10 Financial Analysis

This chapter summarizes the financial analysis for the Project. This chapter also describes the local funding partners and the capacity of the partners to fund the Project.

10.1 Capital Funding Strategy

This section describes the methodology used to develop the capital cost estimates, and the funding plan for the Project.

10.1.1 Methodology

A base cost estimate range was developed based on 15 percent design and engineering. Current projections show a base cost for constructing the Project at $2.2 billion. To account for potential costs associated with unknown risks and conditions at this early design phase, FTA requires projects to add contingency costs between 35 and 45 percent, leading to a preliminary total cost range between $2.9 billion and $3.2 billion. As design progresses, the Council will develop more detailed year-of-expenditure (YOE) capital cost estimates using the FTA Standard Cost Category workbook. The YOE capital cost estimates for the LRT components of the Project will be based on quantity measurements from the Engineering Plans and unit costs derived from local and national sources. The YOE capital cost estimate will be based on an annual inflation rate of 3.5 percent and will be adjusted as necessary to meet current market indices.

10.1.2 Schedule

The base-year costs (2024) will be inflated to YOE dollars based on the current Project schedule. Specifically, 2026 is identified as the start year of construction and 2030 as the start year of revenue operations. These date assumptions will be confirmed as the cost estimate is refined.

10.1.3 Capital Funding

The Council’s 2040 TPP is based on the assumption that, for rail projects, the Council may be eligible for federal New Starts funds for 49 percent of the cost. For the Project, the remaining 51 percent of the cost is proposed to be funded from the following sources: Hennepin County, HCRRA, the State, and Counties Transit Improvement Board (CTIB).

Following is additional information on funding from New Starts, Hennepin County, HCRRA, and the State.

10.1.3.1 Federal Section 5309 Capital Investment Grants Program

The Council intends to seek CIG Program funding from FTA for the Project. The CIG Program involves a multi-year, multi-step process that Project sponsors must complete before a project is eligible for federal funding. The steps in the process and the basic requirements of the program can be found on FTA’s website. The process is determined by the type of project: New Starts, Small Starts, or Core Capacity.

FTA must evaluate 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 qualifies its evaluation with a rating, assigned from low to high based on information that project sponsors submit. The information includes cost, benefits, requested amount of CIG Program funds, and overall financial plan. A project 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 2021 Bipartisan Infrastructure Law included a surface transportation funding authorization requiring FTA to evaluate and rate the project for federal funding. A rating would occur prior to the Project’s request for a CIG Full Funding Grant Agreement.

10.1.3.2 Counties Transit Improvement Board
CTIB (2008–2017) was a joint-powers board of including Minnesota’s five largest metropolitan counties (Anoka, Dakota, Hennepin, Ramsey, and Washington) that provided capital grant funding to the Project from a regional sales and use tax. The board dissolved in September 2017, and the regional sales and use tax was likewise terminated. CTIB contributed a total of $82.8 million to the Project, and these funds have now been fully expended.

10.1.3.3 Hennepin County
The principal local funding source for the Project is the 0.5 percent Hennepin County sales and use tax and $20 motor vehicle excise tax. The Hennepin County Board of Commissioners imposed this sales tax in 2017, as authorized by Minn. Stat. 297A.993. The Board also adopted an implementation plan that identifies the Project as eligible to receive grant funding from the sales tax. Pursuant to Minnesota State Statutes, Section 297A.993 and Chapter 475, Hennepin County can issue general obligation bonds, which are secured by and payable from its transportation sales tax. To date, Hennepin County has committed $530.1 million to the Project.

10.1.3.4 Hennepin County Regional Railroad Authority
HCRRRA is organized as a political subdivision of the State in accordance with Minn. Stat. ch. 398A. HCRRRA is a seven-member board currently consisting of the seven members of the Hennepin County Board of Commissioners. The primary function of HCRRRA is to provide for the preservation and improvement of local rail service and the preservation of abandoned rail right-of-way for future transportation uses. Although a legally separate entity, HCRRRA is a blended component unit of Hennepin County as defined by the Governmental Accounting Standards Board.

HCRRRA can issue bonds to fulfill its purpose and exercise its powers. HCRRRA’s bonds are not general obligations of HCRRRA or Hennepin County, nor does Hennepin County have any responsibility for HCRRRA’s bonds. HCRRRA’s bonds are limited tax obligations, payable from the levy of ad valorem taxes. HCRRRA may levy a property tax at a rate not exceeding 0.04835 percent of estimated market value of all taxable property in Hennepin County from which these bonds are payable.

To date, HCRRRA has committed $149.6 million to the Project.

10.1.3.5 State of Minnesota
Through the appropriation for transit system operations under Minn. Stat. 473.371 to 473.449, the State has granted $50 million to Hennepin County for the Project for activities including but not limited to predesign, design, engineering, environmental analysis and mitigation, right-of-way acquisition, construction, and acquisition of rolling stock.

10.2 Operating Funding Strategy
This section summarizes the Project’s funding strategy, including O&M costs anticipated revenues, operating revenues, and sources of potential funding.
10.2.1 Operations and Maintenance Costs

2040 No-Build Alternative and Build Alternative O&M cost estimates for Metro Transit bus and light-rail service will be generated after the Project has advanced to 30 percent design using the same methodology as presented in the 2016 Final EIS.

10.2.2 Operating Revenues

The transit operating revenues for the Project come from fare revenues and State sales tax revenue. The funding for the O&M costs for the Project comes first from the fare revenues and the remaining costs are paid from State sales tax revenue. State sales tax funding for transit operations is derived from general fund appropriations and is appropriated by the State Legislature on a biennial basis.

10.2.2.1 Fare and Motor Vehicle Sales Tax Revenues and Regional sales tax

Fare revenues are received from customers for the use of the service. Ridership is anticipated to grow along with increasing population and employment in the Project area. The average operating revenue per customer, including cash fare and convenience fare such as 31-day pass revenue, was $0.87 for an LRT customer, $3.35 for a Northstar commuter rail line customer, and $0.99 for a bus customer (including express bus premiums) in 2023.

In 2041 (the financial planning horizon year for the Project), the estimated system-wide fare revenue is about $168,542,000. Motor vehicle sales tax (MVST) revenues will be about $528,940,000 and regional sales taxes of $598,880,000. This financial analysis uses an average annual increase of 3.0 percent to Project MVST revenues between 2022 and 2041.

10.2.2.2 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. The Council was also the recipient of $725.8 million of Federal Relief Funds and is using those funds in years 2020 through 2025 to mitigate fare revenue losses resulting from ridership reductions and travel behavior changes related to the pandemic and to provide a $100 million investment toward the METRO Green Line Extension.

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:

- **Council Transportation Division operating reserve**: The Council Transportation Division’s reserve at the end of 2022 was $171.7 million and could be used to cover deficits that might arise with or without the Project in place.

- **State general funds/State commitments**: State general fund operating subsidies have historically grown more rapidly than inflation in recent years and are determined on a project-by-project basis.

- **Moderate additional fare increases**: Under the baseline projection by the Council, a fare increase was implemented in 2017. Fare increases could be accelerated if needed. 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 service hours or number of daily trips, weekend and seasonal/holiday service, or the length of trains.

- **Apply new, non-operating sources**: Apply additional if available and develop supplemental sources of State or other revenues.
10.2.2.3 State Operating Revenue
State funding for transit operations is derived from regional transportation sales and use tax revenue. The 2023 Minnesota Legislature established a 0.75 percent regional transportation sales tax in the State budget to pay (in part) for operating costs not covered by fare revenue for transit projects.

10.2.2.4 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. The Council estimated factors in the formula that allocate grants to urbanized areas 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 Fixing America’s Surface Transportation (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. The Council expects FTA Section 5307 urbanized area formula grants to increase slightly under the new legislation. The financial plan assumes that these grants are applied to preventive maintenance or to the agency-wide capital plan. In 2041 (the financial planning horizon year for the Project), the estimated revenue from the FTA Section 5307 urbanized area formula grant is more than $105 million and an additional $13.72 million for federal operating assistance.

10.2.2.5 Interest Income
Interest income is derived from the interest earned on available funds at existing interest income rates and the Council expects it to generate more than $1.5 million in 2041.

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. In 2023 more than 47 percent of the operating funds of the Council’s Transportation Division are forecasted 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 because of passage of the November 2006 referendum (which dedicated the MVST for transportation investment purposes).

The Council projects the MVST revenues to increase at a rate of 3.0 percent per year from 2023 to 2041. The Council views this forecast as conservative for financial planning purposes, because historical-trended MVST receipts for the period of 1973 to 2021 averaged 3.90 percent. The fare policy is an even stronger guarantee of sustainability because it ensures that customer revenue will grow with operating costs. The Council had its last fare increase in 2017. Fare increases are reviewed with the Council’s fare plan, which is responding to current operating requirements, operating budgets, and the result of the impacts of the pandemic on ridership.

The stability of the Council’s financial environment will allow for managing the long-term maintenance and operation of the Project’s service in a well-planned, deliberate, and financially prudent manner.

2 Federal Transit Administration website can be accessed at: https://www.transit.dot.gov/.