

Special Review

**Hiawatha Avenue Light Rail
Transit Line
December 31, 2001**



Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

February 28, 2002

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

We have completed a special review of the costs of the Hiawatha Avenue Light Rail Transit Line. The objective of the review was to provide an accounting of all federal, state, and local costs relating to the project, as required by Laws of Minnesota (2001), First Special Session, Chapter 10, Article 2, Section 90. This is an interim report that provides an accounting of costs through December 31, 2001. A final report is due by March 1, 2003.

To conduct this review, we gained an understanding of the project and its related accounting records, interviewed individuals involved with the project, and reviewed selected supporting documentation for project costs. However, we did not conduct a complete audit of project costs.

This report is intended for the information of the Legislative Audit Commission. This restriction is not intended to limit the distribution of this report, which we released as a public document on March 1, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

Report Signed On: February 28, 2002

Hiawatha Corridor Light Rail Transit Project

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

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Chapter 1. Introduction

Background

The concept of a light rail transit system in the Twin Cities has been debated over the past 25 years. (Appendix A provides a history of light rail in Minnesota.) The Hiawatha Corridor Light Rail Transit Project (LRT) took form when administrative agreements and funding commitments were approved in 1998 and 1999. Several Minnesota governmental entities cooperated in planning for the design and construction of the Hiawatha Corridor project. The LRT will operate on the Hiawatha /Trunk Highway 55 Corridor, linking downtown Minneapolis, the Minneapolis-St. Paul International Airport, and the Mall of America in Bloomington.

The Metropolitan Council, the Minnesota Department of Transportation (MnDOT), the Metropolitan Airports Commission (MAC), the Hennepin County Regional Railroad Authority (HCRRA), and the cities of Minneapolis and Bloomington have entered into Master Project Cooperation Agreements. The agreements specify the decisions made by the parties regarding planning, implementation, design, construction, ownership, and operation of the LRT. The Metropolitan Council is named as the grantee of federal funds for the project and is required to ensure that the project is carried out in compliance with federal regulations. In addition, the Metropolitan Council is responsible for maintaining the official accounting records for the project.

The participants established the Hiawatha Project Office to manage project construction. Employees of the Metropolitan Council and MnDOT, as well as third-party consultants, staff the office. The Hiawatha Project Office prepares budgets and contracts, designs implementation approaches, and administers the various contracts. The Hiawatha Project Office works with contractors and other parties as required to properly monitor progress of the project. The office also reviews invoices to ensure that costs are appropriate and allowable.

The LRT mainline will be double tracked and will run for 11.6 miles, starting in downtown Minneapolis and going to south of the Veterans Medical Center. An elevated structure then will carry the line over Trunk Highway 55 and Trunk Highway 62 into the Ft. Snelling area. The track line will curve towards the airport, where a tunnel will carry the line under the airport runways and its main terminal. The LRT line will end at the Mall of America. A total of 17 stations will be constructed. The LRT project also includes construction of an operations and maintenance facility, located near Franklin and Cedar Avenues. Actual construction of the transit line began in January 2001.

The project has two construction components. MnDOT is responsible for all design and construction activity, except the design and construction activity on MAC property. In September 2000, MnDOT contracted with Minnesota Transit Constructors to design and build the light rail line for \$291.3 million. Also in September 2000, MAC awarded a tunnel and station contract totaling \$109.9 million to Obayashi-Johnson Brothers. In addition, the

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Metropolitan Council selected Bombardier Transit Corporation, of Canada, to build 26 vehicles for the project.

The December 2001 monthly report submitted to the Federal Transit Administration on January 14, 2002 indicated that the project was 32 percent complete. The Minnesota Transit Constructors design/build component was approximately 30.4 percent complete and MAC's portion of the project was approximately 33.9 percent complete.

Project Funding Sources

In September 2000, the Metropolitan Council finalized a Full Funding Grant Agreement application package and submitted it to the Federal Transit Administration (FTA). In January 2001, the FTA approved the Full Funding Grant Agreement and committed \$334.3 million to the project. Total approved funding for the Hiawatha Light Rail Transit Project was \$675.4 million, as summarized in Table 1-1 by source. The graphic on the following page shows the Hiawatha LRT Funding Pattern.

**Table 1-1
Hiawatha Corridor Light Rail Project
Funding Sources**

Federal Transit Administration (FTA – New Starts)	\$334,277,500
State of Minnesota	121,483,046
Metropolitan Airports Commission (MAC)	87,000,000
Hennepin County Regional Rail Authority (HCRRA)	84,149,272
Federal Surface Transportation Project (STP) Grant	43,000,000
Federal Congestion Mitigation and Air Quality (CMAQ) Grant	<u>5,500,000</u>
Total	<u>\$675,409,818</u>

Source: Full Funding Grant Agreement, Attachment 3A.

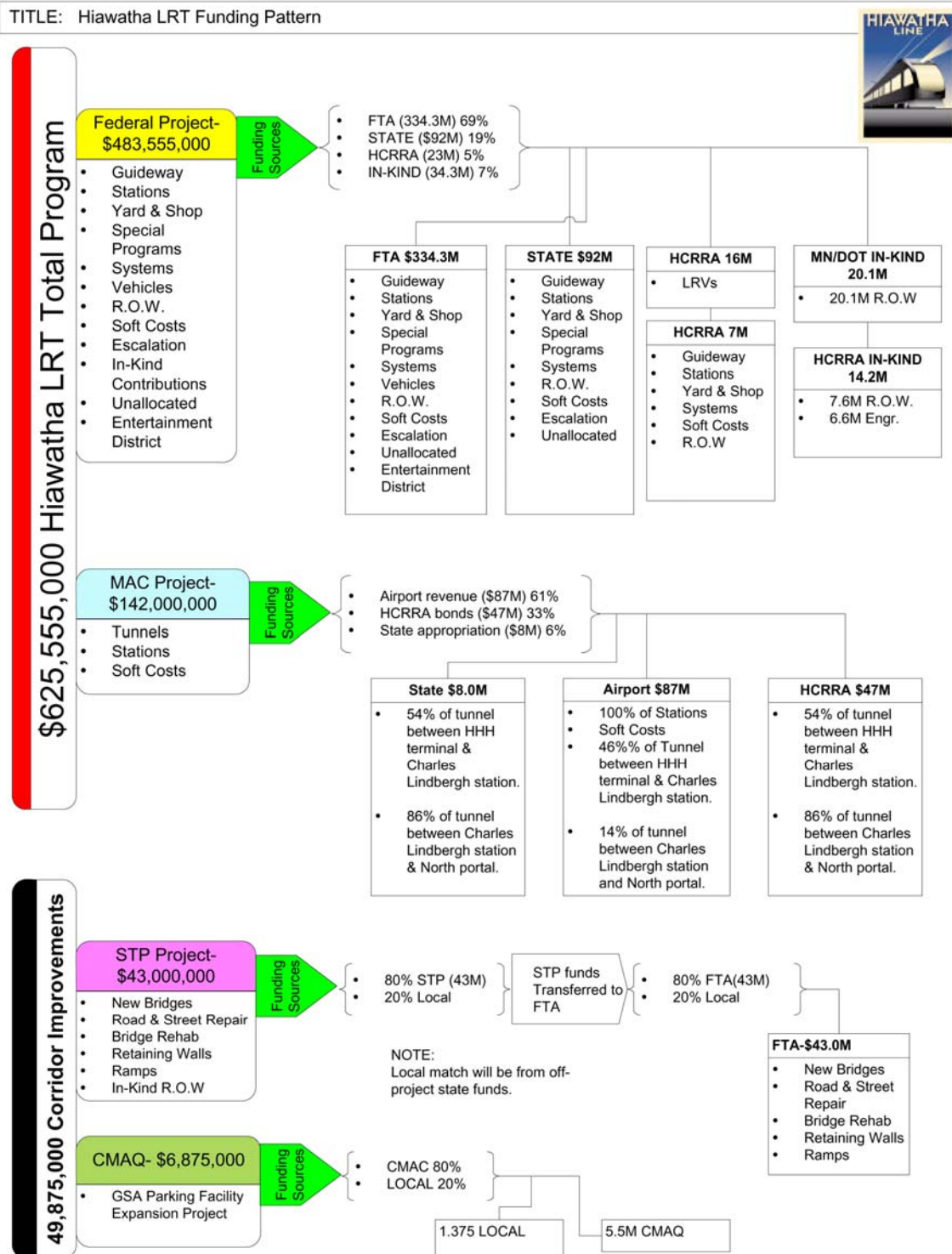
The Federal Transit Administration funds were authorized under Title 49, Subtitle III, Chapter 53, Section 5309 of the US Code and are referred to as New Starts funds. Table 1-2 shows the FTA funding commitments through federal fiscal year 2005 and funds received through December 31, 2001.

**Table 1-2
Hiawatha Corridor Light Rail Project
Full Funding Grant Agreement
Schedule of FTA New Starts Funds**

<u>Federal Fiscal Year</u>	<u>Approved Funds</u>	<u>Appropriated Funds</u>	<u>Drawn to Date</u>
2000 and Prior	\$ 69,324,757	\$ 69,324,757	\$69,324,757
2001	49,532,158	49,532,158	17,608,178
2002	49,500,654	49,500,654	
2003	60,000,000		
2004	74,980,000		
2005	30,939,931		
Total	<u>\$334,277,500</u>	<u>\$168,357,569</u>	<u>\$86,932,935</u>

Source: Full Funding Grant Agreement and Hiawatha Project Office records.

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Source: Hiawatha Project Office.

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In addition to the FTA New Starts Funds, the project received funding from two other federal grants funded by the Federal Highway Administration; \$43 million for the Surface Transportation Program and \$5.5 million for the Congestion Mitigation and Air Quality Program. The funds are to be used to design and construct intermodal transportation infrastructure including bridges, roadways, bike paths, and a parking facility.

The State of Minnesota, through legislative appropriation, provided \$100 million to the project. Of this amount \$92 million was allocated to the MnDOT portion of the project, and \$8 million was allocated to the MAC portion. In addition, the state, through its Department of Transportation, contributed \$20.1 million in right-of-way land to the project. The state is also providing \$1.375 million in matching funds for the Federal Highway Administration grants.

The MAC is providing \$87 million in funding for the portion of the project on MAC property. In addition, the Hennepin County Regional Rail Authority (HCRRA) is providing \$70 million from cash and the sale of bonds and an additional \$14.2 million in in-kind contributions.

In addition to the funding participants identified in Table 1-1, the cities of Minneapolis and Bloomington work with the Hiawatha Project Office to coordinate light rail project construction with local community needs. As a result of community involvement, cities may request the Hiawatha Project Office to incorporate a betterment or enhancement into the original project design of a station. If the city wants to make changes to the existing design that are above the scope of the federally approved project costs, these costs are paid by the city. New project costs incurred for improvements requested by the cities are treated as locally funded betterments.

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Chapter 2. Federal, State, and Local Costs

In 2001, the Legislature directed the Office of the Legislative Auditor to prepare a complete accounting of all federal, state, and local costs relating to the Hiawatha Avenue light rail transit line. Laws of 2001, First Special Session, Chapter 10, Article 2, Section 90 provides that the cost accounting should include:

- (1) planning, environmental studies, and preliminary and final design and engineering for the project;
- (2) construction and other capital costs of the light rail transit line when completed;
- (3) improvements and repairs to and reconstruction of state and local streets and highways incurred and anticipated as a result of the project;
- (4) all costs of utility relocation resulting from the project;
- (5) all costs incurred by the department of transportation with respect to public information and communications about the project;
- (6) construction, acquisition, or lease of park-and-ride facilities that would serve project riders, including costs of relocating other public facilities to make room for those park-and-ride facilities;
- (7) projected costs of connecting the Hiawatha Avenue light rail transit line with commuter rail facilities;
- (8) any costs necessitated by the project and included in the project budget for the reconstruction of marked trunk highway No. 55, to the extent not included under clause (3); and
- (9) all public costs relating to the acquisition of real property for the line and for the purchase and development of real property adjacent to the project right-of-way.

Table 2-1 provides an accounting of LRT costs in the categories identified in law. Table 2-2 shows these costs in the categories approved in the Full Funding Grant Agreement. Table 2-2 also shows the original budget for the project and the current estimate of costs at completion of the project.

In order to gain an understanding of the nature and scope of the project and its related costs, we interviewed employees of the Metropolitan Council, Metro Transit, the Hiawatha Project Office, the Minnesota Department of Transportation (MnDOT), the Metropolitan Airport Commission (MAC), the Hennepin County Regional Rail Authority (HCRRA) and other local agencies. We

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also obtained and reviewed the Full Funding Grant Agreement between the Metropolitan Council and the Federal Transit Administration (FTA), and other project agreements. We reviewed the monthly reports submitted to the FTA from inception of the project through December 31, 2001. We gained an understanding of how project transactions flowed through the cost accounting system. We reviewed a sample of project funding agreements and traced associated invoices through the review, approval, and payment process and verified postings to the accounting records. We also traced selected cost category amounts to the supporting documentation to determine if the costs were related to the Hiawatha Project.

On February 22, 2002, the United States Department of Transportation, Office of the Inspector General released a report on its review of the Hiawatha Corridor Light Rail Transit Project. The report concluded that the current project schedule and cost data were reasonable, but it identified some potential areas of concern relating to future costs. Specifically, the report noted that:

- Because of the nature of the work, there is a risk that construction of the tunnel on MAC property could encounter delays and cost increases.
- If the state loses the lawsuit brought by Xcel Energy seeking reimbursement for the cost of relocating privately owned utilities and facilities, project costs could increase without an identified funding source.
- The events of September 11, 2001, could affect the project. If security enhancements are required, project costs could increase.

The Metropolitan Council and its project partners must continue to monitor these issues.

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Table 2-1
Hiawatha Light Rail Project
Actual Expenditures
As of December 31, 2001

Category (2)	Total Expenditures (1)	Federal Share	State Share	Local Share
Project Design and Engineering (3)				
Planning	\$ 1,021,634	\$ 274,441	\$ 86,571	\$ 660,622
Environmental Studies	718,596	300,268	97,559	320,769
Preliminary Design/Engineering	21,929,674	9,816,247	2,132,652	9,980,775
Final Design/Engineering	<u>16,591,116</u>	<u>8,622,850</u>	<u>3,036,753</u>	<u>4,931,513</u>
Total	<u>\$ 40,261,020</u>	<u>\$19,013,806</u>	<u>\$ 5,353,535</u>	<u>\$15,893,679</u>
Construction and Other Capital Costs (4)				
Light Rail Transit Line	\$ 78,439,015	\$38,728,807	\$17,445,530	\$22,264,678
Light Rail/Maintenance of Way Vehicles	6,196,814	4,951,909	0	1,244,905
Other	<u>26,668,551</u>	<u>10,357,139</u>	<u>5,223,712</u>	<u>11,087,700</u>
Total	<u>\$111,304,380</u>	<u>\$54,037,855</u>	<u>\$22,669,242</u>	<u>\$34,597,283</u>
Construction/Repair of Existing Streets (5)				
Improvements/Repairs	\$14,008,437	\$14,008,437	\$ 0	\$ 0
Reconstruction	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$14,008,437</u>	<u>\$14,008,437</u>	<u>\$ 0</u>	<u>\$ 0</u>
Utility Relocation Costs (6)				
	<u>\$ 7,171,113</u>	<u>\$ 5,415,313</u>	<u>\$ 1,331,758</u>	<u>\$ 424,042</u>
Media Costs (7)				
Public Information	\$ 525,281	\$ 328,725	\$ 89,069	\$ 107,487
Project Communications	<u>142,928</u>	<u>40,391</u>	<u>90,673</u>	<u>11,864</u>
Total	<u>\$ 668,209</u>	<u>\$ 369,116</u>	<u>\$ 179,742</u>	<u>\$ 119,351</u>
Park and Ride Costs (8)				
Relocation	\$ 205,000	\$ 0	\$ 0	\$ 205,000
Construction and Acquisition	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 205,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 205,000</u>
Commuter Rail Connection Costs (9)				
Trunk Highway 55 Costs (10)				
Real Property Acquisition (11)				
Right of Way Acquisition	\$ 8,681,769	\$6,814,225	\$ 1,471,212	\$ 396,332
Donated Right of Way	<u>27,727,090</u>	<u>0</u>	<u>20,108,046</u>	<u>7,619,044</u>
Total	<u>\$ 36,408,859</u>	<u>\$ 6,814,225</u>	<u>\$21,579,258</u>	<u>\$ 8,015,376</u>
Related Costs (12)				
Grand Total	<u>\$210,027,018</u>	<u>\$99,658,752</u>	<u>\$51,113,535</u>	<u>\$59,254,731</u>

Source: Auditor prepared from Hiawatha Project Office accounting records and monthly reports.

The notes on pages 8 – 10 are an integral part of this financial presentation.

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Table 2-1 Notes

- (1) Total expenditures include all costs processed through the Hiawatha Project Office accounting system as of December 31, 2001. The federal share includes the amounts funded through the Federal Transit Administration, as well as from two other federal grants incorporated in the project. The state share includes amounts paid from the state General Fund appropriation for the light rail project and in-kind donations of right-of-way land. The local share includes amounts financed by the Metropolitan Airports Commission, the Hennepin County Regional Rail Authority (both cash and in-kind contributions). In addition, the local share includes amounts provided by other local jurisdictions, such as the city of Minneapolis for local betterments.
- (2) The cost categories are specified in Laws of 2001, First Special Session, Chapter 10, Article 2, Section 90.
- (3) Project Design and Engineering Costs relate to planning, environmental studies, design, and engineering costs. Design and engineering costs are further separated into preliminary and final costs. The preliminary costs were generally incurred prior to the execution of the Full Funding Grant Agreement on January 17, 2001. There were some preliminary engineering and final design activities subsequent to January 17, 2001. The local share of these costs are comprised of MAC and HCRRA costs as follows:

<u>Local Funding</u>	<u>Total</u>	<u>MAC</u>	<u>HCRRA</u>
Planning	\$ 660,622		\$ 660,622
Environmental Studies	320,769		320,769
Preliminary Design/Engineering	9,980,775	\$ 996,534	8,984,241
Final Design/Engineering	<u>4,931,513</u>	<u>4,914,555</u>	<u>16,958</u>
Total Local Funding	<u>\$15,893,679</u>	<u>\$5,911,089</u>	<u>\$9,862,590</u>

HCRRA funded \$9.9 million in project design and engineering costs, of which \$6.6 million was recorded as an in-kind contribution for preliminary engineering costs incurred from 1984 to 1998.

- (4) Construction and Other Capital Costs relate to new construction activity or new purchases of capital assets. The other capital cost activity included project management, project administration, insurance, and contingencies as follows:

<u>Other Capital Costs</u>	<u>Total</u>	<u>Federal</u>	<u>State</u>	<u>MAC</u>	<u>HCRRA</u>
Project Management	\$12,778,625	\$2,602,371	\$2,161,447	\$2,628,912	\$5,385,895
Project Administration	4,713,171	894,003	956,012	0	2,863,156
Insurance	5,839,278	4,628,542	1,370,202	0	(159,466)
Contingency Fund	<u>3,337,477</u>	<u>2,232,223</u>	<u>736,051</u>	<u>0</u>	<u>369,203</u>
Total Other Costs	<u>\$26,668,551</u>	<u>\$10,357,139</u>	<u>\$5,223,712</u>	<u>\$2,628,912</u>	<u>\$8,458,789</u>

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The Full Funding Grant Agreement established a contingency budget of \$24 million to fund unanticipated costs and for cost overages experienced during the construction phase.

- (5) Construction/Repair of Existing Streets are costs related to existing construction on streets and highways. The total amount incurred to date was funded with federal funds under the Surface Transportation Program. Existing capital costs included improvements, repairs, and reconstruction of streets and highways. Currently, there are no anticipated additional costs above the original budget of \$49.9 million.
- (6) Utility Relocation Costs relate to relocation of public utilities as identified in the Full Funding Grant Agreement. These costs provided for utility relocation agreements with the City of Minneapolis to relocate water and sewer utilities in downtown Minneapolis, along Hiawatha Avenue to 54th Street.

The state considers costs related to the relocation of private utilities located on state property to be the responsibility of the private utility. These costs were not included in the Full Funding Grant Agreement and were not assumed to be a cost of the project. The state is currently involved in litigation tentatively set for trial in March 2002 (Xcel Energy, Inc. vs. Federal Transit Administration, State of Minnesota, Minnesota Department of Transportation, Commissioner Elwyn Tinklenberg, and the Metropolitan Council). This action was filed in United States District Court in February 2001 in response to an Order issued by the Commissioner of Transportation to Xcel to protect and/or relocate its facilities in the Fifth Street segment of the Hiawatha LRT corridor. Initially, Xcel refused to comply with the Order without compensation. The power company plaintiff seeks, among other things, damages in the form of compensation for costs incurred to protect and/or relocate its privately owned utilities and facilities. All defendants have denied liability for any cost and damages; and the State and the Metropolitan Council have asserted counterclaims against Xcel. If the plaintiff were to prevail at trial, each defendant could be jointly and severely liable for any damage award.

- (7) Media costs with respect to public information and communications related to the project total \$668,209. Of this amount, MnDOT incurred media costs of \$492,099. However, under the Full Funding Grant Agreement, only \$179,742 is funded or paid for from state funds. The remaining \$312,357 is paid from federal funding. A public relations unit works out of the Hiawatha Project Office location, and is comprised of Metropolitan Council and MnDOT employees. Media costs are accumulated in the accounting system and charged against the communications budget.
- (8) Park and Ride Costs related to the acquisition, lease, construction, demolition, or relocation of park and ride lots will primarily be incurred in years 2002 and 2003. In 2001, \$205,000 was funded with HCRRA monies for the demolition and removal of buildings located on the Veterans Administration property. The HCRRA funds will be reimbursed \$164,000 from federal CMAQ funds and \$41,000 from the 20 percent match provided by the state. Other costs, such as acquisition of a MnDOT maintenance facility scheduled for removal, will be incurred at a later date.

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- (9) Commuter Rail Connection Costs represent the projected costs of connecting the Hiawatha Light Rail Transit Line with commuter rail facilities. Other commuter rail lines that may connect with the Hiawatha Light Rail Transit in the future include the Northstar, Red Rock, and Dan Patch, according to the Master Regional Transit Plan developed by the Metropolitan Council. Currently, only the Northstar line estimates its multi-modal connection cost with the Hiawatha Light Rail Transit Line at approximately \$24 million.
- (10) All costs related to reconstruction of Trunk Highway 55 are included in category for Construction/Repair of Existing Streets.
- (11) Real Property Acquisition relates to land acquisitions either through purchase or donation to the Hiawatha Project. Approximately \$7.6 million of the \$8 million in local funds were for in-kind right-of-way contributions from HCRRA. Also, approximately \$20.1 million of the \$21.6 million in state funds were for in-kind contributions from MnDOT right-of-way parcels. These parcels were purchased by MnDOT over the last 30 years. The federal expenditures (\$6.8 million) were used primarily to purchase the Star Tribune property (\$4.2 million) and to demolish the U.S. Army Reserve (USAR) Building 230 and provide relocation of USAR facilities to a new Fort Snelling location.
- (12) Related Costs: The project participants have incurred certain costs that indirectly relate to the project but have not been tracked or quantified and are not included in the project budget or in expenditure amounts presented in this table. These included items such as time spent by agency heads or other staff in planning, promotional, or other meetings or events related to the project. Other examples include costs for staff who have project oversight or administrative responsibilities for all construction projects of an entity, such as the Metropolitan Council or the Metropolitan Airports Commission. It is not a normal practice for these organizations to charge the costs of these functions to individual construction projects. While these costs may be associated with or incidental to the Hiawatha Project, they are not accounted for separately.

**Table 2-2
Hiawatha Light Rail Project
Budgeted and Actual Expenditures - As of December 31, 2001**

	Original Budget (1)	Current Forecast (2)	Actual Expenditures to Date by Funding Source (3)			
			Total	Federal	State	Local
Preliminary Engineering (4)						
Third Party	\$ 9,739,163	\$ 8,755,181	\$ 8,272,236	\$ 6,470,523	\$ 810,851	\$ 990,862
Project Administration	2,012,000	2,012,000	2,012,000	1,529,522	482,478	0
In-Kind Contributions	6,530,229	6,530,229	6,530,228	0	0	6,530,228
Total	<u>\$ 18,281,392</u>	<u>\$ 17,297,410</u>	<u>\$ 16,814,464</u>	<u>\$ 8,000,045</u>	<u>\$ 1,293,329</u>	<u>\$ 7,521,090</u>
Intellectual Property (5)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 800,000	\$ 0	\$ 200,000
Project Management (6)						
Third Party	\$ 34,172,800	\$ 25,084,000	\$ 13,566,908	\$ 3,463,627	\$ 3,003,233	\$ 7,100,048
Project Administration	5,411,797	16,295,000	5,875,016	1,782,172	1,126,989	2,965,855
Other	1,708,640	1,708,640	0	0	0	0
Total	<u>\$ 41,293,237</u>	<u>\$ 43,087,640</u>	<u>\$ 19,441,924</u>	<u>\$ 5,245,799</u>	<u>\$ 4,130,222</u>	<u>\$10,065,903</u>
City of Mpls. Public Utilities (7)						
Utility Relocation – Right-of-Way	\$ 10,057,886	\$ 10,057,886	\$ 7,171,113	\$ 5,415,313	\$ 1,331,758	\$ 424,042
Construction Management	322,205	322,205	0	0	0	0
Total	<u>\$ 10,380,091</u>	<u>\$ 10,380,091</u>	<u>\$ 7,171,113</u>	<u>\$ 5,415,313</u>	<u>\$ 1,331,758</u>	<u>\$ 424,042</u>
Right-of-Way (8)						
Right-of-Way Acquisition	\$ 20,287,000	\$ 20,943,817	\$ 8,681,769	\$ 6,814,225	\$ 1,471,212	\$ 396,332
Donated Right-of-Way	27,727,090	27,727,090	27,727,090	0	20,108,046	7,619,044
Total	<u>\$ 48,014,090</u>	<u>\$ 48,670,907</u>	<u>\$ 36,408,859</u>	<u>\$ 6,814,225</u>	<u>\$21,579,258</u>	<u>\$ 8,015,376</u>
Design/Build Contract (9)	\$241,425,255	\$239,882,076	\$ 69,683,397	\$47,547,055	\$18,990,777	\$ 3,145,565
MAC Segment (10)	\$142,000,000	\$143,543,179	\$ 29,189,343	\$ 0	\$ 1,681,938	\$27,507,405
Hiawatha Corridor Improvements (11)	\$ 49,875,000	\$ 49,875,000	\$ 14,213,437	\$14,008,437	\$ 0	\$ 205,000
Light Rail Vehicles (12)	\$ 79,165,233	\$ 74,711,172	\$ 6,052,053	\$ 4,841,643	\$ 0	\$ 1,210,410
Maintenance of Way Vehicles (13)	\$ 2,522,070	\$ 2,521,894	\$ 144,761	\$ 110,266	\$ 0	\$ 34,495
Fare Collection Equipment (14)	\$ 3,578,027	\$ 3,578,027	\$0	\$ 0	\$ 0	\$ 0
Rail Activation Testing and Training (15)	\$ 2,740,250	\$ 2,740,250	\$ 0	\$ 0	\$ 0	\$ 0
Insurance (16)	\$ 6,114,559	\$ 6,193,458	\$ 5,839,279	\$ 4,628,542	\$ 1,370,202	(\$ 159,465)
Financing Costs (17)	\$ 3,000,000	\$ 3,100,000	\$0	\$ 0	\$ 0	\$ 0
Public Art (18)	\$ 2,000,000	\$ 2,000,000	\$ 20,000	\$ 15,204	\$ 0	\$ 4,796
Contingencies (19)	\$ 24,040,796	\$ 14,282,360	\$ 3,337,477	\$ 2,232,223	\$ 736,051	\$ 369,203
Total Hiawatha Light Rail Project	\$675,430,000	\$662,863,464	\$209,316,107	\$99,658,752	\$51,113,535	\$58,543,820
Locally Funded Betterments (20)	\$ 0	\$ 3,667,024	\$ 710,911	\$ 0	\$ 0	\$ 710,911
Related Costs (21)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Grand Total	<u>\$675,430,000</u>	<u>\$666,530,488</u>	<u>\$210,027,018</u>	<u>\$99,658,752</u>	<u>\$51,113,535</u>	<u>\$59,254,731</u>

Source: Auditor prepared from Hiawatha Project Office accounting records and monthly reports.
The notes on pages 12 – 14 are an integral part of this financial presentation.

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Table 2-2 Notes

- (1) The Original Budget represents the budget established as a part of the Full Funding Grant Agreement approved by the Federal Transit Administration in January 2001.
- (2) Current Forecast represents the project team's December 31, 2001, estimate of total project costs at completion of the project. The forecast amount is updated monthly and is referred to in the Full Funding Agreement as the current working estimate.
- (3) Actual Expenditures to Date include all costs processed through the Hiawatha Project Office accounting system as of December 31, 2001. The federal share includes the amounts funded through the Federal Transit Administration Section 5309 New Starts funds, as well as from two other federal grants incorporated in the project. The state share includes amounts paid from the state General Fund appropriation for the Light Rail project and in-kind donations of right-of-way land. The local share includes amounts financed by the Metropolitan Airports Commission and the Hennepin County Regional Rail Authority (both cash and in-kind contributions). In addition, the local share includes amounts provided by other local jurisdictions, such as the city of Minneapolis for local betterments.
- (4) Preliminary Engineering includes costs for preliminary design and drawings for the project. Costs also include project team involvement in the planning stage of the project and an in-kind contribution from the Hennepin County Regional Rail Authority of consultant services during the early development of the project from 1984 to 1998 in the amount of \$6.5 million.
- (5) Intellectual Property represents amounts paid to secure the intellectual property rights of proposals submitted by unsuccessful design/build team bidders.
- (6) Project Management represents a consortium of agencies responsible to develop, build, and operate the project, including the Metropolitan Council/Metro Transit, the Minnesota Department of Transportation, the Hennepin County Regional Rail Authority, the Metropolitan Airports Commission, the city of Minneapolis, and the city of Bloomington. The group has established a Hiawatha Project Office that is responsible for assisting in the management of project design and construction. The Hiawatha Project Office also provides services relating to finance, engineering and construction contract administration, public relations, operations and maintenance, procurement, and environmental compliance.
- (7) Utility Relocation Costs relate to relocation of public utilities as identified in the Full Funding Grant Agreement. These costs provided for utility relocation agreements with the city of Minneapolis to relocate water and sewer utilities in downtown Minneapolis, along Hiawatha Avenue to 54th Street.

The state considers costs related to the relocation of private utilities located on state property to be the responsibility of the private utility. These costs were not included in the Full Funding Grant Agreement and were not assumed to be a cost of the project. The state is currently involved in litigation tentatively set for trial in March 2002 (Xcel Energy, Inc. vs. Federal Transit Administration, State of Minnesota, Minnesota Department of

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Transportation, Commissioner Elwyn Tinklenberg, and the Metropolitan Council). This action was filed in United States District Court in February 2001 in response to an Order issued by the Commissioner of Transportation to Xcel to protect and/or relocate its facilities in the Fifth Street segment of the Hiawatha LRT corridor. Initially, Xcel refused to comply with the Order without compensation. The power company plaintiff seeks, among other things, damages in the form of compensation for costs incurred to protect and/or relocate its privately owned utilities and facilities. All defendants have denied liability for any cost and damages; and the State and the Metropolitan Council have asserted counterclaims against Xcel. If the plaintiff were to prevail at trial, each defendant could be jointly and severely liable for any damage award.

- (8) Right-of-Way consists of the acquisition of various properties from governmental and private sector organizations, as well as individuals. Right of Way costs also include in-kind donations of right-of-way by the Minnesota Department of Transportation and the Hennepin County Regional Rail Authority.
- (9) The Design/Build Contract is for the services of a contractor who is responsible for the final design and construction of the Light Rail Transit Project, excluding airport activities. This represents various tasks including preparation of design documents and final drawings; construction of trackbed, an operations and maintenance facility, and 15 off-airport LRT stations; and installation of track, an electrification system, and signal and communication systems.
- (10) The Metropolitan Airports Commission is constructing all LRT facilities at the Minneapolis-St. Paul International, including the LRT tunnel, two airport passenger stations, and certain ancillary facilities.
- (11) The Hiawatha Corridor Improvements include costs to design and construct intermodal transportation infrastructure, including bridges, roadways, and bike paths.
- (12) The Light Rail Vehicle category covers the purchase of approximately 26 low-floor light rail vehicles.
- (13) Maintenance of Way Vehicles will be used to provide system maintenance during system testing and revenue operations.
- (14) Fare Collection Equipment costs will include the procurement and installation of stationary ticket vending and validation machines and procurement of mobile ticket office machines. To date, no costs have been charged against this budget activity.
- (15) Rail Activation Testing and Training costs represent staff (drivers, mechanics, and maintenance) training and pre-revenue systems operation testing. To date, no costs have been charged against this budget activity.

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- (16) Insurance represents the costs of the Owner Controlled Insurance Program that permits the Minnesota Department of Transportation to provide certain construction insurance at no cost to the design/build contractor.
- (17) Financing costs represents the amounts budgeted for costs of borrowing to provide funds to match the cash flow needs for the project. Because of uncertainties relating to the timing of the receipt of federal appropriations for the project, financing costs would include locally funded interest costs, fees, and professional services. To date, no costs have been charged against this budget activity.
- (18) Public Art is for artwork included in the construction of the 15 off-airport LRT stations.
- (19) The Contingency Amount was established to cover costs that exceed the base line cost estimates for the project.
- (20) Locally Funded Betterments represent costs that were not originally included in the project, but were subsequently added at the request of a local jurisdiction. These costs will be financed by the jurisdiction requesting the betterment. Costs incurred to date relate to the city of Minneapolis betterment requests.
- (21) The project participants have incurred certain costs that indirectly relate to the project but have not been tracked or quantified and are not included in the project budget or in expenditure amounts presented in this table. These include items such as time spent by agency heads or other staff in planning, promotional, or other meetings or events related to the project. Other examples include costs for staff who have project oversight or administrative responsibilities for all construction projects of an entity, such as the Metropolitan Council or the Metropolitan Airports Commission. It is not a normal practice for these organizations to charge the costs of these functions to individual construction projects.

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APPENDIX A

A Brief History of Light Rail Transit in Minnesota

1975: The Minnesota Legislature prohibited the Metropolitan Transit Commission from using transit tax levies for any preliminary work on an automated fixed guideway system. (Laws of Minnesota 1975, Chapter 13, Section 71(d))

1980: The Minnesota Legislature directed the Metropolitan Council to conduct a feasibility study of light rail transit in the metropolitan area. (Laws of Minnesota 1980, Chapter 607, Article 13, Section 3)

1984: The Minnesota Legislature created a Regional Transit Board. (Laws of Minnesota 1984, Chapter 654, Article 3, Section 116)

1985: The Minnesota Legislature prohibited any expenditure of public funds on light rail transit. (Laws of Minnesota 1Sp 1985, Chapter 10, Section 105)

1987: The Minnesota Legislature removed the 1985 prohibition by giving any regional rail authority the ability to study, plan, or design a light rail transit system. (Laws of Minnesota 1987, Chapter 405, Section 4) In addition, the Metropolitan Council was authorized to cooperate with the regional rail authorities in light rail transit planning. (Laws of Minnesota 1987, Chapter 405, Section 3)

1988: The Minnesota Legislature appropriated \$4.17 million (if matched with dollar for dollar amounts from other funding sources) for regional railroad authorities to plan, design, and construct light rail transit facilities. (Laws of Minnesota 1988, Chapter 684, Article 2, Section 2)

1989: The Minnesota Legislature required the Regional Transit Board to adopt a regional light rail plan. (Laws of Minnesota 1989, Chapter 339, Section 12) In addition, the Legislature created the Joint Light Rail Transit Advisory Committee to assist the Regional Transit Board in LRT planning. (Laws of Minnesota 1989, Chapter 339, Section 13)

1991: The Minnesota Legislature created the Light Rail Transit Joint Powers Board. (Laws of Minnesota 1991, Chapter 298, Article 7, Section 8)

1993: The Minnesota Legislature established the Corridor Management Committee. (Laws of Minnesota 1993, Chapter 353, Section 12)

1994: The Minnesota Legislature abolished the Regional Transit Board. All duties and responsibilities are transferred to the Metropolitan Council. (Laws of Minnesota 1994, Chapter 628, Article 2, Section 4)

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1997: The Minnesota Legislature authorized the study of the potential for using freight rail corridors in the metropolitan area for commuter rail service. (Laws of Minnesota 1997, Chapter 159, Article 2, Section 51)

1998: The Minnesota Legislature appropriated \$40 million for a light rail transit system on the Hiawatha Corridor. Another \$6.5 million was appropriated for LRT study, design, and engineering work of other corridors. (Laws of Minnesota 1998, Chapter 404, Section 17) On May 22, 1998, Congress passed a transportation bill allotting \$120 million for the Hiawatha Corridor Light Rail Transit Project. Congress also authorized an additional \$6 million for rail transit work on the North Star Corridor (Minneapolis to St. Cloud through Anoka).

1999: The Minnesota Legislature appropriated \$60 million for construction of the Hiawatha Corridor LRT line. (Laws of Minnesota 1999, Chapter 240, Article 1, Section 9, Subdivision 5) This funding made Minnesota eligible to receive matching federal funds for the project.

2000: Laws of Minnesota 2000, Chapter 479, Article 1, Section 24, Subdivision 4 gave the Metropolitan Council the right to sell or lease naming rights to light rail transit stations and to apply revenues from sales or leases to light rail transit operating costs.

2001: Laws of Minnesota 2001, First Special Session, Chapter 10, Article 2, Section 90 required the Office of the Legislative Auditor to provide an accounting of all federal, state, and local costs relating to the Hiawatha Avenue Light Rail Transit Line.