



Metropolitan Council

Transit Financial Activity Review January through June 2018

December 2018

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Financial Audit Division

The Financial Audit Division conducts 40 to 50 audits each year, focusing on government entities in the executive and judicial branches of state government. In addition, the division periodically audits metropolitan agencies, several “semi-state” organizations, and state-funded higher education institutions. Overall, the division has jurisdiction to audit approximately 180 departments, agencies, and other organizations.

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

December 21, 2018

Senator Mary Kiffmeyer, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission:

This report examines the financial condition of the transit-related activities of the Metropolitan Council. The 2017 Legislature required our office to prepare such reviews each quarter. This report covers the first and second quarters of 2018.

For transit-related activities, OLA found that the Council was on solid financial footing. The Council generated adequate revenues to meet its obligations. The council also had a strong balance sheet, with assets that exceeded liabilities and reserves that exceeded its policy requirements.

To prepare this report, we relied on data provided by the Metropolitan Council. We also received full cooperation from the Council.

This review was conducted by Lori Leysen, CPA; Heather Rodriguez; and Shannon Hatch of our office's Financial Audit Division.

Sincerely,

A handwritten signature in black ink that reads "Jim Nobles".

James R. Nobles
Legislative Auditor

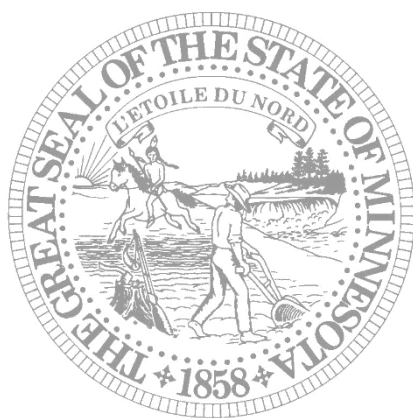
A handwritten signature in black ink that reads "Chris Buse".

Christopher P. Buse
Deputy Legislative Auditor



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Report Summary

The Metropolitan Council (Council) works with state and local government entities to plan for the future of the Twin Cities metropolitan region. The Council also provides services to citizens, including wastewater treatment and public transit. A 17-member governing board oversees the Metropolitan Council, with most members representing geographical districts in the Minneapolis-Saint Paul metro area.

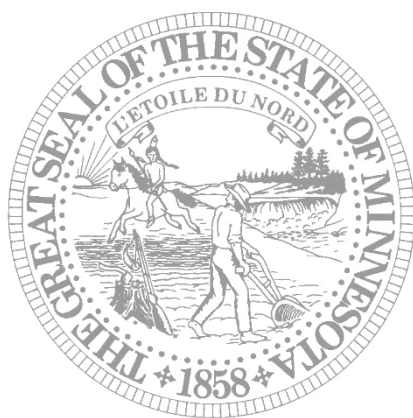
Under current state law, the Office of the Legislative Auditor (OLA) must “perform a transit financial activity review” four times yearly, using information provided by the Council and the Counties Transit Improvement Board.¹ The law requires OLA’s financial reviews to include:

- Summaries of monthly financial statements, including balance sheets and operating statements that show income, expenditures, and fund balances.
- Lists of transit-related obligations and agreements, including bonds, notes, grants, and future funding commitments.
- Information regarding the amount of funds that have been committed.
- Analysis by OLA of the “fiscal viability of revenues and fund balance compared to expenditures.”
- OLA comments regarding compliance by the Metropolitan Council in providing the required information for this report.

Conclusions

For transit-related activities, OLA found that the Council was on solid financial footing. The Council generated adequate revenues to meet its obligations. The Council also had a strong balance sheet, with assets that exceeded liabilities and reserves that exceeded its policy requirements.

¹ *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 2, sec. 6, subd. 4, codified in *Minnesota Statutes* 2017, 3.972, subd. 4.



Transit Financial Analysis

Review Methodology

This report presents financial results of the Metropolitan Council's transit activities. Consistent with the Council's standard reporting practices, this report categorizes financial results in two broad categories:

- **Metro Transit**, which includes bus, light rail, and commuter rail services; and
- **Metropolitan Transportation Services**, which includes Metro Mobility and contracted transit services.

OLA obtained data from the Council to conduct this review. However, OLA did not independently audit the data because the Council's financial statements are subject to annual audit by the Office of the State Auditor.

OLA assembled and analyzed the financial data, as prescribed by law.² The auditors reviewed the financial activities of the Transportation Division that occurred between January and June 2018. Though OLA conducted an overall review of Transportation Division fiscal activities, Exhibit 1 outlines the primary areas of focus.

Exhibit 1: Transit Review Focus Areas

Balance Sheet Activities

- Assets versus Liabilities
- Reserve Balances
- Cash and Investments
- Debt

Operating Statement Activities

- Net Income (or Loss)
- Capital Expenses

² *Minnesota Statutes* 2017, 3.972, subd. 4.

Balance Sheet Activities

A balance sheet presents assets, liabilities, and reserves at a particular point in time. It is important to have sufficient reserves to continue business operations in times of financial instability.

Assets versus Liabilities

The balance sheets in Exhibit 2 compare assets and liabilities for the Council's transit services for the first and second quarter of 2018. Examples of assets include cash, accounts receivable, and materials and supplies. Examples of liabilities include accounts payable and unredeemed bus passes.

Key Takeaway

Assets exceeded liabilities for every transit service.

Exhibit 2: Balance Sheets for Transit Operating Services, January through June 2018

Dollars in Thousands

	As of January 31, 2018	As of February 28, 2018	As of March 31, 2018	As of April 30, 2018	As of May 31, 2018	As of June 30, 2018
Metro Transit						
Bus						
Assets	\$138,288	\$135,629	\$132,302	\$134,474	\$136,625	\$134,435
Liabilities	<u>(57,330)</u>	<u>(55,275)</u>	<u>(49,776)</u>	<u>(52,497)</u>	<u>(57,117)</u>	<u>(55,640)</u>
Net Position	<u>\$ 80,958</u>	<u>\$ 80,354</u>	<u>\$ 82,526</u>	<u>\$ 81,977</u>	<u>\$ 79,508</u>	<u>\$ 78,795</u>
Light Rail						
Assets	\$ 18,857	\$ 16,826	\$ 13,644	\$ 11,375	\$ 10,446	\$ 22,127
Liabilities	<u>(5,639)</u>	<u>(2,516)</u>	<u>(427)</u>	<u>1,283</u>	<u>3,524</u>	<u>(8,010)</u>
Net Position	<u>\$ 13,218</u>	<u>\$ 14,310</u>	<u>\$ 13,217</u>	<u>\$ 12,658</u>	<u>\$ 13,970</u>	<u>\$ 14,117</u>
Commuter Rail						
Assets	\$ 9,316	\$ 10,167	\$ 9,499	\$ 8,584	\$ 8,670	\$ 11,969
Liabilities	<u>(4,491)</u>	<u>(4,434)</u>	<u>(3,919)</u>	<u>(2,915)</u>	<u>(2,439)</u>	<u>(7,154)</u>
Net Position	<u>\$ 4,825</u>	<u>\$ 5,733</u>	<u>\$ 5,580</u>	<u>\$ 5,669</u>	<u>\$ 6,231</u>	<u>\$ 4,815</u>
Metropolitan Transportation Services						
Metro Mobility						
Assets	\$ 45,988	\$ 38,173	\$ 34,331	\$ 37,006	\$ 38,392	\$ 39,681
Liabilities	<u>(9,601)</u>	<u>(4,658)</u>	<u>(7,446)</u>	<u>(2,185)</u>	<u>(2,390)</u>	<u>(15,772)</u>
Net Position	<u>\$ 36,387</u>	<u>\$ 33,515</u>	<u>\$ 26,885</u>	<u>\$ 34,821</u>	<u>\$ 36,002</u>	<u>\$ 23,909</u>
Contracted Services						
Assets	\$ 10,598	\$ 10,139	\$ 11,076	\$ 9,649	\$ 10,158	\$ 12,050
Liabilities	<u>(1,312)</u>	<u>(541)</u>	<u>(4,438)</u>	<u>(800)</u>	<u>(350)</u>	<u>(4,589)</u>
Net Position	<u>\$ 9,286</u>	<u>\$ 9,598</u>	<u>\$ 6,638</u>	<u>\$ 8,849</u>	<u>\$ 9,808</u>	<u>\$ 7,461</u>

NOTES: This exhibit is based on unaudited financial data. Financial information reported on a monthly basis may not capture accounting adjustments that occur on a quarterly or annual basis.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Reserve Balances

The Council has a reserve policy, which sets reserve balance targets of at least 8.3 percent of annual budgeted operating expenses for Metro Transit bus, light rail, and commuter rail. Likewise, the policy sets reserve balance targets of at least 10 percent for Metro Mobility and the Council’s contracted service programs. The reserve balance equals total assets minus total liabilities. The intent of the policy is to ensure that the Council has reserve funds to use as a contingency if expenses exceed revenues in future periods.³

Exhibit 3 shows the Council’s reserve balances for the first and second quarter of 2018. The Council’s total reserve fund balance decreased from \$150 million in December 2017 to \$129 million in June 2018.

Key Takeaway

Reserve balances exceeded the Council’s targets for every transit service.

Exhibit 3: Transit Operating Reserves

Dollars in Thousands

	As of December 31, 2017	As of March 31, 2018	As of June 30, 2018
Metro Transit			
Bus	\$ 90,115	\$ 82,526	\$ 78,795
Light Rail	18,343	13,217	14,117
Commuter Rail	5,859	5,580	4,815
Metropolitan Transportation Services			
Metro Mobility	\$ 26,316	\$ 26,885	\$ 23,909
Contracted Services	<u>9,158</u>	<u>6,638</u>	<u>7,461</u>
Total Reserves	<u>\$149,791</u>	<u>\$134,846</u>	<u>\$129,097</u>

NOTE: This exhibit is based on unaudited financial data.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Despite the slight decline in total reserves, reserve balances for all Metro Transit and Metropolitan Transportation Services significantly exceeded the target rates established in policy. Exhibit 4 compares the actual reserve rate for each service to the target rate.

³ Metropolitan Council, *Metropolitan Council Policy – “Target Fund Balance,”* Section/Number 3-8, December 12, 2012.

Exhibit 4: Transit Reserve Rates, March and June 2018

	As of March 31, 2018	As of June 30, 2018
Metro Transit		
Bus		
Month End Reserve Rate	22.9%	21.9%
Target Reserve Rate	8.3%	8.3%
Light Rail		
Month End Reserve Rate	16.8%	17.9%
Target Reserve Rate	8.3%	8.3%
Commuter Rail		
Month End Reserve Rate	27.9%	24.1%
Target Reserve Rate	8.3%	8.3%
Metropolitan Transportation Services		
Metro Mobility		
Month End Reserve Rate	36.8%	32.7%
Target Reserve Rate	10.0%	10.0%
Contracted Services		
Month End Reserve Rate	23.7%	26.7%
Target Reserve Rate	10.0%	10.0%

NOTES: This exhibit is based on unaudited financial data. Reserve rates represent reserve balances as a percentage of budgeted operating expenses and other sources as reported in the 2018 Metropolitan Council Unified Budget. These budgeted amounts do not include any revisions or amendments made throughout the year.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Cash and Investments

The Metropolitan Council has a policy that governs the investment of its cash.⁴ The policy lists the acceptable investments the Council can purchase, thereby ensuring compliance with requirements in state law.⁵ These investments include government money market funds, federal discount notes, and commercial paper.

Key Takeaway

Despite slight declines, the Council has healthy cash and investment balances.

Exhibit 5 shows the cash and investment balances for the Metropolitan Council's Transportation Division. During the first half of 2018, total cash and investments decreased by 4.5 percent from the ending balance on December 31, 2017. However, cash and investments still make up a substantial portion of the Transportation Division's operating reserve balance.

⁴ Metropolitan Council, *Metropolitan Council Policy – "Investments,"* Section/Number 3-4-4, February 17, 2016.

⁵ *Minnesota Statutes* 2017, 118A.04.

Cash and investment balances as of June 30, 2018, represented approximately 69 percent of Metro Transit's total assets and approximately 96 percent of Metropolitan Transportation Services' total assets.

Exhibit 5: Transit Cash and Investment Balances, December 2017 through June 2018

Dollars in Thousands

	As of December 31, 2017	As of March 31, 2018	As of June 30, 2018	Percentage Change December 31, 2017 to June 30, 2018
Metro Transit				
Bus	\$108,068	\$107,378	\$110,908	2.63%
Light Rail	16,062	1,374	(301)	(101.87)%
Commuter Rail	<u>7,599</u>	<u>5,970</u>	<u>4,862</u>	<u>(36.02)%</u>
Total	<u>\$131,729</u>	<u>\$114,722</u>	<u>\$115,469</u>	<u>(12.34)%</u>
Metropolitan Transportation Services				
Metro Mobility	\$ 30,741	\$ 29,273	\$ 39,013	26.91%
Contracted Services	<u>10,196</u>	<u>8,673</u>	<u>10,458</u>	<u>2.57%</u>
Total	<u>\$ 40,937</u>	<u>\$ 37,946</u>	<u>\$ 49,471</u>	<u>20.85%</u>
Total Cash and Investments	<u>\$172,666</u>	<u>\$152,668</u>	<u>\$164,940</u>	<u>(4.47)%</u>

NOTE: This exhibit is based on unaudited financial data.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Debt

The Metropolitan Council has statutory authority to issue certificates of indebtedness, bonds, and other debt obligations. The Council issues debt to secure funding for transit-related capital improvements.

The Legislature poses restrictions on the amount of debt that the Council can issue for transit-related activities. In its enabling statutes, the Council has a series of debt issuance limits that apply to specific time periods. For example, after July 1, 2017, the Council may not issue more than \$82.1 million in debt obligations.⁶ Between July 1, 2017, and June 30, 2018, the Council issued a total of \$37.7 million in debt in the form of general obligation bonds, which was within the limits outlined in state law. Exhibit 6 shows the Council's outstanding debt for each month of the first and second quarters of 2018.

Key Takeaway

The Council's total debt issuance was within limits outlined in state law.

⁶ *Minnesota Statutes* 2017, 473.39, subd. 1u.

Exhibit 6: Bonds, Loans, and Notes Outstanding for Transit Services, January through June 2018

Dollars in Thousands

	As of January 31, 2018	As of February 28, 2018	As of March 31, 2018	As of April 30, 2018	As of May 31, 2018	As of June 30, 2018
General Obligation Transit						
Bonds ^a	\$179,575	\$170,240	\$143,935	\$143,935	\$181,615	\$181,615
Public Facility Authority Loans ^b	1,880	810	810	810	810	810
Counties Transit Improvement						
Board Loans ^c	<u>5,162</u>	<u>5,774</u>	<u>5,774</u>	<u>5,774</u>	<u>6,527</u>	<u>6,527</u>
Total	<u>\$186,617</u>	<u>\$176,824</u>	<u>\$150,519</u>	<u>\$150,519</u>	<u>\$188,952</u>	<u>\$188,952</u>

NOTE: This exhibit is based on unaudited financial data.

^a General Obligation Transit Bonds are issued by the Council to purchase vehicles, equipment, and transit system improvements. They are secured by tax levies and backed by the Council's full faith, credit, and taxing powers.

^b Public Facility Authority loans are secured by general obligation bonds issued by the Council. The loans are drawn down on a reimbursement basis and fund the same activities as General Obligation Transit Bonds.

^c The Counties Transit Improvement Board loans are interest free and were used to fund the purchase of five light rail cars. All loan repayments made by the Council after September 30, 2017, will be directed to the Wells Fargo Bank depository account for redistribution to the five member counties represented on the Counties Transit Improvement Board.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Operating Statement Activities

An operating statement shows the financial results of an organization for a given period of time. Also known as an income statement or a profit and loss statement, an operating statement subtracts expenses from revenues to calculate the net income or loss for a given period of time.

Net Income (or Loss)

Exhibit 7 provides the statement of revenues and expenses for transit-related services. The cumulative totals for the first and second quarters of 2018 showed a surplus for all services except for Metro Mobility. The Council has budgeted reserves to address the loss.

Key Takeaway

The cumulative totals for the first and second quarters of 2018 showed a surplus for all services except for Metro Mobility.

Exhibit 7: Transit Services Operating Statements, January through June 2018

Dollars in Thousands

	Quarter Ended March 31, 2018	Quarter Ended June 30, 2018	Cumulative Total as of June 30, 2018
Metro Transit			
Bus			
Revenues	\$ 78,295	\$ 79,310	\$ 157,605
Expenses	<u>(65,026)</u>	<u>(82,866)</u>	<u>(147,892)</u>
Net Income (Loss)	<u>\$ 13,269</u>	<u>\$ (3,556)</u>	<u>\$ 9,713</u>
Light Rail			
Revenues	\$ 19,285	\$ 19,593	\$ 38,878
Expenses	<u>(15,994)</u>	<u>(18,694)</u>	<u>(34,688)</u>
Net Income (Loss)	<u>\$ 3,291</u>	<u>\$ 899</u>	<u>\$ 4,190</u>
Commuter Rail			
Revenues	\$ 4,897	\$ 4,995	\$ 9,892
Expenses	<u>(3,016)</u>	<u>(5,609)</u>	<u>(8,625)</u>
Net Income (Loss)	<u>\$ 1,881</u>	<u>\$ (614)</u>	<u>\$ 1,267</u>
Metropolitan Transportation Services			
Metro Mobility			
Revenues	\$ 16,435	\$ 16,632	\$ 33,067
Expenses	<u>(17,503)</u>	<u>(19,606)</u>	<u>(37,109)</u>
Net Income (Loss)	<u>\$ (1,068)</u>	<u>\$ (2,974)</u>	<u>\$ (4,042)</u>
Contracted Services			
Revenues	\$ 6,730	\$ 7,050	\$ 13,780
Expenses	<u>(5,729)</u>	<u>(6,226)</u>	<u>(11,955)</u>
Net Income (Loss)	<u>\$ 1,001</u>	<u>\$ 824</u>	<u>\$ 1,825</u>

NOTE: This exhibit is based on unaudited financial data.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

To help readers look deeper into the Exhibit 7 numbers that drive net income, OLA is presenting three additional exhibits with more granular information for each service. Exhibit 7A presents transit revenues, summarized by revenue type and month. Exhibits 7B and 7C provide a similar breakdown for transit expenses. However, given the larger list of expense types, OLA is presenting the information for Metro Transit and Metropolitan Transit Services in their own exhibits.

Exhibit 7A: Transit Revenue by Service, January through June 2018

Dollars in Thousands

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Metro Transit						
Bus						
Fares and Related Revenue	\$ 5,686	\$ 6,121	\$ 6,162	\$ 5,694	\$ 6,500	\$ 5,987
Taxes and Government Revenue	19,658	19,988	20,283	20,366	20,132	19,988
Other Revenue	183	150	64	330	249	64
Total Revenue	<u>\$25,527</u>	<u>\$26,259</u>	<u>\$26,509</u>	<u>\$26,390</u>	<u>\$26,881</u>	<u>\$26,039</u>
Light Rail						
Fares and Related Revenue	\$ 2,471	\$ 2,137	\$ 2,160	\$ 2,609	\$ 2,245	\$ 2,191
Taxes and Government Revenue	4,143	4,171	4,171	4,186	4,171	4,171
Other Revenue	16	13	3	14	4	2
Total Revenue	<u>\$ 6,630</u>	<u>\$ 6,321</u>	<u>\$ 6,334</u>	<u>\$ 6,809</u>	<u>\$ 6,420</u>	<u>\$ 6,364</u>
Commuter Rail						
Fares and Related Revenue	\$ 208	\$ 197	\$ 224	\$ 230	\$ 238	\$ 248
Taxes and Government Revenue	1,416	1,416	1,416	1,416	1,416	1,416
Other Revenue	10	10	0	21	10	0
Total Revenue	<u>\$ 1,634</u>	<u>\$ 1,623</u>	<u>\$ 1,640</u>	<u>\$ 1,667</u>	<u>\$ 1,664</u>	<u>\$ 1,664</u>
Metropolitan Transportation Services						
Metro Mobility						
Fares and Related Revenue	\$ 451	\$ 385	\$ 1,057	\$ 583	\$ 523	\$ 939
Taxes and Government Revenue	4,806	4,806	4,806	4,806	4,806	4,806
Other Revenue	69	55	0	108	61	0
Total Revenue	<u>\$ 5,326</u>	<u>\$ 5,246</u>	<u>\$ 5,863</u>	<u>\$ 5,497</u>	<u>\$ 5,390</u>	<u>\$ 5,745</u>
Contracted Services						
Fares and Related Revenue	\$ 42	\$ 41	\$ 467	\$ 43	\$ 40	\$ 501
Taxes and Government Revenue	245	2,250	3,651	675	2,264	3,477
Other Revenue	21	13	0	33	17	0
Total Revenue	<u>\$ 308</u>	<u>\$ 2,304</u>	<u>\$ 4,118</u>	<u>\$ 751</u>	<u>\$ 2,321</u>	<u>\$ 3,978</u>

NOTE: This exhibit is based on unaudited financial data.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Exhibit 7B: Transit Expenses for Metro Transit Services, January through June 2018

Dollars in Thousands

	January	February	March	April	May	June
Metro Transit Services						
Bus						
Salaries, Wages, and Fringes	\$(15,988)	\$(22,415)	\$(20,411)	\$(18,571)	\$(22,940)	\$(20,688)
Services	4,136	(553)	(1,032)	(555)	(2,435)	(1,311)
Materials	(2,477)	(3,927)	(2,256)	(2,803)	(2,557)	(2,962)
Other Expenses	503	32	(638)	(4,836)	(1,417)	(1,791)
Total Expenses	<u>\$(13,826)</u>	<u>\$(26,863)</u>	<u>\$(24,337)</u>	<u>\$(26,765)</u>	<u>\$(29,349)</u>	<u>\$(26,752)</u>
Light Rail						
Salaries, Wages, and Fringes	\$ (2,503)	\$ (3,832)	\$ (3,149)	\$ (2,932)	\$ (3,456)	\$ (3,483)
Services	(112)	(146)	(144)	(190)	(131)	(708)
Materials	(144)	(79)	(256)	(1,640)	339	329
Other Expenses	(580)	(1,170)	(3,879)	(2,606)	(1,860)	(2,356)
Total Expenses	<u>\$ (3,339)</u>	<u>\$ (5,227)</u>	<u>\$ (7,428)</u>	<u>\$ (7,368)</u>	<u>\$ (5,108)</u>	<u>\$ (6,218)</u>
Commuter Rail						
Salaries, Wages, and Fringes	\$ (209)	\$ (380)	\$ (348)	\$ (304)	\$ (324)	\$ (338)
Services	(118)	(136)	(889)	(694)	(528)	(2,397)
Materials	(132)	(103)	(127)	(172)	(24)	(139)
Other Expenses	(50)	(96)	(428)	(259)	(225)	(205)
Total Expenses	<u>\$ (509)</u>	<u>\$ (715)</u>	<u>\$ (1,792)</u>	<u>\$ (1,429)</u>	<u>\$ (1,101)</u>	<u>\$ (3,079)</u>

NOTES: This exhibit is based on unaudited financial data. Other Expenses include expenses such as utilities, government grants, allocated costs, indirect costs, and postage.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Exhibit 7C: Transit Expenses for Metropolitan Transit Services, January through June 2018

Dollars in Thousands

	January	February	March	April	May	June
Metropolitan Transportation Services						
Metro Mobility						
Salaries, Wages, and Fringes	\$ (63)	\$ (134)	\$ (126)	\$ (123)	\$ (131)	\$ (180)
Services	3,819	(7,019)	(12,062)	2,995	(3,117)	(16,772)
Materials	(623)	(948)	(286)	83	(799)	(635)
Other Expenses	(24)	(18)	(19)	(515)	(162)	(250)
Total Expenses	<u>\$3,109</u>	<u>\$(8,119)</u>	<u>\$(12,493)</u>	<u>\$2,440</u>	<u>\$(4,209)</u>	<u>\$(17,837)</u>
Contracted Services						
Salaries, Wages, and Fringes	\$ (32)	\$ (63)	\$ (59)	\$ (62)	\$ (72)	\$ (93)
Services	2,325	(1,911)	(6,025)	1,342	(1,233)	(5,620)
Materials	0	0	45	(2)	0	58
Other Expenses	1,049	(18)	(1,040)	181	(56)	(669)
Total Expenses	<u>\$3,342</u>	<u>\$(1,992)</u>	<u>\$(7,079)</u>	<u>\$1,459</u>	<u>\$(1,361)</u>	<u>\$(6,324)</u>

NOTES: This exhibit is based on unaudited financial data. Other Expenses in all areas include expenses such as allocated costs, indirect costs, and postage.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.

Capital Expenses

The Metropolitan Council approved approximately \$2.6 billion in capital expenses for its current transit projects. Approximately 94 percent of these costs are for Metro Transit activities, and the remaining 6 percent pertain to Metropolitan Transportation Services.

Most of the Metro Transit capital funding is for projects in the Federal New Starts Program.⁷ This program is the federal government's competitive grant program for rail and other fixed guideway transit systems. The federal government funds 50 percent of New Starts project capital expenses and the remaining 50 percent must come from state and local governments. In the Council's current capital plan, the Federal New Starts rail projects include Northstar Corridor Rail, Central Corridor Light Rail Transit, Southwest Light Rail Transit, Bottineau Light Rail Transit, and Hiawatha Light Rail Transit.

Key Takeaway

Expenses for the Southwest Light Rail Transit and Bottineau Light Rail Transit projects align with established budgets. However, federal action is necessary to secure a significant share of the funding for each project.

⁷ Federal New Starts projects represent 64 percent of the costs of capital projects relating to transportation as reflected in the Metropolitan Council's current capital plan.

Exhibit 8 provides additional details on the two capital projects in progress, Southwest and Bottineau Light Rail Transit. The Council has not submitted the federal grant applications for these projects. The Council plans to submit the Southwest application upon invitation from the Federal Transit Administration and anticipates receiving the grant in spring of 2019. The Council plans to submit the application for the Bottineau project in October 2019.

Exhibit 8: Budgeted and Actual Spending for Light Rail Transit Projects in Progress through June 2018

Dollars in Thousands

Southwest Light Rail Transit

	Budgeted		Actual Paid	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	46.37%	\$ 928,800	\$ 0	\$ 928,800
Hennepin County	29.01	581,000	24,300	556,700
Counties Transit Improvement Board	11.45	229,400	166,100	63,300
Hennepin County Regional Rail Authority	9.96	199,500	52,900	146,600
State of Minnesota	1.51	30,300	29,900	400
Other Local	1.40	28,000	0	28,000
Congestion Mitigation Air Quality	0.30	6,100	0	6,100
Total	<u>100.00%</u>	<u>\$2,003,100</u>	<u>\$273,200</u>	<u>\$1,729,900</u>

Bottineau Light Rail Transit

	Budgeted		Actual Paid	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	49.00%	\$ 752,700	\$ 0	\$ 752,700
Hennepin County	34.77	534,200	1,500	532,700
Hennepin County Regional Rail Authority	9.74	149,600	42,900	106,700
Counties Transit Improvement Board	5.36	82,300	67,800	14,500
Other Local	1.07	16,400	0	16,400
State of Minnesota	0.06	1,000	1,000	0
Total	<u>100.00%</u>	<u>\$1,536,200</u>	<u>\$113,200</u>	<u>\$1,423,000</u>

NOTE: This exhibit is based on unaudited financial data.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council data.



December 18, 2018

James Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Mr. Nobles,

Thank you for the opportunity to respond to the Legislative Auditor's review of the Metropolitan Council's 2nd Quarter 2018 Transit Financial Activity. We acknowledge the time audit staff spent in this and previous reviews to develop greater insight of the Council's transit operations.

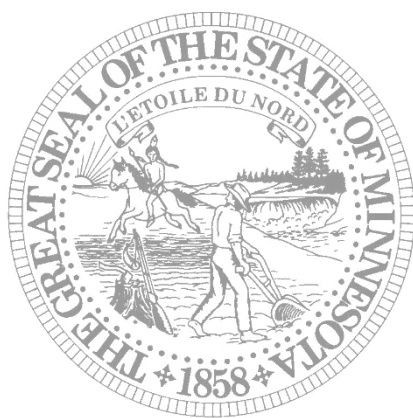
The outlook for our 2018 calendar year-end financial position is strong as we continue to work hard to actively manage our expense budgets. Anticipated reserves over policy targets at year-end are one-time resources that are applied in our 2019 and future operating budgets. Budgeting reserves allows the Council a short-term strategy to manage known structural balance issues in transportation funding through the SFY 2018-19 biennium.

We appreciate the auditor's conclusions that our second quarter results reflect a solid financial footing for the Council's 2018 transit financial activity.

Sincerely,

/s/ Wes Kooistra

Wes Kooistra
Regional Administrator



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