Case Study on Local Financing Techniques: Portland, Oregon

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INTRODUCTION

The level of transit service should, perhaps, dictate the level of financing, but it may be a circular situation in which resources available actually dictate the level of services that can be offered. This is the case with Portland.

SERVICE PLANNING

A major decision was made in 1976 to build the light-rail system from downtown Portland to surburban Gresham. At the time that decision was made, Oregon's political climate was controlled by strong leaders in influential positions and supportive of mass transit—the mayor, the governor, and the chairman of the state's transportation commission. Those individuals dictated a series of events that led to the abandonment of a proposed freeway and a transfer of funds to a transit corridor project in which an existing freeway would be widened and a light-rail system built in the same corridor. This decision marked a strong shift from highways to transit as a transportation solution.

This commitment to mass transit has been continued by the metropolitan planning agency in Portland, the Metropolitan Services District (MSD). MSD is responsible for development of the 20-year regional transportation plan. With its emphasis on mass transit, this plan is monitored by a committee of elected representatives of the political subdivisions in Tri-Met's service district. One significant characteristic of the Portland region is the remarkable consensus that exists among subdivisions. This has been particularly effective in achieving support from Oregon's congressional delegation.

The regional transportation plan (RTP), adopted by MSD in June 1977, reflected the decision that mass transit would be emphasized as an essential element of any solution to the transportation problem. The RTP, written by MSD, is the basis for Tri-Met's 5-year plan, the Transit Development Program (TDP). The program was adopted in February 1980, and has an extensive and detailed service plan but includes no financial plan.

This lack of financial plan has had a significant impact on implementation of the program. The first step in implementing the 5-year plan was taken in September 1982, after three postponements totaling almost a year and severe reductions of the original plans. Only 20 percent of the total increase in service hours planned for the first increment was put on the street. That first step on Labor Day 1982 included the introduction of the self-service fare system, a grid system, and fare adjustment. The fare adjustment is not a euphemistic styling for a fare increase. The base fare was increased, but offered offsetting discounts for purchasing prepaid bus tickets and introduced a lower fare, allowing a trip within one zone for 50 cents compared with the base fare of 75 cents.

The amount of service implemented in the first step was significantly less than originally planned and led to a fairly intense reaction from the press and transit groups in the region. This was the first of a series of clashes between regional transportation planning and the reality of Tri-Met's fiscal survival.

The amount of service Tri-Met had on the street grew steadily from 1970 through September 1982, when the reduced first step of the 5-year plan was implemented in the form of a grid system, increasing weekday service by nearly 10 percent. Based on the proposition that customer acceptance of service overall can be measured by originating rides per service-hour, in 1983 this figure dropped to its second lowest level in Tri-Met's history. Pressure was building to cut service, revenues were falling off, customer acceptance of the service had deteriorated to its second lowest point in agency history, and Tri-Met was entering a period of severe financial constraints. In June 1983, a service reduction of 2 percent was implemented by improving efficiencies of certain runs with little public reaction, but in January 1984, a 6 percent reduction was effected that generated intense public feeling. Even more emotional reaction greeted the announced plan to cut another 6 percent in June 1984. By this time the agency was the most notorious act in town. The consensus of regional subdivisions that had adopted mass transit as its favorite solution to transportation problems was nowhere to be found.

FINANCIAL PLANNING

A significant step in financial planning was taken in June 1977, when financial projections were made to accompany an aggressive service policy adopted by the board for agency direction. These projections were not far off the mark with one glaring exception—the cost of providing the service planned. Little financial planning occurred until the fall of 1981, when a financial forecasting model was put together. Delays in implementing the ambitious TDP were experienced, and a second study regarding Tri-Met's finances was conducted by the Portland City Club, a fairly influential group of civic-minded citizens throughout the area served by Tri-Met. This second study concluded that additional financing would be required to provide the level of service the region demanded. The position of Tri-Met's Board, based on political assessments, was that Tri-Met must live within its existing resources, offer service on a revenue-driven basis, and not seek additional revenue until the light-rail system was operating successfully.

REVENUE SOURCES

Under company policy, revenue sources dictate the level of service. Tri-Met has two major sources of revenue—farebox receipts and an employer-payroll tax.

Employer-Payroll Tax

When Tri-Met was created in 1969, the presiding politicians decided an employer-payroll tax was the path of least resistance for continuing operations funds for the agency. The state of Oregon has no sales tax, but does have a relatively high income tax. Any attempt to increase property taxes would have been defeated at the polls. The employer-payroll tax was established with a 6/10 of 1 percent cap and originally levied at 2/3 of that cap. In January 1978, the rate was increased to its legal limit. The annual increases in revenues from the employer-payroll tax have varied from almost 39 percent to -4 percent. The problem lies in employment in the region, which peaked in 1980 and declined sharply from that time until August 1983. In fiscal 1980, the employer-payroll tax increased 21 percent over the previous year. In fiscal 1981 the increase was only 6 percent, less than 1/3 of the previous year.

Farebox Receipts

Farebox receipts climbed steadily from the agency's inception until 1981, when there was a leveling off and slight decline. In September 1982, the first quarter of Tri-Met's fiscal 1983, self-service fare was introduced. This was an experiment evaluating a fare-collection system reputed to be common in Europe and essential to the economic operation of light-rail systems that do not have barrier control. This fare-collection system was supposed to generate significant savings through faster loading, shorter dwell times, and improved headways. Tri-Met used that system from September 1982 until it was sharply modified and de-fanged in April 1982, an approximate 18-month period during which the agency endured costs that ran far over budget, equipment failures beyond control, and no noticeable operational savings. Fare evasion was a conservative 15 percent at its peak, and a confrontational environment developed between fare inspectors and riders. The experiment as originally implemented has been abandoned because the agency can no longer bear the financial drain represented by costs, such as fare inspectors and fare evasion, that were not being offset by operating savings.

PASSENGER REVENUES

Passenger-revenue forecasting has been a greater problem than the employer-payroll tax. The inputs to the financial forecasting model are some 200 variables. The outputs are projections split into fairly accurate 6-year projections and a longer range, more clouded 8-year extension. The model, developed in 1981, has been fine tuned and is now a useful tool for the 5-year plan.

Planning Results

What are the results of the service and financial planning Tri-Met has practiced in recent years? Operating losses—increasing losses—have been suffered for the last 3 fiscal years. Working capital has dropped from a 1981 high of $15.6 million to $8.6 million at the end of the last fiscal year, and payrolls alone require $5 million cash each month.

Criticism was directed at the agency's incompetent financial planning. When it entered this period of declining revenues, the agency had over $15 million in working capital; in effect, banking the public's money. It was a defendable decision to carry out the 5-year plan to the maximum extent possible. What was not appreciated by Tri-Met, and the population of the region and country, was the depth and length of the recession. The failure to recognize this situation and the unforeseen burden of self-service fare were too much to avoid any impact on the level of service. The public that reacted bitterly to service cuts did not seem to need the level of service remaining.

FINANCING TECHNIQUES

The situation has led to implementing additional financial techniques to avoid further service cuts and to ensure adequate cash to meet payrolls. These techniques are

- Stripping assets through the use of an early-out program, funded by the pension plan, that permitted the maintenance of the full-time and part-time mix that would most efficiently run service after the June cut, and the transfer of excess pension funding from the pension trust to working capital
- Submitting to the legislature a proposed package for restructuring debt, currently $30 million in outstanding bonds
- Identifying specific priorities for the upcoming negotiation of the union contract
- A closer link between accrual and cash budgets

Major efforts have been devoted to refining the financial forecast model and linking it more closely with actual results. In longer-range financial planning, the board has embarked upon a review of those ambitious goals adopted in June 1977. The board has appointed a Blue Ribbon Committee to review three alternative levels of service over the next 20 years, considering the environment for taxpayer acceptance of mass transit and taxpayer willingness to pay for whatever level is perceived to be best for the region. Contrary to the political environment existing at the time the decision was made in the 1970s to build a light-rail system, there are no strong mass transit supporters who are political leaders now. Another question to be studied by the Blue Ribbon Committee, as well as another committee of heavy hitters in one of the counties served, is the connection between economic development, transportation, and mass transit. These two committees will try to devise a system responsive to the transportation and mass transit problems of the region.

Tri-Met's 5-year plan and its budget development must go on. This is being done through the use of scenarios characterized by alternative hypotheses aimed mainly at the level of bus feeder service demanded by the light-rail trunk, and the level of success in upcoming contract negotiations.

Goals in financial planning are

- A clear, quantified linkage, leading from the strategic plan adopted by the board to each year's budget.
- The attainment of regional realism regarding transit funding. The employer-payroll tax, at its current rate, is inadequate to provide the level of service thought to be needed for economic development. Various spokesmen for the business community have convinced the board that the rate of the employer-payroll tax cannot be increased under any conditions, and the board is not inclined to attempt an increase. There is some feeling that the burden must be shifted from the employer to a broader base, probably through such a vehicle as a sales tax. This feeling tends to ignore the fact that the employer-payroll tax, because it is a deduction against both the Oregon income tax and national income tax, is a means for spreading the burden widely. The issue is being brought to a head in the current discussion of whether to extend the light-rail system westward from the city for a distance equal to its current eastern leg.
- A better, faster, more efficient connection between service levels and budgets must be developed. There should be some means of accurately quantifying alternative networks without having to go to actual runcuts to determine the financial impact of differing service levels.