

MILWAUKEE COUNTY TRANSIT SYSTEM
Inter-Office Communication

Date: April 5, 2011

To: Supervisor James "Luigi" Schmitt, Chairperson, Intergovernmental Relations Committee

From: Lloyd Grant, Jr., Managing Director, Milwaukee County Transit System

Subject: **Impact of the Governor's 2011-2013 Recommended Budget Plan on the Milwaukee County Transit System**

POLICY ISSUE:

This report is in response to a request made at the March 14, 2011 meeting of the Intergovernmental Relations Committee to provide the Committee a brief summary on the effect that the 2011-2013 Governor's recommended budget plan may have on the Milwaukee County Transit System.

WHAT WE KNOW ABOUT THE GOVERNOR'S BUDGET PLAN

Milwaukee County –

1. Decreases State operating aid for MCTS 10% in 2012, nearly 7 million dollars.
2. Shifts the State funding source for mass transit from the transportation fund to the general purpose revenue fund in fiscal year 2013.

Other Transportation –

3. Permits SERTA to impose a rental car transaction fee in the counties of Kenosha, Racine and Milwaukee only if approved at referendum in each of the three counties.
4. Eliminates the Southeast Wisconsin Transit Capital Assistance Program and \$100 million in general obligation bonding authority in transit assistance for the program. The only eligible participant for the program is SERTA.
5. Changes the general transportation aids distribution formula for counties by increasing the maximum reduction in aid from the prior calendar year from 2% to 15%.
6. Directs the Wisconsin Department of Transportation to include in its 2013-2015 budget request changes to the tiered Section 85.20 transit operating system distribution percentages in response to any changes in federal aid due to population changes from the 2010 census. Milwaukee is in Tier A-1.

KEY FINANCIAL & BUDGETARY IMPLICATIONS FOR MCTS

► Section 85.20 State Operating Assistance, used to support local fixed route and paratransit services, is budgeted to (a) decrease by 10% for calendar year 2012 and (b) no increase in calendar year 2013. As such, State operating aid for MCTS decreases \$6,858,300 to \$61,724,900 in 2012 and 2013, down from \$68,583,200 in 2011.

In its present form, the budget plan should not have an impact on MCTS' 2011 adopted budget. However, the budget plan will have a dramatic impact on the transit budget for calendar year 2012. Specifically, the budget plan decreases the amount of transit operating aid to Milwaukee County from

\$68,583,200 to \$61,724,900, creating a shortfall of nearly \$7 million. This significant decrease in State operating assistance will necessitate very tough decisions about what must be done to make the transit system smaller to reduce expenses and what must be done to generate new revenue to support the existing or remaining fixed route and paratransit services.

To put the magnitude of the proposed State funding reduction for transit in perspective, Milwaukee County tax levy investment in the transit operating budget would need to increase forty percent (40%), from \$17.5 million to \$24.5 million, to maintain current level of fixed route and paratransit services in 2012. Combined with unrealized revenue in the 2011 adopted budget and higher fuel prices, a few things can be reasonably projected: (1) MCTS will have a sizeable gap to fill in its 2012 budget; (2) MCTS' funding crisis will be accelerated; (3) severe reductions in transit services cannot likely be avoided; (4) a fare increase is highly likely to offset deep service cuts; (5) ridership will decrease as fares increase or availability of transit service declines; and (6) operational efficiency can be expected to suffer with a decrease in ridership. Loss of nearly \$7 million in State aid means preparation of the 2012 transit budget will be extremely challenging, which cannot be balanced without some combination of deep service cuts, increase in fares or new sources of revenue.

► Effective July 1, 2012, the funding source for transit operating aids is moved from the segregated transportation revenue fund (STR) to the State's general purpose revenue fund (GPR). Furthermore, revenue in the transportation fund that benefited transit will not be transferred to the general fund for transit. It is worth noting that while moving transit to a less stable funding source and restricting transfer of revenue from the transportation fund to the general fund, the Governor's budget plan also proposes changes to actually improve or increase in the balance of the transportation fund:

(a) deposit \$95.1 million in existing sales and use tax revenue generated from automobile-related sales into the transportation fund including 7.5 percent (\$35.2 million in FY13), and increase the percentage over time until 50 percent of sales and use tax revenue from these types of transactions is deposited in the transportation fund;

(b) direct the proceeds of the environmental impact fee to the transportation fund by combining the fee with the existing title fee (\$10.5 million annually); and

(c) transfer \$19.5 million in each year of the biennium from the petroleum inspection fund to the transportation fund. To even further strengthen the position of the transportation fund, the Governor recommends issuing \$115 million general fund supported bonds to support the highway program to help offset revenue diversions from the transportation fund in prior budgets.

Whereas segregated revenues can only be used for specific purposes (earmarked for particular programs), the general purpose fund supports the general functions of State government. The proposed shift to the general fund puts transit in an unfavorable position of competing with every other State spending function that relies on the general purpose fund including K-12 school aids, medical assistance/BadgerCare, the State corrections system, and the UW system. These programs alone make up two-thirds of GPR spending and are key programs where costs generally grow.

We believe the proposed change in the funding source of transit operating assistance could negatively impact MCTS for several reasons: (1) transit will be competing for funds in a smaller general fund given the State budget plan moves \$95 million from the general fund to the transportation fund; (2) the change will not only put transit on unstable ground for fiscal year 2012, but future reductions in transit operating

aid will be very possible; (3) the proposed change moves transit operating assistance from a stable dedicated funding source (gas tax dollars) to a general purpose fund that has been largely dependent on revenue from the transportation fund; and (4) money that was provided by the State for public transit systems will stay in the segregated transportation fund for other purposes.

In closing, Milwaukee County Board Chairman Lee Holloway stated in a February 1, 2011 letter to the Governor that transit is an essential component of the transportation infrastructure, and removing transit from the segregated transportation fund can cause “economic harm” to entities served by MCTS including “employees, businesses, schools, medical facilities and Summerfest.” I believe Chairman Holloway is one-hundred percent correct. In an environment of rapidly rising fuel prices, public transit is the most effective way for our community to save money if transit service is available. We believe our community and businesses will suffer without adequate State investment in public transit services. If service is cut back, some people will not have transit service. Additionally, those with transit service may experience longer wait times, longer travel times, overcrowding and shortened hours of service. Ultimately, ridership demands will not be met. This will result in fewer jobs being supported by public transit and a decline in the quality of life for Milwaukee County residents.



cc: Chairman Lee Holloway, Milwaukee County Board of Supervisors
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