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PBI Associates

August 28, 2019

James Macon, President  
Amalgamated Transit Union Local 998  
734 N. 26th Street  
Milwaukee, Wisconsin 53233

Dear James:

Thanks for forwarding Milwaukee County's MCTS letter, dated August 22, 2019, to members of Amalgamated Transit Union Local 998, projecting an \$8.7 million 2020 MCTS 'budget hole.'

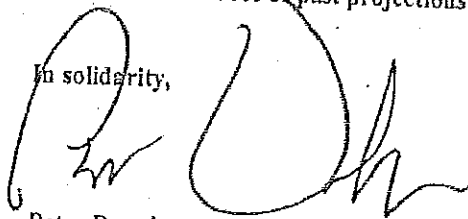
While our investigation into Milwaukee County's overall financial condition and resources won't be complete until the County provides financial information we requested, preliminary findings suggest MCTS's projected 2020 'budget hole' should be regarded skeptically.

The County's 2018 *Comprehensive Annual Financial Report (CAFR)* shows that MCTS actual operating expenses were under budget by \$16.53 million or 9.7%, mainly by overbudgeting MCTS personnel expenses by \$15.62 million or 14%.

Previous years *CAFRs* show that MCTS's operating expenses averaged 6.6% under budget, also done largely by overbudgeting MTSC personnel expenses by 8.8% on average. Since 2015, \$39.93 million budgeted for MTSC personnel expenses have gone unspent.

ATU Local 998 members and the public should be wary of MCTS 'budget hole' projections from the same source of past projections that grossly overstated MTSC operating expenses.

In solidarity,

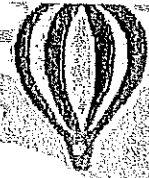


Peter Donohue  
Principal and Consulting Economist

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TRANSPORTATION

## Bus Union's Budget Claims Disputed

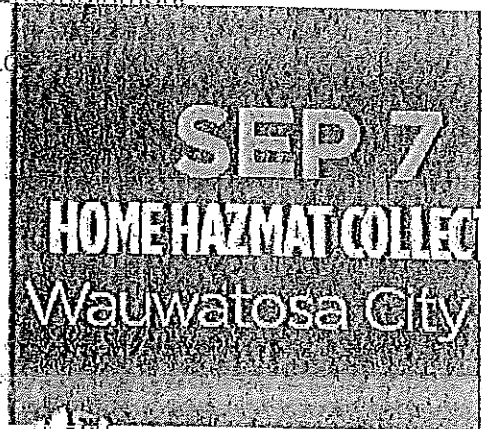
Its claim that MCTS has big annual surpluses misrepresents the budget, comptroller says.

By Graham Kilmer - Sep 4th, 2019 12:33 pm

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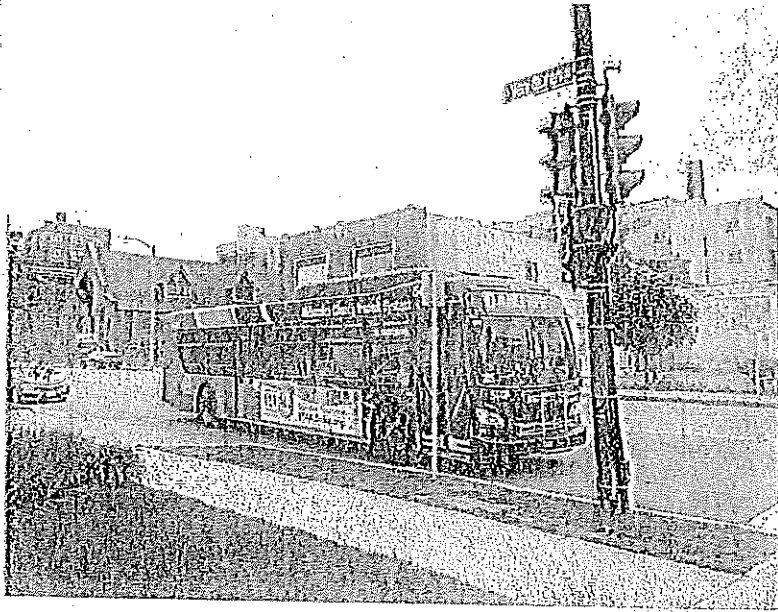


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Milwaukee County Transit System bus. Photo by Dave Reid.

The union representing employees of the Milwaukee County Transit System is fighting management to the bitter end.

After 18 months of negotiations, MCTS made its final contract offer to the union in August after making concessions by dropping a proposal for co-insurance and tamping down increases in premiums and out-of-pocket contribution maximums for employee health care. Union President James Macon said at the time of the offer that he would counsel his union against signing the contract. The union is expected to vote on it early this month.

The union continues to fight, circulating a press release last week stating that MCTS has finished the last four to five years with significant budget surpluses, attempting to cast suspicion on the budget deficit. The union said nearly \$40 million of MCTS operating revenue has gone unspent in recent years. MCTS disputes this, and Milwaukee County Comptroller Scott Manske, whose financial reports the union used to produce their figures, told Urban Milwaukee the numbers are based on incorrect assumptions concerning the underlying accounting practices.

MCTS officials sent a letter to employees on

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August 22 stating that MCTS is facing an \$8.7 million budget deficit for 2019. And in order to e cutting routes cuts, after

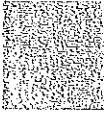
MCTS offered this information to underscore its contract offer, which it made to union leadership two weeks prior. But Macon said, after MCTS sent the letter, he asked Peter Donohue, a consulting economist working with the union for approximately the past 6 months, to write a letter responding to MCTS' claims. "We're just putting out the true numbers," Macon told Urban Milwaukee.

In his letter, Donohue said MCTS has been generating annual surpluses largely by over budgeting personnel expenses. In 2018, Donohue said, MCTS over budgeted personnel expenses by \$15.6 million leaving MCTS with a \$16.5 million surplus. To get these numbers Donohue used reports generated by the comptroller called County Annual Financial Reports.

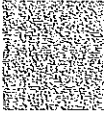
Following the Donohue letter, the union released a statement saying: "This changes everything for our members. It raises serious questions about the integrity of MCTS's claims that they are broke."

However, that figure, Manske explained, is arrived at via incorrect assumptions about the accounting in the reports. As comptroller, Manske is an independently elected official, not accountable to the county executive or the transit system. He said the alleged over budgeting of \$15.6 million in personnel expenses is not a surplus of money that can be used towards operations of the transit system. Rather, it represents a reduction in the transit system's long-term, unfunded personnel liabilities.


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These long-term personnel liabilities include such things as healthcare plans for retirees. The reduction in liability is based on an estimate developed by an actuary showing post-employment benefits for health care. Any reduction in the liability has to be used to lower the future liability.

MCTS officials responded with exasperation to Donohue's letter. Nate Holton, the lead negotiator for MCTS during contract negotiations and the director of diversity and inclusion, completely disputed the unions numbers. Kristina Hoffman, director of Marketing and Communications, said, "The MCTS budget hole, unfortunately, is very real. Denying facts makes it tougher for us to work together to prioritize funding for transit."

MCTS has run a surplus five of the last six years. But those operating surpluses offered by MCTS do not come close to the figures claimed by the union. They average between approximately .5 and 2 percent of the total annual operating budget for each year compared to the average of 6.6 percent claimed by the union. "We're proud of managing to the budget, getting the final budget very close to the proposed budget despite many fluctuating revenues and costs, and avoiding deficits," Holton said. "It's prudent fiscal management."

Health care costs can fluctuate, even fluctuating diesel prices can gouge operating expenses. When there is a deficit, the system has to cut service. When there is a surplus, according to both state statute and county ordinance, those funds go back to the county general fund. MCTS has no control over them.

For months, MCTS has been warning the public that the system faces a nearly \$6 million budget hole. In their recent letter to employees, system officials now estimate the deficit to be \$8.7 million. This is due to stagnant and declining state transit aids, which make up a significant portion of Milwaukee County's transit revenue. For more than a decade these aids have not kept pace with inflation.

The timing of the union leadership's claim that the deficit is a fiction could help convince union members that they don't

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More New Faces

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need to make concessions in their labor contract, a stance Macon has been pushing. And the union will soon vote on the contract. If they don't vote to accept the contract, and MCTS doesn't change its stance and come back to the table, which Holton says is not likely, then "It will be a 2015 again," Macon says, referring to the last time the union went on strike.

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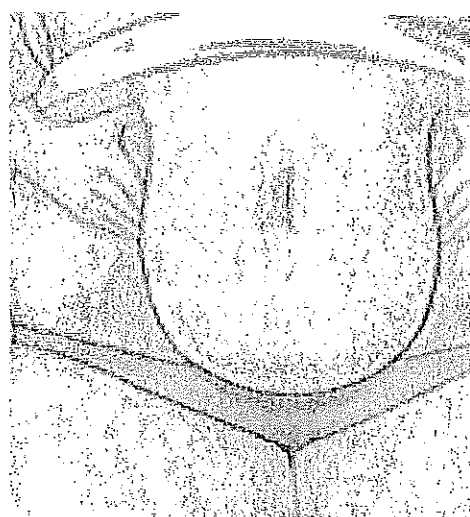
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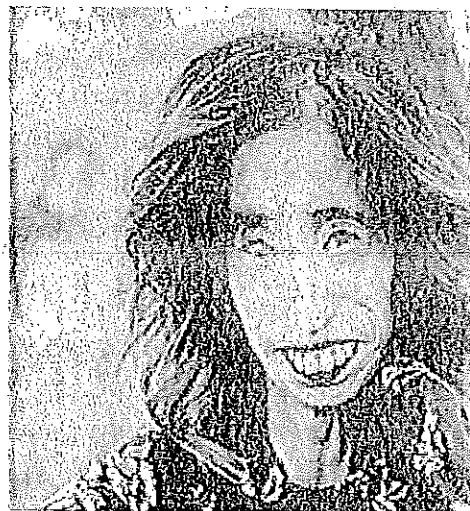
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## Transportation

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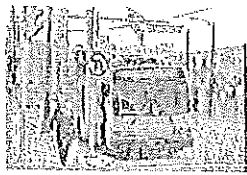


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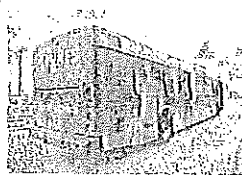
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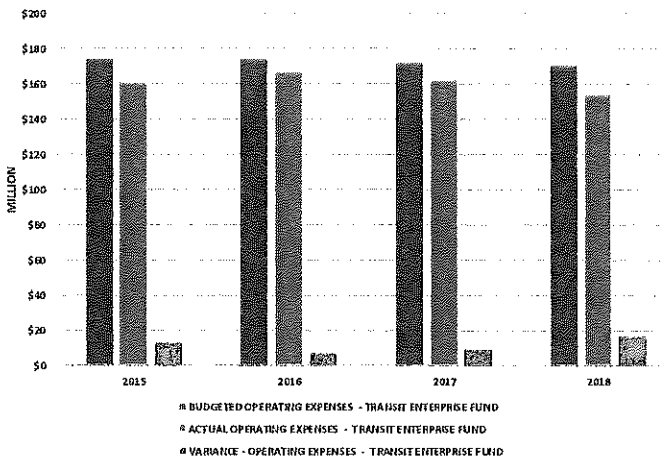
County exec Abele just announced that he is restoring MCTS service he had cut for 2020.

But why did he cut those routes anyway?

In 2018, MCTS operating expenses were 9.7% UNDER budget.

Since 2015 MCTS operating expenses averaged 6.6% UNDER budget, a total of \$45.64 million.

**2018 TRANSIT OPERATING EXPENSES WERE 9.7% UNDER BUDGET  
TRANSIT OPERATING EXPENSES ARE UNDER BUDGET ON AVERAGE BY 6.6% SINCE 2015**



*Since 2015, Transit operating expenses have been under budget by \$45.64 million.*

Milwaukee County **COMPREHENSIVE ANNUAL FINANCIAL REPORTS**  
2015 through 2018

	(MILLIONS)			
	BUDGETED	ACTUAL	VARIANCE	%
2015	\$174.00	\$161.09	\$12.91	7.4%
2016	\$174.00	\$166.93	\$7.07	4.1%
2017	\$171.85	\$162.71	\$9.14	5.3%
2018	\$170.87	\$154.34	\$16.53	9.7%

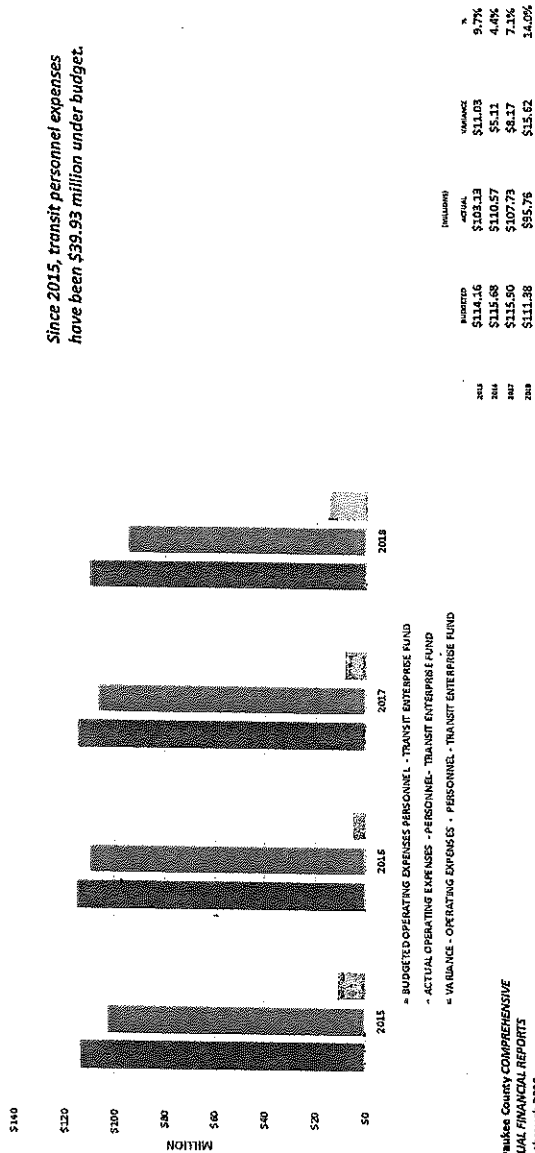
How'd that happen?

Because:

2018 MCTS personnel expenses were 14% or \$15.62 million UNDER budget.

Since 2015 MCTS personnel expenses have averaged 8.8% UNDER budget or \$39.93 million.

**2018 TRANSIT'S OPERATING PERSONNEL EXPENSES WERE \$15.62 MILLION UNDER BUDGET  
SINCE 2015, TRANSIT'S OPERATING PERSONNEL EXPENSES HAVE AVERAGED 8.8% UNDER BUDGET**



*Since 2015, transit personnel expenses have been \$39.93 million under budget.*

Milwaukee County Comprehensive Annual Financial Reports 2015 through 2018

Isn't it time to stop MCTS 'deficits by design' at the expense of riders and employees?

Let's put Milwaukee's transit service on a secure funding basis once and for all.