

County of Milwaukee
Interoffice Communication

DATE: 4/18/2019
TO: Theodore Lipscomb, Sr., Chairman, County Board of Supervisors
FROM: Donna Brown-Martin, Director, Department of Transportation
SUBJECT: MCTS 2019 Budget Review and Preparation of 2020 Budget Report

POLICY

This report is for informational purposes only.

BACKGROUND

This report, from the Milwaukee County Department of Transportation (MCDOT) and MCTS, provides context for the projected shortfall previously reported by the Director of PSB. It begins with a brief review of the adopted 2019 Transit budget, gives some historical perspectives on transit funding, establishes background information about capital budget concerns and pressures, qualifies operating budget concerns, discusses declining ridership, and highlights MCTS's response to the challenges of operating in a fiscally constrained environment, as well as describes how these constraints will inform the preparation of a requested 2020 transit budget.

The Milwaukee County Transit System (MCTS) has a revenue problem. Transit revenues are not enough to fund estimated growth in transit operating expenses. MCTS is only able to operate with available State, Federal, and local funds plus revenues generated from passengers and advertising. Annual inflationary cost increases drive up expenses beyond available revenues that continue to decline.

File No. 19-26 includes a report from Joe Lamers, Director of Performance, Strategy, and Budget (PSB) that was presented to Milwaukee County's Finance and Audit Committee in March 2019. Mr. Lamers' informational report regarding the 2019/2020 budget included a reference to transit:

When combining the cost-to-continue, one-time revenues, and a potential levy reduction target, the Transit operating budget is estimated to have a potential shortfall of \$6.4 million in 2020.

In 2020, if more revenue is not available, a projected 10% reduction in service will be needed to offset revenue decreases.

2019 Budget Review

The 2019 Adopted Budget for Transit described two initiatives that are important to building transit ridership, revenue and overall efficiency: development of a route redesign plan (MCTS Next) and implementation of Bus Rapid Transit (BRT). It states:

MCTS NEXT and BRT are important to current and future transit riders. These multi-year projects create opportunities that are rare. At the same time, fiscal realities require careful attention to every detail of these projects.

The adopted budget goes on to describe fiscal realities as follows:

Each year MCTS faces inflation, rising healthcare costs, increases in the cost of bus parts, fluctuations in fuel pricing, significant pension obligations, and increases in wages as specified in Collective Bargaining Agreements. Despite these fiscal pressures, Federal and State transit funding has remained relatively flat for most of the last decade, which puts additional pressure on local funding sources such as passenger fares, tax levy, and Vehicle Registration Fee (VRF) revenues.

Despite these fiscal constraints, MCTS prioritized MCTS NEXT and BRT because they are good long-term strategies for MCTS, ridership and the community as a whole. Meanwhile, MCTS also has a strong commitment to minimizing impacts on passengers by seeking administrative and operational changes that lower costs. Maintaining a focus on continuing existing transit services and preserving affordability of fares is always considered, year-to-year, as important short-term objectives.

Changes that were made to balance the 2019 budget included reducing travel and training expenses, and cutting transit advertising expenses, as well as eliminating three administrative positions and canceling requests for new positions. Even with those changes, an additional \$1.5 million in one-time revenue adjustments were still needed, as well as modifications to transit services with low ridership and higher than average costs per passenger. In 2019, nearly 3% in fixed route services were reduced.

Historical Context

The fact that MCTS operates in a fiscally constrained environment and has challenges preparing annual budgets is not new news. Over a decade ago, in May 2008, the Public Policy Forum (now known as Wisconsin Policy Forum) issued a report titled: Milwaukee County's Transit Crisis: HOW DID WE GET HERE, AND WHAT DO WE DO NOW?

<https://publicpolicyforum.org/sites/default/files/MilwaukeeTransitCrisis.pdf>

At that time, the President of the Public Policy Forum often stated publicly that there was a County funds gap between farebox, State/Federal assistance and actual costs. The report itself went on to state:

“Our analysis of the Milwaukee County Transit System’s fiscal situation indicates a striking structural imbalance that has been building for years, caused by disparity between revenue growth and operating expenditure needs. Thanks to a spend-down of significant reserves that were built up in the late 1990s, and a decision to defer needed bus replacements, a full-fledged crisis has been averted for the past eight years. But now, barring a significant infusion of federal funds to help pay for bus replacements, it appears time is about to run out.”

The reference to a “spend-down of significant reserves” is a reference to the balance account for Federal funds that was as high as \$29.5 million in 2002, but now has been effectively zeroed-out. Milwaukee County used to maintain a balance of Federal funds to be used to replace buses on an as needed basis. Between 2002 and 2008, when the Public Policy Forum report was written, that balance had been reduced to about \$9 million, because more of those federal funds were being used to cover operating costs. By 2011, it was reduced to zero as the strategy of using federal funds to operate the system took a precedent over preserving federal funds for bus replacements.

Recall that the Public Policy Forum indicated that bus replacements were deferred for several years. As time was about to run out, as predicted by Public Policy Forum, “a significant infusion of federal funds to help pay for bus replacements” did arrive just in time, as described below.

Capital Budget Considerations

More than \$84 million in federal funds were received and used for capital investments in the last decade:

- In 2009, Milwaukee County received \$25.6 million in federal stimulus funds under the American Recovery and Reinvestment Act (ARRA); these funds were used to buy buses, replace fareboxes and add a bus stop announcement system.
- In 2011, Milwaukee County bought buses using \$10 million in federal surface transportation program funds that were being reserved by the region for the start-up of a Downtown Connector transit system that never achieved the necessary local support. In that same year, Milwaukee County also used an additional \$36.6 million in decades old federal interstate cost estimate (ICE) funds to buy buses.
- In addition, in 2011 and 2012, there was a combined \$14 million made available in federal one-time state of good repair grant monies for bus replacement. These types of so-called earmarks are no longer available.

These one-time monies assisted Milwaukee County in replacing 270 buses over five years. The table below shows the years that buses were purchased along with the year in which these buses will reach end-of-life.

Year	No. of Buses Purchased	Year to Replace Bus
2010	90	2022
2011	35	2023
2012	55	2024
2013	55	2025
2014	35	2026

In the preceding five (5) years, from 2005 to 2009 fewer than 20 buses were purchased. After years of deferring new bus purchases, the one-time monies described above were tremendously helpful in refreshing the fleet. However, as these buses begin to approach end of life, which is typically 12 years and 500,000 miles of service, the cost of replacement of about \$500,000 per vehicle is going to present new challenges for Milwaukee County. For example, the cost to replace 90 buses delivered in 2010 is around \$45 million.

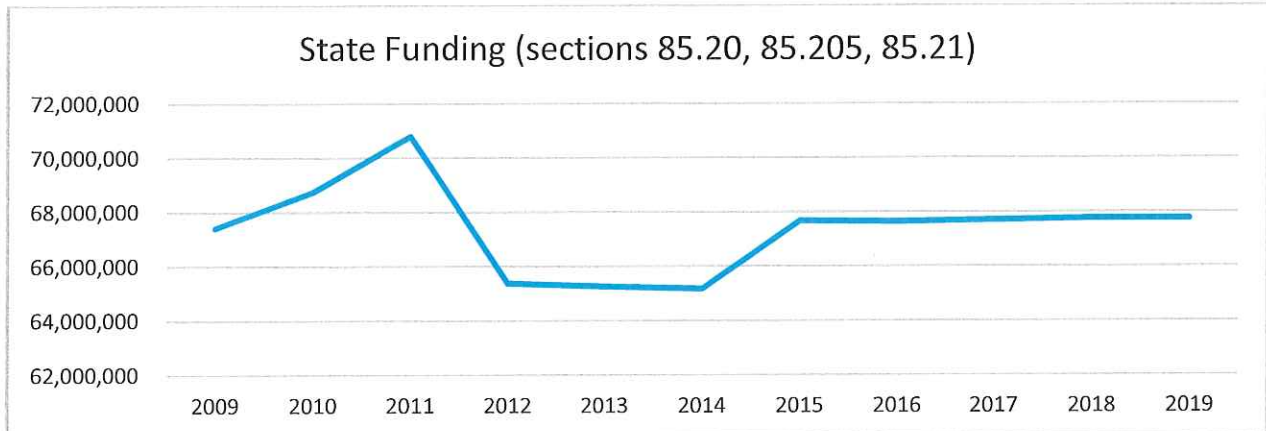
MCTS is also responsible for developing and implementing an overall Transit Asset Management (TAM) Plan. The Federal Transit Administration (FTA) requires Milwaukee County to maintain an inventory of all assets purchased with Federal dollars, which ranges from building components to non-revenue vehicles to specialized maintenance equipment and buses. These assets need to be classified as to condition, and commitments need to be in place to repair and/or replace these assets as necessary to maintain them in a state of good repair.

Milwaukee County's Architecture and Engineering (A&E) division is performing facility assessments of transit garage/stations and related buildings in an effort to assist MCTS in scoring or rating their condition. In 2018, the Kinnickinnic garage and station was assessed. This year, assessments of the MCTS Fleet Maintenance Facility and Administration buildings have been undertaken, and the Fond du Lac garage and station campus is next to be evaluated. MCTS is using this information to determine best practices for short-term and long-term maintenance of its facilities. Experts in HVAC, electrical systems, plumbing systems and the so-called building envelope or structure will need to be brought in to determine best practices around maintaining and preserving older buildings and building components until large-scale renovations and/or replacements can be scheduled. These efforts will initially increase operating costs, and eventually build into the long-range capital plan. Actions taken by MCTS last year to close the Fiebrantz garage/station have decreased costs for maintenance on that facility. Efforts this year need to go into maintaining the remaining facilities in a cost-effective manner.

Operating Budget Concerns

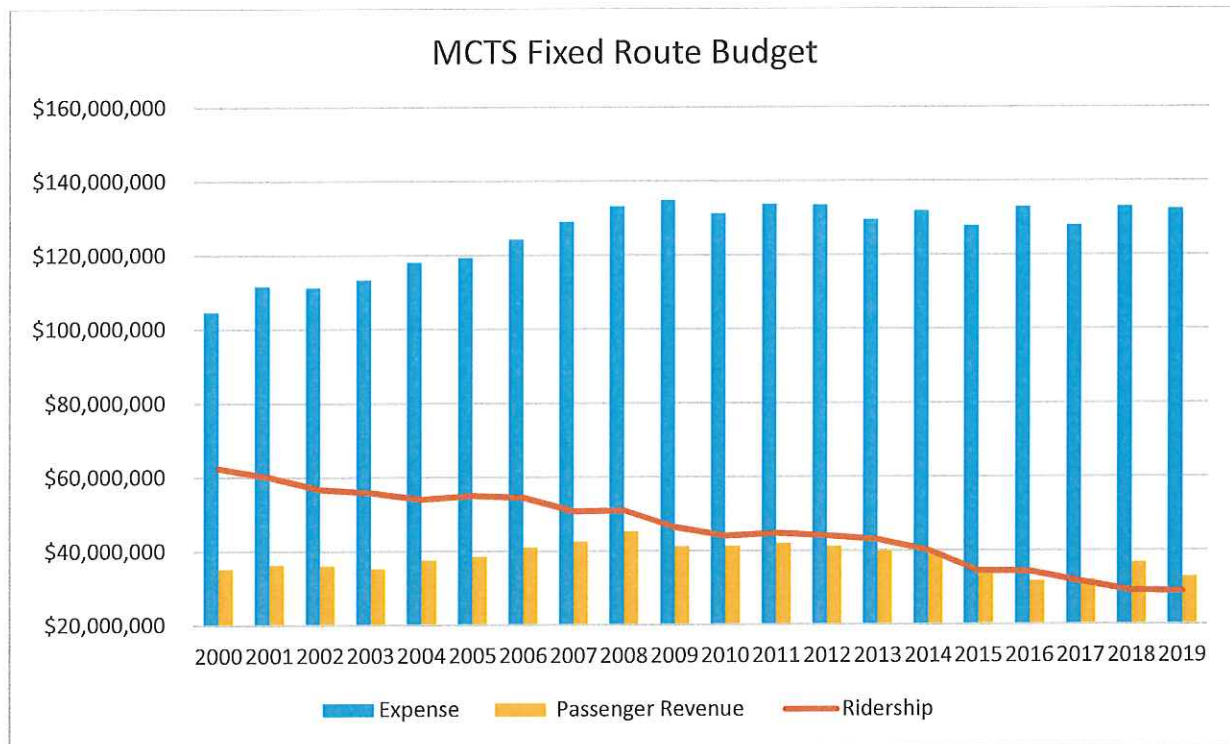
MCTS's biggest funding source is comprised of State transit and paratransit funding under Chapter 85 of Wisconsin Statutes, Section 85.20 and 85.21. Today, state funding is lower than it was in 2010 as shown in Chart 1, but that wasn't always the case.

Chart 1



Growth of transit in Milwaukee County was steady from 2000 until about 2010 as shown in Chart 2, when State and local investments increased steadily to help MCTS meet changes in demographics and development patterns within its service area.

Chart 2



Constraints implemented after 2011, especially a ten (10) percent cut in State funding and caps on allowable increases in property taxes have caused more uncertainty for transit year-to-year. In response, MCTS began to cobble together short-term grants to meet needs of transit users and employers in and around Milwaukee.

The sawtooth pattern in MCTS fixed route expenses shown in Chart 2, especially after 2009, reflects the fact that inflationary increases in transit expenses have been managed within the past decade through administrative efficiencies, operational savings, one-time grants, and adjustments in local fiscal support.

Annual inflation is normal on many of the costs associated with a large urban bus operation. In the case of MCTS, there should be no surprise that wages and benefits are the leading expenses, and employees tend to want wages to increase annually. As wages go up, so do pension obligation costs. Similarly, healthcare costs tend to rise annually, along with legacy costs for healthcare coverage for retirees. Meanwhile, paratransit vendors have negotiated cost increases in their contracts managed by MCTS that reflect changes in the Consumer Price index (CPI). Security contractors, law firms, the taxi company, landscape contractors, software vendors, etc. all include some form of annual increase in their contracts with MCTS.

In addition to the cost of a bus increasing annually, bus parts, lubricants, and batteries all tend to increase too. Diesel fuel prices can fluctuate up or down causing additional uncertainty, but the general trend is up.

As Milwaukee County experiences pressure from inflation, a portion of the County's cost increases are allocated to MCDOT and MCTS in the form of cross charges and levy reductions. Meanwhile, MCTS supports its own administrative functions in such areas as Information Technology (IT), Risk, Human Resources, Finance, Accounting, Payroll, Procurement, Contracts, Advertising, and Customer Service. Inflationary increases in these areas can't be allocated to others and remain a part of the bigger question of – what to fund and how to fund it – when expenses exceed revenues.

An uptick in expense on Chart 2 is really reflective of an increase in revenue that year. The increase could be the result of a fare increase or new revenue achieved through the addition of a new limited term grant, such as from the Federal Congestion, Mitigation and Air Quality (CMAQ) improvement program. Increases in local funding support via a tax levy upper or vehicle registration fee have also helped MCTS to absorb past inflationary increases without drastically changing transit services.

In the last several years, the task of balancing the annual transit budget was assisted considerably by the availability of about \$36 million in short-term limited funding through the Federal CMAQ grant program more than any other revenue stream. More recently, the availability of CMAQ funding has decreased, in part due to improvements in air quality that have elevated Milwaukee County's status from non-attainment. Only \$4.8 million of the \$36 million in CMAQ funds awarded to Milwaukee County is still available to MCTS in 2019 and in 2020. MCTS will use \$2.4 million in CMAQ funds in each of the next two years, but thereafter a \$2.4 million shortfall will have to be overcome going into the 2021 budget. CMAQ funding is declining for MCTS, and so is ridership revenue.

Ridership and Passenger Revenue is Declining

Chart 2 also includes a clearly defined ridership trend line. When ridership declines, passenger revenue also decreases (except for those years in which a modest fare increase is adopted). There's always been a connection between transit ridership and changes in demographics, urban development patterns, gas prices, unemployment rates, and the availability of affordable automobiles. The MCTS ridership trend is indicative of community and economic changes but it is also a reflection of the fiscal constraints under which the system has operated over the two decades covered by the chart.

In recent years, there is also a national trend in declining ridership that is reflective of the increasing use of e-commerce, which is supplanting travel trips including transit rides, as well as the competition offered by ride-hailing apps and services. These new realities are having an impact on transit ridership in ways not previously experienced. Most agree that the reason that these travel options have resulted in ridership losses is not because transit has gotten worse, rather these alternative options have gotten better for those that can afford them.

Despite declining ridership, transit is still very necessary as there will continue to be many travelers who need assistance in meeting their mobility needs. Last year alone, MCTS gave 30 million rides. Transit's role in Milwaukee is critical now and will continue to be in the future. According to the Southeastern Wisconsin Regional Planning Commission (SEWRPC), there are parts of Wisconsin Avenue in Downtown Milwaukee on which 51% of all persons traveling are using public transportation. The congestion resulting from an absence of transit in this corridor is nearly inconceivable.

2020 Budget and Beyond

In a constant search for and exhaustion of one-time funds and administrative efficiencies, MCTS has delayed the prediction by the Public Policy Forum for the so-called clock to run out on transit.

MCDOT and MCTS has successfully cobbled together budgets year-to-year that minimize impacts on transit passengers by making bold moves such as reducing the MCTS footprint through the closure of the Fiebrantz garage/station location. The closure of Fiebrantz required months of coordination by every department at MCTS. It's efforts like this that demonstrate the organization's overall commitment to its long-term success despite fiscal constraints. Now, MCTS has seemingly exhausted all such bold cost-saving initiatives. Furthermore, one-time limited-term grants that helped to provide transit revenues in the past are also in short supply.

As stated by the Director of PSB, building a balanced budget for 2020 will be a challenge for Milwaukee County and for MCTS alike. The estimated \$6.4 million budget gap from 2019 to 2020 may increase or decrease over the next few months. Regardless, this gap cannot be easily overcome, because new revenue options available to Milwaukee County and MCTS are extremely limited. The obvious alternative to an unavailability of revenues is a need to reduce expenses.

A reduction in transit service on the order of 10% in magnitude appears necessary to provide for a balanced budget. Even if the Governor's proposed transit friendly budget is adopted, the resulting increase in funding of \$1.6 million for MCTS in 2020 will fall short of closing the budget gap.

MCTS is well aware of Milwaukee County's fiscal constraints, and the pressure that it puts on annual budgets. Day-in and day-out MCTS is guided as much by its fiscal reality, as by its mission. These constraints have informed and shaped a plan that will not only be best for the short-term but continue to position MCTS as a valuable and vital transportation service in the long run.

- MCTS will remain committed to its mission to provide reliable, convenient and safe public transportation services that efficiently and effectively meet the varied travel needs of the community and contribute to its quality of life. Providing safe, reliable and customer focused transit is a must because so many travelers continue to need transit to meet their mobility needs. Safe working conditions and vehicles are paramount, and as such the strategy of deferring maintenance to achieve cost savings has to be used sparingly.
- MCTS remains committed to MCTS Next as a proactive response to past trends and current conditions, because MCTS Next will better meet the transit needs of more people. MCTS Next was initially developed as a cost-neutral plan to maximize transit utilization and ridership by providing for a higher level of transit services in corridors where the demand is the highest. As MCDOT and MCTS develop the 2020 transit budget a reduction in service on the order of 10% seems eminent; therefore, the final proposed MCTS Next route structure will also reflect that change, but the final plan will continue to be consistent with the principles of MCTS Next. <http://www.ridemcts.com/programs/mcts-next/overview-of-mcts-next>

- The top two trip purposes by passengers on public transit are to reach jobs and schools. Public transit links employees to employers, and students with schools. The economy benefits when an educated workforce is productively employed. When faced with fiscal constraints, Milwaukee County and transit stakeholders must be careful not to view transit as the only solution to these types of connections. For times when public transit is not the best option, MCTS has partnered with the Southeastern Wisconsin Regional Planning Commission (SEWRPC) to staff a mobility management team that can help stakeholders understand other transportation options used nationally and locally that may be a fit for their particular location and needs. This is a new role for MCTS and SEWRPC that may be more appropriate for MCDOT in the long-term given their expertise beyond transit to other modes of transportation. <http://www.sewrpc.org/SEWRPC/Transportation/Workforce-Mobility-Team.htm>
- MCTS remains committed to new investments like Bus Rapid Transit (BRT) that can carry large numbers of passengers efficiently in corridors of high transit demand. Dedicated lanes and off-vehicle fare payment are components of BRT that create faster travel times, which builds ridership and alleviates the need for additional vehicles in the future to sustain service levels in the face of increasing traffic congestion. <http://www.eastwestbrt.com>
- MCTS also remains committed to doing transit the right way, including investing in technology that can make transit easier to use, such as the Ride MCTS App that helps passengers with trip planning, real-time information about when their bus is coming, and an e-ticket option. <http://www.ridemcts.com/app>

Conclusion

MCTS can only operate services that it can afford given available State, Federal, and local funds and revenues generated from passengers and advertising. Annual inflationary cost increases continue to drive up expenses beyond the total of these limited revenue streams. The Public Policy Forum correctly warned over a decade ago that ‘time is about to run out’ for transit.

The historical context, trends and fiscal constraints described in this informational report have shaped both the short-term and long-term plans for transit in Milwaukee County. The lack of new revenue and exhaustion of avenues of efficiency, and other such cost savings leaves MCDOT and MCTS with few choices other than to prepare to adjust the size and scope of services that can be offered. In 2020, it is increasingly possible that a 10% service reduction will be needed to offset revenue decreases. While MCTS continues to be focused on our mission and improving transit in Milwaukee County through projects like MCTS Next and BRT, a reduction in services is inevitable without a change in revenue.

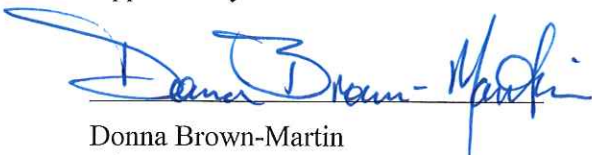
RECOMMENDATION

This report is for informational purposes only.

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