

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : 1/31/2020

TO : Supervisor Theodore Lipscomb Sr., Chair, County Board of Supervisors

FROM : Donna Brown-Martin, Director, Department of Transportation
Joe Lamers, Director, Office of Performance, Strategy, and Budget

SUBJECT : Transit Capital Assistance Grant Program Round 2 (Volkswagen Environmental Mitigation Trust Grant)

OVERVIEW

The State of Wisconsin announced a second round of funding for the Transit Capital Assistance Grant Program (Grant Program) on January 15, 2020, which includes an application filing deadline of March 18, 2020. This is the Grant Program which provides funding for the replacement of eligible public transit buses under the Volkswagen Environmental Mitigation Trust. The structure of this grant requires recipients to receive a reduction in State Shared Revenue of 75% of the actual grant award amount amortized over a 10-year period.

Milwaukee County applied and received an award of \$5.5 million of funding related to the first round of the grant program which opened in 2018. This funding is being used to support the purchase of eleven buses. The grant funding is offset by a \$4.1 million reduction in State Shared revenue, applied over ten years at an estimated amount of \$409,000 per year. It is currently anticipated that this reduction will be applied beginning in 2021, and this will contribute to the County's operating budget gap.

Criteria for the second round is the same as the first round, and the County has eleven buses that can be replaced under the grant with estimated replacement costs of \$9.35 million. The cost estimate for round two assumes the purchase of alternate fuel busses. If the County applies and is awarded these buses, this would result in a further reduction of State Shared revenue estimated at \$7 million, applied over ten years at an estimated amount of \$701,000 per year.

The administration is not planning to apply for round two of the grant at this time. This is primarily due to the adverse impacts of the 75% reduction in Shared Revenue that is required under the structure of the grant. Under State statutes, the County has limited flexibility to make up for this loss of revenue within the operating budget. Approximately \$409,000 is being included in the estimated operating budget gap for 2021 related to round one of the grant. If the County applies and is awarded round two of the grant, this would further increase the estimated gap by \$701,000 in future years, for a total annual impact of up to \$1.1 million per year. This loss of revenue for the operating budget would occur while the County is faced with other fiscal challenges, including but not limited to the loss of \$9 million in annual revenue that is currently received from the sale of Doyne hospital.

In addition, the 2020 Adopted Budget reduced and consolidated various Milwaukee County Transit System (MCTS) routes that will result in a decreased fleet size. Due to the already approved capital

budgets, first round VW Settlement funds and a recently awarded Low/No grant, MCTS does not anticipate to be requesting additional bus purchases, as part of the capital Bus Replacement Program, until 2022.

A more detailed overview of the grant and funding is included below.

GRANT TIMELINE

The timeline of this grant is not well aligned with the County Board meeting cycle. Round two of the grant was announced on January 15, after reports for the January meeting cycle were due. There is no February meeting cycle. The grant application is due on March 18, which is prior to the County Board meeting date on March 26th.

ADDITIONAL GRANT PROGRAM AND FUNDING DETAILS

Transit Capital Assistance Grant Program (Grant Program)

The State of Wisconsin (State)-Department of Administration administers the Transit Capital Assistance Grant Program to fund the replacement of eligible public transit buses under the Volkswagen Environmental Mitigation Trust. The Grant Program fund replacement of 1992-2009 engine model year transit buses with any new diesel or alternate fueled or all-electric vehicle, with the engine model year in which the eligible bus mitigation action occurs or one engine model year prior. *Grant Program recipients receive a reduction in State Shared Revenue (Shared Revenue) of 75% of the actual award amount amortized over a 10-yr period.*¹

Grant Program-Round One

The first round of Grant Program opened in 2018. The County applied for Grant Program funding of approximately \$23.9 million (County Board file #18-640) and received an actual award of \$5.5 million.² Based upon Grant Program criteria, the anticipated Shared Revenue reduction assessed to the County will start in 2021 budget year and extend through 2030.

As Grant Program funding is being used in lieu of bonds, estimated total principal and interest savings is about \$6.4 million over a 15-year period.³ The County's total Shared Revenue reduction is estimated to be \$4.1 million (or about \$409,000 annually for 10 years).

¹ Pursuant to Grant Program guidelines, associated Shared Revenue reductions begin upon the State's first payment of Grant Program funds to the County (generally made after the County provides a reimbursement payment request to the State). The awarded first round Grant Program funding is estimated to begin in 2021.

² Approved County Board File #18-640 included authorization to apply and accept State of Wisconsin Transit Capital Assistance Grant Program funding in the approximate amount of \$23.9 million to aid in the purchase of 49 eligible buses, replacing Milwaukee County bond financing and allowing for administrative appropriation transfers.

³ Actual debt service amounts will differ based on the Comptroller's policy of level overall debt service payments as approved in County Board resolution(s) prior to debt issuances.

Grant Program-Round Two

The State announced a second round of Grant Program funding in January 15, 2020, including an application deadline of March 18, 2020. Grant Program criteria remain the same as the first round. The County has eleven (11) buses that can be replaced under these parameters. County staff (Department of Transportation) estimated related bus replacement costs of \$9.35 million. If the County applied for and was awarded the full request, projected total Shared Revenue reduction is just over \$7 million (or about \$701,000 annually over 10 years).

Assuming Grant Program funding would be used instead of bonds, estimated total principal and interest savings is about \$11.6 million over a 15-year period.³

Annual Operating Budget Gap & Operating Budget Levy Limits

The County budget has been faced with structural deficit dating back as far as early 2000's. This is largely due to State levy limits (Wisconsin State Statute 66.0602) that only allow the County to increase its total property tax levy by the percentage change in the county growth in equalized value due to net new construction between the previous year and the current year.⁴ In effect, the levy limits do not allow revenues to cover the cost of inflation and other operating cost increases. In addition, the County has been faced with flat and declining revenues from the State and Federal government, including reductions in State Shared revenue.

Compounding this issue is the loss of the Froedtert payment to the County. Based on the sale agreement between Milwaukee County and Froedtert Memorial Lutheran Hospital (Froedtert), the County will receive annual payments over 25 years beginning in 1996 and ending in 2020 based on the net operating cash flow generated by Froedtert. *The 2020 payment is budgeted at \$9,000,000 and is the final full year payment that will be received. This revenue is expected to be reduced to \$4.5 million in 2021 and eliminated in 2022, create a significant impact to both the 2021 and 2022 operating budget gap.*

Legal Debt Limit Flexibility

The County may incur indebtedness for County purposes specified by State Statute (Article 11, Section 3 of the Wisconsin Constitution and Chapters 67 of Wisconsin Statutes). In general, this means the County may increase its tax levy to cover increases in debt service payments relative to meeting its capacity limit. As of October 2019, the County has over 70% of its capacity remaining.

Summary

The County has committed to round one Grant Program funding resulting in total estimated principal and interest cost avoidance of \$6.4 million (over 15 years) and total Shared Revenue reductions of approximately \$4.1 million (over 10 years).

⁴ The 2020 budget development process included a starting operating budget gap of approximately \$28 million.

- The County’s Operating Budget will experience annual Shared Revenue reductions of approximately \$409,000 over the 10 year period and will need to account for revenue reduction in regards to its annual Operating Budget structural deficit.
- Participation in the Grant Program provides a benefit to County property tax payers by lowering County property taxes as Grant Program funding supplants County bond funding, resulting in lower County debt service costs.

Round 1 Shared Revenue Reduction/Debt Service Cost Avoidance Estimate

YR	Estimated Principal/Int Avoidance	Estimated Shared REV Reduction	Estimate Net County Levy Reduction / (Increase)
2021	\$456,457	(\$409,613)	\$46,844
2022	\$479,000	(\$409,613)	\$69,388
2023	\$471,500	(\$409,613)	\$61,888
2024	\$464,000	(\$409,613)	\$54,388
2025	\$456,500	(\$409,613)	\$46,888
2026	\$444,000	(\$409,613)	\$34,388
2027	\$436,600	(\$409,613)	\$26,988
2028	\$429,200	(\$409,613)	\$19,588
2029	\$421,800	(\$409,613)	\$12,188
2030	\$414,400	(\$409,613)	\$4,788
2031	\$407,000	\$0	\$407,000
2032	\$399,600	\$0	\$399,600
2033	\$392,200	\$0	\$392,200
2034	\$384,800	\$0	\$384,800
2035	\$377,400	\$0	\$377,400
TOTAL	\$6,434,457	(\$4,096,125)	\$2,338,332

Round two Grant Program funding (if awarded at the full request of \$9.35 million) is estimated to produce principal and interest cost avoidance of \$11.6 million (over 15 years) and total Shared Revenue reductions of approximately \$7 million (over 10 years).

- The County’s Operating Budget will experience annual Shared Revenue reductions of approximately \$701,000 over the 10 year period and will need to account for revenue reduction in regards to its annual Operating Budget structural deficit.
- Participation in the round two of the Grant Program provides a benefit to County property tax payers by lowering County property taxes as Grant Program funding supplants County bond funding, resulting in lower County debt service costs.

Round 2 Shared Revenue Reduction/Debt Service Cost Avoidance Estimate

YR	Estimated Principal/Int Avoidance	Estimated Shared REV Reduction	Estimate Net County Levy Reduction / (Increase)
2024	\$831,762	(\$701,250)	\$130,512
2025	\$884,888	(\$701,250)	\$183,638
2026	\$867,288	(\$701,250)	\$166,038
2027	\$849,688	(\$701,250)	\$148,438
2028	\$827,088	(\$701,250)	\$125,838
2029	\$809,625	(\$701,250)	\$108,375
2030	\$792,163	(\$701,250)	\$90,913
2031	\$774,700	(\$701,250)	\$73,450
2032	\$757,238	(\$701,250)	\$55,988
2033	\$739,775	(\$701,250)	\$38,525
2034	\$722,313	\$0	\$722,313
2035	\$704,850	\$0	\$704,850
2036	\$687,388	\$0	\$687,388
2037	\$669,925	\$0	\$669,925
2038	\$652,463	\$0	\$652,463
TOTAL	\$11,571,149	(\$7,012,500)	\$4,558,649

- If the County forgoes the second round of Grant Program funding and bond finances the eleven (11) eligible buses, it has the ability to increase tax levy to account for the rise in debt service (projected at \$11.6 million over 15 years) and will not incur an estimated (total) \$7 million reduction in Shared Revenue. Maintaining the Shared Revenue (by not applying for round 2 funding) would benefit the County as it would not add to the operating structural deficit issue. Conversely, the increased debt service costs would raise property taxes for homeowners (assuming the County increases its levy up to the statutory limits).
- The table below represents an overlay of estimated round 2 Grant Program Shared Revenue reduction and related principal/interest cost avoidance on top of the existing round 1 Grant Program Shared Revenue decrease and principal/interest cost avoidance projections. Round 2 Shared Revenue reduction and related debt service cost avoidance are estimated to begin in 2024. Therefore, there will be an overlap of rounds 1 and 2 Shared Revenue reductions and related debt service cost avoidance:

Combined Rounds 1 and 2 Shared Revenue Reduction/Debt Service Costs Avoidance Estimate

YR	Estimated Principal/Int Avoidance	Estimated Shared REV Reduction	Estimate Net County Levy Reduction / (Increase)
2021	\$456,457	(\$409,613)	\$46,844
2022	\$479,000	(\$409,613)	\$69,388
2023	\$471,500	(\$409,613)	\$61,888
2024	\$1,295,762	(\$1,110,863)	\$184,899
2025	\$1,341,388	(\$1,110,863)	\$230,525
2026	\$1,311,288	(\$1,110,863)	\$200,425
2027	\$1,286,288	(\$1,110,863)	\$175,425
2028	\$1,256,288	(\$1,110,863)	\$145,425
2029	\$1,231,425	(\$1,110,863)	\$120,563
2030	\$1,206,563	(\$1,110,863)	\$95,700
2031	\$1,181,700	(\$701,250)	\$480,450
2032	\$1,156,838	(\$701,250)	\$455,588
2033	\$1,131,975	(\$701,250)	\$430,725
2034	\$1,107,113	\$0	\$1,107,113
2035	\$1,082,250	\$0	\$1,082,250
2036	\$687,388	\$0	\$687,388
2037	\$669,925	\$0	\$669,925
2038	\$652,463	\$0	\$652,463
TOTAL	\$18,005,606	(\$11,108,625)	\$6,896,981

RECOMMENDATION

This report is informational. The administration does not plan on applying for Round Two of the Transit Capital Assistance Grant.

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Donna Brown-Martin

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Donna Brown-Martin
Director
Department of Transportation

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Joseph Lamers

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Joseph Lamers, Director
Office of Performance, Strategy and Budget
Department of Administrative Services

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John Weishan, Chair, Transportation, Public Works and Transit Committee
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Steven Cady, Research and Policy Director, Office of the Comptroller
Teig Whaley-Smith, DAS Director
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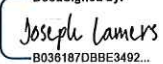
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Envelope Summary Events**Status****Timestamps**

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Browsers (for SIGNERS):	Internet Explorer 6.0?, Mozilla FireFox 1.0, NetScape 7.2 (or above)
Email:	Access to a valid email account
Screen Resolution:	800 x 600 minimum
Enabled Security Settings:	<ul style="list-style-type: none">• Allow per session cookies• Users accessing the internet behind a Proxy Server must enable HTTP

1.1 settings via proxy connection

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