

M Management Committee

Meeting date: August 8, 2007

ADVISORY INFORMATION

Date: August 7, 2007
Subject: 2nd Quarter Financial Report – June 30, 2007
District(s), Member(s): All
Policy/Legal Reference: Council Policy 3 – Finance and Asset Management
Staff Presented: Mary Bogie 651-602-1359, Edwin Petrie 612-349-7624
Division/Department: Finance

Earlier this year staff committed to providing improved financial reporting to the Management Committee. Attached are Balance Sheets and Operating Statements for all Council operating funds. The narrative below provides information on significant events for each unit. The reports will be discussed with the Committee on August 8 for feedback and to answer questions.

Second Quarter Financial Report – June 30, 2007

- General Fund

Overall General Fund operating expenses are under budget. The largest variances are in *Salaries and Benefits* and *Consulting & Contracted Services*. Regional Administration expects to fill a number of vacancies by year end, and, while budgeted equally throughout the year, Consulting & Contracted Services expenditures trend toward the later half of the year. Year-end operating expenses are expected to be under budget, however this is not likely an indication of future years expenses as vacancies are filled (particularly in Information Services) and technology and other projects move forward.

- Environmental Services

System flow is down again. The system flow for billing year 2008 (flow year ended June 30 2007) is about 91.1 billion gallons compared to 92.6 estimate that was used in the budget forecast for rate setting. Reduced flow means that the implied rate per thousand gallons is up more than the increase in our Municipal Wastewater Charges (because it's spread over fewer gallons). Conservation, drought, and I/I mitigation success are likely factors in lower flow. The lower flow does not have a financial impact to the Council because of the firm flow allocation basis for waste water fees that was implemented about 3 years ago. This new allocation model significantly reduces annual revenue risk for the division.

SAC (Sewer Availability Charges) have been adversely impacted by the declining housing market and Commercial/Industrial development. We have seen decreasing SAC units paid in each of the last 4 years. Despite adopting the highest increase ever (\$150/unit) for 2008, this fund will likely be under substantial financial pressure in the mid to longer term. However, we have about \$80 million in reserve so the situation is not dire in the near term.

I/I Preliminary Surcharge letters went out to 46 communities last month. 40 have the same preliminary numbers as last year. 4 are higher because they had higher peak exceedances in flow measured (in the flow year ended June 30th); 2 are communities with first time exceedances. The 2007 preliminary surcharges were **all** offset by credits given to communities agreeing to spend these amounts on improvements. Some success has already been shown. We are hopeful that most

or all will also be able to offset the potential 2008 surcharges through credits. ES is working on some financial assistance to communities.

Operating expenses are under budget for *Salaries and Benefits* and *Consulting & Contracted Services* and minimally over budget in *Materials & Supplies*, *Chemicals* and *Utilities*. Overall we expect year to end with an operating surplus.

- Metro Transit

Bus Operations:

Metro Transit expected a \$1.7 million use of reserves for Bus Operations in the 2007 budget year. Increased operating revenues (*Advertising* and *Investment Income*) and overall operating expenses near budget are expected to result in a decreased use of reserves of approximately \$1.3 million by year end.

Metro Transit Bus ridership has exceeded budget by 767 thousand rides through June 2007. The largest increase has been in Urban Local Ridership during non-peak periods and in Metropass Ridership.

Mid-year variances in operating expenses for *Professional & Technical Services* are the result of timing differences. While the budget assumes most operating expenses occur evenly throughout the year, development of television and radio advertising promotions were a significant expense in the first half of the year.

Fuel price hedging contracts are established to smooth swings in fuel prices throughout the year by locking in costs earlier. Budgeted *Fuel* expenses for 2007 were based on an estimated fuel price of \$2.36 that was established mid-year 2006 before the final fuel futures contracts were purchased for 2007. The actual fuel futures contracts purchased for the first six months 2007 were at \$2.50 per gallon, resulting in a negative variance of \$0.14 per gallon. Projected year-end savings in other expense categories are expected to offset the variance in fuel costs.

The proposed 2008 budget uses a \$2.56 per gallon rate developed based on a fuel usage already hedged at about 70 percent for the year. Staff will continue to review the future hedging contracts to compare actual contract rates against the 2008 budgeted price per gallon.

Higher than expected expenses in *Materials and Supplies* are the result of maintaining an aging bus fleet. Increases in shared service allocations result in a favorable variance and are likely to mostly offset negative variances in other expense categories by year end.

Rail Operations:

Metro Transit Rail ridership continues to be very strong and exceeds budgeted ridership levels by 135 thousand rides through June 2007. *Passenger Fares*, *Advertising Revenues*, and *Investment Income* contribute to a favorable variance in operating revenues and is expected to carry through to year-end resulting in an operating surplus.

Overall operating expenses are near budget at June 30 and are expected to be on budget at year end. Favorable variances in *Salaries and Benefits*, *Professional and Technical Services*, and *Utilities* are offset by increased shared services allocations for administrative overhead expenses.

- Housing and Redevelopment Authority

Overall expenses are within expectations for HRA operations. Variances are the result of timing differences. Year-end operations are expected to be within budget.

- Metropolitan Transportation Services

A pending budget amendment (August 8 Council Meeting) increases the use of operating reserves to \$1.7 million for MTS funds. Operating expenses are within budget for June 30. Operating reserves are expected to fall slightly below the 15% target for year end, as budgeted.

- Post Retirement Health Care Liability

Investments set aside (reserved) for Post Retirement Health Care Liabilities have grown to \$66.7 million at June 30, slightly ahead of the 2007 year-end projection noted in our 2006 actuarial study. The Council's funding policy requires contributions to the Health Care Liability Reserve for the portion of the benefit earned each year by active employees. Funds are invested with the Minnesota State Board of Investment and include cumulative unrealized gains of \$7.2 million. Unrealized gains represent the difference between the purchase price and current market value of investments and are not realized until investments are sold. Over time we will see gains and losses reflective of the market based portfolio for this reserve.

Metropolitan Council
BALANCE SHEET
General Fund
30-Jun-07

Account	YTD
Cash & Cash Equivalents	9,089,092
Accounts Receivable	11,454
Delinq Taxes Receivable	197,647
Due from Other Govern Units	69,289
Other	40,392
Total Assets	9,407,874
Accounts Payable	153,735
Deferred Revenue	197,647
Other	45
Total Liabilities	351,427
Fund Equity Accounts:	
Undesignated	6,789,496
Encumbrances	853,350
Self-Insurance	1,000,000
Compensated Absenses (Accrued Leave)	2,354,391
Water Planning	1,514,513
Beginning Fund Equity	12,511,750
Income Statement	(3,455,303)
Ending Equity	9,056,447
Total Liabilities and Equity	9,407,874

STATEMENT OF REVENUES AND EXPENSES
General Fund (100)
June 30, 2007

	<u>YTD</u> <u>ACTUALS</u>	<u>YTD</u> <u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>	<u>YEARLY</u> <u>BUDGET</u>	<u>% OF YRLY</u> <u>BUDGET</u>
<u>REVENUES</u>					
Property Taxes	214,593	194,726	19,867	9,736,267	2.20%
State Revenue	-	21,200	(21,200)	481,933	0.00%
Investment Earnings	423,376	341,886	81,490	683,774	61.92%
Other Revenue	35,642	1,500	34,142	3,000	1188.07%
Total Revenue	673,611	559,312	114,299	10,904,974	6.18%
<u>EXPENSES</u>					
Salary and Benefits	9,696,153	10,376,861	680,708	22,509,459	43.08%
Consulting & Contractual Services	3,148,249	4,583,143	1,434,894	9,166,286	34.35%
Rent & Utilities	1,038,637	1,086,361	47,724	2,172,722	47.80%
Printing	85,453	176,125	90,672	352,250	24.26%
Travel	137,312	205,105	67,793	410,210	33.47%
Insurance	10,754	20,500	9,746	41,000	26.23%
Other Operating Expenses	497,643	678,079	180,436	1,356,157	36.70%
Total Expenses	14,614,201	17,126,174	2,511,973	36,008,084	40.59%
<u>TRANSFERS</u>					
Transfer In From MT	5,974,499	7,006,680	(1,032,181)	14,013,359	42.63%
Transfer In From MCES	4,044,733	4,895,784	(851,051)	9,791,567	41.31%
Transfer In From MTS	-	93,085	(93,085)	186,170	0.00%
A87 Allocations	641,476	699,000	(57,524)	1,398,000	45.89%
Chargeback from MAC	28,149	36,500	(8,351)	73,000	38.56%
Transfer Out	(203,570)	(434,000)	230,430	(1,868,000)	10.90%
Total Transfers	10,485,287	12,297,049	(1,811,762)	23,594,096	44.44%
<u>SURPLUS (DEFICIT)</u>	(3,455,303)	(4,269,813)	814,510	(1,509,014)	

Metropolitan Council
BALANCE SHEET
Environmental Services (Rate Basis)
30-Jun-07

Account	YTD
Cash & Cash Equivalents	25,804,723
Accounts Receivable	867,165
Due from Other Govern Units	535,610
Materials & Supplies	7,467,929
Other	803
Total Assets	34,676,229
Accounts Payable	10,679,928
Salaries/Fringes Payable	9,276,673
Workers Comp	720,023
Deferred Revenue (Advance payments of sewer charges)	7,774,608
Total Liabilities	28,451,232
Fund Equity Accounts	-
Income Statement	6,224,997
Ending Equity	6,224,997
Total Liabilities and Equity	34,676,229
<u>Contingency Operating Reserve:</u>	
Beginning Equity	16,495,122
Transfer to Operating	(1,000,000)
Ending Equity	15,495,122

**STATEMENT OF REVENUES AND EXPENSES
ENVIRONMENTAL SERVICES (RATE BASIS)**

June 30, 2007

	<u>YTD ACTUALS</u>	<u>YTD BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>YEARLY BUDGET</u>	<u>% OF YRLY BUDGET</u>
<u>REVENUES</u>					
Municipal Wastewater Charges	72,926,598	72,999,996	(73,398)	146,000,000	49.95%
Industrial Charges	3,268,839	3,266,215	2,624	9,400,000	34.77%
Investment Earnings	971,793	999,996	(28,203)	2,000,000	48.59%
State Grant	140,967	141,000	(33)	165,440	85.21%
Miscellaneous Revenue	270,827	237,756	33,071	525,005	51.59%
Total Revenue	77,579,024	77,644,963	(65,939)	158,090,445	49.07%
<u>EXPENSES</u>					
Salary and Benefits	22,440,112	23,144,577	704,465	51,893,670	43.24%
Retiree Hlth, Wkrs Comp, Leave Benefits	2,793,629	2,884,500	90,871	5,769,000	48.42%
Consulting & Contractual Services	4,167,648	6,947,486	2,779,838	13,746,566	30.32%
Materials & Supplies	3,150,184	2,901,235	(248,949)	5,801,692	54.30%
Chemicals	2,583,986	2,561,777	(22,209)	5,123,525	50.43%
Travel	76,425	91,474	15,049	181,450	42.12%
Utilities & Rent	8,645,784	8,706,937	61,153	17,118,430	50.51%
Capital Outlay	128,137	705,518	577,381	1,391,030	9.21%
Other Direct Expenses	657,866	522,512	(135,354)	1,046,165	62.88%
Total Expenses	44,643,771	48,466,016	3,822,245	102,071,528	43.74%
<u>TRANSFERS</u>					
SAC Transfer	17,280,498	17,280,498	-	34,561,000	50.00%
Transfers In	203,570	384,000	(180,430)	993,650	20.49%
Transfer from Contingency Reserve	1,000,000	1,000,000	-	1,000,000	100.00%
Debt Service	(40,649,592)	(40,649,592)	-	(81,782,000)	49.70%
Interdivisional Charges	(4,044,733)	(4,895,784)	851,051	(9,791,567)	41.31%
Transfers Out	(499,998)	(499,998)	-	(1,000,000)	50.00%
Total Transfers	(26,710,255)	(27,380,876)	670,621	(56,018,917)	47.68%
<u>SURPLUS (DEFICIT)</u>	6,224,998	1,798,071	4,426,927	-	

Metropolitan Council
BALANCE SHEET
Metro Transit Bus (Operating Fund)
30-Jun-07

Account	YTD
Cash & Cash Equivalents	20,765,839
Accounts Receivable	5,096,806
Due from Other Govern Units *	29,346,399
Materials & Supplies	11,029,051
Total Assets	<u>66,238,095</u>
Accounts Payable	2,879,612
Salaries/Fringes Payable	16,465,284
Workers Comp / Casualty & Liability Insurance	16,550,345
Deferred Revenue (Monthly ridership passes)	5,957,024
Misc	2,683,550
Total Liabilities	<u>44,535,815</u>
Fund Equity Accounts:	
Unrestricted Net Assets	(3,054,347)
State Cash Flow Adjustment *	24,845,500
Beginning Fund Equity	<u>21,791,153</u>
Income Statement	(88,873)
Ending Equity	<u>21,702,280</u>
Total Liabilities and Equity	<u>66,238,095</u>

* This represents the half year shift that occurred in 2002 when funding switched from property tax to motor vehicle sales tax.

STATEMENT OF REVENUES AND EXPENSES
Metro Transit - Bus
June 30, 2007

	<u>YTD</u> <u>ACTUALS</u>	<u>YTD</u> <u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>	<u>YEARLY</u> <u>BUDGET</u>	<u>% OF YRLY</u> <u>BUDGET</u>
<u>REVENUES</u>					
Passenger Fares	32,644,011	32,751,739	(107,728)	67,460,321	48.39%
Advertising	1,314,484	1,174,288	140,196	2,560,550	51.34%
State Revenues - Motor Vehicle Sales Tax	42,942,565	42,942,565	-	91,361,533	47.00%
State Appropriations	24,086,676	24,086,679	(3)	44,302,807	54.37%
Federal Grants	6,603,617	6,603,617	-	11,185,321	59.04%
Miscellaneous Revenue	991,892	508,146	483,746	1,056,300	93.90%
Total Revenue	108,583,245	108,067,034	516,211	217,926,832	49.83%
<u>EXPENSES</u>					
Salary and Benefits	82,710,172	82,800,072	89,900	167,629,775	49.34%
Professional & Technical Services	2,365,462	2,165,226	(200,236)	4,330,503	54.62%
Fuel	9,985,464	9,139,071	(846,393)	18,501,624	53.97%
Materials & Supplies	5,220,135	4,984,086	(236,049)	10,095,536	51.71%
Utilities	2,589,284	2,974,197	384,913	4,946,022	52.35%
Allocated Charges	5,801,601	6,543,326	741,725	14,103,739	41.14%
Total Expenses	108,672,118	108,605,978	(66,140)	219,607,199	49.48%
<u>SURPLUS (DEFICIT)</u>	(88,873)	(538,944)	450,071	(1,680,367)	

Metropolitan Council
BALANCE SHEET
Metro Transit LRT (Operating Fund)
30-Jun-07

Account	YTD
Cash & Cash Equivalents	4,806,226
Accounts Receivable	258,677
Due from Other Govern Units	403,971
Materials & Supplies	1,225,567
Total Assets	6,694,441
Accounts Payable	125,543
Salaries/Fringes Payable	984,900
Workers Comp / Casualty & Liability Insurance	970,529
Other Liabilities	669,324
Total Liabilities	2,750,296
Beginning Fund Equity	2,528,976
Income Statement	1,415,169
Ending Equity	3,944,145
Total Liabilities and Equity	6,694,441

STATEMENT OF REVENUES AND EXPENSES
Metro Transit - LRT
June 30, 2007

	<u>YTD</u> <u>ACTUALS</u>	<u>YTD</u> <u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>	<u>YEARLY</u> <u>BUDGET</u>	<u>% OF YRLY</u> <u>BUDGET</u>
<u>REVENUES</u>					
Passenger Fares	3,564,196	3,286,661	277,535	7,892,219	45.16%
Advertising	323,094	213,174	109,920	426,349	75.78%
State Appropriations	3,666,798	3,666,798	-	6,288,082	58.31%
Henn. Cty Regional Rail	3,666,798	3,666,798	-	6,288,082	58.31%
Federal Grants	951,270	977,100	(25,830)	977,100	97.36%
Miscellaneous Revenue	122,579	-	122,579	-	0.00%
Total Revenue	12,294,735	11,810,531	484,204	21,871,832	56.21%
<u>EXPENSES</u>					
Salary and Benefits	5,394,237	5,498,163	103,926	11,172,000	48.28%
Professional & Technical Services	249,805	372,972	123,167	745,948	33.49%
Materials & Supplies	647,048	638,004	(9,044)	1,276,000	50.71%
Utilities	970,198	1,122,078	151,880	2,244,147	43.23%
Council Allocated Charges	3,618,278	3,225,179	(393,099)	6,433,737	56.24%
Total Expenses	10,879,566	10,856,396	(23,170)	21,871,832	49.74%
<u>SURPLUS (DEFICIT)</u>	1,415,169	954,135	461,034	-	

Metropolitan Council
BALANCE SHEET
Housing and Redevelopment Authority
30-Jun-07

Account	YTD
Cash & Cash Equivalents	6,666,009
Accounts Receivable	92,461
Due from Other Funds	261,000
Due from Other Govern Units	1,297,159
Fixed Assets - Houses	23,657,693
Total Assets	31,974,322
Accounts Payable	37,074
Salaries/Fringes Payable	119,351
Due to Other Funds	261,000
Due Other Governments	22,355
Other	1,405,000
Total Liabilities	1,844,780
Fund Equity Accounts	
Unrestricted Net Assets	6,441,451
FAHP Loan	1,405,000
Capital Assets	22,194,837
Beginning Fund Equity	30,041,288
Income Statement	88,254
Ending Equity	30,129,541
Total Liabilities and Equity	31,974,322

STATEMENT OF REVENUES AND EXPENSES
Housing and Redevelopment Authority
June 30, 2007

	<u>YTD</u> <u>ACTUALS</u>	<u>YTD</u> <u>BUDGET</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>	<u>YEARLY</u> <u>BUDGET</u>	<u>% OF YRLY</u> <u>BUDGET</u>
<u>REVENUES</u>					
Federal Revenue	25,729,297	27,741,370	(2,012,073)	55,482,740	46.37%
State Revenue	174,707	726,000	(551,293)	1,452,000	12.03%
Local Revenue	791,005	1,307,306	(516,301)	2,614,612	30.25%
Investment Earnings	264,926	75,000	189,926	150,000	176.62%
Other Revenue	308,240	282,500	25,740	565,000	54.56%
Total Revenue	27,268,175	30,132,176	(2,864,001)	60,264,352	45.25%
<u>EXPENSES</u>					
Salary and Benefits	993,992	1,036,191	42,199	2,247,703	44.22%
Consulting & Contractual Services	120,523	415,953	295,430	831,905	14.49%
Rent & Utilities	92,922	123,640	30,718	247,279	37.58%
Housing Expenses	25,508,662	27,927,342	2,418,680	55,854,683	45.67%
Travel	12,478	21,750	9,272	43,500	28.69%
Insurance	91,642	60,000	(31,642)	120,000	76.37%
Other Operating Expenses	93,113	115,824	22,711	231,648	40.20%
Total Expenses	26,913,332	29,700,700	2,787,368	59,576,718	45.17%
<u>TRANSFERS</u>					
Allocations	(266,589)	(304,000)	37,411	(608,000)	43.85%
Total Transfers	(266,589)	(304,000)	37,411	(608,000)	43.85%
<u>SURPLUS (DEFICIT)</u>	88,254	127,476	(39,222)	79,634	

Metropolitan Council
BALANCE SHEET
Metropolitan Transit Services
June 30, 2007

Account	Metro Mobility	Suburban Providers	Contracted Transit	YTD Total
Cash & Cash Equivalents	4,081,599	-	4,426,576	8,508,174
Accounts Receivable	111,362	-	1,853,400	1,964,761
Due from Other Funds	2,250,000	-	-	2,250,000
Due from Other Govern Units	-	1,838,848	711,536	2,550,384
Other	9,654	-	-	9,654
Total Assets	6,452,614	1,838,848	6,991,511	15,282,974
Accounts Payable	2,048,265	-	3,098,055	5,146,320
Other	-	1,838,848	-	1,838,848
Total Liabilities	2,048,265	1,838,848	3,098,055	6,985,168
Fund Equity Accounts				
Beginning Fund Equity	3,963,280	-	5,642,334	9,605,614
Income Statement	441,069	-	(1,748,877)	(1,307,808)
Ending Equity	4,404,349	-	3,893,457	8,297,806
Total Liabilities and Equity	6,452,614	1,838,848	6,991,511	15,282,974

STATEMENT OF REVENUES AND EXPENSES
Metro Transportation Svcs (MTS)
June 30, 2007

	<u>YTD ACTUALS</u>	<u>YTD BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>TOTAL BUDGET</u>	<u>PROPOSED AMENDMENT</u>	<u>AMENDED BUDGET</u>	<u>% OF YRLY BUDGET</u>
<u>REVENUES</u>							
Federal Revenue	4,125,828	5,285,442	(1,159,614)	10,671,895	2,536,448	13,208,343	31.24%
State Revenue	27,043,815	28,363,620	(1,319,805)	60,296,702	-	60,296,702	44.85%
Local Revenue	200,338	273,350	(73,012)	546,700	-	546,700	36.64%
Investment Earnings	314,137	100,500	213,637	201,000	-	201,000	156.29%
Other Revenue	2,791,198	2,643,607	147,591	5,287,214	-	5,287,214	52.79%
Total Revenue	34,475,316	36,666,519	(2,191,203)	77,003,511	2,536,448	79,539,959	43.34%
<u>EXPENSES</u>							
Salary and Benefits	1,592,136	1,622,017	29,881	3,518,475	35,000	3,553,475	44.81%
Consulting & Contractual Services	33,559,623	36,677,959	3,118,336	73,355,918	2,729,476	76,085,394	44.11%
Rent & Utilities	135,105	160,740	25,635	321,479	-	321,479	42.03%
Travel	9,203	23,000	13,797	46,000	-	46,000	20.01%
Grants	49,092	20,000	(29,092)	40,000	-	40,000	122.73%
Other Operating Expenses	104,008	199,910	95,902	399,819	-	399,819	26.01%
Total Expenses	35,449,167	38,703,626	3,254,459	77,681,691	2,764,476	80,446,167	44.07%
<u>TRANSFERS</u>							
Transfer In	-	24,675	(24,675)	49,350	-	49,350	0.00%
Chargeback from MAC	45,978	52,500	(6,522)	105,000	-	105,000	43.79%
A87 Allocations	(379,935)	(488,085)	108,150	(976,170)	-	(976,170)	38.92%
Total Transfers	(333,957)	(410,910)	76,953	(821,820)	-	(821,820)	40.64%
<u>SURPLUS (DEFICIT)</u>	(1,307,808)	(2,448,017)	1,140,209	(1,500,000)	(228,028)	(1,728,028)	

Metropolitan Council
BALANCE SHEET
Post Retirement Health Care Benefits
June 30, 2007

Account	Environmental Services	Metro Transit	Regional Administration	Total
Investments OPEB Pool	23,808,466	32,295,938	2,152,620	58,257,025
Investment Shares	175,438	841,587	-	1,017,025
Cumul Unreal Gain/Loss OPEB	2,944,279	4,024,031	268,147	7,236,457
Accrued Earnings Rec OPEB Pool	66,869	91,395	6,090	164,354
Assets	<u>26,995,052</u>	<u>37,252,951</u>	<u>2,426,858</u>	<u>66,674,861</u>
Fund Equity Accounts				
Beginning Fund Equity	23,878,903	31,907,257	2,236,465	58,022,625
Investment Earnings	255,437	353,604	23,334	632,375
Unrealized Gain/Loss OPEB Pool	1,818,711	2,551,596	167,059	4,537,366
Transfer From Other Funds	1,042,002	2,440,493	-	3,482,495
Ending Equity	<u>26,995,052</u>	<u>37,252,951</u>	<u>2,426,858</u>	<u>66,674,861</u>