TRI MET

Memo

Date: December 11, 2019

To: Board of Directors

From: Doug Kelsey

Subject: **RESOLUTION NO. 19-12-89 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING AND RESTATING TRIMET'S STRATEGIC FINANCIAL PLAN**

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1. **Purpose of Item**
   This Resolution requests that the TriMet Board of Directors (Board) Adopt an Amended and Restated Strategic Financial Plan.

2. **Type of Agenda Item**
   ☐ Initial Contract
   ☐ Contract Modification
   ☒ Other: Adopting an Amended and Restated Strategic Financial Plan

3. **Reason for Board Action**
   The Board's 2014 Strategic Financial Plan must be updated to make it consistent with the Board's recent financial policy decisions.

4. **Type of Action**
   ☒ Resolution
   ☐ Ordinance 1st Reading
   ☐ Ordinance 2nd Reading
   ☐ Other _____________

5. **Background**
   In its July 23, 2014 meeting, the Board passed Resolution No. 14-07-37, adopting a Strategic Financial Plan. The Strategic Financial Plan was the result of more than two years of work by the Board's Finance and Audit Committee, in consultation with numerous TriMet stakeholders and the general public. Key financial issues identified during this process were incorporated into the Strategic Financial Plan as set forth below:

   - TriMet's core mission is to provide valued transit service that is safe, dependable and easy to use. To accomplish this mission financial guidelines are focused on how TriMet can maintain and expand transit service.
   - Adequate financial resources must be preserved to reduce the need for service reductions during normal business cycles.
   - To ensure TriMet's long-term ability to provide transit service, capital assets must be properly maintained and replaced.
   - TriMet's cost structure must be sustainable for the long-term.

Recently, the Board took a number of actions that require modification of the Strategic Financial Plan. These include the unanimous October 23, 2019 passage of three Resolutions: Resolution No. 19-10-79, Amending Pension Funding Policies to account for asset growth over time; Resolution No. 19-10-80, Amending TriMet's Debt Management Policy to increase the Senior Lien debt ceiling from 6.0% to 7.5%; and Resolution No. 19-10-81, updating TriMet's Unrestricted Fund Balance and Contingency Policy to change the minimum unrestricted fund balance reserve to a range of 2.0 to 2.5 months of operating expenses, allowing for more budget flexibility.

These policy changes have been incorporated into the 2019 Amended and Restated Strategic Financial Plan proposed by this Resolution. Exhibit A attached to this Resolution shows the redlined changes made to the original 2014 Strategic Financial Plan. Exhibit B attached to this Resolution shows those changes incorporated into the 2019 Amended and Restated Strategic Financial Plan. The original financial principles that guided the 2014 Plan are retained in the attached Exhibit B 2019 Amended and Restated Strategic Financial Plan.

6. **Financial/Budget Impact**
The 2019 Amended and Restated Strategic Financial Plan will help guide the development of future budgets.

7. **Impact if Not Approved**
The failure to adopt the 2019 Amended and Restated Financial Plan will have the effect of leaving an outdated Plan in place that does not reflect the Board's recent decisions concerning financial policies, investments, and risks.

RESOLUTION NO. 19-12-89

RESOLUTION NO. 19-12-89 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING AND RESTATING TRIMET'S STRATEGIC FINANCIAL PLAN

WHEREAS, TriMet adopted a Strategic Financial Plan in July of 2014; and

WHEREAS, in October of 2019, the Board adopted Resolution No. 19-10-79, Resolution No. 19-10-80 and Resolution No. 19-10-81, which made significant changes to TriMet's financial policies; and

WHEREAS, the financial policy changes adopted by the Board in October of 2019 require the 2014 Strategic Financial Plan to be updated, as shown on the attached, redlined Exhibit A, and incorporated into the 2019 Amended and Restated Strategic Financial Plan, attached as Exhibit B; and

WHEREAS, the key financial principles identified during the development and adoption of the 2014 Strategic Financial Plan continue to guide TriMet's strategic financial planning going forward and have been incorporated into TriMet's 2019 Amended and Restated Strategic Financial Plan;

NOW, THEREFORE, BE IT RESOLVED:

That the Board hereby adopts the 2019 Amended and Restated Strategic Financial Plan, attached as Exhibit B, and this Amended and Restated Strategic Financial Plan shall be used as a guideline in future financial decisions of the Board, including approving, adopting and amending budgets.

Dated: December 11, 2019

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Presiding Officer

Attest:

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Recording Secretary

Approved as to Legal Sufficiency:

Gregory E. Skillman

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Legal Department

Resolution ~~14-07-37~~19-12-89-__
Exhibit A to Board Memorandum
~~Attachment A~~

~~Purpose of~~ TriMet's Strategic Financial Plan
Amended and Restated
December 2019

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Strategic financial planning sets the course to grow transit and ensure a healthy, sustainable future

TriMet bus, light rail, commuter rail, streetcar and Lift service offers flexible and affordable service for people in the Portland region to get from their homes to jobs, shops, schools and recreation.

Our region believes successful transit is critical to sustain our diverse, innovative and growing economy. TriMet, along with the citizens of our region and their leaders, hope to triple the share of trips taken on transit, walking or by bicycle by 2035. We want to bring 50 percent more destinations within reach of transit and other driving alternatives. ~~We're building~~Our goal is to build a ~~our~~ transit system to serve the needs of all ~~our~~ people and ~~our~~ businesses in the ~~R~~region equitably.

TriMet faces financial challenges that could impede our ability to meet present and future expectations for transit service. A Strategic Financial Plan (SFP) can explain the challenges and outline the financial and operational policies that can guide TriMet forward.

By developing and implementing financial and operational policies by means of a Strategic Financial Plan, we can navigate near-term challenges and achieve a sustainable future. Using the Guidelines we not only provide a clear context for making financial and operational decisions, but set a path to maintain and grow service. The ultimate outcome results in building customer and public trust in the sustainability and predictability of TriMet's financial future.

Strategic financial plan highlights fiscal best practices and sound financial policies

In 2013, a subcommittee of TriMet's Finance and Audit Committee began working with staff to develop the foundation of a Strategic Financial Plan. Included in this process were conversations with stakeholders and an opportunity for the ~~general public~~public to share their thoughts online. In January 2014, the Secretary of State's Audit of TriMet also referenced the importance of TriMet's work on this plan.

The outcome of this effort ~~is~~ was a set of Financial Guidelines ~~that~~ to ensure TriMet's annual budgeting and long-term decision-making follows transit industry fiscal best practices and relies on sound financial policies that:

- Are in alignment with TriMet's long-term financial forecast
- Address long-range financial issues
- Use realistic revenue and expenditure assumptions
- Realize sustainable cash flows
- Maintain consistent service levels year-to-year in line with resources
- Protect and maintain assets

It is critical that these Guidelines are tracked both in the short and long-term against the Financial Forecast. A 'scorecard' of how well the Guidelines have aligned with budget decisions ~~should be~~ shared with the Board and the public at the close of each budget year. The plan should also be part of the regular review of ~~the General Manager's Budget Task Force and~~ the Board's Finance and Audit Committee.

To coincide with the annual budget process, staff will ~~be expected to~~ develop a financial work plan that identifies the actions necessary to ensure alignment with the Guidelines and report on the work plan's progress to the Board.

Financial challenges threaten TriMet and the viability of transit

TriMet's financial challenges are broad and include the following uncertainties:

- The outcome of union contract negotiations
- A downturn in the economy ~~slow economic recovery~~
- The availability of future federal funds
- How to pay for future service expansion and improvements

~~Most pressing of the challenges stems from the current union contract which covers 87% of TriMet employees that includes a total compensation package that is more generous than peer agencies. Other P~~pressures stem from unmet needs to improve service quality;~~,~~ to invest in infrastructure, including buses for service expansion and replacements, as well as ~~electrification~~moving to a non-diesel powered ~~of the~~ fleet;~~,~~ light rail vehicle rehabilitation and rail maintenance-~~-~~of-way improvements.

Other pressures include regional expectations for service expansion of all modes—including bus frequent service, streetcar operations, service to new employment hubs and residential centers and future high capacity or rapid service, as well as new technologies and fuels.

TriMet's future builds on a strong financial base

Payroll taxes, fare revenue, state transportation improvement funds (STIF), and federal formula funds[1] provide more than 95% of operating revenue.

TriMet is supported by a reliable, growing ~~employer~~ **payroll tax** dedicated to transit. Revenues are as strong as the underlying economy, which for more years than not has been remarkably robust.

Historically, the region has consistently experienced growing **passenger revenue**. This performance reflects added rail service, bus service expansion and enhancements, and trending of fare with inflation in the region.

~~**Non-union costs have been managed conservatively** and effectively. Staff reductions reduced costs. Administrative employee wages were frozen for about four years. Health care contributions by non-union employees and retirees have been increased at the same time benefits for these groups were reduced. Since 2003 all new non-union employees have been covered by a defined contribution pension plan.~~

Strategic policies, principles guide TriMet financial decisions

TriMet uses the following strategic policies to guide its financial decision making:

1) Fiscal Policy
2) Unrestricted Fund Balance and Contingency Policy
3) Debt Management Policy
4) Fare Policy
5) Capital Asset Management
6) Pension Funding Plans

[1] Federal Formula Funds are operating grants that come to TriMet from the Federal Transit Administration (FTA). The amount of funding received each year is based on national formulas applied to the annual amount of funds appropriated by Congress for these programs.

[2] Annual debt service is the total amount of principal and interest payments on outstanding bonds issued by TriMet. It also includes capital lease payments. As used in TriMet's debt policy, annual debt service is calculated on a cash basis and does not include the amortization of premiums and discounts.

[3] Continuing operating revenue, defined in TriMet's debt policy, are all operating revenues not restricted by law or contract as to their use.

1. **Fiscal Policy**
   Our fiscal policy limits one-time-only revenues[4] to support one-time-only expenditures[5].
   - One-time-only revenues include cash reserves, federal capital grants, STIF project specific awards and other revenues that cannot be counted on for the future
   - One-time-only expenditures include capital additions, startup costs, one-time maintenance efforts and other costs that are non-recurring

   Continuing revenues support continuing expenditures and one-time expenditures.
   - Continuing revenues include payroll tax, fare revenue, federal formula assistance, and STIF bus service continuation awards
   - Continuing expenditures are those needed to operate the agency and provide service

   When continuing revenues fall short of continuing expenditures, continuing expenditures must be reduced or continuing revenues raised.

2. ~~Click here for~~ **Unrestricted Fund Balance and Contingency Policy** [Resolution ~~14-02-05~~19-10-81~~—~~, ~~February 26, 2014~~October 23, 2019]
   Our fund balance policy calls for beginning each fiscal year with an unrestricted fund balance equal to a range of no less than 2~~.5~~ – 2.5 times average monthly operating expenditures.

   If in a given year this range ratio cannot be achieved, the agency should institute a plan to restore the unrestricted fund balance to a level within the ~~level~~ range ~~above 2.5 times average monthly operating expenses~~ within the following 1-3 years.

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3. ~~Click here for~~ **Debt Management Policy** [Resolution ~~14-04-21~~19-10-80~~—~~, ~~April 23, 2014~~October 23, 2019]
   Our debt policy establishes that debt service on senior lien payroll tax revenue bonds[6] must be less than ~~6~~7.5~~0~~% of continuing revenues throughout the long-term forecast. Financial managers should seek a credit rating that achieves a balance between minimizing borrowing costs and maximizing financial flexibility.

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4. **Fare Policy** ~~[Draft]~~
   ~~A draft~~ The fare policy outlined below seeks a financially sustainable system that encourages and supports ridership and ensures broad access to transit services.
   - Financial: strive for a sustainable balance of growth in ridership and passenger revenue
     - Pricing strategy keeps pace with costs of service
     - Encourage pre-payment of fares for operational efficiency and efficient fare enforcement
     - Leverage electronic fare collection to reduce costs and improve fare recovery
     - Pursue industry standards in pricing for reduced fare categories
   - Customer experience: improve customer experience through electronic fare collection, other emerging technologies, while achieving operational efficiencies

[4] One-time-only revenues are all revenues that are not reasonably expected to be an ongoing source of revenue in future years.
[5] One-time-only expenditures are expenditures that are not routine in nature and not required for the ongoing

operation of TriMet.

[6] Bonds issued by TriMet that are secured and funded by payroll tax revenues. As used here, payroll tax revenues include payroll tax, self-employment and state in lieu revenues.

- Design fares to be simple to understand, easy to use and convenient to purchase
- Consider impact on customers and equity when changing fares
- Support simple and efficient fare enforcement
- Strike a balance between service quality and cost

- Transit equity: mitigate fare cost for low-income, transit-dependent riders
    - Reduce barriers that keep these riders from using transit
- Public Engagement: inform and engage communities in decision making

5. **Capital ~~Asset Management~~Improvement Plan** [Near and Long-term Capital Improvement Plan CIP] Continuously investing in capital is critical to operating a safe, reliable, efficient and financially sustainable service. Maintaining assets in a state of good repair throughout their useful ~~life is~~life is necessary for safe, reliable and attractive service for our customers and to minimize future maintenance and replacement costs.

   The annual update of the plan includes an inventory and condition assessment of capital assets with: Repair and replacement schedules; investment priorities; and lifetime evaluation and maintenance plan for each asset class.

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6. **Pension Funding Plans: ~~click here for~~ Bargaining Unit Employees and~~,~~ Management Employees** [Resolution ~~14-02-06~~19-10-79~~—~~, ~~February 26, 2014~~October 23, 2019]
   Consistent with industry best practices and recent Governmental Accounting Standards Board guidance ~~in February 2014~~, the TriMet Board -approved pension funding plans for TriMet's two closed defined benefit pension plans. The funding plans provide a process for determining appropriate contributions to the plan on a regular basis to achieve fully funded status, defined as at least 93% within the approximate weighted average ~~working life~~working life of the active participants in the plans (10 years or less for management and staff plan and 15 years or less for the union plan).

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TriMet revenues and expenditures shape the strategy

Payroll Taxes

Employer and Employee Payroll taxes (including self-employment and state-in-lieu) currently account for 60% of TriMet's operating revenue budget. Payroll tax revenue grows and declines based on several factors: rate increase, employment growth, wage inflation, and productivity improvements.

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To reduce the hardship on customers that adding and reducing service would have with short-term fluctuations in the payroll taxes, we want to create a more stable financial platform for establishing and maintaining service levels.

System Costs
Controlling operating costs ~~will be~~is a key component to retaining and growing public trust by ensuring investments in TriMet yield a good return. To ensure that new revenues are exclusively allocated to new service, TriMet must make sure the cost of providing current service does not grow faster than general inflation.

Operating and Cash Reserves
The primary objective of establishing and maintaining operating and cash reserves is for the district to be in a financial position to weather negative economic trends. TriMet's current policy calls for Unrestricted Fund Balance[7] to be within a range of at least 2.0 to~~–~~ 2.5 times average monthly operating expenditures for the upcoming fiscal year. If the Unrestricted Fund Balance is less than 2~~.5~~ times the appropriated average monthly operating expenditures for the upcoming fiscal year, the Board must approve a restoration plan to correct for the shortage within ~~a~~ the following three year period.

Passenger Fares
Passenger revenue accounts for approximately ~~25~~12% of operating revenues. ~~Operating revenues are any revenues that may be spent on operating or capital costs.~~ Farebox revenue grows and declines due to two factors: ridership growth and fare increases. TriMet strives to allocate farebox revenue growth derived from ridership growth to restore and expand transit service.

Operating Revenues
Operating revenues are any revenues that may be spent on operating or capital costs. Total Operating revenues include payroll tax revenue, state operating grants, Federal operating grants, and other sources.

Fixed Assets
On June 30, 201~~3~~9, TriMet fixed assets had a book value of ~~$3.5~~ $3 billion. To have a balanced and sustainable financial operating model, TriMet must perpetually maintain and replace capital assets by annually dedicating adequate resources to meet this objective. These requirements are detailed in TriMet's ~~long-term Capital Improvement Plan~~CIP. ~~Additionally, TriMet will establish a fixed asset capital maintenance and replacement reserve.~~ Within the guidelines of TriMet's Board adopted Debt Policy, ~~a limited amount of~~ new debt will be used when appropriate to fund major capital projects and spread the cost of major assets over the useful life of those assets.

Pension and Other Post Employment Benefits (OPEB) Liability
When the Strategic Financial Guidelines were first developed, TriMet's ~~current~~ retiree benefit model ~~is~~ was unsustainable. ~~Current l~~Legacy medical benefits ~~must be further~~were reduced to allow current revenues to fund current service and ~~for~~ new revenue dedicated to new service. Current pension benefits are appropriate and sustainable, but additional funding is needed. TriMet ~~proposes having~~plans to have all pension plans fully funded in 15 years or sooner. TriMet's $950 million OPEB liability ~~must be~~was ~~further~~ reduced through eligibility and benefit reductions by 25%. TriMet has targeted a ~~50%~~ reduction in its OPEB liability by the time the

pension plans are fully funded and then allocating the same stream of pension funding to funding an OPEB trust until the OPEB liability is fully funded as at least 93%.

[7] Unrestricted fund balance is an accounting construct of the difference between unrestricted assets and liabilities that do not have offsetting assets (not a cash reserve). For purposes of TriMet fund balance policy, unrestricted fund balance excludes the liabilities associated with Pension and OPEB.

~~Resolution 14-07-37~~
~~Exhibit A~~

TriMet's Strategic Financial Plan

Amended and Restated

December 2019

Policy Statement

TriMet's mission is to connect people with valued mobility options that are safe, convenient, reliable, accessible and welcoming for all. ~~provide valued transit service that is safe, dependable, and easy to use.~~ Understanding that the demand for transit is expected to grow at least two-fold by 2035, a Strategic Financial Plan sets a course to meet that demand.

By adopting a set of Financial Guidelines that align with industry best practices and are supported by TriMet's financial policies, the TriMet Board can make budget decisions that ensure TriMet is responsive and accountable to the community it serves.

Reporting

- At the start of the annual budget process, staff should report to the Board of Directors for information, discussion, and direction ~~on~~ any action items staff anticipate to be needed in the upcoming budget to maintain compliance with this Strategic Financial Plan. This presentation should include ~~an identification~~an identification of metrics and analyses that support the recommended actions.

- The submittal of the Proposed Budget to the Board of Directors should include a report or scorecard on how well the Proposed Budget complies with these guidelines. This report or scorecard should be updated to reflect the Approved and Adopted Budgets.

Financial Guidelines

1. The priority for use of increased revenues from payroll tax resulting from increased regional employment growth and fares resulting from increased ridership should be given to ~~restoring~~ maintaining and expanding service.

2. Current service costs should not grow faster than general inflation.

3. TriMet should maintain appropriate financial reserves consistent with TriMet's Fund Balance Policy.

4. Fare Policy should strive to balance growth in ridership and passenger revenue, improve the customer experience and mitigate costs for low-income, transit-dependent riders.

5. Capital assets must be properly maintained and replaced. The use of debt should be minimized and never exceed TriMet's Debt Policy.

6. Within 15 years, the Pension Trusts should be fully funded and the Other ~~Post Employment~~Post-Employment Benefits (OPEB) liability reduced ~~by 50%. Once~~ As the pensions are each fully funded,

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Formatted: Left, Indent: Hanging: 0.25" the same stream of funding should be dedicated to reduce any remaining pension requirements and then directed to OPEB funding until the OPEB liability is fully funded (to mean at least 93%.)

TriMet's Strategic Financial Plan
Amended and Restated
December 2019

Strategic financial planning sets the course to grow transit and ensure a healthy, sustainable future

TriMet bus, light rail, commuter rail, streetcar and Lift service offers flexible and affordable service for people in the Portland region to get from their homes to jobs, shops, schools and recreation.

Our region believes successful transit is critical to sustain our diverse, innovative and growing economy. TriMet, along with the citizens of our region and their leaders, hope to triple the share of trips taken on transit, walking or by bicycle by 2035. We want to bring 50 percent more destinations within reach of transit and other driving alternatives. Our goal is to build a transit system to serve the needs of all people and businesses in the region equitably.

TriMet faces financial challenges that could impede our ability to meet present and future expectations for transit service. A Strategic Financial Plan (SFP) can explain the challenges and outline the financial and operational policies that can guide TriMet forward.

By developing and implementing financial and operational policies by means of a Strategic Financial Plan, we can navigate near-term challenges and achieve a sustainable future. Using the Guidelines we not only provide a clear context for making financial and operational decisions, but set a path to maintain and grow service. The ultimate outcome results in building customer and public trust in the sustainability and predictability of TriMet's financial future.

Strategic financial plan highlights fiscal best practices and sound financial policies

In 2013, a subcommittee of TriMet's Finance and Audit Committee began working with staff to develop the foundation of a Strategic Financial Plan. Included in this process were conversations with stakeholders and an opportunity for the public to share their thoughts online. In January 2014, the Secretary of State's Audit of TriMet also referenced the importance of TriMet's work on this plan.

The outcome of this effort was a set of Financial Guidelines to ensure TriMet's annual budgeting and long-term decision-making follows transit industry fiscal best practices and relies on sound financial policies that:

- Are in alignment with TriMet's long-term financial forecast
- Address long-range financial issues
- Use realistic revenue and expenditure assumptions
- Realize sustainable cash flows
- Maintain consistent service levels year-to-year in line with resources
- Protect and maintain assets

It is critical that these Guidelines are tracked both in the short and long-term against the Financial Forecast. A 'scorecard' of how well the Guidelines have aligned with budget decisions shared with the Board and the public at the close of each budget year. The plan should also be part of the regular review of the Board's Finance and Audit Committee.

To coincide with the annual budget process, staff will develop a financial work plan that identifies the actions necessary to ensure alignment with the Guidelines and report on the work plan's progress to the Board.

Financial challenges threaten TriMet and the viability of transit

TriMet's financial challenges are broad and include the following uncertainties:

- The outcome of union contract negotiations
- A downturn in the economy
- The availability of future federal funds
- How to pay for future service expansion and improvements

Pressures stem from unmet needs to improve service quality; to invest in infrastructure, including buses for service expansion and replacements, as well as moving to a non-diesel powered fleet; light rail vehicle rehabilitation and rail maintenance-of-way improvements.

Other pressures include regional expectations for service expansion of all modes—including bus frequent service, streetcar operations, service to new employment hubs and residential centers and future high capacity or rapid service, as well as new technologies and fuels.

TriMet's future builds on a strong financial base

Payroll taxes, fare revenue, state transportation improvement funds (STIF), and federal formula funds[1] provide more than 95% of operating revenue.

TriMet is supported by a reliable, growing **payroll tax** dedicated to transit. Revenues are as strong as the underlying economy, which for more years than not has been remarkably robust.

Historically, the region has consistently experienced growing **passenger revenue**. This performance reflects added rail service, bus service expansion and enhancements, and trending of fare with inflation in the region.

Strategic policies, principles guide TriMet financial decisions

TriMet uses the following strategic policies to guide its financial decision making:

1) Fiscal Policy
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5) Capital Asset Management
6) Pension Funding Plans

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[2] Annual debt service is the total amount of principal and interest payments on outstanding bonds issued by TriMet. It also includes capital lease payments. As used in TriMet's debt policy, annual debt service is calculated on a cash basis and does not include the amortization of premiums and discounts.

[3] Continuing operating revenue, defined in TriMet's debt policy, are all operating revenues not restricted by law or contract as to their use.

1. **Fiscal Policy**
   Our fiscal policy limits one-time-only revenues[4] to support one-time-only expenditures[5].
   - One-time-only revenues include cash reserves, federal capital grants, STIF project specific awards and other revenues that cannot be counted on for the future
   - One-time-only expenditures include capital additions, startup costs, one-time maintenance efforts and other costs that are non-recurring

   Continuing revenues support continuing expenditures and one-time expenditures.
   - Continuing revenues include payroll tax, fare revenue, federal formula assistance, and STIF bus service continuation awards
   - Continuing expenditures are those needed to operate the agency and provide service

   When continuing revenues fall short of continuing expenditures, continuing expenditures must be reduced or continuing revenues raised.

2. **Unrestricted Fund Balance and Contingency Policy** [Resolution 19-10-81, October 23, 2019]
   Our fund balance policy calls for beginning each fiscal year with an unrestricted fund balance equal to a range of no less than 2 – 2.5 times average monthly operating expenditures.

   If in a given year this range ratio cannot be achieved, the agency should institute a plan to restore the unrestricted fund balance to a level within the range within the following 1-3 years.

3. **Debt Management Policy** [Resolution 19-10-80, October 23, 2019]
   Our debt policy establishes that debt service on senior lien payroll tax revenue bonds[6] must be less than 7.5% of continuing revenues throughout the long-term forecast. Financial managers should seek a credit rating that achieves a balance between minimizing borrowing costs and maximizing financial flexibility.

4. **Fare Policy**
   The fare policy outlined below seeks a financially sustainable system that encourages and supports ridership and ensures broad access to transit services.
   - Financial: strive for a sustainable balance of growth in ridership and passenger revenue
     - Pricing strategy keeps pace with costs of service
     - Encourage pre-payment of fares for operational efficiency and efficient fare enforcement
     - Leverage electronic fare collection to reduce costs and improve fare recovery
     - Pursue industry standards in pricing for reduced fare categories

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[4] One-time-only revenues are all revenues that are not reasonably expected to be an ongoing source of revenue in future years.
[5] One-time-only expenditures are expenditures that are not routine in nature and not required for the ongoing operation of TriMet.
[6] Bonds issued by TriMet that are secured and funded by payroll tax revenues. As used here, payroll tax revenues include payroll tax, self-employment and state in lieu revenues.

- Customer experience: improve customer experience through electronic fare collection, other emerging technologies, while achieving operational efficiencies
    - Design fares to be simple to understand, easy to use and convenient to purchase
    - Consider impact on customers and equity when changing fares
    - Support simple and efficient fare enforcement
    - Strike a balance between service quality and cost
- Transit equity: mitigate fare cost for low-income, transit-dependent riders
    - Reduce barriers that keep these riders from using transit
- Public Engagement: inform and engage communities in decision making

5. **Capital Improvement Plan** [Near and Long-term Capital Improvement Plan CIP]
   Continuously investing in capital is critical to operating a safe, reliable, efficient and financially sustainable service. Maintaining assets in a state of good repair throughout their useful life is necessary for safe, reliable and attractive service for our customers and to minimize future maintenance and replacement costs.

   The annual update of the plan includes an inventory and condition assessment of capital assets with: Repair and replacement schedules; investment priorities; and lifetime evaluation and maintenance plan for each asset class.

6. **Pension Funding Plans: Bargaining Unit Employees and Management Employees**
   [Resolution 19-10-79, October 23, 2019]
   Consistent with industry best practices and recent Governmental Accounting Standards Board guidance, the TriMet Board approved pension funding plans for TriMet's two closed defined benefit pension plans. The funding plans provide a process for determining appropriate contributions to the plan on a regular basis to achieve fully funded status, defined as at least 93% within the approximate weighted average working life of the active participants in the plans (10 years or less for management and staff plan and 15 years or less for the union plan).

TriMet revenues and expenditures shape the strategy

Payroll Taxes

Employer and Employee Payroll taxes (includingself-employment and state-in-lieu) currently account for 60% of TriMet's operating revenue budget. Payroll tax revenue grows and declines based on several factors: rate increase, employment growth, wage inflation, and productivity improvements.

To reduce the hardship on customers that adding and reducing service would have with short-term fluctuations in the payroll taxes, we want to create a more stable financial platform for establishing and maintaining service levels.

System Costs
Controlling operating costs is a key component to retaining and growing public trust by ensuring investments in TriMet yield a good return. To ensure that new revenues are exclusively allocated to new service, TriMet must make sure the cost of providing current service does not grow faster than general inflation.

Operating and Cash Reserves
The primary objective of establishing and maintaining operating and cash reserves is for the district to be in a financial position to weather negative economic trends. TriMet's current policy calls for Unrestricted Fund Balance[7] to be within a range of at least 2.0 to 2.5 times average monthly operating expenditures for the upcoming fiscal year. If the Unrestricted Fund Balance is less than 2 times the appropriated average monthly operating expenditures for the upcoming fiscal year, the Board must approve a restoration plan to correct for the shortage within the following three-year period.

Passenger Fares
Passenger revenue accounts for approximately 12% of operating revenues. Farebox revenue grows and declines due to two factors: ridership growth and fare increases. TriMet strives to allocate farebox revenue growth derived from ridership growth to restore and expand transit service.

Operating Revenues
Operating revenues are any revenues that may be spent on operating or capital costs. Total Operating revenues include payroll tax revenue, state operating grants, Federal operating grants, and other sources.

Fixed Assets
On June 30, 2019, TriMet fixed assets had a book value of $3 billion. To have a balanced and sustainable financial operating model, TriMet must perpetually maintain and replace capital assets by annually dedicating adequate resources to meet this objective. These requirements are detailed in TriMet's CIP. Within the guidelines of TriMet's Board adopted Debt Policy, new debt will be used when appropriate to fund major capital projects and spread the cost of major assets over the useful life of those assets.

Pension and Other Post Employment Benefits (OPEB) Liability
When the Strategic Financial Guidelines were first developed, TriMet's retiree benefit model was unsustainable. Legacy medical benefits were reduced to allow current revenues to fund current service and new revenue dedicated to new service. Current pension benefits are appropriate and sustainable, but additional funding is needed. TriMet plans to have all pension plans fully funded in 15 years or sooner. TriMet's $950 million OPEB liability was reduced through eligibility and benefit reductions by 25%. TriMet has targeted a reduction in its OPEB liability by the time the pension plans are fully funded and then allocating the same stream of pension funding to funding an OPEB trust until the OPEB liability is fully funded as at least 93%.

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[7] Unrestricted fund balance is an accounting construct of the difference between unrestricted assets and liabilities that do not have offsetting assets (not a cash reserve). For purposes of TriMet fund balance policy, unrestricted fund balance excludes the liabilities associated with Pension and OPEB.

TriMet's Strategic Financial Plan

Amended and Restated

December 2019

Policy Statement

TriMet's mission is to connect people with valued mobility options that are safe, convenient, reliable, accessible and welcoming for all. Understanding that the demand for transit is expected to grow at least two-fold by 2035, a Strategic Financial Plan sets a course to meet that demand.

By adopting a set of Financial Guidelines that align with industry best practices and are supported by TriMet's financial policies, the TriMet Board can make budget decisions that ensure TriMet is responsive and accountable to the community it serves.

Reporting

- At the start of the annual budget process, staff should report to the Board of Directors for information, discussion, and direction any action items staff anticipate to be needed in the upcoming budget to maintain compliance with this Strategic Financial Plan. This presentation should include an identification of metrics and analyses that support the recommended actions.

- The submittal of the Proposed Budget to the Board of Directors should include a report or scorecard on how well the Proposed Budget complies with these guidelines. This report or scorecard should be updated to reflect the Approved and Adopted Budgets.

Financial Guidelines

1. The priority for use of increased revenues from payroll tax resulting from increased regional employment growth and fares resulting from increased ridership should be given to maintaining and expanding service.

2. Current service costs should not grow faster than general inflation.

3. TriMet should maintain appropriate financial reserves consistent with TriMet's Fund Balance Policy.

4. Fare Policy should strive to balance growth in ridership and passenger revenue, improve the customer experience and mitigate costs for low-income, transit-dependent riders.

5. Capital assets must be properly maintained and replaced. The use of debt should be minimized and never exceed TriMet's Debt Policy.

6. Within 15 years, the Pension Trusts should be fully funded and the Other Post-Employment Benefits (OPEB) liability reduced As the pensions are each fully funded, the same stream of funding should be dedicated to reduce any remaining pension requirements and then directed to OPEB funding until the OPEB liability is fully funded (to mean at least 93%.)