

**Testimony before the Multnomah County Tax Supervising and Conservation Commission  
Regarding the TriMet Proposed FY 11 Budget**

*John A. Charles, Jr.  
President & CEO  
May 25, 2010*

**Introduction**

TriMet asserts that the proposed FY 11 budget adheres to principles of good budgeting and financial planning because **“revenues and expenditures are in balance”** and the budget **“incorporates a long term perspective”** (page 2).

This is disingenuous. The only “long term perspective” being offered by TriMet is the continued practice of pushing debt payments off to the future. The problem is that eventually the future arrives, and someone has to pay. TriMet is creating a regressive, intergenerational burden by hiding more than \$1.2 billion in expenses.

TriMet must confront the two major cost drivers that are out of control: (1) employee fringe benefits; and (2) rail construction projects.

**Fringe Benefits**

TriMet has been gaming the budget process for decades by incurring major commitments for employee compensation in the short-term, but back-loading the costs. The most obvious example is with pension requirements. A review of audited financial statements for the past 25 years shows the following:

**Trends in pension obligations for TriMet  
1983-2009  
(in millions)**

<b>Bargaining Unit Plan</b>	<b>1983</b>	<b>1987</b>	<b>1991</b>	<b>1995</b>	<b>2001</b>	<b>2005</b>	<b>2009</b>
AAL	\$17.5	\$23.6	\$33.1	\$113.1	\$194.9	\$345.4	\$460.3
Unfunded AAL	\$7.1	\$17.7	\$22.7	\$61.1	\$94.6	\$189.6	<b>\$243.2</b>
UAAL as a % of Cov. PR	17%	46%	52%	92%	107%	178%	<b>196.5%</b>

As of last July, TriMet had \$274.7 million in unfunded actuarially accrued liabilities for both management and union pensions, and the debt is growing exponentially.

Of even greater concern is the problem that TriMet has created with Other Post-Employment Benefits, (**OPEB**). TriMet’s entire AAL of \$632 million is unfunded. TriMet’s



Budget Advisory Committee sounded an urgent warning about this in April 2009, when it concluded:

- If past trends continue, “health plan costs for retired and active employees will increase from 13% of TriMet’s operating costs in FY 10 to 36% of costs in 2030.”
- TriMet’s \$1,932 monthly family healthcare premium is “the highest reported in the 2008 US Transit Systems Survey” (the cost is now roughly \$2,200 per month).
- “TriMet’s current health benefit plan for active and retired employees *is unsustainable and its impact on the bottom line will worsen the longer it remains unaddressed.*”

More than a year later, the problem remains unaddressed, as indicated by recent trends that include the FY 11 forecast:

**Annual Cash Cost of TriMet Health/Welfare Benefits  
2003-2011**

	<b>FY 03</b>	<b>FY 07</b>	<b>FY 10</b>	<b>FY 11</b>	<b>Change</b>
F-T union emp.	\$10,600	\$13,998	\$16,739	\$ 19,082	<b>+80%</b>
P-T union emp.	\$ 7,218	\$10,369	\$12,151	\$ 13,809	<b>+91%</b>
F-T mgmt. emp.	\$ 8,681	\$ 10,687	\$12,310	\$ 13,073	<b>+51%</b>
P-T mgmt. emp.	\$ 6,525	\$ 6,943	\$ 8,133	\$ 9,747	<b>+49%</b>

Overall, the total cost of fringe benefits for FY 11 equals 80% of payroll on a budget-year basis. However, when post-employment obligations are factored in, the price tag is much higher:

**Actuarial cost of TriMet benefits  
2001-2009**

	<b>2001</b>	<b>2003</b>	<b>2005</b>	<b>2007</b>	<b>2009</b>
Wages ( <i>millions</i> )	\$97.1	\$107.8	\$113.9	\$121.1	\$136.5
Fringe ben. ( <i>mill</i> )	\$59.2	\$74.1	\$92.9	\$98.5	\$ 157.5
Cost p/FTE	\$62,023	\$68,901	\$82,063	\$87,490	\$116,666
<b>Bens. as % of wages</b>	<b>61%</b>	<b>69%</b>	<b>82%</b>	<b>81%</b>	<b>116%</b>

Jacob Szeto of *The Oregon Politico* recently reviewed the comprehensive annual financial statements of 100 state and local agencies in Oregon for OPEB liabilities. His results show that TriMet is Number 1 in all relevant categories: highest annual required contributions (\$54.87 million), the largest unfunded liability in absolute terms (\$632 million), and the largest liability as a percent of covered payroll (484%).

TriMet is aware that this is a problem; the budget narrative on page nine states that, ***“TriMet needs to begin to take steps to partially fund a retiree-medical trust to assure a funding source for retiree health benefits, which have already been accrued but are not yet funded.”*** However, in a classic case of institutional procrastination, the draft FY 11 budget proposes **zero funding** for that trust.

The 10-year financial forecast (page 241) shows that this problem will continue for another decade. The agency proposes to budget token OPEB trust payments of \$1 million per year for fiscal years FY 12-16, followed by payments of \$5 million in FY 17 and FY 18, and \$10 million in FY 19. This will result in massive obligations in FY 20 and beyond, but the size of those obligations is not stated in TriMet’s budget.

Mr. Szeto also reviewed TriMet’s 10-year forecast. Although the budget soothingly appears to be balanced over the next 10 years, in fact it would be out of balance every single year if TriMet were to begin making the recommended full annual payments into the OPEB trust fund. This is a much more realistic prediction of the future than the one provided by TriMet.

It is important to note that the OPEB problem has been known for years; it is not a freak event caused by the current recession. In March 1994, TriMet negotiated a new labor contract with the Amalgamated Transit Union that set in place a significant escalation of OPEB costs. The terms of the agreement were kept secret for months. When the details became known, Board Chairman Loren Wyss was highly critical and stated publicly that taxpayers were not being protected. Eventually the conflict reached the Governor’s office, and Mr. Wyss was forced to resign by Gov. Roberts.

In a letter to the editor of *The Oregonian*, in December 1994, Mr. Wyss predicted that the labor agreement would doom TriMet to rising costs and declining productivity. He wrote:

*“...the contract just approved by Tri-Met union employees will protect all its members from additional contributions to their pensions for 10 years. It will also guarantee 3 percent minimum wage increases in the future, no matter what happens to the economy or to other public budgets.”*

*“And that’s not all. Unused sick leave should add annual year-end bonuses of \$500 to \$1,000 for those with perfect attendance records; every single dollar of health, welfare, dental and vision plans will be paid for by the public employer; retirement age will decline to 58 within 10 years; and nonunion operators who have helped keep down the cost of shuttle lines will be forced to join the union, at large increases in wage expense.”*

*“...If there is **one predictable reason for transit to fail its mission, it is the burden of fixed costs, which this contract guarantees.**”*

Nothing has changed since 1994. TriMet is being destroyed by unsustainable payroll costs, and secrecy remains the most notable characteristic of the union negotiations. We have asked repeatedly to observe the current round of union negotiations and to review the terms of offers now being discussed. Our requests have been denied.

### **Rail Capital Projects are Cannibalizing the TM General Fund**

The common perception is that rail projects are mostly paid for with federal funds and other outside sources, so TriMet's general fund is not threatened. This is not the case. A few of the examples where general fund dollars were used for rail include:

- Red Line: \$45.5 million
- Milwaukie: \$30 million
- Yellow Line: \$24 million
- Green line: \$42.32 million
- WES: \$24.95 million
- Portland Streetcar, Gibbs street extension: \$10.5 million

In addition, TriMet sells revenue bonds backed by payroll tax revenues to augment federal grants, especially since many costs are incurred up-front before FFGAs are signed. As a result, **net long-term debt** has gone up from \$173 million in 2001 to \$405 million in 2009, most of that related to the rail revenue bonds. **Annual interest payments** on the bonds have nearly doubled in the past decade, from **\$10.6 million in 2000 to \$20.3 million in 2009**. Coincidentally, \$20 million is the level of service cuts about to be imposed due to TriMet's budget crisis.

The next two light rail lines currently planned – Milwaukie and Vancouver – will be among the most expensive light rail projects ever built in America, if we actually build them. These projects would require cash outlays of nearly \$2 billion before any riders are even served, just to obtain 10 more miles of track. To put the costs in a comparative context, consider the following projects:

- |                                       |                         |
|---------------------------------------|-------------------------|
| ➤ Vancouver LRT:                      | \$250 million per/mile  |
| ➤ 2010 Milwaukie LRT:                 | \$194 million per/mile  |
| ➤ I-205 LRT (Green line):             | \$69 million per/mile   |
| ➤ Widening HW 217 by one lane:        | \$42 million per/mile   |
| ➤ Eugene BRT "Emerald Express":       | \$6 million per/mile    |
| ➤ Columbia River dredging, 103 miles: | \$1.7 million per/mile  |
| ➤ LA Rapid Bus, 369 miles of routes:  | \$0.35 million per/mile |

In the FY 11 budget, TriMet proposes to spend \$114 million on rail projects, mostly related to Milwaukie. Since TriMet has yet to begin actual construction on the proposed new transit bridge over the Willamette River, and has not yet bulldozed the 68 businesses and 20 residences that will be taken for the project, there is still time to reconsider. The simplest solution would be to zero out all rail construction spending for next fiscal year and focus on

properly funding OPEB and pension obligations. The dream for Milwaukie LRT has been around for 20 years; putting it off for one more year is not going to matter, but will give the agency time to focus on reducing long-term unfunded debt. The \$250 million in lottery-backed bonds approved for Milwaukie rail can be held in abeyance, or ultimately reprogrammed by the legislature for other priorities.

## **Conclusion**

TriMet's proposed FY 11 budget is not an honest representation of the costs that are being placed on taxpayers. By continuing to leave the OPEB trust unfunded, TriMet creates the impression that the current budget includes all personnel costs, and that in turn leaves the agency with leftover cash to spend on uneconomic rail projects. Over the next 20 years these projects will create significant burdens on the general fund due to debt service on bonds.

The TSCC should *reject* the proposed budget on the grounds that it hides the true long-term effects of current and past decisions, and require that TriMet resubmit a budget that more accurately states the costs of fringe benefits and capital construction.