

Metropolitan Council

**Stewardship:
Measuring our Financial Health
&
2017 “Big Picture” Budget**

Council Meeting June 22, 2017



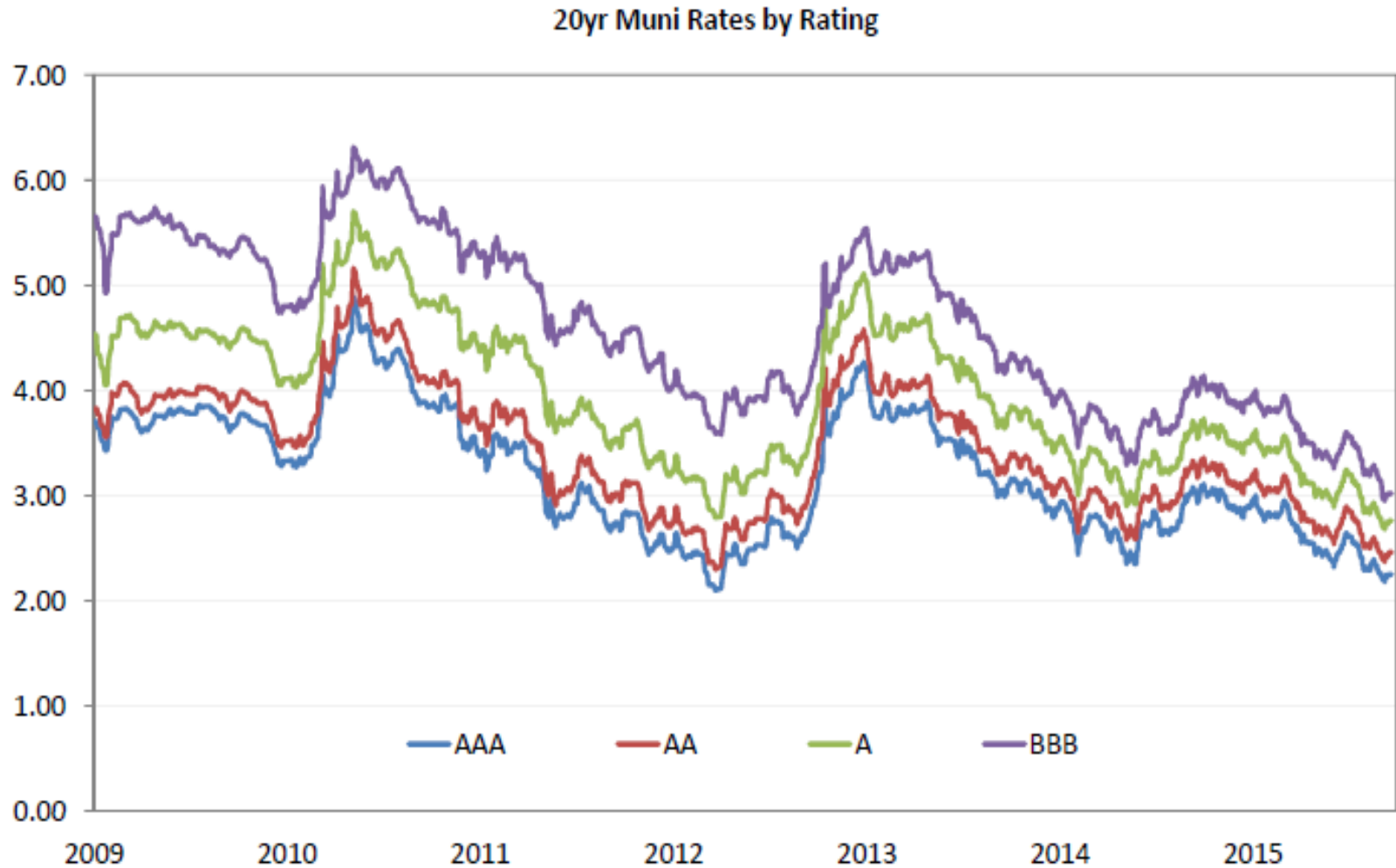
Triple-A Bond Rating

- What does rating mean?
- Why is it important?
- What do rating agencies look for?

What do Bond Ratings Mean?

	Rating	
Investment Grade	Aaa/AAA	Highest quality; lowest level of credit risk
	Aa/AA	High quality; very low credit risk
	A	Upper medium grade; low credit risk
	Baa/BBB	Medium grade; moderate credit risk (may possess certain speculative characteristics)
Speculative	Ba/BB	Speculative; substantial credit risk
	B	Speculative; high credit risk
	Caa/CCC	Speculative of poor standing; very high credit risk
	Ca/CC	Highly speculative; likely in, or very near default (some prospect of recovery of principal and interest)
	C	Lowest rated; typically in default (little prospect for recovery of principal and interest)

Why our Rating Matters



Source: MMD

What Rating Agencies Look For

- Economy and Tax Base
- Financial Operations and Reserves
- Management and Governance
- Debt and Pensions

Moody's Rating

Credit Strengths

- Very large tax base covering diverse economy in Twin Cities area
- Well managed financial operations with history of positive results and operating flexibility
- Substantial liquidity
- Low debt and pension burden

Moody's Rating

Credit Challenges

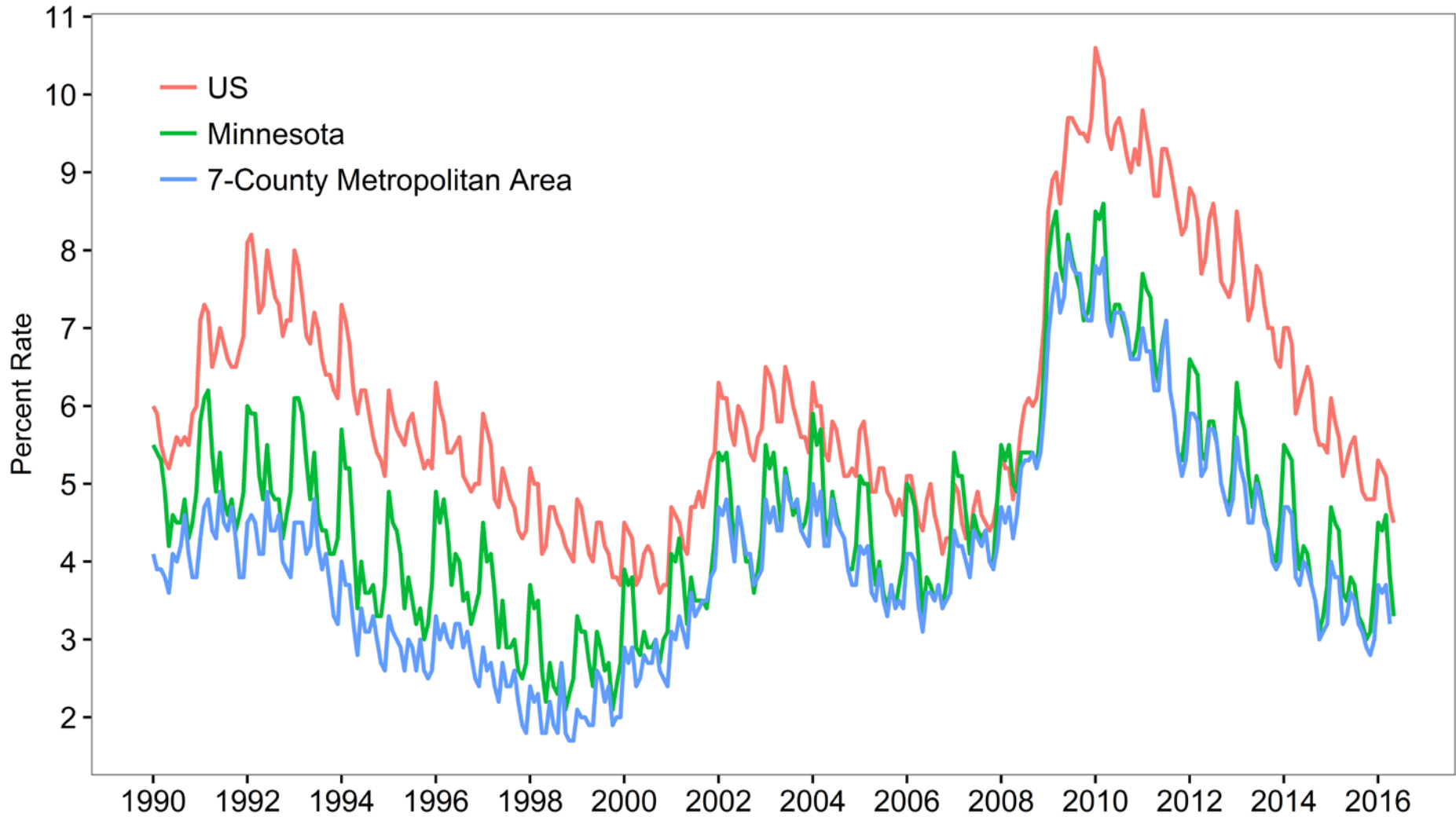
- Volatility of motor vehicle sale taxes and (state) general fund support
- Lower level of reserves than historically maintained in the sewer availability charge (SAC) reserve fund, though reserves have improved recently

S&P Global Rating

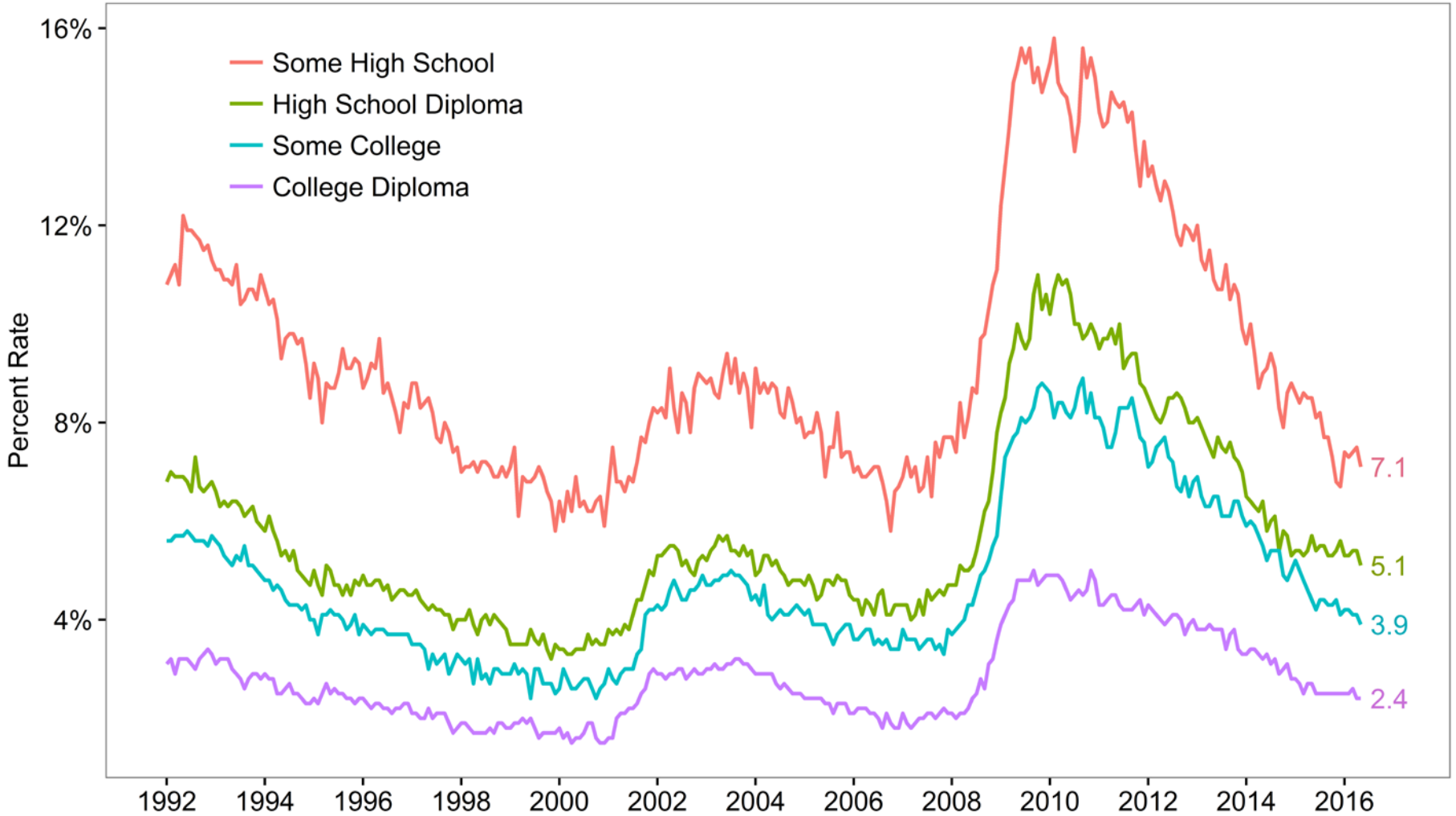
Credit Strength – Tax Base:

- Although the area was not immune to the effects of the national recession, we believe that the economic base of in the Council’s jurisdiction is strong and diverse, and key economic indicators continue to show improvement.
 - Unemployment
 - Market Values
 - Area’s Effective Buying Income

Unemployment Rates



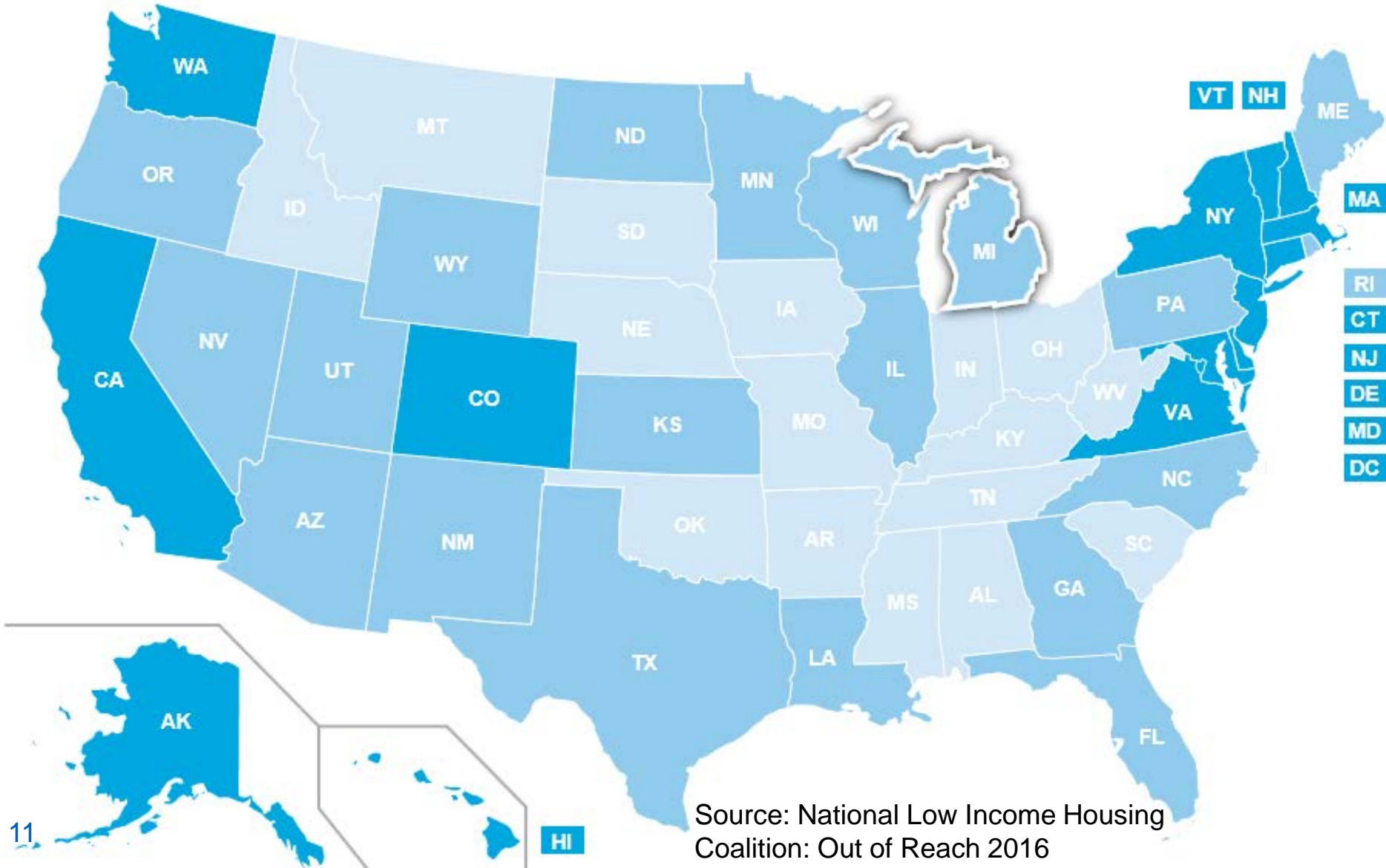
Unemployment By Education



Source: Bureau of Labor Statistics

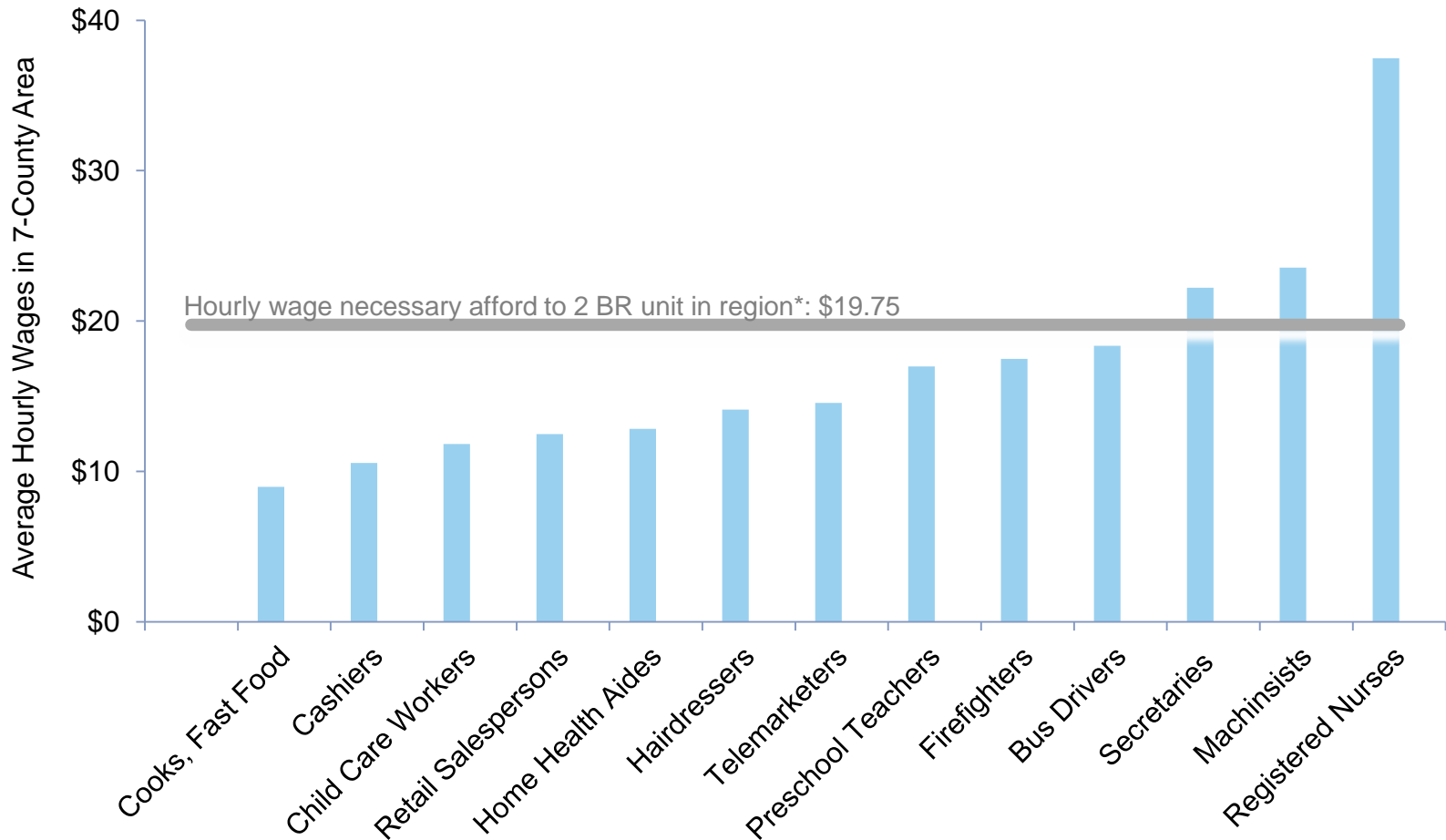
Hourly wage required to rent a two bedroom unit by state

● Below \$15.00 ● \$15.00 - \$20.00 ● Above \$20.00



Source: National Low Income Housing Coalition: Out of Reach 2016

Hourly wage required to rent a two bedroom unit in Twin Cities compared to regional wages by occupation



*Minneapolis-St Paul-Bloomington FMFA

Source: National Low Income Housing Coalition: Out of Reach 2016, DEED Occupational Employment Statistics Wage Data

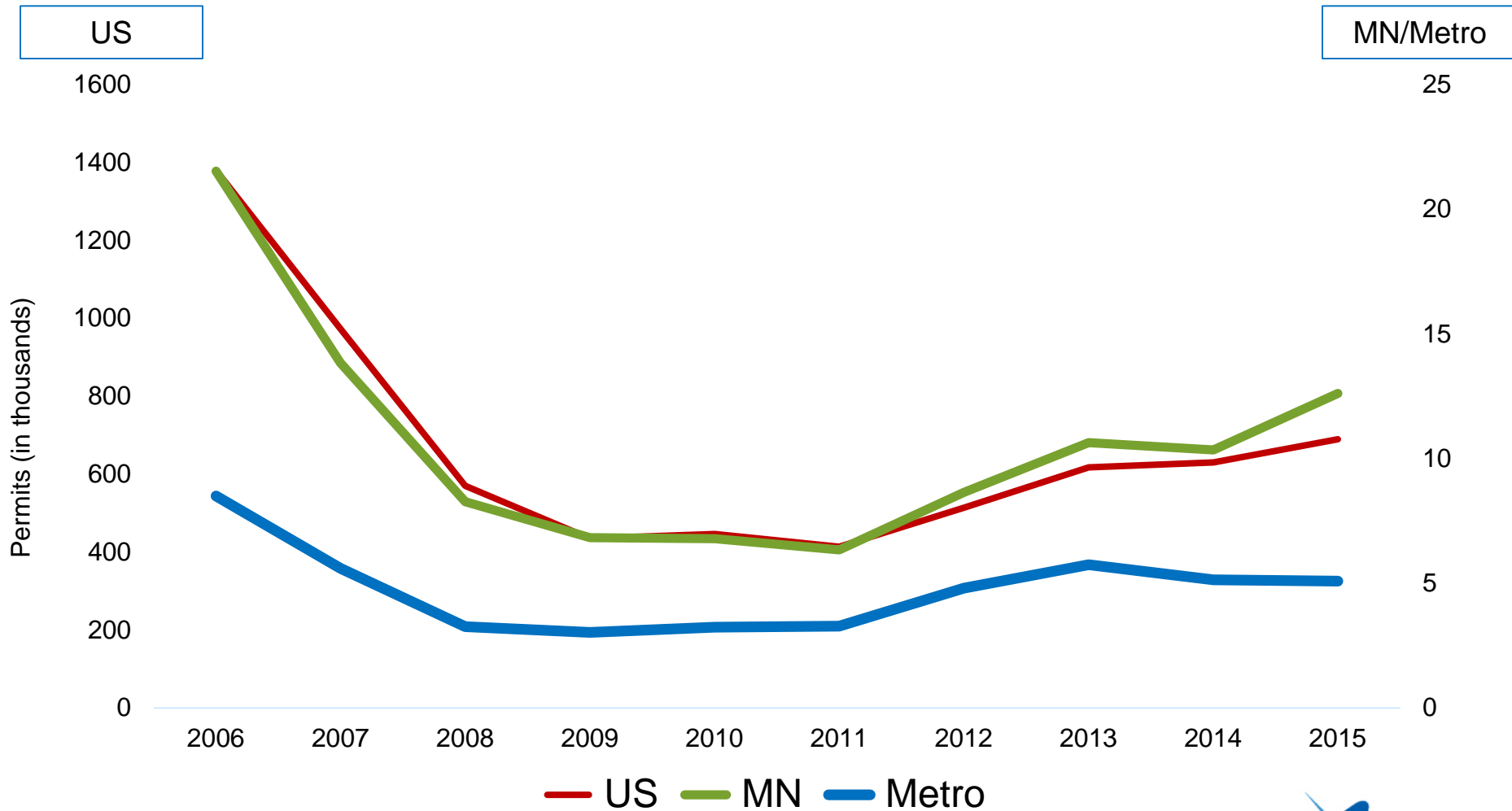
Can you afford a home in your city?

Salary needed to afford the principal, interest, taxes and insurance payments on a median-priced home



Source: HSH.com

Trend in Housing Starts



Financial Operations and Reserves

Financial Indicators

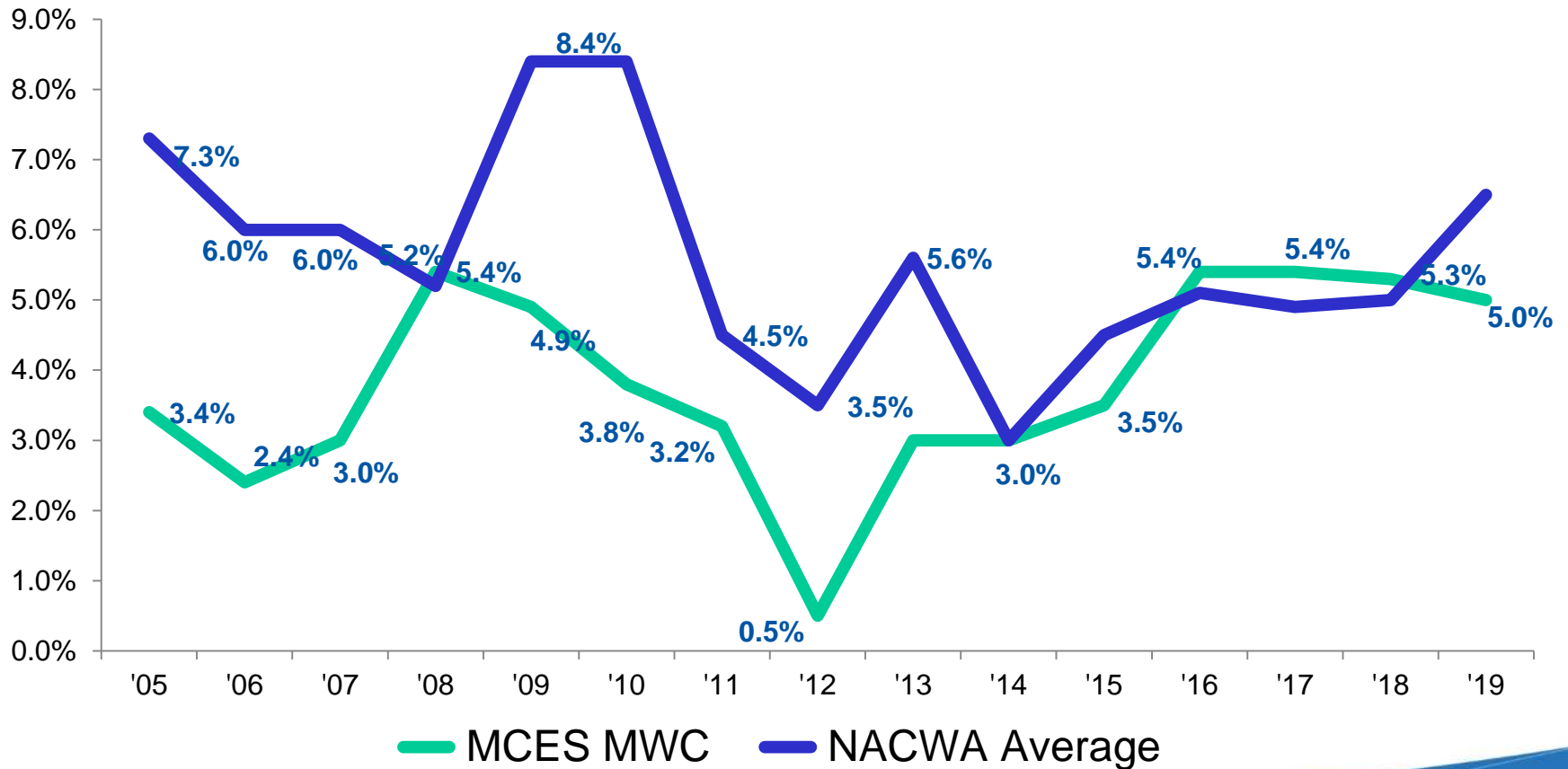
- Financial Policies (budgeting & reserves)
- Revenue Volatility
- Rate Coverage (Fares, Municipal WW, SAC)
- Budgetary Flexibility
- Debt Burden

MCES Operations and Reserves

Mitigating Revenue and Expense Volatility

- Firm Flow Billing
 - Municipal WW rate allocation based on prior year flow
 - Predictability to the budget of Council and rate payers
- Operating and SAC Reserve Targets
 - Address volatility in other revenues and expenses
 - Mitigate rate increases otherwise driven by cyclical capital maintenance

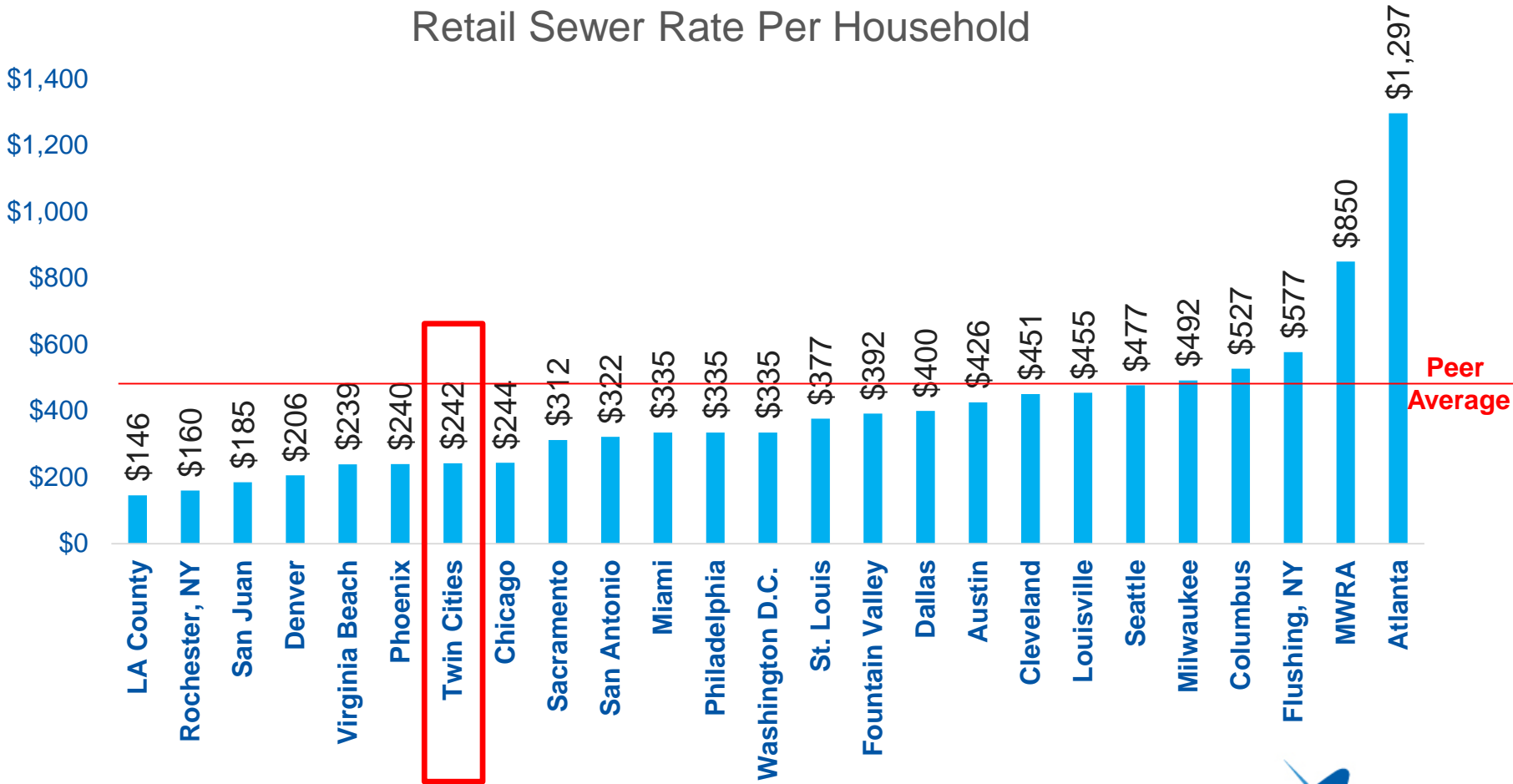
MWC Increases Compared to NACWA Average



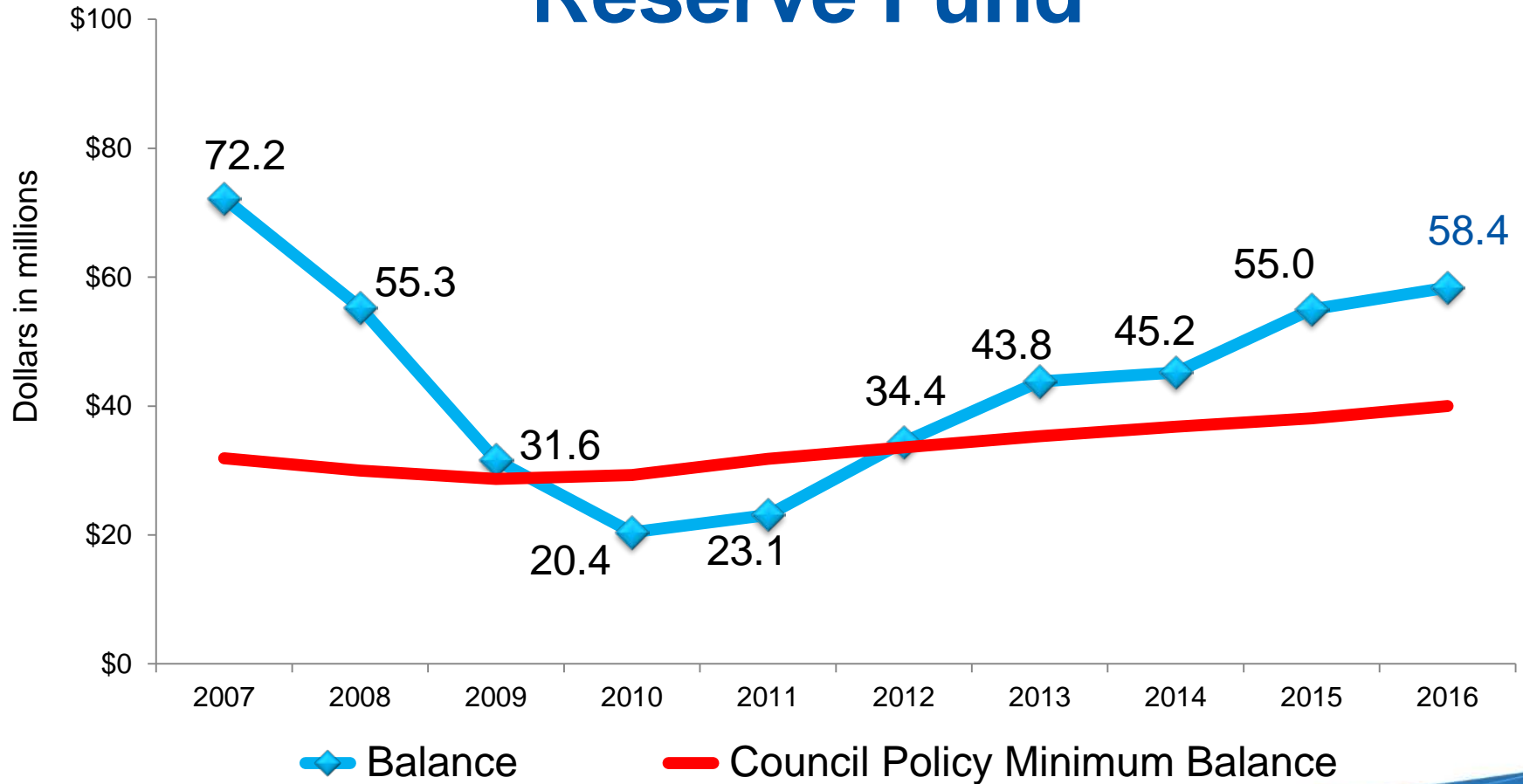
How we Compare to our Peers

25 peer city average retail sewer rate per household = \$404

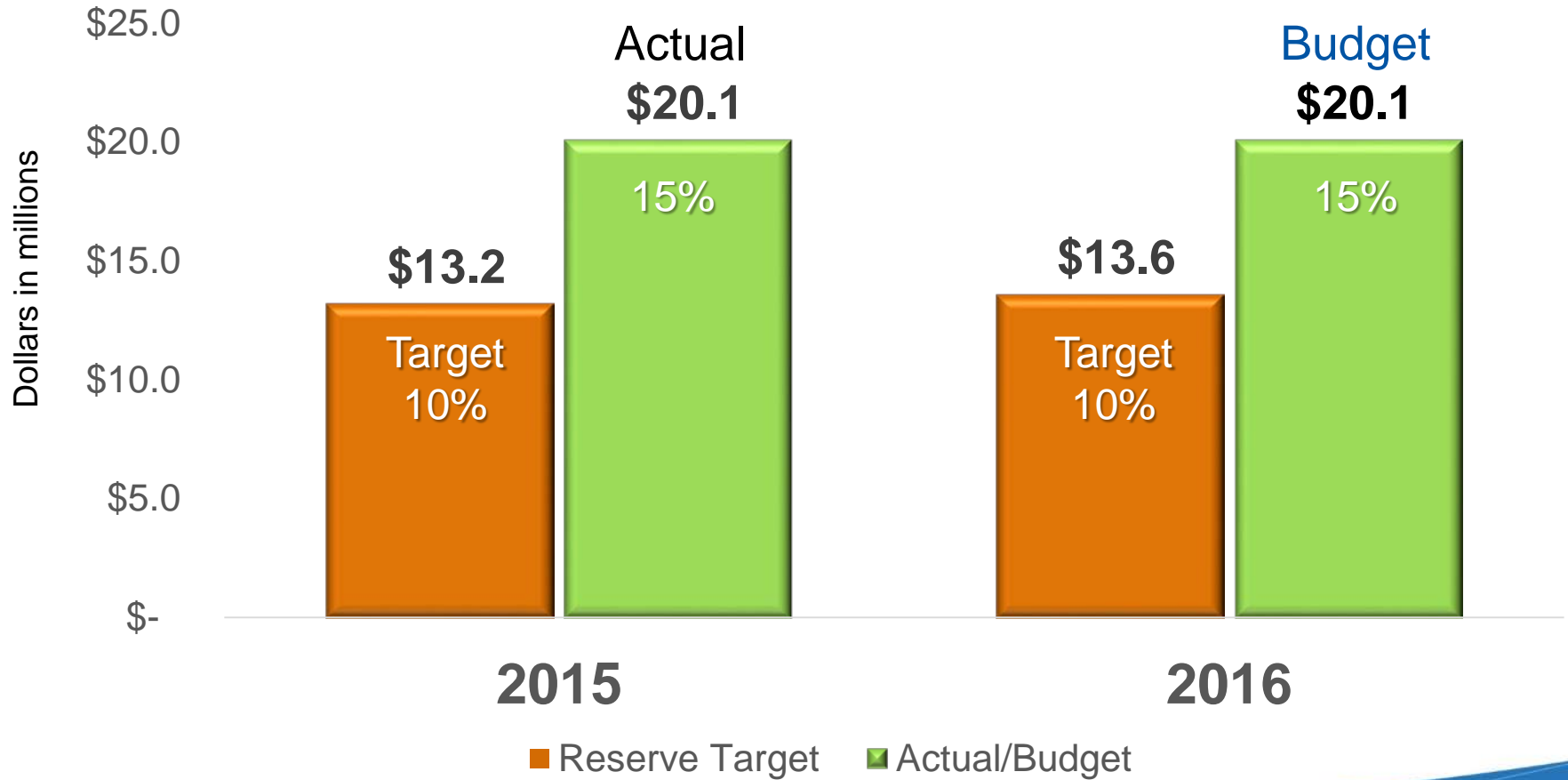
Retail Sewer Rate Per Household



Sewer Availability Charge (SAC) Reserve Fund



MCES Operating Reserve



Reserve target calculated as % of adopted budget including allocations.

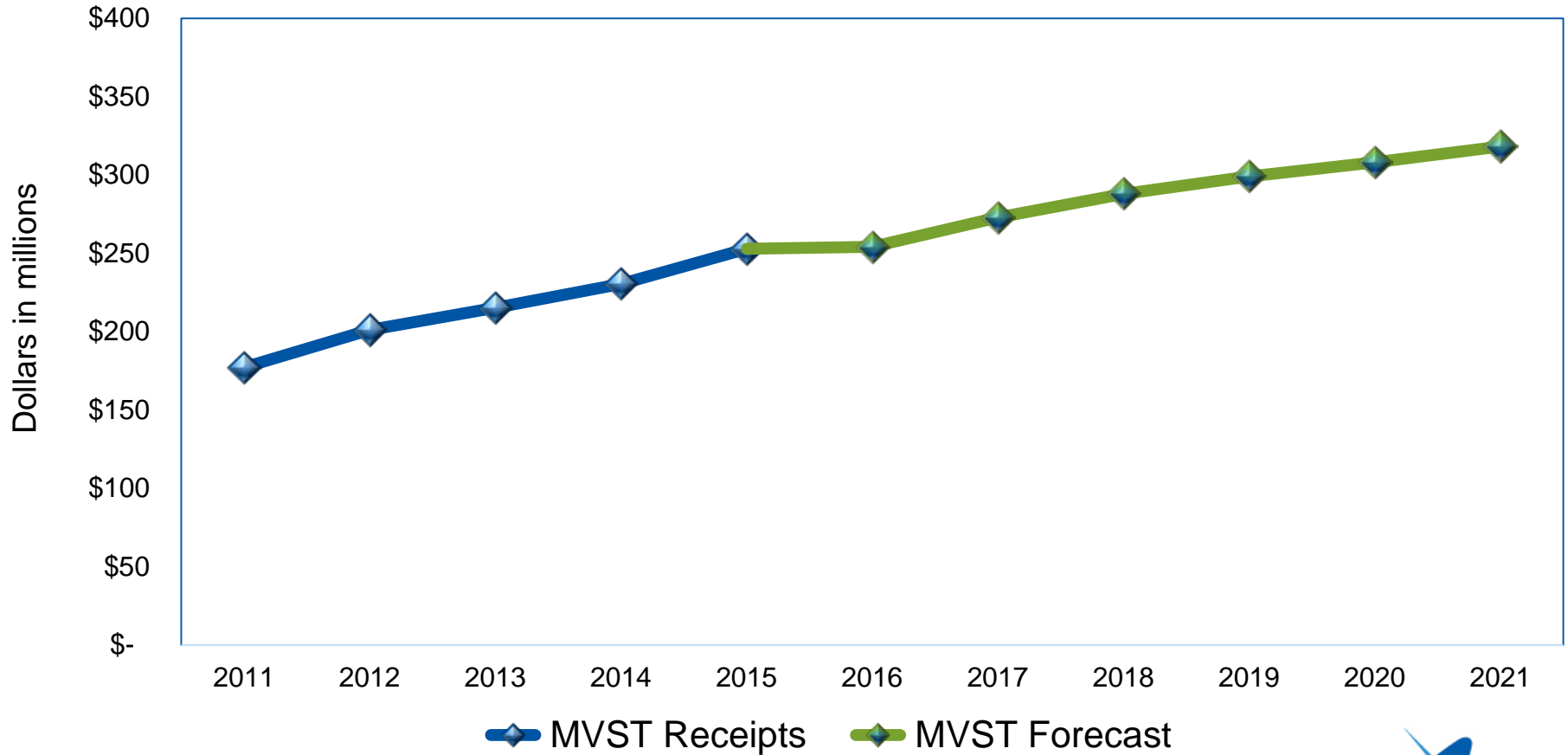
Transportation Operations & Reserves

Mitigating Revenue and Expense Volatility

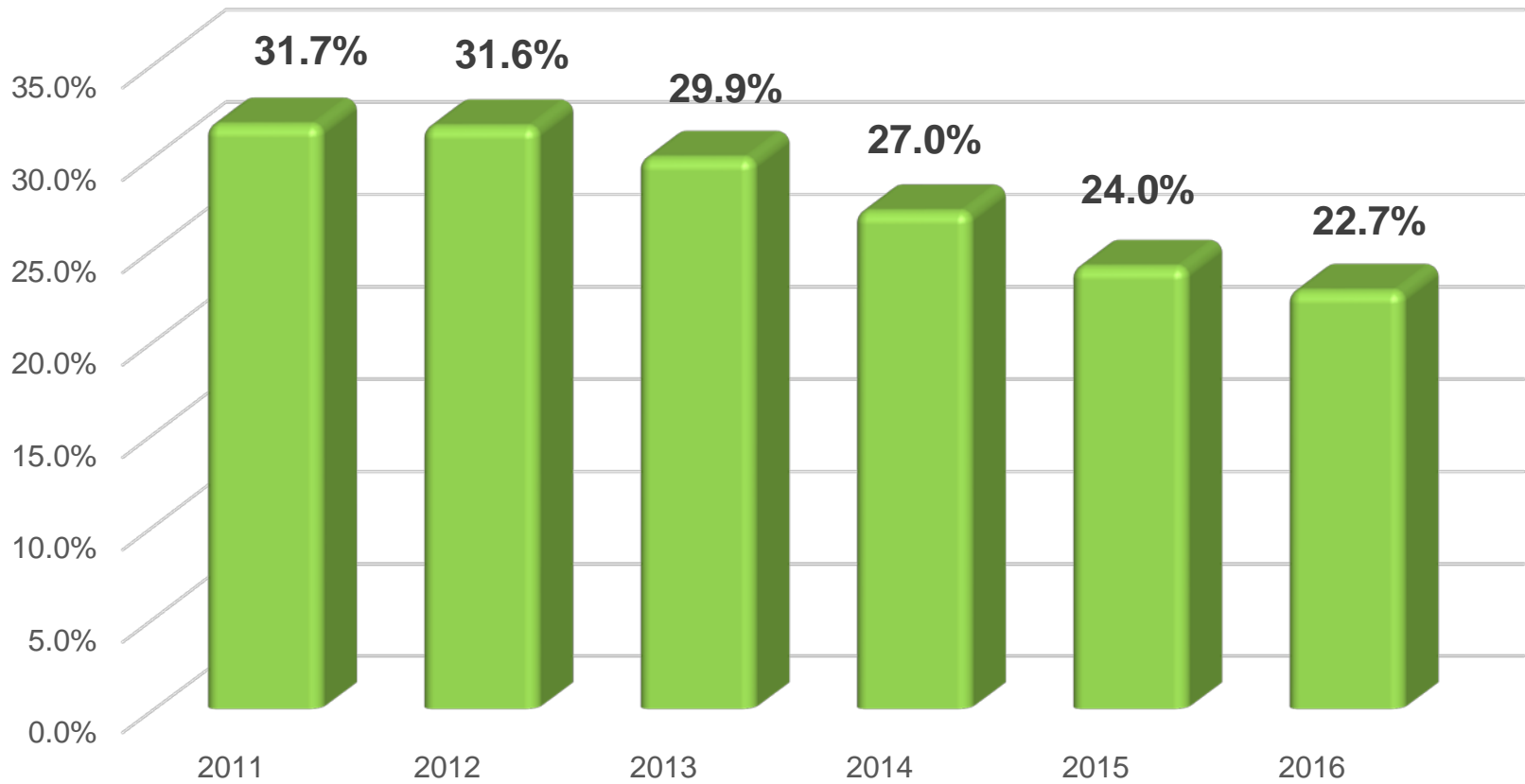
- Motor Vehicle Sales Tax
 - Budget 95% of current State Forecast and;
 - Actual MVST receipts above 95% from prior year
- Fuel Price Hedging
 - Budget certainty for 90% of projected fuel consumption over next 24 months
- Operating Fund Reserve Targets
 - Address volatility in other revenues and expenses
 - Regional revenue allocation procedure

Motor Vehicle Sales Tax Revenues

12/31/2015 - MVST Reserve \$15.2M

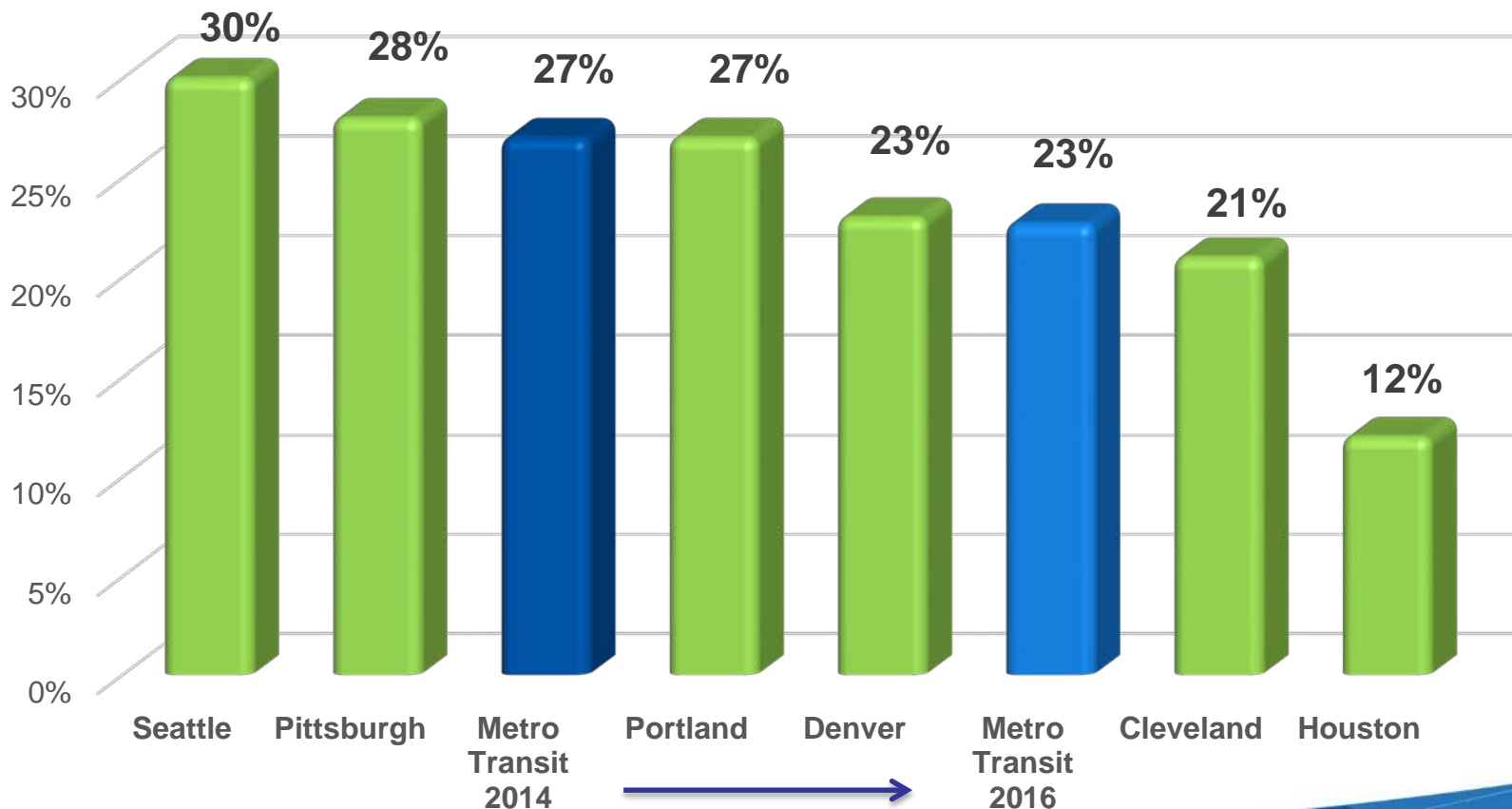


Bus Farebox Recovery Ratio



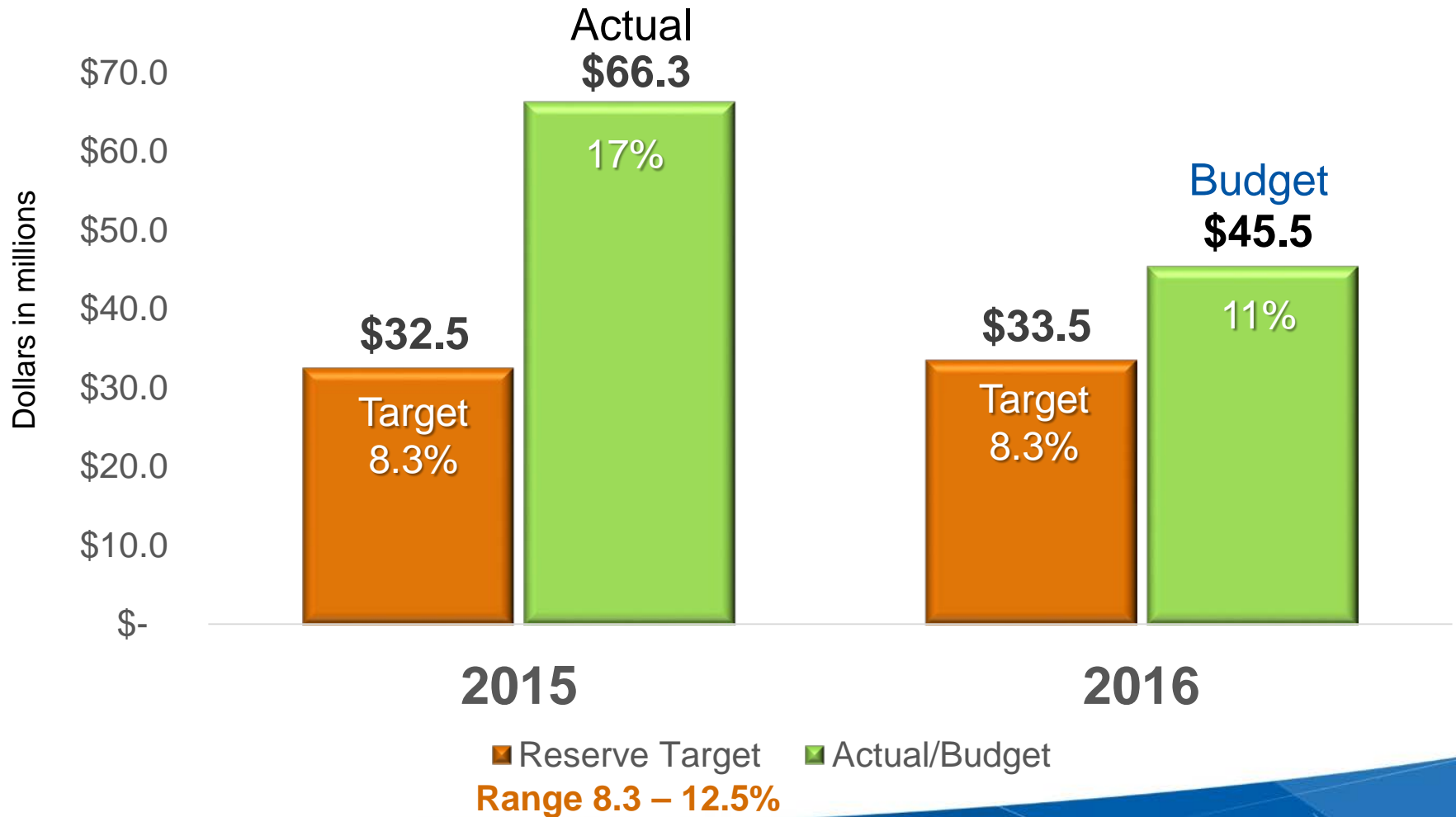
How we Compare to our Peers

2014 Bus Farebox Recovery



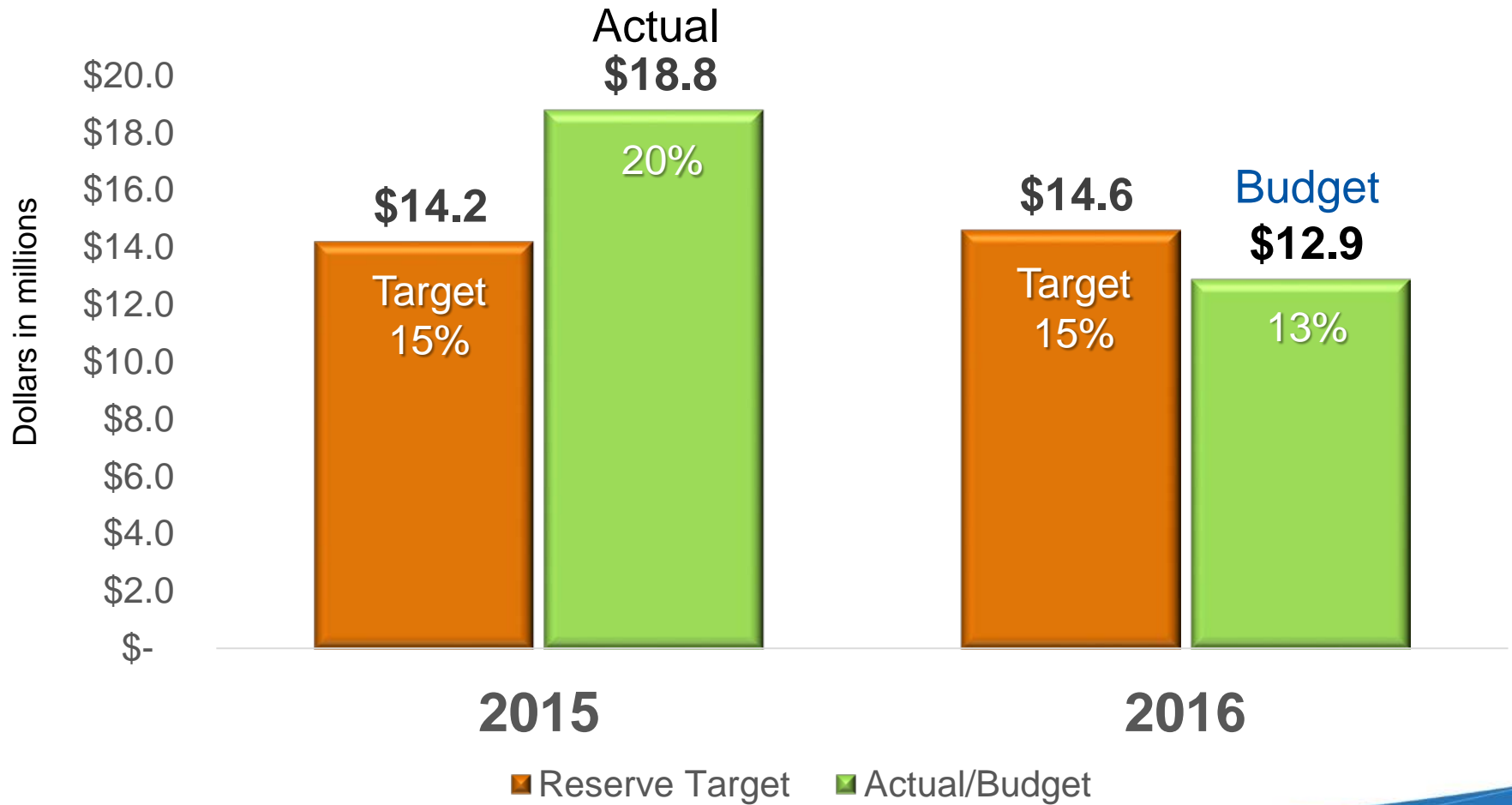
Source: National Transit Database – 2014 Motorbus

Metro Transit Operating Reserves



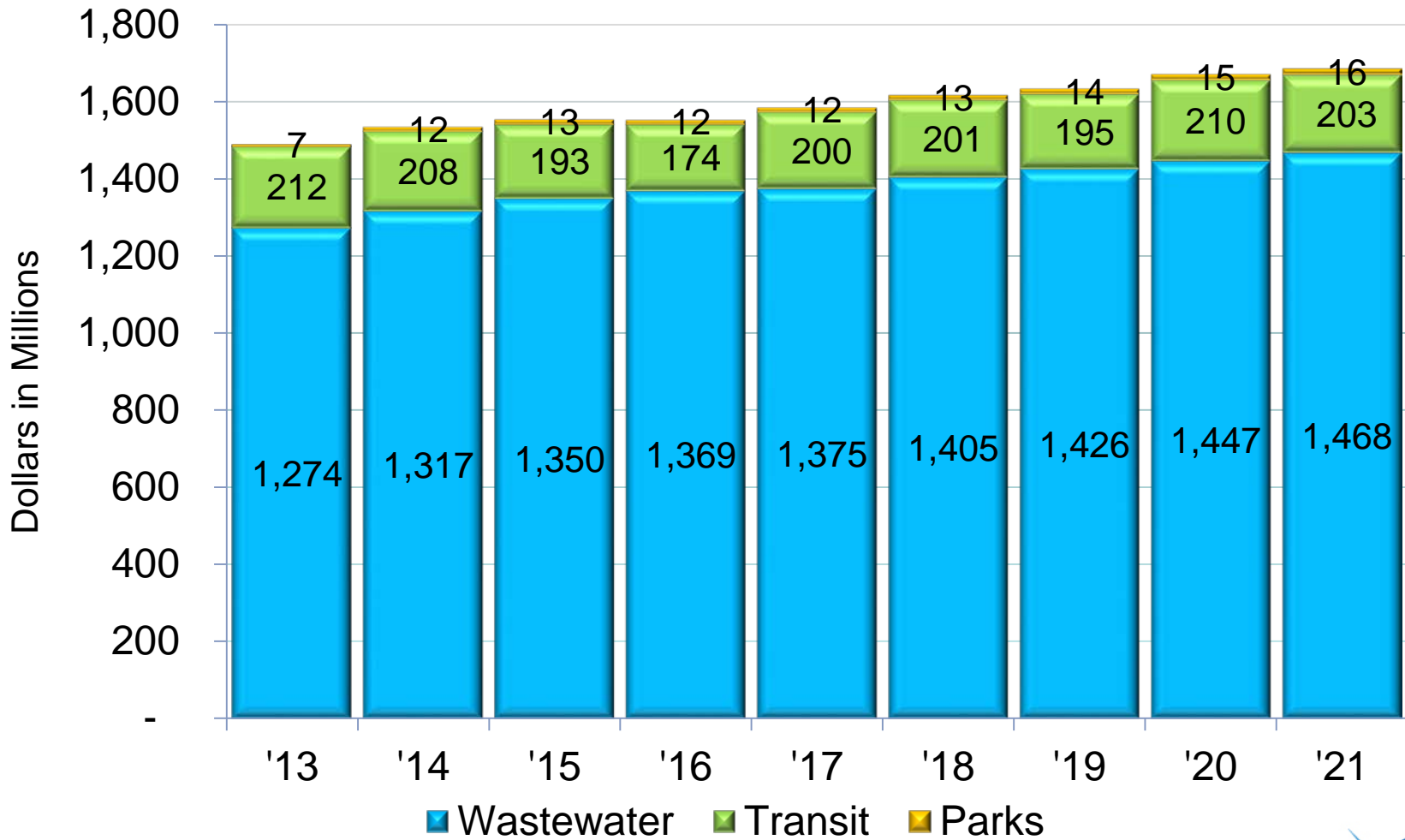
Reserve target calculated as % of adopted budget including allocations.

MTS Funds Operating Reserves



Reserve target calculated as % of adopted budget including allocations.

Outstanding Debt



Debt Burden

Moody's Rating

- Council's direct and overall debt manageable
- Netting out GO debt supported by wastewater rates, the Council's direct burden moderates to 0.1% of full value and 2.4 times operating revenues.

How we Compare to our Peers

Wastewater Debt per capita (person)*

Los Angeles	\$188	Philadelphia	\$766	Seattle	\$2,607
Denver	\$370	Sacramento	\$922	Boston	\$2,647
MCES	\$392	Milwaukee	\$930		
Virginia Beach	\$451	Washington, DC	\$939		
Orange County	\$464	Cleveland	\$987		
Chicago	\$473	Miami	\$1,037		
Phoenix	\$525	Austin	\$1,259		
San Antonio	\$622	Columbus	\$1,514		
St. Louis	\$653	Louisville	\$1,971		

Source: 2013 data from 2014 NACWA survey

Bonding Authority & Debt Service

- ES Debt Service
 - “Self-supporting” debt with GO pledge
 - Council authority to set MWW and SAC rates
 - Debt Service to operating budget ratio – 43%
- Transit and Parks Debt Service
 - Supported by unlimited GO pledge (Property Tax)
 - Effectively limited by Legislative bonding authorization
 - Transit Annual Authority
 - Parks \$40M revolving

Matured Debt Service Reserve

December 31, 2015	Parks	Transit
Cash Balance	\$7.6	\$12.2
Committed Balances:		
Projected Future Arbitrage	(0.2)	(1.5)
SWLRT – Internal Financing Costs		(0.5)
Available Reserves	\$7.4	\$10.2

Parks

Available for general purposes by the Council

Transit

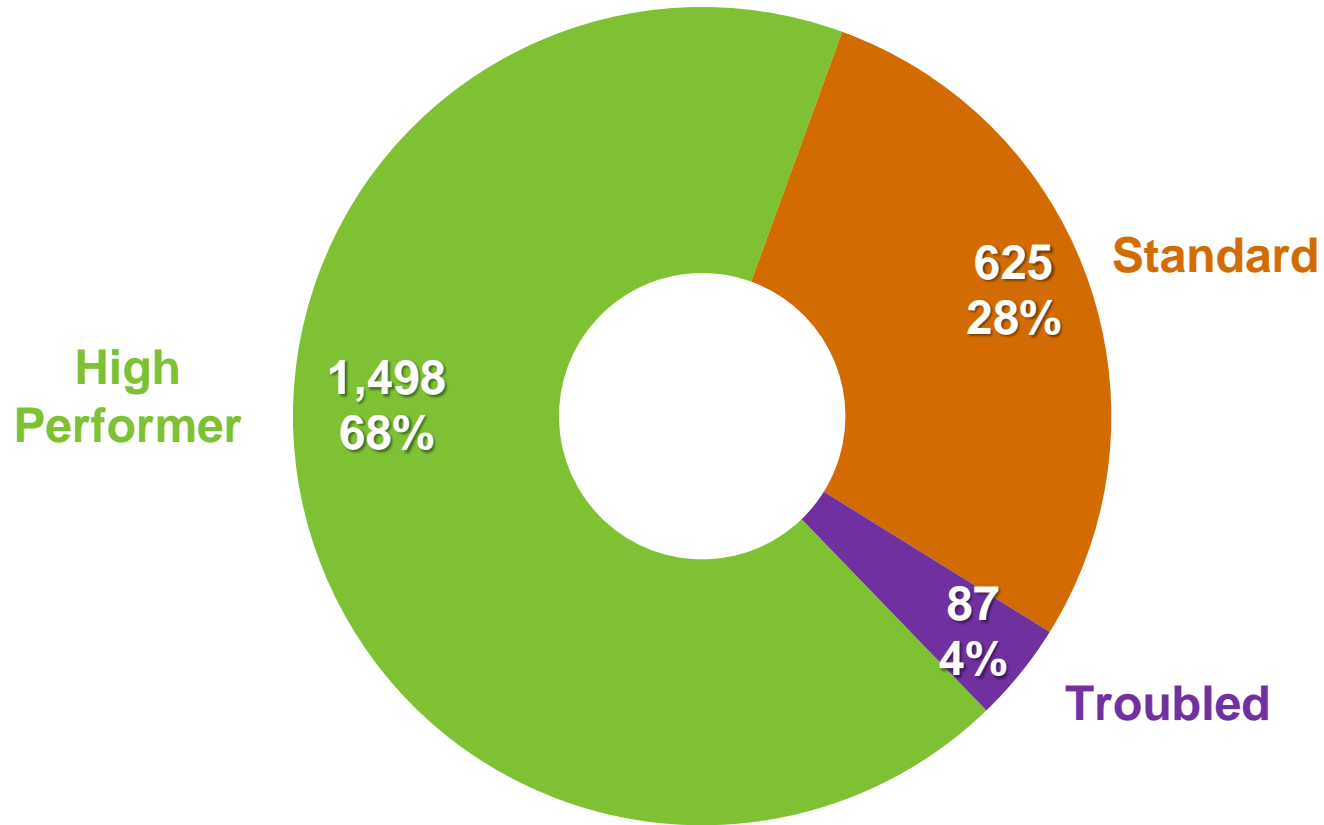
Interest income available for capital expenditures;
remainder available for general purposes by the Council

Metropolitan Housing and Rehabilitation

Section 8 Management Assessment Program

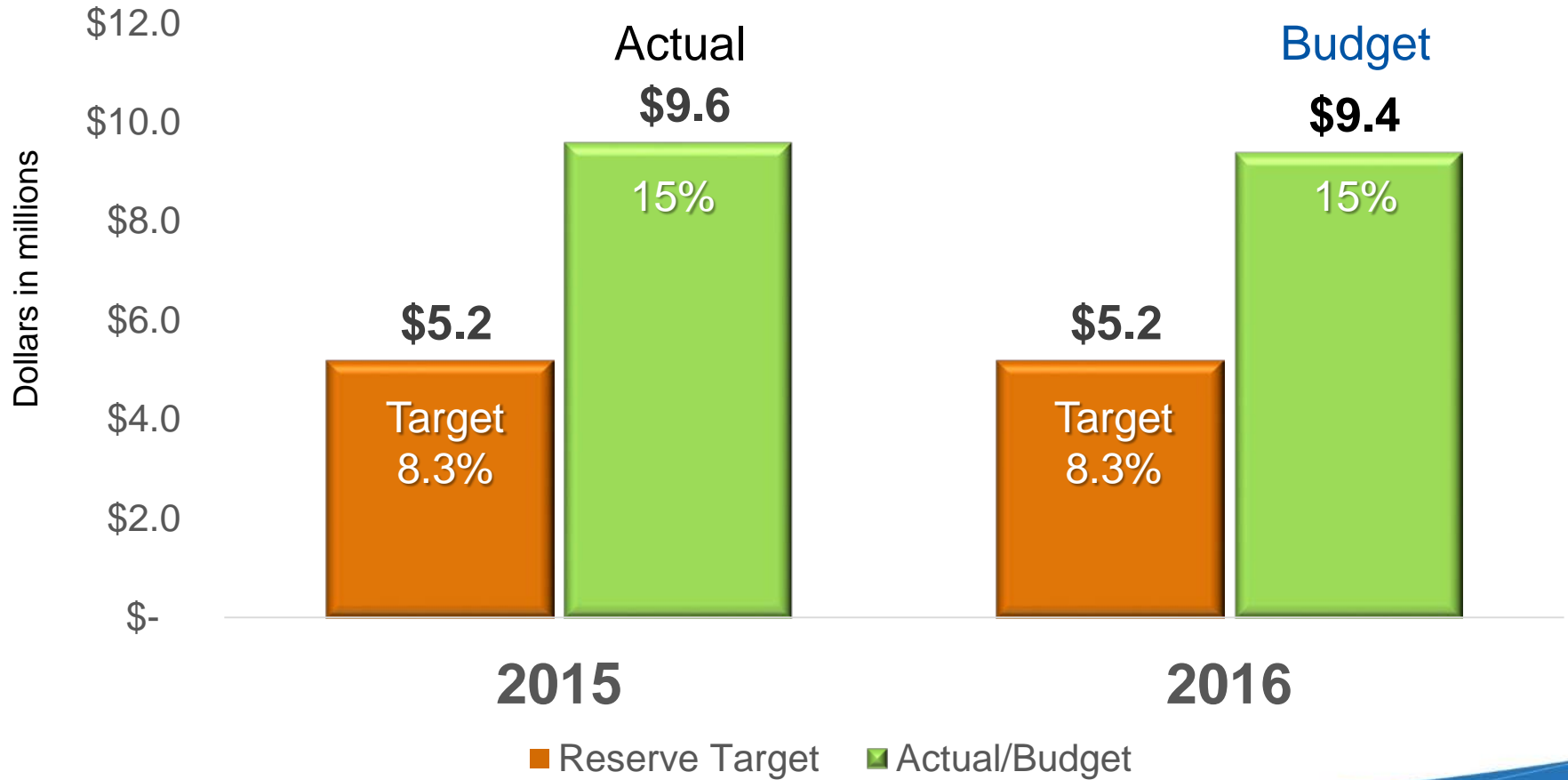
- 2015 SEMAP Results
 - 145/145 possible points = High Performer
- High Performer for 12 years
 - Accurate and timely rent calculations
 - Precise application of HQS inspection standards
 - Quality control systems
 - Regular program and systems monitoring

How we Compare to our Peers



Source: Department of Housing and Urban Development

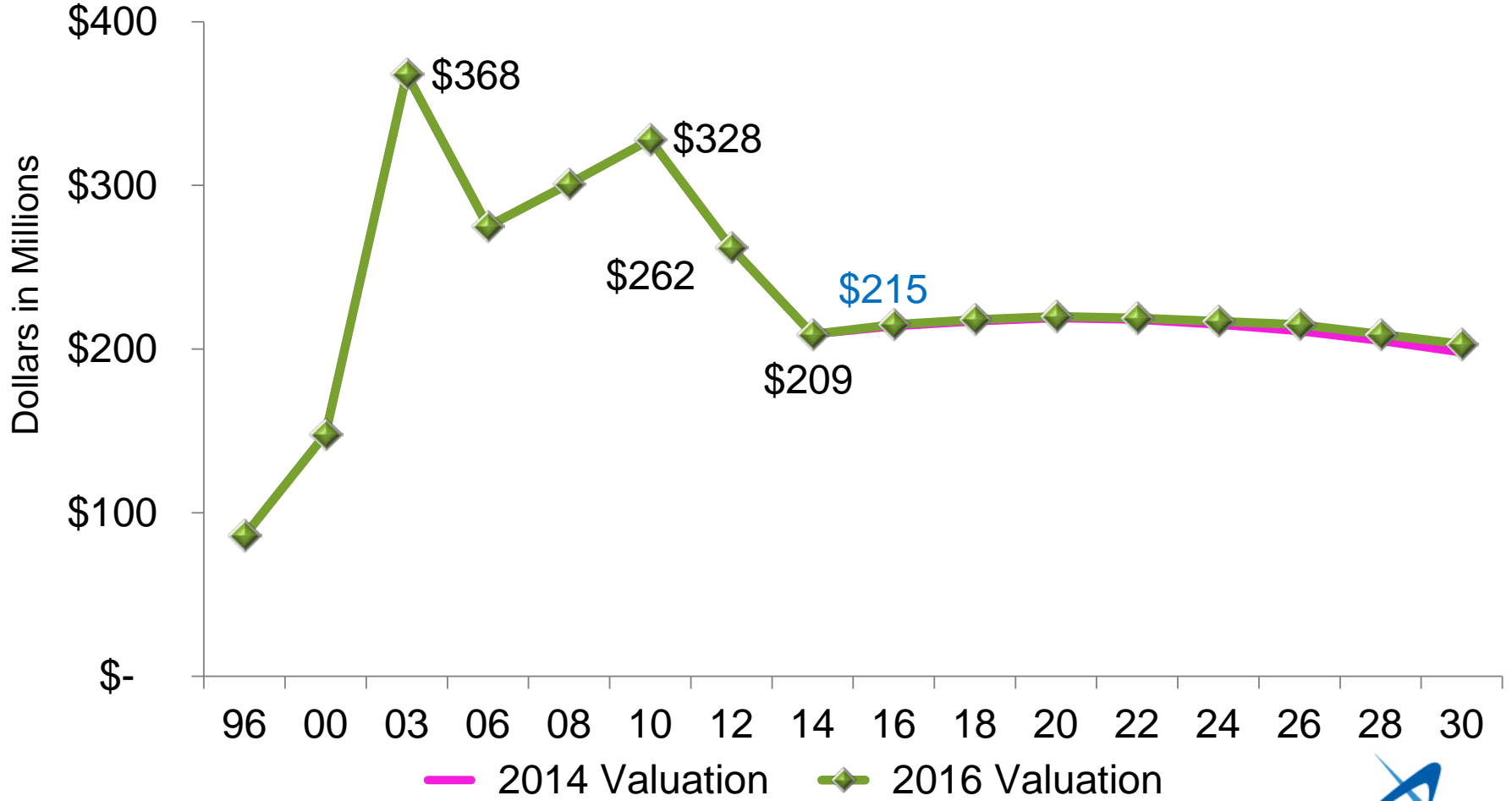
HRA Operating Reserve



Reserve target calculated as % of adopted budget including allocations.

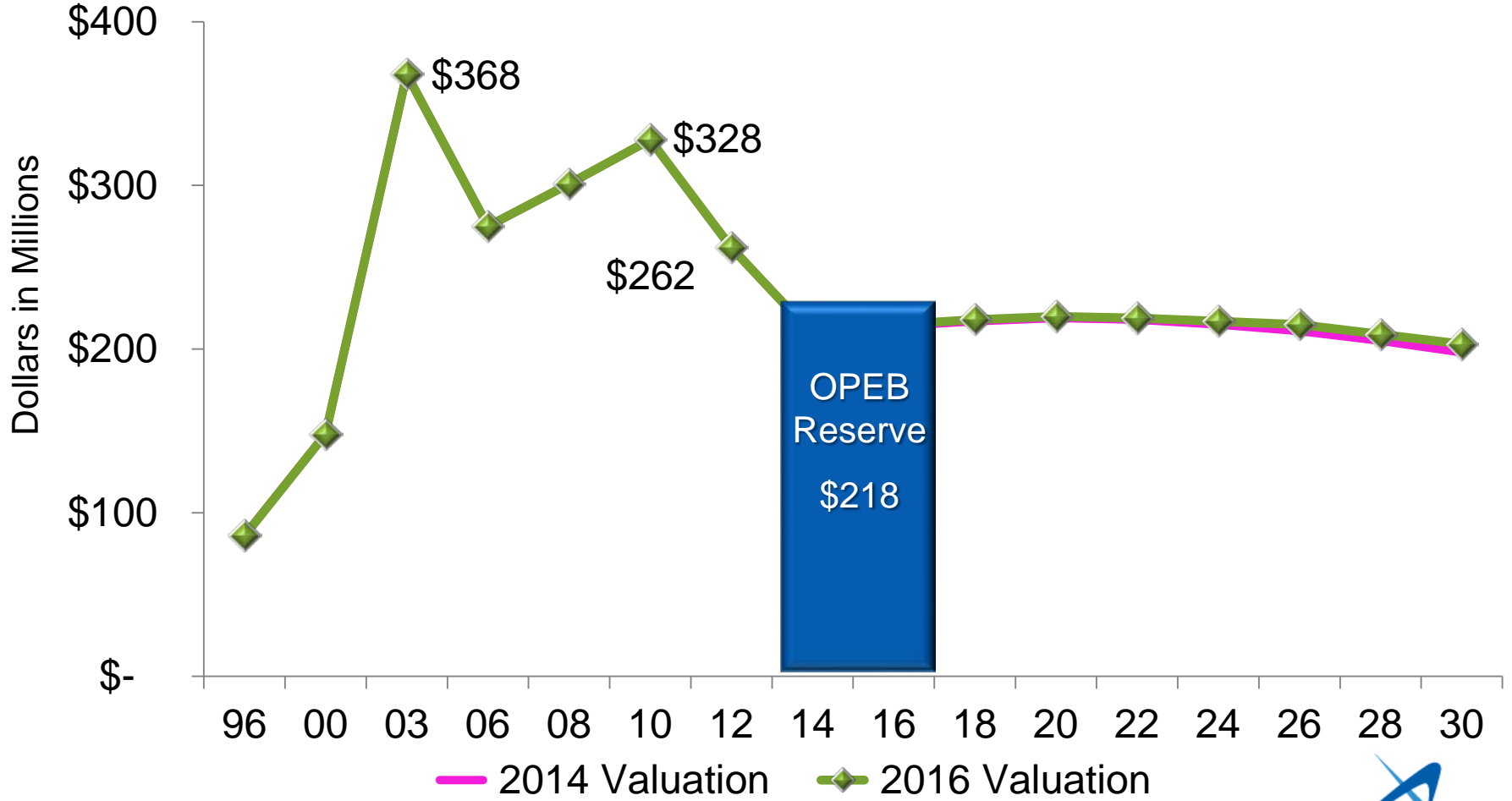
Other Post Employment Benefits

Jan 1, 2016 Actuarial Valuation
Retiree Health Care Liability



Other Post Employment Benefits

Jan 1, 2016 Actuarial Valuation
Retiree Health Care Liability



Self-Insured Health and Dental

- Fully-insured to Self-insured benefit plans
 - Greater control over rate setting and reserve requirements
 - Assumption of risk for claims
- Reserves
 - Cash flow monthly variability between premiums and claims
 - Mitigate uninsured losses for claims exceeding premium coverage and provide stability in rate setting
- Insurance Coverage
 - \$500K Specific stop loss
 - 125% Aggregate stop loss

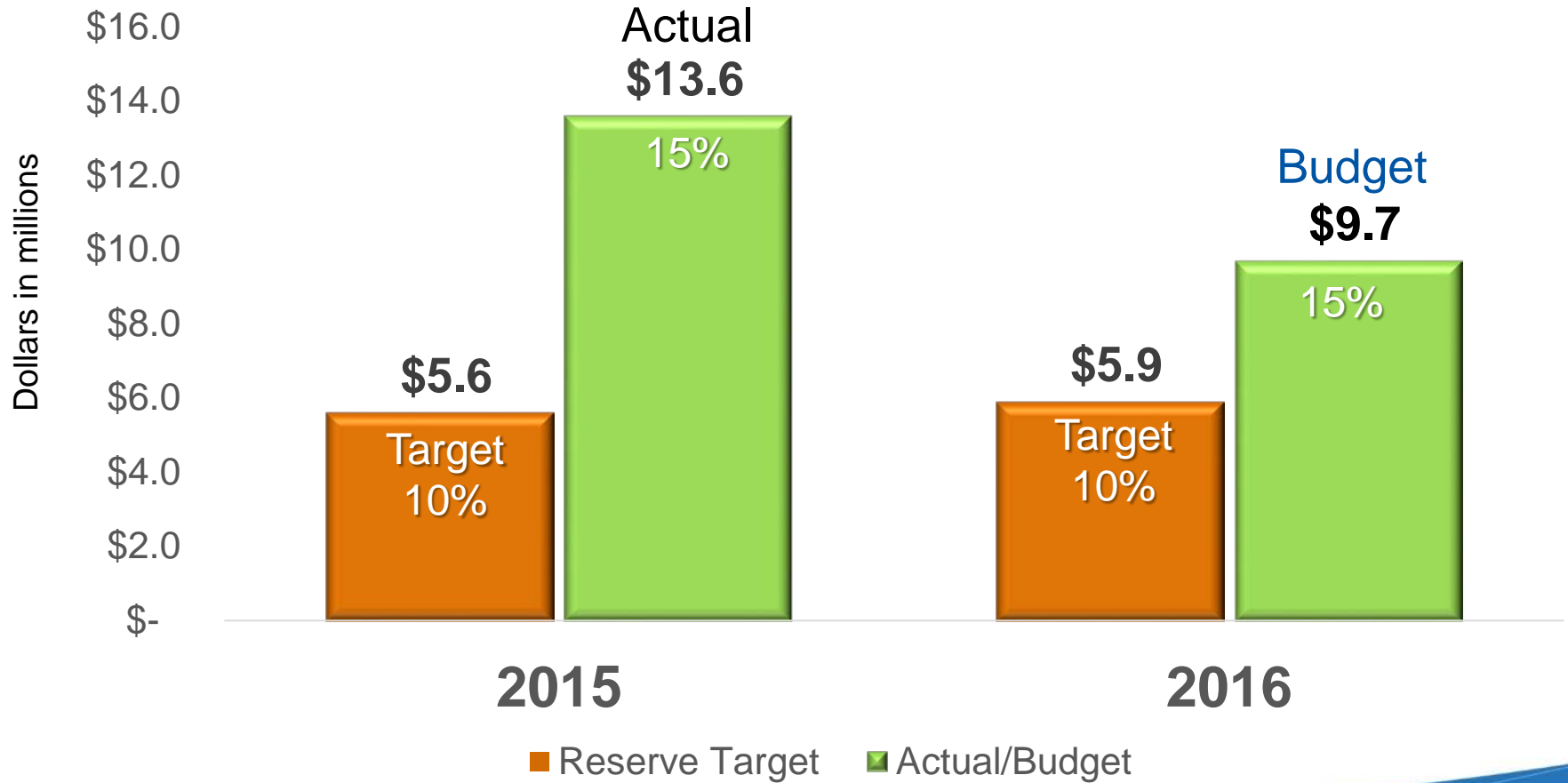
Health Plans and Rates

	OPEN Access	Distinctions	HRA
Availability	ATU Members	All Employees	All Employees
Single Premium	\$906	\$763	\$593
Family Premium	\$2,266	\$1,907	\$1,484

Self-Insured HealthCare Benefits

December 31, 2015	Medical	Dental
Ending Reserve Balance	\$ 26.1	\$ 1.3
	41%	29%
Reserve Target	25-35%	10%
Projected 2016 Expenses (Oct 2015)	\$ 66.8	\$ 4.6
Low end of target	\$ 16.7	-
High end of target (recommended)	\$ 23.4	\$0.46

General Fund Operating Reserve



Reserve target calculated as % of adopted budget & 2016 carryforward amendment.

“Big Picture” 2017 Budget

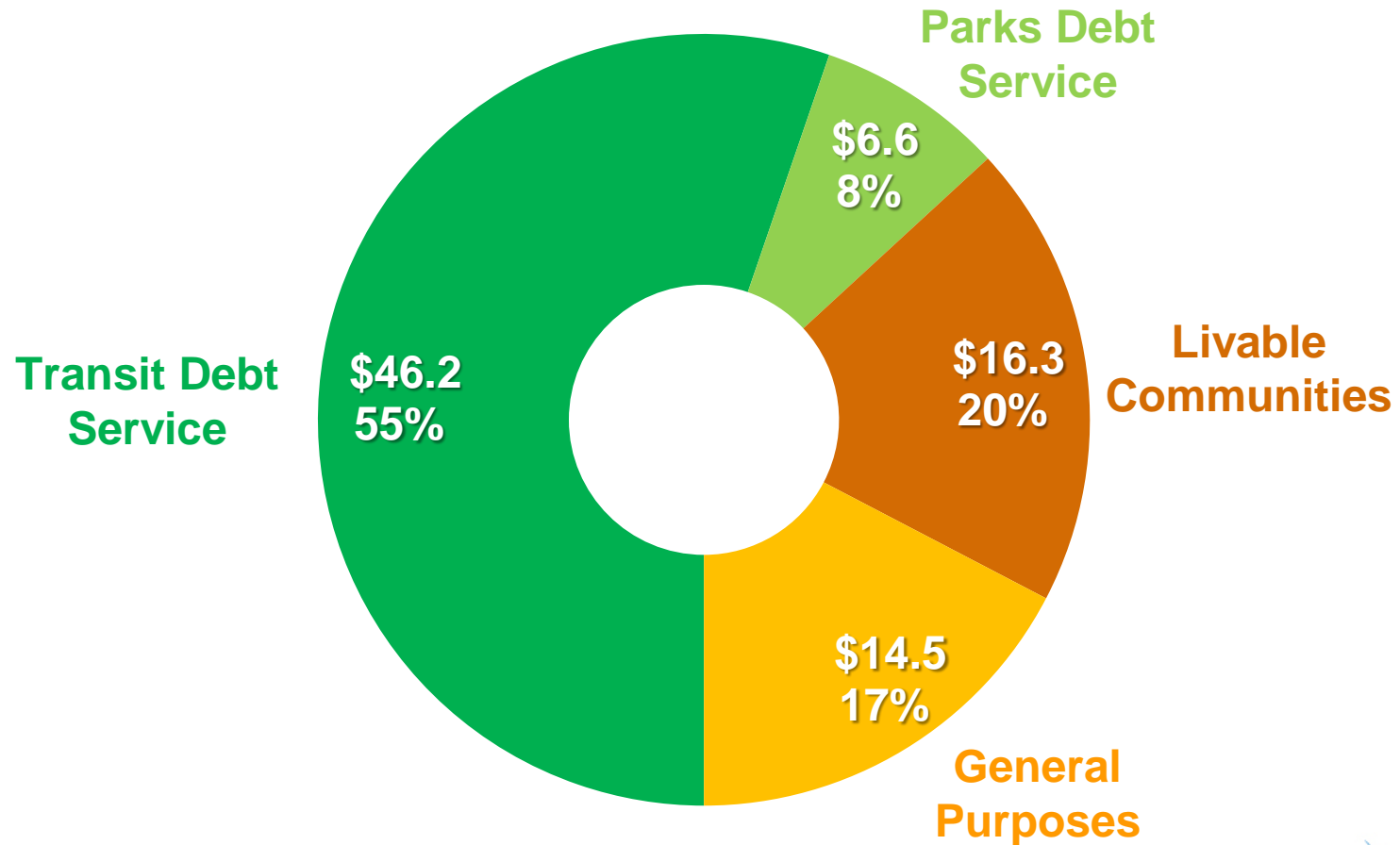
Proposed Payable 2017 Levy

	2016	2017	Pct Chg	Limit *
<u>Non-Debt Service Levies</u>				
General Purposes	\$ 14.451	\$ 14.501	0.35%	14.501
Highway Right of Way	-	-		3.898
Livable Communities:				
- Demonstration Acct	11.343	11.382	0.34%	11.382
- Tax Base Revitalization	5.000	5.000	0.00%	5.000
Total Non-Debt Levies	\$ 30.794	\$ 30.883	0.29%	\$ 34.781
Levies as Pct of Limit		88.8%		
<u>Debt Service Levies</u>				
Parks	\$ 6.558	\$ 6.555	-0.05%	
Transit	44.687	46.217	3.42%	
Total Debt Levies	\$ 51.245	\$ 52.772	2.98%	
Total All Levies	\$ 82.039	\$ 83.655	1.97%	

* Estimated using US Bureau of Economic Analysis 2014 4th quarter data. The actual maximum levy will not be known until published by the MN Dept of Revenue in late July.

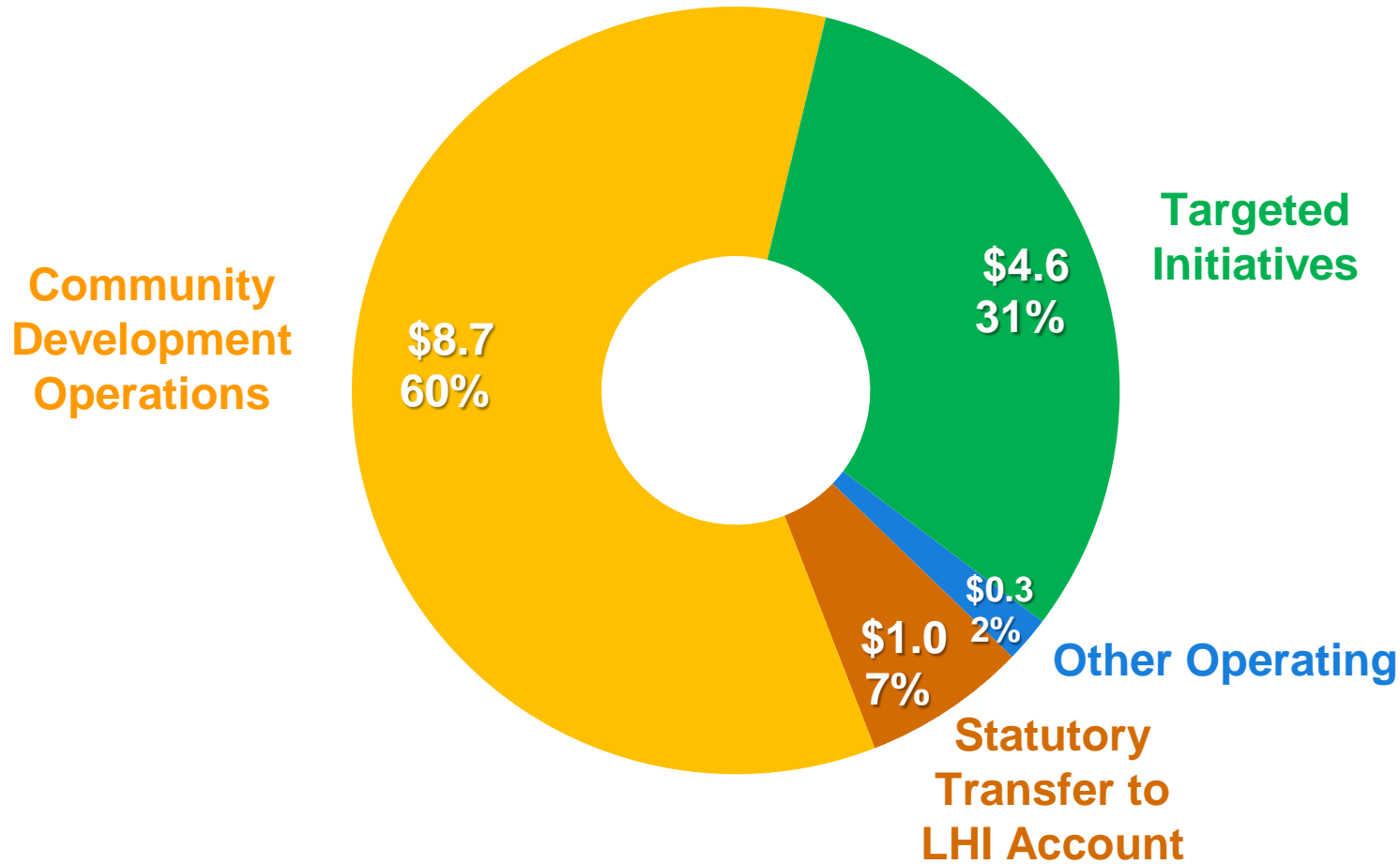


Proposed Payable 2017 Levy \$83.7M



Dollars in millions

General Purposes Levy Uses - \$14.6 M



Dollars in
millions

Targeted Thrive Initiatives

General Purpose Levy Use - \$4.6 M

- Housing Study – Blue Line Extension
- Stormwater Grants
- Green Infrastructure Grants
- Robert Street Elevator and Accessibility

Stewardship

Prosperity

Equity

Livability

Sustainability

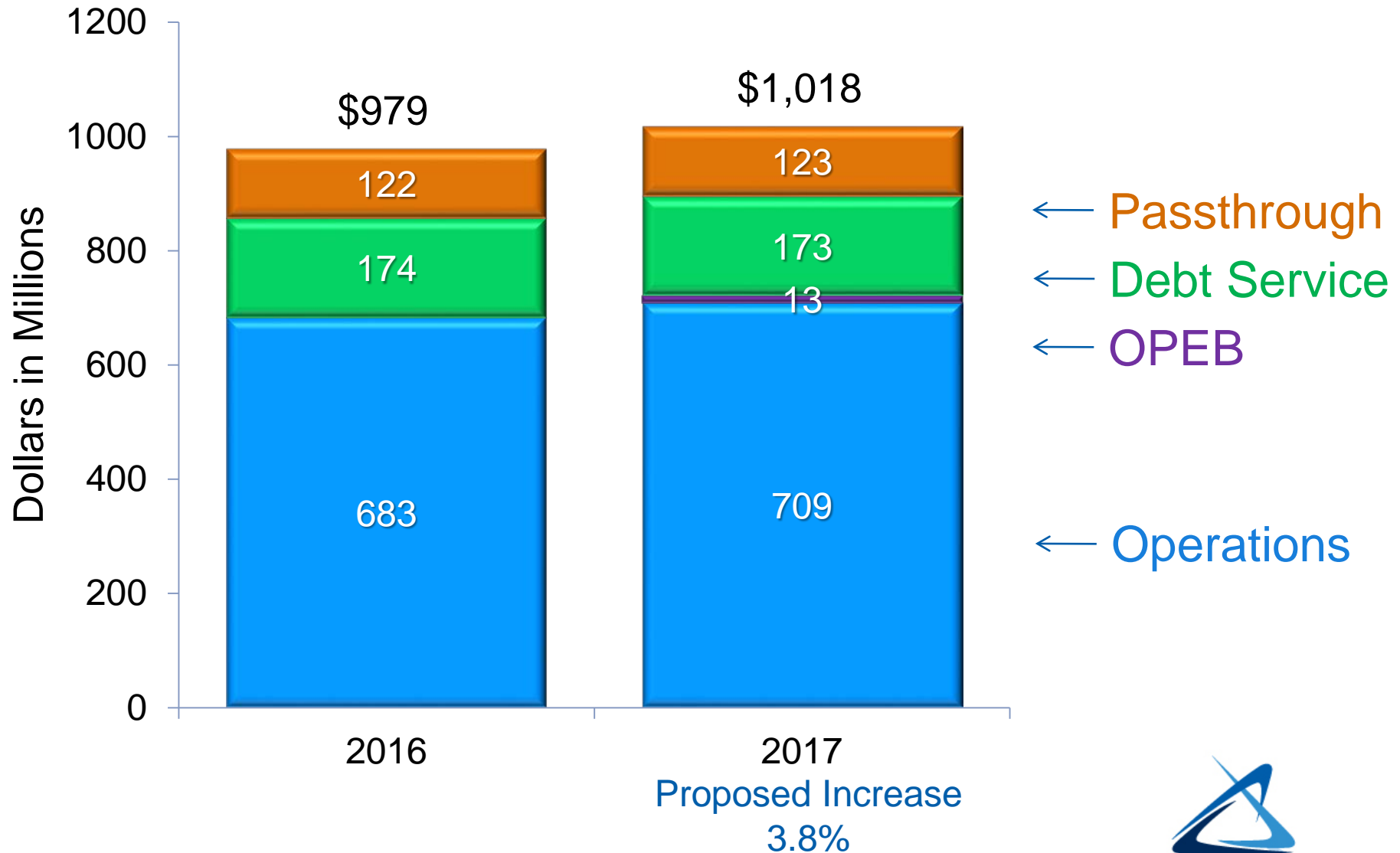
Integration

Collaboration

Accountability



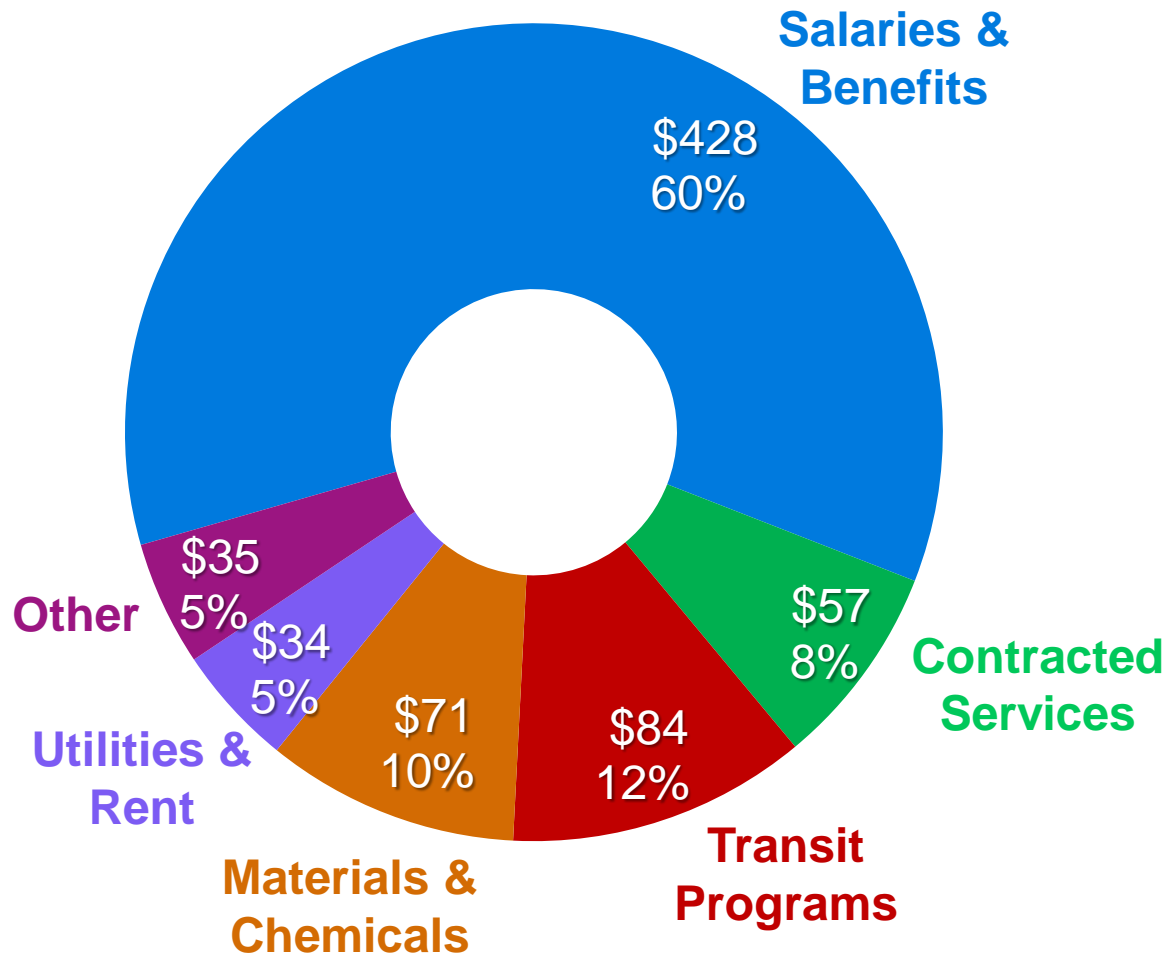
Operating Budget Trend - Expenses & Uses



Total Budget Change - \$39 Million

- **Pressures on Operations**
 - Labor contracts
 - Metro Mobility growth
 - Inflationary growth
 - Technology
 - Maintenance/Overhaul
 - Incenting Ridership Growth

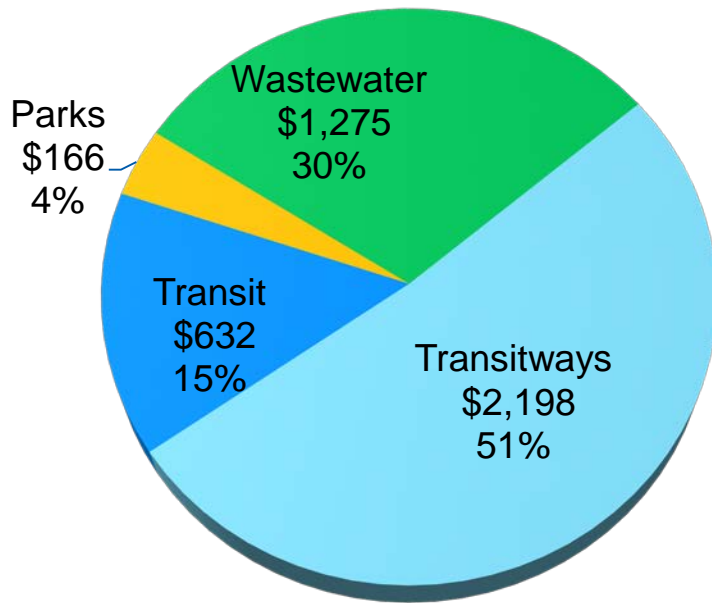
2017 Proposed Budget for Council Operations Uses by Category - \$709 M



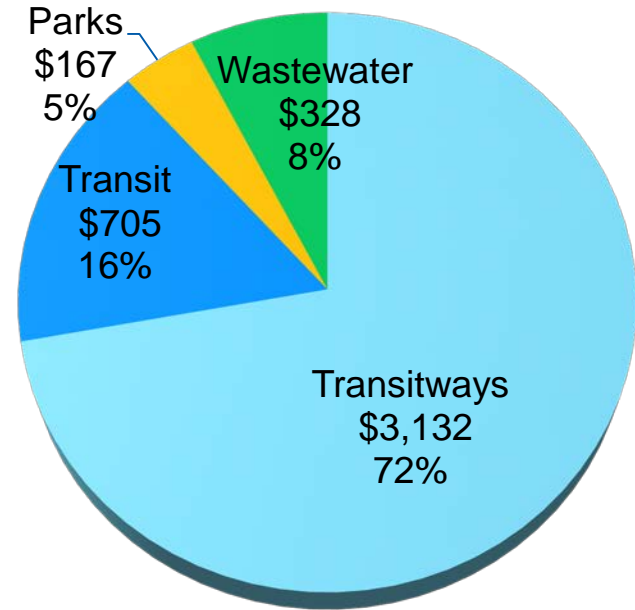
Dollars in
millions

Unified Capital Improvement Program \$8.6B

Authorized Projects \$4.3B

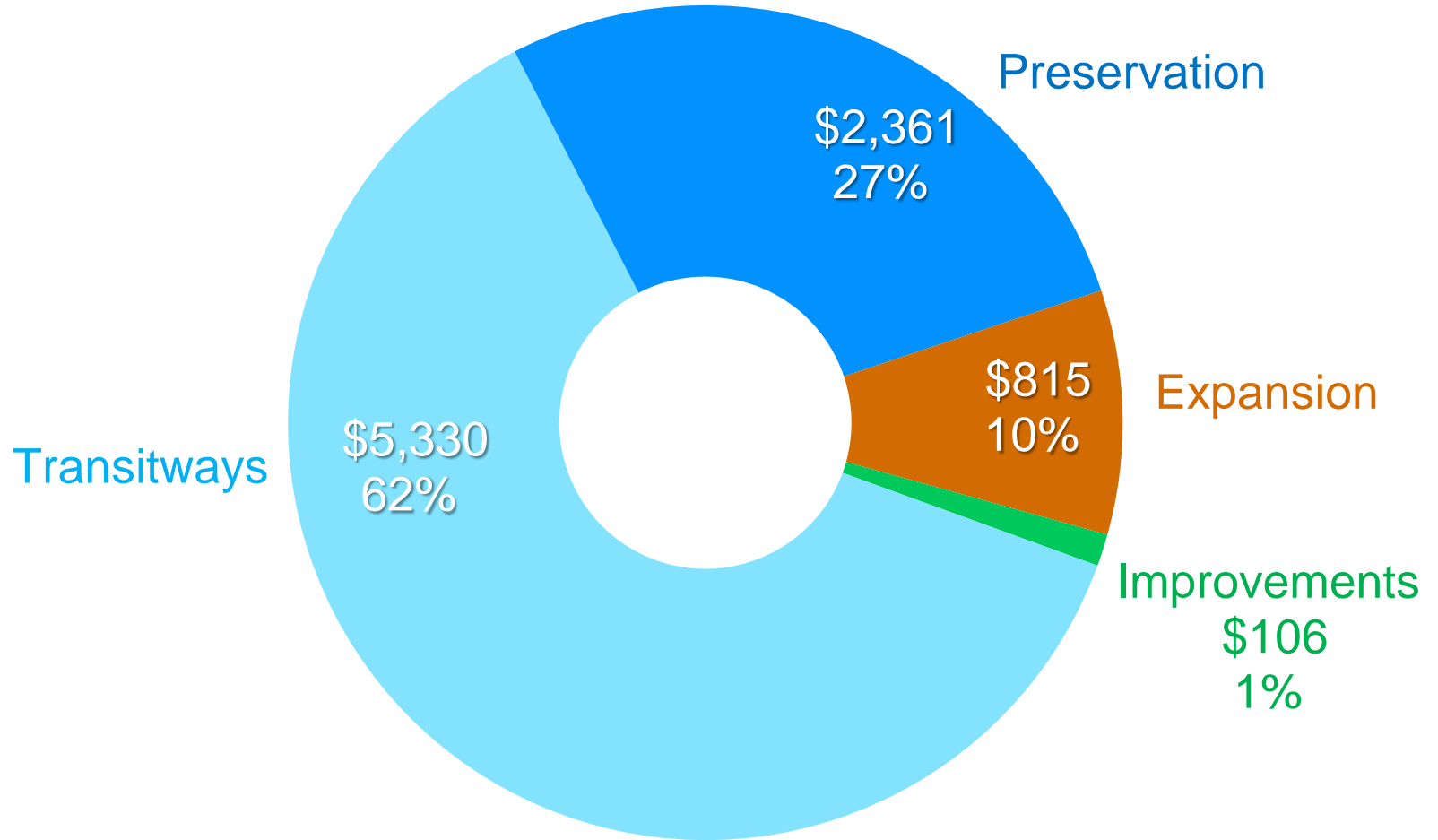


Planned Projects \$4.3B



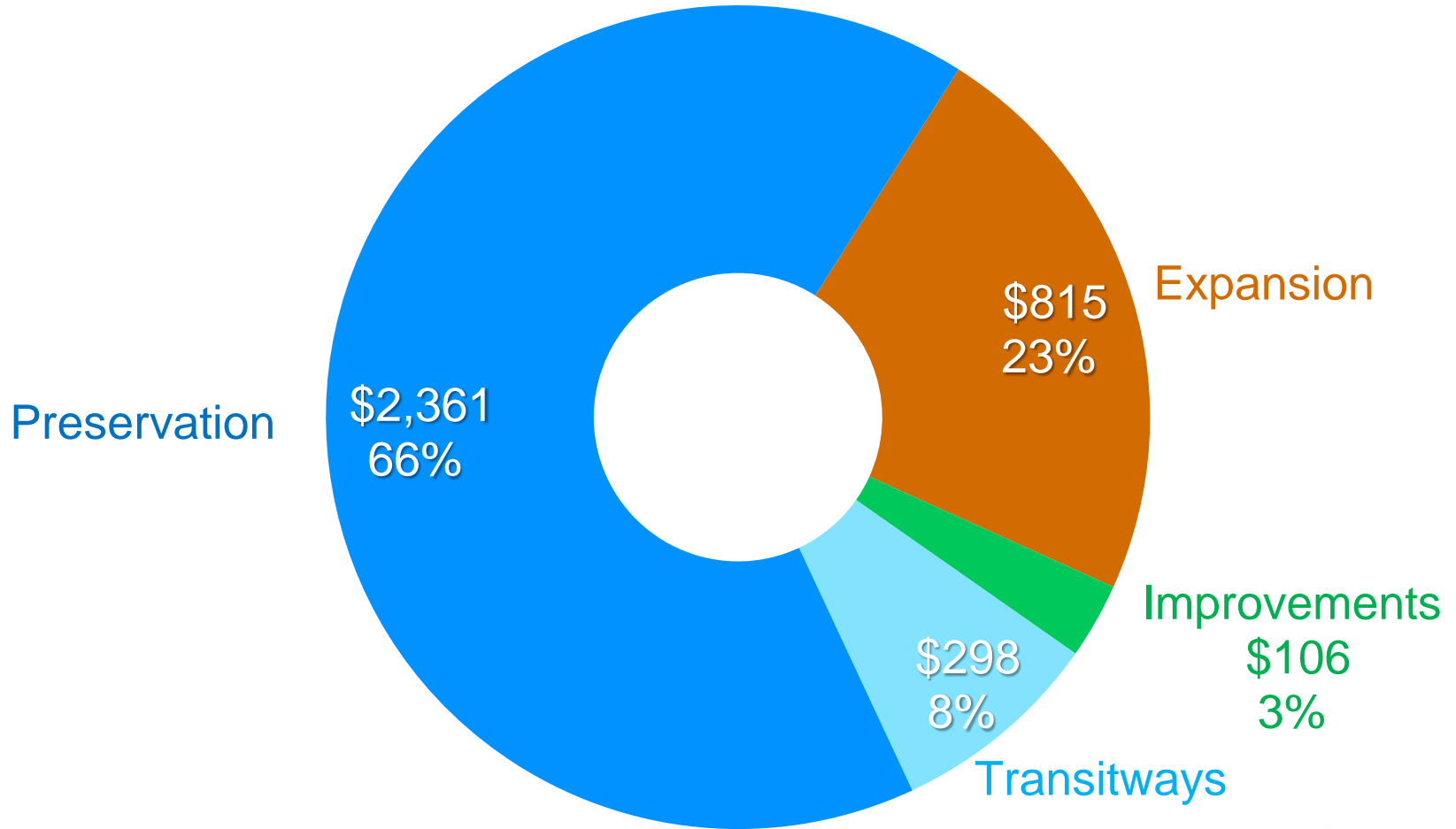
Unified Capital Improvement Program

\$8.6B

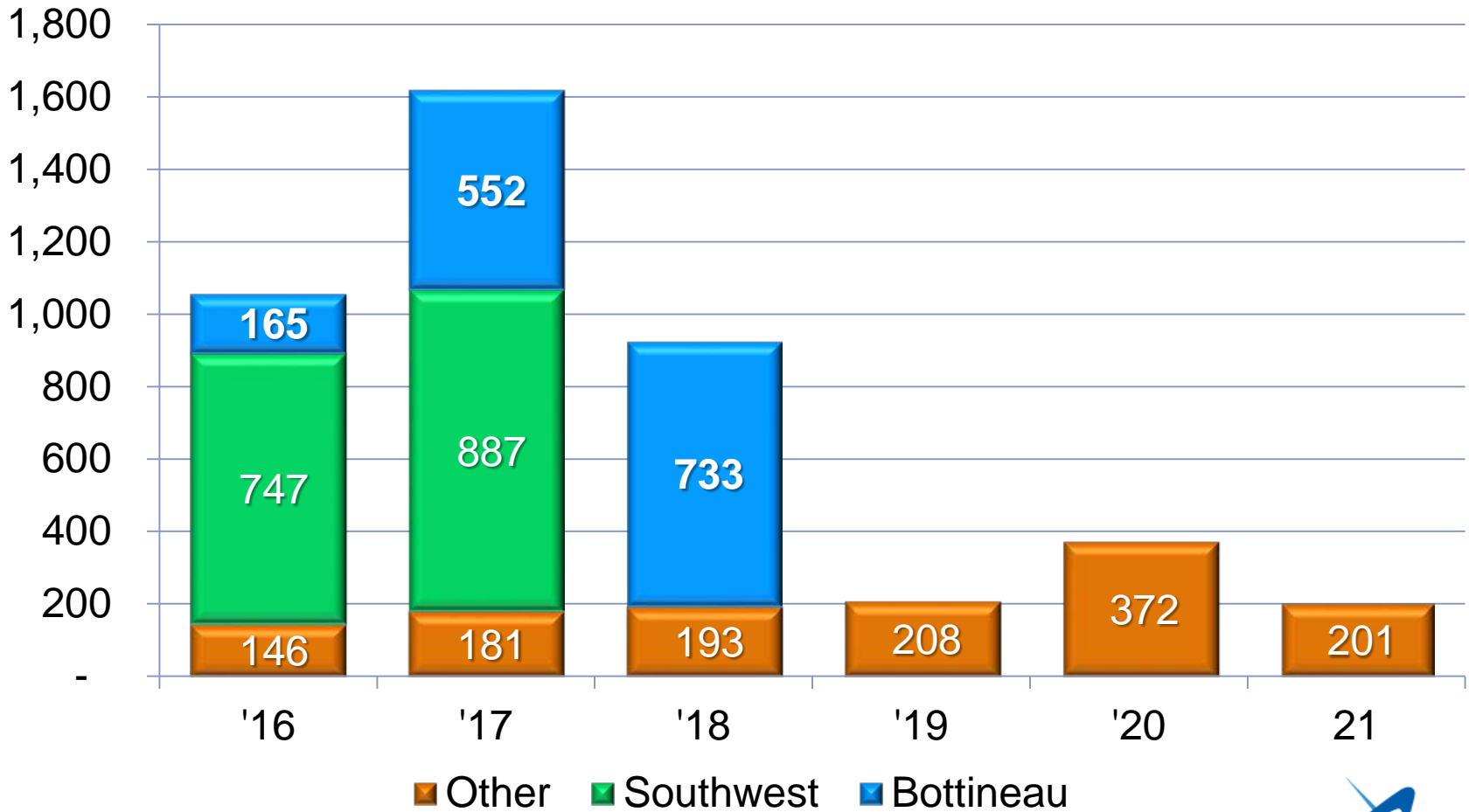


Unified Capital Improvement Program - \$3.6B

Excluding New Starts Transitway Projects



Unified Capital Improvement Program Planned Projects - \$4.3 Billion



Budget Development Schedule

Now	Committee Budget Discussions
Aug 10	Division Level Budget Presentation
Aug 24	Adopt Preliminary Budget and Levies
Oct 26	Public Comment Draft
Dec 14	Adopt Final Budget