

2023 PRELIMINARY BUDGET IN BRIEF

August 24, 2022

METROPOLITAN COUNCIL

We are the regional government for the Twin Cities metropolitan area.

Our goal is for the region to prosper and thrive, now and in the future. We work with the region's seven counties and 181 local communities to:

- Look ahead and plan for the future growth of our seven-county area
- Provide essential and cost-effective transit and state-of-the-art wastewater collection and treatment
- Help households with low and moderate incomes find affordable housing
- Support communities as they plan for anticipated growth and change

YOUR MET COUNCIL REPRESENTATIVES

Our governing board has 17 members from all walks of life. Sixteen of them represent geographic districts across the region with roughly equal populations. Leading the board is the Met Council chair, the 17th member. The members are appointed by the Governor in consultation with community leaders.

WE SUPPORT OUR REGION'S PROSPERITY

Our planning and services provide a foundation for regional economic vitality.

- We operate Metro Transit, Metro Mobility, and transit services that provided nearly 36 million rides in 2021, more than 94% of the total regional ridership.
- Our strategic investments in a growing network of bus and rail transitways increase transportation choices for Twin Cities residents. They encourage transit-oriented development that creates residential and business opportunities.
- We collect and treat the wastewater for more than 90% of the region's population at rates about 35% lower than peer regions while earning state and national awards for environmental achievements.
- We plan and fund the land acquisition and development of a world-class regional parks and trails system, which draws nearly 65 million visits a year.
- Our housing program provides affordable opportunities for more than 7,200 households with low and moderate incomes.

WE HELP ADVANCE EQUITY IN THE REGION

We support initiatives to attract, hire, train, and retain employees who identify as people of color across the organization, and especially in industries where people of color have been traditionally underrepresented.

We're also piloting efforts to partner with local governments to fund more deeply affordable housing and affordable home ownership initiatives.

Our transportation services division is also studying the equity impacts of our regional transportation infrastructure investments.



THE REGION'S LONG-RANGE PLAN

The Met Council's proposed 2023 budget reflects the priorities and guidelines of its long-range plan for the Twin

Cities region – Thrive MSP 2040. Thrive sets the policy foundation for plans we develop for regional transportation systems, water resources, regional parks, and housing.

Thrive MSP 2040 identifies five key outcomes for the metro area to strive for over the next decades:

Stewardship: Natural and financial resources are managed wisely.

Prosperity: The region's economic competitiveness is enhanced through investments in infrastructure and amenities.

Equity: All residents share in the benefits and challenges of growth and change.

Livability: Our great quality of life is maintained and improved.

Sustainability: Regional vitality is protected for generations to come.

In addition, we leverage various policy tools to cooperatively address complex regional challenges. We collaborate with partners to achieve shared outcomes, evaluate the effectiveness of our policies and programs, and adjust accordingly.

Under state law, the Met Council prepares a long-range plan for the Twin Cities region every 10 years. Work has begun on the 2050 long-range plan, including engagement with our advisory committees, local government officials, and other government and community partners.

WE CONNECT COMMUNITIES

Our investments in transit infrastructure and services create access to jobs, education, housing, and businesses.

In the past few years, we have planned, constructed, and opened new transit service to connect communities throughout the region. This investment

now leads to additional opportunities for innovation and expanded service options. In support of the METRO C Line, our first bus service with an all-electric fleet, and other local bus service, we are piloting a limited, on-demand (think dial-a-ride) service in north Minneapolis neighborhoods to connect riders with existing routes. The service will ensure fast, safe, and convenient service with minimal wait times, enhancing connections and access to places within those neighborhoods and the region beyond.

The 17-mile bus rapid transit METRO Orange Line began service between Minneapolis and Burnsville in December 2021.

The METRO D Line is planned to begin service in December 2022. It will provide upgrades to Minnesota's highest-ridership bus route along Chicago and Fremont

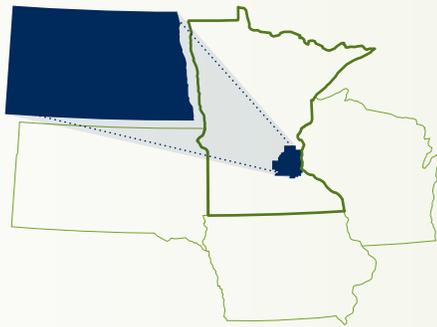
on our transit system. In 2022, we developed and began implementing the Metro Transit Safety and Security Action Plan, which details nearly 40 action items to further improve conditions on the system, train and support employees, and engage partners and community. The preliminary 2023 budget continues Metro Transit's investment of federal COVID-19 relief funds into transit security initiatives.

WE HELP SUSTAIN OUR REGION'S NATURAL RESOURCES

We are committed to protecting public health, fostering economic development, and protecting the environment.

Seven of our nine wastewater treatment plants have achieved national recognition for 100% permit compliance for five to 31 years.

A growing region



Our region will add more than **818,000** people by 2050. That's the entire population of **North Dakota.**

avenues and coordinate with the METRO Green Line Extension.

As we're continuing to support major transit investments across the region, we're also investing in the safety and security of our transit system. Our Metro Transit Police Department patrol officers and community service officers ride transit and visit transit facilities. We're working to enhance this official presence on our system and optimize our use of real-time cameras and technology to allow staff to remotely monitor conditions across the system. We also partner with local law enforcement as we respond to incidents.

Following the death of George Floyd, we engaged communities, customers, employees, and policymakers in a conversation about safety in our communities and



In 2023, Environmental Services plans to undertake \$240 million in capital investment to preserve existing assets, improve efficiency, and provide needed capacity for growth. Key projects in 2023 include interceptor and lift station improvements in Excelsior, Brooklyn Park, Woodbury, and St. Bonifacius; interceptor improvements in Oakdale; interceptor rehabilitation in Coon Rapids; solids processing capacity and other improvements at the Empire Plant; a new service building at the Metropolitan Wastewater Treatment Plant; and renewal of the process control systems at all of our nine plants. In addition to projects at our facilities, we've worked with communities and awarded grants for projects providing benefits for stormwater management, water supply, and green infrastructure.

We continue to support regional water supply plans and the Water Resources Policy Plan to ensure water services that foster the growth of the region through 2040 and beyond.

The Environmental Services division has developed capabilities to monitor the level of viral RNA from SARS-CoV-2 (the disease known as COVID-19) and prevalence of variants present in wastewater flowing into the Metropolitan Wastewater Treatment Plant in Saint Paul. The results closely track the clinical data for the plant's service area. We communicate results to and coordinate details of test methods with the Minnesota Department of Health, the University of Minnesota, and the Governor's office. Wastewater data is another valuable indicator of the SARS-CoV-2 conditions within our region. This work will be funded by the American Recovery Plan throughout 2022 and into 2023.

The Parks Acquisition Grant Program helps acquire new park land. The Regional Parks System protects valuable natural resources and wildlife habitats, helps address climate change, and provides health and happiness for our communities.

The Met Council will be implementing a Climate Action Plan for operations to help reduce its contributions to climate change, and to adapt our own infrastructure and facilities to the impacts we face today.

WE PROMOTE HOUSING OPPORTUNITIES

The Homeless Action Team of our Metro Transit Police Department partners with the Metropolitan Housing and Redevelopment Authority to help direct housing vouchers to those who otherwise seek shelter on transit vehicles.

The Met Council's annual grants through the Livable Communities program support community investment that revitalizes economies, creates affordable housing, and connects various land uses with transportation.

The Met Council provides affordable housing opportunities for more than 7,200 households with low and moderate

incomes. The Metropolitan Housing and Redevelopment Authority is partnering with the City of Minneapolis Public Housing Authority to expand housing choices in low-poverty areas. The Community Choice Mobility Program is funded by a \$5.2 million federal grant.

WE PROMOTE COLLABORATION AND EQUITY

The Met Council's regional parks bonds provides financial support to regional park implementing agencies, which undertake capital projects that strengthen equitable use of regional parks and trails by all our region's residents – across age, race, ethnicity, income, national origin, and ability.

The Met Council has implemented a sheltered market solicitation process, intended to reduce barriers and increase participation of underutilized businesses in Met Council contracting. We are making efforts to educate and engage stakeholders in the program (called MCUB Select) and working to expand the pool of eligible firms.

We are increasing access to resources that build capacity to expand business opportunities with the Met Council. These efforts are focused on firms owned by women and people who identify as African American, Hispanic, Native American, Asian Pacific, subcontinent Asian American, veterans, and people living with disabilities.

In Environmental Services, the Met Council is partnering with the Painter's Union, the American Federation of State, County, and Municipal Employees, and St. Paul Technical College to hire and train industrial painters and interceptor workers from BIPOC and underrepresented communities.

The Met Council offers tools and resources, for community planners, as well as forums for community planners to learn from and with one another about how to address equity through development practices, environmental justice, fair housing, and other important topics.

This preliminary budget also sets aside \$2.1 million as a down payment on future investments for technology infrastructure at the Met Council to support the work we do.

2023 PRELIMINARY BUDGET AND LEVIES

For 2023, the Metropolitan Council is proposing to spend \$1.3 billion for operations, pass-through programs, and debt service (loan repayments and interest).

WHERE OUR FUNDING COMES FROM

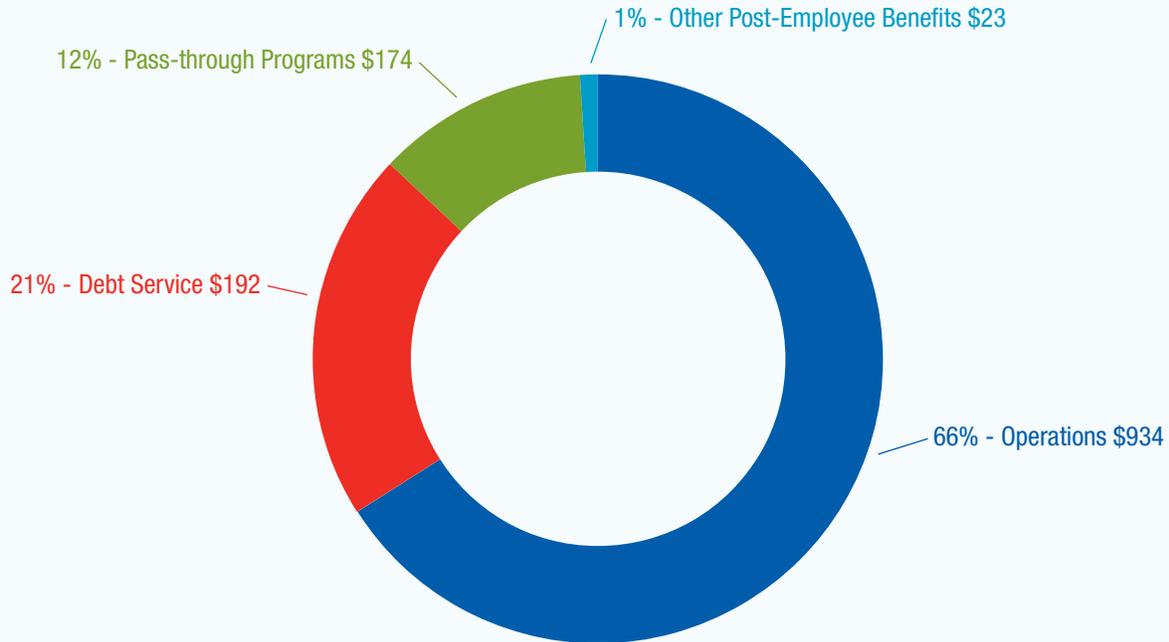
Charges for services. Almost one-third (32%) of our funding comes from retail services. Our primary paying customers are transit riders and local municipalities for wastewater services.

Transit fare revenues. Revenues for 2023 are projected to total \$85.1 million. This constitutes a significant rebound from 2022, when fare revenue was budgeted at \$63.4

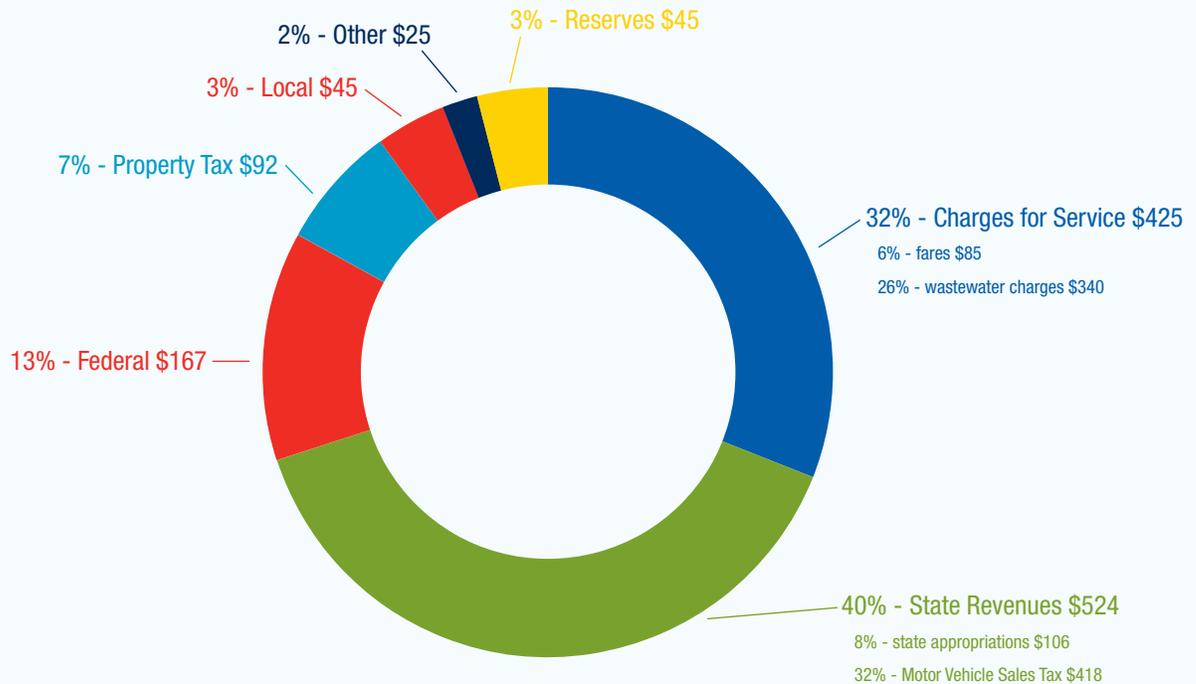
2023 PROPOSED NUMBERS

(in millions of dollars)

2023 Preliminary Budget – uses by function: \$1.3 billion



2023 Preliminary Budget – sources of funds: \$1.3 billion



million, but still significantly lower than the pre-pandemic budget of \$115.4 million.

Ridership on most of our services is forecasted to remain lower due to the pandemic. Metro Mobility ridership is forecasted at pre-pandemic levels, light rail ridership is forecasted at 75% pre-pandemic levels, the bus system is forecasted at 65%, and Northstar commuter rail is forecasted at 30% pre-pandemic levels.

The Met Council continues to monitor ridership impacts from the pandemic on a daily and weekly basis to evaluate services and the need for service adjustments.

Metro Mobility service is designed to meet state and federal standards, and ridership has grown disproportionately to other transit services in the region. In the decade leading up to the pandemic, Metro Mobility ridership increased 62% and the service now has 33,000 certified riders.

Federal relief funds. The Met Council received three federal relief funding plans for transportation in 2020 and 2021, totaling \$725.8 million, with \$686.9 million allocated for Met Council transportation operations. These funds will continue to be used to support transit operations and balance our budget.

Operating reserves. The federal funds are expected to be used, along with one-time use of operating reserves, to balance the budget of Met Council transportation operations.

Bus service levels. In addition to our use of one-time federal and reserve funds, the 2023 preliminary budget assumes bus service levels will be at 95% of pre-pandemic levels, plus service for the new METRO D Line bus rapid transit, light rail, and Metro Mobility at 100%, and Northstar at 55% of pre-pandemic levels (four trips daily with special event service and no weekend service). The actual service levels on bus and light rail are dependent on operator hiring availability.

Services will include added costs for social distancing and cleaning. The 2022 and 2023 budgets provide for the hiring of 50 community service officers on our transit system – dependent on availability – to be welcoming and helpful to our transit customers while deterring incidents and code-of-conduct violations. This program draws on the experience of similar programs at other large transit providers.

Wastewater charges. Wastewater charges to local municipalities, which fund operations and debt service, are projected to total \$264 million in 2023. Other customer-generated sources include industrial waste charges (\$17 million) and sewer availability charges (SAC) for new or expanded capacity (\$60 million). The preliminary budget includes an increase in the

metropolitan wastewater charge of 5.5%. The sewer availability charge of \$2,485 per SAC unit will not increase for 2023 and has been flat since 2014.

Federal revenues. We receive federal revenues to support our transit and housing assistance programs, totaling approximately 14% of operating revenues. The preliminary 2023 budget for the Metropolitan Housing and Redevelopment Authority includes \$86 million in federal revenues. More than 92% is passed through as rental assistance payments directly to landlords for tenant voucher holders.

Property taxes. Counties, cities, and school districts receive most of the revenue raised by property taxes in the region. The Met Council typically receives about 1.3% of the average property taxes in the Twin Cities.



Our bonds receive the **highest possible ratings** from Moody's and Standard and Poor's credit ratings agencies. Our top ratings reflect the sound financial management of the Met Council and allow us to borrow money at the **lowest market interest rates.**

The Met Council's 2023 budget proposes property tax levies payable in 2023 of \$92.3 million. Property taxes are primarily used to pay debt service on bonds issued to support two purposes: the capital improvement programs for transit and parks and the pass-through grants to local communities with the Livable Communities Fund.

This fund supports community investments that revitalize economies, create affordable housing, and connect land uses and transportation. The fund also supports a category of transit-oriented development grants for high-density, mixed-use projects located along transit corridors.

State revenues. The Met Council receives revenue from the State of Minnesota, derived primarily from motor vehicle sales taxes (\$368 million) and from state general fund appropriations for rail operations and Metro Mobility (\$89 million).

The state typically updates its revenue forecast in February and November each year. This budget relies on the state's February 2022 forecast. Thirty-six percent of motor vehicle sales tax revenues are constitutionally dedicated to metro area transit. The Met Council budget includes pass-through funds of \$46.1 million in motor vehicle sales tax revenues to suburban transit providers.

The Minnesota Legislature has continued to divide our base general fund appropriation for transit into separate

Our total general obligation debt outstanding is \$1.9 billion as of December 31, 2021. Approximately 69% of this debt relates to wastewater assets and is paid for by fees collected for wastewater services.

Our bonds receive the highest possible ratings from Moody's and Standard and Poor's credit ratings agencies. Our top ratings reflect the sound financial management of the Met Council and allow us to borrow money at the lowest market interest rates.

RIGHT-OF-WAY ACQUISITION LOAN FUND

The Right-of-Way Acquisition Loan Fund program provides zero-interest loans to local governments to acquire right-of-way along highway corridors in advance of development. The proposed levy for 2023 does not

Where your property tax dollar goes

COUNTIES
27.4%

CITIES & TOWNS
31.9%

SCHOOLS
33.4%

OTHER SPECIAL DISTRICTS
6.0%



METROPOLITAN COUNCIL
1.3%

Source: MN Department of Revenue, Certified Payable 2019 Property Tax Levies

line items for Metro Mobility and the Met Council's transit system. By statute, the state general fund appropriation covers 50% of the net operations of current light rail transit systems. The state general fund also funds a proportionate share of commuter rail.

State appropriations also help fund housing assistance and environmental services grants.

DEBT SERVICE AND BONDS

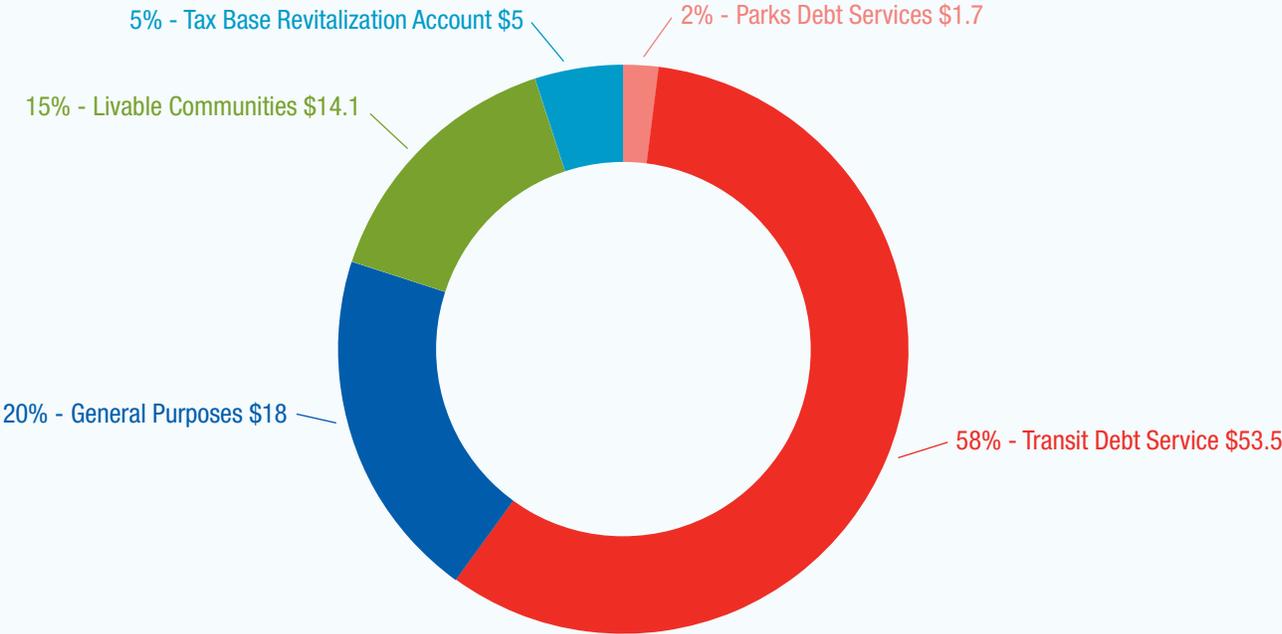
About 60% of total preliminary property tax levies is dedicated to paying debt service on bonds issued to support preserving and investing in capital assets for transit and parks.



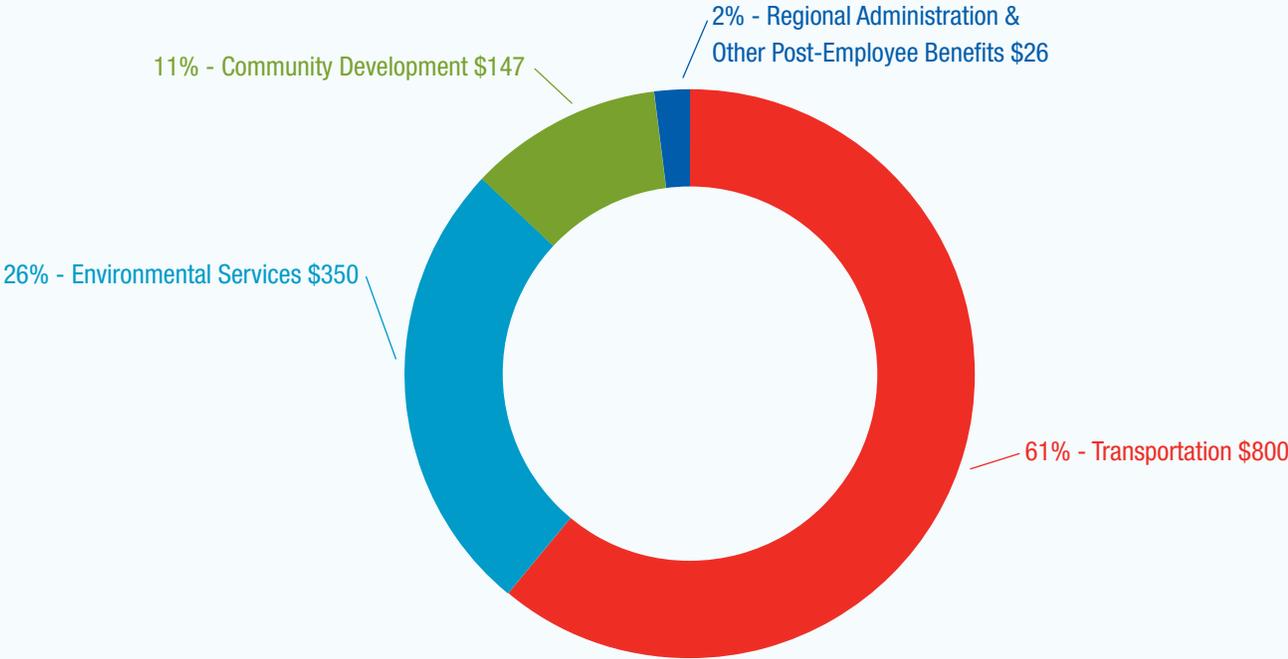
2023 PROPOSED NUMBERS

(in millions of dollars)

2023 Preliminary Property Tax Levies – \$92.3 million



2023 Preliminary Budget – uses by division: \$1.3 billion



include an amount for this fund. The fund has sufficient balance available to meet program needs for 2023.

PROPERTY TAX IMPACT

Considering the pandemic and financial challenges facing our communities and residents, we are proposing a 2023 levy of \$92.3 million. This represents a 2% increase over the amount payable in 2022.

Under the proposed levy, a metro area home with an estimated value of \$300,000 could pay a Met Council-related property tax of approximately \$56 inside the transit-taxing communities and \$20 outside the transit-taxing communities.

The Met Council's general-purpose levy is used primarily to fund the administrative functions of our Regional Administration and Community Development divisions. The statutory limit is \$41.9 million for taxes payable in 2023, of which \$4.8 million may be used for highway right-of-way acquisition. We are not levying for that purpose this year, as previously noted, because the fund has a sufficient balance to meet needs. Therefore, the proposed total for 2023 is \$37.1 million, or about 11.5% below the levy cap.

Levies for debt service are not directly limited, but the levies for parks and transit are essentially restricted by our bonding authority (the dollar amount of bonds we can issue) as defined in statute. The Met Council matches every \$3 of state bonds with \$2 of regional parks bonds. The proposed debt service for parks debt service is \$1.7 million in 2023.

MET COUNCIL FUND ACCOUNTING

Revenue collected by the Met Council is directed into separate funds. These funds allow us to manage spending by directing the revenue dedicated to specific activities or objectives to a group of related accounts. By maintaining separate funds, we are able to comply with laws that require funds be spent for a specific purpose. For example, the Met Council may not raise transit fares to pay for wastewater services.

The general fund is used to account for administration functions of our Regional Administration and Community Development divisions. The Met Council has the most discretion in the use of general fund dollars. The general fund accounts for about 7% of the Met Council budget and is primarily funded by the general-purpose property tax levy and inter-divisional allocations.

POST-EMPLOYMENT BENEFITS

Funds are invested in a trust account to cover our liability for other post-retirement employee benefits. We anticipate investments totaling \$360.8 million on December 31, 2021 will be sufficient to cover projected future costs for retirees.

BUDGET PROCESS

DEVELOPING AND REVIEWING THE BUDGET

The process for developing the 2023 preliminary budget continues to be significantly impacted by the pandemic. We have been monitoring and making changes as service levels have changed, federal relief funds are appropriated, and the Minnesota Legislature considers our budget requests. We anticipate the budget may change between the preliminary budget adopted in August and the final budget adopted December 14, 2022.

BUDGET TIMELINE

January-June. The Regional Administrator meets with division managers to build a proposed budget.

July-August. The Met Council's standing committees review and refine our divisions' proposed budgets. The Met Council adopts a preliminary operating budget and property tax levy by September 1.

August-October. The Met Council's standing committees review the proposed capital program. The capital improvement plan covers six years and includes projects such as replacement of transit fleet, park land acquisition and development, and wastewater system infrastructure.

The Met Council approves a Unified Operating and Capital Budget for public comment in October.

RECEIVING PUBLIC COMMENT

November-December. Public comment is received on our proposed budget and levies until final adoption at the Met Council meeting on December 14, 2022.

"Truth in Taxation" notices are mailed by metro area counties to property owners showing the proposed amount of property tax that they will be required to pay during the coming year from all taxing jurisdictions.

ADOPTING THE BUDGET

At its meeting on December 14, 2022, the Met Council will adopt a final budget that reflects any changes made to the public-comment draft budget. The property tax levy adopted with the preliminary operating budget in August may be lowered, but not increased, when the final budget is adopted.

