

Spokane Transit Authority
1230 West Boone Avenue
Spokane, Washington 99201-2686
(509) 325-6000

BOARD OF DIRECTORS

Draft Minutes of the October 7, 2009, Board Financial and Planning Workshop
Southside Conference Room, Spokane Transit
1229 West Boone Avenue, Spokane, Washington

MEMBERS PRESENT

Matt Pederson, City of Airway Heights, Chairman
Pro Tempore
Mark Richard, Spokane County
Al French, City of Spokane
Nancy McLaughlin, City of Spokane
Richard Munson, City of Spokane Valley
Richard Rush, City of Spokane
Bonnie Mager, Spokane County
Wendy Van Orman, City of Liberty Lake

MEMBERS ABSENT

Dick Denenny, City of Spokane Valley, Chairman

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 & Administration

PROVIDING LEGAL COUNSEL

Laura McAloon, K & L Gates

GUESTS

None

1. **CALL TO ORDER**

Chairman Pro Tempore, Matt Pederson, called the meeting to order at 3:07 p.m.

2. **2010-2015 FINANCIAL UPDATE and 2010 BUDGET PLANNING**

Ms. Meyer introduced the presentation with a quote from Ray LaHood, US Transportation Secretary in his recent speech to the American Public Transportation Association (APTA). The focus of Mr. LaHood's speech is that *our future rides on public transportation; it is essential to mobility and it drives the economy.*

The objectives of this workshop are threefold: to discuss sales tax assumptions; service level strategies; and, essential capital projects. Ms. Meyer said that over 70% of STA's revenue comes from sales tax, with 13% from fares and 11% from federal funding through the Section 5307 (preventive maintenance) grant. A state grant and miscellaneous investment income make up the remaining revenue. The largest percentage of expense is the fixed route bus operations at 67.5%, with paratransit at almost 20%. Administration accounts for 9.3% of expenses and the Plaza and Vanpool programs 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. Mr. Munson commented that he has an extensive background in economics and believes that the economy will continue to get worse in 2010 and he predicts a bigger drop in sales tax due to continued unemployment and double digit inflation. He suggested a projection of -3% for 2010 instead of staff's recommendation of 0%. Mr. Rush commented that there are initiatives such as I-1033 on the November ballot that could result in less spending in the public sector. The effect of these will not be known until after the election.

Ms. Meyer asked Board members what their jurisdictions are likely to project for sales tax revenue for their budgets in 2010. Mr. Munson said the City of the Spokane Valley is projecting -3.5%. Ms. Van

Orman said Liberty Lake will be 0% for the next three years. Projections for the cities of Spokane and Airway Heights are not yet available and Spokane County projections are zero.

Ms. Meyer asked if the Board would like STA to consider a projection of -3.5% for 2010 instead of 0%. Mr. Plaster added that he expects to see a bump in sales tax revenue in October due to the “cash for clunkers” program, but it will fall off after that. Mr. Munson said 2010 is not looking good for the real estate industry. Mr. Plaster said we track the sales tax revenues of all local jurisdictions and STA is generally in the middle. Mr. Richard said he agrees to move forward with the assumptions and to check with the other entities. Ms. Meyer said staff met with Dr. Grant Forsyth, Professor of Economics at Eastern Washington University recently to get his opinion. Dr. Forsyth concurred with these projections. She added that updated projections would be brought back to the Board at the October 21, 2009 Board meeting, based on staff’s findings from other jurisdictions.

Based on current assumptions, it is estimated that there will be a cumulative decrease in sales tax revenue of \$78.3 million by 2015 from what we had forecasted in 2008. Even if the economy recovers, it would require more than 8% in sales tax growth for the next three years which is not likely. Ms. Meyer presented graphs through 2020 showing sales tax revenues, local capital expenditures, operating expenses, and funding for cooperative street and road projects. These graphs include the federal stimulus (ARRA) funding of \$10.6 million in 2009 and 2010, and also fare increases for 2010-2012, 2015 and 2018. It will take until 2015 to get back to the same sales tax revenues as were experienced in 2007. The Board designated reserves projected at \$19 million in 2020 includes \$5.5 million for catastrophic self insurance coverage and \$13.5 million for operating expense reserves. It would take a super majority vote of the Board to decide to use these funds and they must be replaced within two years. If the agency remains in a status quo position, cash is projected to be depleted in late 2012. Creating a sustainable plan, one in which STA continues to operate at the current sales tax levy rate of 0.6%, requires an increase in revenues or a decrease in expenses. Mr. Richard asked about fuel projections, noting that there has been a favorable variance in fuel costs this year. Mr. Plaster said fuel costs are difficult to predict but staff has budgeted \$5.3 million for 2010, down 12% from the 2009 budget. We will continue to monitor the Energy Information Index.

Ms. Meyer said staff is not recommending a sales tax increase on the November, 2010 ballot. It is not the right time because of the economy. Staff proposes instead to reduce service by an estimated 2% in 2010; 6% in 2011; and, 6% in 2012. This also reduces the need to replace 32 buses and expand facilities, saving \$22.3 million in capital expenses. The proposal is over three years which allows for attrition in employment, changes in the economy and the opportunity for public input. STA is the recipient of 6/10ths of one percent sales tax currently which leaves another 3/10ths of one percent available in the future. It would take an increase of one to one and one half tenths percent to keep operating at the current levels. Some transit agencies in the State are at the maximum 9/10ths at the present time. Mr. Rush asked why there are no other revenue sources such as from the State. Ms. Meyer said staff is working with the State to find grants or other funding options. Ms. Van Orman suggested public/private partnerships, for example with the Northern Quest Casino, which was discussed at the last Board meeting. The Coeur d’Alene Casino provides the majority of funding for the Citylink transit service in that area. Ms. Meyer said there is no provision for tax for public transportation in that part of Idaho. She added that it would not fix the problem. Mr. French said certain routes have lower ridership, can they be eliminated or downsized. Mr. Blaska said there are not many left. Most routes have experienced increased ridership in the past two years.

Mr. Munson said he would not advocate this, but suggested using cash reserves rather than cutting service or asking the taxpayer for more money. Ms. Meyer said it would consume all the dedicated cash by 2012. She said she will meet with Gordon Budke, a well-known financial consultant, as she

did last year to see if he has any ideas about streamlining the organization. Ms. McLaughlin asked if the bus replacements could be extended out farther. Ms. Meyer said the lifespan is fifteen years but a year could be added. Any more than that and the maintenance costs are prohibitive.

Ms. Meyer showed the projection model for a sustainable plan where, with the service reductions, STA can remain sustainable without consuming Board designated reserves until 2015. If the economy improves or funding from the State is available, service can be reinstated to higher levels. Underperforming routes such as #35 and #47 are only 0.5% of service so savings from cutting them would be very low. Ms. Meyer pointed out that any reductions in fixed route service would have implications for paratransit service also. She added that it will be very important for the public to understand the problem since the taxpayers reauthorized the current sales tax in mid-2008. Mr. French pointed out that the economy was different at that time. Mr. Rush said since the Board approved the fare increases it will be necessary to educate the public as to why the fares have gone up but service will go down. Ms. Mager said she believes a bus rider thinks their fare pays for the entire cost of the ride and they need to understand that is not the case.

The Board consensus was to reduce expenses gradually. Ms. Meyer said the proposed service reductions of 2%, 6% and 6% will change if the sales tax assumptions for 2010 change from 0.0% to -3.5%. Ms. Van Orman suggested staff wait and see until the end of 2010.

Ms. McLaughlin said she just received a text message from the Finance Department at the City of Spokane saying the City will show a +1.5% sales tax growth projection for 2010. The consensus was that this projection is too optimistic.

Mr. Plaster said the attrition proposal to deal with the service cuts is to avoid layoffs. He anticipated that 35 – 40 employees would be affected by 2012 and normal attrition rates would take care of this with early retirement incentives being considered, if necessary.

Ms. Meyer presented the capital projects that staff recommends pursuing in 2010: Security cameras on vehicles; Trapeze Operations Module; Replace Business Systems; and, Operational Improvements to the Plaza.

Cameras on Vehicles.

The cameras on vehicles is part of a larger project called Smart Bus which includes Computer Aided Dispatch but this is not recommended at the present time due to financial constraints. Mr. Rush asked who will benefit from cameras on buses. Mr. Plaster said it is a part of security and risk management and savings gained from not having to pay insurance surcharges and fewer claims could pay dividends for the system. The camera project proposals received are between \$2.2 and \$4.2 million but a contract has not yet been awarded. Federal funding of \$1.9 million is available and STA could lose this if the project was deferred. In addition to cameras, there will be a DVR on the bus and tagged videos will be downloaded to STA's mainframe computer. Mr. Richard asked if there had been pushback from the unions on this project. Ms. Meyer said it had been met with mixed reviews. Mr. Blaska said the unions accepted it for safety purposes but there is a need to negotiate how the video would be used for disciplinary action. Ms. Van Orman asked about the additional costs of maintaining the system. Ms. Meyer said there will be a request for staffing which will be discussed later. She added if this project were to be deferred it would only provide 8.5 days of additional transit service.

Trapeze Operations Module

This is an ongoing project that covers the entire system route planning and coach operator assignments. This module interfaces with payroll. Currently a very old system called Fleetnet is still being used for the payroll. The cost is \$250,000 and will require additional staff to maintain. It will be implemented in 2010. Mr. Munson asked how the Smart Bus project would affect ridership when ridership increased anyway. Ms. Meyer said Trapeze is already running in Paratransit. Staff does not currently know where the buses are at any given time, hence all the complaints during the past winter. Mr. Richard said he was concerned about investing in scheduling software that may become obsolete. Mr. Plaster said there would be updates available and it will create efficiency in procedures. Transit agencies' operating costs are built by scheduling and how schedules are created is how the money gets spent, whether it's efficient or not. Ms. Marchioro said that the time taken to do payroll in Paratransit has gone down from 1.5 days to half a day with this system in place.

Replace Business Systems

The business systems in Finance, Human Resources, Payroll and Maintenance are antiquated. This project has been on the capital projects list for years and kept being deferred. It may not be visible but it's very inefficient. There are over 500 employees at STA and the Human Resources Department has a filing system entirely of paper. Ms. Meyer said she does not want this project to wait until 2015. It could cost \$1 million in 2010 to hire consultants, do an assessment from the Government Finance Officers' Association to determine what system is needed, and partial implementation. A two to three year implementation is anticipated.

Plaza Operational Improvements

The focus for 2010 will be on operational improvements such as widening the sidewalks and changing the bus zones since currently two zones are beyond the Plaza property. Downtown stakeholders accepted the decision that STA remain at the Plaza under the condition that improvements would be made. Mr. French said he sits on the Downtown Spokane Partnership Board (DSP) and although they understood the need to remain at the Plaza, they were not happy about it. There needs to be a continuing trust factor or STA will be back to where it was in the 1990's. Mr. Rush said if STA does or does not do the improvements, there will be criticism either way. Ms. Meyer said she received an email from the President of DSP requesting an update on the Plaza improvements. The cost is expected to be \$863,000 in 2010 for hiring a project manager, design, and engineering. The project will begin with extending sidewalks and a bus bay on Wall Street. It will be external work only. Mr. Rush concurred with the scaled down project. Mr. Otterstrom said there may be opportunities for grants for design of the interior but the project needs to be "shovel ready." Mr. Rush suggested getting tenants to lease the upstairs space. Ms. Meyer said the leasing of space through a realtor has not been successful. Mr. Rush suggested a retail store rather than offices. Mr. Blaska said the sawtooth parking for the buses may have to stay for now, since the biggest challenge is the constricted sidewalks.

Staff Positions Relating to Capital Projects

Ms. Meyer said there would be four new staff positions as a result of these projects, plus one to be hired for three years (the Plaza) and one in Finance which would be offset by an unfilled position but with higher pay. The new positions will cost \$325,000 per year. She said STA has a much lower staffing level than Community or Pierce Transit.

In conclusion, Ms. Meyer said prior to 2004 many capital projects were deferred and it took years to get caught up. There is no need for STA to move into a crisis situation since there are funds available, unlike other transit agencies in the State. Mr. Munson asked what would be saved in terms of transit

service if these projects were all deferred. Ms. Meyer said it would sustain 31 days' worth of service. Mr. Blaska said it would be necessary to cut peak routes since cutting Sunday service alone would not make up the loss of 32 buses.

Mr. Richard thanked staff for a very thorough presentation.

Ms. Meyer concluded that the proposal sustains the most service for as long as possible; it provides opportunities for Board and public decisions; it requires a \$25-\$30 million capital program restoration; and no general wage increase for management, administrative and security employees.

3. ADJOURN

Chairman Pro Tempore Pederson adjourned the meeting at 5:02 p.m.

Respectfully submitted,

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