPROVAL OF BUDGET** – Mr. Kortge moved that the LTD Budget Committee approve the proposed Fiscal Year 2012-2013 budget as presented and forward it to the LTD Board of Directors for adoption. Mr. Wong provided the second.

VOTE The motion was approved as follows:

AYES: Collins, Davidson, Dubick, Evans, Eyster, Gerdes, Gillespie, Hinds, Kortge, Metzger, Necker, Nordin, Towery, Wong (14)
NAYS: None
ABSTENTIONS: None
EXCUSED: None

ADJOURNMENT

Mr. Davidson adjourned the meeting at 9 p.m.

Committee Secretary