

Management Committee

Meeting date: March 27, 2013

Subject: Year-End (4th Quarter) Financial Report – December 31, 2012

District(s), Member(s): All

Policy/Legal Reference: Council Policy 3 – Finance and Asset Management

Staff Prepared/Presented: Mary Bogie, Chief Financial Officer, Edwin Petrie, Director of Finance, Metro Transit, Jason Willett, Director of Finance, MCES

Division/Department: Regional Administration - Finance

Information Item:

Preliminary (unaudited) Financial [Statements](#) for Council operating funds - 4th Quarter ending December 31, 2012

General Fund:

General Fund operating expenses for 2012 were \$3.9 million below the amended budget amount for the year. Savings were primarily in Salaries and Benefits (\$1.2 million) and Consulting and Contractual Services (\$2.5 million). The operating budget amendment (2013-40) approved by the Council on March 6 carries forward \$0.9 million for multi-year projects that began in 2012 and are expected to complete in 2013.

The fund balance target for the General Fund is equal to 10% of budgeted operating expenses (\$4.2 million for 2012). The unassigned year-end reserve balance is \$11.4 million.

The 2013 adopted operating budget and carryforward budget amendment anticipate a \$1.9 million use of reserves.

Environmental Services:

Environmental Services (ES) operating expenses are under budget by roughly \$1.9 million from the 2012 amended budget. Salary and benefits were under the 2012 budget by approximately \$2.2 million, due to staff turnover and the resultant number of vacant positions. Non-salary related expenses are \$0.3 million over budget, as Chemicals, Materials, and Utilities and I&I grant payments combined exceeded budget by approximately \$2.1 million, while Contracted Services, Capital Outlays, and Other expenses were currently a combined \$1.8 million under budget.

ES operating revenues were under budget by approximately \$0.276 million. Municipal Wastewater revenues were under budget by \$2.3 million due primarily to flow measurement adjustments for two communities. This was mitigated by higher than anticipated receipts in other categories including industrial fees, state grant revenues, and receipt of Federal Revenues (FEMA) for flood related costs incurred in 2011.

State grant revenue and expenses exceeded budget by \$0.9 million as project expenses submitted by participating cities exceeded expectation for the 2010 Municipal Inflow & Infiltration Grant Program that ended during 2012.

Environmental Services operations had an amended 2012 budgeted use of reserves of \$9.3 million, which included \$4.3 million for the SAC transfer ("the SAC shift"), \$2.6 million for the 2011 carry forward budget amendment, and a third quarter budget amendment of \$2.4 million for litigation costs. With the above forecasted variances, ES use of reserves will be approximately \$7.8 million. This \$1.5 million positive operating variance brings the ES operating reserve to \$22.7 million or 18.1% of proposed FY 2013 operating expenses by the end of FY 2012 - as compared to the target of \$12.6 million. Note that \$11 million of this amount was designated by the Council for possible future SAC shifts, which at this point do not appear to be needed (none is in the proposed 2013 budget).

SAC units collected substantially exceeded both the 2011 receipts and the 2012 budget expectation, with 14,303 units paid in 2012.

Housing and Redevelopment Authority

The Housing and Redevelopment Authority (HRA) finished fourth quarter 2012 showing a positive fund balance of approximately \$1.2 million. The HRA experienced some staffing vacancies throughout 2012 resulting in under-spending in Salaries and Benefits. Positions are now filled and all HRA AFSME staff received a salary increase, both of which will impact the 2013 budget.

The HRA budgeted for some Consulting and Contracted Services that were not utilized due to program changes and other competing priorities. This also resulted in under-spending and contributed to the positive fund balance at year end 2012.

The resulting year end fund balance is well above the budget, exceeding the Council's target fund balance of 8.3% of annual budgeted operating expenses.

Metro Transit

Bus Operations:

Metro Transit bus operations had an adopted 2012 budgeted use of reserves of \$0.713 million.

Metro Transit closed 2012 with a net income of approximately \$13.8 million. This positive operating result brings the Metro Transit Bus operating reserve to \$51.762 million or 18.8% of budgeted CY 2013 expenses, at year-end 2012.

Metro Transit bus ridership was 442,959 below the budgeted level for calendar year 2012. This decrease has mostly been in routes temporarily impacted by construction. The average fare per passenger has been over budget by \$0.03. The result has been an increase in total fares of \$1.911 million for year end. In addition a positive revenue variance has been achieved in advertising revenues, investment earnings, scrap sales and warranty recovery giving revenue an overall year to date positive variance of \$1.786 million. Cost containment in expenses made it unnecessary to draw approximately \$2.5

million in Federal revenues anticipated in the budget to cover operating expenses for preventative maintenance. These Federal funds will be available for use in the future years for operating and capital needs.

Metro Transit bus operating expenses are under budget by \$12.765 million from the 2012 budget. Salaries and Benefits were \$2.0 million under budget for the year end. This savings has come through temporarily not filling of vacant positions; Consulting and Contractual Services were \$0.890 million under budget for the year due to savings on various maintenance contracts; Diesel Fuel was reduced \$2.432 million due to diesel prices dropping significantly during 2012; Materials, supplies and bus parts were \$2.8 million under budget due to new replacement buses in the fleet and the current fleet not needing repairs at previous levels; Casualty and Liability expenses were \$2.556 million under budget due to a reduction in claims and positive impacts on liability reserves; Utilities were \$0.709 million under budget due to energy enhancement programs.

Light Rail Operations:

Metro Transit Hiawatha Light Rail has a 2012 balanced budget. Light Rail operations finished the year with a positive variance of approximately \$340 thousand. This positive variance brings the Light Rail operating reserves to \$2.781 million, or 9.2% of budgeted CY 2013 expenses at year end 2012.

Light Rail ridership was 38,811 passengers below budget for 2012. This has been offset by passenger fares being \$.02 per passenger over budget resulting in Passenger fares being \$115 thousand over the budgeted level. Advertising revenue was \$506 thousand over budget due to increased advertising sales. Cost containment in expenses made it unnecessary to draw \$178 thousand in Federal preventative maintenance. These Federal funds will be available for use in the future years for operating and capital needs.

Overall operating expenses were within budget guidelines for the year. Salaries and Benefits were reduced by \$253 thousand through temporarily not filling of vacant positions; Materials, supplies, parts and technical services were over budget \$372 thousand due to additional track work, and Utility savings of \$441 thousand were due to lower than budgeted rate increases.

Commuter Rail Operations:

Metro Transit Commuter rail operations has a 2012 balanced budget. Commuter Rail had a net income of \$604 thousand. This positive operating result brings the Commuter rail reserve to \$2.631 million or 15.8% of budgeted CY 2013 expenses at year end 2012.

Metro Transit Northstar Commuter Rail ridership for CY 2012 was 64,724 below budget. This resulted in passenger fares being \$379 thousand below the budgeted level. For the period of August 1, 2012 to April 30, 2013, Northstar implemented a temporary fare reduction of \$1.00 per ride at most stations with encouraging ridership results. Northstar Commuter rail ended CY 2012 with ridership of 700,276 which was less than a half percent below CY 2011 levels, as compared to a pre-temporary fare reduction forecast of 681,000 rides. Northstar ridership projections are nearly 7 percent over the pre-fare adjustments projection with increases in weekday ridership over 11 percent.

Northstar operating expenses are also under budget by \$1.1 million for the year. Most of these reductions have been in Consulting and Contractual services due to savings in various external train maintenance contracts, repair parts due to many vehicle repairs being completed under warranty and salaries and benefits due to temporarily not filling vacant positions and low insurance claims.

Metropolitan Transportation Services:

Transportation Planning:

Transportation Planning expects federal revenues to be under budget by \$1.2 million due to Unified Planning Work Program (UPWP) projects that were delayed and others that were started but will extend into the next year.

Transportation Planning's reserved balance is expected to be \$1.2 million at the end of the year compared to the Council's target of \$2.1 million. The lower fund balance was expected since MTS only recently amended its target fund balance policy upward due to reimbursement cash flow issues.

The target fund balance policy for Transportation Planning is 31.5% of budgeted operating expenses. Additional regionally allocated MVST will be used in 2013 to bring up reserves up to the new target fund balance.

Metro Mobility:

Metro Mobility fare revenues were under budget due to ridership growth not meeting anticipated levels. Operating expenses were less than budgeted by \$3.3 million due to fuel savings, less than anticipated ridership and higher transit service contractor productivity.

Metro Mobility's reduced ridership demand and increased operating efficiency has resulted in a lower than expected of reserves for 2012 from the budgeted amount of \$3.5 million to an actual use of reserves of \$0.6 million.

The target fund balance policy for Metro Mobility is 10% of budgeted operating expenses. Additional regionally allocated MVST will be used in 2013 to bring up reserves up to its target balance fund.

Contracted Service:

Contracted Services revenues were under budget due the majority of fare redemptions being electronic fare collections. All electronic fare collections on MTS contracted service routes are recognized in the Metro Transit budget not MTS, so when electronic fare media are used MTS recognizes less fare revenue and Metro Transit recognizes more. Revenues were also under budget due to refunded amounts owed to CTIB for CTIB supported routes. Annually the Council refunds any unspent CTIB contribution that was not used for operating the Cedar Avenue and I-35W BRT express services. These refunds are netted against CTIB revenues.

Contracted Services expenses were under budget due to fuel savings, operating savings on CTIB supported routes and unused budgeted contingency amounts. The budgeted contingency amounts will be utilized next year.