Spokane Transit Authority
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# BOARD OF DIRECTORS

Draft Minutes of the October 7, 2010, Board Budget Workshop
Southside Conference Room, Spokane Transit
1229 West Boone Avenue, Spokane, Washington

**MEMBERS PRESENT**
Wendy Van Orman, City of Liberty Lake, Chair
Patrick Rushing, City of Airway Heights
Mark Richard, Spokane County
Amber Waldref, City of Spokane
Jon Snyder, City of Spokane
Richard Rush, City of Spokane
Dean Grafos, City of Spokane Valley
Rhonda Bowers, Labor Representative

**STAFF PRESENT**
E. Susan Meyer, Chief Executive Officer
Jim Plaster, Director of Finance & Administration
Steve Blaska, Director of Operations
Karl Otterstrom, Director of Planning
Mike Volz, Assistant Director of Finance

**MEMBERS ABSENT**
Gary Schimmels, City of Spokane Valley
Bonnie Mager, Spokane County

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1. CALL TO ORDER
Chair Van Orman called the meeting to order at 10:13 a.m.

2. 2011 Draft Budget Presentation
For ease of reference, the Powerpoint presentation is attached to these minutes.

Ms. Meyer introduced the presentation and stated that the format will be the same as the one used a year ago.

The objectives of this workshop are fourfold: to discuss sales tax assumptions; service level strategies; essential capital projects, and to provide staff with budget guidance. Ms. Meyer said that over 67% of STA's revenue is from sales tax with 15.7% from fares and 13.3% from federal funding through the Section 5307 preventative maintenance grant. A state grant and miscellaneous investment income makes up the remaining revenue. The largest percentage of expense is the fixed route operations at 67.7% with paratransit at almost 20%. Administration accounts for 9.4% of expenses and the Plaza and vanpool program make up the remainder. Projected sales tax assumptions reflect a 9% reduction for 2009 from the 2008 level, which is 5.5% lower than budgeted.

The 2009 forecast assumed a decrease in sales tax growth of -8.0% with 0.0% for 2010 and a positive growth of 3.0% for 2011 and operating expenses were in excess of revenues. Fare increases were assumed for 2010 – 2012 and also for 2015 – 2018 with favorable variances for fuel. Cash reserves for self-insurance at $5.5M and operating expenses at $19.2M (15% of operating expenses) were also assumed. These two reserves were adopted by the Board with the operating expenses in hand should the agency need them in an emergency situation. Should this happen, the reserves must be replenished within two years and a decision to use them would take a majority vote of the Board.

The 2009 forecast shows there would be a problem in that the cash red line on the graph would cross into the 15% operating expenses in late 2012. The 2010 sustainable plan, adjusted for 2009 actual figures, changes the sales tax growth to -8.4% for 2009; -1.6% for 2010; 2.0% for 2011 and 3.0% for 2012 and beyond. It also includes stimulus funding of $8.2M, reductions in service by 2% in 2010, 7% in 2011 and 7% in 2012 with a $22.3M reduction in capital expenses. This scenario restores the level of sales tax revenues to the 2007 level in 2016.

The general economic outlook is still negative from the financial experts' point of view. Based on the projected slow growth of the economy, staff has lowered the sales tax assumptions for the 2011 budget. The 2010 budget projected a -1.6% growth in sales tax for 2010. For the 2011 budget this is now -2.8%. The projection in 2010 for 2011 was 2.0%; this is now -2.0%. The 2012 projection was 3.0% and it is now 0.0% with 3.0% still assumed for 2013 and beyond.

Ms. Meyer said other jurisdictions are assuming between -0.5% and 0.5% (City of Spokane), -2.5% (Spokane Valley), and -1.2% for Spokane County in their 2011 budgets.

Ms. Van Orman said Dr. Arun Raha, Executive Director of the Washington State Economic and Revenue Forecast Council, indicated that it would take until 2013 to return to the status quo. She considers 3.0% too high for 2013. Mr. Snyder agreed and added that to go from 0.0% growth in 2012 to 3.0% in 2013 was too optimistic. Mr. Rushing added that Dr. Raha indicates that people have money but they are not spending it due to a lack of consumer confidence. Ms. Van Orman said that private companies began the process of laying off employees and now this is happening in the public sector. Mr. Grafos also believes 3.0% growth is too high. Mr. Volz said historically 3.0% was a normal benchmark for growth over the years. Ms. Waldref asked what the impact would be on the 2011 budget if the growth for 2013 were to be reduced. Ms. Blaska said there would be little impact on next year's budget. **The consensus of the Board was to decrease the sales tax assumption from 3.0% to 2.0%.**

Ms. Meyer explained that staff has been very careful to contain costs over the past year. A favorable operating variance for 2010 is projected at between $4.0M and $4.5M (due primarily to lower fuel costs than budgeted and staff positions that have not been filled). There are expected to be savings of $1M from the First Transit two year contract extension (2011-2012). Due to the deletion of new vehicles and a facility expansion from the capital projects there is expected to be a saving of $22.3M. Other cost-cutting measures include the reduction of approximately 50 positions by 2013 due to the proposed service reductions and salary adjustments in 2010 of 0.0% for management and administration, 1.0% for AFSCME 3939, 1.0% for ATU 1598, and 1.5% for ATU 1015. The employee share of medical premiums has increased and the negotiated medical and retirement plans to change to the state plans will also achieve significant long-term savings. Other cost containment measures include extending vehicle replacements; and, deferring some aspects of the Smart Bus initiative, offering the purchase of more ticket vending machines, and the internal improvements to the Plaza. Other deferred projects include: bus washer, paint booth, underground storage tanks, street tree grates, and, document management system. Seven essential positions will be deferred in 2011.

Mr. Snyder asked why these cost savings were not budgeted for last year. Mr. Richard said if the fuel savings are positive why the same cuts are needed. Mr. Plaster said most of the $4M favorable variance is based on fuel savings and delayed hiring which supports the attrition-based service reductions and are non-recurring. Ms. Meyer said staff would show the Board the impact of all the cost savings and what would have happened without them at the next Board meeting on October 20. Mr. Blaska said the favorable variance could affect proposed service reductions in 2012. Ms. Meyer added that new grants had been awarded to STA this week. Mr. Richard commented on a letter to the Spokesman Review about fares. The public does not understand how heavily subsidized fares are by sales tax revenue. Mr. Meyer said the farebox recovery is now 20% with 5% for paratransit and agreed that the public believes their fare pays for the service.

Mr. Snyder left at 11:17 a.m.

Ms. Meyer said staff recommends the Board re-affirm the service level strategy as follows:
2010: 3%; 2011: 7% and 2012: 7%. Mr. Plaster added that if there are any more favorable variances in the budget, the 2012 proposed service reduction could be re-assessed. Mr. Waldref asked about planned service reductions for 2012. Mr. Otterstrom said the plan for 2011 is in place but 2012 has not yet been considered. It could be no Sunday service or service after 9 p.m. Ms. Waldref advised staff to plan for reductions in 2011 but leave 2012 open for changes in the economy. Ms. Meyer added that staff does not want to make any cuts and it is very difficult to be in a position where nothing else can be done. Mr. Otterstrom said it is important to strengthen the core since there has always been a core-based transit system in Spokane. The High Performance Transit Network (HPTN) is designed to do this. Mr. Grafos said outlying areas provide revenue. Mr. Richard agreed and added that the Public Transit Benefit Area (PTBA) provides sales tax revenue for transit so it would be unwise to cut service in outlying areas of the PTBA and then ask for a sales tax increase. Ms. Meyer said service to Medical Lake, for example, is greater than the sales tax revenue generated from that area. She added that King County Metro wants to provide service to jurisdictions based on the amount of revenue they provide. Ms. Van Orman mentioned the new Gold Line bus service to Kettle Falls costs up to $40. Ms. Meyer said that is a 30% farebox ratio recovery but it is state and federally subsidized.
**The Board agreed by consensus to re-affirm the service level strategy.**

Ms. Meyer presented the capital projects that staff recommends pursuing in 2011:

- Cooperative Street and Road Projects: Havana Bridge Substitute and Sullivan-Indiana Intersection
- Paratransit Van Replacement
- Radio Narrow Banding
- Replacement of Business Systems: Finance, HR, Payroll and Maintenance
- Replacement of Roof at Boone Avenue Facilities
- Deployment of Cameras on Buses
- Plan for Trapeze Operations Module
- Preliminary Design for Plaza Operational Improvements

The previously mentioned federal grant awarded to STA is to be used for the Business Systems ($1.9M and Boone Avenue Roof Replacement ($1.8M). Local funds will match 20% of the cost.

Mr. Rush asked about the change in working conditions that the cameras on buses project will present. Ms. Meyer said the agreement has not yet been reached. Mr. Otterstrom said the work on the Plaza external improvements will be continued in 2011 with changes to zones and utilizing Wall Street as a two-way. Mr. Rush asked if there has been any research on putting a market in the Plaza. Ms. Meyer said staff will work on the leasing of the second floor as a revenue generator. Ms. Van Orman asked if STA has applied for any CMAQ (Congestion Mitigation and Air Quality) funding. Mr. Otterstrom said an application has been made through the Spokane Regional Transportation Council (SRTC). These funds are for capital projects only and STA will compete with other projects. Ms. Meyer briefly outlined the capital projects.
**The Board agreed by consensus to confirm continuing these essential capital projects.**

Ms. Meyer asked the Board to confirm the following guidance for the 2011 Budget:

- Sustain quality
- Preserve essential capital projects
- Maintain flexibility
- Continue with sustainable plan
- Implement phased service reduction plan

Ms. Van Orman asked if quality was lower could more people be serviced.
Ms. Meyer said reducing the service to hourly for example would not be sustainable. In order to have a functioning transit system, frequency in those areas where ridership is high is very important.
Mr. Richard said it makes sense to continue those areas of quality that have been improved over the last few years, for example cleanliness. It keeps riders happy and STA's image is important.
Ms. Van Orman said it is vital to keep transit accessible to the poor and disabled.
Mr. Grafos asked staff to give the Board an idea of the cost of one route, for example Spokane to Liberty Lake, and could that be saved by deferring a capital project.
Mr. Blaska said two to three weeks of service fleet-wide would be saved by the deferral of the camera project at $2M.
Mr. Richard agreed that he would like to see how much service could be preserved by deferring capital projects.
Ms. Meyer said staff will provide this information and pointed out that the camera project is being paid for in part by a grant plus there may be cost savings in insurance premiums.
Mr. Rushing said buses are not carrying many people in off-peak periods. Could there be a different system of frequency for off-peak.
Ms. Meyer said staff has been reviewing under productive routes. Two were eliminated in September 2010 and others are slated to be eliminated in the proposed 2011 service reductions. Other routes have their highest ridership during the day.
Mr. Richard asked what it costs to sustain a route for a year.
The Board decided to wait until the next Board meeting to get more information before confirming the guidance.

Ms. Meyer offered other possible revenue sources:

- Up to 0.3% sales tax
- Contribution from local jurisdictions
- Transit Benefit District
- Up to 0.9% High Capacity Transportation sales tax
- Regional employee tax
- Federal and State grants

Discussion ensued about bonding for capital projects. Mr. Volz pointed out that the interest payable on a $14M bond would be equivalent to a reduction of 5,600 service hours .

Ms. Meyer outlined the next steps in the budget process beginning with the October 20 Board meeting, public hearing at the November 17 Board meeting, employee and public workshops, and adoption of the budget at the December 15 Board meeting.

Ms. Van Orman thanked staff for their hard work on this presentation.

3. ADJOURN

Chair Van Orman adjourned the meeting at 12:25 p.m.

Respectfully submitted,

Jan Watson
Executive Assistant to the CEO
& Clerk of the Authority