

## TriMet General Manager's Budget Task Force

March 13, 2013

Mr. Neil McFarlane  
TriMet General Manager  
1800 SW 1<sup>st</sup> Avenue, Suite 300  
Portland, OR 97201

RE: FY14 Report – “Back to Basics”

Dear Neil,

The General Manager's Budget Task Force (BTF) came together again this year to recommend short and long-term financial strategies that would help the agency build a foundation for growing transit service to meet the region's demands.

The BTF recognizes how critical public transportation is for the region's economic development by getting people where they need to go. As the region's transportation provider, TriMet is expected to deliver service that is safe, dependable, accessible and affordable. To do this, TriMet must be on sound financial footing.

You asked the BTF to review last year's report “TriMet on the Brink” and let you know if that is still the case. Due to actions the agency took last year and the region's projected short-term financial outlook, the BTF believes TriMet's fiscal situation has improved for FY14. However, there is still no question that the underlying issues from last year's report remain -- unsustainable labor costs driven by healthcare obligations and heavy reliance on payroll tax revenue.

This year, you posed three questions: 1) Are TriMet's financial assumptions and forecast reasonable? The BTF concurs with TriMet's financial assumptions and forecast. Our review supports your cautious approach and reinforces our conclusion from last year that containing health care costs remains your greatest challenge. Without progress in this area, we do not foresee the ability for you to meet the region's demand for service. 2) Is TriMet taking the right approach with its employees? Although we believe represented employee health care benefit costs, work rules and binding arbitration continue to impede progress, no significant advances will be made until all employees fully understand the connection between these costs and the agency's ability to grow service. 3) Are TriMet's FY14 Budget recommendations helping build a foundation for cost-effective service? Yes. In our opinion, the Back to Basics, “fix what we have, and pay what we owe” approach in the FY14 budget, is prudent in our current financial climate. There remains too much financial uncertainty to recommend anything more.

The BTF is comprised of a diverse group of transit riders as well as business and community representatives. Each member brought a different perspective to the discussion. This report is intended to summarize the spirit of our discussions and to provide guidance from a community perspective on the budget issues which are so important to our region.

Sincerely,



Luann Pelton, Chair  
TriMet General Manager's Budget Task Force

# **TriMet General Manager's Budget Task Force**

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## **Back to Basics**

### **TriMet's Path to Financial Stability**

**March 13, 2013**

## BACKGROUND

**The Charge.** The Fiscal Year 14 (FY14) General Manager's Budget Task Force (BTF) was charged with providing recommendations to the general manager on short and long-term financial strategies that will help set a foundation for growing transit service. After this year's review, the BTF supports a cautious financial plan that keeps focus on what we are calling a "back to basics" approach. This means while looking ahead toward a future of financial stability, in the short-term we support TriMet's FY14 fiscal assumptions that are based on working toward labor contract reform, decreasing unfunded liabilities, providing no fare increases for fixed route service and enhancing existing service with bus and schedule improvements.

**The Vision.** The BTF believes transit is a critical pathway to achieving prosperity and success. The bottom line remains creating a collective vision for our region that offers all residents the opportunity to get to work, recreation, the doctor, and school. For all people to participate, the service must be safe, dependable, accessible and affordable. It is from this view, the BTF discussed the issues and made recommendations.

**The Past.** Last year, the BTF recommended what actions should be taken to fill a potential \$17M shortfall in the FY13 Budget and made recommendations for longer term strategies to ensure financial stability. We did not make our recommendations lightly and found it extremely difficult to recommend raising fares and cutting service.

In the BTF's last report, titled *TriMet on the Brink: A Recommendation for Long Term Financial Stability*, the BTF attempted to characterize what it believed to be TriMet's underlying financial problem. We determined it was two-fold. The first, and most urgent, was related to labor costs and second was the stability of revenues. The BTF noted that the overriding concern was the cost of labor expenses as they related to active and retiree health care benefits. It emphasized that "TriMet must first demonstrate it is making progress controlling its labor costs before it can be seen as a wise investment."

**The Future.** The BTF continues to believe that rationalizing labor costs is TriMet's largest challenge. Although, progress has been made with TriMet's contract proposal prevailing in arbitration last summer, the long-term financial forecast shows that without steady progress on bringing health care costs in line with the market, TriMet's operating expenses, driven by health care obligations will exceed revenues by 2017.

The longer-range forecast is daunting. The gap between future costs and projected revenues is from \$15M - \$17M in FY17 and if unchecked grow to as high as \$200M in FY30. This translates into no new service for the foreseeable future beyond the opening of the Portland/Milwaukie Light Rail (PMLR) line in 2015.

What is clear is that ridership keeps growing. In FY12, TriMet hit record ridership with 102 million trips. Although, TriMet is 24<sup>th</sup> in population, it is ranked 9<sup>th</sup> in per capita ridership. If TriMet cannot manage costs, particularly health care costs and is forced to reduce service, TriMet will lose ridership. Even more daunting are the projections of shrinking service. If TriMet's current contract offer is not accepted by the union or awarded through binding arbitration, the forecast estimates a 34% reduction in bus service from today's service levels by 2020.

Last year, we also emphasized that this is a community issue, not just a TriMet issue, requiring support from all stakeholders – customers, taxpayers, business, elected officials, and local governments. We applaud TriMet's efforts to inform and engage the community, but also acknowledge that many of the issues are complex, not easily conveyed through the media and often based on complicated rules and regulations that are not easily communicated.

**The Context.** Our recommendations are not intended to malign TriMet's represented workforce. We see TriMet's financial health as an agency issue, not one of labor vs. management. We acknowledge that both labor and administrative costs contribute to financial stability and encourage TriMet to make every effort to hold the line in administrative overhead costs at the same time it is focusing on reducing labor costs. As the BTF noted last year, "this is not about winning or losing or stripping employees of good wages and benefits...employees deserve decent health care and wages and the community deserves a healthy transit system."

The BTF made its recommendations by posing three basic questions:

1. Are TriMet's financial assumptions and forecast reasonable?
2. Is TriMet taking the right approach with its employees?
3. Are TriMet's FY14 Budget recommendations helping build a foundation for cost-effective service?

## ***Are TriMet's financial assumptions and forecast reasonable?***

**The short-term outlook is better, but the struggle remains.**

### **The state of TriMet today**

For the past ten years, TriMet has taken action to preserve service through efficiencies and deferring capital investments. Non-represented employees had their wages frozen for three and a half years and experienced an overall reduction in staff of 10%.

Additional effort to keep administrative costs in line have resulted in non-represented employees and retirees paying more in deductibles, premiums and co-insurance/co-pays for health benefits in both PPO and HIMO plans. In 2003, the defined benefit pension plan was closed to new non-represented employees and although eligible for retiree benefits after ten years, they must pay the full cost. Further administrative layoffs have occurred to offset investments in more fare enforcers, light rail mechanics and bus cleaners. Even with these efforts, without factoring in MAX, bus service has been reduced 14% over the past ten years.

Last year, TriMet had to close a \$12M operating gap. To accomplish this, TriMet raised fares, eliminated the Free Rail Zone, modified LIFT paratransit boundaries and reduced and realigned service adjustments. It is important to note that although TriMet had to make cuts, it also made investments and leveraged opportunities where possible. As an example, TriMet should be applauded for setting aside \$1.3M in FY13 for a low-income fare mitigation program to help offset the fare increase. We note in our FY14 recommendations the importance of continuing this program. TriMet also worked with the convention and travel industry to offset adverse impacts related to elimination of the Free Rail Zone, providing passes for convention visitors to travel between downtown hotels and the Oregon Convention Center. The program is funded through the Multnomah County transient lodging hotel/motel tax, and administered through the County's Visitors Facilities Trust Account.

Based on the current budget outlook, it appears that TriMet's fiscal situation has improved for FY14. However, the BTF wants to reinforce that underlying fiscal problems remain: these include uncertain and difficult labor negotiations, unreliable federal funding, uncertain payroll tax revenues, continuing to hold the line on administrative costs, and a growing need to invest in its aging bus fleet and infrastructure.

The labor arbitration decision, if upheld, allows at least one year of stability, but does not solve TriMet's long-term financial problems. This means TriMet must continuously monitor all of its costs looking for the most effective ways to manage and structure the organization to ensure

efficient operation. Paramount among these is negotiating a more realistic and viable labor contract.

**Financial assumptions are sound, but must be monitored.**

The BTF believes that TriMet's financial assumptions are sound and appropriate, but depend on TriMet's continued ability to contain costs. The BTF cautions, that as with all assumptions, they must be closely monitored and adjusted appropriately through the year if found to be out of line.

TriMet's FY14 budget assumptions include a 7.2 percent underlying rate of growth for payroll tax revenues, 9.5 percent for health care cost inflation, 3.8 percent general inflation and no fare increase in FY14, but with fare revenue growth from continued growth in ridership.

The FY14 payroll tax growth rate is higher than might be expected looking at the employment and salary growth from the State of Oregon's Office of Economic Analysis (OEA) forecasts. However, the OEA forecast represents statewide growth. The BTF recognizes that Portland metro area employment is growing faster than the rest of the state. While the economic outlook continues to contain more downside risk than upside, recent announcements for expansion by large employers is good news for the payroll tax for 2014.

The BTF recognizes there are a number of financial issues not contributing to TriMet's financial problems:

- Debt service funded with revenues that could be spent on operations remains low. At this time payroll tax funded debt service costs are approximately 5 percent of continuing revenue, comfortably below TriMet's Board policy of 7.5 percent maximum.
- TriMet's share of the Portland Milwaukie Light Rail (PMLR) project capital cost is less than 5 percent of total project resources. Both TriMet's capital contribution to the project and the net operating cost of PMLR are funded by a portion of the payroll tax rate increase implemented in 2005. Ten percent of the increase will go for operating PMLR and 5 percent for construction. PMLR preserves resources for bus and rail operations resulting in a highly efficient system. Carrying more customers for less helps stretch resources. The cost per ride for PMLR will be \$1.94 compared to \$3.54 per ride on the current bus system.
- Bus purchases have the beneficial impact of reducing TriMet operating costs, improving system reliability and overall improving the customer experience. Bus purchases are funded with a mix of federal grants, payroll tax backed bonds and cash on hand.
- LIFT paratransit costs have stabilized during the past eight years with the implementation of in-person assessments as part of determining rider eligibility. Additionally, \$8.2 million annually of the phased-in payroll tax increase is now being dedicated to covering LIFT service.

## ***Is TriMet taking the right approach with its employees?***

**Represented employee healthcare benefit costs, work rules and binding arbitration continue to impede progress, but communication is also key.**

The BTF believes the foundation for true reform is when all employees are working together to deliver high quality service. That is why it is imperative that there is an open and ongoing dialog with employees. The BTF cannot emphasize enough the importance of effectively communicating with employees, including those who are represented by the union and those who are not. This communication goes far beyond labor contract issues.

The labor contract is the mechanism to determine wages and benefits for represented employees. It is not intended to prescribe the working environment. That is created by each employee's commitment to their job and management's commitment to provide the tools and support employees need to be successful.

As noted at the beginning of this report, it is clear to the BTF that no real progress for restoring and growing service can be achieved without changes to the labor contract as it relates to health care benefits and work rules. We believe this is best achieved, especially given the magnitude of the changes needed, when TriMet and the Union can engage in meaningful negotiations. We believe the long and arduous road to binding arbitration does not result in a constructive outcome for either party and only serves to further deny the region the transit service it so desperately wants and needs.

Binding arbitration does not allow the represented workforce to weigh-in on contract proposals, nor does it provide a give-and-take environment that is the signature of compromise and good will. We believe that, in fact, it polarizes the workforce and fosters an "us and them" work culture which serves no one's interests.

### **The labor contract must be fair, reasonable and cost effective.**

The engagement of frontline employees is essential to TriMet's success. It is in everyone's interest to reach a reasonable, fair and responsible contract. That is the foundation for the "win-win" work environment everyone desires.

Although some progress has been made to improve labor/management relations, such as the recent negotiated Hours of Service policy, much more needs to be done. Overall, the BTF supports TriMet's contract proposals. We recognize they are tailored and measured for the arbitration situation and thus fall short of the more bold proposals needed to most effectively bring costs

completely in line. Recognizing these limitations, we believe TriMet’s proposals are headed in the right direction.

**Legislation is needed for reform.**

The BTF concurs with TriMet’s current legislative strategy to first introduce a bill in the Legislature that removes TriMet from binding arbitration. Continued binding arbitration does not get TriMet to its financial goals quickly enough. We also support looking for other reasoned legislative actions that leverage TriMet ability to bring its costs in line.

***Are TriMet’s FY14 Budget recommendations helping build a foundation for cost-effective service?***

**Yes, but the road is long and difficult.**

The underlying philosophy of the FY14 Budget as described by the general manager is to “fix what we have, pay what we owe.” We believe this to be a sound and wise premise for the upcoming year. Unfortunately, the times continue to dictate a prudent and slow advance. There remains too much financial uncertainty for the BTF to recommend anything but this cautious approach.

We make these recommendations keeping in mind TriMet’s long-term goal to provide a viable transit system—a system that meets the demand of our growing region. TriMet is critical to the region’s prosperity. Even with a focus on containing costs, TriMet should look for smart investments and find ways to use existing resources more effectively. The BTF makes the following observations and recommendations for TriMet’s FY14 Budget.

**BTF Recommendations for FY 14**

1. **No fare increases.** Following the significant fare increases adopted in FY13, the BTF recommends no fare increases for FY14. We believe TriMet cannot continue to place its financial burden on the backs of those who can least afford it – the riders. We also recommend that TriMet continues its work to develop a “fair” fare policy. This policy should be used to guide future fare decisions and should include TriMet’s past practice of small annual increases when needed. TriMet should minimize fare increases whenever possible and set a target for operating cost recovery from passenger fares.
2. **Service adjustments for overcrowding, but no restoration of service yet.** Recognizing there are limited resources for service restoration or expansion, we support TriMet’s focus on

making the existing service as reliable as possible. One way to achieve this is by making minor schedule adjustments to spread-out passenger loads. Relieving overcrowding is a cost-effective way to improve service quality. It falls in line with the BTF's philosophy to focus on the 'basics'.

The BTF recognizes that a rush to restore service would not be prudent at this time. It would be irresponsible for TriMet to restore or increase service unless it is certain that service can be maintained. TriMet must first focus on paying its long-term obligations, reducing ongoing operating costs and maximizing current service when possible.

TriMet should continue to actively plan for future service, effectively balancing future needs within budget limitations. This effort should lay the foundation for growth by looking at innovative ways to partner with others. An example, is the sector planning currently being done as part of the Westside Service Enhancement Plan. This is a new way of looking at how transit service and access to transit can be improved. It focuses on building partnerships with local jurisdictions to leverage funds and resources, especially for transit access.

3. **Service investment for employment centers.** When there are opportunities for service enhancement, priority should be given to lines serving employment centers. Getting people to work is essential for a healthy community. The BTF recognizes TriMet's proposed service option to better serve business expansion in Washington County. We support this effort and all other efforts to have service match-up with other employment centers throughout the region, identifying those with the greatest need first.
4. **Adopt a Strategic Plan.** To fulfill TriMet's role in the region of providing a robust and high quality transit system, the TriMet Board needs to be directed by a long-term strategic plan, accompanied by a financial plan to guide budget decisions and create transparency. The strategic plan should reflect the region's expectations for transit as described in the Regional Transportation Plan and align with TriMet's goals as stated in their Transit Investment Priorities (TIP).

The strategic plan should be the roadmap for how TriMet will reach financial stability and why it is making the investments it does. It should clearly articulate TriMet's vision for the future, its financial challenges and reference existing financial policies including new fare and pension funding policies. TriMet's strategic plan should clearly state its vision to make this region the most livable in the country.

As part of the fare policy, TriMet needs to continue its good work in finding ways to mitigate fares for low-income riders. Its current program that offers a 20 percent discount should be

broadly promoted among social service agencies. At the same time, TriMet should look for new funding sources to help expand the program.

5. **Invest in infrastructure to improve service reliability and reduce costs (“fix what we have”).**

TriMet budgets and strategic plan must include funds to maintain the system. We recommend TriMet make full use of increased funding from Map-21, a federal program solely dedicated to funding transit capital/infrastructure. A new funding formula for Map-21 allows for TriMet to receive an additional \$6 million annually to refurbish rail infrastructure and facilities. We believe dedicating these dollars per year to preventive maintenance will allow TriMet to catch up on deferred maintenance and then properly maintain rail vehicle and right of way maintenance levels in the future.

TriMet is also acquiring 70 new buses in FY14. The average age of the TriMet bus fleet is 13 years. Industry best practice suggests an average age of eight years. New equipment results in fewer breakdowns, less maintenance cost and better running equipment to service customers.

TriMet has already identified its list of specific capital/infrastructure improvements. All of these investments are another avenue to improve service quality and reliability, resulting in reduced costs.

6. **Bring LIFT paratransit service closer to the Americans with Disability Act (ADA) standards.**

TriMet exceeds current ADA requirements in fares and service delivery. ADA says that fares may be double TriMet regular fares. This means LIFT fares could be \$5 one way. Today, they are \$2.15 one way. Another major difference is that ADA allows for curb-to-curb service. TriMet LIFT currently provides door-to-door service.

First, we want TriMet to keep doing what it can to encourage the use of the more cost-effective fixed-route service. It is not only more cost-effective, but it provides more mobility and options for persons with disabilities. However, we are fully aware that not everyone can use fixed-route service and we support the continued focus on serving customers who need LIFT.

Second, we support TriMet’s current policy to increase LIFT cash fares by 30 cent increments each year until it reaches the same level as the \$2.50 regular fare. Once they are at the same level, they will increase at the same rate going forward.

Understanding that demographic trends show a growing elderly population and the current average cost of a one-way LIFT ride is already at \$29, we know this will continue to impact TriMet's bottom line. TriMet may no longer be in a position to offer more than is required by law. We suggest TriMet continue to discuss these concerns and carefully review and implement options that balance cost and need.

7. **Support legislative strategy as a way to remove barriers.** We encourage TriMet to continue to look for ways to remove barriers that impede productive labor negotiations. As we noted earlier in this report, activities that create a contentious labor/management relationship hinder success. We believe collective bargaining is the best way to create a healthy work environment and support TriMet's effort to remove TriMet from the law that requires mandatory binding arbitration.

Recognizing that changing the law may be difficult, TriMet should look to creative legislative options to reduce costs. These could include changing health care bargaining to the ceiling defined in the Affordable Healthcare Act, giving TriMet the ability to hire mechanics directly from the outside and/or giving the TriMet Board the ability to impose safety related policies.

8. **Invest in technologies.** As we look to the future, the current budget situation should not discourage TriMet from being forward-thinking, especially in the area of new technologies. The BTF recognizes that investments in new technologies can improve efficiencies, reduce costs and enhance the rider experience. As an example, we support TriMet's investment in new ticket printers and the move to an electronic fare system. These innovations will speed service, make it more reliable and cost-effective.
9. **Continue to engage stakeholders.** TriMet should be proactive and transparent in communicating its financial situation to its regional stakeholders. A review of revenue sources and expenses, both operating and capital should be available as part of the strategic financial plan. How TriMet applies its resources with the rationale it employs to meet regional transit needs should be open for public review. This approach should be consistent policy for all future budgets. The BTF believes the best way to engage regional stakeholders is through communication. It is important that the region understands TriMet's fiscal situation and its implication for service needs. Building advocacy and support will be essential to TriMet's success.

10. **Reinforce and support TriMet's efforts to change cost drivers.** Recognizing TriMet cannot achieve all the reform needed in FY14, the BTF supports the following proposals.

- *Bring union health care benefits in-line with peer agencies.* As noted, the BTF believes that the single most important recommendation that will provide TriMet the financial stability it needs to grow service is containing its employee health care costs.

By 2020, 47% of TriMet's payroll tax revenue will go to pay for TriMet employee and retiree health care benefits. We pose the same question as did General Manager Neil McFarlane at the February 13 TriMet Board Briefing, "Is TriMet a health care organization or a transit provider?" That answer is clear for the BTF and the region – it is a transit provider.

- *Adjust retiree medical benefits.* Tri-Met's post employment medical benefits for represented employees is among the nation's most generous and costly with fully subsidized benefits into retirement at age 55 after 10 years of service. We recommend adding retiree health insurance contributions and changing eligibility.
- *Reform labor contract work rules.* Some contract work rules are outdated, cost prohibitive and do not reflect industry best practices.
  - ✓ Attendance. Attendance standards for operators are more generous than those for maintenance staff. TriMet is recommending that operator and maintenance standards are the same and the BTF concurs. For every one percent increase in attendance, the agency saves \$1.3M.
  - ✓ Mechanics/Technicians. The current contract makes it impossible to directly hire already qualified mechanics/technicians because all mechanics must first be bus cleaners who are required to participate in TriMet's three-year apprenticeship program. In addition to reduced training costs and time, the ability to partner with local community colleges technical programs would help to diversify TriMet's workforce.
- *Reduce from three to two percent the annual cost of living adjustment (COLA).* The BTF supports TriMet's proposal to bring wages more in line with peer agencies and best practice.

11. **Manage administrative expenses.** TriMet has made significant progress over the last few years of reducing overhead costs, including costs related to administrative management staff. Looking ahead, it is important that TriMet continue to hold the line on these administrative overhead expenses.

## CLOSING

The region deserves and needs a transit system that is safe, dependable, accessible and affordable. In present economic times, this requires transit services tailored to meet the employment and personal needs of all residents, regardless of income levels. By 2030, the region is forecasted to grow by 1 million new residents. To meet this new demand and to maintain the region's quality of life, additional transit resources will be needed. For TriMet to respond to this need, today and tomorrow, requires it to have a sustainable financial future.

For FY14, we support TriMet's approach in addressing their path to financial stability and support the general manager's "fix what we have, pay what we owe" program. The BTF believes the agency must keep working on addressing unsustainable labor costs, holding the line on administrative costs, paying down long term obligations, and reducing operating costs that threaten the agency's ability to meet the service needs of the region. We agree that the short-term financial forecast gives TriMet a little breathing room to make modest investments in service adjustments and bus vehicle replacement to increase quality and reliability.

The TriMet Board of Directors adopting a strategic plan along with a strategic financial plan is key. The BTF encourages the Board in its efforts thus far and stresses its importance. We recommend that the strategic financial plan outline TriMet's present and future budget situation in a clear and transparent manner and identify the financial issues that need to be addressed. This can be the basis for a broader public discussion with customers, local governments, community groups, business leaders and other regional partners on how to meet the financial costs for providing service. It is an important first step in building regional advocacy and support for a financially stable transit system.

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**Submitted by the General Manager's Budget Task Force Members**

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