



2021 PRELIMINARY BUDGET IN BRIEF

August 26, 2020

The Metropolitan Council is the regional policy-making body, planning agency, and provider of essential services for the Twin Cities metropolitan region. The Council's mission is to foster efficient and economic growth for a prosperous region in partnership with more than 180 cities and townships and seven counties.

We provide cost-effective transit and wastewater services, assist households with low and moderate incomes to find affordable housing, and support communities as they plan for anticipated growth.

Our governing board has 17 members, who are appointed by and serve at the pleasure of the governor. Sixteen members represent geographic districts of roughly equal population across the region. The Council chair, the 17th member, serves at large.

Note: The 2021 budget will reflect the significant impacts of the COVID-19 pandemic, including impact to revenues and expenditures, and assumptions built into projections within the budget. This Preliminary Budget-in-Brief highlights what we know now and areas where changes may have an impact on the final budget. Given the impacts of COVID-19 on our communities, this preliminary budget reflects a total increase of 0% to the budget overall.

OUR PRIORITIES

- Create a financially sustainable, reliable, and accessible transportation system that supports the region's economic competitiveness.
- Make a measurable impact on reducing the disparities experienced by people of color and indigenous people in the region.
- Support a broader housing spectrum in the region.
- Build a resilient region that mitigates its adverse contribution to climate change, with special attention to degraded air and water quality.

SUPPORTING THE REGION'S ECONOMIC VITALITY

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

- Operate Metro Transit, Metro Mobility and transit services that in 2019 provided more than 82.5 million rides, or over 90% of the total regional ridership of 91.6 million rides.
- Make strategic investments in a growing network of bus and rail transitways, and in transit-oriented development.
- Collect and treat wastewater for 90% of the region's population at rates 40% lower than peer regions while earning state and national awards for environmental achievements.
- Plan and fund acquisition and development of a world-class regional parks and trails system that attracts over 58 million visitors a year.
- Provide affordable housing opportunities for over 7,000 low- and moderate-income households.

ADVANCING EQUITY IN THE REGION

The Preliminary Budget sets aside \$3.9 million for investing in the priority areas identified above, specifically in housing security, transportation, climate, and housing affordability. These initiatives will continue to be refined for the Public Comment budget, to be adopted October 28.

Thrive MSP 2040

Thrive MSP 2040 is our 30-year vision and plan for the seven-county Twin Cities region. It calls for regional investments that support a prosperous, equitable, and livable region, now and in the future.

Under state law, we prepare a long-range plan for the Twin Cities region every 10 years. *Thrive MSP 2040* sets the policy foundation for regional systems and policy plans we develop. These include Transportation, Water Resources, Regional Parks and Housing.

2040 projections

Compared to 2010, the region will have over 900,000 additional residents by 2040, and more than 500,000 new jobs. Our population is also getting older. More than one in five residents will be age 65 and older in 2040, compared with one in nine in 2010. By 2040 40% of the population will be people of color, compared with 24% in 2010.

Thrive identifies five key outcomes for the Twin Cities 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.

Thrive also identifies three principles to guide how the Council implements its policies:

- **Integration:** Leveraging multiple policy tools to cooperatively address complex regional challenges.
- **Collaboration:** Combining efforts of multiple actors to effectively achieve shared outcomes.
- **Accountability:** Evaluating the effectiveness of our policies and programs and being willing to adjust course.

Compared to 2010, the region will have nearly **900,000** additional residents by **2040**, and **500,000** new jobs. Our population is also getting older. More than one in five residents will be age **65** and older in **2040**, compared with one in nine in 2010. By **2040 40%** of the population will be people of color, compared with 24% in 2010.



Thrive in Motion

Every Council division uses a Thrive "lens" to review existing services and to determine what new services and capital investments that the region may need.

CONNECTING COMMUNITIES

Investing in transit infrastructure and service creates access to jobs, education, housing, and businesses. The 8.5-mile C Line Bus Rapid Transit began service in June 2019 with the region's first electric buses, providing faster and more frequent service between Brooklyn Center and downtown Minneapolis.

Metro Mobility continues to implement recommendations of the Metro Mobility Taskforce, including a 2020 pilot to explore on-demand service options. The year 2021 will represent the first full year of on-demand service options.

Travel behavior patterns help shape the transportation system of the Twin Cities metro area. The Travel Behavior Inventory provides current data for regional travel models.

SUSTAINING OUR REGIONAL RESOURCES

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

Six of our nine wastewater treatment plants have achieved national recognition for 100% permit compliance for eight to 29 years. We accomplish this goal while maintaining wastewater charges about 40% lower than the national average for our peers, based on a 2019 survey of the National Association of Clean Water Agencies.

In 2021, Environmental Services plans to undertake \$185 million in capital investment to preserve existing assets, improve efficiency, and provide needed capacity for growth. Key projects in 2021 include interceptor rehabilitation in Brooklyn Park; solids processing and other improvements at the Empire Plant; and improvements at the Metro Plant to the Solids Management Building, East & West Secondary Renewal, and beginning the Services Building construction project.

In addition to projects at our facilities, we've worked with communities and awarded grants for projects providing

benefits for storm water management, water supply and green infrastructure.

Metro Climate Stats will provide high-quality data and analytics around climate-change mitigation to inform local and regional planning efforts and remove technical barriers for local governments' climate- action consideration. This study is a unique and innovative approach to technical assistance to communities by a metropolitan agency. The initiative will provide a cost/ benefit-informed portfolio of strategies and scenarios to reduce carbon in the transportation, land use, buildings, and waste sectors over the next decades, in support of Minnesota's ambitious decarbonization goals

PROMOTING A VARIETY OF HOUSING OPPORTUNITIES

The Metro Transit Police Department Homeless Action Team partners with the Council's Housing and Redevelopment Authority to help direct housing vouchers to those seeking shelter on transit.

Livable Communities grants awarded annually fund community investment that revitalizes economies, creates affordable housing, and links various land uses and transportation.

The Council provides affordable housing opportunities for over 7,000 low- and moderate-income households. On March 27, 2020, the Federal CARES Act was signed into law. The Metropolitan Council received just over \$1 million in federal CARES Act funds to help support the Metro HRA. These funds are expected to be spent in 2020 and are not programmed into the 2021 preliminary budget.

PROMOTING COLLABORATION AND EQUITY

The Council's PlanIt resources help local communities implement comprehensive plans that are consistent with regional policies and system plans. Council staff and other partners provide best practices, discussion, training, and forums for community planners to learn from one another, and with one another, on how to address equity through development practices, environmental justice, fair housing, and other relevant topics.



The Council has designated a portion of its regional parks bonds to provide financial support to regional park implementing agencies for capital projects that will strengthen equitable use of regional parks and trails by all our region's residents, across age, race, ethnicity, income, national origin, and ability.

Our Metropolitan Council Underutilized Business (MCUB) program has expanded to create a sheltered-market program and established internal purchasing goals for the Council. To sustain MCUB and increase utilization, we are actively making efforts to educate and engage internal and external stakeholders, expand the pool of eligible firms through certification, reduce barriers to access to Council contracting, and increase access to capacity-building resources to expand business opportunities with the Council for firms owned by women, African Americans, Hispanics, Native Americans, Asian-Pacific, subcontinent Asian Americans, veterans, and people with disabilities.

2021 PRELIMINARY BUDGET AND LEVIES

The Metropolitan Council is proposing to spend \$1.149 billion in 2021 for operations, pass-through programs, and debt service (loan repayments and interest).

COVID-19 IMPACTS

The most significant story in this Preliminary Budget is the impact to revenue sources as a result of the COVID-19 pandemic. Transportation functions particularly reflect the use of one-time funds (including reserves and federal CARES Act revenue), an 80% transit service rate, and considerable volatility in assumptions. We have taken a conservative approach in estimating both revenues and costs.

WHERE FUNDING COMES FROM

Charges for Services. Almost one-third (31.2%) of our funding comes from services that customers pay for. Our primary paying customers are transit riders and local municipalities for wastewater services.

Transit fare revenues for 2021 are projected to total \$45 million, a significant decrease from prior years due to the impacts of the pandemic. Ridership on all types of service is also forecasted to be down for the same reason. Express and local bus, light rail, dial-a-ride, and

transportation for people with disabilities is projected at approximately 32 million in 2021, or down about 61% from 2019 ridership levels.

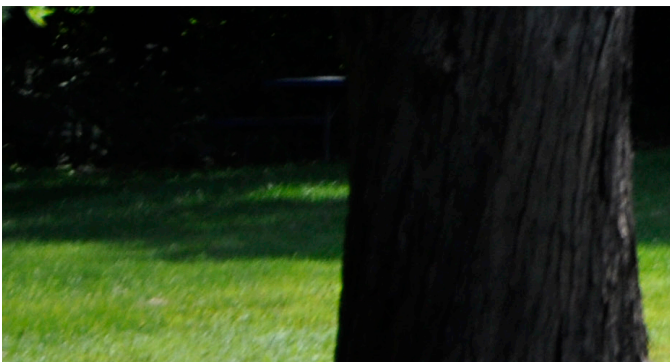
Ridership on Metro Transit Bus, METRO Light Rail and Commuter Rail are forecasted to be down approximately 64% from 2020 budgeted levels and are forecasted to slowly improve through calendar year 2021. This is a continued improvement from the 75% declines noted in mid-year 2020. Ridership impacts from the pandemic continue to be monitored and evaluated on a daily and weekly basis to evaluate service and service need adjustments for social distancing. The proposed 2021 budget includes additional forecasted service hours to maintain social distancing on more heavily traveled routes.

Metro Mobility service is designed to meet state and federal rules, and ridership has grown disproportionately to other transit services in the region. Prior to the pandemic, ridership grew 30% and the service now has 62,000 certified riders. The 2021 preliminary budget reflects an anticipated 6.2% ridership growth

On March 27, 2020, the federal CARES Act was signed into law. The Metropolitan Council received \$226.5 million in federal CARES Act funds. Funds were distributed to regional transit providers based on an established federal formula. A total of \$12.1 million was passed through to regional providers, with the balance of \$214.4 million available to the Metropolitan Council for transit operations. The Council has programmed \$140 million in CARES Act funds in calendar year 2020 and \$74 million in calendar year 2021.

The Transportation Division has programmed \$139 million of one-time funds in calendar year 2021 to balance the budget. This includes \$74 million of federal CARES Act funds and \$65 million of operating reserves, including \$19 million of MVST reserves. Programmed use of reserves brings transit operating reserves to minimum reserve levels.

In addition to the use of one-time funds, the 2021 preliminary budget includes over \$48 million in savings due to reduced bus service levels. These savings from 80% of planned service levels are largely offset by added costs for social distancing and cleaning.



Wastewater charges to local municipalities that fund operations and debt service are projected to total \$240 million in 2021. Other customer-generated sources include industrial waste charges (\$15 million) and sewer availability charges (SAC) on new or expanded capacity (\$58 million). The preliminary budget includes an adopted increase in the metropolitan wastewater charge of 2.0%. The sewer availability charge of \$2,485 per SAC unit will not increase for 2021 and has been flat since 2014.

Despite budgetary pressure from debt service obligations, Environmental Services has committed to its customers to keep overall Municipal Wastewater Charge increases below 4% per year through 2022. However, Environmental Services wants to be sensitive to the fiscal challenges some municipalities may face due to COVID-19 and other events. As a result, we have reduced

the 2021 increase to 2.0%. To meet this challenge, ES will focus on operating cost-containment and utilize available reserves.

State Revenues. The Council receives revenue from the State of Minnesota, primarily from motor vehicle sales taxes (MVST - \$264 million) and from state general fund appropriations for transit (\$110 million).

The state typically updates its forecast in February and November each year. In response to the pandemic, the state updated their forecast in May for state fiscal year 2020 and 2021, including MVST. The proposed budget utilizes the state's revised May forecast, and extends that forecast for the last six months of calendar year 2021. Changes between the May and any forthcoming forecasts, including the November forecast, will be incorporated into the budget prior to adoption.

Thirty-six percent of MVST revenues are constitutionally dedicated to metropolitan area transit. The budget includes pass-through funds of \$32.4 million in MVST revenues to Suburban Transit Providers.

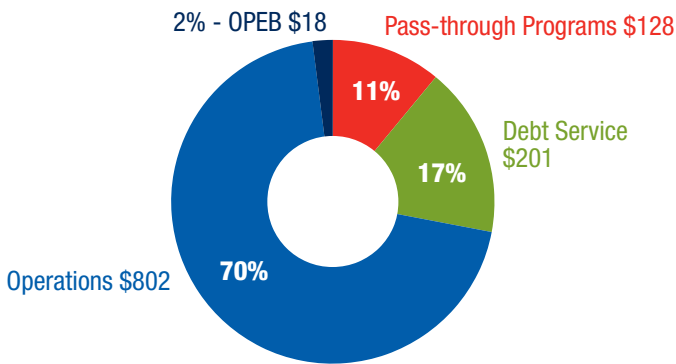
The 2019 Legislature divided our base general fund appropriation for Transit into separate line items for Metro Mobility and Transit Systems. By statute, the state general fund appropriation covers 50% of the net operations of current light rail transit systems. The state general fund also funds a proportionate share of commuter rail.

In addition to the base general fund appropriation, the legislature also provided a one-time non-base share to Metro Mobility of \$13 million in calendar year 2021.

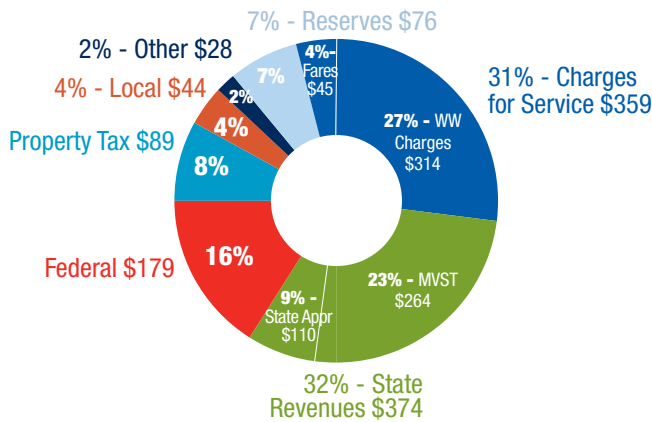
State appropriations also help fund housing assistance and Environmental Services grants.

Federal Revenues. We receive federal revenues to support our transit and housing assistance programs, totaling approximately 10% of operating revenues. The preliminary 2021 budget for the Housing and Redevelopment Authority includes \$71 million in federal revenues, with 92% passed through as rental assistance payments directly to landlords. The Council also expects to receive \$33 million in 2021 to support our transit programs, in addition to the \$74 million in federal CARES Act funds.

2021 Preliminary Budget -
Uses by Function: \$1.149 Billion



2021 Preliminary Budget -
Sources of Funds: \$1.149 Billion



PROPERTY TAXES

Metro area property taxes are split among several different governmental organizations. Three organizations that receive the greatest portion of metro area property taxes are counties, cities, and school districts. The Council typically receives about 1.4% of the revenue from property taxes paid by metro area residents.

The 2021 budget proposes property tax levies, payable in 2021, of \$88.7 million. Property taxes are primarily used to pay debt service on bonds issued to support the Transit and Parks capital improvement programs and to provide pass-through grants to local communities under the Livable Communities Act.

LIVABLE COMMUNITIES FUND

This fund consists of three active accounts: the Local Housing Incentives Account (LHIA), the Tax Base Revitalization Account (TBRA), and the Livable Communities Demonstration Account (LCDA). Together, they support community investments that revitalize economies, create affordable housing, and connect land uses and transportation. The LCDA and TBRA also fund a category of transit-oriented development grant awards for high-density, mixed-use projects located along transit corridors.

Where your property tax dollar goes



Source: MN Department of Revenue, Certified Payable 2020 Property Tax Levies

DEBT SERVICE AND BONDS

About 62% of the 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.

Our total general obligation debt outstanding as of Dec. 31, 2019, is \$1.55 billion. Approximately 88% (\$1.36 billion) of this debt is for wastewater assets and is paid for by fees collected for wastewater services.

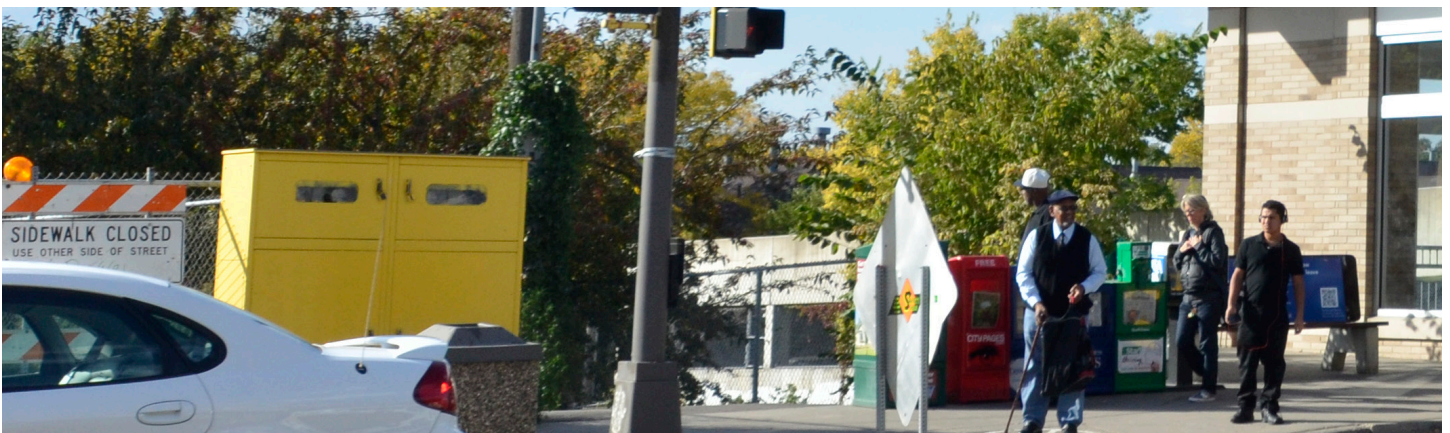
Our bonds receive the highest possible ratings from Moody's and Standard and Poor's credit ratings agencies. Our top ratings reflect the sound financial management of the Council and allow us to borrow money at the lowest market interest rates.

RIGHT-OF-WAY ACQUISITION LOAN FUND

The Right-of-Way Acquisition Loan Fund (RALF) program provides zero-interest loans to local governments to acquire right-of-way along highway corridors in advance of development. The proposed levy for 2021 does not include an amount for RALF. The fund has sufficient balance available to meet program needs for 2021.



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 Council and allow us to borrow money at the **lowest market interest rates**.



PROPERTY TAX IMPACT

This year, given the pandemic and the financial challenges facing our communities and citizens, we are proposing a 2021 levy of \$88.7 million, which represents a 0% increase over the amount payable in 2020. Under the proposed levy, a metro area home with an estimated value of \$250,000 will pay a Council-related property tax of approximately \$50 inside the transit-taxing communities and \$17 outside the transit-taxing communities.

The Council's statutory limit for general-purposes levy, which is primarily used for administrative functions and other non-debt service levies, is \$38.1 million for taxes payable in 2021. Proposed amounts for 2021 total \$33.8 million, or about 11% 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 (that is the dollar amount of bonds we can issue) as defined in statute. The Council matches every \$3 of state bonds with \$2 of regional parks bonds. The proposed debt services for Parks debt service is \$1.8 million in 2021.

COUNCIL FUND ACCOUNTING

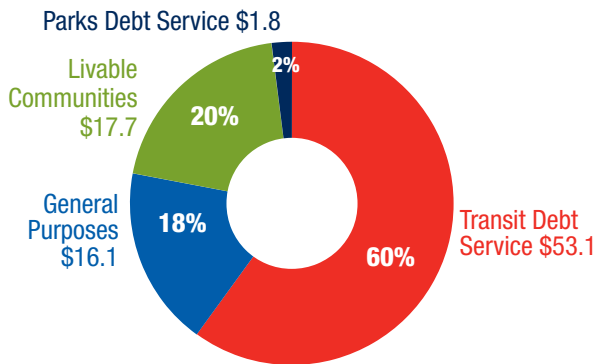
Revenue collected by the Council is directed into different funds. These funds allow us to manage spending by directing the revenue dedicated to specific activities or objectives to a group of related accounts. By maintaining separate funds, we are able to comply with laws that require funds be spent for a specific purpose. For example, the 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 Council has the most discretion in the use of General Fund dollars. The General Fund accounts for about 8% of the Council budget and is primarily funded by the general purpose property tax levy and interdivisional allocations.

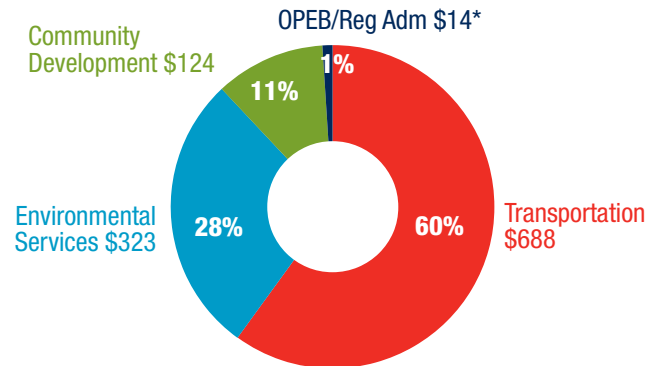
OTHER POST-EMPLOYMENT BENEFITS

Funds are invested in a trust account to cover our liability for post-retirement employee health benefits (OPEB). Investments totaling \$292 million on Dec. 31, 2019, are anticipated to be sufficient to cover projected future costs for retirees.

2021 Preliminary Property Tax Levies: \$88.7 Million



2021 Preliminary Budget - Uses by Division: \$1.149 Billion



* \$74 million prior to interdivisional allocation



BUDGET PROCESS

REVIEWING AND DEVELOPING THE BUDGET

The process for developing the 2021 Preliminary Budget has been significantly impacted by the pandemic. Beginning in March, we have been continuously revising the 2020 budget and prospective 2021 budget based on rapidly changing and evolving assumptions for service demands, public health protocols, changes in the economy, federal support, and other factors. We anticipate the budget will change significantly between the preliminary budget adopted in August and the final budget adopted Dec. 9, as more data and information becomes available.

January-June

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

July-August

The Council's standing committees review and refine our divisions' proposed budgets. The Council adopts a preliminary operating budget and property tax levy by Sept. 1st.

August-October

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

RECEIVING PUBLIC COMMENT

November-December

Public comment is welcome on our proposed budget and levies until final adoption at the Council meeting on Dec. 9, 2020.

"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 Dec. 9, 2020, the 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.

