

DATE: October 6, 2017
TO: Local elected officials, legislators, Metro Cities, Council Partners
FROM: Wes Kooistra, Regional Administrator
SUBJECT: OLA Audit on Regional Transit Funds

On Wednesday, the Office of the Legislator Auditor (OLA) released an audit of regional transit funds. The OLA concluded that they “did not see any significant problems in the Metropolitan Council Transportation Division’s historical balance sheets.” The OLA also noted that “the Council has maintained adequate reserves in the past.” The conclusion that the Council has sound financial management and no significant problems is an accurate summary of this audit. This is also consistent with the state auditor’s findings in the past.

However, one sentence in the audit report’s conclusion has been misinterpreted. This memo provides further background and clarity on the conclusions of the audit and specifically, on how the Council reports budget forecasts to the State Legislature versus how we report financial capacity to the federal government as part of our FTA New Starts (Southwest, Bottineau and Orange Line project) applications.

Budget projection for the legislature

The budget forecasts the Council provides to the Minnesota State Legislature each biennium are four-year projections based on current law, current Council policy, current service levels, and current revenue assumptions, (including fares, state appropriations and Motor Vehicle Sales Tax forecasts). The Council provides this information to the Legislature as a way of informing the legislators what the Council’s budget position is, prior to any legislative action.

At the end of the legislative session, the Council projected a \$67.5M deficit for the 2018-19 biennium. At the conclusion of session, the Legislature provided one-time state appropriation increases of \$70M for the biennium. This increase was slightly more than the end of session 2018-19 budget gap, but the one-time nature of the appropriation left the significant 2020-21 projected deficit unresolved.

Federal New Starts Financial Capacity Assessment

The Financial Capacity Assessment we recently provided to the Federal Transit Administration as part of our New Starts application for Southwest LRT is not restricted to current law and other current conditions. This 30-year assessment is a 10-year look back and a 20-year look forward. We were asked to project the Council’s financial capacity, including possible changes in current law appropriations, fares, and other administrative interventions that are reasonable assumptions. The 10-year look back portion of the assessment provides some test for the FTA to gauge the forward-looking assumptions. The following are some of the 20-year forward-looking assumptions used in the SWLRT Financial Capacity Assessment:

- Future state legislatures will increase appropriations to continue to meet its statutory commitment to fund 50% of the subsidized portion existing light rail operations. Counties will continue to fund their 50% share.

- Future Hennepin County Boards will fund 100% of the subsidized portion of SWLRT operations in accordance with the current Board's resolution.
- Future state legislatures will fully fund the subsidized portion of Metro Mobility costs because providing this service at specified levels is both a federal and state mandate.
- Future state legislatures will provide reasonable appropriations increases necessary to support existing bus service.
- Future Metropolitan Councils will approve periodic fare increases.
- The Metropolitan Council's Metro Transit Division will reasonably reduce administrative overhead and take other actions to improve service efficiency and reduce service costs in the coming decades.

These assumptions are consistent with what occurred in the assessment's 10-year look back. These assumptions have also proven to be consistent with the policy and funding changes of the last few months. Specifically, the State Legislature funded light rail, Metro Mobility, and regional bus shortfall with a \$70M appropriations increase. After session, Hennepin County committed to pay 100% of SWLRT operations and fund the state share shortfall in SWLRT capital development costs. This summer, the Council approved a fare increase. Metro Transit continues to restrict administrative spending and when routes are discontinued due to poor performance, funds that supported discontinued routes are not being reinvested in new routes.

Juxtaposition of these documents

Ultimately, the federal government and the state require different perspectives on the data, which is what the Council accurately provided in these two separate and distinct reports.

- The report to the FTA notes \$152 million as the projected reserve balance for the end of 2021, which the OLA deems to be an adequate reserve for a system this large. Once again, this projected reserve balance is not based on current law. It assumes the state legislature funds the transit needs of the region, including our base bus system, Metro Mobility, operating costs for METRO Green and Blue Lines and inflationary pressures, as it did this year. It also assumes periodic fare increases as well as implementation of additional cost containment strategies in both Metro Mobility and Metro Transit. Should the legislature in any way fail to meet the needs of our transit system fully, this projected reserve balance will be reduced as reserves will be required to continue operations.
- Separately, the Council's budget projection to the state legislature was a budget forecast, required under state law, to show projected annual funding surplus or deficit, which influences the appropriations request for the short-term biennium. The projected operating deficit forecasted for 2020-21 biennium is \$85 million, which assumes no changes in state funding and the continuation of maintaining an adequate budget reserve.

The Council appreciates the OLA's acknowledgement of our sound financial management and understanding of the fact that these reports are separate and distinct projections based on differing assumptions as requested by the legislature and FTA respectively.