



Transit Financial Activity Review Through September 30, 2017

November 30, 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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www.auditor.leg.state.mn.us



November 30, 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. This report covers the third quarter of 2017.

In general, we concluded that both of the organizations had adequate assets and revenues to meet their obligations. We also concluded that the Counties Transit Improvement Board took adequate steps to help ensure that its oversight functions were transitioned to its member counties upon the Board's dissolution on September 30, 2017.

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,

A handwritten signature in black ink, appearing to read 'Jim Nobles'.

James Nobles
Legislative Auditor



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INTRODUCTION

This report is the second 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 says that OLA must issue its reports within 14 days of the end of each fiscal quarter.² However, due to the time required to obtain the financial data from the affected agencies and the time our office needed to analyze the data, our reports will be issued after the 14-day deadline.

CONCLUSION

Based on our review, we did not find problems in the Metropolitan Council Transportation Division’s third quarter balance sheets or income statements, and the Council has maintained adequate reserves to adjust for variations in its transit revenues and expenses.

CTIB appeared to be in sound financial condition when it ceased its operations on September 30, 2017. Prior to its dissolution, the Board took adequate steps to help ensure that its oversight functions were appropriately transitioned to its member counties.

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

² *Ibid.*

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.³

For the Metropolitan Council, we reviewed the Transportation Division's financial activity occurring in July, August, and September of 2017. In contrast to our initial report, we did not review the Council's forecasted budgets as provided to the Legislature and the federal government; however, at least annually, we will review and report on this activity.⁴ We reviewed the following financial activity and documentation for the Metropolitan Council Transportation Division's:

- Operating balance sheet activity for the third quarter of 2017.
- Operating revenue and expense activity for the third quarter of 2017.
- Operating reserve fund balances for the third quarter of 2017.
- Outstanding bonds and notes.
- Current capital projects through Fiscal Year 2022.
- Financial plans for the four largest capital projects.

For CTIB, we reviewed financial activity for July, August, and September of 2017. In addition, we reviewed CTIB's allocation of its September 30, 2017, cash balance for the payment of existing grant agreements, administrative contracts, and a reserve fund for unanticipated expenses. Specifically, we reviewed the following financial activity and documentation for CTIB:

- Balance sheet activity for the third quarter of 2017.
- Revenue and expense activity for the third quarter of 2017.
- The Board's allocation of its remaining net assets.

³ *Ibid.*

⁴ Office of the Legislative Auditor, *Transit Financial Activity Review Through June 30, 2017* (St. Paul, MN, October 2017).

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 the Council and the allocation of CTIB's remaining net assets to the member counties upon its dissolution on September 30, 2017.

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 accounts during the third quarter of 2017. 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.

In the third quarter of 2017, assets exceeded liabilities for each of the Metropolitan Council's transit operating services.

The balance sheets in Exhibit 1 compare assets and liabilities for all of the Council's operating 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 Services, July through September 2017

Dollars in Thousands

Operating	As of July 31, 2017	As of August 31, 2017	As of September 30, 2017
Metro Transit			
Bus			
Assets	\$110,078	\$119,249	\$120,863
Liabilities	<u>(45,747)</u>	<u>(49,738)</u>	<u>(52,148)</u>
Net Position	<u>\$ 64,331</u>	<u>\$ 69,511</u>	<u>\$ 68,715</u>
Light Rail			
Assets	\$ 21,561	\$ 28,019	\$ 24,918
Liabilities	<u>(2,830)</u>	<u>(6,091)</u>	<u>(5,075)</u>
Net Position	<u>\$ 18,731</u>	<u>\$ 21,928</u>	<u>\$ 19,843</u>
Commuter Rail			
Assets	\$ 9,607	\$ 11,633	\$ 10,613
Liabilities	<u>(4,104)</u>	<u>(5,031)</u>	<u>(5,507)</u>
Net Position	<u>\$ 5,503</u>	<u>\$ 6,602</u>	<u>\$ 5,106</u>
Metropolitan Transportation Services			
Metro Mobility			
Assets	\$ 24,878	\$ 34,180	\$ 39,159
Liabilities	<u>(2,255)</u>	<u>(510)</u>	<u>(9,363)</u>
Net Position	<u>\$ 22,623</u>	<u>\$ 33,670</u>	<u>\$ 29,796</u>
Contracted Services			
Assets	\$ 6,649	\$ 7,784	\$ 11,370
Liabilities	<u>(370)</u>	<u>(5)</u>	<u>(5,827)</u>
Net Position	<u>\$ 6,279</u>	<u>\$ 7,779</u>	<u>\$ 5,543</u>

NOTES: This exhibit is based on unaudited financial data.

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

Exhibit 2 shows the statement of revenues and expenses for the Metropolitan Council Transportation Division's operating services. The division receives 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 Transportation Division's services had an operating deficit at some point during the period we examined, but these deficits can be covered by existing reserves.

Exhibit 2 shows deficits (that is, expenses that exceeded revenues) that occurred throughout the third quarter of 2017. The Council will use reserves to address deficits as needed, which temporarily decreases the remaining reserve balance. Due to the timing of income statement activities, it is not abnormal for expenses to exceed revenues.⁵

⁵ In addition, financial information reported on a monthly basis may not capture accounting adjustments that occur on a quarterly or annual basis.

Exhibit 2: Metropolitan Council Statement of Revenues and Expenses for Transit Operating Services, July through September 2017

Dollars in Thousands

Operating	Through June 30, 2017	July	August	September	Through September 30, 2017
Metro Transit					
Bus					
Revenues	\$ 158,422	\$ 25,412	\$ 27,633	\$ 26,734	\$ 238,201
Expenses	<u>(141,357)</u>	<u>(19,867)</u>	<u>(22,452)</u>	<u>(27,530)</u>	<u>(211,206)</u>
Net Income (Loss)	<u>\$ 17,065</u>	<u>\$ 5,545</u>	<u>\$ 5,181</u>	<u>\$ (796)</u>	<u>\$ 26,995</u>
Light Rail					
Revenues	\$ 32,420	\$ 5,414	\$ 7,413	\$ 5,550	\$ 50,797
Expenses	<u>(32,782)</u>	<u>(5,129)</u>	<u>(4,216)</u>	<u>(7,635)</u>	<u>(49,762)</u>
Net Income (Loss)	<u>\$ (362)</u>	<u>\$ 285</u>	<u>\$ 3,197</u>	<u>\$ (2,085)</u>	<u>\$ 1,035</u>
Commuter Rail					
Revenues	\$ 7,873	\$ 1,096	\$ 1,254	\$ 1,053	\$ 11,276
Expenses	<u>(8,145)</u>	<u>(1,207)</u>	<u>(155)</u>	<u>(2,549)</u>	<u>(12,056)</u>
Net Income (Loss)	<u>\$ (272)</u>	<u>\$ (111)</u>	<u>\$ 1,099</u>	<u>\$ (1,496)</u>	<u>\$ (780)</u>
Metropolitan Transportation Services					
Metro Mobility					
Revenues	\$ 31,747	\$ 8,102	\$ 15,911	\$ 8,667	\$ 64,427
Expenses	<u>(30,486)</u>	<u>1,622</u>	<u>(4,864)</u>	<u>(12,541)</u>	<u>(46,269)</u>
Net Income (Loss)	<u>\$ 1,261</u>	<u>\$ 9,724</u>	<u>\$ 11,047</u>	<u>\$ (3,874)</u>	<u>\$ 18,158</u>
Contracted Services					
Revenues	\$ 13,986	\$ (1,479)	\$ 3,032	\$ 5,394	\$ 20,933
Expenses	<u>(12,692)</u>	<u>3,110</u>	<u>(1,532)</u>	<u>(7,629)</u>	<u>(18,743)</u>
Net Income (Loss)	<u>\$ 1,294</u>	<u>\$ 1,631</u>	<u>\$ 1,500</u>	<u>\$ (2,235)</u>	<u>\$ 2,190</u>

NOTES: This exhibit is based on unaudited financial data.

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

Reserve Balances

Exhibit 3 shows the Council's operating reserve balances for the third quarter of 2017. During this time period, the Council's total operating reserve fund balance has increased from \$100 million, as of June 30, 2017, to \$129 million, as of September 30, 2017.

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.⁶ The policy requires Metro Mobility and the Council's contracted services programs to maintain a reserve balance of at least 10 percent of operating expenses. This policy is intended to ensure that the Council has reserve funds to use as a contingency if expenses exceed revenues. During the third quarter of 2017, the Council was in compliance with its reserve policy.

⁶ 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

	As of June 30, 2017	As of July 31, 2017	As of August 31, 2017	As of September 30, 2017
Metro Transit				
Bus	\$ 58,785	\$ 64,331	\$ 69,511	\$ 68,715
Light Rail	18,446	18,731	21,928	19,842
Commuter Rail	5,614	5,503	6,602	5,106
Metropolitan Transportation Services				
Metro Mobility	\$ 12,899	\$ 22,623	\$ 33,671	\$ 29,796
Contracted Services	4,648	6,278	7,779	5,543
Total Reserves	<u>\$100,392</u>	<u>\$117,466</u>	<u>\$139,491</u>	<u>\$129,002</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 obligations. By law, the Council may not issue more than \$126 million in such obligations for the 2018-2019 biennium.⁷ The Council issues debt to secure funding for transit capital improvements and projects.

Exhibit 4: Metropolitan Council Transit Bonds, Loans, and Notes Outstanding

Dollars in Thousands

	As of July 31, 2017	As of August 31, 2017	As of September 30, 2017
General Obligation Transit Bonds ^a	\$179,575	\$179,575	\$179,575
Public Facility Authority Loans	1,960	1,880	1,880
Counties Transit Improvement Board Loans	5,024	5,024	5,514
Total	<u>\$186,559</u>	<u>\$186,479</u>	<u>\$186,969</u>

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. 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. The Counties Transit Improvement Board loans are interest free and were used to fund the purchase of five light rail cars.

^aThe bond total includes bonds issued in 2007 through 2017. The Council has not issued bonds during the 2018-2019 biennium.

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

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

Capital Expenses

The Metropolitan Council has approved approximately \$2.5 billion in capital expenses for its current transit projects. Approximately 94 percent of these projects' costs are attributed to Metro Transit activities; the remainder results from Metropolitan Transportation Services activities. Most of the Metro Transit capital funding is related to projects in the Federal New Starts Program.⁸ 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.

Exhibit 5 provides summary data on all Council capital projects, as of September 30, 2017. Exhibit 6 provides additional details on the four largest capital projects, including projected costs beyond September 2017. Of the large projects shown in Exhibit 6, 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 has not yet submitted the federal grant applications. The Council now anticipates submission of the Southwest application to occur in May 2018. The Council anticipates the submission of the Bottineau application sometime in 2018. 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. Currently, the Federal Transit Administration is reviewing these plans, which will likely require updates prior to submitting the federal grant applications. The Metropolitan Council expects Southwest light rail transit to be operational in 2022.⁹ The Council is currently evaluating when the Bottineau light rail transit will be operational.

OLA Conclusion: Metropolitan Council Transit Finances

We did not see any significant problems in our review of the Metropolitan Council's third quarter balance sheets, and the Council has maintained adequate reserves to adjust for variations in its transit revenues and expenses.

In future reports, we plan to further examine information provided to the federal government regarding significant transitway projects. In addition, we will also monitor the Council's projections regarding possible operating deficits, as identified in our initial report.¹⁰

⁸ Federal New Starts projects represent 70 percent of the costs of Metro Transit capital projects reflected in the Metropolitan Council's current capital plan.

⁹ On October 30, 2017, the Council reopened the bidding process to select a main contractor for the Southwest light rail project. The process was reopened because the initial bids were (1) not responsive to the Council's requirements and (2) more expensive than anticipated.

¹⁰ Office of the Legislative Auditor, *Transit Financial Activity Review Through June 30, 2017* (St. Paul, MN, October 2017).

Exhibit 5: Total Metropolitan Council Capital Funding Approved and Secured for all Active Transit Projects, as of September 30, 2017

Dollars in Thousands

Program	Metro Transit		
	Capital Project Costs Approved and Secured by the Council	Unpaid Balance of Approved Costs	Number of Projects
Federal New Starts Rail Projects	\$1,675,200	\$182,300	4
Transitways (Not New Starts)	282,300	151,200	27
Fleet Modernization	166,800	30,500	11
Support Facilities	139,800	57,100	29
Customer Facilities	51,100	16,700	25
Other Capital Equipment	48,500	18,100	24
Technology Improvements	33,300	12,500	41
Locally Requested Capital Investments	<u>4,700</u>	<u>2,000</u>	<u>2</u>
Total	<u>\$2,401,700</u>	<u>\$470,400</u>	<u>163</u>

Metropolitan Transportation Services

Program	Metropolitan Transportation Services		
	Capital Project Costs Approved and Secured by the Council	Unpaid Balance of Approved Costs	Number of Projects
Fleet Modernization	\$115,300	\$57,700	61
Other Regional Providers – Nonfleet	19,900	14,400	21
Technology Improvements	4,700	2,800	9
Transitways (Not New Starts)	<u>18,900</u>	<u>0</u>	<u>3</u>
Total	<u>\$158,800</u>	<u>\$74,900</u>	<u>94</u>

NOTES: This exhibit is based on unaudited financial data. Numbers are rounded to the nearest hundred. The costs approved by the Council include both past and present approved 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.

Exhibit 6: 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 Paid ^a	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	51.09%	\$161,000	\$158,800	\$ 2,200
State of Minnesota	31.29	98,600	98,600	0
Northstar Corridor Development Authority	14.03	44,200	45,200	(1,000)
Hennepin County Regional Rail Authority	2.00	6,300	6,300	0
Metropolitan Council	1.59	5,000	5,000	0
Total	<u>100.00%</u>	<u>\$315,100</u>	<u>\$313,900</u>	<u>\$ 1,200</u>

Central Corridor Light Rail Transit

	Budgeted		Actual Paid ^a	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	50.01%	\$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	65,200	1,200
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	0.27	2,600	2,600	0
Central Corridor Funders Collaborative	0.05	500	500	0
Total	<u>100.00%</u>	<u>\$956,900</u>	<u>\$937,300</u>	<u>\$19,600</u>

Southwest Light Rail Transit

	Budgeted		Actual Paid ^a	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	50.00%	\$ 928,800	\$ 0	\$ 928,800
Hennepin County	21.19	393,600	0	393,600
Counties Transit Improvement Board	12.19	226,400	132,600	93,800
Hennepin County Regional Rail Authority	10.00	185,800	42,700	143,100
Other Local	4.99	92,700	31,300	61,400
State of Minnesota	1.63	30,400	14,100	16,300
Total	<u>100.00%</u>	<u>\$1,857,700</u>	<u>\$220,700</u>	<u>\$1,637,000</u>

Bottineau Light Rail Transit

	Budgeted		Actual Paid ^a	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	49.00%	\$ 752,700	\$ 0	\$ 752,700
Counties Transit Improvement Board	30.19	463,800	54,800	409,000
Hennepin County Regional Rail Authority	9.74	149,600	35,400	114,200
State of Minnesota	9.74	149,600	1,000	148,600
Other Local	1.33	20,500	0	20,500
Total	<u>100.00%</u>	<u>\$1,536,200</u>	<u>\$91,200</u>	<u>\$1,445,000</u>

NOTES: This exhibit is based on unaudited financial data. Numbers are rounded to the nearest hundred.

^a The actual paid amounts are total project payments through September 30, 2017.

SOURCES: Budgeted amounts from 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. Actual paid amounts reported by Metropolitan Council.

Counties Transit Improvement Board

In mid-2017, CTIB and each of its five member counties voted to dissolve the joint powers agreement, effective September 30, 2017.¹¹ The last meeting of the Board was held on September 27, 2017. Over the last several months, the Board performed the following to facilitate the transition of its functions to the member counties:¹²

- In late July 2017, the Board redeemed its Senior Sales Tax Revenue Note owed to Hennepin County by transferring \$89,916,767 into a debt service fund at Wells Fargo Bank. The amount was sufficient to make regularly scheduled principal and interest payments until December 2019, at which time the note will be retired.
- The Board approved a new depository agreement with Wells Fargo Bank to receive, hold, and disburse funds on behalf of the member counties. The agreement is effective September 1, 2017, and will expire on December 31, 2022. Hennepin County will be responsible for overseeing the financial activities of the account.¹³
- The Board amended and restated its financial services agreement with Hennepin County. Hennepin County will continue to provide budgeting and accounting services for the member counties through December 31, 2022. In return, Hennepin County will be paid \$40,000 in 2018; \$30,000 in 2019; \$20,000 in both 2020 and 2021; and \$10,000 in 2022.¹⁴
- The Board established a Reserve Account totaling \$3,324,500 to address any unexpected expenses that may occur after its dissolution. Hennepin County Commissioner Peter McLaughlin and Anoka County Commissioner Scott Schulte were assigned fiduciary oversight over the use of these funds.¹⁵

The Board assigned responsibility for its existing capital and operating grant agreements to member counties. The assigned counties are responsible for monitoring the progress of the projects, ensuring that all requirements of the grants are being met, and managing payment requests. These assignments are identified in Exhibit 7. The exhibit also presents the Board's allocation of its September 30, 2017, cash balance.

¹¹ 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.

¹² The member counties are Anoka, Dakota, Hennepin, Ramsey, and Washington counties.

¹³ CTIB, Resolution #62-2017, Relating to the Depository Agreement with Wells Fargo Bank, September 27, 2017.

¹⁴ CTIB, Resolution #60-2017, Relating to the Financial Services Agreement with Hennepin County, September 27, 2017.

¹⁵ CTIB, Resolution #75-2017, Relating to the Delegation of Authority of the Board's Post Wind-down Affairs, September 27, 2017.

CTIB appeared to be in sound financial condition upon its dissolution.

Exhibit 8 presents the CTIB financial statements for the quarter ended September 30, 2017. As of September 30, 2017, the assets of the Board exceeded liabilities by \$109.8 million. The Board reported operating losses in each month of the third quarter due to the timing of large grant payments being processed during the quarter. However, these payments did not adversely impact CTIB's overall financial health.

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.

OLA Conclusion: Counties Transit Improvement Board Finances

Based on our review of CTIB finances and dissolution activities, we conclude that the Board took steps to help ensure a smooth transition of functions and its remaining funds to CTIB member counties.

Exhibit 7: Counties Transit Improvement Board – Allocations of Funds upon Dissolution

<u>CTIB Assignee^a</u>	<u>Account</u>	<u>Initial Deposit^b</u>
Capital Grants		
Hennepin County	Green Line Extension (Southwest)	\$ 61,659,281
Hennepin County	Blue Line (Bottineau) Light Rail	15,764,394
Hennepin County	Blue Line Light Rail Vehicle	8,123,585
Washington County	Gold Line (Gateway) Bus Rapid Transit	6,000,000
Hennepin County	Mall of America	2,250,000
Hennepin County	Orange Line Bus Rapid Transit	<u>0</u>
Total Capital		\$ 93,797,260
Operating Grants		
Hennepin County	Light Rail Transit	\$ 4,634,051
Anoka County	Northstar Commuter	1,428,474
Dakota County	Red Line Bus Rapid Transit	388,212
Dakota County	I-35W South Express	88,336
Dakota County	Cedar Express	<u>42,404</u>
Total Operating		\$ 6,581,477
Other		
Member Counties	Reserve Account ^c	\$ 3,324,500
Member Counties	Administrative Cost Account ^d	<u>709,747</u>
Total Other		\$ 4,034,247
Total Funding		<u>\$104,412,984</u>

NOTE: This exhibit is based on unaudited financial data.

^a The CTIB assignee will monitor the assigned grant account(s) and authorize payment requests. Hennepin County will be responsible for tracking account activity on behalf of the member counties.

^b "Initial Deposit" represents funds transferred to a Wells Fargo bank depository account on October 5, 2017. These funds will be managed by the bank in accordance with the depository agreement. Oversight support will be provided by Hennepin County as the financial services provider.

^c The Reserve Account will be used for unexpected expenses that may occur after dissolution.

^d The Administrative Cost Account will be used to pay for administrative costs incurred by the member counties.

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

Exhibit 8: Counties Transit Improvement Board Financial Statements

Balance Sheet	Month Ended		
	July 31, 2017	August 31, 2017	September 30, 2017
Assets			
Cash and Cash Investments	\$134,697,200	\$114,452,805	\$104,412,984
Note Receivable ^a	5,024,000	5,024,000	5,514,000
Accounts Receivable	100,000	100,000	100,000
Total Assets	<u>\$139,821,200</u>	<u>\$119,576,805</u>	<u>\$110,026,984</u>
Liabilities			
Accounts Payable	\$ 227,199	\$ 113,452	\$ 266,506
Total Liabilities	<u>\$ 227,199</u>	<u>\$ 113,452</u>	<u>\$ 266,506</u>
Net Position	<u>\$139,594,001</u>	<u>\$119,463,353</u>	<u>\$109,760,478</u>
Statement of Revenues and Expenses	Month Ended		
	July 31, 2017	August 31, 2017	September 30, 2017
Revenues			
Transit Sales Taxes	\$ 9,590,296	\$ 10,297,382	\$ 9,893,946
Investment Earnings	103,353	443,187	304,997
Total Revenues	<u>\$ 9,693,649</u>	<u>\$ 10,740,569</u>	<u>\$ 10,198,943</u>
Expenses			
Grant Payments	\$ 38,215,552	\$ 30,792,374	\$ 20,281,712
Debt Service	828,894	0	0
Consulting Services	163,343	61,319	148,783
Other Expenses	0	21,275	520
Total Expenses	<u>\$ 39,207,789</u>	<u>\$ 30,874,968</u>	<u>\$ 20,431,015</u>
Net Income (Loss)	<u>\$(29,514,140)</u>	<u>\$(20,134,399)</u>	<u>\$(10,232,072)</u>

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 of 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.

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

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658 CEDAR STREET – SAINT PAUL, MN 55155