MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

SPECIAL BOARD MEETING

Thursday, June 13, 2013

Pursuant to notice given to *The Register-Guard* for publication on June 6, 2013, 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/Work Session on Thursday, June 13, 2013, beginning at 5:30 p.m., at the LTD Board Room, 3500 East 17th Avenue, Eugene, Oregon.

Present: Doris Towery, President
Gary Gillespie, Vice President
Michael Dubick, Secretary
Ed Necker, Treasurer
Carl Yeh
Ron Kilcoyne, General Manager
Jeanne Schapper, Clerk of the Board
Janis McDonald, Minutes Recorder

Absent: Martha Reilly

CALL TO ORDER/ROLL CALL: Ms. Towery convened the meeting and called the roll at 5:31 p.m.

PRELIMINARY REMARKS BY BOARD PRESIDENT: Ms. Towery thanked Board members for adjusting their schedules to accommodate the Special Board Meeting.

COMMENTS FROM THE GENERAL MANAGER: There were no comments from Mr. Kilcoyne.

ANNOUNCEMENTS AND ADDITIONS TO THE AGENDA: There were no announcements or additions to the agenda.

INFORMATION TECHNOLOGY SECURITY CHANGES: Information Technology Manager Steve Parrott reviewed updated LTD network security practices and instructed members on the use of a new audio system. He also assisted Board members with the initial laptop logon to access Board meeting packets on the LTD website.

LANE TRANSIT DISTRICT/AMALGAMATED TRANSIT UNION JOINT PENSION WORK GROUP UPDATE: Director of Human Resources and Risk Management Mary Adams referred to background information and the Memorandum of Agreement Regarding the Lane Transit District/Amalgamated Transit Union Joint Pension Work Group. The Agreement resulted from a collective bargaining settlement in June 2012, and stipulated that the Work Group would make recommendations prior to December 31, 2013.

Ms. Adams introduced members of the Work Group: Tom Shackelford, LTD lead journey mechanic, ATU; Carl Faddis, executive board, ATU; Bill Bradley, Fleet Services liaison, ATU; Diane Hellekson, LTD director of finance and information technology; and Todd Lipkin, LTD finance manager. Board Member Gary Gillespie also participated. Ms. Adams said that the Work Group would provide an update, review a preferred model, and receive feedback from the Board before proceeding further. She introduced William H. Clark-Shim, Milliman principal and consulting actuary to the Pension Work Group. Mr. Clark-Shim reviewed a document titled *ATU-Lane Transit District Interim Report to LTD Board, re: Pension Work Group, June 13, 2013.*

Mr. Clark-Shim indicated that the charge to the Work Group was to reduce long-term costs and to address volatility of the ATU Pension Plan, to assure predictable retiree benefits, and to reduce an unfunded liability. Currently, the plan is 50 percent funded; the goal is to fully fund the plan. The Work Group has reviewed options to address the impacts of current benefits. The ATU supports these current Defined Benefit (DB) Pension Plan characteristics: the Plan provides a monthly payment based on years of service, is risk-free, and provides guaranteed income for life without self-management. There was agreement that through steady change, Plan risk would be shared, the level of risk mitigated, and the Plan would be supported by both the ATU and LTD.

Mr. Clark-Shim stated that contribution rates represented in an hourly amount increased from $.90 in January 2000 to $4.68 in January 2012, primarily due to unanticipated investment losses and retroactive plan amendments. He emphasized that the unfunded liability of the current plan represented $3.22 of the hourly contribution, whereas the underlying benefits were reasonably affordable.

A combination of potential solutions considered were:

- Application of future plan amendments to future service only.
- Anticipation of projected benefit increases in the benefits multiplier used.
- Use of more conservative investment return assumptions.

To encourage ATU participation in retirement planning, potential solutions considered were:

- Implementation of matching contribution incentives to increase ATU savings into Defined Contribution (DC) tax deferred accounts through use of savings achieved when plan amendments were applied to future service only.
- Automatic enrollment of new hires to participate in DC incentives program.
- Increased outreach, education, and investment offerings to ATU members.

Mr. Clark-Shim added that the matching incentive would be in addition to the current $4.68 hourly contribution. The long-term cost of the current retirement plan would be reshaped to meet long-term financial goals, would be near cost neutral to LTD, and would have a shared risk of investments.

Mr. Lipkin commented that $4.68 represented the current plan cost, and that changes implemented now would be evident in future actuarial estimates, not in current hourly costs.
Mr. Clark-Shim said that cost analysis assumptions of the preferred option to reshape the current plan included:

- An investment return assumption reduction from 7.25 percent to 6.5 percent.
- An annual contribution rate of 3 percent.
- Plan benefit increases that would keep pace with inflation.

The ATU supported continuation of the current DB plan and strongly opposed a new member transition to a DC plan. The Work Group did not deliberate this topic. Although a DC plan would reduce LTD's risk of future contributions, it would not lower the underlying cost of benefits and would require arbitration. The ATU opposed a two-tier system that created substantially different retirement benefits for members performing the same job and that depended solely on self-management.

Mr. Clark-Shim emphasized that projections use assumptions that have not been negotiated. To determine a plan design, two main questions should be considered:

(1) What retirement benefits would be offered to ATU members in the future?
(2) What assumptions would be used to assign a value to potential retirement benefits?

Mr. Clark-Shim said that the projections presented assumed 3 percent DB plan multiplier increases, a 6.5 to 7.5 percent rate of return, and an actual investment return of 12.5 percent for Fiscal Year (FY) 2012.

Mr. Clark-Shim continued with projected retirement program costs at 7.25 percent and provided graph comparisons of FY 2012 through FY 2032 under three scenarios:

(1) Implementation of the Work Group's preferred model with both DB and DC plans
(2) Transition to a DC plan
(3) Continuation of the current DB plan

The preferred model assumed that all members were in the current DB plan with bargained inflationary increases applied only to future service and matching DC contributions with 70 percent participation. This model results in a cost of $5.25 per hour in 2014 and maintains costs at approximately 21 percent of payroll due to continued early efforts to pay off the unfunded liability. Costs increase slightly to 22 percent in FY 2025, and decrease dramatically as the unfunded liability is paid off over time. The long-term goal of 10 to 12 percent of payroll is achieved in FY 2032.

Mr. Faddis commented that 53 percent of ATU members currently participate in the DC plan, which indicates that members understand the value of investment. Through aggressive educational efforts by ATU and in collaboration with LTD, an increase to 70 percent participation is expected. Increased participation would honor LTD's need to share risk and stabilize retirement plans.

A second plan model maintains current members on the DB plan, assumes bargained inflationary increases on future service only, and transitions newly hired members to a DC plan. The DC plan assumes a 10 percent of payroll cost and direct contributions by LTD that replicates the current salary plan. In FY 2015 the hourly contribution increases to $5.74 per hour, or 23 percent of payroll, due to continued early efforts to pay off the unfunded liability. The hourly contribution decreases dramatically to under 21 percent of payroll in FY 2025, which is similar to Model A.

In response to a question from LTD Chief Accountant/Internal Auditor Carol James, Mr. Clark-Shim said that if the DB plan were closed, the investment horizon would shorten, the risk level would be lowered to allow for recovery in bad years, and a lower rate of return would be expected. Decreasing the rate of return assumption over time would increase contribution pressure and would be an additional factor to consider in the plan.

The third model continues the current plan. In FY 2015 the per hour cost rises to $5.68 and increases as high as 24 percent of payroll. The plan continues to cost more and does not reduce unfunded liability as soon as other models would over the 20-year period.

One model assumes a more conservative 6.5 percent rate of return on investment. Mr. Clark-Shim noted that the lower rate results in increased near-term contribution rates, and costs as a percent of payroll remain level until FY 2025. Costs decrease dramatically as the unfunded liability is paid off.

Mr. Clark-Shim emphasized that increased benefits are anticipated in the projections presented. If future increases in benefits are not included, assumptions would not be met and full funding in FY 2032 would not occur as projected. He added that projections do not address volatility of investment returns. DB plan costs are more volatile and LTD carries the risk, whereas DC plan costs generally are not as volatile, and the risk is shared. A new emerging DB variable plan design that shares risk with employees is available but lacks sufficient history for evaluation at this time.

In response to a question from Mr. Yeh, Mr. Clark-Shim said that it would take 10 years for a transition to a DC plan to stabilize. Current employees would be in the DB plan for the next 30 to 50 years as new members were added to the DC plan.

In conclusion, Mr. Clark-Shim said that the focus of the presentation was to present enough information to allow the Board to provide the Work Group with increased general direction and feedback.

Mr. Dubick asked if the Future Only option reduces costs in the long term.

Mr. Clark-Shim said that future benefit assumptions would contribute slightly to short-term cost increases, but overall cost increases were predominately due to use of more conservative assumptions.

Mr. Dubick commented that although the plan models have different costs, it appeared that the 20-year result remained similar in terms of percent of payroll.

Mr. Clark-Shim cautioned that if projections and assumptions are correct, that was generally true. However, the preferred model also reflected a smarter use of that cost.

In response to Mr. Dubick, Mr. Clark-Shim confirmed that benefit payments were funded through contributions and investment earnings. If investment-earning assumptions were lower, contribution levels would increase and benefit payments would remain fixed.

Mr. Bradley commented that although the preferred model showed a sudden increase in contribution rates due to a decrease in earning assumptions, the transition could be managed gradually to minimize impacts to LTD.

In response to Mr. Dubick, Mr. Clark-Shim said that the inclusion of anticipated plan improvement costs would be the first priority, so that anticipated costs were paid in advance rather than after the fact. Although it would be preferable to manage the unfunded liability in less than 20 years, the current cost was high; and he would not recommend further increases at this time.

Mr. Dubick said that pension plan costs always would be balanced against service delivery.

Mr. Clark-Shim added that the cost projections presented were approximately twice as high as the actual cost of the pension plan. In 14 to 15 years when contribution rates decrease, LTD could consider an increased contribution rate and review further options to minimize risk.

In response to Mr. Necker, Mr. Clark-Shim indicated that he would not recommend the unfunded liability be paid at a slower rate unless absolutely necessary because it represents benefits already rendered.

Mr. Gillespie said that the Work Group process was creative and had resulted in options that represented shared sacrifice and a balanced approach to funding both the pension plan and LTD services. He supported the direction the Work Group was headed.

In response to a question from Mr. Lipkin, Mr. Clark-Shim said that of the three options presented, the DC plan had the least amount of uncertainty, and uncertainty would continue to decrease with time. The DB plan continued to remain more exposed to risk over time.

Mr. Lipkin commented that the DC plan has a much higher cost in the first seven years of the plan. The preferred model was recommended by the Work Group because it levels the percent of payroll paid into the pension plan, is more aligned with wages, and provides stabilization. In the short term, the DC plan represents the same level of risk as the DB plan.

Mr. Bradley advised that the DC plan also carries a risk of arbitration.

Mr. Dubick said that he had been concerned about the unfunded liability and had expressed interest in the DC plan for stability reasons. Given the information provided, he thought the application of multipliers to future contributions only was a mutual solution to control costs. He stated his support for the Work Group recommendation.

Mr. Gillespie said that he agreed with Mr. Dubick. He added that bargainable assumptions also represent opportunity for creative compensation options in the future. Assumptions also enable LTD to anticipate costs.

In response to a question from Mr. Necker, Ms. Adams confirmed that a DC plan had not been proposed for current employees during the last bargaining session.

Mr. Shackelford advised that the ATU would oppose any option that would result in two employees doing the same job being compensated at different levels. The ATU recognizes that a solution that shares the risk is necessary and supports a comprehensive approach that involves members taking a role in managing their own retirement. ATU Portland leadership also would review the preferred model and provide feedback to local union leadership. He expressed appreciation to the Board and commended Mr. Clark-Shim on his presentation.

Ms. Towery thanked everyone for their continued involvement. She expressed appreciation for the creative process used and summarized that the Board supported continued efforts toward the preferred model concept.

RECESS: Ms. Towery called a brief recess at 7:12 p.m. Ms. Towery reconvened the meeting at 7:15 p.m.

LONG-RANGE TRANSIT PLAN: Planning and Development Manager Tom Schwetz said that the Long-Range Transit Plan (LRTP) provides guidance in everyday decision-making and a distinct path toward achievement of its long-term vision. The LRTP also would be integrated into transit elements of the City of Eugene, City of Springfield, and Lane County transportation plans. The six goals and associated policies presented were intended to meet changing needs, conditions, and travel preferences of the community. The LTD management team and the EmX Steering Committee have reviewed and provided comment on the LRTP, and those comments are reflected in the document. Portions of the document were extracted from existing plans, such as the Coordinated Public Transit Human Services Transportation Plan and the Safety Plan.

Mr. Schwetz reviewed each Goal and associated Policies:

Goal 1 and Policies: Provide attractive travel options to improve ease of connectivity throughout LTD's service area.

Goal 2 and Policies: Sustain and enhance economic prosperity, environmental health, and quality of life through investment in transit service and infrastructure.

In response to Mr. Necker, Mr. Schwetz said, "infrastructure" referred to LTD capital improvements built, such as the EmX system.

Goal 3 and Policies: Ensure equitable and accessible transit service.

Mr. Necker commented that Ride*Source,* or "on-demand transportation," was not referenced. Mr. Schwetz said that Policy 3.1 was intended to address those services, but an additional policy would be added. Ms. Towery agreed that a specific policy should be added to recognize that LTD met both economic and physical transportation access needs.

Goal 4 and Policies: Maintain and enhance safety and security of LTD's services.

Goal 5 and Policies: Use LTD's resources sustainably in adapting to future conditions.

Mr. Gillespie commented that there had been considerable discussion on Policy 5.1 by the EmX Steering Committee related to coordinated construction efforts with other agencies with projects in public rights of way.

Goal 6 and Policies: Engage the regional community in LTD's short- and long-term planning processes.

Ms. Towery emphasized that LTD intended to seek opportunities to engage public opinion and to involve partners in a wide range of activities, not just the provision of bus service. Mr. Schwetz said that additional language about innovative methods, collaboration, and use of best practices for engagement would be added to Policy 6.1.

Mr. Schwetz indicated that public outreach would occur from July through August 2013; and a Board public hearing was scheduled for September 2013, with adoption of the plan in October 2013. He noted that there had been coordination with the City of Eugene and the City of Springfield to ensure policy alignment and shared language.

Mr. Gillespie requested that after the Goals and Policies are complete, the LRTP becomes a living document that is integrated into ongoing discussions of agenda topics, projects, requests, etc. Mr. Schwetz indicated that the LRTP also would be included in LTD's annual performance evaluation.

ADJOURNMENT: Ms. Towery adjourned the meeting at 7:35 p.m.

LANE TRANSIT DISTRICT:	ATTEST:
Michael Dubick	Jeanne Schapper
Board Secretary	Clerk of the Board