

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

BOARD OF DIRECTORS

Draft Minutes of the July 8, 2015, Board Workshop
STA Southside Conference Room
1229 West Boone Avenue, Spokane, Washington

MEMBERS PRESENT

Tom Trulove, Small Cities Representative, *Chair*
(Cheney)
Steve Peterson, Small Cities Representative
(Liberty Lake)
Patrick Rushing, Small Cities Representative
(Airway Heights)
Candace Mumm, City of Spokane
Jon Snyder, City of Spokane *Alternate*
Ed Pace, City of Spokane Valley
Chuck Hafner, City of Spokane Valley
Shelly O'Quinn, Spokane County
Al French, Spokane County
Rhonda Bowers, Labor Representative
John Higgins, Small Cities Representative
(Medical Lake) *Ex Officio*
Richard Schoen, Small Cities Representative
(Millwood) *Ex Officio Alternate*

MEMBERS ABSENT

Amber Waldref, City of Spokane
Kevin Freeman, Small Cities Representative
(Millwood) *Ex Officio*

STAFF PRESENT

E. Susan Meyer, Chief Executive Officer
Steve Blaska, Director of Operations
Lynda Warren, Director of Finance & Information
Services
Steve Doolittle, Director of Human Resources
Beth Bousley, Director of Communications & Customer
Service
Susan Millbank, Ombudsman/Accessibility Officer

PROVIDING LEGAL COUNSEL

Laura McAloon, K & L Gates LLP

GUESTS PRESENT

Michelle Poyourow, Jarrett Walker & Associates,
Facilitator

Workshop Purpose: Review, discuss and affirm or revise the financial forecast that will underlie the 2016 budget, and will inform future year revenue requirements for maintaining existing service levels and/or implementing part or all of the STA Moving Forward plan.

1. **CALL TO ORDER**

Chair Trulove called the meeting to order at 1:30 p.m.

2. **INTRODUCTIONS**

Introductions were made.

Mr. Trulove referenced the previous workshop on June 18, 2015 when the Comprehensive Plan and Moving Forward plan were discussed. The consensus of the Board at that workshop was that more financial information was required and the workshop today will focus on that subject. Michelle Poyourow, Jarrett Walker & Associates, facilitated that workshop and is also facilitating this one.

3. **REVIEW AGENDA**

Ms. Poyourow reviewed the agenda which includes "take-aways" from the previous workshop; annual budget and forecast process; budget assumptions for 2016; sales tax revenue; service expectations, and Moving Forward.

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4. REVIEW WORKSHOP EXPECTATIONS & GUIDELINES

Ms. Poyourow suggested this workshop continue in the same format as the June workshop. Board members will put their nameplates on end if they wish to speak; topics not on the agenda will be put on a “Parking Lot” sheet; and, cell phones will be turned off. The workshop will finish on time at 3:30 p.m.

5. TEST ELECTRONIC DEVICES

In order to test the electronic devices, Board members answered a general poll.

6. REVIEW JUNE 18, 2015 WORKSHOP

Ms. Poyourow referred to the previous workshop and offered the following “take-aways”:

- Unify as a Board around a decision (5)
- Time our ballot measures better (4)
- Reconsider what we are asking people to pay for (2)
- Ask for less (or no more) revenue (2)
- Emphasize the “system” not just projects (2)

There was consensus from the Board that the principles and policies in the Comprehensive Plan are still valid and also that the “quality of service” policy held by the Board since 2009 is still valid.

Half of the Board members in attendance strongly agreed that Moving Forward still reflects the Board’s vision for the next ten years. Several members were unsure and others somewhat disagreed.

Half of the Board members in attendance agreed they did not have enough information about the financial forecast to discuss future plans. Some were not sure.

7. ANNUAL BUDGET & FORECAST PROCESS

Ms. Meyer said the budget is not a projection from the prior year’s budget or actuals. It is set up each year based on service hours, ridership, actual operating and capital expenses, and staffing. The Capital Improvement Program (CIP) is approved by the Board as part of the Transit Development Plan each year and the CIP is incorporated into the budget.

The Board meets for a workshop every July to provide budget guidance to staff for the following year. At this workshop, staff requests guidance on the 2016 budget. Once the budget is complete, the financial forecast is updated and future year projections are made.

Mr. French said the Board adopted a trend line for the 2015 budget and asked if it should be changed for next year.

Ms. Meyer said the Board could have that conversation but it would mean a change in direction.

Mr. Peterson asked if the service hours’ expense is \$16M.

Ms. Warren said it is more because the benefits and utilities are in a subset of expenses included in the operating budget package by division which accounts for 66.3% out of a total budget of \$65.5M.

She added that STA’s budget is unlike the City of Spokane or Spokane County’s budgets since it is not created by line item but a total number. The draft budget comes to the Planning & Development committee and Board in September for review. There is a public hearing in October and the committee will consider recommending approval to the Board on November 4 with Board adoption on November 19, 2015.

Ms. Warren said the Board saw a financial forecast in March, 2015 where the cash met the reserve line in 2017. It is assumed that 70% of revenue will come from sales tax and the remainder mostly from grants and fares.

Mr. Snyder asked what is being assumed for grants.

Ms. Meyer said revenue from competitive grants is not assumed and formula grants do not generally change from year to year. She added that in previous years STA had received more revenue than was expended but in the forecast that will not continue; all revenue will be used for operating and capital costs. Common capital costs include fleet replacement at \$5 – 9M per year.

Mr. Snyder asked if the same Gillig buses will be purchased.

Ms. Meyer said the articulated buses in the fleet are from New Flyer. It is anticipated that STA will assume diesel bus purchases with a 3% increase in cost from the previous year.

Mr. Blaska said a bus has a life of 15 years.

Ms. Poyourow added that STA's vehicles are purchased with cash not debt financing.

Ms. O'Quinn asked how much the vehicles cost per year.

Mr. Blaska said the Performance Monitoring & External Relations (PMER) committee recommended a vehicle replacement fund of approximately \$6M per year for a total of \$85M for the period 2018 – 2026.

Ms. Warren said \$6M is set aside for the first year.

Ms. O'Quinn asked where that money goes that is not spent.

Ms. Warren said it goes into the cash balance.

Ms. O'Quinn said there was \$10M more in revenue than expenditures at the end of 2014 and a cash balance of \$59M now. Will any of that be used for fleet replacement?

Ms. Warren said it would since capital purchases come out of the revenue versus operating expense surplus.

Mr. Hafner commented that revenues have exceeded costs.

Ms. Warren said the balance has been used for capital expenses, including replacement of the fleet.

Mr. Snyder asked if the presentation could continue with questions posed later.

Ms. Meyer showed an explanation of the financial forecast graph in layers. She said the yellow line shows Board designated reserves of 15% of operating costs.

Mr. French said municipal budgets maintain a 10% reserve as a safety measure against catastrophic events.

Ms. Meyer said the Board directed that the reserve be paid back within two years if the funds were used.

Mr. Hafner asked why the cash balance shows such a dramatic drop below the reserve line in 2015 onwards.

Ms. Meyer explained that since the 2009 recession the STA Board approved two service reductions and capital projects such as the Smart Bus and Plaza renovation were moved to future years.

Ms. O'Quinn said she had looked at the cash balance on the State Auditor's website from 2008 to 2014 and it differs from STA's end of year numbers.

Ms. Warren suggested it may be due to the timing of projects and payments and sometimes the State Auditor's office put items in different categories.

Ms. O'Quinn said it is the net increase/decrease figures that do not match, for example in 2012 STA's report shows -4.35M versus +4.1M on the State Auditor's website.

Ms. Warren said that was a write off of \$8M for the Light Rail project. That would cause a significant difference.

Ms. Poyourow asked if this could be an item for the "Parking Lot."

Ms. O'Quinn said this is relevant to the discussion since capital expenses are not being included in the revenues and expenditures conversation and this does not help the Board understand the entire financial situation.

Mr. French added that the cash balance above the Board designated reserves is to pay for capital expenses which are not necessarily paid for in the same year as budgeted. In a way it's like pre-funding capital projects; funds may not be needed until buses are purchased in 2018, for example.

Mr. Trulove said a budget is based on forecasted revenues and expenses and the estimated revenues have actually been higher than forecasted. So is it that higher amount of funding rolled over into the next year's budget or into a savings account?

Ms. Meyer said last year the Board changed the way the trend line was viewed so if revenue came in higher than this line, it would be shown as more than the expenses and would be included in the cash balance.

Mr. Blaska added that when the expenses are higher, cash from the balance will be drawn down to pay for capital projects such as the Plaza renovation, Smart Bus and other delayed projects. STA did not have to reduce service as expected in 2013 because the revenue was higher than expected.

Mr. Snyder commented that every year this concept has to be explained in detail due to the turnover of Board members. He said every assumption is Board approved. He considers the reserves to be high but the Board

makes that decision. The structure of governance makes it difficult to make medium term decisions (4 – 5 years).

Ms. Poyourow said there are two assumptions that staff requests to work on the 2016 budget: what sales tax trend to assume; and, the basic principles on which to base the budget.

Mr. Snyder did not want Board members to assume that staff is inventing these assumptions or that staff is giving the wrong numbers to the State Auditor.

Ms. O'Quinn said she did not say that.

Mr. Hafner said he agreed with the Board approved reserves in case of an emergency but nothing binds this Board to previous Boards' decisions.

Mr. Snyder said most budgets include debt payments but STA's does not and this makes STA different from almost all government entities.

Ms. Poyourow asked that the Board discuss what constraints they would feel comfortable with, for example reducing service.

Ms. O'Quinn said the focus has been if STA does not ask for a tax increase, service must be reduced.

However it is also possible to cut capital and operating expenses instead. She would like to see what the proposed capital expenses are. She added that STA's administrative expenses increased by \$1M over 2014. Are there other ways to look at saving money rather than jump to cutting service?

Ms. Poyourow said this is also part of the discussion; is cutting service the only option? Planning for lower operating costs is another option.

Sales Tax Revenue Trends

Ms. Warren said based on advice from Councilmember Allen in 2014, the trends in sales tax revenues were captured for a period of 20 years. The trend line showed 3% and last year the Board adopted a trend line of 2.5% for 2015 budgeting purposes. In previous years the budget was based on an increase from the previous year. If the trend line is changed again it will have a long term, not short term, difference.

Ms. Mumm said the choice between 2.5% and 3% is 20% variance. There has not been such an extreme difference between the budget and actual. She is more comfortable following the actual trend line of 3%.

Mr. Snyder said it is worse to tax citizens and not spend the money rather than spend the money and not tax.

Ms. Poyourow asked what other agencies' trend lines look like.

Ms. Warren said she was not sure since others depend on revenues from different tax bases.

Mr. Schoen said this is discussed every year and there is a projection based on an assumption but no one really knows. The basic plan is to be somewhat conservative and adjust it every year.

Mr. Hafner agreed that it should be reevaluated every year and a 10 year trend is not credible.

Mr. Schoen said at some point the cash balance line will go down to the reserve line and below because of the need for capital expenditures.

Mr. French said the City of Spokane has reserve accounts and suggested that any revenue above the trend line should be put into similar accounts at STA since capital expenses vary from year to year.

Ms. Warren pointed out that the Capital Improvement Plan (CIP) is included in the Transit Development Plan (TDP) each year and it itemizes all the projects.

Ms. O'Quinn agreed with Ms. Mumm and said there needs to be some kind of reserve account but thinks STA's is too big. The public sees the amount and believes that no extra funding is necessary. She would like to see a trend line developed each year.

Mr. Peterson said STA needs "X" number of buses per year for ten years and a contract with, for example Gillig, should be procured at an agreed upon cost. Some capital projects are single projects which will be paid off such as the Plaza renovation. He is not in favor of any tax increase; capital and operating costs should be reviewed first.

At this point, Ms. Poyourow suggested a poll on the sales tax revenue trend for the 2016 budget.

Ms. O'Quinn said if the Board goes back to their previous method of determining a trend this may change.

Ms. Warren said it would not make much difference since it is only for one year.

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Poll results for trend line assumption for 2016 budget:

3%	(4)
2.5%	(3)
More than 3%	(1)
Less than 2.5%	(2)
Not sure	(2)

The results of the poll were inconclusive.

There was no time to address agenda items 8 – 12.

8. FORESTALLING SERVICE CUTS

9. ESTIMATED REVENUE FROM SALES TAX INCREASES

10. ADDING SERVICE

11. TIMING

12. STA'S MOVING FORWARD PLAN

13. WRAP UP & NEXT STEPS

Mr. Trulove said continuation of the discussion about budget assumptions would take place at the July 16, 2015 Board meeting.

Ms. Meyer said staff needs Board guidance in order to produce a budget for 2016 for approval by the Board before the end of the year.

Mr. Trulove asked Board members to think about the appropriate level of revenue required for sustainability and for future projects.

Ms. Meyer suggested the Board members read the rest of the PowerPoint presentation to see the items not covered at this workshop.

Mr. Snyder and Ms. O'Quinn suggested a meeting in August to continue this discussion.

Mr. French asked if those answering the poll with 3% and 2.5% would be satisfied with settling for 2.75% since the number can always be adjusted if necessary.

Ms. O'Quinn asked for the current sales tax revenue percentage year-to-date.

Ms. Warren said that information is provided each month in the Board packet. She added that the last two months have been around 2%.

Mr. Peterson commented that two thirds of the Board agrees with a trend line of at least 2.5%.

14. ADJOURN

With no further business to come before the Board, Chair Trulove adjourned the meeting at 3:30 p.m.

Respectfully submitted,

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