



# Metropolitan Council

## Transit Financial Activity Review July through September 2018

January 2019

**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.

Policymakers, bond rating agencies, and other decision makers need accurate and trustworthy financial information. To fulfill this need, the Financial Audit Division allocates a significant portion of its resources to conduct financial statement audits. These required audits include an annual audit of the State of Minnesota’s financial statements and an annual audit of major federal program expenditures. The division also conducts annual financial statement audits of the three public pension systems. The primary objective of financial statement audits is to assess whether public financial reports are fairly presented.

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OLA also conducts special reviews in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review and decides what additional action will be taken by OLA.

For more information about OLA and to access its reports, go to: [www.auditor.leg.state.mn.us](http://www.auditor.leg.state.mn.us).



## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

January 4, 2019

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 (Council). The 2017 Legislature required the Office of the Legislative Auditor (OLA) to prepare such reviews each quarter. This report covers the third quarter 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 (Audit Director); Heather Rodriguez (Auditor-in-Charge); and Shannon Hatch (Senior Auditor) of the 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

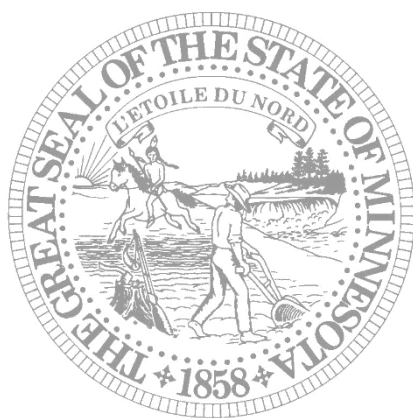


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# Report Summary

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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 metropolitan 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 (CTIB).<sup>1</sup> CTIB was dissolved on September 30, 2017, and was not included in our review.<sup>2</sup> 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.

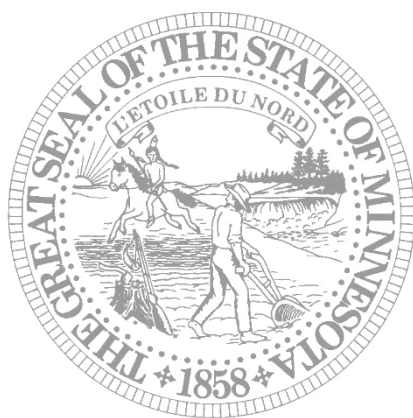
## Conclusions

For transit-related activities, 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.

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<sup>1</sup> *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 2, sec. 6, subd. 4, codified in *Minnesota Statutes* 2018, 3.972, subd. 4.

<sup>2</sup> CTIB, Resolution #32-2017, Relating to the Dissolution of the Counties Transit Improvement Board, May 31, 2017. CTIB, Resolution #35-2017, Relating to the Termination of the Counties Transit Improvement Board’s Joint Powers Agreement, Satisfaction of CTIB Conditions, and Notice of the Termination of the Tax to the Minnesota Department of Revenue, June 21, 2017.





# Transit Financial Analysis

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## Review Methodology

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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.<sup>3</sup> The auditors reviewed the financial activities of the Transportation Division that occurred between July and September 2018. Though OLA conducted an overall review of Transportation Division fiscal activities, Exhibit 1 outlines the primary areas of focus.

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### 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

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<sup>3</sup> *Minnesota Statutes* 2018, 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 third 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, July, August, and September 2018

Dollars in Thousands

	As of July 31, 2018	As of August 31, 2018	As of September 30, 2018
<b>Metro Transit</b>			
<b>Bus</b>			
Assets	\$ 134,036	\$ 146,087	\$ 130,753
Liabilities	(53,638)	(60,377)	(55,992)
Net Position	<u>\$ 80,398</u>	<u>\$ 85,710</u>	<u>\$ 74,761</u>
<b>Light Rail</b>			
Assets	\$ 21,243	\$ 23,888	\$ 22,986
Liabilities	(6,550)	(9,597)	(8,070)
Net Position	<u>\$ 14,693</u>	<u>\$ 14,291</u>	<u>\$ 14,916</u>
<b>Commuter Rail</b>			
Assets	\$ 10,866	\$ 11,530	\$ 10,731
Liabilities	(5,592)	(5,773)	(4,829)
Net Position	<u>\$ 5,274</u>	<u>\$ 5,757</u>	<u>\$ 5,902</u>
<b>Metropolitan Transportation Services</b>			
<b>Metro Mobility</b>			
Assets	\$ 32,288	\$ 33,494	\$ 32,978
Liabilities	(1,126)	(2,909)	(11,256)
Net Position	<u>\$ 31,162</u>	<u>\$ 30,585</u>	<u>\$ 21,722</u>
<b>Contracted Services</b>			
Assets	\$ 10,959	\$ 11,880	\$ 13,529
Liabilities	(1,261)	(661)	(6,620)
Net Position	<u>\$ 9,698</u>	<u>\$ 11,219</u>	<u>\$ 6,909</u>

NOTE: This exhibit is based on unaudited financial data.

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.<sup>4</sup>

Exhibit 3 shows the Council’s reserve balances for the third quarter of 2018. The Council’s total reserve fund balance decreased from \$150 million in December 2017 to \$124 million in September 2018.

**Key Takeaway**

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

### Exhibit 3: Transit Operating Reserves by Quarter, December 2017 through September 2018

Dollars in Thousands

	As of December 31, 2017	As of March 31, 2018	As of June 30, 2018	As of September 30, 2018
<b>Metro Transit</b>				
Bus	\$ 90,115	\$ 82,526	\$ 78,795	\$ 74,761
Light Rail	18,343	13,217	14,117	14,916
Commuter Rail	5,859	5,580	4,815	5,902
<b>Metropolitan Transportation Services</b>				
Metro Mobility	\$ 26,316	\$ 26,885	\$ 23,909	\$ 21,722
Contracted Services	9,158	6,638	7,461	6,909
<b>Total Reserves</b>	<u>\$149,791</u>	<u>\$134,846</u>	<u>\$129,097</u>	<u>\$124,210</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.

<sup>4</sup> Metropolitan Council, *Metropolitan Council Policy – “Target Fund Balance,”* Section/Number 3-8, December 12, 2012.

## Exhibit 4: Transit Reserve Rates by Quarter, March, June, and September 2018

	As of March 31, 2018	As of June 30, 2018	As of September 30, 2018
<b>Metro Transit</b>			
<b>Bus</b>			
Month End Reserve Rate	22.9%	21.9%	20.7%
Target Reserve Rate	8.3%	8.3%	8.3%
<b>Light Rail</b>			
Month End Reserve Rate	16.8%	17.9%	18.9%
Target Reserve Rate	8.3%	8.3%	8.3%
<b>Commuter Rail</b>			
Month End Reserve Rate	27.9%	24.1%	29.5%
Target Reserve Rate	8.3%	8.3%	8.3%
<b>Metropolitan Transportation Services</b>			
<b>Metro Mobility</b>			
Month End Reserve Rate	36.8%	32.7%	29.7%
Target Reserve Rate	10.0%	10.0%	10.0%
<b>Contracted Services</b>			
Month End Reserve Rate	23.7%	26.7%	24.7%
Target Reserve Rate	10.0%	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.<sup>5</sup> The policy lists the acceptable investments the Council can purchase, thereby ensuring compliance with requirements in state law.<sup>6</sup> These investments include government money market funds, federal discount notes, and commercial paper.

### Key Takeaway

The Council has retained healthy cash and investment balances.

<sup>5</sup> Metropolitan Council, *Metropolitan Council Policy – “Investments,”* Section/Number 3-4-4, February 17, 2016.

<sup>6</sup> *Minnesota Statutes* 2018, 118A.04.

Exhibit 5 shows the cash and investment balances for the Metropolitan Council's Transportation Division, which makes up a substantial portion of the operating reserve balance. Between December 2017 and September 2018, total cash and investments decreased by 0.13 percent.

Cash and investment balances as of September 30, 2018, represented approximately 78 percent of Metro Transit's total assets and approximately 95 percent of Metropolitan Transportation Services total assets.

### Exhibit 5: Transit Cash and Investment Balances by Quarter, December 2017 through September 2018

Dollars in Thousands

	As of December 31, 2017	As of March 31, 2018	As of June 30, 2018	As of September 30, 2018	Percentage Change December 31, 2017 to September 30, 2018
<b>Metro Transit</b>					
Bus	\$108,068	\$107,378	\$110,908	\$108,506	0.41%
Light Rail	16,062	1,374	(301)	12,088	(24.74)%
Commuter Rail	7,599	5,970	4,862	7,598	(0.01)%
Total	<u>\$131,729</u>	<u>\$114,722</u>	<u>\$115,469</u>	<u>\$128,192</u>	<u>(2.69)%</u>
<b>Metropolitan Transportation Services</b>					
Metro Mobility	\$ 30,741	\$ 29,273	\$ 39,013	\$ 32,078	4.35%
Contracted Services	10,196	8,673	10,458	12,180	19.46%
Total	<u>\$ 40,937</u>	<u>\$ 37,946</u>	<u>\$ 49,471</u>	<u>\$ 44,258</u>	<u>8.11%</u>
Total Cash and Investments	<u>\$172,666</u>	<u>\$152,668</u>	<u>\$164,940</u>	<u>\$172,450</u>	<u>(0.13)%</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, 2018, the Council may not issue more than \$43.9 million in debt obligations.<sup>7</sup> No issuances were made between July and September 2018. Exhibit 6 shows the Council's outstanding debt for each month of the third quarter of 2018.

### Key Takeaway

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

## Exhibit 6: Bonds, Loans, and Notes Outstanding for Transit Services, July, August, and September 2018

Dollars in Thousands

	As of July 31, 2018	As of August 31, 2018	As of September 30, 2018
General Obligation Transit Bonds <sup>a</sup>	\$181,615	\$181,615	\$181,615
Public Facility Authority Loans <sup>b</sup>	810	775	775
Counties Transit Improvement Board Loans <sup>c</sup>	<u>6,527</u>	<u>6,527</u>	<u>6,527</u>
Total	<u>\$188,952</u>	<u>\$188,917</u>	<u>\$188,917</u>

NOTE: The bond total includes bonds issued in 2007 through September 2018.

<sup>a</sup> 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.

<sup>b</sup> 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.

<sup>c</sup> 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.

<sup>7</sup> *Minnesota Statutes* 2018, 473.39, subd. 1u.

## 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 third quarter 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 third quarter 2018 showed a surplus for all services except for Metro Mobility.

### Exhibit 7: Transit Services Operating Statements, January through September 2018

Dollars in Thousands

	January through June 30, 2018	July	August	September	January through September 30, 2018
<b>Metro Transit</b>					
<b>Bus</b>					
Revenues	\$ 157,605	\$ 27,240	\$ 32,645	\$ 14,485	\$ 231,975
Expenses	<u>(147,892)</u>	<u>(25,638)</u>	<u>(27,334)</u>	<u>(25,434)</u>	<u>(226,296)</u>
Net Income (Loss)	<u>\$ 9,713</u>	<u>\$ 1,602</u>	<u>\$ 5,311</u>	<u>\$ (10,949)</u>	<u>\$ 5,679</u>
<b>Light Rail</b>					
Revenues	\$ 38,878	\$ 6,656	\$ 6,805	\$ 6,534	\$ 58,875
Expenses	<u>(34,688)</u>	<u>(6,079)</u>	<u>(7,208)</u>	<u>(5,910)</u>	<u>(53,889)</u>
Net Income (Loss)	<u>\$ 4,190</u>	<u>\$ 577</u>	<u>\$ (403)</u>	<u>\$ 624</u>	<u>\$ 4,986</u>
<b>Commuter Rail</b>					
Revenues	\$ 9,892	\$ 1,673	\$ 1,806	\$ 1,513	\$ 14,884
Expenses	<u>(8,625)</u>	<u>(1,213)</u>	<u>(1,323)</u>	<u>(1,369)</u>	<u>(12,532)</u>
Net Income (Loss)	<u>\$ 1,267</u>	<u>\$ 460</u>	<u>\$ 483</u>	<u>\$ 144</u>	<u>\$ 2,352</u>
<b>Metropolitan Transportation Services</b>					
<b>Metro Mobility</b>					
Revenues	\$ 33,067	\$ 5,505	\$ 5,352	\$ 5,846	\$ 49,771
Expenses	<u>(37,109)</u>	<u>1,748</u>	<u>(5,926)</u>	<u>(14,708)</u>	<u>(55,998)</u>
Net Income (Loss)	<u>\$ (4,042)</u>	<u>\$ 7,253</u>	<u>\$ (574)</u>	<u>\$ (8,862)</u>	<u>\$ (6,227)</u>
<b>Contracted Services</b>					
Revenues	\$ 13,780	\$ 865	\$ 2,691	\$ 3,389	\$ 20,725
Expenses	<u>(11,955)</u>	<u>1,372</u>	<u>(1,172)</u>	<u>(7,697)</u>	<u>(19,453)</u>
Net Income (Loss)	<u>\$ 1,825</u>	<u>\$ 2,237</u>	<u>\$ 1,519</u>	<u>\$ (4,308)</u>	<u>\$ 1,272</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 September 2018

Dollars in Thousands

Operating Revenue Category	January through June 30, 2018	July	August	September	January through September 30, 2018
<b>Metro Transit</b>					
<b>Bus</b>					
Fares and Related Revenue	\$ 36,150	\$ 6,183	\$ 6,732	\$ 7,035	\$ 56,100
Taxes and Government Revenue	120,415	20,888	25,677	7,162	174,142
Other Revenue <sup>a</sup>	1,040	169	236	288	1,733
Total Revenue	<u>\$157,605</u>	<u>\$27,240</u>	<u>\$32,645</u>	<u>\$14,485</u>	<u>\$231,975</u>
<b>Light Rail</b>					
Fares and Related Revenue	\$ 13,813	\$ 2,483	\$ 2,622	\$ 2,349	\$ 21,267
Taxes and Government Revenue	25,013	4,171	4,178	4,171	37,533
Other Revenue	52	2	5	14	73
Total Revenue	<u>\$ 38,878</u>	<u>\$ 6,656</u>	<u>\$ 6,805</u>	<u>\$ 6,534</u>	<u>\$ 58,873</u>
<b>Commuter Rail</b>					
Fares and Related Revenue	\$ 1,345	\$ 248	\$ 381	\$ 87	\$ 2,061
Taxes and Government Revenue	8,496	1,416	1,417	1,416	12,745
Other Revenue	51	9	8	10	78
Total Revenue	<u>\$ 9,892</u>	<u>\$ 1,673</u>	<u>\$ 1,806</u>	<u>\$ 1,513</u>	<u>\$ 14,884</u>
<b>Metropolitan Transportation Services</b>					
<b>Metro Mobility</b>					
Fares and Related Revenue	\$ 3,938	\$ 639	\$ 488	\$ 985	\$ 6,050
Taxes and Government Revenue	28,836	4,806	4,806	4,806	43,254
Other Revenue	293	60	58	55	466
Total Revenue	<u>\$ 33,067</u>	<u>\$ 5,505</u>	<u>\$ 5,352</u>	<u>\$ 5,846</u>	<u>\$ 49,770</u>
<b>Contracted Services</b>					
Fares and Related Revenue	\$ 1,134	\$ 31	\$ 32	\$ 483	\$ 1,680
Taxes and Government Revenue	12,562	816	2,639	2,885	18,902
Other Revenue	84	18	20	21	143
Total Revenue	<u>\$ 13,780</u>	<u>\$ 865</u>	<u>\$ 2,691</u>	<u>\$ 3,389</u>	<u>\$ 20,725</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 September 2018

Dollars in Thousands

Operating Expense Category	January through June 30, 2018	July	August	September	January through September 30, 2018
<b>Metro Transit</b>					
<b>Bus</b>					
Salaries, Wages, and Fringes	\$(121,013)	\$(19,801)	\$(21,902)	\$(19,670)	\$(182,386)
Services	(1,750)	(1,315)	(772)	(1,235)	(5,072)
Materials	(16,982)	(2,806)	(2,889)	(3,016)	(25,693)
Other <sup>a</sup>	<u>(8,147)</u>	<u>(1,716)</u>	<u>(1,771)</u>	<u>(1,513)</u>	<u>(13,147)</u>
Total Expenses	<u>\$(147,892)</u>	<u>\$(25,638)</u>	<u>\$(27,334)</u>	<u>\$(25,434)</u>	<u>\$(226,298)</u>
<b>Light Rail</b>					
Salaries, Wages, and Fringes	\$ (19,355)	\$ (3,049)	\$ (3,098)	\$ (3,300)	\$ (28,802)
Services	(1,431)	(514)	(1,087)	(399)	(3,431)
Materials	(1,451)	(474)	(885)	(168)	(2,978)
Other	<u>(12,451)</u>	<u>(2,042)</u>	<u>(2,138)</u>	<u>(2,043)</u>	<u>(18,674)</u>
Total Expenses	<u>\$ (34,688)</u>	<u>\$ (6,079)</u>	<u>\$ (7,208)</u>	<u>\$ (5,910)</u>	<u>\$ (53,885)</u>
<b>Commuter Rail</b>					
Salaries, Wages, and Fringes	\$ (1,903)	\$ (284)	\$ (285)	\$ (436)	\$ (2,908)
Services	(4,762)	(601)	(643)	(639)	(6,645)
Materials	(697)	(134)	(174)	(131)	(1,136)
Other	<u>(1,263)</u>	<u>(194)</u>	<u>(221)</u>	<u>(163)</u>	<u>(1,841)</u>
Total Expenses	<u>\$ (8,625)</u>	<u>\$ (1,213)</u>	<u>\$ (1,323)</u>	<u>\$ (1,369)</u>	<u>\$ (12,530)</u>

NOTE: This exhibit is based on unaudited financial data.

<sup>a</sup> Other expenses for all services include 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 September 2018

Dollars in Thousands

Operating Expense Category	January through June 30, 2018	July	August	September	January through September 30, 2018
<b>Metropolitan Transportation Services</b>					
<b>Metro Mobility</b>					
Salaries, Wages, and Fringes	\$ (757)	\$ (119)	\$ (117)	\$ (132)	\$ (1,125)
Services	(32,156)	2,501	(4,926)	(14,019)	(48,600)
Materials	(3,208)	(386)	(688)	(359)	(4,641)
Other Expenses <sup>a</sup>	<u>(988)</u>	<u>(248)</u>	<u>(195)</u>	<u>(198)</u>	<u>(1,629)</u>
Total Expenses	<u>\$(37,109)</u>	<u>\$1,748</u>	<u>\$(5,926)</u>	<u>\$(14,708)</u>	<u>\$(55,995)</u>
<b>Contracted Services</b>					
Salaries, Wages, and Fringes	\$ (381)	\$ (63)	\$ (60)	\$ (58)	\$ (562)
Services	(11,122)	946	(1,046)	(6,809)	(18,031)
Materials	101	0	0	(26)	75
Other Expenses	<u>(553)</u>	<u>489</u>	<u>(66)</u>	<u>(804)</u>	<u>(934)</u>
Total Expenses	<u>\$(11,955)</u>	<u>\$1,372</u>	<u>\$(1,172)</u>	<u>\$(7,697)</u>	<u>\$(19,452)</u>

NOTE: This exhibit is based on unaudited financial data.

<sup>a</sup> Other expenses for all areas include allocated costs, indirect costs, and postage.

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

## Capital Expenses

The Metropolitan Council approved approximately \$2.7 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 activities.

Most of the Metro Transit capital funding is for projects in the Federal New Starts Program.<sup>8</sup> 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

### 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.

<sup>8</sup> 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.

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.

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 as of September 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	27,600	553,400
Counties Transit Improvement Board	11.45	229,400	176,200	53,200
Hennepin County Regional Rail Authority	9.96	199,500	56,000	143,500
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>\$289,700</u>	<u>\$1,713,400</u>

#### Bottineau Light Rail Transit

	Budgeted		Actual Paid	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	48.89%	\$ 752,700	\$ 0	\$ 752,700
Hennepin County	34.70	534,200	2,100	532,100
Hennepin County Regional Rail Authority	9.72	149,600	43,500	106,100
Counties Transit Improvement Board	5.35	82,300	69,900	12,400
Other Local	1.07	16,400	0	16,400
Minnesota Department of Transportation	0.21	3,300	1,400	1,900
State of Minnesota	0.06	1,000	1,000	0
Total	<u>100.00%</u>	<u>\$1,539,500</u>	<u>\$117,900</u>	<u>\$1,421,600</u>

NOTE: This exhibit is based on unaudited financial data.

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



January 2, 2019

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 3rd 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.

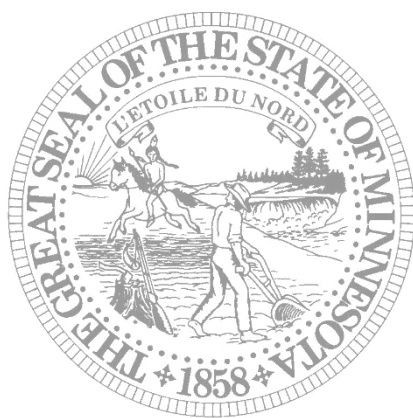
Our 2018 calendar year-end outlook for financial position is strong as we continue to work hard to actively manage our expense budgets. Anticipated reserves over policy targets at year-end are one-time resources that are applied in our calendar year 2019 operating budget. Budgeting reserves allows the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

We appreciated the auditor's conclusions that our results through third quarter 2018 represent solid financial footing for the Council's transit financial activity.

Sincerely,



Wes Kooistra  
Regional Administrator



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