

**FINANCIAL MANAGEMENT OVERSIGHT
CONTRACTORS' GUIDE FOR
CONDUCTING
FINANCIAL CAPACITY ASSESSMENTS**

**THE FEDERAL TRANSIT ADMINISTRATION
OFFICE OF PROGRAM MANAGEMENT,
OFFICE OF OVERSIGHT**

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FINANCIAL MANAGEMENT OVERSIGHT CONTRACTORS' GUIDE FOR CONDUCTING FINANCIAL CAPACITY ASSESSMENTS

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LIST OF ACRONYMS

CAPRA	Capital Reserve Account
COTR	Contracting Officer's Technical Representative
DEIS	Draft Environmental Impact Statement
DOT	U.S. Department of Transportation
FCA	Financial Capacity Assessment
FEIS	Final Environmental Impact Statement
FFGA	Full Funding Grant Agreement
FMO	Financial Management Oversight
FTA	Federal Transit Administration
GAO	General Accounting Office
ISTEA	Intermodal Surface Transportation Efficiency Act
L RTP	Long-Range Transportation Plan
OIG	Office of Inspector General
PMO	Project Management Oversight
PMOC	Project Management Oversight Contractor
STIP	State Transportation Improvement Plan
TEA-21	Transportation Equity Act for the 21 st Century
TIP	Transportation Improvement Plan

Guide Purpose

The Financial Management Oversight Contractors' Guide for Conducting Financial Capacity Assessments (FCA) was developed to provide guidance to contractors performing FCAs in FTA's Office of Program Management. The guide assumes that the FCA contractor and/or other users are professionals with financial analysis experience and knowledge of financing large capital projects. The primary purpose of the guide is to:

- provide basic background on FCAs and the Federal Transit Administration (FTA) project financing environment
- communicate or establish policy for the performance of assessments
- provide the FCA contractors and/or other users with a series of examples and checklists that can be used as guides during the performance of the assessments
- ensure consistency in the scope and quality of assessments performed.

This document is meant as a guide to conducting FCAs for the FTA's Financial Management Oversight (FMO) Program in the Office of Program Management. It should not replace the FCA contractors' and/or other users' professional judgment and analytical skills in the performance of the assessments described. All assessments should be independent of grantee pressure.

About this Guide

The evolution of FTA's philosophy toward fiscal monitoring of grantees that propose and undertake major capital projects is marked by a shift from emphasizing static reports that evaluate plans to a more dynamic, interactive, future-oriented risk assessment that tracks and anticipates events. The FCA is a key contributor to this evolution, as it brings the analytical and reporting activity into harmony with the Project Management Oversight (PMO) Program.

This guide is divided into three parts. **Part A** will provide the reader with an understanding of what constitutes an FCA, how to perform an assessment, and the overall environment in which the FCA is conducted. **Part B** provides a set of examples and checklists that may be utilized to perform these analyses. Because each FCA is unique, it is important to note that the checklists and examples are offered only as options to assist in performance of the assessments and should not be a substitute for experience and professional judgment. **Part C** of this guide provides reference documents.

1. OVERVIEW AND BACKGROUND

A. Background on Financial Capacity Assessment

Included as **Appendix B** to this guide is FTA Circular 7008.1A, Financial Capacity Policy, dated March 1987, which sets forth the FTA's policy on financial capacity issues. While subsequent laws have strengthened the FTA role in analyzing grantee fiscal capacity, much of this Circular still applies today. Subsequent statutory changes under the Intermodal Surface Transportation Efficiency Act (ISTEA) and the Transportation Equity Act for the 21st Century (TEA-21) that apply to FCAs include provisions that:

- require financially constrained regional transportation plans
- mandate that FTA analyze the stability and reliability of future funding sources, other than Federal sources, prior to approval of FFGAs
- require FTA to certify the ability of the grantee to supply the local share for proposed major investments while continuing to operate and maintain the existing system and proposed expansions.

The FTA has an established policy of conducting FCAs of all proposed projects prior to award of a Full Funding Grant Agreement (FFGA). This effort assists FTA in disclosing potential funding issues that could develop quickly in the implementation of major New Starts Projects. These problems often involve cost increases that can hamper the grantee's ability to deliver the project as agreed. Unless expedient and early action is taken, a difficult recovery effort may be required, leading in extreme cases to suspension of planned corridor segments and reduction of overall project scope.

B. The Project Development Process and Financial Capacity Assessment

FTA uses the FFGA mechanism to cap its financial commitment and minimize its exposure for cost increases on New Starts Projects for a number of reasons.

The New Starts Discretionary Program (Section 5309) is heavily oversubscribed. As the scale and cost of projects increase, relatively modest changes in the project budget could consume a significant portion of available New Starts funding. Federal exposure to cost increases would constrain the pool of dollars available for

new projects. Solving the fiscal issues in one jurisdiction would limit the access of other jurisdictions to the program.

There is growing pressure to deliver major public works projects on time, within budget, and within the scope that was agreed upon. Cost increases in projects have concerned Congress and the U.S. Department of Transportation (DOT), drawing attention from oversight agencies, such as the General Accounting Office (GAO) and DOT's Office of Inspector General (OIG).

New Starts projects are funded with various financial agreements . Local elected officials must secure approvals and funding from voters, community groups, and state or county agencies. The financial plans that back these projects are critical pieces of the advocacy effort. The plans must conform to FTA requirements and demonstrate project feasibility. Federal policies encourage “overmatch,” strong innovative financing, joint development, and private sector participation. Financial plans emerge from the planning process that respond to a wide variety of needs and concerns.

FTA has to manage the need to balance its statutory obligation to assess financial capacity with pressures from transit authorities , Congress, or both to advance projects. It is sometimes difficult in that environment to challenge financial planning assumptions. As a result, problems may emerge once the project advances into construction. These same pressures may bear on the FCAs and are another reason for an extra measure of care in documenting concerns in all communications.

The FTA planning process requires grantees to furnish financial data that is then included in the agency's report to Congress on Funding Levels and Allocations of Funds. Congress is seeking frequent and detailed financial analysis, along with specific recommendations from FTA on individual projects.

All agencies advancing New Starts projects (generally those exceeding \$25 million in Federal New Starts funds) must undertake financial planning as part of the project development and environmental process. Financial plans are subjected to detailed analyses by the FTA as the projects progress from the earliest stages of conceptual planning through project planning, preparation of the Draft Environmental Impact Statements (DEIS), preparation of the Final Environmental Impact Statements (FEIS), preliminary engineering and, ultimately, final design and construction.

C. The Full Funding Grant Agreement

FFGAs are grants that commit Federal New Starts funds, according to an annual funds obligation schedule subject to annual appropriations, to major projects (typically in excess of \$25 million in Federal New Starts funds) . The FFGA document is introduced to make multi-year funding commitments, to cap Federal exposure to cost increases, and to ensure that the scope, budget and schedule will be fulfilled even if Congressional appropriations do not follow the anticipated schedule. (*See Appendix C, FTA Circular 5200.1.*)

Federal policy is moving toward entering into FFGAs after projects are sufficiently far enough along in final design for all parties to have a reasonable level of confidence in the project scope and budget. This represents a major shift from the process when agencies committed to completing projects before their full scope and cost were determined.

Prior to entering into an FFGA, FTA conducts a detailed analysis of the grantee's financial plans to ensure that all required commitments are in place. Numerous changes can and do occur during the final design phase that affect cost and schedule. When overall project implementation may cover at least a 3- to 5-year period, there is considerable risk that economic and financial conditions will change.

Recent FCAs have demonstrated that it is possible, through risk analysis, to anticipate potential events that can disrupt the finances of a major capital project, whether they result from cost increases or economic downturns that impact revenue projections. FTA utilizes FCAs to better anticipate problems and to foster a more productive dialogue with grantees about their capabilities to carry out planned projects.

The FFGA is built around policy and statutory obligations imposed on FTA prior to committing funds for major capital projects. (*See Appendix C for the "model" FFGA currently being used by FTA.*) Standard terms and conditions occur repeatedly throughout the document, among them:

- determinations and certifications that the grantee has demonstrated the financial capacity to complete the project within the maximum level of Federal participation and the capability to secure its non-Federal share of funding required

“The Government has no obligation to provide any financial assistance for the Project beyond the Maximum Federal Financial Contribution. If the total Federal financial assistance . . . is insufficient to achieve revenue operation of the Project. . . the grantee agrees to complete the Project and accepts sole responsibility for the payment of any additional costs (increases). . . The grantee further agrees to notify the government when the total project cost is expected to exceed the funds available and identify the source of funds to cover any shortfall.”

- determination that the grantee has an acceptable level of local financial commitment, including evidence of stable and reliable funding sources to construct, maintain and operate the project
- the grantee’s acceptance of its obligation to achieve revenue operation of the project according to a baseline schedule that requires FTA approval to modify

“Delays in appropriations of funds from Congress shall not constitute a basis for extension of the Revenue Operation Date.”

- limitation of the Federal requirement to fund the project subject to the availability of appropriated funds from Congress
- incorporating the grantee’s financial plan and supporting documentation into the FFGA
- an affirmative requirement for the grantee to notify FTA of “any change in circumstances or commitments that adversely affects the grantee’s plan to fund the project costs necessary to complete the project as set forth in the financing plan.” In its notification, the grantee shall advise the government of what actions it has taken or plans to take to ensure adequate funding resources to complete the project. A similar notification and corrective action requirement is included with regard to assuring adequate funding to operate and maintain the entire mass transit system.
- providing the grantee with authority to advance funds in anticipation of future Congressional appropriations; however, in so doing, the grantee recognizes there is no obligation of the government to award additional funds.

D. The Outlook for Earmarking and Financial Capacity Assessment

The willingness of the Federal government to deliver its annual funding commitment under the FFGA is emerging as a critical issue in the New Starts program. Future year commitments under an FFGA must be conditioned on future Congressional appropriations in order to avoid making a full faith and credit obligation of the Federal government. If the obligation is deemed a full faith and credit commitment, the current year's grant, as well as all the future year grants, can be "scored" in the first year of the agreement against FTA's budget.

The grantee accepts the appropriations risk explicitly in the FFGA, otherwise it would appear that there is a Federal obligation. In recent years, appropriation pressures have been so strong that Congress has sought to spread its annual payments for New Starts Projects.

For example, in one case, the grantee's project would enter revenue service in 2001, but Federal payments would have continued until 2005. In order to bridge this gap, the transit agency initiated a commercial paper program backed by the FFGA. The agency borrowed against the expected future Federal funds in order to complete the project within an efficient construction schedule. FTA allowed the interest cost as an eligible project expense for reimbursement because the arrangement reduced overall construction costs.

In many cases, Congress has not followed the FFGA schedule in making its appropriations. This can place extraordinary pressures on the grantee because of the FFGA language requiring that the schedule be maintained even in the absence of future Federal appropriations. A significant shortfall can cause concern among lenders, as well as place a cash flow drain on the grantee.

Because projects are so large, the national program can only afford to build a handful of undertakings based upon the annual authorizations provided for the entire New Starts discretionary program. The growing number of projects receiving earmarks has caused appropriations risks to increase significantly.

2. **FINANCIAL CAPACITY ASSESSMENT**

A. *What is a Financial Capacity Assessment?*

An FCA is a forward-looking analysis of a grantee's agency-wide fiscal capability to fulfill its financial obligations.

It is important to emphasize that the scope of the FCA extends well beyond one particular capital project. The FCA considers the grantee in its entirety, assessing future operations and infrastructure maintenance needs, as well as requirements to replace capital assets on a regular basis.

The primary considerations relate to the grantee's ability to:

- deliver its non-Federal share
- operate and maintain its transit services, including meeting capital replacement requirements
- complete new Federally funded construction according to the terms and conditions of the grant (FFGA) documents, including meeting the revenue operations date.

FCAs are primarily intended for agencies building New Starts projects subject to FFGAs.

In the past, FCAs generally have been undertaken either in advance of entering into an FFGA or once major construction projects are underway, in order to assess the grantee's ability to accept, or continue to comply with, the financial requirements of an FFGA. In cases where circumstances have indicated that a grantee was having difficulty with FFGA obligations, FTA has requested that the grantee develop a recovery plan to address financial, management, or schedule issues. FCAs also have involved the evaluation and negotiation of recovery plans.

Currently, an FCA is performed before any FFGA is awarded. These FCA reports are referred to as "baseline" reports, and provide a general overview of the agencies undertaking a major investment, a general overview of the major investment, and any concerns noted during the review by the FCA contractor. The FCA contractor continues to follow the project throughout its life cycle after

issuing their “baseline” report until construction is completed, and may issue additional reports referred to as “spot” reports. Spot reports are required to be prepared before any FFGA is amended. Other times the FTA may request a spot report if issues arise that were not anticipated in the baseline report. Examples of situations that may precipitate spot reports other than requests to amend an FFGA include: reporting on the impact of voter referendums, reporting on the impact of a revised cost or schedule estimate prior to an FFGA’s negotiation, or changes to a transit agency’s funding mechanisms. The FTA monitors these types of events closely and will authorize the FCA contractor to move forward with a spot report at their discretion.

B. Characteristics of Financial Capacity Assessment

For some years, FTA has conducted Financial Management System Reviews of grantees. These reviews are intended to test compliance with Federal financial requirements as set forth in the Common Rule (49 CFR Section 18). The nature of FCAs is quite different from these reviews.

FCAs have the following characteristics:

1) FCAs are forward-looking and focus on the entire agency.

Past experience is examined closely, but primarily from the perspective of whether or not there is adequate justification for the forecasts incorporated into financial plans. There is strong emphasis on assessing the risk that key revenue and cost assumptions will not be realized and identifying appropriate sources of contingency reserves.

For example, a grantee develops long-range financial projections to support its entire planned capital and operating programs, which assumed sales tax revenue growth levels that are in excess of historical experience. The grantee produces econometric forecasts generated by its advisors to justify the projections. The FCA team found the estimates were too risky and suggested two alternatives: reduce the forecast to levels more consistent with those used by other grantees in the region or establish a reserve fund that would be sized to provide a confidence level to the FTA that would be adequate to cover probable revenue shortfalls.

Evaluation of risk is a necessary and necessarily subjective element of an FCA. The judgments involved require sound evaluation and presentation of data, based on the contractor’s knowledge and experience including an appreciation for the

financial and legal constraints that public transit agencies necessarily must operate within.

Although FCAs are performed with a focus on a specific major investment, the FCA contractor must gain an understanding of all the sponsoring agency's financial conditions. Financial risks that could impact both the major investment and sponsoring agency's existing operations need to be identified. Major investments are not built in a vacuum, and the FTA is justifiably concerned that the construction of a project will not impact currently existing operations in a negative manner.

2) *FCA tests whether key financial plans are accurate.*

Verification of assumptions and budget items is typically performed as a check to ensure consistency among the many different projections transit systems normally produce. If there is a concern about a grantee's financial statements or financial management controls, the FCA contractor should notify FTA and consider the potential implications on the financial forecasts.

The main focus of the FCA is on future forecasts, short-range transportation plans, and longer-range budgets. Pro forma testing is undertaken to assess the reasonableness of the projections and the consistency of assumptions in all the financial plans prepared in support of a New Starts project. One objective is to define a likely range of outcomes and key variables to monitor as events unfold.

An agency undertaking a major capital project is required to produce a dedicated financial plan that encompasses the entire agency. The project's financial plan must include agency-wide projections that demonstrate compliance with the requirement for adequate fiscal capacity to operate and maintain the existing level of service, as well as meet the new demands of the proposed project.

In June of 2000, the FTA produced FTA's Guidance for Transit Financial Plans. (See **Appendix D, Guidance for Transit Financial Plans.**) Although **Appendix D** is guidance only and not a requirement, grantees should try to adhere to the requirements of **Appendix D** to facilitate a smoother FCA process.

The FTA guidance lays out what the FTA considers to be the content of an acceptable finance plan. This includes the major components of a finance plan: funding sources and revenue forecasts, the proposed project capital budget, other

planned capital projects, and annual operating and maintenance expenses for the proposed project and the overall system. In addition, the guidance requests that certain documents be available to support the finance plan. These documents include, but are not limited to: audited financial statements, bonding prospectus, rail-vehicle and bus fleet management plans, regional economic forecasts, descriptions of innovative financing, regional Long Range Transportation Plans, regional Transportation Improvement Programs (TIP), project finance plans, and the most recent strategic plan and budgets.

Inconsistency between the finance plan and the documents that support it has emerged in some cases as a financial capacity issue; however, the emphasis for the contractor rests upon making a judgment call as to whether the assumptions driving the key variables are reasonable. Future outcomes will probably vary substantially from those in the plan due to unanticipated events, but FTA's interest is that sufficient margin exists to yield a very high probability that the grantee's obligations will be fulfilled.

3) *FCAs must be able to withstand intense scrutiny.*

The FCA contractor's role is advisory to FTA senior management with a focus on policy considerations. The findings of FCAs may be hotly disputed by the grantee staff and consultants, and therefore must be able to withstand intense scrutiny. FTA is also sensitive to the results of studies conducted by such audit agencies as the GAO and OIG in evaluating FTA New Starts projects.

Currently, the majority of FCA reports go to members of Congress where they are analyzed. A grantee's annual appropriations may be modified based on this analysis, depending on the content of the report.

4) *FCAs must address current conditions.*

Many FFGAs are based upon forecasts made during the project planning process that may no longer be valid. Project costs may have escalated, revenue forecasts may not have been realized, anticipated Board actions (such as periodic fare increases) may not have been undertaken, or new considerations may have been introduced that were not anticipated earlier. Moreover, significant events may unfold during the course of the FCA. Examples include:

- lawsuits and court decisions

- economic downturns
- construction problems
- changes in project scope
- unanticipated environmental impacts
- changed construction or materials market conditions
- political leadership changes
- collective bargaining issues.

Bringing the forecasts in line with current conditions and addressing the implications of making plan revisions can be challenging and are sometimes viewed by grantees as “bad news” to be addressed in the future. Overcoming “organizational denial” can, in some cases, be an important function for the FCA team.

The FCA is intended to expose such conditions when they exist. The grantee may be asked to develop a recovery or restructuring plan that responds to particular concerns identified. The contractor will then shift to evaluating the revised financial plan included as part of the recovery plan, taking into account FTA policies, precedents, and priorities. Once the FCA contractor has reviewed the revised finance plan and found it feasible, a spot report is developed. If the FTA is in agreement with the FCA contractor’s finding of financial feasibility, the plan is accepted and the FCA contractor will monitor the ongoing financial performance under the revised milestones and benchmarks.

5) *The FCA contractor coordinates with the Project Management Oversight Contractor (PMOC) and other “team” members who may be assigned to the project by FTA, and takes into account other reviews that may be undertaken by the OIG or the GAO.*

The FCA contractor places heavy reliance on the PMOC to identify and evaluate issues that will affect the cost to complete a project. The PMOC will guide the FCA contractor in assessing risk factors involving contemplated or ongoing construction, as well as fleet management issues. Based upon contingency parameters and technical studies prepared by the PMOC, the FCA contractor can proceed to assess the adequacy of the resources available to address the engineering and construction issues at risk.

As noted above, in other situations, the level of funding available to complete or subsidize a major capital project will be influenced by the basic capital and

operating requirements of the grantee's existing transit services. It is possible that results anticipated in long-range financial plans will not be realized in annual budgeting and may affect the grantee's ability to fulfill its FFGA obligations. Since grantees should emphasize sustaining current operations over providing resources for construction of new facilities, larger than anticipated operating deficits can often consume funding sources.

For example, some project sponsors have developed long-range operating budgets that assume annual fare increases to match inflation, but historically, many Boards are not able to adopt the planned increases. In other cases, sponsors may recognize current operating inefficiencies and plan improvements to address them that would reduce the growth rate of future operating costs. Again, political and collective bargaining realities may limit the timing and extent of the improvements. Suits by individuals over fare and level of service issues can call into question the grantee financial assumptions, requiring the financial assessment team to work closely with the specialty consultant to validate or revise the grantee's cost projections for future system operations.

Coordination between the FCA contractors and the PMOC generally centers on the FTA regional offices. The FCA contractor will be expected to function as part of a team, providing professional judgment and advice to FTA. The advice must be grounded in factual analysis that the FCA contractor must be prepared to defend if challenged by the grantee, other funding partners, the grantee's Congressional delegation, or other Federal oversight agencies. However, the team approach allows the FCA contractor to focus on budget and risk issues based on evaluations by construction and other technical experts.

6) *FCAs often are iterative.*

Once the FCA contractor identifies an issue, the grantee often replies with proposed solutions. The FCA contractor must be prepared to assist FTA in determining if the proposal is suitable and to support FTA in the process of working out a reasonable path for moving forward. The goal of all parties is to see the projects built as they were planned and for the public to enjoy the transportation benefits that were anticipated when the project was approved.

C. A Sample Work Scope

Appendix A contains a sample FCA Scope of Work. The FCA contractor will work with FTA Headquarters and regional offices to add to the generic scope presented in **Appendix A**, and will identify issues and concerns they would like to see addressed in the assessment. While the sample scope requires that the assessment be both broad and penetrating, FTA is not looking for a voluminous report that duplicates work already performed by the grantee's Board, staff, auditors, financial advisors, and investment bankers. FTA would like to see summary information that addresses each element in the scope of work, together with the contractor's conclusions on any key issues relating to the financial capacity of the grantee.

Moreover, if the initial assessment indicates potential problems in technical assumptions or agency practices, the contractor can request support from other assigned contractors, such as the PMOC or internal FTA specialists. The FCA contractor is not expected to be an expert in construction practices, fleet management, or collective bargaining. However, where key assumptions are found to hinge on these matters, the FCA contractor is expected to raise questions that FTA may then refer to specialists it retains.

FTA values the ability of an FCA contractor to distill key concerns from literally thousands of pages, state them clearly, and sufficiently document these concerns to establish the point without overwhelming the reader with detail. Another highly valued service is the ability, when requested, to identify options for FTA to consider in resolving concerns that are raised based upon the FCA contractor's experience and knowledge of project finance practices.

Much of the contractor's contribution may be in the form of quick response spot reports or participation in FTA meetings and teleconferences. This may be targeted to a specific policy question or Congressional inquiry that arises on relatively short notice. The FCA contractor is expected to be sufficiently "on top of the situation" to be able to respond immediately, if necessary. The FCA contractor may also be requested to assist in drafting and editing FTA guidance to ensure factual accuracy and to contribute background on how similar situations might be addressed in a banking or investment banking context. FTA may rely on the FCA contractor to help secure needed information from a grantee, assist in negotiations with a grantee's technical staff in drafting documents, or explain technical concerns that FTA desires the grantee to address.

FTA monitors each grantee that has undergone an FCA through completion of the project. Monitoring is recognized as an important element of the financial capacity oversight function. The dynamic environment within which major capital projects are undertaken often results in changes to revenue or expense projections. FTA has recognized that responding to such events quickly, or even preferably, anticipating them and establishing contingencies, is essential to avoiding the protracted and difficult financial “work outs.” Resolution of FTA concerns may require an action plan, with milestones that can be monitored to confirm the required performance is achieved.

3. PREPARING FOR FINANCIAL CAPACITY ASSESSMENTS

The previous sections of this guide outlined the reasons for undertaking an FCA and the requirements grantees must fulfill under FFGAs. This section provides specific information about the actual conduct of an assessment: setting objectives; gathering data for the analysis; and establishing contacts with the regional office, Headquarters, and the PMOC.

A. Problem Identification and Targeting the Issues

1) Problem Identification

In early FCAs, the FTA focus was directed to known, often serious, threats to a grantee's ability to carry out its financial obligations under an existing FTA grant. With the knowledge and understanding obtained from these experiences, FCA contractors are now able to take a proactive approach that permits the contractor to identify financial problems early. FTA management is able to use the information obtained in these reviews when setting the terms and conditions for funding a project. This increases the probability of a project being successfully completed without the need for a recovery plan. However, should recovery or restructuring plans be necessary, the prime objective is to advance the full scope of the FFGA project to completion without adversely affecting the overall operation of the grantee's transit system.

2) Targeting the Issues

As noted earlier, many different issues can arise over the period of project implementation. Getting properly focused early in the assessment process and targeting key issues is of paramount importance in the mobilization phase of the FCA.

The FCA contractor should begin with the concerns presented by FTA in calling for the assessment, adding inquiry into related issues, as needed, to understand the problem and available remedies. Critical information must be sought diligently; however, the FCA should never be perceived as a 'fishing expedition' by a contractor simply looking for problems. FTA intends for the FCA to be helpful to the grantee in resolving its financial issues; it is not a punitive measure. While the FCA contractor may encounter problems that suggest lax internal controls or

ineffective management procedures, they are best noted and referred to the FTA and the COTR.

The FCA contractor must strike a balance between general and specific considerations through balanced input from FTA regional and Headquarters offices and the consultant's own experience. A misguided analysis can have serious political and social consequences, which are embarrassing to the grantee, FTA, and the FCA contractor itself. Each FCA contractor will employ his or her own methods and perspective to make these judgment calls. In many cases, discussion with the grantee about the 'known indicators' may satisfy the concerns or confirm the need for further research.

The contractor may encounter one or more of the following conditions, which could require additional inquiry:

- failure to carefully manage system operating costs, permitting budgeted capital investment matching funds to be drained off
- inability to track actual vs. budgeted expenditures early enough to permit timely corrections
- vague budgets and financial statements
- use of unrealistic growth expectations for sales taxes, passengers revenues, or other funding
- use of unrealistic growth rates for expenses
- failure to realize budgeted operating efficiencies
- contingent, pending, or 'best efforts' commitments that local matching will be available when needed
- prior commitment of local matching funds to other needed transportation [or other infrastructure] investments.

B. Contacting Critical Resources

1) FTA Office of Planning

The FTA's Office of Planning also conducts financial capacity assessments when agencies request to enter preliminary engineering and final design. These financial capacity assessments differ in scope and objective from the FCAs referenced in this guide. However, the Office of Planning assessments are useful tools that can be utilized by the FCA contractor to familiarize himself with the grantee and may point out financial risks that the FCA contractor should note.

Prior to the start of a "baseline" assessment, the FCA contractor should obtain any assessments that have been performed by FTA's Office of Planning, since these will have been performed prior to the negotiation of an FFGA. This effort should be coordinated through the COTR.

2) FTA Regional Office

Regional offices know their grantees, having reviewed the planning and environmental documents that support an FFGA, and are involved in negotiating the FFGA itself. The regional office therefore knows the project development history and many of the associated political, social, environmental, operational, and financial considerations involved. They provide insight into organizational and financial strengths and weaknesses. Their insights are essential to laying a foundation for the FCA. Their insights are also helpful since the regional office signs all environmental documents and because they compile, review and recommend FFGAs for approval by the Administrator.

Regional offices also have the strongest links to state and regional organizations that may be funding partners with FTA under FFGAs and regular capital programs.

The regional office serves as FTA's point of contact with the grantee and takes the lead in helping the FCA contractor establish contacts within the grantee's organization, coordinate schedules for meetings, and secure necessary reports and documentation. At the outset, all information requests from the grantee must be coordinated through the regional office, particularly because many of the needed items may already be available through the regional office.

The FCA contractor will usually begin data gathering with a visit to the FTA regional office, meeting with a key point of contact who can provide the history leading up to the FCA request, the concerns that should be addressed, and any special considerations. The FCA contractor can thus narrow the data review task and glean through the volumes of budget, financial plan, long-range plans and supporting documents, and official reports and public statements involved. This focused review will enable a useful first reading for the FCA contractor, spelling out the magnitude and seriousness of any problems or providing the basis for a conclusion that the grantee will be able to carry out the project.

After the regional office visit, the FCA contractor should be ready to move forward with the FCA.

3) *FTA Headquarters*

Headquarters staff often bring considerable history to the process and will have very specific concerns that the FCA must address. Headquarters personnel have direct contact with a grantee's Congressional delegation and the Congressional Committees under whose jurisdiction the FTA programs operate. FTA Headquarters staff is charged with addressing New Starts projects across the board and high-risk issues nationally in a manner consistent with Federal policy and Congressional intent. In addition, it is Headquarters personnel who have the responsibility for coordination with parallel reviews that may be undertaken by the GAO or the OIG.

The FCA contractor has broad latitude in analyzing financial conditions. Headquarters' aim is toward quickly documenting the key issues and then monitoring the agency to assure that no further problems or deviations from the plan arise. The effort must be focused on presenting relevant information in a format that facilitates FTA's decision making.

If the grantee disputes the findings reached by the FCA contractor, it will be Headquarters that subjects the documentation and backup data to intense scrutiny and calls upon the author to defend the results. It is Headquarters staff who must, in turn, answer to Congress.

4) *The Project Management Oversight Contractor (PMOC)*

Each grantee undertaking a New Starts project is subject to the Project Management Oversight process. The PMOC is the early warning mechanism that identifies potential technical problems in project delivery or planning. The PMOC is typically an engineering firm that works closely with the regional office in ensuring that grantee capital programs are properly implemented and conform to Federal guidelines. The PMOC is also familiar with the grantee's regular operations and capital replacement projects, as well as fleet management issues and the specifics of costs, budgets and schedules for New Starts projects covered by an FFGA.

Often, the PMOC is responsible for tracking much of the cost and grant data for FTA and will have monitored the project planning from its early stages. The FCA contractor can reduce the burden it places upon the grantee by gleaning as much of the technical information on project costs, schedules, and expenditures as possible from FTA or PMOC sources.

The PMOC's knowledge of the grantee's regular capital program (fleet replacement cycles, modernization programs, signal system upgrades, station rehabilitation programs, and shop and depot improvements) can help the FCA contractor evaluate the allowances applied by the grantee in the long-term capital program for investments needed to maintain core services, as affected by depreciation considerations.

Familiarity with the grantee's budgets, schedules and performance in delivering previous capital projects enables the PMOC to aid the FCA contractor in evaluating risk, provisions for contingency, and potentially, where else to look for latent problems. If the PMOC and regional office can give the contractor assurance that the grantee's track record for project implementation is generally sound, this can help direct the focus of an FCA to other issues.

One of the PMOC's greatest contributions in supporting the FCA contractor will be to track project cost estimates against actual outlays and contract obligations. This will suggest the likelihood of cost increases or schedule delays on a New Starts undertaking. FCA contractors do not have the engineering skills to make many of these assessments and are not expected to duplicate the PMOC's extensive experience in cost and schedule matters.

The PMOC also may assist in tracking construction claims, and assessing the sufficiency of budget contingencies and the adequacy of allowances and insurance coverage for third party claims. This information will help the FCA contractor evaluate these risks in relation to available revenue streams. The FCA contractor will need to assess the availability of financial resources to meet potential shortfalls, but it is the PMOC's responsibility to estimate projected budget gaps or delays.

The PMOC's input is also a key resource in evaluating the terms and conditions of turnkey contracts, which are becoming increasingly popular with grantees for delivery of fixed guideway systems. Turnkey contracts are intended to reduce claims and cost increases by combining design and construction in a single bid package with fixed-price, date-specific delivery guarantees. Production, scheduling, testing, and contract administration are simplified, because the owner/grantee establishes a single point of contact and does not have to integrate the work of multiple contractors. In some cases, operations and maintenance are combined in the turnkey procurement as an inducement for the contractor to deliver a high quality product. As a result of the fixed price and guaranteed schedule of turnkey contracts, as well as a modified risk-sharing structure arising from the design/build process, grantees may be trading somewhat higher initial pricing in order to avoid future claims or change orders. The PMOC and the FCA contractor's own assessment of the turnkey contract documents can help in the evaluation of contingency budget provisions.

The turnkey contract sets forth a schedule for completion, allocates risks among the parties, and often establishes a mechanism for making progress payments, a key consideration in making cash flow projections. The grantee's obligation to make the progress payments is compelling because the potential for delay claims on a large turnkey contract may be substantial.

The PMOC may have performed an assessment of the grantee's fleet management capabilities. Fleet management is a key indicator of a grantee's performance and its "ability to operate and maintain the existing mass transit system." The age of the fleet, the spare ratio, and the condition of the depots will give indications of how well the grantee is managing its bus and rail systems. This also provides insights into obligations for future investment in rolling stock that must be factored into long-range capital plans. These obligations may represent the largest single element of a capital needs projection.

Another key element in this equation is often the condition of the grantee's shops and repair facilities. Old, inefficient shops may be candidates for replacement, representing future investment requirements that affect the grantee's ability to sustain new fixed guideway construction. On the other hand, improvements to fixed facilities may increase utilization of the current fleet and minimize the need for additional rolling stock to provide current or expanded service levels.

4. GATHERING AND ORGANIZING DATA

This section describes the process for requesting information and conducting a preliminary analysis.

A. Initial Intelligence Gathering

Once the engagement is established and initial contacts have been made with the regional office, FTA Headquarters, FTA Planning, and the PMOC, the FCA contractor should independently try to discover as much relevant information as possible about the grantee and the specific issues at stake. In FCAs, much of the background data is collected and analyzed before the first visit to the grantee. This discovery process permits the initial site visit to concentrate on specific issues and detailed information needs, rather than having the contractor receive and try to absorb all information during the first grantee visit.

One useful tool is a news search for information about the grantee and the FFGA project. Online news retrieval services such as Lexis/Nexis, Disclosure, or Dow Jones may be accessed to provide background and to focus the FCA contractor toward areas of concern. Ongoing monitoring of current events through online editions of local newspapers has also proven to be an important source of intelligence in FCAs. In many cases, these news searches reveal studies or investigations that have direct bearing on the concerns identified by FTA. These documents can then be added to the list of information sought from the grantee or the regional office and may help avoid unnecessary duplication of effort.

The following examples illustrate the value of this initial information gathering:

- Legislative bodies may react to adverse claims about a grantee's debt management practices and require an investigation before approving matching funds for a project. Such requirements will be reported in news accounts and will be readily available. Once identified, the report of the investigation can be requested, averting considerable research effort.
- News searches can also reveal fast-breaking information about the credit worthiness of a grantee or its state or municipal partners in funding a project. Mergers of the grantee with other units of government or operational entities must be tracked in order to evaluate the resulting changes in institutional or financial risk.

Important background data on the proposed project should be obtained directly from FTA files, if applicable:

- the proposed FFGA document, which also includes the baseline project schedule and costs, the schedule for the delivery of Federal and non-Federal funding sources, and any unique provisions
- the grantee's financial plan for the proposed FFGA and background reports documenting the basis for key assumptions. More recent data can be compared to the projections in order to determine the reasonableness of the original assumptions and the risk of future problems
- the FTA analysis of the grantee's financial plan for the proposed FFGA, to help flag areas of weakness or concern. It is not uncommon for issues to be foreseen well in advance.
- the Long-Range Transportation Plan (LRTP) prepared by the MPO, which contains all anticipated transportation projects in the metropolitan area over a 20-year horizon. This plan is sometimes required for use in making Clean Air Act determinations.
- FMO and Triennial reviews, to convey a sense of the grantee's financial management environment
- Congressional authorizing and appropriations language pertaining to the project, to sensitize the contractor to program implementation requirements and statutory constraints affecting FTA
- documentation supporting the FTA annual *Report to Congress on Funding Levels and Allocations of Funds for Transit Major Capital Investments*
- electronic and paper correspondence with the grantee on subjects related to the FCA, to provide background on key issues, previous attempts at resolution, and the project history
- previous plans, documentation, and reports submitted by the grantee to FTA in relation to previous FFGAs. PMOC quarterly project reports and spot reports may be useful, as they may provide pertinent information on the robustness of

state and local share commitments and the outlays, sources and applications of funds

- information on other major Federally funded projects underway or in the planning stages by the grantee or its State and local partners, to appreciate the extent of commitments they may be undertaking and the potential for other, competing needs for the same resources

B. Initial Information Requests to the Grantee

With FTA-supplied and independently gathered information in hand, the FCA contractor can begin to prepare a list of documents to request from the grantee through the regional office. The list of documents can be extensive, depending upon the number of funding partners and the nature of the issues to be addressed.

For example, a project may involve funding commitments of a grantee, the municipal airport, one or more counties, the city corporation, and the State. This combination can require multiple evaluations and review of a large volume of documentation. The FCA may also involve review of any capital reserve fund to determine the extent of its coverage of specified risks.

The grantee should designate a point of contact for the FCA. This person will have the lead in securing requested information items before the initial site visit and in organizing meetings to obtain grantee management's responses to questions posed by the contractor. For the process to work properly, this contact person must have quick and unfettered access to the requested information.

The materials described below may be most useful in identifying and documenting key issues. Given the normal sequence of an engagement, it is not typical for all of the documentation to be provided in advance of an initial site visit. In many instances, the grantee will furnish some key items other than background information during the site visit, and there may not be adequate time for the contractor to go through all of the materials before the kick-off meeting. The idea is to learn as much as possible before the first grantee site visit so that the kick-off meeting can be focused on specific FTA concerns. Some information furnished in the site visit will have to be evaluated after the kick-off meeting to keep the FCA on schedule.

1) *Annual Operating Budget*

Several years of annual operating budgets generally convey a sense for the fiscal pressures confronting most transit agencies. The operating budget provides insight into the primary sources and uses of funds flowing through the agency. Forecasts of fare collections, dedicated revenues, other sources of non-Federal assistance, operating expenses, debt service, and capitalized operating expense are heavily dependent upon “base year” assumptions, which are typically derived from operating budgets. These data points are critical to assessing the grantee’s capability to operate and maintain the existing mass transit system.

These documents also include management discussions of trends, challenges, and accomplishments that help the contractor identify the pressure points within the organization. Finally, the budget documents often include an appendix with historical data that can be used to assess the reasonableness of planning forecasts. In cases where some time has elapsed since the original financial plan, the accuracy of the assumptions compared to actual experience can be tested using budget information.

2) *Official Statements and Other Credit Facility Documents*

These documents explain the grantee’s legal and institutional structure, detail the amount and nature of its outstanding debt, define key revenue streams and the legal limitations on their use (including their potential expiration or dedication to particular purposes), and describe its legal authority to borrow for capital projects, among them the FFGA project. They will also contain information on expected future trends, major commitments and other factors affecting the grantee’s financial strength, together with historical financial statements and trend information. It may also be helpful to secure rating agency reports, or the grantee’s presentations to rating agencies, from the grantee or from other sources available to the contractor.

In some cases, grantees may have issued grant anticipation notes or commercial paper, or arranged bank credit lines to cover shortfalls in Congressional or non-Federal appropriations. It is important that the agreements and term sheets be evaluated so that the FCA contractor understands the covenants and restrictions associated with these instruments and the risks they pose to the agency’s overall capital program.

If not adequately described in credit facility documentation, it may also be necessary for the contractor to examine the actual authorizing legislation that enacted key dedicated revenue sources or other special fees or taxes, such as property tax-based benefit assessments.

3) *Non-Federal Funding Agreements*

In cases where multiple entities have agreed to provide the non-Federal share, assume responsibility for cost increases, or provide portions of the FFGA project necessary for the transportation benefits to be realized, the underlying agreements or memoranda of understanding should be reviewed. These agreements help the FCA contractor understand relationships among the non-Federal funding partners and identify instances where contingencies affecting the risk outlook may exist.

For example:

- An agreement between a grantee and a funding partner could stretch out the payment of matching funds over many years. This could result in considerable interest expense to the grantee.
- A contingent agreement may contain unattainable milestones, conditions, or other unrealistic service commitments that must be met prior to the funding partner being obligated to provide funds.
- Local partners may be constrained by Board action to a limited financial exposure, in effect leaving the grantee responsible for covering all contingencies.
- Grantee agreements for the use of funds for capital projects sponsored by others may throw its capacity to maintain committed levels of transit service into question.

4) *Capital Plans*

Every transit agency must develop an annual capital budget and multi-year capital plan. Each MPO establishes a TIP to program capital outlays. The transit agency's capital budget must be integrated into the TIP. By Federal law, this document must be fiscally constrained.

The transit agency's component of the TIP should provide detailed information on Federal and non-Federal funds programmed to implement the FFGA project, as well as other key capital outlays required to support additional major capital projects and meet capital replacement needs during the planning period. Longer range 15- or 20-year capital plans also may be developed by the grantee, but tend to be far more speculative than the shorter range capital projections and often include both project and revenue "wish list" items.

Nonetheless, a comparison of these plans with the financial projections supporting the FFGA can often highlight deviations between planned and actual revenues and outlays, and can shed light on the consistency of forecasted revenue streams and future capital needs. In addition, the number of "unmet needs" can help the contractor identify operating and maintenance requirements that are potentially underfunded during the major expansion program.

5) *Dedicated Revenue Forecasts*

Many grantees undertaking New Starts projects receive funding from dedicated sources, such as a sales tax. The methodology for projecting these critical revenue streams, as well as the actual source document for the forecasts, should be requested for several previous years. In the past, there has been a wide variation in the rigor and aggressiveness of these estimates. In addition, it is important to understand any legal or categorical constraints on the use of these funds, such as dedications to road or rail projects, caps on the use of funds for operations and maintenance, or sunset (expiration) provisions.

The FCA contractor's experience will be important in assessing the track record of the forecast methodology, the statistical risk inherent in the growth factors, and the measures taken by the grantee to mitigate risks, for example, the use of composite forecasts based upon multiple projections adopted by other local and regional entities, or establishment of reserves to account for economic variability.

6) *Comprehensive Annual Financial Statements*

Three to five years of official and supplemental financial statements should offer insight into the grantee's fiscal structure and provide a source of data for tracking the associated flow of funds.

7) *Board Briefings and Reports*

Almost all transit systems operate in an open, “sunshine” environment that makes public all staff reports and briefings prepared for the Board. Often these are available online at grantee websites. Typically, these briefing materials are very helpful in understanding the issues addressed and the various approaches employed by the staff to address key issues.

It is important to recognize that in some instances, agency staff may be directed to undertake actions by the Board that could destabilize the grantee’s financial standing. These pressures can often be discerned by the FCA contractor through review of Board briefing packages.

8) *Capital Reserve Account Documentation*

Some FFGAs include provision for a capital reserve account (CAPRA) to help fund grantee obligations, to pay for cost increases, and to avoid delays that might be attributable to the timing of Federal appropriations. If the initial indications are that additional resources will be necessary to fulfill the FFGA, the CAPRA is an important place to look first.

9) *Other Documentation*

Based upon the FCA contractor’s knowledge of the grantee, or reports and information gleaned from the regional office or the PMOC, it may be necessary to request particular documents that provide a targeted insight into selected grantee financial practices. For example:

- Where turnkey contracts have been used, the FCA contractor may wish to read through the provisions pertaining to risk allocation, progress payments, cost and schedule guarantees, and, if appropriate, the calculation of operating and maintenance costs.
- Environmental documents may need to be referenced in order to track evolution of the scope and budget of major capital projects, as well as the origins of assumptions in the financial plans.
- Financial policies and strategic targets may be established at the Board level that limit access to cash reserves, restrict the application of certain revenue sources to

particular uses, or limit the debt levels that can be taken on by the grantee. These policies can influence a grantee's available fiscal capacity to fulfill FFGA commitments. In some FCAs, grantees were found to have pledged the same funds to meet multiple reserve requirements. Published documents usually will not provide enough information to discover this practice. It requires digging beneath the surface of available documentation and/or comparing numerous documents for evidence of double counting. This difficulty is compounded when the transit agency is a department or entity of a larger, more complex agency.

- Where grantees have assumed certain efficiencies or productivity gains in projecting future operating costs, it may be helpful to request background information on the collective bargaining results that are the basis for the forecast. In other cases, where grantees have renewed labor agreements, a comparison between the assumptions in earlier forecasts with the actual outcome of the negotiations may be important to evaluate.

5. SITE VISITS AND DATA ANALYSES

This section reviews the process for undertaking on-site meetings and creating a framework for analyzing data.

A. The Initial Site Visit

The initial grantee site visit will be arranged by the regional office and will begin with an entrance conference with senior level managers, including the General Manager or CEO. As a general rule, the Regional Administrator should send the grantee a letter of confirmation. Regional office staff will participate in the entrance conference.

Prior to the entrance conference, a pre-meeting is held between the FCA contractor and the responsible regional office staff. This permits the FCA contractor to brief the regional office representative on the preliminary results arising from the initial data assessment and to exchange perspectives regarding FTA Headquarters and regional office concerns. The pre-meeting also permits the contractor to discuss with the FTA representatives difficult questions to be posed during the technical sessions and to receive advice about dealing with certain participants, late-breaking developments and strategy.

1) The Entrance Conference

The objectives of the entrance conference are to explain the scope and process of an FCA and to secure the commitment of the grantee's top management to supply the necessary information and cooperation needed by the FCA contractor. It is an important opportunity for the regional office representatives and the FCA contractor to answer questions that senior managers may have about the scope and timing of the FCA. The entrance conference is also a forum for outlining major issues that come up in the preparatory analysis.

Grantee representatives will likely express concern over the need to maintain confidentiality and often will request an estimated date for receiving a copy of the FCA baseline report upon which they can comment. Grantees typically will want the assessment to be completed very quickly and discreetly.

The entrance conference typically includes senior agency managers, who will then

The entrance conference typically includes senior agency managers, who will then be responsible for helping the contractor find information and answer questions.

2) *Technical Sessions*

After the entrance conference, a series of meetings follows with agency managers responsible for specific subject areas that were identified in advance as being of interest to the contractor. At these technical sessions, the FCA contractor may receive information previously requested that was not available before the site visit, be briefed on questions or issues posed in advance through the grantee's point of contact, and have the opportunity to pursue new lines of inquiry arising from the document review.

Key grantee staff typically involved in the technical sessions include:

- Finance Director or Controller/Treasurer
- Project Manager for the FFGA Project
- Capital and Long-Range Planning Director
- Budget Director
- Service Planning or Operations Director.

Generally, the first day of the site visit will yield new information that clarifies key issues or answers questions raised from the document review. Some items may be resolved, while new lines of inquiry may be initiated. Where possible, the FCA contractor should spend the evening of the first day reviewing the new materials provided at the technical sessions and reassessing preliminary ideas and questions. This will permit a sharper focus in the second day's technical meetings and lead to opportunities for follow-up dialogue and additional input relating to new or outstanding concerns.

On average, most site visits last two or three days. In some cases, where multiple funding partners are present, logistical considerations may require a longer initial site visit. As previously indicated, the bulk of research and analysis is conducted in advance at the FCA contractor's office. Site visits should be viewed as

opportunities to gather information, confirm or dispel concerns, and respond to grantee requests to brief the contractor on issues or new developments.

Exit briefings should be used by the FCA contractor to thank the grantee for its cooperation, as well as to provide a general road map of next steps to occur. If regional staff are not present at the exit briefing, they should be available by telephone. If the contractor has had the opportunity to discuss next steps with FTA representatives, it may be possible to be more specific. However, the best approach is usually to defer on specifics and present “next steps” in the form of alternatives that may occur depending upon the outcome of further analysis and discussions with FTA.

The emphasis of the site visit meetings is to test ideas, gain insight, and better understand the materials in hand, as well as to establish contacts that will permit follow-up telephone exchanges with grantee staff for future questions and information needs.

B. Working With Grantees

1) Oversight and Technical Assistance

The primary role of the FCA contractor is to provide insight into financial issues affecting the grantee’s ability to fulfill its FFGA obligations and commitments to FTA. This insight helps FTA in fulfilling its project management, oversight and policy development roles.

After identifying grantee problems for FTA, the FCA contractor will present alternative solutions that were successfully applied elsewhere in transit and other environments, such as:

- applying more realistic financial forecasts, where needed
- presenting strategies to mitigate financial risk.

2) Maintaining Ongoing Staff Contact

The FCA contractor will maintain contact with the grantee through its designated representative; however, these contacts must respect the confidentiality of the FCA

contractor's obligations to FTA. Providing documents and reports intended for FTA, either in final or draft form, directly to grantees is not permitted. FTA typically transmits documents to grantees and the FCA contractor must work through this process.

While the FCA contractor must secure and analyze technical details and interact with grantee staff, the issues of primary concern to the FCA contractor are those that would involve the General Manager. Minor technical points can be conveyed to FTA via e-mail. The main emphasis of the analysis is devoted to issues that would be of higher level concern. Lesser issues may be left for resolution through FMO or Triennial reviews, or the audit process. This perspective will help the FCA contractor maintain focus when faced with analysis of a considerable volume of information.

3) *Subsequent Site Visits*

It is possible that the FCA can be accomplished with only one site visit. With the cooperation of the grantee, much can be accomplished by telephone, fax, e-mail and overnight mail.

Additional site visits may be required for any of the following reasons:

- a request by the FTA to participate in a quarterly grantee meeting
- a request by the FTA to attend briefing sessions arranged by the grantee for oversight agencies: FTA, GAO, OIG
- a request from the FTA to confer with State officials or other funding partners
- to address new developments arising during the course of performing the assessment or the post-assessment monitoring period
- a request from the regional office to brief senior grantee management on the status of the assessment.

C. Analyzing the Information Supplied

The volume of materials can be substantial and each reviewer should develop their own techniques for breaking things down into manageable portions. A good starting point is to divide the information into groups of like materials (official statements, operating budgets, financial statements, and so forth) and prepare a materials inventory. The FCA contractor's earlier analysis of the documents supplied by FTA and the PMOC will provide a helpful frame of reference in organizing the information received.

The most important items to identify are special reports or documents of direct interest to FTA. This will quickly immerse the FCA contractor in briefing materials on the issues at hand.

1) Assessment of Risks

In working through the materials, the FCA contractor needs to maintain perspective and narrow the subject areas in order to provide results quickly. FCAs are essentially future-oriented risk assessments. They are not intended to yield exact, quantitative results. Their intent is to provide a level of assurance that financial plans appear reasonable and to notify FTA of potential risks. In general, FCA contractors should be able to provide answers to the following questions after performing their assessment:

- What are the key concerns identified by FTA and the PMOC?
- Can the FCA contractor find a basis for these concerns and document them, or is there adequate documentation to demonstrate that actual conditions are better than the perception?
- What is the most likely range of possible outcomes?
- What are the key variables that could affect future outcomes?
- What are the risk factors that affect those key variables?
- Is there confidence in the future outlook put forward by the grantee?

- Does the FCA contractor feel that the grantee made a reasonable effort to be objective?
- Is the grantee's past performance a risk factor?
- Can the FCA contractor distill from the data supplied a concise, cogent argument for their confidence or concerns?
- Are the assumptions and the financial projections conservative, or at least reasonable?

The analytical process is relatively unstructured. It is heavily dependent upon the judgment and experience of the FCA contractor. It is wide-ranging in the sense that the grantee's resource base is finite and problems in one domain (such as another large capital project, rapidly escalating operating costs in relation to revenues, looming fleet replacement obligations, or fiscal difficulties of a key funding partner) can affect performance under the FFGA and must be factored into the FCA contractor's analysis.

Since grantees allocate available funds first to debt service and then to sustaining operations, it is usually necessary for the FCA to evaluate to some degree the adherence of the grantee to regular operating budgets and to assess its track record on revenue and expense forecasts. If there are difficulties with the operating budget, the financial consequences will soon be felt on the capital budget. Even if the FFGA commitment continues to be honored, the impact of a drain caused by operational shortfalls may result in deferred maintenance, postponement of needed fleet replacement procurements, or deficiencies in other areas necessary for the "operation and maintenance of existing mass transit services."

The FCA considers all forms of risk, including but not limited to, the following:

- political risk affecting the commitments of funding partners; the timing of Federal earmarks; the award of key engineering, construction management and/or hard construction contracts; the will to approve fare increases built into financial projections; and contingencies that link funding for an FFGA project from a non-Federal partner to other capital commitments for which revenues may not yet be available

- economic risks affecting revenue projections (sales taxes, fare revenues), labor and energy costs, and interest rate assumptions on debt
- market conditions affecting bid proposals for construction, rolling stock (including currency fluctuations) and commodity prices
- construction risks based upon the complexity of the project, claims experience, and the grantee's track record in bringing large projects to completion successfully
- development risks affected by project status and the time remaining to the projects expected date of revenue operations (beginning final design, beginning construction, partially completed through construction, almost complete)
- performance risks that the mass transit benefits anticipated will not be realized, that the project will not perform as specified, and that the patronage and fare revenue streams projected will not be attained
- management risks that anticipated efficiencies in future operations will not be realized because of historic trends and practices, lax internal controls permitting scope creep, delays and change orders, and turnover of key management staff
- transparency risks arising from the grantee actively managing the flow of data in order to minimize or conceal cost, scope, or revenue information and limit access to the details of pending or future commitments that will exert material changes in financial conditions
- revenue risks arising from the dependence of finance plans on potentially speculative sources, such as farebox profits, new taxes or benefit assessment revenues dependent upon a referendum, asset sales at premium prices, or joint development proceeds
- credit risks caused by Congressional shortfalls in appropriations affecting grant anticipation borrowing, financial problems affecting funding partners, or market-based credit issues.

2) “Sensitivity Analyses” and “Stress Tests”

The FCA contractor often attempts to assess the impact of risks faced by a grantee by performing “sensitivity analyses” or “stress tests.” Sensitivity analyses are used to determine the impact of a change in a specific assumption on a financial projection. Those revenue and expense assumptions that may be considered sensitive, or uncertain, are the assumptions that sensitivity analyses are performed upon. Uncertain assumptions will vary from grantee to grantee. FCA contractors use their judgment to identify those assumptions that are important in judging financial viability. Once the sensitivity of individual assumptions are evaluated, several stress tests can be created by the FCA contractor to determine the impact of adverse changes on uncertain projections that may occur simultaneously.

The bottom line questions are:

- **Is there cause for concern that the FFGA terms will not be met?**
- **What are those causes and where is the documentation to support this assertion?**
- **Are FTA’s concerns justified and where is the documentation to support the FCA contractor’s conclusions?**
- **Will the construction program have an adverse impact on current operations?**

6. COMMUNICATION, REPORTS AND MONITORING

This section provides background on communication channels, alternative reporting formats and monitoring future performance of the grantee.

A. The Chain of Command

The FCA contractor's primary point of contact with FTA is the Contracting Officer's Technical Representative (COTR). The COTR provides the work scope for the engagement and approves budgets, schedules, and all travel requests. Initial contacts with FTA Headquarters and the regional offices are arranged through the COTR, and all reports, correspondence and e-mails are sent to the COTR. All requests from FTA staff for the FCA contractor to research particular concerns or participate in meetings or teleconferences must come through the COTR.

B. Report Formats and Expectations

There are a variety of reporting mechanisms for conveying the FCA results to FTA. Beyond the initial FCA Baseline and Spot Reports, the format will depend upon the preferences and needs of FTA and the unique circumstances of each engagement. However, in all circumstances, confidentiality is essential.

FCAs sometimes have profound implications for elected and appointed officials. It is not uncommon for the consequences of FCAs to appear in newspapers, magazine articles and Congressional testimony. At the same time, it is inevitable that grantees will request drafts of baseline and spot reports and documents furnished to FTA, and all such requests must be directed to the FTA. All reports must be submitted solely to FTA through the COTR, unless otherwise explicitly authorized by the COTR. Given the sensitivity of the process to FTA and its grantees, the discretion of the FCA contractor is essential.

Another general objective for reporting the results of FCA is the FCA contractor's effort to assure that FTA is not taken by surprise as events unfold. The goal is for the FCA process to help FTA realistically anticipate future events.

The FCA contractor creates value by providing FTA with early warnings that neither amplify nor downplay concerns or troubling scenarios, and by identifying potential solutions. FTA expects the FCA contractor to quickly absorb, analyze and distill large volumes of data down to the truly significant issues, and then to

explain the implications of the risks identified. Since the assessment often occurs as significant events are unfolding, or may precipitate important events, sound judgment by the FCA contractor in taking the initiative to bring concerns and information to FTA's attention is essential to a successful assessment. Waiting until the deadline for a formal report to convey time-sensitive information is not responsive to FTA's needs.

Examples of reporting formats include:

- The FTA has developed a standard format for baseline reports. Current FTA directives are that the baseline report include an Executive Summary of the key findings, a brief discussion of the project and the grantee being assessed, and a statement of the FCA contractor's conclusion on financial capacity. The baseline report also includes sections that present the scope of the assessment, a general project overview, and the agency's sources of funding, uses of funding, risk factors, and the results of any sensitivity analyses or stress tests performed by the FCA contractor. The report should provide tables and graphics as appropriate to portray the findings and recommendations as clearly and concisely as possible. Normally, the baseline report includes the financial projections used in the 20-year financial plan provided by the grantee to demonstrate their financial capacity. The reports must be delivered in draft directly to the COTR and the FTA regional office. Distribution for comment within FTA is the responsibility of the COTR and Regional Administrator, who will also arrange for comments to be returned to the FCA contractor. Circulation to the grantee is at the discretion of FTA.
- Spot reports are requested by FTA as warranted by events. Requests for amendments to FFGAs require spot reports. Also, other circumstances may arise that result in the FTA requesting a spot report, normally to clarify the financial impact of unanticipated events. The FCA contractor should follow the directive of the COTR when these reports are requested. The submission process for a Spot Report is identical to that of the baseline report.
- When a site visit is made, a status report will be produced and submitted to FTA Headquarters via e-mail. The report outlines key findings, new information, and the next steps for investigation. Again, the structure and content of the reports are flexible and geared to the nature of the subject. The documents should be directed to the COTR. Since these types of communication are information

items, it is generally not necessary for them to be submitted in draft form for comments.

- When FFGAs or recovery plans are being negotiated or renegotiated, the FCA contractor may be requested to prepare documents that highlight issues for internal discussion, or support FTA requests for backup information from the grantee. These reports and outlines may serve as the agenda for internal FTA conference calls or teleconferences with FTA and grantee staff. They also may be incorporated into document exchanges with the grantee or their non- Federal funding partners.
- When letters or responses to questions must be exchanged with grantees, Congress, or non- Federal funding partners, the FCA contractor may be asked to provide a draft, or to comment on drafts prepared by others in order to assure accuracy and completeness. In many instances, these comment processes are conducted on a “team” basis with FTA staff, the PMOC, and any FTA specialty consultants in order to guarantee consistency and avoid overlap. This type of team effort has worked very effectively in bringing together business-related and technical issues for comprehensive resolution with the grantee on a comprehensive basis. The COTR must authorize such activities and receive materials generated by the FCA contractor; however, the fast pace of activity often requires considerable interaction directly with regional office and Headquarters staff.
- In situations where there may be a Congressional requirement for an assessment of financial plans, or a special request from the Office of the Secretary, other documentation formats may be appropriate. These documents may be prepared internally by FTA and the FCA contractor may be asked to provide comments or additional input. In other cases, the FCA contractor may be asked to supply a draft that is then incorporated into a final product by FTA staff. Again, the COTR must authorize such activities and receive copies of work products.

FCA contractors may be requested to comment on correspondence or proposed FFGA or recovery plan language, provide questions for quarterly reviews, generate analyses in response to specific questions, and review draft reports developed by GAO or the OIG.

In some situations, parallel studies may be underway by GAO and/or the OIG. Coordination of these efforts is handled internally by FTA. The FCA contractor is expected to refer all contacts from other oversight agencies to FTA, unless the communications have been authorized in advance by the COTR. No data or working papers are to be exchanged with any outside group unless directed by the COTR. Comments on the FCA contractor's work products from other sources will be provided through the COTR. Work products prepared by other agencies that the FCA contractor is asked to analyze will be supplied by FTA. Participation in joint meetings or briefings involving other oversight organizations is also dictated by the COTR and cannot be initiated by the grantee or any other third party.

C. Problem Solving and Monitoring

Early intervention into problems the FCA contractor identifies can reduce the burden of grantee corrective actions. When possible, FTA would like to avoid the involved preparation, analysis and monitoring of grantee recovery plans. To achieve this aim, FCAs are being undertaken before an FFGA is awarded, and the contractors are expected to operate within the flow of the project's life cycle, rather than entering and exiting the process as questions arise.

In many cases, projects proceed smoothly, within budget and on schedule. In other projects, the FCA contractor needs to evaluate the grantee's fiscal capacity to complete a project in light of potential cost increases or other technical issues anticipated by the PMOC, or the realization that revenue estimates may have been optimistic. For the grantee to address these fiscal and program needs, additional sources of funding, rescheduling of outlay commitments, or some combination thereof may be necessary.

In other cases, FTA may defer additional New Starts commitments to the grantee in light of evidence that there is fiscal stress around completing existing FFGA obligations. A variety of options may be identified independently by the FCA contractor for FTA's benefit, or alternatives may be under consideration by the grantee. This is a critical problem-solving stage for FTA where the FCA contractor can add substantial value. By helping to scope options, evaluate their risks and probabilities for success, the process for resolving problems can be facilitated. If these matters can be resolved as soon as possible, the potential to grow into crises that require major commitment restructuring is greatly reduced.

The revised implementation plans arising from this recovery process often contain goals and specific actions, such as:

- balanced operating budgets
- establishment of reserve accounts
- transfers of reserves to program budget lines
- adoption of modifications to capital plans, budgets or funding agreements
- adoption of new revenue forecasting methods
- deferral of new commitments for further expansion projects
- adoption of new debt management policies
- revised FFGA funding schedules from Federal and non- Federal sources
- revised reporting procedures
- new Board policies or management changes.

Recently, Congress has, in some cases, not appropriated sufficient earmarked funds to fulfill FFGA obligations. These occurrences can trigger ripple effects if the grantee has arranged some form of construction or grant anticipation financing.

Examples of such impacts may include higher interest costs, deferral of other capital projects, or requests from the lenders for pledges of additional security, which can reduce the grantee's debt capacity and its ability to support ongoing transit services. As a result, it is important for the FCA contractor to track the appropriations process.

PART B

1. CHECKLISTS AND EXAMPLES

A. Financial Capacity Assessment Planning Process

Planning Process

W/P Done
Ref by

1. Obtain Task Order from the Contracting Officer at the FTA in Washington, D.C. before beginning any FCA work related to a grantee.
2. Contact the COTR at FTA Headquarters. Request that FTA Headquarters:
 - a. provide name of a contact person in FTA regional office
 - b. contact the FTA regional office contact person to schedule a site visit to the regional office. The site visit to FTA's regional offices is important to gain an initial understanding of the grantee's current situation and to review FTA's assessment of the risks associated with the grantee.
3. Review the material in this FCA Guide, FTA Circular 5200.1 (Full Funding Grant Agreements Guidance) and FTA Circular 7008.1 (Financial Capacity Policy). Other resources should be scanned in order to be familiar with the regulations governing various grantee activities.
4. Contact the COTR at Headquarters for the name of a contact person in FTA's Office of Planning, in order to obtain previous financial assessment reports prepared or commissioned by the Office of Planning.

Planning Process (con't)

W/P Done
Ref by

5. Independently obtain documentation to include:
 - a. Congressional authorizing and appropriations language pertaining to the project
 - b. several years of National Transit Database (www.ntdprogram.com) information on grantee's fiscal performance and productivity relative to its peers
 - c. copies of recent news articles addressing the grantee and the project.

6. Contact FTA regional office:
 - a. Confirm that the regional office scheduled an entrance conference with the grantee. If the regional office requests that the FCA contractor handle contacting the grantee, the COTR should be made aware of this arrangement.
 - b. Schedule a desk review at the FTA regional office to obtain a copy of the following data. Alternatively, the regional office may be willing to forward this data to the FCA contractor, or some of this data may be obtained from FTA Headquarters.
 - existing or proposed FFGA between FTA and grantee (including the financial plan)
 - FTA analysis of financial plan
 - correspondence with grantee, or -e-mails on subjects related to the FCA
 - previous plans, documentation and reports submitted by the grantee to FTA on issues relevant to FFGAs

Planning Process (con't)

W/P Done
Ref by

- history of Congressional appropriations under the FFGA
 - single audit reports (for the past three years)
 - state and local audit reports
 - Triennial review report (most recent)
 - FTA's risk assessment for grantee
 - grant summary report
 - quarterly PMOC reports on project and latest spot reports
 - any other reviews planned for the immediate future which may overlap this FCA, for example, PMOC review or procurement review.
- b. Prepare meeting agenda for initial site visit after desk review for the regional office. The regional office will send the agenda to the grantee. If the regional office requests, the forwarding of the agenda to the grantee can be handled by the FCA contractor and the COTR should be notified of this arrangement.
- d. Obtain the name of the grantee's contact person.
- e. Discuss grantee's political environment including:
- form of governance or organization (e.g. department of a city government, independent authority, etc.)
 - Board of Directors role
 - state and local government relationships
 - local funding sources (e.g., changes in funding sources).

Planning Process (con't)

W/P Done
Ref by

7. After initial contact with regional office, contact PMOC. Discuss PMOC's concerns about the project and discuss any concerns that have been identified to date.
8. Contact grantee.
 - a. Confirm dates for on-site assessment.
 - b. Obtain grantee's organization chart. Identify relevant grantee management members to interview during the site visit.
 - c. Plan the preliminary schedule of interviews for the visit.
 - d. Confirm the preliminary schedule with grantee point of contact.
 - e. Request the following documents from the grantee, if relevant, based upon data assessed:
 - short-range transit plan
 - long-term capital plan
 - comprehensive capital program financial plan
 - TIP
 - STIP
 - capital reserve account requirements, if any
 - three years' financial statements
 - three years' operating budgets
 - history of operating budget vs. actual results
 - other; include recently completed capital projects, budget vs. actual
 - quarterly project status reports
 - other government project related reports
 - agreements with non- Federal partners
 - turnkey construction contracts

Planning Process (con't)

W/P Done
Ref by

- other contracts and/or agreements with restrictive covenants affecting revenue
 - dedicated funding agreements
 - official statements for most recent bond issues and rating agency reports
 - FEIS
 - fleet management plans
 - enabling legislation.
9. Read all documents obtained that are relevant to the project and prepare a summary of all major concerns noted. The summary should include all issues that could potentially affect the projected funding and budgeted costs, and other issues that could impact the progress of the project or the grantee's other operations.
10. Prior to the entrance conference, meet with FTA regional representatives or conduct a conference call.
- a. Introduce the FCA contractor team, review FCA program's purpose and objectives as needed, and answer any questions FTA regional office personnel may have.
 - b. Discuss the issues noted as a result of reviewing background data and obtain the regional office and PMOC's perspective.
 - c. Prepare a detailed list of concerns to address with grantee.

B. Grantee Site Visits

W/P Done
Ref by

1. Conduct the Entrance Conference with the Grantee
 - See the sample agenda. Note: FTA regional office should have provided a copy of the entrance conference agenda to grantees.
 - Discuss the objectives and nature of work to be performed during the course of the assessment.
 - Discuss the first phase of the assessment and interviews to be held.
 - Review the interview schedule and determine order and timing of interviews.
 - Discuss logistics, locations, timing, and scope of grants and/or projects.

2. Conduct Interviews with Grantee Management

In general, the topics included on the sample interview schedule should be addressed. Tailor interviews as appropriate to circumstances and issues.

C. Sample Entrance Conference Agenda - Grantee

AGENDA

1. Introductions
 - Introduce all personnel

2. Introduce Goals of Program:
 - Assess grantee's ability to meet terms of FFGA, specifically:
 - Complete full scope of project without additional Federal funds
 - Complete project in time to meet projected Revenue Operations Date
 - Complete project without disrupting other capital projects or operations

3. Approach and Timing
 - Interviews of key personnel (see separate schedule)
 - Exit conference at conclusion of site visit

4. Report Timing and Distribution

5. Key Issues to Assess During Site Visit

D. Sample Grantee Interview Schedule

As part of the planning and data gathering process, the FCA contractor will have prepared a list of concerns identified. These concerns should trigger a list of specific questions that should be asked during the site visit. The schedule below represents a sample of topics that have arisen in other assessments; however, this list is generic and must be tailored to the specific circumstances at hand. Not all persons listed need to be interviewed in every case.

1. General Manager/Chief Financial Officer

- General context of the project concerns and issues
- Review the grantee's form of governance and/or organization (e.g., part of a city department of transportation, independent transportation authority, etc.)
- Review relationship with MPO
- Federal appropriation - amount and timing
- Sources of contingency funding
- State appropriation - amount, timing, contingencies
- Local funding sources - amount, timing, contingencies
- Project partner funding - amount, timing, restrictions, contingencies
- Dedicated funding sources - basis for projected revenues
- Internal grantee resources
- Response to revenue shortfalls or cost overruns
- Other project finance requirements on FFGA undertaking
- Litigations
- Pending labor negotiations
- Major assumptions in the financial plan

2. Budget Director

- Federal and local match calculations
- Operating budget
- Financial condition and results of operations
- O&M Budget Impacts
- Financial reporting process relative to accounting for project costs

3. *Internal Audit Manager*

- Internal Audit Department involvement in monitoring or auditing project
- Audit independence, reporting relationship within the organization
- Focus of internal review findings relative to Federal grants
- Past few year's external audit findings (to determine if there are concerns relative to the grantee's ability to accurately track and report the costs of the project)

4. *Grant Administrator*

- Grant/capital project planning
- Grant records setup
- Encumbrance tracking

5. *Treasurer*

- Funding sources (including state and local match)
- Legal restraints on financing or additional financing
- Pro forma analysis of contingencies
- Sources of funds for cost increases
- Financing/Debt related questions - revenues pledged debt capacity coverage
- Insurance coverages

6. *Capital Project Manager*

- Contracts issued to date. Bid amounts compared to estimate
- Cost increases to date
- Reflection of change orders in grant accounting system - budget and actual project budget
- Non-dollar, performance-based progress measures and reflection in variance analysis

- Estimate of adequacy of budget for projects to be bid
- Major obstacles affecting timing and cost of project
- Impact of delays on escalation cost
- Adequacy of contingencies
- Types of contracts let, or to be let (turnkey, etc.)
- Risks passed on to contractors or retained by grantee
- Impact of project on other capital programs or operations
- Considered scope changes
- Current estimated project shortfall
- Considered sources for additional funding
- Construction design changes affecting environmental impact study

7. *Capital and Long-Range Planning Director*

- Assumptions and methodology used in developing the plan
- Review their relationship with the MPO
- Contingency reserves and related plan
- Proposed future projects and likelihood of implementation

8. *Service Planning or Operations Director*

- Impact of new projects on current system operations
- Planned changes in operations and levels of service
- Fleet management plan

9. *MPO (as appropriate)*

- Federal appropriations
- Other funding from regional sources for FFGA
- Regional allocations for overall capital program
- Sources of non-Federal and other than New Starts funds for cost overruns

10. *Non-Federal Funding Partners*

- Ability to fund FFGA commitment
- Ability to help with overruns & revenue shortfalls

2. BASELINE REPORT OUTLINE

BASELINE REPORT

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MTA Rail Projects Map

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List of Acronyms

Term	Definition
MTA	Major Transit Authority
Etc.	

3. SAMPLE COMPLETED BASELINE REPORT



US Department
of Transportation
**Federal Transit
Administration**



A FINANCIAL CAPACITY ASSESSMENT OF THE
METROPOLITAN COUNCIL/METRO TRANSIT
MINNEAPOLIS, MN

BASELINE REPORT

PREPARED FOR:

FEDERAL TRANSIT ADMINISTRATION

PREPARED BY:

DIVERSIFIED CAPITAL, INC.

CONTRACT/WORK ORDER NO. DTFT60-98-C-41011
PROJECT NO. CA-90-5001
TASK ORDER NO. 4

REPORT DATE: AUGUST 31, 2000
BASELINE ISSUED: SEPTEMBER 29, 2000

DCI
A Financial Services Company

 **Metropolitan Council**
Working for the Region, Planning for the Future

 **Metro Transit**

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List of Acronyms

Term	Definition
CBD	Central Business District
CMAQ	Congestion Mitigation and Air Quality Improvement
CPI	Consumer Price Index
DCI	Diversified Capital, Inc.
EIS	Environmental Impact Statement
FAA	Federal Aviation Administration
FEIS	Final Environmental Impact Statement
FFGA	Full Funding Grant Agreement
FMOG	Financial Management Oversight Contractor
FTA	Federal Transit Administration
FY	Fiscal Year. The Metropolitan Council fiscal year begins on January 1 of each year and ends on December 31 of the same year.
GSA	General Services Administration
HCRRA	Hennepin County Regional Railroad Authority
HPO	Hiawatha Project Office
ISTEA	Intermodal Surface Transportation Efficiency Act of 1991
Legislature	State of Minnesota Legislature
LRV	Light Rail Vehicle
MAC	Metropolitan Airport Commission
MC	Metropolitan Council, the area's MPO
MCES	Metropolitan Council Environmental Services
MOA	Mall of America
MPO	Metropolitan Planning Organization
MSP	Minneapolis – St. Paul International Airport
MT	Metro Transit
Mn/DOT	State of Minnesota Department of Transportation
O&M	Operating and Maintenance
PMOC	Project Management Oversight Contractor
ROD	Revenue Operations Date
State	State of Minnesota
STP	Surface Transportation Program
TEA-21	Transportation Equity Act for the 21st Century
TH	Trunk Highway
YOE	Year of Expenditure

A Financial Capacity Assessment of the Metropolitan Council

Executive Summary

Metropolitan Council has applied for a full funding grant agreement (FFGA) to support the Hiawatha Corridor Light Rail Project (the Hiawatha Line), a Federal Section 5309 New Starts construction project. The Hiawatha Line will serve the Hiawatha Avenue corridor, linking downtown Minneapolis, the Minneapolis-St. Paul (MSP) International Airport and the Mall of America (MOA) in Bloomington. It will be the first leg of a planned network of light rail, commuter rail and transit corridors. The 11.4-mile line will have 16 stations, 22 light rail vehicles (LRV) and an operations and maintenance facility. The downtown to Fort Snelling segment is projected to open in summer 2003, with the remainder opening in fall 2004.

Metropolitan Council has the financial capacity to construct the Hiawatha Line; fund the operating costs of the light rail system when completed; and meet the financial requirements to operate, maintain and preserve its existing plant and equipment. In addition, Metropolitan Council has the financial capacity to complete the on-going projects included in the rest of its organization.

Metropolitan Council has the ability to deliver the required local funding, and develop and maintain an adequate reserve. The Hiawatha Line is estimated to cost \$548.6 million in year-of-expenditure (YOE) dollars. Metropolitan Council's proposed financial plan assumes \$274.3 million (50%) in Section 5309 New Starts funds. The State of Minnesota (State) Legislature (Legislature) authorized the sale of \$100.0 million (18.2%) in general obligation bonds for the State share. The Hennepin County Regional Railroad Authority (HCRRA) will provide \$70.0 million (12.8%) in funding. The Minnesota Department of Transportation (Mn/DOT) and HCRRA have provided in-kind contributions of \$17.3 million (3.2%) and \$17.0 million (3.1%), respectively, primarily in the form of land for right-of-way. The Metropolitan Airports Commission (MAC) will provide \$70.0 million (12.8%).

When the Legislature appropriated the remaining \$60.0 million of the State's \$100.0 million share of the Hiawatha Line, it did so with several stipulations written directly into the bill. First, the \$60.0 million is the final State appropriation for the Hiawatha Line. The Legislature also defined two critical events that must occur before spending the appropriated funds. The events are (1) the approval to enter final design from the Federal Transit Administration (FTA), and (2) the execution of a FFGA with FTA for not less than \$223.0 million. If FTA did not issue final design designation for the Hiawatha Line prior to May 1, 2000, or the FFGA is not executed by January 31, 2001, the \$60.0 million appropriation, any remaining portion of the \$40.0 million appropriation, and the State bond sales that have been authorized to fund these appropriations will be canceled. The final design designation was issued by FTA on April 26, 2000.

Metro Transit, the transit operating arm of the Metropolitan Council, is designated by State law as the operator of the Hiawatha Line. Metro Transit began 2000 with a small \$9.2 operating reserve balance. Positive operating reserve balances are maintained throughout the 10-year period of analysis. The Financial Management Oversight Contractor (FMOC) model forecasts an operating reserve balance of \$18.8 million at the end of 2004, when the Hiawatha Line is expected to be completed. If the Hiawatha Line project is completed by the fall 2004 revenue operations date (ROD) and the budget is held at \$548.6 million, the model forecasts a operating reserve balance of \$40.5 million at the end of 2009.

Given the limited operating reserve balance, there are two significant risks associated with the baseline financial plan, fare increases and operating and maintenance (O&M) costs. The first risk is the reliance on fare increases to generate sufficient revenue to maintain a positive cash flow. Metro Transit needs to closely monitor factors that affect O&M activities and take appropriate steps to keep cost growth to a minimum.

The baseline financial plan currently assumes that the Hiawatha Line will be completed within the \$548.6 million budget, with an operating reserve balance of \$40.4 at the end of 2009. If the project were to be 10% over budget, or \$603.1 million, the capital reserve balance would fall to a negative \$49.6 million in 2009. As early as 2001, the capital balance goes negative, requiring transfers from the operating reserve, interim financing or additional contributions from current or additional funding partners.

1 Scope of Financial Capacity Assessment

1.1 Background

Under contract to the United States Department of Transportation, Federal Transit Administration (FTA), Diversified Capital, Inc. (DCI), as the Financial Management Oversight Contractor (FMOC), performed a financial capacity assessment of the Metropolitan Council in Minneapolis, MN, during the period June 1, 2000, through August 21, 2000. This review was conducted in accordance with FTA Circular 7008.1, "Financial Capacity Policy," dated March 30, 1987, to determine whether Metropolitan Council would be able to comply with the financial capacity provisions of its full funding grant agreement (FFGA) when awarded.

The Transportation Equity Act for the 21st Century (TEA-21) Section 5309(e)(7) specifies the FFGA as the means by which New Starts projects are to be funded. The FFGA defines the project, including cost and schedule; commits to a maximum level of Federal financial assistance (subject to Congressional appropriation); establishes the terms and conditions of Federal financial participation; covers the period of time for completion of the project; and helps to manage the project in accordance with Federal law. The FFGA assures the grantee of predictable Federal financial support for the project (subject to Congressional appropriation) while placing a ceiling on the amount of that Federal support.

A FFGA also limits the exposure of FTA and the Federal government to cost increases that may result if project design, engineering and/or planning is not adequately performed at the local level. FTA is primarily a financial assistance agency and is not directly involved in the design and construction of New Starts projects. While FTA is responsible for ensuring that planning projections are based on realistic assumptions and that design and construction follow acceptable industry procedures, it is the responsibility of project sponsors to ensure that proper planning, design and engineering have been performed.

A financial capacity assessment is conducted to assess the grantee's financial capability to meet FFGA obligations on major investment projects. An assessment reviews the grantee's financial condition and financial capability to ensure that the project can be completed on schedule and within budget, and that transit service is not interrupted due to a lack of financial capacity on the part of the grantee. The grantee must demonstrate its ability to match and manage FTA grant funds, cover cost increases, cover operating deficits through long-term stable and reliable sources of revenue and maintain and operate Federally-funded facilities and equipment.

1.2 Limitations on Reliability of the Data and Use of the Report

This financial capacity assessment did not constitute an audit of any financial statements prepared by Metropolitan Council. Instead, it was a comprehensive review focused on substantive, material issues affecting financial condition and capability. Since data provided by Metropolitan Council were assumed to be accurate, any inherent limitations, errors or irregularities that occurred may not be detected. In addition, projection of any evaluation beyond the period of analysis is not appropriate.

This report is intended for the information of FTA and Metropolitan Council, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

2 Hiawatha Corridor Light Rail Project Overview

Metropolitan Council has applied for a FFGA to support the Hiawatha Corridor Light Rail Project (the Hiawatha Line), a Federal Section 5309 New Starts construction project. The Hiawatha Line will serve the Hiawatha Avenue corridor, linking downtown Minneapolis, the Minneapolis-St. Paul (MSP) International Airport and the Mall of America (MOA) in Bloomington. It will be the first leg of a planned network of light rail, commuter rail and transit corridors. The 11.4-mile line will have 16 stations, 22 light rail vehicles (LRV) and an operations and maintenance facility. The downtown to Fort Snelling segment is projected to open in summer 2003, with the remainder opening in fall 2004.

The proposed project is expected to cost \$548.6 million in year-of-expenditure (YOE) dollars. Metropolitan Council has submitted an application to FTA requesting \$274.3 million (50%) in New Starts funds. The local match is \$274.3 million (50%). The \$548.6 million figure includes contingency funding for most line items and an unallocated contingency of \$12.9 million.

The Hiawatha Line is subdivided into two projects, the \$431.6 million Federal project and the \$117.0 million Metropolitan Airports Commission (MAC) project (page A-5). Since MAC is responsible for all buildings and facilities at the airport, MAC will construct the tunnel under the MSP airport runways and taxiways as well as two stations.

The Hiawatha Line is also closely associated with two other corridor improvements. The Hiawatha Line is the transit component of a set of projects, including the reconstruction of Trunk Highway (TH) -55 as a four-lane at-grade arterial between Franklin Avenue and 59th Street, the construction of an interchange between TH-55 and TH-62 (Crosstown Highway) and the construction of a Park-and-Ride facility along the route. The State of Minnesota has programmed \$43.0 million of Surface Transportation Program (STP) flexible funds for Hiawatha Corridor improvements. In addition, the Minnesota Department of Transportation (Mn/DOT) has secured grant approval for \$5.5 million Congestion Mitigation and Air Quality Improvement (CMAQ) funds to be matched with \$1.375 million of local funds for construction of a multi-modal transit facility/parking structure at the General Services Administration (GSA)/Fort Snelling Station.

2.1 Description

The north end of the Hiawatha Line will begin in the Central Business District (CBD), operating on the existing transit mall along 5th Street, exiting the CBD near the Hubert Humphrey Metrodome, following the former Soo Line Railroad to Franklin Avenue, then paralleling Hiawatha Avenue. The project will include a tunnel to be constructed under the MSP airport runways and taxiways. The Hiawatha Line will emerge from the tunnel on the west side of the airport and continue south to MOA in Bloomington (page A-6). The project is expected to serve 24,600 average weekday boardings by the year 2020; with an average of 18,300 weekday boardings projected in the opening year.

Metropolitan Council, the region's metropolitan planning organization (MPO) will own the Hiawatha Corridor light rail system, and will operate and maintain the system through its Metro Transit enterprise. Metropolitan Council is also the FTA grantee for the project. Coordination of funding will be the Metropolitan Council's primary responsibility in relation to the planning and construction phases of this project. It will be responsible for all costs incurred pursuant to agreements with cooperating agencies and all other parties working on the Hiawatha Corridor project.

Metro Transit, the transit operating arm of the Metropolitan Council, is designated by State law as the operator of the Hiawatha Line. Metro Transit is responsible for rail activation, integrated testing, start-up, revenue operations and feeder bus services.

Mn/DOT is responsible for design and construction of the Hiawatha Line as mandated by the State of Minnesota (State) Legislature (Legislature). Light rail transit planning has been an active element of Mn/DOT since 1985, when the Environmental Impact Statement (EIS) for TH-55 identified light rail as the preferred transit alternative for the Hiawatha corridor. The 1998 Legislature directed Mn/DOT to design and build the light rail transit system in the Hiawatha Corridor.

At the MSP International Airport, MAC is responsible for providing buildings and facilities for air carrier activity as well as police, fire protection, maintenance, administrative and planning services and other related services and facilities that are deemed necessary. MAC will construct the tunnel under the MSP airport runways and taxiways and two stations.

A Hiawatha Project Office (HPO) organization has been established by an inter-agency Memorandum of Understanding between Mn/DOT and Metropolitan Council. Specific personnel and resources from Mn/DOT, Metropolitan Council, Metro Transit and consultant personnel are assigned full time to the HPO.

2.2 Project Budget

The Hiawatha Line is estimated to cost \$548.6 million in YOE dollars. Metropolitan Council's proposed financial plan assumes \$274.3 million (50%) in Section 5309 New Starts funds. The Legislature authorized the sale of \$100.0 million (18.2%) in general obligation bonds for the State share. The Hennepin County Regional Railroad Authority (HCRRA) will provide \$70.0 million (12.8%) in funding. Mn/DOT and HCRRA have provided in-kind contributions of \$17.3 million (3.2%) and \$17.0 million (3.1%), respectively, primarily in the form of land for right-of-way. MAC will provide \$70.0 million (12.8%). All three sources are financially strong and fully capable of providing the required match.

Section 3030(a)(91) of TEA-21 authorizes the "Twin Cities – Transitway Corridors" for final design and construction. Through Federal fiscal year 2000, Congress has appropriated \$69.32 million in Section 5309 New Starts funds for the "Twin Cities Transitways" project, which includes the Hiawatha Line in Federal fiscal years 1998, 1999 and 2000. The President's budget calls for a \$20.0 million appropriation in 2001. The total Federal share is subject to the successful negotiation of a FFGA and future appropriations from Congress. Federal funding from Section 5309, including annual appropriation levels, will be established as part of a FFGA between Metropolitan Council and FTA. Annual appropriations are subject to congressional action as part of the Federal budget process. Approximately \$75.0 million of the Federal funding for the Hiawatha Line would be appropriated under the post-TEA-21 next authorizing legislation.

The Metropolitan Council, a component unit of the State, has taxing capacity and acts as the grant administrator for funds received from FTA and the State. The Metropolitan Council and all three funding partners (State, HCRRA and MAC) have AAA ratings from Moody's Investor Service.

The Legislature has appropriated \$100.0 million to date. The State funding has been approved by the Legislature in two initiatives. No additional legislative or voter approval is required to implement this funding. After approving \$40.0 million in 1998, the Legislature subsequently approved an additional \$60.0 million. These funds are to be obtained from State general

obligation bonds. These funds are in addition to the \$17.3 million in-kind contribution already provided by Mn/DOT.

When the Legislature appropriated the remaining \$60.0 million of the State's \$100.0 million share of the Hiawatha Line, it did so with several stipulations written directly into the bill. First, the \$60.0 million is the final State appropriation for the Hiawatha Line. The Legislature also defined two critical events that must occur before spending the appropriated funds. The events are (1) the approval to enter final design from FTA, and (2) the execution of a FFGA with FTA for not less than \$223.0 million. If FTA did not issue final design designation for the Hiawatha Line prior to May 1, 2000, or the FFGA is not executed by January 31, 2001, the \$60.0 million appropriation, any remaining portion of the \$40.0 million appropriation, and the State bond sales that have been authorized to fund these appropriations will be canceled. The final design designation was issued by FTA on April 26, 2000.

In 1980, the Legislature passed a bill authorizing individual counties to form regional railroad authorities to "plan, establish, acquire, develop, construct, purchase, enlarge, extend, improve, maintain, equip, operate, regulate, and protect railroads and railroad facilities." This legislation also gave county regional railroad authorities the power to levy a property tax to fund rail activities. Within a few months Hennepin County created the first county regional railroad authority in the State, HCRRA.

HCRRA has passed a resolution of commitment to provide up to \$70.0 million for the project. The Hiawatha Corridor Light Rail Transit Master Project Cooperation Agreement certifies the HCRRA \$70.0 million contribution. These funds are in addition to \$17.0 million that has already been provided in the form of in-kind right-of-way and engineering services. HCRRA obtains its funds from its own property tax levy, which is set at about \$4.7 million to \$5.0 million a year, considerably less than the \$32 million-per-year cap on HCRRA property taxes. This tax should not be confused with the several Metropolitan Council property tax levies. HCRRA also earns interest on approximately \$37.0 million in accumulated funds from previous years' property taxes.

The HCRRA contribution will be funded partially through a contribution from the \$37 million, with the remainder obtained by means of one or more tax-exempt bond issues, capitalized over 15 to 20 years. At current tax-exempt rates, a \$4.7 million annual levy would capitalize about \$45 - \$50 million of debt. HCRRA has never issued debt, but it has the same AAA credit rating as Hennepin County. HCRRA has legislative authority to bond without a referendum.

The MAC has committed to providing up to \$70.0 million in general airport revenues for the construction of two stations and the tunnel under the runways and terminal. The project appears as a line item in MAC's approved 2000-2006 Capital Improvements Program. The \$70.0 million for transit funding was contingent upon approval by the Federal Aviation Administration (FAA). FAA's concurrence is required to use airport funds for transit projects on airport property. FAA authorized MAC to expend general airport revenues for the Project in a letter dated April 26, 2000. In addition to the \$70.0 million in cash, MAC will also be contributing an easement for right-of-way through its property.

A full Master Project Cooperation Agreement was executed on February 16, 2000, that provides binding funding commitments from all local funding participants. Funding agreements are in place between Metropolitan Council and the local funding partners, except MAC. Metropolitan Council and MAC Funding Agreement final negotiations are now taking place given FAA's authorization to use MAC general airport revenues as the funding source for their local match. MAC and Metropolitan Council expected to approve the funding agreement by the end of

August 2000, but negotiations were not completed. Metropolitan Council needs to complete a funding agreement with MAC before executing its FFGA.

The financially-constrained draft 2001-2003 Transportation Improvement Program (TIP) includes the Hiawatha Line. The draft TIP is scheduled for approval in September 2000. The TIP includes \$480.0 million for the project since it excludes \$68.6 million of commitments prior to 2001. The draft TIP also includes \$43.0 million of STP, \$6.875 million of CMAQ and local match as Mn/DOT projects, not Metropolitan Council.

No Hiawatha Line capital funds are derived from the existing transit capital funding base, which includes Section 5307 formula funds and Metropolitan Council bond borrowing. Debt service on the latter is funded primarily by a portion of the Metropolitan Council property tax levy, as a separate levy from transit operations. None of the funds for the Hiawatha Line, including discretionary FTA funds, the \$100 million State appropriation, MAC, or HCRRRA funding would otherwise be used for the basic Metro Transit capital program. There is no competition for funding sources between the Hiawatha Line construction project and the baseline capital program.

2.3 Cash Flow

The FMOC analyzed the cash flow of funds to ensure that the funds would be available when needed to pay for project expenditures. Federal funds of \$274.3 million in total will be received over seven years, starting in 1998 and continuing through 2004. The projected annual receipts of these New Starts funds vary substantially. These fluctuations in budgeted amounts of New Starts funds can be further compounded by potential delays in the Congressional appropriations process that is required to release the funds.

The table below summarizes the Hiawatha Line capital cash flow of funds by source and by year. This table reflects FTA's proposed schedule of Federal funds.

By Funding Source (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	Totals	
							Amount	Percent
Federal								
Section 5309 New Starts	27.4	41.9	20.0	50.0	60.0	75.0	\$274.3	50.0%
State & Local								
Cash/Bonds	2.9	6.3	96.2	130.7	42.1	(38.2)	\$240.0	43.7%
In-Kind	13.9	20.4	0.0	0.0	0.0	0.0	\$34.3	6.3%
Total Funding - Annual	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$548.6	100.0%
Total Funding - Cumulative	\$44.2	\$112.8	\$229.0	\$409.7	\$511.8	\$548.6		

Source: Metro Transit Director of Finance e-mail, 08/19/2000

The table on the following page summarizes the current cost estimates by project element by year:

By Project Element (YOE \$millions)	1999						Totals	
	and Prior	2000	2001	2002	2003	2004	Amount	Percent
ROW	26.2	17.7	0.0	0.0	0.0	0.0	\$43.9	8.0%
Facilities/Systems	0.2	34.4	97.2	130.9	65.2	27.4	\$355.3	64.8%
Vehicles	0.0	3.4	10.2	40.2	27.7	1.2	\$82.7	15.1%
Soft Costs	17.8	13.1	8.8	9.6	9.2	8.2	\$66.7	12.2%
Total Cost - Annual	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$548.6	100.0%
Total Cost - Cumulative	\$44.2	\$112.8	\$229.0	\$409.7	\$511.8	\$548.6		

Source: Metro Transit Director of Finance e-mail, 08/19/2000

Cash flow needs will be met with a combination of Federal, State and local funds. Metropolitan Council will advance available State and local project funds to maintain the construction schedule when Federal funds are not available.

2.3.1 Potential Delays in Proposed Project Funding

Potential uncertainties exist in annual Congressional appropriations for New Starts rail projects. As a result, an assessment of Metropolitan Council's ability to fund the project until Federal funds committed under the proposed FFGA becomes available is necessary.

Metropolitan Council is aware of the potential timing lag between the need for the Federal funds and their actual receipts. Consequently, Metropolitan Council is planning its funding availability so that the construction can proceed on an optimum schedule regardless of when the Federal funds become available. The local share of funds for the Hiawatha Line can be advanced as needed to complete the project.

The actual financing options exercised would depend on the amount and timing of the Federal appropriations received versus those planned, as well as Metropolitan Council's ability to adhere to the proposed project schedule. Metropolitan Council believes that the necessary funding can be readily achieved through various short-term debt instruments (e.g., commercial paper, revenue anticipation notes) that are used routinely for this type of cash flow problem.

2.3.2 Potential Project Cost Increases

Any major capital project faces the possibility of additional funding responsibilities not currently anticipated as part of the \$548.6 million project and uncertainties affecting project scope and/or cost. While the final design of the Hiawatha Line is not yet complete, Metropolitan Council believes the project will be completed within the \$548.6 million cap. Nevertheless, the agency is prepared to address potential increases in overall project costs, should it become necessary.

As with any major New Starts project at this stage of development, there are risks due to engineering, scope and schedule unknowns. The project funding partners are aware of these risks and have made an effort to identify them. Identifying risks provides the basis for coping with potential negative outcomes when they occur. Every effort is being made to contain cost and scope risks, with the result that the project is likely to be completed within the \$548.6 million budget limit.

Because of the more permanent nature of substantial cost increases versus the funding delays discussed above, project costs that substantially exceed budgeted amounts, including project contingencies, would require the use of additional funding, possibly from untapped debt capacity, or revised financial policies. The \$548.6 million project cost estimate includes contingency funding for most line items, totaling \$59.8 million, and an unallocated contingency of \$12.9 million.

The design-build procurement substantially shifts cost risk to the design-build contractor, rather than the owner. Furthermore, the evaluation of the design-build proposals will consider which additive and deductive options each proposer can deliver as a measure of their proposal's value. Specifically, each proposer will identify additive options if their base cost proposal is less than \$260 million to balance their proposal at \$260 million. Conversely, if a proposer's base cost exceeds \$260 million, deductive options will be identified to balance their proposal at \$260 million.

Additional HCRRRA funds could be made available through an increase in the property tax collected from the current \$4.7 million to a cap of about \$32 million, providing substantial additional room, if needed and if approved by the HCRRRA Board. Depending on the nature of the cost increase, MAC could supply additional funds for FAA-eligible costs. The FAA set forth conditions in its approval to use airport revenues for the Hiawatha Line. A soils condition report will be included as part of the MAC construction contract, sharing increased costs with the contractor. Both of these funding partners are committed to finding a way to complete the Hiawatha Line.

Additional State funding would be more difficult, especially since the Legislature specifically stipulated that the \$60.0 million is the final State appropriation for the Hiawatha Line. Metropolitan Council is not permitted to incur debt to pay for transit capital of any kind, including the Hiawatha Line, without the express authority granted from the Legislature. The Legislature has not authorized any regional borrowing by Metropolitan Council to pay for the Hiawatha Line.

In addition to the funding for the corridor improvement projects, available STP or CMAQ funding could be used to supplement local funds. Innovative funding alternatives have not been explored in depth, as funding from conventional sources is expected to be available. However, there may be long term potential for station joint development or private sector participation in the funding of parking facilities.

A possible funding innovation could include the use of longer-term debt instruments through the State Transportation Infrastructure Revolving Loan Fund. This approach has not been considered thus far, as Hennepin County has an AAA credit rating and has the legal authority to issue tax-exempt debt.

Finally, given recent high fuel costs and the current tight labor market in Minneapolis – St. Paul area, Metro Transit has considered the possibility of an early fare increase. This could augment the reserves available to Metro Transit, which could be used in the event of increased Hiawatha Line costs.

2.4 Status/Revenue Operations Date

A Final Environmental Impact Statement (FEIS), including a Record of Decision for the Hiawatha Avenue Corridor, was completed in February 1985. The preferred alternative documented in the 1985 FEIS included the reconstruction of TH-55 to a four-lane, divided at-grade arterial, with a light rail line adjacent to the roadway and extending north to the

Minneapolis CBD and south to the MSP Airport. Since the completion of the 1985 FEIS, improvements have been implemented on the roadway elements of the preferred alternative.

FTA gave approval to Metropolitan Council to initiate preliminary engineering in January 1999 on the Hiawatha Line component. In August 1999, Metro Transit completed a re-evaluation of the 1985 FEIS. The proposed Hiawatha Line is included in the region's financially-constrained draft TIP and the Long-Range Transportation Plan.

The project advanced into final design following FTA's approval for Metropolitan Council to enter Final Design on April 26, 2000. Metropolitan Council has not established a construction start date, but it could be as early as mid-2001. The downtown to Fort Snelling segment is projected to open in summer 2003, with the remainder opening in fall 2004.

Although the Hiawatha Line is the first light rail experience in Minnesota, Metro Transit is recruiting experienced personnel and retained qualified consultants with recent light rail construction experience. As a result, Metropolitan Council is confident that the project can be completed and operational within the proposed budget and revenue operations date (ROD).

It was determined in mid-1999, following a series of workshops, a peer review, visits to other cities with light rail projects and recommendations by a select panel of program management consultants, that a design-build approach is the preferred approach for the Hiawatha Line. The design-build contractor is responsible for all work (except for the LRV procurement and the airport-related construction), including design, procurement and construction of the roadbed and track, structures, stations, traction power supply and overhead wire, signal, communications, yard and shops and systems installation in the tunnels.

Light rail vehicles will be purchased under a separate procurement action. This strategy will allow greater competition for the design-build contract and will also accelerate the delivery of the vehicles — the critical item in the project schedule — by initiating LRV procurement activity six months in advance of design-build procurement.

There are two light rail tunnel sections along the corridor. The 660-foot long Minnehaha Parkway Tunnel is being constructed as part of the TH-55 project. This joint highway/light rail tunnel is being built to connect the two sides of the park now separated by "Old" TH-55. The Hiawatha Line will occupy one of three "box" tunnels being provided. The airport tunnel, two stations and other underground facilities at the airport will be designed and constructed by MAC under the airport terminal and runways, based on the concern for security and safety of airport operations.

3 Metropolitan Council's Financial Condition and Capability

The FMOC evaluated the financial condition and capability of Metropolitan Council, not only for its ability to complete the Hiawatha Line and other planned projects, but also for its capability to operate and maintain both the existing Metro Transit bus system and new light rail line. The following discussion presents a short description of Metropolitan Council and an analysis of the current financial plan for operating and maintaining the Metro Transit system, and replacing and expanding capital assets.

The financial condition of Metropolitan Council's current or "baseline" cost of bus and light rail service is shown in the Baseline Financial Plan in the Appendix (pages A-8, A-9, and A-10). The financial plan shows Metropolitan Council's operating and capital finances on an annual basis, as well as a cumulative "bottom-line" amount, between 2000 and 2009, the period of analysis. Ending Operating balances are calculated on a cumulative basis, taking into account beginning balances available to support operations and capital at the end of 1999. Metro Transit has established as an objective, a 10% operating reserve.

Metropolitan Council supplied data for operating, capital and debt service projections for the next 20 years, for Metropolitan Council, in general, and information that is more detailed for Metro Transit, in particular. The FMOC analysis extends through the year 2009. Bus service after 2000 is held constant. Current operating expenses are projected to increase at the assumed rate of inflation, or 3% per year. Fare revenue gradually increases 1% per year throughout the next 20 years because of assumed natural growth in ridership. In addition, periodic fare increases are planned in 2003, 2009 and 2015. Metro Transit has not had a general fare increase since 1996.

3.1 Description of Metropolitan Council

The Metropolitan Council was created in 1967 by the Legislature as a governmental unit responsible for the coordination of planning and development of the seven-county metropolitan area. The Metropolitan Reorganization Act of 1994 made substantial changes in the metropolitan regional government structure. Most fundamentally, the Council was established as a public corporation and political subdivision of the State, and the functions of three regional agencies (the Metropolitan Waste Control Commission, the Metropolitan Transit Commission and the Regional Transit Board) were transferred to the Council.

Metropolitan Council is the MPO for the seven-county area comprised of Anoka, Carver, Dakota (excluding the city of Northfield), Hennepin (excluding the city of Hanover), Ramsey, Scott (excluding the city of New Prague) and Washington. The Area includes 189 cities and townships and 2.5 million people. It oversees development, runs the regional transit system, collects and treats wastewater, oversees surface and groundwater management, plans regional parks and administers funds that provide housing for low- and moderate-income families.

Metropolitan Council is organized into three divisions: Community Development, Environmental Services and Transportation. The divisions report to the Regional Administrator who, in turn, reports to the 17-member Council. In addition to the three divisions, the Council has central administrative units that also report to the Regional Administrator. The units establish administrative policies for the entire organization and assist the three divisions by providing legal, internal audit, finance, budget and evaluation, human resources, information services, communications, intergovernmental relations, risk management and central services.

The Community Development Division includes the land planning, local assistance and housing activities of Metropolitan Council. This division carries out or oversees several activities authorized by the Legislature. It prepares and maintains a Metropolitan Development Guide which serves as a long-range regional development plan upon which to base development decisions. It also prepares policy plans that give clear development direction in the areas of public transit, regional parks and recreation open space, airports, housing and water quality management. It reviews the long-range plans of local governments and requires that such local plans be consistent with regional sewer, parks and recreation open space, airport and transportation plans of Metropolitan Council. It conducts urban research in broad-ranging areas and presents its findings to the Legislature for action. It provides technical assistance to other governmental units. It provides information to the public on matters pertaining to the Area and its development. Finally, it administers the Livable Communities Program.

Metropolitan Council Environmental Services (MCES) operates, maintains and administers the Twin Cities' Metropolitan Disposal System consisting of major wastewater treatment facilities and sewer systems in the urbanized portion of the metropolitan area. MCES facilities treat 300 million gallons of wastewater daily and maintain the quality of the region's waterways.

The Transportation Division includes Metro Transit and Transportation and Transit Development, which perform the transportation-related duties of the Metropolitan Council. Metro Transit is the principal provider of regular route mass transit service in the Minneapolis-St. Paul metropolitan area. Transportation and Transit Development is responsible for planning the development of the multi-modal transportation system in the metropolitan area.

As the principal provider of the urban area mass transit services, Metro Transit operates a 900-bus fleet serving 69 million customers on 114 local, express and contract routes. It employs a staff of about 2,500, including about 1,600 bus operators and 450 mechanics, and has an adopted operating budget of \$168.7 million for 2000. The financial activities of the transit program are accounted for as an Enterprise Fund within the financial statements of the Metropolitan Council.

The other unit in the Transportation Division, Transportation and Transit Development, is responsible for regional transportation planning, which includes planning for aviation, highway and transit systems. In addition, four types of direct services are administered and funded through this unit; Metro Mobility, Community-based (Rural/Small Urban), Opt-Out and Non-Metro Transit regular route. These services carry about six million passengers per year.

Metro Mobility provides a coordinated transportation system combining private for-profit and private non-profit operators to provide public transit for disabled individuals. Four private bus companies operate regular route public transit service under contract to the Council. Metropolitan Council is responsible for administering grant programs for small urban and rural systems. These systems generally provide local circulator service primarily for the elderly, handicapped and other public transit-dependent persons. The Replacement Service Program, commonly known as the Opt-Out program, is administered by the Council and provides financial assistance for alternative public transit service to communities at the edges of the Metro Transit service area, which have chosen to be served by transit services funded by the regional property tax levied by Metropolitan Council.

Under the guidelines of the Replacement Service Program, the Council passes through up to 90% of transit operating property taxes generated from a community which has chosen replacement service. These property taxes will be used to finance the replacement services. Under legislation passed in 1996, communities in the Replacement Service Program may

choose to levy 88% of the transit operating tax limit within their jurisdiction as a local property tax, rather than having the Council levy the tax on their behalf. Of 12 communities eligible for the Replacement Service Program, nine have chosen to levy taxes locally. The three remaining communities will continue to request the Council to levy property taxes to finance transit operation under this program.

Metropolitan Council has wide latitude over how to pay for any of its programs, subject to majority voting rules, grant restrictions and bonding covenants. Within the Transportation Division, the Council also has the discretion to allocate property taxes and State funds among Metro Transit, Metro Mobility, rural/small urban programs, non-Metro Transit operations, and Transportation and Transit Development. Different transit services are funded from different combinations of funding sources, including fares, State funds and a regional property tax. In consultation with the Transportation Advisory Board, the Council also allocates Federal transportation funds among transit, highway and other transportation projects. Wastewater services are paid entirely by user fees. The rest of the Council's activities are financed through regional property taxes, State and Federal grants and other funds.

Even with Metropolitan Council's wide latitude, the FMOC is convinced that there is sufficient autonomy within each of the Metropolitan Council divisions to treat them independently. There is little or no crossover of funds from one division to the next. Each year-end operating balance is dedicated to the division/purpose for which it is collected. Metropolitan Council imposes several property tax levies for specific purposes. More than 75% of Metropolitan Council's total property tax levies support transit operations and transit debt service. As mentioned above, wastewater services are entirely supported by user fees. Metropolitan Council's other expenses are relatively small. Although Metro Transit is viewed in the context as a division of the larger Metropolitan Council, the balance of the analysis focuses on the details of Metro Transit.

3.2 Revenue Analysis

Metropolitan Council finances transit operations from four major sources of revenues, passenger fares, the regional transit property tax, State transit allotments and various Federal funding allocations. Metropolitan Council finances transit debt service from a separate regional property tax levy. Metropolitan Council is projecting increases in transit system-generated funds and local tax receipts, but not in Federal funds allocations. Farebox receipts are a function of ridership and fare policy, and show larger increases in 2003 and again in 2009, when scheduled fare increases are implemented. The last fare increase was in 1996.

3.2.1 Farebox and Other System-Generated Revenue

Passenger fares are collected by all transit providers in the regional transit system. Metropolitan Council has the responsibility of establishing fare policies for transit providers and approving fare levels. Metropolitan Council has established fare policies providing for a simplified fare structure and a farebox recovery standard to ensure that fares provide a defined percentage of operating revenues. For regular route service, a fare policy objective is to relate fares to the cost of providing service. Higher fares are charged for peak period and express service.

Metro Transit's base fare is \$1.50 for peak period local service and \$1.00 for off-peak local service and \$2.00 for peak period express service. Under the baseline projection by Metro Transit, the fare structure is expected to remain unchanged until 2003, when the first fare increase since 1996 is planned. The next increase is projected to occur in 2009. Fare increases could be accelerated, if needed.

The table below shows Metro Transit's actual system-generated revenue from 1990 to 1999 and its planned system-generated revenue from 2000 to 2009. A strike and a resulting service reduction decreased revenue during 1995.

System-Generated Revenue
(\$000)

Fiscal Year	Actual		Fiscal Year	Planned	
	Fare Revenue	Percent Change		Fare Revenue	Percent Change
1990	33,288		2000	60,102	2.3%
1991	40,728	22.4%	2001	60,703	1.0%
1992	42,712	4.9%	2002	61,310	1.0%
1993	43,720	2.4%	2003	69,096	12.7%
1994	48,668	11.3%	2004	71,551	3.6%
1995	45,026	-7.5%	2005	72,267	1.0%
1996	50,349	11.8%	2006	72,990	1.0%
1997	54,843	8.9%	2007	73,719	1.0%
1998	56,655	3.3%	2008	74,457	1.0%
1999	58,768	3.7%	2009	84,185	13.1%
		-7.5%		Minimum	1.0%
		22.4%		Maximum	13.1%
		6.8%		Average	3.8%
		8.2%		Standard Deviation	4.9%

Source: Metro Transit Director of Finance e-mail, 08/14/2000

Other revenues include interest earnings on Metropolitan Council reserve funds and other miscellaneous revenue sources. Interest earnings are projected to provide a modest contribution to operating revenues over the early years of the project.

3.2.2 Local Revenues

Metropolitan Council is authorized under State statutes to levy property taxes and issue debt to support regional programs in transit, wastewater, parks and open space, and radio communications. Property taxes support transit operations, transportation planning, community development planning and administration; and provides funds for debt service for parks, transit and Metro Radio Communications bonds. Property taxes also support a number of grant and loan programs.

For purposes of operating taxes for transit services, the metropolitan area is divided into two taxing districts, the Transit Taxing District and the Transit Taxing Area or Exurban Area. The boundaries of the Transit Taxing District include those communities receiving regular route transit service. The Exurban Area includes those portions of the Metropolitan Area not within the Transit Taxing District (page A-7). The proceeds of the transit tax in the Exurban Area are used to fund transit programs serving residents of the Exurban Area including rideshare programs and rural community-based programs.

Presently, about 40% of Metro Transit's operating funds are obtained from the region-wide dedicated transit property tax levy. This represents Metro Transit's single largest source of operating funds, and the most sensitive to changing economic conditions.

The table below shows Metro Transit's actual property tax revenues for transit operations from 1990 to 1999 and its planned property tax revenues for transit operations from 2000 to 2009.

Transit Operating Property Tax Revenue
(\$000)

Fiscal Year	Actual Revenue	Percent Change	Fiscal Year	Planned Revenue	Percent Change
1990	58,719		2000	67,519	6.1%
1991	51,300	-12.6%	2001	71,369	5.7%
1992	54,721	6.7%	2002	75,090	5.2%
1993	54,352	-0.7%	2003	78,845	5.0%
1994	49,810	-8.4%	2004	82,787	5.0%
1995	52,947	6.3%	2005	86,926	5.0%
1996	53,658	1.3%	2006	91,272	5.0%
1997	56,555	5.4%	2007	95,836	5.0%
1998	60,353	6.7%	2008	100,628	5.0%
1999	63,653	5.5%	2009	105,659	5.0%
		-12.6%	Minimum		5.0%
		6.7%	Maximum		6.1%
		1.1%	Average		5.2%
		7.1%	Standard Deviation		0.4%

Source: Metro Transit Director of Finance e-mail, 08/14/2000

During the recession in the early 1990s, property tax revenues for transit operations fluctuated, with an average annual increase around 1.1% from 1990 to 1999. The recent history of this levy can be divided into two distinct periods: 1991 to 1994, and 1994 to the present. Property tax growth stalled between 1992 and 1994. Thereafter, growth in property tax yield resumed, and since 1996, it has been very robust. The baseline forecast assumes significant real growth over the next several years from this source and more moderate but still steady growth thereafter. Between now and 2002, the property tax levy is expected to increase by 6.1% in 2000, 5.7% in 2001, and 5.2% in 2002. After 2002, the property tax levy is projected to grow steadily at 5.0% per year. Growth is driven primarily by inflation increases, household growth and appreciation in property values.

While these rates of increase would be consistent with the growth in Metro Transit's levy over the past three years, local tax revenues are cyclical by nature and some level of year-to-year fluctuation is to be expected. Metropolitan Council projects local tax revenues to grow at an average annual rate of 5.2% during the 2000 to 2009 period, ranging from 5.0% to an increase of 6.1%. Although this rate of growth is reasonable, Metropolitan Council may find it difficult to accommodate normal cyclical variations.

It should be emphasized that econometric models are unable to predict unanticipated negative or positive shocks to consumers and investor confidence. If such shocks should occur, economic growth and Metropolitan Council revenue growth will be affected beyond what is presented here.

3.2.3 State Funding

Metropolitan Council also receives a biennial appropriation from the State to fund transit operations. State transit assistance is provided through a General Fund appropriation. In even-numbered years, the Council must prepare a comprehensive financial plan for its transit programs for the succeeding three calendar years, including schedules of user charges and any

changes in fare levels planned or anticipated during the period of the plan. The plan also contains a Council request for State transit assistance for the succeeding biennium. State funding for transit operations has grown rapidly over the past several years. On average, during the past ten years, State operating funds have shown an average annual increase of 13.6%, with substantial fluctuation.

The table below depicts State appropriations for transit operations and shows the percentage of increase between years. Actual revenue is shown from 1990 through 1999, and the remaining years are projected.

State Appropriations for Metro Transit Operations Revenue
(\$000)

Fiscal Year	Actual Revenue	Percent Change	Fiscal Year	Planned Revenue	Percent Change
1990	10,504		2000	31,387	6.3%
1991	10,504	0.0%	2001	31,752	1.2%
1992	10,504	0.0%	2002	33,030	4.0%
1993	12,998	23.7%	2003	34,682	5.0%
1994	16,400	26.2%	2004	36,333	4.8%
1995	20,200	23.2%	2005	38,150	5.0%
1996	24,532	21.4%	2006	39,967	4.8%
1997	20,160	-17.8%	2007	41,965	5.0%
1998	28,950	43.6%	2008	43,963	4.8%
1999	29,520	2.0%	2009	46,161	5.0%
		-17.8%	Minimum		1.2%
		43.6%	Maximum		6.3%
		13.6%	Average		4.6%
		18.7%	Standard Deviation		1.3%

Source: Metro Transit Director of Finance e-mail, 08/14/2000

Metro Transit assumes that this major funding source will increase at an average annual rate of 4.6% per year. There has been a general trend toward growth in State support for public transportation in the Metro area, reflected in past funding trends and State transportation policy. That support is also evidenced by the State's commitment of \$100.0 million in capital funding for the Hiawatha Line. However, the variability of past appropriations suggests some uncertainty and potential risk.

3.2.4 Federal Funding

Proposed Federal funding for the capital program is based in part on funding allocations from TEA-21 and by assumptions regarding Congressional actions on follow-up Federal transit programs after 2003. Since TEA-21 eliminated operating assistance to larger urban areas, no Federal operating assistance is assumed. Metropolitan Council projects future growth rates consistent with TEA-21 growth rates. Beyond the end of TEA-21, assumptions regarding Federal funds are subject to future acts of Congress. Metropolitan Council assumes relatively small amounts of non-New Starts Federal funds beyond TEA-21. Metro Transit will become eligible for Rail Modernization funds in 2012, but they are not included in the financial plan,

Metro Transit has elected to follow FTA guidelines and capitalize a portion of its rolling stock maintenance costs using Federal Section 5307 funds. Other minor sources of Federal funding are included in the financial plan, including a three-year period of CMAQ funding for fare discount programs.

Metropolitan Council's financial plan assumes that it will receive grants for the full Federal amount of the Hiawatha Line. The plan reflects FTA's proposed schedule of Federal funds. This assumption appears reasonable, once the project is subject to a FFGA.

During the first three years of light rail service, Metro Transit will utilize CMAQ funding to subsidize operations. A total of \$10 million will be programmed for this purpose over the three-year period. This use of CMAQ funding will provide a portion of the operating funds for the Hiawatha Line, while maintaining availability of other operating funds for the existing bus system. During that three-year period, natural growth in the property tax levy is expected to allow property tax levies to increase sufficiently so that the need for gap funding can be eliminated.

3.3 Cost Analysis

The cost analysis examines three major elements: operating and maintenance (O&M) costs; costs associated with maintaining capital equipment, facilities, and vehicles; and Metropolitan Council's rail expansion plans. Metro Transit has developed a 20-year cash flow plan that describes their ability to operate the existing bus system and the Hiawatha Line. The introduction of light rail will reduce the need for bus service along specific routes. Some of that service will be redeployed. Under Metro Transit's current plan, no bus service growth is assumed throughout the life of the plan. Metro Transit plans to maintain a 10% operating reserve requirement.

3.3.1 Operating and Maintenance Costs

Operating and maintenance expenses are driven by more than one component of cost growth. First, all expenses are subject to inflation. Another component of cost growth is caused by the opening of the Hiawatha Line. As shown in the table on the following page, the historic annual increases in O&M costs fluctuate significantly due to increases and decreases in service levels, with an average annual increase of 4.5%. Bus service between year 2000 and 2009 is held constant, with costs increasing at the assumed rate of inflation, or an optimistic 3.0% per year.

In 2004, the first full year of service for the Hiawatha Line, O&M costs increase 10.1%, with net operating costs for the Hiawatha Line estimated at \$13.2 million. With the introduction of the Hiawatha Line, some bus service will be deployed and about 1% of the baseline bus system will be reduced. After a three-year temporary application of regional CMAQ funding, operating funding for the Hiawatha Line will be derived from several sources, including real growth in existing property tax levies; real growth in State general appropriations and miscellaneous sources; and periodic general fare increases.

O&M Expenses
(\$000)

Fiscal Year	Actual Expenses	Percent Change	Fiscal Year	Planned Expenses	Percent Change
1990	111,550		2000	169,000	3.0%
1991	111,209	-0.3%	2001	174,070	3.0%
1992	116,506	4.8%	2002	179,292	3.0%
1993	122,313	5.0%	2003	184,671	3.0%
1994	134,069	9.6%	2004	203,407	10.1%
1995	126,934	-5.3%	2005	209,509	3.0%
1996	131,336	3.5%	2006	215,794	3.0%
1997	135,104	2.9%	2007	222,269	3.0%
1998	152,781	13.1%	2008	228,937	3.0%
1999	164,082	7.4%	2009	235,804	3.0%
		-5.3%	Minimum		3.0%
		13.1%	Maximum		10.1%
		4.5%	Average		3.7%
		5.4%	Standard Deviation		2.3%

Source: Metro Transit Director of Finance e-mail, 08/14/2000

O&M expenses for Metro Transit bus service are somewhat predictable, given existing labor agreements. O&M expenses are more speculative for the Hiawatha Line given the absence of existing baseline data and the time lapse until the ROD. An O&M cost model was used to calculate the total operating cost. The model includes not only all direct costs associated with light rail operation and maintenance, but also a component for Metropolitan Council support departments. Direct costs are based on experience from other currently operating light rail systems, adjusted for local wage and electric power rates.

3.3.2 Maintaining Capital Equipment, Facilities and Vehicles

Metropolitan Council prepares a consolidated capital improvement plan, which is updated annually. The plan incorporates the capital improvement programs of the individual divisions. The adopted transit capital improvement program reflects the start of an aggressive 20-year plan to expand transit service in the region. Implementation of this plan requires a commitment from the Legislature to provide a new capital funding source that is not supported by regional property taxes, as well as additional State funding for transit operations.

The transit capital improvement program proposes investing \$1.5 billion over the next six years in transit equipment and facilities to enable Metro Transit and other transit providers to provide safe and reliable transit service. This reflects a substantial departure from the transit capital improvement program of two years ago. The adopted 2000-2005 transit capital improvement program provides for replacement of the existing equipment and facilities and a significant expansion of the bus fleet, support facilities and public facilities. This expansion will be the first step in a 20-year plan to double transit service in the region.

Metropolitan Council and Metro Transit face a number of funding issues in implementing the growth component of its adopted capital improvement plan. The transit capital financing assumes that the Legislature will authorize an unspecified new State or regional capital funding source to fund the expanded transit capital improvement program. This unspecified source provides approximately 25% of the capital financing for transit and 20% of the agency-wide capital financing. If this new transit capital funding source does not materialize, the adopted capital improvement program would be under-funded by \$376 million.

Until these new funding sources materialize, the baseline financial plan assumes a constrained program funded entirely from existing sources of revenue. This constrained capital program includes projects to establish or maintain projected levels of service (i.e. construction, bus replacement), consistent with legislative requirements. This capital improvement program was developed within the financial constraints of existing funding sources and provided for the timely replacement of buses in accordance with fleet replacement plans, but very little expansion of the system. The program includes an East Metro garage to replace the antiquated Snelling garage by 2001.

Metropolitan Council anticipates receiving approximately \$636.4 million in Federal capital grants to fund bus-related transit capital projects in the 2000-2009 period. The Federal funding would primarily finance fleet purchases, but would also provide financing for various public facilities. In addition, the Council anticipates receiving an additional \$246.9 million in Federal capital grants to complete the Hiawatha Line.

The constrained capital improvement program includes \$169.0 million in regional bonding. Transit property taxes include separate levies for transit operations and debt service. The capital improvement program schedules debt issuance over a multi-year period in consideration of available resources, prioritized capital needs, and the region's ability to pay as measured by property tax growth and personal income projections. Debt service is financed from separate property taxes, which support transit, parks, as well as a number of other regional activities.

3.3.3 Rail Expansion Plans

Metropolitan Council is actively involved in the planning for a number of transitways under active consideration. The completion of the Hiawatha Line is one of a series of planned rail expansions and other transit capital projects. Metropolitan Council's adopted 2020 master transit plan includes several other major capital projects, including the Northstar Corridor commuter rail project, a proposed extension of the Hiawatha Line from its current terminus in downtown Minneapolis and a Riverview Corridor transitway. These plans are still in their early stages and are not included in the baseline financial plan.

3.4 Financial Condition and Capability Results

A cash flow analysis is used to determine Metropolitan Council's financial capacity. This analysis projects the revenues and expenditures, both operating and capital, that Metropolitan Council is likely to incur in continuing current transit services with the addition of the light rail project. To the extent that this analysis does not encounter a cumulative negative ending general fund balance (inadequate revenues to meet projected expenditures), the financial capacity of Metropolitan Council is demonstrated.

The baseline financial plan shows that Metropolitan Council has the ability to operate and maintain its entire transit system (bus and rail) over the 10-year period of analysis and achieve or exceed its standards for reserve levels. In the absence of marked changes in regional economic and local market conditions, Metropolitan Council should be able to support fully its planned capital programs without adversely affecting planned bus and rail operations in its service area. Metropolitan Council's financial position is currently sound and appears to be strong for the foreseeable future, assuming past trends in revenues and costs continue and the planned fare increases are implemented.

As illustrated in the Baseline Financial Plan in the Appendix (pages A-8, A-9, and A-10), Metropolitan Council has the financial resources to fully fund its existing bus system, to build,

operate and maintain the Hiawatha Line, and attain a 10% operating reserve. CMAQ funding during the first three years of operating the Hiawatha Line is an important element of this balanced plan. Relatively little funding is available for bus service expansion until 2009, when the second general fare increase is expected.

Maintaining a 10% operating reserve fund provides a cushion against unexpected single-year events, such as a higher-than-expected cost increase, slower-than-expected growth in ridership, normal cyclical variations, or less-than-expected operating subsidy. Presently, Metro Transit's year-end operating reserve is about \$9.2 million, reflecting a \$5.3 million reduction to cover short-term deficits in recent years. While substantial, this balance is less than the target 10% of operating expenses.

Aided by an anticipated general fare increase, enough funding will become available in 2003 to cover operating expenses and nearly provide for the 10% operating reserve. Beginning with 2006, \$2.0 to \$4.4 million will become available to fund service expansion. In 2009, the combination of another general fare increase and continued growth in property tax and State general funds are expected to provide \$16.8 million available for expanded bus operations. That would fund about an 8% increase in system-wide bus service operations.

4 Sensitivity Analysis

The financial capacity analysis is based on assumptions regarding trends in future revenues and costs. Because many of these costs and revenues are variables beyond Metropolitan Council's control, there is some uncertainty about how these variables, such as sources of revenue or O&M costs, will behave in the future. Therefore, sensitivity testing is conducted to test the assumptions used in the financial capacity assessment. This testing measures the impact of adverse changes to the most important assumptions used in the baseline financial plan. The indicator showing the effect of the sensitivity analysis is the operating balance at the end of 2009.

4.1 Farebox and Other System-Generated Revenue

To measure the impact of different expense recovery scenarios, two alternative system-generated revenue scenarios were analyzed, one in which system-generated revenue increased at the assumed rate of natural growth (1.0%), and one where the two fare increases yield only half the receipts projected.

Holding all other factors constant, the FMOC computed expense recovery ratios and operating balances at the end of 2009. All alternatives would lower both expense recovery and the operating balances at the end of 2009. The table below shows that in the cases of no fare increase, Metro Transit's continued ability to meet annual operating requirements is jeopardized. In the last scenario where the two fare increases yield only half the receipts projected, Metro Transit would continue to meet annual operating requirements.

System-Generated Revenue Assumption	Expense Recovery Ratio	2009 Year-End Operating Reserve (\$millions)
Baseline Financial Plan	35.7%	\$40.5
2000 level plus 1.0% growth	28.9%	(\$19.7)
Baseline Financial Plan with 2 smaller fare increases (50% of plan)	32.7%	\$15.6

4.2 Local Tax Revenues

Because local tax-related revenues subsidize more than 40% of Metro Transit's operating expenses, changes to the growth assumption will have a significant impact on Metro Transit's continued ability to fund its mandates. Because of its importance to the funding plan and its potential sensitivity to downturns in economic conditions, a risk assessment was conducted assuming a slower projection of property tax levy growth. The financial plan currently assumes that transit operating property tax revenue increases at an annual rate of 5.0% after 2002.

To examine the potential impact if this variable is consistently lower (4.0%), a sensitivity test was run to determine how Metro Transit's operating reserve balance would be affected at the end of 2009. Metro Transit's continued ability to meet annual operating requirements is lower, but it is not jeopardized.

A second sensitivity test yielded a significantly more pessimistic funding picture. If the average annual rate was one half of what is currently projected (2.6% instead of 5.2%), the operating balance at the end of 2009 would be a negative \$69.5 million. Annual deficits would occur

almost throughout the 10-year period, beginning in 2001. In 2004, operating reserves would be depleted.

Several sources of supplementary funding could be made available in the event that property tax revenues do not grow as expected. These include the operating reserve, currently at \$9.2 million and expected to increase during the next 10 years. Moderate additional and/or early fare increases can be used to cover any deficits that might arise.

Transit Operating Property Tax Assumption	2009 Year-End Operating Reserve (\$millions)
Baseline Financial Plan	\$40.5
4.0% increase after 2002	\$15.5
2.6% instead of 5.2%	(\$69.5)

4.3 State General Fund Revenues

Metro Transit has forecasted State appropriations for transit operations through 2009 using a conservative assumption of an average annual growth rate of 4.6%. This rate of growth is substantially lower than the historical growth rate that occurred during the 90's. State appropriations have been cyclical historically and a moderate level of year-to-year fluctuation is projected. Between 1990 and 1999, annual growth rates for State appropriations have ranged from -17.8% to 43.6%, while compound annual growth rate during this period was 13.6%. By comparison, State appropriations are projected to grow at a compound annual rate of 4.6%, ranging from 1.2% to 6.3%. Given the conservative nature of this projection and the provision for normal cyclical variation, no sensitivity test was performed on this variable.

4.4 Operating and Maintenance Escalation Rates

The Hiawatha Line O&M costs are to some extent uncertain. Although a methodical plan has been developed to project those costs, they are still nearly five years into the future. A sensitivity test was run to determine the affect on the operating reserve balance if these costs are 10% more than projected. In this scenario, Metro Transit would continue to meet annual operating requirements.

The rate of inflation affects Metro Transit's projected O&M costs. The financial plan currently assumes that the baseline O&M costs increase at an optimistic annual rate of 3.0%. To examine the potential impact if this variable is consistently higher (4.0%), a second sensitivity test was run to determine how Metro Transit's operating reserve balance would be affected at the end of 2009. In this case, Metro Transit's continued ability to meet annual operating requirements is jeopardized.

The table on the following page shows the results of these tests.

O&M Assumption	Expense Recovery Ratio	2009 Year-End Operating Reserve (\$millions)
Baseline Financial Plan	35.7%	\$40.5
Light Rail O&M 10% more than projected	35.5%	\$32.0
2000 O&M plus 4.0% annual increase	32.8%	(\$53.5)

4.5 Hiawatha Line Potential Cost Increase

As shown in the Appendix (Pages A-8 and A-10), the baseline financial plan assumes that the Hiawatha Line will be completed at the \$548.6 million budget. To examine the potential impact of this project coming in at \$603.1 million, or 10% over the current baseline cost estimate, a sensitivity test of this assumption was run to determine the impact on Metro Transit's capital reserve balance. Holding everything else constant and assuming that the cost increase was financed from Metro Transit's capital reserve, the balance at the end of 2009 would fall to a negative \$49.6 million. Furthermore, as early as 2001, the capital balance goes negative, requiring transfers from the operating reserve, interim financing or additional contributions from current or additional funding partners.

4.6 Stress Case Scenario

An analysis of the reasonableness of financial assumptions is only a starting point to an assessment of overall financial health. As important is an analysis of continued financial viability in the event that one or more of the assumptions are not realized as projected. Accordingly, sensitivity analysis subjects baseline assumptions to more rigorous tests. This analysis first isolates the impact of changes to individual assumptions that most affect financial results. Sensitivity analysis demonstrates the relative importance of each assumption to financial viability. Once the most significant factors have been identified individually, the stress case scenario assumes that adverse changes to those major assumptions occur simultaneously.

As shown in the Metro Transit Stress Case Scenario Summary in the Appendix (page A-14), the stress case scenario assumes lower farebox revenue (2 smaller fare increases/50% of plan), lower transit operating property tax revenue (4.0% increase after 2002) and higher O&M increases (4.0% average annual increase). This scenario assumes that the Hiawatha Line will be completed at \$603.1 million, or 10% over the current baseline cost estimate. It assumes that the cost increase is financed from Metro Transit's capital reserve.

This unlikely scenario results in negative cash flows in all years after 2000, with a negative operating reserve balance beginning in 2004. The negative capital reserve balance would begin as early as 2001. Both reserves would remain negative for the rest of the 10-year period of analysis. This would require the infusion of approximately \$153 million to eliminate this negative cash position without impacting service levels or other capital programs. If Metropolitan Council were unable to issue bonds to meet this cash flow requirement, Metropolitan Council would have to reduce capital outlays or reduce bus service levels.

5 Conclusions

After detailed analyses of Metropolitan Council's financial condition and capacity, the FMOC has concluded that Metropolitan Council has the financial capacity to construct the Hiawatha Line; fund the operating costs of the light rail system when completed; and meet the financial requirements to operate, maintain and preserve its existing plant and equipment. In addition, Metropolitan Council has the financial capacity to complete, maintain and operate the on-going bus system.

The FMOC found Metropolitan Council's estimates of relevant financial parameters to be reasonable. Metropolitan Council does not rely on high-risk assumptions to balance its financial plan, nor does it divert operating funds to finance rail expansion.

Metro Transit began 2000 with a small \$9.2 operating reserve balance, about 5.4% of 2000 operating expenses compared to a goal of 10%. Surplus funds generated during the year from Metro Transit's activities are transferred into reserve funds at year-end. When a deficit occurs, the operating reserve is tapped to cover the shortfall. Positive operating reserve balances are maintained throughout the 10-year period of analysis. The annual amount of net income fluctuated, ranging from the largest surplus of \$13.1 million in 2009 to the largest deficit of \$0.7 million in 2001, when operating reserve balances are projected to drop to a low of \$8.5 million. In 2003, coincident with the next planned general fare increase, the operating reserve balance begins to increase. The FMOC model forecasts an operating reserve balance of \$18.8 million at the end of 2004, when the Hiawatha Line is expected to be completed. If the Hiawatha Line project is completed by the fall 2004 ROD and the budget is held at \$548.6 million, the model forecasts an operating reserve balance of \$40.5 million at the end of 2009.

The project, however, is not without risk. While no significant flaws in the project's financial plan were detected, Metropolitan Council's projections provide limited financial flexibility.

Given the important role tax receipts play in Metropolitan Council's finances, adequate ending balances mitigate the risk that normal tax variations will disrupt capital and operating commitments. Year-to-year fluctuations will have much lesser effects than long-term average annual growth rate assumptions. However, the inevitability of those fluctuations argues against programming 100% of forecasted revenues. Metropolitan Council has taken that approach by not programming new service against the forecasted operating balances.

In addition, the local property tax levies and the State appropriations are not tied to a fixed percentage of the tax base. The tax rates and legislative appropriations are subject to periodic adjustments, as dictated by changing circumstances.

Given the limited operating reserve balance, there are two significant risks associated with the baseline financial plan, fare increases and O&M costs. The first risk is the reliance on fare increases to generate sufficient revenue to maintain a positive cash flow. Without the scheduled fare increases and relying only on 1% annual natural growth in system-generated revenue, Metro Transit's operating reserve drops to a negative \$19.7 million. On the other hand, if the scheduled fare increases yield only half of what is projected, Metro Transit's operating reserve drops to \$15.6 million, enough to meet annual operating requirements.

Based on our sensitivity analysis of Metro Transit's baseline assumptions, escalating O&M costs by only 1.0% more than assumed in the baseline financial plan would drop Metro Transit's operating reserve to a negative \$53.5 million. Metro Transit needs to closely monitor factors that affect O&M activities and take appropriate steps to keep cost growth to a minimum. If O&M

costs were to escalate faster than revenue increases for a period of time, the public and Metropolitan Council management would demand tighter budget controls.

The baseline financial plan currently assumes that the Hiawatha Line will be completed within the \$548.6 million budget, with an operating reserve balance of \$40.4 at the end of 2009. If the project were to be 10% over budget, or \$603.1 million, the capital reserve balance would fall to a negative \$49.6 million in 2009. As early as 2001, the capital balance goes negative, requiring transfers from the operating reserve, interim financing or additional contributions from current or additional funding partners.

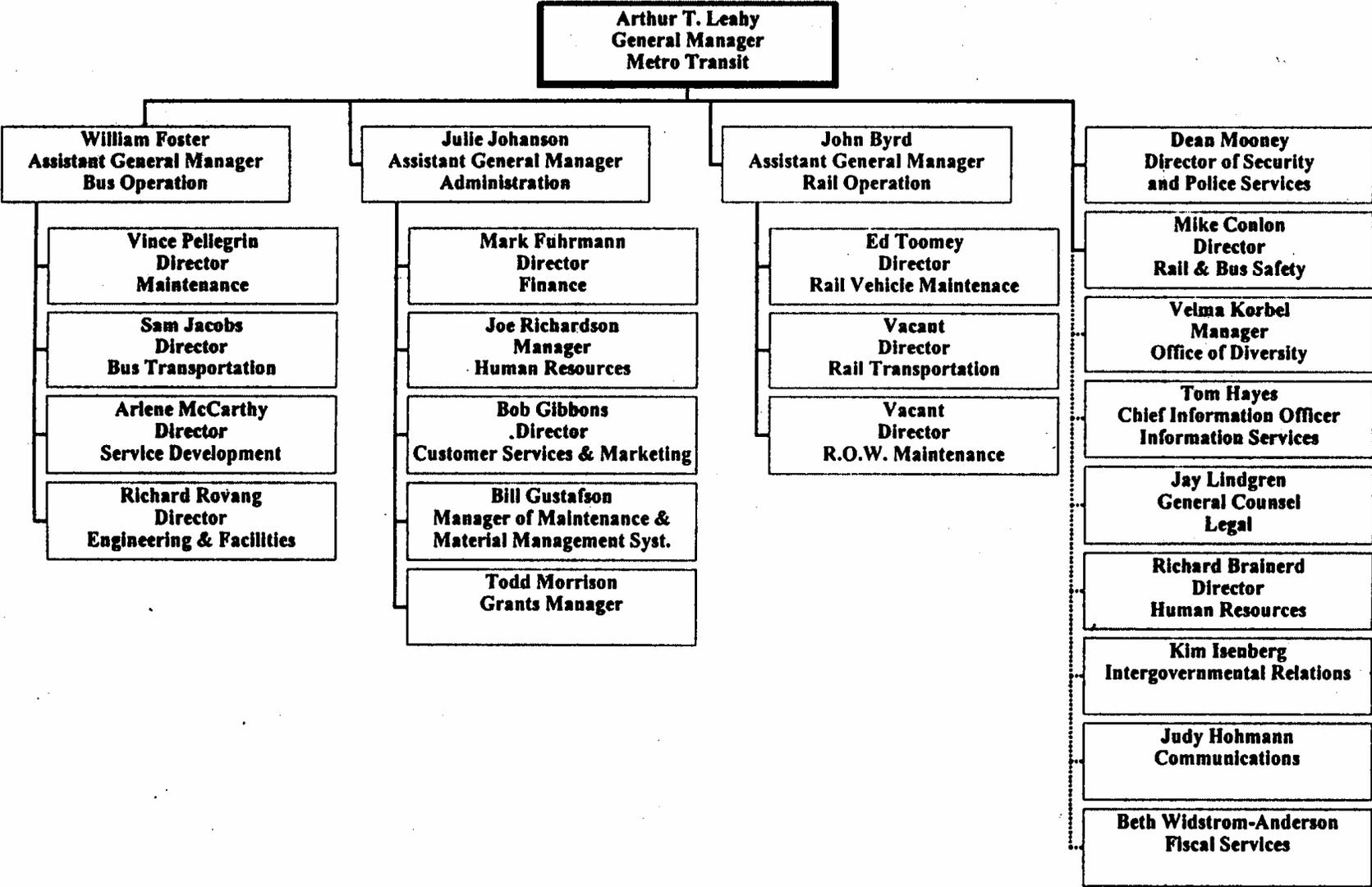
In addition to risks associated with Metropolitan Council's capital projects, there are risks inherent in any long-range financial forecast. For example, a combination of weak regional economic growth concurrent with high inflation in transit labor costs for a sustained period would place pressure on Metropolitan Council's financial condition. Given that a relatively small beginning operating reserve exists, any deficit would be of a magnitude that could challenge standard management techniques, such as adjusting fares or service levels.

Appendix

List of Persons Interviewed

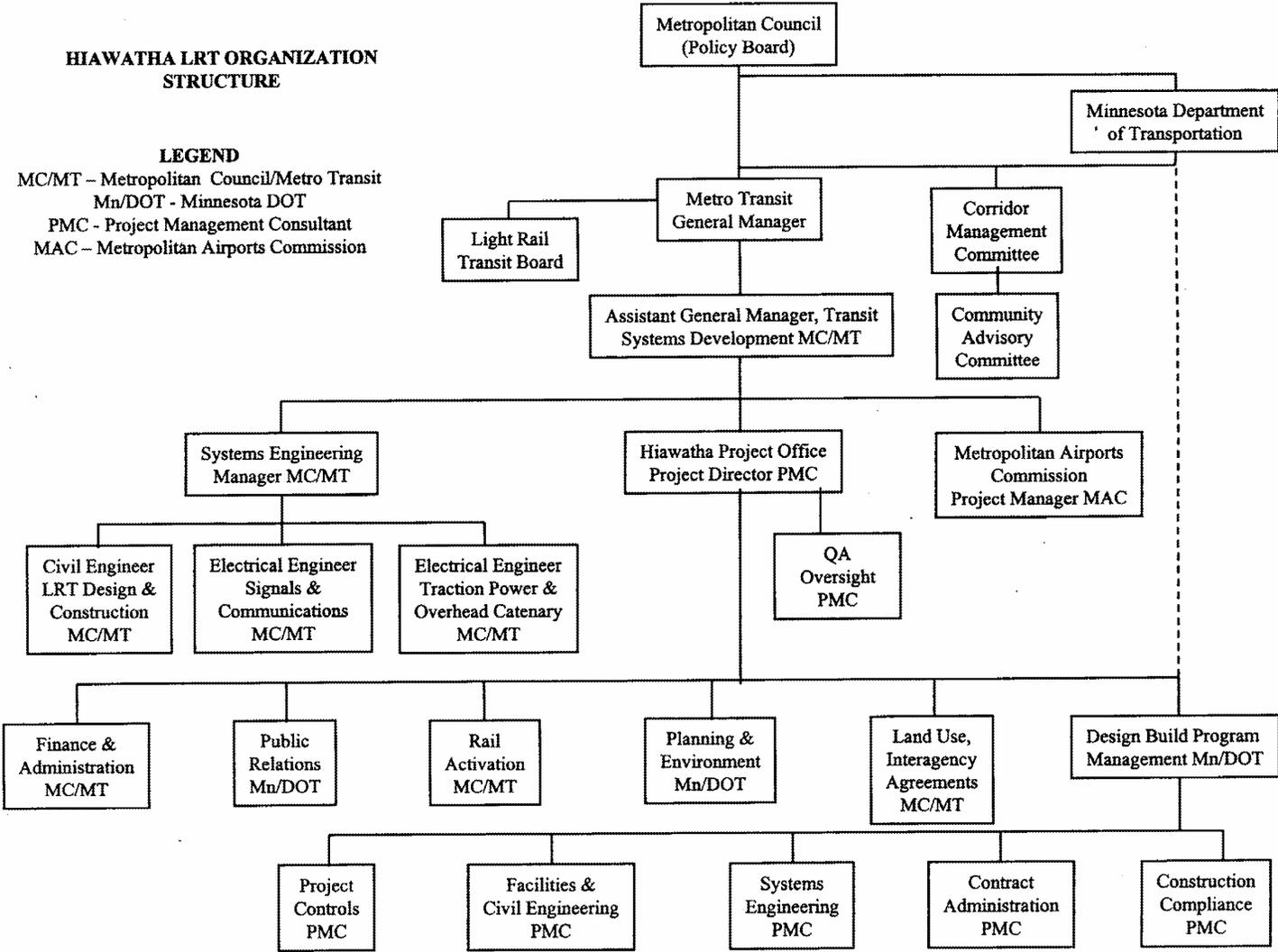
Name	Title
John Byrd	Metro Transit Assistant General Manager – Rail Transit
Gary Erickson	Metro Transit Assistant General Manager – Transit Systems Development
Mark Fuhrmann	Metro Transit Director of Finance
Julie H. Johanson	Metro Transit Assistant General Manager – Administration
Arthur T. Leahy	Metro Transit General Manager
Todd Morrison	Metro Transit Grants Manager
Rahim A. Rahiman	Metropolitan Council Chief Internal Auditor
Beth Widstrom-Anderson	Metropolitan Council Acting Chief Financial Officer
Ed Gill	Attorney, Eckert Seamans
John A. Harrison	HPO Light Rail Project Director
Mary L. Koester	Financial Specialist I, Mn/DOT
Bonnie Kollmann	Director of Financial Operations, Mn/DOT
Jim Ufer	Director, Office of Budget and Finance, Hennepin County

Metro Transit Organization Chart



Source: Metro Transit Handout

Hiawatha Light Rail Transit Organization Structure

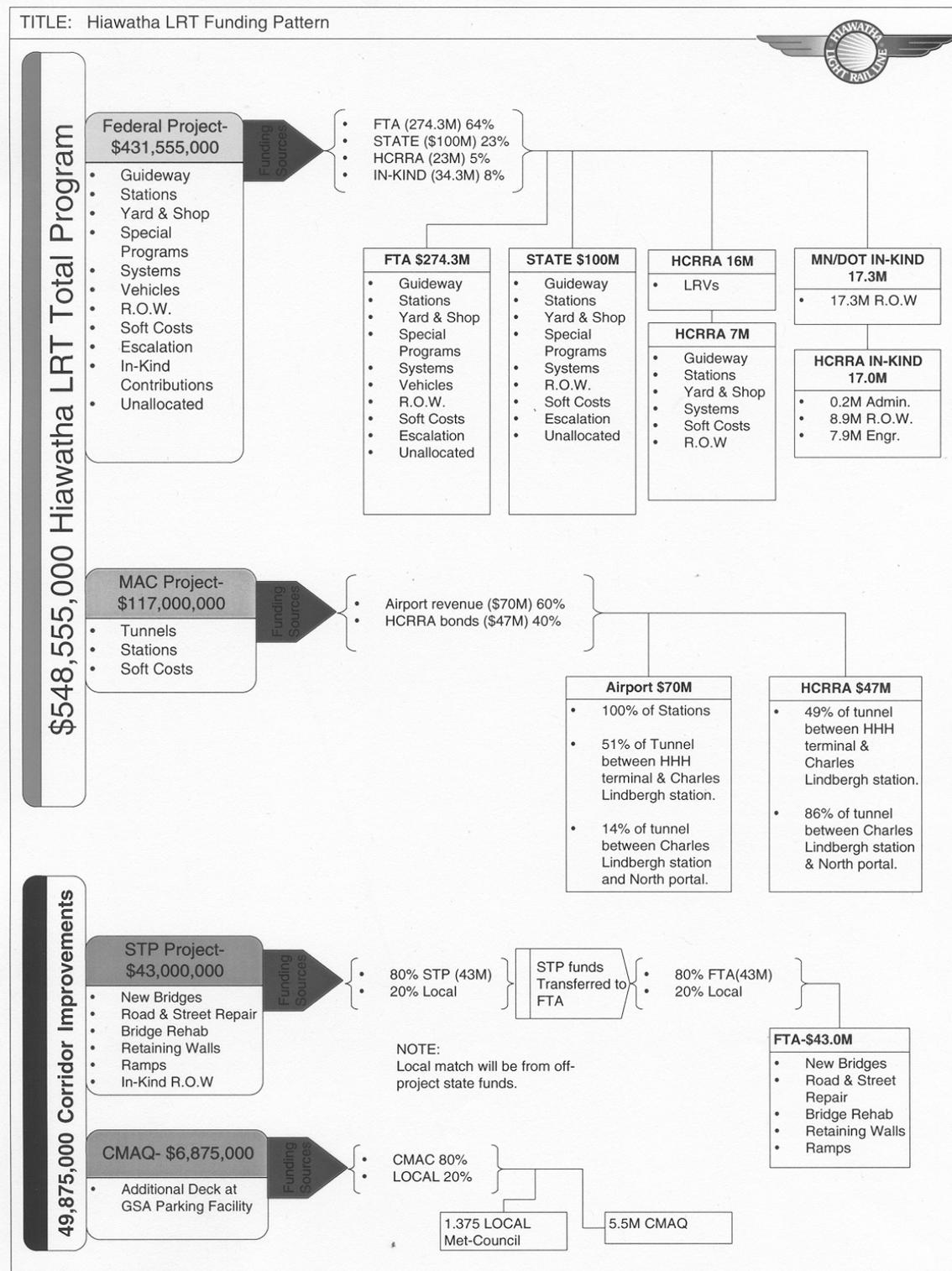


Source: Metro Transit Handout

Inventory of Metropolitan Council Documents Reviewed

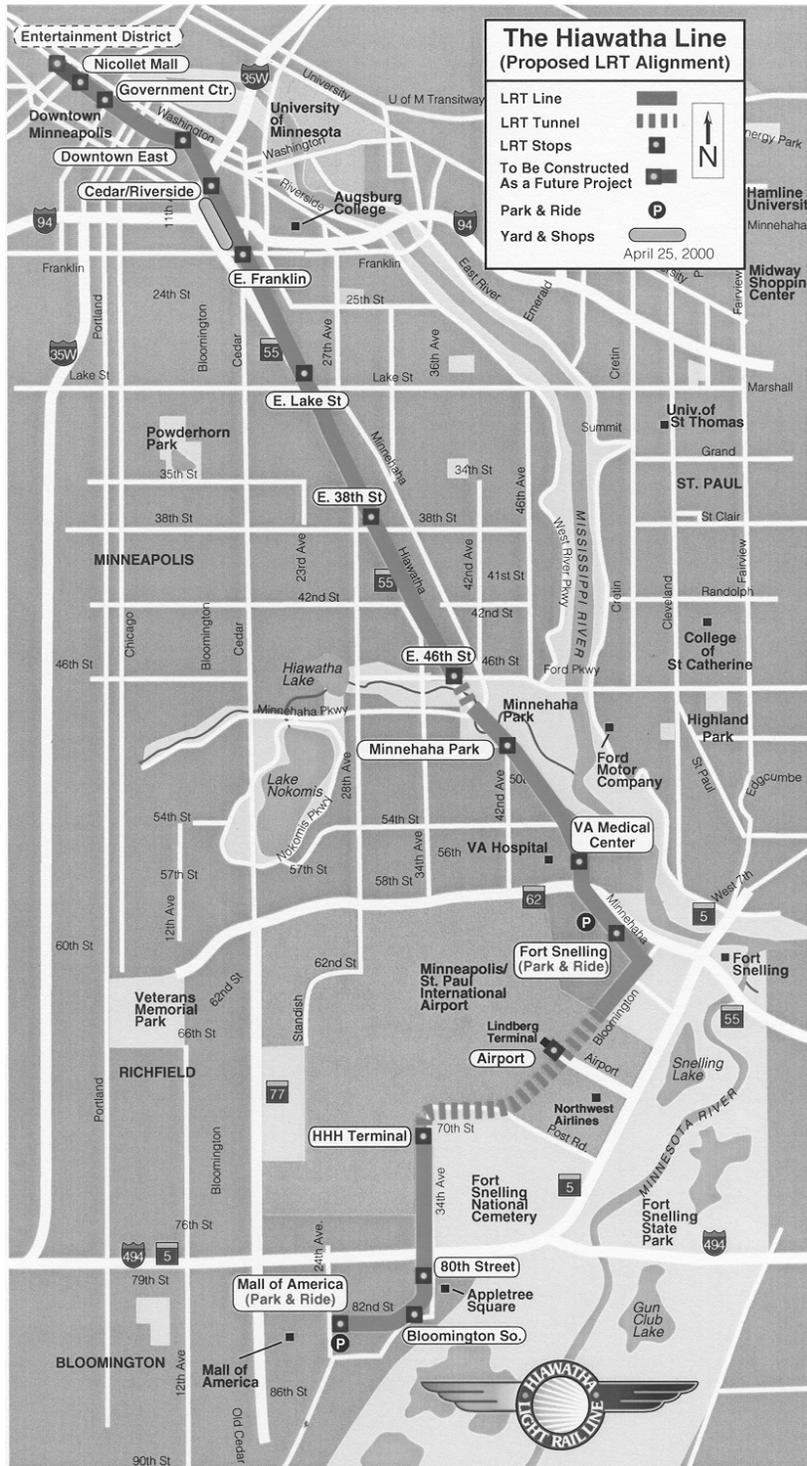
<p>Metropolitan Council and Metro Transit Organization charts and table of telephone contacts</p> <p style="padding-left: 40px;">Hiawatha Project Organization Chart</p> <p style="padding-left: 40px;">Draft FFGA Application Materials, June 8, 2000</p> <p style="padding-left: 40px;">Metro Transit Hiawatha Corridor Light Rail Transit Financial Report, July 15, 2000</p> <p style="padding-left: 40px;">Hiawatha Corridor Light Rail Fact Book, Version 1, January 2000</p> <p style="padding-left: 40px;">Hiawatha Corridor Light Rail Project Transportation and Maintenance Operations Plan, Manuel Padron & Associates, Inc., September 29, 1999</p> <p style="padding-left: 40px;">Minnesota Office of the State Auditor, Management and Compliance Reports for the Metropolitan Council of the Twin Cities area, December 31, 1997 - 1998</p> <p style="padding-left: 40px;">Moody Investors Service Credit Rating, February 28, 2000</p> <p style="padding-left: 40px;">Evensen Dodge Inc. Official Statement, Metropolitan Council, \$42,000,000, General Obligation Transit Bonds, Series 2000a, and \$5,300,000 General Obligation Park Bonds, Series 2000b, March 14, 2000</p> <p style="padding-left: 40px;">Hennepin County Regional Railroad Authority projected fund balance 12/31/99, balance sheet 12/31/98, and 1999 levy and budget resolution.</p> <p style="padding-left: 40px;">Moody's, Standard & Poors, and Fitch's Rating of Hennepin County Credit Status (AAA); supporting documentation</p> <p style="padding-left: 40px;">Hennepin County Regional Railroad Authority Resolution Letter</p> <p style="padding-left: 40px;">Metropolitan Airport Commission Resolution Letter</p> <p style="padding-left: 40px;">Metropolitan Council Transit Property Tax System</p> <p style="padding-left: 40px;">Hiawatha Corridor Light Rail Transit Master Project Cooperation Agreement</p> <p style="padding-left: 40px;">PMOC Hiawatha Corridor Light Rail Project Task 2 Report, April 2000, plus related correspondence</p> <p style="padding-left: 40px;">PMOC Hiawatha Corridor Light Rail Project Monthly Reports, January - April 2000</p>	<p>Hiawatha Corridor Light Rail Project Monthly FTA Report, March and May 2000</p> <p style="padding-left: 40px;">Hiawatha Corridor Project Fleet Management Plan, March 2000 Metro Transit Grant Status Report, as of May 31, 2000</p> <p style="padding-left: 40px;">Fiscal Year 1997 Triennial Review of Metropolitan Council's Transit Operations, April 1998</p> <p style="padding-left: 40px;">Procurement System Review of Metropolitan Council, July 1999, plus related correspondence</p> <p style="padding-left: 40px;">Financial Management Oversight Review of Metropolitan Council Metro Transit, December 1999, plus related correspondence</p> <p style="padding-left: 40px;">FTA Hiawatha Avenue LRT Profile, November 1999</p> <p style="padding-left: 40px;">FTA Hiawatha Avenue LRT Financial Assessment, November 1999</p> <p style="padding-left: 40px;">Transit 2020 Master Plan, Executive Summary</p> <p style="padding-left: 40px;">State Transportation Improvement Plan, State of Minnesota, 2000 - 2002</p> <p>Metropolitan Council Regional Blueprint, December 1996</p> <p style="padding-left: 40px;">Metropolitan Development Guide Transportation Policy Plan with Appendix, December 1996</p> <p style="padding-left: 40px;">Metropolitan Council Capital Improvement Programs and Capital Program and Budgets, December, 1997 - 1999</p> <p style="padding-left: 40px;">Metropolitan Council Comprehensive Annual Financial Reports, December 31, 1996 - 1999</p> <p style="padding-left: 40px;">Metropolitan Council Unified Operating Budgets, December 1997 - 1999</p> <p style="padding-left: 40px;">Metro Transit budget and operating summary</p> <p style="padding-left: 40px;">Metropolitan Council Internal Audit Plan, Policies, Committee Members, Organization and Examples</p> <p style="padding-left: 40px;">Hiawatha LRT Corridor Transit-Oriented Development Market Study and various land use materials</p> <p style="padding-left: 40px;">Revised Hiawatha Corridor Light Rail Transit Forecast, SRF Consulting Group, Inc., August 1999</p>
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Hiawatha Light Rail Funding Pattern



Source: Metro Transit Handout

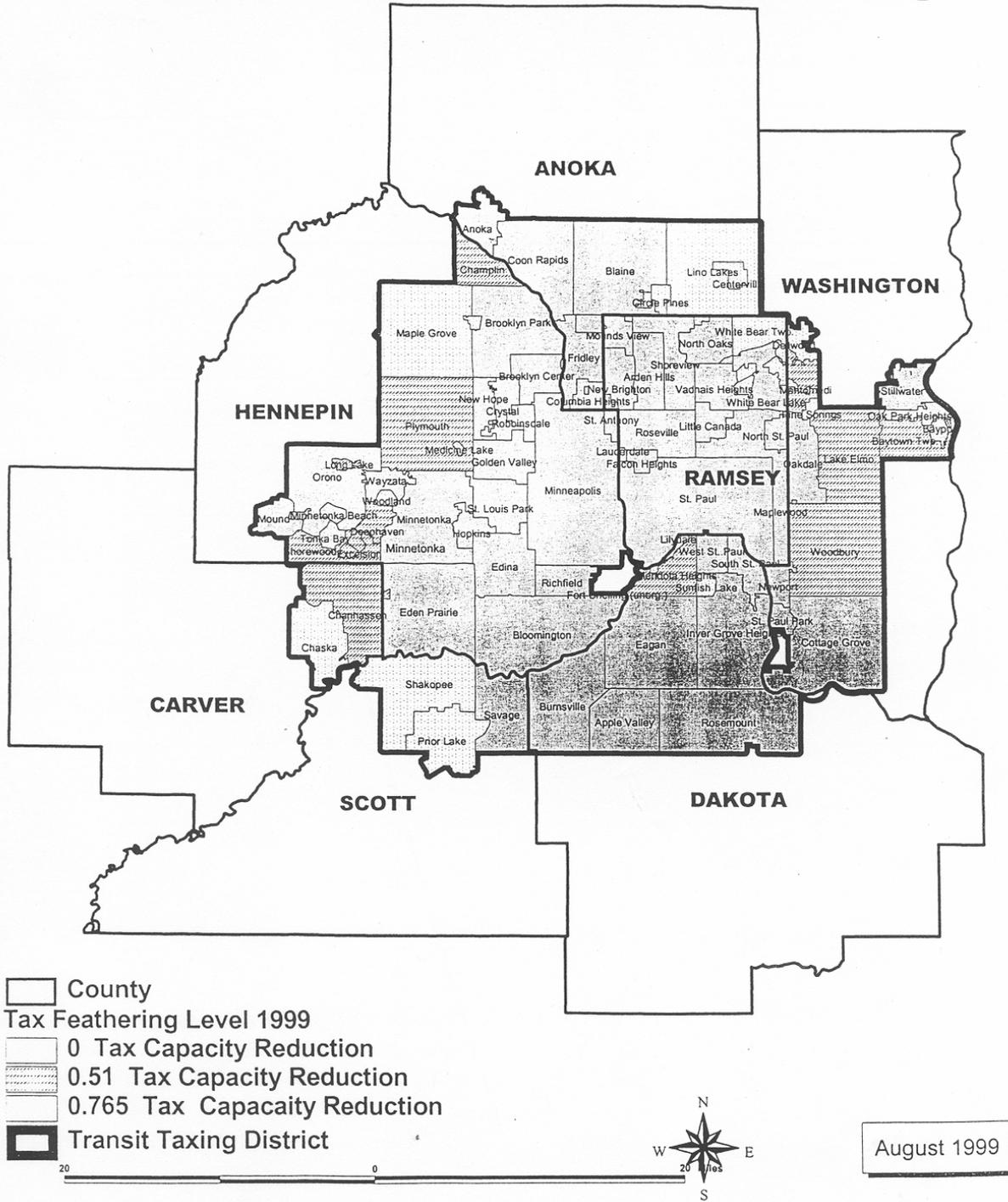
Hiawatha Line Alignment



Source: Metro Transit Handout

Metropolitan Council Transit Taxing District

Twin Cities Metro Area 1999 Transit Tax Feathering



Source: Metro Transit Handout

Metropolitan Council Baseline Financial Plan Summary

Metropolitan Council Summary (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1
System-Generated Revenues		\$156.2	\$151.4	\$151.5	\$159.0	\$162.9	\$165.7	\$169.3	\$173.0	\$177.3	\$190.5	\$
Operating Expenses		\$324.2	\$327.7	\$331.3	\$337.9	\$359.8	\$370.2	\$380.9	\$392.3	\$403.9	\$416.0	\$
Operating Margin (Profit/(Loss))		(\$168.0)	(\$176.3)	(\$179.8)	(\$178.9)	(\$196.9)	(\$204.5)	(\$211.6)	(\$219.3)	(\$226.6)	(\$225.5)	(\$
Operating Subsidy and Grant Income		\$254.6	\$264.9	\$276.9	\$291.6	\$308.1	\$323.2	\$334.6	\$342.8	\$352.0	\$365.7	\$
Debt Service		\$90.2	\$95.0	\$99.8	\$106.8	\$111.3	\$119.0	\$121.6	\$123.7	\$123.3	\$126.9	\$
Net Income		(\$3.6)	(\$6.4)	(\$2.7)	\$5.9	(\$0.1)	(\$0.3)	\$1.4	(\$0.2)	\$2.1	\$13.3	
Year-End Operating Balance		\$39.8	\$33.4	\$30.7	\$36.6	\$36.5	\$36.2	\$37.6	\$37.4	\$39.5	\$52.8	
Sources of Capital Funds												
Regional Borrowing		106.7	116.8	119.1	118.6	102.6	101.4	94.0	101.4	102.9	105.4	\$
State Bonds		24.6	54.8	57.7	9.4	8.0	8.2	8.1	8.1	8.1	8.1	
Federal	\$27.4	123.6	71.4	104.1	115.2	135.7	62.6	65.4	67.5	69.6	71.8	
Other	\$16.8	22.8	58.7	104.9	48.1	(36.8)	1.6	1.7	1.7	1.7	1.8	
Total Sources of Capital Funds	\$44.2	\$277.7	\$301.7	\$385.8	\$291.3	\$209.5	\$173.8	\$169.2	\$178.7	\$182.3	\$187.1	\$
Uses of Capital Funds												
Transit	\$44.2	182.6	217.3	270.6	189.1	129.2	95.3	91.3	95.0	97.4	100.1	\$
Environmental Services		63.1	71.0	120.9	92.6	64.7	63.5	62.0	69.0	70.0	72.0	
Parks and Open Space		18.5	18.5	13.4	13.3	13.4	13.6	13.8	13.8	13.8	13.8	
800 MHz Radio		2.6	11.3	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Capital Uses	\$44.2	\$266.8	\$318.1	\$406.6	\$295.0	\$207.3	\$172.4	\$167.1	\$177.8	\$181.2	\$185.9	\$
Sources Over/(Under) Uses		\$10.9	(\$16.4)	(\$20.8)	(\$3.7)	\$2.2	\$1.4	\$2.1	\$0.9	\$1.1	\$1.2	
Year-End Capital Balance		\$63.3	\$46.9	\$26.1	\$22.4	\$24.6	\$26.0	\$28.1	\$29.0	\$30.1	\$31.3	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metropolitan Council Baseline Financial Plan (Operating)

Metropolitan Council Operating Statement (YOE \$millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
System-Generated Revenues											
Metro Transit	60.1	60.7	61.3	69.1	71.6	72.3	73.0	73.7	74.5	84.2	700.5
Transportation and Transit Development	7.4	4.4	4.5	4.6	4.8	4.9	5.3	5.5	5.6	6.1	53.1
Metro HRA	0.3	0.5	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	3.7
Environmental Services	88.1	85.8	85.4	85.0	86.2	88.1	90.6	93.4	96.8	99.8	899.2
General Fund - CP & RA	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total System-Generated Revenues	156.2	151.4	151.5	159.0	162.9	165.7	169.3	173.0	177.3	190.5	1,656.8
Operating Expenses											
Metro Transit	169.0	174.1	179.3	184.6	203.4	209.5	215.8	222.3	228.8	235.8	2,022.6
Transportation and Transit Development	52.2	53.5	52.0	53.5	55.1	56.8	58.5	60.3	62.1	63.9	587.9
Metro HRA	3.9	3.9	4.1	4.1	4.1	4.2	4.2	4.3	4.4	4.6	41.8
Environmental Services	88.4	86.1	85.7	85.3	86.5	88.7	91.1	93.8	96.7	99.6	901.9
General Fund - CP & RA	10.7	10.1	10.2	10.4	10.7	11.0	11.3	11.6	11.9	12.1	110.0
Total Operating Expenses	324.2	327.7	331.3	337.9	359.8	370.2	380.9	392.3	403.9	416.0	3,644.2
Operating Margin (Profit/(Loss))	(168.0)	(176.3)	(179.8)	(178.9)	(196.9)	(204.5)	(211.6)	(219.3)	(226.6)	(225.5)	(1,987.4)
Operating Subsidy And Grant Income											
Metro Transit	129.3	133.8	142.2	151.9	164.6	175.1	182.8	187.9	196.3	202.4	1,666.3
Transportation and Transit Development	41.6	43.6	45.1	46.7	48.3	50.0	51.7	53.5	55.4	57.3	493.2
Metro HRA	3.4	3.2	3.5	3.6	3.7	3.8	3.9	4.0	4.2	4.3	37.6
Environmental Services	63.6	67.3	68.8	70.8	72.5	73.7	75.4	76.5	76.4	81.7	726.7
General Fund - CP & RA	16.7	17.0	17.3	18.6	19.0	20.6	20.8	20.9	19.7	20.0	190.6
Total Operating Subsidy and Grant Income	254.6	264.9	276.9	291.6	308.1	323.2	334.6	342.8	352.0	365.7	3,114.4
Debt Service											
Metro Transit	20.4	21.1	24.2	28.1	30.8	36.0	37.0	38.2	39.4	37.7	312.9
Transportation and Transit Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Metro HRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environmental Services	63.3	67.0	68.5	70.5	72.2	73.4	75.1	76.2	76.1	81.4	723.7
General Fund - CP & RA	6.5	6.9	7.1	8.2	8.3	9.6	9.5	9.3	7.8	7.8	81.0
Total Debt Service	90.2	95.0	99.8	106.8	111.3	119.0	121.6	123.7	123.3	126.9	1,117.6
Net Income	(3.6)	(6.4)	(2.7)	5.9	(0.1)	(0.3)	1.4	(0.2)	2.1	13.3	9.4
Year-End Operating Balances											
Metro Transit	9.2	8.5	8.5	16.8	18.8	20.7	23.7	24.8	27.4	40.5	
Transportation and Transit Development	21.2	15.7	13.3	11.1	9.1	7.2	5.7	4.4	3.3	2.8	
Metro HRA	2.7	2.5	2.2	2.0	1.9	1.9	2.0	2.1	2.3	2.4	
Environmental Services	0.8	0.8	0.8	0.8	0.8	0.5	0.3	0.2	0.6	1.1	
General Fund - CP & RA	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	6.0	
Total Year-End Operating Balances	\$39.8	\$33.4	\$30.7	\$36.6	\$36.5	\$36.2	\$37.6	\$37.4	\$39.5	\$52.8	

CP & RA - Comprehensive Planning & Regional Administration
Each Year-End Operating Balance is dedicated to the purpose for which it is collected

Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metropolitan Council Baseline Financial Plan (Capital)

Metropolitan Council Constrained Capital Plan (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Sources of Capital Funds												
Transit												
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Metro Transit		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$818.6
Non-Metro Transit (Regional Borrowing)		\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$11.2	\$11.2	\$11.2	\$11.2	\$149.8
Total Transit	\$44.2	\$195.1	\$210.2	\$267.9	\$189.9	\$130.1	\$95.2	\$92.3	\$94.7	\$97.3	\$100.1	\$1,517.0
Environmental Services												
Regional Borrowing		\$63.1	\$71.0	\$80.8	\$80.8	\$64.7	\$63.5	\$62.0	\$69.0	\$70.0	\$72.0	\$696.9
Capital Revolving Fund		\$0.0	\$0.0	\$20.1	\$5.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$26.0
Interest Earnings		\$1.7	\$1.8	\$1.4	\$0.8	\$0.7	\$0.8	\$0.8	\$0.9	\$0.9	\$0.9	\$10.7
Total Environmental Services		\$64.8	\$72.8	\$102.3	\$87.5	\$65.4	\$64.3	\$62.8	\$69.9	\$70.9	\$72.9	\$733.6
Parks and Open Space												
State Bonds		\$11.1	\$11.1	\$8.0	\$7.9	\$8.0	\$8.2	\$8.1	\$8.1	\$8.1	\$8.1	\$86.7
Regional Borrowing		\$5.3	\$5.3	\$5.3	\$5.4	\$5.4	\$5.4	\$5.3	\$5.3	\$5.3	\$5.3	\$53.3
Miscellaneous		\$0.6	\$0.5	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$4.3
Interest Earnings		\$0.3	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$2.6
Total Parks and Open Space		\$17.3	\$17.1	\$13.9	\$13.9	\$14.0	\$14.3	\$14.1	\$14.1	\$14.1	\$14.1	\$146.9
800 MHz Radio												
Operating Income		\$0.0	\$1.4	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.1
Interest Earnings		\$0.5	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7
Total 800 MHz Radio		\$0.5	\$1.6	\$1.7	\$0.0	\$3.8						
Total Capital Sources	\$44.2	\$277.7	\$301.7	\$385.8	\$291.3	\$209.5	\$173.8	\$169.2	\$178.7	\$182.3	\$187.1	\$2,401.3
Uses of Capital Funds												
Transit												
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Metro Transit		\$96.5	\$83.6	\$72.4	\$69.5	\$74.9	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$813.7
Non-Metro Transit		\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$11.2	\$11.2	\$11.2	\$11.2	\$149.8
Total Transit	\$44.2	\$182.6	\$217.3	\$270.6	\$189.1	\$129.2	\$95.3	\$91.3	\$95.0	\$97.4	\$100.1	\$1,512.1
Environmental Services												
Regional Borrowing		\$63.1	\$71.0	\$120.9	\$92.6	\$64.7	\$63.5	\$62.0	\$69.0	\$70.0	\$72.0	\$748.8
Parks and Open Space												
State Bonds		\$18.5	\$18.5	\$13.4	\$13.3	\$13.4	\$13.6	\$13.8	\$13.8	\$13.8	\$13.8	\$145.9
800 MHz Radio												
Interest Earnings		\$2.6	\$11.3	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$15.6
Total Capital Uses	\$44.2	\$266.8	\$318.1	\$406.6	\$295.0	\$207.3	\$172.4	\$167.1	\$177.8	\$181.2	\$185.9	\$2,422.4
Sources Over/(Under) Uses												
Transit												
Hiawatha Line Construction		\$12.5	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Environmental Services												
Regional Borrowing		\$1.7	\$1.8	(\$18.6)	(\$5.1)	\$0.7	\$0.8	\$0.8	\$0.9	\$0.9	\$0.9	
Parks and Open Space												
State Bonds		(\$1.2)	(\$1.4)	\$0.5	\$0.6	\$0.6	\$0.7	\$0.3	\$0.3	\$0.3	\$0.3	
800 MHz Radio												
Interest Earnings		(\$2.1)	(\$9.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Total Sources Over/(Under) Uses		\$10.9	(\$16.4)	(\$20.8)	(\$3.7)	\$2.2	\$1.4	\$2.1	\$0.9	\$1.1	\$1.2	
Year-End Capital Balance												
Transit												
Hiawatha Line Construction		\$0.0	\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	\$4.9
Environmental Services												
Regional Borrowing		\$34.9	\$36.6	\$38.4	\$19.8	\$14.7	\$15.4	\$16.2	\$17.0	\$17.9	\$18.8	\$19.7
Parks and Open Space												
State Bonds		\$5.8	\$4.6	\$3.2	\$3.7	\$4.3	\$4.9	\$5.6	\$5.9	\$6.2	\$6.5	\$6.8
800 MHz Radio												
Interest Earnings		\$11.7	\$9.6	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
Total Year-End Capital Balance	\$52.4	\$63.3	\$46.9	\$26.1	\$22.4	\$24.6	\$26.0	\$28.1	\$29.0	\$30.1	\$31.3	

Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metro Transit Baseline Financial Plan Summary

Metro Transit Summary (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Total System-Generated Revenues		\$60.1	\$60.7	\$61.3	\$69.1	\$71.6	\$72.3	\$73.0	\$73.7	\$74.5	\$84.2	\$700.5
Total Operating Expenses		\$168.0	\$174.1	\$179.3	\$184.6	\$203.4	\$209.5	\$215.8	\$222.3	\$228.8	\$235.8	\$2,022.6
Operating Margin (Profit/(Loss))		(\$108.9)	(\$113.4)	(\$118.0)	(\$115.5)	(\$131.8)	(\$137.2)	(\$142.8)	(\$148.6)	(\$154.3)	(\$151.6)	(\$1,322.1)
Operating Subsidy And Grant Income												
Local		\$87.9	\$92.5	\$99.3	\$106.9	\$113.6	\$122.9	\$128.3	\$134.0	\$140.0	\$143.4	\$1,168.8
State		\$31.4	\$31.8	\$33.0	\$34.7	\$36.3	\$38.1	\$40.0	\$42.0	\$44.0	\$46.2	\$377.5
Federal		\$4.1	\$3.4	\$3.6	\$3.8	\$8.0	\$7.2	\$7.4	\$4.6	\$4.8	\$5.1	\$52.0
Miscellaneous & Other		\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7	\$68.0
Total Operating Subsidy and Grant Income		\$129.3	\$133.8	\$142.2	\$151.9	\$164.6	\$175.1	\$182.8	\$187.9	\$196.3	\$202.4	\$1,666.3
Total Debt Service		\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
Net Income		\$0.0	(\$0.7)	\$0.0	\$8.3	\$2.0	\$1.9	\$3.0	\$1.1	\$2.6	\$13.1	\$31.3
Distributions of Net Income												
Metro Transit Year-End Reserve		\$9.2	\$8.5	\$8.5	\$16.8	\$18.8	\$20.7	\$23.7	\$24.8	\$27.4	\$40.5	
10% Operating Reserve Requirement		\$16.9	\$17.4	\$17.9	\$18.5	\$20.3	\$21.0	\$21.6	\$22.2	\$22.9	\$23.6	
Available for Expanded Service		(\$7.7)	(\$8.9)	(\$9.4)	(\$1.7)	(\$1.5)	(\$0.2)	\$2.1	\$2.6	\$4.5	\$16.9	
Sources of Capital Funds												
Bus System		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$80.2	\$82.6	\$85.2	\$87.9	\$814.9
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Total Capital Sources		\$177.6	\$192.7	\$250.4	\$172.4	\$112.6	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$1,367.2
Uses of Capital Funds												
Bus Replacements		\$27.6	\$39.0	\$37.6	\$31.7	\$9.8	\$5.9	\$43.4	\$23.7	\$7.9	\$0.0	\$226.6
Other Bus Capital		\$68.9	\$44.6	\$34.8	\$37.8	\$65.1	\$71.9	\$36.7	\$58.9	\$77.1	\$87.6	\$583.4
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.2	\$1.2	\$1.3	\$3.7
Total Capital Uses		\$165.1	\$199.8	\$253.1	\$171.6	\$111.7	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$1,362.3
Sources Over/(Under) Uses		\$12.5	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Year-End Capital Balance		\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	\$4.9	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metro Transit Baseline Financial Plan (Operating)

Metro Transit Operating Statement (YOE \$millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
System-Generated Revenues											
Baseline Bus	\$80.1	\$80.7	\$81.3	\$89.1	\$89.8	\$70.5	\$71.2	\$71.9	\$72.6	\$81.8	\$689.0
Light Rail (Net)	\$0.0	\$0.0	\$0.0	\$0.0	\$1.8	\$1.8	\$1.8	\$1.8	\$1.9	\$2.4	\$11.5
Total System-Generated Revenues	\$80.1	\$80.7	\$81.3	\$89.1	\$71.6	\$72.3	\$73.0	\$73.7	\$74.5	\$84.2	\$700.5
Expense Recovery Ratio	35.6%	34.9%	34.2%	37.4%	35.2%	34.5%	33.8%	33.2%	32.6%	35.7%	34.6%
Operating Expenses											
Baseline Bus Expense	\$161.2	\$166.0	\$171.4	\$176.5	\$181.8	\$187.3	\$192.9	\$198.7	\$204.6	\$210.7	\$1,851.1
Other Operating Expenses	\$7.8	\$8.1	\$7.9	\$8.1	\$8.4	\$8.6	\$8.9	\$9.2	\$9.4	\$9.8	\$86.2
Light Rail (Net)	\$0.0	\$0.0	\$0.0	\$0.0	\$13.2	\$13.6	\$14.0	\$14.4	\$14.8	\$15.3	\$85.3
Total Operating Expenses	\$169.0	\$174.1	\$179.3	\$184.6	\$203.4	\$209.5	\$215.8	\$222.3	\$228.8	\$235.8	\$2,022.6
Operating Margin (Profit/(Loss))	(\$108.9)	(\$113.4)	(\$118.0)	(\$115.5)	(\$131.8)	(\$137.2)	(\$142.8)	(\$148.6)	(\$154.3)	(\$151.6)	(\$1,322.1)
Operating Subsidy And Grant Income											
Transit Operating Property Tax Levy (Net)	\$87.5	\$71.4	\$75.1	\$78.8	\$82.8	\$86.9	\$91.3	\$95.8	\$100.6	\$105.7	\$855.9
Transit Debt Service Property Tax Levy	\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
State General Funds	\$31.4	\$31.8	\$33.0	\$34.7	\$36.3	\$38.1	\$40.0	\$42.0	\$44.0	\$46.2	\$377.5
Federal Section 5307	\$3.3	\$3.4	\$3.6	\$3.8	\$4.0	\$4.2	\$4.4	\$4.6	\$4.8	\$5.1	\$41.2
CMAQ	\$0.8	\$0.0	\$0.0	\$0.0	\$4.0	\$3.0	\$3.0	\$0.0	\$0.0	\$0.0	\$10.8
Miscellaneous & Other	\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7	\$68.0
Total Operating Subsidy and Grant Income	\$129.3	\$133.8	\$142.2	\$151.9	\$164.6	\$175.1	\$182.8	\$187.9	\$196.3	\$202.4	\$1,666.3
Debt Service											
Existing	\$16.0	\$11.5	\$9.2	\$9.0	\$7.8	\$7.8	\$8.5	\$6.5	\$6.5	\$3.2	\$84.0
New	\$4.4	\$9.6	\$15.0	\$19.1	\$23.0	\$28.2	\$30.5	\$31.7	\$32.9	\$34.5	\$228.9
Total Debt Service	\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
Net Income	\$0.0	(\$0.7)	\$0.0	\$8.3	\$2.0	\$1.9	\$3.0	\$1.1	\$2.6	\$13.1	\$31.3
Distributions of Net Income											
Metro Transit Year-End Reserve	\$9.2	\$8.5	\$8.5	\$16.8	\$18.8	\$20.7	\$23.7	\$24.8	\$27.4	\$40.5	
10% Operating Reserve Requirement	\$16.9	\$17.4	\$17.9	\$18.5	\$20.3	\$21.0	\$21.6	\$22.2	\$22.9	\$23.6	
Available for Expanded Service	(\$7.7)	(\$8.9)	(\$9.4)	(\$1.7)	(\$1.5)	(\$0.3)	\$2.1	\$2.6	\$4.5	\$16.9	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metro Transit Baseline Financial Plan (Capital)

Metro Transit Constrained Capital Plan (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Sources of Capital Funds												
Bus System												
Federal		\$81.6	\$51.4	\$54.1	\$55.2	\$60.7	\$62.6	\$64.6	\$66.6	\$68.7	\$70.9	\$636.4
State		\$6.5	\$2.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$8.5
Regional Borrowing		\$20.8	\$23.0	\$15.5	\$15.0	\$15.0	\$15.0	\$15.5	\$15.9	\$16.4	\$16.9	\$169.0
Interest/Miscellaneous		\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$1.0
New Funding Source		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Bus System		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$80.2	\$82.6	\$85.2	\$87.9	\$814.9
Hiawatha Line Construction												
Federal	\$27.4	\$41.9	\$20.0	\$50.0	\$60.0	\$75.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$274.3
State	\$0.0	\$7.0	\$41.7	\$49.7	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$100.0
Other Local and In-Kind	\$16.8	\$19.7	\$54.5	\$81.0	\$40.5	(\$38.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$174.3
Subtotal Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Light Rail												
Federal *		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Other Local and In-Kind		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Total Capital Sources		\$177.6	\$192.7	\$250.4	\$172.4	\$112.6	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$1,367.2
Uses of Capital Funds												
Bus Replacements		\$27.6	\$39.0	\$37.6	\$31.7	\$9.8	\$5.9	\$43.4	\$23.7	\$7.9	\$0.0	\$226.6
Other Bus Capital		\$68.9	\$44.6	\$34.8	\$37.8	\$65.1	\$71.9	\$36.7	\$58.9	\$77.1	\$87.6	\$583.4
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.2	\$1.2	\$1.3	\$3.7
Transitways		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Capital Uses	\$0.0	\$165.1	\$199.8	\$253.1	\$171.6	\$111.7	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$1,362.3
Sources Over/(Under) Uses		\$12.5	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Year-End Capital Balance		\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	\$4.9	

* Although no Rail Modernization funds are included in this plan, Metro Transit will become eligible for those funds in 2012

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

Metro Transit Stress Case Scenario Summary

Metro Transit Summary (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Total System-Generated Revenues		\$60.1	\$60.7	\$61.3	\$65.5	\$68.8	\$69.5	\$70.2	\$70.8	\$71.6	\$77.1	\$675.6
Total Operating Expenses		\$168.0	\$175.8	\$182.8	\$190.1	\$210.9	\$219.3	\$228.1	\$237.2	\$246.7	\$256.6	\$2,116.6
Operating Margin (Profit/(Loss))		(\$108.9)	(\$115.1)	(\$121.5)	(\$124.6)	(\$142.1)	(\$149.9)	(\$158.0)	(\$166.4)	(\$175.1)	(\$179.5)	(\$1,441.0)
Operating Subsidy And Grant Income												
Local		\$87.9	\$92.5	\$99.3	\$106.2	\$112.0	\$120.5	\$124.9	\$129.6	\$134.4	\$136.5	\$1,143.8
State		\$31.4	\$31.8	\$33.0	\$34.7	\$36.3	\$38.1	\$40.0	\$42.0	\$44.0	\$46.2	\$377.5
Federal		\$4.1	\$3.4	\$3.6	\$3.8	\$8.0	\$7.2	\$7.4	\$4.6	\$4.8	\$5.1	\$52.0
Miscellaneous & Other		\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7	\$68.0
Total Operating Subsidy and Grant Income		\$129.3	\$133.8	\$142.2	\$151.2	\$163.0	\$172.7	\$179.4	\$183.5	\$190.7	\$195.5	\$1,641.3
Total Debt Service		\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
Net Income		\$0.0	(\$2.4)	(\$3.5)	(\$1.5)	(\$9.9)	(\$13.2)	(\$15.6)	(\$21.1)	(\$23.8)	(\$21.7)	(\$112.6)
Distributions of Net Income												
Metro Transit Year-End Reserve		\$9.2	\$6.8	\$3.4	\$1.9	(\$8.0)	(\$21.2)	(\$36.8)	(\$57.9)	(\$81.7)	(\$103.4)	
10% Operating Reserve Requirement		\$16.9	\$17.6	\$18.3	\$19.0	\$21.1	\$21.9	\$22.8	\$23.7	\$24.7	\$25.7	
Available for Expanded Service		(\$7.7)	(\$10.7)	(\$14.9)	(\$17.1)	(\$29.1)	(\$43.1)	(\$59.6)	(\$81.6)	(\$106.3)	(\$129.1)	
Sources of Capital Funds												
Bus System		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$80.2	\$82.6	\$85.2	\$87.9	\$814.9
Hiawatha Line Construction	\$44.2	\$68.6	\$116.2	\$180.7	\$102.1	\$36.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$548.6
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Total Capital Sources		\$177.6	\$192.7	\$250.4	\$172.4	\$112.6	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$1,367.2
Uses of Capital Funds												
Bus Replacements		\$27.6	\$39.0	\$37.6	\$31.7	\$9.8	\$5.9	\$43.4	\$23.7	\$7.9	\$0.0	\$226.6
Other Bus Capital		\$68.9	\$44.6	\$34.8	\$37.8	\$65.1	\$71.9	\$36.7	\$58.9	\$77.1	\$87.6	\$583.4
Hiawatha Line Construction	\$44.2	\$68.6	\$129.8	\$194.4	\$115.7	\$50.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$803.1
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.2	\$1.2	\$1.3	\$3.7
Total Capital Uses		\$165.1	\$213.4	\$266.8	\$185.2	\$125.3	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$1,416.8
Sources Over/(Under) Uses		\$12.5	(\$20.7)	(\$16.4)	(\$12.8)	(\$12.7)	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Year-End Capital Balance		\$12.5	(\$8.2)	(\$24.6)	(\$37.4)	(\$50.1)	(\$50.2)	(\$49.2)	(\$49.5)	(\$49.6)	(\$49.6)	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 08/10/2000

4. SAMPLE COMPLETED SPOT REPORT



US Department
of Transportation
**Federal Transit
Administration**



SPOT REPORT NUMBER 1

A FINANCIAL CAPACITY ASSESSMENT OF THE METROPOLITAN COUNCIL/METRO TRANSIT MINNEAPOLIS, MINNESOTA

HIAWATHA CORRIDOR LIGHT RAIL TRANSIT PROJECT

PREPARED FOR:
FEDERAL TRANSIT ADMINISTRATION

PREPARED BY:
DIVERSIFIED CAPITAL, INC.

CONTRACT/WORK ORDER NO. DTFT60-98-C-41011
PROJECT NO. CA-90-5001
TASK ORDER NO. 4

BASELINE REPORT ISSUED: SEPTEMBER 29, 2000
SPOT REPORT DATE: NOVEMBER 7, 2000
SPOT REPORT ISSUED: NOVEMBER 14, 2000

DCI
A Financial Services Company

 **Metropolitan Council**
Working for the Region, Planning for the Future

 **Metro Transit**

Spot Report Number 1 for the Financial Capacity Assessment of the Metropolitan Council

Background

This Spot Report Number 1 updates the Financial Capacity Assessment of the Metropolitan Council with respect to the issues related to the increased scope and budget of the Hiawatha Corridor Light Rail Transit Project (the Hiawatha Line). This Spot Report should be read in conjunction with the Baseline Report, dated September 29, 2000.

Summary

After analyzing the impact of the changes described below to Metropolitan Council's financial condition and capacity, the Financial Management Oversight Contractor still concludes that Metropolitan Council has the financial capacity to construct the Hiawatha Line; fund the operating costs of the light rail system when completed; and meet the financial requirements to operate, maintain and preserve its existing plant and equipment. Metropolitan Council has the financial capacity to maintain and operate the on-going bus system. In addition, Metropolitan Council has the financial capacity to complete the on-going projects included in the rest of its organization.

Changes to the Baseline Report

After the baseline report was issued on September 29, 2000, Metropolitan Council and its transit operating arm, Metro Transit, has worked with FTA and its local funding partners to change the scope and budget of the Hiawatha Line. The project has changed as follows:

The length of the line has increased from 11.4 miles to 11.6 miles by extending the northwest end of the line further into downtown Minneapolis. This change increased the number of stations from 16 to 17. The number of light rail vehicles increased from 22 to 26. The revenue operations date for completion of the entire project is December 31, 2004.

In the baseline report, the Hiawatha Line was closely associated with two other corridor improvements. One project involves new bridges, bridge rehabilitation, road and street repair, retaining walls and ramps. The total project cost was \$43.0 million. The second project was the construction of a parking facility. The total project cost was \$6.875 million. These projects are now included within the scope of the proposed Full Funding Grant Agreement, increasing the budget by \$49.875 million.

As described in the baseline report, the Hiawatha Line was subdivided into two projects, the Federal project and the Metropolitan Airports Commission (MAC) project. The total cost of the Federal project has increased from \$431.6 million to \$483.6 million, funded by an additional \$60.0 million of Federal Section 5309 New Starts money, less \$8.0 million of State funding shifted to the MAC project. In addition, the total Minnesota Department of Transportation (Mn/DOT) in-kind match changed from \$17.3 million to \$20.1 million, while the Hennepin County Regional Railroad Authority (HCRRRA) in-kind match changed from \$17.0 million to \$14.2 million.

The MAC project has increased from \$117.0 million to \$142.0 million, financed by an additional \$17.0 million of MAC funding in general airport revenues, plus the \$8.0 million of State funding mentioned above.

The baseline project cost estimate for the Hiawatha Line totals \$675.4 million. The table below summarizes the Hiawatha Line capital cash flow of funds by source and capital costs by year. This table reflects FTA's proposed schedule of Federal funds.

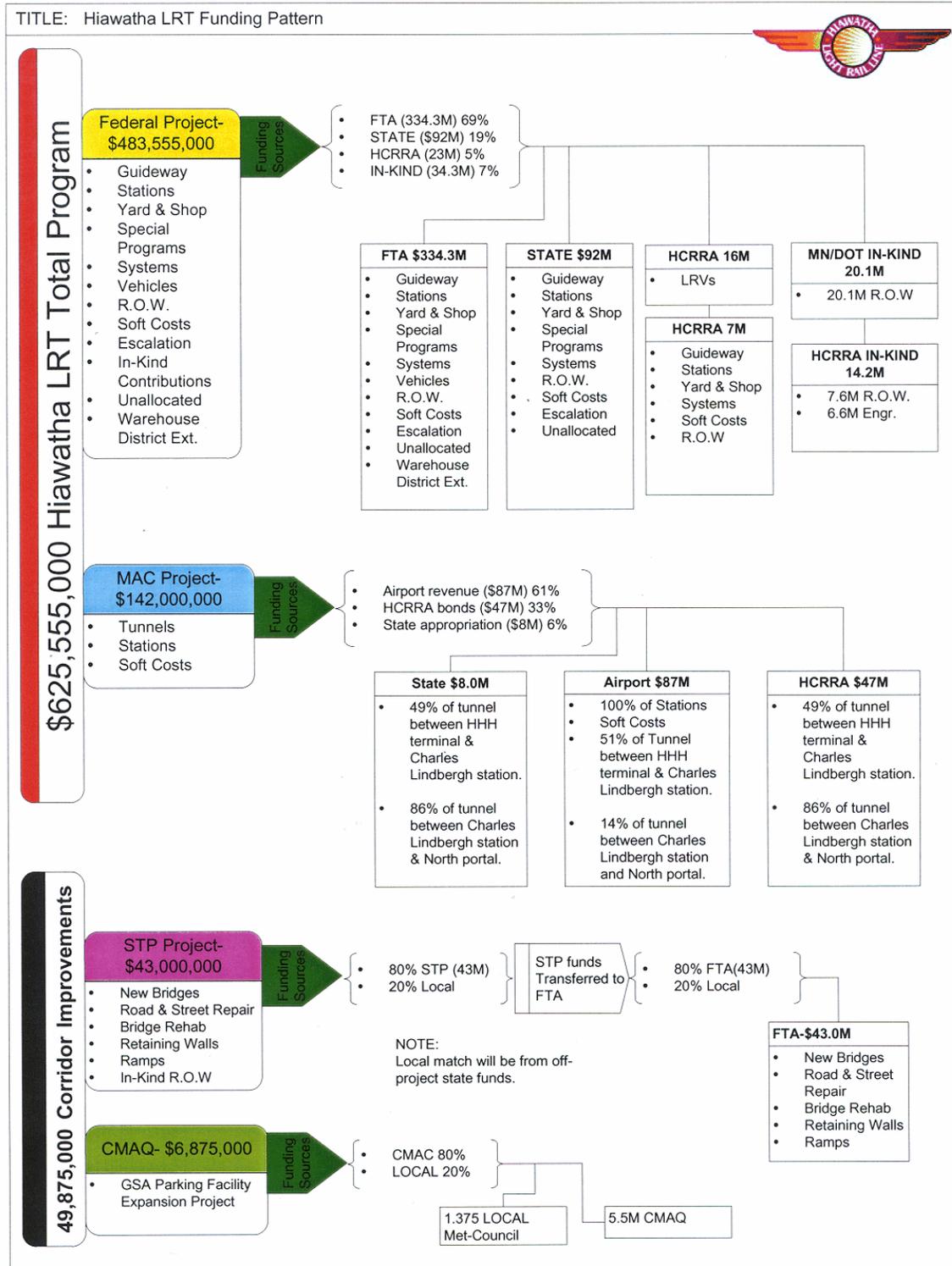
(YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	Amount	Totals % of ST*	% of Total
Federal Project										
Section 5309 New Starts	27.4	42.0	49.6	50.0	60.0	75.0	30.3	\$334.3	69.1%	49.5%
State & Local Cash/Bonds	6.7	10.5	83.0	73.0	22.6	(50.5)	(30.3)	\$115.0	23.8%	17.0%
In-Kind	34.3	0.0	0.0	0.0	0.0	0.0	0.0	\$34.3	7.1%	5.1%
ST Funding - Annual	\$68.4	\$52.5	\$132.6	\$123.0	\$82.6	\$24.5	\$0.0	\$483.6	100.0%	71.6%
ST Funding - Cumulative	\$68.4	\$120.9	\$253.5	\$376.5	\$459.1	\$483.6	\$483.6			
ST Cost - Annual	\$44.2	\$76.7	\$132.6	\$123.0	\$82.6	\$24.5	\$0.0	\$483.6	100.0%	100.0%
ST Cost - Cumulative	\$44.2	\$120.9	\$253.5	\$376.5	\$459.1	\$483.6	\$483.6			
MAC Project										
State & Local Cash/Bonds	0.0	12.2	15.4	42.8	53.4	18.2	0.0	\$142.0	100.0%	21.0%
ST Funding - Annual	\$0.0	\$12.2	\$15.4	\$42.8	\$53.4	\$18.2	\$0.0	\$142.0	100.0%	21.0%
ST Funding - Cumulative	\$0.0	\$12.2	\$27.6	\$70.4	\$123.8	\$142.0	\$142.0			
ST Cost - Annual	\$0.0	\$12.2	\$15.4	\$42.8	\$53.4	\$18.2	\$0.0	\$142.0	100.0%	21.0%
ST Cost - Cumulative	\$0.0	\$12.2	\$27.6	\$70.4	\$123.8	\$142.0	\$142.0			
Corridor Improvements										
STP & CMAQ	0.0	0.0	28.0	19.2	1.3	0.0	0.0	\$48.5	97.4%	7.2%
State & Local Cash/Bonds	0.0	0.0	0.6	0.5	0.2	0.0	0.0	\$1.3	2.6%	0.2%
ST Funding - Annual	\$0.0	\$0.0	\$28.6	\$19.7	\$1.5	\$0.0	\$0.0	\$49.8	100.0%	7.4%
ST Funding - Cumulative	\$0.0	\$0.0	\$28.6	\$48.3	\$49.8	\$49.8	\$49.8			
ST Cost - Annual	\$0.0	\$0.0	\$28.6	\$19.7	\$1.5	\$0.0	\$0.0	\$49.8	100.0%	7.4%
ST Cost - Cumulative	\$0.0	\$0.0	\$28.6	\$48.3	\$49.8	\$49.8	\$49.8			
Hiawatha Project										
Section 5309 New Starts	27.4	42.0	49.6	50.0	60.0	75.0	30.3	\$334.3	49.5%	49.5%
STP & CMAQ	0.0	0.0	28.0	19.2	1.3	0.0	0.0	\$48.5	7.2%	7.2%
State & Local Cash/Bonds	6.7	22.7	99.0	116.3	76.2	(32.3)	(30.3)	\$258.3	38.2%	38.2%
In-Kind	34.3	0.0	0.0	0.0	0.0	0.0	0.0	\$34.3	5.1%	5.1%
Total Funding - Annual	\$68.4	\$64.7	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$675.4	100.0%	100.0%
Total Funding - Cumulative	\$68.4	\$133.1	\$309.7	\$495.2	\$632.7	\$675.4	\$675.4			
Total Cost - Annual	\$44.2	\$88.9	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$675.4	100.0%	100.0%
Total Cost - Cumulative	\$44.2	\$133.1	\$309.7	\$495.2	\$632.7	\$675.4	\$675.4			

* ST = Sub-Total

Source: Metro Transit Director of Finance e-mail, 11/07/2000

Because of the additional length of the Hiawatha Line, net operating costs have increased by approximately \$0.5 million per year, to a small degree offset by increased fare revenue. This change has a minor impact on Metropolitan Council's financial capacity. This reduces Metro Transit's year-end operating reserve, which is a component of Metropolitan Council's operating balance, from \$40.5 million to \$37.5 million in 2009. This 7.4% change does not alter the conclusion that Metropolitan Council has the financial capacity to undertake this project.

Hiawatha Light Rail Funding Pattern



Source: Metro Transit Director of Finance

Metropolitan Council Baseline Financial Plan Summary

Metropolitan Council Summary (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
System-Generated Revenues		\$156.2	\$151.4	\$151.5	\$159.0	\$162.9	\$165.7	\$169.4	\$173.1	\$177.3	\$190.5	\$1,657.0
Operating Expenses		\$324.2	\$327.7	\$331.3	\$337.9	\$360.3	\$370.7	\$381.4	\$392.8	\$404.5	\$416.6	\$3,647.4
Operating Margin (Profit/(Loss))		(\$168.0)	(\$176.3)	(\$179.8)	(\$178.9)	(\$197.4)	(\$205.0)	(\$212.0)	(\$219.7)	(\$227.2)	(\$226.1)	(\$1,990.4)
Operating Subsidy and Grant Income		\$254.6	\$264.9	\$276.9	\$291.6	\$308.1	\$323.2	\$334.6	\$342.8	\$352.0	\$365.7	\$3,114.4
Debt Service		\$90.2	\$95.0	\$99.8	\$106.8	\$111.3	\$119.0	\$121.6	\$123.7	\$123.3	\$126.9	\$1,117.6
Net Income		(\$3.6)	(\$6.4)	(\$2.7)	\$5.9	(\$0.6)	(\$0.8)	\$1.0	(\$0.6)	\$1.5	\$12.7	\$6.4
Year-End Operating Balance		\$39.8	\$33.4	\$30.7	\$36.6	\$36.0	\$35.2	\$36.2	\$35.6	\$37.1	\$49.8	
Sources of Capital Funds												
Regional Borrowing		106.7	116.8	119.1	118.6	102.6	101.4	94.0	101.4	102.9	105.4	\$1,068.9
State Bonds		24.6	54.8	57.7	9.4	8.0	8.2	8.1	8.1	8.1	8.1	\$195.1
Federal	\$27.4	123.7	129.0	123.3	116.5	135.7	92.9	65.4	67.5	69.6	71.8	\$1,022.8
Other	\$41.0	18.8	61.5	90.5	82.2	(30.9)	(28.7)	1.7	1.7	1.7	1.8	\$241.3
Total Sources of Capital Funds	\$68.4	\$273.8	\$362.1	\$390.6	\$326.7	\$215.4	\$173.8	\$169.2	\$178.7	\$182.3	\$187.1	\$2,528.1
Uses of Capital Funds												
Transit	44.2	202.9	277.7	275.4	224.5	135.1	95.3	91.3	95.0	97.4	100.1	\$1,638.9
Environmental Services		63.1	71.0	120.9	92.6	64.7	63.5	62.0	69.0	70.0	72.0	\$748.8
Parks and Open Space		18.5	18.5	13.4	13.3	13.4	13.6	13.8	13.8	13.8	13.8	\$145.9
800 MHz Radio		2.6	11.3	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	\$15.6
Total Capital Uses		\$287.1	\$378.5	\$411.4	\$330.4	\$213.2	\$172.4	\$167.1	\$177.8	\$181.2	\$185.9	\$2,549.2
Sources Over/(Under) Uses		(\$13.3)	(\$16.4)	(\$20.8)	(\$3.7)	\$2.2	\$1.4	\$2.1	\$0.9	\$1.1	\$1.2	
Year-End Capital Balance	\$76.6	\$63.3	\$46.9	\$26.1	\$22.4	\$24.6	\$26.0	\$28.1	\$29.0	\$30.1	\$31.3	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metropolitan Council Baseline Financial Plan Summary (continued)

Metropolitan Council Summary (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
System-Generated Revenues	\$194.7	\$198.8	\$203.2	\$207.6	\$212.3	\$228.0	\$233.0	\$238.0	\$243.1	\$248.3	\$2,207.0	\$3,864.0
Operating Expenses	\$429.1	\$441.9	\$455.1	\$468.7	\$482.7	\$497.2	\$512.0	\$527.5	\$543.2	\$559.4	\$4,916.8	\$8,564.2
Operating Margin (Profit/(Loss))	(\$234.4)	(\$243.1)	(\$251.9)	(\$261.1)	(\$270.4)	(\$269.2)	(\$279.0)	(\$289.5)	(\$300.1)	(\$311.1)	(\$2,709.8)	(\$4,700.2)
Operating Subsidy and Grant Income	\$370.7	\$386.3	\$398.5	\$415.4	\$428.7	\$446.8	\$461.3	\$482.1	\$497.5	\$522.3	\$4,409.6	\$7,524.0
Debt Service	\$121.6	\$126.1	\$126.7	\$131.6	\$132.1	\$137.2	\$137.8	\$144.2	\$144.5	\$153.4	\$1,355.2	\$2,472.8
Net Income	\$14.7	\$17.1	\$19.9	\$22.7	\$26.2	\$40.4	\$44.5	\$48.4	\$52.9	\$57.8	\$344.6	\$351.0
Year-End Operating Balance	\$64.5	\$81.6	\$101.5	\$124.2	\$150.4	\$190.8	\$235.3	\$283.7	\$336.6	\$394.4		
Sources of Capital Funds												
Regional Borrowing	106.9	112.2	109.5	113.2	114.4	120.5	122.1	124.7	127.3	129.0	\$1,179.8	\$2,248.7
State Bonds	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	\$81.0	\$276.1
Federal	74.0	76.2	78.5	80.8	83.2	85.6	88.2	90.8	93.5	96.2	\$847.0	\$1,869.8
Other	1.9	1.8	6.1	4.8	5.1	1.6	1.6	1.7	1.7	1.9	\$28.2	\$269.5
Total Sources of Capital Funds	\$190.9	\$198.3	\$202.2	\$206.9	\$210.8	\$215.8	\$220.0	\$225.3	\$230.6	\$235.2	\$2,136.0	\$4,664.1
Uses of Capital Funds												
Transit	101.4	106.9	111.1	114.0	117.0	118.6	121.7	126.5	130.4	133.4	\$1,181.0	\$2,819.9
Environmental Services	73.0	75.0	80.2	81.1	82.5	81.0	82.0	84.0	86.0	87.0	\$811.8	\$1,560.6
Parks and Open Space	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	\$138.0	\$283.9
800 MHz Radio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	\$0.0	\$15.6
Total Capital Uses	\$188.2	\$195.7	\$205.1	\$208.9	\$213.3	\$213.4	\$217.5	\$224.3	\$230.2	\$234.2	\$2,130.8	\$4,680.0
Sources Over/(Under) Uses	\$2.7	\$2.6	(\$2.9)	(\$2.0)	(\$2.5)	\$2.4	\$2.5	\$1.0	\$0.4	\$1.0		
Year-End Capital Balance	\$34.0	\$37.9	\$36.4	\$35.6	\$34.2	\$37.7	\$41.3	\$43.5	\$45.2	\$47.5		

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metropolitan Council Baseline Financial Plan (Operating)

Metropolitan Council Operating Statement (YOE \$millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
System-Generated Revenues											
Metro Transit	60.1	60.7	61.3	69.1	71.6	72.3	73.1	73.8	74.5	84.2	700.7
Transportation and Transit Development	7.4	4.4	4.5	4.6	4.8	4.9	5.3	5.5	5.6	6.1	53.1
Metro HRA	0.3	0.5	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	3.7
Environmental Services	88.1	85.8	85.4	85.0	86.2	88.1	90.6	93.4	96.8	99.8	899.2
General Fund - CP & RA	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total System-Generated Revenues	156.2	151.4	151.5	159.0	162.9	165.7	169.4	173.1	177.3	190.5	1,657.0
Operating Expenses											
Metro Transit	169.0	174.1	179.3	184.6	203.9	210.0	216.3	222.8	229.4	236.4	2,025.8
Transportation and Transit Development	52.2	53.5	52.0	53.5	55.1	56.8	58.5	60.3	62.1	63.9	567.9
Metro HRA	3.9	3.9	4.1	4.1	4.1	4.2	4.2	4.3	4.4	4.6	41.8
Environmental Services	88.4	86.1	85.7	85.3	86.5	88.7	91.1	93.8	96.7	99.6	901.9
General Fund - CP & RA	10.7	10.1	10.2	10.4	10.7	11.0	11.3	11.6	11.9	12.1	110.0
Total Operating Expenses	324.2	327.7	331.3	337.9	360.3	370.7	381.4	392.8	404.5	416.6	3,647.4
Operating Margin (Profit/(Loss))	(168.0)	(176.3)	(179.8)	(178.9)	(197.4)	(205.0)	(212.0)	(219.7)	(227.2)	(226.1)	(1,990.4)
Operating Subsidy And Grant Income											
Metro Transit	129.3	133.8	142.2	151.9	164.6	175.1	182.8	187.9	196.3	202.4	1,666.3
Transportation and Transit Development	41.6	43.6	45.1	46.7	48.3	50.0	51.7	53.5	55.4	57.3	493.2
Metro HRA	3.4	3.2	3.5	3.6	3.7	3.8	3.9	4.0	4.2	4.3	37.6
Environmental Services	63.6	67.3	68.8	70.8	72.5	73.7	75.4	76.5	76.4	81.7	726.7
General Fund - CP & RA	16.7	17.0	17.3	18.6	19.0	20.6	20.8	20.9	19.7	20.0	190.6
Total Operating Subsidy and Grant Income	254.6	264.9	276.9	291.6	308.1	323.2	334.6	342.8	352.0	365.7	3,114.4
Debt Service											
Metro Transit	20.4	21.1	24.2	28.1	30.8	36.0	37.0	38.2	39.4	37.7	312.9
Transportation and Transit Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Metro HRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environmental Services	63.3	67.0	68.5	70.5	72.2	73.4	75.1	76.2	76.1	81.4	723.7
General Fund - CP & RA	6.5	6.9	7.1	8.2	8.3	9.6	9.5	9.3	7.8	7.8	81.0
Total Debt Service	90.2	95.0	99.8	106.8	111.3	119.0	121.6	123.7	123.3	126.9	1,117.6
Net Income	(3.6)	(6.4)	(2.7)	5.9	(0.6)	(0.8)	1.0	(0.6)	1.5	12.7	6.4
Year-End Operating Balances											
Metro Transit	9.2	8.5	8.5	16.8	18.3	19.7	22.3	23.0	25.0	37.5	
Transportation and Transit Development	21.2	15.7	13.3	11.1	9.1	7.2	5.7	4.4	3.3	2.8	
Metro HRA	2.7	2.5	2.2	2.0	1.9	1.9	2.0	2.1	2.3	2.4	
Environmental Services	0.8	0.8	0.8	0.8	0.8	0.5	0.3	0.2	0.6	1.1	
General Fund - CP & RA	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	6.0	
Total Year-End Operating Balances	\$39.8	\$33.4	\$30.7	\$36.6	\$36.0	\$35.2	\$36.2	\$35.6	\$37.1	\$49.8	

CP & RA - Comprehensive Planning & Regional Administration
 Each Year-End Operating Balance is dedicated to the purpose for which it is collected

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metropolitan Council Baseline Financial Plan (Operating) (continued)

Metropolitan Council Operating Statement (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
System-Generated Revenues												
Metro Transit	85.1	85.9	86.8	87.7	88.5	100.0	101.1	102.1	103.1	104.2	944.5	1,645.2
Transportation and Transit Development	6.3	6.4	6.6	6.7	6.9	7.5	7.7	7.9	8.1	8.2	72.3	125.4
Metro HRA	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	4.6	8.3
Environmental Services	102.9	106.1	109.4	112.8	116.4	120.0	123.7	127.5	131.4	135.4	1,185.6	2,084.8
General Fund - CP & RA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total System-Generated Revenues	194.7	198.8	203.2	207.6	212.3	228.0	233.0	238.0	243.1	248.3	2,207.0	3,864.0
Operating Expenses												
Metro Transit	243.5	250.8	258.3	266.0	274.0	282.2	290.7	298.5	308.4	317.6	2,791.0	4,816.8
Transportation and Transit Development	65.9	67.8	69.9	72.0	74.1	76.3	78.6	81.0	83.4	85.9	754.9	1,322.8
Metro HRA	4.7	4.9	5.0	5.2	5.3	5.5	5.6	5.8	6.0	6.2	54.2	98.0
Environmental Services	102.6	105.7	108.8	112.1	115.5	119.0	122.5	126.2	130.0	133.9	1,176.3	2,078.2
General Fund - CP & RA	12.4	12.7	13.1	13.4	13.8	14.2	14.6	15.0	15.4	15.8	140.4	250.4
Total Operating Expenses	429.1	441.9	455.1	468.7	482.7	497.2	512.0	527.5	543.2	559.4	4,916.8	8,564.2
Operating Margin (Profit/(Loss))	(234.4)	(243.1)	(251.9)	(261.1)	(270.4)	(269.2)	(279.0)	(289.5)	(300.1)	(311.1)	(2,709.8)	(4,700.2)
Operating Subsidy And Grant Income												
Metro Transit	208.4	219.0	228.8	239.3	250.5	262.0	274.1	286.6	299.6	313.6	2,581.9	4,248.2
Transportation and Transit Development	59.3	61.4	63.6	65.8	68.2	70.6	73.1	75.7	78.4	81.2	697.3	1,190.5
Metro HRA	4.4	4.6	4.7	4.8	5.0	5.1	5.3	5.4	5.6	5.8	50.7	88.3
Environmental Services	78.3	82.1	81.8	85.5	84.7	88.4	87.7	92.9	92.0	99.4	872.8	1,599.5
General Fund - CP & RA	20.3	19.2	19.6	20.0	20.3	20.7	21.1	21.5	21.9	22.3	206.9	397.5
Total Operating Subsidy and Grant Income	370.7	386.3	398.5	415.4	428.7	446.8	461.3	482.1	497.5	522.3	4,409.6	7,524.0
Debt Service												
Metro Transit	35.8	37.9	38.8	40.0	41.3	42.7	44.0	45.2	46.4	47.9	420.0	732.9
Transportation and Transit Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Metro HRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environmental Services	78.0	81.8	81.5	85.2	84.4	88.1	87.4	92.6	91.7	99.1	869.8	1,593.5
General Fund - CP & RA	7.8	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	65.4	146.4
Total Debt Service	121.6	126.1	126.7	131.6	132.1	137.2	137.8	144.2	144.5	153.4	1,355.2	2,472.8
Net Income	14.7	17.1	19.9	22.7	26.2	40.4	44.5	48.4	52.9	57.8	344.6	351.0
Year-End Operating Balances												
Metro Transit	51.7	67.9	86.4	107.4	131.1	168.2	208.7	252.7	300.6	352.9		
Transportation and Transit Development	2.5	2.5	2.8	3.3	4.3	6.1	8.3	10.9	14.0	17.5		
Metro HRA	2.5	2.6	2.7	2.7	2.9	3.0	3.2	3.3	3.4	3.5		
Environmental Services	1.7	2.4	3.3	4.3	5.5	6.8	8.3	9.9	11.6	13.4		
General Fund - CP & RA	6.1	6.2	6.3	6.5	6.6	6.7	6.8	6.9	7.0	7.1		
Total Year-End Operating Balances	\$64.5	\$81.6	\$101.5	\$124.2	\$150.4	\$190.8	\$235.3	\$283.7	\$336.6	\$394.4		

CP & RA - Comprehensive Planning & Regional Administration
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Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metropolitan Council Baseline Financial Plan (Capital)

Metropolitan Council Constrained Capital Plan (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Sources of Capital Funds												
Transit												
Hiawatha Line	\$68.4	\$64.7	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Metro Transit		\$109.0	\$76.5	\$89.7	\$70.3	\$75.8	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$818.6
Non-Metro Transit (Regional Borrowing)		\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$11.2	\$11.2	\$11.2	\$11.2	\$149.8
Total Transit	\$68.4	\$191.2	\$270.6	\$272.7	\$225.3	\$136.0	\$95.2	\$92.3	\$94.7	\$97.3	\$100.1	\$1,643.8
Environmental Services												
Regional Borrowing		\$63.1	\$71.0	\$80.8	\$80.8	\$64.7	\$63.5	\$62.0	\$69.0	\$70.0	\$72.0	\$696.9
Capital Revolving Fund		\$0.0	\$0.0	\$20.1	\$5.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$26.0
Interest Earnings		\$1.7	\$1.8	\$1.4	\$0.8	\$0.7	\$0.8	\$0.8	\$0.9	\$0.9	\$0.9	\$10.7
Total Environmental Services	\$64.8	\$72.8	\$102.3	\$87.5	\$85.4	\$64.3	\$62.8	\$62.8	\$69.9	\$70.9	\$72.9	\$733.6
Parks and Open Space												
State Bonds		\$11.1	\$11.1	\$8.0	\$7.9	\$8.0	\$8.2	\$8.1	\$8.1	\$8.1	\$8.1	\$86.7
Regional Borrowing		\$5.3	\$5.3	\$5.3	\$5.4	\$5.4	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$53.3
Miscellaneous		\$0.6	\$0.5	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$4.3
Interest Earnings		\$0.3	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$2.6
Total Parks and Open Space	\$17.3	\$17.1	\$13.9	\$13.9	\$14.0	\$14.3	\$14.1	\$14.1	\$14.1	\$14.1	\$14.1	\$146.9
800 MHz Radio												
Operating Income		\$0.0	\$1.4	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.1
Interest Earnings		\$0.5	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7
Total 800 MHz Radio	\$0.5	\$1.6	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.8
Total Capital Sources	\$68.4	\$273.8	\$362.1	\$390.6	\$326.7	\$215.4	\$173.8	\$169.2	\$178.7	\$182.3	\$187.1	\$2,528.1
Uses of Capital Funds												
Transit												
Hiawatha Line	\$44.2	\$88.9	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Metro Transit		\$96.5	\$83.6	\$72.4	\$89.5	\$74.9	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$813.7
Non-Metro Transit		\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$17.5	\$11.2	\$11.2	\$11.2	\$11.2	\$149.8
Total Transit	\$44.2	\$202.9	\$277.7	\$275.4	\$224.5	\$135.1	\$95.3	\$91.3	\$95.0	\$97.4	\$100.1	\$1,638.9
Environmental Services												
Regional Borrowing		\$63.1	\$71.0	\$120.9	\$92.6	\$64.7	\$63.5	\$62.0	\$69.0	\$70.0	\$72.0	\$748.8
Parks and Open Space		\$18.5	\$18.5	\$13.4	\$13.3	\$13.4	\$13.6	\$13.8	\$13.8	\$13.8	\$13.8	\$145.9
800 MHz Radio		\$2.6	\$11.3	\$1.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$15.6
Total Capital Uses	\$44.2	\$287.1	\$378.5	\$411.4	\$330.4	\$213.2	\$172.4	\$167.1	\$177.8	\$181.2	\$185.9	\$2,549.2
Sources Over/(Under) Uses												
Transit	\$24.2	(\$11.7)	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Environmental Services		\$1.7	\$1.8	(\$18.6)	(\$5.1)	\$0.7	\$0.8	\$0.8	\$0.9	\$0.9	\$0.9	
Parks and Open Space		(\$1.2)	(\$1.4)	\$0.5	\$0.6	\$0.7	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	
800 MHz Radio		(\$2.1)	(\$9.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Total Sources Over/(Under) Uses		(\$13.3)	(\$16.4)	(\$20.8)	(\$3.7)	\$2.2	\$1.4	\$2.1	\$0.9	\$1.1	\$1.2	
Year-End Capital Balance												
Transit	\$24.2	\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	\$4.9	
Environmental Services	\$34.9	\$36.8	\$38.4	\$19.8	\$14.7	\$15.4	\$16.2	\$17.0	\$17.9	\$18.8	\$19.7	
Parks and Open Space	\$5.8	\$4.6	\$3.2	\$3.7	\$4.3	\$4.9	\$5.6	\$5.9	\$6.2	\$6.5	\$6.8	
800 MHz Radio	\$11.7	\$9.6	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	
Total Year-End Capital Balance	\$76.6	\$63.3	\$46.9	\$26.1	\$22.4	\$24.6	\$26.0	\$28.1	\$29.0	\$30.1	\$31.3	

Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metropolitan Council Baseline Financial Plan (Capital) (continued)

Metropolitan Council Constrained Capital Plan (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
Sources of Capital Funds												
Transit												
Hiawatha Line	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Metro Transit	\$91.6	\$94.2	\$97.0	\$99.9	\$102.9	\$105.9	\$109.1	\$112.3	\$115.5	\$119.1	\$1,047.5	\$1,866.1
Non-Metro Transit (Regional Borrowing)	\$11.2	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$137.2	\$287.0
Total Transit	\$102.8	\$108.2	\$111.0	\$113.9	\$116.9	\$119.9	\$123.1	\$126.3	\$129.5	\$133.1	\$1,184.7	\$2,828.5
Environmental Services												
Regional Borrowing	\$73.0	\$75.0	\$71.8	\$74.9	\$75.5	\$81.0	\$82.0	\$84.0	\$86.0	\$87.0	\$790.2	\$1,487.1
Capital Revolving Fund	\$0.0	\$0.0	\$4.2	\$3.1	\$3.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.8	\$36.8
Interest Earnings	\$1.0	\$1.0	\$1.0	\$0.8	\$0.7	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$8.2	\$18.9
Total Environmental Services	\$74.0	\$76.0	\$77.0	\$78.8	\$79.7	\$81.7	\$82.7	\$84.7	\$86.8	\$87.8	\$809.2	\$1,542.8
Parks and Open Space												
State Bonds	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$8.1	\$81.0	\$167.7
Regional Borrowing	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$53.0	\$106.3
Miscellaneous	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$4.0	\$8.3
Interest Earnings	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5	\$4.1	\$6.7
Total Parks and Open Space	\$14.1	\$14.1	\$14.2	\$14.2	\$14.2	\$14.2	\$14.2	\$14.3	\$14.3	\$14.3	\$142.1	\$289.0
800 MHz Radio												
Operating Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.1
Interest Earnings	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7
Total 800 MHz Radio	\$0.0	\$3.8										
Total Capital Sources	\$190.9	\$198.3	\$202.2	\$206.9	\$210.8	\$215.8	\$220.0	\$225.3	\$230.6	\$235.2	\$2,136.0	\$4,664.1
Uses of Capital Funds												
Transit												
Hiawatha Line	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Metro Transit	\$90.2	\$92.9	\$97.1	\$100.0	\$103.0	\$104.6	\$107.7	\$112.5	\$116.4	\$119.4	\$1,043.8	\$1,857.5
Non-Metro Transit	\$11.2	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$14.0	\$137.2	\$287.0
Total Transit	\$101.4	\$106.9	\$111.1	\$114.0	\$117.0	\$118.6	\$121.7	\$126.5	\$130.4	\$133.4	\$1,181.0	\$2,819.9
Environmental Services												
Regional Borrowing	\$73.0	\$75.0	\$70.2	\$81.1	\$82.5	\$81.0	\$82.0	\$84.0	\$86.0	\$87.0	\$811.8	\$1,560.6
Parks and Open Space	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$13.8	\$138.0	\$283.9
800 MHz Radio	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$15.6
Total Capital Uses	\$188.2	\$195.7	\$205.1	\$208.9	\$213.3	\$213.4	\$217.5	\$224.3	\$230.2	\$234.2	\$2,130.8	\$4,680.0
Sources Over/(Under) Uses												
Transit	\$1.4	\$1.3	(\$0.1)	(\$0.1)	(\$0.1)	\$1.3	\$1.4	(\$0.2)	(\$0.9)	(\$0.3)		
Environmental Services	\$1.0	\$1.0	(\$3.2)	(\$2.3)	(\$2.8)	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8		
Parks and Open Space	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5		
800 MHz Radio	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Total Sources Over/(Under) Uses	\$2.7	\$2.6	(\$2.9)	(\$2.0)	(\$2.5)	\$2.4	\$2.5	\$1.0	\$0.4	\$1.0		
Year-End Capital Balance												
Transit	\$6.3	\$7.6	\$7.5	\$7.4	\$7.3	\$8.6	\$10.0	\$9.8	\$9.9	\$8.6		
Environmental Services	\$20.7	\$22.7	\$20.5	\$19.0	\$16.9	\$18.3	\$19.7	\$21.1	\$22.7	\$24.3		
Parks and Open Space	\$7.1	\$7.7	\$8.5	\$9.3	\$10.1	\$10.9	\$11.7	\$12.7	\$13.7	\$14.7		
800 MHz Radio	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)		
Total Year-End Capital Balance	\$34.0	\$37.9	\$36.4	\$35.6	\$34.2	\$37.7	\$41.3	\$43.5	\$45.2	\$47.5		

Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan Summary

Metro Transit Summary (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Total System-Generated Revenues		\$60.1	\$60.7	\$61.3	\$69.1	\$71.6	\$72.3	\$73.1	\$73.8	\$74.5	\$84.2	\$700.7
Total Operating Expenses		\$169.0	\$174.1	\$179.3	\$184.6	\$203.9	\$210.0	\$216.3	\$222.8	\$229.4	\$236.4	\$2,025.8
Operating Margin (Profit/(Loss))		(\$108.9)	(\$113.4)	(\$118.0)	(\$115.5)	(\$132.3)	(\$137.7)	(\$143.2)	(\$149.0)	(\$154.9)	(\$152.2)	(\$1,325.1)
Operating Subsidy And Grant Income												
Local		\$87.9	\$92.5	\$99.3	\$106.9	\$113.6	\$122.9	\$128.3	\$134.0	\$140.0	\$143.4	\$1,168.8
State		\$31.4	\$31.8	\$33.0	\$34.7	\$36.3	\$38.1	\$40.0	\$42.0	\$44.0	\$46.2	\$377.5
Federal		\$4.1	\$3.4	\$3.6	\$3.8	\$8.0	\$7.2	\$7.4	\$4.6	\$4.8	\$5.1	\$52.0
Miscellaneous & Other		\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7	\$68.0
Total Operating Subsidy and Grant Income		\$129.3	\$133.8	\$142.2	\$151.9	\$164.6	\$175.1	\$182.8	\$187.9	\$196.3	\$202.4	\$1,666.3
Total Debt Service		\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
Net Income		\$0.0	(\$0.7)	\$0.0	\$8.3	\$1.5	\$1.4	\$2.6	\$0.7	\$2.0	\$12.5	\$28.3
Distributions of Net Income												
Metro Transit Year-End Reserve		\$9.2	\$8.5	\$8.5	\$16.8	\$18.3	\$19.7	\$22.3	\$23.0	\$25.0	\$37.5	
10% Operating Reserve Goal		\$16.9	\$17.4	\$17.9	\$18.5	\$20.4	\$21.0	\$21.6	\$22.3	\$22.9	\$23.6	
Sources of Capital Funds												
Bus System		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$80.2	\$82.6	\$85.2	\$87.9	\$814.9
Hiawatha Line Construction	\$68.4	\$64.7	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$875.4
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Total Capital Sources		\$173.7	\$253.1	\$255.2	\$207.8	\$118.5	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$1,494.0
Uses of Capital Funds												
Bus Replacements		\$27.6	\$39.0	\$37.6	\$31.7	\$9.8	\$5.9	\$43.4	\$23.7	\$7.9	\$0.0	\$226.6
Other Bus Capital		\$68.9	\$44.6	\$34.8	\$37.8	\$65.1	\$71.9	\$36.7	\$58.9	\$77.1	\$87.6	\$583.4
Hiawatha Line Construction	\$44.2	\$88.9	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$875.4
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.2	\$1.2	\$1.3	\$3.7
Total Capital Uses		\$185.4	\$260.2	\$257.9	\$207.0	\$117.6	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$1,489.1
Sources Over/(Under) Uses		\$24.2	(\$11.7)	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0
Year-End Capital Balance		\$24.2	\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan Summary (continued)

Metro Transit Summary (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
Total System-Generated Revenues	\$85.1	\$85.9	\$86.8	\$87.7	\$88.5	\$100.0	\$101.1	\$102.1	\$103.1	\$104.2	\$844.5	\$1,645.2
Total Operating Expenses	\$243.5	\$250.8	\$258.3	\$266.0	\$274.0	\$282.2	\$290.7	\$299.5	\$308.4	\$317.6	\$2,791.0	\$4,816.8
Operating Margin (Profit/(Loss))	(\$158.4)	(\$164.9)	(\$171.5)	(\$178.3)	(\$185.5)	(\$182.2)	(\$189.6)	(\$197.4)	(\$205.3)	(\$213.4)	(\$1,846.5)	(\$3,171.6)
Operating Subsidy And Grant Income												
Local	\$146.7	\$154.4	\$161.1	\$168.4	\$176.2	\$184.3	\$192.7	\$201.3	\$210.3	\$220.0	\$1,815.4	\$2,984.2
State	\$48.4	\$50.8	\$53.3	\$56.0	\$58.8	\$61.7	\$64.8	\$68.0	\$71.4	\$75.0	\$608.2	\$985.7
Federal	\$5.3	\$5.6	\$5.9	\$6.2	\$6.5	\$6.8	\$7.1	\$7.5	\$7.8	\$8.2	\$66.9	\$118.9
Miscellaneous & Other	\$8.0	\$8.2	\$8.5	\$8.7	\$9.0	\$9.2	\$9.5	\$9.8	\$10.1	\$10.4	\$91.4	\$159.4
Total Operating Subsidy and Grant Income	\$208.4	\$219.0	\$228.8	\$239.3	\$250.5	\$262.0	\$274.1	\$286.6	\$299.6	\$313.6	\$2,581.9	\$4,248.2
Total Debt Service	\$35.8	\$37.9	\$38.8	\$40.0	\$41.3	\$42.7	\$44.0	\$45.2	\$46.4	\$47.9	\$420.0	\$732.9
Net Income	\$14.2	\$16.2	\$18.5	\$21.0	\$23.7	\$37.1	\$40.5	\$44.0	\$47.9	\$52.3	\$315.4	\$343.7
Distributions of Net Income												
Metro Transit Year-End Reserve	\$51.7	\$67.9	\$86.4	\$107.4	\$131.1	\$168.2	\$208.7	\$252.7	\$300.6	\$352.9		
10% Operating Reserve Goal	\$24.4	\$25.1	\$25.8	\$26.6	\$27.4	\$28.2	\$29.1	\$30.0	\$30.8	\$31.8		
Sources of Capital Funds												
Bus System	\$90.6	\$93.2	\$96.0	\$98.8	\$101.8	\$104.8	\$107.9	\$111.1	\$114.3	\$117.8	\$1,036.3	\$1,851.2
Hiawatha Line Construction	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$875.4
Other Light Rail	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2	\$1.2	\$1.3	\$11.2	\$14.9
Total Capital Sources	\$91.6	\$94.2	\$97.0	\$99.9	\$102.9	\$105.9	\$109.1	\$112.3	\$115.5	\$119.1	\$1,047.5	\$2,541.5
Uses of Capital Funds												
Bus Replacements	\$62.0	\$50.7	\$34.9	\$55.7	\$53.5	\$51.1	\$14.0	\$2.2	\$61.9	\$33.8	\$419.8	\$646.4
Other Bus Capital	\$28.2	\$42.2	\$60.8	\$42.9	\$48.0	\$53.5	\$93.7	\$108.7	\$52.4	\$83.9	\$614.3	\$1,197.7
Hiawatha Line Construction	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$875.4
Other Light Rail	\$0.0	\$0.0	\$1.4	\$1.4	\$1.5	\$0.0	\$0.0	\$1.6	\$2.1	\$1.7	\$9.7	\$13.4
Total Capital Uses	\$90.2	\$92.9	\$97.1	\$100.0	\$103.0	\$104.6	\$107.7	\$112.5	\$116.4	\$119.4	\$1,043.8	\$2,532.9
Sources Over/(Under) Uses	\$1.4	\$1.3	(\$0.1)	(\$0.1)	(\$0.1)	\$1.3	\$1.4	(\$0.2)	(\$0.9)	(\$0.3)		
Year-End Capital Balance	\$6.3	\$7.6	\$7.5	\$7.4	\$7.3	\$8.6	\$10.0	\$9.8	\$8.9	\$8.6		

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan (Operating)

Metro Transit Operating Statement (YOE \$millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
System-Generated Revenues											
Baseline Bus	\$60.1	\$60.7	\$61.3	\$69.1	\$69.8	\$70.5	\$71.2	\$71.9	\$72.6	\$81.8	\$689.0
Light Rail (Net)	\$0.0	\$0.0	\$0.0	\$0.0	\$1.8	\$1.8	\$1.9	\$1.9	\$1.9	\$2.4	\$11.7
Total System-Generated Revenues	\$60.1	\$60.7	\$61.3	\$69.1	\$71.6	\$72.3	\$73.1	\$73.8	\$74.5	\$84.2	\$700.7
Expense Recovery Ratio	35.6%	34.9%	34.2%	37.4%	35.1%	34.4%	33.8%	33.1%	32.5%	35.6%	34.6%
Operating Expenses											
Baseline Bus Expense	\$161.2	\$166.0	\$171.4	\$176.5	\$181.8	\$187.3	\$192.9	\$198.7	\$204.6	\$210.7	\$1,851.1
Other Operating Expenses	\$7.8	\$8.1	\$7.9	\$8.1	\$8.4	\$8.6	\$8.9	\$9.2	\$9.4	\$9.8	\$86.2
Light Rail (Net)	\$0.0	\$0.0	\$0.0	\$0.0	\$13.7	\$14.1	\$14.5	\$14.9	\$15.4	\$15.9	\$88.5
Total Operating Expenses	\$169.0	\$174.1	\$179.3	\$184.6	\$203.9	\$210.0	\$216.3	\$222.8	\$229.4	\$236.4	\$2,025.8
Operating Margin (Profit/(Loss))	(\$108.9)	(\$113.4)	(\$118.0)	(\$115.5)	(\$132.3)	(\$137.7)	(\$143.2)	(\$149.0)	(\$154.9)	(\$152.2)	(\$1,325.1)
Operating Subsidy And Grant Income											
Transit Operating Property Tax Levy (Net)	\$67.5	\$71.4	\$75.1	\$78.8	\$82.8	\$86.9	\$91.3	\$95.8	\$100.6	\$105.7	\$855.9
Transit Debt Service Property Tax Levy	\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
State General Funds	\$31.4	\$31.8	\$33.0	\$34.7	\$36.3	\$38.1	\$40.0	\$42.0	\$44.0	\$46.2	\$377.5
Federal Section 5307	\$3.3	\$3.4	\$3.6	\$3.8	\$4.0	\$4.2	\$4.4	\$4.6	\$4.8	\$5.1	\$41.2
CMAQ	\$0.8	\$0.0	\$0.0	\$0.0	\$4.0	\$3.0	\$3.0	\$0.0	\$0.0	\$0.0	\$10.8
Miscellaneous & Other	\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7	\$68.0
Total Operating Subsidy and Grant Income	\$129.3	\$133.8	\$142.2	\$151.9	\$164.6	\$175.1	\$182.8	\$187.9	\$196.3	\$202.4	\$1,666.3
Debt Service											
Existing	\$16.0	\$11.5	\$9.2	\$9.0	\$7.8	\$7.8	\$6.5	\$6.5	\$6.5	\$3.2	\$84.0
New	\$4.4	\$9.6	\$15.0	\$19.1	\$23.0	\$28.2	\$30.5	\$31.7	\$32.9	\$34.5	\$228.9
Total Debt Service	\$20.4	\$21.1	\$24.2	\$28.1	\$30.8	\$36.0	\$37.0	\$38.2	\$39.4	\$37.7	\$312.9
Net Income	\$0.0	(\$0.7)	\$0.0	\$8.3	\$1.5	\$1.4	\$2.6	\$0.7	\$2.0	\$12.5	\$28.3
Distributions of Net Income											
Metro Transit Year-End Reserve	\$9.2	\$8.5	\$8.5	\$16.8	\$18.3	\$19.7	\$22.3	\$23.0	\$25.0	\$37.5	
10% Operating Reserve Goal	\$16.9	\$17.4	\$17.9	\$18.5	\$20.4	\$21.0	\$21.6	\$22.3	\$22.9	\$23.6	

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan (Operating) (continued)

Metro Transit Operating Statement (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
System-Generated Revenues												
Baseline Bus	\$82.7	\$83.5	\$84.3	\$85.2	\$86.0	\$86.9	\$97.9	\$98.9	\$99.9	\$100.9	\$916.2	\$1,605.2
Light Rail (Net)	\$2.4	\$2.4	\$2.5	\$2.5	\$2.5	\$3.1	\$3.2	\$3.2	\$3.2	\$3.3	\$28.3	\$40.0
Total System-Generated Revenues	\$85.1	\$85.9	\$86.8	\$87.7	\$88.5	\$100.0	\$101.1	\$102.1	\$103.1	\$104.2	\$944.5	\$1,645.2
Expense Recovery Ratio	34.9%	34.3%	33.6%	33.0%	32.3%	35.4%	34.8%	34.1%	33.4%	32.8%	33.8%	34.2%
Operating Expenses												
Baseline Bus Expense	\$217.1	\$223.6	\$230.3	\$237.2	\$244.3	\$251.6	\$259.2	\$267.0	\$275.0	\$283.2	\$2,488.5	\$4,339.6
Other Operating Expenses	\$10.1	\$10.4	\$10.7	\$11.0	\$11.3	\$11.7	\$12.0	\$12.4	\$12.7	\$13.1	\$115.4	\$201.6
Light Rail (Net)	\$16.3	\$16.8	\$17.3	\$17.8	\$18.4	\$18.9	\$19.5	\$20.1	\$20.7	\$21.3	\$187.1	\$275.6
Total Operating Expenses	\$243.5	\$250.8	\$258.3	\$266.0	\$274.0	\$282.2	\$290.7	\$299.5	\$308.4	\$317.6	\$2,791.0	\$4,816.8
Operating Margin (Profit/(Loss))	(\$158.4)	(\$164.9)	(\$171.5)	(\$178.3)	(\$185.5)	(\$182.2)	(\$189.6)	(\$197.4)	(\$205.3)	(\$213.4)	(\$1,846.5)	(\$3,171.6)
Operating Subsidy And Grant Income												
Transit Operating Property Tax Levy (Net)	\$110.9	\$116.5	\$122.3	\$128.4	\$134.9	\$141.6	\$148.7	\$156.1	\$163.9	\$172.1	\$1,395.4	\$2,251.3
Transit Debt Service Property Tax Levy	\$35.8	\$37.9	\$38.8	\$40.0	\$41.3	\$42.7	\$44.0	\$45.2	\$46.4	\$47.9	\$420.0	\$732.9
State General Funds	\$48.4	\$50.8	\$53.3	\$56.0	\$58.8	\$61.7	\$64.8	\$68.0	\$71.4	\$75.0	\$608.2	\$985.7
Federal Section 5307	\$5.3	\$5.6	\$5.9	\$6.2	\$6.5	\$6.8	\$7.1	\$7.5	\$7.8	\$8.2	\$66.9	\$108.1
CMAQ	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.8
Miscellaneous & Other	\$8.0	\$8.2	\$8.5	\$8.7	\$9.0	\$9.2	\$9.5	\$9.8	\$10.1	\$10.4	\$91.4	\$159.4
Total Operating Subsidy and Grant Income	\$208.4	\$219.0	\$228.8	\$239.3	\$250.5	\$262.0	\$274.1	\$286.6	\$299.6	\$313.6	\$2,581.9	\$4,248.2
Debt Service												
Existing	\$1.3	\$1.3	\$1.3	\$1.1	\$1.1	\$1.1	\$1.0	\$0.7	\$0.4	\$0.4	\$9.7	\$93.7
New	\$34.5	\$36.6	\$37.5	\$38.9	\$40.2	\$41.6	\$43.0	\$44.5	\$46.0	\$47.5	\$410.3	\$639.2
Total Debt Service	\$35.8	\$37.9	\$38.8	\$40.0	\$41.3	\$42.7	\$44.0	\$45.2	\$46.4	\$47.9	\$420.0	\$732.9
Net Income	\$14.2	\$16.2	\$18.5	\$21.0	\$23.7	\$37.1	\$40.5	\$44.0	\$47.9	\$52.3	\$315.4	\$343.7
Distributions of Net Income												
Metro Transit Year-End Reserve	\$51.7	\$67.9	\$86.4	\$107.4	\$131.1	\$168.2	\$208.7	\$252.7	\$300.6	\$352.9		
10% Operating Reserve Goal	\$24.4	\$25.1	\$25.8	\$26.6	\$27.4	\$28.2	\$29.1	\$30.0	\$30.8	\$31.8		

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan (Capital)

Metro Transit Constrained Capital Plan (YOE \$millions)	1999 and Prior	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	10 Year Totals
Sources of Capital Funds												
Bus System												
Federal		\$81.6	\$51.4	\$54.1	\$55.2	\$60.7	\$62.6	\$64.6	\$66.6	\$68.7	\$70.9	\$636.4
State		\$6.5	\$2.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$8.5
Regional Borrowing		\$20.8	\$23.0	\$15.5	\$15.0	\$15.0	\$15.0	\$15.5	\$15.9	\$16.4	\$16.9	\$169.0
Interest/Miscellaneous		\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$1.0
New Funding Source		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Bus System		\$109.0	\$76.5	\$69.7	\$70.3	\$75.8	\$77.7	\$80.2	\$82.6	\$85.2	\$87.9	\$814.9
Hiawatha Line Construction												
Federal	\$27.4	\$42.0	\$77.6	\$69.2	\$61.3	\$75.0	\$30.3	\$0.0	\$0.0	\$0.0	\$0.0	\$382.8
State	\$0.0	\$7.0	\$41.7	\$49.7	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$100.0
Other Local and In-Kind	\$41.0	\$15.7	\$57.3	\$66.6	\$74.6	(\$32.3)	(\$30.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$192.6
Subtotal Hiawatha Line Construction	\$68.4	\$64.7	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Light Rail												
Federal *		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Other Local and In-Kind		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.9	\$0.9	\$1.0	\$3.7
Total Capital Sources		\$173.7	\$253.1	\$255.2	\$207.8	\$118.5	\$77.7	\$81.1	\$83.5	\$86.1	\$88.9	\$1,494.0
Uses of Capital Funds												
Bus Replacements		\$27.6	\$39.0	\$37.6	\$31.7	\$9.8	\$5.9	\$43.4	\$23.7	\$7.9	\$0.0	\$226.6
Other Bus Capital		\$68.9	\$44.6	\$34.8	\$37.8	\$65.1	\$71.9	\$36.7	\$58.9	\$77.1	\$87.6	\$583.4
Hiawatha Line	\$44.2	\$88.9	\$176.6	\$185.5	\$137.5	\$42.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Light Rail		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.2	\$1.2	\$1.3	\$3.7
Transitways		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Capital Uses		\$185.4	\$260.2	\$257.9	\$207.0	\$117.6	\$77.8	\$80.1	\$83.8	\$86.2	\$88.9	\$1,489.1
Sources Over/(Under) Uses	\$24.2	(\$11.7)	(\$7.1)	(\$2.7)	\$0.8	\$0.9	(\$0.1)	\$1.0	(\$0.3)	(\$0.1)	\$0.0	
Year-End Capital Balance	\$24.2	\$12.5	\$5.4	\$2.7	\$3.5	\$4.4	\$4.3	\$5.3	\$5.0	\$4.9	\$4.9	

* Although no Rail Modernization funds are included in this plan, Metro Transit will become eligible for those funds in 2012

Source: FMOC Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

Metro Transit Baseline Financial Plan (Capital) (continued)

Metro Transit Constrained Capital Plan (YOE \$millions)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year Totals	20 Year Totals
Sources of Capital Funds												
Bus System												
Federal	\$73.1	\$75.2	\$77.4	\$79.7	\$82.1	\$84.5	\$87.0	\$89.6	\$92.2	\$95.0	\$835.8	\$1,472.2
State	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$8.5
Regional Borrowing	\$17.4	\$17.9	\$18.5	\$19.0	\$19.6	\$20.2	\$20.8	\$21.4	\$22.0	\$22.7	\$199.5	\$368.5
Interest/Miscellaneous	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$1.0	\$2.0
New Funding Source	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Bus System	\$90.6	\$93.2	\$96.0	\$98.8	\$101.8	\$104.8	\$107.9	\$111.1	\$114.3	\$117.8	\$1,036.3	\$1,851.2
Hiawatha Line Construction												
Federal	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$382.8
State	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$100.0
Other Local and In-Kind	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$192.6
Subtotal Hiawatha Line Construction	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Light Rail												
Federal *	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2	\$1.2	\$1.3	\$11.2	\$14.9
Other Local and In-Kind	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Other Light Rail	\$1.0	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2	\$1.2	\$1.3	\$11.2	\$14.9
Total Capital Sources	\$91.6	\$94.2	\$97.0	\$99.9	\$102.9	\$105.9	\$109.1	\$112.3	\$115.5	\$119.1	\$1,047.5	\$2,541.5
Uses of Capital Funds												
Bus Replacements	\$62.0	\$50.7	\$34.9	\$55.7	\$53.5	\$51.1	\$14.0	\$2.2	\$61.9	\$33.8	\$419.8	\$646.4
Other Bus Capital	\$28.2	\$42.2	\$60.8	\$42.9	\$48.0	\$53.5	\$93.7	\$108.7	\$52.4	\$83.9	\$614.3	\$1,197.7
Hiawatha Line	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$675.4
Other Light Rail	\$0.0	\$0.0	\$1.4	\$1.4	\$1.5	\$0.0	\$0.0	\$1.6	\$2.1	\$1.7	\$9.7	\$13.4
Transitways	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Capital Uses	\$90.2	\$92.9	\$97.1	\$100.0	\$103.0	\$104.6	\$107.7	\$112.5	\$116.4	\$119.4	\$1,043.8	\$2,532.9
Sources Over/(Under) Uses	\$1.4	\$1.3	(\$0.1)	(\$0.1)	(\$0.1)	\$1.3	\$1.4	(\$0.2)	(\$0.9)	(\$0.3)		
Year-End Capital Balance	\$6.3	\$7.6	\$7.5	\$7.4	\$7.3	\$8.6	\$10.0	\$9.8	\$8.9	\$8.6		

* Although no Rail Modernization funds are included in this plan, Metro Transit will become eligible for those funds in 2012

Source: FMO Model Using Metropolitan Council's 20-Year Financial Plan Data, as revised 11/07/2000

PART C

APPENDICES

APPENDIX A

SAMPLE FINANCIAL CAPACITY ASSESSMENT SCOPE OF WORK

FINANCIAL MANAGEMENT OVERSIGHT PROGRAM
STATEMENT OF WORK
FOR CONDUCTING FINANCIAL CAPACITY ASSESSMENT

BACKGROUND

The Financial Management Oversight (FMO) program started in July 1991 and is authorized at 49 U.S.C., Section 5327(c). This section allows the set aside of one-half or three-quarters of one percent from certain program funds. Section 5327(c) was originally established for program management oversight; however, safety, procurement, management and financial compliance reviews, and audits of grantees were added in FY 1991.

Financial Capacity Assessments are conducted under the FMO program .

- Financial capacity assessment (FCA) of selected grantees usually involved in major capital investment projects. This type of review assesses the financial capability of grantees to meet the Terms and Conditions of the Grant(s) Agreement obligations and maintain their existing transit operation. In cases where projects have progressed into construction, the contractors evaluate the financial capacity of grantees to complete the undertaking according to the terms, conditions, budgets, schedules and commitments in the Terms and Conditions of the Grant(s) Agreement or as proposed in a Recovery Plan. FCAs analyze plans to mitigate the risks associated with (1) provision of the required local share, (2) the ability to complete the Project on schedule in the face of delayed or reduced Congressional appropriations, unanticipated conditions or budget increases, and (3) the ability to operate and maintain the existing system, as well as the project; and,

OBJECTIVES

The objective of this task order contract is to procure the expert and independent professional services of:

- Financial Analysts to conduct financial capacity assessments (FCAs) of selected grantees usually involved in major capital investment projects. This type of review assesses the financial capability of grantees to meet the Terms and Conditions of the Grant(s) Agreement obligations and maintain their existing transit operation.

WORK TASK TO BE PERFORMED:**FINANCIAL CAPACITY ASSESSMENTS**

These assessments require visit(s) to the cognizant FTA Office as well as visit(s) to the grantee.

The contractor will:

- assess the current financial capacity of the grantee,
- determine the critical risk factors that may affect the grantee's financial capability, and,
- provide, on as needed basis, updated information as a result of new developments affecting the grantee's financial capabilities to complete the major investment project contained in its terms and conditions of the grant(s) agreement with the Federal Transit Administration.

This assessment is to be conducted in accordance with the most recent FTA C 7008.1, Financial Capacity Policy. To assist in the performance of the reviews, the contractor must use, as a guide, the Financial Management Oversight Contractors' Guide for Conducting Financial Capacity Assessments, as revised.

The Financial capacity assessment will review:

- the financial condition of the grantee and the reliability of its funding partners;
- the stability of future revenues and liabilities;
- the risk of an increase in liabilities;
- both the reliability and the internal consistency of the grantee's budgeting and planning departments;
- the financial capability to operate the existing system before and after the major investment project;
- review the capability of the grantee to finance the Project along with other capital projects while continuing to operate and maintain and the existing transit system;
- review the status of the grantee's tracking of all sources of funding in support of the project by inspection of the grantee's bookkeeping, including calculations pertaining to Federal and local shares and any deferred local share; and

- the status of its capital projects financing program.

As a minimum, the following tasks are required:

- Review the following baseline documents for understanding of background:
 - Full Funding Grant Agreement,
 - Project financial plan,
 - Agency-wide 20 year financial plan, and
 - Bond prospectus.
- Review capital & operating financing plans and related documents (financial analysis methodology reports, financial analysis results reports, annual financial reports, and most recent official statements, rating reports, statement of debt capacity, and enabling legislation for recently enacted revenue sources).
- Analyze capital & operating budgets for evidence of a stable and reliable revenue base to support financing the project. Determine the existence of any significant unforeseen liabilities and any conditions that may lead to their development.
- Critique the reasonableness of revenue projections and financing assumptions. This will include a review of key economic indicators typically used in the community. Emphasis will be placed on the driving variables associated with the revenue sources that will support existing operations, the new starts projects, and operating deficits.
- Develop information on local fiscal efforts that consider key financial, debt and economic factors.
- Review the bond program by developing a history of the program and identifying the amount of money generated by each bond series and the disposition of those funds. In particular, the contractor should verify the current balance of any of the bond series money. Plans for future bonding should also be examined and commented on.
- Assess the status of the grantee's commitment to fund the program.
- Review funding partner participation and assess whether any issues exist with the funding source.
- Determine what actions the grantee has taken to ensure that it will continue to meet its contractual obligation to provide local support to complement Federal funding for the project. What evidence exists, if any, that the project is first in line for local funding.

- Review the Long Range Financial Plan model and assess the adequacy of the process. Also, review status of debt financing plan and the process for tracking bond issues, if appropriate.
- Meet with FTA Headquarters, FTA Regional Office, and the Program Management Oversight Contractor at the start of the effort and at any other time as necessary.
- Coordinate with the FTA Regional office and Headquarters, if there are questions or difficulties in obtaining necessary information.
- Prepare a report for FTA on the initial or follow-up financial capacity assessment of the transit agency. Include as attachments the 20-year financial plan, sensitivity analysis and stress case scenarios.
- If directed by the COTR, prepare for the Office of Planning the Ratings Report and the Financial Capacity Assessment report necessary to evaluate FTA's Capital Investment Program.

APPENDIX B

FTA CIRCULAR 7008.1A FINANCIAL CAPACITY POLICY



U.S. Department
of Transportation

**Federal Transit
Administration**

CIRCULAR

FTA C 7008.1A

January 30, 2002

Subject: FINANCIAL CAPACITY POLICY

1. **PURPOSE.** This circular clarifies how the Federal Transit Administration (FTA), when making grants, will conduct its assessments of the financial capacity of grant applicants. In addition, it incorporates by reference guidance on financial capacity assessment in the development of major capital projects exceeding \$1 billion in total cost.
2. **CANCELLATION.** This circular cancels UMTA Circular 7008.1, "Financial Capacity Policy," dated 3-30-87.
3. **REFERENCES.**
 - a. Federal Transit Laws, Chapter 53 of Title 49, United States Code.
 - b. 49 CFR Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, which establishes the basis upon which grantees must develop and report financial information regarding grants.
 - c. Section 5303 (f)(1)(B) of 49 U.S.C., "Developing Long-Range Transportation Plans," which requires that such plans include a financial plan that demonstrates how the long-range plan can be carried out.
 - d. Section 5304 (b)(2) of 49 U.S.C., "Transportation Improvement Program (TIP)," which requires the Metropolitan Planning Organization, transit agency and the State to develop estimates of funds "that are reasonably expected to be available to support program implementation."
 - e. Governmental Accounting Standards Board Statement 34 (GASB-34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" Norwalk, CT, June 1999, which describes how and when grantees must report their capital management plans and major projects.
 - f. FTA Circular 5010.1C, "Federal Transit Administration Project Management Guidelines," dated 10-1-98, which describes how grantees must develop and maintain financial information regarding capital projects.
 - g. FTA Guidance for Transit Financial Plans, dated 6-00, which describes how a grantee must prepare and update an annual financial plan to complete a major capital project.

Distribution: FTA Headquarters Offices (T-W-2)
FTA Regional Offices (T-X-2)

OPI: Office of Budget and
Policy

4. POLICY. This circular defines the basis upon which FTA will make the determination of financial capacity of grantees required under 49 U.S.C. 5309 (including major capital projects costing \$1 billion and above) and in reviewing Transportation Improvement Plans (TIPs). For 49 U.S.C. 5307, the circular provides similar guidance for grantees making the required self-certifications of financial capacity and for FTA to determine compliance during Triennial Reviews. Transit grantees should make capital investment plans on the basis of current and projected capability to maintain and operate current assets, and to operate and maintain the new assets on the same basis, providing at least the same level of service, for at least one replacement cycle of such assets or 20 years, as appropriate.
5. APPLICABILITY. This circular applies to all required determinations of financial capacity regarding projects under the transit Capital Program and the Urbanized Area Formula Program.
6. DEFINITIONS. All definitions in 49 USC Chapter 53 apply to this circular, as well as the following definitions.
 - a. Projected Cash Flow Statement – This is a multi-year projection, back five years (actual) and forward twenty years (projected) of revenues and expenses (and related items such as depreciation) relating to the grantee as an organization. It identifies expected revenues and expenses for each year, incorporating and highlighting the effects of a planned capital project or program of projects.
 - b. There are two basic aspects to financial capacity: (1) the general financial condition of the public transit grantee and its nonfederal funding entities; and (2) the financial capability of the grantee and its nonfederal funding entities. The latter is understood to include an assessment of the grantee's ability to fund current capital projects as well as ongoing operating needs.

Financial Condition – This includes historical trends and current experience in the financial ability of the grantee to operate and maintain its transit system at present levels of service. The information supporting the assessment of the financial condition of the grantee is usually provided in audited financial statements and other financial reports. Financial condition is reflected in working capital levels, cash balances, capital reserves, the presence and status of depreciation accounts, debt levels, trends in transit costs as compared to available revenues, and trends in other relevant economic indicators. *Satisfactory financial condition means that the grantee can pay its current costs from existing revenues.*

Financial Capability – This refers to the stability and reliability of revenue sources needed to meet future annual capital and operating and maintenance costs. Assessments of financial capability shall cover the greater of the period equivalent to one replacement cycle of the basic system; the retirement of any debt issued to finance the capital project; or 20 years. Financial capability considers the nature of funds pledged to support operating costs and capital replacement programs, as well as forecasted changes in fare and non-fare revenues. Capital costs include both replacement and rehabilitation of existing equipment and facilities as well as new

investments. Operating and maintenance costs include those for the present system, as well as increases due to capital investment and service expansion. *Satisfactory financial capability means the grantee's ability to meet its expansion costs in addition to its existing operations from projected revenues.*

- c. "Mega-project" – This is a project with an estimated total cost of \$1 billion or more, as described in Section 5327 (f). In addition to meeting other financial capacity requirements, such projects are required to annually file a financial plan with the Secretary. Such plan shall be based on detailed annual estimates of the cost to complete remaining elements of the project, as well as reasonable assumptions, as determined by the Secretary during the project development process, of future increases in cost to complete the project. Mega-projects also include any projects supported with a loan or loan guarantee from the Transportation Infrastructure Financing and Innovation Act (TIFIA), regardless of project cost.
7. **BACKGROUND.** Since the last issuance of a circular on Financial Capacity (March 30, 1987), several factors have changed the environment for financing public transportation service. Federal funding for public transportation investment has more than doubled, as has State and local funding. Laws have changed, providing greater local flexibility in transportation investment decisions, but also requiring a more rigorous framework for these decisions. Furthermore, with rising flexibility in the use of Federal and local funding has come an increase in the use of debt to meet the rising demand for public transportation service.

Section 5307(d)(1)(A) of Title 49, Chapter 53, requires a grantee receiving FTA assistance under the Urban Formula Program to certify that it "has or will have the legal financial and technical capacity to carry out the program [of projects]." Section 5309(e)(1)(C) requires the grantee receiving assistance under the Capital Grant Program to demonstrate that the project is "supported by an acceptable degree of local financial commitment, including evidence of stable and dependable financing resources to construct, maintain, and operate the system or extension." Taken together, these two requirements cover the financial capacity concept – How well have you managed until now, and how will you manage in the future? These issues are examined through triennial reviews, annual audits, and other periodic evaluations as required in Section 5307(i).

In addition, Section 5307(g)(3) states "The cost of carrying out part of a project includes the amount of interest earned and payable on bonds issued by the State or local governmental authority to the extent proceeds of the bonds are expended in carrying out the part." This capability allows the grantee to repay interest costs of lease or debt financing with Federal grants funds. [See also Section 5309(n)(2) which includes similar language, as well as a requirement that the grantee only issue debt at then reasonably available market interest rates.] As debt is used to advance capital replacement or service expansion projects, it becomes increasingly important for the grantee to address the effects of such debt on its current and projected ability to operate its system. A decline in projected revenues may force delays or elimination of planned capital improvements in order to meet mandatory

principal and interest payments. The sensitivity of a grantee's income to such fluctuations should be clearly outlined in supporting documentation of financial reports and projections.

Finally, GASB-34 requires State and local governments (transit grantees, including statewide transit operators, come under the definition of State and local governments) to: identify and value assets for inclusion in annual balance sheet reports; report infrastructure depreciation annually; and select asset management methods for consistent reporting from year to year. These requirements dovetail with FTA's financial capacity policy, which requires that a 1999 baseline for the value of capital assets and total annual revenues be established. Beginning in 2001, GASB-34 also requires governments to report prospectively on new infrastructure for States and local governments collecting \$100 million or more in annual revenues. Beginning in 2002, local governments collecting less than \$100 million in annual revenues must also develop such reports. Local governments will report retroactively on all existing major infrastructure from 2003 onward. The reporting methods required to satisfy GASB-34 will be considered sufficient to satisfy the requirements of this circular as well.

8. REQUIREMENTS.

- a. **Financial Capacity Assessments.** A determination of financial capacity is required at the stage where commitments to finance projects are made by the grantee and FTA. For Capital Investment grants, FTA will assess financial capacity both at the stage when TIPs are approved and when selecting projects for Full Funding Grant Agreements (FFGA). For Urbanized Area Formula grants, FTA will assess financial capacity at the TIP approval stage, and grantees will be required to self-certify at the grant application stage. The documentation supporting these self-certifications will be examined during triennial reviews.

By giving early consideration to financial capacity in the planning and programming process, grantees can greatly facilitate the financial capacity assessments needed to meet grant approval requirements. In preparing TIPs, local officials are encouraged to examine proposed programs of projects (as contained in Long Range Plans) for sufficiency of funds to cover total capital, operating and maintenance costs over the lives of the projects, as well as the operating and maintenance costs of the current system. FTA will evaluate TIPs based on these factors. Where TIPs provide evidence of satisfactory financial capacity, the reviews made at the time of grant approval will be limited to assuring the continued validity of assessments made at the TIP review stage.

- (1) **Level of information required** - The level of detail of the financial capacity assessments and subsequent reviews shall be consistent with the size of the transit system being considered and the scale of any capital investments being proposed. The level of detail is developed in consultation with the relevant FTA Regional Office. While all grantees should closely scrutinize the financial implications of their capital commitments, FTA will give special attention to proposals for major service level expansions, as well as proposals to maintain

present levels of service that require major capital investments such as rail modernization, large scale bus replacements, or development of new or replacement maintenance facilities. These investments often have a significant impact on the financial condition of transit agencies and their funding sources.

- (2) Sources of information - Reviews of financial capacity will use information contained in the Long Range Transportation Plans, Transportation Improvement Plans, short range transit plans, capital budgets, financial plans (for grantees seeking New Starts funding) as defined in "Guidance for Transit Financial Plans" dated June 2000, and reports on financial operations such as periodic financial statements or single audit reports. Reviews conducted locally and by FTA will provide an opportunity for local funding officials to understand the financial condition of the transit system and how it will meet the future costs reflected in proposed investments.
 - (3) Corrective action - If FTA determines that the grantee does not meet the financial capacity requirements as outlined in this circular, the grantee will be informed of the deficiencies. The grantee will then be required to provide further information or propose how the deficiencies will be addressed. Technical assistance will be available to help in developing plans to address the problems identified. Additional grants will not be awarded for capital investments until an agreement on a plan for corrective action has been reached.
 - (4) FFGA limitation - FTA will not enter into FFGAs until the plans for financing have been completed and a Financial Capacity Assessment has been performed by the Financial Management Oversight Contractor (FMOC) retained by FTA. The plans for financing must demonstrate that the grantee can complete the FFGA project and continue to operate its existing service with available resources. The grantee will provide information on the steps that have been taken to put the financial plan into operation.
- b. Planning and Project Development.

- (1) Unified Planning Work Program. Transportation planning activities, such as database development and the development of analytical revenue and cost forecasting techniques needed to assess financial capacity, must be included in the urbanized area's Unified Planning Work Program of the Metropolitan Planning Organization. In addition, when States and metropolitan planning organizations certify that the planning process is being carried out in accordance with Federal requirements, they must describe the region's public involvement process for balancing the cost of approved plans and programs with current and projected revenues.
- (2) New Starts Capital Investment Policy. FTA must find that a proposed project is supported by an acceptable degree of local financial commitment, as required by Section 5309 (e)(1)(C), in order to proceed with a FFGA. The local financial

commitment to a proposed project will be evaluated based on: the stability and reliability of the proposed local share of the project's capital costs; the strength of the proposed capital financing plan; and the ability of the local transit agency to fund operation of the system as planned, once the project is built.

- c. Program Management and Compliance. Regular grant monitoring will emphasize whether the findings and self-certifications of financial capacity made at the grant approval stage retain their validity. The instruments for this monitoring include periodic progress reports and meetings, activities performed by Project Management Oversight (PMO) contractors and Financial Management Oversight Contractors (FMOCs) retained by FTA, routine audits and reviews, and, for Section 5307 projects, the Triennial Reviews required by Section 5307 (i)(2). These instruments provide FTA the opportunity to review compliance with the requirement that the recipient have financial capacity to carry out the proposed program of projects. During regular grant monitoring, FTA will assess the basis used by the grantee to certify financial capacity, consistent with the criteria for such self-certifications as described in this Section.



Jennifer L. Dorn
Administrator

APPENDIX C

FTA CIRCULAR 5200.1 FULL FUNDING GRANT AGREEMENT GUIDANCE

Circular 5200.1 is being revised. For additional information, please contact FTA's Program Guidance Division at 202-366-2440.

APPENDIX D

GUIDANCE FOR TRANSIT FINANCIAL PLANS (JUNE 2000)



**U.S. Department of
Transportation**

**Federal Transit
Administration**

GUIDANCE FOR TRANSIT FINANCIAL PLANS

JUNE 2000

**Prepared By:
Federal Transit Administration
Office of Planning
Office of Program Management**

NOTICE

This document is disseminated under the sponsorship of the U.S. Department of Transportation in the interest of information exchange. The United States Government assumes no liability for its contents or its use.

For additional technical guidance on developing transit agency financial plans, and for specific questions related to this document, contact Mr. Steven Lewis-Workman at the Federal Transit Administration, 400 Seventh Street, SW, Washington, DC 20590, or via e-mail at steven.lewisworkman@fta.dot.gov.

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1. INTRODUCTION

Sound financial planning helps to ensure the financial health of transit agencies and the quality of service that they are able to provide. A continually updated financial plan is the centerpiece of sound capital investment planning for any transit agency. The financial plan documents the recent financial history of the transit agency, describes its current financial health, documents projected costs and revenues, and demonstrates the reasonableness of key assumptions underlying these projections.

Recognizing the importance of sound financial planning to the successful implementation of transit capital investments, Section 3(a)(2)(a) of the Federal Transit Act states that “No grant or loan shall be provided under this section unless the Secretary determines that the applicant has or will have the legal, financial, and technical capacity to carry out the proposed project.” Consequently, the Federal Transit Administration (FTA) has specific responsibilities to promote careful financial planning by state and local transportation agencies that receive FTA funds.

This document defines the content and scope of a financial plan that accomplishes the objectives of the legislative mandate placed upon FTA. It provides a model format and detailed examples of the elements of a complete and concise financial plan. The document also describes good practice in financial planning that is applicable to all transit agencies. FTA encourages all transportation agencies receiving FTA funds to employ financial planning practices consistent with good practice and to prepare financial plans consistent with the content, scope, and format of this guidance. FTA anticipates that financial plans consistent with this guidance will support communications with grantees on the use of FTA capital funds. For some portions of the federal transit program, FTA has adopted these practices and documentation as specific requirements for receiving FTA capital funds. These requirements are described in guidance associated with those individual FTA programs.

The practices described here are intended as integral components of the planning and development of transit projects. The approach to financial planning recognizes two key principals. First, the general content of the financial plan remains the same throughout the planning and project development process. The financial health of an organization and the financial feasibility of specific projects are established by information on costs, revenues, funding sources, and financing mechanisms. Second, the details of the financial information will change as projects advance through planning and development. Project cost estimates become more reliable as the project scope is defined in detail and funding strategies become more certain as funds are committed to the proposed project.

The purpose of this guidance is to establish a framework for financial plans. Plans produced within this framework describe the overall financial condition of a transit agency, include realistic financial projections, and incorporate the increasingly detailed financial information available to projects in later stages of development. Transit agencies are encouraged to adapt the elements and practices within this framework to their individual settings and requirements.

2. CONTENTS OF THE FINANCIAL PLAN

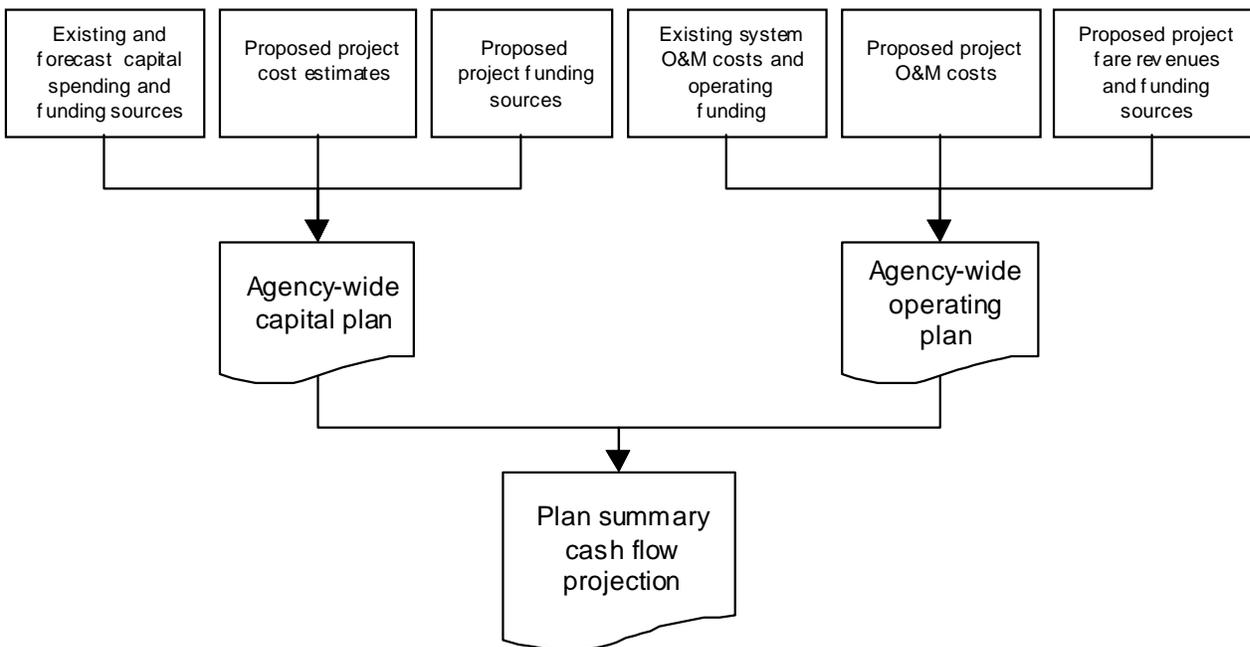
The central element of a financial plan is an agency-wide 20-year cash flow projection that includes the capital and operating plans for the agency as a whole and for the proposed project. The 20-year cash flow begins with the current year. The remaining content of a financial plan is the information to back up all the assumptions and inputs that contribute to the cash flow projection.

The 20-year cash flow projection is the summary of several elements of a financial plan that includes:

- Funding sources and revenue forecasts;
- Proposed project capital budget;
- Other planned capital projects; and
- Annual operating and maintenance (O&M) expenses for the proposed project and the existing system.

The plan is constructed by bringing several plan elements together into an integrated financial model. Figure 1 summarizes the relationships among the plan components.

Figure 1: Components of a Financial Plan



The tables and schedules that constitute the financial plan demonstrate how financial and economic assumptions and project cost estimates have been derived, how the resulting forecasts of capital and operating costs of the proposed project fit into the agency-wide capital and

operating plans, whether funds have been committed to the project, how the revenue forecasts are developed, and finally, how capital and operating plans impact projected agency cash flow.

2.1 Outline of the Financial Plan

FTA's assessment of financial plans requires consistent and comparable financial plans from project sponsors. To help project sponsors provide a complete and well-organized financial submission, project sponsors are required to produce financial submissions that adhere to the outline in Figure 2. The documentation provided by project sponsors to support their financial plans should be developed as part of the planning and project development process (systems planning, alternatives analysis, PE, Environmental Impact Statement, final design and construction). Each element of the financial plan is described in the following sections.

Figure 2: Financial Plan Outline for Transit Agencies

FINANCIAL PLAN OUTLINE	
1)	Introduction
a)	Description of the Project Sponsor and Funding Partners
b)	Description of the Project
c)	Summary of the Financial Plan
2)	Capital Plan
a)	Proposed Project Capital Plan
b)	Agency-Wide Capital Plan
3)	Operating Plan
a)	Operating Revenues
b)	Operating and Maintenance Costs
c)	Agency-Wide Operating Plan
4)	Cash Flow Analysis
a)	Twenty-Year Cash Flow Projection
b)	Financial Evaluation
Appendix (Reference Supporting Documentation)	
A.	Summary of Regional Economic Forecasts
B.	Summary of Financial Condition of Project Sponsor
C.	Summary of Bus and Rail Fleet Management Plans

2.2 Introduction to the Financial Plan

The financial plan begins with a description of the project sponsor and major funding partners. The introduction describes the current transit system and discusses the project sponsor's and partners capability to fund the construction and operation of the proposed project. The introduction then describes the proposed project. This description explains the purpose and need for the project and how this project fulfills the project sponsor's objectives. The introduction then describes the strategy to provide the local share of project funding. The introduction concludes with a summary of the projected financial position of the project sponsor and the

ability of the sponsor to fund planned capital improvements and continue to operate and maintain the existing transit system.

2.3 The Capital Plan

The first component of the financial plan is the capital plan, which documents the transit agency's capital spending plans and funding sources and describes in detail the strategy to fund the construction of the proposed project. The capital plan is composed of two elements: (1) the capital plan for the proposed project and, (2) the agency's 20-year capital plan. The project sponsor first develops the capital plan for the project, then inserts the project into the agency-wide capital plan. The capital plan documentation confirms the stability, reliability, and availability of all capital funding sources and describes the transit agency's capital spending plans 20 years into the future.

2.3.1 Proposed Project Capital Plan

The project plan provides a high level of detail regarding the agency's plan to fund the construction of the proposed project. The project plan includes the cost estimate and schedule for the proposed project, describes the amount and commitment of non-federal funding sources, describes contingencies for cost increases and federal appropriations shortfalls, and details the debt burden on the project sponsor at a level of detail appropriate to the phase of project development.

The components of the project capital plan change considerably as the project moves from alternatives analysis to signing a FFGA and construction. As the project moves from PE to final design, capital costs become increasingly detailed as the project scope and precise alignment are finalized, non-federal funding sources are committed, environmental mitigation activities and other cost escalation risk areas are more accurately specified and changes to the original design and cost estimates become apparent. By the time a FFGA is signed, all local funds are committed to the project and cost estimates and schedule are known with a high level of certainty.

Capital Costs and Schedule

A cost estimate and schedule is required at each phase of project development, but the format of the cost estimate changes. In alternatives analysis and PE, project cost estimates and schedules are presented as increasingly detailed unit cost breakdowns of the proposed project. When a project is admitted to final design and seeks to receive a FFGA, the cost estimates are broken into individual contract units that specify the escalated annual cost and schedule for each contract. These cost estimates are updated periodically and tracked as the project is constructed.

Capital cost submissions describe the cost estimation process and segment costs by major cost category (e.g., guideway, facilities, systems, and vehicles). Cost estimates include soft-costs such as PE, final design and construction management as well as set-asides for contingencies. The cost estimate and schedule provide detail to back up the proposed project cost items in the agency-wide capital plan.

The project sponsor documents the current engineering cost estimate for the proposed project, describing each major cost component. A simple project cost estimate is developed in alternatives analysis. This cost estimate, typically including high contingencies to reflect

uncertainties in scope and alignment, is used for the financial plan before a project enters PE. During PE, the scope and exact alignment of the project is determined and additional detail added to the cost estimate. As the project moves toward implementation, confidence in the capital cost estimates and schedules increase while cost contingencies decrease. Table 1 provides an example cost estimate for a project in PE.

Table 1: Detailed Project Cost Estimate in PE, Constant 1999 Dollars (Millions)

Description	Quantity	Cost (Millions of 1999\$)
Construction Costs		
<i>Site Preparation and Restoration</i>		
Utility relocation - meters	3675	\$ 13.2
Street restoration - meters	3675	\$ 1.9
Traffic signals - #	7	\$ 0.6
Structure mod. and underpinnings - #	2	\$ 2.9
Environmental mitigations - #	2	\$ 0.8
<i>Maintenance facility and yard</i>	1	\$ 25.6
<i>Trackway - meters</i>		
At grade - 2 track	690	\$ 0.4
<i>Subway - meters</i>		
Cut/cover - 1 track	593	\$ 16.7
Cut/cover - 2 track	1230	\$ 79.1
Mined tunnel - 1 track	413	\$ 16.5
Mined tunnel - 2 track	749	\$ 42.5
Ventilation (cut/cover + mined tunnel)	2985	\$ 5.5
<i>Stations - number</i>		
At grade	1	\$ 2.6
Underground	4	\$ 79.5
<i>Trackwork</i>		
Ballasted - meters	690	\$ 0.4
Direct fixation - meters	4964	\$ 2.8
Special - turnouts, turnback...etc. - #	1	\$ 0.6
<i>Traction power supply - meters</i>	5654	\$ 4.6
<i>Signaling and train control - meters</i>	5654	\$ 7.2
<i>Communications/fire/safety - meters</i>	5654	\$ 2.5
Subtotal Construction Costs		\$ 305.8
Non-Construction Costs		
<i>Right-of-way</i>		
Right-of-way - stations - #	5	\$ 4.8
Right-of-way - Maintenance facility - #	1	\$ 2.2
<i>New Vehicles - #</i>	8	\$ 20.1
<i>Preliminary Engineering</i>		\$ 10.0
<i>Final engineering/management</i>		\$ 39.8
Subtotal Non-Construction Costs		\$ 76.9
Contingency		\$ 45.9
Total		\$ 428.6

The capital cost estimates are initially produced in constant dollars and escalated to the year-of-expenditure. Costs are typically escalated based on distinct inflation forecasts for, at a minimum, construction costs, right-of-way acquisition, labor cost, and general price inflation to account for the wide variability in the inflation characteristics of certain cost components. Costs in constant dollars are budgeted according to the estimated construction schedule. These costs are then escalated to the year-of-expenditure.¹ Table 2 is an example of a cost estimate and schedule for a project in PE.

Table 2: Cost Estimate and Schedule, Year-of-Expenditure Dollars (Millions)

* Cost Category	Millions of 1999\$	1999	2000	2001	2002	2003	2004	2005	2006	Total Year-of-Expenditure (\$Millions)
1 Inflation (CPI-U)		na	2.34%	2.17%	2.52%	2.63%	2.67%	2.60%	2.48%	
2 Labor Cost Inflation		na	2.53%	2.20%	1.90%	2.03%	2.07%	1.95%	2.15%	
3 Const. Cost Inflation		na	3.55%	2.99%	3.67%	2.22%	1.85%	4.34%	4.77%	
4 Real Estate Inflation		na	2.93%	2.13%	2.96%	1.10%	1.67%	4.27%	4.81%	
2 Preliminary Engineering	\$ 10.0	\$ 1.0	\$ 5.1	\$ 4.2						\$ 10.3
3 Construction	\$ 305.8					\$ 83.5	\$ 99.6	\$ 110.5	\$ 67.2	\$ 360.8
4 Right-of-Way	\$ 7.0				\$ 5.1	\$ 2.5				\$ 7.6
2 Final Engineering/Mgmt	\$ 39.8			\$ 6.9	\$ 5.6	\$ 9.5	\$ 9.6	\$ 8.2	\$ 3.9	\$ 43.7
1 Vehicles	\$ 20.1						\$ 6.1	\$ 11.6	\$ 5.6	\$ 23.3
NA Contingency	\$ 45.9					\$ 12.5	\$ 14.9	\$ 16.6	\$ 10.1	\$ 54.1
Total	\$ 428.6	\$ 1.0	\$ 5.1	\$ 11.1	\$ 10.7	\$ 108.0	\$ 130.2	\$ 146.9	\$ 86.8	\$ 499.8

* These numbers reference the inflation category used to escalate the associated cost category. Inflation assumptions are documented in regional economic forecasts. The source of these inflation assumptions is Standard and Poors DRI, *The US Economy - Winter 2000*.

Cost estimates for projects in final design that are ready to sign a FFGA are broken into contract units. Each of the contract units is a separate contract with a distinct schedule and cost estimate. Each contract is awarded and tracked by the grantee throughout the construction phase. The contracts may contain the project contingency individually or a separate project reserve may be set aside to account for unexpected costs. The initial escalated cost estimate divided into contract units is called the Baseline Project Budget and is developed by the grantee before a FFGA is signed. This estimate may be derived from estimated contract costs escalated to year-of-expenditure or mid-point of construction. An example is provided in Table 3.

¹ Year of expenditure cost estimates are derived by multiplying the constant dollar cost estimate for a particular year by the inflation factor calculated for that year. The inflation factor for an expenditure in year t is derived by :

$$i_t = \prod_{n=1}^t (1 + i_n)$$

where *i* is the inflation rate in percent for year n.

Table 3: Example Baseline Cost Estimate, Escalated Dollars (Millions)

Contract		Cost (\$Millions)	
No.	Description	Escalated*	
	Preliminary engineering	\$	10.3
	Final engineering and project management	\$	43.8
	Real estate	\$	7.6
	Vehicles	\$	23.3
<i>Construction Contracts</i>			
1	Maintenance facility and yard	\$	34.7
2	Subway cut/cover	\$	144.1
3	Subway mined tunnel	\$	90.3
4	Trackwork installation	\$	5.1
5	Construct stations	\$	121.2
6	Install traction power system	\$	6.3
7	Signalling system	\$	9.8
8	Communications system	\$	3.4
Total		\$	499.8

* May be escalated to either year-of-expenditure or mid-point of construction.

The cost estimate changes as bids for each of the contracts come in higher or lower than the baseline and changes to project scope lead to contract amendments. These changes in project costs are tracked on a separate schedule that provides the current budget forecast for the project. Table 4 is an example of the project cost-tracking schedule. As the current budget forecast changes, the project sponsor revises the capital plan to ensure that the grantee maintains a sound financial position. Grantees are subject to financial spot reviews by FTA to ensure they have the capacity to complete the project according to the terms of the FFGA as well as operate and maintain the existing transit system and service levels.

Funding Sources

The project capital plan identifies the proposed sources of funds for constructing the proposed project and details the non-federal share of project costs. The information submitted regarding funding sources provides documentation for FTA to determine the degree of commitment of each funding source and helps ensure that local match requirements are met. As the project advances in the development and implementation process, the level of commitment of non-federal funds increases. To enter PE, a financial plan must identify a “realistic” funding strategy for providing the local share. During PE, the project sponsor is expected to secure committed funds so that the majority of non-federal funds are committed before the project may advance to final design. All non-federal funds must be formally approved and programmed to fund the non-federal share of the proposed project before FTA will recommend or approve a project for a FFGA.

Table 4: Project Cost Tracking Schedule, Escalated Dollars (Millions)

No.	Description	Baseline Budget	Contract Award	Approved Changes	Current Contract	Forecasted Changes	Contract to be Awarded	Current Budget Forecast	Expenditures To-Date
	Preliminary engineering	\$ 10.3	\$ 10.3	\$ -	\$ 10.3		\$ -	\$ 10.3	\$ 10.3
	Final eng. and mgmnt	\$ 43.8	\$ 42.5	\$ -	\$ 42.5		\$ -	\$ 42.5	\$ 5.5
	Real estate	\$ 7.6	\$ 7.8	\$ 0.4	\$ 8.2		\$ -	\$ 8.2	\$ 4.9
	Vehicles	\$ 23.3	\$ 22.5	\$ -	\$ 22.5		\$ -	\$ 22.5	\$ -
	<i>Construction Contracts</i>								
1	Maintenance facility	\$ 34.7	\$ 32.4	\$ (0.5)	\$ 31.9		\$ -	\$ 31.9	\$ -
2	Subway cut/cover	\$ 144.1	\$ 148.8	\$ -	\$ 148.8		\$ -	\$ 148.8	\$ 5.2
3	Subway mined tunnel	\$ 90.3	\$ 94.2	\$ -	\$ 94.2		\$ -	\$ 94.2	\$ 1.5
4	Trackwork installation	\$ 5.1		\$ -	\$ -		\$ 5.1	\$ 5.1	\$ -
5	Construct stations	\$ 121.2		\$ -	\$ -	\$ (2.5)	\$ 121.2	\$ 118.7	\$ -
6	Traction power system	\$ 6.3		\$ -	\$ -		\$ 6.3	\$ 6.3	\$ -
7	Signalling system	\$ 9.8		\$ -	\$ -		\$ 9.8	\$ 9.8	\$ -
8	Communications system	\$ 3.4		\$ -	\$ -	\$ (0.2)	\$ 3.4	\$ 3.2	\$ -
	Total	\$ 499.8	\$ 358.5	\$ (0.1)	\$ 358.4	\$ (2.7)	\$ 145.7	\$ 501.4	\$ 27.4

The capital plan summarizes the non-federal and federal shares of project costs and references evidence of funding commitment. Evidence of commitment may include legislative documentation, resolutions approving funding, account balances, a bonding prospectus and agency debt covenants, signed joint development agreements or legally binding agreements with state/local agencies committing funds. Table 5 presents an example of this type of schedule. In the example, the project sponsor would attach legislation or signed local agreements authorizing the dedicated sales tax, MPO commitments for use of Congestion Mitigation Air Quality (CMAQ) funds, the bonding prospectus and evidence of authority to issue debt in the amount planned.

Table 5: Sources of Capital Funds, Year-of-Expenditure Dollars (Millions)

Sources of Funds	Funding Level	Funding Share	Evidence of Commitment
Federal Sources			
Section 5309 New Starts	\$ 251.3	50%	NA Attach MPO documents committing use of CMAQ or flexible funding.
CMAQ/STP	\$ 20.0	4%	
Other	\$ -	0%	
Total Federal Funds	\$ 271.3	54%	NA
Non-Federal Sources			
Sales Tax	\$ 148.5	30%	Attach Legislation and Revenue Forecast Attach Debt Coverage Analysis and Rating
Bond Proceeds	\$ 80.0	16%	
Other Sources	\$ -	0%	
Total Non-Federal Funds	\$ 228.5	46%	
Total Project Budget	\$ 499.8	100%	

The accompanying text clearly identifies all local, state, federal and private funding sources, including the name, originating level of government, total dollar amount anticipated, amount currently expended, and the share of total project capital costs in year-of-expenditure dollars. The total dollar amount across funding sources sums to the project’s total capital cost.

Funding Source Forecasts

For each funding source, the plan clearly indicates whether the source is an existing source, such as an active local tax from which revenues are currently collected, or a new source requiring legislative approval, referendum, or other governmental action. For existing sources, the plan outlines the conditions of the funding agreement (e.g., funding formula, percent share of total revenues, etc.) and at least five years of historical revenue data including the amount available for transit uses. For major funding sources², the plan includes 10 years of historical revenue data. For new sources, the plan indicates when legislative approval or public referendum is expected and the date the source would become effective. For all sources, the plan contains a

² Defined as sources that contribute more than 25% of agency-wide or New Starts capital or operating funds. The purpose of evaluating ten years of revenue data is to ensure that the forecasts account for a full range of economic conditions.

20-year revenue forecast, documentation of any sunset clauses, and provisions to cover project funding beyond the sunset date.

For all revenue projections, the financial plan uses conservative rates of growth that do not exceed historical experience for that source. Table 6 presents an example of a forecast for a dedicated local sales tax.

Borrowing, Debt Levels and Ratings

If the financial plan includes debt, a debt proceeds and service plan is included in the financial plan documentation. This schedule presents outstanding debt levels, the gross amount of each debt issuance, net proceeds from each issuance, bond rating for each issuance, debt service requirements, and interest rates, for the past five years and 20 years into the future. This schedule monitors on a yearly basis the most restrictive debt covenant of the agency, such as debt service ratio requirements, outstanding debt ceiling, or limits on debt expenditures during a specific time period. In addition, the most recent bonding prospectus is included as supporting documentation.

Contingencies

Cost contingencies provide reserves against any risks of cost increases in the development of the project. These contingencies are separately identified in the project's financial plan and included in the capital cost estimates. The capital cost documentation includes a description of all the cost escalation risks and identify the range of potential project costs. As a project moves through the engineering and design process, the likelihood of cost increases, and consequently, the contingency declines. After a FFGA is signed, the project sponsor is responsible for any cost increases and for fulfilling the terms of the FFGA. Reduced service, delayed construction, or reductions in project scope are not acceptable contingency plans.

Federal Funding Shortfalls

In some cases, project sponsors may assume 80 percent federal funding in PE, but only receive 60 percent of project costs after the congressional appropriations process. Project sponsors should be prepared to move the full scope of the project forward even if federal funds are less than expected. Evidence of financial capacity to provide additional non-federal funds could be in the form of cash balances, additional debt capacity or commitments of additional funds from new or existing funding sources. Service reductions and deferred maintenance are not acceptable methods of freeing up additional funds.

After a FFGA has established the federal share, federal appropriations may fall short on an annual basis. For instance, the federal commitment to the FFGA funding levels may be satisfied over six years rather than the planned four-year period. The capital plan presents strategies for implementing the project if the annual appropriations are less than planned including short term financing to cover annual funding shortfalls. The capital plan should show adequate cash reserves, construction reserves or debt capacity to complete the full scope of the proposed project if annual appropriations are lower than expected. Service reductions on the existing system, construction delays or reducing the scope or features of the project are not acceptable methods of providing additional funds.

Table 6: Example Funding Source Forecast, Current Dollars (Millions)

Fiscal Year	CPI-U**	Retail Sales	Tax Rate	Sales Tax Revenue*	Annual % Chg.
1990	5.4%	\$11,442.0	0.5%	\$ 57.2	
1991	4.2%	\$11,918.7	0.5%	\$ 59.6	4.2%
1992	3.0%	\$12,441.3	0.5%	\$ 62.2	4.4%
1993	3.0%	\$13,027.5	0.5%	\$ 65.1	4.7%
1994*	2.6%	\$13,500.0	1.0%	\$ 135.0	107.3%
1995	2.8%	\$14,720.0	1.0%	\$ 147.2	9.0%
1996	3.0%	\$15,779.8	1.0%	\$ 157.8	7.2%
1997	2.3%	\$16,663.5	1.0%	\$ 166.6	5.6%
1998	1.6%	\$17,696.6	1.0%	\$ 177.0	6.2%
1999	2.2%	\$18,846.9	1.0%	\$ 188.5	6.5%
2000	2.3%	\$19,789.3	1.0%	\$ 197.9	5.0%
2001	2.2%	\$20,580.8	1.0%	\$ 205.3	3.7%
2002	2.5%	\$21,404.1	1.0%	\$ 212.6	3.6%
2003	2.6%	\$22,260.2	1.0%	\$ 221.0	3.9%
2004	2.7%	\$23,150.7	1.0%	\$ 229.9	4.0%
2005	2.6%	\$24,076.7	1.0%	\$ 239.2	4.1%
2006	2.5%	\$25,039.7	1.0%	\$ 248.8	4.0%
2007	2.6%	\$26,041.3	1.0%	\$ 258.5	3.9%
2008	2.6%	\$27,083.0	1.0%	\$ 268.7	4.0%
2009	2.6%	\$28,166.3	1.0%	\$ 279.5	4.0%
2010	2.7%	\$29,293.0	1.0%	\$ 290.8	4.0%
2011	2.7%	\$30,464.7	1.0%	\$ 302.8	4.1%
2012	2.6%	\$31,683.3	1.0%	\$ 315.3	4.1%
2013	2.6%	\$32,950.6	1.0%	\$ 327.9	4.0%
2014	2.7%	\$34,268.6	1.0%	\$ 341.0	4.0%
2015	2.8%	\$35,639.4	1.0%	\$ 355.0	4.1%
2016	3.0%	\$37,064.9	1.0%	\$ 369.6	4.1%
2017	3.2%	\$38,547.5	1.0%	\$ 384.4	4.0%
2018	3.3%	\$40,089.4	1.0%	\$ 400.0	4.1%
2019	3.6%	\$41,693.0	1.0%	\$ 416.2	4.0%

* The tax rate increase of 0.5% approximately doubles the revenue from this source.

** Source: Standard and Poors DRI, *The US Economy - Winter 2000*

2.3.2 *Agency-Wide Capital Plan*

The components of the project capital plan are summarized and incorporated into the agency-wide capital plan. The agency plan presents capital funding and spending for each individual funding source and each individual capital project for the past five years and planned during the next 20 years. Capital plan documentation includes project names and descriptions, total capital costs and schedules, and proposed federal funding contributions for each existing, proposed, or planned project. Projects included in the long-range plan and transportation improvement program for the metropolitan area are identified. The agency-wide capital plan also includes bus and rail fleet acquisitions, replacement, and major rehabilitation consistent with the fleet management plans prepared by the transit agency.

All capital funding and expenditures are combined into an agency-wide capital plan projection. Agencies with large numbers of transit projects and funding sources may present detailed funding sources or capital projects on a separate schedule (as in Table 7) to provide a clearer presentation of the capital funding information. The major funding categories can then be summarized in the agency-wide capital plan projection. Table 8 is an example of a 20-year agency capital plan projection.

Table 7: Schedule of Capital Funding Sources, Year-of-Expenditure Dollars (Millions)

Fiscal Year	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Actual 1998	Budget 1999	2000	2001	2002	2003	2004	2005	2006
Non-Federal Capital Funds													
Balance from Operations (see Table 11)	\$ (4.6)	\$ (1.4)	\$ 0.6	\$ 5.2	\$ 9.4	\$ 14.2	\$ 11.8	\$ 11.5	\$ 11.2	\$ 10.8	\$ 10.1	\$ 9.5	\$ 12.1
Sales Tax - 50% Capital (see Table 6)	\$ 67.5	\$ 73.6	\$ 78.9	\$ 83.3	\$ 88.5	\$ 94.2	\$ 98.9	\$ 102.6	\$ 106.3	\$ 110.5	\$ 114.9	\$ 119.6	\$ 124.4
Net Bond Proceeds	\$ -	\$ 60.0	\$ 105.0	\$ 90.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40.0	\$ 20.0	\$ 20.0	\$ -
Investment Income	\$ 24.2	\$ 13.0	\$ 13.4	\$ 13.9	\$ 13.8	\$ 11.0	\$ 11.5	\$ 12.0	\$ 11.9	\$ 12.8	\$ 14.7	\$ 15.7	\$ 15.6
Total Non-Federal Sources	\$ 87.1	\$ 145.2	\$ 197.9	\$ 192.5	\$ 111.7	\$ 119.4	\$ 122.2	\$ 126.1	\$ 129.5	\$ 174.1	\$ 159.8	\$ 164.8	\$ 152.0
Federal Funds													
Section 5307 - Formula Funds	\$ 19.8	\$ 22.1	\$ 24.2	\$ 32.2	\$ 34.4	\$ 36.8	\$ 39.4	\$ 41.8	\$ 44.3	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0
Section 5309 - FFGA Attachment 6	\$ 67.3	\$ 44.0	\$ 51.8	\$ 48.5	\$ 48.5	\$ 32.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Section 5309 - Bus	\$ 10.4	\$ 9.9	\$ 13.2	\$ 13.5	\$ 14.0	\$ 12.0	\$ 10.5	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0
Section 5309 - Rail Modernization	\$ -	\$ -	\$ -	\$ -	\$ 15.5	\$ 16.2	\$ 17.5	\$ 18.5	\$ 19.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0
Section 5309 - Proposed New Start	\$ -	\$ 1.0	\$ 2.0	\$ 8.0	\$ 51.0	\$ 66.5	\$ 74.7	\$ 48.1					
CMAQ/STP Flexible Funds	\$ -	\$ 10.0	\$ 10.0	\$ -	\$ -								
Total Federal Funds	\$ 97.5	\$ 76.0	\$ 89.2	\$ 94.2	\$ 112.4	\$ 97.3	\$ 68.4	\$ 71.3	\$ 80.3	\$ 115.0	\$ 130.5	\$ 128.7	\$ 102.1
Fiscal Year													
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Non-Federal Capital Funds													
Balance from Operations (see Table 11)	\$ 6.3	\$ 8.0	\$ 7.4	\$ 6.9	\$ 6.5	\$ 6.0	\$ 5.3	\$ 4.5	\$ 3.8	\$ 3.0	\$ 2.0	\$ 1.1	\$ 0.0
Sales Tax - 50% Capital (see Table 6)	\$ 129.2	\$ 134.4	\$ 139.8	\$ 145.4	\$ 151.4	\$ 157.6	\$ 164.0	\$ 170.5	\$ 177.5	\$ 184.8	\$ 192.2	\$ 200.0	\$ 208.1
Net Bond Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Income	\$ 15.1	\$ 16.3	\$ 17.2	\$ 17.0	\$ 16.8	\$ 16.8	\$ 16.8	\$ 16.6	\$ 16.6	\$ 16.8	\$ 16.9	\$ 16.8	\$ 16.8
Total Non-Federal Sources	\$ 150.6	\$ 158.7	\$ 164.4	\$ 169.4	\$ 174.6	\$ 180.5	\$ 186.0	\$ 191.5	\$ 197.8	\$ 204.7	\$ 211.1	\$ 217.9	\$ 224.9
Federal Funds													
Section 5307 - Formula Funds	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0
Section 5309 - FFGA Attachment 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Section 5309 - Bus	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0	\$ 9.0
Section 5309 - Rail Modernization	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0
Section 5309 - Proposed New Start	\$ -												
CMAQ/STP Flexible Funds	\$ -												
Total Federal Funds	\$ 54.0												

Table 8: Twenty-Year Capital Plan, Year-of-Expenditure Dollars (Millions)

Fiscal Year	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Actual 1998	Budget 1999	2000	2001	2002	2003	2004	2005	2006
Capital Expenditures													
1 Rail System Phase B	\$ 140.0	\$ 150.3	\$ 186.5	\$ 156.0	\$ 125.6	\$ 72.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 Proposed New Start (see Table 2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0	\$ 5.1	\$ 11.1	\$ 10.7	\$ 108.0	\$ 130.2	\$ 146.9	\$ 86.8
3 Rail System Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 20.2	\$ 21.1	\$ 26.3	\$ 27.8	\$ 24.7	\$ 26.0	\$ 26.4	\$ 27.0	\$ 27.8
4 Bus Purchases/Overhaul	\$ 8.4	\$ 9.2	\$ 17.4	\$ 38.7	\$ 28.4	\$ 32.3	\$ 68.0	\$ 69.4	\$ 70.7	\$ 46.0	\$ 34.0	\$ 34.7	\$ 35.4
5 Other Capital	\$ -	\$ 12.4	\$ 24.2	\$ 36.5	\$ 32.5	\$ 25.0	\$ 26.5	\$ 32.2	\$ 33.2	\$ 22.2	\$ 22.9	\$ 23.6	\$ 48.6
Total Capital Expenditures	\$ 148.4	\$ 171.9	\$ 228.1	\$ 231.2	\$ 206.7	\$ 152.1	\$ 125.9	\$ 140.4	\$ 139.3	\$ 202.2	\$ 213.5	\$ 232.1	\$ 198.6
Debt Service Costs	\$ 39.8	\$ 44.0	\$ 51.4	\$ 57.7	\$ 60.5	\$ 61.9	\$ 63.3	\$ 63.3					
Capital Funding Sources													
Total Non-Federal Sources (see Table 7)	\$ 87.1	\$ 145.2	\$ 197.9	\$ 192.5	\$ 111.7	\$ 119.4	\$ 122.2	\$ 126.1	\$ 129.5	\$ 174.1	\$ 159.8	\$ 164.8	\$ 152.0
Total Federal Funds (see Table 7)	\$ 97.5	\$ 76.0	\$ 89.2	\$ 94.2	\$ 112.4	\$ 97.3	\$ 68.4	\$ 71.3	\$ 80.3	\$ 115.0	\$ 130.5	\$ 128.7	\$ 102.1
Total Capital Revenue	\$ 184.6	\$ 221.2	\$ 287.1	\$ 286.7	\$ 224.1	\$ 216.8	\$ 190.6	\$ 197.4	\$ 209.7	\$ 289.1	\$ 290.3	\$ 293.5	\$ 254.1
Beginning Cash Balance	\$ 189.9	\$ 186.3	\$ 191.6	\$ 199.3	\$ 197.1	\$ 156.9	\$ 164.0	\$ 171.0	\$ 170.4	\$ 183.1	\$ 209.6	\$ 224.5	\$ 222.7
Change to Cash Balance	\$ (3.6)	\$ 5.3	\$ 7.6	\$ (2.2)	\$ (40.2)	\$ 7.1	\$ 7.1	\$ (0.7)	\$ 12.8	\$ 26.4	\$ 14.9	\$ (1.8)	\$ (7.7)
Closing Cash Balance	\$ 186.3	\$ 191.6	\$ 199.3	\$ 197.1	\$ 156.9	\$ 164.0	\$ 171.0	\$ 170.4	\$ 183.1	\$ 209.6	\$ 224.5	\$ 222.7	\$ 215.0
Capital Expenditures													
1 Rail System Phase B	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 Proposed New Start	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3 Rail System Rehabilitation	\$ 32.0	\$ 33.9	\$ 36.0	\$ 38.1	\$ 40.4	\$ 42.8	\$ 45.4	\$ 48.1	\$ 51.0	\$ 54.1	\$ 57.3	\$ 60.7	\$ 64.4
4 Bus Purchases/Overhaul	\$ 36.1	\$ 36.8	\$ 52.4	\$ 52.5	\$ 48.0	\$ 49.0	\$ 49.9	\$ 50.9	\$ 52.0	\$ 53.0	\$ 54.1	\$ 55.1	\$ 56.2
5 Other Capital	\$ 55.2	\$ 66.0	\$ 69.3	\$ 72.8	\$ 76.4	\$ 80.2	\$ 84.2	\$ 88.4	\$ 92.9	\$ 97.5	\$ 102.4	\$ 107.5	\$ 112.9
Total Capital Expenditures	\$ 123.3	\$ 136.7	\$ 157.7	\$ 163.4	\$ 164.8	\$ 172.0	\$ 179.6	\$ 187.5	\$ 195.8	\$ 204.6	\$ 213.8	\$ 223.4	\$ 233.5
Debt Service Costs	\$ 63.3	\$ 58.0	\$ 52.8	\$ 52.8	\$ 52.8	\$ 48.6	\$ 43.5						
Capital Funding Sources													
Total Non-Federal Sources (see Table 7)	\$ 150.6	\$ 158.7	\$ 164.4	\$ 169.4	\$ 174.6	\$ 180.5	\$ 186.0	\$ 191.5	\$ 197.8	\$ 204.7	\$ 211.1	\$ 217.9	\$ 224.9
Total Federal Funds (see Table 7)	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0	\$ 54.0
Total Capital Revenue	\$ 204.6	\$ 212.7	\$ 218.4	\$ 223.4	\$ 228.6	\$ 234.5	\$ 240.0	\$ 245.5	\$ 251.8	\$ 258.7	\$ 265.1	\$ 271.9	\$ 278.9
Beginning Cash Balance	\$ 215.0	\$ 233.1	\$ 245.8	\$ 243.3	\$ 240.0	\$ 240.6	\$ 239.8	\$ 237.0	\$ 237.0	\$ 240.3	\$ 241.6	\$ 240.3	\$ 240.3
Change to Cash Balance	\$ 18.1	\$ 12.7	\$ (2.5)	\$ (3.3)	\$ 0.6	\$ (0.8)	\$ (2.8)	\$ 0.0	\$ 3.2	\$ 1.4	\$ (1.4)	\$ (0.0)	\$ 1.9
Closing Cash Balance	\$ 233.1	\$ 245.8	\$ 243.3	\$ 240.0	\$ 240.6	\$ 239.8	\$ 237.0	\$ 237.0	\$ 240.3	\$ 241.6	\$ 240.3	\$ 240.3	\$ 242.2

Notes:

- 1 Funded with FFGA Attachment 6 plus local funds.
- 2 Proposed to be funded with Section 5309 New Starts, federal CMAQ funds, and local funds.
- 3 Funded with Section 5309 Rail Modernization and local funds.
- 4 Funded with Section 5309 Bus and local funds.
- 5 Funded with Section 5307 Formula grants and local funds.

2.4 The Operating Plan

The project sponsor supplies an operating plan to document how the agency intends to fund and operate the proposed project and the existing transit system. The operating plan documents five years of historical data and presents 20 years of projected system operating revenues and O&M costs to demonstrate the capability of the agency to operate and maintain the proposed project while providing existing levels of transit service.

Projections of operating costs, ridership, and fares for the proposed project and existing system are often estimated as part of the alternatives analysis and refined in the DEIS/FEIS. The values reported for ridership and service levels are consistent with the forecasts documented in the MPO's constrained long-range plan. The number of rail vehicles and buses in service, vehicle retirements, acquisitions and overhauls and the associated annual costs are documented in the bus and rail fleet management plans. Information unavailable from any of these sources are generated specifically for the financial plan.

2.4.1 Operating Revenues

The operating plan demonstrates the ability to rely on non-federal funding sources to operate and maintain the entire transit system after the proposed project is in revenue service. The operation and maintenance of the proposed project is likely to place additional burden on the agency's local funding sources. Transit agencies usually need to develop new funding sources or have existing sources that provide sufficient extra operating revenues to fund the proposed project.

The operating plan incorporates fare revenue forecasts for the proposed project and the existing transit system. Fare revenue forecasts are based on ridership forecasts and assumptions regarding fare levels.³ For simplicity of presentation, the project sponsor may develop the fare revenue forecasts as a separate schedule as shown in Table 9.

The plan also provides historical revenue figures and forecasts for all other operating revenue sources and the assumptions used to develop the revenue forecasts. Inflation assumptions are critical to revenue forecasts and are explicitly documented in the financial plan. Often, a source such as a local sales tax that is used for local capital funding may also be used for O&M expenses. In the example provided in this guidance, sales tax revenue is divided equally between capital and operations so that the forecast given in Table 6 is adequate to document the revenue forecast. The plan includes documentation proving that the proposed operating funds are committed to their intended purpose.

³ The MPO's constrained long range plan contains transit ridership and revenue forecasts. The ridership forecasts used to develop the financial plan need to be consistent with the MPO's forecasts.

Table 9: Fare Revenue Forecasts for Proposed Project and Existing System, Current Dollars (Millions)

Fiscal Year	Actual	Actual	Actual	Actual	Actual	Budget								
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Trips - Existing Bus	38.2	39.3	40.3	40.8	41.9	43.1	39.7	39.4	39.8	39.0	39.7	40.9	39.3	
Trips - Existing Rail	4.8	5.0	5.2	5.3	5.6	5.7	14.7	16.1	17.0	19.1	19.4	19.2	21.8	
Trips - New Start	-	-	-	-	-	-	-	-	-	-	-	-	0.9	
Total Ridership	43.0	44.3	45.5	46.1	47.5	48.8	54.4	55.5	56.8	58.1	59.1	60.1	62.0	
Annual % Change		3.0%	2.7%	1.3%	3.0%	2.7%	11.5%	2.0%	2.3%	2.3%	1.7%	1.7%	3.2%	
Fare Revenues - Existing Bus	\$ 30.7	\$ 31.6	\$ 32.7	\$ 34.6	\$ 36.1	\$ 38.1	\$ 32.8	\$ 33.7	\$ 34.8	\$ 33.1	\$ 35.0	\$ 37.6	\$ 37.6	
Fare Revenues - Existing Rail	\$ 4.8	\$ 5.0	\$ 5.2	\$ 5.6	\$ 5.9	\$ 6.0	\$ 16.2	\$ 17.8	\$ 18.7	\$ 22.0	\$ 22.3	\$ 22.1	\$ 25.1	
Fare Revenues - New Start	\$ -	\$ -	\$ -	\$ 1.0										
Total Fare Revenue	\$ 35.5	\$ 36.6	\$ 37.9	\$ 40.2	\$ 42.0	\$ 44.1	\$ 49.0	\$ 51.4	\$ 53.5	\$ 55.1	\$ 57.3	\$ 59.6	\$ 63.7	
Annual % Change		3.2%	3.4%	6.0%	4.6%	5.1%	11.0%	5.0%	4.0%	3.0%	4.0%	4.0%	6.8%	
Average Fare	\$ 0.83	\$ 0.83	\$ 0.83	\$ 0.87	\$ 0.88	\$ 0.90	\$ 0.90	\$ 0.93	\$ 0.94	\$ 0.95	\$ 0.97	\$ 0.99	\$ 1.03	
Annual % Change		0.2%	0.7%	4.4%	1.5%	2.2%	0.0%	2.8%	1.6%	0.7%	2.2%	2.2%	3.4%	
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Trips - Existing Bus	38.9	38.5	38.5	39.2	39.6	40.0	40.5	41.0	41.5	42.1	42.7	43.4	44.0	
Trips - Existing Rail	22.8	23.7	25.0	25.7	26.6	27.6	28.5	29.5	30.4	31.4	32.3	33.3	34.2	
Trips - New Start	6.3	6.5	6.7	6.9	7.1	7.3	7.5	7.8	8.0	8.2	8.5	8.7	9.0	
Total Ridership	68.0	68.7	70.2	71.7	73.3	74.9	76.6	78.3	80.0	81.7	83.5	85.4	87.3	
Annual % Change	9.7%	1.0%	2.2%	2.2%	2.2%	2.2%								
Fare Revenues - Existing Bus	\$ 33.4	\$ 37.1	\$ 38.3	\$ 40.3	\$ 38.7	\$ 40.5	\$ 42.4	\$ 44.4	\$ 42.8	\$ 45.0	\$ 47.4	\$ 47.8	\$ 50.4	
Fare Revenues - Existing Rail	\$ 28.5	\$ 29.7	\$ 31.2	\$ 32.1	\$ 35.9	\$ 37.2	\$ 38.5	\$ 39.8	\$ 44.1	\$ 45.5	\$ 46.9	\$ 49.9	\$ 51.4	
Fare Revenues - New Start	\$ 7.9	\$ 8.1	\$ 8.4	\$ 8.6	\$ 9.6	\$ 9.9	\$ 10.2	\$ 10.5	\$ 11.6	\$ 11.9	\$ 12.3	\$ 13.1	\$ 13.5	
Total Fare Revenue	\$ 69.8	\$ 74.9	\$ 77.9	\$ 81.0	\$ 84.2	\$ 87.6	\$ 91.1	\$ 94.7	\$ 98.5	\$ 102.5	\$ 106.6	\$ 110.8	\$ 115.3	
Annual % Change	8.8%	7.2%	4.0%	4.0%	4.0%	4.0%								
Average Fare	\$ 1.03	\$ 1.09	\$ 1.11	\$ 1.13	\$ 1.15	\$ 1.17	\$ 1.19	\$ 1.21	\$ 1.23	\$ 1.25	\$ 1.28	\$ 1.30	\$ 1.32	
Annual % Change	0.0%	5.8%	1.7%	1.7%	1.7%	1.7%								

2.4.2 *Operating Costs*

System-wide O&M expenses typically increase after a transit project goes into revenue service requiring additional subsidies to continue operating and maintaining the transit system. FTA needs to determine whether the project sponsor has the financial capacity to fund these additional subsidies without reducing existing service levels. Consequently, the operating plan clearly identifies how existing operations will be affected by the proposed project. Fixed guideway projects often result in significant service realignments. The operating plan details:

- How the project will impact existing operations, revenues and O&M costs;
- How bus routes will be realigned;
- What bus routes will be dropped; and
- What new feeder routes are planned?

The operating plan contains at least five years of historical and 20-year forecasts of O&M expenses for the existing transit system and the proposed project. The O&M expenses are supported by information regarding service characteristics of the transit agency such as projected vehicle revenue miles, vehicles in service, and directional route miles. Table 10 presents an example of a schedule of O&M costs for the proposed project and the existing transit system with supporting service statistics.

The accompanying text documents the O&M cost estimation methodology, preferably resource cost build-up, and describes the service plans for the proposed project and existing transit system. The cost estimation documentation provides detail regarding operating labor, maintenance labor, fuel, supplies, administration and other relevant cost categories used to calculate annual O&M costs.

Changes in O&M costs have three components: (1) inflation for labor and materials, (2) service/operating changes, and (3) changes in productivity. The plan documents the inflation assumptions, the planned system-wide operating and service characteristics, and productivity assumptions to demonstrate that the agency is not paying for the proposed project's O&M costs through reductions in service or deferred maintenance on the existing system.

2.4.3 *Agency-Wide Operating Plan*

The operating revenues and O&M cost estimates are combined in the agency-wide operating plan. The operating plan demonstrates that adequate additional funds are available to operate and maintain the proposed project and the rest of the transit system. The operating plan calculates the additional subsidy required to operate and maintain the proposed project. The operating plan shows the availability of additional operating revenues to cover the additional expenses. Table 11 presents an example of an operating plan. In this example, the transit agency forecasts operating surpluses large enough to easily absorb the subsidy using existing funding sources.

Table 10: Operating and Maintenance Expenses, Year-of-Expenditure Dollars (Millions)

Fiscal Year	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Actual 1998	Budget 1999	2000	2001	2002	2003	2004	2005	2006
Vehicle Revenue Miles (million)													
Bus	25.2	25.5	26.1	26.0	25.4	25.5	27.7	25.8	26.4	24.3	24.7	25.7	24.0
Existing Rail	2.8	2.9	3.0	3.0	3.0	3.0	5.0	5.5	6.0	6.0	6.0	6.0	6.0
Proposed New Start	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Directional Route Miles													
Bus	1885.0	1890.0	1880.0	1850.0	1826.0	1838.0	1658.0	1725.0	1720.0	1750.0	1780.0	1850.0	1720.0
Rail	50.4	50.4	50.4	50.4	50.4	50.4	70.1	70.1	70.1	70.1	70.1	70.1	76.0
Vehicles in Maximum Service													
Bus	583.6	585.1	582.0	572.8	565.3	569.0	513.3	534.1	532.5	541.8	551.1	572.8	532.5
Rail	60.0	60.0	62.0	68.0	66.0	68.0	96.0	94.0	99.0	100.0	99.0	102.0	125.0
Operating & Maintenance Expenses													
Existing Bus O&M	\$ 97.9	\$ 102.4	\$ 106.9	\$ 110.8	\$ 115.5	\$ 121.0	\$ 121.7	\$ 124.3	\$ 126.3	\$ 131.6	\$ 137.8	\$ 144.4	\$ 145.9
Existing Rail O&M	\$ 14.0	\$ 14.9	\$ 15.9	\$ 16.4	\$ 16.9	\$ 17.4	\$ 29.9	\$ 34.0	\$ 38.3	\$ 39.6	\$ 40.9	\$ 42.3	\$ 43.8
Proposed New Start O&M	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.6
Total O&M Expenses	\$ 111.9	\$ 117.3	\$ 122.8	\$ 127.2	\$ 132.4	\$ 138.4	\$ 151.6	\$ 158.3	\$ 164.6	\$ 171.2	\$ 178.8	\$ 186.7	\$ 193.4
Annual % Change		4.9%	4.7%	3.6%	4.1%	4.5%	9.5%	4.4%	4.0%	4.0%	4.4%	4.4%	3.6%
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Vehicle Revenue Miles (million)													
Bus	24.5	25.0	25.5	26.0	26.5	27.1	27.6	28.2	28.7	29.3	29.9	30.5	31.1
Existing Rail	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Proposed New Start	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Directional Route Miles													
Bus	1,754	1,789	1,825	1,862	1,899	1,937	1,976	2,015	2,056	2,097	2,139	2,181	2,225
Rail	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0
Vehicles in Maximum Service													
Bus	543	554	565	576	588	600	612	624	636	649	662	675	689
Rail	125	126	128	130	130	130	130	130	130	130	130	130	130
Operating & Maintenance Expenses													
Existing System - Bus	\$ 123.7	\$ 129.6	\$ 135.8	\$ 142.3	\$ 149.1	\$ 156.2	\$ 163.7	\$ 171.5	\$ 179.6	\$ 188.1	\$ 197.1	\$ 206.4	\$ 216.2
Existing System - Rail	\$ 67.9	\$ 70.2	\$ 72.6	\$ 75.1	\$ 77.6	\$ 80.3	\$ 83.0	\$ 85.8	\$ 88.7	\$ 91.7	\$ 94.9	\$ 98.1	\$ 101.4
Proposed New Start O&M	\$ 18.9	\$ 19.5	\$ 20.2	\$ 20.9	\$ 21.6	\$ 22.3	\$ 23.1	\$ 23.8	\$ 24.6	\$ 25.5	\$ 26.4	\$ 27.2	\$ 28.2
Total O&M Expenses	\$ 210.4	\$ 219.3	\$ 228.6	\$ 238.2	\$ 248.3	\$ 258.8	\$ 269.7	\$ 281.1	\$ 293.0	\$ 305.4	\$ 318.3	\$ 331.7	\$ 345.8
Annual % Change	8.8%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%

Table 11: Operating Plan, Year-of-Expenditure Dollars (Millions)

Fiscal Year	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Actual 1998	Budget 1999	2000	2001	2002	2003	2004	2005	2006
Operating Revenue													
Existing System Fares (see Table 9)	\$ 35.5	\$ 36.6	\$ 37.9	\$ 40.2	\$ 42.0	\$ 44.1	\$ 49.0	\$ 51.4	\$ 53.5	\$ 55.1	\$ 57.3	\$ 59.6	\$ 62.6
Proposed New Start Fares (see Table 9)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0
Other Operating Revenue	\$ 4.3	\$ 5.7	\$ 6.6	\$ 8.9	\$ 11.3	\$ 14.2	\$ 15.4	\$ 15.7	\$ 16.0	\$ 16.3	\$ 16.7	\$ 17.0	\$ 17.3
Total System Revenue	\$ 39.8	\$ 42.3	\$ 44.5	\$ 49.1	\$ 53.3	\$ 58.3	\$ 64.4	\$ 67.2	\$ 69.5	\$ 71.5	\$ 74.0	\$ 76.6	\$ 81.0
Sales Tax - 50 % (see Table 6)	\$ 67.5	\$ 73.6	\$ 78.9	\$ 83.3	\$ 88.5	\$ 94.2	\$ 98.9	\$ 102.6	\$ 106.3	\$ 110.5	\$ 114.9	\$ 119.6	\$ 124.4
Total Operating Revenues	\$ 107.3	\$ 115.9	\$ 123.4	\$ 132.4	\$ 141.8	\$ 152.6	\$ 163.3	\$ 169.8	\$ 175.8	\$ 181.9	\$ 188.9	\$ 196.2	\$ 205.4
Annual % Change		8.0%	6.4%	7.3%	7.1%	7.6%	7.1%	4.0%	3.6%	3.5%	3.8%	3.9%	4.7%
Operating & Maintenance Expenses													
Existing System O&M (see Table 10)	\$ 111.9	\$ 117.3	\$ 122.8	\$ 127.2	\$ 132.4	\$ 138.4	\$ 151.6	\$ 158.3	\$ 164.6	\$ 171.2	\$ 178.8	\$ 186.7	\$ 189.7
New Start O&M (see Table 10)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3.6
Total O&M Expenses	\$ 111.9	\$ 117.3	\$ 122.8	\$ 127.2	\$ 132.4	\$ 138.4	\$ 151.6	\$ 158.3	\$ 164.6	\$ 171.2	\$ 178.8	\$ 186.7	\$ 193.4
Balance from Existing Operations	\$ (4.6)	\$ (1.4)	\$ 0.6	\$ 5.2	\$ 9.4	\$ 14.2	\$ 11.8	\$ 11.5	\$ 11.2	\$ 10.8	\$ 10.1	\$ 9.5	\$ 14.7
New Start Subsidy Requirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.6
Balance from Operations	\$ (4.6)	\$ (1.4)	\$ 0.6	\$ 5.2	\$ 9.4	\$ 14.2	\$ 11.8	\$ 11.5	\$ 11.2	\$ 10.8	\$ 10.1	\$ 9.5	\$ 12.1
Operating Ratio	35.6%	36.1%	36.2%	38.6%	40.3%	42.2%	42.5%	42.4%	42.2%	41.7%	41.4%	41.0%	41.9%
Fiscal Year													
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Revenue													
Existing System Fares (see Table 9)	\$ 62.0	\$ 66.7	\$ 69.5	\$ 72.4	\$ 74.6	\$ 77.7	\$ 80.9	\$ 84.3	\$ 86.9	\$ 90.5	\$ 94.3	\$ 97.7	\$ 101.8
Proposed New Start Fares (see Table 9)	\$ 7.9	\$ 8.1	\$ 8.4	\$ 8.6	\$ 9.6	\$ 9.9	\$ 10.2	\$ 10.5	\$ 11.6	\$ 11.9	\$ 12.3	\$ 13.1	\$ 13.5
Other Operating Revenue	\$ 17.7	\$ 18.0	\$ 18.4	\$ 18.8	\$ 19.1	\$ 19.5	\$ 19.9	\$ 20.3	\$ 20.7	\$ 21.1	\$ 21.6	\$ 22.0	\$ 22.4
Total System Revenue	\$ 87.5	\$ 92.9	\$ 96.3	\$ 99.7	\$ 103.4	\$ 107.1	\$ 111.0	\$ 115.1	\$ 119.2	\$ 123.6	\$ 128.1	\$ 132.8	\$ 137.7
Sales Tax - 50% (see Table 6)	\$ 129.2	\$ 134.4	\$ 139.8	\$ 145.4	\$ 151.4	\$ 157.6	\$ 164.0	\$ 170.5	\$ 177.5	\$ 184.8	\$ 192.2	\$ 200.0	\$ 208.1
Total Operating Revenues	216.76	227.28	236.03	245.15	254.75	264.75	274.97	285.56	296.73	308.42	320.31	332.83	345.78
Annual % Change	5.5%	4.9%	3.8%	3.9%	3.9%	3.9%	3.9%	3.8%	3.9%	3.9%	3.9%	3.9%	3.9%
Operating & Maintenance Expenses													
Existing System O&M (see Table 10)	\$ 191.6	\$ 199.8	\$ 208.4	\$ 217.4	\$ 226.7	\$ 236.5	\$ 246.7	\$ 257.3	\$ 268.3	\$ 279.9	\$ 291.9	\$ 304.5	\$ 317.6
New Start O&M (see Table 10)	\$ 18.9	\$ 19.5	\$ 20.2	\$ 20.9	\$ 21.6	\$ 22.3	\$ 23.1	\$ 23.8	\$ 24.6	\$ 25.5	\$ 26.4	\$ 27.2	\$ 28.2
Total O&M Expenses	\$ 210.4	\$ 219.3	\$ 228.6	\$ 238.2	\$ 248.3	\$ 258.8	\$ 269.7	\$ 281.1	\$ 293.0	\$ 305.4	\$ 318.3	\$ 331.7	\$ 345.8
Balance from Existing Operations	\$ 17.3	\$ 19.3	\$ 19.2	\$ 19.2	\$ 18.4	\$ 18.4	\$ 18.1	\$ 17.8	\$ 16.8	\$ 16.6	\$ 16.1	\$ 15.2	\$ 14.7
New Start Subsidy Requirement	\$ 11.0	\$ 11.4	\$ 11.8	\$ 12.2	\$ 12.0	\$ 12.4	\$ 12.9	\$ 13.4	\$ 13.1	\$ 13.5	\$ 14.1	\$ 14.1	\$ 14.7
Balance from Operations	\$ 6.3	\$ 8.0	\$ 7.4	\$ 6.9	\$ 6.5	\$ 6.0	\$ 5.3	\$ 4.5	\$ 3.8	\$ 3.0	\$ 2.0	\$ 1.1	\$ 0.0
Operating Ratio	41.6%	42.4%	42.1%	41.9%	41.6%	41.4%	41.2%	40.9%	40.7%	40.5%	40.3%	40.0%	39.8%

2.5 The Cash Flow Analysis

The overall objective of project sponsor financial plans is to demonstrate that the agency has the financial resources to successfully construct the proposed project while adequately operating, maintaining, and recapitalizing the existing and planned transit system. The cash flow statement combines the results of the capital plan and the operating plan to summarize the year-by-year financial condition of the project sponsor throughout the 20-year analysis period.

Cash flow analysis is a valuable tool for project planning. Its application permits project sponsors to develop and test funding strategies, test alternative assumptions, and conduct risk analysis as part of the agency's continuing financial planning activities. The cash flow statement includes at least five prior years of actual costs and revenues to provide a clear picture of the historical financial position of the agency and to substantiate the growth rates assumed in future years. Table 12 is an example of a 20-year cash flow summary.

The example is not meant to mandate how a transit agency accounts for agency cash flow. The agency in the example carries a large cash balance that is available for operating shortfalls as well as capital projects. Operating surpluses are available for capital expenditures. Capital and operating shortfalls can be funded through cash balances. This is not legally possible for some agencies that must maintain separate funds for operations and capital. In the example, the primary non-federal funding source is the sales tax, which is divided equally between operating and capital expenses. Some transit agencies have the freedom to use dedicated funding sources for any transit activity while others are restricted to using them for a particular purpose or to allocate them between purposes based on a formula. The agency's financial plan identifies and reflects all of the restrictions and covenants that determine how funds are allocated and used.

The cash flow projection can be structured in several possible formats. The cash flow statements are structured in a way that reflects the agency's restrictions on operating and capital funds. Many agencies have restrictions on the use of cash balances such as debt retirement, contractual obligations, lease deposits, uninsured losses or reserve accounts for specific projects. If an agency is subject to any of these restrictions, balances in these restricted accounts are identified in the cash flow statement and not included as "available" cash.

2.5.1 Financial Evaluation

The cash flow projection demonstrates that the agency has adequate resources to complete the project as planned and continue to operate the existing transit service. Evidence of this financial capacity could be cash balances or debt service ratios. In general, cash balances should be sufficient to fund at least three months of operations. In the example cash flow projection, the transit agency maintains a working capital fund adequate to fund about one year of operations. The bond market typically requires gross debt service ratios to exceed 150 percent, which means that revenues pledged to cover debt service must exceed 150 percent of annual debt service. Many transit agencies are subject to more stringent debt ratio requirements.

The cash flow projection is often evaluated to determine the sensitivity of an agency's financial health to changes in the assumptions underlying the financial plan. If small changes in the financial planning or economic assumptions, such as economic growth, transit ridership or interest rates, result in financial difficulties for the agency, the financial capacity of the agency may be questionable.

Table 12: Twenty-Year Cash Flow Projection, Year-of-Expenditure Dollars (Millions)

Fiscal Year	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Actual 1998	Budget 1999	2000	2001	2002	2003	2004	2005	2006
Operating													
Operating Revenue (see Table 11)	\$ 107.3	\$ 115.9	\$ 123.4	\$ 132.4	\$ 141.8	\$ 152.6	\$ 163.3	\$ 169.8	\$ 175.8	\$ 181.9	\$ 188.9	\$ 196.2	\$ 205.4
O & M Expenses (see Table 10)	\$ 111.9	\$ 117.3	\$ 122.8	\$ 127.2	\$ 132.4	\$ 138.4	\$ 151.6	\$ 158.3	\$ 164.6	\$ 171.2	\$ 178.8	\$ 186.7	\$ 193.4
Balance from Operations	\$ (4.6)	\$ (1.4)	\$ 0.6	\$ 5.2	\$ 9.4	\$ 14.2	\$ 11.8	\$ 11.5	\$ 11.2	\$ 10.8	\$ 10.1	\$ 9.5	\$ 12.1
Capital													
Capital Revenue (see Table 8)	\$ 189.2	\$ 222.6	\$ 286.5	\$ 281.5	\$ 214.7	\$ 202.6	\$ 178.8	\$ 185.9	\$ 198.5	\$ 278.3	\$ 280.1	\$ 284.0	\$ 242.1
Capital Expenditures (see Table 8)	\$ 148.4	\$ 171.9	\$ 228.1	\$ 231.2	\$ 206.7	\$ 152.1	\$ 125.9	\$ 140.4	\$ 139.3	\$ 202.2	\$ 213.5	\$ 232.1	\$ 198.6
Debt Service Costs (see Table 8)	\$ 39.8	\$ 44.0	\$ 51.4	\$ 57.7	\$ 57.7	\$ 57.7	\$ 57.7	\$ 57.7	\$ 57.7	\$ 60.5	\$ 61.9	\$ 63.3	\$ 63.3
Change in Capital Funds	\$ 1.0	\$ 6.7	\$ 7.1	\$ (7.4)	\$ (49.6)	\$ (7.2)	\$ (4.7)	\$ (12.2)	\$ 1.5	\$ 15.7	\$ 4.7	\$ (11.3)	\$ (19.7)
Cash Balance													
Beginning Cash Balance	\$ 189.9	\$ 186.3	\$ 191.6	\$ 199.3	\$ 197.1	\$ 156.9	\$ 164.0	\$ 171.0	\$ 170.4	\$ 183.1	\$ 209.6	\$ 224.5	\$ 222.7
Change to Cash Balance	\$ (3.6)	\$ 5.3	\$ 7.6	\$ (2.2)	\$ (40.2)	\$ 7.1	\$ 7.1	\$ (0.7)	\$ 12.8	\$ 26.4	\$ 14.9	\$ (1.8)	\$ (7.7)
Closing Cash Balance	\$ 186.3	\$ 191.6	\$ 199.3	\$ 197.1	\$ 156.9	\$ 164.0	\$ 171.0	\$ 170.4	\$ 183.1	\$ 209.6	\$ 224.5	\$ 222.7	\$ 215.0
Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating													
Operating Revenue (see Table 11)	\$ 216.8	\$ 227.3	\$ 236.0	\$ 245.2	\$ 254.7	\$ 264.8	\$ 275.0	\$ 285.6	\$ 296.7	\$ 308.4	\$ 320.3	\$ 332.8	\$ 345.8
O & M Expenses (see Table 10)	\$ 210.4	\$ 219.3	\$ 228.6	\$ 238.2	\$ 248.3	\$ 258.8	\$ 269.7	\$ 281.1	\$ 293.0	\$ 305.4	\$ 318.3	\$ 331.7	\$ 345.8
Balance from Operations	\$ 6.3	\$ 8.0	\$ 7.4	\$ 6.9	\$ 6.5	\$ 6.0	\$ 5.3	\$ 4.5	\$ 3.8	\$ 3.0	\$ 2.0	\$ 1.1	\$ 0.0
Capital													
Capital Revenue (see Table 8)	\$ 198.3	\$ 204.7	\$ 211.0	\$ 216.4	\$ 222.2	\$ 228.5	\$ 234.7	\$ 241.1	\$ 248.1	\$ 255.6	\$ 263.1	\$ 270.8	\$ 278.9
Capital Expenditures (see Table 8)	\$ 123.3	\$ 136.7	\$ 157.7	\$ 163.4	\$ 164.8	\$ 172.0	\$ 179.6	\$ 187.5	\$ 195.8	\$ 204.6	\$ 213.8	\$ 223.4	\$ 233.5
Debt Service Costs (see Table 8)	\$ 63.3	\$ 63.3	\$ 63.3	\$ 63.3	\$ 63.3	\$ 63.3	\$ 63.3	\$ 58.0	\$ 52.8	\$ 52.8	\$ 52.8	\$ 48.6	\$ 43.5
Change in Capital Funds	\$ 11.8	\$ 4.7	\$ (9.9)	\$ (10.2)	\$ (5.9)	\$ (6.8)	\$ (8.1)	\$ (4.4)	\$ (0.5)	\$ (1.7)	\$ (3.4)	\$ (1.1)	\$ 1.9
Cash Balance													
Beginning Cash Balance	\$ 215.0	\$ 233.1	\$ 245.8	\$ 243.3	\$ 240.0	\$ 240.6	\$ 239.8	\$ 237.0	\$ 237.0	\$ 240.3	\$ 241.6	\$ 240.3	\$ 240.3
Change to Cash Balance	\$ 18.1	\$ 12.7	\$ (2.5)	\$ (3.3)	\$ 0.6	\$ (0.8)	\$ (2.8)	\$ 0.0	\$ 3.2	\$ 1.4	\$ (1.4)	\$ (0.0)	\$ 1.9
Closing Cash Balance	\$ 233.1	\$ 245.8	\$ 243.3	\$ 240.0	\$ 240.6	\$ 239.8	\$ 237.0	\$ 237.0	\$ 240.3	\$ 241.6	\$ 240.3	\$ 240.3	\$ 242.2

2.6 The Appendix – Summary of Other Documents

Many components of the financial plan require additional documentation to support the assumptions and forecasts in the plan. The financial plan summarizes, in an appendix, the results of the critical external analyses that directly support the financial plan. The critical analyses include the regional economic forecasts, the financial condition of the sponsor, and the fleet management plans. Additional supporting documents are provided with the submission of the financial plan. These supporting documents are listed in Section 2.7.

2.6.1 Summary of Regional Economic Conditions

Historical data and forecasts of local economic and demographic changes are developed to substantiate the reasonableness of revenue yield and cost estimates. These forecasts provide a check on growth rate assumptions for ridership, local tax revenues, regional inflation and other key variables. Forecasts from independent institutions, such as universities, state agencies and private forecasting firms, are preferred sources of these data. These forecasts include:

- Population and employment growth estimates;
- Inflation and interest rate forecasts consistent with assumption in cash flow projections;
- Economic and land development projections; and
- The regional demographic or business trends to support 20-year revenue forecasts.

The appendix to the financial plan summarizes the results of the regional economic forecasts including the historical and projected economic condition of the region. It provides tables that summarize, at a minimum, population, employment, personal income and inflation forecasts 20 years into the future. The financial plan is supported by a current regional economic forecast report.

2.6.2 Summary of Financial Condition of the Project Sponsor

Documentation of the financial condition of the sponsoring transit agency and other non-federal financial partners are reported. Documentation of such evidence includes three years of audited financial statements, cash account balances, bond or liquidity test ratios, debt ratings and reports by debt rating agencies, the historical reaction to unexpected financial conditions, the extent of the ongoing capital rehabilitation and replacement program, and the condition of the agency's existing asset base. In addition, evidence of the timely match, obligation, and draw-down of FTA formula resources over the past five to 10 years should be provided.

The appendix provides a short summary of the financial condition of the project sponsor and major funding partners. The summary is substantiated and referenced to other reports and documents related to agency financial condition including at least three years of audited financial statements.

2.6.3 Summary of Fleet Management Plans

FTA requires sponsors of projects in PE and final design to prepare and submit bus and rail fleet management plans apart from the financial plan. The bus fleet management plan is intended to ensure that existing bus service is not degraded during the design, construction, and operation of the proposed investment. This plan is a critical indicator of the project sponsor's financial

capacity to implement a major transit capital investment, and is evaluated as part of the financial assessment of each project. The purpose of the rail fleet management plan is to ensure that the transit operator plans procure and maintain vehicles adequate to provide planned service. These plans document fleet replacement, vehicle age, additional purchases, and plans for fleet rehabilitation and maintenance costs.

The appendix to the financial plan contains a summary of the bus and rail fleet management plans to substantiate the vehicle purchases and rehabilitation expenses referenced in the capital plan and the maintenance costs in the operating plan. The full fleet management plans are referenced and submitted as supporting documentation.

2.7 Additional Documentation

The following documents should be available in support of the financial plan:

1. Past three years' audited financial statements
2. Commitment letters, contracts, agreements, legislative referendums, joint development agreements, or other documents evidencing commitment of funds
3. Latest bonding prospectus
4. Rail vehicle and bus fleet management plans
5. Regional economic forecast documentation
6. Description of innovative financing techniques (e.g., innovative funding sources or financing techniques to be used to support the project or to be implemented as part of a larger system-wide program)
7. Correspondence or other documentation indicating local source's "intent to commit" if no formal commitment or programming of local funding is yet in place
8. Regional Long Range Transportation Plan
9. Regional Transportation Improvement Program (TIP)
10. Major Investment Study (MIS) or Alternatives Analysis (AA) and Environmental Impact Statement (DEIS or FEIS)
11. Project finance plans or project management plans for each major project
12. Latest Project Management Oversight Contractor (PMOC) monthly or spot report
13. Most recent strategic plan or budget

3. BIBLIOGRAPHY – OTHER FINANCIAL GUIDANCE

FTA Reports and Guidance

- Chapter 7 in *Technical Guidance on Section 5309 New Starts Criteria*, FTA Office of Planning, July 1999.
- *Financial Planning Guide for Transit*, UMTA Technical Assistance and Safety Program, April 1990.

Office of Management and Budget Circulars

- OMB Circular A-87, "Cost Principles Applicable to Grants and Contracts with State and Local Governments," dated 1-15-81, and changes to this document published 5/17/95, effective 9/1/95.
- OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" as revised June 24, 1997.

FTA Circulars

- FTA Circular 5700.1, "Requirements and Responsibilities for Indirect Cost Proposals/Cost Allocations Plans for Technical Studies and Capital Grants," dated 5-24-83.
- FTA Circular 8100.1B, "Program Guidance and Application Instructions for Planning and Technical Studies Grants," dated 10-25-96.
- FTA Circular 9030.1C, "Urbanized Area Formula Program: Grant Application Instructions," dated 10-1-98.
- FTA Circular 9300.1A, "Capital Program: Grant Application Instructions." dated 10-1-98.
- FTA Circular 5010.1C, "Grant Management Guidelines." Dated October 1, 1998.
- FTA Circular 7008.1 "Urban Mass Transportation Financial Capacity Policy," dated 3-30-87.
- FTA Circular 5200.1, "Full Funding Grant Agreements Guidance," dated 7-2-93.

Federal Register Notices and Legislation

- Federal transit laws, 49 U.S.C. chapter 53.
- Transportation Equity Act for the 21st Century, Pub. L. 105-178, June 9, 1998, 23 U.S.C. 101 note, as amended by the TEA-21 Restoration Act 105-206, 112 Stat. 685, July 22, 1998, 23 U.S.C. 101 note.
- Intermodal Surface Transportation Efficiency Act of 1991, Public Law No. 102-240, 105 Stat. 1914, Dec 18, 1991 (codified as amended by Public Law 103-272, 108 Stat. 745, July 5, 1994, in scattered sections of 49 and 23 US Code).
- FTA regulations, "Project Management Oversight," 49 C.F.R. Part 633.
- 31 CFR Part 205, Ch. II, "Withdrawal of Cash From the Treasury for Advances Under Federal Grant and Other Programs." (Treasury C.1075.)
- U.S. Department of Transportation (DOT) regulations, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," 49 C.F.R Part 18.
- FTA regulations, "Uniform System of Accounts and Records and Reporting System," 49 C.F.R. Part 630.

- Joint Federal Highway Administration (FHWA)/FTA regulations, "Planning Assistance and Standards," 23 C.F.R. Part 450 and 49 C.F.R. Part 613 (specifically, Subpart B, "Statewide Transportation Planning," and Subpart C, "Metropolitan Transportation Planning and Programming").
- Joint FHWA/FTA regulations, "Management and Monitoring Systems," 23 C.F.R. Part 500 and 49 C.F.R. Part 613 and Part 614 dated 12-19-96.
- FTA Notice "Policy Statements on Local Share Issues," 57 Fed. Reg., 30880 (1992).

APPENDIX E

ADDITIONAL DIRECTIVE FROM FTA COTR