Transit Financial Activity Review Through June 30, 2017

October 4, 2017

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

State of Minnesota
Office of the Legislative Auditor

Certain Transit Financial Activity Reporting

This report is the result of legislation passed in 2017. Specifically, *Minnesota Statutes* 2017, 3.972, subd. 4, states:

(a) The legislative auditor must perform a transit financial activity review of financial information for the Metropolitan Council's Transportation Division and the joint powers board under section 297A.992. Within 14 days of the end of each fiscal quarter, the legislative auditor must submit the review to the Legislative Audit Commission and the chairs and ranking minority members of the legislative committees with jurisdiction over transportation policy and finance, finance, and ways and means.

(b) At a minimum, each transit financial activity review must include:

- (1) a summary of monthly financial statements, including balance sheets and operating statements, that shows income, expenditures, and fund balance;
- (2) a list of any obligations and agreements entered into related to transit purposes, whether for capital or operating, including but not limited to bonds, notes, grants, and future funding commitments;
- (3) the amount of funds in clause (2) that has been committed;
- (4) independent analysis by the fiscal oversight officer of the fiscal viability of revenues and fund balance compared to expenditures, taking into account:
  - (i) all expenditure commitments;
  - (ii) cash flow;
  - (iii) sufficiency of estimated funds; and
  - (iv) financial solvency of anticipated transit projects; and
- (5) a notification concerning whether the requirements under paragraph (c) have been met.

(c) The Metropolitan Council and the joint powers board under section 297A.992 must produce monthly financial statements as necessary for the review under paragraph (b), clause (1), and provide timely information as requested by the legislative auditor.

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

October 4, 2017

Members of the Legislative Audit Commission:

This report examines the financial condition of the transit-related activities of two organizations: the Metropolitan Council and the Counties Transit Improvement Board. The 2017 Legislature required our office to prepare such reviews each quarter, and this is our first.

In general, we concluded that both of the organizations have had adequate revenues to meet their obligations. However, the Metropolitan Council projects financial shortfalls starting in Fiscal Year 2020, and this should be a matter of legislative consideration. In addition, we found that the Council has used different assumptions for reports it has prepared for federal and state officials, and we recommend that the Council's future reports identify these assumptions more clearly and explain their impacts.

To prepare this report, we relied on data provided to our office by the Metropolitan Council and the Counties Transit Improvement Board. We received full cooperation from both organizations.

This report was written by Lori Leysen and Pat Ryan of our office's Financial Audit Division, and by Joel Alter and Judy Randall of our Program Evaluation Division.

Sincerely,

James Nobles
Legislative Auditor

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THE GREAT SEAL OF THE STATE OF MINNESOTA
L'ETOILE DU NORD
1858

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INTRODUCTION

This report is the first by the Office of the Legislative Auditor (OLA) in response to a 2017 law. Specifically, the Legislature required OLA to "perform a transit financial activity review" four times yearly, using information provided by the Metropolitan Council and the Counties Transit Improvement Board (CTIB).[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 and CTIB in providing the required information for this report.

The law specifies that OLA's first report cover the period from January 1, 2016, through June 30, 2017.[2] The law also says that OLA must issue its reports within 14 days of the end of each fiscal quarter.[3] However, as our office informed key legislators in July 2017, we are issuing the initial report somewhat later than the law's deadline. This allowed the Metropolitan Council and CTIB time to produce complete financial data through the end of June 2017, and it allowed our staff a brief period to analyze the data provided by these agencies.

CONCLUSION

Based on our review, we did not see any significant problems in the Metropolitan Council Transportation Division's historical balance sheets, and the Council has maintained adequate reserves in the past to adjust for variations in its transit revenues and expenses. However, the Council has projected financial difficulties for fiscal years 2020 and 2021. Additionally, we noted inconsistencies between these projections and those the Council has provided to the federal government in plans related to future light rail projects. Council staff told us they use one set of assumptions (based on historical state and local funding) when they prepare their federal financial plans, and a different set of assumptions (based on current appropriations law) when they prepare budget documents for the state or internal use. These different assumptions lead to significantly different projections of the Council's future financial condition.

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

[2] *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 2, sec. 56.

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

CTIB appears to be in sound financial condition as it prepares to cease operations before the end of 2017. Based on our review, we conclude that there will be sufficient funds for CTIB to pay its remaining obligations and transition functions to its member counties.

RECOMMENDATION

In future reports to the Legislature, the Metropolitan Council should (1) explicitly identify the assumptions it includes in its different transportation financial plans and budget documents, and (2) explain the impact these assumptions have on the Council's financial forecast.

BACKGROUND

Over the past 50 years, there have been many changes in transit governance responsibilities in the Twin Cities metropolitan area. The Legislature created the Metropolitan Transit Commission in 1967 to operate a public bus system when it concluded that a private bus company could no longer serve the Twin Cities profitably and effectively. In that same year, the Legislature created the Metropolitan Council as a regional planning agency; among its responsibilities were long-range transportation (including transit) planning.

Responsibility for transit grew more fragmented in the 1980s. The Legislature created another transit planning agency (the Regional Transit Board) and authorized the creation of regional railroad authorities, and suburban companies emerged as new providers of transit services.[4] In 1994, however, the Legislature consolidated a number of transit duties into the Metropolitan Council, including the Metropolitan Transit Commission's responsibilities for transit operations and route planning, as well as the Regional Transit Board's responsibilities.

In subsequent years, the Legislature has sometimes circumvented the Metropolitan Council by assigning new transit responsibilities to entities other than the Council. Notably, the 2008 Legislature authorized the creation of the Counties Transit Improvement Board and authorized certain counties in the Twin Cities region to levy a transit sales tax, rather than authorizing the Metropolitan Council to do this.

Metropolitan Council

State law establishes the Metropolitan Council as a public corporation and political subdivision of the state.[5] The council's governing body consists of 17 members, all appointed by the

[4] The Regional Transit Board conducted short and mid-range transit planning, implemented Metropolitan Council plans and policies, and served as a broker of transit services in the Twin Cities region. In 1980, the Legislature authorized counties to establish regional railroad authorities to (1) preserve and improve local rail service for agriculture, industry, or passenger traffic; and (2) preserve abandoned rail right-of-way for future transportation uses. In 1982, the Legislature authorized some Twin Cities suburbs to "opt out" of regular transit services provided by the Metropolitan Transit Commission and enter into arrangements with other transit providers.

[5] *Minnesota Statutes* 2017, 473.123, subd. 1.

governor.[6] Sixteen members represent geographic districts of similar-sized population; the remaining member serves as the Metropolitan Council chair and is a member of the Governor's cabinet.

The Metropolitan Council is the Twin Cities region's federally designated "metropolitan planning organization." The Council prepares various transportation planning documents, such as the region's transportation policy plan and transportation improvement program. The Council is required by state law to prepare—in each even-numbered year—a financial plan for its transit programs that covers the succeeding three calendar years.[7]

The Metropolitan Council is also the primary operator of transit services in the Twin Cities region. It operates two light rail transit lines, a commuter rail line, and more than 120 bus routes. The Metropolitan Council administers Metro Mobility, which provides transportation to persons unable to use regular transit services due to disabilities or health conditions. For Metro Mobility, the Council determines applicant eligibility, ensures compliance with state and federal regulations, develops operating rules, and oversees the service contractors that deliver the transportation services. In addition, the Council provides financial assistance to a commuter vanpool program in the Twin Cities area and administers dial-a-ride small bus services in parts of the Twin Cities where regular bus service is unavailable.

Altogether, the Council's 2017 operating budget for transportation (mainly transit) is $623 million. The Metropolitan Council receives transit operating funding from a variety of sources. The largest share comes from a portion of the state's motor vehicle sales tax. Among the Council's other sources of transit revenue are user fares, state General Fund appropriations, federal funds, grants from CTIB, and a transit-related tax on property in certain parts of the seven-county Twin Cities area.[8]

The Council faces future operating deficits in its transportation budget.

The 2017 Legislature provided $70 million in one-time funding to help address the Council's operating shortfall during state fiscal years 2018-2019. However, the Council projects an $86 million deficit in its transportation operating budget during calendar years 2020 and 2021. According to Council staff, the deficit is due partly to projected declining revenues from motor vehicle sales taxes and anticipated increased demand for Metro Mobility. In July 2017, the Council voted to increase transit fares for the first time since 2008: 25 cents for regular route bus

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[6] *Minnesota Statutes* 2017, 473.123, subds. 3 and 4.

[7] *Minnesota Statutes* 2017, 473.13, subd. 1(b). *Minnesota Statutes* 2017, 473.4485, subd. 2, also requires the Metropolitan Council to prepare a biennial report on guideways that provides financial information for the past three years and a funding projection for the next ten years.

[8] *Minnesota Statutes* 2017, 473.446, subd. 2, establishes a "transit taxing district" and identifies cities, towns, and unorganized territory that are a part of the district. The Metropolitan Council levies a transit debt service tax within this district, plus in a few communities (Columbus, Forest Lake, Lakeville, Maple Plain, and Ramsey) in which the Council has entered into transit service agreements.

and rail, and 50 cents for Metro Mobility. These increases are expected to yield an additional $6.1 million in calendar year 2018 and $9.2 million in calendar year 2019.

The Metropolitan Council's capital program—consisting of projects already planned by the Council through 2022—includes about $5.2 billion for transit. The Council has authorized and secured funding for about $1.1 billion (20 percent) of this amount. The funding for the remaining $4.1 billion has been identified but not yet secured, and the Council has not given final approval for the related projects. The largest sources of funding for the capital program are federal funds ($2.6 billion) and CTIB grants ($1.0 billion). The largest planned transit projects during this period are the Southwest and Bottineau light rail transit lines.[9] State law says that, after fare revenues and federal money have been used to pay for light rail transit operating costs, 50 percent of the remaining costs must be paid by the state.[10] However, the 2017 Legislature amended this provision so that "all operating and ongoing capital maintenance costs [for the Southwest light rail line] must be paid from nonstate sources."[11]

Counties Transit Improvement Board

In 2008, the Legislature authorized individual counties in the Twin Cities metropolitan area to impose a transportation sales and use tax and a per-vehicle excise tax, but only if those counties entered into a joint powers agreement for purposes of administering this funding.[12] Five counties—Anoka, Dakota, Hennepin, Ramsey, and Washington—entered into such an agreement and created the Counties Transit Improvement Board (CTIB). Two counties—Carver and Scott—neither entered into the agreement nor imposed the taxes, but CTIB invited representatives of these counties to serve on CTIB as nonvoting, ex officio members.[13]

In contrast to the Metropolitan Council, which fulfills multiple functions in transit (as a planning agency, a direct service operator, and a broker of services), CTIB's role is limited to collecting revenues for transit purposes and awarding grants. By law, CTIB can only award grants to projects after the Metropolitan Council reviews them for consistency with the Council's transportation policy plan. Since it was formed, CTIB has provided about $768 million in capital grants and $215 million in operating grants for transitway corridors.[14]

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[9] The Southwest line would extend between Minneapolis and Eden Prairie, while the Bottineau line would operate between Minneapolis and Brooklyn Park.

[10] *Minnesota Statutes* 2017, 473.4051, subd. 2(a). The law also says that state money may not be used to pay more than 10 percent of the capital cost of a light rail transit project.

[11] *Laws of Minnesota* 2017, First Special Session, chapter 3, art. 3, sec. 120, codified in *Minnesota Statutes* 2017, 473.4051, subd. 2(b).

[12] *Laws of Minnesota* 2008, chapter 152, art. 4, sec. 2, codified in *Minnesota Statutes* 2017, 297A.992.

[13] By statute, the chair of the Metropolitan Council serves as a voting member of CTIB. In addition, two commissioners from each participating county serve on the board.

[14] Transitway "corridors" operate within a dedicated right of way for the majority of the line to help assure fast, reliable, and efficient services to residents and businesses. Transitways include light rail transit (such as the Green Line between Minneapolis and St. Paul), commuter rail (such as the Northstar Commuter Rail between Minneapolis and Big Lake), and bus rapid transit (such as the Red Line in Dakota County).

During mid-2017, CTIB and each of its five member counties voted to dissolve the joint powers agreement, effective September 30, 2017.

In its resolution to dissolve, CTIB said, "The CTIB Counties remain committed to the construction and operations of the Board's vision for a network of transitways serving the five-county area."[15] Each of the counties also approved a replacement tax for the CTIB tax on retail sales and uses, effective October 1, 2017. The boards of three counties (Anoka, Dakota, and Washington) voted to keep the transit tax at 0.25 percent; two counties (Hennepin and Ramsey) voted to increase the tax to 0.50 percent.[16] Each of the five counties also retained an excise tax of $20 per motor vehicle. In addition, the five counties agreed to assume responsibility for various portions of CTIB's outstanding obligations.

METHODS

To conduct this review, we obtained financial data from the Metropolitan Council and CTIB. We did not independently audit the data provided to our office by those agencies; the financial statements of both organizations are subject to annual audits by the Office of the State Auditor. Rather, we assembled and analyzed the agencies' data, as prescribed by law.[17] We conducted interviews with CTIB staff and Metropolitan Council staff to gain an understanding of their accounting procedures. We also gained an understanding of the Metropolitan Council's budget forecasting procedures and reviewed CTIB's plan for dissolution.

For the Metropolitan Council, we reviewed the Transportation Division's financial activity occurring in January 2012 through June 2017. Additionally, we reviewed the Transportation Division's operating budget forecast for the period 2017 through 2021. Reviewing a history of the Council's financial activity helped us assess whether forecasted revenue and expense activity were consistent with actual past activity. We reviewed the following historical and forecasted financial activity and documentation for the Metropolitan Council's Transportation Division:

- Balance sheet activity for the past five years.
- Revenue and expense activity for the past five years.
- Operating reserve fund activity.
- Projected sources and uses of funding through Fiscal Year 2021.
- Current capital projects through Fiscal Year 2022.
- Financial plans for the four largest capital projects.
- Outstanding bonds, notes, and loans.

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[15] CTIB, Resolution #32-2017, Relating to the Dissolution of the Counties Transit Improvement Board, May 31, 2017.

[16] *Minnesota Statutes* 2017, 297A.993, subd. 1, permits counties that are not participating in a metropolitan-area joint powers transit board to levy a transportation sales tax at a rate of up to one-half of one percent.

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

The Metropolitan Council has projected a significant deficit for fiscal years 2020 and 2021. Therefore, our financial review also included an analysis of this projected deficit to understand the major contributing factors and how the Metropolitan Council determined the amount of the deficit.

For CTIB, we reviewed financial activity for 2016 and the first two quarters of 2017. In addition, we reviewed CTIB's financial plan for dissolving its board, including how CTIB plans to fund outstanding debt and obligations (such as grant commitments) and how CTIB plans to transition responsibility to its member counties. Specifically, we reviewed the following financial activity and documentation for CTIB:

- Balance sheet activity for 2016 and the first two quarters of 2017.
- Revenue and expense activity for 2016 and the first two quarters of 2017.
- Plans for fulfilling or transitioning outstanding obligations.

FINANCIAL REVIEWS

In the sections below, we provide summaries of transit-related financial data we obtained from the Metropolitan Council and CTIB. We also offer conclusions regarding the fiscal viability of the transit-related financial activities of both organizations.

Metropolitan Council

The Metropolitan Council's transit expenses involve a combination of operating and capital expenses. **Operating expenses** include costs associated with operating the transit system, such as bus drivers and fuel, as well as maintenance costs associated with keeping the services and facilities operating. **Capital expenses** include costs associated with preserving, enhancing, and expanding the existing transit system, such as building new transitways, constructing park-and-ride facilities, purchasing vehicles, and implementing technology improvements.

Balance Sheets

Exhibits 1 and 2 show balance sheets and revenue and expense statements for operating and capital accounts during recent years. Consistent with the Metropolitan Council's standard reporting practices, the statements show operating expenses in two broad categories: (1) "Metro Transit," which includes Council-operated bus, light rail, and commuter rail activities; and (2) "Metropolitan Transportation Services," which includes Metro Mobility and contracted transit services.

From January 2012 through June 2017, assets exceeded liabilities for each of the Metropolitan Council's transit operating services and capital accounts.

The balance sheets in Exhibit 1 compare assets and liabilities for all of the Council's transit services. Examples of operating assets include cash, accounts receivable, and materials and supplies; examples of operating liabilities include accounts payable and unredeemed bus passes.

Exhibit 1: Metropolitan Council Balance Sheets for Transit Operating and Capital Accounts, 2012 through June 2017

Dollars in Thousands

Operating	2012	2013	2014	2015	2016	2017 (through June 30)
Metro Transit						
Bus						
Assets	$ 105,800	$ 99,200	$ 101,300	$ 105,100	$ 100,700	$109,600
Liabilities	(52,900)	(53,000)	(54,800)	(56,700)	(58,900)	(50,800)
Net Position	$ 52,900	$ 46,200	$ 46,500	$ 48,400	$ 41,800	$ 58,800
Light Rail						
Assets	$ 8,200	$ 8,000	$ 13,400	$ 22,500	$ 28,500	$ 28,200
Liabilities	(5,600)	(4,500)	(6,200)	(9,100)	(9,700)	(9,800)
Net Position	$ 2,600	$ 3,500	$ 7,200	$ 13,400	$ 18,800	$ 18,400
Commuter Rail						
Assets	$ 7,800	$ 13,800	$ 12,100	$ 10,000	$ 11,000	$ 12,100
Liabilities	(4,600)	(8,900)	(5,900)	(5,600)	(5,100)	(6,500)
Net Position	$ 3,200	$ 4,900	$ 6,200	$ 4,400	$ 5,900	$ 5,600
Metropolitan Transportation Services						
Metro Mobility						
Assets	$ 9,400	$ 22,500	$ 23,000	$ 18,200	$ 20,600	$ 19,800
Liabilities	(5,600)	(7,100)	(8,200)	(6,800)	(9,000)	(6,900)
Net Position	$ 3,800	$ 15,400	$ 14,800	$ 11,400	$ 11,600	$ 12,900
Contracted Services						
Assets	$ 6,400	$ 9,900	$ 12,800	$ 12,400	$ 9,300	$ 10,000
Liabilities	(3,900)	(4,800)	(6,400)	(6,800)	(6,000)	(5,400)
Net Position	$ 2,500	$ 5,100	$ 6,400	$ 5,600	$ 3,300	$ 4,600

Capital	2012	2013	2014	2015	2016
Assets	$2,449,500	$2,572,500	$2,684,000	$2,577,200	$2,584,900
Liabilities	(535,500)	(449,400)	(474,400)	(291,700)	(249,900)
Net Assets	$1,914,000	$2,123,100	$2,209,600	$2,285,500	$2,335,000

NOTES: This exhibit is based on unaudited financial data. All years shown are calendar years. The 2017 data are complete through June 30, 2017.

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

Exhibit 2 shows the statement of revenues and expenses for the Metropolitan Council's Transportation Division. The division generates revenue primarily from motor vehicle sales taxes, fares, state appropriations, and federal grants. The division's expenses consist mainly of salaries and benefits, contracted services, and supplies and materials.

Each of the Metropolitan Council's Transportation Division accounts had an operating deficit at some point during the period we examined (2012 through June 2017).

Exhibit 2 shows that deficits (that is, expenses that exceeded revenues) occurred in every calendar year in our review. The Council used reserves to address these deficits, which temporarily decreased the remaining reserve balance.

Exhibit 2: Metropolitan Council Statement of Revenues and Expenses for Transit Operating and Capital Accounts, 2012 through June 2017

Dollars in Thousands

Operating	2012	2013	2014	2015	2016	2017 (through June 30)
Metro Transit						
Bus						
Revenues	$ 251,500	$ 238,400	$ 281,900	$ 299,300	$ 297,200	$ 158,400
Expenses	(236,500)	(245,200)	(281,600)	(297,300)	(303,900)	(141,400)
Net Income (Loss)	$ 15,000	$ (6,800)	$ 300	$ 2,000	$ (6,700)	$ 17,000
Light Rail						
Revenues	$ 28,200	$ 33,300	$ 52,900	$ 71,100	$ 72,000	$ 32,400
Expenses	(28,000)	(32,500)	(49,000)	(64,900)	(66,700)	(32,800)
Net Income (Loss)	$ 200	$ 800	$ 3,900	$ 6,200	$ 5,300	$ (400)
Commuter Rail						
Revenues	$ 16,700	$ 15,600	$ 16,600	$ 14,000	$ 18,200	$ 7,900
Expenses	(16,000)	(13,900)	(15,300)	(15,800)	(16,700)	(8,100)
Net Income (Loss)	$ 700	$ 1,700	$ 1,300	$ (1,800)	$ 1,500	$ (200)
Metropolitan Transportation Services						
Metro Mobility						
Revenues	$ 45,000	$ 62,000	$ 54,500	$ 54,800	$ 58,300	$ 31,700
Expenses	(45,500)	(50,500)	(55,100)	(58,100)	(58,100)	(30,500)
Net Income (Loss)	$ (500)	$ 11,500	$ (600)	$ (3,300)	$ 200	$ 1,200
Contracted Services						
Revenues	$ 20,800	$ 25,300	$ 26,900	$ 25,300	$ 22,900	$ 14,000
Expenses	(20,800)	(22,700)	(25,500)	(26,200)	(25,100)	(12,700)
Net Income (Loss)	$ 0	$ 2,600	$ 1,400	$ (900)	$ (2,200)	$ 1,300

Capital	2012	2013	2014	2015	2016
Revenues	$ 566,400	$ 377,200	$ 327,600	$ 298,900	$ 315,500
Expenses	(511,400)	(396,900)	322,900)	(318,100)	(339,200)
Adjustments	0	(37,900)	1,600	13,300	9,000
Net Income (Loss)	$ 55,000	$ (57,600)	$ 6,300	$ (5,900)	$ (14,700)

NOTES: This exhibit is based on unaudited financial data. All years shown are calendar years. The 2017 data are complete through June 30, 2017.

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

Reserve Balances

Exhibit 3 shows the Council's operating reserve balances for calendar years 2012 through 2016, and through June 30, 2017. During this time period, the Council's total operating reserve fund balance has increased from $65 million to more than $100 million.

The Council has an operating reserve fund policy, which calls for Metro Transit bus and rail to each maintain a reserve balance of at least 8.3 percent of operating expenses.[18] The policy

[18] Metropolitan Council, *Metropolitan Council Policy –"Target Fund Balance,"* Section/Number 3-8, December 12, 2012.

Exhibit 3: Metropolitan Council Transit Operating Reserves

Dollars in Thousands

	2012	2013	2014	2015	2016	2017 (through June 30)
Metro Transit						
Bus	$52,915	$46,196	$46,495	$48,416	$41,720	$ 58,785
Commuter Rail	3,179	4,858	6,172	4,424	5,886	5,614
Light Rail	2,652	3,428	7,244	13,480	18,808	18,446
Metropolitan Transportation Services						
Metro Mobility	$ 3,866	$15,411	$14,802	$11,447	$11,638	$ 12,899
Contracted Services	2,507	5,072	6,474	5,612	3,354	4,648
Total Reserves	$65,119	$74,965	$81,187	$83,379	$81,406	$100,392

NOTE: This exhibit is based on unaudited financial data.

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

requires Metro Mobility and the Council's contracted services programs to maintain a reserve balance of at least 10 percent of operating expenses.[19] This policy is intended to ensure that the Council has reserve funds to use as a contingency if expenses exceed revenues.

The Metropolitan Council's 2016 transportation operating reserve balances exceeded the Council's target balances, especially for Metro Transit's commuter rail and light rail accounts.

Exhibit 4 shows that the Council's 2016 reserve fund balance for commuter rail was 35 percent of its operating expenses, significantly exceeding the rate established in policy of 8.3 percent. The reserve fund balance for the Council's light rail account also exceeded the rate established in policy: 28 percent, as compared with the 8.3 percent rate established in policy. Council staff explained to us that this build up in reserve funds is intentional, to help mitigate some of the Council's forecasted deficit.

Debt

The Metropolitan Council has statutory authority to issue certificates of indebtedness, bonds, and other obligations. By law, the Council may not issue more than $126 million in such obligations for the 2018-2019 biennium.[20] The Council issues debt to secure funding for transit capital improvements and projects. To help offset an anticipated operating deficit in future years, the Metropolitan Council considered whether it should issue a different type of debt, known as

[19] The Council has proposed to change its reserve balance target for 2018 to15 percent for Contracted Services.

[20] *Laws of Minnesota* 2017, First Special Session, chapter 1, art. 7, sec.7, codified in *Minnesota Statutes* 2017, 473.39, subd. 1u.

Exhibit 4: Metropolitan Council's 2016 Transit Reserve Balance Rates Compared to Policy Rates

Dollars in Thousands

	2016 Year Ending Reserve Balance	Actual Reserve Rate	Reserve Policy Rate
Metro Transit			
Bus	$41,720	13.7%	8.3%
Light Rail	18,808	28.2%	8.3%
Commuter Rail	5,886	35.2%	8.3%
Metropolitan Transportation Services			
Metro Mobility	$11,638	20.0%	10.0%
Contracted Services	3,354	13.4%	10.0%

NOTE: This exhibit is based on unaudited financial data.

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

certificates of participation.[21] However, the 2017 Legislature prohibited the Council from issuing certificates of participation for light rail transit that are secured using revenue from the motor vehicle sales tax.[22] Exhibit 5 shows the Council's outstanding debt at year-end for 2012 through 2016, and at the end of the first two quarters of 2017.

Capital Expenses

The Metropolitan Council has approved approximately $2.4 billion in capital expenses for current transit projects. Approximately 94 percent of these projects' costs are part of the Council's Metro Transit account; the remainder is in Metropolitan Transportation Services. Most of the Metro Transit capital funding is related to projects participating in the Federal New Starts Program.[23] This program is the federal government's competitive grant program for rail and other fixed guideway transit systems. For a "New Starts" project, the federal government funds 50 percent of the capital expenses, with the remaining 50 percent paid for by state and local governments. In the Metropolitan Council's current capital plan, the Federal New Starts rail projects include Northstar Corridor Rail, Central Corridor Light Rail Transit, Southwest Light Rail Transit, and Bottineau Light Rail Transit.

[21] Certificates of participation are similar to bonds. Investors purchase the certificates and repayments are made from a governmental entity's existing funding sources. For the Metropolitan Council, these sources could include state appropriations and motor vehicle sales tax revenues.

[22] *Laws of Minnesota* 2017, First Special Session, chapter 3, art. 3, sec. 119, codified in *Minnesota Statutes* 2017, 473.39, subd. 7.

[23] Federal New Starts projects represent 73 percent of the costs of Metro Transit capital projects reflected in the Metropolitan Council's current capital plan.

Exhibit 5: Metropolitan Council Transit Bonds, Loans, and Notes Outstanding

Dollars in Thousands

	Year Ended December 31					Quarter Ended	
	2012	2013	2014	2015	2016	March 31, 2017	June 30, 2017
General Obligation Transit Bonds	$238,200	$205,100	$202,500	$188,900	$174,000	$139,600	$179,600
General Obligation Grant Anticipation Transit Notes	165,000	145,000	185,800	8,700	0	0	0
Public Facility Authority Loans	8,300	7,000	5,800	4,500	3,200	2,000	2,000
Counties Transit Improvement Board Loans	0	0	0	1,900	1,600	1,600	3,600
Total	$411,500	$357,100	$394,100	$204,000	$178,800	$143,200	$185,200

NOTES: General Obligation Transit Bonds are issued by the Council to purchase vehicles, equipment, and transit system improvements; they are backed by the Council's full faith and credit and taxing powers. General Obligation Grant Anticipation Transit Notes were issued to provide cash flow for the Central Corridor light rail project in anticipation of the federal funds that were awarded to the project. Public Facility Authority loans are general obligation backed loan agreements. The loans are drawn down on a reimbursement basis and fund the same activities as General Obligation Transit Bonds. The Counties Transit Improvement Board loans are interest free and were used to fund the purchase of five light rail cars.

SOURCE: Office of the Legislative Auditor, analysis of Metropolitan Council Comprehensive Annual Financial Reports and internal accounting records.

Exhibit 6 provides summary data on all Council capital projects, as of June 30, 2017. Exhibit 7 provides additional details on the four largest capital projects, including projected costs beyond June 2017. Of the large projects shown in Exhibit 7, two are substantially complete and currently operating (Northstar and Central Corridor). Although these projects are complete, some outstanding items, such as payments to contractors, remain.

The Metropolitan Council has begun preliminary work on the other two large capital projects: Southwest and Bottineau. However, the Council will not submit the federal grant applications for these projects until September 2017 and May 2018, respectively. Preceding the grant application, the federal government requires a financial management plan. The Council submitted the financial management plan for the Bottineau project in September 2016, and for the Southwest project in June 2017.

The Metropolitan Council anticipates that the Southwest and Bottineau light rail transit lines will be operational in 2022.[24] In its initial Southwest Light Rail financial management plan, the Council indicated that the state would provide a portion of the project's capital costs and an estimated 50 percent of its ongoing operating costs. However, the 2017 Legislature decided not

[24] On September 11, 2017, Metropolitan Council Chairwoman Alene Tchourumoff said she is requesting to rebid construction work for the Southwest Light Rail line; this would delay the beginning of operations until 2022, as compared with October 2021 as initially anticipated. Janet Moore, "Met Council chair recommends rejecting SWLRT bids," *Minneapolis Star Tribune*, http://www.startribune.com/met-council-chair-recommends-rejecting-swlrt-bids/443760113/, accessed September 12, 2017.

Exhibit 6: Total Metropolitan Council Capital Funding Approved and Secured for all Active Transit Projects, as of June 30, 2017

Dollars in Thousands

Metro Transit

Program	2016 Capital Project Costs Approved and Secured by the Council	Unpaid Balance of Approved Costs	Number of Projects
Federal New Starts Rail Projects	$1,671,900	$244,800	4
Transitways (Not New Starts)	203,500	55,700	35
Fleet Modernization	154,600	18,800	9
Support Facilities	117,100	39,200	24
Customer Facilities	79,600	14,600	24
Other Capital Equipment	38,300	6,500	30
Technology Improvements	32,700	8,400	47
Locally Requested Capital Investments	4,700	2,300	2
Total	$2,302,400	$390,300	175

Metropolitan Transportation Services

Program	2016 Capital Project Costs Approved and Secured by the Council	Unpaid Balance of Approved Costs	Number of Projects
Fleet Modernization	$103,000	$30,900	55
Other Regional Providers – Non Fleet	19,800	11,800	28
Technology Improvements	3,400	1,400	5
Transitways (Not New Starts)	21,300	400	4
Total	$147,500	$44,500	92

NOTES: This exhibit is based on unaudited financial data. The costs approved by the Council include both past and present costs for all active projects and not the total cost of the project. "Federal New Starts" projects are funded through the federal government's competitive grant program for rail and other fixed guideway transit systems.

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

to fund operating costs for the Southwest Light Rail line; as a result, Hennepin County agreed to fund 100 percent of the operating costs for the line.[25]

Federal Reporting

As part of the capital grant application process, the Federal Transit Administration (FTA) requires grantees to submit a financial management plan. Within the plan, grantees must demonstrate that they have adequate state and local funding sources to pay for the transit projects' capital costs not funded by the federal government. Grantees also must demonstrate that they will have adequate operating funding to maintain and operate the new transportation system on an ongoing basis. The plan requires a 20-year cash flow projection of operating revenues and expenses.

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[25] *Laws of Minnesota* 2017, First Special Session, chapter 3, art. 3, sec. 120, codified in *Minnesota Statutes* 2017, 473.4051, subd. 2(b). Hennepin County, Board of Commissioners, *Resolution 17-0207*, adopted June 13, 2017.

Exhibit 7: Budgeted and Actual Spending for the Largest Transit Capital Projects in the Metropolitan Council's Most Recent Capital Plan

Dollars in Thousands

Northstar Corridor Rail

	Budgeted		Actual	Projected
	Percentage	Amount	Paid[a]	Remaining
Federal Transit Administration	51.09%	$161,000	$158,700	$2,300
State of Minnesota	31.29	98,600	98,600	0
Northstar Corridor Development Authority	14.03	44,200	44,500	(300)
Hennepin County Regional Rail Authority	2.00	6,300	6,300	0
Metropolitan Council	1.59	5,000	5,000	0
Total	100.00%	$315,100	$313,100	$2,000

Central Corridor Light Rail Transit

	Budgeted		Actual	Projected
	Percentage	Amount	Paid[a]	Remaining
Federal Transit Administration	50.00%	$478,500	$466,600	$11,900
Counties Transit Improvement Board	29.68	284,000	278,400	5,600
State of Minnesota Bonding	9.56	91,500	91,500	0
Ramsey County Regional Rail Authority	6.94	66,400	65,100	1,300
Hennepin County Regional Rail Authority	2.95	28,200	27,300	900
City of St. Paul	0.54	5,200	5,200	0
Metropolitan Council Regional Transit Capital	0.28	2,600	2,600	0
Central Corridor Funders Collaborative	0.05	500	500	0
Total	100.00%	$956,900	$937,200	$19,700

Southwest Light Rail Transit

	Budgeted		Actual	Projected
	Percentage	Amount	Paid[a]	Remaining
Federal Transit Administration[b]	50.00%	$ 928,800	$ 0	$ 928,800
Hennepin County	21.19	393,600	0	393,600
Counties Transit Improvement Board	12.19	226,400	102,800	123,600
Hennepin County Regional Rail Authority	10.00	185,800	43,700	142,100
Other Local	4.99	92,700	0	92,700
State of Minnesota	1.63	30,400	29,800	600
Total	100.00%	$1,857,700	$176,300	$1,681,400

Bottineau Light Rail Transit

	Budgeted		Actual	Projected
	Percentage	Amount	Paid[a]	Remaining
Federal Transit Administration[b]	49.00%	$ 752,700	$ 0	$ 752,700
Counties Transit Improvement Board	30.19	463,800	42,500	421,300
Hennepin County Regional Rail Authority	9.74	149,600	26,600	123,000
State of Minnesota	9.74	149,600	1,000	148,600
Other Local	1.33	20,500	0	20,500
Total	100.00%	$1,536,200	$70,100	$1,466,100

[a] The actual paid amounts are total project payments through June 30, 2017.

[b] The Council plans to submit federal grant applications for the Southwest Light Rail Transit in September 2017 and for the Bottineau Light Rail Transit in May 2018.

SOURCES: Northstar Corridor Quarterly Update, June 2017, 8; Central Corridor Financial Management Plan, March 2010, 30; Southwest Light Rail Transit Financial Management Plan, June 2017, 29; and Metro Blue Line Extension Financial Management Plan, September 2016, 26.

In its federal Southwest Light Rail financial plan submitted in June 2017, the Metropolitan Council assumed the state will continue to fund the operating costs of the Council's Transportation Division.

Exhibit 8 shows the actual operating revenues and expenses for the Metropolitan Council Transportation Division during calendar year 2016. The exhibit also shows the Council's cash flow projections for calendar years 2017 through 2021 that it included in its federal financial management plan for the Southwest Light Rail project. The plan submitted to the federal government does not show any future operating deficits in transit services, contrary to what the Council has presented in its own Transportation Finance Plan. Instead, the Council assumes that the state will continue to fund the operating costs of the Council's Transportation Division, noting in its plan to the federal government that "the State has an unbroken history of assisting transit statewide and particularly in the metropolitan region."[26] We challenged this statement by the Council, given the 2017 Legislature's actions prohibiting state funding for the Southwest Light Rail line.[27] We also questioned whether the Council was fully disclosing to the federal government its true financial situation, given the Council's projected deficit and decreased legislative support. This is an area we intend to examine more closely in future reports.

It is worth noting that the Council's transit finances have been presented in a less favorable light in analyses prepared by the Council for its internal use and for the Legislature. Exhibit 9 summarizes revenues and expenses from the Council's Transportation Finance Plan, which projects finances through calendar year 2021. This plan identifies an $85.8 million deficit in calendar years 2020-2021.

Metropolitan Council staff told us they use one set of assumptions (based on historical state and local funding) when preparing their federal transportation financial plans, and different assumptions (based on current appropriations law) when preparing internal reports and information for the Minnesota Legislature.

Although both the Council's Southwest Light Rail Financial Management Plan and its more internal Transportation Finance Plan reflect projected numbers, the Council uses different assumptions for each plan. For instance, the two plans assume a different growth rate for Metro Mobility expenses, based largely on ridership assumptions. The Council's internal Transportation Finance Plan assumes an 8.95 percent growth rate in Metro Mobility ridership, while the Council's

[26] Metropolitan Council, *Financial Management Plan, Southwest Light Rail Transit* (St. Paul, June 2017), 44. According to Council staff, this 20-year plan assumes that state general funds for bus operations will increase in the future by 3.15 percent per year.

[27] *Laws of Minnesota* 2017, First Special Session, chapter 3, art. 3, sec. 120, codified in *Minnesota Statutes* 2017, 473.4051, subd. 2(b).

Exhibit 8: Metropolitan Council Transit Operating Budget for 2016 to 2021, as Reported to the Federal Government

Dollars in Thousands

	Actual	Projected				
	2016	2017	2018	2019	2020	2021
Sources of Operating Funds						
Motor Vehicle Sales Tax	$250,140	$263,960	$298,390	$312,920	$324,650	$337,200
Fare Revenues	109,970	110,080	119,350	120,350	121,880	141,450
State Operating Assistance	90,270	94,980	124,800	124,800	92,790	97,430
Counties Transit Improvement Board	30,220	32,280	0	0	0	0
Federal Operating Assistance	22,780	11,360	9,980	10,050	10,140	10,230
Other Revenues	10,600	5,430	6,660	6,730	6,790	7,640
Local Operating Assistance	2,520	2,510	2,560	2,630	2,720	2,810
Local (Counties)	0	0	31,690	32,030	33,520	40,860
Interest on Operating Balance – 1%	0	530	1,010	1,380	1,750	1,590
Total Sources of Operating Funds	$516,500	$521,130	$594,440	$610,890	$594,240	$639,210
Uses of Operating Funds						
Metro Transit Bus Operations	$299,390	$319,120	$326,960	$337,260	$348,530	$367,690
Metro Mobility	0	69,910	70,670	72,550	82,000	86,100
Metropolitan Transportation Services	98,150	64,330	66,090	68,170	70,310	72,530
Light Rail and Commuter Rail Operations	83,370	90,420	93,270	96,210	109,240	119,500
Total Uses of Operating Funds	$480,910	$543,780	$556,990	$574,190	$610,080	$645,820
Net Operating Cash Flow	$ 35,590	$ (22,650)	$ 37,450	$ 36,700	$ (15,840)	$ (6,610)
Operating Reserve	$ 0	$105,960	$100,830	$138,280	$174,980	$159,140
Cash Flow Total	0	(22,650)	37,450	36,700	(15,840)	(6,610)
Motor Vehicle Sales Tax Forecast in Excess of Budget	0	17,520	0	0	0	0
Ending Operating Reserve	$105,960	$100,830	$138,280	$174,980	$159,140	$152,530

SOURCE: Metropolitan Council, Southwest Light Rail Transit Financial Management Plan, June 2017.

federal plan includes only a 5 percent growth rate. As a result, over the next five years, the Council projects $42 million more in Metro Mobility expenses in its internal Transportation Finance Plan than in its federal plan. Similarly, the federal plan only considers the Council's operating obligations for suburban transit, rather than all of the region's suburban transit expenses (as are included in the Transportation Finance Plan). As a result, over the next five years, the internal Transportation Finance Plan projects an additional $122.2 million of expenses, which includes the suburban transit activity for which the Council is not directly responsible.

Exhibit 9: Metropolitan Council Transit Operating Budget for 2017 to 2021, as Reported in its Transportation Finance Plan

Dollars in Thousands

	2017	2018	2019	2020	2021
Revenues					
Motor Vehicle Sales Taxes (MVST)	$267,400	$283,500	$297,300	$308,600	$317,500
Fares	117,300	119,900	121,700	123,500	126,600
Fare Increase (October 1, 2017)	1,700	6,100	9,200	10,600	11,000
General Fund Appropriations	111,300	126,200	111,200	91,300	91,300
Local Revenues	34,800	35,700	37,200	38,700	41,700
Federal Revenues	29,300	27,600	27,600	27,600	27,600
Other Revenues	13,000	13,200	13,300	13,400	14,000
Transfer In – MVST from Prior Year	2,400	12,600	13,400	14,000	14,600
Total Revenues	$577,200	$624,800	$630,900	$627,700	$644,300
Expenses					
Metro Transit Bus Operations	$343,000	$353,800	$364,900	$376,400	$388,000
Commuter and Light Rail	95,600	98,600	101,800	104,900	113,000
Metro Mobility	70,300	74,500	80,300	88,300	97,000
Suburban Transit	51,300	52,900	54,600	56,300	58,100
Contracted Services	28,400	29,300	30,200	31,200	32,200
Transportation Planning	7,600	7,900	8,100	8,400	8,700
Cost Reductions and Harvesting	(1,700)	(3,500)	(3,500)	(3,500)	(3,500)
Total Expenses	$594,500	$613,500	$636,400	$662,000	$693,600
Operating Funding Surplus (Deficit)	$ (17,300)	$ 11,300	$ (5,500)	$ (34,300)	$ (49,300)
Metropolitan Council – Reserve (Increase) Decrease	$ 16,200	$ 1,600	$ 0	$ 0	$ 0
Suburban Transit – Reserve (Increase) Decrease	$ 1,100	$ (100)	$ (1,100)	$ (1,100)	$ (1,100)
Adjusted Operating Funding Surplus (Deficit)	$ 0	$ 12,800	$ (6,600)	$ (35,400)	$ (50,400)
Projected Operating Deficit CY 2020-2021					**$ (85,800)**

NOTES: Revenue in this exhibit is based on the February 2017 forecast; ridership assumptions are as of November 2016. This exhibit is based on unaudited financial data. All years shown are calendar years.

SOURCE: Metropolitan Council, *Transportation Finance Plan* (undated).

RECOMMENDATION

We recommend that in future reports to the Legislature, the Metropolitan Council (1) explicitly identify the assumptions it includes in its different transportation financial plans and budget documents, and (2) explain the impact these assumptions have on the Council's financial forecast.

Council staff were able to answer our questions about the differences between their internal and federal financial plans, but the assumptions of each report—and how they differed—were not readily available. While it may be appropriate to include certain revenues or expenses in some plans and not others, we think it is important for the Metropolitan Council to be explicit about its assumptions and their resulting impact on the Council's financial forecast.

OLA Conclusion: Metropolitan Council Transit Finances

We did not see any significant problems in our review of the Council's historical balance sheets, and the Council has maintained adequate reserves in the past to adjust for variations in its transit revenues and expenses. However, we note that (1) the Council projects fiscal difficulties in the future and (2) there are inconsistencies between these projections and those the Council has provided to the federal government.

In future reports, we plan to further examine information the Council provided to the federal government regarding significant transitway projects. We will also continue to monitor the Council's projections regarding possible deficits.

Counties Transit Improvement Board

The Counties Transit Improvement Board (CTIB) has developed financial policies and procedures to manage its financial activity. The Board does not have any employees; rather, it contracts with Richardson, Richter & Associates to provide administrative functions, and with Springsted, Incorporated, to provide municipal advisory services. The Board also contracts with Hennepin County to act as its fiscal agent. Wells Fargo Bank serves as the Board's trustee.

CTIB has various methods for processing its revenues and expenses. The Department of Revenue collects transit sales tax revenue and deposits the revenue into the CTIB trust account at Wells Fargo Bank. Wells Fargo Bank processes board-authorized grant payments after receiving written instructions from CTIB. For administrative expenses, Hennepin County pays vendors and then requests quarterly reimbursements from CTIB.

CTIB established a Finance Team to oversee its financial activities. The team consists of senior financial staff from each member county, the Metropolitan Council, Metro Transit, and the Board's two consultants. Part of the role of the Finance Team is to monitor the Board's monthly sales tax revenues and grant expenses.

The Board has financed its activities partially through a revenue bond it issued several years ago. In December 2010, the Board issued a $102,810,000 Senior Sales Tax Revenue Note. This was done to obtain funding to pay for approved capital grants, which were expected to exceed the amount of transit sales taxes projected to be received in 2011. Hennepin County then issued a $102,810,000 General Obligation Senior Sales Revenue Bond and used the proceeds to purchase the CTIB note. Hennepin County transferred the bond proceeds, along with a bond premium of $7,190,000, to CTIB. CTIB began making annual principal payments on the note in December 2012. To satisfy the obligation of the note, in July 2017, the Board transferred $89,916,767 into a debt service fund at Wells Fargo Bank. The amount is sufficient to make regularly scheduled principal and interest payments until December 2019, at which time the note will be retired.

CTIB appears to be in sound financial condition as it ends its operations.

Exhibit 10 presents the CTIB financial statements for the year ended December 31, 2016, and the first two quarters of 2017. As of June 30, 2017, the assets of the Board exceeded liabilities by $200.8 million. Additionally, the Board has established a transition process to ensure that CTIB's obligations will be met or assumed by member counties. It should be noted that the Board's operating loss reported in the quarter ending June 30, 2017, is the result of the timing of a large amount of grant payments processed during the quarter; it does not negatively impact CTIB's overall financial health.

In mid-2017, CTIB and each of its five member counties voted to dissolve the joint powers agreement, effective September 30, 2017. According to the resolution, CTIB will fund most outstanding debt and obligations and will take administrative actions to facilitate the transition of CTIB responsibilities to the five member counties. The following are some of the major commitments CTIB will carry out prior to dissolution:

- Set aside sufficient funds to satisfy the Senior Sales Tax Revenue Note.
- Fund all 2017 operating grants approved by CTIB in January 2017.
- Fund up to 75 percent of 2017 capital grants approved by CTIB in January 2017.
- Fund all unpaid amounts for 2015 and 2016 capital grants.

The member counties have agreed to assume the unpaid portion of CTIB's commitments. Each county will be paid its share of any future grant refunds or other resources that become available after dissolution of the Board, in proportion to the contributions it made to CTIB.

Exhibit 11 presents the Board's estimates, as of July 31, 2017, of the financial activity that will occur in CTIB's remaining months of existence. Although the Board will dissolve effective September 30, 2017, CTIB will receive the September sales tax revenue—its last month of sales tax revenue—in November.

OLA Conclusion: Counties Transit Improvement Board Finances

Based on our review of CTIB finances, we conclude that there will be sufficient funding to pay the Board's remaining obligations and transition functions to member counties. CTIB appears to be in sound financial condition as it prepares to cease operations before the end of 2017.

Exhibit 10: Counties Transit Improvement Board Financial Statements

Balance Sheet	Year Ended December 31, 2016	Quarter Ended March 31, 2017	Quarter Ended June 30, 2017
Assets:			
Cash and Cash Investments	$273,195,137	$293,044,645	$286,180,768
Note Receivable[a]	1,597,000	1,597,000	3,555,000
Accounts Receivable	104,000	109,000	100,000
Total Assets	$274,896,137	$294,750,645	$289,835,768
Liabilities:			
Note Payable[b]	$ 83,605,000	$ 83,605,000	$ 83,605,000
Unamortized Note Premium	5,033,000	5,033,000	5,033,000
Interest Payable	327,829	327,829	327,829
Accounts Payable	172,553	113,311	113,311
Total Liabilities	$ 89,138,382	$ 89,079,140	$ 89,079,140
Net Position	$185,757,755	$205,671,505	$200,756,628

Statement of Revenues and Expenses	Year Ended December 31, 2016	Quarter Ended March 31, 2017	Quarter Ended June 30, 2017
Revenues:			
Transit Sales Taxes	$119,551,081	$32,322,817	$27,268,151
Investment Earnings	2,615,919	56,405	203,803
Reimbursements	105,000	91,656	(9,000)
Total Revenues	$122,272,000	$32,470,878	$27,462,954
Expenses:			
Grant Payments	$ 72,897,762	$ 9,792,899	$32,454,203
Debt Service	3,764,652	2,486,683	1,657,789
Consulting Services	961,897	209,485	221,883
Other Expenses	137,372	68,061	1,957
Total Expenses	$ 77,761,683	$12,557,128	$34,335,832
Net Income (Loss)	$ 44,510,317	$19,913,750	$ (6,872,878)

NOTE: This exhibit is based on unaudited financial data.

[a] In September 2015, the Counties Transit Improvement Board (CTIB) awarded a five-year reimbursable grant of up to $14,000,000 to the Metropolitan Council for the purchase of light rail cars. Repayments are due in December each year. After the dissolution of CTIB, the Metropolitan Council will send payments to CTIB's depository (Wells Fargo Bank), where they will be handled in accordance with an agreement approved by CTIB in 2017.

[b] The Board paid off this note in July 2017.

SOURCE: Office of the Legislative Auditor, analysis of Counties Transit Improvement Board data.

Exhibit 11: Counties Transit Improvement Board "Wind-Down" Estimates – August through November 2017, as of July 31, 2017

Cash and Estimated Revenues	
Cash on Hand[a]	$134,697,201
CTIB Transit Sales Tax Revenue	40,601,363
Interest Income	65,000
Other Revenues	412,450
Total	$175,776,014
Estimated Expenses and Reserves	
Capital Grant Payments	$153,895,740
Operating Grant Payments	17,653,437
Reserve Account[b]	3,719,500
Administrative Expenses	507,337
Total	$175,776,014

NOTES: This exhibit is based on unaudited financial data. Although the Counties Transit Improvement Board (CTIB) is dissolving on September 30, 2017, CTIB will receive September 2017 transit sales tax revenue in November 2017.

[a] CTIB expended approximately $166 million in July 2017, mainly on retiring the bond payable, making distributions to counties, and making grant payments.

[b] The Board voted to maintain a reserve for unexpected expenses that may be incurred during dissolution.

SOURCE: Office of the Legislature Auditor, analysis of Counties Transit Improvement Board data.

October 2, 2017

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 Transit Financial Activity. We appreciate the time spent with audit staff to develop deeper understanding of the Council's financial operations and transit functions.

We acknowledge the auditor's recommendation regarding assumptions we use in our federal new starts financial planning documents and our Council internal budget workpapers and projections.

While we have not, in the past, attempted to reconcile these financial forecasts, each is based on clearly articulated assumptions that are appropriate and well-established to their purpose.

In developing our state budget forecast, we are bound by our current law funding sources. We develop the forecast with the purpose of presenting to our Council, the Governor, and State decision makers the financial need under our current law funding. It is a short-term biennial vision of our budget expectations.

The Federal Transit Administration (FTA) requires a financial plan for new-starts projects, like SWLRT, that provides a 10-year look back at our operations as well as 20-year look forward of our budget expectations. The FTA has a well-established process for review of new starts projects that anticipates our historical patterns for state and local funding and potential fare increases into our long-term future. We meet with the FTA on a regular basis and they are well informed of our current law budget position as well as the assumptions clearly defined for our financial plan.

Again, thank you for the opportunity to review and respond to your recommendation and we appreciate the auditor's conclusions supporting our historical financial activity reports and maintenance of adequate reserves.

Sincerely,

Weston Kooistra
Regional Administrator

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COUNTIES Transit Improvement BOARD

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Dakota County | Washington County
Hennepin County | Metropolitan Council

477 Selby Avenue | Saint Paul, Minnesota 55102 | p: 651-222-7227 | f: 651-223-5229

September 29, 2017

Mr. James Nobles
Legislative Auditor
Room 140
Centennial Building
658 Cedar Street, St. Paul, MN 55155

Dear Mr. Nobles:

On behalf of the Counties Transit Improvement Board (CTIB), I am writing to provide a general reaction to the Office of Legislative Auditor's "Transit Financial Activity Review, Through June 30, 2017," dated September 27, 2017.

CTIB fully concurs with the report's conclusion that CTIB is in sound financial condition and has sufficient funds to pay its remaining debt and obligations. The Joint Powers Agreement establishing CTIB will terminate on September 30, 2017, and CTIB has fulfilled the requirements of the law pertaining to all of its outstanding commitments.

Sincerely,

Peter McLaughlin

Peter McLaughlin, Chair
Counties Transit Improvement Board

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