

**Report to the
Board of Directors
Citizens Advisory Committee
on the Budget**



Tri-County Metropolitan
Transportation District of Oregon

Spring 2006



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April 12, 2006

Committee

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1.0 INTRODUCTION

1.1 The Citizens Advisory Committee (CAC)

History. The CAC provides comment and offers perspective on issues, policies and programs reflected in TriMet's Proposed Budget submitted to the Board of Directors each spring by the General Manager. The CAC has been assisting TriMet's Board of Directors for nearly 26 years.

Members of the CAC are nominated by the General Manager and appointed by the Board of Directors. Members are selected to provide diverse perspectives on budget issues, with an emphasis on the financial impacts of policy alternatives being considered by the agency. CAC members come from a wide range of vocations, experience and training. The Committee members' diverse backgrounds also provide a business and community view to agency issues. Members serve staggered three-year terms.

1.2 FY07 Focus

Areas of Inquiry. The CAC approached their work on the FY07 budget in much the same way that the Committee reviewed last year's budget. Since it is impossible to review every TriMet program every year, let alone review hundreds of individual line items in the budget, the CAC focuses its attention on selected topics as suggested by the Board of Directors, the General Manager, the Finance Director and the areas of special interest and understanding of Committee members. For FY07, the CAC focused on seven topics:

1. The General Manager's budget goals for FY07 and review of TriMet's funding sources and long-range financial forecast.
2. Review of Fareless Square status and options.
3. Possible ways to simplify and streamline TriMet's fare system.
4. Alternative fuels and fuel efficiency improvements.
5. Operations and workforce recruitment.
6. Programs to better integrate bikes and transit.
7. Efforts to increase service hours in proportion to total vehicle hours.

Because other citizen committees and groups have been reviewing all aspects of the South Corridor and Commuter Rail projects, we focused our attention on other issues important to TriMet operations.

Calendar. The CAC met frequently between December 2005 and April 2006. The CAC participated in sessions with TriMet staff from a variety of divisions and departments across the agency. At each meeting, executive and staff members typically provided background materials related to the topic under consideration. During the balance of each session, the CAC continued

conversations with staff and identified “CAC Perspectives” related to that topic. These perspectives are summarized at the end of each chapter in this report.

2.0 FISCAL STABILITY - FINANCIAL OVERVIEW

2.1 Background and Update on TriMet Finances

For TriMet, FY05 marked the end of a long recession in the Portland region. During the recession there were job losses for three consecutive years, and annual payroll tax revenues declined. It was not until FY05 that payroll tax revenues exceeded pre-recession (FY01) levels. At the same time, inflation on materials, wages and health benefits alone pushed costs up \$10-\$11 million a year. In addition, TriMet contended with lower than expected stock market returns resulting in higher pension costs, a \$7.6 million annual increase in diesel fuel costs between FY04 and FY06, and higher than expected cost increases in other areas, as well. TriMet has managed by increasing fares, reducing overhead, operating service more efficiently, strategically drawing down financial reserves, keeping capital spending to a minimum and extending the useful life of capital equipment.

The economy is improving and payroll taxes have been increasing for six quarters (as of December 31, 2005); however, by the end of FY05, working capital was \$55 million lower than it was at the beginning of the recession. During the next few years, TriMet’s goal will be to increase working capital in order to provide adequate financial security as the District moves forward with committed service improvements for the I-205/Portland Mall Light Rail Project, Washington County Commuter Rail, and LIFT.

2.2 Revenues

Passenger Revenue

Passenger revenues continue to account for approximately 20% (\$65 million) of TriMet’s operating revenue in FY06. Over the past two years, passenger revenue has been more important than ever, helping to defray the high cost of diesel fuel. Due to this significant correlation between fare revenue and diesel fuel costs, the TriMet Board has restricted the use of the additional revenue generated from the January 1, 2006 fare increase solely to paying higher fuel costs. The additional revenue will first reimburse the \$5,000,000 draw on financial reserves required by high fuel prices in FY05 and the first half of FY06. The additional revenue cannot be used for any other expense than fuel without specific, prior Board approval.

Payroll Tax

TriMet levies a 0.6418% (rate as of January 1, 2006) tax on the gross payrolls of private businesses and municipalities within its district. This tax is dedicated to TriMet. The employer payroll tax is TriMet’s largest source of operating revenue, accounting for 50% (\$167 million) of its operating revenue in FY06.

The payroll tax has been a stable and growing revenue source since its inception. Controlling for changes in tax rates, growth in payroll tax revenues is directly related to growth in employer

payrolls within the District, which in turn is caused by employment growth, wage inflation and changes in job composition.

In addition to the payroll tax, TriMet also levies a 0.6418% tax (for tax years starting on or after January 1, 2006) on the net income earned within its district by self-employed individuals. Self-employment tax revenues increased at an average annual rate of 3.6% between FY90 and FY05. In FY05, self-employment tax revenue accounted for 3% (\$8 million) of TriMet's operating revenue.

In 2003, the Oregon Legislature authorized increasing the transit tax rate for employers and self-employed individuals from .6218% to .7218% over a 10-year period. The phased-in increase began January 1, 2005. The payroll tax rate will increase one-hundredth of a percent each year for 10 years through January 1, 2014.

Federal Formula Grants

Fixed Guideway Modernization and Section 5307 funds are TriMet's primary federal operating formula grants. Federal operating grants have become a larger and larger component of TriMet's operating revenues over the past 10 years. The growth in federal operating grant revenue has helped soften the impact of lost payroll tax revenue over the last five years. Operating grant revenues now account for 15% of TriMet's operating revenues, compared to 12% in FY01. Although operating grant revenue has helped fill the budget gap created by the slowdown in payroll tax revenue, higher reliance on federal operating grant revenue has generated cash flow issues, since grant revenue usually is not available to the District until the last two months of TriMet's fiscal year.

2.3 Expenditures and Capital Costs

All capital and operating expenditures, including the TriMet General Fund share of the Washington County Commuter Rail and I-205/Portland Mall Light Rail Projects, are part of the financial forecast. System operating costs include all annual transit operating and maintenance costs, including the cost of operating and maintaining the existing transit system, increases in transit service hours required to maintain headways and capacity, and the cost of operating the Commuter Rail Project and the I-205/Portland Mall Light Rail Project.

Operating expenses of particular note:

- Increased natural gas and electricity costs. These costs are up due to higher than forecast cost increases and usage. Natural gas unit costs will increase 17% this year and electricity will increase 5.5% to 6.5%.
- Diesel fuel costs are projected to be \$2.15 per gallon for fixed-route service and \$2.47 for LIFT service, for an additional cost over budget of \$4.124 million in FY06. The FY07 budget assumed \$1.50 per gallon.
- FY06 LIFT weekly ridership growth from July to November averaged 0.9%, significantly lower than budgeted. The forecast assumes ridership growth from December through June will be 4.0%, for a total FY06 savings of \$710,000. During FY07 and beyond,

LIFT ridership is projected to grow 4.5% per year. LIFT unit cost growth is projected to increase 4% per year.

- General materials and services cost inflation is assumed to be 3% per year.
- Health benefits cost inflation is expected to grow at three to four times the rate of general inflation.

CAC Perspectives:

1. We continue to support the payroll and self-employment tax rate increase with the understanding that new revenues will be dedicated to capital and operating service expansion.
2. Since new payroll tax revenue is dedicated to expanding service, passenger revenue is the only revenue source available to help offset the high cost of diesel fuel. Fuel costs are likely to continue to rise and be subject to considerable price volatility. We encourage the District to continue to look for ways to improve fuel efficiency, but we recognize that fare increases may be necessary to defray higher fuel costs. We support the TriMet Board's action to restrict the revenues generated from the January 1, 2006 fare increase to covering higher fuel cost and the deficit caused by this increased cost.
3. We know TriMet is preparing for the implementation of new accounting rules concerning Other Post Employment Benefits (OPEB) in FY08. We encourage TriMet to gather the actuarial data necessary to fully analyze this issue. The Committee looks forward to working with staff on OPEB accounting and financing issues as part of next year's review.
4. The economics of public transit are counterintuitive. As the demand for services grows, to the point where additional service is required, TriMet will need more, not less, operating subsidies. The region must recognize this fact and be willing to provide additional operating revenue.

3.0 FARELESS SQUARE AND FARE SIMPLIFICATION

3.1 Background

Portland is currently the only city in the United States that operates a Fareless Square within such a large geographic boundary, during all hours of operations and all modes of service.

The establishment of a free fare zone was first recommended in the 1974 Transportation Control Plan ("Plan") in order to promote transit usage, reduce air pollution and make it easier to travel downtown. The Plan had many elements, including a State Implementation Plan for air quality, Downtown Parking and Circulation Plan, Central City Plan, and Regional Urban Growth goals and objectives.

Fareless Square was first established in 1975 and its boundaries have been expanded three times. The original boundaries were: NW Hoyt, I-405, SW Market, Willamette River and Line 21-Mt. Tabor, west of the river. It was later extended from Hoyt to Irving because of the North Mall

project and later to the Lloyd District. During the life of Fareless Square, the rules have varied. For example, from October 1980 to September 1982 there was no Fareless Square on weekdays from 3 to 7 p.m.

3.2 Re-evaluation of Fareless Square

The City of Portland and TriMet should examine whether the goals established in the 1974 Transportation Control Plan are still relevant and, if not, what should be the role of transit in the central business district. This examination should provide a fresh look at the policy objectives and might result in a change in boundaries or operating conditions. Downtown Portland and the Transit Mall will undergo significant changes when MAX Light Rail begins along 5th and 6th Avenues from the Steel Bridge to Portland State University. This seems like an ideal time to review Fareless Square and to implement any changes that may be recommended.

This review of Fareless Square would begin with goals for TriMet, the City of Portland, the downtown business community and the public. Some of the questions to be examined: Who is using Fareless Square and for what purpose? What is the cost of operating Fareless Square? Are the constituents benefiting from Fareless Square paying their fair share of the cost? Are people hopping on and off a bus/train to save walking a few blocks to lunch, shopping or business meetings? What would riders do if they had to pay? If the boundary were smaller, would they use the system less? Where are people going?

3.3 Costs of Fareless Square

Beyond the direct loss of revenue within Fareless Square, the fareless zone contributes to fare evasion throughout TriMet's system by enabling people to board the bus or train without paying to ride outside Fareless Square. Bus operators frequently complain that they have difficulty collecting fares from people who board in Fareless Square and continue their trip beyond its boundaries. TriMet's research has shown that a significant number of passengers leaving downtown do not have proof of payment just outside of Fareless Square. The loss of revenue to TriMet, due to fare evasion on buses leaving Fareless Square alone, is estimated to be more than \$500,000 a year.

3.4 Fareless Square Issues and Concerns

Even though comprehensive data does not appear to be available at this time, there is a perception that Fareless Square contributes to behavior that is not permitted on TriMet buses, trains, or shelters and stations. Undesirable behavior on the TriMet system, or even a perception of such behavior, can be a deterrent to increasing ridership. Although enforcement is key to reducing prohibited behavior, creating a system that encourages appropriate behavior can also have a positive impact.

Other issues related to a fareless zone include:

- Fairness for other jurisdictions - other jurisdictions within the TriMet district would like a fareless zone in their downtown areas.
- Fairness for other businesses - how do businesses outside of Portland feel about their tax dollars supporting free transit for downtown Portland?
- Transit equity - does the existence of Fareless Square benefit those most capable of paying? Do the benefits accrue to the same people who bear the costs?

3.5 Fareless Square Options

Alternatives to consider regarding the current configuration and operation of Fareless Square:

- Eliminate the fareless zone.
- Expand or contract current boundaries.
- Restrict fareless travel to MAX only in the Central Business District and Lloyd District.
- Restrict fareless travel to the Transit Mall only.
- Establish a circulator bus or train that would provide fareless service.
- Limit hours of fareless travel to daytime only.
- Keep Fareless Square the same and make no changes.

Changes in how Fareless Square operates could directly affect passenger revenues. Thus, any discussion of a fareless zone should look at other investments that could be made in the transit system with increased revenue. Examples include improving frequency and reliability of service, improving customer information, adding security, and making capital improvements.

3.6 Fare Simplification

Over the past two years, TriMet has made incremental changes to its fare system in an attempt to make the system easier to use, especially for new riders, and to make the system easier for bus operators to administer. TriMet had many different graphic styles on tickets and to simplify this, some of the changes included modification of the TriMet logo, enlarging the print size of zone numbers and expiration times (operators had difficulty reading tickets from a distance), and designing easier to read graphics.

Even with the changes noted above, TriMet's fare system remains difficult for a new or infrequent user of the system. Two major elements of the system that remain difficult for the new and infrequent user are the zone system and Ticket Vending Machines (TVMs). TriMet's current zone system requires riders to have a rather comprehensive knowledge of the Portland region. TVMs require a working knowledge of the TriMet system and confront the rider with a large number of fare types and payment options. These issues can be a barrier for new and infrequent riders. Technology improvements are available that could address both issues; however, the cost of smart-card or even magnetic strip technology is cost prohibitive at this time.

CAC Perspectives:

Fareless Square

1. As reported last year, we support a broad-based review of Fareless Square. With the opening of the MAX Green Line in 2009, this seems like an excellent time to take a comprehensive look at Fareless Square. The analysis should consider the interests of all stakeholders and the benefits and problems caused by Fareless Square. Today's issues are much different than the issues of the 1970s when Fareless Square was first put into operation. We strongly support TriMet's initiative to begin gathering the data needed for a thorough analysis of Fareless Square so the issues can be fully examined in advance of light rail operations on 5th and 6th Avenues.
2. We encourage the review to consider all Fareless Square options. Some are given in Section 3.5 above, but the review should be open to all suggestions.
3. The District should carefully consider the financial impact of any changes in Fareless Square. Additionally, TriMet should consider dedicating any additional revenue to specific programs as discussed in Section 3.5 above, or as directed by the Board of Directors.

Fare Simplification

4. Fare simplification system efforts should be aimed at attracting and retaining new riders. We feel that zones create the most confusion for new riders. We encourage TriMet to explore ways to simplify or eliminate its zone system.
5. We further encourage TriMet to explore alternate ticket vending machine designs that would not require the user to understand the fare structure and zones completely. Is it possible for the rider to simply tell the TVM where they want to go (assuming that the TVM, through a built-in location-based capability, knows exactly where the rider is located) through an interactive, multi-lingual touch screen interface, and have the TVM determine the appropriate ticket automatically? (For example, you do not have to be an expert in airline fares or the travel system to buy a plane ticket on the Internet.) While there are many possible solutions, the flexibility and ease of use of the familiar banking industry's ATM could be used as a model for an alternate TVM design.
6. To reduce capital replacement costs as TriMet replaces aging TVMs, the District should consider replacing some TVMs with "credit card only" capability (no cash option). However, since a large portion of riders, particularly ethnic minorities, do not use credit cards, we recommend putting at least one TVM that accepts cash on all platforms. Further, any new TVM should allow multiples of the same fare to conveniently be purchased as one transaction, simplifying the process for groups traveling together.
7. We support and applaud TriMet's collaboration with the *Google* employees who are developing a multi-modal route planning system (<http://maps.google.com/transit>).

8. We recognize that passenger revenues account for a significant portion of TriMet's operating revenue. As such, any fare simplification should be done without a reduction in net revenue.

4.0 ALTERNATIVE FUELS / FUEL EFFICIENCY IMPROVEMENTS

4.1 Overview

Biodiesel is a renewable diesel replacement fuel that can be manufactured from domestically produced vegetable oils and recycled products.

According to the U.S. Department of Energy and the U.S. Environmental Protection Agency, B5 biodiesel blend will cause a 3-5% reduction in emissions of hydrocarbons, carbon dioxide, carbon monoxide, particulate matter and other harmful air toxins.

TriMet is testing biodiesel on 75 LIFT buses using 27,000 gallons of biodiesel a month. In partnership with Carson Oil, TriMet will use a 5% biodiesel blend (B5). This project began on January 1, 2006. Currently, bus engine manufacturers will not warranty their engines for a higher blend of biodiesel.

This biodiesel experiment will help the region become less dependent on foreign oil, serve as a catalyst for expanding the supply of biodiesel in the region, and determine if biodiesel will work on the agency's much larger, fixed-route bus fleet.

Sustained increases in the cost of petroleum-based diesel have made biodiesel pricing more competitive. In the long term, biodiesel should reduce TriMet's exposure to volatile energy prices and help develop the local market for biodiesel fuel.

4.2 Fuel Economy Program

Through its frontline employee productivity improvement program, TriMet has improved its fixed-route bus fuel economy over the past two years from 4.3 to 4.7 miles per gallon using several basic and innovative programs. Improved fuel efficiency has important environmental and financial benefits. Some of the new or expanded programs include:

- More frequent tune-ups and opacity testing.
- Replacement/testing of fluids and filters.
- Measurement of air cleaner restriction.
- More frequent front-end alignment.
- More frequent tire pressure checks and air leak testing with ultrasonic device.
- Voith Transmission software updates.
- Reducing engine idling by operators.
- Testing of an automated fuel management system on fixed-route fleet and LIFT.
- Cummins acceleration rate adjustment for fuel economy performance.
- Testing of "Road Recorder" engine monitors, allowing operators to view gallons used.
- Use of electrically driven air conditioning systems.

4.3 Moving Toward Sustainability

TriMet's goal is to be an environmental leader. This means the agency is committed to being not only in full compliance with environmental regulations, but to going beyond compliance by continually improving environmental performance, preventing pollution and minimizing its impact on the environment. TriMet works to minimize significant environmental impacts identified in the agency's environmental management system. TriMet does this by setting and reviewing objectives and targets, by educating employees and the public on the benefits of transit and how riding transit reduces pollution and helps meet the region's land use goals, and by educating business partners on the benefits of transit and employer commute options.

CAC Perspectives:

1. The success of a transit system such as TriMet cannot be measured in the narrow context of ridership alone. Rather, a transit system must be measured in a much broader regional context that incorporates such elements as the environment, mobility and livability.
2. The CAC is glad to see that TriMet is partnering with Carson Oil and other regional companies in using non-petroleum based fuel. This will help develop the biodiesel market in our region. Developing a strong regional biodiesel market should, in the long-term, lower fuel costs by reducing shipping, helping to ensure a more stable supply of fuel that is less susceptible to world events, and creating additional jobs in our region. We strongly encourage TriMet to expand its use of alternative energy sources.
3. We applaud TriMet's successes in improving fuel economy discussed in Section 4.2. Further efforts to improve fuel economy will provide both economic and environmental benefits, and the CAC encourages continued research and implementation of fuel economy programs.
4. The CAC encourages TriMet to work with diesel engine manufacturers to develop engines that are capable of using a higher percentage of biodiesel or other alternative fuels.
5. TriMet should explore alliances with other local governments in Oregon and southwest Washington to further expand the use of alternative fuels in our region.

5.0 OPERATOR RECRUITMENT

The average age of TriMet's union workforce has increased from 47.6 years in 2002 to 49.4 years in 2005, an increase of 1.8 years in a three-year timeframe. While an aging workforce is not unique to TriMet, it does create challenges.

CAC Perspectives:

1. With an aging operator workforce, we encourage management to begin developing recruitment techniques to attract and retain a younger workforce. Traditional employee benefit systems such as defined benefit pension plans and retiree health care are becoming cost-prohibitive and may not be well suited to attracting younger people to work at TriMet. Consider creating optional benefit packages that are geared to a younger and more mobile workforce.
2. Use TriMet's available advertising space on buses, trains and shelters as a recruitment tool to supplement more traditional forms of recruitment.
3. Use internet-based recruitment sources to recruit a younger workforce.
4. Shorten TriMet's hiring process – it can be discouraging for applicants to wait weeks before receiving notification.

6.0 BIKES TO TRANSIT

Complementing the Metro area's excellent bike network, TriMet accommodates bikes on all buses and MAX vehicles. There are approximately 350 bike lockers available for cyclists on the TriMet system.

Transit and bicycle safety is a major concern as bikes and buses share the shoulder on many roads. Operators are trained to keep a lookout for potential risks.

The total transit system and bike access philosophy encompasses the short and long-term goals of the MAX Blue Line, Red Line, Yellow Line and the I-205/Portland Mall Light Rail Project.

Some of the agency's potential programs include:

- Working with PSU to develop a full-service bike facility near the new light rail stop on the Transit Mall.
- Going to a three-bike rack option on buses (currently two) to provide additional bike capacity.
- Identifying funding (Flex Funds/Regional MTIP) and negotiating with regional partners to shape the 2040 Land Use Vision for bike routes through the Rose Quarter, connecting MAX Yellow Line, Blue Line and the upcoming Green Line.
- Expanding bike parking at Beaverton Transit Center.
- Expanding training and communication for operators.

TriMet is working with the City of Portland and the Bicycle Transportation Alliance (BTA) to create a safe bike route through, rather than around, the Rose Quarter Transit Center. This has been a high priority for the bike community. Although TriMet has committed to developing bicycle and pedestrian access to transit services, this initiative requires regional partnerships and sustained commitment from all regional governments.

CAC Perspectives:

1. We recommend continuing efforts to develop safe and secure bike storage facilities in close proximity to public transit. Additionally, we believe a usage fee could be charged for bike lockers to help increase turnover and the number of bike riders using the TriMet system.
2. Operators receiving defensive driving lessons around cyclists should share their experiences in the agency's biweekly *Operator Report*.
3. The CAC recognizes and encourages continuation of TriMet's commitment to cycling in Portland and the safe interaction of bikes with TriMet's bus and rail operations.
4. Since the cost of Park and Ride spaces for bicycles is a fraction of the cost of automobile Park and Ride spaces, we encourage TriMet to invest in additional bike facilities, especially in conjunction with major rail projects such as Commuter Rail and the I-205/Portland Mall Light Rail Project.

7.0 VEHICLE SERVICE HOURS INCREASE IN PROPORTION TO TOTAL VEHICLE HOURS

TriMet's Scheduling Department prepares quarterly operator work assignments within the parameters of union work rules. One method to improve the ratio of service hours to total vehicle hours is through a technique called "interlining." Interlining is a scheduling tool that connects trips from multiple routes together to provide more optimal use of vehicle and operator time. This means that a bus can be scheduled from one route to another route, cutting down on layovers. Routes running through the Gresham Transit Center are currently being tested using the interlining technique.

CAC Perspectives:

1. Interlining appears to be an effective tool for optimizing bus service efficiencies. To better understand the whole picture and its feasibility, we recommend the agency develop a method of testing the potential savings. TriMet should also understand how these changes would impact operator satisfaction, since the layover time will be shortened for some work assignments.

8.0 CONCLUSION AND BUDGET RECOMMENDATION

The CAC reviewed an interesting mix of topics for the FY07 budget. These topics included the fiscal stability of the District, Fareless Square and fare simplification, alternative fuels and fuel efficiencies, operator recruitment issues, bikes and transit, and a methodology for optimizing operator and vehicle productivity.

We appreciated the presentations and discussions with the District's staff. They were professional and committed to their responsibilities.

Maintaining TriMet's fiscal stability is especially worthy of highlighting. The future growth and stability of TriMet's three major operating revenue sources is important, especially due to the current volatility of major operating expenses such as fuel costs and employee benefits. Fareless Square deserves a thorough review because of its impact on the operations and perceptions of the District.

In summary, the CAC believes the FY07 budget provides appropriate response to higher fuel prices and other economic factors. The CAC is pleased to recommend that the Board adopt the FY07 budget as submitted.