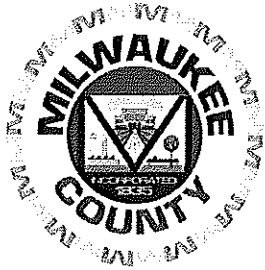


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DEPARTMENT OF ADMINISTRATIVE SERVICES
Milwaukee County

REPORT

TO: Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors
FROM: Teig Whaley-Smith, Director, Department of Administrative Services
RE: Wisconsin Volkswagen Settlement Mitigation Trust Fund Grant Program Application
DATE: August 6, 2018

I. SUMMARY REQUEST

The State of Wisconsin (State) received \$67.1 million of Mitigation Trust Funds from the national settlement with Volkswagen (VW) Corporation. Of the \$67.1 million, \$32.0 million has been designated by the State as a competitive statewide transit capital assistance grant program (Grant Program) to fund the replacement of eligible public transit vehicles. As a condition of the Grant Program (§ 79.035(7)), award recipients would receive a reduction in State Shared Revenue (Shared Revenue) of 75% of the actual award amount amortized over a 10-year period.

Milwaukee County (County) anticipates bond financing bus replacements of approximately \$21.3 million and \$2.6 million of federal funding (for 49 buses in total) that were part of the 2018 Adopted Capital Improvement Budget and anticipated bus replacements for 2019¹. Upon review by the County's Department of Transportation-Transit/Paratransit Division (DOT-Transit) staff, these 49 buses would be eligible for the Grant Program. If the County applied for and received full Grant Program funding, estimated principal and interest savings (from not bonding for the eligible buses) of \$27.7 million is anticipated along with reduced Shared Revenue of \$17.7 million. This results in an estimated (nominal) net savings of just under \$10 million (and a net present value savings of \$6.9 million) over a 15-year period. The federal funding (included in the 2018 Adopted Capital Improvements Budget) would be reduced in a like amount and would be available to DOT-Transit for future capital expenditures.

II. BACKGROUND

Volkswagen Group of America and certain related entities (collectively Volkswagen or VW) admitted to violating the federal Clean Air Act (CAA) from 2009 through 2016 by selling nearly 590,000 2.0-liter and 3.0-liter diesel engine vehicles equipped with software designed to cheat on federal emission tests. This software activated the vehicle emission control devices only during laboratory testing. As a result, the vehicles met CAA emissions standards for nitrogen oxides (NOx) in the lab, but not on the road. Volkswagen entered judicial consent decrees to partially settle its civil liability for the CAA violations. Under these decrees, Volkswagen must pay more than \$2.9 billion into an Environmental Mitigation Trust Fund (Trust) administered by Wilmington Trust, N.A (Trustee). The State of Wisconsin received beneficiary designation status from the

¹ The 2019 Requested Capital Improvement Budget (capital project WT12101) from DOT includes 21 buses that would be eligible for the Grant Program and 6 buses that would not be eligible (total of 27 bus replacements).

Trustee on January 29, 2018 and will receive \$67.1 million over the next ten years to offset excess NOx pollution emitted by affected VW vehicles in Wisconsin.

The State's Department of Administration (DOA) is the lead agency to develop and implement a Beneficiary Mitigation Plan (BMP) that explains how Wisconsin plans to use its allocated Trust funds. The State Budget Bill, 2017 Wisconsin Act 59, authorizes not less than \$42 million of Wisconsin's allocation to be utilized beginning in the 2017-19 biennium to replace eligible state fleet vehicles and establish a DOA-led competitive statewide transit capital assistance grant program to fund the replacement of eligible public transit vehicles. The State of Wisconsin will seek public input for the use of the remaining allocation in subsequent years.

In 2017, Wisconsin Act 59 established the Transit Capital Assistance Grant Program to competitively award up to \$32 million to eligible applicants to replace eligible public transit vehicles, giving preference to communities or routes that DOA determines are critical for connecting employees with employers.² The program carries out the purposes of the Trust by replacing and scrapping old diesel buses to maximize air quality benefits in Wisconsin, including reduction of NOx and PM2.5.

The program will fund the 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. In addition, the program will fund the scrapping of any replaced bus(es) within 90 days of accepting delivery of the replacement bus(es).

III. ANALYSIS

Funding bus replacements using Grant Program revenue as opposed to County bond financing allows the County to forgo interest costs associated bond financed projects (typically amortized over a 15-year period). This presents an opportunity for the County to save on debt service payments (see Figure 1 on page 3) with an estimated (nominal) net savings of just under \$10 million (and a net present value savings of \$6.9 million).

The Milwaukee County - Department of Transportation (DOT) has determined that 49 transit buses currently in Milwaukee County Transit System (MCTS) service are eligible for the Grant Program. The County anticipates a Grant Program application of approximately \$23.6 million to replace County bond financing of the buses with Grant Program funding:

- MCTS Bus Replacement Program – Grant Program funding requested for 28 eligible buses included in the 2018 Adopted Capital Improvement Budget under capital project WT10401 (\$10,850,915 Bond Financed); (\$2,649,085 Federal Grant Reimbursements)
- MCTS Bus Replacement Program – funding requested for the anticipated replacement of 21 eligible buses (as part of the 2019 Capital Improvement Budget process; \$10,395,000)

Grant Program funds will be used to supplant County bond issuance(s) for the bus replacements (\$21.3 million) and federal grant reimbursements (\$2.6 million) noted previously. The federal grant reimbursement amount will be reduced \$2.6 million and would be available for future DOT-Transit capital expenditures. Concurrently, the State will reduce its Shared Revenue amount to the County by an average \$1.6 million per year for 10 years pursuant to the Grant Program rules (see Figure 1 on page 3 for estimated annual Shared Revenue reductions).

The County must include resolution language stating it will accept a Shared Revenue reduction based on the Grant Program criteria as identified in § 79.035(7).³

² State of Wisconsin - VW Mitigation Program (Transit Capital Assistance Grant Application) Website: <https://doa.wi.gov/Pages/vwsettlementwisconsin.aspx>

³ For an urban mass transit system that is eligible to receive state aid under s. 85.20 (4m) (a) 6. cm. or d. and serving a population exceeding 200,000, 75 percent of the total amount of grants received under s. 16.047 (4m). Beginning with the first payment due under this section after the county or municipality receives a grant under s. 16.047 (4m), the department of administration shall apply the reduction determined under par. (a) for each county and municipality by reducing 10 consecutive annual payments under this section to the county or municipality by equal amounts. If in any year the reduction under this paragraph for a county or municipality exceeds the payment under this section for the county or municipality, the department of administration shall apply the excess amount of the reduction to the payment to the county or municipality under s. 79.04.

The projections in this report are subject to change based on Grant Program rules and award dates. Therefore, the Shared Revenue reduction start/end date(s) assume a January 2020 start date and December 2030 end date (subject to §16.047).

Figure 1

Year	Est DS Payment Savings		Reduction in State Shared	Property Tax Levy (Increase) / Reduction	Net Present Value to County
	2018	2019			
2019	\$0	\$0	\$0	\$0	\$0
2020	\$1,171,235	\$0	(\$993,140)	\$178,095	\$172,355
2021	\$1,084,988	\$1,135,695	(\$1,772,765)	\$447,918	\$419,513
2022	\$1,060,346	\$1,052,334	(\$1,772,765)	\$339,915	\$308,099
2023	\$1,035,704	\$1,028,358	(\$1,772,765)	\$291,297	\$255,523
2024	\$1,011,062	\$1,004,382	(\$1,772,765)	\$242,679	\$206,015
2025	\$986,420	\$980,406	(\$1,772,765)	\$194,061	\$159,433
2026	\$961,778	\$946,430	(\$1,772,765)	\$135,443	\$107,689
2027	\$937,136	\$922,787	(\$1,772,765)	\$87,158	\$67,065
2028	\$912,494	\$899,144	(\$1,772,765)	\$38,873	\$28,947
2029	\$887,852	\$875,501	(\$1,772,765)	(\$9,412)	(\$6,783)
2030	\$863,210	\$851,858	(\$779,625)	\$935,443	\$652,419
2031	\$838,568	\$828,215	\$0	\$1,666,783	\$1,125,024
2032	\$813,926	\$804,572	\$0	\$1,618,498	\$1,057,228
2033	\$789,284	\$780,929	\$0	\$1,570,213	\$992,633
2034	\$764,642	\$757,286	\$0	\$1,521,928	\$931,103
2035	\$0	\$733,643	\$0	\$733,643	\$434,372
TOTAL	\$14,118,645	\$13,601,540	(\$17,727,654)	\$9,992,531	\$6,910,635

Assumptions:

- 1.) State reimbursements of \$10.9M in 2018 and \$10.4M in 2019; State reimbursement to supplant Bonding.
- 2.) State Shared Revenue reduction spread over 10 years.
- 3.) See Attachment 2 - FAQs-Transit Capital Assistance Grant (p.5) for Shared Revenue reduction example from the State.

Figure 1: The chart above reflects the financial impact of the Grant Program award over time. It includes the 15-year period, estimated debt service payment savings, the reduction in state shared revenue over 10 years and the impact on the County property tax levy. The final column reflects the net present value of savings is the County is awarded the full grant request.

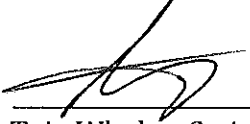
If the County moves forward with the Grant Program as illustrated in this report, it is recommended that beginning in 2020 (through 2030), the Adopted Budget(s) include a reduction of Shared Revenue relative to any awarded Grant Program revenue.

The net tax levy savings assumes bonding of \$23.6 million is supplanted by Grant Program revenue and is not issued to finance other bond eligible projects. If the supplanted bonds are re-purposed and issued for other bond eligible projects, the net tax levy would increase from the estimate(s) illustrated in Figure 1.

IV. RECOMMENDATION

The Department of Administrative Services and DOT request authorization to submit an application to the State's Transit Capital Assistance Grant to provide funding for 49 eligible buses, execute the Grant Program contract, receive awarded Grant Program revenue, and make administrative appropriation transfers upon receipt of the Grant Program award.

Approved by:



Teig Whaley-Smith, Director
Department of Administrative Services

Cc: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board
County Board
Joe Lamers Director, DAS-PSB
Donna Brown-Martin, Director, Department of Transportation
Scott B. Manske, Comptroller