FINANCIAL FORECAST
FY15 BUDGET FORECAST AND FINANCIAL ANALYSIS
Fall 2013

Financial Analysis & Grants Administration Department, Fall 2013
Tri-County Metropolitan Transportation District of Oregon
Fall 2013 Financial Forecast
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1. Summary
Two Forecasts: Continuing with the Status Quo vs. Management’s Proposal

**Status quo**
- Continuation of current labor contract:
- 3% COLA floor
- 90%/10% PPO & $5 co-pay HMO health plans
- No premium contributions
- Wages and benefits retroactive to January 2012
- Cost trends continue indefinitely

**Proposed**
- Contract proposal assumed
- Union wages frozen until settlement, July 1, 2014
- 2% annual wage increases FY15 & FY16 (0% FY14);
- Union benefits same as non-union employees
- Begin 6% union employee & retiree health premium contributions
- PPO health plan: increase co-insurance to 80%/20%, increase deductibles to $300/$900; Out of pocket max. medical & pharmacy: $2,000 employee/$6,000 family ea. ($1,000/$3,000 now)
- HMO health plan: co-pays increase to $10
- Medicare eligible retirees & dependents in a lower cost PPO or HMO Medicare supplement plan that provides benefits substantially the same plan as active employees receive
- Reduced retiree medical benefit for non-vested union employees and new hires

**Both forecasts:** No payroll tax rate increase & same economic, ridership, fare, service, capital, pension, OPEB trust funding assumptions are assumed
Proposal Results in Sustainable Forecast Without Cutting Essential Services

Status quo results in fiscal instability: Bus service cuts needed to balance FY16: 10%, FY20: 15%, FY25: 20%

TriMet’s proposal corrects the structural imbalance. Spending growth is sustainable

Status Quo: Total Revenues and Expenditures

Proposed: Total Revenues and Expenditures
Proposal Achieves Needed Structural Balance Between Revenues and Expenditures

Status Quo: Revenues Minus Expenditures

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<tr>
<th>Year</th>
<th>Status Quo</th>
<th>Proposed</th>
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<td>$40</td>
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<td>FY2030</td>
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2. Revenue Forecast
Payroll Tax Revenue Forecast: Strong Above Inflation Growth Projected

- Stronger regional employment and wage growth & lower inflation projected, even though nominal forecast is slightly lower
- TriMet revenue growth returns to historical rates FY17 & beyond

Underlying Growth of Payroll Tax*:

<table>
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<tr>
<th>FY13 actual</th>
<th>October '13 ECONW Forecast</th>
<th>Portland CPI-W</th>
<th>October '13 Real Growth Forecast</th>
<th>April '13 ECONW Forecast</th>
<th>Portland CPI-W</th>
<th>April '13 Real Growth Forecast</th>
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<td>FY14 forecast</td>
<td>5.2%</td>
<td>1.8%</td>
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<td>3.3%</td>
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<td>FY15 forecast</td>
<td>5.2%</td>
<td>1.8%</td>
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<tr>
<td>FY16 forecast</td>
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<td>1.7%</td>
<td>3.8%</td>
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<tr>
<td>FY17 + beyond</td>
<td>4.8%</td>
<td>1.9%</td>
<td>2.9%</td>
<td>4.8%</td>
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- Employer payroll tax revenues make up 50% of revenues
- FY13 CPI adjusted underlying payroll tax revenues just 1.4% above FY08

Historical underlying annual payroll tax growth rates:
1998-2013 (15 years): 3.6% (.9% real growth) (2.45% inflation, .46% average annual employment growth and .41% CPI adjusted pay per employee)
1993-2013 (20 years): 5.2% (2.2% real growth) (2.46% inflation, 1.34% average annual employment growth and .9% CPI adjusted pay per employee).
Long term rate of 4.8%: (2.0% real growth) (2.7% inflation, 1.2% employment growth, .8% above inflation wage growth)

* Underlying payroll tax revenues do not include revenues from the .1% payroll tax rate increase, which are dedicated to new bus, rail and LIFT service.
Self employment + State in lieu of Payroll Tax Forecast

• Self employment revenue growth forecast (ECO Northwest) (4% of total revenues)
  – 7.9% underlying growth in FY14
  – 5.7% underlying growth in FY15
  – 6.5% underlying growth FY16
  – 3.7% growth FY17 & beyond

• State in lieu revenue growth forecast (ECO Northwest) (1% of total revenue)
  – 4.3% FY14
  – 5.1% FY15
  – 5.8% FY16
  – 4% FY17 & beyond

✓ Inflation adjusted underlying payroll tax growth (all sources) averages $4.9 million/yr FY15-FY19

• Risks to payroll tax forecast:
  – Lower employment & wage growth
  – Business cycle downturn
Passenger Revenue

- 25% of revenue
- Average growth of 4.6% in forecast
- Ridership + average fares are forecast for each mode
- Ridership growth current service =
  - Bus: .5%, growing to 1.2% over 20 years (.42%/year past 20 years)
  - Light rail: 1.2% underlying light rail ridership growth, growing to 2.0% over 20 years (.84% past 20 years)
- Next inflation adjusted fare increase: ($.05 cash, $2 pass) FY16 when PMLR opens & each year thereafter
- PMLR & associated bus service changes to increase rail ridership 17,000 and reduce bus ridership 4,500 for $5.1 million increase in passenger revenue FY16 annualized
- Passenger revenue forecast to be $6 million below budget FY14.
  - Budget assumed 2% ridership growth;
  - Ridership projected to be down 2% to 3%
  - Average fare up 3.3% (2 mos. of 9/2012 increase in FY14)
- Forecast incorporates additional passenger revenue as Frequent Service is restored FYs14 to FY16
- No changes to low income fare program or TriMet subsidy or PPS free student fare assumed
- OPAL 3-hour round trip proposal not assumed
- Streetcar Fare Reciprocity begins FY16
  - TriMet fare survey indicates $1.2 million to $1.5 million annual value of boardings made on Streetcar with TriMet passes
Federal Formula Funds – Steady State

- 15% of revenues
- MAP-21:
  - Urbanized area formula fund authorizations flat.
  - State of Good Repair (SGR) program increased funds for rail asset repair and rehabilitation. TriMet’s SGR authorization increased $6 million to $17 million in FY13 and FY14. Additional revenues dedicated to additional light rail asset maintenance
  - Funds for elderly and disabled transportation increased

✓ Forecast assumes FY14-FY16 federal formula funds will be flat, then increase 2.7% per year with inflation. In addition:
  - SGR funds increase 20% in FY18 when WES and Green Line MAX are 8 years old
  - SGR funds increase 5% in FY20 when Eastside Streetcar is 8 years old
  - SGR funds increase 10% in FY24 when PMLR is 8 years old

- Gas tax provides only 50% of federal transportation revenues. Balances in Mass Transit Fund provide 50%. Fund will be depleted early in FY15. General fund transfers or new taxes will be required to maintain the program at MAP-21 levels

✓ Risk to forecast: lower federal formula funding levels; 5% reduction = ($2.6) million a year.
3. Expenditure Forecast
Service Affordable with Management’s Labor Proposal*

- Annual service increases: peak hour ridership demand & to maintain schedules
  - .8% bus, $1.2 million added annually
  - .5% rail, $.4 million added annually
  - Additional trips WES (FY18)
- Frequent Service restoration - $7M net of fares
  - $10 million bus ($6 million net of fares) (FYs14 - FY16) (FY14 funded with savings)
  - $2 million rail ($1 million net of fares) (FY15 + FY16)
- Portland - Milwaukie Light Rail
  - $3 million annual net cost (FY16)

- Streetcar Close the Loop & Master Agreement
  - FY16s-FY18 $1.4 million/year
  - FY19 $2.6 million
  - FY20 $2.7 million
  - Figures exclude fare reciprocity

- Columbia River Crossing
  - $1.4 million annual cost net of fares and CTRAN contributions (FY20)

- LIFT grows with population:
  - -5% in FY14, 2.3% FY15, 2.3%% FY16
  - 30% of LIFT trips made by individuals over age 70; their ridership increases at same rate as their population
  - 70% of LIFT trips made by individuals under age 70; their ridership increases at the population rate

* Service cuts needed with Status Quo costs & trends
Capital Maintenance & Replacement Forecast: Current System

- Additional rail mechanics (LRV and MOW) in forecast for maintenance of aging system – FY15 3 MOW, FY16 5 LRV
- MAX stations renewal: $2.4 million/year for Blue line MAX; grows as subsequent lines age
- LRV component replacement $8 million FYs14-FY16
- Non-revenue vehicle replacement ($1.5 million/year)
- Station elevators rehabilitation ($1 million a year beginning in 2 years)
- Station platform infrastructure ($1 million a year expected cost)
- Facilities end of life rehabilitation (Center, Ruby, Powell, Elmonica $1.5 million/yr annualized)
- Replace 254 fixed route buses FYs13-16, then resume 40/year annual bus replacement for average age of 8 years
- CCTV and fiber optic replacement/improvement $1.5 million/year beginning FY15
- Fare system replacement (electronic fare collection): $25 million FY14-FY17
- LIFT vehicles replaced at 9 years of age
- Forecast extended to FY40 to capture LRV replacements and the major impact this will have on TriMet’s future budgets
  - Type 1s replaced 2027 (26 vehicles $125 million 2013$)
  - Type 2s replaced 2034 (52 vehicles $250 million 2013$)
  - Type 3s replaced 2040 (27 vehicles $130 million 2013$)

Growth Related Capital Investment Forecast

- No TriMet capital contributions for Columbia River Crossing
- Buses for ridership growth
  - 6 additional buses every other year starting in FY18 ($1.2 million/year)
- LIFT vehicles for additional growth
  - Approx. 7 per year beginning in FY16 ($650,000/year)
- Additional LRVs for ridership growth
  - 11 FY25 ($53 million 2013$)
  - 11 FY29 ($53 million 2013$)
  - 12 FY35 ($58 million 2013$)
- 2 WES Diesel Multiple Units ($8.5 million, debt funded) (FY15-FY17)
- Positive train control $14 million (FRA safety mandate) (FY14-FY17)
- BRT and various pedestrian safe access projects are funded with Metro grants
- Signal and power MAX tracks at select locations ($15 million) (FY16-FY22)
Senior Lien Debt

- Payroll tax backed debt issued for:
  - Fare system replacement (electronic fare system)
  - Bus replacements (net of grants) in FY15 (not FY14) through FY23, then buses are PAYGO funded and...
  - Light rail car purchases
  - WES DMUs
  - WES Positive Train Control
- Debt is manageable throughout the forecast although reliance on debt to fund capital is higher than in the past.
- Debt levels high when LRVs are replaced. Continuing $16 million stream of MTIP Regional Rail funding beyond FY27 could help fund LRV purchases, reduce reliance on debt and free up general fund funds for service (but is not assumed in forecast)
- Debt levels are below board standard of 7.5% of continuing revenues through 2030 (see graph)
- More PAYGO capital highly desirable
**Wage and Benefit Forecast Status Quo vs. Proposed**

**Status Quo**
- FY15 union wage base = $124 million
- FY15 union benefits = $39.6 million
- Retroactive settlement wages = $5.6 million, benefits = $3.5 million
- Health inflation assumption lower than in past forecasts
  - Union active employee health care cost growth: -5.4% FY14, 3.6% FY15, 7% annually FYs16-18, then decreasing to 4% over 20 years
- Retiree medical FY14=$19.5 million, reduced from budget, growing 13%-14% annually FYs’15-’19

**Proposed**
- FY15 union wage base = $118 million
- FY15 union benefits = $36.4 million
- 80%/20% health plan saves $3.2 million compared to Status Quo (1st yr)
- Health inflation assumption lower than in past forecasts
  - Union health care cost growth: -12.5%* FY14, +2.8% FY15, 6% annually FYs16- FY18, then decreasing to 4% over 20 years
- Retiree medical FY14=$18.4 million, reduced from budget, growing 3% FY15, 11%, FY16, 11%, FY17, 9% FY18, 8%, FY19

*Assumes labor settlement July 1, 2014; Health care proposal not retroactive; TriMet is responsible to pay 2012 premium rates; union employees pay difference between 2013-2014 cost of health plans (status quo) and 2012 rates. Proposal would result in union health care cost growth of -9% FY14, -1% FY15
Costs are for current employees

Compared to Status Quo, Proposal costs are:
FY15: $7 million lower
FY20: $23 million lower
FY25: $45 million lower

Results:
1) sustainable health care benefits for active and retired employees
2) estimated 50% reduction in OPEB liability
3) Retiree medical PAYGO costs peak in 2039, then begin to decline

As a % of underlying payroll tax revenue: FY99: 10%, FY20: 25%, FY30: 35%

Pension liability funding converted to OPEB funding when union and non-union pension debt obligations fully funded
Proposal Savings vs. Continuing the Status Quo

Chart Shows Difference in Costs Between Proposal & Status Quo
Structural Imbalance: Active and Retiree Health Care & Wages Are Projected to Continue Growing Faster than Revenues

Cumulative Growth of Active & Retiree Medical/FTE, Payroll Tax and Passenger Revenue

Top Operator Wage 2000-2012
Actual Calendar Yr Average & CPI Adjusted

Annual cost of above inflation increases = $19 million a year in FY13 $5

Underlying Payroll Tax Revenues
Active and Retiree Health Costs per FTE
Passenger Revenue

Actual Avg Wage
Avg Wage CPI-Adj
TriMet won’t achieve fiscal stability until our unfunded retirement liabilities are reduced.

Of its peer group, TriMet’s pension & retiree medical (OPEB) unfunded liabilities as a % of payroll are 2x the size of the next highest agency and 4.5x the average.

TriMet is increasing funding to the pensions & asking employees & retirees to pay more for health insurance to reduce the OPEB (Other Post Employment Benefits) unfunded liability and PAYGO costs. More service cuts/fare increases to correct the imbalance is not a sustainable solution.

<table>
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<tr>
<th>&quot;West Coast 11 &quot; 2012 Valuations</th>
<th>Pension UAAL as a % of Payroll</th>
<th>OPEB UAAL as a % of Payroll</th>
<th>OPEB UAAL</th>
<th>UAAL Annual Required Contribution OPEB</th>
<th>OPEB ARC per Active Employee</th>
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<tbody>
<tr>
<td>Portland - Tri-County Metropolitan Transportation District of Oregon*</td>
<td>213%</td>
<td>564%</td>
<td>$852,354,985</td>
<td>$79,127,370</td>
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<td>Dallas - Dallas Area Rapid Transit</td>
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<td>19%</td>
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<td>$5,024,071</td>
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<td>Denver - Regional Transportation District</td>
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<td>Eugene - Lane Transit District</td>
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<td>47%</td>
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<td>$1,087,302</td>
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<td>Oakland - Alameda-Contra Costa Transit District</td>
<td>212%</td>
<td>69%</td>
<td>$100,337,000</td>
<td>$6,115,000</td>
<td>$3,469</td>
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<td>Sacramento - Sacramento Regional Transit District</td>
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<td>Salt Lake City - Utah Transit Authority</td>
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<td>San Diego - San Diego Transit Corporation</td>
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<td>San Diego - San Diego Trolley Incorporated</td>
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<td>San Francisco - San Francisco Municipal Transportation Agency</td>
<td>3.3%</td>
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<td>San Jose - Santa Clara Valley Transportation Authority</td>
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<td>64%</td>
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<td>Santa Ana - Orange County Transportation Authority</td>
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<td>Seattle - King County Metro Transit</td>
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</table>
Defined Benefit Pension (TriMet is not in PERS)

- Pension benefits comparable to reformed PERS
- Union pension liability or debt of $239 million; non-union debt of $35 million
- Union pension 59% funded; Non-union pension 68%
- **Best practice recommended pension funded ratio is 100% at the end of a business cycle expansion and 80% at the bottom of a recession.** Nationwide average is about 75%.
- Both plans are closed to new entrants. Remaining working life of employees in non-union plan is 5 years, & union plan is 10.5 years
- **Best practice to pay unfunded liabilities or debt over the remaining working life of employees in plan to ensure sufficient assets are available to pay benefits**
- Pension funding in forecast:
  - Non-union unfunded liability funded over a closed 10 year period;
  - Union pension unfunded liability funded over a closed 15 years to 5 years open
- Assuming 7.25% return on investments (averaged 6.9% 1998-2013) union plan and 6.5% non-union plan, both plans could be fully funded in these time periods
Revenues from the increase in the tax rate in FY16 are estimated to total $43 million, with annual expenditures illustrated on the pie.

The payroll tax rate increase was phased in over 10 years. The last increase will be January 1, 2014.

TriMet has the authority to increase the payroll tax another 1/10th of a percent over ten years, but this tax rate increase is not assumed in the forecast.

*Includes Green and Orange Line MAX and WES. Operating costs are net of fares.
FY15 Budget Issues

• FY15 Budget assumes TriMet’s labor contract proposal

• Service:
  – Reliability & Peak Growth ($1.6M)
  – Frequent Service Restoration FY14-FY16 ($7M net of fares)

• State of Good Repair (SGR):
  – Right sizing capital budget for SGR
  – Right sizing rail MOW and LRV maintenance staffing (8 positions)
  – Right sizing field operations to improve service reliability (2 to 6 positions)
  – Right sizing operating & capital project staffing

• Changes to low income fare program or PPS free student fare or round trip time

• Pension funding & OPEB

• PAYGO capital

• Barbur Corridor work ($3 million over 3 years)

• Non-union wage increase

• FY14 Budget expenditure savings are incorporated into forecast and FY15 baseline budget:
  – Workers comp. costs down $1 million
  – Diesel fuel costs down $.15/gallon ($1 million)
  – Retiree medical: forecast revised down $3 million
  – Wage and health freeze
  – Proposed health care costs
  – Proposed wage increase
  – Reduced class action reserve

• Lower passenger revenue
## Table 1. Revenues and Expenditures Projected in the Proposed and Status Quo Scenarios

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<td>Revenues</td>
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<td>Beg./Unrestricted Budgetary Fund Balance</td>
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<td>1.6</td>
<td>1.3</td>
<td>1.1</td>
<td>0.7</td>
<td>0.2</td>
<td>-0.2</td>
<td>-0.8</td>
<td>-1.1</td>
<td>-1.7</td>
</tr>
</tbody>
</table>

### Key Assumptions

**Growth rate assumptions:**

- **Passenger Revenue:** 10.5%, 0.6%, 3.1%, 7.4%, 5.8%, 3.7%, 3.9%, 4.0%, 4.0%, 4.0%, 4.1%, 4.4%, 4.4%
- **Payroll Tax-underlying:** 3.5%, 5.2%, 5.2%, 6.3%, 4.8%, 4.8%, 4.8%, 4.8%, 4.8%, 4.8%, 4.8%, 4.8%, 4.8%
- **Self-Employment Tax:** 8.4%, 7.9%, 5.7%, 6.5%, 3.7%, 3.7%, 3.7%, 3.7%, 3.7%, 3.7%, 3.7%, 3.7%, 3.7%
- **Federal Formula Funds:** 4.9%, -12.7%, -0.9%, 1.6%, 2.1%, 7.1%, 2.2%, 3.6%, 2.2%, 2.2%, 2.2%, 2.2%, 2.2%
- **General Inflation:** 1.6%, 2.4%, 2.0%, 2.0%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%
- **Diesel Fuel:** 0.2%, -6.5%, 2.0%, 2.0%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%
- **Electricity:** 8.5%, 0.5%, 2.0%, 2.0%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%, 2.7%
- **Pension Funding (7.5% ROI FY14):** 4.5%, 22.2%, -13.3%, 0.8%, -1.1%, 0.8%, 0.9%, 0.9%, 1.0%, 1.0%, 1.1%, -10.3%, 1.5%
- **Sr. Lien Debt as a % of Revenue:** 5.1%, 4.5%, 4.7%, 5.2%, 5.3%, 5.4%, 5.5%, 5.6%, 5.8%, 4.9%, 5.0%, 4.7%, 5.3%
- **Bus Service:** -0.3%, 2.9%, 3.7%, 2.0%, 0.8%, 0.8%, 0.8%, 0.8%, 0.8%, 0.8%, 0.8%, 2.2%, 0.8%
- **Rail Service Hours (incl. PMLR):** -0.7%, 0.0%, 3.9%, 12.1%, 2.1%, 0.4%, 0.4%, 0.4%, 3.0%, 0.4%, 0.4%, 0.4%, 0.4%
- **LIFT Service:** -5.9%, -0.6%, 2.2%, 2.1%, 2.1%, 2.3%, 2.3%, 2.0%, 2.0%, 2.0%, 2.0%, 2.0%, 2.0%

### Proposed Plan (includes PPACA Excise Tax)

- **Retiree Medical:** -2%, 10%, 7%, 11%, 11%, 9%, 8%, 7%, 7%, 6%, 5%, 5%, 5%
- **Health Benefits Actives:** 9.0%, -10.1%, 2.8%, 6.0%, 6.0%, 7.2%, 7.6%, 6.6%, 6.6%, 6.5%, 6.4%, 6.3%, 5.5%

### Status Quo (includes PPACA Excise Tax)

- **Retiree Medical:** -2%, 13%, 14%, 13%, 14%, 13%, 13%, 11%, 10%, 10%, 9%, 9%, 8%
- **Health Benefits Actives:** 9.0%, -3.6%, 3.6%, 6.9%, 6.9%, 9.3%, 10.0%, 7.7%, 7.6%, 7.5%, 7.3%, 7.1%, 7.0%
Contract Proposal & Stated Future Assumptions
Results in Fiscal Stability

1. One-time-only (OTO) revenues are used to support one-time-only expenditures. Continuing Revenues (CR) are used to support Continuing Expenditures (CE) or one-time Expenditures
2. Continuing revenues & expenditures are in balance throughout the forecast.
3. Unrestricted ending fund balances meet board goals throughout the forecast
4. Capital assets are in a state of good repair
5. Actuarial assumptions for pension funding are realistic. 100% of DB pension ARC funded each year.
6. Retiree medical benefits for current employees are PAYGO affordable
7. Senior lien debt service is less than 7.5% of continuing revenues through 2030
8. Able to control costs and fund the existing transit system on balance over all business cycles with the current revenue base, including maintaining schedule reliability and relieve peak crowding.
4. Economic Indicators
Employment is Climbing Back But Still Below Pre-Recession Levels

Seasonally Adjusted Total Nonfarm Payroll Employment Portland -Vancouver-Hillsboro MSA (Jan 2001- Nov 2013)

Source: Oregon Employment Department
Year Over Year Regional Employment Growth is Moderate in the 4th Year of this Recovery

Year over Year Change in Tri-County Nonfarm Employment
(Not Seasonally Adjusted)

Source: Oregon Employment Department
Regional Unemployment Continues to Decrease

U.S. and Portland-Vancouver-Hillsboro MSA Unemployment Rate
Seasonally Adjusted (Jan 2000 to Aug 2013)

Source: Oregon Employment Department
Compared to All Recessions Since 1945 This Recovery Has Been Weak

Gross Domestic Product (GDP) Percent Change

Quarterly 2013

Source: U.S. Bureau of Economic Analysis
Home Values, a Lagging Indicator of Economic Activity, Are Finally Climbing Back in Portland

Source: Standard and Poor’s Case-Shiller Index of Home Values Portland
5. Financial Forecasting
Financial Planning

• Purpose of 20 year financial forecast is to
  – Identify and address long-range financial issues
  – Realize sustainable cash flows
  – Maintain consistent service levels year to year given resources
  – Protect and maintain assets

• TriMet’s financial forecast is the basis for budget decisions and long term decision-making
  – Critical component of fiscal discipline and financial sustainability

• Budget process and financial planning process are linked
  – Budget process begins each fall with a multi-year forecast of revenues and expenditures to ensure that budget decisions are made in the context of the long-term financial picture of the agency
In the public sector, financial goals can take many years to realize because of the need to maintain service levels and the many competing demands for resources.

How to get there must be thought out in advance.

Financial sustainability requires tremendous discipline over many years.

- Funding an OPEB trust, increasing cash reserves, improving the pension funding ratios, adequate capital replacement funding, desired changes to labor costs, funding service improvements, reducing costs through process improvements are examples of goals that can be reached over time with discipline and planning.

Board and General Manager leadership is critical.

Budgets that are consistent with the long term plan are critical.

Financial planning with realistic revenue and expenditure assumptions provide a map and assist internal coordination.
TriMet Fiscal Policy

TriMet fiscal principles:

- One-time-only (OTO) revenues are used to support one-time-only expenditures.
- Continuing revenues (CR) are used to support continuing expenditures (CE) or one-time expenditures.
- When continuing revenues (CR) fall short of continuing expenditures (CE), continuing expenditures must be reduced or continuing revenues raised.
- Repeatedly using one-time revenues (OTO) to offset a continuing revenue-expenditure imbalance leads to fiscal instability.

Continuing revenues (CR) include:

- Payroll tax
- Fare revenue
- Federal formula assistance

One time revenues (OTO) include:

- Cash reserves
- Federal capital grants
- Revenues that cannot be counted on in the future

Continuing expenditures (CE) are the expenses needed to operate the agency and provide service.

One time-only (OTO) expenditures include capital plant additions, startup costs one-time maintenance campaigns.
Management Characteristics of Highly Rated U.S. Public Finance Issuers*

1. A focus on structural balance
2. Regular forecasting to identify shortfalls early
3. A multi-year financial plan in place that considers the affordability of actions before they are part of the annual budget
4. Contingency plans for budgeting
5. Strong liquidity management
6. Established budget stabilization reserve
7. Debt management policy

* Standard and Poor’s Financial Services
1. ECONorthwest provides short-term payroll tax revenue forecast (current year, plus 2-3 additional years)

2. Long term payroll tax forecast growth rates are based on Congressional Budget Office, State, Metro employment, inflation and wage increase projections

3. Fare increase and ridership projections are used to forecast passenger revenue

4. Long-term payroll tax growth rates, passenger revenue and all other revenues are forecast in-house

Expenditure Forecast Includes:

1. Cost of operating and maintaining the existing transit system

2. Projected increases in those costs

3. Projected increases in fixed route bus and rail service to maintain headways and capacity as the region grows

4. Projected increases in ADA complementary paratransit service (LIFT)

5. Operating cost of service expansions such as Portland to Milwaukie light rail and other service increases

6. Capital expenditures from the 5-year Capital Improvement Program

7. Debt service expense and projected increases

8. TriMet’s contribution to construction projects like Portland-Milwaukie light rail construction
Fall 2013 Financial Forecast Assumptions Report

This report provides a detailed explanation of the multi-year financial plan revenue and expenditure assumptions for the Status Quo and Proposed forecast that is summarized on Table 1, page 25.

TriMet’s budget process begins each fall with a long term forecast of revenues and expenditures. The forecast is an important feature of the budget process as it helps insure that current budget decisions are made in the context of the long term financial picture of the district. The forecast can be thought of as a multi-year “budget.”

TriMet’s forecast begins with status quo projections, which incorporate the assumption that the current cost structure remains in place and cost trends continue indefinitely. The status quo projections (also known as baseline projections) are designed to serve as a benchmark that leadership can use in considering changes needed to bring revenues and expenditures in balance, to add services or fund liabilities.

After the status quo projections are updated, TriMet creates a business plan or proposed plan forecast that includes any costs, cost savings or revenues generated from recommendations needed to achieve financial stability and meet TriMet’s service commitments to the region.

The proposed plan addresses all facets of maintaining fiscal stability, which are:

1. One-time-only (OTO) revenues are used to support one-time-only expenditures. Continuing Revenues (CR) are used to support Continuing Expenditures (CE) or one-time Expenditures
2. Continuing revenues & expenditures are in balance throughout the forecast.
3. Unrestricted ending fund balances meet board goals throughout the forecast.
4. Capital assets are in a state of good repair.
5. Actuarial assumptions for pension funding are realistic. TriMet adopts best practice pension funding to insure sufficient assets are available to pay benefits.
6. Retiree medical benefits for current employees are PAYGO affordable and provision has been made for trust funding.
7. Senior lien debt service is less than 7.5% of continuing revenues through 2030.
8. Able to control costs and fund the existing transit system on balance over all business cycles with the current revenue base, including maintaining schedule reliability and relieve peak crowding, without above inflation fare increases or increasing the payroll tax rate.

This forecast focuses on FY15-FY25, although the forecast has been extended to FY40 in order to incorporate the replacement of the Type 1-3 light rail vehicle fleets, and achievement of 100% funding of the defined benefit pension unfunded liabilities followed by like size contributions to a retiree medical trust.

The expenditure forecast includes:

1. Cost of operating and maintaining the existing transit system.
2. Projected increases in those costs.
3. Projected increases in fixed route bus and rail service to maintain headways and capacity as the region grows. This maintains current levels of service and is the minimum annual service increase.
4. Projected costs of ADA complementary paratransit service.
5. Operating cost of service such as Portland to Milwaukie light rail, Columbia River Crossing, and other service changes.
6. Capital expenditures from the Capital Asset Management and Improvement Program.
7. Debt service expense and projected increases.
8. TriMet’s contribution to Portland-Milwaukie Light Rail construction

A. Revenue Forecast Assumptions

The sources of operating revenues and how they are forecast are described below

1. Passenger Revenues

At about 24% of total operating revenue, passenger revenue is TriMet’s second largest revenue source. Last ten years, passenger revenues grew at an average annual rate of 6.8%. This strong growth is the result of growing ridership, multiple service improvements, and higher than usual fare increases during this period.

The passenger revenue forecast is derived from forecasts of ridership and fares on bus, MAX, WES commuter rail, and LIFT paratransit services. Passenger revenue is estimated by multiplying the average fare for each mode by the estimated ridership for that mode.

In 1990, TriMet began a policy of increasing fares with inflation. In addition, TriMet has occasionally increased fares to offset high diesel fuel costs or to increase service.

The following table lists past and future fare increases and classifies them as to whether they are (i) a regularly scheduled increase, (ii) a special increase to increase service levels or to address a revenue expenditure imbalance or (iii) a special increase to offset a rise in diesel fuel costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Passenger Revenue 000s</th>
<th>Regularly Scheduled</th>
<th>Special</th>
<th>Diesel Fuel</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY99</td>
<td>$40,991</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY00</td>
<td>$46,373</td>
<td></td>
<td>$0.05</td>
<td></td>
</tr>
<tr>
<td>FY01</td>
<td>$51,702</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY02</td>
<td>$53,191</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY03</td>
<td>$52,746</td>
<td></td>
<td>$0.05</td>
<td></td>
</tr>
<tr>
<td>FY04</td>
<td>$55,664</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY05</td>
<td>$59,487</td>
<td>$0.05</td>
<td></td>
<td>$0.05</td>
</tr>
<tr>
<td>FY06</td>
<td>$68,484</td>
<td>$0.05</td>
<td></td>
<td>$0.05, $.15</td>
</tr>
<tr>
<td>FY07</td>
<td>$75,931</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY08</td>
<td>$80,861</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY09</td>
<td>$90,017</td>
<td>$0.05</td>
<td></td>
<td>$0.20</td>
</tr>
<tr>
<td>FY10</td>
<td>$92,806</td>
<td>$0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY11</td>
<td>$96,889</td>
<td>$0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>FY12</td>
<td>FY13</td>
<td>FY14</td>
<td>FY15</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>$102,240</td>
<td>$112,501</td>
<td>$113,502</td>
<td>$116,702</td>
</tr>
<tr>
<td></td>
<td>$0.05</td>
<td>$.10-.40</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

(1) FY16 and beyond, average fare is assumed to grow 2.7% per year with inflation.

September 2012 TriMet eliminated Fareless Rail, eliminated fare zones and increased the former 2-Zone fare $.40 cash/$19.00 pass to generate an additional $8.7 million in fare revenue. Because the fare increase was high, TriMet does not plan to increase fares again until FY16.

Simplifying the fare system by eliminating zones will help insure a smooth implementation of electronic fare payment, a project already underway, by FY17. Electronic payment of fares will lower fare collection costs, improve financial controls, increase revenue, speed boarding times, increase the number of retail outlets that sell TriMet fares, and bring TriMet into the mainstream of electronic payment technology.

The electronic fare system addresses equity with a $5 daily cap and a $100 monthly cap to ride. Customers will not have to pay for a monthly bus pass up front, but will “buy a pass one day at a time.” Convenience will be increased for cash paying customers, including unbanked or under banked customers who will be able to load fares onto their transit account with cash at retail stores or online. Mobile phone fares will be available as well. TriMet estimates that the continuing cost savings and higher revenue capture from electronic fares will pay for the costs of the system. Additional passenger revenue is assumed in the forecast beginning in FY17.

**Ridership Forecasts**

**A. Ridership Growth: Existing MAX Service (Blue, Red, Yellow and Green Lines)**

MAX ridership is projected to decline 2% in FY14 as riders continue to adjust to the September 2012 fare increase.

In future years, underlying ridership growth, the growth rate of ridership on current service, is projected to be 1.2% in FY15, increasing in even increments to 2.0% over the next 20 years. Past 20 years, underlying MAX ridership growth has been .84% annually.

$1 million additional fares from new rides taken as rail Frequent Service is restored are incorporated into the forecast FYs15-16.

**B. Ridership Growth: Bus Service**

Bus ridership is also projected to decline 2% in FY14 as riders continue to adjust to the September 2012 fare increase.

In future years, underlying ridership growth, the growth rate of ridership on current service is projected to be .5% in FY15, increasing in even increments to 1.2% over the next 20 years. Past 20 years, underlying bus ridership growth has been .42% annually.

Annual bus service increases are incorporated in the forecast to meet peak hour ridership demand and maintain schedule reliability. Bus service hours increase 0.8% per year. These service
increases generate 23 boardings per vehicle hour added, the average performance for similar service changes. The additional passenger revenue that results from the ridership and the increased operating costs that result from the service increase are included in the forecast.

$4 million additional fares from new rides taken as Frequent Service is restored are incorporated into the forecast FYs 15-16.

C. Ridership Growth: Westside Express Service (WES)

WES ridership is projected to grow 12% in FY14, 3% in FY15, 2.5% in FY16, 2.0% in FY17 and subsequent years. WES is carrying standing loads on some trips. The purchase two additional diesels multiple units (commuter rail cars) and additional WES service have been added to the forecast.

D. Ridership Growth: ADA Complementary Paratransit or “LIFT”

Future LIFT ridership growth is based on the state’s population forecast by age for the tri-county area. About 30% of LIFT trips are made by individuals who are over age 70; their ridership is assumed to increase at the same rate of growth in elderly population as forecast by the state of Oregon. About 70% of LIFT trips are made by riders who are under age 70. Their ridership is assumed to grow with the growth in total population as forecast by the State of Oregon through 2030.

TriMet is increasing the LIFT ADA paratransit fare $.30 a year until the fare is equal to the fixed route adult fare. To that end, the fare was increased from $1.85 to $2.15 April 2012 to $2.45 April 2013 and to $2.50 April 2014. LIFT passes are priced at 32 cash trips per month. LIFT fares increase with CPI in future years. The additional revenue from the LIFT fare increases is incorporated into the forecast.

This increase in LIFT fares reduces projected demand for LIFT ridership, which is incorporated into the Accessible Transportation Program (ATP or LIFT) expenditure forecast.

E. Ridership Growth: Portland-Milwaukie Light Rail Project (PMLR)

In FY16, the opening year, Portland-Milwaukie Light Rail is projected to carry 17,000 average weekday boardings. Fares are projected to generate approximately $5.1 million first twelve months of PMLR operations.

In future years, PMLR ridership grows at the same rate as existing MAX lines. Annual ridership is calculated by multiplying forecast weekday boardings by 327 (historical MAX annual ridership divided by MAX weekday ridership). Estimated 4,400 daily bus boardings will be diverted to the Portland-Milwaukie Light Rail Line. The resulting bus passenger revenue loss is accounted for in the forecast.

Fare Agreements and Programs

TriMet has a low income fare program of $1,300,000 a year to provide fares to help low income individuals and families afford the fare after the September 2012 fare increase. The forecast assumes the program results in a reduction of projected passenger revenues of $500,000 a year beginning in FY14 increasing with the average fare in subsequent years. The forecast assumes that
most (60%) of the trips made with low income fares would not have been made otherwise, reducing the passenger revenue loss.

TriMet and the Portland Public Schools (PPS) provide free fares for PPS high school students during the school year. Total cost (lost revenue) of the program is $3.6 million. PPS pays TriMet $.8 million and TriMet subsidizes the remaining $1.8 million each year.

TriMet fare survey data indicates that the value of boardings made on Streetcar with TriMet passes is about $1.2 to $1.5 million a year. TriMet will begin to pay the City of Portland for the trips made on Streetcar with TriMet passes beginning in FY16, which the City is recognizing as partial payment in fulfillment of the Master Agreement. Electronic fare will simplify the Streetcar fare reciprocity calculations as well as insure their accuracy.

F. Conclusions

The result of the above assumptions is an average annual passenger revenue growth rate of 4.1% per year between FY13 and FY25. This growth rate reflects annual fare adjustments for inflation, passenger revenue from the proposed Portland-Milwaukie Light Rail, electronic fare payment and annual increases in bus and rail service.

2. Other Operating Revenues

Other Operating Revenue includes a variety of smaller continuing funding sources.

Most sources of Other Operating Revenue are estimated to increase 3% per year throughout the forecast period. Notable revenue sources include:

- **Revenues from TriMet’s reciprocal fare arrangement with C-TRAN**, the Vancouver, Washington transit agency: under the arrangement C-TRAN pays TriMet 50% of its All Zone pass revenue. Full reciprocity will begin after electronic fare. (FY15 estimate: $208,000)

- **Advertising Revenues**: The forecast incorporates revenues from the new seven year advertising contract, which began October 2013. In the initial contract year, revenues from advertising are down $2.4 million; however, the decrease was expected. In subsequent years, advertising revenues increase 3.0% per year on average. (FY15 estimate: $3.9 million)

- **City of Wilsonville contributions toward WES operations**: under the Intergovernmental Funding Agreement Wilsonville to Beaverton Commuter Rail Project, this contribution is capped at $300,000 a year for the first five years of operation and pro-rated for a partial first year; the contribution increases with CPI beginning February 2014. (FY15 estimate: $313,000)

- **City of Portland reimbursement for Mall Maintenance**: City payments are expected to increase 3% in FY15 and 1% per year thereafter. Costs are included in Facilities Maintenance department. (FY15 estimate: $776,000)

- **As an employer that provides a prescription benefit to Medicare eligible retirees, TriMet is eligible for Medicare Part D Drug Reimbursement.** (FY15 estimate: $450,000)

- **City of Portland reimbursement for Streetcar personnel costs.** (FY15 estimate: $5.6 million)
**Miscellaneous Revenues** include a variety of revenues from year to year, generating $2.0-$2.5 million a year on average. TriMet received a one-time $750,000 settlement from its payment card bank, which increased FY12 revenues. (FY15 estimate: $2.5 million)

### 3. Payroll Tax Revenues (Employer and Municipal)

**Tax Rate**

Payroll taxes are TriMet’s primary source of revenue for operations. As of January 1, 2014 the tax rate will be 0.7218% tax ($7.218 per $1,000) on the gross payrolls of private businesses and municipalities within the district. The payroll tax is dedicated to TriMet. The employer/municipal payroll tax accounts for 95% of payroll tax revenues and approximately 50% of continuing operating revenues.

The Oregon Legislature (HB 3037) gave the TriMet Board the authority to increase the payroll tax for employers and self-employed individuals from 0.6218% to 0.7218% over a ten-year period. The TriMet Board approved the increase at their August 11, 2004 meeting. The payroll tax rate has been increased 1/100th of a percent each year between January 1, 2005 and January 1, 2014.

Payroll tax revenues in the forecast are the cash receipts received between July 1 and June 30 of each year. These are different from what is reported in the audited financial statement. Audit basis payroll tax revenues are recognized in the period they are earned (first quarter fiscal year cash receipts are earned/recognized in the fourth quarter of the prior fiscal year, etc.) and include an estimate of revenues earned but not received (receivables) during that period.

Rate increase revenues are paying for Green Line MAX, WES, Portland – Milwaukie MAX operations and debt service, and are partially paying for Streetcar to Riverplace, Gibbs, Lowell and OMSI and LIFT operations and a portion of Frequent Service restoration. After PMLR, no other services are affordable with the revenues generated from this rate increase.

In its 2009 session, the Oregon Legislature (SB 34) gave the TriMet Board the authority to increase the payroll tax rate for employers and self-employed individuals from .7218% to .8218%. The legislation specifies that the increase must be phased in over ten years, cannot be implemented before January 1, 2010, no annual increase can exceed 0.02% and the TriMet Board must first determine that the economy in the district has recovered to an extent sufficient to warrant the increases. Rate increase revenues will be dedicated to service increases and capital investments. The forecast does not include revenue from the second rate increase or the additional expenditures it will eventually pay for.

**Payroll Tax Forecast**

The payroll tax is a stable and growing revenue source. On average, payroll tax revenues escalate at a rate that exceeds the rate of inflation. During recessions payroll tax revenues decline as employment declines. However, in non-recessionary years this source has grown at a rate greater than inflation, supplying on average real growth in revenues.

The underlying growth of payroll tax revenues is directly related to growth in employer payrolls within the district, which in turn is caused by employment growth and wage inflation.
ECO Northwest provides TriMet with a payroll tax revenue and economic forecast for the current fiscal year and the next three years.

The results of their forecasts are shown below. The adjusted forecast payroll tax revenue and inflation factors are used in TriMet’s financial forecast. The tables below include revenues from all three payroll tax sources: employer/municipal tax, self-employment and state in lieu tax.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Forecast</th>
<th>% Chg</th>
<th>Tax Rate Increase</th>
<th>Underlying</th>
<th>ECO NW CPI Forecast</th>
<th>Real Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>227,036</td>
<td>4.81%</td>
<td>1.46%</td>
<td>3.35%</td>
<td>2.40%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2013</td>
<td>237,958</td>
<td>6.81%</td>
<td>1.51%</td>
<td>5.30%</td>
<td>1.81%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2014</td>
<td>254,169</td>
<td>6.81%</td>
<td>1.62%</td>
<td>5.19%</td>
<td>1.80%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2015</td>
<td>270,001</td>
<td>6.23%</td>
<td>1.05%</td>
<td>5.18%</td>
<td>1.80%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2016</td>
<td>287,094</td>
<td>6.33%</td>
<td>0.00%</td>
<td>6.33%</td>
<td>1.90%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Compared to averages of the past 15 and 20 year periods, real growth (inflation and tax rate adjusted growth) projections in the forecast look high, but are normal for a post recession period. Revenue growth always reverts to the mean over time. FY17 and subsequent years average annual payroll tax revenue growth in the forecast is 4.76%, with 2% inflation adjusted (real) growth, which corresponds to the following average annual assumptions of growth in employment, inflation and productivity:

1.012 (projected regional employment growth) x 1.027 (inflation) x 1.008 (productivity) = 1.0476

Average annual rate of inflation adjusted and rate adjusted payroll tax growth last 20 years it has been 2.2% (1.34% average annual employment growth and .9% CPI adjusted pay per employee). Last 15 years it has been .9% (.46% average annual employment growth and .41% CPI adjusted pay per employee)

New revenues from increases in the payroll tax rate are discussed in Section 10 below.

4. Self-Employment Tax Revenues

In addition to the payroll tax, TriMet levies a 0.7218% (as of January 1, 2014) tax on the net income earned within its district by self-employed individuals. TriMet has adopted the federal definition of net earnings from self-employment.

Revenues from this sources were $12.4 million in FY13, making up about 4.5% of total payroll tax revenues. Revenues from this tax are shown in the forecast on a cash basis. These are different from what is reported in the audited Financial Statements.

Self-employment transit tax revenues tend to increase at very high rates during times of economic growth and decrease more than the employer payroll tax during recessions.

Self-employment tax receipts increased 19.8% in FY06 (up $2 million) and 21.3% in FY07 (up another $2 million) after growth of 4.0% in FY04 and 5.0% in FY05. Self-employment tax revenues decreased 2.7% in FY08, decreased 7.7% in FY09, increased 1.7% in FY10 (a .2% decline net of the
tax rate increase, decreased .7% in FY11 (a 1.8% decline net of the tax rate increase), increased 8.3% in FY12 and 9.6% in FY13 as the local economy began to recover.

ECO Northwest is forecasting underlying growth in of 7.9% in FY14, 5.7% in FY15, and 6.5% in FY16. Long term growth rates are forecast to average 3.7% consistent with the average growth rate of self-employment tax revenues of the last for the last 20 years.

New revenues from the increases in the self-employment tax rate are discussed below.

5. State-In-Lieu of Tax Revenues

State in lieu revenues are just 1% of total payroll tax revenues and were $2.7 million in FY13, down 5.7%. State of Oregon government offices located within TriMet's district boundaries are not subject to the employer/municipal payroll tax. Instead, they make "in lieu of" tax payments to TriMet based on 0.6218% of their gross payrolls. Between FY83 (when the program was instituted) and FY95 the growth rate of state in lieu receipts was 8.24% per year. In the next two fiscal years there were substantial decreases in these receipts due to the conversion of Oregon Health & Science University (OHSU) one of Oregon’s largest employers, from a State agency paying in-lieu of tax to a local government employer paying payroll tax. State-in-lieu of revenues grew at an average annual rate of 4.0% last ten years.

ECO Northwest projects state in lieu revenues will increase 4.3% in FY14, 5.1% in FY15 and 5.8% in FY16. In subsequent years, state in-lieu revenues grow 4.0% per year.


Grants and capital project reimbursements include a variety of grant reimbursements from local, state and federal sources.

Federal Formula Grants: Federal formula funds in total constitute about 15% of TriMet's continuing resources for operations.

In addition to approximately $51 million of Section 5307 Urbanized Area and Section 5337 State of Good Repair funds, TriMet receives $16 million dollars a year in federal highway program funds through the Surface Transportation Program (STP) and Congestion Mitigation Air Quality (CMAQ) Program to support the regional rail program, passenger amenity improvements and Regional Transportation Options.

MAP-21: July 2012 Congress passed MAP-21 (Moving Ahead for Progress in the 21st Century) reauthorizing the transportation program for two years. The authorizing legislation is funded with general fund transfers plus 10 years of revenue increases and spending cuts in other programs. Future appropriation levels, after the fiscal cliff and when current balances in the Mass Transit Account are depleted in early FY15, remain uncertain. The forecast assumes that Congress continues to appropriate the amounts authorized by MAP-21 and finds long-term funding to continue the federal transit program at MAP-21 levels increased annually for inflation.

The most significant changes to the transit program in MAP-21 are the elimination of 5309 bus discretionary funds, the elimination of 5316 Jobs Access and Reverse Commute program and the transformation of the Fixed Guideway Modernization program with additional funding into the
State of Good Repair (SGR) program to bring the nation’s rail systems up to a state of good repair. Except for New Starts, nearly all programs are now distributed by formula.

MAP-21 increased TriMet’s State of Good Repair (SGR) funding (the old Fixed Guideway Modernization program) $5.6 million in FY13 over FY12’s Fixed Guideway Modernization appropriation of $11.8 million for a total of $17.4 million. Additional SGR revenues will pay for additional rail capital maintenance that had not been previously incorporated into the forecast. The forecast assumes the higher SGR revenue and a like amount of offsetting additional expenditures for rail SGR continue throughout the forecast.

State of Good Repair revenues are projected to remain $17.4 million through FY16 then increase 2.7% annually with inflation. In addition:

- SGR funds increase 20% in FY18 when WES and Green Line MAX are 8 years old
- SGR funds increase 5% in FY21 when Eastside Streetcar is 8 years old
- SGR funds increase 10% in FY26 when PMLR is 8 years old

Urbanized area formula funds, which were $34.6 million in FY12, and $34.6 million in FY13 are projected to be $34.6 million in FY14, FY15 and FY16 growing 2.7% per year subsequent years.

Under MAP-21 TriMet will receive funds for bus purchases on a formula basis. Named 5339 Bus and Bus Facilities, TriMet’s FY13 appropriation was $2.7 million. The forecast assumes an additional $2.7 million per year in FY14, FY15 and FY16 growing 2.7% annually in subsequent years.

The Job Access Reverse Commute program, which provided approximately $600,000 a year to TriMet via formula to provide transportation for low-income individuals, has been eliminated. TriMet is spending down the remaining JARC funds and reviewing which programs funded by JARC are worth continuing.

The New Freedom program has been folded into an expanded 5310 Elderly and Disabled Transportation program, which funds service to address the transportation needs of elderly and persons with disabilities. TriMet had been receiving about $400,000 a year from New Freedom to provide community-based transportation services for elders and people with disabilities through Ride Connection. MAP-21 increased this allocation to about $1.2 million a year. Additional funds maintain Ride Connection service levels.

MTIP and STIP Funds: The following operating funds, which are incorporated in the finance plan, were provided to TriMet by Metro, the Metropolitan Planning Organization (MPO) through the Metropolitan Transportation Improvement Program (MTIP). MTIP funds are Highway Program funds, either Congestion Mitigation or Air Quality (CMAQ) or Surface Transportation Program (STP) funds, which are by law can be “flexed” for use in transit programs.

June 2011, TriMet issued $155.66 million Capital Grant Receipt Revenue Bonds. As provided by the “Revised and Restated Intergovernmental Agreement to Provide Flexible Funds for the Milwaukee LRT, Commuter Rail, Portland-Lake Oswego Transit and Southwest Corridor Projects” (IGA) the bonds are secured by a stream of Metropolitan Transportation Improvement Program (MTIP) funds pledged to TriMet by Metro for the listed projects. TriMet pays the local match at no additional cost to the district with a preventive maintenance fund exchange.
Any decreases in the federal Highway Program are very unlikely to be high enough to reduce the availability of MTIP funds for debt service. Via a formula written into MAP-21, the State distributes $35 million a year in STP and CMAQ funds to Metro. The IGA revenues represent 45% of the total distributed to Metro. Federal highway STP funds to Oregon would have to drop 55% before MTIP funds to pay debt service would have to be reduced.

Metro provides CMAQ funds (and the related expenses) for TriMet’s Transportation Demand Management program, through the Metropolitan Transportation Improvement Program (MTIP) process.

BABs subsidy payments: TriMet issued $49.550 million of bonds October 2009. Most of the bond proceeds were used to reimburse TriMet for past expenditures on Commuter Rail and the 2009 bus purchase. The bond proceeds will also be used to partially pay for the replacement of the bus and rail communications system.

For a portion of the borrowing, TriMet issued Build America Bonds (BABs). This new financing option is the product of the American Recovery and Reinvestment Act (ARRA). Unlike the tax-exempt interest associated with traditional municipal bonds, interest paid by issuer of Build America Bonds is treated as taxable income to holders of the bonds. But state and local government issuers can use one of two tax benefit options for their Build America Bonds. By issuing Direct Payment BABs, TriMet will receive periodic payments from the federal government in an amount equal to 35.0% of the interest paid to bondholders. The subsidy payments have been reduced 5.7% by Congress under the 2011 Debt Reduction Act.

TriMet uses its federal formula grants for preventive maintenance. However, there are many other grants that are awarded to TriMet expressly for capital improvements and purchases. A partial list includes:

- Appropriations from the ODOT's Special Transportation Fund (STF) Discretionary Grant program for Accessible Transportation (LIFT) vehicles. The Special Transportation Fund Discretionary Grant program has provided funding through the Oregon Department of Transportation for the vehicle and other capital needs of elderly and disabled transportation programs throughout the state. The source of this funding is the allocation of federal highway “flexible” funds to elderly and disabled transportation providers.

  The funds are distributed statewide via a population based formula. The tri-county area receives 37.0% or $9.4 million a biennium. At the local level, the funds are again distributed to community-based, private non-profit providers and five (5) public transit providers. Through this process TriMet receives funds for LIFT vehicle replacements. TriMet expects to receive about $2.5 million a biennium for LIFT vehicle replacements or LIFT preventive maintenance in the future, declining 2.0% per year throughout the forecast.

- Annual CMAQ/STP grants for bus stops and Streamline improvements through the MTIP process. These funds are offset by the program’s costs.

- Department of Homeland Security. These fund a series of TriMet system security improvements included in the Capital Improvement Plan. Through FY09, Department of Homeland Security funds do not require local match, but agencies electing not to match DHS funds must reduce their FY08 and FY09 DHS awards by 20%. TriMet has elected to take the reduction. The security projects would be unaffordable for TriMet without the DHS funds.
7. Interest Earnings

TriMet earned 0.36% on investments (excluding pension and deferred compensation) in FY11, 0.22% FY12, 0.5% FY13, 0.5% FYs14-16 1.5% FY17, 1.8% FY18, 2.0% FY19 and subsequent years. Interest earnings do not include earnings on the local share light rail project revenues, which are restricted in use to capital expenditures. Interest earnings on bond revenues are contributed to the bonded project’s costs.

8. Accessible Transportation Program (ATP) Funds

Funds incorporated in this line item come from state and federal sources and are dedicated to ADA paratransit (LIFT). A detailed build-up of these revenues is provided in Table 6.

ODOT allocates state_cigarette_tax_and_other_fund proceeds appropriated to the Special Transportation Fund (STF) to transit districts and counties by formula. In FY14 and FY15, the regional allocation is $7.6 million, or $3.8 million a year. Funds are shared by TriMet, Ride Connection, City of Sandy, City of Wilsonville, City of Canby, and SCTD to support elderly and disabled transportation. This has been a flat/declining source of funds. The forecast assumes TriMet receives $2 million of the $7.6 million total.

These revenues support many private non-profit organizations under the Ride Connection umbrella that provide rides to elderly and people with disabilities. The great majority of these individuals would otherwise be eligible for the more expensive LIFT ADA paratransit service.

Through the state’s “local match project” TriMet receives federal matching funds for rides provided by LIFT to take individuals with development disabilities to work. Revenues will be approximately $3.6 million in FY15.

9. One-Time-Only Revenues and DMAP Reimbursement

Medical Transportation Program (DMAP) and Waivered Non-Medical Transportation revenues: DMAP revenues are used to fully pay the costs for the state’s Medicaid funded Medical Transportation Program (DMAP). These revenues fully offset TriMet’s costs so do not contribute to TriMet’s general operating cash flow. Both revenues and expenditures grow 3.5% per year.

This line also includes Title XIX funds and state Cigarette Tax funds TriMet receives to provide “waivered_non-medical” rides on LIFT on behalf of Multnomah County Aging and Disability Services. These are door-to-door paratransit rides to services and activities for case-managed individuals who would otherwise be in a nursing home. All of the individuals in this program would be ADA paratransit eligible, so the program pays for rides that would otherwise be paid for by TriMet. Ride Connection operates the same program for Washington County and Clackamas County operates its own program.

Occasionally, TriMet participates in funding exchanges that are approved by the region and the TriMet Board. Funding exchange revenues have no financial impact on the district as funds are offset by a cost of the same amount. Funding exchanges, which primarily support Metro’s Transit Oriented Development (TOD) program, are assumed each year of the forecast, as is the expenditure.
Project Funds reimburse TriMet for project expenses incurred by TriMet operating departments, such as Startup and Force Account costs, pension and OPEB costs attributable to Project employees. Startup and Force Account costs are offset by additional expense so they do not impact the TriMet General Fund.

Columbia River Crossing: TriMet staff provides planning and design services to the Columbia River Project, which are fully reimbursed by the Project.

Southwest Corridor Alternatives Analysis: With Metro as the lead, TriMet staff provides planning and design services to the Southwest Corridor Project, for which Metro reimburses TriMet. Also included are various settlements and refunds.

10. Additional System Revenue: Payroll Tax Rate Increase

The Oregon Legislature gave the TriMet Board the authority to increase the payroll tax for employers and self-employed individuals from 0.6218% to 0.7218% over a 10-year phase-in period. The TriMet Board approved the increase at their August 11, 2004 meeting. The payroll tax rate has been increasing at 1/100th of a percent each year for 10 years beginning January 1, 2005.

In its 2009 session, the Oregon Legislature (SB 24) gave the TriMet Board the authority to increase the payroll tax rate for employers and self-employed individuals from 0.7218% to 0.8218%. The legislation specifies that the increase must be phased in over ten years, cannot be implemented before January 1, 2010, no annual increase can exceed 0.02% and the TriMet Board must first determine that the economy in the district has recovered to an extent sufficient to warrant the increases.

The forecast doesn’t assume the increase in the tax rate to .8218%.

11. Total Revenues

Based on the principles and assumptions described above, total continuing revenues, including the payroll tax rate increases, are projected to grow at an average annual rate of 4.2% annually between FY13 and FY25.

B. System Operating, Maintenance and Capital Costs Assumptions

The FY14 Adopted Budget with updates provides the base year of the forecast. The forecast of future year expenses start with the base year forecast as explained below.

12. Collective Bargaining


In Oregon, represented transit workers and management are subject to “baseball style” binding arbitration. Following impasse, the parties select an arbitrator and submit final and best offers. The arbitrator selects only one last best offer package.
In July 2012, Arbitrator David Gaba issued a binding arbitration decision awarding TriMet its package proposal retroactive to December 1, 2009. The award included a healthcare plan design change that reduced costs modestly and a defined contribution plan that replaced the traditional pension plan for new union hires. The defined contribution plan has the same elements as the non-union defined contribution plan. TriMet implemented most elements of the arbitration award immediately.

In subsequent litigation, ERB ruled that TriMet legally proposed changes to health care plans that required employees to begin paying co-pays and other out-of-pocket health costs with the 90/10 health care plan, but ruled that TriMet could not retroactively recoup those costs back to Dec. 1, 2009. Instead they must be implemented only prospectively beginning September 1, 2012, which is how TriMet has implemented them.

As part of the original arbitration award, Arbitrator Gaba ruled that TriMet must refund $3.6 million in premiums that employees paid prior to the arbitration award. In addition, ERB ruled that TriMet must forgo $6.8 million in retroactive health care costs back to December 1, 2009. During mediation of this case, TriMet had already offered to forgo those costs.

TriMet and the ATU began labor negotiations for the next contract September 2013. The wage and active and retiree medical benefit proposal to the ATU is incorporated into the financial forecast.

13. Cost Inflation

The forecast uses ECO Northwest’s inflation rate in FY14 (1.8%), FY15 (1.8%) and FY16 (1.9%) for most expenses. It is important to use ECO Northwest’s inflation estimate in the forecast because the same inflation rates underlie ECO Northwest’s payroll tax growth rates.

In future years, a general annual cost inflation rate of 2.7% is assumed. Payroll tax and passenger fares (75% of TriMet’s revenues) grow at rates that assume an underlying rate of inflation of 2.7% as well. Higher rates of inflation are applied to health benefits costs.

Health care cost inflation has been lowered in the forecast for active and retiree health. Plan design changes as well as lower health cost inflation nationally have reduced expected cost inflation. The forecast assumes health care rates for the Status Quo 90%/10% union plan for active and pre-age 65 retirees increase 7% 2015 through 2017, then decrease in even increments to 4% over 20 years. The forecast assumes health care rates for the Proposed 80%/20% union plan for active and pre-65 retirees increase 6% 2015 through 2017, then decrease in even increments to 4% over 20 years. Medicare supplement plan rates that provide coverage equivalent to the 80%/20% plan design increase 5% 2015 through 2017, then decrease in even increments to 4% over 20 years.

14. Wages and Salaries

Management wages increase 0% in FY14, 2% in FY15, 2% in FY15. Future wage increases will depend on growth rate of health care costs and TriMet’s financial situation. However, the forecast assumes future wage increases will be 90% of CPI.

Union wages: a) Status Quo scenario with 3% annual union wage increases retroactive to December 1, 2012 and continuing each year in the future at the 3% rate b) Proposed--2% union wage increases in the FY15 and FY16. Future wage increases will depend on growth rate of health care
costs and TriMet’s financial situation. However, the forecast assumes future wage increases will be 90% of CPI.

15. Health Plans

Active and retiree health care costs increased 599% between 1993 and 2013; during the same period underlying payroll tax revenues grew just 167%. Between 2003 and 2013, active and retiree health care costs per full time equivalent employee (FTE) increased at an annual rate of 9.4%, while underlying payroll tax revenues grew 3.8%. This is unsustainable.

**Status Quo:** Throughout the forecast, TriMet union employees and retirees in the PPO plan pay a 10% co-insurance; deductibles of $150 employee/$450 family. Employees’ prescription costs are $10/25%. Medicare eligible retirees remain in current Medicare supplement plan with $5 co-pays. Union employees and retirees pay 0% of the monthly cost of health benefits. The forecast includes the projected costs of the Affordable Care Act Excise Tax on high cost plans beginning in FY18.

**Proposed:** Union benefits same as non-union health care benefits starting July 1, 2014. Since January 2012, TriMet non-union employees and retirees in the PPO plan pay a 20% co-insurance; deductibles of $300 employee/$900 family. Employees’ prescription costs are $10/25%. In addition, TriMet will continue to offer employees a lower cost Kaiser HMO plan with $10 co-pays, same as non-union employees can receive. All employees and retirees pay 6% of the monthly cost of health benefits. The forecast includes the projected costs of the Affordable Care Act Excise Tax on high cost plans beginning in FY18.

First full year of active employee health care cost savings compared to the status quo are $3.2 million FY15, $3.8 million FY16, $4.5 million FY17, $5.2 million FY18.

16. Workers Compensation

Workers Compensation costs are projected to be $4.6 million in FY14, $1 million below budget. Future costs are projected to grow with health care inflation.

17. Pensions

TriMet is one of the few public sector agencies in Oregon not in PERS, the Public Employee Retirement System managed by the State of Oregon. By comparison, the management Defined Benefit and union Defined Benefit pension plans provide benefits to TriMet employees with 30 years of service that are roughly comparable to PERS Tier 2 or Tier 3, the reformed PERS, with the exception of the retiree-medical benefits, which are far more generous than state retiree health benefits.

The union Defined Benefit plan payment to retirees is calculated based on years of service for all union employees, regardless of pay rate or earnings.

The management Defined Benefit plan is based on final average salary and years of service.

In 2003, TriMet closed its management defined benefit plan to new employees. The remaining weighted average working life of employees remaining in the plan is 5 years.
Non-union employees hired after April 27, 2003 are part of a defined contribution plan to which TriMet contributes 8.0% of salary.

As of August 1, 2012, the union DB plan is closed to new employees. Also as of August 1, 2012, the union DB plan cost of living increase (COLA) is tied to inflation for already retired employees and is 90% of CPI for new retirees (management retirees receive 90% of CPI). New employees are in a fully funded DC plan, with the same features as non-union employees’ DC pension plan. The weighted average working life of employees remaining in the defined benefit plan is 10.4 years.

As management and union employees retire, their replacements are in the defined contribution plan and DB plan normal costs decrease commensurately. The forecast incorporates the retirement of 19 management employees per year, replaced with 19 management employees in the DC plan. The additional costs of the DC plan are included in the forecast.

The forecast uses Milliman’s forecast of union DB plan retirees and benefit payments. As union employees retire, they are replaced with a like number of employees in the union DC plan. The additional costs of the union DC plan are included in the forecast as the normal costs to fund the pension benefits of the employees remaining in the DB plan are reduced.

Best practice pension funding is to pay unfunded pension liabilities or pension “debt” over the remaining working life of employees in the plan to ensure there are sufficient assets in a trust when employees retire and to preserve intergenerational equity of costs (i.e. that future generations of employees and taxpayers are not paying for benefits earned by former employees thus reducing essential services and compensation to pay benefits earned in the past).

Both the union and non-union pension plans are under-funded. The non-union plan is 68% funded with an outstanding obligation of $34 million (assumes investments return 7%). The union plan is 59% funded, with an outstanding obligation of $239 million. (Assumes investments return 7.75%. The fifteen year average rate of return in the union plan has been just 7%). Best practice recommended pension funded ratio is 100% at the end of a business cycle expansion and 80% at the bottom of a recession.

To insure full funding of its defined benefit pensions, TriMet has incorporated into the forecast the cost of funding the non-union pension debt over a closed 10 year period assuming 6.5% return on investments; and the union pension debt over a close 15 years to 5 years open assuming 7.25% return on investments in year one, decreasing in even increments to a 7% return over the next 15 years.

18. Diesel Fuel

FY14 diesel fuel costs are projected to be $1 million under budget in FY14. Fixed route bus diesel fuel costs have been reduced $.15/gallon in the forecast from $3.32/gallon to $3.17/gallon, reducing costs about $1.0 million a year. Diesel fuel costs grow with inflation in future years.

19. Electricity and Other Utilities

Electricity rates are projected to increase with inflation each year throughout the forecast. Historically, over the very long term technology improvements have resulted in energy costs that increase at rates lower than inflation.
20. Other Materials and Services

Other materials and service costs are projected to increase with general cost inflation, explained above.

The result of all of the above forecast assumptions is a weighted average personal services and materials and services inflation rate each year. Excluding capital and debt service, this rate averages 4.2% per year in the Status Quo forecast and 3% per year in the Proposed forecast.


Bus Operations: Existing Services includes costs for Bus Transportation and Bus Maintenance, including diesel fuel. The FY14 Bus Operations cost estimate is based on TriMet's FY14 Adopted Budget. To project expected Bus Operations costs for FY15 and future years, increases and reductions in personnel and materials and services costs based on the above-described assumptions were made for the Status Quo and Recommended Plan forecasts.

This process is repeated for each year in the forecast period.

A multi-year forecast of materials and services needed for bus component replacement (overhauls) is incorporated in the capital and operating project forecast.

22. Light Rail Operations: Existing Services

Light Rail Operations existing services budget includes costs for Rail Transportation, Equipment Maintenance, and Maintenance of Way (MOW). The FY14 Rail cost estimate is based on TriMet's FY14 Adopted Budget. To calculate expected Rail Operations costs for FY15 and future years, changes in personnel and materials and services costs based on the above-described inflation assumptions were made.

This process is repeated for each year of the forecast.

Long term capital and operating maintenance requirements are forecast by Rail Equipment Maintenance and MOW engineers and incorporated in the forecast.

Light rail vehicle rehabilitation and overhaul costs are included in this line. TriMet's rail vehicles are maintained in “as-new” condition throughout their life with a progressive overhaul program. Unlike most other rail agencies, TriMet's rail vehicles are not removed from service for an extensive period for overhaul. The overall LRV maintenance program consists of continual program of preventive maintenance, running repairs, component rebuilds, progressive overhaul, modifications (product improvements) and equipment engineering analysis and training. These six programs require about 1,000 labor hours per year per vehicle. An additional 5 LRV mechanics are added into the forecast in FY16 for increased maintenance.

A multi-year forecast of materials and services needed for light rail vehicle (LRV) component replacement (overhauls) is incorporated in the capital and operating project forecast with $3.5 million added in FY14 and $3.5 million added in FY15 to correct the backlog of overhauls.

Most of the maintenance of way (MOW) preventive maintenance, corrective maintenance, and overhaul needed to maintain the light railway in “as new” condition are included in the operating
budget. Track is maintained as prescribed by the industry for a Class 4 Railroad. Signal equipment is replaced and maintained to Federal Railroad Administration rules/regulations and Oregon PUC requirements. Overhead centenary system is maintained to IEE (International Electrical Engineers), industry standards, and equipment manufacturer requirements. Substations are maintained to industry standards and equipment manufacturer requirements. Three MOW mechanic apprentices are added to the forecast in FY15 for increased maintenance. As forecast by MOW, one MOW mechanic is added to the forecast each year FY16-FY20 to address additional maintenance requirements as the system ages. See section 23. Maintenance Apprenticeships for Anticipated Retirements.

Light rail maintenance of way such as rail grinding and surfacing, maintenance and repair of rail operating and customer facilities that is not included in the Rail Maintenance operations is included in the capital improvement forecast. Requirements are reviewed and the forecast is updated annually.

23. Maintenance Apprenticeships for Anticipated Retirements

The forecast includes an additional 16 apprenticeships for light rail and facilities maintenance on a one time basis stepping down over the next four years to train maintenance workers in advance of anticipated retirements. Amounts added to the forecast (one-time-only) are: FY16: $1.8 million, FY17: $1.4 million, FY18: $1.0 million, FY19: $.5 million.

24. Commuter Rail Operations

Commuter Rail Operations budget includes the operations and capital maintenance costs of the Commuter Rail line. Commuter Rail service is provided during a three-hour morning and a three-hour afternoon commute period each weekday, except for those weekdays designated as a holiday by TriMet.

Responsibility for operations of the Commuter Rail line is divided as follows between TriMet and the Portland & Western Railroad, a short-line rail operator providing freight service in the Commuter Rail corridor:

- TriMet maintains vehicles and facilities (i.e. stations, park and rides).
- Portland & Western RR operates Commuter Rail trains, provides dispatch functions and maintains the right-of-way.

Commuter Rail fuel costs are consistent with the diesel fuel cost forecast.

Commuter Rail operations forecast includes the cost of heightened maintenance as the system ages. Portland & Western RR provided the cost estimates.

25. Streetcar Operations: Existing Services

Streetcar operations budget includes the cost of TriMet operations, mechanics and superintendents for Portland Streetcar. It also includes TriMet's annual contribution to the City of Portland for
Streetcar operations. The City of Portland reimburses TriMet for personal services costs. The reimbursement is included in Other Operating Revenue. In FY15, TriMet’s contribution will be approximately $4.2 million.

TriMet and the City have entered into a Streetcar Master Agreement under which TriMet's share of Streetcar operations increases over time, while the City's share decreases. In return, the City is responsible for Streetcar capital maintenance as the system ages. The increases to TriMet's contributions in the forecast are:

<table>
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<th>millions</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
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<td>2.65</td>
<td>3.34</td>
<td>4.13</td>
<td>4.26</td>
</tr>
</tbody>
</table>

TriMet’s fare survey indicates $1.2 million to $1.5 million annual value of boardings made on Streetcar with TriMet passes. About 40% of the increase in TriMet's contribution in the above table is fare reciprocity.

### 26. Field Services: Road and Rail Supervision, Dispatch and Control, Fare Inspection

Field Services budget combines bus dispatch, rail control, and bus and rail supervisors. The FY15 Field Services budget is based on TriMet’s FY14 Adopted Budget. To calculate expected Field Services costs for FY15 changes in personnel and materials and services costs based on the above-described assumptions were made. This process is repeated for each year in the forecast period. In FY15 three additional field supervisor specialists are added for re-current training and to develop specialists capable of starting light rail cars that have stopped operating in service.

### 27. Facilities

The FY14 Facilities department cost estimate is based on TriMet's FY14 Adopted Budget. To calculate expected Field Services costs for FY15, changes in personnel and materials and services costs based on the above-described assumptions were made. See section 23. Maintenance Apprenticeships for Anticipated Retirements.

This process is repeated for each year in the forecast period.

### 28. Accessible Transportation Program (ATP or “LIFT”)

ATP includes the transportation and maintenance costs of complementary paratransit services provided for people with disabilities.

The ADA complementary paratransit (LIFT) forecast includes the cost of current service levels and the cost of estimated service growth. LIFT provides door-to-door transportation for individuals who are unable to access fixed route services due to a disability.

Because ADA paratransit rides are individually scheduled, demand for paratransit is proportional to increases in costs. FY15 and beyond, costs are the product of the resulting rate of growth of ridership) and the inflation rate applicable to the costs of such services.

LIFT is an unfunded mandate of ADA. TriMet receives no federal funding for ADA paratransit. Transit agencies have to provide all ADA paratransit (door-to-door) rides requested by eligible
individuals, without regard to district’s financial situation. LIFT costs per ride are about 10 times the cost of a fixed route ride.

LIFT costs grew at double digit rates annually until FY08, when they began to moderate. TriMet has reduced the growth rate growth of LIFT with the following actions

- 2003: RideWise fixed route travel training begins ($4 million annual savings).
- 2007-2009:
  - Low-cost/no-cost services (donated vehicle, vehicle sharing, Ride Together programs) begin
  - Additional neighborhood shuttles for elderly and disabled
- 2010: in-person LIFT eligibility assessments begin
- 2012: LIFT fare increases $.30 a year until it reaches fixed route All Zone fare.
- September 1, 2012 TriMet reduced the evening and weekend LIFT ADA paratransit service.

Future LIFT growth is based on the state’s population forecast by age for the tri-county area. About 30% of LIFT trips are made by individuals who are over age 70; their ridership is assumed to increase at the same rate of growth in elderly population as forecast by the state of Oregon. About 70% of LIFT trips are made by riders who are under age 70. Their ridership is assumed to grow with the growth in total population as forecast by the state of Oregon.

Forecast assumes that the new Coordinated Care system for Medicaid transportation won’t result in an increase in an increase in LIFT costs.

29. Accessible Transportation - DMAP

DMAP or Department of Medical Assistance Programs includes the costs of Medicaid Transportation and Waivered Non-Medical Transportation programs. The expenses are forecast to increase 3.5% per year, as are program revenues. Since these expenses are fully reimbursed by the federal Title XIX program and the State of Oregon, growth rates do not affect TriMet’s financial condition.

30. Security and Operations Support

The FY14 cost estimate for Operations Administration, Operations Support and Security is based on TriMet’s FY14 Adopted Budget. To calculate expected Security and Operations Support costs for FY15, increases and reductions in personnel and materials and services costs based on the above-described assumptions were made. The process is repeated for each year of the forecast.

31. Capital Projects Development

Costs for the Capital Project Development department are based on the FY14 Adopted Budget. To calculate expected Capital Projects costs for FY14, increases and reductions in personnel and materials and services costs based on the above-described assumptions. This department is responsible for bus stop development and operating and capital projects planning, design and engineering.

32. Funding Exchanges
TriMet enters into funding exchanges with its transportation partners occasionally. These are an exchange of federal STP funds for TriMet General Funds. These vary from year to year and are offset by a like amount of revenue.

33. General & Administration

Costs include the Office of the General Manager, Finance and Administration, Human Resources/Legal Services, Marketing and Customer Service, Operations Administration, Planning and Scheduling. FY14 costs are based on TriMet's FY14 Adopted Budget. To calculate expected General Administration costs for FY14, changes in personnel and materials and services costs based on the above-described assumptions were made. This process is repeated for each year in the forecast period.

In FY17, 10 light rail engineers/other staff, currently paid by the Portland –Milwaukie light rail project are incorporated into the General Fund budget as are additional costs of the Harrison Street lease.

34. Retiree Medical (Other Post Employment Benefits)

TriMet’s disbursements for retiree medical costs, also known as OPEB or Other Post Employment Benefits, increased at an average annual rate of 15% per year last ten years. This rate of growth combines the rate of growth of retirees’ medical costs and includes union and non-union plans and pre and post age 65 benefits for retirees.

TriMet employees are fully vested in retiree medical benefits after 10 years of service at age 55, and the benefits received as an active employee continue after retirement fully subsidized for the employee and dependents. At age 65, union medical benefits are secondary to Medicare, but TriMet reimburses retired employees’ for the cost of Medicare Part B monthly. TriMet provides a Medicare supplement plan for the retiree and spouse.

As of May 1, 2009, new non-union employees who complete ten years of credited service and retire at or after age 55, are eligible for retiree health care benefits comparable to the health care plan offered to active employees but the retiree must pay the entire cost of the coverage provided.

The District’s OPEB liability is an amount actuarially determined in accordance with accounting standards as required under GASB Statement No. 45. The ARC (annual required contribution) represents a level of funding, which if paid on an ongoing basis, is projected to cover benefits earned (normal costs) each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The July 2012 arbitration decision reduced the retiree medical unfunded liability just 5.4%. To fully fund the post arbitration benefit on an annual basis over 30 years, TriMet would have to pay $78 million a year to a benefit trust. Of this amount, TriMet pays just $17 million to pay current retirees premiums. The OPEB benefit is 0% funded (0% of benefits earned have been set aside to fund a trust during the working life of each employee).

Instead, TriMet is paying medical premiums of retired employees on a pay-as-you-go (PAYGO) basis. PAYGO retiree medical costs have increased 15% per year last ten years. Post arbitration Status Quo retiree medical PAYGO costs are projected to grow 3% FY15, 11% FY16, 11% FY17, 9%
FY18, 8% FY19, significantly above inflation. This is due to increasing numbers of retirees and growth rates of medical costs.

Retiree health benefits in TriMet’s contract proposal are PAYGO affordable, likely to be sustainable long term, and will reduce the unfunded liability an estimated 50%:

- Current non-union plan (80%/20% coinsurance, 6% premium contribution) for active employees and retirees with plans to further reduce benefit in future contracts
- Retiree medical for new hires limited to 50% of employee cost to age 65 only
- Retiree medical for employees with less than ten years of service limited to 50% of employee cost to age 65 only
- Union and non-union Medicare eligible retirees moved to a lower cost PPO or HMO Medicare supplement plan that, with Medicare, provides substantially the same benefit as active employees receive. Non-union retirees are moved to the lower cost plan January 1, 2014 and union employees July 1, 2014. Annual cost savings compared to continuing the status quo grow substantially over time as more retirees turn 65 and are covered by the lower cost Medicare supplement plan. Annual continuing savings from the Medicare supplement changes are $1.9 million FY16, $4.0 million FY20, and $8.0 million FY25.

Proposed retiree medical costs peak in 2039, then begin to decline. Status quo retiree medical costs continue indefinitely into the future.

Retiree health care savings compared to the status quo are $3.3 million FY15, $4.0 million FY16, $5.1 million FY17, $6.8 million FY18, $10.9 million FY20, $15.2 million FY22, and $24 million FY25.

35. Capital and Operating Projects

These are the General Fund monies required to support capital and operating projects. This line includes expenditures for TriMet’s Capital Project Replacement and Improvement Program, which generally consists of:

- Committed improvements.
- An on-going vehicle replacement program that replaces fixed route buses and paratransit vehicles and light rail vehicles that have exceeded their economic lives with new vehicles.
- An on-going program of fixed route bus, ATP and LRT equipment and facilities and information technology improvements and replacements.
- The acquisition of additional (non-replacement) fixed route buses, paratransit vehicles, and light rail vehicles to meet the needs of forecast service and ridership increases.

A schedule of specific improvements and vehicle and equipment replacements is included in TriMet’s Capital Asset Management and Improvement Program (CAMIP). The costs of capital improvements and vehicle replacements are estimated to inflate 3.0% per year throughout the planning period.

The following summarizes key elements of the program. The five year program is updated annually during the budget process.
A. Replacement Program:

- Buses replaced: 254 fixed route buses replaced FYs 13-16, resuming 40/year annual bus replacement in FY17
- ADA paratransit vehicles replaced at 9 years of age.
- $8 million over FYs14-FY16 for additional light rail vehicle overhaul components sufficient to reduce the vehicle maintenance backlog and insure reliable vehicle operations.
- Fare system replacement: $28 million for electronic fare payment system FY13-FY18. This project is underway in its early stages.
- Maintenance of Way (MOW) capital maintenance requirements (rail grinding, ties, ballast, and signal materials) for Commuter Rail is included in the annual operating costs of the project. Portland & Western Railroad, the freight operator, has estimated these costs.
- CCTV and fiber optic replacement/improvement $1.5 million a year beginning in FY15.
- MOW engineers forecast annual track, signals and overhead capital maintenance and replacement as the system ages.
- LRV replacement:
  - Type 1s replaced in 2027 (26 vehicles $125 million in 2013$)
  - Type 2s replaced 2034 (52 vehicles $250 million in 2013$)
  - Type 3s replaced 2040 (27 vehicles $130 million in 2013$)
- MAX stations renewal: $2.4 million/year for Blue line MAX; grows as subsequent lines age.
- Station platform infrastructure ($1 million a year expected cost)
- Operating facilities end of life rehabilitation (Center, Ruby, Powell, Elmonica $1.5 million/year)
- Non-revenue vehicle replacement ($1.5 million/year)
- Light rail elevator overhauls begin. There is a two year design and construction planning period followed by a seven years of construction ($1 million per year)
- Type 4 LRV exterior cameras updated to Type 5 standards

B. Additions:

Other additions, FY14 and beyond include:

- Five buses are added to the fleet every two years beginning FY18 to maintain schedules and add peak capacity
- LIFT fleet additions as needed for ridership growth.
The forecast assumes no TriMet funding of Columbia River Crossing (CRC) capital costs for Portland Streetcar capital costs.

- $14 million for Positive Train Control systems on the WES cars as required by the Federal Railroad Administration, funded with debt.

- Two WES Diesel Multiple Units FY15 $3.5 million, FY16 $3.5 million, FY17, $1.5 million

- Additional LRVs for ridership growth:
  - 11 FY25 ($53 million 2013)
  - 11 FY29 ($53 million 2013$)
  - 12 FY35 ($58 million 2013$)

- $6.47 million in FY14 and FY15 to upgrade/retrofit light rail vehicle electronic destination signs and associated communications system (Portland Milwaukie Light Rail project funded)

- Signal and power MAX tracks at select locations FY16 $4.0 million, FY18 $3.0 million, FY20, $6 million

- $1 million to upgrade Ruby Junction rail facility yard throat track switches, switching appliances and track to ensure proper train movement in the rail yard in FY14.

- $3.7 million for needed upgrades to the Center Street Operations Facility. This project will be funded by using Portland Milwaukie Light Rail funds for the $6.47 million light rail vehicle electronic destination signs retrofit project, an eligible PMLR expense.

- $3.4 million end of life capital maintenance Center Street Operations Facility

- $1.8 million for Lines 8 & 17 bus turnaround and layover

- $1.5 million Document Retention System

- $1.7 million LED and Pylon Upgrade

### 36. Debt Service

This line item addresses all debt service, both senior lien payroll tax revenue bonds and grant receipt backed bonds. On new debt, issuance costs and fees add 2% to the cost. Interest rates assumed are 4.25%-5.5%. TriMet has the following payroll tax and grant-backed revenue bonds, either outstanding or planned:

#### Outstanding Debt

- $37.5 million senior lien payroll tax revenue refunding bonds for the Airport Light Rail project and $45 million for the Interstate MAX project. Interstate MAX is composed of $38.5 million of short and long term debt, $2.5 million of long term debt for rail retrofits with the balance for reserves ($4 million). Last year of payments is FY21.
$68.5 million of capital grant receipt backed revenue bonds to complete Washington County Commuter Rail and I-205/Portland Mall LRT Project. This cost of debt service is offset by a like amount of STP or CMAQ revenues made available by Metro Council Resolution. An additional $13.255 million of debt, backed by Section 5307 grant receipts, for the FY06 bus order and other capital, was issued at the same time.

$45.333 million senior lien payroll tax revenue bonds issued to pay for TriMet’s share of the I-205/Portland Mall LRT project and Commuter Rail. Debt was issued January 2007.

$49.55 million senior lien payroll tax revenue bonds to reimburse the General Fund for Commuter Rail cost increases and the FY09 bus order and to partially pay for the bus communications system replacement. $37.029 million tax-exempt bonds, $12.53 million Build America Bonds Direct Payment.

$142.38 million (par) and $13.3 million (premium) grant receipt backed revenue bonds, $119.072 million for Portland-Milwaukie Light Rail construction and $13.3 million for the bus replacement, $6 million tax exempt bonds for Lake Oswego and $6 million taxable bonds for Southwest Corridor Alternatives Analysis and $10.2 million for capitalized interest. Debt service is structured so that principal and interest can be fully paid with the multi-year commitment of MTIP funds, which begins in FY12 and ends in FY27.

MBIA Lease. TriMet entered into 11 leases in 1997-1998 and 2005. In these transactions, 100 light rail vehicles and 2 maintenance facilities were sold or leased to private investors. The investors provided TriMet with up-front payments and leased the assets back to TriMet. TriMet invested a portion of the funds received with three insurance companies--MBIA, AIG and FSA--which guaranteed to make the lease payments. TriMet received a net cash benefit from the leases of $28 million.

The financial crisis that began in 2007 resulted in AIG and MBIA, two of the insurance companies making TriMet’s lease payments, receiving ratings downgrades. One of the actions TriMet took in response was to terminate its relationship with MBIA, which resulted in MBIA paying the $12.6 million to TriMet in FY09. In return, TriMet is responsible for the remaining lease payments. These payments are included in debt service expense. The largest payment is $7.5 million in FY13.

$93.3 million (par) and $17.4 million (premium) senior lien payroll tax revenue bonds for TriMet’s share of Portland-Milwaukie light rail, replacement of fixed route buses, to refurbish fareboxes and ticket vending machines, WES positive train control as mandated by the 2008 Rail Safety Act, the Maintenance of Way Central maintenance facility, and the remaining costs of the bus, rail and paratransit communications systems. TriMet’s PMLR share is paid for with increases in payroll tax revenue from the payroll tax rate increases.

Projected Debt

TriMet plans to issue debt every two years for the following projects:

- Fare system replacement (electronic fare system)
- Bus replacements (net of grants) in FY15 (not FY14) through FY23, then buses are PAYGO funded and...
– Light rail car purchases are funded with debt
– WES DMUs
– WES Positive Train Control

Debt service as a percent of net continuing revenues is below the board’s goal of 7.5% throughout the forecast through 2030

The next sections address changes to operating expenses associated with new bus and rail services during the forecast period. The major expenses from future service are described below:

37. Bus Operations: Service Reliability and Peak Demand

Bus service is increased 0.8% each year to meet peak ridership demand and maintain schedule reliability on currently operating bus lines as the region grows. Beginning in FY18 an average of five additional buses is purchased every two years to support these bus service increases.

38. Rail Operations: Blue, Red, Yellow and Green Lines Peak Demand

The additional cost of meeting peak hour demand on the Blue, Red, Yellow and Green MAX Lines is included annually in the forecast. This is an additional .5% per year of service throughout the forecast.

Forecast service increases are based on historic trends in MAX peak hour ridership growth.

39. Commuter Rail Operations: Peak Capacity

To accommodate rapidly growing ridership on WES Commuter Rail Service, two additional cars are programmed into the forecast FY15-FY17. The forecast also assumes the expense to add 6 trips in FY18, 8 trips FY21 and 10 trips FY25.

40. Bus Operations: Frequent Service Restoration:

Frequent Service bus restoration is dependent on achieving a sustainable labor contract. The forecast incorporates $10 million additional ($6 million net of fares) bus Frequent Service costs in FY14 (partial) FY15 and FY16. The FY 14 increase was paid for with budgeted savings.

41. Rail Operations: Frequent Service Restoration

The forecast incorporates Frequent Service Rail restoration of $2 million ($1 million net of fares) in FYs15-16.

42. Portland-Milwaukie Light Rail

Portland-Milwaukie Light Rail service begins September 2015. Milwaukie Light Rail service hours are derived from Metro model peak load ridership for 2030 target year. Opening year peak service is designed to meet projected peak hour demand. The forecast assumes the service is operated at 2030 levels by FY25. Costs are net of savings from the bus lines that end at the new Milwaukie Transit Center instead of travelling into downtown Portland. In year of expenditure dollars, costs are projected to be $9.0 million in FY17.
TriMet’s rail vehicles are maintained in good condition throughout their life with a progressive overhaul program. These costs are included in the operating costs/operating budget and forecast. Unlike most other rail agencies, TriMet’s rail vehicles will not be removed from service for an extensive period for overhaul. The overall LRV maintenance program consists of continual program of preventive maintenance, running repairs, component rebuilds, progressive overhaul, modifications (product improvements) and equipment engineering analysis and training. These six programs require about 1,000 labor hours per year per vehicle.

Three additional controllers have been added to PMLR operating costs so staff hours comply with hours of service restrictions.

Other costs that increase as the system ages, such as rail grinding and surfacing, maintenance and repair or rail operating and customer facilities that are not included in Rail Maintenance operations is included in the Capital Improvement forecast.

43. Columbia River Crossing (CRC)

$1.4 million operating costs for the Columbia River Crossing Light Rail line, net of fares and C-Tran contributions, added to the forecast in FY2020.