

County of Milwaukee
Interoffice Communication

DATE: 2/12/2018
TO: Michael Mayo, Sr., Chair, Transportation, Public Works and Transit Committee
FROM: James H. Martin, Interim Director, Department of Transportation
SUBJECT: Milwaukee County Transit System Response to Board Resolution (File No. 18-167) and Letter from Transportation, Public Works and Transit Committee Chairman, Mayo, Dated January 17, 2018

BACKGROUND

On February 1, 2018, the County Board of Supervisors passed a resolution (File No. 18-167) authorizing and requesting the Milwaukee County Transit System (MCTS) to maintain Route 42U service to the Milwaukee Area Technical College-North Campus and to examine the factors that led to an operating surplus for 2017 to determine whether transit cuts are required to balance the 2018 Transit Budget.

Maintain Route 42U

Per the County Executive's directive and consistent with the resolution, Route 42U service to the MATC – North Campus will be maintained; however, it is important to acknowledge that this route continues to rank as one of the lowest performing MCTS bus routes. As reported in June 2017 to the Transportation, Public Works and Transit (TPW&T) Committee (File No. 17-435), Route 42U is operating at a productivity of 4.6 passengers per bus hour. The one-way trip north from Downtown to MATC Mequon takes about 57 minutes. On average, the 40-foot bus is carrying no more than 5 passengers in each direction. The total 'all-in' cost subsidy per single rider each way on Route 42U is the highest of all routes operated by MCTS at about \$22 per one-way trip. This cost is 7x that of the average MCTS bus route, meaning that this same \$22 subsidy will provide transportation for seven (7) riders on most other MCTS routes.

The resolution requests that MCTS consider and quantify all forms of revenue generated from a given route prior to a decision to eliminate service. In the case of Route 42U it is important to acknowledge that MATC is a partner with MCTS in offering their students the University Pass (UPASS) a highly discounted bus pass available to the student body in exchange for a fee paid by all eligible students per semester. Under this program, MATC is providing about \$1 million in revenue to MCTS; however, our analysis of UPASS rides by MATC students shows that over 99% of those rides are being recorded on routes operating within Milwaukee County other than Route 42U. With less than 1% of the rides being taken on 42U it is correct to assign no more than 1% of the UPASS revenue to this route, which is an annual amount of no more than \$10,000. In the discussions that have taken place regarding elimination of this route, it is important to provide context relative to the UPASS revenue.

2017 Budget Surplus Analysis

On January 4, 2018, MCTS submitted a major variance report to the Comptroller's Office describing a projected \$2.75 million surplus for 2017. The resolution calls for an analysis of all financial factors that led to this surplus and whether the 2018 Budget reflected these trends. The following conditions impacted expenditures and revenues in 2017:

1. Expenditures: \$6,350,000 under budget consisting of:
 - a. Passenger Abatement (Revenue) is projected to be under budget by \$1,270,000 due to declining ridership. In each of the past three (3) years, MCTS like nearly every transit system in the United States has seen lower than expected ridership that has created shortfalls in passenger revenue. While we begin each year expecting to meet the revenue goal, which is \$34M for 2018, actual revenue can vary from budget significantly.
 - b. Account 8590, Capital Outlay-Contra, has a \$500,000 positive variance. As items of new and replacement equipment (accounts 855X) are purchased, they are moved to the depreciation schedule via the 8590 Contra account. This is a one-time savings from a corrective entry for 2016.
 - c. Account 8201, Transit Operation Expenses, was \$7,120,000 under budget and is made up of the following 7 items that varied positive or negative from the budgeted amounts:
 - i. Fringe Benefits-OPEB Expense was under budget by \$2.7M. OPEB expense is based on an actuarial valuation. The 2017 valuation was finalized in January 2018 and included a significantly lower expense than previously predicted by the actuary. The change was due in part to lower than anticipated costs of retiree healthcare, improved investment returns, and the implementation of new reporting guidelines under Government Accounting Standards Board (GASB) Statements 74 & 75. We do expect expenses to be under budget in 2018 but understand that a surplus on this line may be needed to offset other deficits.
 - ii. Fringe Benefits-Pension Expense was under budget by \$5M. As with OPEB, the Pension Expense is determined by an actuary. The pension plan benefited from positive investment returns, changes in the mortality tables, and lower than actuarially assumed salaries. Because of these changes, MCTS decreased the budget for Pension Expense by \$5.6M in 2018. The 2018 actual actuarial expense for pension, which can be impacted by many factors outside of our control, will not be known until mid-year.
 - iii. Fringe Benefits-Other Expense was under budget by \$200,000. This item is comprised of FICA taxes, medical, life, dental, workers compensation, unemployment, and paid leave. We do not anticipate a surplus for 2018.
 - iv. Bus Operator Salaries were under budget by \$400,000 due to efforts to decrease overtime pay. The 2018 budget already reflects these savings.
 - v. Account 8028, Loss on Disposal of Fixed Assets, reflects an un-anticipated expense of \$175,000. In 2017, MCTS completed a full review of its fixed assets listing in the Advantage system maintained by Milwaukee County. Obsolete inventory was disposed of and written-off. The expense will not repeat in 2018.

- vi. Miscellaneous Expenses were over budget by \$255,000. This item is comprised of bus fuel, bus repairs, supplies, utilities, insurance and contractual services. We do not expect this trend to recur in 2018.
- vii. As outlined in item 1.b. above, the Capital Outlay-Contra account variance for the 2017 activity creates a \$750,000 (deficit) negative variance.

2. Revenue: \$3.6M Under Budget consisting of:

- a. Federal Reimbursements were reduced by \$4M due to expenses being under budget. These funds can be used for bus replacement purposes and related maintenance costs of the fleet in the future.
- b. Vehicle Registration Fee (VRF) revenues were reported at \$400,000 over budget for 2017. On January 30, 2018, when the State reported the Milwaukee County VRF revenues for December 2017, County DAS staff were asked to calculate whether there was sufficient information from the first ten (10) months of VRF collections to determine if the trend could reasonably be expected to continue into 2018. In turn, County DAS staff projected a 2018 surplus on the VRF line of \$481,000. As this news became known to transit, the surplus was considered sufficient, especially when combined with the amount previously planned for service enhancements to Route 17 (\$185,000) to enable MCTS to manage to its budget in 2018 without the need for service reductions.

As explained in the details above, the 2017 surplus is largely due to favorable charges for fringe benefits, such as pension and OPEB costs, as well as increased revenues from the VRF. Unlike the budgets for other Milwaukee County Departments, the transit budget includes stand-alone line items for Pension (\$8 million), OPEB (\$14.5 million), and Healthcare (\$13.8 million) that reflect the large employment base of transit, which currently stands at over 1,100 employees. In addition, transit's budgetary line for fuel alone (\$7.1 million) is larger than many other stand-alone Departmental Budgets. MCTS depends upon actuaries, consultants and industry experts to guide our budget process and expense determinations in accordance with best practices and industry standards such as Government Accounting Standards Board (GASB) approved methods and procedures for Pension and OPEB calculations. Even small incremental changes of a few percent resulting from favorable conditions can shift actuarial determined expense lines by large sums.

January 17, 2018 Letter – Response

The resolution also calls for a response to the specific requests in a letter presented to MCTS at the January meeting of the Transportation, Public Works and Transit (TPW&T) Committee. The letter requested information about transit services previously planned for elimination.

As you know, MCTS has been transparent about the challenges of budgeting year-to-year for transit. Respectfully, MCTS would like you to consider that many of the questions put forward in the letter have previously been addressed through reports prepared for and presented to TPW&T Committee within the last nine months. For example, please recall that the June 2017 TPW&T Committee meeting included presentations by MCTS, and the Southeastern Wisconsin Regional Planning Commission (SEWRPC). Each organization described a recommended response to any changes in state law that would eliminate Milwaukee County's Vehicle Registration Fee (VRF). The response to a lack of funding was similar in each and transit's most recent response to a reduction in local fiscal support is also consistent.

<NOTE: A Presentation will be given in Committee to show information relevant to MCTS bus routes that were previously chosen for potential elimination >

Under File 17-435, MCTS reported that if service modifications or eliminations are needed, the following would be considered:

- a. Productivity of each route measured in passengers per bus hour (PBH);
- b. Whether alternatives are available to any services that would be changed/eliminated;
- c. Whether the service is in line with MCTS's core mission, or is there another entity (e.g. school district, employer, etc.) that can assume responsibility for the service;
- d. Whether the vehicles needed to provide the service are needed in the fleet year-round.

The report presented at the June 2017 TPW&T Committee meeting also identified every bus route in the system along with a service classification (e.g. local, shuttle, school, or flyer service), and whether the number of passengers per day, bus hours and resulting productivity measured in terms of passengers per bus hour ranks the route as one of the top 28 bus routes in the system with greater than average productivity (29 PBH) or one of the 32 bus routes that have lower than average productivity.

Under File 17-438, SEWRPC reported ways the County could respond to revenue shortfall, as follows:

- a. The County could decide to blend cutting service with increasing fares;
- b. The County has focused on eliminating the lowest performing bus routes in the past;
- c. The County has previously discussed eliminating premium services that can be seen as less essential as it is likely that individuals with access to an automobile are users of these services (e.g. Summerfest, State Fair, Freeway Flyers, etc.)
- d. It may make sense to eliminate school services as these could be reasonably replaced by the appropriate school district through yellow school bus service.

Collaborations between MCTS and Milwaukee County consistent with the County Board's 2014 budget amendment 1A019, which was adopted as a part of the 2014 transit budget.

The January 17, 2018 letter inquired about the degree to which management and operation of MCTS services has been transferred to the Milwaukee County Department of Transportation (MCDOT). In some cases, administrative services were maintained by MCTS because it remains a separate employer. For example, as a separate employer, MCTS has its own collective bargaining agreements and a unique rules and regulations structure; therefore, MCTS must maintain its own human resources, payroll functions, etc. In other cases, the sheer volume of transactions processed through MCTS could not be feasibly consolidated into existing county operations. The collaborations that do exist are attributed to oversight provided by MCDOT, and coordination with various County departments towards integrating some of the functions provided under Risk Management, Human Resources, Procurement (Materials Management) and Information Technology. These partnerships and interdepartmental coordination activities have resulted in some cost shifting that would more accurately be described as fiscally neutral than as cost savings. However, there have been solid benefits for transit due to this coordination, primarily in the form of a more stable service delivery model with respect to administrative and IT support functions, and reduced risk associated with claims, as described below.

Risk Management

As of May 2015, MCTS partnered with Milwaukee County Risk Management Department to outsource Workers Compensation claims adjustment services through a third-party administrator (TPA). Additionally, Milwaukee County Risk Management staff have provided direct oversight and administration of claims processes to help maximize efficiency and provide expertise to help manage exposure and effectively assist with loss control efforts. This partnership has been successful in reducing legal expenses associated with claims and has reduced MCTS staff.

In January 2016, MCTS began using a TPA to process liability claims in cooperation with Milwaukee County Risk Management. In addition, a general liability insurance policy that covers catastrophic events was also initiated as recommended by the Milwaukee County Risk Manager. This change reduces exposure by MCTS and while the general liability continues to be a self-insured model for coverage, there is now additional back-up coverage for significant loss events. County Risk Management staff is also involved in large claims settlement negotiations to help limit exposure and ensure optimal outcomes.

Human Resources

As of January 2016, MCTS joined Milwaukee County in contracting for Family Medical Leave Act administration through a third-party administrator (TPA). This change was made in part, to ensure compliance with federal law and to help reduce an administrative burden on MCTS. The TPA has proven to be effective and to provide complex program administration for reduced costs. It should also be noted that MCTS has partnered with Milwaukee County to jointly contract with United Healthcare for administration of self-insured employee healthcare benefits. This partnership has been in place successfully for a number of years and continues to be a benefit to MCTS.

Procurement (Materials Management)

In late 2015, MCTS partnered with the Milwaukee County Department of Administrative Services – Procurement Division to join its fuel purchase cooperative. The change was a mutually beneficial move to add considerable overall volume of fuel purchased resulting in the potential for reduced pricing.

Information Technology (IT)

Numerous IT projects are being implemented as partnerships between MCTS and the Milwaukee County Department of Administration – Information Management Services Division (IMSD). Among those projects are the implementation of a new work order management system (CityWorks) to support the MCTS Building and Grounds division. CityWorks is scheduled for deployment at MCTS in Spring 2018. MCTS is also part of the IMSD RFP process to procure a new phone system. Furthermore, MCTS is included in the scope of the new Enterprise Resource Planning (ERP) management system implementation to re-platform legacy systems. It is anticipated that implementation of the new system will bring numerous efficiencies and provide better automation of business-critical functions at MCTS. In addition, the Milwaukee County Department of Transportation (MCDOT) will have new tools to provide administrative review of key business system processes and to integrate Department-wide dashboard reports to more efficiently monitor key performance metrics.

Other Areas of Integration

MCTS has participated in a long-term strategic planning initiative with MCDOT and has been able to incorporate effective project management tools provided to effectively manage progress towards implementing projects and initiatives consistent with transit's goals.

While these efforts have yielded positive outcomes, MCTS will continue to critically examine its business needs to ensure that cost-effective and efficient business outcomes remain among its highest priorities.

Conclusion

Transit brings value, compassion, stability and accessibility to passengers and the community. MCTS Management is consistently recognized as both knowledgeable and capable. Meanwhile, recognition for bus operators' efforts and heroics is long past due, and it is only now being deservedly highlighted in a series of videos appropriately named: "MCTS Excellence."

For all of these successes, MCTS still operates in a fiscally constrained environment. A lack of new revenue jeopardizes MCTS's ability to keep up with inflation and ill affords Milwaukee County the opportunity to continue to subsidize low performing routes.

State support for transit under the Section 85.20 program was \$68.6 million in 2011; the highest it's been in the past six years is \$64.2 million. Meanwhile, Federal support under the FTA's 5307 formula fund program has been flat at about \$18.8 million per year for the past ten (10) years despite the cost of buses and bus parts rising annually. This has meant that local funding has had to fill more of the financial gap created from declining state and stagnant federal revenue sources. Of course, local support is also tight due to the tax levy being capped, and an extremely limited toolkit through which additional local revenue sources can be raised.

The capital budget also faces its own challenges due to the high cost of transit vehicles. In 2010, 90 buses were purchased primarily with one-time American Recovery and Reinvestment Act (ARRA) funds. In 2012 and 2013, 110 more buses were purchased largely with one-time funds that were programmed for transit decades earlier (e.g. the same funds as used for the Milwaukee streetcar). In the next seven years, MCTS will have to figure out how to replace up to 250 buses at a cost that will exceed \$120 million. Facilities replacement is also expensive. The consultants hired by the Wisconsin Department of Transportation to conduct the transit management performance review described in the accompanying presentation stated the following: "Using current rehabilitation costs in Wisconsin, the 400,000 square feet of garage at Fond du Lac and Kinnickinnic should be scheduled for rehabilitation or replacement within the next decade at a cost of approximately \$40,000,000 to \$50,000,000."

There are a myriad of operations and capital budget concerns. The fact that 28 bus routes provide for 85% of all rides reveals the relative lack of utility and sustainability of the equipment assigned to the 32 bus routes that only account for 15% of MCTS's rides. The longer there is a lack of revenue the more jeopardy exists for these routes and the passengers that use these services.

It should also be noted that MCTS ranked as the most administratively efficient transit system of nine similar sized transit systems studied by Capital Metro Transit (Austin) in 2017, based on administration costs and head counts in comparison to revenue hours of operation. Although there was an operating budget surplus for the 2017 fiscal year through MCTS's aggressive management efforts, a structural deficit exists by which expenditures will continue to grow and ultimately outstrip limited available revenue. This is

further compounded by growing capital infrastructure need with its own set of funding challenges. While MCTS continues to try and face these fiscal challenges head on, absent additional revenue sources, it will be increasingly difficult for MCTS to be able to maintain its current service profile in the future.

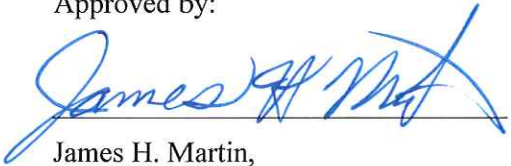
RECOMMENDATION

This report is for informational purposes unless otherwise directed.

Prepared by:

Dan Boehm
President & Managing Director, MCTS

Approved by:



James H. Martin,
Interim Director, Department of Transportation

cc: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Teig-Whaley Smith, Director, DAS
Scott Manske, Milwaukee County Comptroller
Steve Cady, Research Director, Office of the Comptroller
Jonathan Schatz, Fiscal and Budget Analyst, DAS-PSB