Examining the Claims Behind TriMet's Proposed Tax Increase

John A. Charles, Jr.
President, Cascade Policy Institute
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Introduction and Summary

TriMet has recently announced plans to raise the rate of the regional payroll tax it imposes on most employers within the transit district. The current rate is 0.7237 percent. The proposal is to raise it by 1/10th of a percent, phased in over a 10-year period. Such an increase was authorized by the state legislature in 2009, subject to a finding that the tax increase will not negatively affect the economy. TriMet expects to have the first reading of the proposal on August 12, and a Board vote is scheduled for September 23. If approved, the rate increase will go into effect on January 1, 2016.

Based on various staff presentations made to date, the legitimacy of TriMet's case apparently rests on three major claims:

1. After years of labor strife regarding a financially unsustainable union contract, TriMet's "financial house is in order."
2. TriMet makes "efficient use of resources."
3. There is a "compelling need to expand transit service."

This paper examines each of those claims. The evidence shows that the first two assertions are demonstrably false. TriMet has been a poor steward of public resources for decades, by consistently negotiating labor contracts with fringe benefits that were unsustainable. This was publicly acknowledged by the TriMet Board Chair in 1994, who predicted (correctly) that the new union contract would make it impossible for TriMet to carry out its mission.[1]

As a result of labor agreements that were repeatedly approved by the TriMet Board, the agency has $1.2 billion in unfunded actuarial accrued liabilities for post-employment obligations, including pensions and health care. Paying for retiree benefits each year out of the general fund cannibalizes actual transit service.

TriMet has not used resources efficiently, as demonstrated by the results of the payroll tax rate increases imposed every year between 2005 and 2014. During that decade, annual operating revenue for TriMet increased by 80%; yet, transit service actually <u>dropped by nearly 14%.</u> This

[1] Loren Wyss, letter to the editor, *The Oregonian*, December 1994. Mr. Wyss was removed from the TriMet Board in August 1994 by Gov. Roberts, due to his opposition to the new union contract.

occurred despite repeated promises from TriMet management that every dollar of new tax revenue would go to increased service.

Finally, there is little evidence of a "compelling need" for expanded transit capacity. TriMet's fixed-route ridership is lower today than it was in 2007, despite population growth. TriMet is also losing ***market share*** of Portland commuting trips. In 1997, an estimated 12% of all commute trips were taken on transit; by 2014, that number had dropped to 11%.

Instead of "throwing money" at a business model that hasn't changed materially since 1970, employers who subsidize TriMet should consider other options for improving mobility, including a complete deregulation of the transit market to allow Uber-like alternatives to the TriMet monopoly.

I. Is TriMet's financial house in order?

In order to support this assertion, TriMet relies on two primary arguments. The first is that the most recent union contract brings long-term forecasts of revenue and expenses into equilibrium. While that may be true – and it's impossible to disprove any forecast – it sidesteps the central issue: TriMet's cost of employee benefits is too high, requiring constant payroll tax rate increases (Table 1). In 2014 TriMet's ratio of benefits-to-wages was 149%. This was much higher than the NY MTA (97%), NJ Transit (87%), Denver RTD (43%) or Miami-Dade TA (31%).

Table 1
Annual Compensation Costs of TriMet Employees
2001-2014

	2001	2005	2009	2011	2012	2013	2014
Wages (millions)	$ 97.1	$ 113.9	$ 127.3	$ 123.5	$ 130.3	$ 129.4	$ 132.5
Fringe benefits	$ 59.2	$ 92.9	$ 163.6	$ 200.9	$ 223.3	$ 204.1	$ 197.8
Total FTE staff	2,517	2,519	2,515	2,297	2,308	2,381	2,465
Average cost/FTE	$ 62,023	$ 87,490	$ 115,436	$ 141,053	$ 153,018	$ 140,085	$ 133,734
Ben as % of wages	**61%**	**82%**	**129%**	**163%**	**156%**	**158%**	**149%**

Source: Audited Financial Statements; monthly TriMet Performance Reports

Since fringe benefits are so costly, TriMet faces a ticking time bomb of unfunded liabilities for both pensions and "other post-employment benefits" (OPEB), including health care coverage.

TriMet has $950 million in unfunded OPEB liabilities. And notwithstanding claims that TriMet is trending in the right direction, OPEB liabilities increased by $317 million between 2007 and 2014, as shown in Table 2.

Table 2
TriMet OPEB Liabilities

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
12/31/07	$632,203,609	$632,203,609	0.00%	$130,725,874	483.61%
12/31/09	$816,544,110	$816,544,110	0.00%	$137,869,064	592.26%
12/31/11	$900,541,291	$900,541,291	0.00%	$151,448,186	594.62%
1/1/13	$852,755,665	$852,354,985	0.05%	$151,180,107	563.75%
1/1/14	$949,993,362	$949,592,434	0.04%	$145,468,672	652.78%

Source: Annual TriMet OPEB Reports

As far as we are aware, TriMet's ratio of UAAL to covered payroll – 653% -- is the worst among the top 20 public transit districts in the country.

TriMet also has a serious problem with pension liabilities. As Table 3 indicates, the annual cost of defined-benefit pensions for union members has skyrocketed from 4% of covered payroll to 39% of payroll during the last 23 years.

Table 3
Annual Cost of TriMet Pensions
Bargaining Unit Members
(dollars in millions)

	1991	2001	2011	2014
Annual pension cost	$3.0	$14.8	$32.2	$48.7
Cost as % of covered payroll	3.6%	16.9%	27.0%	39.0%

Source: Audited Financial Statements, various years

The second argument made by TriMet in support of its "house in order" claim is that it has high bond ratings for its many debt obligations. However, that is mostly a function of how those bonds are secured. Bondholders have senior liens on payroll tax revenues. Since those revenues are essentially guaranteed, there is little reason for rating agencies to downgrade TriMet's debt offerings.

But what is good for Wall Street is not necessarily good for local transit riders. Senior lien bondholders get first claim on TriMet payroll tax revenues. Thus, when times are tough, bond holders get their full debt payments, while TriMet cuts back operations. Debt service cannibalizes transit service. TriMet spent $35.6 million on debt payments last year and is budgeting $40.6 million in FY 16. Those are funds that should be going to transit operations.

II. Does TriMet make efficient use of resources?

In support of its efficiency claim, TriMet makes the following arguments:

- TriMet's farebox recovery ratio is 17% higher than peer agencies;
- TriMet carries 18% more riders per revenue hour than peer agencies; and
- TriMet's operation cost per rider is 22% below the peer average.

Unfortunately, limiting the comparisons of efficiency to peer agencies is not particularly informative, given the low levels of productivity in the monopolized public transit industry.

For instance, TriMet's farebox recovery ratio is only about 27%. This means that taxpayers have to pay 73% of the operating cost of each ride, plus all of the capital costs. The fact that TriMet's farebox recovery ratio is marginally higher than peer agencies is akin to beating the Jamaican bobsled team and then expecting to compete for a gold medal at the Winter Olympics.

A more useful metric for those who actually pay the TriMet tax is to compare service trends with revenue trends. A really efficient agency would show levels of service increasing at a rate equal to or greater than the growth in operations revenue. Tables 4 and 5 show just the opposite: ***as operations revenue increased at TriMet over the past decade, service actually decreased.***

Table 4
TriMet Financial Resource Trends
(000s)

	2004	2006	2008	2010	2012	2014	% change
Passenger fares	$ 55,665	$ 68,464	$ 80,818	$ 93,729	$ 102,240	$ 114,618	**+106%**
Tax revenue	$ 155,705	$ 192,450	$ 215,133	$ 208,933	$ 248,384	$ 275,357	**+77%**
Total op. resources	$ 290,513	$ 342,274	$ 404,481	$ 433,609	$ 488,360	$ 522,155	**+80%**

Source: TriMet audited financial statements, various years

Table 5
Annual Fixed Route Revenue Service Trends

	2004	2006	2008	2010	2012	2014	% chng.
Hours of service	1,698,492	1,653,180	1,712,724	1,682,180	1,561,242	1,608,090	**-5.3%**
Miles of service	27,548,927	26,830,124	26,448,873	25,781,480	23,625,960	23,763,420	**-13.7%**

*Source: TriMet performance reports, **http://www.trimet.org/pdfs/publications/trimetridership.pdf***

This is contrary to what TriMet management promised when it was seeking approval to raise the tax rate. During the 2003 session of the state legislature, TriMet General Manager Fred Hansen testified, ***"TriMet's proposed payroll tax increase will be used exclusively to provide new or enhanced transit service. This will include assisting in the operation of Washington County Commuter Rail, Clackamas County light rail, Lake Oswego Streetcar, a substantial increase in Frequent Service routes, and enhanced local service connections to these lines."***[2]

This was echoed by George Passadore, President of the TriMet Board of Directors: ***"I would like to reiterate the Board's commitment to using any money created by the rate increase to pay for new and improved service. This commitment will allow us to focus on providing more and better service throughout the TriMet service district."***[3]

The rate increase was approved, and resulted in $34.4 million in new funds for the agency between 2005 and 2014. TriMet now argues that those funds were used exactly as promised. A close examination of the commitments made to legislators 2003 shows otherwise:

TriMet Commitments	Reality
Construction/operation of WES	Began operation in 2009; opening year ridership forecast was 2,500 average daily riders; actual ridership was 1,200 in 2009 and remains below 2,500.
Construction/operation of Green MAX line	Began operation 2009; service levels 33% below those promised to FTA in FFGA[4]
Assisting in construction/operation of Lake Oswego Streetcar	Project abandoned due to high cost, low benefits, and local political opposition.
Substantial increase in frequent service routes	No frequent service routes added; existing routes had fewer hours of service by 2011.[5]
More and better service throughout the district	Overall service reductions approved by the board in September 2009, December 2009, June 2010 and September 2010.

[2] Fred Hansen, testimony before the Senate Revenue Committee on SB 549, March 11, 2003, p. 3.
[3] George Passadore, TriMet Board President, before the Senate Revenue Committee, March 11, 2003, p. 1.
[4] TriMet Fall 2010 Financial Forecast, p. 39.
[5] TriMet 2011-2012 proposed budget, p. 3.

TriMet compares poorly to other local transit districts

TriMet's inefficiencies can clearly be seen when operating characteristics are compared with the four jurisdictions that chose to leave TriMet between 1988 and 2002 (Table 6). Among other things, the table shows that employers within the TriMet district currently support the agency at a very generous level.

Table 6
Transit District Operating Data for 2013

	Sandy	Molalla	Wilsonville	Canby	TriMet
Transit district population	17,483	16,687	21,394	15,829	1,489,796
Size of district territory (SM)	78.5	100	81	52	570
Population density	223/SM	167/SM	264/SM	306/SM	2,614/SM
Payroll tax rate	**0.006**	**0.005**	**0.005**	**0.006**	**0.007137**
System cost per veh. mile	2.80	2.30	6.38	5.31	8.36
Payroll tax per/capita	**$25.3**	**$25.2**	**$151.2**	**$63.6**	**$173.5**

Source: TriMet 2014

Table 7 demonstrates that TriMet compares poorly with other local transit districts when service is measured on the basis of cost per revenue-mile or cost per revenue-hour.

Table 7
Comparative Costs of Service for 2013
Willamette Valley Transit Districts and Vancouver, WA

	Operating expense per revenue-mile	Operating expense per revenue-hour
TriMet commuter rail	$ 43.74	$ 949.84
Portland streetcar	$ 38.65	$ 218.36
TriMet light rail	$ 11.96	$ 175.18
TriMet bus	$ 11.49	$ 136.19
Lane Transit District	$ 9.99	$ 130.00
Cherriots (Keizer-Salem)	$ 9.17	$ 128.00
SMART (Wilsonville)	$ 7.96	$ 118.00
CTRAN (Vancouver)	$ 7.60	$ 116.00
SAM (Sandy transit district)	$ 2.57	$ 62.70

III. Does the region "need" TriMet to expand transit service?

In 2007, TriMet reported 75.8 million originating rides for fixed route service. By 2014, the total was 75.7 million. If population is growing but ridership is shrinking, simply "throwing more service" at people may not be the solution.

TriMet's ***market share*** of commuting travel is also declining. The transit share of Portland commute travel was 12% in 1997, ***before*** the opening of MAX lines to Hillsboro, the Portland airport, North Portland, and Clackamas Town Center; and before the WES commuter rail and the Portland Streetcar lines were built.

By 2014, it had dropped to 11%, despite (or because of) the expenditure of more than $2 billion on new rail service (Table 8).

Table 8
Travel Mode Share for Weekday Commuting
<u>Portland citywide</u>, 1997-2014

Mode	1997	2000	2004	2008	2010	2011	2012	2013	2014
SOV	71%	69%	72%	65%	62%	63%	61%	64%	63%
Carpool	9%	9%	8%	8%	7%	6%	6%	6%	6%
Transit	12%	14%	13%	15%	12%	12%	12%	10%	11%
Bike	3%	3%	4%	8%	7%	7%	7%	7%	8%
Walk	5%	5%	3%	4%	6%	6%	7%	7%	8%
Other	n/a	n/a	n/a	n/a	7%	6%	6%	6%	6%

Source: Portland Auditor, Annual Community Survey

TriMet's share of commute travel dropped even more in its strongest natural market, the downtown core (Table 9). Transit had 46% of the travel market in 2001, and only 36% by 2011.

Table 9
Travel Mode Share for Weekday Commuting
<u>Downtown Workers</u>, 2001-2011

Mode	2001	2003	2005	2009	2010	2011
Auto	49%	52%	52%	41%	47%	48%
Bus/light rail	**45%**	**40%**	**37%**	**44%**	**38%**	**34%**
Bike	3%	4%	6%	10%	9%	11%
Walk	2%	3%	4%	4%	5%	5%
Streetcar	1%	1%	1%	1%	1%	2%

Source: Annual Downtown Employer Census, Portland Business Alliance.

Conclusion

In both 2003 and 2009, all the major Portland-area business associations testified in support of TriMet's legislation seeking approval of a payroll tax rate increase. That support was offered because TriMet promised new service. Yet after 10 straight years of raising the tax rate, TriMet's service had actually dropped by 14%.

Nonetheless, in the budget message for the adopted FY 2015-16 TriMet budget, management states: "Without the rate increases, none of the service improvements made since 2005 would have been possible."[6]

Regional businesses should stop playing Charlie Brown to TriMet's Lucy. Before offering any more political support, local businesses should demand that TriMet reduce the cost of operations. This would allow it to provide more service without raising taxes.

The most obvious metric is the cost of employee fringe benefits. At a minimum, business leaders should insist that TriMet ***defer any tax rate increase until its annual cost of benefits is less than the cost of wages***.

In the longer term, the ratio of benefits to wages should be reduced to levels comparable to the private businesses paying the taxes.

[6] TriMet, FY 2016 budget document, 2.