

**County of Milwaukee
Interoffice Communication**

Date: June 29, 2016

To: Theodore Lipscomb, Sr., Milwaukee County Board of Supervisors, Chairman

From: Steven R. Kreklow, Director, DAS-Office of Performance, Strategy, & Budget

Subject: Milwaukee County Transportation Infrastructure Funding Trends and Alternative Funding

Issue

Nationally, significant attention has been paid to America's infrastructure funding deficit. In their "2013 Report Card for America's Infrastructure" the American Society of Civil Engineers gave "D" grades for both Transit and Highways, indicating that a \$3.6 trillion investment is needed by 2020. The Federal Highway Administration estimates that an additional \$170 billion is needed nationally to significantly improve road conditions and performance and the Federal Transit Administration estimates that nearly \$78 billion is needed to bring all transit systems up to a state of good repair. The challenge of closing these funding gaps at a national level is daunting.¹

On a local level, Milwaukee County is responsible for providing critical transportation related activities to its residents including mass transit service, roadway construction and maintenance (parkways and county trunk highways), and bridge maintenance.² Historically, the County has relied heavily on federal and state funding, augmented by county tax levy funding, for these activities. However in recent years, federal and state funding for transportation related services is trending downward (on average), while county tax levy funding has increased simply to maintain service levels. This report has been submitted to summarize those trends, describe potential impacts to future budgets and review alternatives available for the County to consider in addressing the transportation infrastructure challenge on a local level.

¹ American Society of Civil Engineers, 2013 Report Card for America's Infrastructure

² Milwaukee County also provides airport services via General Mitchell International Airport. County tax levy *is not* used to fund airport operations, and therefore, is not included in the report analysis.

Background/Analysis

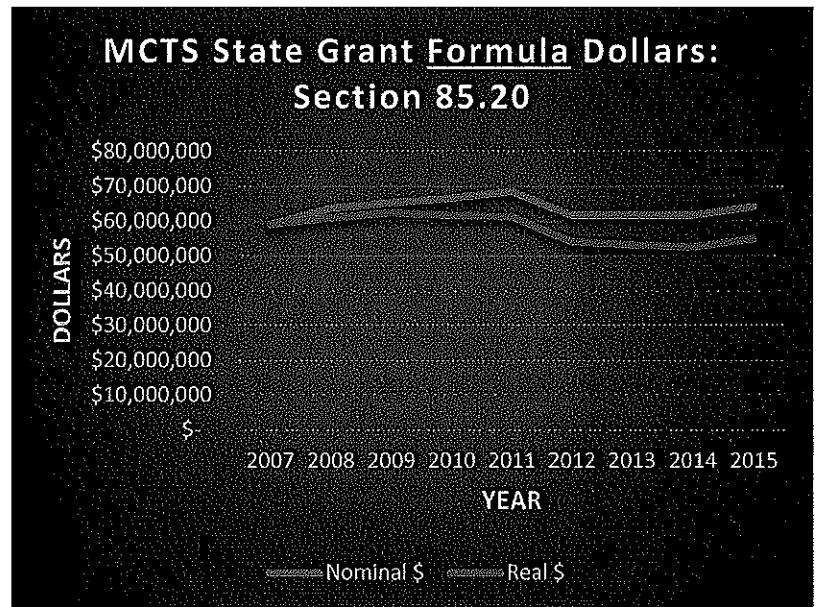
Section 1: Revenues

State Transportation Funding Trends– Transit System (Milwaukee County Department of Transportation)³

Transit State Formula Grant Review

The Milwaukee County Transit System's largest source of revenue is Section 85.20 funding from the State of Wisconsin (State) for transit and Section 85.21 for paratransit operations. The County received modest increases in this funding from \$59,107,000 in 2007 to \$68,583,200 (nominal dollars) in 2011. However, in 2012, funding declined significantly by about \$7.0 million dollars (or about 10%) to \$61,724,900 (nominal dollars). From 2012 to 2015, the funding level has increased by approximately \$2.46 million dollars, to \$64,193,900 but is still \$4,389,300 below the 2011 funding level of \$68,583,200 (nominal dollars).

Adjusting for inflation, the challenge created by stagnant Section 85.20 revenue is even clearer. In inflation adjusted dollars, these revenues actually decreased by \$6.4 million or 10.4% from 2011 to 2015. The trending of 85.20 formula funding appears to indicate overall lack of real growth associated with this specific revenue source (see graph at right).



Anticipated Future Reductions in Transit Support

Transit has been able to offset the real decline in Section 85.20 funding by utilizing various short-term, temporary funding sources. Included in these sources are the following:

- Congestions Mitigation and Air Quality (CMAQ): \$5.7 million funding for Express Routes including Purple (Rte 27) and Gold (10/30x). Funding will expire in 2018. As Milwaukee's air quality has improved over the years toward an attainment zone, CMAQ funding has decreased.
- Zoo Interchange Litigation Mitigation funding of roughly \$2.8 million is anticipated to be exhausted by 2019. This revenue funds routes 6, 61, and 279. The funding is available for four years as a result of a legal settlement between MICAH and the Black Health Coalition (plaintiffs) v WisDOT.⁴
- Several onetime federal funds have been used to finance the bus replacement program:
 - (2011) \$36 million Interstate Cost Estimate for buses. This funding was one time only.
 - (2011) \$10 million Surface Transportation Program (STP) for buses.⁵
 - (2011-2012) \$7 million annually for State of Good Repair for buses.⁶
 - (2011 and 2012) \$5 million annually for State of Good Repair for facilities.⁵

³ Transit services are provided by Milwaukee County's Department of Transportation via Milwaukee Transport Services, Inc. (MTS), a quasi-governmental instrumentality of Milwaukee County that manages and operates the Milwaukee County Transit System, including paratransit services. MTS uses transit facilities and equipment owned and provided by Milwaukee County. Paratransit services include demand responsive transportation and orientation to transportation services. These services complement the fixed-route services of MCTS and are available to those who are Americans with Disabilities Act (ADA) Paratransit eligible. Paratransit will continue to maintain Milwaukee County border-to-border service.

⁴ The funding is determined by the settlement.

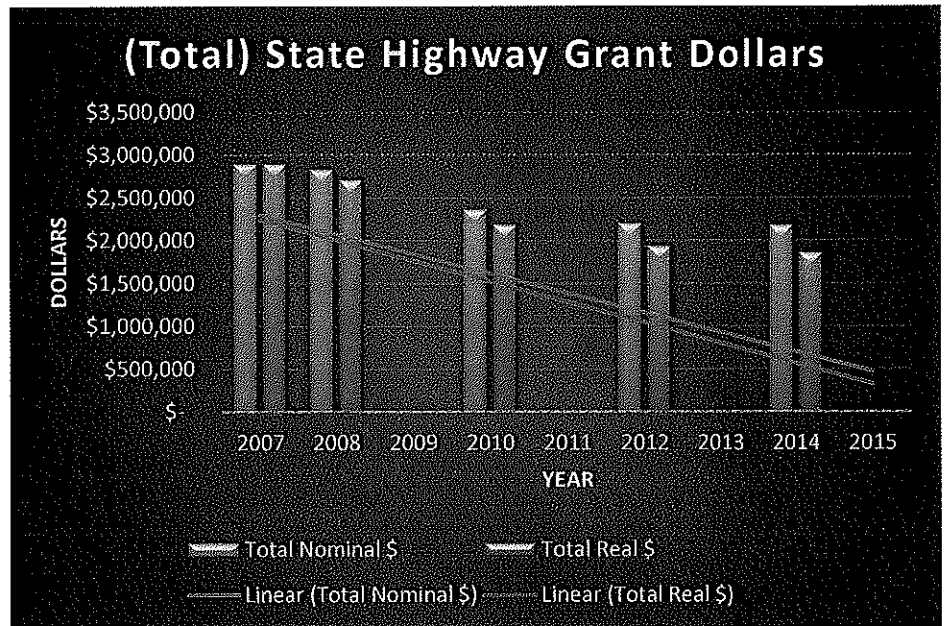
⁵ The \$10 million allocation represents more than three times the most recent award of \$3.2 million.

⁶ This funding source is not stable and was previously nonexistent for three years, until it was partially restored in last transportation bill.

**State Transportation Funding Trends –
Highway Division (Milwaukee County Department of Transportation)⁷**

Highway State Formula Grant Review

The graph to the right represents total state highway grant dollars received. The total is comprised of two revenues under the Local Road Improvement Program (LRIP) designed to assist local units of government in improving seriously deteriorating county highways, municipal streets in cities and villages, and town roads: County Highway Improvement Program (CHIP) dollars, and County Highway Improvement Program Discretionary (CHIP-D) dollars. Both are reimbursement programs, which pay for a maximum of 50% of total eligible project costs, with the balance of the eligible costs funded by the local unit of government. The programs is governed by s. 86.31, Wis. Stats.⁸



In 2007 total state highway funding was \$2,894,033 (nominal- blue column). Since then funding has dropped to \$2,177,219 in 2014; or \$716,814 (nominal \$) representing about 24.76% decrease. Adjusted for CPI the trend is more dramatic, real funding has decreased from about \$2.9 million (CPI real –red column) in 2007 to \$1.8 million in 2014, a decline of \$1.1 million or 37.9%.

**Federal Transportation Funding Trends –
Highway Division (Milwaukee County Department of Transportation)**

Highway Federal Grant Review

The county has received some level of funding from a variety of federal programs that have helped offset declines in State Formula Grants. However, these programs change frequently, are often available for only specific purposes, and do not provide a stable on-going revenue source. Primary programs include the following:

Surface Transportation Program (STP) – This program provides flexible funding that may be used by States and localities for projects to preserve and improve the conditions and performance on any Federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects, including intercity bus terminals.⁹ The STP program was superseded by MAP-21 on February 1st of 2016. The program has seen a formula change away from allocations based on road miles to allocations based on road condition(s). As a result, future funding levels may be uncertain. Data is not yet available to illustrate possible losses in revenue.

⁷ As part of the Milwaukee County Department of Transportation, the Highway Division is comprised of the Highway Maintenance and Transportation Services sections. The Highway Maintenance section is responsible for providing State and County Highway maintenance. State Highway maintenance provides general and winter maintenance on the expressways and state trunk highways within Milwaukee County. All costs related to state highway maintenance are offset by state reimbursement revenue.

The Transportation Engineering section provides planning, design, and construction management for capital projects on County Trunk Highways (CTH) and County-owned bridges.

⁸ <http://wisconsin.gov/Documents/doing-bus/local-gov/astnce-pgms/highway/lrip/county-guide.pdf>

⁹ "MAP-21 - Fact Sheets - Surface Transportation Program (STP) | Federal Highway Administration." *MAP-21 - Fact Sheets - Surface Transportation Program (STP) | Federal Highway Administration*. U.S. Department of Transportation, n.d. Web. 18 Mar. 2016.

Congestion Mitigation & Air Quality Improvement Program (CMAQ) – The purpose of this program is to support surface transportation projects and other related efforts that contribute air quality improvements and provide congestion relief. The application process occurs in odd years and is not utilized significantly as Milwaukee County is attaining its requirement to be within air quality standards. CMAQ funds received in prior years are coming to the end of their life. No further grants will be given in future years due to attainment of air quality standards. Future funding is not anticipated.

Highway Safety Improvement Program (HSIP) – The goal of the program is to achieve a significant reduction in traffic fatalities and serious injuries on all public roads, including non-State-owned public roads and roads on tribal lands. The grant is applied for when accident data justifies the need for certain road improvements. As a result of the somewhat narrow criteria applied, the use of these funds to support Milwaukee County’s transportation is somewhat limited. Future funding is not anticipated due to the County’s achievement of reduction in traffic fatalities.

American Recovery & Reinvestment Act 2009 (ARRA) – Program funding was used as part of an overall economic stimulus project. These funds were one time only.

Section 2: Capital Needs

While revenues for transportation continue to decline, the County’s share of transportation-related capital funding is anticipated to grow from approximately \$23.9 million (2016 Adopted Capital Improvement Budget) to an estimated \$27.6 million by 2020. The primary drivers include the transit bus replacement program, roadway/bridge maintenance and reconstruction, vehicle replacement program, and parkway repairs/reconstruction.

| Estimated Transportation Related Capital (County Contribution ONLY) | | | | | | |
|---|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Dept. | Sub-Project Description | 2016 Adopted | 2017 EST | 2018 EST | 2019 EST | 2020 EST |
| TRNST | New Flyer Buses | 12,150,000 | 14,450,000 | 14,787,793 | 15,133,482 | 15,487,252 |
| FLEET | Fleet Equipment | 6,423,000 | 7,671,664 | 7,329,318 | 7,084,271 | 8,338,479 |
| HWY | Roads, Bridges, Special Assessment (\$100k per year) | 4,442,175 | 4,022,722 | 3,485,945 | 4,328,000 | 2,310,000 |
| PARKS | Parkways | 927,500 | 1,325,833 | 2,430,834 | 1,495,833 | 1,500,000 |
| Total: | | 23,942,675 | 27,470,219 | 28,033,890 | 28,041,586 | 27,635,731 |

Annual funding of the County’s Capital Improvement Budget has primarily consisted of general obligation bonds (bonds) and tax levy (cash), and/or sales tax (cash). Additionally, the County has generally maintained this funding within a self-imposed goal of a 3% annual bond increase (from the previous year) and a cash financing goal of 20%.

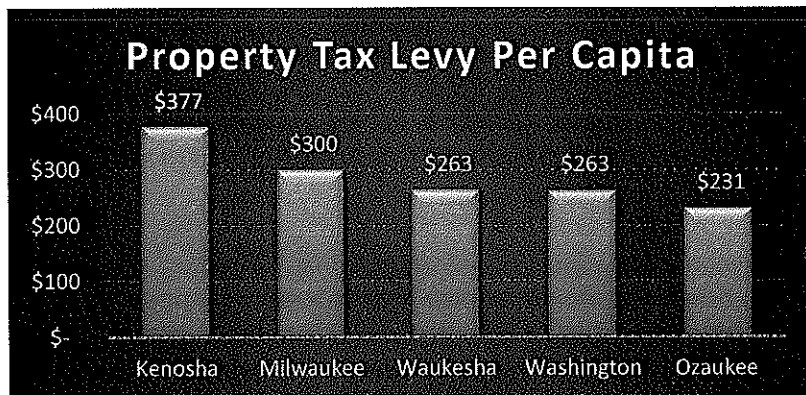
Assuming a 20% cash financing goal and a 3% bond increase over the 2016 Adopted Capital Improvement Budget bonding level of \$39.2 million, the estimated total County financing level is projected to be \$48.5 million for 2017 and increase to just under \$53 million by 2020. Transportation-related capital projects are estimated to comprise, on average, 54% of the total available County funding between 2016 and 2020.

| Estimated Total Available County Funding and Transportation-Related Capital Improvement Projects | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 (Adopted) | 2017 EST | 2018 EST | 2019 EST | 2020 EST |
| Bond Financing: | 39,234,810 | 40,411,854 | 41,624,210 | 42,872,936 | 44,159,124 |
| Cash Financing: | 8,293,468 | 8,082,371 | 8,324,842 | 8,574,587 | 8,831,825 |
| TOTAL Financing: | 47,528,278 | 48,494,225 | 49,949,052 | 51,447,523 | 52,990,949 |
| LESS Estimated Transportation-related capital projects: | (23,942,675) | (27,470,219) | (28,033,890) | (28,041,586) | (27,635,731) |
| TOTAL County Financing available for other capital projects: | 23,585,603 | 21,024,006 | 21,915,162 | 23,405,937 | 25,355,218 |

Section 3: Alternative Revenue Sources

Primary funding source(s) currently available (to the County) to fund transportation-related functions include: property tax, sales tax, general obligation bonds, bus fares, and/or a vehicle registration fee. Due to limited authority granted in state statute, the County has limited options for alternative revenue sources that can be used to address critical infrastructure needs. Revenue alternatives requiring changes to state statute are not addressed as part of this report.

- a. Increase Milwaukee County property taxes: Under Wisconsin statutes, county levy increases are limited to the percentage change in equalized valuation due to net new construction between the previous year and the current year. There are exclusions for levy increases from general obligation debt service for debt authorized



before July 1, 2005, for debt authorized after July 1, 2005, and for the transfer of service provision between governmental units. Payments for library services and bridge aid are also excluded.

| County | Kenosha | Milwaukee | Waukesha | Washington | Ozaukee |
|-------------------|--------------|---------------|---------------|--------------|----------------------------|
| Levy Per Capita | \$377 | \$300 | \$263 | \$263 | \$231 |
| Population | 168,437 | 957,735 | 396,488 | 133,674 | 87,850 |
| Property Tax Levy | \$63,522,791 | \$286,985,125 | \$104,412,271 | \$35,106,933 | \$20,275,733 ¹⁰ |

¹⁰ <http://www.census.gov/quickfacts/chart/PST045215/55131>. July 2015. May 10, 2016.

- b. Increase bus fares: While in theory the County could increase bus fares to collect additional revenue, bus ridership levels can be impacted by changes fares. As fares increase, ridership tends to decline. Each incremental increase in fares generates a smaller increase in overall revenues. Increases in fares could also have other negative impacts on employment levels within the County and the ability of area business to attract an adequate workforce.
- c. Increase bonding: Increasing bonding would allow for additional funding of transportation-related capital projects. However, assuming the county would continue to stay near its annual bonding level commitment and cash financing policies, this would likely result in other important infrastructure projects not being funded or to be significantly delayed. Alternatively, increased overall bond issuance levels would result in higher annual debt service payment costs and either higher property taxes or less funding available for other purposes.
- d. Vehicle registration fee (VRF): Current state statute allows local governments to raise revenue for transportation related expenses through the implementation of a VRF. Given growing transportation infrastructure needs and declining state and federal support, a growing number of Wisconsin local governments are implementing VRFs: one township, six cities, and 3 counties as of August 2015. Since the VRF is an option for a new revenue stream to address Milwaukee County's transportation infrastructure needs, this report will provide additional information and analysis.

Section 4: Vehicle Registration Fee Analysis

A VRF was one option suggested by the Public Policy Forum in their 2008 report on the County's transit system. Key points in the report include:¹¹

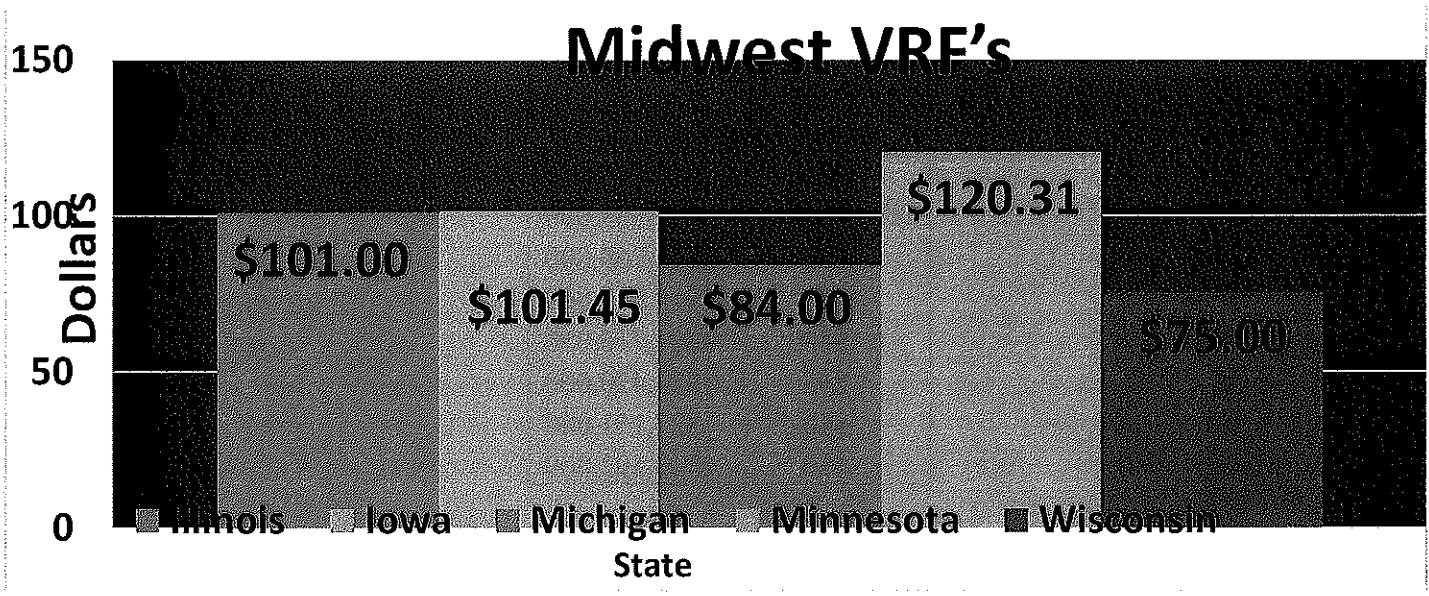
- *A vehicle registration fee is not a general tax on all taxpayers, but is a user fee specifically imposed on users of the transportation system. While it can be argued that automobile owners do not necessarily use the transit system to which the fee proceeds would be dedicated, it also can be argued that they benefit substantially from a healthy transit system because of the positive impacts on congestion and parking.*
- *It is unlikely that imposition of a moderate vehicle registration fee in Milwaukee County will have a negative impact on the county's economic growth. Unlike a sales tax or gas tax, which ostensibly could cause individuals to travel to adjacent counties to make purchases, a modest vehicle registration fee would be unlikely to impact consumer decisions, including where to purchase their home.*
- *A vehicle registration fee can be seen as relatively regressive in that it impacts all automobile owners equally regardless of income, but it also can be seen as progressive in that it would not impact those who cannot afford one or more automobiles. Moreover, it would not impact certain elderly and disabled individuals who do not drive.*
- *Registration fees in Wisconsin are relatively low when compared to other states... WisDOT's analysis also indicates that Wisconsin's combined state and local registration fees are the lowest among the five states in our region.¹²*

¹¹ Public Policy Forum, *Milwaukee County's Transit Crisis: How did we get here and what do we do now?* May, 2008.

¹² Data from April 11, 2008 WisDOT Transportation Fact Sheet.

County Vehicle Registration Fee Review

An updated analysis of vehicle registration fees for Midwestern states indicate that Wisconsin ranks the lowest (out of five states) for total registration fees.¹³



Current state law (Wis Stat. 341.35(1)) allows Wisconsin towns, villages, cities, or counties to establish and implement a VRF in addition to the regular annual recitation fee paid for a vehicle. The fee applies to vehicles kept in the municipality or county where the vehicle is registered. Revenues generated from this fee can only be used for transportation related activities.

Currently there are eleven municipalities and three counties that have or have had an additional fee on top of the State's \$75 registration fee¹⁴.

- City of Appleton \$20 (beginning February 2015)
 - Township of Arena \$20 (beginning April 2015)
 - City of Beloit \$20 (beginning February 2015)
 - City of Fort Atkinson \$20 (beginning March 2016)
 - City of Gillett \$20 (beginning July 2015)
 - City of Janesville \$10 (beginning April 2012)
 - City of Kaukauna \$10 (beginning August 2015)
 - City of Lodi \$20 (beginning May 2016)
 - City of Milwaukee \$10 (beginning December 2008)
 - Village of Prairie du Sac \$20 (beginning January 2016)
 - City of Sheboygan \$20 (beginning February 2016)
-
- Iowa County \$20 (beginning February 2015)
 - Chippewa County \$10 (beginning January 2015)
 - St. Croix County \$10 (beginning January 2008)

¹³ Composition of various registration fees differ from state to state, but typically consist of state registration fees and at least one form of a locally imposed vehicle registration fee.

¹⁴ <http://wisconsindot.gov/Pages/dmv/vehicles/title-plates/wheeltax.aspx>

State statute grants significant flexibility for local governments to implement VRFs and does not dictate a floor or ceiling. The table below provides estimated revenues that may be generated if the county were to apply a VRF at various alternate levels.¹⁵

| Vehicle Registration Fee | Revenue |
|--------------------------|--------------|
| \$20 | \$10,827,000 |
| \$25 | \$13,548,000 |
| \$30 | \$16,269,000 |
| \$35 | \$18,989,000 |
| \$40 | \$21,710,000 |
| \$45 | \$24,430,000 |
| \$50 | \$27,151,000 |
| \$60 | \$32,592,000 |

Should the county implement a VRF, it would be assessed to each vehicle within the municipality the vehicle(s) are registered. Currently, the only municipality in the county that utilizes a VRF is the City of Milwaukee (\$20 per vehicle). As a result, City of Milwaukee residents pay annual total vehicle registration fees of \$95 per vehicle (\$20/City + \$75/State). Further, any county VRF would be in addition those already existing (\$20/City + \$75/State + \$ County)

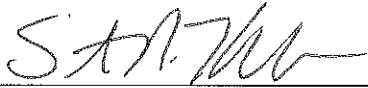
The County Board has previously considered the possibility of a VRF. Some members of the County board have previously supported a vehicle registration fee as a “more realistic move” to bolster funding for the County’s transit system than a sales tax increase. In 2009 and 2010, the County considered a vehicle registration fee. A \$20 a year vehicle registration fee was endorsed in committee in 2010, but was rejected by the full board.

¹⁵ The estimated revenue included in the fee table is based on the 5-year average total number of eligible vehicles registered in the county (approximately 544,120) from calendar years 2011 through 2015. Counties and/or municipalities that implement local vehicle registration fees are assessed an administration fee of \$.10 cents/vehicle by the state. The estimated revenues in the fee table is net of the state’s \$.10 cent administration fee.

Conclusion

Milwaukee County is responsible for maintaining nearly 600 miles of roads, 96 bridges, hundreds of buses and dozens of highway maintenance vehicles. As State and Federal funding have declined in real terms, the level of County contribution necessary has increased to approximately \$25 million per year in the five capital plan. Meeting this funding challenge will require significant reductions in other programs and capital investments, or increases in revenues. The County's ability to raise revenue is severely limited by statute. The vehicle registration fee presents one of the few feasible and available alternatives for funding these critical infrastructure needs.

This report is informational only. No action is required.



Steven R. Kreklow, Director,
Department of Administrative Services-Office of Performance, Strategy, & Budget

cc:

- Chris Abele, Milwaukee County Executive
- Supervisor Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors
- Raisa Koltun, Chief of Staff, Milwaukee County Executive
- Kelly Bablitch, Chief of Staff, Milwaukee County Board of Supervisors
- Supervisor Peggy Romo-West, Chairwoman, Finance, Personnel & Audit Committee
- Supervisor Michael Mayo Sr., Chairman, Transportation, Public Works, & Transit
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