



REPORT BRIEF

A FORK IN THE

ROAD?

**THE OUTLOOK FOR TRANSPORTATION
INFRASTRUCTURE IN THE CITY
AND COUNTY OF MILWAUKEE**

PUBLIC POLICY FORUM



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*The outlook for transportation infrastructure in
the City and County of Milwaukee*

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Last summer, the publisher of *Governing* magazine declared that "the fiscal issue that matters most" to local government officials is not pensions, but infrastructure.¹ A couple of months later, a group of Greater Milwaukee public works officials convened by the Public Policy Forum voiced a similar sentiment: aging streets, bridges, water supply lines, wastewater laterals, and buildings will need to consume a tremendous amount of financial resources over the next several years, while the level of state and federal support traditionally provided to help meet those needs is unlikely to materialize.

In light of this growing public policy concern, the Forum has embarked on a multi-part research series that is designed to catalogue and describe the infrastructure challenges of the major local governments in our region and to assess the resulting financial implications. In this, the first in our report series, we focus on transportation infrastructure owned by Milwaukee County and the City of Milwaukee.

In examining City streets and bridges, County trunk highways and bridges, and County-owned buses, we shed light on how the two governments identify and assess their transportation infrastructure needs; review the general condition of that infrastructure; and discuss the capacity of each government to cover future costs while complying with capital budgeting and debt management policies. Our overall goal is to enlighten policymakers and civic leaders as they consider local government spending priorities and the larger revenue structure that is used to support local governments in Wisconsin.

THE CONDITION OF TRANSPORTATION INFRASTRUCTURE AT THE CITY OF MILWAUKEE AND MILWAUKEE COUNTY

We conducted a high-level analysis of the current condition of City of Milwaukee and Milwaukee County streets, highways, bridges, and buses. It is important to note that we did not conduct independent inspections or undertake original research for this assessment; instead, we relied upon inspection/evaluation methodologies used by each government and the condition data they provided us. Nevertheless, the analysis provides a realistic condition assessment that offers useful context for our subsequent fiscal analysis of the transportation infrastructure needs of each government and their financial capacity to address those needs.

As indicated in the summary box on the following page, the County's street and bridge challenges are far less pressing than the City's, which is not surprising given that the City has so many more miles of street and so many more bridges to repair and replace. However, the single biggest transportation infrastructure challenge facing either government is the County's need to maintain a regular replacement cycle for its fleet of 412 active buses.

More than a quarter (106) of Milwaukee County's buses are at or above 500,000 revenue miles, meaning that they have reached the federal threshold for replacement funding. Moreover, 32 of those buses have surpassed the 500,000 revenue mile mark by more than 100,000 miles, and another 123 buses are at or above 250,000 revenue miles and will be in need of replacement in the relatively near future. Given the average bus replacement cost of \$475,000, this represents a substantial financial challenge for the County.

¹ Funkhouser, Mark, "Why the Fiscal Issue that Matters Most isn't Pensions," *Governing*, June 2015.



Snapshot: Condition of City and County Streets, Highways, Bridges, and Buses

City of Milwaukee Streets



Pavement Quality Index ratings for the City's 1,415 miles of streets indicate that while 43% are rated "good," 33% are rated "fair" and 24% are rated "poor."

Milwaukee County Trunk Highways



The County's PASER ratings system shows that 71% of its 84.5 miles of county trunk highways are in "good" condition or better, while 16% are rated "fair" and 13% are rated "poor."

City of Milwaukee Bridges



33% of the City's 157 rated bridges have sufficiency ratings at or below 80 (suggesting some level of rehabilitation soon may be needed), while 15% have deficiencies (suggesting near-term major repair or replacement work is needed).

Milwaukee County Bridges



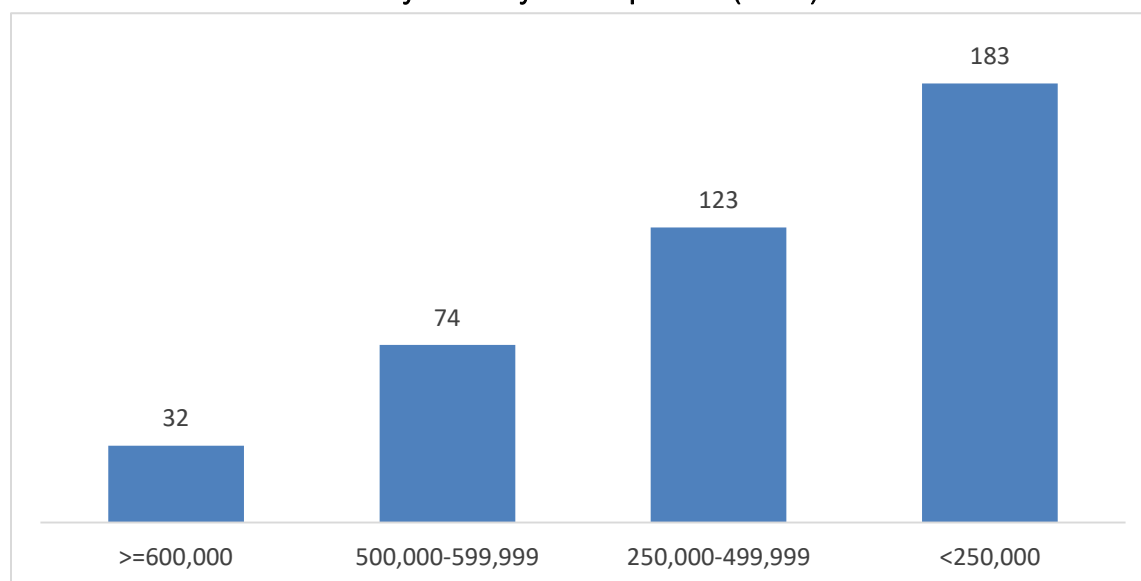
38% of the County's 47 rated bridges have sufficiency ratings at or below 80, but zero have deficiencies.

Milwaukee County Buses



26% of the County's 412 active buses have exceeded the threshold of 500,000 revenue miles that qualifies them for federal replacement funding.

Breakdown of Milwaukee County buses by miles operated (2016)



Source: Milwaukee County, Department of Transportation

The City also faces a significant challenge given that 56% (792 miles) of City streets are rated in poor or fair condition. The City recently implemented a High Impact Streets Program that is being used to address heavily-travelled streets in fair condition in an expeditious manner and prevent them from falling into poor condition. While effective for such streets, that approach cannot be used for the 337 miles (24%) of streets that already are in poor condition, for which the City soon must identify resources to pursue full reconstruction. Similarly, the County has been using short-term rehabilitation on trunk highways when federal resources are not available for full reconstruction. Again, while effective in buying time, this strategy sets up a potential future backlog.

FINANCIAL CAPACITY TO ADDRESS TRANSPORTATION INFRASTRUCTURE NEEDS

Most local governments that own large inventories of physical assets maintain separate capital budgets and rely on financing strategies to support those assets that are distinct from those used for general operations. The key distinction is the use of borrowing – typically in the form of issuing General Obligation bonds² – to ensure that investment in asset creation, repair, or replacement can be paid off over multiple years. This means both today's taxpayers and future taxpayers pay for infrastructure assets, which is logical as both will benefit.






Both the City and County issue bonds to address most of their major capital repair and replacement needs. Yet, both also have adopted policy goals that limit amounts of annual borrowing. For both governments, those restrictions are tied to the need to avoid increases in debt service payments on capital projects that will threaten the resources needed for departmental operations.

² General Obligation (G.O.) bonds are municipal bonds commonly used by local governments that are secured by the government's pledge to use its taxing power to repay bond holders. These differ from "revenue bonds" in that they are not secured with a specific form or revenue (such as fees from users of the capital project), but instead are backed with the government's general credit and taxing authority.



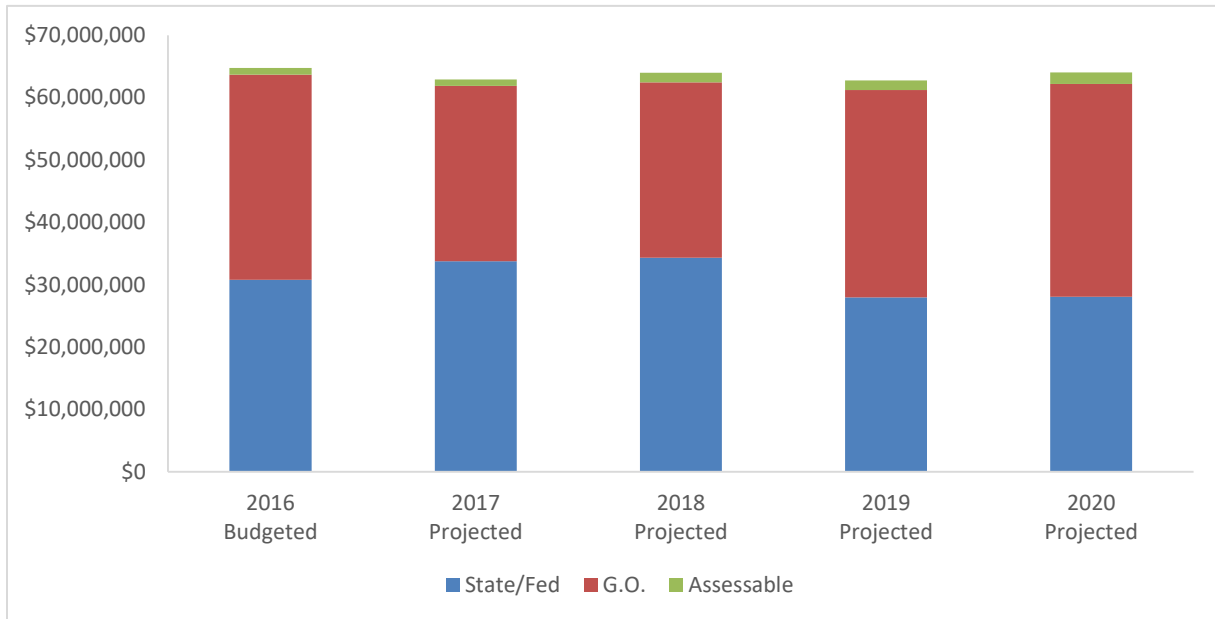
In addition, both governments have extensive government-wide capital needs that limit their ability to address their transportation infrastructure challenges. In the case of the City, that competition includes the need for major repairs to the foundation of City Hall, which is estimated to require \$42 million of locally-generated capital funds from 2017-2020 (and up to \$60 million in total); remodeling of the Police Administration building, which is estimated to require \$20 million; and new Fire Department equipment, which is estimated to require \$10 million. In the case of the County, those needs include a potential \$184 million criminal courthouse replacement plan and more than \$200 million of identified capital needs for its parks and cultural facilities.

To assess the capacity of each government to address its transportation infrastructure challenges, we reviewed their current debt loads and competing capital needs, as well as capital spending over the past several years and multi-year capital plans. The summary box below highlights our findings.

Snapshot: Fiscal Outlook for Transportation Infrastructure Needs	
City of Milwaukee Bridges 	DPW anticipates needing an average of \$12.5 million per year from 2017-2020, which exceeds the \$5.4 million budgeted for bridges in 2016 by a wide margin, but which is in line with averages from 2012-2015.
City of Milwaukee Streets 	DPW anticipates needing an average of \$63.4 million per year from 2017-2020, which is slightly less than the amount appropriated for 2016. However, G.O. bonding needs grow in 2019 and 2020, and it is questionable whether flat funding will be sufficient to meet repair/reconstruction needs.
Milwaukee County Bridges 	MCDOT anticipates needing about \$4 million from 2017-2020, which appears reasonable given the healthy condition of CTH bridges and affordable despite the County's overall capital needs.
Milwaukee County Trunk Highways 	MCDOT anticipates needing an average of \$9.6 million per year from 2017-2020, which is consistent with previous spending levels. However, given the expectation of substantial increases in federal funding (which may or may not materialize) and the County's capital budget pressures, this is an area that bears monitoring.
Milwaukee County Buses 	MCDOT anticipates needing an average of \$13.3 million per year of <i>local</i> funds from 2017-2020 to replace MCTS buses, which is a formidable challenge in light of the County's \$40-\$44 million annual bonding cap and its other capital needs.

We find that both governments will be challenged to identify the capital budgeting capacity to accommodate transportation infrastructure needs. For the City, that capacity is limited by an informal policy that annual issuances of tax levy-supported debt should not exceed the amount of debt the City is retiring annually. Efforts to adhere to that policy from 2017-2020 may conflict with the City's ability to secure the average of \$76 million annually that has been projected as necessary to support street and bridge capital needs, particularly if funding from the State and federal government do not meet the City's hopes and expectations. As shown in the chart below, the City already is forecasting a sizable increase in bonding in 2019 and 2020 to support its streets.

Projected spending for City of Milwaukee streets, 2017-2020

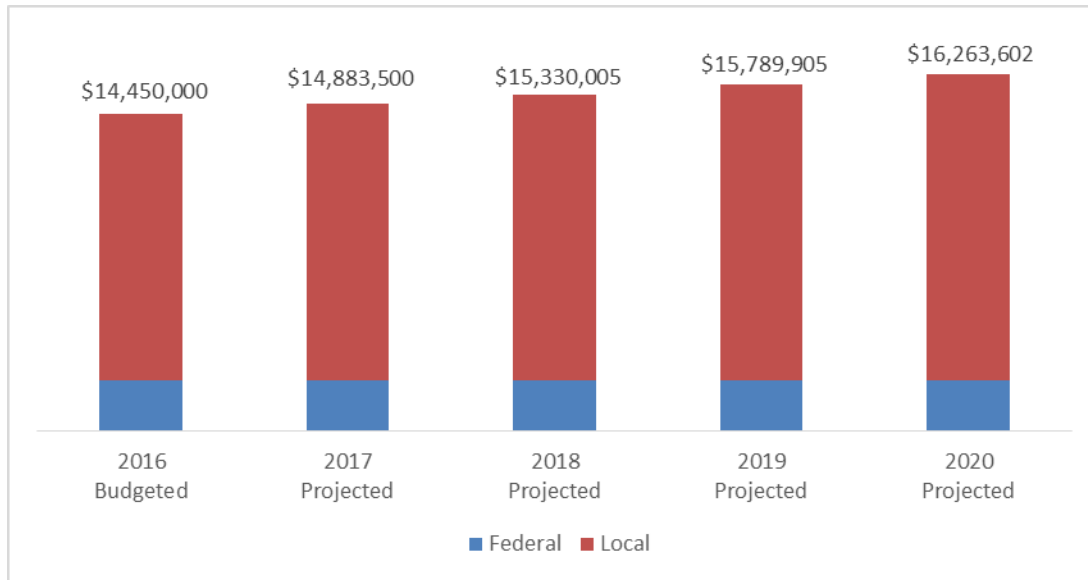


Source: City of Milwaukee, Budget & Management Division

Like the City, Milwaukee County must limit its amount of annual borrowing to ensure that debt service requirements do not crowd out operational needs. The County places even more stringent limits on annual borrowing, however, and faces a huge array of capital needs from its public safety, parks, and cultural functions. Yet, as shown in the chart below, it needs \$13.3 million per year in locally-supported borrowing from 2017-2020 – which would comprise nearly a third of its annual borrowing cap – to maintain a healthy bus replacement schedule.



Projected capital spending for Milwaukee County buses, 2017-2020



Source: Milwaukee County Department of Transportation

CONCLUSION

Despite the red flags noted above, it would be inappropriate to view either the City's or County's transportation infrastructure as being in a state of crisis. Both governments have been managing to address their foremost needs on an annual basis despite the capacity limitations outlined in our analysis. Also, the severity of both governments' challenges will be significantly impacted by the availability of support from Madison and Washington, as well as the degree of competition for funds from other municipal and county governments within the region.

Nevertheless, **it is also clear that unmet needs are building at the same time that financial capacity appears to be shrinking.** This places local transportation infrastructure in the City of Milwaukee and Milwaukee County on the same uncertain and concerning path that is being travelled by the federal government and the State with regard to their highway and transit needs and responsibilities.

This report is the first in a series of reports on local government infrastructure. Our objective was to identify the current state of local transportation infrastructure and the near-term challenges faced by the City of Milwaukee and Milwaukee County in meeting identified needs. Consequently, while we raise several important questions, we do not provide answers.

In future reports, we will conduct similar analyses of water and sewer infrastructure, buildings and structures, and other infrastructure owned by our largest local governments. After we have a sense of the state of this collective set of local government infrastructure, we then will turn to the question of what new policies or strategies might be considered to address current needs and future challenges.

