TriMet General Manager's Budget Task Force

TriMet on the Brink
A Recommendation for Long Term Financial Stability

April 19, 2012

Background

In 1969 the Oregon Legislature created TriMet, the Tri-County Transportation Metropolitan District, to provide regional transit service to the three main counties of the Portland region. For over 40 years the agency has been vital to the area's economy, environment, communities, and to the everyday lives of its residents. Partnering with local, regional and state governments, TriMet has provided transportation options that support the region's land use goals, enhance the vitality of the region, and move people while easing traffic congestion and reducing air pollution. The agency's capital project work has provided an economic benefit to the region by creating jobs as well as encouraging local industry development. With public and private partnerships, TriMet has built on long-term regional plans, strategic choices, capital investments and available resources to provide a framework for planning priorities and operational plans.

During this period TriMet's accomplishments have made it a leader among its industry's peers. Ridership numbers over 100 million annual rides based on an extensive bus, light rail and commuter rail service system. From Gresham to Hillsboro or Clackamas to Portland State University, millions of light rail rides are conducted annually in a safe, reliable and cost effective manner. The bus system operates over 79 routes from urban to rural communities with a 15 minute frequency on some major routes within the region. The agency's LIFT service provides a critical safety net for seniors and people with disabilities who cannot use the fixed route system. The agency is known for its innovation in real time customer communications over the phone, internet and text. Finally, TriMet's achievements in light rail construction and financing partnerships have merited national review and praise.

Today and Tomorrow

As successful as TriMet has been in providing transportation services, more remains to be done. The agency knows that the region needs and wants more service. Present economic times require transportation services tailored to meet both the work and personal needs for all residents, regardless of income levels. In order to meet this demand, system corridors need to be extended and more frequent and reliable services need to be scheduled, especially in light of recent service cuts. With business development throughout the outlying suburban areas, TriMet has the opportunity to assist employers and workers with better job access.

In response to new service needs, bus rapid transit plans may hold promise for moving customers in selected corridors within stretches of the region. Working with Amtrak and other regional partners holds the promise of expanding the region's rail system. Another on-going need is to meet the services required by the growing population of seniors and people with disabilities through the agency's LIFT program. From an operational perspective, TriMet also needs to secure alternative technologies for fares, fuels, communications and other system improvements that enhance service, customer data and environmental commitments. Most importantly, TriMet needs to engage transit dependent, minority and low-income communities in ongoing dialogue that promotes understanding and ensures that service is provided where it is most needed and affordable with innovative fare mitigation strategies.

The Barriers – Labor Costs and Revenue

Is TriMet ready to meet these new demands? As a citizen task force, we believe that will only be the case if critical changes are made. The agency's fiscal reality poses a serious challenge to its transit success, in spite of its dedicated purpose, commitment and energy. TriMet is in jeopardy of not meeting its present or future plans because of significant structural problems related to its finances. The most urgent structural problem is related to labor costs. The second overriding structural issue concerns the stability of revenues. While both issues are important to the financial future of TriMet, labor expenses, specifically those related to active and retiree union health benefits, are the most pressing. It is important to emphasize that these two issues are unquestionably linked. TriMet must first demonstrate it is making progress controlling its labor costs before it can be seen as a wise investment worthy of additional revenue.

TriMet health benefit costs are currently 15% of total operating requirements and absorb 26% of payroll tax revenue. While the health care cost crisis is a national phenomenon affecting virtually all employers, TriMet has been slower than most to recognize and address it. As a result, TriMet union health benefits that were negotiated in 2003 now far exceed those of both public and private employers, resulting in an economic imbalance that will take years to rectify at the bargaining table under State public employee collective bargaining law. Without benefit and eligibility changes, by 2020 TriMet will be paying over 50% of its underlying payroll tax in health benefits for active and retired union employees. This is partially due to the nationwide escalation in healthcare costs, and is exacerbated by the expected surge in retiree medical costs when a projected 40% of TriMet's current employees retire over the next 10 years. TriMet has already begun to take action by reforming management and non-represented health insurance and retirement plans to share costs with employees and to limit future liabilities, but more must be done.

Under current Oregon collective bargaining law, TriMet is limited to many years of two- or three-year contracts with only modest changes before reaching parity with the market for wages and healthcare costs. In 2007 at the urging of the ATU, the State Legislature categorized transit employees as first responders and thereby prohibited from striking and subject to binding interest arbitration. The rationale was that the 2005 transit strike in Eugene, the first transit strike in Oregon history, had been very disruptive to the community. Prior to this change, police and fire personnel were the only strike-prohibited employees in Oregon. Since this change, union negotiations have been very difficult because it is in the union's interest not to settle but to go to arbitration where typically only modest incremental proposals are considered. TriMet's 2003 union contract expired two years ago, and TriMet and the ATU have been in negotiations for over two years and are currently awaiting arbitration.

For the past 20 months under new leadership, TriMet has tried through contract negotiations to address the labor health cost issue, as well as wages and work rule changes. In 2010, management's offer contained modest reductions in benefit provisions (particularly for new hires and future union retirees) which were more closely aligned with those currently provided to other local union government employees. That offer also contained a wage freeze given that TriMet wages were already 4.3% above average for west coast transit agencies. However since then protracted negotiations have resulted in a bargaining impasse, prompting all-or-nothing interest arbitration and precluding TriMet's ability to enact any substantive cost control changes. Using whatever means are most effective and expeditious, TriMet must find a way to achieve health benefit reform that aligns with market realities.

The task force acknowledges that today's union health care benefit package has been the result of both union and management decision-making over many years. We are not ignoring concessions that union employees may have made in the past, but must emphasize that these are very different times. This is not about winning or losing or stripping employees of good wages and benefits. We must now create a cost structure that allows everyone to win. Employees deserve decent health care and wages and the community deserves a healthy transit system. The task force encourages TriMet to regularly review and adjust the salaries and wages of all employees to ensure on an ongoing basis they are in line with other transit/public agencies.

Reliability of funding levels from revenue sources, particularly operating funds, is also a major structural issue. Approximately 55% of TriMet's continuing operating revenues come from the employer payroll tax, the self-employment tax, and the state-in-lieu payroll tax. TriMet does not have access to the same (or similar) revenue bases as most transit agencies across the country, because Oregon does not have a sales tax. Sales taxes are a widely used transit funding source that generally provides greater stability than payroll taxes which can be more volatile due to the ups and downs of the local economy.

In FY 2013, the projected increase in payroll tax revenue is lower than expected and is not projected to return to pre-recession levels until 2018. The heavy reliance on the payroll tax for operating funds leaves TriMet service levels and annual budgets vulnerable to the volatility in the local economy. A better mix of funding sources could help to dampen these swings allowing TriMet to maintain more stable service levels during recessions and make investment decisions with more certainty of annual operating fund levels.

A second aspect of the structural issue of revenue sources is the lack of a coherent, comprehensive and adequately funded transit finance system by the state and federal government. Federal and state operating grants account for 14% of continuing operating revenues; however funds from both areas are likely to be cut in 2013 as the federal grant program that distributes formula funds is under review by Congress. Except for approving a 90 day extension of the original transportation bill, nothing has been finalized by Congress with the Senate and the House of Representatives presenting competing bills as their response to the nation's transportation issues. An area of specific concern for federal and state funding is TriMet's LIFT service. The ADA complementary paratransit service is an unfunded mandate and there is no federal funding for LIFT operations. However, those costs have grown at an annual rate of 9% a year, now comprising nearly 10% of TriMet operating budget while accounting for less than 1% of passenger trips.

Passenger fare revenue is TriMet's second largest source of operating funds, generating approximately 25% of continuing operating revenues. Fare revenue share of the operating budget has grown in recent years due to the decline in the growth rate payroll tax receipts and due to fare increases. In the midst of a recession, TriMet has implemented fare increases over the years to address budget shortfalls stemming from lower growth in other revenue sources. TriMet also increases fares annually to account for inflation. Transit dependent populations, in particular, have been adversely affected by fare increases.

What Must Be Done

TriMet's financial situation is now urgent and at a critical point. Given what has occurred to date at the agency, what needs to happen in the future is to restore TriMet to a sounder fiscal footing? A multi-pronged response is necessary to address TriMet's key structural problems of labor costs and revenue instability. Dealing with the structural problems of revenue sources is complicated and will require a long-term political strategy with key parties at the state and federal levels. In the near term, TriMet must address the problem of labor costs.

TriMet must take immediate action to begin containing present and future health care costs by incrementally bringing union wages and benefits in line with regional and industry norms as was done with the non-represented workforce. Accomplishing this will take management perseverance and resolve and support from all stakeholders. TriMet customers and the community at large as well as the business community, elected officials, local government partners, TriMet employees and the ATU need to understand these issues. TriMet's General Manager should continue the education and communication process he has already begun in order to create greater awareness about the challenges facing the agency and to engage all stakeholders in a concerted effort to bring TriMet to sound fiscal health.

The Governor and State Legislators must address the problems associated with the current "winner-take-all" arbitration requirements for public safety employee collective bargaining. At a minimum, transit employees should not be grouped with first responders such as police and fire. The collective bargaining rules adopted in 2007 have resulted in an imbalance in economic power that precludes productive labor negotiations and must be changed.

TriMet has begun to address the issue of unsustainable labor costs by reforming management and non-represented employee health insurance and retirement plans. However, to provide a sustainable financial future for TriMet, the TriMet Board of Directors must also take a firm stand in support for bringing all labor costs, especially health care costs for active and retiree union members and their families, in line with costs similar to transit agency peers and other public agencies in Oregon.

Nothing less will bring TriMet back from the brink.

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