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Transit Financial Activity Review Through December 31, 2017

April 5, 2018

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

April 5, 2018

Members of the Legislative Audit Commission:

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

In general, we found that the Council had adequate assets and revenues to meet their obligations. In addition, the 2017 year-end operating reserve balances for transit services significantly exceeded the Council's target balances and year-end cash and investments balances increased significantly since 2015.

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

This report was written by Lori Leysen and Pat Ryan of our office's Financial Audit Division.

Sincerely,

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

James Nobles
Legislative Auditor

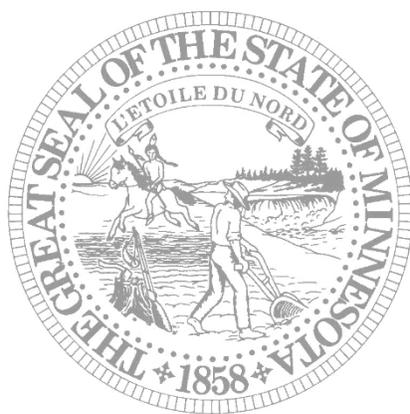
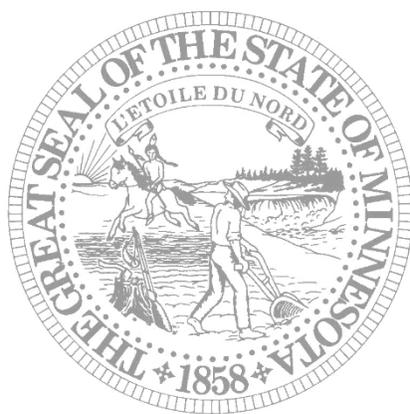


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INTRODUCTION

This report is the third 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 CTIB was dissolved on September 30, 2017; therefore, CTIB will no longer be included in our review.²

The law requires OLA’s financial reviews to include:

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

The law says that OLA must issue its reports within 14 days of the end of each fiscal quarter.³ However, due to the time required for the Council to prepare the financial data and the time required for our office to analyze the data, our reports will be issued after the 14-day deadline.

PREVIEW OF FINDINGS

- In the fourth quarter of 2017, assets exceeded liabilities for each of the Metropolitan Council’s transit operating services.
- Except for bus operations, 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.
- The Metropolitan Council’s 2017 year-end operating reserve balances for transit services significantly increased and exceeded the Council’s target balances.

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 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.

³ *Minnesota Statutes* 2017, 3.972, subd. 4.

- The Metropolitan Council’s year-end cash and investment balances for transit services have increased significantly since 2015.

METHODS

To conduct this review, we obtained financial data from the Metropolitan Council. We did not independently audit the data provided to our office; the financial statements of the Council are subject to annual audits by the Office of the State Auditor. Rather, we assembled and analyzed the Council’s data, as prescribed by law.⁴

We reviewed the following Metropolitan Council Transportation Division’s financial activity occurring in October, November, and December of 2017:

- Operating balance sheet activity for the fourth quarter of 2017.
- Operating revenue and expense activity for the fourth quarter of 2017.
- Operating reserve balances for the fourth quarter of 2017.
- Operating reserve balance rates as of December 31, 2017.
- Operating cash and investment balances 2015 through 2017.
- Outstanding bonds and notes.

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

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 fourth quarter of 2017.⁵ 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.

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

⁵ The amounts presented for December are based upon preliminary unaudited financial data and are subject to change. The Metropolitan Council’s fiscal year ends December 31. The Council closes its books, and the State Auditor completes a financial audit of the Council’s financial statements within 180 days of the fiscal year end. The Council expects to issue its audited financial statements in June 2018.

In the fourth 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, October through December 2017

Dollars in Thousands

Operating	As of October 31, 2017	As of November 30, 2017	As of December 31, 2017 ^a
Metro Transit			
Bus			
Assets	\$ 124,522	\$ 129,684	\$ 128,282
Liabilities	<u>(53,747)</u>	<u>(52,536)</u>	<u>(38,167)</u>
Net Position	<u>\$ 70,775</u>	<u>\$ 77,148</u>	<u>\$ 90,115</u>
Light Rail			
Assets	\$ 21,095	\$ 23,794	\$ 23,521
Liabilities	<u>(2,927)</u>	<u>(6,095)</u>	<u>(5,178)</u>
Net Position	<u>\$ 18,168</u>	<u>\$ 17,699</u>	<u>\$ 18,343</u>
Commuter Rail			
Assets	\$ 10,076	\$ 11,174	\$ 10,973
Liabilities	<u>(5,014)</u>	<u>(5,828)</u>	<u>(5,114)</u>
Net Position	<u>\$ 5,062</u>	<u>\$ 5,346</u>	<u>\$ 5,859</u>
Metropolitan Transportation Services			
Metro Mobility			
Assets	\$ 29,902	\$ 31,388	\$ 30,752
Liabilities	<u>(960)</u>	<u>(2,557)</u>	<u>(4,436)</u>
Net Position	<u>\$ 28,942</u>	<u>\$ 28,831</u>	<u>\$ 26,316</u>
Contracted Services			
Assets	\$ 10,826	\$ 10,765	\$ 10,496
Liabilities	<u>(562)</u>	<u>(813)</u>	<u>(1,338)</u>
Net Position	<u>\$ 10,264</u>	<u>\$ 9,952</u>	<u>\$ 9,158</u>

NOTE: This exhibit is based on unaudited financial data.

^a The amounts presented as of December 31, 2017, are based upon preliminary unaudited financial data and are subject to change.

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.

Except for bus operations, 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 fourth quarter of 2017. The Council uses its 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 during a given reporting period.⁶

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

Dollars in Thousands

Operating	Three Quarters Ended September 30, 2017	October	November	December	Year Ended December 31, 2017 ^a
Metro Transit					
Bus					
Revenues	\$ 238,201	\$ 25,506	\$ 29,223	\$ 23,015	\$ 315,945
Expenses	<u>(211,206)</u>	<u>(23,447)</u>	<u>(22,850)</u>	<u>(10,048)</u>	<u>(267,551)</u>
Net Income (Loss)	<u>\$ 26,995</u>	<u>\$ 2,059</u>	<u>\$ 6,373</u>	<u>\$ 12,967</u>	<u>\$ 48,394</u>
Light Rail					
Revenues	\$ 50,798	\$ 4,547	\$ 5,649	\$ 3,930	\$ 64,924
Expenses	<u>(49,763)</u>	<u>(6,221)</u>	<u>(6,118)</u>	<u>(3,287)</u>	<u>(65,389)</u>
Net Income (Loss)	<u>\$ 1,035</u>	<u>\$ (1,674)</u>	<u>\$ (469)</u>	<u>\$ 643</u>	<u>\$ (465)</u>
Commuter Rail					
Revenues	\$ 11,276	\$ 1,142	\$ 1,094	\$ (129)	\$ 13,383
Expenses	<u>(12,056)</u>	<u>(1,187)</u>	<u>(810)</u>	<u>141</u>	<u>(13,912)</u>
Net Income (Loss)	<u>\$ (780)</u>	<u>\$ (45)</u>	<u>\$ 284</u>	<u>\$ 12</u>	<u>\$ (529)</u>
Metropolitan Transportation Services					
Metro Mobility					
Revenues	\$ 64,427	\$ (4,276)	\$ 5,889	\$ 5,718	\$ 71,758
Expenses	<u>(46,270)</u>	<u>3,421</u>	<u>(6,000)</u>	<u>(8,233)</u>	<u>(57,082)</u>
Net Income (Loss)	<u>\$ 18,157</u>	<u>\$ (855)</u>	<u>\$ (111)</u>	<u>\$ (2,515)</u>	<u>\$ 14,676</u>
Contracted Services					
Revenues	\$ 20,933	\$ 609	\$ 1,786	\$ 2,046	\$ 25,374
Expenses	<u>(18,743)</u>	<u>4,111</u>	<u>(2,098)</u>	<u>(2,840)</u>	<u>(19,570)</u>
Net Income (Loss)	<u>\$ 2,190</u>	<u>\$ 4,720</u>	<u>\$ (312)</u>	<u>\$ (794)</u>	<u>\$ 5,804</u>

NOTE: This exhibit is based on unaudited financial data.

^a The amounts presented as of December 31, 2017, are based upon preliminary unaudited financial data and are subject to change.

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

⁶ In addition, financial information reported on a monthly basis may not capture accounting adjustments that occur on a quarterly or annual basis. The Metropolitan Council's fiscal year end occurred on December 31, 2017; thus, at the time of this report, year-end adjustments had not yet been made. The Council expects to complete these adjustments by April 2018.

Reserve Balances

The Council has an operating reserve fund policy, which calls for Metro Transit bus, light rail, and commuter rail to each maintain a reserve balance of at least 8.3 percent of annual budgeted operating expenses. The policy requires Metro Mobility and the Council's contracted services programs to maintain a reserve balance of at least 10 percent of annual budgeted operating expenses. The operating reserve balance consists of total assets less total liabilities. The policy is intended to ensure that the Council has reserve funds to use as a contingency if expenses exceed revenues.⁷

Exhibit 3 shows the Council's operating reserve balances for the fourth quarter of 2017. During this time period, the Council's total operating reserve fund balance has increased from \$129 million, as of September 30, 2017, to \$149 million, as of December 31, 2017.

Exhibit 3: Metropolitan Council Transit Operating Reserves, September through December 2017

Dollars in Thousands

	As of September 30, 2017	As of October 31, 2017	As of November 30, 2017	As of December 31, 2017 ^a
Metro Transit				
Bus	\$ 68,715	\$ 70,775	\$ 77,148	\$ 90,115
Light Rail	19,842	18,168	17,699	18,343
Commuter Rail	5,106	5,062	5,346	5,859
Metropolitan Transportation Services				
Metro Mobility	\$ 29,796	\$ 28,941	\$ 28,831	\$ 26,316
Contracted Services	5,543	10,263	9,952	9,158
Total Reserves	<u>\$129,002</u>	<u>\$133,209</u>	<u>\$138,976</u>	<u>\$149,789</u>

NOTE: This exhibit is based on unaudited financial data.

^a The amounts presented as of December 31, 2017, are based upon preliminary unaudited financial data and are subject to change.

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

⁷ Metropolitan Council, *Metropolitan Council Policy – "Target Fund Balance,"* Section/Number 3-8, December 12, 2012.

The Metropolitan Council’s 2017 year-end operating reserve balances for transit services increased significantly and exceeded the Council’s target balances.

Exhibit 4 shows that the Council’s 2017 reserve fund balance for Metro Transit and Metropolitan Transportation Services significantly exceeded the rates established in policy. Furthermore, the reserve fund balances have significantly increased during 2017. The average Metro Transit reserve fund balance increased from 25.7 percent as of December 31, 2016, to more than 34 percent as of December 31, 2017. The average Metropolitan Transit Services reserve fund balance increased from 16.7 percent as of December 31, 2016, to more than 46 percent as of December 31, 2017.

Exhibit 4: Metropolitan Council 2017 Transit Reserve Balance Rates Compared to Policy Rates

Dollars in Thousands

	2016 Year-Ending Reserve Balance	2017 Year-Ending Reserve Balance	Actual Reserve Rate	Minimum Reserve Policy Rate
Metro Transit				
Bus	\$41,720	\$90,115	33.7%	8.3%
Light Rail	18,808	18,343	28.1%	8.3%
Commuter Rail	5,886	5,859	42.1%	8.3%
Metropolitan Transportation Services				
Metro Mobility	\$11,638	\$26,316	46.1%	10.0%
Contracted Services	3,354	9,158	46.6%	10.0%

NOTES: This exhibit is based on unaudited financial data. Reserve rates represent reserve balances as a percentage of budgeted operating expenses.

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

The Metropolitan Council’s year-end cash and investment balances for transit services have increased significantly since 2015.

Cash Balances

The Metropolitan Council has an investment policy that governs the investment of its cash.⁸ The policy lists the acceptable investments the Council is allowed to purchase in accordance with the requirements in state law.⁹ These investments include government money market funds, federal discount notes, and commercial paper.

⁸ Metropolitan Council, *Metropolitan Council Policy – “Investments,”* Section/Number 3-4-4, February 17, 2016.

⁹ *Minnesota Statutes* 2017, 118A.04.

Exhibit 5 shows the year-end cash and investment balances for the Metropolitan Council's Transportation Division over the past three years. Since December 31, 2015, Metro Transit's cash and investment balance increased by approximately 35 percent. Since December 31, 2015, Metropolitan Transportation Services' cash and investment balance increased by approximately 62 percent. Cash and investments make up a substantial portion of the Transportation Division's operating reserve balance. Cash and investment balances as of December 31, 2017, represented approximately 81 percent of Metro Transit's total assets and approximately 99 percent of Metropolitan Transportation Services' total assets.

Exhibit 5: Metropolitan Council Year-End Cash and Investment Balances for Transit Services, 2015 through 2017

Dollars in Thousands

	As of December 31, 2015	As of December 31, 2016	As of December 31, 2017 ^a	Percentage Change 2015-2017
Metro Transit				
Bus	\$ 76,068	\$ 75,222	\$108,068	42.07%
Light Rail	13,414	18,534	16,062	19.74%
Commuter Rail	<u>7,926</u>	<u>8,489</u>	<u>7,599</u>	<u>(4.13%)</u>
Total	\$ 97,408	\$102,245	\$131,729	35.23%
Metropolitan Transportation Services				
Metro Mobility	\$ 17,803	\$ 19,679	\$ 30,741	72.67%
Contracted Services	<u>7,510</u>	<u>6,025</u>	<u>10,196</u>	<u>35.77%</u>
Total	\$ 25,313	\$ 25,704	\$ 40,937	61.72%
Total Cash and Investments	<u>\$122,721</u>	<u>\$127,949</u>	<u>\$172,666</u>	<u>40.70%</u>

NOTE: This exhibit is based on unaudited financial data.

^a The amounts presented as of December 31, 2017, are based upon preliminary unaudited financial data and are subject to change.

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.¹⁰ The Council issues debt to secure funding for transit capital improvements and projects. Exhibit 6 shows the Council's outstanding debt for each month of the fourth quarter of 2017.

¹⁰ *Minnesota Statutes* 2017, 473.39, subd. 1u.

Exhibit 6: Metropolitan Council Bonds, Loans, and Notes Outstanding for Transit Services, October through December 2017

Dollars in Thousands

	As of October 31, 2017	As of November 30, 2017	As of December 31, 2017 ^a
General Obligation Transit Bonds ^b	\$179,575	\$179,575	\$179,575
Public Facility Authority Loans	1,880	1,880	1,880
Counties Transit Improvement Board Loans ^c	<u>5,514</u>	<u>5,514</u>	<u>2,714</u>
Total	<u>\$186,969</u>	<u>\$186,969</u>	<u>\$184,169</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.

^a The amounts presented as of December 31, 2017, are based upon preliminary unaudited financial data and are subject to change.

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

^c All loan repayments made by the Council after September 30, 2017, will be directed to the Wells Fargo bank depository account for redistribution to the five member counties represented on the Counties Transit Improvement Board.

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

Capital Expenses

The Metropolitan Council has approved approximately \$2.6 billion in capital expenses for its current transit projects. Approximately 93 percent of these projects' costs are attributed to Metro Transit's 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.¹¹ 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 7 provides additional details on the two capital projects in progress, Southwest and Bottineau, including projected costs beyond December 2017. However, the Council has not yet submitted the federal grant applications for these projects. The Council anticipates submitting the Southwest application in September 2018. The Council has yet to determine when it will submit the application for the Bottineau project.

¹¹ Federal New Starts projects represent 64 percent of the costs of Metro Transit capital projects reflected in the Metropolitan Council's current capital plan.

Currently, the Federal Transit Administration (FTA) is reviewing the federal financial plans, which will likely require updates prior to submitting the federal grant applications. The Council expects Southwest light rail transit to be operational in 2023.¹² The Council is currently evaluating when the Bottineau light rail transit will be operational.

Exhibit 7: Budgeted and Actual Spending for the Metropolitan Council Light Rail Transit Projects in Progress

Dollars in Thousands

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	12.18	226,400	145,000	81,400
Hennepin County Regional Rail Authority	10.00	185,800	46,200	139,600
Other Local	4.99	92,700	31,500	61,200
State of Minnesota	1.64	30,400	14,300	16,100
Total	<u>100.00%</u>	<u>\$1,857,700</u>	<u>\$237,000</u>	<u>\$1,620,700</u>

Bottineau Light Rail Transit

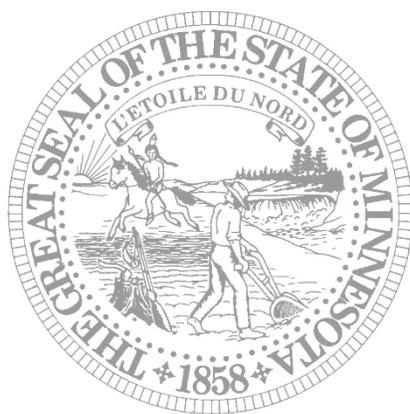
	Budgeted		Actual Paid ^a	Projected Remaining
	Percentage	Amount		
Federal Transit Administration	49.00%	\$ 752,700	\$ 0	\$ 752,700
Counties Transit Improvement Board	30.19	463,800	58,100	405,700
Hennepin County Regional Rail Authority	9.74	149,600	37,400	112,200
State of Minnesota	9.74	149,600	1,000	148,600
Other Local	1.33	20,500	0	20,500
Total	<u>100.00%</u>	<u>\$1,536,200</u>	<u>\$96,500</u>	<u>\$1,439,700</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 December 31, 2017.

SOURCES: Budgeted amounts are from Southwest Light Rail Transit Financial Management Plan, June 2017, 29; and Metro Blue Line Extension Financial Management Plan, September 2016, 26. Actual paid amounts are from the Metropolitan Council.

¹² Construction bids for the Southwest project are currently in the solicitation phase, and the opening of bids is scheduled to occur on May 3, 2018.



March 26, 2018

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

Dear Mr. Nobles,

Thank you for the opportunity to respond to the Legislative Auditor's review of the Metropolitan Council's 4th Quarter 2017 Transit Financial Activity. We appreciate the timing challenges the auditor faces in meeting statutory reporting deadlines.

However, as you are aware, we are very concerned with presentation and evaluation of our year-end financial information prior to closing of the Council's books. It is absolutely critical that legislative leaders and the public understand that this report presents pre-closing financial data and our financial position will change significantly as we close the books on our fiscal year.

The law requires the auditor to issue reports within 14 days of the end of each fiscal quarter, but for year-end reporting, that timing results in incomplete financial information. Drawing conclusions, good or bad, based upon pre-closing financial information may be misleading.

The Council's fiscal year ends December 31 and in accordance with MS 6.756 the Council closes its books and the State Auditor completes a financial audit of the Council's financial statements within 180 days of the fiscal year end. The Council expects to submit its transit fund financial statements to the State Auditor mid-April and will issue its audited Comprehensive Annual Financial Report in June 2018.

During year-end close, the Council accrues significant revenues and expenses. For the Metro Transit Bus Fund alone, recording year-end accruals will result in changes to the balance sheet (receivables and payables) and operating statement (revenues and expenses) that will impact reserve balances by as much as \$20-\$30 million. Again, drawing conclusions without considering this significant closing activity is not representative the Council's true year-end financial position.

The Council does expect to add to its operating reserve balances at year-end, though not nearly as significantly as the auditor concluded based upon the pre-close financial information in this report. We have very intentionally managed expenses below our operating budget in order to build savings (one-time reserves) that we can apply to help resolve current biennium deficits that result from known structural balance issues with transportation funding.

The state's Motor Vehicle Sales Tax (MVST) forecast has lost significant ground. While the February 2018 forecast improved somewhat from the November forecast, the February 2018 compared to February 2017 represents an \$81 million forecast loss. The Council relies heavily on MVST to fund our bus operations and the loss of anticipated revenue and a flattening of trend line in the forecast significantly worsened what were already substantial structural

balance issues. Structural balance issues for the future are exacerbated by \$70 million of general fund appropriations made for SFY 18-19 that expire and are not available for SFY 2020-21.

We are working hard to be a part of the funding solution. By actively managing our expense budgets, increasing revenues through a fare increase, and applying available one-time reserves over policy targets, the Council can manage structural fiscal deficits through the SFY 2018-19 biennium.

To be clear, applying one-time reserves and non-base (one-time) state appropriations are only temporary fixes addressing the current SFY 2018-19 biennium and do not address the significant structural balance issues in transportation funding that we will be facing in SFY 2020-21.

Sincerely,

A handwritten signature in blue ink, reading "Alene Tchourumoff". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Alene Tchourumoff
Metropolitan Council Chair

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