

**Testimony of John A. Charles, Jr.  
Regarding SB 34-A**

*May 18, 2009*

My name is John Charles and I am president of Cascade Policy Institute, a non-profit policy research organization. I have extensive experience with urban mass transit, both as a consumer and as a researcher. During the past 29 years I have used the TriMet transit system over 20,000 times.

As Revenue Committee members may recall, the legislature approved a payroll tax increase for TriMet and LTD in the final days of the 2003 session. That increase was to be phased in over a 10-year period. TriMet initiated the first rate increase in January 2005, while LTD waited a bit longer. Given that the last tax increase has not yet been fully implemented, it's puzzling that the agencies are back seeking another increase. This should prompt the committee to ask some hard questions.

For purposes of simplicity, I am going to restrict my remarks to TriMet, because that's the organization I know the most about. However, I encourage committee members to examine the inner workings of both TriMet and LTD.

**I. TriMet and the Stated Rationale for the 2003 Payroll Tax Increase**

In a letter dated July 7, 2004 from Fred Hansen to Pete Stark of the Central Eastside Industrial Council, Mr. Hansen outlined the need for an increase in the payroll tax rate as approved by 2003 legislature:

*"You may be aware that the timing of the payroll tax proposal is linked to the region's application for federal funds for the I-205/downtown mall light rail project, due August 20 of this year. We are seeking a 60% federal match for these critical projects. In order to qualify for federal funding...TriMet must show its ability to pay for the operation of the I-205/Mall project for a period of at least 20 years."*

*"Lastly, as we have committed, these revenues will be used only for new projects...the payroll tax increase will only be used to **provide new service in the regional system.**"*

However, as the trend data below indicate, there was very little increased service associated with the new payroll tax revenue. In fact by some measures, transit service actually declined, while total revenue went up by 60%.



**Service measures for TriMet since the 2003 payroll tax increase  
went into effect on 1/1/05  
(Monthly fixed-route service)**

	July 04	July 05	July 06	July 07	August 08	Change
<b>Total vehicles</b>	734	714	720	720	736	<b>+0.2</b>
<b>Peak hr vehicles</b>	630	611	608	605	614	<b>-2.53</b>
<b>Revenue Hours</b>	145,864	138,482	137,493	141,496	151,735	<b>+4%</b>
<b>Vehicle Miles</b>	2,654,658	2,532,474	2,484,938	2,504,547	2,619,484	<b>-2%</b>

**Change in operating revenue, 2004 -2008: +50%**

**Change in total revenue, 2004 - 2008: +60%**

This lack of productivity could have been predicted if legislators had closely examined the evidence in 2003. There has never been a strong correlation between revenue and ridership over TriMet's entire history, as shown below.

**Trends in TriMet Ridership and Revenue  
1971-2008**

	Originating Rides	Operating revenue	Total System revenue
<b>FY 71</b>	14,156,400	\$ 5,920,591	\$ 14,273,000
<b>FY 82</b>	36,960,000	\$19,509,381	\$ 68,611,000
<b>FY 92</b>	43,996,200	\$28,290,547	\$117,149,027
<b>FY 02</b>	69,367,200	\$71,530,000	\$625,841,000
<b>FY 07</b>	75,870,000	\$102,225,000	\$627,227,000
<b>FY 08</b>	77,685,600	\$112,618,000	\$ 842,200,000
<b>Change</b>	<b>+ 448%</b>	<b>+1,802%</b>	<b>+5,800%</b>

While TriMet could reasonably assert that the failure to increase service substantially since 20005 is the result of large capital expenditures for projects that were being built during the 2005-2008 period (e.g., I-205/Mall light rail, WES, Milwaukie LRT), this points out a fatal flaw in the overarching TriMet strategy of committing most new capital resources to rail: such projects are extremely costly and drain scarce resources for years before ever moving a single passenger. Moreover, after opening, they cannibalize bus ridership, generating very little net ridership growth.

The newest high-profile rail project to open – Washington County commuter rail, or WES -- symbolizes everything that is wrong with this strategy:

- The project required \$166 million for a 14.7 mile right-of-way, or \$11.3 million per mile. While cheap compared to TriMet light rail projects, this right-of-way is only used for eight hours each

day, just twice per hour. The highways that WES “competes” with for market share – HW 217 and I-5 – are open 24 hours per day and are used in every one of those hours by many modes, including passenger vehicles, light trucks, heavy trucks, taxis, transit buses, and emergency service vehicles.

- The rail vehicles cost \$6.5 million each (four were purchased). A modern, low-emitting bus can be purchased for less than 5% of that, and the bus could be used in any part of the region.
- The project was so wasteful that the federal government refused to approve \$37 million in funding because it violated an OMB guideline that the cost per rider be no more than \$20. At the time the calculation was made, TriMet was estimating that the full cost of WES would be nearly \$25 per boarding. Ultimately, Sen. Gordon Smith rescued the project with an earmark that avoided any review by OMB.
- TriMet’s various estimates of opening-day ridership (ranging from 2,400 to 3,000) were substantially over-stated. Actual boardings for February and March have been 1,140 per day, or 570 actual riders.
- In public pronouncements, TriMet predicted that half of WES riders would be new to transit. But a TriMet forecasting document published in December 2003 had a more sobering prediction: **“Commuter rail service is expected to displace 246,256 annual TriMet bus boardings when customers switch from bus to the new WES service.”** If that estimate proves accurate, only about 18% of WES riders this year will be new transit customers.
- Not only did WES involve considerable expense for a decade, but the new operational costs will drain TriMet’s general fund (along with the general funds of Washington County, Wilsonville, and Clackamas County, which are all committed to paying for parts of the operating costs). According to the monthly ridership reports sent to the TriMet board, the comparative costs for WES, light rail, and bus are as follows:

	Operating cost per Vehicle hour	Op. cost per originating ride	Operating cost per vehicle-mile
Bus	\$ 90.68	\$ 3.77	\$ 6.93
MAX	\$ 273.79	\$ 2.53	\$ 9.85
WES	\$ 875.49	\$ 21.06	\$ 43.48

The February operating costs for WES were \$375,838 and estimated revenues were \$39,500 (of which only about \$15,500 came from actual WES ticket machines; the rest was imputed from monthly passes and other types of ticket sales). Thus, the monthly deficit will be \$336,338, or \$265 per rider. It’s difficult to see how this is a business model worthy of increased legislative support.

II. Most of TriMet's operational costs are associated with labor, and the employee benefits structure is fiscally unsustainable.

**Cost of TriMet benefits  
2001-2008**

	2001	2003	2005	2007	2008
Wages	\$97,100,000	\$107,800,000	\$113,900,000	\$121,100,000	\$128,600,000
Fringe benefits	\$59,200,000	\$74,100,000	\$92,900,000	\$98,500,000	\$151,800,000*
Number of FTE	2,517	2,643	2,519	2,513	2,590
Cost p/FTE	\$62,023	\$68,901	\$82,063	\$87,490	\$108,262
Benefits as a % of Wages	61%	69%	82%	81%	118%

*Source: Audited financial statements, 2001-08.*

In the most recent TriMet audit, it was noted that, "In 2008 fringe benefits increased \$53,366,000, or 54.2%, due to the increased cost of medical premiums, pension funding requirements, and the implementation of recording of postemployment medical benefit liabilities under GASB Statement No. 45." This suggests that the costs have been there all along; they are just going to be more transparent in the future due to changes in accounting rules.

**How do these ratios compare with other major transit agencies?** New Jersey Transit is the 3<sup>rd</sup>-largest transit operator in the country, serving a 5,325 square mile territory. It also has a heavily unionized work force. Yet NJT's cost of benefits is significantly lower than TriMet's.

**New Jersey Transit  
Fringe Benefits as a % of wages  
2002-2008  
(in millions)**

	2008	2007	2003	2002
Labor	\$ 566,703	\$ 552,370	\$ 451,091	\$ 417,976
Fringe	\$ 409,914	\$ 391,616	\$ 288,130	\$ 255,107
FB as % of Wages	72%	71%	64%	61%

*Source: NJT audited financial statements, various years.*

According to the American Public Transit Association, the average cost of fringe benefits for all transit districts in the country in 2006 was 66% of salary/wages, far below the level at TriMet.

Within the fringe benefits category, TriMet's pension costs have been growing steadily for over 25 years, due to a lack of board negotiating savvy with employees. Pursuant to labor agreements, the retirement age has steadily dropped from 62 to 58, and TriMet has agreed to a constant expansion of post-employment benefits.

TriMet moved new employees to a lower-cost, defined-contribution retirement plan in 2003, but the long-term unfunded liability of both the management plans and union plans have exploded, as displayed below.

**Trends in pension obligations for TriMet  
1983-2008  
(in millions of dollars)**

**Bargaining Unit Plan**

<b>Bargaining Unit Plan</b>	<b>1983</b>	<b>1987</b>	<b>1991</b>	<b>1995</b>	<b>2001</b>	<b>2005</b>	<b>2008</b>
Actuarial accrued							
Liability (AAL)	\$17.5	\$23.6	\$33.1	\$113.1	\$194.9	\$345.4	\$427.3
Annual cov. Payroll (CP)	\$40.9	\$38.5	\$43.8	\$66.3	\$88.7	\$106.5	\$116.4
Unfunded AAL	\$7.1	\$17.7	\$22.7	\$61.1	\$94.6	\$189.6	\$188.4
Unfunded AAL as a % of CP	17%	46%	52%	92%	107%	178%	162%
Annual pension cost	--	--	\$3.0	\$8.7	\$14.8	\$24.5	\$26.2
Annual cost as a % of CP	--	--	3.6%	13.0%	16.9%	22.9%	22.5%

**Trends in TriMet Pension Obligations  
Management Plan, 1995-2008  
(in millions)**

<b>Management plan</b>	<b>-</b>	<b>1995</b>	<b>1999</b>	<b>2001</b>	<b>2005</b>	<b>2007</b>	<b>2008</b>
AAL	-	\$9.1	\$16.1	\$31.6	\$60.3	\$75.6	\$85
Annual covered payroll	-	\$17.1	\$18.9	\$24.1	\$19.2	\$19.6	\$17.8
Unfunded AAL	-	-	(\$16)	(\$10.2)	\$14.0	\$14.6	\$25.9
Unfunded AAL as % of PR	-	-	-	(43%)	72.8%	74.3%	145%
Annual pension cost	-	-	-	\$1.8	\$3.4	\$3.8	\$6.8
Annual cost as a % Of covered payroll				7.9%	17.8%	19.8%	39%

Employee benefits was a focus of this year's review by TriMet's Budget Advisory Committee. In a report published last month (excerpts attached), the committee found:

- Over the past decade, retiree medical costs increased at an annual rate of 18%.

- 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.
- "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.**"

III. Despite huge infusions of taxpayer funds over the past 20 years, TriMet is actually losing market share in its strongest natural market: Portland.

**Changes in Portland Commuting Habits, 1998-2008**

	1998	2000	2002	2004	2007	2008	Change
Drive alone	70%	69%	71%	72%	70%	65%	-7%
Carpool	8%	9	8	8	7	8%	0%
Bus/MAX/Streetcar	12	12	10	11	10	11%	-8.3%
Drive/park/transit	3	2	3	2	4	4%	+33%
Walk	5	5	4	3	4	4	-20%
Bike	3	3	4	4	6	8	+166%

*Source: Portland City Auditor, Annual Service and Accomplishment Reports, 1998-2008*

TriMet has spent more than \$2 billion on rail infrastructure serving downtown Portland, yet it is having no effect on mode preference among commuters.

<b>Change in number of rail vehicles since 2002:</b>	<b>+35%</b>
<b>Change in light rail track mileage since 2002:</b>	<b>+33%</b>
<b>Change in rail stations since 2002:</b>	<b>+ 19%</b>
<b>Change in TriMet commute market share, Downtown Portland:</b>	<b>-1.6%*</b>

*\*Source: Portland Business Alliance, annual business census, years 2001-2008*

The Portland obsession with rail transit has led many political officials to believe that Portland is morally superior to Vancouver, and that any new bridge over the Columbia River must have a light rail extension as part of the base agreement (at a likely cost of \$1 billion or more). But despite all the money spent by TriMet and other jurisdictions on rail, the numbers indicate that driving is actually increasing at a slightly higher rate in Portland than for the entire Portland-Vancouver region:

**Daily VMT per person  
1990-2007**

	1990	1993	1997	2000	2003	2007	Change
<b>Portland only</b>	18.8	20.9	20.8	20.0	19.5	20.0	+ 6.38%
<b>Port-Van region</b>	18.7	20.3	20.9	20.3	19.3	19.5	+ 4.27%

*Source: Metro, 2009*

**IV. TriMet does not need a payroll tax increase to satisfy requirements for federal light rail subsidies.**

It has been frequently asserted by TriMet representatives that the agency needs a payroll tax increase in order to demonstrate to FTA the ability to operate federally-subsidized light rail lines for 20 years. However, "operating costs" is apparently a flexible concept, because at this very moment TriMet is proposing the following **service reduction cuts** for federally-funded rail lines that are not yet 20 years old:

- Reduced frequency of early morning and later evening service on the Yellow line; every 30 minutes instead of every 15; and
- The Mall/I-205 line (not yet open) will have less frequency of service than originally planned (every 30 minutes instead of every 15 minutes), particularly during weekend mornings and weekday/weekend evenings.

**V. Alternatives to a Payroll Tax Increase**

The agency has other many other options for both increasing operating revenue and controlling costs, all of which should be pursued before the payroll tax rate is increased again. Those strategies include:

**Eliminate fareless square in Portland.** Fareless square was instituted 34 years ago as an air pollution control measure. That rationale has long since become moot. There are 86,000 weekday riders in Fareless Square, and all of them should be expected to pay some kind of fare. TriMet estimates that it is losing between \$2.72 - \$3.26 million annually year in revenue through the fareless square, in addition to a loss of employee productivity (due to the excessive on-offs of free-riders in downtown) which imposes additional costs.

If TriMet continues to believe that its central city service is literally **worthless to riders**, businesses should not be forced to pick up the slack.

**Negotiate the next union contract (which expires this year) to cap TriMet health care costs at a level far below the current \$1,942 per month per family.** There is no reason that TriMet should be offering

the most generous health care package in the country at a time when the state legislature is cutting virtually every program and Oregon has one the highest unemployment rates in the nation.

**Stop expanding high-cost rail service when the most inexpensive ridership gains have been on the bus side.** The real success story at TriMet over the past decade has been the implementation of Frequent Service (every 15 minutes or better, all day) on a growing number of bus routes. In 1998 only 4 bus lines had frequent service; today there are 16 routes totaling 164 miles. The evolution of that program is displayed below.

**Growth of TriMet Frequent Bus Service  
1999-2008**

	FY 99	FY 01	FY 03	FY 05	FY 07	FY 08	Change
<b>Number of FS lines</b>	4	9	14	15	16	16	<b>+300%</b>
<b>FS route Mileage</b>	39	88	125	164	164	164	<b>+320%</b>
<b>Weekly FS Boardings (000)</b>	210	414	549	685	694	705	<b>+236%</b>
<b>Weekly share of All bus ridership</b>	18%	34%	45%	56%	57%	57%	<b>+216%</b>
<b>Peak buses</b>	66	128	175	204	206	206	<b>+212%</b>

Although bus service doesn't get much respect within Portland transit circles, it is the workhorse of the system. More importantly, expanding it is relatively inexpensive. Unlike large rail projects, adding bus service does not take a decade of planning, hundreds of public hearings, the seizure of numerous properties through eminent domain, customized equipment, special bridges or tunnels, maintenance cost of exclusive ROW, and expensive Environmental Impact Statements. It simply requires a commitment to give customers the service they desire.

The next rail project for TriMet, light rail to Milwaukie, will cost an estimated \$192 million per mile just to build, or \$1.4 billion total. For 1/20<sup>th</sup> of that or less, bus service in that corridor could be vastly improved.

Before any decision is made regarding SB 34, The House Revenue Committee should request that the Chair of the TriMet board appear before the committee to explain why service has improved so little since the last tax rate increase was approved.



# Report to the Board of Directors Citizens Advisory Committee on the Budget



Tri-County Metropolitan Transportation District of Oregon

Spring 2009

## 5.0 TRIMET EMPLOYEE BENEFITS

Staff provided the CAC with comprehensive information covering employee compensation, including benefits. Information was provided on TriMet benefits compared to other public agencies and national transit agency peers.

### 5.1 Background Information Provided

The following information was provided to the CAC:

1. TriMet management's salary compensation plan and benchmarking process versus other local employers.
2. An overview of TriMet's benefits for active and retired employees, focusing on pension plans and health benefits.
3. General cost information about TriMet's active employee health benefits compared to other agency health benefits.
4. Information from John A. Dash and Associates, Transit Labor Economist, including data from transit agencies nationwide with respect to wages, healthcare benefits and premiums and labor contract information.
5. The cost of TriMet's active and retiree employee benefits, including 2009 renewal rates for health benefits.
6. Information on how TriMet has reduced the costs of management health benefits by increasing employee cost sharing and plan design features.
7. Information from TriMet's Financial Statements and Supplementary Information as of June 30, 2008, which describes TriMet's pension and other post-employment benefits, cost and funding plans of the Management Defined Contribution plan, the Management Defined Benefit pension plan, the Union Defined Benefit pension plan and TriMet's post-employment health benefits.
8. TriMet staff also provided data to the CAC comparing the cost of a 2% wage floor, with the current 3% union wage floor written into the union contract since 1992.
9. TriMet also discussed the high costs of absenteeism in the operator ranks, where each absence must be covered by an extraboard operator hired to standby to operate runs for absent operators. Staff noted that each 1% of additional absenteeism costs \$1 million a year in extraboard costs.

## 5.2 Key Facts Presented

Management salaries are benchmarked using the mid-point salary levels of similar jobs in the markets to recruit from, which are both in the private and public sectors. This allows TriMet to remain competitive in the job market. Salary surveys for management are conducted bi-annually. Union wages are subject to labor negotiations.

TriMet health benefits costs per active employee have increased 12% annually since the mid-'90's. Over the past decade, retiree-medical costs increased at an annual rate of 18.0%. If past trends continue, health plan costs for retired and active employees will increase from 13% of TriMet's operating costs in FY10 to 36% of costs in 2030. This is partially due to the nationwide escalation in healthcare costs, and is partially the result of the fact that 40% of TriMet's current employees are projected to retire over the next 10 years, resulting in a surge in retiree medical costs.

To reduce costs, management employees enrolled in the PPO health and dental plans pay an annual deductible co-insurance for most services with higher co-insurance for prescription drugs and premium cost sharing to cover dependents. The FY09 "solved" forecast assumes a 5% overall savings in retiree medical benefits in FY11 based on plan changes.

Compared to its peers locally, TriMet management and union retiree healthcare benefits (other post-employment benefits, or OPEB) are rich. Most Oregon public and private employers do not provide any retiree health benefit after age 65 and, in fact, few private employers provide any retiree medical benefits. Most local agencies provide either a small contribution to employee benefits for early retirees, or early retirees can "buy-in" at plan rates, but must pay 100% of the cost. By comparison, TriMet employees are fully vested in retiree medical benefits after 10 years of service at age 55, and the benefits received as an active employee continue after retirement for the employee and dependents.

At its March 2009 meeting, the TriMet board authorized the establishment of a trust fund for future OPEB obligations for management employees. TriMet does not have the financial capacity to fund the trust adequately. Additionally, after May 1, 2009, new non-union employees who complete ten years of credited service and retire at or after age 55, will be eligible for retiree health care benefits comparable to the health care plan offered to active employees but shall pay the entire cost of the coverage provided by TriMet.

While TriMet has many peers in the public sector with growing unfunded retiree healthcare liabilities, there is an increasing need to address this issue further. The District pays for 100% of the premiums for eligible retirees from the General Fund revenues each year, using what is known as the "pay-as-you-go" method of funding. The District paid approximately \$11.15 million in FY08 post-employment healthcare and life insurance benefits.

The District's total annual OPEB cost, or Annual Required Contribution (ARC), is an amount actuarially determined in accordance with accounting standards. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years. TriMet's 2008 ARC was \$54.9 million.

With respect to pension benefits, staff explained that TriMet is one of the few public sector agencies not in PERS, the Public Employee Retirement System managed by the State of Oregon. By comparison, the management Defined Benefit and union Defined Benefit pension plans provide benefits to TriMet employees with 30 years of service that are roughly comparable to PERS Tier Two, the reformed PERS.

The union Defined Benefit plan payment to retirees is calculated based on years of service for all union employees, regardless of pay rate or earnings.

The management Defined Benefit plan is based on final average salary.

Annual Required Contribution to the management pension plan in FY08 was \$6.9 million and the Annual Required Contribution to the union plan in FY08 was \$26.1 million.

In 2003, TriMet closed its management defined benefit plan to new employees. Non-union employees hired after April 27, 2003 are part of a defined contribution plan to which TriMet contributes 8% of salary.

**CAC Perspectives:**

1. The CAC notes that 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. TriMet's \$1,932 monthly family healthcare premium (union employee PPO cost is cited) is the highest reported in the July 2008 US Transit Systems Survey. The CAC notes that the current economic crisis and coinciding renewal of the labor agreement provide an opportunity for TriMet to address health benefit costs to help achieve fiscal stability.
2. The CAC believes TriMet should promptly inform employees about TriMet's current and future health benefit costs and the impact on the agency's financial picture going forward. Healthcare benefits should be presented within the context of total compensation to ensure that employees appreciate the need to balance benefits, wages and, ultimately, jobs.
3. The CAC notes that compared to its peers in the transit industry, TriMet is one of 13 among 96 transit agencies that pay 100% of healthcare premiums for union employees and dependents. The average agency premium contribution is 85% of family premium. The CAC endorses employee contributions for active and retiree healthcare benefits as a means of cost sharing, as well as assuring employee awareness of the agency's expense. Other approaches employers have taken to manage benefit costs are to cap the total amount paid by the agency for health benefits and to limit the amount paid toward dependent benefits.
4. The CAC supports reviewing the level of benefits provided to active and retired employees and their dependents.

5. The CAC suggests TriMet consider a different overall benefit package for new employees to appeal to a younger more mobile workforce. At a minimum, the CAC supports freezing enrollment of the current retiree medical program. Most private sector employers no longer offer any retiree benefits and many public sector agencies offer nothing for Medicare-eligible retirees and require younger retirees to pay their own premiums.
6. TriMet should focus on reducing absenteeism and those associated costs. The CAC noted that San Diego capped sick days at eight days a year in its recent contract.
7. The CAC suggests that TriMet review with the union the current ceiling and floor on union wage increases. A lower floor and higher ceiling may provide wage increases that are more closely linked to CPI and could also save money for TriMet during times of recession.