

# **PRELIMINARY**

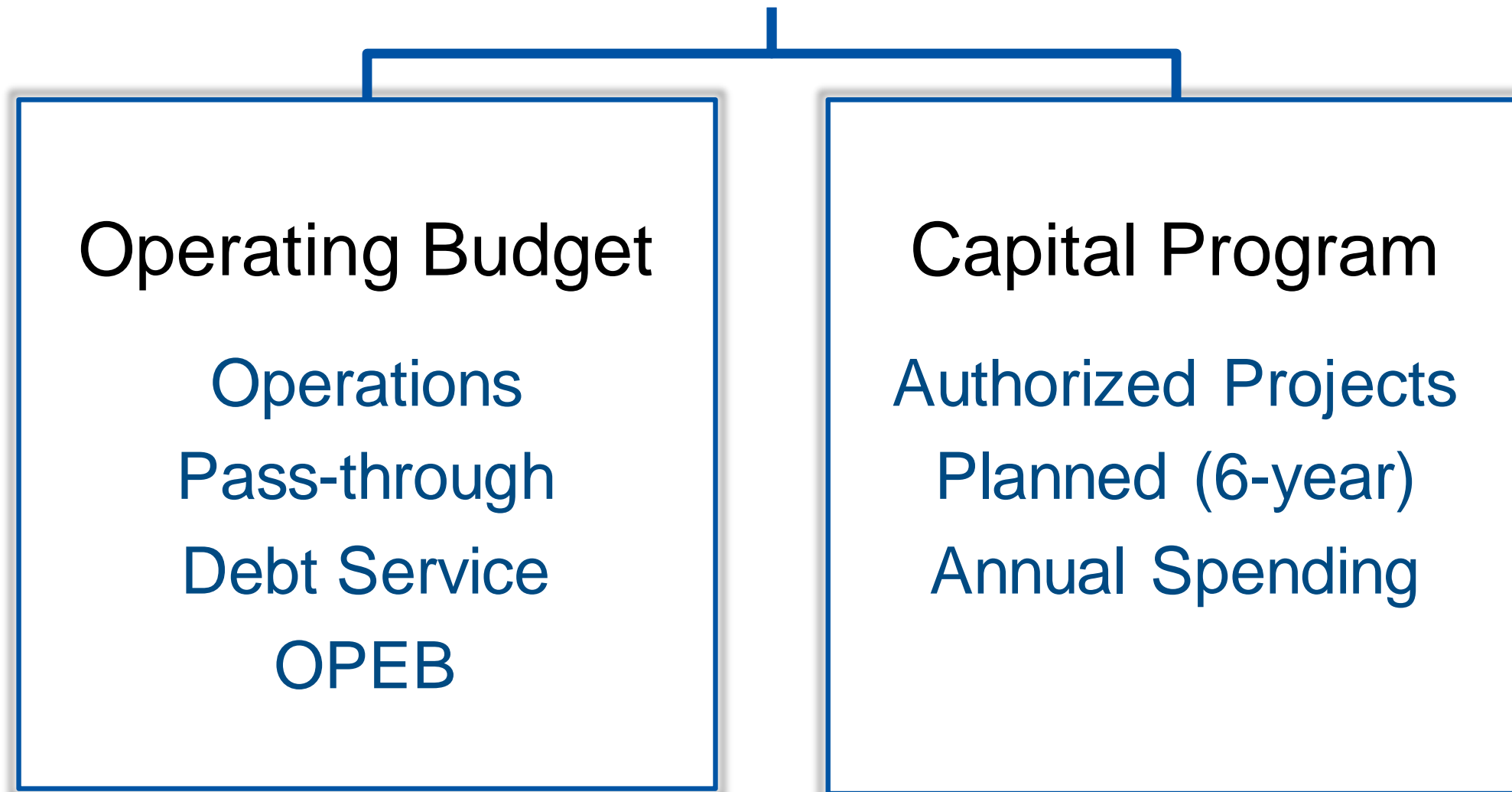
# **2021 Operating Budget & Levies**

Metropolitan Council – August 12, 2020



# Council Budget Development

## Unified Budget



May-July

Staff - Budget Development Activities

**Aug 26**  
(before Sept 1)

**Council - Adopt Preliminary Budget/Levies**

Oct 14

Council - Capital Program Presentation

Oct 28

Council - Adopt Public Comment Draft Budget

**Dec 09**  
(before Dec 20)

**Council - Adopt Final Budget/Levies**

# Budget Authority

## Minnesota Statute 473.125 Regional Administrator

“The regional administrator shall recommend to the council for adoption measures deemed necessary for efficient administration of the council, keep the council fully apprised of the financial condition of the council, and prepare and submit an annual budget to the council for approval.”

# Council Levy Authority

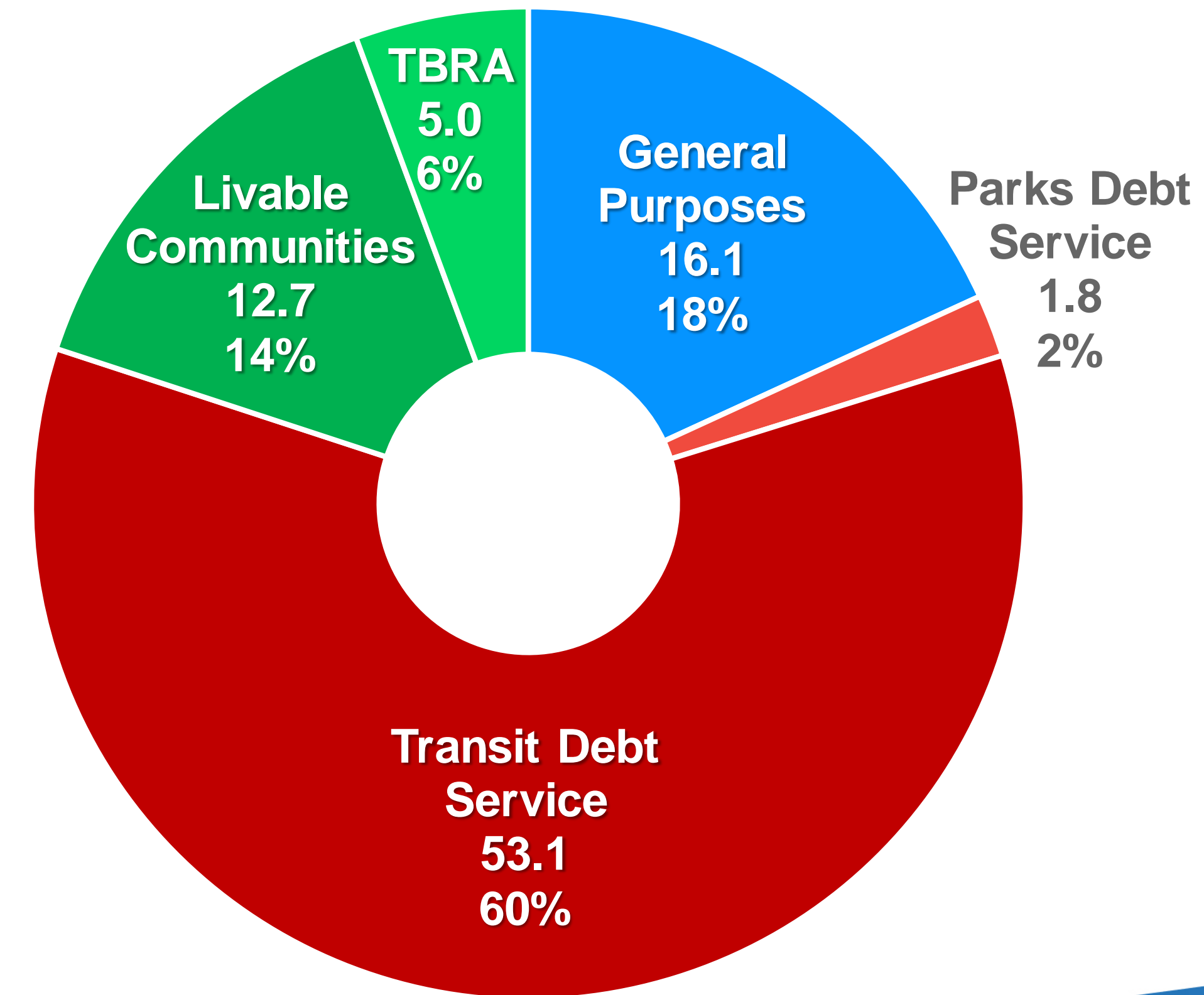
- Non-Debt Service Levy
  - Limited by state statute
  - General Purposes
  - Livable Communities – Development and Redevelopment grants to communities
  - Loans for acquisition of highway right-of-way
- Debt Service Levy
  - Levy is not capped, but bonding authority is limited
  - Parks and Transit debt service only
- Seven County Metro Region and Transit Capital Levy Communities

# Our Levy Strategy

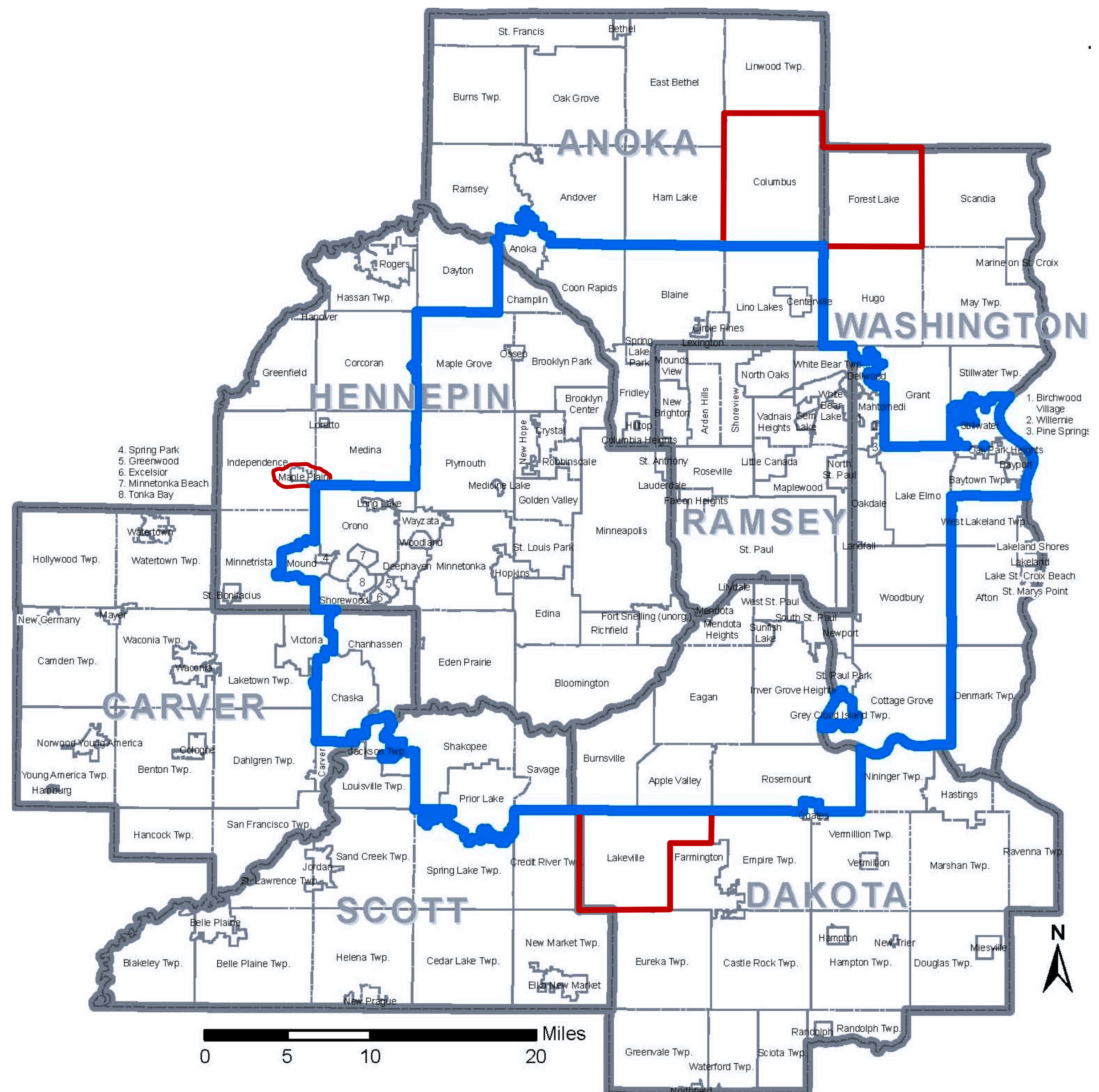
- Levy Givens:
  - Meet Transit and Parks Debt Service Needs
  - Statutory Fiscal Disparities Levy \$5M to Tax Base Revitalization Account
- Strategy Based Decisions:
  - Hold Total Levy Increase to 0% in 2021 (History was 2% Increase)
  - Maximize the Livable Communities Demonstration Account Levy to Create \$5M Transit Oriented Development Component within the Grant Program
  - Maximize General Purpose Levy
  - No Levy for Highway Right of Way Program  
(sufficient reserves)

# Proposed 2021 Property Tax Levies - \$88.7M

	Certified 2020	Proposed 2021	Pct Chg	Limit
<u>Non-Debt Service Levies</u>				
General Purposes	\$ 15.7	\$ 16.1	2.9%	\$ 16.1
Highway Right of Way	-	-		4.3
Livable Communities:				
- Demonstration Acct	12.3	12.7	2.9%	12.7
- Tax Base Revitalization	5.0	5.0	0.0%	5.0
<b>Total Non-Debt Levies</b>	<b>\$ 33.0</b>	<b>\$ 33.8</b>	<b>2.4%</b>	<b>\$ 38.1</b>
Levy as Pct of Limit		88.7%		
<u>Debt Service Levies</u>				
Parks	\$ -	\$ 1.8	100.0%	
Transit	55.8	53.1	-4.7%	
<b>Total Debt Levies</b>	<b>\$ 55.8</b>	<b>\$ 54.9</b>	<b>-1.5%</b>	
<b>Total All Levies</b>	<b>\$ 88.7</b>	<b>\$ 88.7</b>	<b>0.0%</b>	



# Metro Area and Transit Debt Service Levy



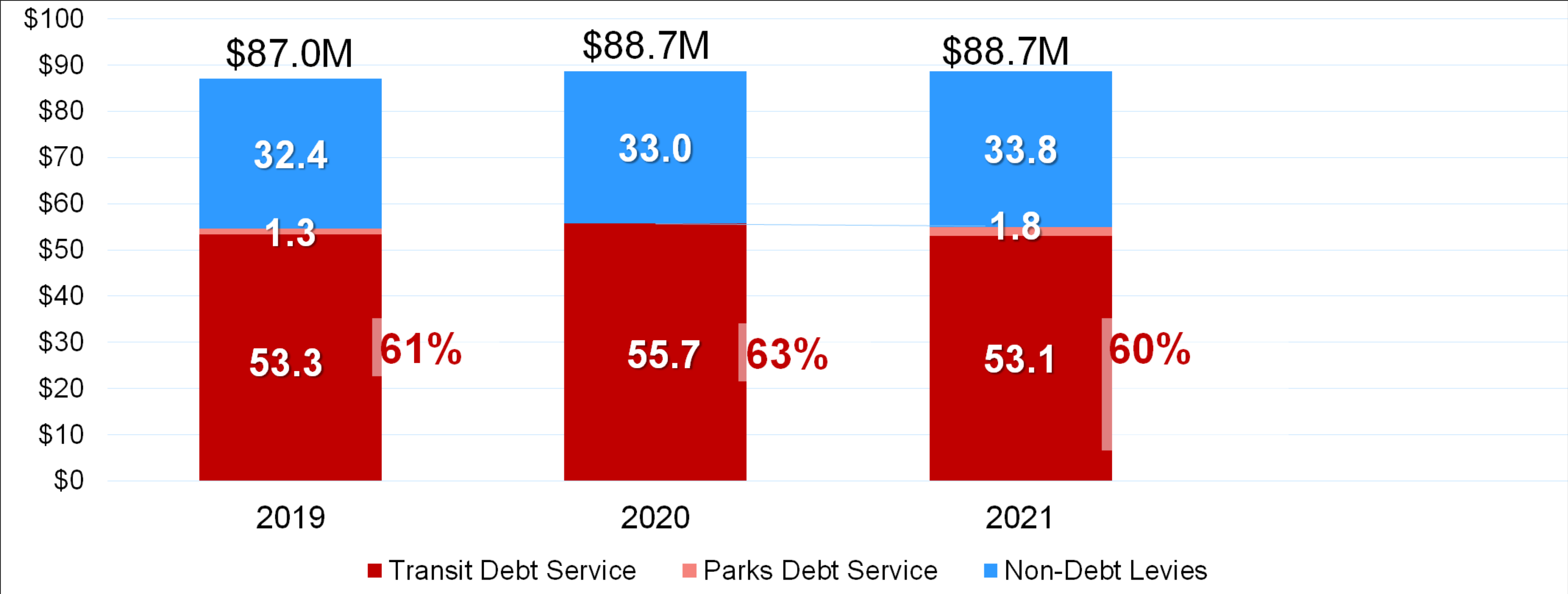
# Debt Service Levies

- Transit

- Legislature grants annual authority
- Success with inflation factor grows ~4.5%
- Outstanding Debt YE 2019- \$262M

- Parks

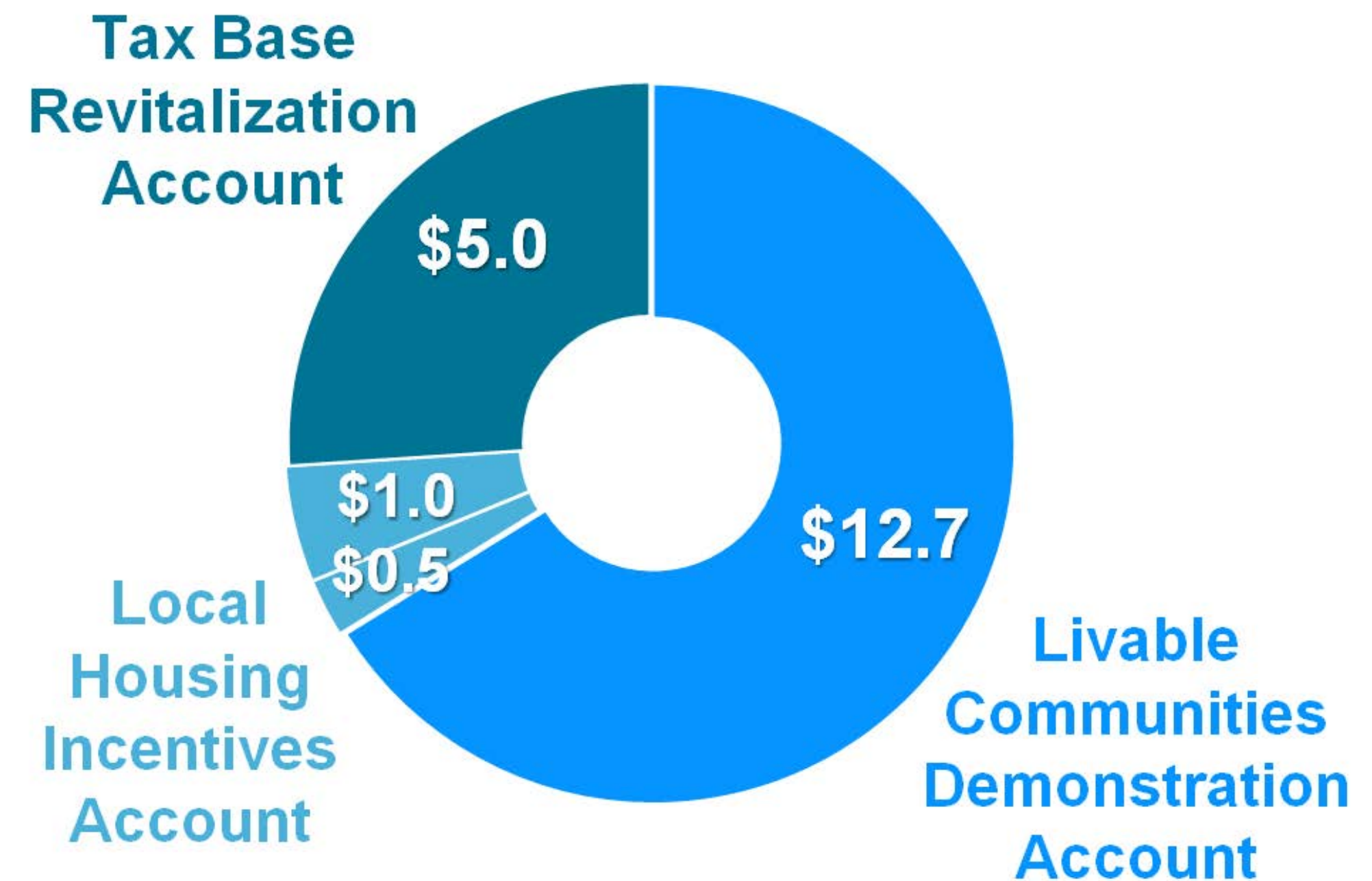
- \$40 M in Revolving Outstanding
- Historically Match State GO Bonds 3:2
- Outstanding Debt YE 2019 - \$1.2M





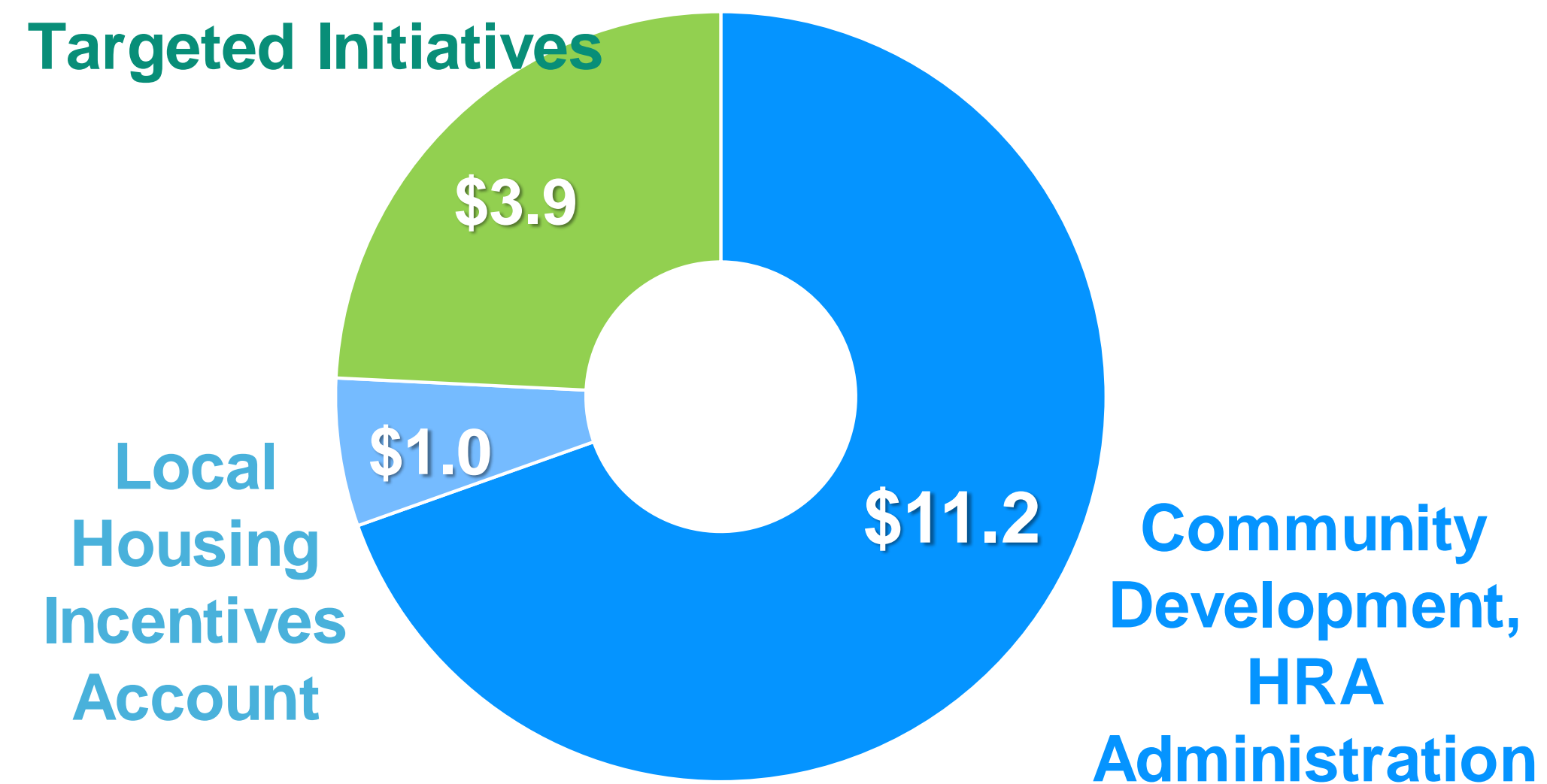
# Livable Communities Levies (Grant Programs)

- Tax Base Revitalization Account Levy
  - \$5M annually from regional fiscal disparities pool
  - Clean up polluted land in the metropolitan area
- Livable Communities Demonstration Account
  - \$12.7M proposed levy for 2021
  - Strategy: Grow to accommodate TOD Component
  - Limitation: Capped by implicit price deflator at 2.9%
- Local Housing Incentives Account
  - Statutory transfer from LCDA (\$0.5M) and General Purposes Levy (\$1.0M)



# General Purposes Levy - \$16.1M

- Most Flexible Use Levy Funding
  - Carry out Council responsibilities as provided in law
- Primary Uses
  - Community Development Administration
  - Statutory Transfer to Local Housing Incentive Account (\$1M)
- Targeted Initiatives
  - One-Time
  - Pilot or Bridge to other funding sources



# Advancing Equity in the Region - \$3.9M



## Use of General-Purpose Levy - Equity Investments

- 1) Housing Security
- 2) Transportation
- 3) Climate
- 4) Housing Affordability

# Impact on the Taxpayer



\$250,000  
Market Value

## Transit Tax Communities

<u>Inside</u>	<u>Outside</u>
---------------	----------------

\$49.42

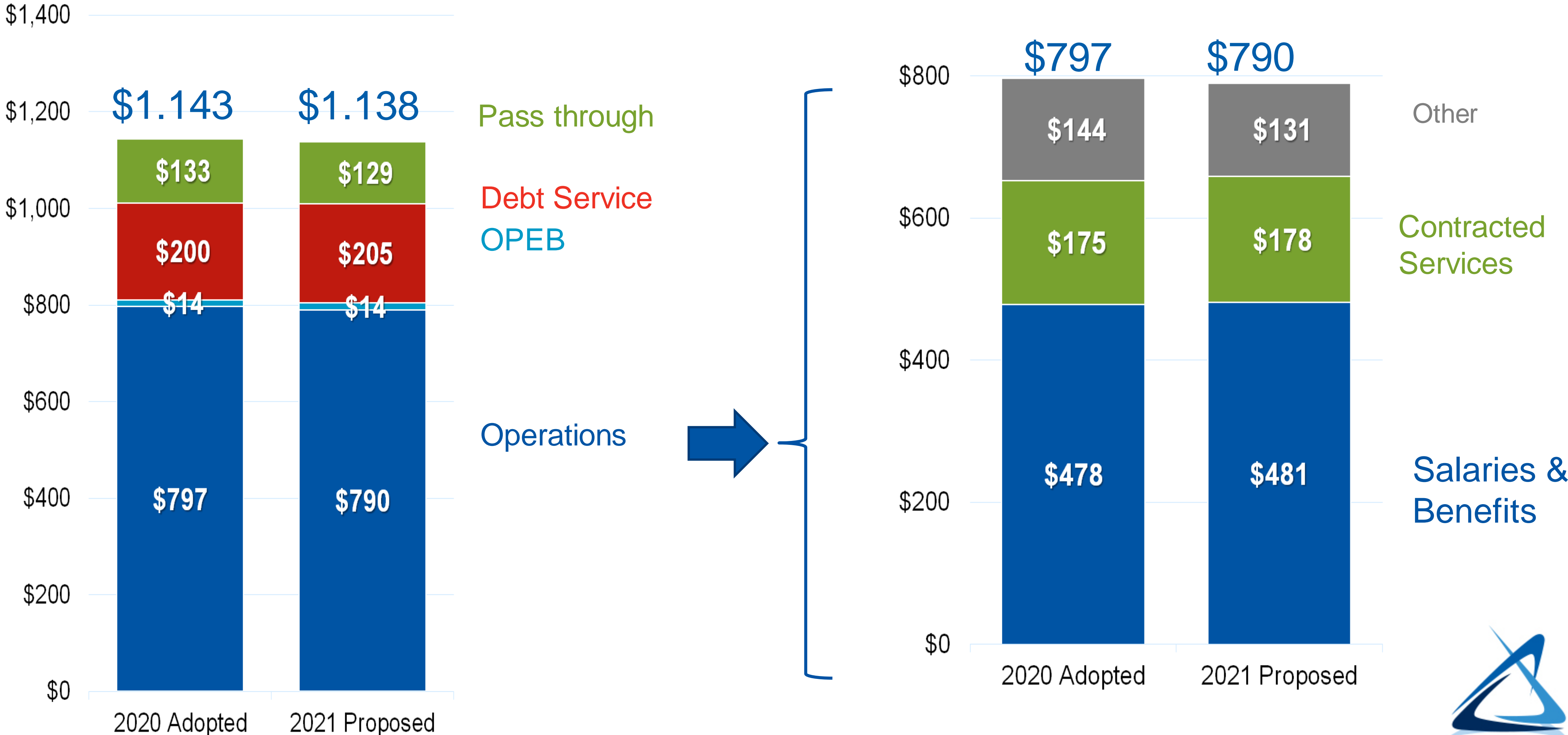
\$16.63

# Impact on the Taxpayer



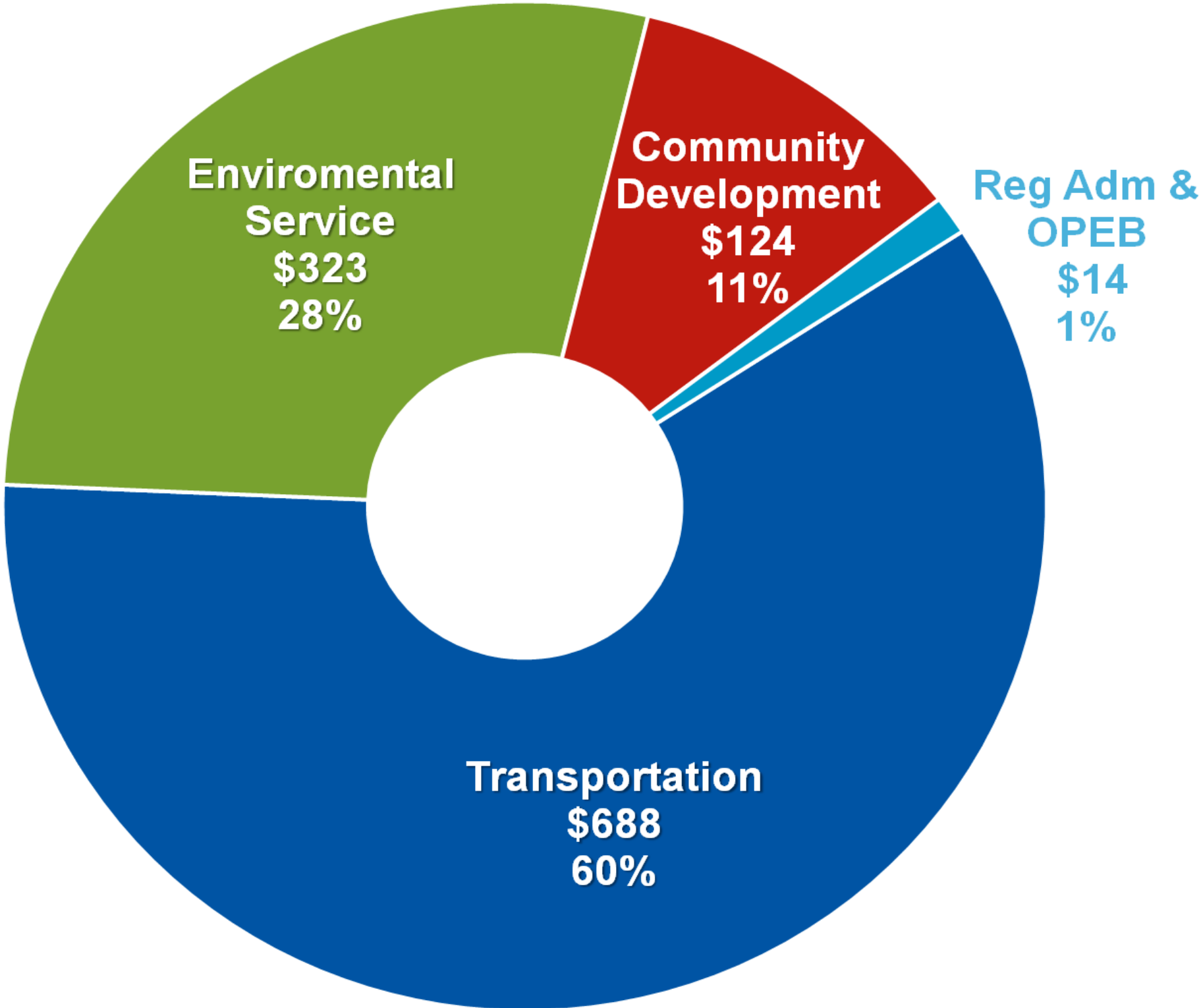
# Proposed 2021 Operating Budget

# Proposed Operating Budget - \$1.2 Billion

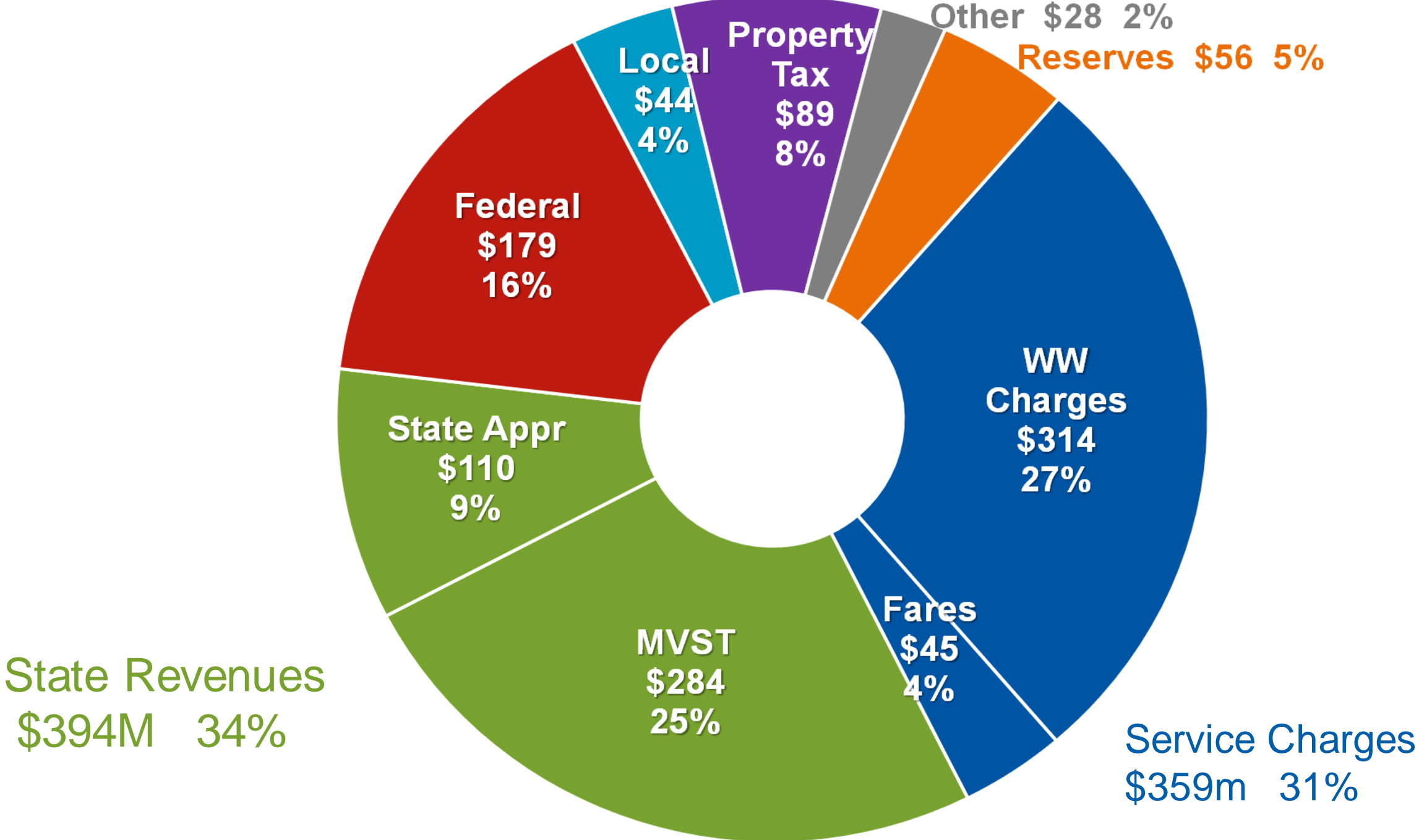


# Proposed Budget \$1.2B

Uses by Division



Sources of Funds





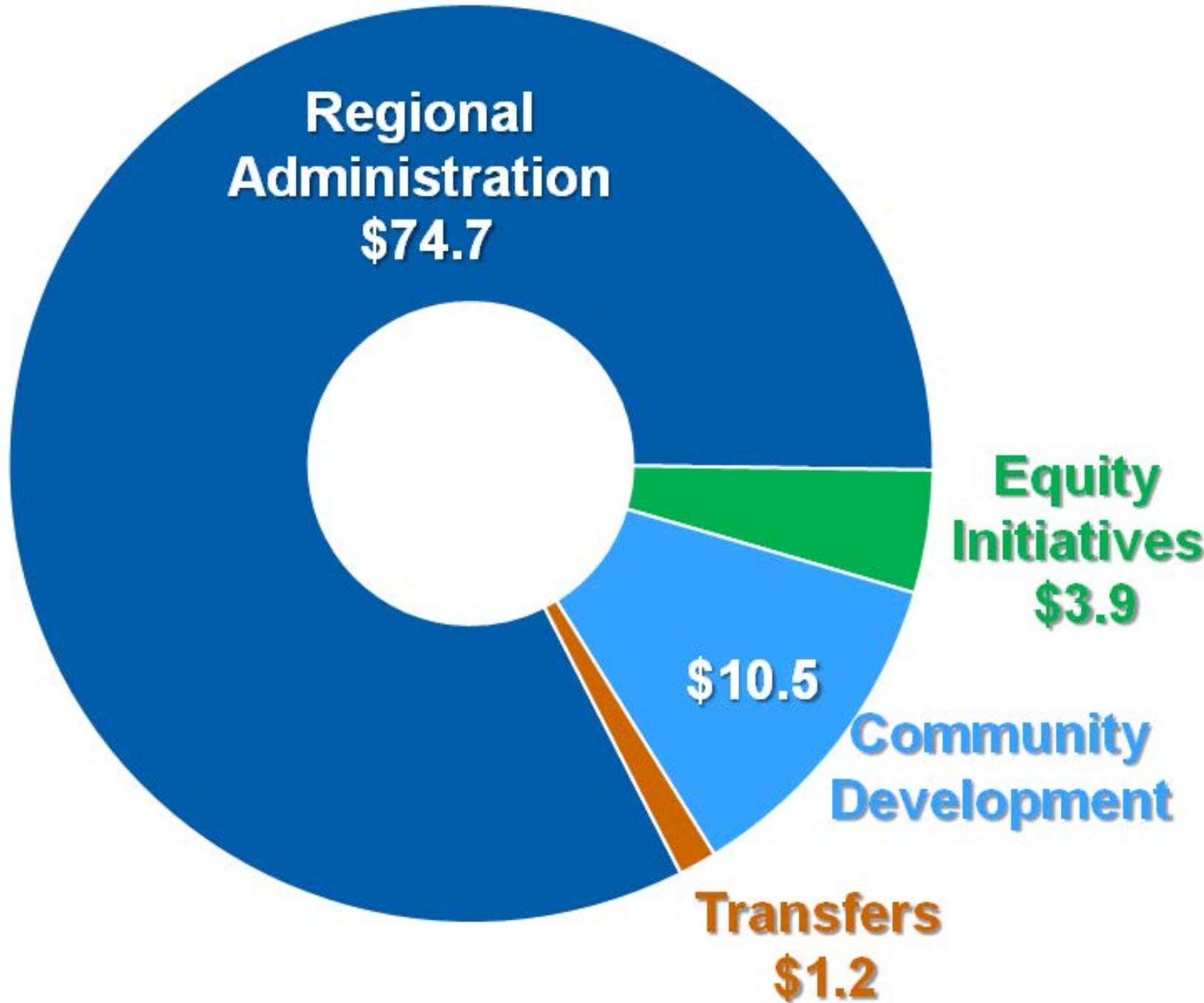
# General Fund Operations

# General Fund Operations - \$90.3 M

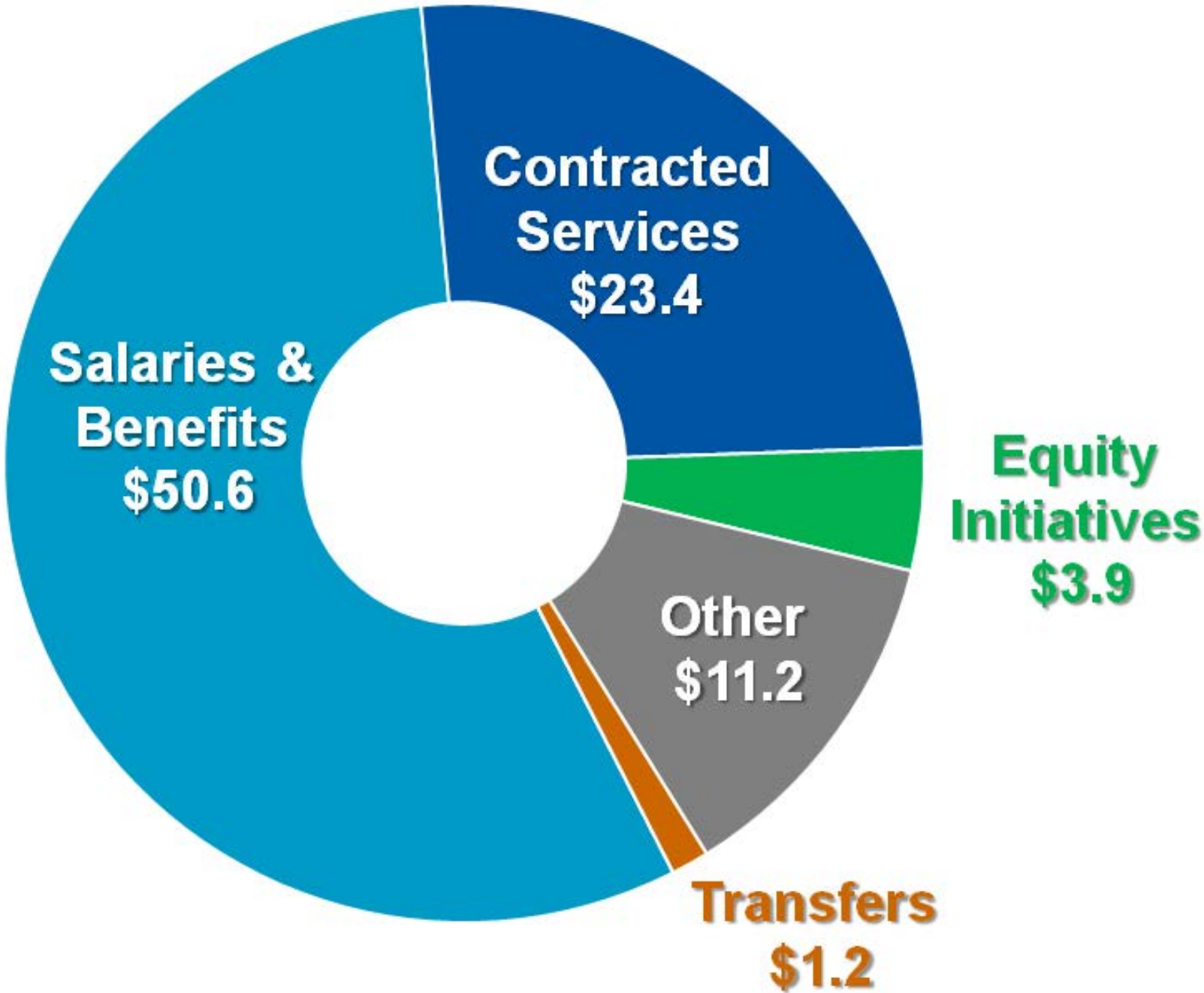
## Sources

GP Levy	\$15.3
RA Allocations	74.2
Other	.8
	<b>\$90.3</b>

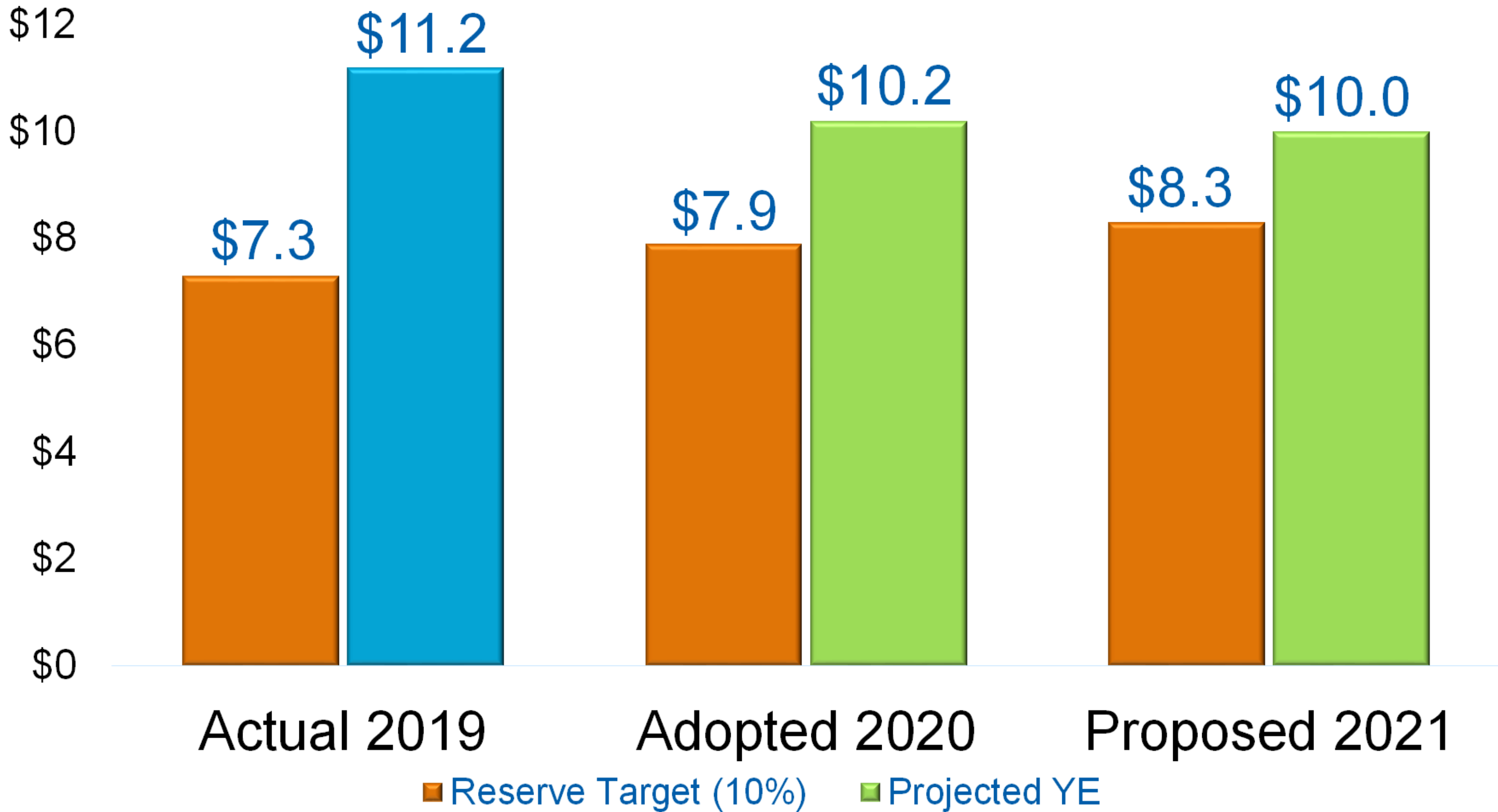
## Uses by Department



## Uses by Category



# General Fund Unassigned Operating Reserve

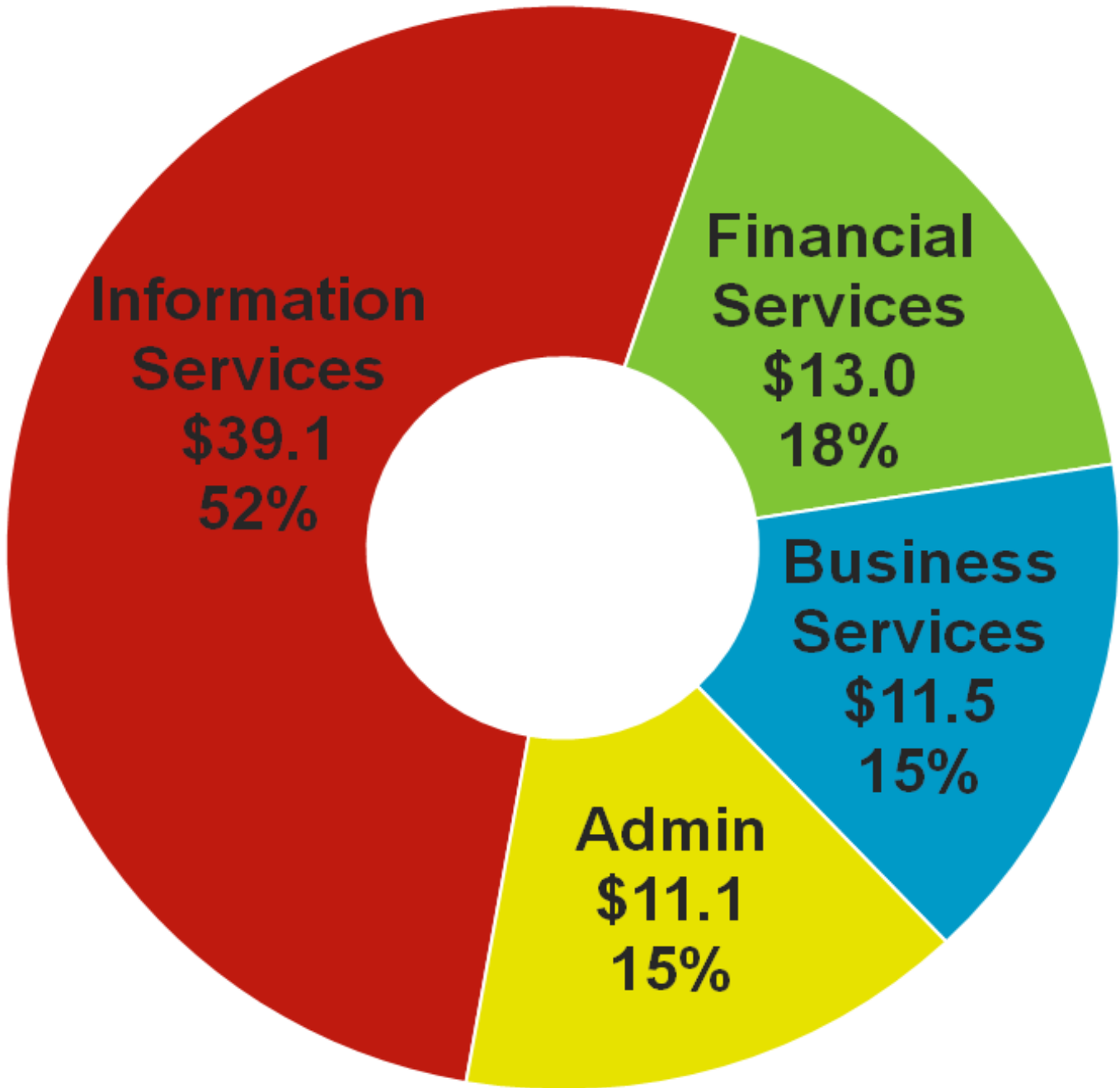


# Regional Administration - \$74.7M

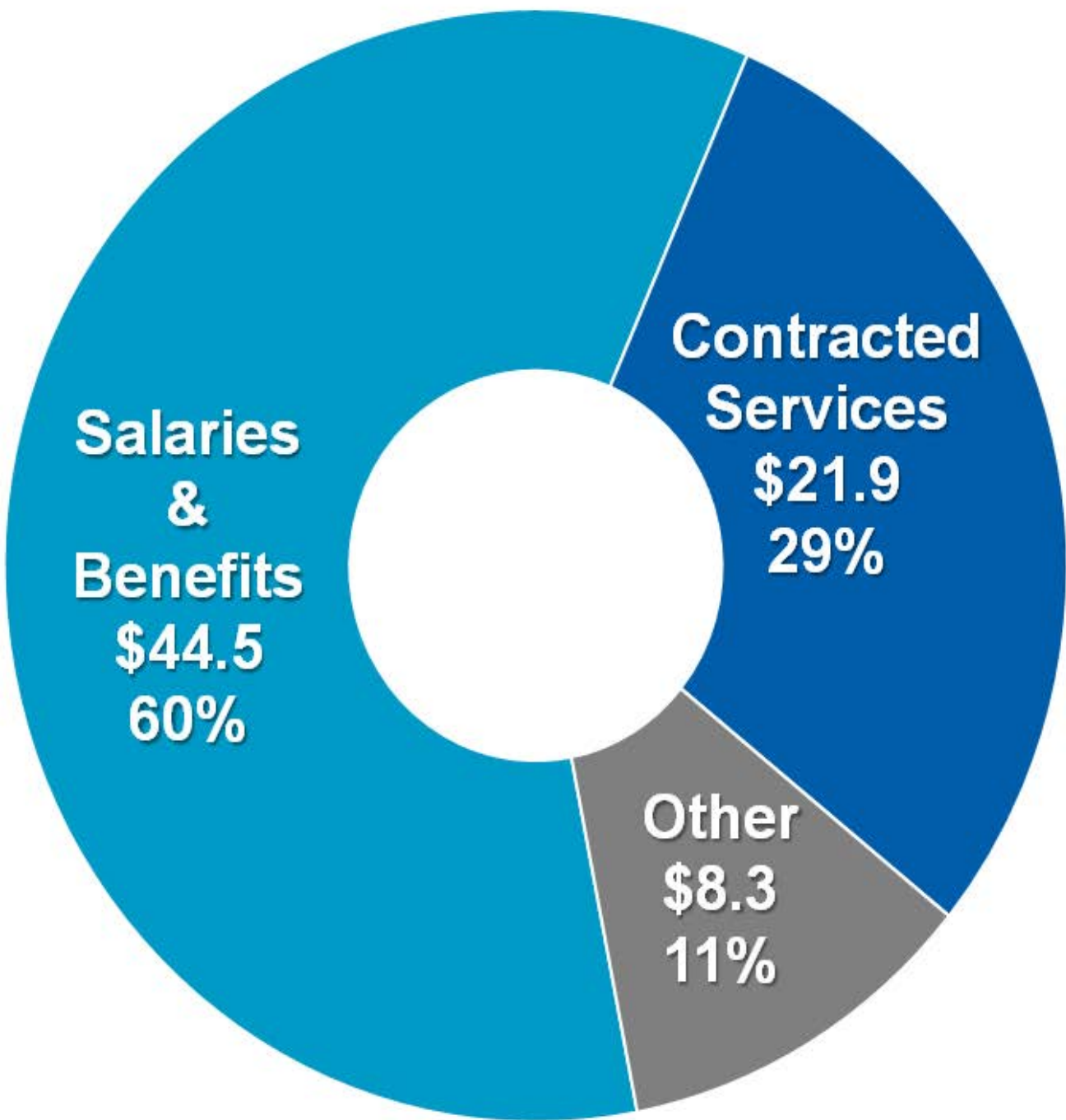
Sources

RA Allocations	\$74.0
Other Revenue	.7
	\$74.7

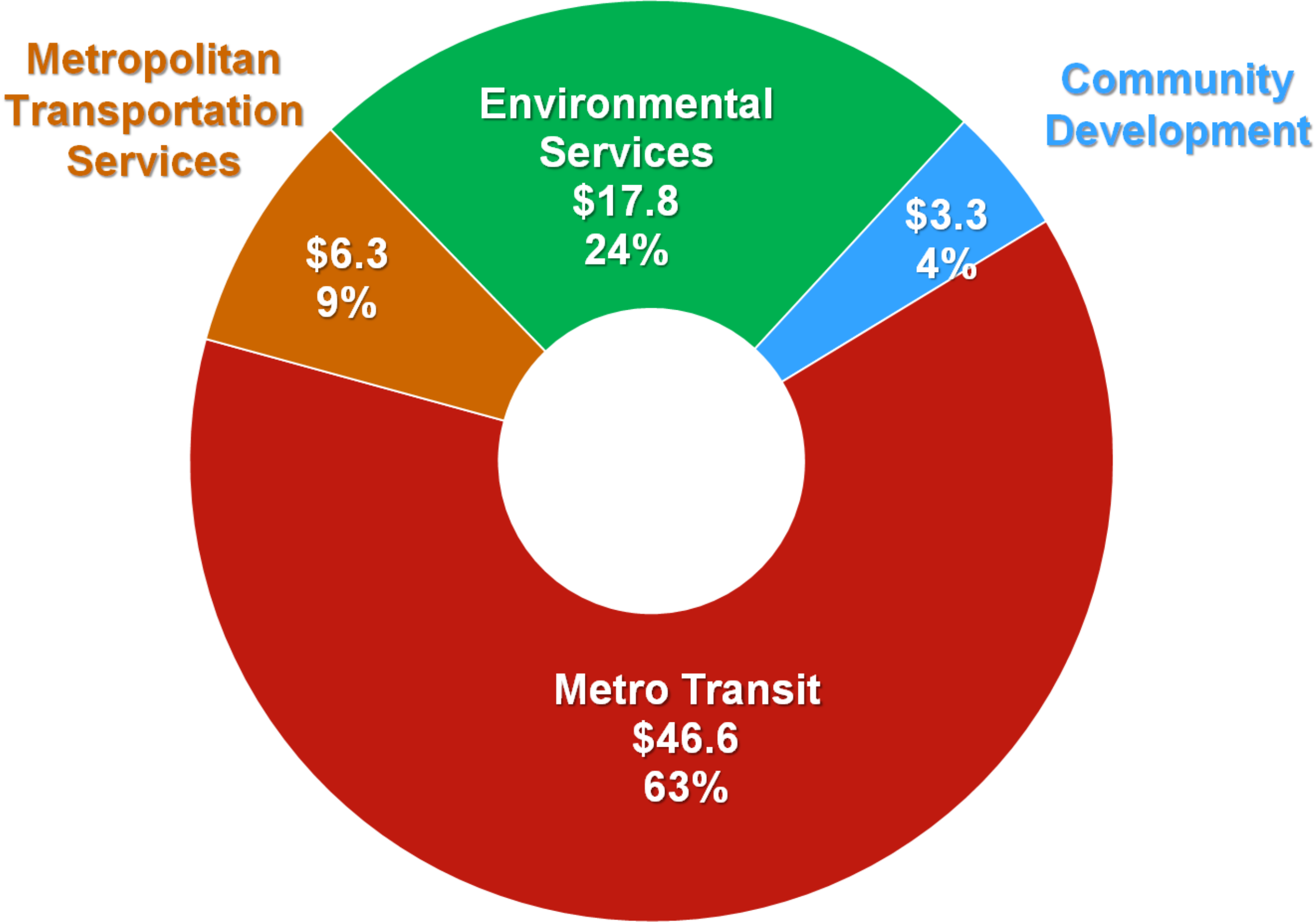
Uses by Department



Uses by Category



# RA Interdivisional Allocation - \$74 M



# Community Development

# Community Development Division



Provide coordinated planning and policy to guide the growth and development of the region.



Deliver state and federally funded rent assistance to create and provide affordable housing for low-income households.



Partner with regional park implementing agencies to plan for and fund the Regional Parks System.



Provide Livable Communities Act grants to help clean up polluted sites, expand housing choices, and build developments that connect housing, jobs, and services.



Provide technical assistance to local governments to implement region policy in their local plans.



Identify, analyze, and report on issues of regional importance.



Facilitate community collaboration.

# Advancing Equity

## HRA Passthrough

Policy & Admin Plans

Community Choice Program

Mainstream Voucher

Project Based Vouchers

## Grant Programs

Housing & Parks Policy Plans

Investment Strategies

Scoring Criteria

Outreach & Engagement

## Annual Workplan

Strategic Initiatives

Investment in Place Strategies

Equity Change Team

Outreach & Engagement

## Contracts & Consulting

Strategic Initiatives

MCUB

Council Actions



# COVID Summary

## Increasing\*

HUD Admin Revenue  
HUD Voucher Revenue  
Overhead Expenses (some areas)  
Average Housing Payments  
Encampment Expenses  
COVID-19 Staff Work

## Decreasing\*

SFY21 Legacy Revenue  
Consulting Projects Delayed  
Salary (soft hiring freeze)

## Monitoring / Holding Steady

Property Tax Revenues  
Fiscal Disparities Revenue  
Lottery-in-Lieu Revenue  
New State Appropriations  
New Federal Appropriations

\*Documented and anticipated impacts

# Metro HRA Structural Deficit



## Housing & Employment Trends

- Rising rents
- Low vacancy rates
- Rising unemployment rates due to COVID-19

## Federal Appropriations

- Lag in timing
- Proration doesn't cover costs: Council costs increasing even higher than previous years due to families making less



# Preliminary HRA



**Tenant Education Workshops**

Tenant Education Workshops  
provided by  
**The Metropolitan Council  
Community Choice Program**

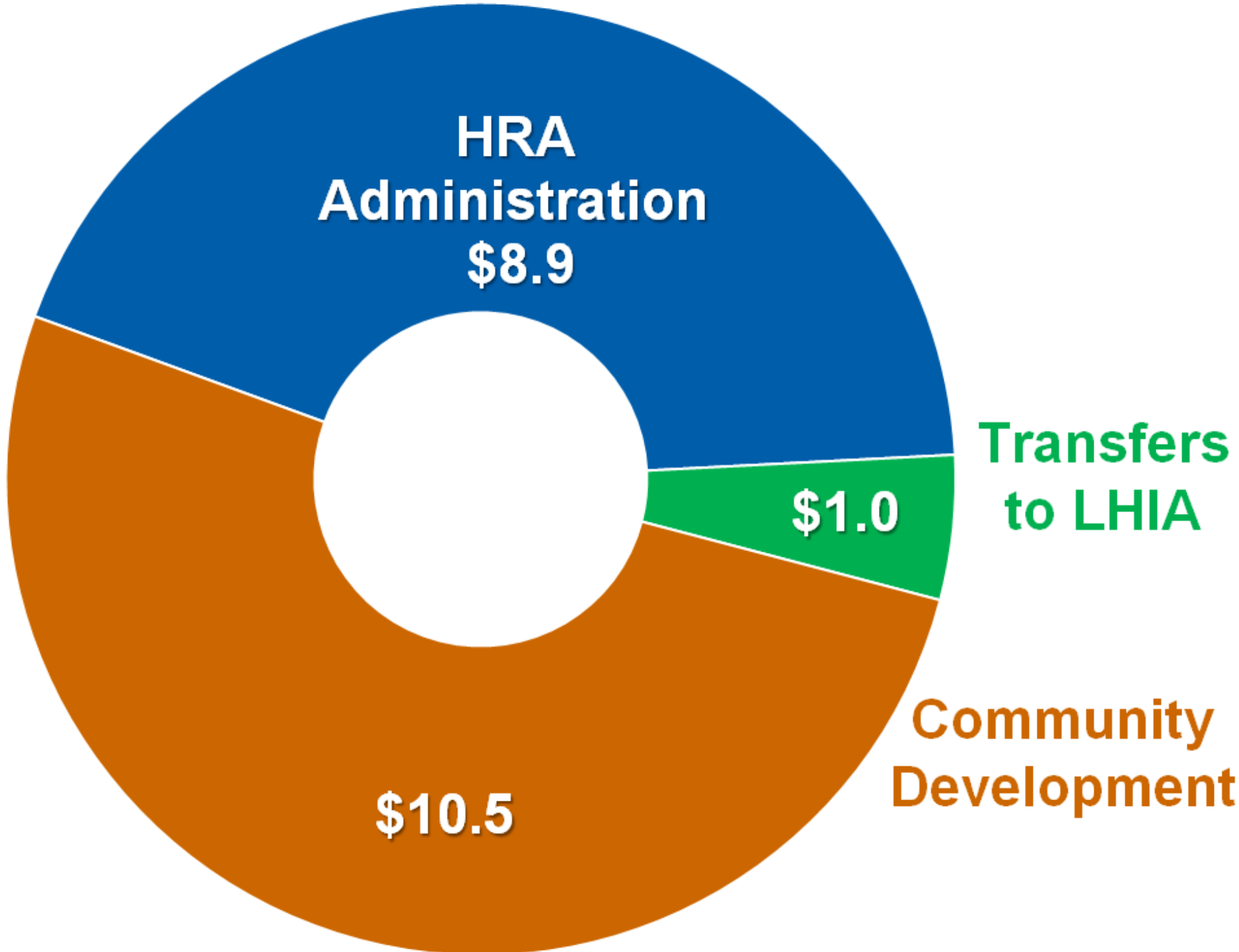
• We will learn about •

- Tenant Rights and Responsibilities
- Budgeting
- Effective Communication Skills
- Savings Plans
- Housing Search
- Application Process
- Debt and Credit
- Understanding Your Lease
- Repair Request
- Assets
- Home Maintenance and Housekeeping
- Fair Housing
- Home Ownership
- Security Deposits
- Building Wealth and more!

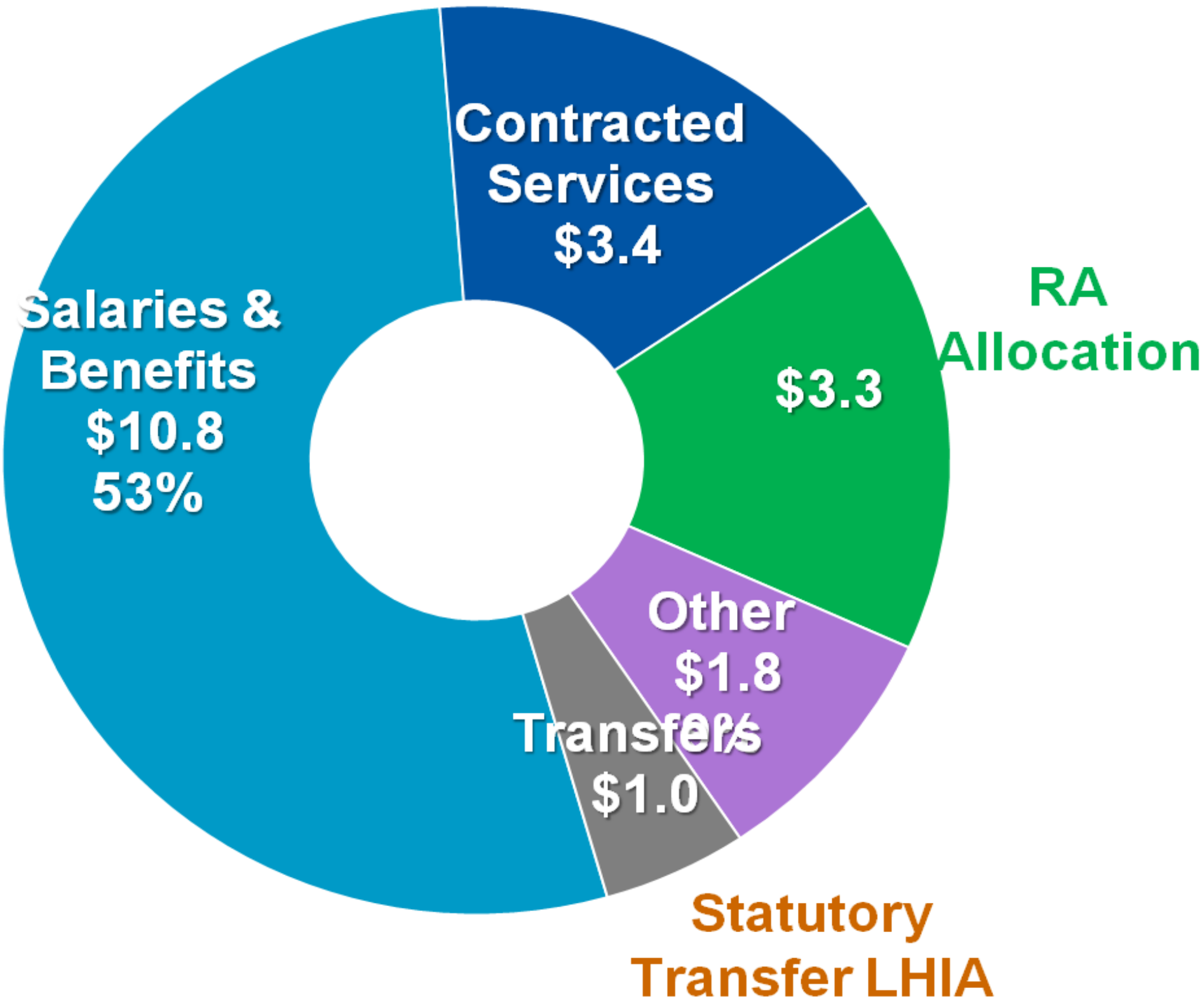
- Unknowns
  - Fair Market Rent
  - Federal Funding
  - COVID-19 Impacts on Average Housing Assistance Payments
- Future Council Actions (fall 2020)
  - Rent Standards
  - Utility Allowance
  - Community Choice
  - Program Size

# Community Development Operations- \$21 M

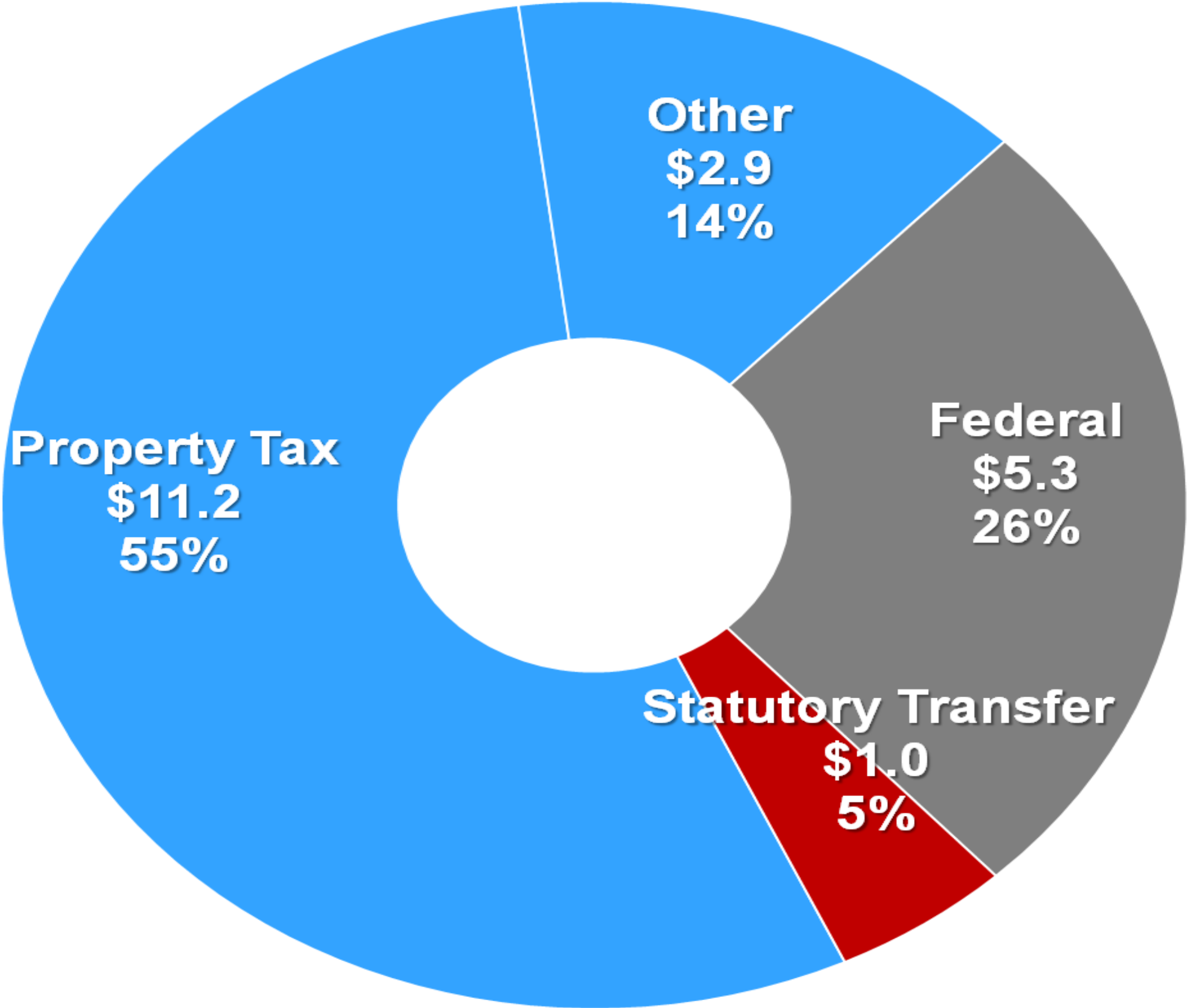
Uses by Department



Uses by Category

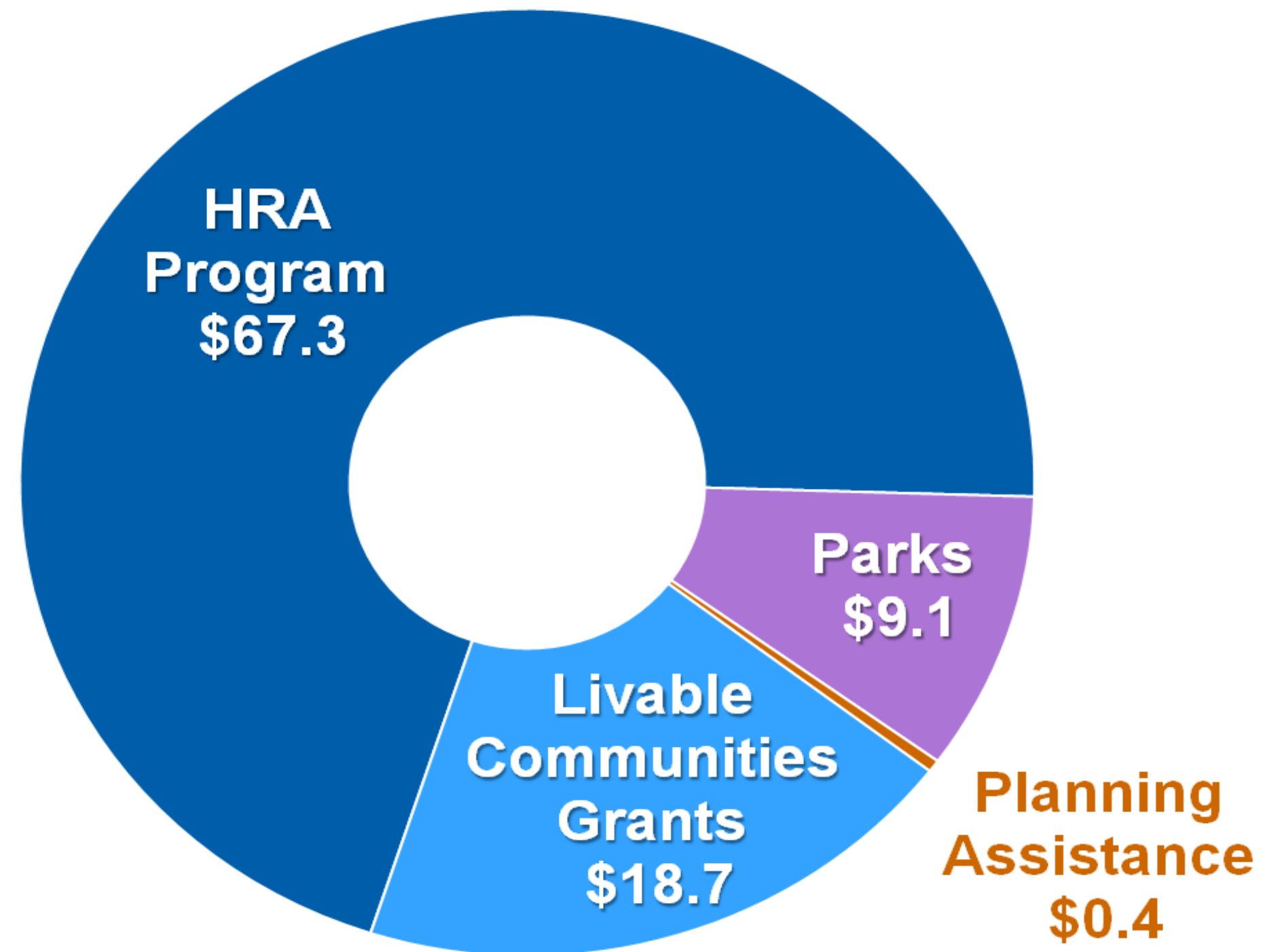


# Community Development Sources - \$21 M

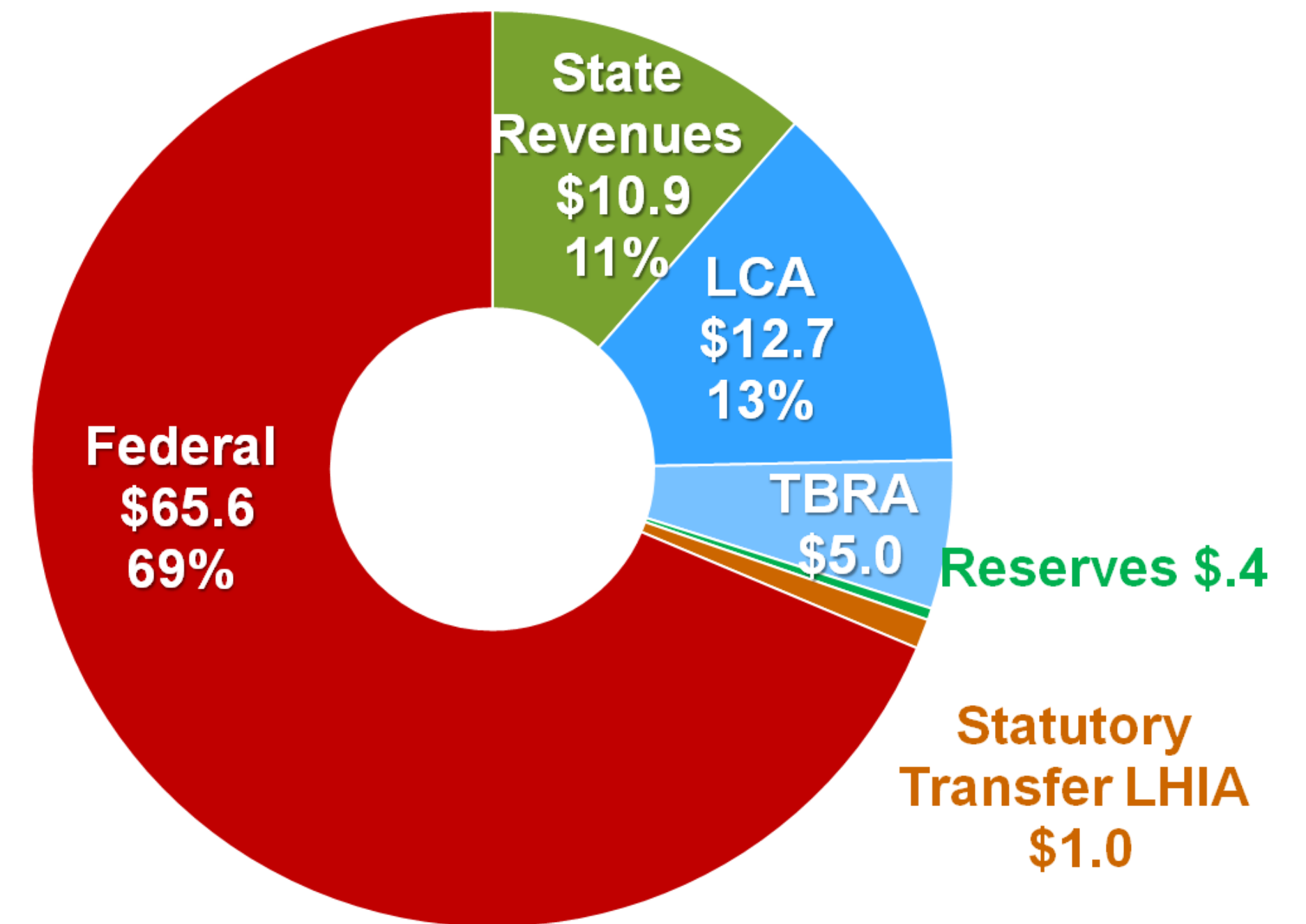


# Community Development Passthrough - \$95 M

Uses by Department



Sources by Category



# Environmental Services



METROPOLITAN  
COUNCIL



# Metropolitan Council Environmental Services



**Protect public health**



**Protect the environment**



**Foster economical growth of the region**





# Service Area and Facilities

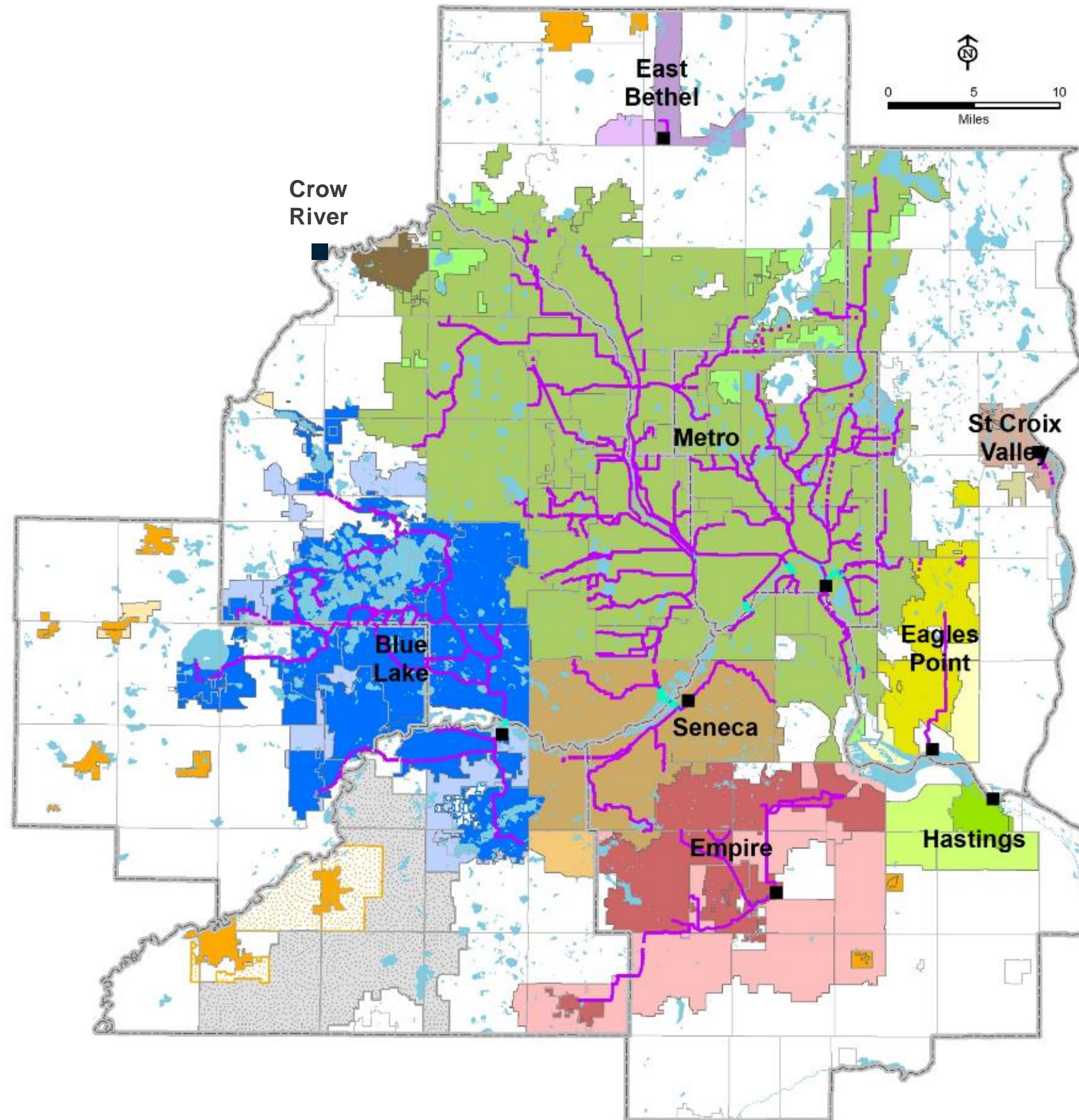


We serve ~50% of Minnesota's population

## Service Areas

- Blue Lake
- Eagles Point
- East Bethel
- Empire
- Hastings
- Metro
- Seneca
- St. Croix Valley
- Crow River

## Interceptors



## WHO WE SERVE

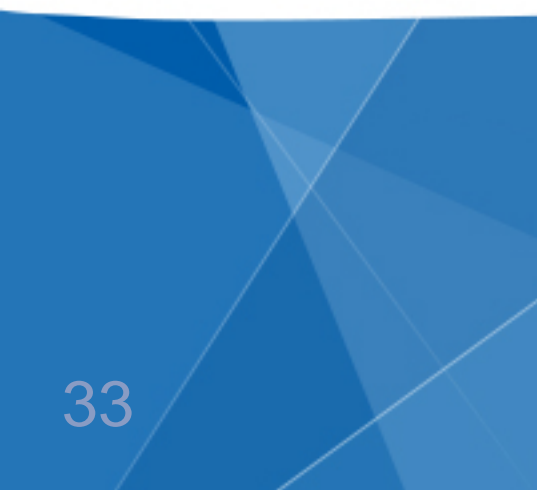
- 7-county Twin Cities Metro Area
- 110 communities
- 3,000 square miles
- 2,600,000+ people

## OUR FACILITIES

- 9 wastewater treatment plants
- 610 miles of interceptors
- 61 pump stations
- 250 million gallons per day (avg)

## OUR ORGANIZATION

- 600+ employees
- \$7 billion in valued assets
- \$140 million per year capital program
- \$311 million annual operating budget



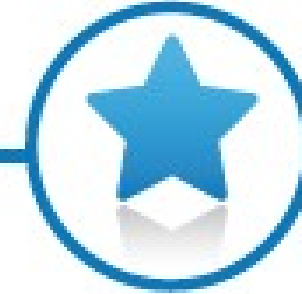
# Preserving our Customer Level of Service in COVID

## Customer Level of Service

### FINANCIAL



CHARGES & FEES



RETAIN AAA  
BOND RATING



OPTIMIZE BUDGET  
PLAN



PRESERVE ASSETS



BE FAIR AND  
TRANSPARENT

- *Charges and Fees:* Lowered 2021 MWC increase to 2%
- *Retain AAA Rating:* AAA Bond Rating in May
- *Optimize Budget:* Completed \$80M Bond offering at 1.65%
- *Fair/Transparent:* Quickly pivoted forums to webinars (record attendance!)

# Preserving our Customer Level of Service in COVID

## Customer Level of Service

- *Compliance:* Regulatory performance! (next slide)
- *Compliance:* Maintaining compliance by keeping employees COVID-free

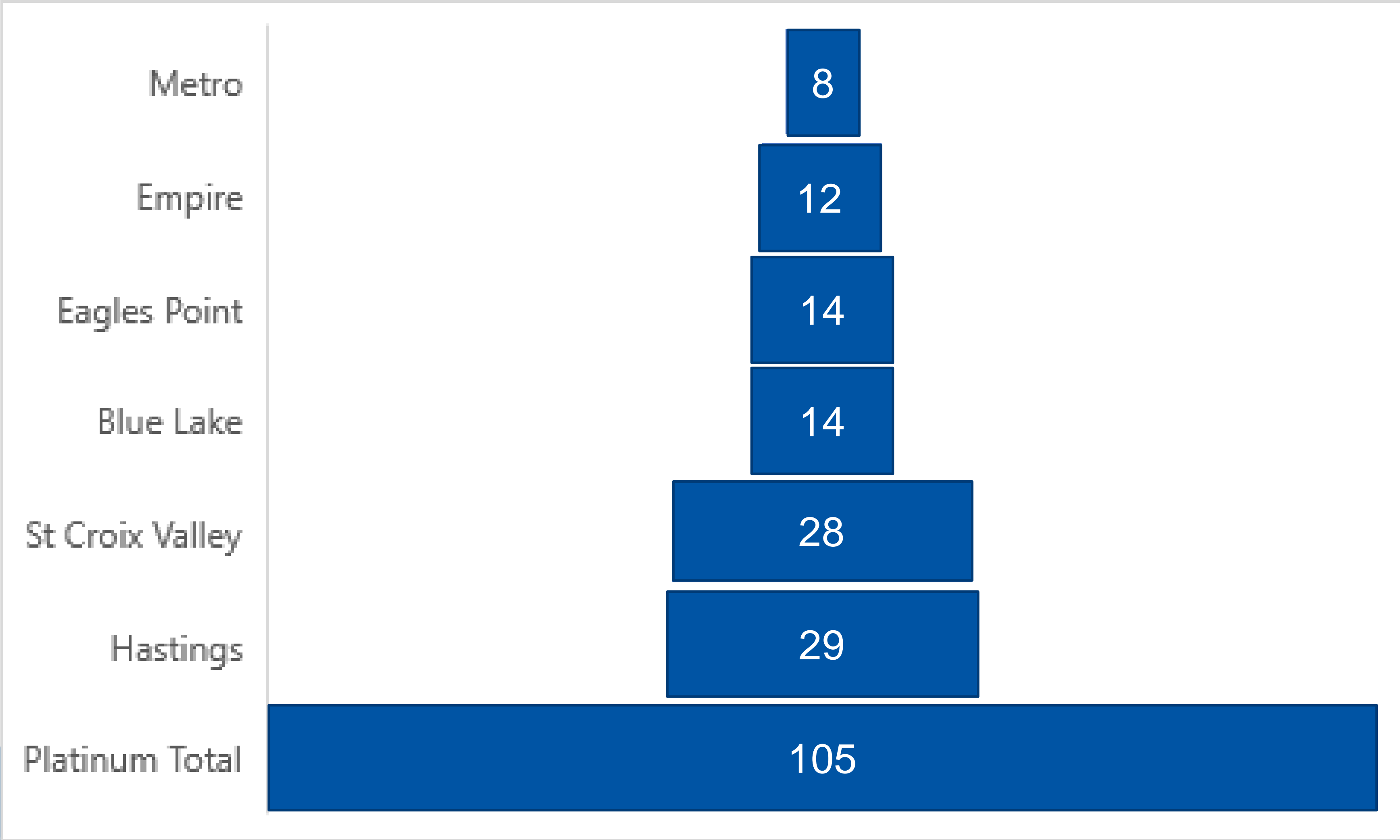


- *Lead:* Equity presentation to EPA
- *Lead:* RETOC\* Affordability Heatmap

\*RETOC = Racial Equity Theory of Change: A partnership with OEO to examine wastewater affordability and remedies in the region

# Exceptional Regulatory Performance through 2019

## Years of National Association of Clean Water Agencies (NACWA) Platinum Compliance



# Preserving our Customer Level of Service in COVID

## Customer Level of Service

- *Good Neighbor:* Odor Control program
- *Engage:* May MWC estimates and Budget Webinars
- *Collaborate:* Partnership with cities on Outdoor Seating SAC under Governor's Order





# Financial Level of Service

## The 4% Promise –became the 2% COVID Promise



MCES has committed to our customers that

**aggregate of municipal wastewater charges will not increase more than 4% annually** through 2022

**2021 will be lower to respond to budget concerns of our customers**

### Optimizing Budget

- Facility teams
- Planning & scheduling office
- Energy effects
- Technology

### Improve customer understanding

Improve customer understanding of fees by providing detailed information early and holding workshops

### CIP program structure

Structure Capital Improvement Program to even out peaks

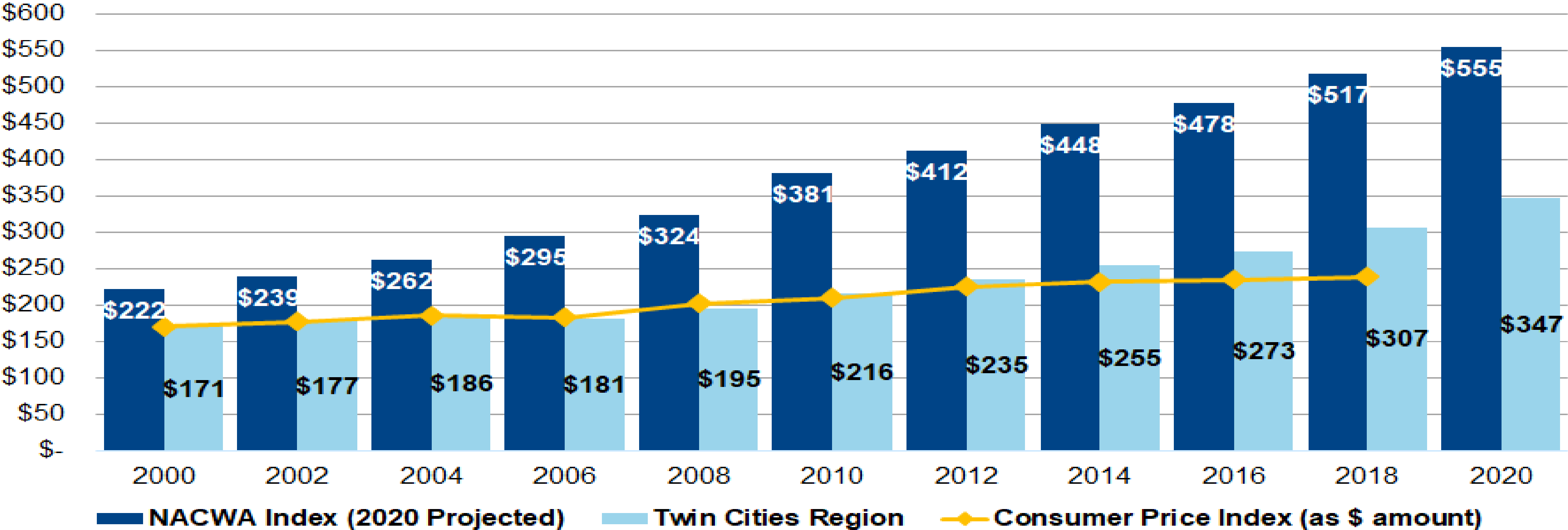
# Operating Budget Highlights

- **Municipal Wastewater Charge: +2.0%**
  - 2021 = \$240.3M (\$4.7M higher than 2020)
  - \$2.75 annual increase per REC (residential equivalent connection)
- **Sewer Access Charge: No Change**
  - \$2,485 per SAC (flat since 2014)
  - Total FY21 transfer = \$57.8M (includes \$7.5M for PAYGO\*)
- **Industrial Waste Strength Charge: +2.4%**
- **Industrial Waste Permit Fees: +2.0%**

\*PAYGO = Pay As You Go (Using operating funds for capital projects)

# Annual Retail Sewer Charge per Household

Average Annual Service Charge per Household, 2000-2018



Source: NACWA 2019 Cost of Clean Water Index, and 2020 MCES Rate Survey



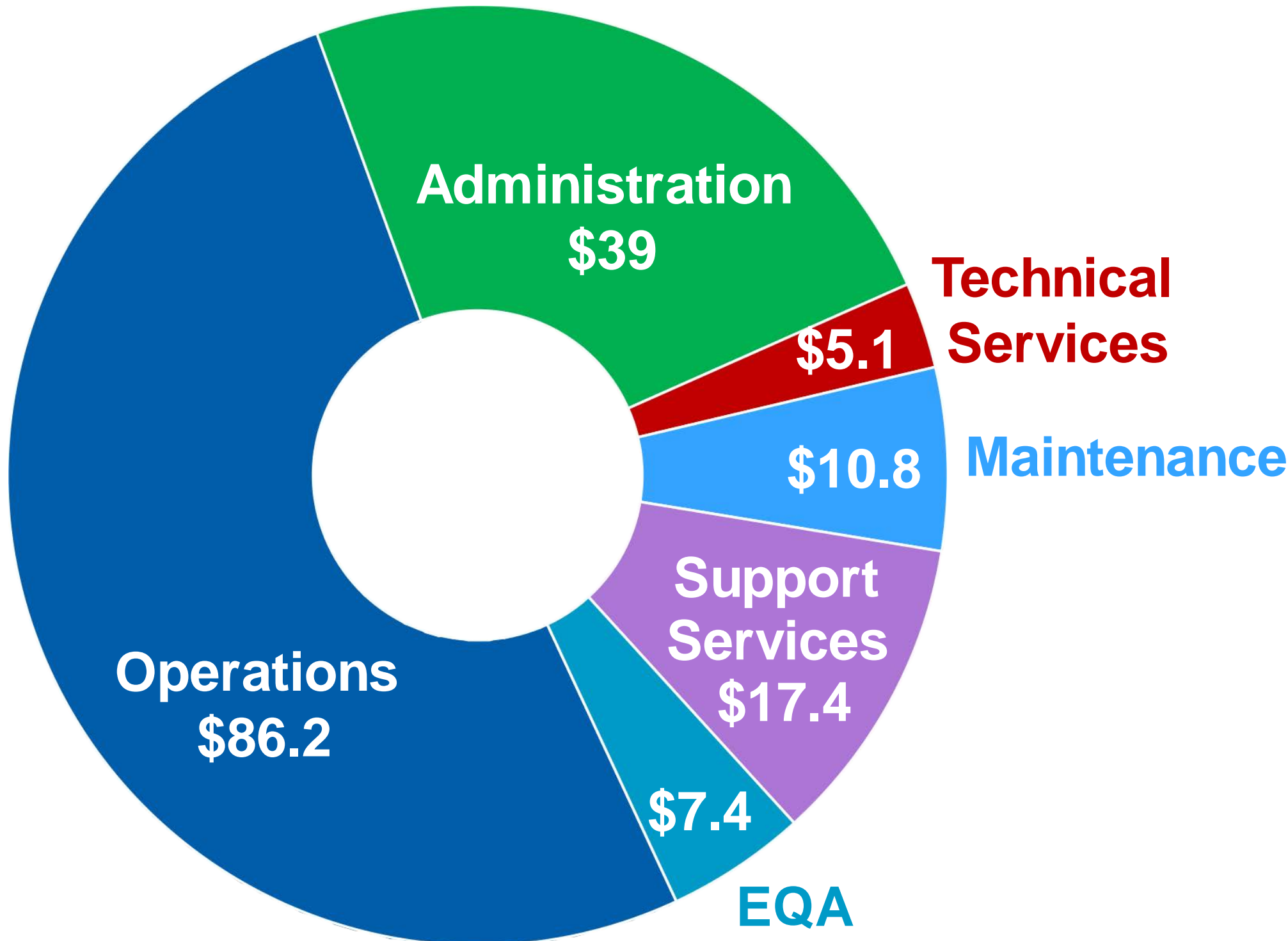


# 5 Year Municipal Wastewater Charge Projection

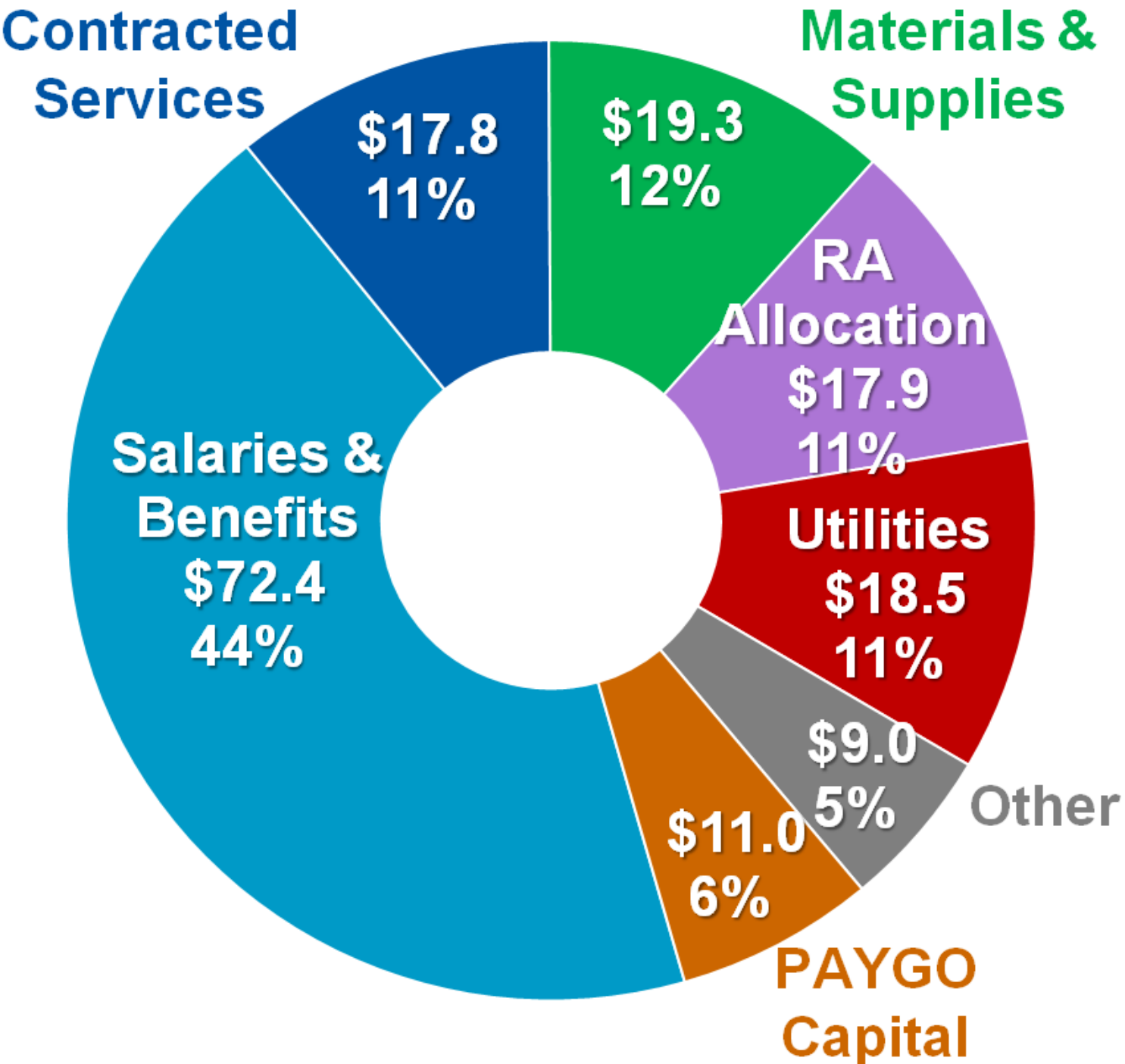


# Environmental Services Operations - \$166 M

Uses by Department



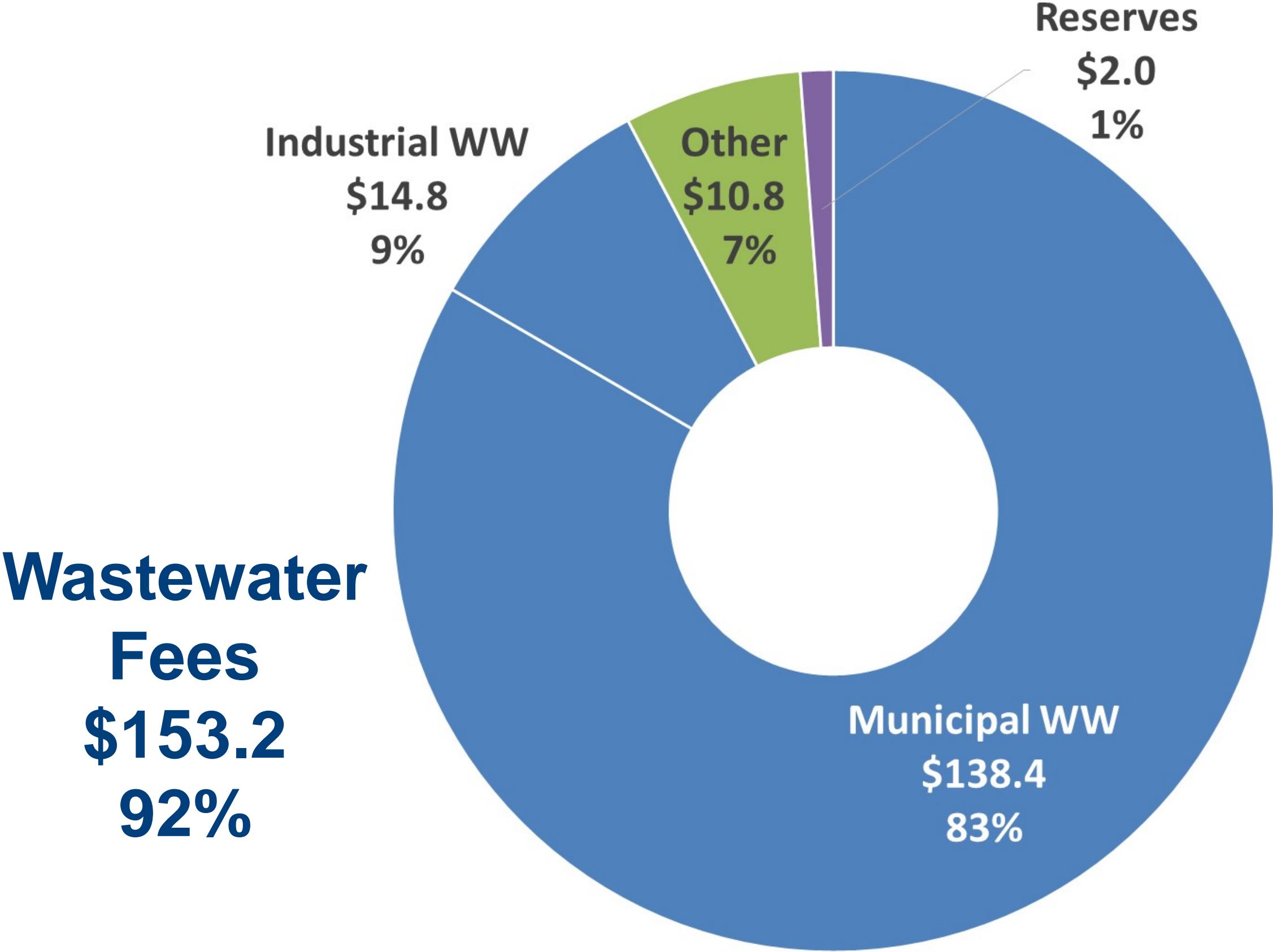
Uses by Category



Dollars in Millions



# Environmental Services Sources - \$166 M



Dollars in Millions

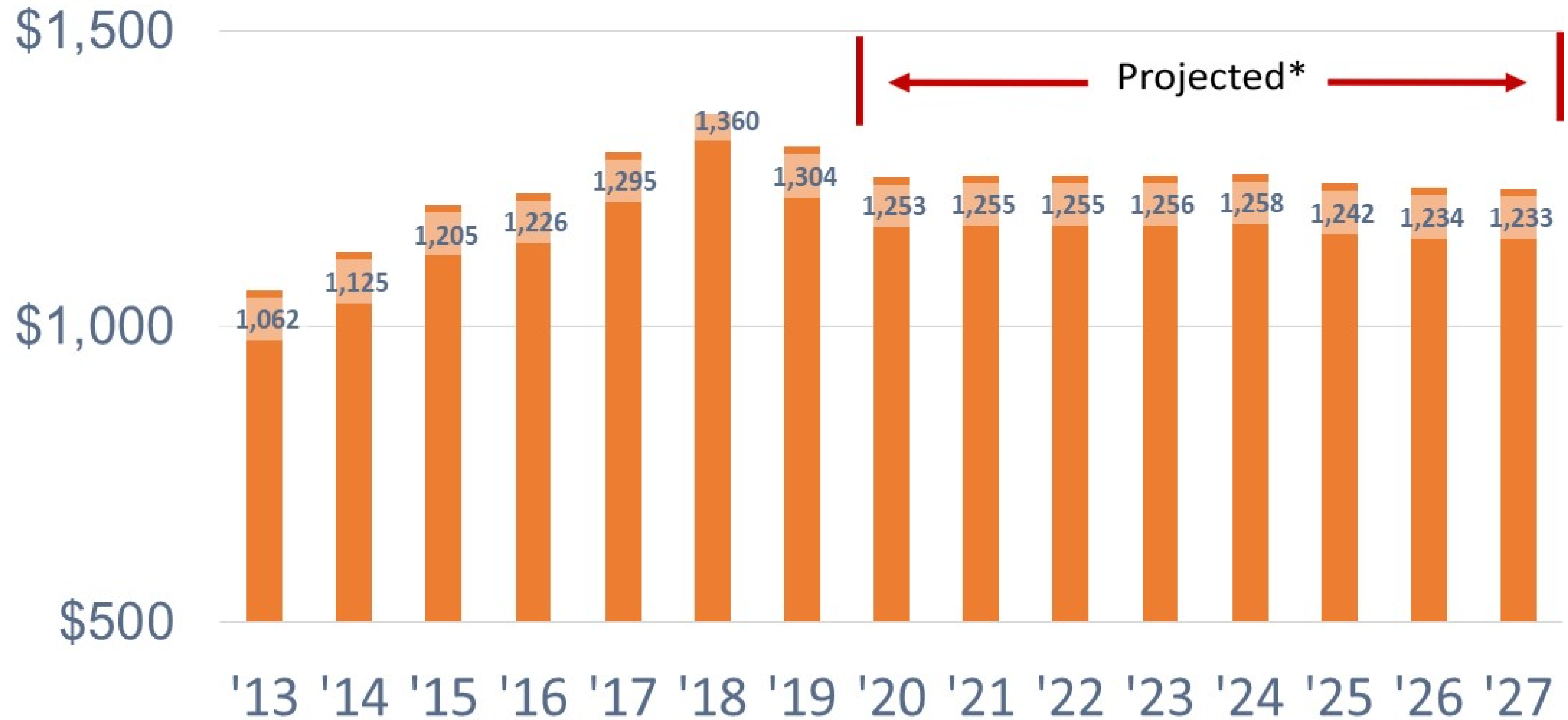
\* Total 2021 Municipal Wastewater Charge is \$240.3M

\* Other includes \$7.5M transfer from SAC



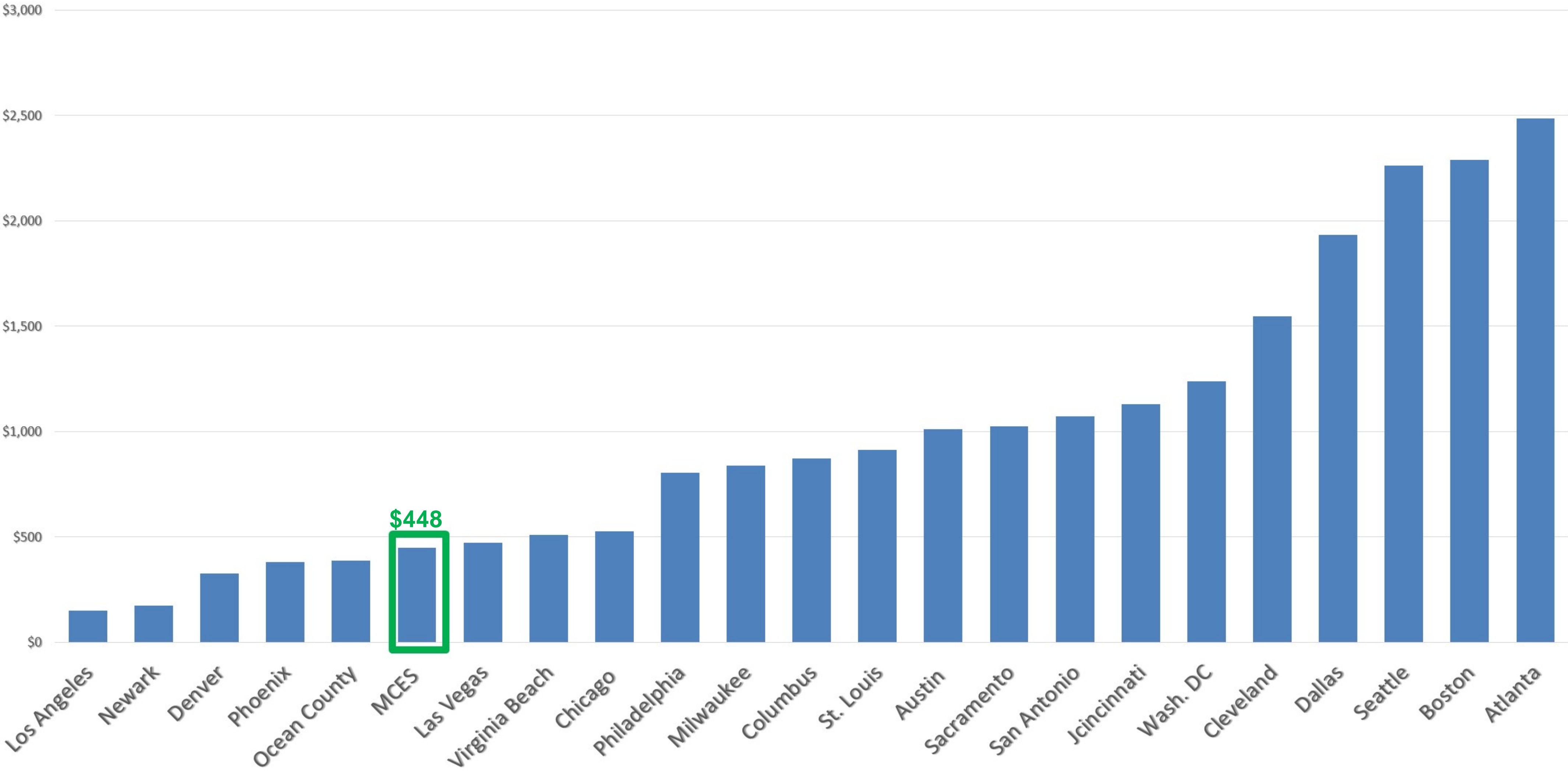
# Wastewater Outstanding Debt

(\$ in millions)



\* Assumes 85% of ACP is spent.

# Peer Agencies Debt per Capita\*



\* 2017 NACWA survey of 2016 data.



# Transportation

# Basis for Budget Development

## Council Policies & Actions

- Council adopted the Transit Performance Standards in the Transportation Policy Plan (TPP)
  - Regional Transit Service annually evaluated and compared to TPP performance standards
  - Includes service operated by the Metropolitan Council and Suburban Transit Providers
  - Routes not meeting TPP standards are reviewed for potential change
  - Regional route analysis performed annually
- Labor agreements (ATU, TMSA, LELS, AFSME, Non-rep)
- Fare policy review
- Target fund balance
- CARES Act funds

# Basis for Budget Development

## Council Policies & Actions

- Preliminary Budget has been reviewed with all forecasts and financial plans
- Legislature provided separate State Appropriation line for Metro Mobility
- Legislature did not address structural deficit in the future biennia.
- Financial considerations:
  - State General Fund Appropriation
  - Motor Vehicle Sales Tax (MVST)
  - CARES Act Funds Balance
  - Financial Outlook



# Basis for Budget Development

## Forecasts and Legislation:

- Preliminary Budget has been reviewed with all forecasts and financial plans
- Legislature provided separate State Appropriation line for Metro Mobility
- Legislature did not address structural deficit in the future biennia.
- Financial considerations:
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  - Motor Vehicle Sales Tax (MVST)
  - CARES Act Funds Balance
  - Financial Outlook

# State General Fund Appropriation

- Appropriated by Legislature on a biennial basis
- Per legislation must cover 50% net operating assistance light rail (excluding METRO Green Line Extension)
- State General Fund consumed by Metro Mobility, Light Rail, Commuter Rail, none for base bus operations
- To maintain current levels of Rail Operations and forecasted growth in Metro Mobility will need increase in State General Fund appropriations
- Metro Mobility on path to consume entire General Fund by SFY 2022
- Bus Operations relies on MVST for subsidy

# State General Fund Appropriation

<b>SFY</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Metro Mobility</b>				
Base	\$ 57.17	\$ 57.17	\$ 56.42	\$ 55.98
One Time	23.17	13.00	-	-
Subtotal	\$ 80.34	\$ 70.17	\$ 56.42	\$ 55.98
<b>Light Rail</b>				
Base	\$ 25.51	\$ 25.51	\$ 25.51	\$ 25.51
<b>Commuter Rail</b>				
Base	\$ 7.15	\$ 7.15	\$ 7.15	\$ 7.15
<b>Bus</b>				
Base	\$ -	\$ -	\$ -	\$ -
Pass Through (MVTA)	\$ 0.20	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 113.19</b>	<b>\$ 102.82</b>	<b>\$ 89.07</b>	<b>\$ 88.63</b>

# Motor Vehicle Sales Tax (MVST)

- State of MN forecast February and November each year
- State of MN updated Forecast May 4, 2020
- Use MnDOT forecast growth for future years
- Council budgets 95% of MVST
- Actual MVST receipts above 95% used in following year budget
- Volatile revenue source – can change February & November
- Future sales tax necessary to fund future transit service
- Without a future dedicated and stable source of tax revenues, budgets will be volatile with insufficient revenues

# Tracking Financial Outlook

- Council Finance forecasts Transportation Financial Operations current year plus 4 years forward (2 biennia) (5 years)
  - Programs state funding according to current law
  - Uses most recent MVST forecast
  - Forecasts structural financial position
  - Updated every bi-annual MVST forecast and end of Legislative Session
  - Details funding expense assumptions, use of reserves
- Significant Changes
  - MVST, passenger fare, one-time reserve funds, and Federal CARES Act revenue
  - Service levels
  - Increased use of reserves programmed for pending financial cliff
  - Financial cliff January 2022

# COVID Summary

Increasing*	Decreasing*
Federal Transit Revenue – CARES	Motor Vehicle Sales Tax Revenue
Use of Reserves	Ridership / Passenger Fare Revenue
Overhead Expenses (some areas)	Service & Contract Hours
Cleaning & Protective Supplies	Consulting Projects Delayed
COVID-19 Staff Salaries	Salary / Administrative Reductions



# COVID Summary

- Safe and conservative assumptions based on what we do not know
- 2-year challenge balancing years 2020 and 2021
- 2020 forecasted CARES Act funds used exceeded available reserves
- Two year loss of MVST over \$103M and Passenger Fares over \$138M
- Bus 100% to 80%.
  - MT Savings of \$42M, Largely offset by added costs for social distancing and cleaning
  - MTS Savings \$6M from pre-covid forecast

# CARES Act Rule Summary

- Grantees must follow federal grant rules and guidelines
  - FTA directly audits the Council
  - Council is responsible for monitoring subrecipients (regional providers)
- No local match required – grants are 100% federal
- Expenses occurring after January 20, 2020 are eligible
- Funds available until expended



# CARES Act Regional Allocations

Regional Provider	Regional Allocation
Maple Grove	\$1,213,690
Metropolitan Council	\$214,367,788
Minnesota Valley Transit Authority	\$6,118,007
Plymouth Metrolink	\$1,188,885
Southwest Transit	\$2,525,156
University of Minnesota	\$1,085,532
Regional Total	\$226,499,058



# CARES Act Council Allocations

Council Service Allocations	Formula Distribution
Metro Transit Bus	\$158.9M
Light Rail	\$32.4M
Contracted Fixed Route Bus	\$8.8M
Metro Mobility	\$7.0M
Commuter Rail	\$3.3M
Transit Link	\$3.1M
Planning	\$0.9M
Council Total	\$214.4M

Formula based upon estimate COVID-induced lost revenues



# Cares Act Council Summary

- Allocation Strategy
  - Consistent with CARES Act goals of supporting COVID-induced financial challenges
  - Clear and transparent distribution amongst Council modes
  - Easy to explain
  - Balance CY20 and CY21 budgets in each mode
- CY20 & CY21 Preliminary
  - Balanced budgets
  - Program \$140M CARES Act in CY 20 and \$74M CY 21
  - Target reserve balances maintained
  - High use of one-time funds in CY21 (over \$139M)
  - Cost containment and reductions
- CY22
  - Fiscal cliff remains

# Budget Framework

- Rollup budget major revenue & expense categories
- Tight Parameters on budget development
  - Anticipated revenue growth (MVST, state appropriations, fares)
  - Service on the street including labor and service contracts
- COVID impact on operations
- Continue daily cleaning and disinfecting of vehicles, facilities, stations
- Return to front door boarding
- 80% bus service levels 2021
- 100% METRO Blue/Green Line and Northstar Service levels
- Meet Metro Mobility demand

# Mitigating Revenue and Expense Volatility

- Motor Vehicle Sales Tax
  - Budget 95% Motor Vehicle Sales Tax
  - Actual MVST receipts above 95% from prior year
- Fuel price hedging Metro Transit
- Programming of CARES Act Funds 2020 and 2021
- Operating fund reserve targets
  - Address volatility in other revenues and expenses
  - Reserves partial solution for future biennium structural deficit

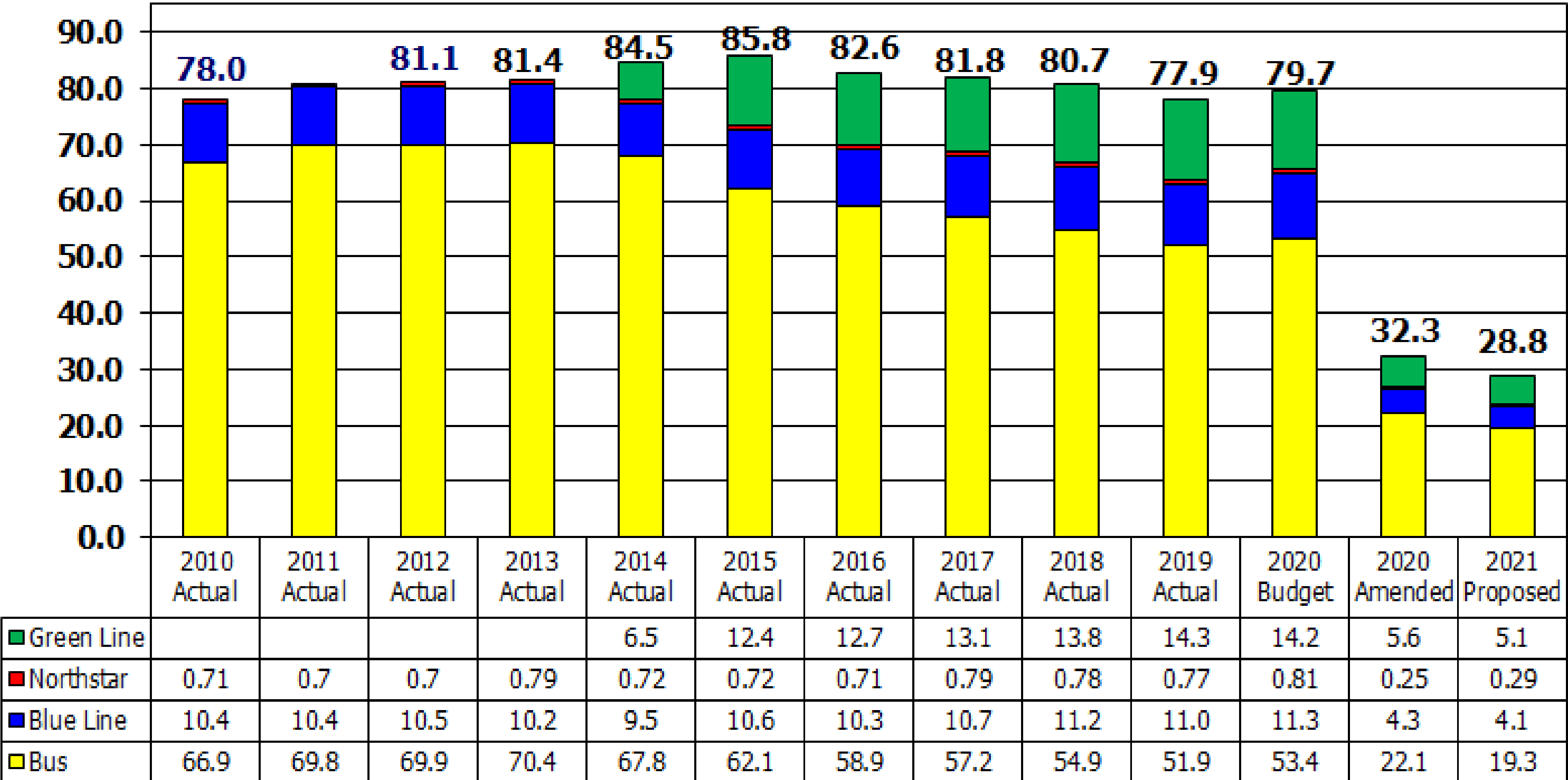
# Metro Mobility

- Challenges
  - 30% ridership growth from 2013 to 2019; fleet 635 vehicles
  - Increasing trip length
  - Expanded service area (94 communities)
  - Wage pressure
  - Rising costs; \$28.59 average subsidy per ride



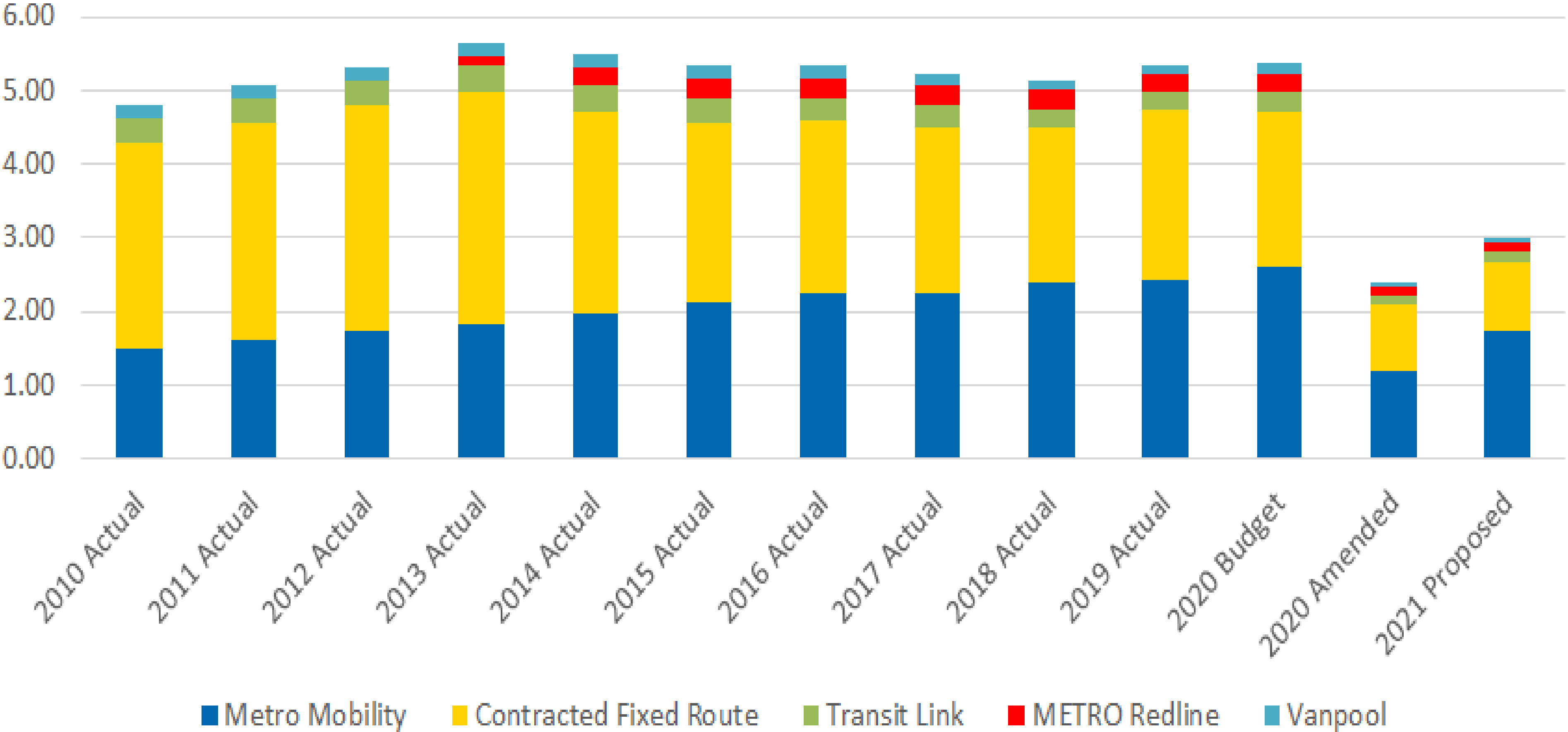
*\*2019 data*

# Metro Transit Ridership (in millions)



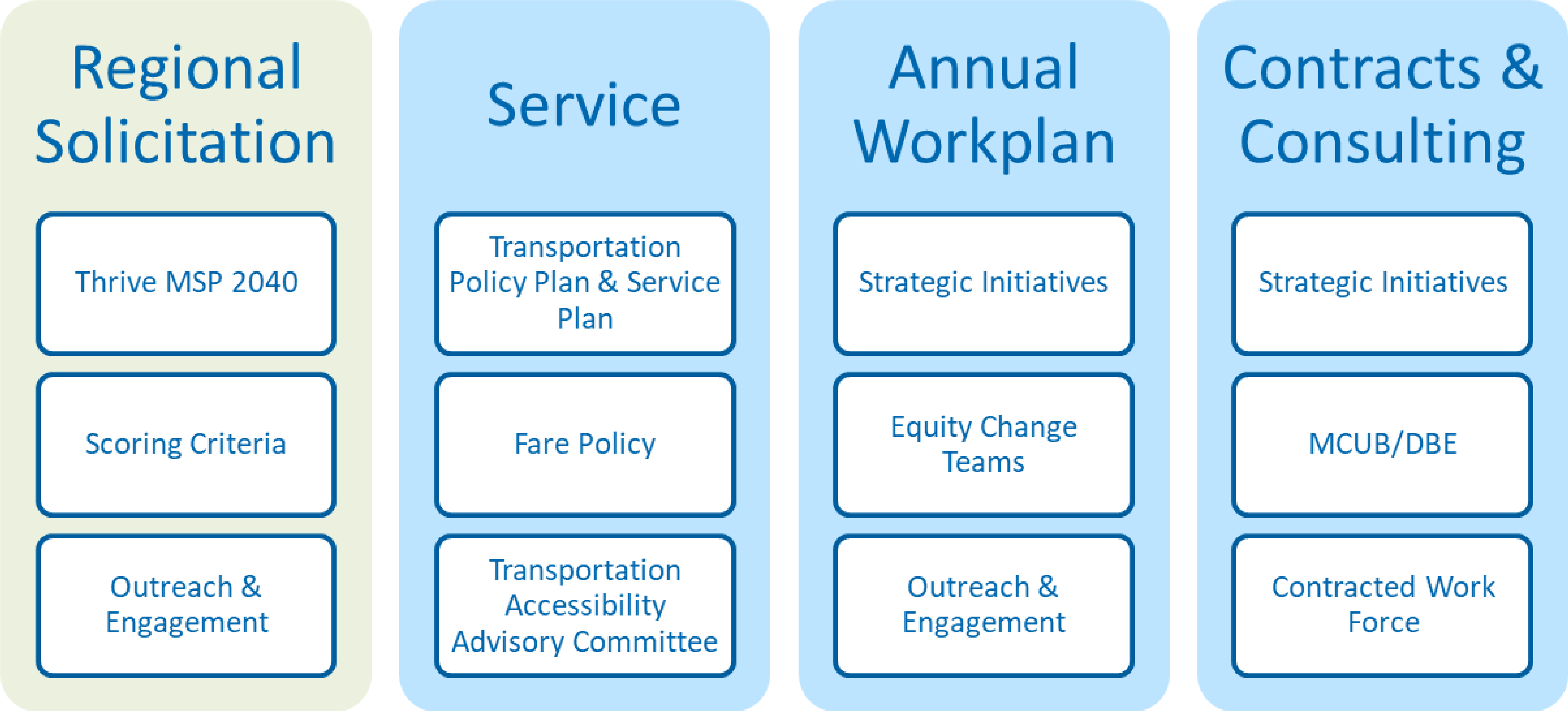
# Contracted Services Ridership

(in millions)



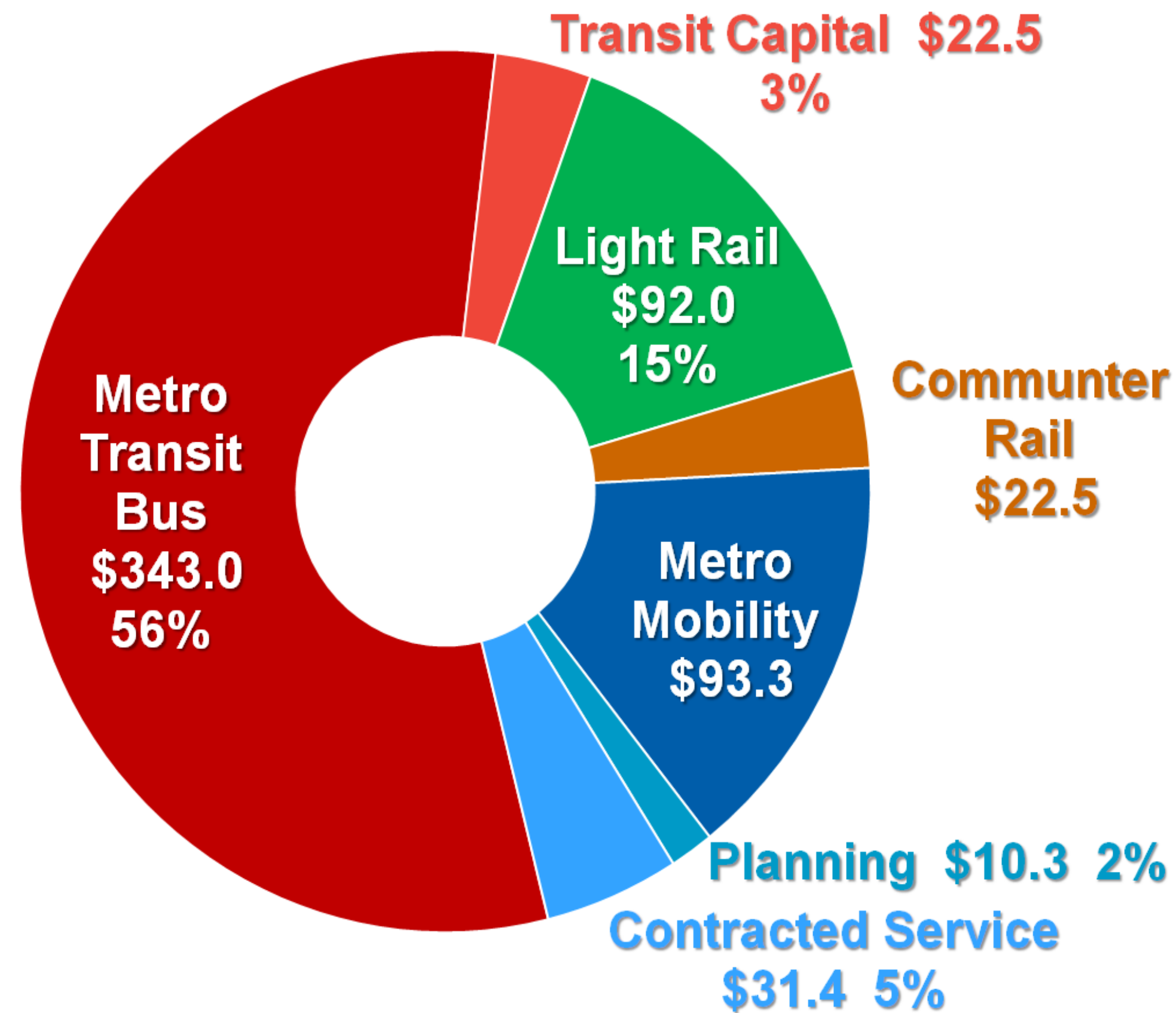


# Advancing Equity

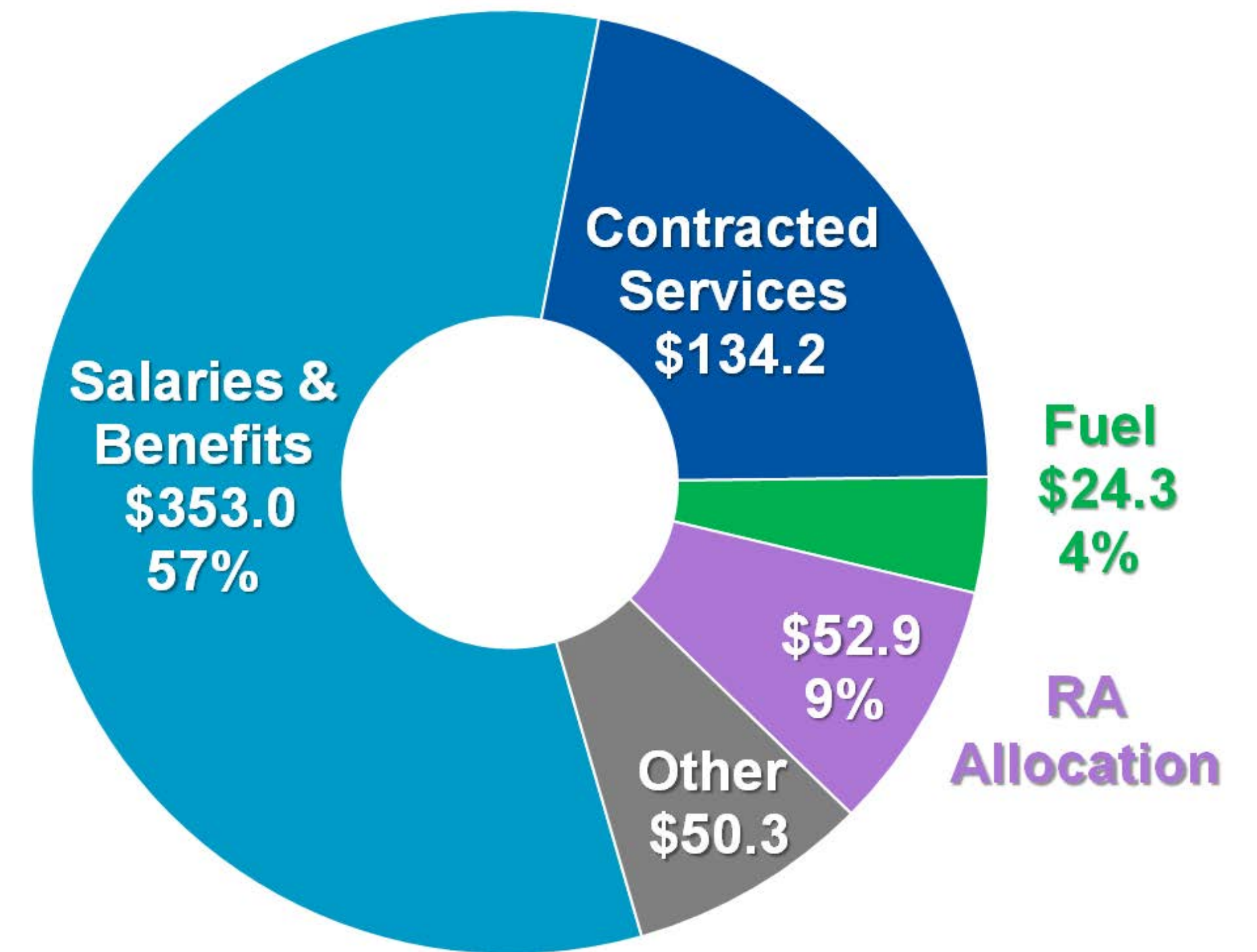


# Transportation Operations - \$615 M

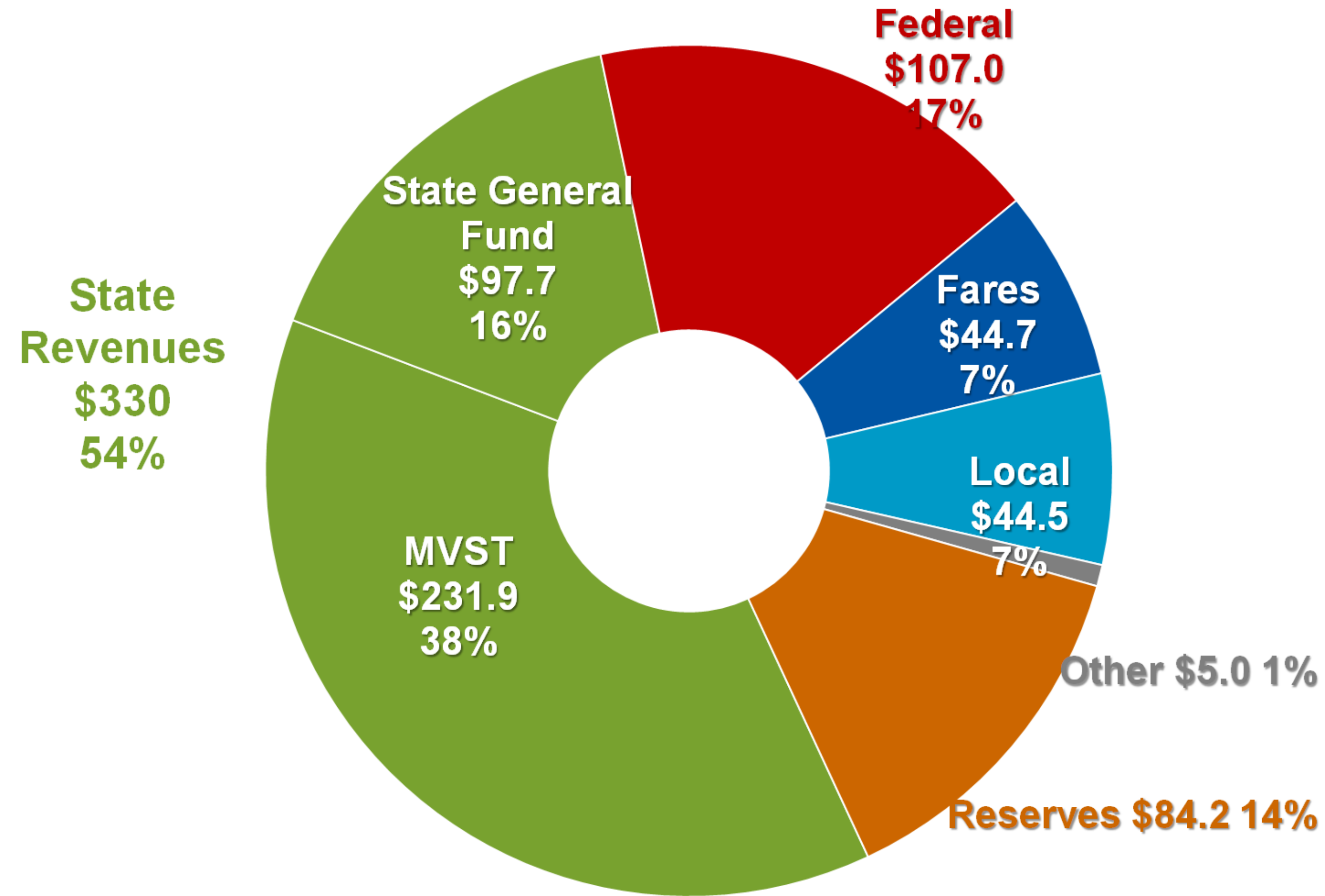
Uses by Department



Uses by Category



# Transportation Operations Sources - \$615 M



# Budget - \$1.2 Billion

# Levy - \$888.7 Million

