



# Milwaukee County's Transit Crisis:

*How did we get here and what do we do now?*

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## **ABOUT THE PUBLIC POLICY FORUM**

Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

## **PREFACE AND ACKNOWLEDGMENTS**

This report was undertaken to provide citizens and policymakers in the Milwaukee region with a comprehensive understanding of the financial issues facing the Milwaukee County Transit System (MCTS). We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations regarding the future of transit in our region.

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# **MILWAUKEE COUNTY'S TRANSIT CRISIS: HOW DID WE GET HERE AND WHAT DO WE DO NOW?**

## **Study authors:**

**Robert E. Henken, M.J.P.A., President**  
**Ryan J. Horton, M.U.P., Senior Researcher**  
**Jeffrey K. Schmidt, Researcher**



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## EXECUTIVE SUMMARY

The recent history of transit in Milwaukee County is one marked by desperation and false hope. Simply put, public funding sources have not kept pace with growth in operating costs. While warning about the consequences, transit officials have averted disaster – and perhaps inadvertently delayed a solution – by spending down reserves, deferring needed capital expenditures and implementing gradual service cuts and fare increases.

The hope was that elected officials would heed the warnings and provide a dedicated funding source – one that would be sizable enough to both restore and enhance service, including the types of improvements that would attract new riders and provide for steady revenue growth. That hope, of course, has not materialized. And now, the hole that has been dug is so deep that there are few practicable solutions.

Policymakers face a stark choice. They can accept a transit system that is a shell of its former self – one that contains no freeway flyer service, few night and weekend options, and sparse service west of 76<sup>th</sup> Street, south of Oklahoma Avenue or north of Silver Spring Drive – or they can consider one or more selections from a difficult menu of policy options that could either delay the day of reckoning once again, or perhaps prevent it altogether.

### **Key findings from our analysis of the Milwaukee County Transit System funding crisis:**

- Barring an infusion of new funds from the federal government, the need for federal funds in the system's operating budget soon will outstrip the amount of funds available by well over \$15 million annually. Funding projections developed by the Forum – and reviewed for reasonableness by current and former Milwaukee County Transit System (MCTS) officials – show potential overall shortfalls of \$1.6 million in 2009, \$18.3 million in 2010, \$23.7 million in 2011 and \$21.1 million in 2012.
- Since 2001, nearly \$40 million of a \$44 million reserve of federal capital funds has been allocated by the county to fill holes in MCTS' operating budget and avoid significant service cuts. At the same time, bus purchases have been deferred to allow for the expenditure of those reserves on operations. The elimination of the reserve and the looming need to replace at least 150 buses sets up an ominous fiscal crisis.
- MCTS not only faces serious funding issues pertaining to fixed route service, but it also must address a growing funding gap in paratransit services for persons with disabilities due to increased demand for those services.
- MCTS' fiscal challenge has been greatly exacerbated by a new governmental accounting rule that requires the system to budget annually for its long-term liability for retiree health care benefits. This has added approximately \$8.5 million per year to MCTS' operating budget.

- MCTS buses carried 10.3 million fewer riders in 2007 than they carried just seven years earlier, ranking it first among 13 peer transit systems in lost riders from 2000 to 2006. Only once in the last seven years did MCTS see an increase in ridership (a 1.9% increase between 2004 and 2005). The uptick corresponded to the only year that fixed-route bus service was increased.
- The cost effectiveness of MCTS buses was best among peer systems in 2006 based on data from the Wisconsin Department of Transportation and the Federal Transit Administration, indicating that further cost savings due to efficiency improvements may be limited.

Our report also analyzes survey data collected by MCTS from its riders. We found that 43% of riders use the bus system to get to and from work, and that three-quarters are “captive”, meaning other transportation choices are not always available to them. As policymakers consider the future of transit in Milwaukee, they must consider that a severe reduction in bus service may negatively impact Milwaukee’s economic competitiveness by impeding the ability of potential workers to get to jobs throughout the region.

One widely discussed potential solution to MCTS’ financial problems is a dedicated regional sales tax to bridge MCTS’ budget gap, remove transit costs from the property tax throughout the region, and fund the operations of a new Kenosha-Racine-Milwaukee (KRM) commuter rail line. While this may be the ultimate solution, there are significant obstacles that could impede enactment, including the potential need to secure voter approval, and the definite need to secure state legislative approval.

This report discusses other options that are immediately available to policymakers. We cite options that would not involve enactment of new taxes or fees, but would almost certainly necessitate severe cuts in service; and we discuss a potential “triage” approach that would make use of the one revenue enhancement mechanism currently available to Milwaukee County policymakers, and some or all of the \$91.5 million available from the Milwaukee Connector Study. We also provide context for consideration of potential long-term funding sources that would require state approval. The following are highlights of our analysis of potential policy options:

- Under a “year-to-year” scenario, county and state policymakers would continue the same budget approach that has been employed during the past several years. No new local or regional revenue sources would be considered, and Milwaukee County would deal annually with the policy choices available to it to address the system’s deficit. Potential options would be to divert property tax dollars from other county functions; capture annual property tax increases specifically for mass transit; seek savings by again putting the system’s management contract out to bid; raise paratransit fares, cut paratransit service and/or increase the paratransit charge to human services programs, with savings diverted to fixed route transit; or continue to raise fares and cut service. Because of the magnitude

of the projected budget gap, it is likely that a combination of these options would be necessary, and that ultimately, the service cuts required would leave a transit system that operates almost exclusively within city borders.

- A “triage” approach would focus on solutions that Milwaukee County could pursue without state legislative approval to immediately put MCTS back on sound fiscal footing for at least the next two years while preventing service cuts and further depletion of reserves. Its two components would be a \$10 vehicle registration fee for all vehicles kept in Milwaukee County, and the use of some or all of the \$91.5 million in federal funds available for the Milwaukee Connector Study to implement a “Bus Rapid Transit” (BRT) system. Under this scenario, the projected budget hole could be eliminated for 2009 and almost eliminated for 2010, before escalating in 2011 and 2012, though to a lesser extent than otherwise forecast. This approach would allow bus purchases to begin in 2010 while buying two additional years of stability in service levels, as well as significantly reducing pressure on the county to identify additional property tax dollars for transit during that time.

If the goal is to preserve the existing level of transit service for the long-term, then the triage approach would not be sufficient, but would have to be accompanied by a permanent, dedicated funding source. We project that any long-term funding approach must provide a minimum of \$21 million to a maximum of \$43 million in additional revenue per year, depending on whether the goal also is to eliminate use of property tax dollars for transit, and depending upon whether the BRT option moves forward. Those numbers do not take into account the additional dollars that would be needed to pay for a potential Milwaukee County local share for KRM commuter rail or potential bus service enhancements above and beyond BRT.

Some have suggested that the state should be responsible for bridging the gap, while others have suggested that is not realistic in light of the state’s own fiscal problems. Either way, if the gap is to be addressed in the long-term, then action likely will be required by the legislature and governor to either provide a state solution, or provide the county or region the authority to enact revenue enhancements. For the sake of context, we estimate that a Milwaukee County sales tax of between .16% and .33% or a Milwaukee County gas tax of between 5.9 cents and 10.8 cents per gallon would be required. The low end requirements assume existing property tax contributions continue as part of the transit funding mix, while the high end requirements assume property tax support for transit is eliminated.

The primary purpose of this report is to ensure that policymakers understand and acknowledge the dimensions of the problem facing MCTS. What is most critical is that they act immediately to implement realistic short-term and long-term fiscal solutions, or develop a plan for strategically ramping down transit service in a manner that will cause the least harm to riders and the local economy.

## MILWAUKEE COUNTY TRANSIT SYSTEM FUNDING – HISTORICAL ANALYSIS

The perennial funding challenge for the Milwaukee County Transit System (MCTS) for at least the past two decades has been the mismatch between the escalating growth of annual operating expenses and the limited growth of revenue streams. Operating expenses are driven by several cost factors that tend to significantly exceed the rate of inflation, such as fuel and employee health care. Public funding sources, on the other hand, are constrained by annual or biennial budget limitations at three different levels of government, which are compounded by the lack of a dedicated funding source at either the local or state level.

Direct management and operation of the transit system is provided by Milwaukee Transport Services, Inc. (MTS), a private non-profit corporation that contracts with the county. This arrangement has existed since 1975, when the county acquired ownership of the transit system from a private operator. The system's equipment and facilities are owned by Milwaukee County. MTS administers both the traditional fixed route transit service in Milwaukee County and paratransit services for persons with disabilities.

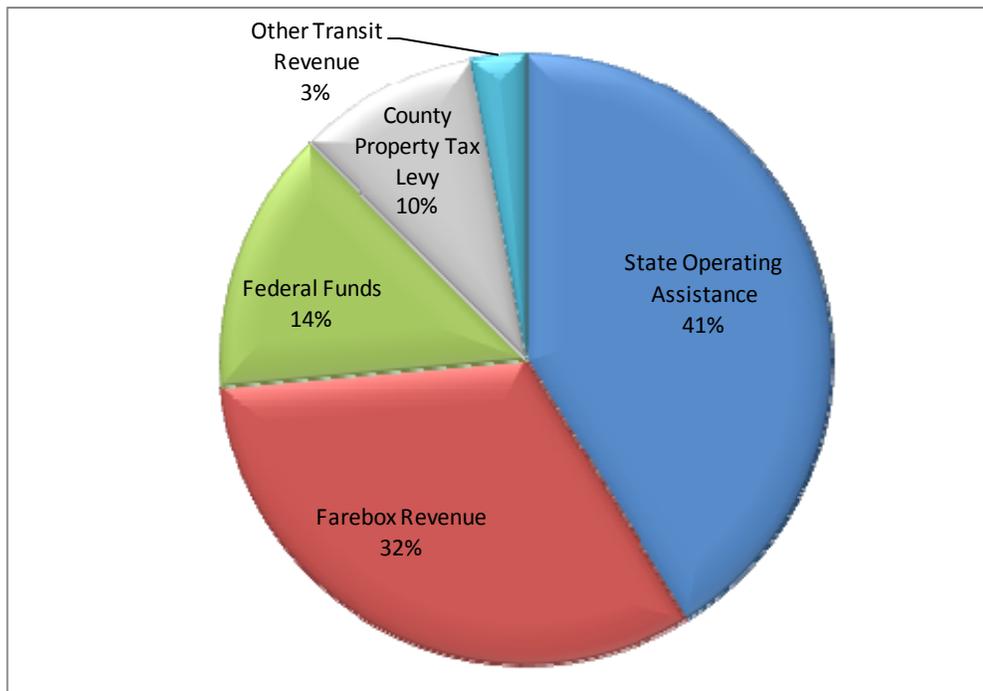
### Fixed Route Service

MCTS' fixed route service is funded by a combination of four primary revenue sources: federal aids (both formula and earmarked funds), state operating assistance, county property tax levy and revenue collected from riders (also known as "farebox revenue"). MCTS also typically receives smaller amounts of other state and federal funding, such as Congestion and Mitigation Air Quality (CMAQ) grants and other special allocations, and it derives small amounts of revenue from advertising and related activities.

The county's property tax levy allocation to MCTS consists of both a contribution to the direct cost of running the transit system and a contribution that pays for indirect costs such as depreciation, interest on county-issued debt and county service charges. These indirect costs – which typically have been in the range of \$3-\$5 million per year for fixed route and paratransit combined – are not controlled by MCTS and are essentially dictated to the system by the county. In order to focus analysis on the direct costs associated with operating the transit system, references to county property tax levy in the discussion that follows are limited to the levy that is provided to support these direct costs.

**Chart 1** depicts the percentage allocation of each funding source in MCTS' 2008 budget. The largest source of funding today is state operating assistance (41.2%), followed by farebox revenue (32.4%), federal capitalized maintenance funds (13.9%) and county property tax levy (9.6%).

**Chart 1: MCTS fixed-route operating revenue sources, 2008**



*Source: Milwaukee County Transit System*

MCTS' relatively small reliance on county property tax levy – on a percentage basis – may come as a surprise to many given the attention surrounding this funding source each year during the county budget process. That attention stems from the method in which MCTS constructs its annual budget and the role of the county as “backstop.” MCTS develops its budget first by estimating operating expenditures for the coming year, followed by its anticipated state operating assistance, federal funding and farebox and other miscellaneous revenue. The gap is the amount to be funded by county property tax levy. Typically, that gap is considerably larger than the previous year's because operating needs grow at a significantly higher rate than anticipated state and federal revenue, and farebox revenue growth is limited by the inability to expand service and the reluctance to raise fares.

A significant challenge emerges when the county is unable to fill the growing gap, which has been almost a given during the past several years in light of budget constraints and stiff competition for discretionary property tax levy among transit, parks, cultural and safety net programs. Consequently, county budget officials and policymakers determine what they can afford, and the remaining difference – after attempts are made to cut overhead, scrape out savings in non-service areas or utilize reserves – typically must be accommodated by either cutting service, raising fares or both. Many argue that those strategies, while initially yielding budgetary savings, depress ridership and farebox revenue in subsequent years, which then causes the funding gap to grow even more.

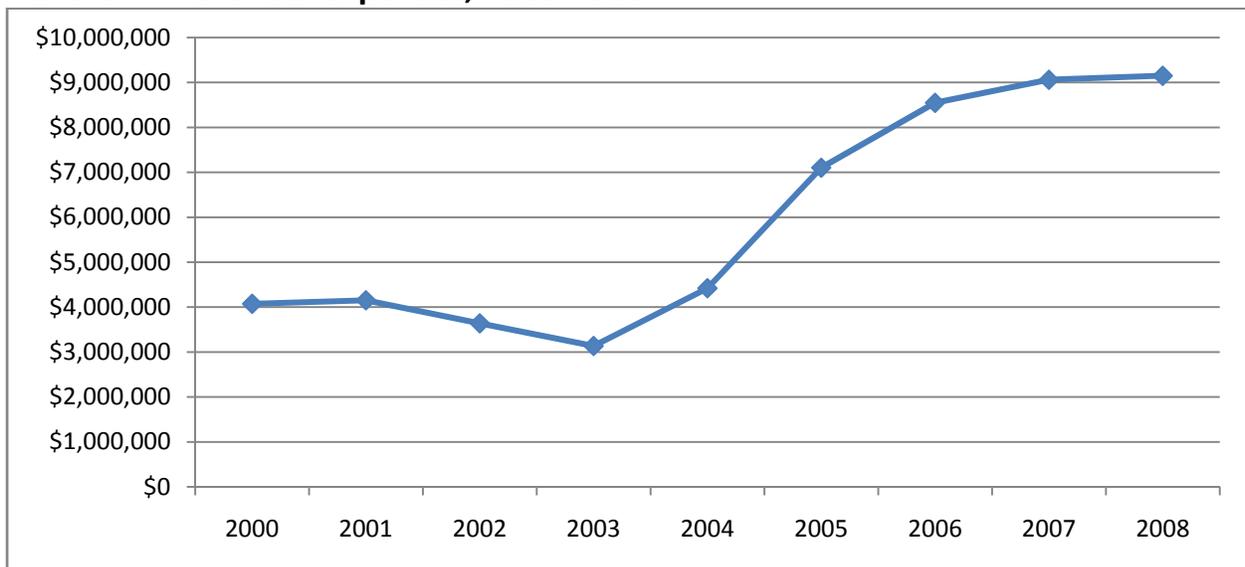
An analysis of MCTS funding since 2000 (consisting of actual figures from 2000-2007 and budgeted figures for 2008) reveals that operating expenses have grown 28.5%, or an average of 3.6% per year. **Table 1** shows MCTS' annual operating expenses during this period broken down by the four major expenditure categories: employee expenses, bus repair parts, fuel and other. **Chart 2** and **Chart 3** demonstrate the extent to which increases in fuel and employee benefits costs (including health care) have driven overall cost increases.

**Table 1: MCTS operating expenses (millions), 2000-2008**

	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Budget
Employee Expenses	\$90.0	\$95.6	\$97.5	\$100.0	\$104.3	\$104.8	\$107.3	\$109.1	\$115.7
Bus Repair Parts	\$3.6	\$3.9	\$3.0	\$2.8	\$2.5	\$3.2	\$2.7	\$3.4	\$2.8
Fuel	\$4.1	\$4.2	\$3.6	\$3.1	\$4.4	\$7.1	\$8.5	\$9.1	\$9.2
Other Transit Expenses	\$7.0	\$8.0	\$7.1	\$7.4	\$6.8	\$4.2	\$5.7	\$7.5	\$6.7
<b>Total Operating Expenses</b>	<b>\$104.6</b>	<b>\$111.6</b>	<b>\$111.2</b>	<b>\$113.3</b>	<b>\$118.0</b>	<b>\$119.3</b>	<b>\$124.3</b>	<b>\$129.0</b>	<b>\$134.4</b>

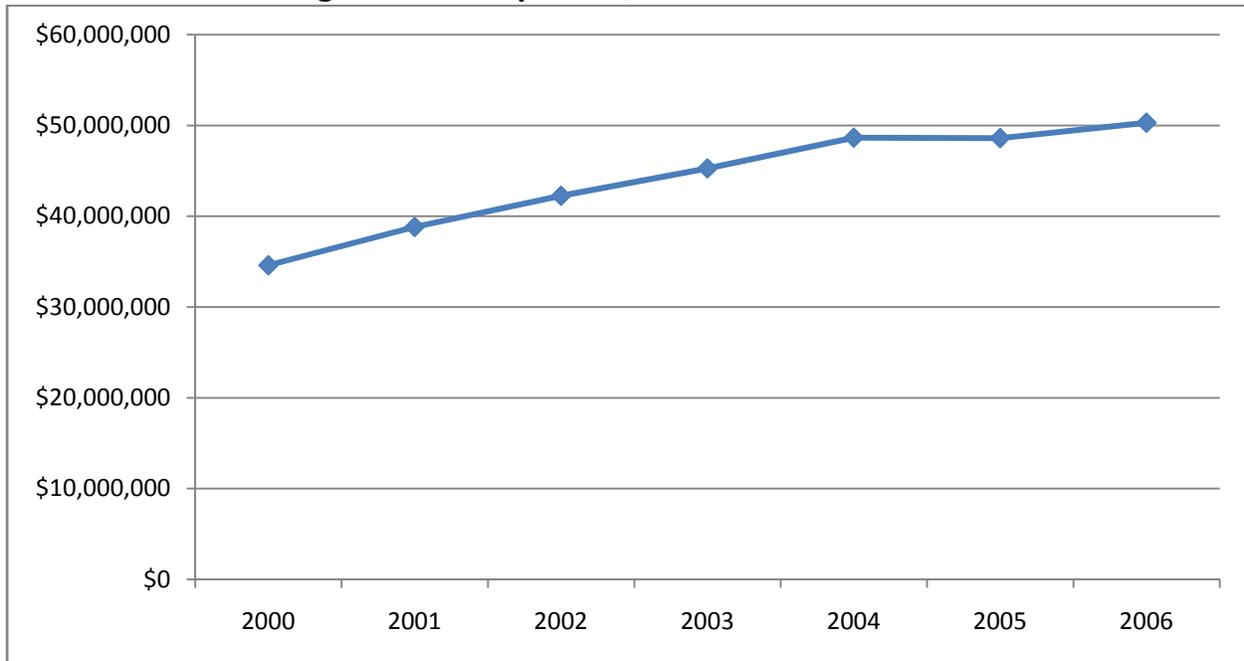
Source: Milwaukee County Transit System

**Chart 2: MCTS fuel expenses, 2000-2008**



Source: Milwaukee County Transit System

**Chart 3: MCTS fringe benefit expenses, 2000-2006**



Source: National Transit Database

**Table 2** shows annual growth in revenue streams since 2000. State operating assistance has grown by 18.8% (2.3% per year), county property tax levy by 20.5% (2.6% per year), farebox revenue by 23.9% (3% per year), and use of federal capitalized maintenance dollars by 242.0% (30.2% per year). Other state and federal revenue has dropped from \$4.4 million in 2000 to \$275,000 in MCTS' 2008 budget, which reflects the three-year cycle for CMAQ funding and the absence of new CMAQ-funded routes during the past few years. Another key factor was recent elimination of state funding for bus service to mitigate the impact of Marquette Interchange reconstruction.

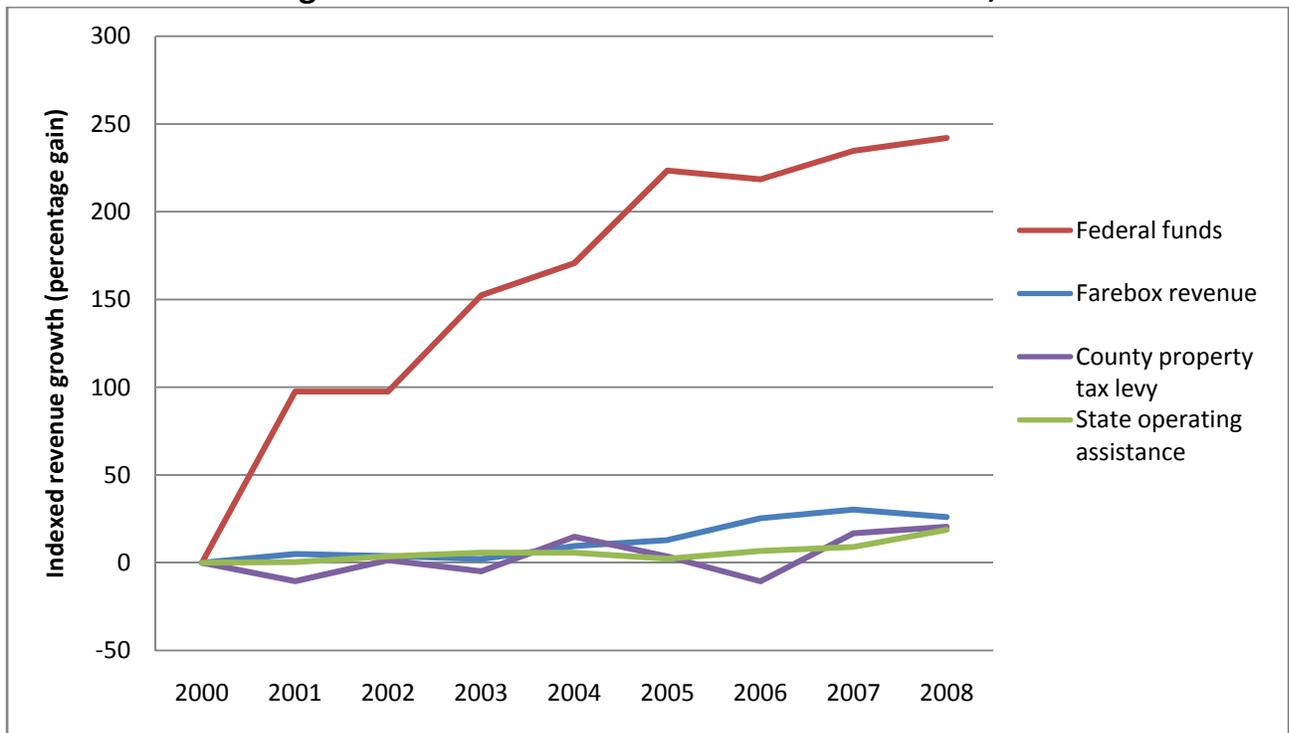
**Table 2: MCTS operating revenue (millions), 2000-2008**

	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Budget
<b>Revenue</b>									
Passenger Revenue	\$35.2	\$36.2	\$36.1	\$35.2	\$37.5	\$38.5	\$41.0	\$42.6	\$43.5
Other Transit Revenue	\$2.2	\$3.0	\$2.7	\$2.9	\$3.4	\$3.7	\$5.8	\$3.5	\$3.5
<b>Total Operating Revenue</b>	<b>\$37.4</b>	<b>\$39.2</b>	<b>\$38.8</b>	<b>\$38.1</b>	<b>\$40.9</b>	<b>\$42.2</b>	<b>\$46.8</b>	<b>\$46.0</b>	<b>\$47.1</b>
<b>Public Funding</b>									
Federal (Capitalized Maintenance)	\$5.5	\$10.8	\$10.8	\$13.8	\$14.8	\$17.7	\$17.4	\$17.8	\$18.7
State Operating Assistance	\$46.6	\$46.8	\$48.3	\$49.3	\$49.3	\$47.7	\$49.8	\$50.8	\$55.4
Local (Milwaukee County Tax Levy)	\$10.8	\$9.6	\$10.9	\$10.2	\$12.4	\$11.1	\$9.6	\$13.5	\$13.0
Other State and Federal	\$4.4	\$5.1	\$2.4	\$1.8	\$0.7	\$0.6	\$0.7	\$0.8	\$0.3
<b>Total Public Funding</b>	<b>\$67.2</b>	<b>\$72.3</b>	<b>\$72.4</b>	<b>\$75.1</b>	<b>\$77.1</b>	<b>\$77.1</b>	<b>\$77.5</b>	<b>\$82.9</b>	<b>\$87.3</b>
<b>Total Revenue</b>	<b>\$104.6</b>	<b>\$111.6</b>	<b>\$111.2</b>	<b>\$113.3</b>	<b>\$118.0</b>	<b>\$119.3</b>	<b>\$124.3</b>	<b>\$129.0</b>	<b>\$134.4</b>

Source: Milwaukee County Transit System

As **Table 2** and **Chart 4** clearly demonstrate, MCTS has relied heavily on Federal capital funding since the beginning of the decade to keep up with the growth in operating expenditures and the relatively flat nature of other funding sources. MCTS also has reduced bus hours more than 16% since 2000, and increased the basic adult cash fare 30%. While the negative impacts of these moves should not be dismissed, MCTS has been able to survive without draconian service reductions because of its recent use of a special pool of federal dollars in its operating budget. Unfortunately, this strategy has now created an imminent crisis, which can be best understood by analysis of MCTS' major funding streams.

**Chart 4: Indexed growth of MCTS fixed-route revenue sources, 2000-2008**



Source: Milwaukee County Transit System

## Federal Funding

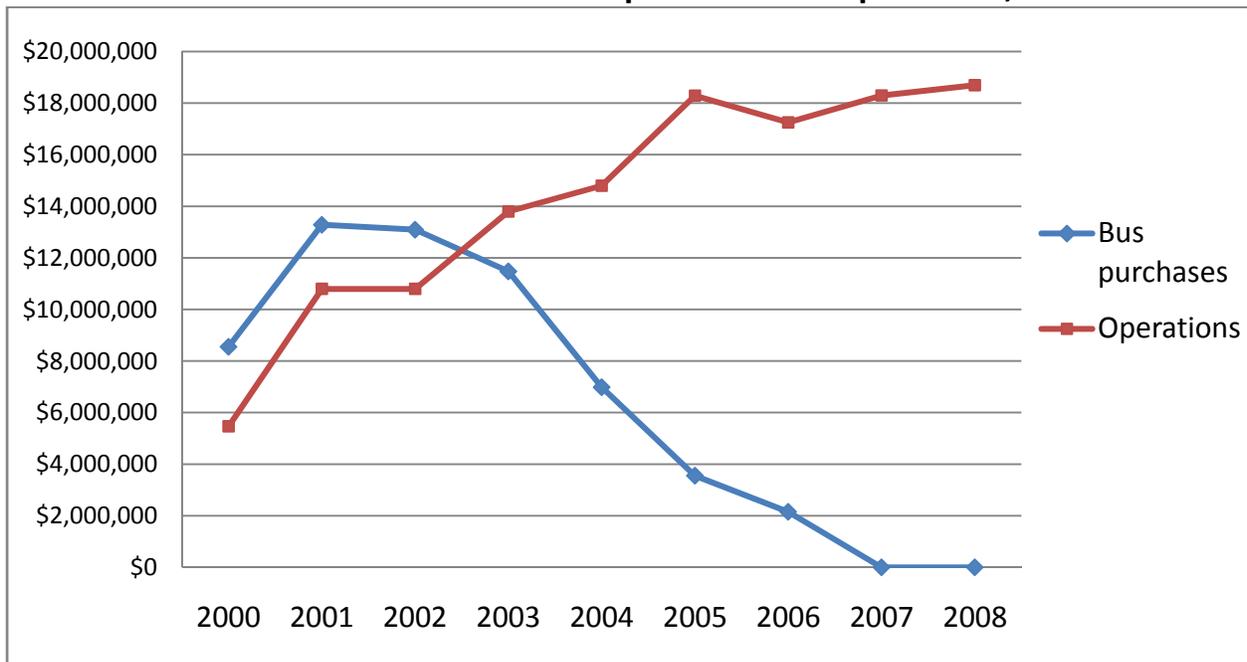
While MCTS officials and county policymakers have warned for decades that over-reliance on county property tax levy and lack of a dedicated local funding source have created a fiscally untenable situation for MCTS that would soon explode, it can be argued that the full-fledged crisis has yet to occur. That is largely because of MCTS' ability to take advantage of a change in federal policy in the late 1990s that has enabled it to utilize tens of millions of "banked" federal capital appropriations to mitigate its fiscal challenges.

Milwaukee County currently receives approximately \$18 million in federal monies each year. This amount is based on a federal formula that takes into account a number of factors,

including population and transit ridership. The change in the late 1990s allowed MCTS to utilize these federal formula funds, which previously only could be utilized for bus purchases, shelters, building improvements and other capital items, to reimburse itself for up to 80% of the cost of “capitalized maintenance”. Because maintenance funding is included in the operating budget, this allowed MCTS to plug capital funds into its operating budget, thus masking the true magnitude of the operating fund gap. Fortunately, this change occurred when federal operating assistance was being phased out by the Congress in the late 1990s. Until that phase-out occurred, MCTS typically had relied on about \$4-5 million per year in direct federal operating assistance.

The impact of this development has been dramatic. As **Chart 5** illustrates, the use of federal capitalized maintenance dollars in MCTS’ operating budget has grown from \$5.5 million in 2000 to \$18.7 million in the 2008 budget. Without this, MCTS would have had an additional \$13.2 million gap in its 2008 budget.

**Chart 5: Use of federal funds: new bus purchases vs. operations, 2000-2008**

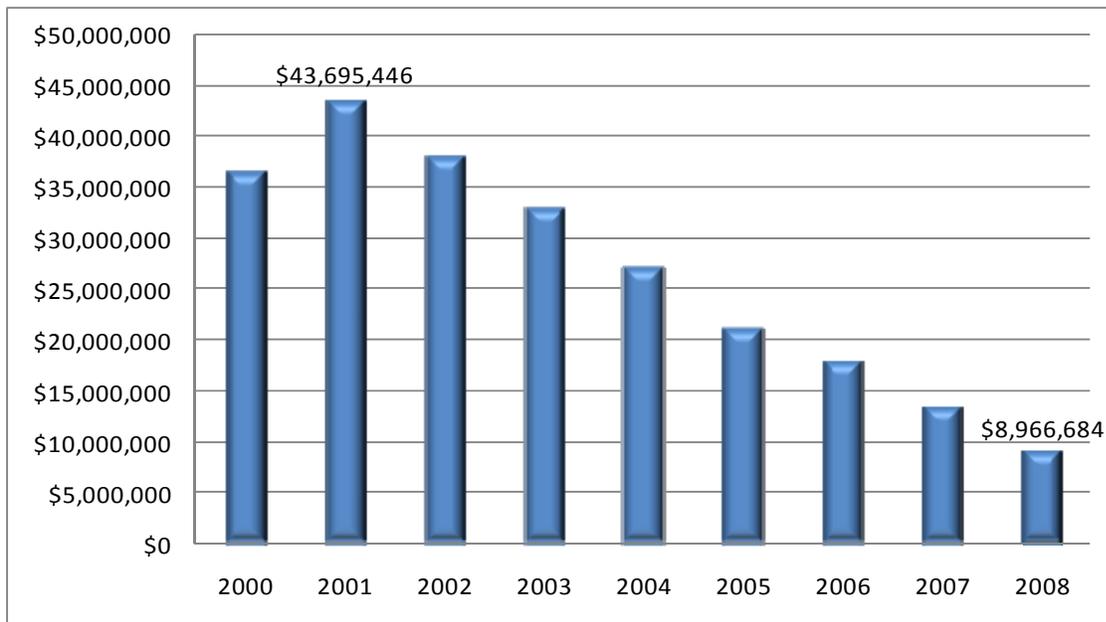


Source: Milwaukee County Transit System

It is also important to note that increased use of federal capital dollars in MCTS’ operating budget has been coupled with decreased use of these dollars to purchase buses and make other needed capital investments. As the chart also indicates, bus and farebox purchases plummeted from \$13.3 million in 2001 to zero in 2007 and 2008 in order to sustain the use of these funds for capitalized maintenance.

The employment of this dual strategy is what sets up the severe crisis facing MCTS. An analysis of the use of capitalized maintenance dollars shows that MCTS began the decade with almost \$44 million of those dollars in the “bank.” During the past eight years, MCTS gradually has been withdrawing those dollars – both for operations and bus purchases – faster than the rate at which they have been replenished via annual appropriations from the federal government. Beginning in 2001, the net “loss” of these funds has averaged \$4.4 million annually. Consequently, as **Chart 6** indicates, only about \$9 million remained at the beginning of this year; MCTS estimates that the balance will shrink to \$4.3 million by the beginning of 2009.

**Chart 6: Federal (capitalized maintenance) funds available, 2000-2008**



Source: Milwaukee County Transit System

Meanwhile, bus purchases that have been deferred for several years cannot be deferred much longer without running the risk of escalating maintenance costs and significantly decreased reliability. MCTS typically replaces buses on a 12-year schedule, but recently extended to 14 years for 150 buses to avoid the need to utilize federal dollars for bus purchases in the 2008 and 2009 budgets. MCTS officials have cited the need to replace those buses beginning in 2010 on a three-year schedule at a cost of approximately \$56 million. Of that cost, roughly 83% would be covered with federal funds, while the county would need to issue bonds to cover the remainder.

A similar problem exists with farebox replacement. The current system was installed in the mid 1980s and, according to MCTS officials, is experiencing increasing maintenance problems. Furthermore, the manufacturer is only providing limited support for the software that compiles revenue data. MCTS has expressed a need to replace this system not only to lower maintenance costs, but also to provide capacity to offer new forms of magnetic swipe cards and improve its ability to track ridership and revenue.

## State Operating Assistance

MCTS – as well as other transit operators across Wisconsin – receives an annual appropriation from the state to assist with transit operations. For years, local policymakers and advocates have complained that the state’s commitment has not kept up with the growing cost of transit operations. State officials have countered that Wisconsin is more generous to local transit systems than most other states, and that MCTS is the prime beneficiary because it traditionally has received close to 60% of statewide transit funding. **Table 7** in a later section of this report shows MCTS ranking fifth out of 14 peer systems in the percentage of its funding that comes from state government.

The amount of state funding allocated to local transit operations is established by the state’s biennial budget. Transit operating assistance is allocated to four “tiers” based on the size of the system. MCTS and Madison have their own tiers (A-1 and A-2 respectively), while Tier B and Tier C are for smaller systems. In 2008, MCTS will receive \$60.3 million of the \$104.7 million allocated statewide for transit (57.6%).

Between 2000 and 2007, statewide mass transit operating assistance increased by just 10.4%, from \$93 million to \$102.6 million. Meanwhile, between 2000 and 2006, state aid as a percentage of MCTS costs decreased from 45.7% to 40.7%.<sup>1</sup> The State did reverse recent trends in the 2007-09 state budget, which provides a 2.5% annual increase to all systems, as well as an additional \$3.2 million in each year of the biennium for MCTS. Budget projections show that state operating assistance will grow slightly to 41.2% of MCTS funding in 2008.

## Farebox Revenue

Farebox revenue is the one revenue source that ostensibly is under the direct control of MCTS and that should represent its best hope for growth to meet or exceed increases in operating costs. If MCTS were able to operate under a typical business model, it would seek constantly to invest in new marketing techniques and new services to yield additional riders and greater return at the farebox, particularly at times when gasoline prices are skyrocketing and major highway construction projects are producing significant congestion.

However, the reality is that MCTS does not run under a typical business model. Because its budget is controlled by the county, it does not have control over investment decisions in new routes or services. Furthermore, it often must raise fares to meet annual budget targets despite the concern that fare increases can further depress ridership and decrease revenue in the long run.

Despite those challenges, MCTS has seen farebox revenue grow from \$35.2 million in 2000 to a budgeted \$43.5 million in 2008. This 24% increase has almost kept pace with the growth in

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<sup>1</sup> Legislative Fiscal Bureau, Paper #771, “Mass Transit Operating Assistance”, May 31, 2007, pp. 2-3.

operating costs of 28.5%. In addition, MCTS ranks high among comparable transit systems across the country in the amount of farebox-generated revenue (32.2%). A later section of this report has further analysis of MCTS' farebox revenue performance compared to peer transit systems.

Whether MCTS' farebox revenue growth can continue at 3% per year is questionable. In 2007, farebox revenue increased 3.7% primarily because of an increase of \$2 in the price of a weekly pass. While this was a significant percentage increase compared to the eight-year average, total fixed route revenue was \$2.6 million below the anticipated amount, reflecting the sharp decrease in ridership during the year (*see additional details below*). The 2008 budget shows anticipated farebox revenue growth of only 2.3% above the actual 2007 figure, lagging the 4.2% projected growth in operating expenditures.

### **County Property Tax Levy**

As explained above, the county property tax allocation to MCTS is predicated on the gap that exists between the system's operating needs and its other sources of revenue. Ideally, annual growth in operating expenditures would be offset by similar percentage growth in farebox revenue and state and federal funding. That would leave the county with a similar requirement to match the growth in costs with equal growth in county support or to identify mechanisms for controlling the growth in operating costs to a level MCTS could better afford.

Unfortunately, there are significant flaws in this scenario. First, as described above, annual increases in MCTS' largest revenue source – state operating assistance – have failed to keep up with growth in operating costs.

Second, the county has been either unable or unwilling to provide annual property tax levy increases that are consistent with the growth in MCTS operating costs. The county's actual tax levy appropriation between 2000 and 2007 wavered between \$9.6 million and \$13.5 million. The budgeted appropriation for 2008 is \$13 million, which is an increase of 20% from the \$10.8 million actually spent in 2000. Operating costs, as noted above, have grown 28.5%.

The MCTS levy appropriation is dictated each year by the county's overall fiscal situation. A budget target is established for each department, which takes into account anticipated countywide increases in fixed costs (e.g. employee health care, pension fund contribution, negotiated wage increases and debt service), anticipated revenue adjustments and policy directives or priorities. Because of the county's annual structural deficit and – during the past six years – the county executive's "no tax levy increase" policy, the transit system typically must develop a budget that includes either no increase in the property tax levy, or a property tax levy reduction.

In light of this challenging budget target, MCTS typically must recommend significant cuts in service and/or increases in fares as part of its budget request. Its challenge not only emanates

from the budget target, but also from significant fixed cost increases, most notably with regard to fuel, health care and wages. Budgeted fuel costs, as noted earlier, have grown from \$3.1 million in the 2003 budget to \$9.2 million in 2008. While it is reasonable to expect a portion of those cost increases to be passed along to users in fare increases, a balance must be struck between that and the desire to maintain ridership levels. In addition, MCTS' woes have been compounded during the past two years by new governmental accounting rules that require it to budget more than \$8.5 million annually for retiree health care liabilities, and by soaring costs in its paratransit services, both of which are described in further detail below.

The question of whether MCTS has done enough or could do more to control growth in operating costs – or whether an alternative provider might have better success – will continue to be raised as long as new funding sources are considered. Discussion of labor concessions negotiated by transit officials in the most recent labor agreement is included later in this section, while information regarding how MCTS compares to peer transit systems in cost and efficiency is provided in a later section.

What is clear, however, is that the gap between operating expenditure growth and lagging revenue has not been bridged by the county, but instead has been addressed primarily by MCTS' dual strategy of greater use of federal capitalized maintenance dollars and deferral of bus purchases, as described above. MCTS also has reluctantly recommended significant cuts in service and/or fare increases to meet its recent budget targets. While those recommendations have been tempered somewhat by both the county executive and the county board during their actions on the budget, the outcome – as described later in this report – still has been significant cuts in service and increases in fares during the past eight years.

### **New Governmental Accounting Rules**

As noted above, a critical development that significantly impacted MCTS' budget beginning in 2007 was implementation of a new accounting rule developed by the Government Accounting Standards Board (GASB). The rule requires governmental entities to report and potentially fund on an annual basis the outstanding liability for post-employment benefits other than pensions (commonly referred to as Other Post Employment Benefits, or OPEB). In more simple terms, the new rule requires governments to acknowledge the liabilities they face for health care benefits for present and future retirees and to either pre-fund those liabilities annually based on an actuarially determined calculation, or risk negative fiscal consequences (such as lower bond ratings) for failing to do so.

Implementation of this new rule began with the 2007 budget year. Milwaukee County elected to annually fund the actuarially determined OPEB liability for its proprietary fund departments, while only reporting the liability for general fund departments. A proprietary fund department has been defined by the county as one that “typically is established by a governmental entity to

report the financial results for specific components of the entity that operate similar to a business.”<sup>2</sup>

Because MCTS is considered a proprietary fund, the 2007 Budget included funding not only to cover the estimated actual cost of OPEB for that year, but also to fund a portion of its long-term OPEB liability per an actuarially determined calculation. While this pre-funding of a long-term liability constitutes sound fiscal policy, it created an immediate short-term problem for MCTS, which had to provide an additional \$8.5 million for retiree health care in its 2007 budget. This challenge was partially mitigated by approximately \$1 million of reserves, but it still represented a tremendous challenge in light of MCTS’ other fiscal challenges that year.

The 2007 budget contained a \$2 increase in the MCTS weekly pass and similar increases in other special passes to partially offset the added cost. According to both current and former MCTS officials, the impact of the new GASB rule resulted in draining all remaining reserves and eliminating virtually all non-critical expenditure items and positions in order to avoid drastic cuts in service. For example, 11 non-operator positions were eliminated in 2007, including two non-represented positions. Consequently, these transit officials contend there are no longer significant options for cuts available to address future funding gaps other than cuts in service.

The OPEB challenge is expected to remain about the same or grow moderately into the future, despite the negotiation of health care labor concessions described below. In the 2008 budget, the OPEB cost grew by a little more than \$1 million because of the previous utilization of a reserve to reduce the 2007 appropriation and a slight increase in the actuarial calculation.

### **Recent Labor Agreement**

A new labor agreement negotiated by MTS, Inc. with the bus drivers’ union resulted in significant changes in health care coverage and co-pays that will have a positive impact on the growth of employee benefit costs and, by extension, the growth of OPEB costs. The new agreement included the following significant changes, which became effective April 1, 2007:

- Monthly employee contributions of \$30 to \$60 per month for individuals and \$70 to \$150 for families were instituted for the HMO plan. For the system’s preferred provider option, a contribution of \$517 for single persons and \$725 for families was instituted. Previously, no employee contributions toward monthly premiums were required for either plan.
- All retirees were required to make similar contributions to monthly premiums as active employees, except for those who are Medicare-eligible, who pay a reduced rate. Beginning in 2009, an additional premium contribution of up to 15% of the total premium will be required for certain new retirees. Previously, retirees contributed nothing to the cost of their health care premiums.

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<sup>2</sup> 2007 Adopted Milwaukee County Budget, p. 6300-5.

- Effective for employees hired after July 16, 2007, MCTS ended its practice of providing retiree health care.
- A deductible of \$300 per person (\$900 per family) was added for certain participants in the system's HMO plan.
- A \$25 co-pay was added for specialty visits and co-pays were increased from \$5 to \$10 and from \$25 to \$75 for primary physician and emergency room visits respectively.

MCTS estimates that the annual savings associated with these changes are in the range of "several million dollars in reduced premium costs in 2008 and beyond."<sup>3</sup> It appears that actual savings may exceed those projected in the 2008 budget, which could provide some cushion against higher than expected increases in the cost of fuel, and which could limit the typical annual growth in the employee health care budget in 2009. Transit officials also estimate that the changes will produce more than \$2 million in savings per year over the next 30 years in OPEB contributions.

### **Paratransit Services**

Paratransit services in Milwaukee County are available to citizens who meet eligibility requirements determined by the Americans with Disabilities Act (ADA). These services largely consist of special van operations provided to eligible citizens upon demand, as well as specialized taxi services. The ADA requires such services to be made available to eligible citizens living within three-fourths of a mile of a fixed transit route. Approximately 85% of Milwaukee County residents meet that definition. The county, however, goes above and beyond this requirement by offering the service to all eligible individuals within its boundaries.

The MCTS operator, MTS, administers the paratransit system (also known as Transit Plus) under a contract with the county, but subcontracts its paratransit van operations to two outside vendors and its taxi service to a third vendor. The fare for paratransit rides is \$3.25 each way. MTS has administered the paratransit system on behalf of the county since 2000; prior to that date, the system was administered by the county's Department of Public Works.

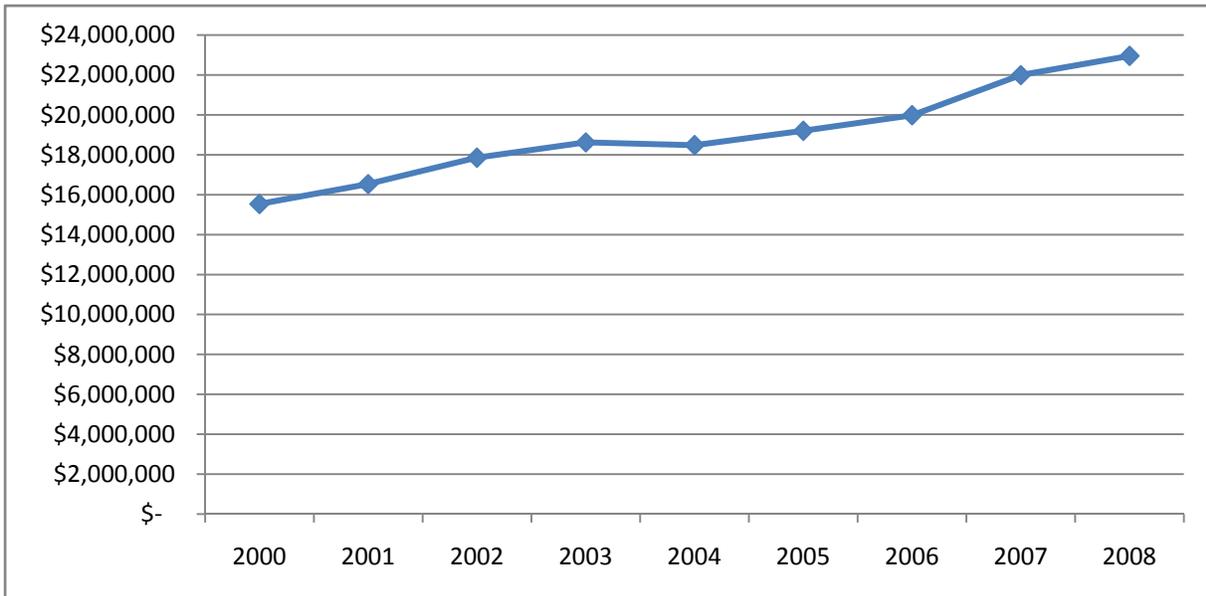
The annual county budget combines the fixed route and paratransit budgets into one unified MCTS budget. However, in this report, we separate our discussion of the two budgets to give readers a clearer picture of the funding needs facing the fixed route service, and to clarify for readers that there may be different policy options to address the issues facing each service.

An examination of the funding history for paratransit services since 2000 reveals that this is another contributing factor to the funding issues facing MCTS. As **Chart 7** indicates, paratransit operating expenditures during that period have grown from 15.5 million to \$23 million in the 2008 budget – an increase of 47.7%, or nearly 6% per year.

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<sup>3</sup> April 9, 2008 e-mail communication from Anita Gulotta-Connelly to the Public Policy Forum.

**Chart 7: Paratransit operating expenses, 2000-2008**

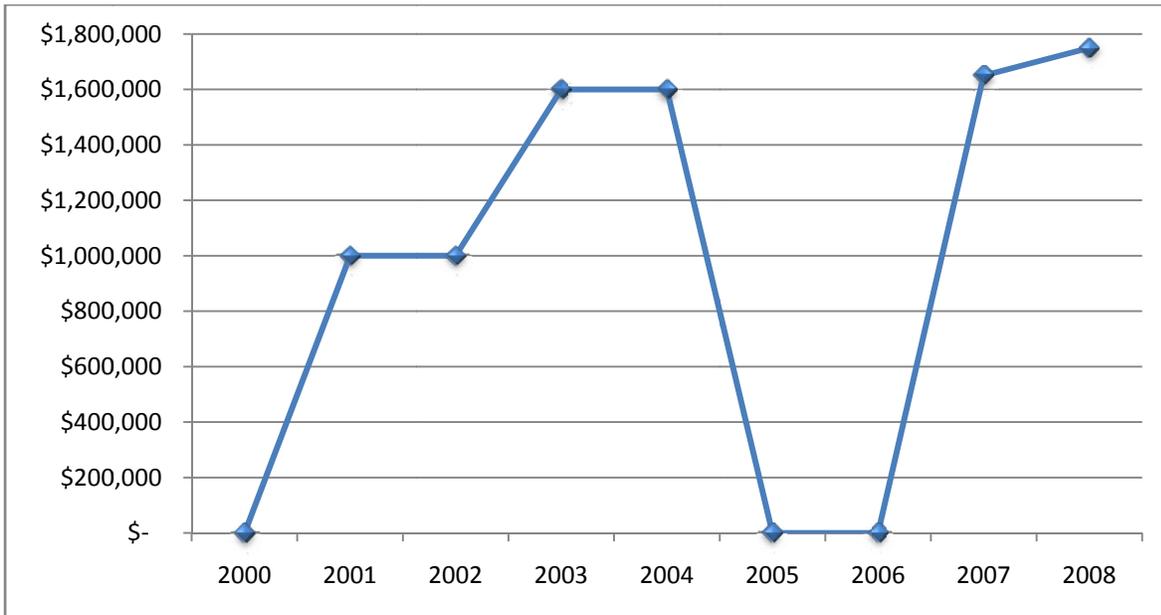


Source: Milwaukee County Transit System

Like fixed route transit, paratransit receives a significant percentage of its funding from the state – 36.6% in the 2008 budget. Passenger revenue is projected to account for only 15.2% of paratransit operating costs in 2008, though other passenger-related revenue from Medicaid and state long-term care programs bring the total passenger-related revenue percentage up to 28.8%. In 2007, the County increased the cost of each paratransit trip charged to the state for participants in Family Care from \$3.25 to \$7.00 to better reflect the true cost of each trip, which is close to \$21.00. This strategy is extended to other state long-term care programs in 2008 and is projected to produce \$2 million in revenue. Without this new revenue mechanism, MCTS likely would have been required to increase the passenger fare and/or reduce paratransit service to minimum federal requirements.

Also, like fixed route transit, paratransit has grown increasingly reliant on federal dollars in its operating budget. **Chart 8** shows that the 2008 budget includes \$1,750,000 from this funding source, which is significantly higher than the 2000-2007 average of \$906,787, and which has added to the rate of depletion of the original reserve (MCTS actually used no federal capitalized maintenance dollars for paratransit in 2005 and 2006).

**Chart 8: Federal funds used for Paratransit**



Source: Milwaukee County Transit System

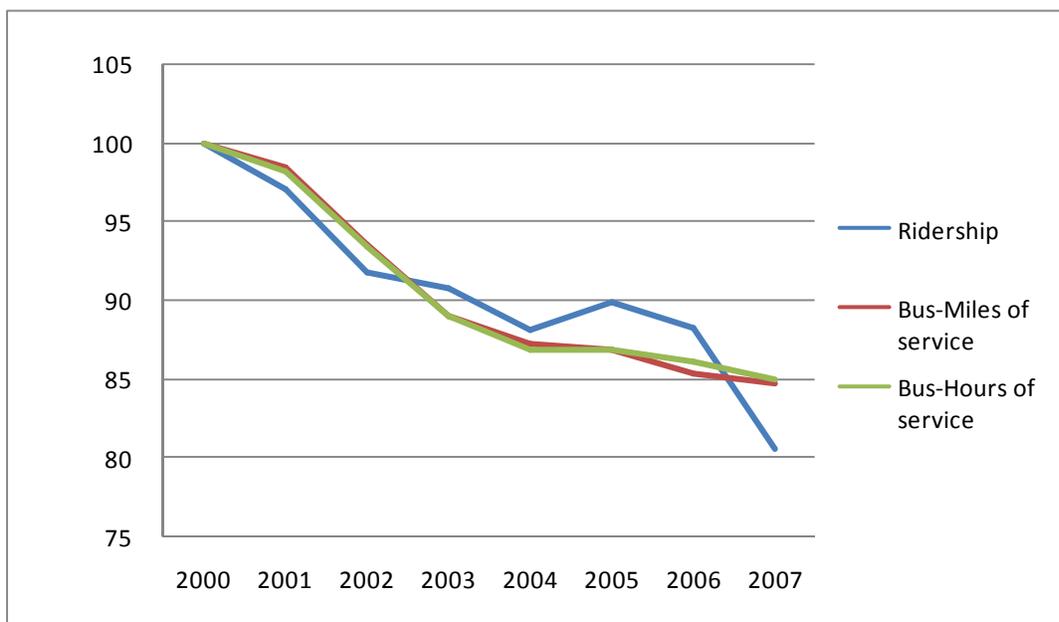
MCTS officials have voiced concern to policymakers since early 2007 regarding escalating growth in paratransit usage and costs. Actual paratransit trips in 2007 grew 5.7%, from 1,032,970 to 1,091,823, a trend that is expected to continue. Transit officials speculate that this is attributed to the increasing number of eligible riders who now live in de-institutionalized settings in the community, as well as the impact of service reductions in fixed routes. In light of the higher cost of paratransit trips and higher subsidy by MCTS, it stands to reason that a continued shift of riders from fixed route to paratransit will have a negative fiscal impact on the system.

## MILWAUKEE COUNTY TRANSIT SYSTEM RIDERSHIP ANALYSIS, 2000-2008

MCTS buses carried 10.3 million fewer riders in 2007 than they carried just seven years earlier. This reduction – from 52.9 million riders in 2000 to 42.5 million in 2007 – represents a 19.5% decrease. Analysis of ridership data and surveys indicates that steady fare increases and service cuts played a major role in this decline.

**Chart 9** shows the steady drop in ridership and how it has largely tracked bus service reductions since 2000. During this period, ridership declines of 19.5% corresponded with a 16.7% reduction in bus-miles of service and a 16.6% reduction in bus-hours of service.

**Chart 9: MCTS fixed route bus service reductions and ridership declines (indexed), 2000-2007**



Source: Milwaukee County Transit System

A closer examination of the relationship between service cuts and ridership decline reveals only one instance in the last seven years when this downward trend was broken. In 2005, MCTS buses carried 872,086 more riders than in 2004 – a 1.9% increase. Perhaps not coincidentally, this uptick in ridership corresponded with the only year-over-year increase in fixed-route bus service in the past seven years. In other words, service declines since 2000 resulted in ridership declines, while the one-year service increase resulted in a ridership increase.

Further reinforcing the link between service cuts and decline in ridership is data from an October 2007 MCTS customer satisfaction survey. While generally happy with the way MCTS

runs its buses, riders are not satisfied with the level of service they receive. MCTS rider survey results indicate that out of the 34 quality measures tested, by far the worst category was “bus service.” In fact, of the 34 quality measures surveyed, four of the bottom five lowest scoring were service-related. These four service categories are listed in **Table 3** along with the percentage of riders who cited them as areas where their needs are not met.

**Table 3: Lowest scoring service categories, 2007 MCTS rider survey results**

	Needs not met
The availability of night service	24.8%
The availability of weekend service	33.0%
The frequency of service or time between buses	34.0%
The location of bus shelters	34.3%

*Source: Milwaukee County Transit System*

While service cuts have been a major factor in reduced ridership, other variables also may have contributed to this decline. For example, service reductions have been enacted in tandem with fare increases over the last seven years. Between 2000 and 2007, the cost of a single bus fare increased 30%, from \$1.35 to \$1.75. During the same period, adult weekly passes increased 52%, from \$10.50 to \$16.00.

**Table 4** shows that, on average, fare increases have been linked to lower ridership. Conversely, in the two instances over the past seven years when fares have not increased, ridership levels have not decreased. This indicates that ridership could stabilize if MCTS was able to hold off on fare increases for a sustained period of time.

**Table 4: Relationship between ridership and fare increases, 2000-2007**

Average annual change in ridership...	
...in years without fare increases	+184,546
...in years with fare increases	-2,138,630

*Source: Milwaukee County Transit System*

One dramatic recent example of the interaction between fare increases and ridership decreases occurred in 2007. In that year, Milwaukee County approved a 14% increase in adult weekly passes from \$14 to \$16; ridership dropped 9% - the sharpest one-year decrease in the last seven years. While a 3% reduction in bus service hours and a 2% reduction in bus miles in 2007 also contributed to the ridership drop, MCTS rider survey results indicate that the fare increase played a more significant role.

Survey results displayed in **Table 5** illustrate the degree to which the \$2 increase in the adult weekly pass altered rider behavior between 2006 and 2007. Riders citing “fare costs” as a reason for decreasing their bus usage tripled from 3.6% in 2006 to 10.9% in 2007. Conversely, those riders citing “service change” as the reason dropped from 14.5% in 2006 to 8.7% in 2007.

The fare increase also resulted in increased use of cash by riders – up from 40.4% in 2006 to 47.3% in 2007. There was a corresponding drop in those normally using weekly passes, indicating a preference for riding less and paying via single cash fares. Lastly, and perhaps most telling, is that the percentage of frequent riders (those riding at least once a week) fell from 74% to 69%, an indication that the weekly pass increase discouraged bus usage by frequent riders.

**Table 5: Rider behavior changes, MCTS rider survey results, 2007 and 2006**

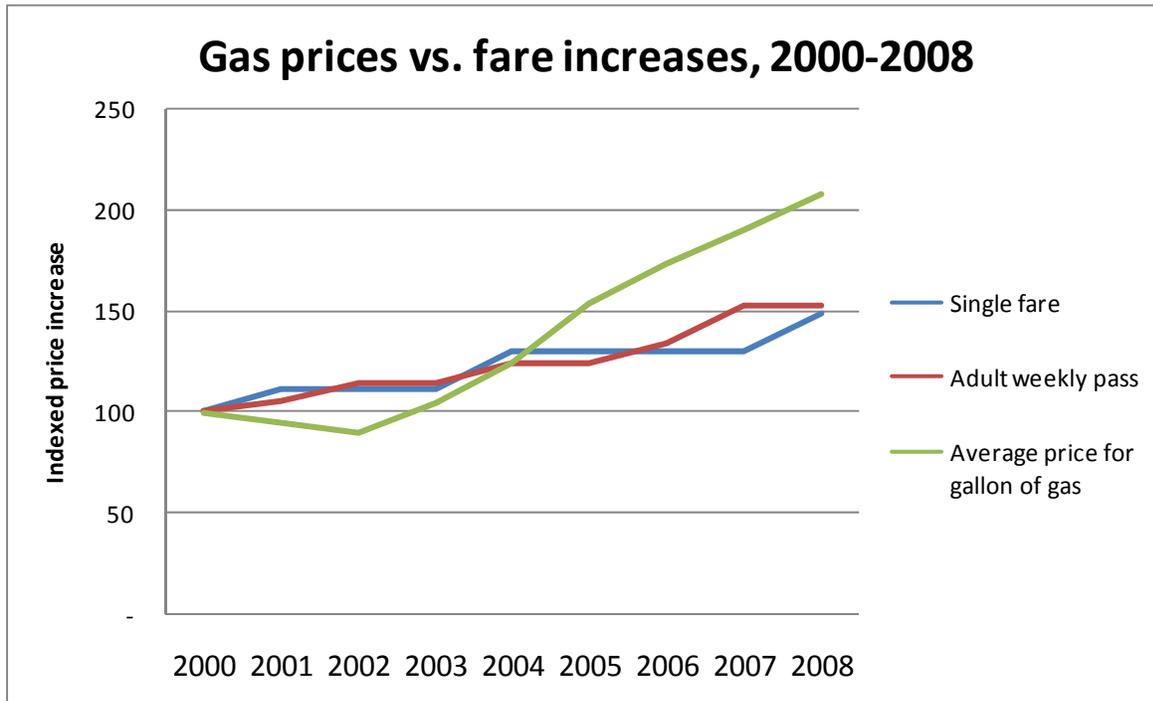
<b>Reasons bus usage decreased in last three months</b>	<b>2007</b>	<b>2006</b>
Fare costs	10.9%	3.6%
Service change	8.7%	14.5%
<b>Times ridden in last three months</b>	<b>2007</b>	<b>2006</b>
Less than once a week	31.5%	26.5%
At least once a week	68.5%	73.5%
<b>How fare is normally paid</b>	<b>2007</b>	<b>2006</b>
Cash	47.3%	40.4%
Weekly pass	16.0%	20.5%

*Source: Milwaukee County Transit System*

Another factor in the 9% ridership decline in 2007 was the Milwaukee Public Schools (MPS) decision to issue individual bus tickets to students rather than weekly bus passes. The move came after two consecutive price increases in weekly student fares – from \$11.50 in 2005 to \$13.75 in 2006, and to \$15 in 2007. The decision’s effect on MCTS ridership was that students presumably rode less often without a weekly pass. Additionally, the phasing out of weekly passes suppresses ridership figures because ridership calculations count weekly pass holders as multiple rides but individual ticket users as just one ride. Regardless, even if MPS had chosen to ignore recent price increases and maintained its previous policy of issuing weekly passes, ridership levels in 2007 still would have been expected to decrease in excess of 3% based on past years in which similar fare increases were coupled with service decreases.

While the data indicate that fare increases have had a negative impact on ridership, **Chart 10** shows that fare increases were actually quite modest when compared to the increase in the cost of gas over the same time period. Thus, bus fares have seemingly been competitive with the cost of operating a private vehicle. However, any comparison between the two during the time period under study must take into account the almost 17% reduction in bus service.

**Chart 10: Indexed growth in gas prices vs. MCTS fare increases, 2000-2008**



Source: Milwaukee County Transit System

As can be seen in **Table 6**, a large percentage (75%) of MCTS bus riders are “captive riders” – people who typically do not have transportation choices when faced with getting to and from work, shopping, family, job interviews and medical appointments. In fact, a majority of MCTS bus riders (52%) did not have a valid driver’s license in 2007, meaning that they likely had no choice but to ride the bus.

**Table 6: Rider profile, 2007**

	2007
Do not have a valid driver’s license	52%
Always have a choice to ride bus or use alternative	23%
Don't always have a choice to ride bus or use alternative	75%
<b>Primary reason for bus usage</b>	
Work	43%
Social/recreational	20%
Medical reasons	14%
Shopping	13%
School	9%

Source: Milwaukee County Transit System

To the degree that service reductions have negatively impacted the mobility of this core group of “captive” riders, this is an economic concern for the Milwaukee community. If not served by transit, these riders essentially become immobile human capital in an economy that relies on the free, unfettered flow of goods, capital and labor.

As policymakers consider the future of transit in Milwaukee, they should take note of ridership trends which indicate that “captive” riders may not be adequately served. In 2007, 43% of MCTS riders used the bus system to get to and from work. With most system users “captive” and nearly half citing “work” as their primary reason for bus usage, any additional reduction in bus service may negatively impact Milwaukee’s economic competitiveness by impeding the ability of potential workers to get to jobs throughout the region.

The experience of MCTS over the past seven years does indicate, however, that implementation of dramatic service enhancements may not be necessary to increase ridership. Rather, recent trends suggest that the key to halting and possibly reversing ridership decreases could be a simple commitment to hold the line on additional service cuts and fare increases.

## MILWAUKEE COUNTY TRANSIT SYSTEM AND NATIONAL PEER SYSTEM COMPARISON

In this section, we analyze MCTS by utilizing data that ranks it against 13 peer bus systems in four key areas: revenue mix, employee costs, change in service level, and overall system efficiency (cost per revenue hour, cost per passenger trip). Peer transit agencies included are the same as those used by the State of Wisconsin Department of Transportation (WisDOT) in its regular cost-efficiency analysis for Wisconsin’s public transit systems. According to WisDOT, the peer bus systems were selected because of their similar size and operating characteristics to MCTS. Only data from the “bus” component of peer transit systems were used in this analysis. All data is from the Federal Transit Administration’s National Transit Database.

**Table 7** details the dependence of MCTS on directly generated revenue (consisting mainly of farebox revenue) and state government aid to meet its annual revenue needs. MCTS ranks 3<sup>rd</sup> and 5<sup>th</sup> respectively against its peers in these two revenue categories, while it receives comparatively less revenue from federal and local sources compared to peer system averages. Interestingly, Milwaukee’s local revenue source is much lower than national norms, and its state revenue is much higher. While peer systems derive an average of 23% of their revenue from state funds, MCTS receives 41% of its revenue from the state. MCTS receives 12% of its revenue from its primary local funding source – the property tax – while peer systems derive 28% of their revenue from local sources.

**Table 7: MCTS & peer revenue sources as a percent of total revenue, 2006**

Transit System	2006 Total Revenue (millions)	Directly Generated Funds	Rank	Federal Funds	Rank	State Funds	Rank	Local Funds	Rank
RTD (Denver, CO) <sup>4</sup>	\$350.0	88%	1	12%	9	0%	14	0%	11
COTA (Columbus, OH)	\$67.7	82%	2	16%	6	2%	10	0%	11
<b>MCTS (Milwaukee, WI)</b>	<b>\$148.9</b>	<b>35%</b>	<b>3</b>	<b>12%</b>	<b>8</b>	<b>41%</b>	<b>5</b>	<b>12%</b>	<b>8</b>
AC Transit (Oakland, CA)	\$272.6	34%	4	12%	10	6%	8	48%	5
SORTA (Cincinnati, OH)	\$81.4	34%	5	14%	7	3%	9	50%	4
Metro (Minneapolis, MN)	\$227.9	34%	6	7%	14	59%	2	0%	11
RIPTA (Providence, RI)	\$85.1	27%	7	16%	5	45%	3	11%	9
METRO (St. Louis, MO)	\$177.9	25%	8	10%	13	1%	13	64%	1
IndyGo (Indianapolis, IN)	\$44.2	23%	9	23%	2	21%	7	33%	7
Port Authority (Pittsburgh, PA)	\$336.3	22%	10	28%	1	42%	4	8%	10
GCRTA (Cleveland, OH)	\$227.1	22%	11	11%	11	66%	1	0%	11
KCATA (Kansas City, MO)	\$68.5	18%	12	19%	4	1%	12	63%	3
TARC (Louisville, KY)	\$59.4	15%	13	21%	3	2%	11	63%	2
DDOT (Detroit, MI)	\$184.1	14%	14	11%	12	29%	6	46%	6
<b>Average</b>	<b>\$166.5</b>	<b>34%</b>	<b>--</b>	<b>15%</b>	<b>--</b>	<b>23%</b>	<b>--</b>	<b>28%</b>	<b>--</b>

Source: National Transit Database

<sup>4</sup> Directly generated funds for both the RTD in Denver and COTA in Columbus include sales tax revenue generated from a regional sales tax.

**Table 8** shows that salary growth at MCTS was flat from 2000 to 2006, lower than the average 6% salary growth among peer bus systems. Service reductions most likely contributed to MCTS' ability to eliminate growth in salaries during this period.

**Table 8: MCTS & peer system employee expense change, 2000-2006**

Transit System	2000-2006 salary growth	Rank	2000-2006 benefit growth	Rank
RIPTA (Providence, RI)	34%	1	77%	2
AC Transit (Oakland, CA)	25%	2	61%	4
KCATA (Kansas City, MO)	20%	3	57%	5
IndyGo (Indianapolis, IN)	16%	4	67%	3
TARC (Louisville, KY)	13%	5	41%	9
Metro (Minneapolis, MN)	13%	6	43%	8
SORTA (Cincinnati, OH)	10%	7	46%	6
Port Authority (Pittsburgh, PA)	9%	8	78%	1
METRO (St. Louis, MO)	0%	9	9%	13
<b>MCTS (Milwaukee, WI)</b>	<b>0%</b>	<b>10</b>	<b>45%</b>	<b>7</b>
RTD (Denver, CO)	-2%	11	2%	14
DDOT (Detroit, MI)	-6%	12	41%	10
GCRTA (Cleveland, OH)	-8%	13	24%	11
COTA (Columbus, OH)	-13%	14	23%	12
<b>Average</b>	<b>6%</b>		<b>43%</b>	

Source: National Transit Database

Despite zero salary growth, employee benefit costs grew 45% at MCTS, as compared to an average of 43% for peer systems. MCTS ranks 7<sup>th</sup> in benefit growth. Although we cannot tell conclusively from the data, growth in MCTS employee benefit costs undoubtedly was driven by health insurance premiums. The Milwaukee region's high health costs are well documented and were highlighted in a 2004 study by the United States Governmental Accountability Office (GAO). The study found the Milwaukee region to have hospital inpatient prices 63% higher than average, ranking Milwaukee as 5<sup>th</sup> priciest in this category out of 239 peer metro regions in the U.S. In the same study, Milwaukee physician prices were found to be 33% higher than the U.S. metro average, ranking it 16<sup>th</sup> highest in the country. It should be noted that employee benefit concessions made since 2007 are not included in this analysis.

Officials at MTS also contend that the number of salary/non-represented staff employed is low compared to peers. A 2003 WisDOT performance audit of MCTS stated that MTS had the second lowest percentage of general and administrative employees of any of the peer systems. MTS reports that between 2004 and 2008, it reduced salary/non-represented staff by an additional 12.4%.

**Table 9**, which ranks MCTS against peer bus systems in ridership and service level changes, shows that no peer system lost more riders than MCTS from 2000 to 2006. MCTS' last place finish in ridership growth (*Unlinked Passenger Trips*) corresponded with a second-to-last place finish in the growth in revenue miles traveled by MCTS buses, and a third-to-last place finish in the growth in revenue hours. The table clearly displays the correlation between service level and ridership declines among peer transit systems. The only transit system out of the 14 to cut service levels and see an increase in ridership was the GCRTA in Cleveland, Ohio.

**Table 9: MCTS and peer system service change, 2000-2006**

Transit System	Unlinked Passenger Trip Change	Rank	Vehicle Revenue Mile Change	Rank	Vehicle Revenue Hour Change	Rank
RIPTA (Providence, RI)	22%	1	13%	1	50%	1
GCRTA (Cleveland, OH)	12%	2	-13%	11	-12%	11
RTD (Denver, CO)	6%	3	13%	2	19%	2
AC Transit (Oakland, CA)	-1%	4	-1%	4	0%	5
KCATA (Kansas City, MO)	-3%	5	-1%	3	14%	3
SORTA (Cincinnati, OH)	-4%	6	-6%	8	-5%	9
TARC (Louisville, KY)	-6%	7	-2%	5	-2%	8
Port Authority (Pittsburgh, PA)	-10%	8	-4%	7	-7%	10
Metro (Minneapolis, MN)	-12%	9	-6%	9	7%	4
METRO (St. Louis, MO)	-14%	10	-12%	10	0%	6
IndyGo (Indianapolis, IN)	-15%	11	-3%	6	0%	7
DDOT (Detroit, MI)	-16%	12	-14%	12	-23%	14
COTA (Columbus, OH)	-21%	13	-20%	14	-22%	13
<b>MCTS (Milwaukee, WI)</b>	<b>-32%</b>	<b>14</b>	<b>-15%</b>	<b>13</b>	<b>-14%</b>	<b>12</b>
<b>Average</b>	<b>-7%</b>		<b>-5%</b>		<b>0%</b>	

Source: National Transit Database

The most common method to measure transit system performance is to divide total operating expenses (salaries, employee benefits, bus maintenance, fuel, etc.) into either the hours of bus service (“service efficiency”) or the number of passenger trips (“cost effectiveness”). Both performance measures are employed by the state in its efficiency audit of Wisconsin’s transit systems, conducted once every five years. The following tables display the results of benchmarking MCTS against its peers using these efficiency measures.

**Table 10** indicates that the service efficiency of MCTS fixed route buses was better than average. In 2006, its cost per hour of vehicle operation was \$88.46, up from \$69.41 in 2000. The increase hurt MCTS’ ranking against its peers, moving it from 2<sup>nd</sup> most efficient in 2000 to 6<sup>th</sup> in 2006. Health care costs and steady service cuts may have played a role in MCTS’ decreased service efficiency. Because certain costs are fixed, a reduction in service does not necessarily directly respond to reductions in cost. Regardless, the service efficiency of MCTS was still \$8.53 per hour cheaper than the peer average.

**Table 10: Service efficiency, 2006 & 2000**

Transit system	2006	Rank	2000	Rank
IndyGo (Indianapolis, IN)	\$72.57	1	\$71.69	4
TARC (Louisville, KY)	\$77.56	2	\$63.81	1
SORTA (Cincinnati, OH)	\$79.93	3	\$71.42	3
METRO (St. Louis, MO)	\$83.84	4	\$89.71	9
KCATA (Kansas City, MO)	\$85.45	5	\$82.04	6
<b>MCTS (Milwaukee, WI)</b>	<b>\$88.46</b>	<b>6</b>	<b>\$69.41</b>	<b>2</b>
GCRTA (Cleveland, OH)	\$90.33	7	\$87.32	8
Metro (Minneapolis, MN)	\$97.53	8	\$94.62	11
COTA (Columbus, OH)	\$98.62	9	\$85.77	7
RIPTA (Providence, RI)	\$104.91	10	\$102.05	14
RTD (Denver, CO)	\$105.54	11	\$94.31	10
Port Authority (Pittsburgh, PA)	\$106.98	12	\$81.90	5
AC Transit (Oakland, CA)	\$128.30	13	\$99.11	12
DDOT (Detroit, MI)	\$137.84	14	\$99.93	13
<b>Average</b>	<b>\$96.99</b>		<b>\$85.22</b>	

Source: National Transit Database

**Table 11** indicates that the cost effectiveness of MCTS fixed route buses was best of all peer systems. Although costs per passenger did increase rather robustly between 2000 and 2006 – most likely due to rising fuel costs, health benefit expenses and reductions in ridership – MCTS’ reign as the most cost effective system among its peers continued. MCTS historically has measured well in cost effectiveness due to the relatively high population density of Milwaukee compared to peer cities.

**Table 11: Cost effectiveness, 2006 & 2000**

Transit system	2006	Rank	2000	Rank
<b>MCTS (Milwaukee, WI)</b>	<b>\$2.62</b>	<b>1</b>	<b>\$1.53</b>	<b>1</b>
GCRTA (Cleveland, OH)	\$2.84	2	\$3.18	12
SORTA (Cincinnati, OH)	\$2.88	3	\$2.36	3
Metro (Minneapolis, MN)	\$3.23	4	\$2.30	2
TARC (Louisville, KY)	\$3.32	5	\$2.48	4
RTD (Denver, CO)	\$3.46	6	\$2.79	9
IndyGo (Indianapolis, IN)	\$3.47	7	\$2.53	5
METRO (St. Louis, MO)	\$3.52	8	\$2.93	10
RIPTA (Providence, RI)	\$3.65	9	\$2.63	6
AC Transit (Oakland, CA)	\$3.78	10	\$2.65	7
COTA (Columbus, OH)	\$4.15	11	\$3.31	13
KCATA (Kansas City, MO)	\$4.19	12	\$3.16	11
Port Authority (Pittsburgh, PA)	\$4.30	13	\$2.73	8
DDOT (Detroit, MI)	\$4.71	14	\$3.44	14
<b>Average</b>	<b>\$3.58</b>		<b>\$2.72</b>	

Source: National Transit Database

In summary, MCTS compares favorably against its peers in service efficiency and cost effectiveness. That MCTS has been able to sustain efficient bus operations while posting the largest ridership losses among its peers is no small accomplishment. While the pursuit of efficiency improvements should continue at MCTS, cost savings may be limited because of the system’s already better-than-average efficiency ratings.

## MILWAUKEE COUNTY TRANSIT SYSTEM FUNDING – THE FUTURE

To say that MCTS officials face an extremely difficult challenge as they look to prepare future budgets is an understatement. Ridership declined in 2007 by 9%, an ominous sign for future farebox revenue collections. While state operating assistance should increase 2.5% in 2009 based on the 2007-09 State Budget, it is highly questionable whether annual increases of that magnitude will continue because of the state's budget problems. Increases in the county's property tax levy commitment also are highly dubious because of its structural deficit, and the potential need for the county to allocate additional resources to offset growing paratransit costs. In the meantime, operating expenditure needs likely will continue to grow at least at the recent historical rate of 3.6%, given projected health care and fuel increases and negotiated pay increases for employees.

MCTS also must face its federal funding dilemma. While \$4.3 million will remain at year end from the \$44 million originally banked in 2001, and an additional \$18 million could roll in annually from the Federal funding formula, MCTS officials know they cannot continue to defer spending a significant percentage of those dollars on bus replacements and a new farebox system. Consequently, unless Wisconsin's congressional delegation is able to deliver a significant increase in MCTS' federal earmark – a feat that is questionable in light of movement in Congress toward eliminating earmarks – future budgets seem unlikely to match the \$18.7 million in capitalized maintenance funds utilized in 2008.

### Fiscal Projections

**Table 12** lays out MCTS' fixed route operating budget for 2008, and then makes projections for 2009-2012. In making our projections, we first assumed that farebox system and bus purchases will proceed per the schedule currently projected by MCTS. We then developed a series of assumptions regarding funding streams. These projections are based on information provided by MCTS and have been reviewed for reasonableness with both current and former MCTS officials. The assumptions – which we would deem to be relatively optimistic – are as follows:

- Federal earmark for bus purchases doubles from \$1.5 to \$3 million per year.
- Farebox and other transit revenue each increase 3% per year.
- Operating expenditures increase 3.5% per year.
- State operating assistance increases 2.5% per year. Also, it is assumed that the special annual appropriation of \$3.2 million provided to MCTS in the 2007-2009 state budget becomes part of MCTS' base appropriation and continues from 2010 to 2012.
- Federal 5307 formula funds increase 1% per year.
- County property tax levy remains flat.
- The entire \$4.3 million in banked federal capitalized maintenance reserves is utilized in the operating budget in 2009.

- MCTS utilizes \$4 million in federal dollars to install a new farebox collection system in 2009, and then initiates a three-year schedule of bus purchases beginning in 2010, with purchases of 55 buses each of the first two years, and 40 in the third year.
- MCTS continues to utilize similar amounts of federal 5307 funding for paratransit, non-bus capital improvements and “other” categories as it did in 2008.
- There are no service cuts or enhancements during the four-year period.
- Fare increases would be required to the extent necessary to generate a 3% annual increase in farebox revenue.

**Table 12: MCTS funding projections, 2008-2012**

	2008 Budget	2009 Budget	2010 Budget	2011 Budget	2012 Budget
<b>Revenue</b>					
Passenger Revenue	\$43,548,938	\$44,855,406	\$46,201,068	\$47,587,100	\$49,014,713
Other Transit Revenue	\$3,530,000	\$3,635,900	\$3,744,977	\$3,857,326	\$3,973,046
<b>Total Operating Revenue</b>	<b>\$47,078,938</b>	<b>\$48,491,306</b>	<b>\$49,946,045</b>	<b>\$51,444,427</b>	<b>\$52,987,759</b>
<b>Expenses</b>					
Employee Expenses	\$115,712,148	\$119,762,073	\$123,953,746	\$128,292,127	\$132,782,351
Bus Repair Parts	\$2,805,000	\$2,903,175	\$3,004,786	\$3,109,954	\$3,218,802
Fuel	\$9,150,605	\$9,470,876	\$9,802,357	\$10,145,439	\$10,500,530
Other Transit Expenses	\$6,742,719	\$6,978,714	\$7,222,969	\$7,475,773	\$7,737,425
<b>Total Operating Expenses</b>	<b>\$134,410,472</b>	<b>\$139,114,839</b>	<b>\$143,983,858</b>	<b>\$149,023,293</b>	<b>\$154,239,108</b>
<b>Public Funding</b>					
Federal (Capitalized Maintenance)	\$18,700,000	\$19,014,276	\$4,292,154	\$943,916	\$5,778,845
State Operating Assistance	\$55,392,000	\$56,776,800	\$58,196,220	\$59,651,126	\$61,142,404
Local (Milwaukee County Tax Levy)	\$12,964,534	\$12,964,534	\$12,964,534	\$12,964,534	\$12,964,534
Other State and Federal	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000
<b>Total Public Funding</b>	<b>\$87,331,534</b>	<b>\$89,030,610</b>	<b>\$75,727,908</b>	<b>\$73,834,576</b>	<b>\$80,160,783</b>
<b>Surplus/Deficit</b>	<b>\$0</b>	<b>(\$1,592,922)</b>	<b>(\$18,309,905)</b>	<b>(\$23,744,291)</b>	<b>(\$21,090,566)</b>

The picture painted by these projections clearly is ominous, with potential budget holes of \$1.6 million in 2009<sup>5</sup>, \$18.3 million in 2010, \$23.7 million in 2011 and \$21.1 million in 2012. These projections are largely consistent with earlier warnings issued by the Southeastern Wisconsin Regional Planning Commission (SEWRPC) and the Southeastern Wisconsin Regional Transit Authority board. ***It must be emphasized, however, that these projections could be altered significantly by the decisions made by transit administrators and Milwaukee County policymakers regarding the timing of bus and farebox replacement and use of reserves. It also must be emphasized that good fortune at the federal level could ameliorate the size of impending deficits to some extent.***

There is no debating that MCTS must, in the near future, purchase a new farebox system for all of its buses, and begin replacing 150 buses that it ordinarily would have begun to replace this year. It is possible, however, that farebox replacement could be deferred again past 2009 and could possibly be stretched over two years. It is also possible that MCTS could extend the 14-

<sup>5</sup> Because our projections assume only a 3.5% annual increase in fuel costs, the projected hole for 2009 may be understated. It is possible that fuel costs alone could increase more than \$3 million for the 2009 budget.

year replacement cycle (already up from 12 years) to 15 years or even more, or that it could stretch out bus purchases over a multi-year period that exceeds three years (though it would then bump up against the next scheduled replacement cycle for buses purchased during the late 1990s and early this decade). Finally, it is possible that increased funding from the federal government – either through earmarks provided by the state’s well-placed congressional delegation or positive adjustments in federal funding formulas – could help pay for these items to a much greater extent than is projected in **Table 12**.

There is potentially a large price to pay, however, for continued deferral. For one thing, there may be additional operating costs associated with deferral of bus purchases due to greater maintenance needs of older buses, and there is a potential negative impact on ridership if buses break down more frequently and service becomes less reliable. Also, continued deferral of needed capital purchases and depletion of remaining reserves simply make the fiscal impact of these capital purchases even greater when they cannot be deferred any longer, which makes it that much more difficult to develop a fiscal solution.

In addition, there is a set of real fiscal factors that cannot be ignored any longer. If a decision is made to use the remaining funds in the system’s federal capital reserve in the 2009 budget to stave off operating cuts, then no reserves would exist for 2010, creating a hole of \$4.3 million in that year’s budget, whether or not any fareboxes or buses are replaced in that year. Combined with the growing cost pressures of paratransit and fuel, this would appear to set up a difficult decision for 2010 on additional steep cuts in service and/or increases in fares.

## POTENTIAL POLICY OPTIONS

We divide our discussion of potential options into three separate categories. The options were formulated based on our projections contained in the previous section.

I. Year-to-year approach

*Divert property tax dollars*

*Increase property taxes*

*Re-bid transit management contract*

*Raise paratransit fares, cut paratransit service and/or increase the paratransit charge to human services programs*

*Continue to raise fares and cut service*

II. Triage approach

*Increase vehicle registration fee for fixed route*

*Increase vehicle registration fee for paratransit*

*Use all or portion of \$91.5 million for Bus Rapid Transit (BRT)*

*Combination Vehicle Registration Fee/BRT Option*

III. Long-term/state-enabled solutions

### I. Year-to-Year Approach

This approach would continue the same budget approach that has been employed by policymakers at the state and county level during the past several years. No new local or regional revenue sources would be considered. State funding would remain subject to biennial budget deliberations, with no promise of either sharp increases or decreases. Federal funding also would be subject to annual congressional appropriations, again with no promise of positive or negative change. Consequently, no service enhancements would be considered to boost farebox revenue, and Milwaukee County would deal year by year with the policy choices available to address the system's annual deficit. That deficit, as described above, could fall anywhere between \$4.3 million and \$18.3 million in 2010, depending upon whether bus purchases are initiated in that year.

Potential options to address this problem on an annual basis are described below. Once the replacement of 150 new buses is initiated, it is likely that a combination of several of these options would be required due to the funding need. We do not consider permanent deferral of bus purchases to be a potential option.

*Divert property tax dollars*

The county faces a significant annual structural deficit of its own – not including the transit deficit – so the notion that property tax dollars diverted from other areas of government would be utilized to address the transit crisis, as opposed to addressing structural shortfalls, is questionable. Nevertheless, if county policymakers wish to place a high priority on maintaining

transit service, they could elect to divert dollars from other discretionary areas, such as parks, cultural facilities and human services “overmatch” (the additional discretionary dollars allocated to human services that exceed state-mandated requirements), or to re-allocate savings from other areas of government generated by privatization initiatives or other approaches. They also could elect to utilize one-time funds generated from land sales for transit to “get by” on an annual basis, though such a practice would not constitute sound budget policy.

### *Increase property taxes*

This option would entail agreement by county policymakers to increase the property tax on an annual basis, and capture part of that increase for transit. Similar to the option above, this would necessitate placing mass transit above other county needs and structural issues. It also would necessitate agreement to increase the property tax in the first place. Because of state-imposed property tax caps, there are limitations as to how much property taxes could be increased on an annual basis, which would suggest that utilization of this option alone would not be sufficient to address the immediate fiscal issues facing MCTS.

### *Re-bid transit management contract*

It has been suggested that Milwaukee County might realize significant savings by again putting out to bid the contract currently held by MTS to provide and administer transit service. Because the management contract only covers the cost of the two senior management officials at MTS, direct savings from a new management contract would be insignificant. It is hypothetically possible, however, that a new system manager could develop a more efficient management model or implement strategies to reduce labor costs. It should be pointed out that previous efforts to attract additional bidders have been unsuccessful, and that the savings that might be generated could be limited by the cost of fuel, wages and health care that any provider would need to accommodate.

### *Raise paratransit fares, cut paratransit service and/or increase the paratransit charge to human services programs.*

As noted earlier, the fixed route and paratransit budgets are combined by the county into one overall transit budget. Hypothetically, therefore, the budget holes faced by the fixed route service could be addressed by diverting additional property tax levy from paratransit. This could be accomplished via any of the following options, either individually or combined:

1. Increase paratransit fares, which currently stand at \$3.25 each way, but which could statutorily be increased to as high as double the regular fixed route fare (\$4.00). The impact of fare increases on riders would have to be carefully deliberated, but in light of the county’s estimate that 65% of paratransit fares are paid not by individuals, but by government programs that provide transportation for clients, that impact

could be less than otherwise anticipated. The county executive's 2008 recommended budget included such a fare increase, which would have raised \$691,000 in revenue, but the proposal was not included in the final budget.

2. Reduce service costs by limiting paratransit service only to those who live within three-fourths of a mile of a fixed transit route, which is the minimum mandated by federal law. Again, the impact on persons with disabilities would need to be carefully weighed. MCTS included this option in its 2008 budget request and estimated savings of \$2.3 million due to a reduction of 127,000 trips. The county executive did not include this option in his 2008 recommended budget.
3. Increase the amount charged to the county's Family Care and long-term support programs for each ride provided to clients. That charge now stands at \$7.00 per ride, which is still well below the actual cost of the ride. However, to the extent that these programs could not absorb the extra cost with federal or state dollars, this strategy could end up increasing the property tax burden in other areas of the county budget.

It has also been suggested by the director of the county's Office for Persons with Disabilities that MCTS could be doing more to encourage paratransit users to instead utilize the fixed route system. MCTS recently has applied for federal New Freedom funds that could assist it in that endeavor.

### *Continue to raise fares and cut service*

Policymakers obviously have the option of continuing to raise fares and cut service as a means of bridging the operating budget gap. The disadvantages of doing so have been well documented both in this report and elsewhere. Also, the magnitude of the budget hole – assuming that significant bus purchases must occur without a huge influx of additional federal dollars – would make the required service cuts far exceed those that have occurred in the last eight years combined, and would ultimately limit service almost exclusively to a core set of routes within central city Milwaukee.

## **II. Triage Approach**

This approach would involve a deliberate and concerted effort by the county to immediately attempt to put MCTS back on sound fiscal footing for the next two to four years while maintaining existing service and limiting fare increases, but without relying on increased use of property tax revenue. The approach focuses on solutions that Milwaukee County could pursue on its own, without state legislative approval.

The underlying philosophy of this approach is that while a comprehensive, dedicated funding source appears necessary to permanently address MCTS' structural budget problems, it is

uncertain when and whether this approach will actually happen, particularly if it must first be brought to voters for approval. In the meantime, the data indicate it is critical to hold the line on fare increases and service cuts for at least the next two to four years to help stabilize or even begin to grow ridership, and to take other prudent steps to reduce the magnitude of a full-fledged funding crisis when significant bus purchases are required.

There are two primary components that could be associated with this approach: implementation of a vehicle registration fee for all vehicles kept in Milwaukee County; and use of at least some of the \$91.5 million in federal funds available for a Milwaukee Connector Study transit project for a “Bus Rapid Transit” (BRT) system.

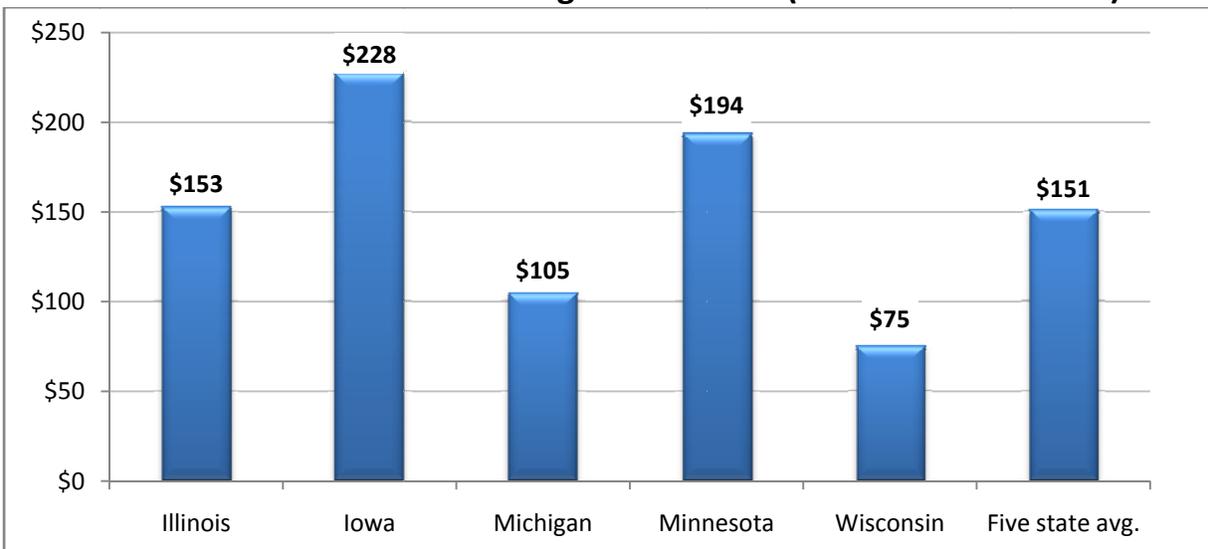
The vehicle registration fee option is not necessarily a better or fairer revenue option than other fee or tax options, but it is the *only* new revenue option available to Milwaukee County that would not require state legislative approval. Per Section 341.35(1) of the Wisconsin Statutes, any municipality or county may impose an annual flat registration fee on all motor vehicles registered in the state and customarily kept in that municipality or county. The only stipulation is that the proceeds be used for transportation purposes. The City of Beloit is the only municipality in Wisconsin that currently employs this option.

While this option therefore stands out because of its immediate practicality, there also are other factors that could be considered, including the following:

- A vehicle registration fee is not a general tax on all taxpayers, but is a user fee specifically imposed on users of the transportation system. While it can be argued that automobile owners do not necessarily use the transit system to which the fee proceeds would be dedicated, it also can be argued that they benefit substantially from a healthy transit system because of the positive impacts on congestion and parking.
- It is unlikely that imposition of a moderate vehicle registration fee in Milwaukee County will have a negative impact on the county’s economic growth. Unlike a sales tax or gas tax, which ostensibly could cause individuals to travel to adjacent counties to make purchases, a modest vehicle registration fee would be unlikely to impact consumer decisions, including where to purchase their home.
- A vehicle registration fee can be seen as relatively regressive in that it impacts all automobile owners equally regardless of income, but it also can be seen as progressive in that it would not impact those who cannot afford one or more automobiles. Moreover, it would not impact certain elderly and disabled individuals who do not drive.
- Registration fees in Wisconsin are relatively low when compared to other states. According to WisDOT, Wisconsin’s straight \$75 fee ranks 8<sup>th</sup> in the nation for a late

model mid-size sedan. However, when the comparison includes other state registration-related fees and taxes, Wisconsin drops to 20<sup>th</sup>, and when states are compared by all registration charges levied (both state and local), Wisconsin falls to 37<sup>th</sup>. WisDOT’s analysis also indicates that Wisconsin’s combined state and local registration fees are the lowest among the five states in our region, as **Chart 11** demonstrates.<sup>6</sup>

**Chart 11: State and local vehicle registration fees (2006 mid-size sedan)**



Source: Wisconsin Department of Transportation

One drawback to the vehicle registration fee as a solution to MCTS’ fiscal woes is that it is not as lucrative as other potential revenue sources, such as the sales or gas tax. We calculate that a \$5 vehicle registration fee in Milwaukee County, which is the minimum fee that would be logical to consider, would generate approximately \$2.8 million annually (this is net of a 10-cent-per-vehicle state administrative charge). By contrast, a 0.1% sales tax in Milwaukee County would generate approximately \$13.2 million annually<sup>7</sup>, and according to SEWRPC, a 1-cent motor fuel tax would generate approximately \$4 million.<sup>8</sup>

Hence, it would take a vehicle registration fee in the \$35-\$40 dollar range to cover the projected budget hole that could emerge within the next two to three years. A fee in the \$75 range also would eliminate all property tax contributions to transit (including paratransit and indirect costs). It is certainly questionable whether policymakers would consider implementing a new fee of \$75.

<sup>6</sup> Transportation Fact Sheets: “How does Wisconsin’s funding compare to other states?”, <http://www.dot.wisconsin.gov/about/budget.htm>, Accessed April 11, 2008

<sup>7</sup> This amount is derived from 2008 projected net revenue collected from the existing .5% sales tax in Milwaukee County (accounting for the existing 1.75% state administrative fee) contained in the county’s 2008 Adopted Budget, p. 1996-1.

<sup>8</sup> Minutes of the 13<sup>th</sup> meeting of the Southeastern Wisconsin Regional Transit Authority, May 21, 2007, pp. 41-42.

As part of a “triage” approach, however, a modest vehicle registration fee could constitute a viable option. We believe that a \$10 vehicle registration fee would meet the definition of “modest,” and our analysis therefore focuses on a fee of that size. A \$10 vehicle registration fee in Milwaukee County would generate approximately \$5.6 million per year. We present two slightly different options for implementing such a fee.

#### *Vehicle registration fee option # 1 – fixed route*

Under this option, the \$5.6 million would be utilized in 2009 to address the projected deficit for that year while averting the potential for additional service cuts and fare increases, and to virtually eliminate the need to use remaining capital reserves in the 2009 operating budget. The approximately \$4 million remaining in reserve could then be preserved for use on bus purchases when those need to occur, or to address operating needs in 2010 or beyond.

While implementation of a \$10 vehicle registration fee alone could therefore help stabilize the transit system in 2009 and for as long as significant bus purchases are deferred, the revenue generated from such a fee is not nearly enough to address the impact of bus replacements. However, if combined with the BRT option described later, it comes closer to meeting that need.

#### *Vehicle registration fee option # 2 – paratransit*

Under this option, the vehicle registration fee would be dedicated specifically to the paratransit system and accomplish the goal of completely eliminating reliance on the property tax for this form of transit. The county would separate the fixed route and paratransit systems into two distinct budgets and specify that paratransit is only to be funded with vehicle registration fee revenue plus the existing \$1.7 million allocation of federal capitalized maintenance dollars. The \$5.6 million projected for the fee would exceed the \$4.7 million in property tax levy budgeted for paratransit in 2008, but due to ridership growth the additional funding may well be needed to cover costs in 2009.

In the future, to the extent that vehicle registration fee revenue did not cover projected paratransit costs, a fare increase or other paratransit revenue/expenditure reductions, such as those cited earlier in this section, might have to be pursued, or the fee would have to be raised. On the plus side, the paratransit system would have a dedicated source of revenue and would no longer have to compete with fixed route and other county discretionary programs for property tax allocations. Meanwhile, the existing \$4.7 million in property tax levy dedicated to paratransit could remain in the fixed route budget to help stabilize that system. Also, if the dedicated vehicle registration fee revenue exceeds paratransit’s needs, then additional state operating assistance could be directed to the fixed route system.

## *BRT*

The other component of “triage” could be a plan to reduce the need for bus purchases funded with capitalized maintenance dollars by pursuing the BRT option. The Milwaukee Connector Study is considering the best use for \$91.5 million in federal dollars allocated for transit improvements in metropolitan Milwaukee. One of the proposals under consideration is BRT, a new express bus service that would include modern buses, priority bus lanes, GPS-based vehicle tracking, new ticket dispensing machines and bus shelters and other amenities. Two slightly different BRT routes have been proposed by County Executive Walker and Mayor Barrett and will be studied during the next several months. The county executive also has proposed a third BRT route to be implemented pending the success of the first two.

A decision to move forward with Phase 1 of this option (consisting of implementation of the first two routes) could allow MCTS to purchase up to 35 new BRT buses with a portion of the \$91.5 million, and therefore to reduce its regular bus purchases by 35 buses, saving approximately \$11 million.<sup>9</sup> This would stretch federal capitalized maintenance dollars and potentially delay the onset of a major funding gap by a year, as well as decreasing the size of that gap. According to SEWRPC, it is also possible that the new BRT routes could qualify for CMAQ funding, which could bring additional operating funds into the system for a three-year period. Because of the uncertainty of this possibility, our funding projections in the pages that follow do not include additional CMAQ funds for BRT operations, but if successfully implemented this strategy could provide additional short-term fiscal relief.

### *Combination vehicle registration fee/BRT option*

We revise our original projections for the 2009-2012 timeframe to include the following scenario: MCTS receives an additional \$5.6 million per year in revenue from the vehicle registration fee; \$4 million in capital reserves are not used in the 2009 operating budget and are preserved for bus purchases; purchase of new fareboxes does not take place until 2011 and then is phased in over two years; and regular bus purchases between 2010 and 2012 are reduced from 150 to 115 in recognition of implementation of BRT (and purchased under a schedule of 35 in 2010, 40 in 2011 and 40 in 2012). Under that scenario, shown in **Table 13**, the MCTS budget hole would be eliminated in 2009 and reduced to less than \$500,000 in 2010, before escalating to \$13.5 million in 2011 and \$17.5 million in 2012.

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<sup>9</sup> This scenario assumes that BRT express service essentially would replace existing local bus service on the two BRT routes, thus enabling MCTS to reduce its fleet of non-BRT buses.

**Table 13: MCTS funding projections including vehicle registration fee and BRT, 2008-2012**

	2008 Budget	2009 Budget	2010 Budget	2011 Budget	2012 Budget
<b>Revenue</b>					
Passenger Revenue	\$43,548,938	\$44,855,406	\$46,201,068	\$47,587,100	\$49,014,713
Other Transit Revenue	\$3,530,000	\$3,635,900	\$3,744,977	\$3,857,326	\$3,973,046
Vehicle Registration Fee	\$0	\$5,600,000	\$5,600,000	\$5,600,000	\$5,600,000
<b>Total Operating Revenue</b>	<b>\$47,078,938</b>	<b>\$54,091,306</b>	<b>\$55,546,045</b>	<b>\$57,044,427</b>	<b>\$58,587,759</b>
<b>Expenses</b>					
Employee Expenses	\$115,712,148	\$119,762,073	\$123,953,746	\$128,292,127	\$132,782,351
Bus Repair Parts	\$2,805,000	\$2,903,175	\$3,004,786	\$3,109,954	\$3,218,802
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Other Transit Expenses	\$6,742,719	\$6,978,714	\$7,222,969	\$7,475,773	\$7,737,425
<b>Total Operating Expenses</b>	<b>\$134,410,472</b>	<b>\$139,114,839</b>	<b>\$143,983,858</b>	<b>\$149,023,293</b>	<b>\$154,239,108</b>
<b>Public Funding</b>					
Federal (Capitalized Maintenance)	\$18,700,000	\$15,007,198	\$16,509,529	\$5,613,994	\$3,793,845
State Operating Assistance	\$55,392,000	\$56,776,800	\$58,196,220	\$59,651,126	\$61,142,404
Local (Milwaukee County Tax Levy)	\$12,964,534	\$12,964,534	\$12,964,534	\$12,964,534	\$12,964,534
Other State and Federal	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000
<b>Total Public Funding</b>	<b>\$87,331,534</b>	<b>\$85,023,532</b>	<b>\$87,945,283</b>	<b>\$78,504,654</b>	<b>\$78,175,783</b>
<b>Surplus/Deficit</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$492,530)</b>	<b>(\$13,474,213)</b>	<b>(\$17,475,566)</b>

While the 2011 and 2012 numbers still are daunting, they are significantly lower than those contained in our original projections. More important, this approach allows bus purchases to begin in 2010 while buying two additional years of stability in service levels, as well as virtually eliminating the pressure on the county to identify additional property tax dollars for transit during that time. Finally, employment of this approach provides greater revenue diversification for MCTS in the form of the vehicle registration fee, which could be increased modestly as need arises once it is in place.

### III. Long-Term/State-Enabled Solutions

It is critical to recognize that the “triage” approach is not a permanent solution. If the goal is, at minimum, to preserve the existing level of transit service for the long-term, then such an approach must be accompanied by efforts to identify and implement a permanent, dedicated funding source. It also must be emphasized that the need for a “triage” approach would be eliminated if a permanent, dedicated funding source could be identified and implemented in the near future.

The question of how to enact a permanent funding solution for MCTS must be divided into a series of preliminary questions, which include the following:

- Is the goal of the new funding source simply to fill the projected funding gap and provide stability into the future, or is it also to eliminate use of property tax resources for transit?

- Is the goal to support the existing level of bus service, or also to provide a means of enhancing bus service, perhaps to the level that existed in 2000 or the level in SEWRPC's long-term regional transit plan?
- Is the new funding source also intended to potentially pay for new systems, such as the Kenosha-Racine-Milwaukee (KRM) commuter rail line and/or potential components of the Milwaukee Connector Study (i.e. BRT and streetcars)?
- Will the new funding source only be collected in Milwaukee County, or should it be regional in nature and tied to creation of a regional transit authority?
- Should regional funding be tied to regional operation of mass transit?
- Should the funding source even be local or regional, or should it instead be derived from new or existing state revenue sources?

The purpose of this report is not to address these questions, which must be answered through political processes at the local, county, regional and state levels. It is, instead, to shed light on the true magnitude of the fiscal problem facing MCTS, which is perhaps the core component of the discussion of a long-term solution. In keeping with that purpose, we have established the following in the preceding pages:

- MCTS has been tapping into its reserve of federal capitalized maintenance funds by an average amount of approximately \$4.4 million per year during the past eight years. Depletion of that reserve by the end of 2009 creates a \$4.4 million structural deficit for the future.
- MCTS also has been deferring bus and farebox replacement for several years. This creates an immediate need to use \$50 million in federal funds that had previously been utilized in the operating budget for these purchases over a multi-year period. If we forecast those purchases per MCTS' existing schedule and account for the structural deficit already experienced by MCTS due to the typical mismatch between growth in operating expenditures and growth in state, local and farebox revenue, then this deficit peaks at \$23.7 million in 2011 and averages \$21 million annually between 2010-2012 (see **Table 12**).

We also know that the total amount of property tax levy budgeted by Milwaukee County for transit in 2008 (consisting of fixed route, paratransit and indirect costs) is \$22.2 million. Consequently, we estimate that the minimum amount needed for each of the three years for the period from 2010 to 2012 would be an average of \$43.2 million per year if the goal is to eliminate the structural deficit and completely eliminate use of property tax revenue for transit.

If accompanied by a \$10 vehicle registration fee in the "triage" approach, then the amount of revenue needed to meet that goal can be reduced to \$37.6 million. If also accompanied by a decision to pursue BRT and reduced bus purchases from 150 to 115 during the period, then the revenue needed is reduced to approximately \$34 million.

Some have suggested that the state should be responsible for bridging the gap either by increasing its annual operating assistance, dedicating the annual increase in sales tax collected on motor vehicles to transit, or providing additional dedicated funding to transit via a new statewide revenue enhancement. Supporters of this position argue that other counties and municipalities also are experiencing significant transit funding problems, and that a statewide solution is therefore required. Others have suggested that in light of the state’s own fiscal problems, it is unrealistic to expect it to solve Milwaukee County’s problem, and that the problem therefore needs to be addressed with a local or regional funding source. Either way, action will be required by the legislature and governor to either provide a state solution, or provide the county or region with the authority to enact revenue enhancements outside of the vehicle registration fee.

For the sake of context, we present in **Table 14** scenarios for addressing this issue with either a Milwaukee County-only sales tax or gas tax, which are the two most commonly discussed revenue sources (in addition to the vehicle registration fee). The tax amounts listed in the table represent the amount required if each option were employed independently. These options also could be combined with one another or with a greater increase in the vehicle registration fee than the \$10 discussed above. Again, it is critical to keep in mind that these scenarios only address the existing projected structural deficit and property tax levy, and do not take into account additional revenue needed to fund Milwaukee County service expansion or the Milwaukee County share of KRM commuter rail.

**Table 14: Milwaukee County sales tax and gas tax scenarios**

	Eliminate Structural Deficit	Eliminate Structural Deficit + Eliminate Property Tax	Eliminate Structural Deficit + Eliminate Property Tax + \$10 Vehicle Registration Fee	Eliminate Structural Deficit + Eliminate Property Tax + \$10 Vehicle Registration Fee + Implement BRT
<b>Sales Tax</b>	.16%	.33%	.28%	.26%
<b>Gas Tax</b>	5.9 cents per gallon	10.8 cents per gallon	9.4 cents per gallon	8.5 cents per gallon

Finally, as noted above, a key consideration in contemplating a local funding approach is whether that approach should be implemented on a regional level. There could be several benefits associated with creation of a regional funding approach combined with regional transit operation, including the potential to design a new management structure that will reduce administrative costs and the ability to better coordinate service across county lines. If such an approach is pursued, however, then it may be appropriate to consider establishment of different levels of taxation for each participating county. Because the funding gap in Milwaukee County is so significant, implementation of a uniform tax in each county (e.g. a quarter-cent sales tax across the Kenosha-Racine-Milwaukee region) likely would be met with resistance from those outside of Milwaukee, who would not want to be taxed at a higher level to address Milwaukee’s funding crisis.

## CONCLUSION

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.

Milwaukee County is not alone in facing an impending crisis scenario for its transit system. A U.S. News and World Report article entitled "Mass Transit Systems Have a Hard Time Paying the Bills" (April 7) details fiscal crises facing transit systems in Chicago, New York and Boston, stating that "many transit systems now find themselves in a financial bind that promises only to get worse." Ominously, the article notes that the federal transportation trust fund is scheduled to run out of money next year, and suggests that answers will have to come from local revenue.

Whether Milwaukee area elected leaders and/or voters will support such revenue sources to preserve existing levels of transit service remains to be seen. Some will suggest that we simply should make our transit system more efficient – a laudable goal, but one that our analysis suggests may not be a source of significant savings given the already high efficiency of MCTS when compared to peer systems. Others will suggest that we simply will have to live with deep service cuts, a notion that may not trouble those who do not regularly ride the bus, but one that our analysis shows should concern those who see value in providing tens of thousands of "captive" transit riders with a means of getting to jobs across our region.

For those who support new or enhanced revenue sources for transit, this report provides options and context for the short- and long-term. The size of the revenue source required depends on the policy goal. That goal can range from providing a stream of revenue as a supplement to existing revenue sources to support existing service, to the more ambitious goal of providing a revenue source that can solve the structural deficit, replace the property tax and provide the means to introduce new forms of service. If it is the latter, the amount required is so significant that it may make sense to use a combination of one or more revenue sources.

The primary purpose of this report is to ensure that policymakers understand and acknowledge the dimensions of the problem facing MCTS. Ideally, they will utilize this understanding to then reach consensus on whether new forms of local revenue are needed, and if such consensus is reached, on mapping a plan to immediately implement those revenue sources. If, instead, it is decided that the state should be responsible for providing the additional revenue that is necessary to preserve transit service in Milwaukee, then local leaders must map a realistic strategy for convincing the state to provide that revenue. Finally, if it is decided that preservation of existing levels of transit service is not a high enough priority to merit new revenue from any source, then policymakers must develop a plan for strategically ramping down service in a manner that will cause the least harm to riders and the local economy.





**633 West Wisconsin Avenue  
Suite 406**

**Milwaukee, Wisconsin 53203**

**phone: 414-276-8240**

**fax: 414-276-9962**

**[www.publicpolicyforum.org](http://www.publicpolicyforum.org)**