10 Financial Analysis

This chapter summarizes the financial analysis for the No-Build Alternative and the proposed METRO Blue Line Light Rail Transit (BLRT) Extension project. This chapter also describes the local funding partners and the capacity of the partners to fund the proposed BLRT Extension project. This chapter includes the following sections:

- **Section 10.1** – Capital Funding Strategy
- **Section 10.2** – Operating Funding Strategy
- **Section 10.3** – Potential Responses to Operating Shortfalls

10.1 Capital Funding Strategy

This section describes the basis of the capital cost estimate, the methodology used to develop the capital cost estimates, and the year-of-expenditure cost estimates and funding plan for the proposed BLRT Extension project.

10.1.1 Basis of the Capital Cost Estimate

The capital cost estimate included in this financial analysis for the proposed BLRT Extension project was developed by the Metropolitan Council (Council) based on the Preliminary Engineering Plans and shown in the Federal Transit Administration (FTA) *Standard Cost Categories Workbook for New Starts Projects* (see *Financial Analysis in Support of the FEIS* in **Appendix F** .

10.1.2 Methodology

The year-of-expenditure (YOE) capital cost estimates were developed by the Council using the FTA Standard Cost Category (SCC) workbook.[1] The YOE capital cost estimates for the light rail components of the proposed BLRT Extension project are based on quantity measurements from the Preliminary Engineering Plans and unit costs derived from local and national sources. The YOE capital cost estimate is based on an annual inflation rate of 3 percent (see *Financial Analysis in Support of the FEIS* in **Appendix F** for the proposed BLRT Extension project base year cost estimates).

10.1.3 Schedule

The base-year costs (2015) were inflated to YOE dollars based on the current project schedule. Specifically, 2018 is identified as the start year of heavy construction and 2021 as the start year of revenue operations.

[1] See www.fta.dot.gov/12305_15612.html.

10.1.4 Year-of-Expenditure Capital Cost Estimates

Capital cost estimates for the proposed BLRT Extension project are in YOE dollars and shown in **Table 10.1-1**. The cost estimates will be refined during the engineering phase. A description of the plan for funding the proposed BLRT Extension project operations, which will be funded separately, is provided in **Section 10.2**.

Table 10.1-1. YOE Capital Cost Estimate for the Proposed BLRT Extension Project, by FTA Standard Cost Category

Project Element	Cost Estimate (millions)
Guideway and track elements	$333.775
Stations, stops, terminals, intermodal	74.875
Support facilities: yards, shops, administration buildings	85.865
Sitework and special conditions	173.267
Systems	191.616
Right-of-way, land, existing improvements	66.801
Vehicles	136.245
Professional services	245.783
Unallocated contingency	158.204
Finance	30.000
Total	**$1,496.431**

Source: *Financial Analysis in Support of the FEIS* (Council, 2016)

10.1.5 Capital Funding

The Council's *2040 Transportation Policy Plan* (*2040 TPP*) is based on the assumption that, for rail projects, the region will secure federal New Starts funds for 49 percent of the cost. For the proposed BLRT Extension project, the remaining 51 percent of the cost is proposed to be funded from the following sources: 10 percent from the state of Minnesota, 31 percent from the Counties Transit Improvement Board (CTIB), and 10 percent from the Hennepin County Regional Railroad Authority (HCRRA) (see **Table 10.1-2**).

Table 10.1-2. Proposed BLRT Extension Project Capital Cost Funding by Source (YOE)

Funding Source	Percentage	Capital Cost (millions)
FTA	49%	$733.251
State of Minnesota	10%	149.643
CTIB	31%	463.894
HCRRA	10%	149.643
Total	**100%**	**$1,496.431**

Following is additional information on funding from New Starts, the state of Minnesota, CTIB, and HCRRA.

10.1.5.1 Federal Section 5309 Capital Investment Grant Program

The Council intends to seek Capital Investment Grant (CIG) Program funding from FTA for one or more of the alternatives examined in this National Environmental Policy Act (NEPA) document. The CIG Program, more commonly known as the New Starts, Small Starts, and Core Capacity program, involves a multi-year, multi-step process that project sponsors must complete before a project is eligible for funding. The steps in the process and the basic requirements of the program can be found on FTA's website at www.fta.dot.gov.

FTA must evaluate and rate proposed projects seeking funding from the CIG Program under a set of project justification and local financial commitment criteria specified in law. The criteria evaluate the merits of the project and the project sponsor's ability to build and operate it as well as the existing transit system. FTA assigns ratings from low to high based on information that project sponsors submit on the project cost, benefits, requested amount of CIG Program funds, and overall financial plan. Projects must receive a medium or better overall rating to advance through the steps in the process and be eligible for funding from the program.

As projects proceed through the steps in the process, information concerning costs, benefits, and impacts is refined, and the ratings are updated to reflect new information. The Fixing America's Surface Transportation (FAST) Act requires FTA to evaluate and rate the project for federal funding after the completion of the NEPA process should the Council request a New Starts funding recommendation for the project or request entry into the Engineering phase of the New Starts process.

In the third quarter of calendar year 2016, the Council plans to submit to FTA the necessary information to obtain a project rating and to enter the engineering phase of the New Starts process. The Council anticipates receiving a project rating in the first quarter of calendar year 2017. The proposed BLRT Extension project entered New Starts Project Development in August 2014. Approval into the Engineering phase of the New Starts process is anticipated in early 2017, which would translate into a full funding grant agreement in early 2018. Under the proposed Full Funding Grant Agreement, FTA's project cost share would be about $733 million.

10.1.5.2 Counties Transit Improvement Board

The principal local funding source for the proposed BLRT Extension project, and a source of transit funding stability in the region, is CTIB. CTIB was authorized by the Minnesota legislature in 2008. After the legislation was enacted, boards of eligible counties in the metropolitan region were required to vote whether to levy the tax and join the Joint Powers Board. Anoka, Dakota, Hennepin, Ramsey, and Washington counties voted to join the Board, thus fulfilling the legislative requirement that at least two counties enact the tax in order to create the Board. The Board's membership includes representatives of each member county as well as a representative of the Council. The anticipated CTIB BLRT Extension project cost share is estimated at $465 million, representing 31 percent of the proposed BLRT Extension project cost.

10.1.5.3 State of Minnesota

The state is currently anticipated to fund about 10 percent of the proposed BLRT Extension project cost through a combination of a new transit sales tax, bonding, or appropriations. The Council anticipates that the bonds will be general-obligation debt. The state of Minnesota has earned the following ratings from the three rating services: Aa1 from Moody's, AAA from Standard & Poor's, and AAA from Fitch. The anticipated state of Minnesota proposed BLRT Extension project cost share is approximately $150 million.

10.1.5.4 Regional Railroad Authorities

Regional Railroad Authorities (RRAs) are established as political subdivisions of the state under Minnesota Statute 398A. RRAs have powers similar to the county for the specific purpose of providing for the planning, preservation, and improvement of rail service including passenger rail service and to provide for the preservation of abandoned rail right-of-way for future transportation uses. RRAs have the authority to levy a property tax up to 0.04835 percent of the market value of all taxable property within the county. RRAs are also authorized to issue debt under chapter 398A.

HCRRA obtains its funds from a property tax levied under the authority of Minnesota Statute 398A, plus interest earned on balances. The Council currently anticipates that HCRRA will fund about 10 percent of the proposed BLRT Extension project cost. This tax is distinct from the Council's property tax authority. The tax was levied in the amount of $30,000,000 for the 2016 budget year, which is considerably less than the levy limit established in Minnesota Statute 398A, which would yield about $70,500,000 per year. The anticipated HCRRA cost share of the proposed BLRT Extension project is about $150 million.

10.2 Operating Funding Strategy

This section summarizes the proposed BLRT Extension project's estimated operations and maintenance (O&M) costs and proposed revenues.

10.2.1 Operations and Maintenance Costs

2040 No-Build Alternative and proposed BLRT Extension project O&M cost estimates for Metro Transit bus and light rail service were generated by the Council by using the same methodology in the *Financial Analysis in Support of the FEIS* (Council, 2016).

Table 10.2-1 presents No-Build Alternative and proposed BLRT Extension project operating and maintenance cost estimates in 2040 dollars based on an inflation rate of 3.15 percent. In 2040 dollars, the total annual incremental system-wide O&M cost with the proposed BLRT Extension project is estimated to be $50 million more than it would be with the No-Build Alternative, increasing from about $1,392 million to $1,442 million (see **Table 10.2-1**). The proposed BLRT Extension project accounts for about $47 million of the estimated $50 million incremental increase in 2040, while other[2] transit services and providers account for about $3 million.

Table 10.2-1. Annual System-wide O&M Costs in 2040 for the No-Build Alternative and Proposed BLRT Extension Project

2040 dollars, in millions

Metro Transit/Metropolitan Transportation Services[1]	No-Build Alternative	Proposed BLRT Extension Project
Light rail	$191.931	$239.206
Bus	1,012.924	1,015.857
Northstar	39.859	39.859
Paratransit (Metro Mobility and Transit Link)	147.322	147.322
Total (all modes)	**$1,392.036**	**$1,442.244**

Source: *Financial Analysis in Support of the FEIS*, January 2016

[1] Includes all Twin Cities suburban transit authorities and contracted providers.

[2] Other transit services and providers include suburban Twin Cities carriers that have chosen not to participate in the Metro Transit network. The largest of these providers are Minnesota Valley Transit Authority, Maple Grove Transit, and Southwest Transit.

10.2.2 Operating Revenues

Operating revenues come from various sources as described below and summarized in **Table 10.2-2**. The transit operating revenues with the proposed BLRT Extension project would include fare revenues, state general funding, and CTIB funding. The funding for the O&M costs for the proposed BLRT Extension project comes first from the fare revenues; the remaining costs are split 50 percent state general funds and 50 percent CTIB. Minnesota Sessions Laws (2008) Section 473.4051 subd. 2 states that, after operating revenue and federal money have been used to pay for light rail operations, 50 percent of the remaining balance must be paid by the state of Minnesota (Minnesota Session Laws, 2008, Regular Session, Chapter 365 – House File No. 4072). State funding for transit operations is derived from general fund appropriations and is appropriated by the state legislature on a biennial basis.

Table 10.2-2. Annual System-wide O&M Revenue in 2040: No-Build Alternative and Proposed BLRT Extension Project

2040 dollars, in millions

Metro Transit/Metropolitan Transportation Services/SW Transit[1]	No-Build Alternative	Proposed BLRT Extension Project
Cost		
Total O&M cost	$1,392.036	$1,442.244
Revenue		
Fares	$337.998	$354.544
Motor vehicle sales tax	804.036	804.036
CTIB	86.722	101.813
Other revenue	17.112	17.659
Local operating assistance	5.254	5.254
Federal operating assistance	15.245	15.245
State operating assistance	206.460	221.551
Interest on operation balance	1.133	1.133
Total revenue	**$1,473.960**	**$1,521.235**

Source: *Financial Analysis in Support of the FEIS* (Council, 2016)

Revenue sources for the proposed BLRT Extension project are unchanged from those presented for Southwest Light Rail Transit (SWLRT) Build in the *SWLRT Financial Analysis Report* and include a full-build scenario that includes SWLRT, the proposed BLRT Extension project, and Orange Line bus rapid transit. Note that O&M revenues exceed O&M costs. Revenues for the Orange Line are included in this analysis, but the O&M costs for the Orange Line are unknown and not included.

[1] Includes all Twin Cities suburban transit authorities and contracted providers.

10.2.2.1 Fare and Motor Vehicle Sales Tax Revenues

Fare revenues are received from passengers for the use of the service. Ridership is anticipated by the Council to grow along with increasing population and employment in the proposed BLRT Extension project corridor. The average operating revenue per passenger, including cash fare and convenience fare such as 31-day pass revenue, was $0.96 for a light rail transit (LRT) passenger, $3.04 for a Northstar commuter rail line passenger, and $1.14 for a bus passenger (including express bus premiums) in 2014. The Council's policy is to increase fares by 10 percent whenever inflating costs cause the bus recovery ratio to drop below 28.5 percent.[3] In October 2008, the Council implemented a fare increase in accordance with this policy; the base fare was increased to $1.75, where it is today.

In 2040, the estimated system-wide fare revenue is about $355 million. Motor vehicle sales tax (MVST) revenues are the largest source of local transit operating funds, accounting for about 36 percent of operating revenues in 2014. This financial analysis uses an average annual increase of 4.90 percent to project MVST revenues between 2015 and 2040. In 2040, the estimated MVST revenue is $804 million.

10.2.2.2 Counties Transit Improvement Board Operating Funding

CTIB has agreed to provide 50 percent of the net operating assistance required for the proposed BLRT Extension project, METRO Green Line, and Southwest LRT (METRO Green Line Extension), and 41.95 percent for the Northstar commuter rail line that began revenue service in November 2009. In 2040, the estimated CTIB revenue is $102 million.

10.2.2.3 Other Transit-related Operating Revenue

Historically, the Council has received other transit-related revenues that are generated by or for transit operations, which consist of advertising revenue, contract revenue, and other miscellaneous sources. These other transit-related revenues are projected to grow over time in proportion to the projected growth in transit operations. In 2040, the estimated revenue received from other transit-related services and operations is $18 million.

10.2.2.4 State Operating Revenue

State funding for transit operations is derived from general fund appropriations and is appropriated by the state legislature on a biennial basis. In 2040, the estimated revenue from the state of Minnesota is $222 million.

[3] Farebox recovery ratio is the fraction of operating expenses that are met by the fares paid by passengers. It is computed by dividing the system's total fare revenue by its total operating expenses.

10.2.2.5 Federal Operating Revenue (FTA Section 5307 Urbanized Area Formula Grants)

Federal operating revenue (FTA Section 5307 urbanized area formula grants) is based on various demographic statistics, level of service, ridership, and operating cost variables. Factors in the formula that allocate grants to urbanized areas were estimated by the Council based on annual growth in total Section 5307 funds from 2013 to 2015 under the Moving Ahead for Progress in the 21st Century Act (MAP-21), FTA's prior authorizing legislation.

The FAST Act limits the application of these Section 5307 grants to capital purposes, but an exception is made for maintenance expenses that protect the system's assets in the operating budget. One percent of these grants must be applied for "enhancements" as defined in the statute. The FAST Act is the new authorizing legislation for surface transportation funding including transit in the United States. FTA Section 5307 urbanized area formula grants are expected by the Council to increase slightly under the new legislation. The financial plan assumes that these grants are applied to preventative maintenance or to the agency-wide capital plan. In 2040, the estimated revenue from the FTA Section 5307 urbanized area formula grant is $15 million.

10.2.2.6 Interest Income

Interest income is derived from the interest earned on available funds at existing interest income rates and is expected by the Council to generate over $1 million in 2040.

10.3 Potential Responses to Operating Shortfalls

Short-term shortfalls, forecasted for selected years in the cash flow projections, are covered by the operating reserves. In the longer term, the Council relies on the MVST growth and its fare policy. Currently, nearly 46 percent of the operating funds of the Council's Transportation Division are obtained from the statewide MVST. MVST is the Council's single largest source of transit operating funding. The baseline forecast assumes significant real growth over the long run from this source as a result of passage of the November 2006 referendum (which dedicated the MVST for transportation investment purposes).

The MVST revenues are projected by the Council to increase at a rate of 4.90 percent per year in the long run. This forecast is viewed by the Council as conservative for financial planning purposes, since historical-trended MVST receipts for the period of 1973 to 2014 averaged 5.10 percent. The fare policy is an even stronger guarantee of sustainability because it ensures that passenger revenue will grow with operating costs. The Council had its last fare increase in 2008. This policy applied recommends a 10-percent increase in average fares whenever the bus farebox recovery ratio declines to 28.5 percent.

Several sources of supplementary operating funding could be made available to the Council's Transportation Division if MVST revenues do not grow as expected. These include:

- **Metropolitan Council Transportation Division Operating Reserve.** The Council Transportation Division's reserve at the end of 2014 was $120.19 million and could be used to cover any deficits that might arise with or without the proposed BLRT Extension project in place.
- **State General Funds/State Commitments.** The state's commitment to transit in the metro region, and its specific commitment to developing the proposed BLRT Extension project, can be regarded as an opportunity for financial risk management of operations. State general fund operating subsidies have historically grown more rapidly than inflation in recent years. The state general fund appropriations for transit have also grown at a rate greater than inflation. However, in an attempt to be conservative, the state operating funds in the baseline capacity analysis are anticipated by the Council to increase slowly from their 2015–2016 level at 3.15 percent proportionately with inflation.
- **Moderate Additional Fare Increases.** Under the baseline projection by the Council, a fare increase was implemented in 2008. Fare increases could be accelerated if needed.[4] Transit fare increases typically result in increased fare revenues, but decreased ridership.
- **Apply New Operating Funding Sources.** This could include the implementation of new or expanded non-farebox revenue sources (for example, expanded advertising or joint development).
- **Reduce Service.** Reduce the length or number of daily trips, weekend and seasonal/holiday service, or the length of trains.
- **Apply New, Non-operating Sources.** Apply additional CTIB operating assistance if available and develop supplemental sources of state or other revenues.

The stability of the Council's financial environment will permit managing the long-term maintenance and operation of the proposed BLRT Extension project's service in a well-planned, deliberate, and financially prudent manner.

[4] The Council periodically implements fare increases so that the system-wide fare recovery ratio remains fairly stable as a percentage of the total system costs—currently at about 25 percent of system-wide costs. The *2040 TPP* assumes that over time fares will continue to grow with expenses (approximately 2.5 percent annually) to maintain a constant system-wide fare recovery ratio of 25 percent (*2040 TPP*, 4.10 Transportation Finance, page 4).

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