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## Summary

TriMet seeks legislative approval to increase the tax rate regional employers must pay to fund the monopoly transit service. However, TriMet's track record since it was formed in 1969 demonstrates that the agency is a veritable black hole of subsidies. The legislature should reduce the tax rate and force TriMet to confront its out-of-control spending habits.

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***“Between 1971 and 2001 TriMet’s ridership rose 360 percent while operating revenue increased 1,323 percent... Simply throwing money at the agency has not been a cost-effective strategy for increasing ridership.”***

## Don't reward TriMet's dysfunction

*By John A. Charles and Michael Barton, Ph.D.*

Portland's regional transit monopoly, TriMet, is seeking legislative approval to raise its regional payroll tax rate. If approved, the employers' rate would increase from \$6.22 per \$1,000 of payroll to \$7.22 per \$1,000, a 16 percent increase at a time when inflation is near zero percent and unemployment in Oregon is high. The tax increase would be phased in at TriMet's discretion.

TriMet has failed to make the case that taxpayers should give the agency more money. In fact, the track record of TriMet since it was formed in 1969 demonstrates that the agency consistently squanders money on high-cost service and should have its subsidies cut, not increased.

The central problem is that TriMet has both a monopoly on service and a monopoly on revenue. No one is allowed to compete with TriMet, and all payroll tax revenues (estimated to be \$170 million in Fiscal Year 2003-04) flow directly to TriMet. As economic theory would predict, this diminishes the incentives for TriMet to operate efficiently. The numbers tell the tale:

- *Ridership increases compared with revenue increases.* Between 1971 and 2001 TriMet's ridership rose 360 percent while operating revenue increased 1,323 percent (mostly due to the payroll tax). Simply throwing money at the agency has not been a cost-effective strategy for increasing ridership.
- *Passenger fares as a percent of total costs.* In 1971, fare revenue paid for 38 percent of all costs; it declined to 25 percent in 1981, 17 percent in 1991, and 9 percent in 2001, despite regular fare increases.

TriMet has many problems, but the two major ones are capital construction costs and labor costs. TriMet management is obsessed with building a 19<sup>th</sup> century network of slow-moving trains, including light rail, the Portland streetcar, and the Wilsonville-to-Beaverton commuter rail line. The construction costs for these projects are enormous, and the federal government will no longer fund large shares as it did in the 1980s.

TriMet's labor costs began spiraling out of control in 1994 when the agency signed a labor contract that was deemed so outrageous by then-board chairman Loren Wyss that he resigned over it. Later that year, in a letter to the editor of *The Oregonian*, Mr. Wyss wrote, "If there is one predictable reason for transit to fail its mission, it is the burden of fixed costs, which this contract guarantees."

As Mr. Wyss predicted, between 1994 and the proposed Fiscal Year 2004 budget, the cost of TriMet salaries/wages will have risen by 75 percent, while the cost of pensions will go up by 189 percent and the cost of health care by 179 percent. More importantly, pensions and health benefits were only 23.96 percent of salaries in 1994, but will be 38.9 percent of salaries in 2004. If this trend continues, employee benefits will eventually cannibalize the TriMet general fund in much the same fashion as the Public Employee Retirement System (PERS) is devastating local school budgets.

The 1994 contract limited TriMet's ability to use private sector operators, thus preventing management from saving millions of dollars annually. The experience with the Cedar Mill Shuttle shows just how large the gap is between TriMet's unionized costs and the market rate.

In 1999 Tri-Met contracted with Sassy Cab Company for an experimental service whereby Sassy deployed two vans to provide door-to-door service between public transit riders' homes and other points in Cedar Mill or the Sunset Transit Station. Sassy received \$12,700 a month for which they provided service throughout the Cedar Mill region for 14 hours a day, five days a week. The company made a small profit from the operation.

TriMet brought the service in-house in September 2002. The expenses increased by 18 percent and service was immediately cut by 50 percent. The Sassy service cost \$24.42 per driver-hour, and the company made a profit. The unionized service is costing \$49.45 per driver-hour, and TriMet is drowning in red ink.

TriMet is clearly a dysfunctional agency. Rather than authorize an increase in the agency's payroll tax rate, the legislature should reduce the rate and force TriMet to confront its out-of-control spending habits.

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