

DETOUR AHEAD

*The Milwaukee County Transit System's
Fiscal Cliff and Options to Avert It*



WISCONSIN
POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their long histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. The Wisconsin Policy Forum is committed to those same activities and to that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide state and local policymakers and citizens with a more comprehensive understanding of the causes and scope of the Milwaukee County Transit System's financial challenges and possible paths forward to address them. We hope our findings will be used to inform upcoming fiscal and policy discussions in Milwaukee County and among state legislators and the governor in Madison.

Report authors would like to thank officials from MCTS, the Milwaukee County Department of Transportation, and the Milwaukee County Comptroller's office for providing us with data used in this report and for patiently answering our questions. We also thank MCDOT for commissioning and financially supporting this research.



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Report Authors:

Rob Henken, President

Joe Peterangelo, Senior Researcher

Ari Brown, Senior Research Associate

Tyler Byrnes, Researcher

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INTRODUCTION

The financial challenges facing the Milwaukee County Transit System (MCTS) have been well-documented in numerous reports by the Wisconsin Policy Forum over the past several years. In fact, as far back as 2008, in [Milwaukee County's Transit Crisis: How Did We Get Here and What Do We Do Now?](#), we warned that the financial outlook had grown so grim that devastating service cuts appeared imminent without prompt action:

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 76th 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...or perhaps prevent it altogether.

Remarkably, as explained in several subsequent WPF budget briefs and reports, that day of reckoning *has* largely been delayed – the result of a combination of good fortune, shrewd management, and the imposition of a \$30 vehicle registration fee (VRF) in 2017.

The good fortune included the county's receipt of federal stimulus funds in 2009 to purchase new buses, as well as MCTS's receipt of tens of millions of dollars of reprogrammed federal funds from defunct light rail and commuter rail projects. Shrewd management included the restructuring of certain high-ridership routes to allow federal Congestion Management and Air Quality (CMAQ) funds to temporarily pick up their cost and the purchase of fuel at relatively low prices in futures markets. Yet, despite those developments, a controversial \$30 VRF was still required in 2017 to avert severe service cuts that year and beyond.

More recently, MCTS's receipt of \$191 million in federal pandemic relief monies has allowed it to plug severe budget holes created by an initial huge drop in ridership, as well as to build reserves for future bus purchases. The federal money is thought to be sufficient to largely allow for the maintenance of existing service levels through 2024, despite the failure of passenger revenue to come close to fully rebounding.

The bad news is that deep structural problems that have been masked by the federal relief funding are certain to re-emerge. As we stated in our [2023 Milwaukee County Budget Brief](#), “unless ridership rebounds beyond expectations or additional infusions of state aid arrive in the next state budget, MCTS faces a frightening scenario when the federal funds are exhausted” by 2025.

WPF has not conducted an in-depth review of the nature and scope of MCTS's funding crisis and explored the full range of revenue and service-reduction options since our 2008 report. In this report – commissioned by the Milwaukee County Department of Transportation – we cover both of those elements and assess the future of Milwaukee County's transit services in a post-pandemic world. Our specific research questions include:

- What is MCTS's current financial outlook, how has its fiscal prognosis changed over time, and why?
- What is a sustainable level of annual operating funding for MCTS under its current route and service structure?



- What are the pros and cons of various revenue options, including local option sales and fuel taxes that would require state approval, a locally-approved VRF expansion, and others?
- Overall, what types of actions will be needed for Milwaukee County to create a financially sustainable transit system that will meet the needs and expectations of its residents?

While Milwaukee County has made substantial progress in addressing its overall fiscal challenges in recent years, the structural hole facing its transit system remains one of its thorniest. We hope that this report will provide policymakers and the public with an independent and reliable source of analysis that will accurately size up the problem and drive decision-making as the anticipated fiscal “cliff” for MCTS approaches in 2025.



MCTS BUDGET OVERVIEW

In this section, we provide an overview of MCTS's 2023 adopted budget and a brief analysis of recent ridership trends. Doing so provides an opportunity to explain the key features of MCTS's finances and operational challenges and to highlight those that are essential to understanding its longer-term financial challenges.

Background

MCTS consists of both a fixed route system of traditional buses and a paratransit system of demand responsive services that are available to persons with disabilities who qualify under the Americans with Disabilities Act. Paratransit services are provided by contracted vendors; most involve rideshare vans but contracted taxi services also are available.

Direct management and operation of the transit system is provided by Milwaukee Transport Services, Inc. (MTS), a private nonprofit corporation that is considered a "legal instrumentality" of the county. The county's relationship with MTS has existed since 1975, when the county decided to acquire ownership of the transit system from a private operator. Unlike many other county services, there is no requirement in state statutes that Milwaukee County own, operate, or administer mass transit services.

The fixed route system's equipment and facilities are owned by the county, but its more than 1,000 employees work for MTS and are paid by MTS. MTS employees and retirees are not part of the county's pension system nor do they receive health care benefits from the county, but they instead receive those benefits from MTS.

MCTS operates under the purview of the county's Department of Transportation (MCDOT). The MCDOT Director's Office provides oversight and prepares and administers federal and state transit grants. MCDOT and other county personnel also assist with the acquisition of capital equipment and design and construction for certain transit capital projects.

In 2023, MCTS is budgeted to provide more than 21 million rides on its fixed route services and more than 400,000 additional rides on its paratransit services. MCTS's fleet of approximately 326 buses operate on 43 routes in Milwaukee County. Until recently, MCTS also ran some limited routes into Waukesha and Ozaukee counties under contractual arrangements with the two counties, but those were discontinued.

However, a major service improvement will be initiated in 2023 with the opening of a new East-West Bus Rapid Transit (BRT) line (funded mostly with special federal grants) that will extend from Wauwatosa to Downtown Milwaukee. The new route will feature reduced travel times as a result of fewer stops and some use of dedicated bus lanes along the route. It also will employ modern buses and enhanced shelters and other amenities. While the service will simply replace existing underlying bus routes, it is hoped that the improved speed and quality will attract additional riders.

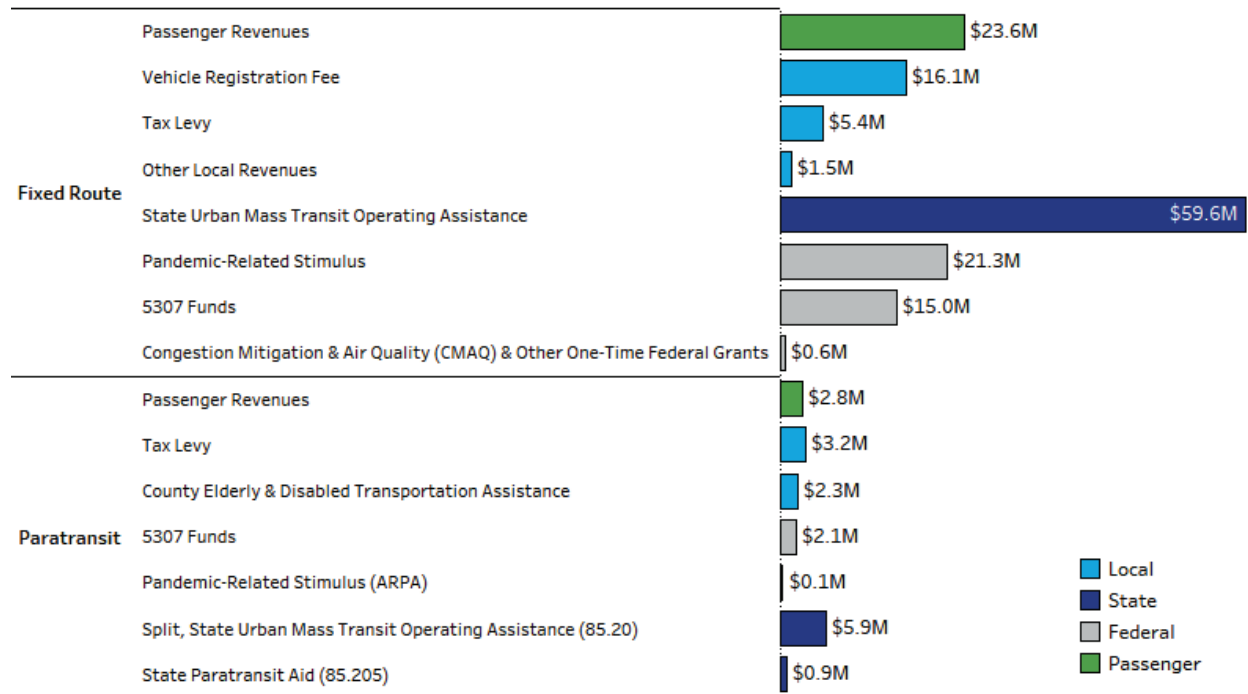
MCTS's Budget Supported by Three Levels of Government and Riders

While Milwaukee County budget documents roll up the fixed route and paratransit budgets into one collective budget, it is helpful to begin our overview of the MCTS budget with separate revenue breakdowns for the two services.



As shown in **Figure 1**, MCTS’s \$160.4 million fixed route operating budget in 2023 is funded by a combination of four primary revenue sources: federal aids (mainly formula and special pandemic relief funds); state operating assistance; revenue collected from riders (also known as “farebox revenue”); and local revenue from the county (comprised of property tax levy and vehicle registration fee revenues). 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 relatively small amounts of revenue from advertising and related activities.

Figure 1: Milwaukee County Transit System Revenues, 2023 Budget



Paratransit services have an expenditure budget of \$18.1 million in 2023 and also are funded via a combination of the four primary revenue sources used for the fixed route system, with passenger-related revenue accounting for a similar percentage as in the fixed route budget (approximately 16%). A little less than half of the paratransit budget’s passenger revenue, however, comes from payments from social service agencies that subsidize certain rides for their clients and not from the riders themselves.

Federal Aid

MCTS’s 2023 fixed route operating budget benefits from two major sources of federal aid. The first is the Urbanized Area Formula Funding program, which provides federal resources to transit systems that serve urbanized regions with populations exceeding 200,000. MCTS received about \$24.5 million of these federal dollars, known as “5307 funds,” in 2022.

Distribution of the funds is administered by the Southeastern Wisconsin Regional Planning Commission (SEWRPC), which calculates allocations to transit systems in the “Milwaukee urbanized area” based on a formula that takes into account a number of factors, including service levels and transit ridership. The formula is based on an allocation methodology developed by the systems. MCTS typically receives about 90% of the total amount allocated to the region.



The funds are restricted to use on capital items, but there is an important catch. When federal operating assistance was phased out in the 1990s, a change in federal law allowed MCTS to utilize its 5307 funds, which previously only could be used for capital expenses like bus purchases and building repairs, 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 use the funds to support fixed route operations, though in doing so it must forsake their usage for bus purchases.

These federal capitalized maintenance dollars have become a critical source of revenue in MCTS’s fixed route operating budget over time, with \$15 million allocated for that purpose in the 2023 fixed route budget. Recipients of 5307 monies also are allowed to use up to 10% of their allocation to support paratransit, and MCTS has budgeted an additional \$2.1 million for that purpose in 2023.

Another critical – but temporary – source of federal revenue for MCTS in its 2023 budget is special pandemic relief aid. Each of the three federal pandemic relief packages provided new aids to transit systems across the country to try to prevent service cuts while passenger revenue rebounds from the pandemic. MCTS has received \$191 million from the three packages (as well as a \$19.8 million pass-through of pandemic relief monies granted to the state). The 2023 budget allocates \$21.3 million of pandemic relief aid to the fixed route operating budget and an additional \$134,250 to paratransit. It is expected that similar sums will be available to support MCTS operations in 2024, but after that time the funds will be exhausted, thus creating a sizable hole in the fixed route operating budget.

State Operating Assistance

MCTS – as well as other transit operators across Wisconsin – receives an annual appropriation from the state to support transit operations. This is MCTS’s single largest revenue source.

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 has its own distinct tier (known as A-1). In 2023, MCTS is budgeted to receive \$65.5 million in state operating assistance, which is nearly 60% of the statewide total. It is allowed to use its own discretion to distribute the monies across its fixed route and paratransit budgets, and in 2023 it will allocate \$59.6 million to the fixed route service and \$5.9 million to paratransit.

Farebox Revenue

Farebox revenue is collected directly from MCTS users – either from fares or weekly passes or, in the case of paratransit, from payments from social service agencies to support rides for clients. As would have been expected, this is an area of MCTS’s budget that has been hit hard by the pandemic. Fixed route ridership plummeted beginning in March 2020 because of restrictions on in-person work and gatherings and trepidation among transit riders to be in confined spaces. It failed to rebound much in 2021 (which was not unexpected given the lingering aspects of the pandemic) and recovered somewhat in 2022 as more people returned to in-person work settings. Still, passenger revenue remains far below recent historical levels. Also, as we will discuss later in this section, fixed route ridership and revenue had been declining sharply even prior to the pandemic.

In the 2023 operating budget, MCTS is budgeting \$23.6 million in fixed route ridership revenue, which is an increase of \$1.4 million from the 2022 budget and about \$2 million higher than the 2022 actual amount. That estimate remains about \$5.3 million (18%) lower than the pre-pandemic actual total of \$28.9 million in 2019, however. Paratransit passenger-related revenue has similarly



failed to rebound since the pandemic, with the 2023 combined budgeted total from passengers and agency fare payments totaling about \$2.8 million, or about \$1 million (36%) lower than the 2019 actual amount.

Local Revenue

The county's local revenues essentially serve as the "backstop" in MCTS's annual budget, as its contribution of property tax levy and vehicle registration fee (VRF) revenue is determined largely by the gap that exists between the system's operating needs and its other sources of revenue in each given year. At the start of the budget process, MCTS officials project the revenue expected from other sources and match that up against the "cost to continue" the system's existing services. Local revenue must bridge the difference or policymakers must instead determine how to cut expenditures or raise some other form of revenue (such as by increasing fares).

Ideally, the growth in the annual cost to continue would be consistent with annual growth in MCTS's farebox, state, and federal funding. That would leave the county with a similar requirement to match the growth in costs with roughly equal growth in county support. However, as we will show in the next section, those other sources of funding typically have not achieved much growth or have even declined, placing increasing pressure on the local property tax levy and creating a growing structural gap in MCTS's budget.

In response, county leaders implemented a \$30 VRF in 2017, which now generates about \$17 million annually. In the 2023 budget, about \$16.1 million of VRF collections are dedicated to MCTS's fixed route services, as well as a combined \$8.7 million in property tax levy for fixed route service and paratransit.

Other

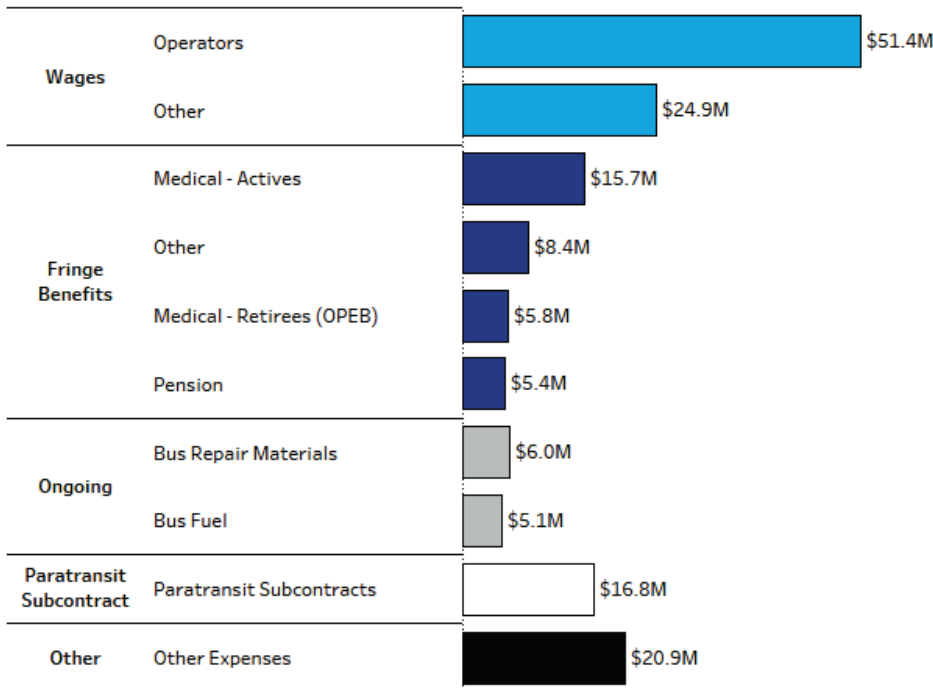
In addition to these four main revenue sources, MCTS's fixed route and paratransit operations are supported by several other smaller sources of revenue. As noted above, those include occasional grants from the federal CMAQ program (which MCTS must request and for which it typically must compete as part of a regional distribution process administered by SEWRPC); other federal or state grants (including mitigation dollars associated with major state highway projects); and revenues obtained from advertisements on buses. The "other" category has declined in recent years for fixed route services – from \$4.4 million in 2018 to \$1.5 million in the 2023 budget – mostly because of the discontinuation of contractual payments from service MCTS once provided to suburban counties.

Salaries and Benefits Drive MCTS Expenditures

On the expenditure side of the ledger, salaries and fringe benefits for MCTS's more than 1,000 active employees represent a substantial share (57%) of the system's operating budget in 2023, as shown in **Figure 2**. However, retirement benefits, as well as fuel and bus repair costs and charges from county government, also are important cost centers that we describe in greater detail below. On the paratransit side, the major costs are associated with subcontracts with shared ride van and taxi providers.



Figure 2: Milwaukee County Transit System Expenditures, 2023 Budget



Wages and Benefits for Active Employees

In its 2021 [annual report](#), MCTS reported a workforce of 1,029 employees. Its staff consists of approximately 700 bus operators as well as dozens of mechanics, back office staff, administrators, etc. Budgeted wages in 2023 total \$76.0 million.

In late November 2022, subsequent to budget adoption, MCTS reached a new three-year agreement with the local branch of the Amalgamated Transit Union, which represents its bus drivers and mechanics. Among other provisions, the new agreement provides a 7% pay increase retroactive to April 1, 2022, as well as additional increases of 2% on April 1, 2023 and April 1, 2024. MCTS officials estimate this will push actual wage expenditures about \$2 million above the 2023 budgeted amount. That overage could be covered in numerous ways, including use of additional pandemic relief aid, which would then lower the amount of that resource available for the 2024 budget.

With regard to fringe benefits, MTS offers an employer-sponsored health care plan to its full-time workers.¹ The estimated budgeted cost of active employee health care in 2023 is \$15.7 million. The “other” budgeted fringe benefit cost of \$8.4 million shown in the figure consists largely of FICA as well as dental, life, and disability insurance coverage.

¹ It should be noted that the new labor agreement with drivers and mechanics includes creation of a high-deductible health care plan that will be available to all employees in 2024.



Retirement Benefits

MCTS provides both a defined benefit pension plan and retiree health and life insurance (otherwise known as Other Post-Employment Benefits, or OPEB) to certain workers who meet vesting requirements. The retiree health insurance benefit was eliminated several years ago, however, for workers hired after July 2007.

Payments to support both the pension plan and OPEB costs are supported by separate trusts held by MTS. The latest actuarial valuation and review of the pension plan as of January 1, 2022, found that the market value of plan assets (\$636.1 million) exceeded the total pension liability (\$536.3 million) by \$99.8 million, resulting in an “overfunded status.” While significant investment losses caused by the stock market downfall in 2022 will alter that picture somewhat, the plan is still in very solid fiscal condition.

MCTS makes an annual employer contribution to the pension plan that is based on an actuarial determination that considers both the “normal cost” ((i.e. the cost of benefits earned by employees each year) as well as any amount needed to contribute toward an actuarial unfunded liability. That payment – budgeted at \$5.4 million in 2023 – has declined in recent years because of strong investment returns on plan assets, thus providing some budgetary relief for MCTS. Officials expect the payment to increase in 2024 because of the sharp stock market decline last year, but they say the \$5.4 million in the 2023 budget is higher than the actuary’s recommended amount so the year-to-year budgetary increase should be relatively modest.

The OPEB trust was created by MCTS several years ago in recognition of the escalating cost of health care and the desire to have some reserve capacity to address those costs outside of appropriations in annual budgets. Per the latest actuary report for the year ending on December 31, 2021, the OPEB trust had net assets of \$133.2 million while MCTS faced a projected net OPEB liability of \$229.7 million, for a net liability of \$96.6 million. It should be noted that many local governments (including the county itself and the city of Milwaukee) do not have trusts in place to help address future OPEB costs.

Unlike pension plans, which typically require governmental entities to address unfunded liabilities with annual contributions that exceed the normal cost, OPEB costs may be paid on a “pay-as-you-go” basis. MCTS now follows that practice after building the trust by paying more than the pay-as-you-go amount annually for many years. According to MCTS officials, in 2023, the budgeted amount of \$5.8 million for OPEB reflects estimated actual retiree health care and other benefit costs minus a \$1 million contribution from the OPEB trust. Officials say the plan’s actuaries concur that the contribution is justifiable based on the financial status of the trust.

Bus Repairs and Fuel

The 2023 budget includes a combined \$11.1 million for bus repair materials and fuel to support MCTS’s fleet of more than 300 buses this year. The \$6.0 million for bus repair materials is only about a \$100,000 increase from the 2022 budget despite high inflation, which has been tempered somewhat by some shrinkage of the overall fleet as well as recent fleet modernization efforts. Inflation and surging gasoline prices similarly have not had a meaningful impact on fuel costs in the 2023 budget because MCTS purchases its fuel in futures markets. MCTS officials do expect to see fuel cost increases in 2024, however.



Paratransit Contracts

Until recently, MCTS had contracted with two paratransit van service companies, but it recently elected to consolidate to one provider (First Transit) starting in November 2023. The County Executive's 2023 budget also recommended elimination of a much smaller contract for paratransit taxi service effective May 2023 as a cost-cutting move, but the Board of Supervisors restored funding for the contract with American United Taxicab Services at least for this year. Combined, the paratransit van service and taxicab contracts are budgeted at \$16.8 million in 2023.

Other Expenditures

The “other” category shown in **Figure 2** is a significant expenditure line item in MCTS's operating budget at \$20.9 million. This category – as we have constructed it – is comprised of several sources.

A sizable portion is costs charged by Milwaukee County that reflect depreciation of capital assets used by MCTS but owned by the county, interest on bonds issued by the county to purchase buses and address other capital needs, and other fees and charges that reflect the unique relationship between MCTS and county government. For example, while MTS is an independent entity, it still relies on the county for some administrative and insurance services as well as radio communication services. Combined, these county charges total about \$7 million in the 2023 budget.

Additional prominent items in the “other” category include spending on information technology and other equipment; non-capitalized maintenance and repairs at MCTS's headquarters and garage facilities; security services; office and related materials and supplies; and professional services contracts with consultants for various purposes.

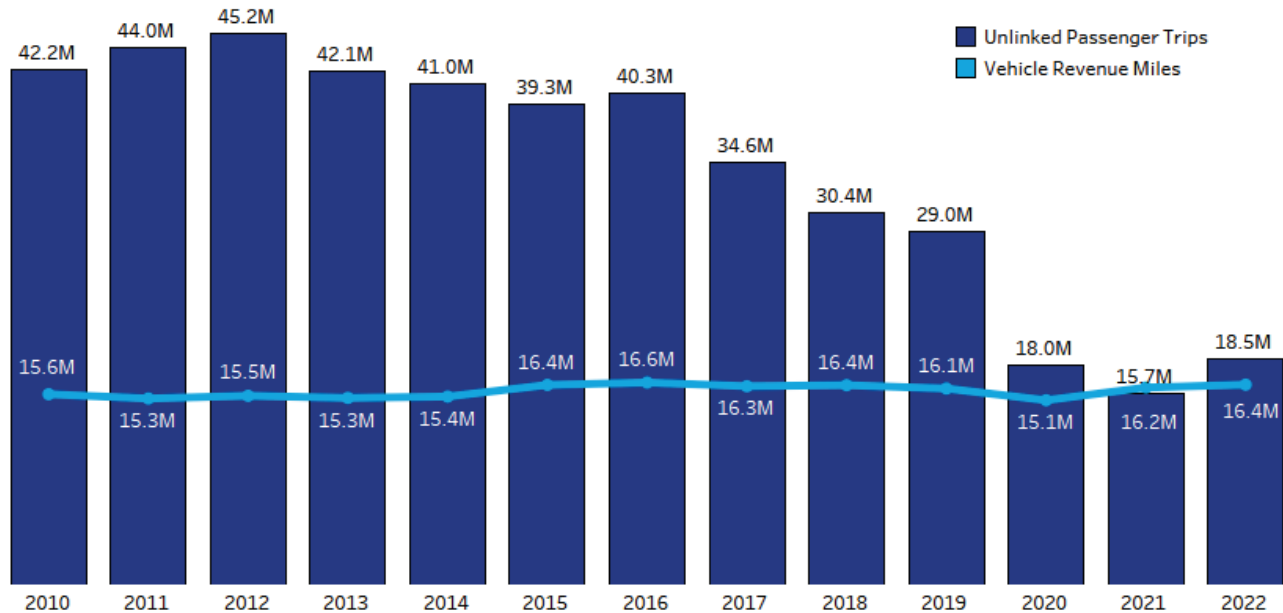
Ridership Key to MCTS's Financial Future

As noted above, the decline in MCTS's bus ridership preceded the pandemic. From 2010 to 2019, unlinked passenger trips² on MCTS's bus routes fell by 31.3% (13.2 million), with much of the drop-off occurring between 2016 and 2019 (**Figure 3**). COVID-19 caused ridership to plummet by another 45.7% in 2021 relative to 2019 levels, though it rebounded somewhat in 2022. Transit system officials expect ridership to continue to recover modestly but to remain below pre-pandemic levels for several more years or longer.

² “Unlinked passenger trips” is a count of passengers who board buses “no matter how many vehicles they use to travel from their origin to their destination.” <https://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary#U>



Figure 3: MCTS Fixed-Route Bus Ridership and Service Levels (Bus Miles)



Source: National Transit Database

Often, a reduction in ridership can be tied either to a decrease in service levels, an increase in fares, or both. MCTS service levels have not changed much over the last decade, however.³ In fact, between 2010 and 2022, the total number of miles MCTS buses traveled while in service (vehicle revenue miles) actually increased by 5.0%, from 15.6 million to 16.4 million. Whereas in 2012, roughly three trips were taken for every mile an MCTS bus operated, that fell to less than two trips in 2019 and just over one trip in 2022. There were also no modifications to cash bus fares during the 2010-22 period and only minor modifications to weekly passes and special fares.

Economic conditions, the rise of ride-hailing, demographic factors, increased access to automobiles through subprime auto loans, and an inability to expand service to emerging employment areas in more dispersed locations because of resource limitations are among the other factors cited by MCTS and other leaders as contributing to declining ridership. As the economy recovered from the Great Recession, some bus riders may have switched to driving. Meanwhile, ride-hailing companies Uber and Lyft were introduced to the Milwaukee market in 2014; the popularity of those services may have reduced transit ridership somewhat as trips that would have been taken by bus were taken through one of those services instead.

In 2021, MCTS rolled out a major bus system redesign called [MCTS NEXT](#), which streamlined routing and increased frequency on the busiest bus routes without expanding the transit system’s budget. These changes were designed to increase ridership and are consistent with similar recent bus system redesign efforts in other U.S. metro areas. The impact of the pandemic has made it difficult

³ MCTS’s bus hours and total bus miles were reduced by close to 20% in the 2000-2010 decade, and MCTS officials say those reductions continue to negatively impact ridership. Also, while bus miles did not change significantly from 2010 to 2021, MCTS officials say the number of buses during peak periods declined by 18% and affected ridership.



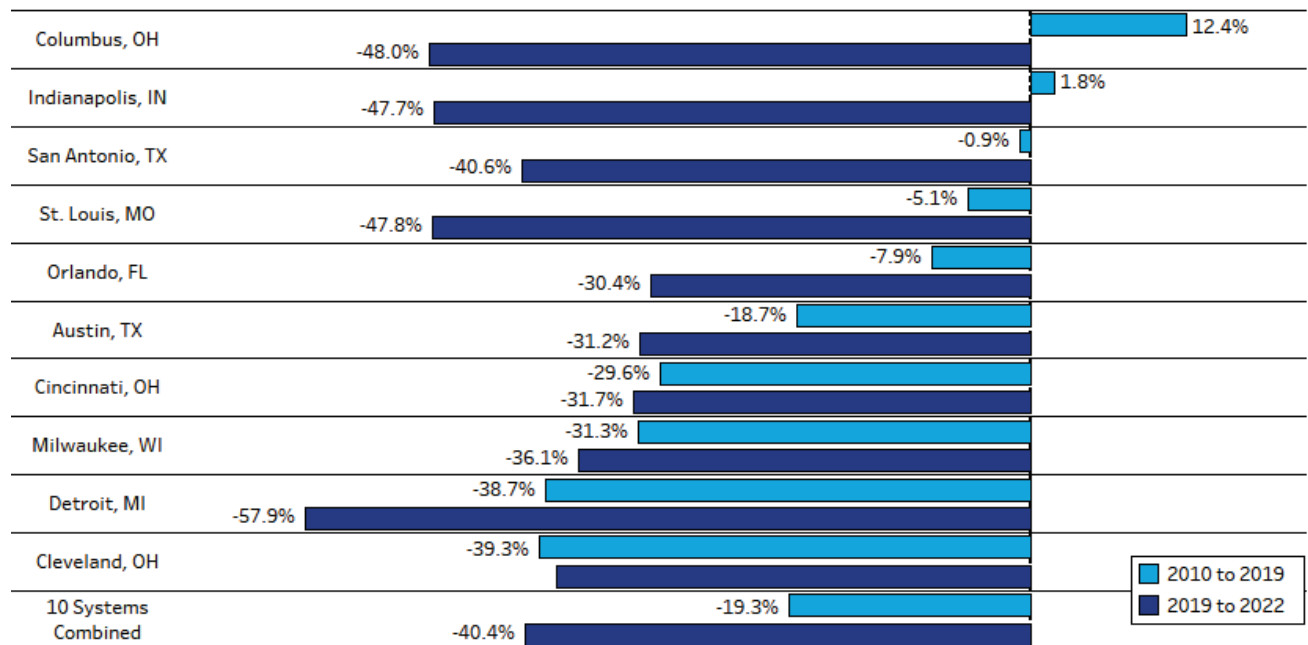
to measure the effectiveness of MCTS NEXT, although MCTS leaders do feel it (as well as creation of additional high-frequency routes) contributed to the rise in ridership in 2022.

Peer Systems Also Seeing Decline

The decrease in bus ridership MCTS has experienced as a result of the pandemic is consistent with peer transit systems nationally. As shown in **Figure 4**, MCTS ridership (unlinked passenger trips) fell by 36.1% between 2019 and 2022, which was slightly better than the average decline of 40.4% across the 10 peer systems (including MCTS).⁴

Prior to the pandemic, ridership also decreased for eight of the 10 peer transit systems between 2010 and 2019. MCTS fared worse than all but two peers during that period, however, with its ridership falling by 31.3% compared to an overall decline of 19.3% across the 10 systems.

Figure 4: Change in MCTS & Peer Transit System Bus Ridership, 2010-2022



Source: National Transit Database

Rider Profile

The responses to MCTS’s 2022 Customer Satisfaction Survey show the most common primary reason riders use the bus is to get to and from work, as shown in **Figure 5**. Social and recreational activities, shopping, medical appointments, and school are other common reasons.

⁴ The peer systems were selected by the Wisconsin Department of Transportation for comparative analysis that it performs and are further discussed in a subsequent section of this report.



The survey responses also show that many MCTS riders rely on the bus as their primary or only mode of transportation. Although 70% of respondents said they have valid driver's licenses, only 20% said they always have transportation options other than the bus, as shown in **Figure 6**. Nearly half of respondents said they rarely or only sometimes have alternative transportation options.

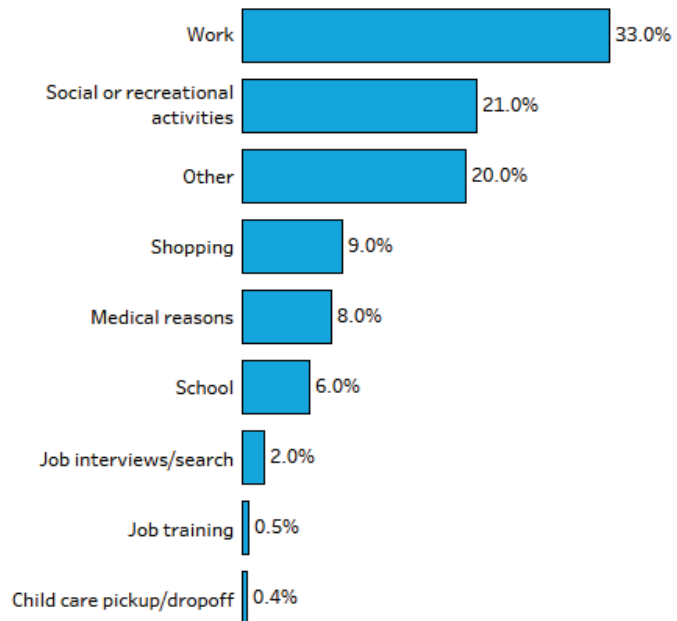
While declining ridership, reduced and stagnant revenue sources, and rising costs could lead policymakers to consider service reductions, such cuts would impact the mobility of this core group of “captive” riders. With many, if not most, system users lacking alternative transportation options and one-third citing “work” as their primary reason for bus usage, service cuts may also negatively impact Milwaukee’s economic competitiveness by impeding the ability of potential workers to get to jobs throughout the region.

Bus Replacement Needs Another Key to MCTS’s Fiscal Prognosis

While our focus in this report is primarily to assess upcoming gaps in MCTS’s operating budget, the system’s capital needs and planning play a significant role in that assessment, as they impact the use of federal dollars and how much MCTS needs to spend on bus repairs and maintenance. Consequently, we also spend time on those elements.

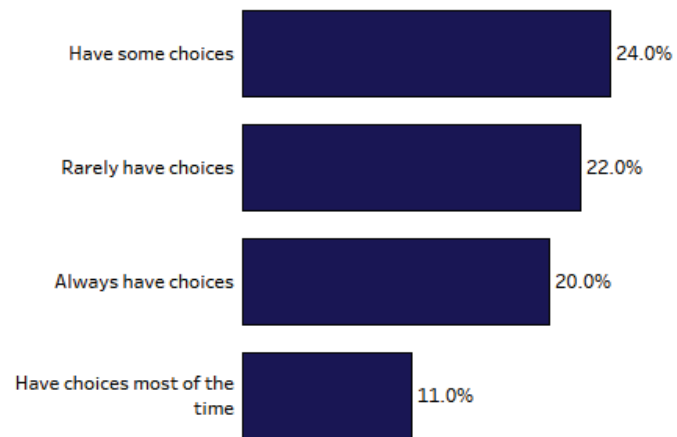
The federally recognized lifespan of a bus is 12 years and 500,000 miles, so MCTS typically looks to replace about 25 to 30 buses per year to keep its 300-plus fleet of buses up to date. Data provided by MCTS show that the system currently owns 80 buses that have exceeded 500,000 miles. The cost of a 40-foot clean diesel bus is about \$600,000, while the cost of a battery electric bus – which county policymakers have indicated would be their preference when it comes to bus replacement –

Figure 5: Primary Reason for Using Bus, 2022



Source: MCTS 2022 Customer Satisfaction Survey

Figure 6: Access to Transportation Choices other than MCTS Bus Service, 2022



Source: MCTS 2022 Customer Satisfaction Survey



may soon reach \$1.2 million, according to MCTS officials.⁵ Consequently, bus replacements constitute a major annual cost if an appropriate replacement schedule is followed.

The county is able to utilize certain sources of federal funds (some of which are competitive in nature) to offset the cost of bus replacements, though in most cases it also must be able to afford a 20% match. These monies include an annual allocation under the federal Bus and Bus Facilities program (also known as 5339 funds), which is restricted solely to use on bus replacements and facilities. MCTS received about \$3.5 million in 5339 funds in 2022 and expects a similar allotment this year. They also can include earmarks obtained through the federal appropriations process as well as other one-time sources.

Also, as discussed above, MCTS receives a sizable annual allocation of 5307 monies for bus replacements and other needs. The \$24.5 million received in 2022 was a sizable boost from the previous year's \$19.1 million and is expected to grow by 2% to 3% per year through 2026 per federal infrastructure legislation passed last year.

The county's 2023 capital improvements budget allocates \$18 million for 30 new clean diesel buses. Of that amount, \$14.4 million is expected to come from federal funds (mostly from the 5307 program) and the county would issue general obligation debt for the remaining \$3.6 million (the interest payments on which would be passed along to MCTS). The precise usage of 5307 funds to support the bus purchases has not yet been determined, however, and will be impacted by the possibility of a federal congressional earmark as well as the potential availability of other federal funds that are distributed by SEWRPC. County officials currently are estimating that about \$11 million of 5307 funds will be used. Such a sizable amount is available this year not only because of the boost in funding noted above, but also because county and MCTS officials have been able to build a reserve of unspent 5307 monies that currently exceeds \$25 million, in part as a result of having ample amounts of pandemic relief aid to cover operating costs in the last three budgets.

Unfortunately, having such a large pool of available federal funds for bus purchases is an anomaly. While on paper, the county's annual allotment of 5307 funds would appear to provide more than sufficient resources to fund a healthy schedule of bus replacements (assuming the county can afford to issue debt for its 20% match), MCTS has grown reliant on using the bulk of those monies to support ongoing fixed route bus maintenance and paratransit services in the operating budget. As we showed earlier, a combined total of \$17.1 million in 5307 monies is budgeted for fixed route and paratransit operations in 2023, which means that using a sizable portion of those monies for new buses in future years would create a gaping hole in the system's operating budget.

If the county wishes to continue to preserve large chunks of its annual 5307 allocations for transit operations (i.e. capitalized maintenance) while also maintaining an appropriate replacement schedule, then its only recourse would be to lean on general obligation borrowing for the bulk of its bus purchasing needs. Yet, such a scenario is equally problematic given the county's huge overall capital repairs backlog, which creates competing needs that severely hamper its ability to borrow substantial sums for buses (see our 2023 [Milwaukee County budget brief](#)). Consequently, county leaders are between a rock and a hard place when it comes to use of the 5307 dollars, and how they manage this situation going forward will have consequential impacts on MCTS's fiscal outlook.

⁵ Battery electric buses also require new investment in charging stations and other infrastructure.



It is important to note that this difficult predicament will be impacted by several variables that are currently unknown, including how much the county’s federal capital aid (either through the 5307 program or otherwise) might grow in the future; the availability of congressional earmarks and other special sources of federal or state funds for new buses; and how the pursuit of a new North-South bus rapid transit line and other service-related developments might impact bus replacement needs.

Summary

This overview of MCTS’s 2023 budget and ridership trends provides a first glimpse of the severity of its future fiscal challenges. The operating budget is highly dependent on \$21.3 million of one-time federal pandemic aid – which will soon be exhausted – and a \$17.1 million allotment of federal 5307 funds, which may not be available at similar levels for operations on an ongoing basis. Meanwhile, it remains to be seen whether passenger revenue will grow much in the coming years, and prospects for future increases in state operating assistance are equally uncertain (as we will discuss in greater detail in the next section).

All of this signals that considerable additional pressure will need to be exerted on local resources to meet costs to continue and avert major expenditure and service cuts in the near future. As we have briefly described, any such cuts would be most damaging to riders with no other source of transportation and could be harmful to the local economy. We dive deeper into the nature of MCTS’s individual and collective revenue and expenditure challenges, as well as potential remedies and consequences, in the pages that follow.



MCTS BUDGET TRENDS AND ONGOING CHALLENGES

As discussed in the previous section, MCTS’s budget picture is a complicated and ever-changing one: revenues from federal, state, and local sources, as well as from riders, all influence the breadth and quality of transit service the county is able to provide to its residents. At the same time, external environmental factors like the rate of inflation and the cost of fuel and buses will determine how much MCTS needs those revenues to grow to maintain existing levels of service.

In this section, we provide additional detail on trends for MCTS’s major revenue and expenditure line items. By understanding the recent trajectory of these items and the factors that have affected them, we can then turn to fiscal modeling and our assessment of MCTS’s future financial outlook.

Revenues

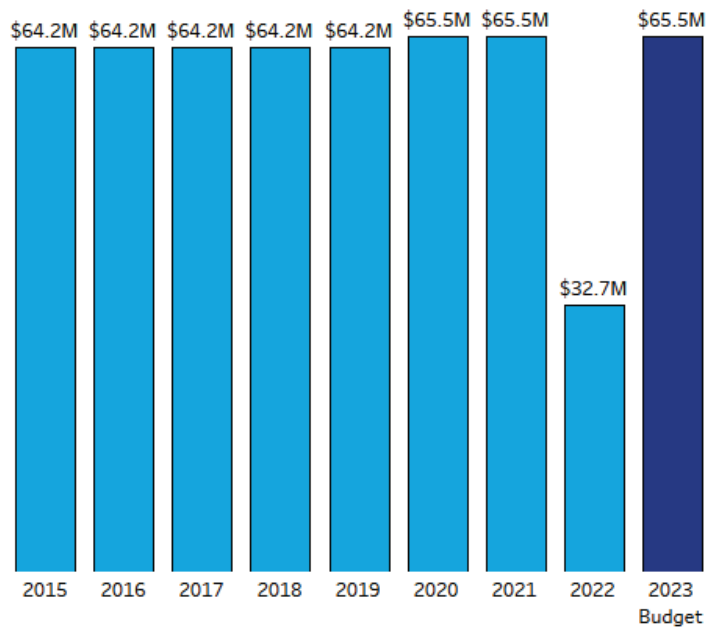
State Operating Assistance

By far, the largest individual revenue source for MCTS each year comes from an appropriation by the state of Wisconsin. Each year, monies from the state’s Urban Mass Transit Operating Assistance Program are split per the discretion of MCTS and county officials between the fixed route and paratransit budgets, with fixed route typically receiving about nine out of every 10 dollars.

As shown in **Figure 7**, MCTS has seen little growth in this crucial revenue source over the past eight years; in fact, the \$65.5 million it is receiving in 2023 is just \$1.3 million (2%) higher in nominal terms than the amount received in 2015.⁶

MCTS also saw a one-time 50% reduction in its state operating assistance in 2022 via a budget amendment adopted by the Republican-controlled Legislature, which cited the \$191 million MCTS would receive from the three rounds of pandemic stimulus as justification. In separate action, however, Governor Tony Evers restored about 60% of the cut by providing a special one-time allocation of \$19.8 million from the

Figure 7: Funding Trend from State Urban Mass Transit Operating Assistance Program (Fixed Route & Paratransit)



⁶ This figure and all others in this section that show multi-year funding levels use nominal dollars (i.e. the dollar amounts are not adjusted for inflation) unless otherwise indicated.



state’s own allotment of federal pandemic relief aid. The state budget did restore MCTS’s funding to the 2021 level in 2023.

A separate state statute designates a smaller amount of funding that goes solely to paratransit operations. From 2015 to 2020, that amount fluctuated slightly each year between about \$1.4 million and a little more than \$1.5 million. It has been flat at just under \$1.5 million since 2021.

A third source of ongoing paratransit revenues from the state comes from the County Elderly and Disabled Transportation Assistance Program. For each year between 2015 and 2020, this program provided \$1.4 to \$1.7 million for paratransit operations. Since 2021, it has been stable at just under \$1.7 million.

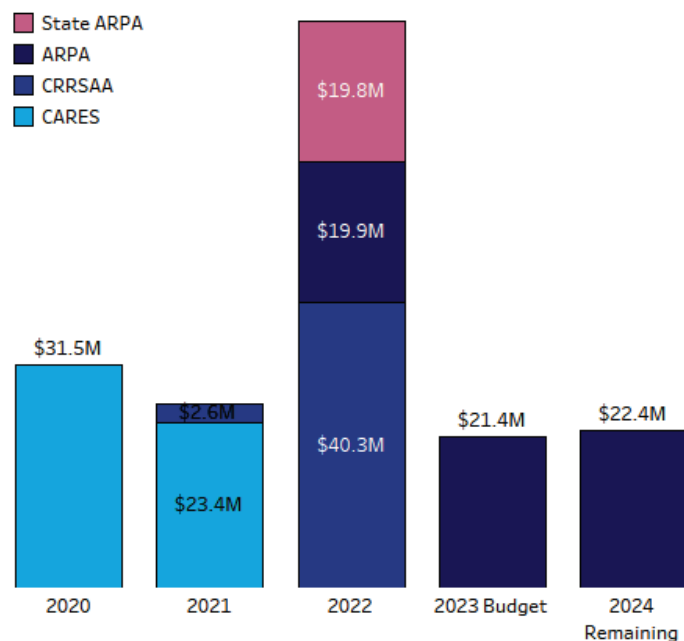
Ultimately, the fact that MCTS has little control over the level of these critical revenue sources make its future financial prognosis difficult to predict and quite precarious. The lack of even inflationary growth has played a significant role in its overall budget challenges, and it is questionable whether that will change in the future. A sign of hope is the existence of an historic state budget surplus, which may bode well for at least some increase in the next state budget. Yet, the Legislature’s traditional lack of friendliness toward MCTS (as evidenced by the 2022 cut) and the potential for it to benefit from new federal infrastructure legislation in the years to come may act as deterrents to any meaningful legislative action to improve past trends.

Federal Aid

Prior to the pandemic, MCTS received aid from the federal government on both an ongoing basis from the 5307 program; as well as in one-time chunks through competitive sources like the CMAQ program and from federal programs that have supported special projects like the East-West Bus Rapid Transit (BRT) project.

Since the onset of the pandemic, MCTS has been able to supplement those funds with \$191.3 million from three rounds of COVID stimulus – CARES, CRRSAA, and ARPA. **Figure 8** shows how those monies – plus the \$19.8 million in state ARPA funds mentioned above – have been allocated to date for operations. About \$159 million has been used or budgeted thus far (plus \$20 million for capital needs in 2022), leaving \$32.4 million for future use.

Figure 8: Funding Trend from Federal Pandemic Aid
(Fixed Route & Paratransit; for Operating Purposes Only)



MCTS currently plans to use \$22.4 million of that amount to support operations in 2024 (though as noted earlier, newly negotiated labor agreements may require some usage of unbudgeted ARPA funds in 2023, thus reducing that amount). That would still leave another \$10 million that MCDOT has set aside to support a long-range transit plan. As we will discuss later in this report, the precise usage of those funds is unknown at

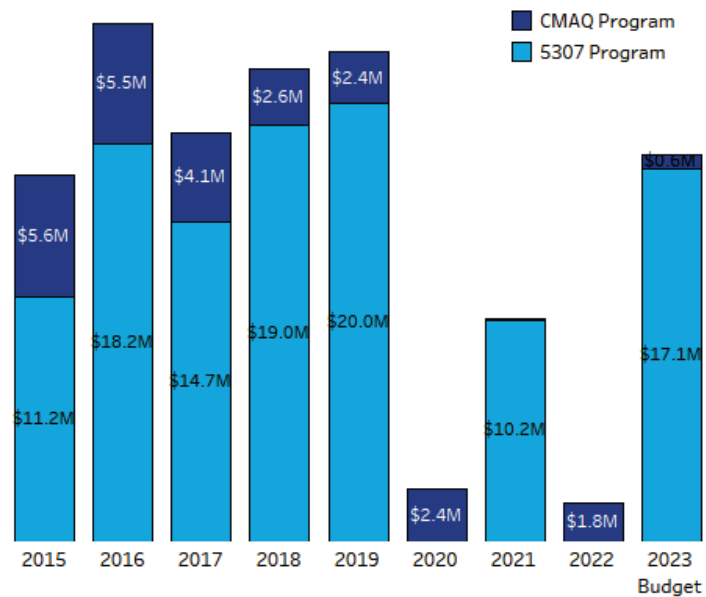


this time but they could potentially be used to shore up general operations or bus replacement needs in 2024, as well.

After the pandemic relief funds are exhausted, the 5307 program will again take on paramount importance in MCTS’s fiscal paradigm. The county’s allocation ranged from \$18 million to \$19.5 million from 2015 through 2021 before seeing a boost to \$24.5 million last year due to the passage of the federal Infrastructure Investment and Jobs Act (IIJA). That legislation increased funding for the 5307 program by 30% and also authorizes increases of 2% to 3% for each year until FY 2026, so MCTS should continue to receive amounts at or above \$25 million for at least the next three years.

Because of the aforementioned flexibility of the 5307 monies, MCTS has been able to plug them into its operating budget as it sees fit, and in most years its operating budget challenges have required the use of sizable sums for that purpose. However, as shown in **Figure 9**, that has not been the case more recently. Because of the availability of large sums of pandemic relief aid, in both 2020 and 2022 MCTS did not use any of its 5307 funds for operations, while in 2021 it used only about half as much as in pre-pandemic years.

Fig 9: Funding Trend from Federal 5307* & CMAQ Programs
(Fixed Route & Paratransit)



*Only those 5307 Revenues designated for operations.

This fortuitous situation has allowed MCTS to build up a 5307 reserve of \$27.6 million heading into 2023,⁷ and also enabled it to dedicate \$16.5 million in 5307 monies to bus replacements in 2022. Unfortunately, the 2023 budget marks a return to the previous normal, as a combined \$17.1 million of 5307 monies are earmarked for fixed route and paratransit operations. Meanwhile, the county’s capital budget calls for using \$14.4 million in federal funds for 30 new clean diesel buses. It is likely that about \$3.5 million of that amount will come from the 5339 program, and MCTS also hopes to receive a congressional earmark to support that need, but the remainder may have to come from the 5307 program. That means that even with a new allocation of about \$25 million in 5307 funds this year, some portion of the reserve may need to be tapped to fund the combined \$31.5 million operating and capital need for federal non-pandemic monies.

This scenario illustrates the uncertainty surrounding use of 5307 monies going forward. Should the operating budget require more to stay afloat once the pandemic relief dollars are exhausted – as is almost certain to be the case – then a short-term fix could involve drawing down remaining funds

⁷ Federal law dictates that annual 5307 allocations must be spent within five years.



from the 5307 reserve and also using greater shares of the \$25 million-plus annual allotments to support operations. However, the latter strategy likely would produce damaging consequences for the county’s bus replacement program, which according to MCTS officials should include 30 bus replacements per year from 2024-2027 and 24 in 2028. Meanwhile, though use of reserve funds could provide relief for a few years, once the reserve has been depleted another operating budget hole would be created.

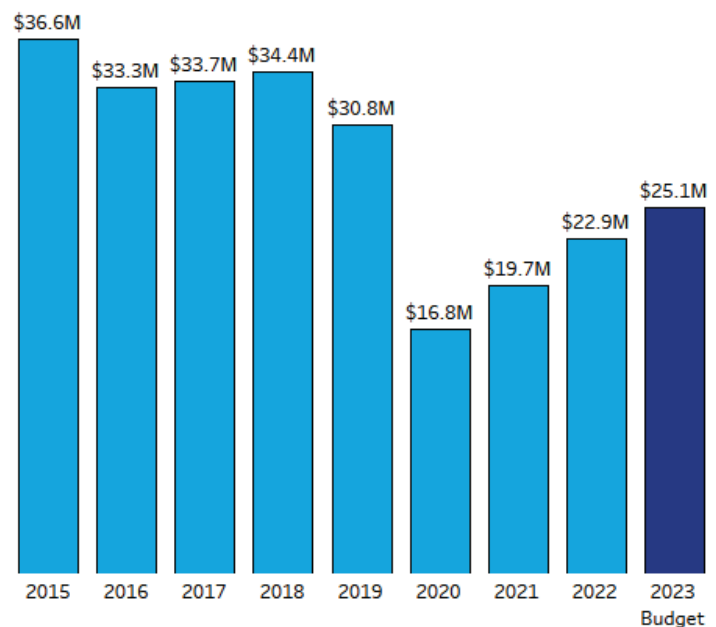
The one other source of ongoing federal funding for operations in recent years has come from Congestion Mitigation and Air Quality (CMAQ) grants, which as we noted earlier are distributed by SEWRPC among various southeast Wisconsin transportation agencies for new initiatives that can be shown to reduce congestion and improve air quality. As shown in **Figure 9** on the previous page, MCTS received nearly \$5.6 million in CMAQ grants in 2015 to support some new routes, but that fell to under \$2.4 million by 2020, and did not factor into the 2021 revenue picture. The county received \$1.8 million in CMAQ grants last year, but budgeted for just \$624,000 in 2023. While MCTS officials are not currently planning to rely on CMAQ funding going forward, the IJA also boosted these funds by 10%, which could produce some additional opportunity for MCTS, including as a funding source for bus replacements.

Passenger Revenue & Other Earned Revenue Sources

The vast majority of the revenue MCTS generates for itself comes from passengers paying for fixed route rides. As discussed in the previous section, fixed route ridership on MCTS – and indeed, on many transit systems nationwide – was declining even prior to the pandemic: from 2015 to 2019, fixed route passenger revenue declined from \$34.9 million to \$28.9 million as a result of both lower ridership and the temporary creation by the Milwaukee County Board of Supervisors of a Go Pass program that provided free rides to certain categories of elderly and disabled riders. As was also the case nationwide, ridership cratered in 2020 (driving fixed route farebox revenues down to just \$15.6 million). Passenger revenue has since rebounded somewhat to \$18.6 million in 2021 and \$21.6 million in 2022, but it still remains well below pre-pandemic totals.

Similar pandemic-related trends have occurred with ridership revenue on the paratransit side, though passenger revenue here was rising prior to the pandemic (**Figure 10** shows combined fixed route and paratransit passenger revenue trends). Despite budgeting for just under \$2.0 million in 2022, MCTS garnered just over \$1.3 million, and future trends for paratransit passenger revenue are also thus far unclear.

Figure 10: Revenue Trend from Fixed Route & Paratransit Passengers



The county could explore several options to potentially boost passenger revenues, including providing more and better services to riders, as well as adjusting the level of fares – either upwards to get loyal riders to pay more, or downwards to incentivize higher levels of ridership.⁸ That said, external forces that also impact ridership – such as unemployment rates and the condition of the local economy – are out of the hands of county officials. Also, fare increases have been shown to have a depressing impact on ridership, which means any consideration of higher fares must weigh the possibility of concurrent ridership declines that could wipe out any overall revenue increase.

On the fixed route side, the county also receives some revenue from advertising, and it also used to receive payments from neighboring counties for services – which are now discontinued – that crossed county boundaries. This catch-all “other” own source fixed route revenue provided nearly \$4.4 million to MCTS at its peak (2018), though the 2023 budget saw the lowest level of these revenues since at least 2015 (just under \$1.5 million).

For paratransit, some agencies that use MCTS’s services to support their clients pay MCTS directly. Those payments declined from just under \$2.4 million in 2015 to just under \$1.9 million in 2019, but have remained between \$1.0 and \$1.6 million in each of the last three years. In 2023, MCTS expects to receive about \$1.3 million from agency subsidies for paratransit.

Local Aid

As discussed in the previous section, Milwaukee County’s local revenue support for MCTS comes from two sources: its property tax levy, as well as a relatively new Vehicle Registration Fee (VRF, or “wheel tax”).

The VRF was adopted in Milwaukee County in 2017, and has been a major source of revenue for MCTS since that time. As we have [detailed](#) in previous reports, VRFs have risen in relevance in recent years statewide as many other sources of local transportation funding have not kept up with inflationary demands. This is one of the few local option taxes available to local governments in the state, and the amount of the fee can be determined by local officials. Currently, the state of Wisconsin imposes an \$85 per vehicle fee; residents of Milwaukee County pay an additional \$30 per vehicle, while those living within city of Milwaukee boundaries pay another \$30 on top of those amounts.

The county VRF has been at \$30 since its adoption six years ago. As per Wisconsin State Statute 341.35(6r), moneys received under municipal or county VRFs can be used “only for transportation related purposes.” Milwaukee County officials typically have distributed the bulk of VRF revenues to MCTS (\$16.1 million in the 2023 budget), with a much smaller amount going to the county’s Highway Division (\$1.1 million in 2023). After receiving \$12.2 million in the first year of VRF implementation, MCTS received between \$15.8 and \$16.2 million from the VRF in each of the next four years (2018 to 2021). In 2022, that declined to just over \$10.0 million, as \$6.4 million of VRF monies were used to support East-West BRT.

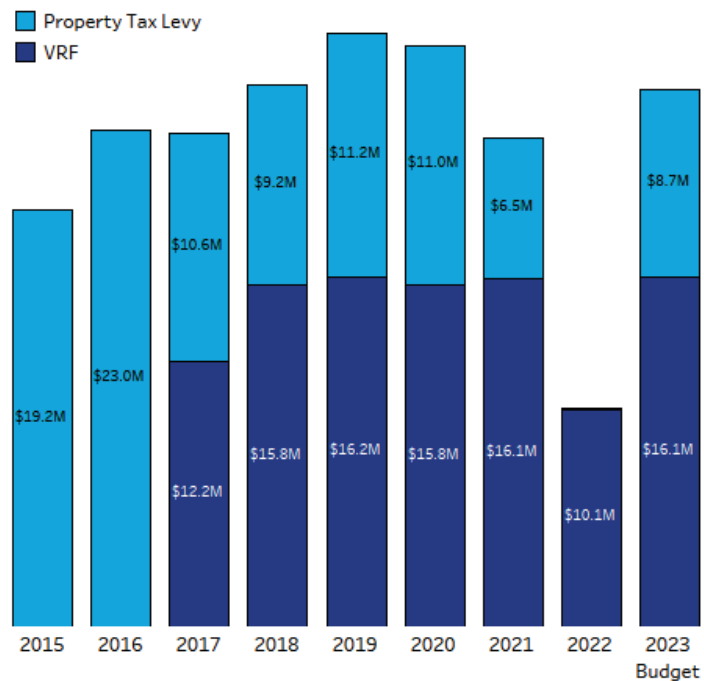
With regard to property tax revenues, Milwaukee County’s total 2023 budgeted property tax levy is \$312.9 million, of which MCTS will receive \$8.7 million (2.8%). Despite budgeting for about \$7.4

⁸ MCTS is in the process of introducing a new fare collection system that caps fares for frequent riders and that has been found to increase ridership in other cities.



million from the property tax in 2022, MCTS actually received nothing last year (largely a reflection of its ability to use federal pandemic aid instead). That said, the appropriation from the county used to be higher: in 2015 and 2016, the transit system received \$19.2 million and \$23.0 million from the property tax, respectively, as shown in **Figure 11**. With the introduction of the VRF in 2017, however, county officials decided to lower the property tax appropriation by about half to divert those resources to other needs; in each year from 2017 to 2020, MCTS received between \$9.0 and \$11.5 million in property tax revenues, before a decline to just \$6.5 million in 2021.

Figure 11: Revenue Trends from VRF & Property Taxes



The county’s ability to boost its property tax revenue allocation to

MCTS in the future will be dependent on competing priorities, its overall fiscal condition, and its capacity to do so under the state’s property tax levy limits, which are tied to growth in net new construction. Another huge wild card is whether county leaders are successful in lobbying the state for the ability to pursue an increase in the county sales tax, which could free up additional property tax dollars for transit if dedicated to other uses, or which could result in direct support for MCTS depending on how the legislation is structured and decisions made by county leaders.

The VRF also offers a potential opportunity for growth. While the number of registered vehicles in the county is unlikely to increase more than marginally, county leaders do have the ability to raise the fee. It has remained at \$30 since its implementation in 2017. While there may be political obstacles to raising the fee, increasing it by even \$10 could produce an additional \$5 to \$6 million annually to shore up MCTS operations.

Revenue Summary

Our discussion illustrates MCTS’s high reliance on state operating assistance and the uncertainty – based on past trends – that this revenue source will meaningfully increase in future years. Enhanced federal funding from the 5307 program may help offset that lack of growth for the time being, but the prospects of a sizable boost in passenger revenue – MCTS’s second-largest single revenue source – also remain dubious.

With the exhaustion of federal pandemic relief funds at the end of 2024, therefore, considerable pressure will be placed on the county’s local revenue sources or spending cuts to fill the gap. While the use of 5307 reserve funds could ease that pressure for another couple of years, over the longer term, county officials may well need to consider huge increases in local support to maintain MCTS’s existing service array, let alone finance any expansion or modernization to meet the needs of a changing society.



Expenditures

While MCTS’s revenue picture has been marked by big changes during the past several years, its expenditure trends reveal relative stability. Overall, expenditures have grown only 7% in nominal dollars (from \$150.1 million to \$160.4 million) from the 2015 actual amount to the 2023 budgeted amount, or an average of less than 1% per year. As we will discuss below, wage and repair costs have grown more rapidly, but these increases have been offset by substantial savings in medical costs for retirees, pension payments, and bus fuel, which may be unavailable in the future.

It is important to note that while MCTS’s costs have grown slowly, ridership has fallen dramatically and some service, like freeway flyer routes and special services to Summerfest and Milwaukee Brewers games, have been cut. The system also has struggled to adjust or expand service as job centers have been created or moved. Still, costs continue to grow as a minimum number of employees and assets are needed to provide the current level of fixed route service.

Below, we provide further analysis of expenditure trends in MCTS’s major expenditure categories, which are delineated in **Figure 12**. Here, we use the 2018-2023 timeframe.

Wages

MCTS has budgeted \$76.3 million for expenditures on wages for bus operators and other employees in 2023, comprising 47.6% of the system’s total budgeted expenditures. Wages as a share of total expenditures have grown since 2018, when they accounted for 41.5% of total costs, in large part because fringe benefits spending has fallen. Bus operators receive about two thirds of budgeted wages, at \$51.4 million (see **Figure 13**). Also, as noted in the previous section, the budgeted amount understates projected 2023 actual wage totals for bus operators and mechanics by about \$2 million

Figure 12: MCTS Expenditures by Type, 2018-2023

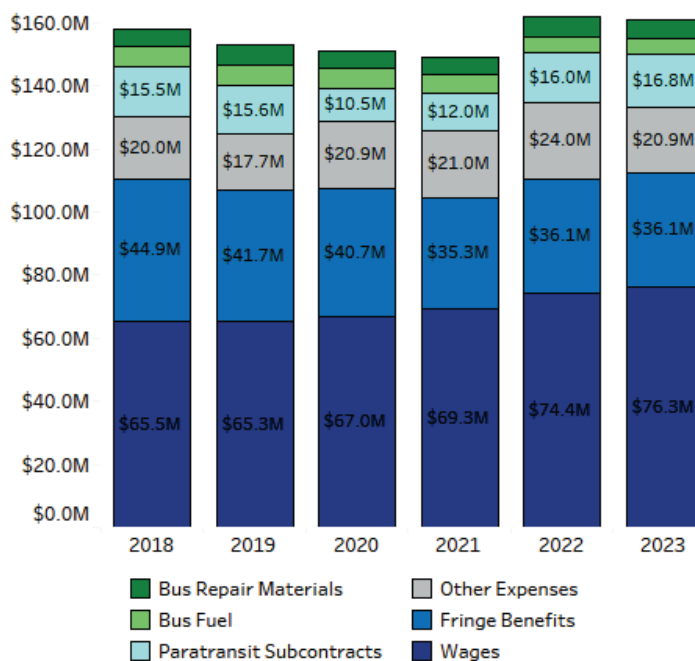
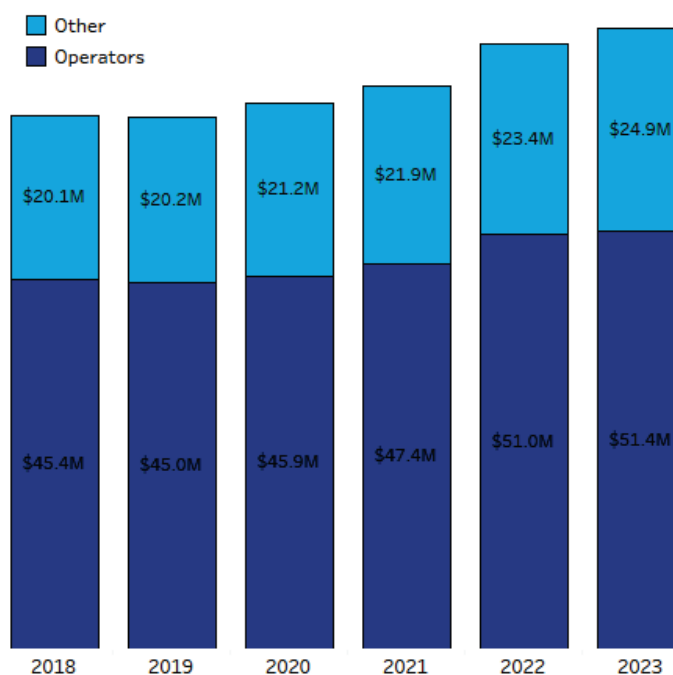


Figure 13: MCTS Wages by Type of Employee, 2018-2023

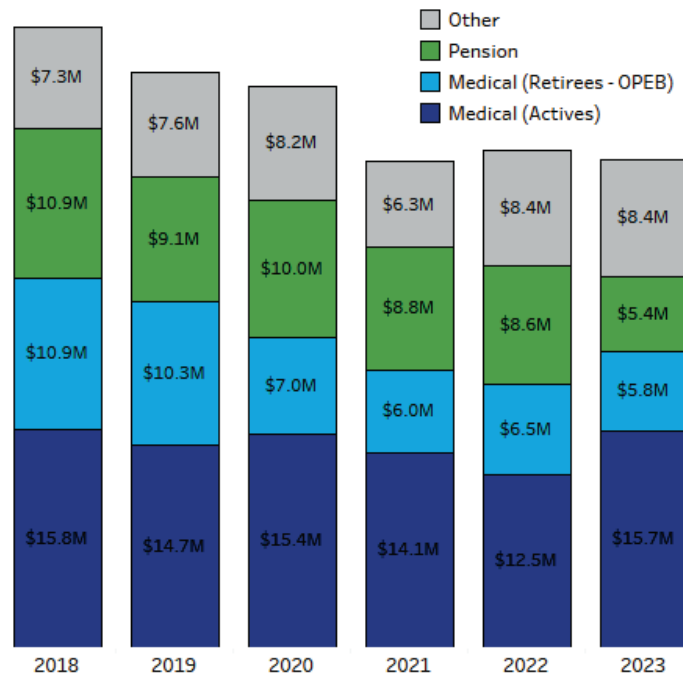


according to MCTS officials in light of the new labor agreement, which provided a retroactive 7% pay increase as of April 1, 2022, and additional 2% increases in each of the following two years.

Fringe Benefits

Total fringe benefit costs have declined at a rate of 3.9% per year since 2018, from \$44.9 million to \$35.4 million in the 2023 budget (**Figure 14**). These declining costs are attributed by MCTS officials to various health care benefit changes, including a switch to Medicare Advantage for certain retirees, as well as strong returns on pension fund investments that have lowered the required employer pension contribution. The decline has helped the system cope with slow revenue growth without making drastic service cuts. While this is good news, it is unlikely these trends will continue at the same rate, if at all. According to MCTS officials, their general expectation is that health care costs for active and retired employees will increase by 2% to 3% per year, while pension costs may also increase given investment losses in 2022.

Figure 14: Fringe Benefit Expenditures by Type, 2018-2023



Combined health insurance costs for both active employees and retirees accounts for about \$21.5 million in the 2023 budget, with active employees receiving the larger share at \$15.7 million (73.0%). The switch to Medicare Advantage and use of \$1 million from MCTS’s OPEB Trust have helped reduce costs for retirees from \$10.9 million in 2018 to \$5.8 million in the 2023 budget (46.8%). However, as noted above, it is reasonable to expect an increase of 2-3% per year from this much lower baseline going forward.

As discussed earlier, MCTS maintains its own pension fund for eligible MCTS employees. Each year, as part of the budget, officials determine an employer contribution that is supposed to cover both the annual normal cost and an actuarially determined amount to address any unfunded liabilities. The recent combination of solid investment returns and consistent payments have created an “overfunded” status in the fund and, as shown in the figure, a 50% decline since 2018 in MCTS’s annual pension expenditures (from \$10.9 million in 2018 to \$5.4 million in the 2023 budget). However, the stock market plunge in 2022 is likely to reverse that trend. MCTS officials anticipate some increases in pension payments beginning in 2024, although they say the 2023 budgeted amount exceeded the actuarial requirement and will provide some cushion against a steep increase in 2024.



Fuel

Fuel costs represent a substantial cost for the system, ranging from about \$5 million to \$6.5 million annually from 2018 to the 2023 budget. Because the department purchases its fuel on futures contracts, it was able to lock in substantial savings by purchasing its 2022 and 2023 fuel at a time when fuel prices were historically low during the pandemic. This is another area where favorable trends are likely to change, however, as some increases in fuel costs are likely in 2024.

Another fuel cost factor, when looking to the future, is the potential replacement of diesel buses with electric battery-powered buses. The Milwaukee County Board of Supervisors has indicated a desire to make such a transition for the full fleet over time, but the much higher upfront cost of electric buses (approximately \$1.2 million as opposed to \$600,000 for a clean diesel bus) may impact that goal. MCTS does plan to use electric buses for its new East-West BRT route and has procured 15 buses for that purpose, which will replace the diesel buses previously used in the BRT corridor, thus reducing fuel usage to a limited extent.

Paratransit Contract

As discussed in the previous section, MCTS enters into contracts with private vendors for paratransit services. The cost of these contracts has been relatively stable, growing from \$15.5 million in 2018 to \$16.8 million in the 2023 budget (8.4%). The future is more uncertain, as the County Executive proposed elimination of the county's contract for paratransit taxi services in his 2023 recommended budget as of May 31, 2023. Trips on paratransit taxis are only a small portion of total paratransit trips in the county (most trips are made on contracted paratransit van services), but the cost was projected to rise from approximately \$310,000 in 2021 to nearly \$738,000 in 2023 according to MCTS officials as a result of federal regulatory changes. The County Board ended up restoring the funding for the remainder of this year but the contract may again be on the chopping block in future years.

Repair Materials

Bus repair materials are another significant line item in MCTS's budget and saw modest growth during the past six years, increasing from \$5.5 million in 2018 to just under \$6 million in the 2023 budget (9.3%). It is possible that supply chain issues and the higher rate of inflation could accelerate growth in this area going forward, as projected actual costs in 2022 are \$6.4 million. On the other hand, as MCTS continues to modernize its fleet there could be a positive impact on the need for repairs, though that also may depend on the complexity of new vehicles.

Other Expenses

As discussed in the previous section, the "other" category includes charges for services from Milwaukee County for items related to MCTS's capital assets (a combined \$4.3 million is budgeted for interest and depreciation charges in 2023) as well as other administrative and safety-related services. In addition, this category includes costs related to general items like contracted design services, supplies, etc. Collectively, these costs have not shifted much from year to year and grew by only 4.7% (from about \$20 million to \$20.9 million) from 2018 to the 2023 budget.

In the future, it can be anticipated that the expenditures that are not related to county services should not grow at a pace that is above the rate of inflation, but county service charges will be more difficult to predict as they will be linked to the future size of the capital program as well as the extent



to which county costs increase due to the county's own wage and benefit increases and other cost pressures.

Expenditure Summary

Projecting MCTS's expenditure growth over the next five years presents fewer challenges than projecting its revenue growth but still poses some uncertainty, despite the relatively flat nature of the overall expenditure budget over the past five years. For example, the transit system was able to generate sizable savings in pension and retiree health care costs from 2018 to 2023, but its ability to wring out savings has now appeared to run its course, and a key question will be whether it can limit annual growth in those benefit costs to an amount that at least mirrors the rate of inflation.

Meanwhile, growth in employee wages – which constitute the largest component of the expenditure budget – is predictable through 2024, but will already be challenging to accommodate both this year and next in light of the system's revenue challenges. Wages may then need to rise at an even greater rate in future years in light of the tight labor market and the possibility of prolonged high rates of inflation.



ADDED CONTEXT: PEER SYSTEMS

In this section, we briefly explore how MCTS stacks up with similar transit systems nationally with regard to revenue mix and system efficiency. This analysis may be insightful for future decision-making on MCTS’s finances by revealing how Wisconsin’s and Milwaukee County’s current approach to funding the state’s largest transit system differs from other states and metro regions; and by using peer comparison as context for gauging whether MCTS’s financial challenges might be reasonably addressed, at least in part, through greater efficiency.

The peers selected are those used by the Wisconsin Department of Transportation in its regular cost-efficiency analysis for the state’s public transit systems, which are conducted once every five years.⁹ Most are reasonably similar in size to MCTS and have similar operating characteristics. Whenever possible, only data from the fixed route bus component of each transit system was used. All data is from the Federal Transit Administration’s National Transit Database.¹⁰

Revenue Mix

In 2019, MCTS ranked first among the 10 peer transit systems in the share of its total revenue that came from state government aid, and last in the share coming from local revenue, as shown in **Table 1. Strikingly, local revenue accounted for a majority of total revenue for six of the 10 peer systems while only contributing 20% of MCTS’s total.** The main reason was that MCTS’s state revenue share was much higher than the peer system median. Despite several years of declining farebox revenue, Milwaukee also ranked second in the share of its total revenue that came from fares. We used 2019 data for this analysis because it was the last year before pandemic relief funding complicated the picture.

Table 1: Revenue mix for MCTS and peer transit systems nationally, 2019

| Transit System (Principal City) | 2019 Total Revenue (millions) | % Fares | Rank Fares | % Federal | Rank Federal | % State | Rank State | % Local | Rank Local |
|------------------------------------|----------------------------------|--------------|---------------|--------------|-----------------|--------------|---------------|--------------|---------------|
| Cincinnati, OH | \$140,346,036 | 20.2% | 1 | 25.9% | 1 | 3.6% | 6 | 47.9% | 7 |
| Milwaukee, WI | \$167,387,433 | 20.1% | 2 | 16.3% | 5 | 41.2% | 1 | 20.0% | 10 |
| Orlando, FL | \$159,158,135 | 16.0% | 3 | 20.8% | 4 | 11.3% | 3 | 47.8% | 8 |
| Cleveland, OH | \$354,263,538 | 12.8% | 4 | 11.3% | 9 | 0.2% | 8 | 73.4% | 2 |
| Detroit, MI | \$150,529,513 | 12.7% | 5 | 21.9% | 3 | 28.8% | 2 | 36.4% | 9 |
| St. Louis, MO | \$339,348,685 | 11.9% | 6 | 12.3% | 8 | 0.2% | 9 | 72.1% | 3 |
| Columbus, OH | \$226,946,969 | 8.4% | 7 | 11.2% | 10 | 0.0% | 10 | 59.8% | 6 |
| San Antonio, TX | \$277,016,377 | 8.3% | 8 | 14.5% | 6 | 6.2% | 4 | 68.8% | 4 |
| Austin, TX | \$357,821,419 | 6.4% | 9 | 13.2% | 7 | 2.3% | 7 | 74.3% | 1 |
| Indianapolis, IN | \$218,253,675 | 4.2% | 10 | 24.3% | 2 | 5.0% | 5 | 65.7% | 5 |
| <i>Median</i> | <i>\$222,600,322</i> | <i>12.3%</i> | | <i>15.4%</i> | | <i>4.3%</i> | | <i>62.8%</i> | |

Source: National Transit Database

The revenue amounts and rankings of each transit system have shifted somewhat in recent years, but the overarching trends for MCTS have remained relatively consistent. For example, in 2015, MCTS ranked first among the 10 systems in the share of its total revenue that came from state aid

⁹ Wisconsin Department of Transportation. <https://wisconsin.gov/Documents/doing-bus/local-gov/astnce-pgms/transit/effic-report.pdf>

¹⁰ National Transit Database. <https://www.transit.dot.gov/ntd>



(45.5%); second in farebox revenue (23.1%); seventh in federal aid (18.5%); and last in local revenue (11.2%).

Most of the peer transit systems are supported with dedicated sources of local funding, such as a local or regional sales tax, which would require legislative approval in Wisconsin. Prior to adoption of the \$30 VRF in 2017, MCTS's local funding came entirely from Milwaukee County property tax revenue. As previously noted, the VRF has since become the transit system's largest source of local revenue.

Cost Effectiveness and System Efficiency

A common method of measuring transit system performance is to divide total operating expenses by either the number of passenger trips ("cost effectiveness") or number of hours of service provided ("service efficiency"). Both performance measures are employed by the state in its regular efficiency audits of Wisconsin's transit systems. The following tables display the results of benchmarking MCTS against its nine peer systems using these measures.

The cost effectiveness of MCTS'S fixed-route bus service ranked first among the 10 peer systems in 2015 at \$3.27 per passenger (**Table 2**). MCTS's ranking slipped to third in 2021, though it remained competitive with the two leading systems and its \$8.21 cost per passenger remained well below the peer group average (\$12.12). All of the peer systems saw their cost per passenger increase considerably between 2015 and 2021, largely driven by ridership reductions but also influenced by other factors like rising salary and benefit costs. MCTS historically has measured well in cost effectiveness due to strong ridership, which is influenced by Milwaukee's relatively high population density and poverty rate compared with peer cities.

Table 2: Cost effectiveness of MCTS and peer transit systems, 2015 and 2021

| Transit System (Principal City) | Cost per Passenger, 2015 | Rank 2015 | Cost per Passenger, 2021 | Rank 2021 |
|------------------------------------|-----------------------------|-----------|-----------------------------|--------------|
| Orlando, FL | \$3.30 | 2 | \$7.90 | 1 |
| San Antonio, TX | \$4.24 | 5 | \$8.09 | 2 |
| Milwaukee, WI | \$3.27 | 1 | \$8.21 | 3 |
| Detroit, MI | \$3.98 | 3 | \$9.99 | 4 |
| Austin, TX | \$4.17 | 4 | \$10.14 | 5 |
| Cincinnati, OH | \$5.28 | 8 | \$11.91 | 6 |
| St. Louis, MO | \$5.20 | 7 | \$14.03 | 7 |
| Cleveland, OH | \$4.75 | 6 | \$14.33 | 8 |
| Columbus, OH | \$5.38 | 9 | \$16.50 | 9 |
| Indianapolis, IN | \$5.57 | 10 | \$20.10 | 10 |
| <i>Average</i> | <i>\$4.51</i> | | <i>\$12.12</i> | |

Source: National Transit Database

MCTS also performs well on service efficiency, as shown in **Table 3**. In both 2015 and 2021, MCTS ranked second among the 10 peer systems in its average cost per "vehicle revenue hour."¹¹ MCTS's 2021 cost per vehicle revenue hour of \$102.72 was nearly \$30 cheaper than the average across the 10 peer systems.

¹¹ The number of hours that buses travel while in revenue service.



Table 3: Service efficiency of MCTS and peer transit systems, 2015 and 2021

| Principal City | Cost per Hour 2015 | Rank 2015 | Cost per Hour 2021 | Rank 2021 |
|----------------------|--------------------|-----------|--------------------|-----------|
| Orlando, FL | \$84.91 | 1 | \$94.97 | 1 |
| Milwaukee, WI | \$98.08 | 2 | \$102.72 | 2 |
| Detroit, MI | \$135.29 | 10 | \$111.79 | 3 |
| Austin, TX | \$115.61 | 8 | \$120.92 | 4 |
| San Antonio, TX | \$101.66 | 3 | \$122.78 | 5 |
| Indianapolis, IN | \$104.87 | 4 | \$150.93 | 6 |
| St. Louis, MO | \$112.29 | 6 | \$152.40 | 7 |
| Columbus, OH | \$107.31 | 5 | \$154.39 | 8 |
| Cleveland, OH | \$131.53 | 9 | \$154.77 | 9 |
| Cincinnati, OH | \$115.20 | 7 | \$158.50 | 10 |
| Average | \$110.68 | | \$132.42 | |

Source: National Transit Database

Summary

MCTS’s extremely high reliance on state and passenger revenues and low reliance on local revenue sources when compared to peers suggests that enhancing its access to local tax and fee options may be the appropriate path forward if local and state leaders wish to buttress its revenue growth. Such a strategy also would be consistent with the uncertainty surrounding substantial growth in ridership and the long-time stagnant nature of state aid.

With regard to expenditure reductions, we find that MCTS compares favorably against its peers in service efficiency and cost effectiveness. 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.



FORECASTING THE FUTURE

The analysis we have conducted so far points to a very concerning fiscal outlook for MCTS. There is the obvious near-term problem of exhaustion of the system’s ARPA funds, which sets the stage for a \$21 million gap in the 2025 budget. But on top of that, there are signs that MCTS’s long-term structural challenges are worsening, as passenger revenue remains depressed and it would be unwise, based on past trends, to count on increases in state aids. Meanwhile, although increased federal funds under the 5307 program will be helpful, there is a cap on MCTS’s ability to use those dollars for operations, while the need to preserve a sizable portion for bus purchases runs counter to their use to fill the ARPA gap.

In theory, MCTS could benefit from greater local sources of revenue like other urban transit systems. In practice, however, Milwaukee County itself faces fiscal challenges of its own that make it difficult to deliver that local funding.

In this section, we attempt to quantify the upcoming fiscal “cliff” and identify the most critical variables that will impact it. We do so by creating a forecasting model that projects MCTS operating expenditures and revenues for the 2024-2028 period. Our objective is to help MCTS and Milwaukee County leaders define the scope of their upcoming challenge so that informed policy deliberations can take place.

Developing Our Model

A fiscal forecasting model can serve as a useful tool for local officials, but it also contains limitations. The foremost of those is that a forecasting model is only as reliable as the assumptions that are used to build it. In developing our model, we have used dozens of assumptions on future revenues and expenditures that we have reviewed with MCTS and MCDOT officials. We believe they are reasonable, but they are only assumptions that may not be borne out over time.

Few if any models, for example, could have predicted the impact of the pandemic on transit systems nationally and the resulting influx of federal relief dollars. Also, factors like the proposed I-94 reconstruction project between the Marquette and Zoo interchanges – which could include millions of dollars of mitigation monies for MCTS – and a potential new North-South BRT line may impact MCTS finances in ways that we cannot predict at this time.

To construct our model, we focused on the roughly two dozen expenditure and revenue line items that have been discussed in earlier sections of this report. For each one, we made assumptions regarding future growth or decline that reflect our earlier analysis and discussion. In some cases, we simply used the average growth trend over a recent multi-year period and applied that percentage to each of the next five years, while in others we factored in knowledge we have gained from our interviews and other sources.

On the expenditure side of the ledger, the variables are sufficiently narrow that we developed only one set of assumptions. Conversely, given the much greater uncertainty surrounding certain key revenue items, we developed both a “Baseline” and “Optimistic” set of assumptions.

A series of tables showing our full model – including the assumptions behind it – can be found in the **Appendix**. Below, we summarize the handful of key modeling considerations and assumptions that readers should understand before reviewing the results.



- Overall expenditures.** While we developed distinct assumptions for 11 different expenditure line items that have had some volatility in recent years, it is important to note that MCTS's total expenditures have seen relatively modest growth (an average of 2.6% per year from 2015 to 2021). Our model projects an initial jump of 4.2% in 2024 in light of a new labor agreement with bus operators and mechanics and an expected spike in fuel prices, but the average growth rate over the subsequent four years would be 1.8%. We deem this total expenditure projection to be reasonable considering MCTS's success throughout the years in identifying cost savings that ensure the system will stay within a total growth range of roughly 2% to 2.5%, though we acknowledge that there may be variations within some individual expenditure line items that we cannot project.
- Paratransit contracts.** This expenditure item is difficult to forecast because the County Executive proposed ending a \$700,000-plus shared ride taxi contract in his 2023 recommended budget but the County Board restored the funds. The future of this contract is uncertain, but our model assumes it remains in place throughout the five-year period and, per MCTS officials, that its annual cost will grow to more than \$1 million. Forecasting expenditures for the much larger paratransit van service contract also is challenging given that the county is moving to a new single contract on November 1, and that there are contract provisions that provide supplements if certain ridership targets are not met, or if the cost of fuel exceeds expectations. We again asked MCTS officials for assistance and used their estimates, which show van service contract costs increasing by about 37% over the 2024 to 2028 period, due both to rising costs and ridership returning to historical levels.
- State operating assistance.** Recent past experience would seem to indicate little hope for any increase in MCTS's largest revenue source in the coming years, as the system received only a single 2.4% increase (in the 2019-21 state budget) over the past eight years. Consequently, for our baseline forecast, we include only a single 2% increase in 2028. We acknowledge that the existence of a \$7 billion state budget surplus might improve the prospects somewhat for increases in future years, so in our optimistic forecast we project 2% increases in the first year of each of the next three state budgets. It is also worth noting that Democratic Governor Tony Evers has proposed a 4% increase in each of the next two years in his 2023-25 proposed budget, but Republican leaders plan to craft their own budget so the outcome of that proposal is highly uncertain. Also, if Milwaukee County benefits substantially from other budget provisions pertaining to shared revenue or a local option sales tax, then it is possible that legislators would not include MCTS in any potential increases granted to other transit systems in the state.
- Fixed route passenger revenue.** This is an extremely difficult revenue source to forecast given continued changes in workplace commuting as the impacts of the pandemic subside. Also, the introduction of BRT service in 2023 may produce some overall boost in ridership. For our baseline forecast, we assume that MCTS's budgeted passenger revenue will continue to edge up as economic conditions and habits move toward pre-pandemic norms, and we estimate that revenues will grow 3.7% from the 2023 budgeted amount of \$23.6 million to \$24.5 million in 2024 (this is still about \$4.4 million lower than the 2019 actual total). From there, however, we assume that passenger revenue will again decline as it did annually from 2015 to 2019 by that period's average of 4.3% per year. For our optimistic forecast, we



assume that passenger revenue remains at \$24.5 million throughout the 2024-2028 timeframe.

- **Vehicle Registration Fee.** Our baseline model assumes no change in the current \$30 VRF, which was initiated in 2017 and has not been increased by county policymakers since that time. We then assume that MCTS's VRF revenues will remain flat over the five years, as vehicle registrations in Milwaukee County have shown only minimal growth and we assume the county will maintain its current split of \$16.1 million to MCTS and \$1.1 million to MCDOT's Highway Division. For our optimistic model, however, we assume that policymakers will opt to increase the fee by \$10 in 2025 when the ARPA funds are exhausted, which we would deem to be a reasonable possibility given the need to replace at least a portion of the ARPA monies. The optimistic model assumes the same proportional split of the increased revenue between MCTS and the Highway Division.
- **Property tax.** As discussed previously, the county's property tax allocation to MCTS diminished substantially when it adopted the VRF and it is now a relatively minor revenue source at \$8.7 million in the 2023 budget. In both our baseline and optimistic models, we keep that amount flat in light of our expectation that the county's overall financial situation will continue to be extremely challenged and that mandated services will continue to take priority in future years with regard to the distribution of any overall tax levy growth. Those assumptions may be altered dramatically, however, if the county's shared revenue allocation increases substantially in future years, if state-imposed levy limits are relaxed, or if the county is able to implement a sizable sales tax increase (all of these measures have been proposed by the Governor in his 2023-25 budget).

Use of 5307 Funds Most Difficult to Forecast

While each of the assumptions noted above is subject to significant variation that could impact our modeling results, our assumptions regarding the availability and use of federal 5307 monies are perhaps most uncertain. The key variables that impact the predictability of 5307 monies include the amount of the annual allocation from the federal government; the decision by county and MCTS leaders regarding how much of that allocation can and should be used for capitalized maintenance in the operating budget versus bus replacements and other capital investments; and the availability and use of 5307 reserve monies.

With regard to the annual allocation, we assume that the overall appropriation for the urbanized area will grow by 2.5% per year in light of a provision in the new federal infrastructure law that indicates annual increases of 2% to 3% per year may occur. We also assume that the proportional split between MCTS and other agencies in the urbanized area will remain the same, which means that MCTS's allocation also would grow by 2.5% per year.

The allocation mix between the operating budget and capital program is much more difficult to forecast, as the variables include the projected amount of capitalized maintenance expenditures in each given year (use of 5307 funds is capped at 80% of that amount) and MCTS's annual capital needs. For the former, we assume – based on discussion with MCTS officials – that the maximum allowable amount of 5307 dollars that can be used for capitalized maintenance is \$25 million annually throughout the five-year period. For the latter, we assume based on information provided by



MCTS officials that the system will need to purchase 30 new clean diesel buses each year from 2024 to 2027 and 24 in 2028.

Finally, with regard to the use of \$27.6 million in 5307 reserve funds that were available heading into 2023, we assume that usage will be dictated by the need to ensure that sufficient funds are available both to reach the \$25 million maximum operating budget allocation and adhere to the current bus replacement schedule until the reserve is depleted. We also assume that flat funding of \$3.6 million per year will be available to support bus purchases, which is based on past trends although with a slight increase in light of the new federal infrastructure law.

Notably, we do not assume use of 5307 funds for any other capital needs – such as facilities and equipment – outside of bus replacements in those years. Spending on such needs has ranged from \$2 million to \$12 million annually over the past five years, but they are difficult to predict going forward and we also cannot predict whether any additional federal dollars outside of the 5307 and 5339 programs – such as congressional earmarks, CMAQ monies, or other grants – will be available each year. If such needs require capital support that is not offset by other forms of federal assistance, then our model essentially assumes that the county would have to address such needs with bond proceeds or other forms of locally-generated resources.

Table 4 shows our assumptions regarding the use of 5307 appropriations and reserves over the 2023 to 2028 period. Also included is an assumption that \$3 million of an undesignated amount of \$10 million that still remains from pandemic relief aid will be used in 2024 for bus purchases. In addition, **an overriding premise in our 5307 assumption is that the county’s first priority is to maximize the use of those dollars for operations** in light of the operating budget gap that will be created when pandemic relief aid is exhausted (including using the maximum of 10% of the allocation for paratransit). Consequently, as we will discuss below, a sizable capital funding gap emerges by 2026.

Table 4: Sources and Uses of 5307 Funds, 2023-2028

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sources of 5307 Funds | | | | | | |
| Annual Allocation | \$25,148,982 | \$25,777,706 | \$26,422,149 | \$27,082,703 | \$27,759,770 | \$28,453,765 |
| 5307 Reserve | \$2,721,768 | \$8,512,840 | \$11,584,163 | \$6,093,171 | | |
| Uses of 5307 Funds | | | | | | |
| Fixed Route | \$14,970,750 | \$24,338,046 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 |
| Paratransit | \$2,100,000 | \$2,152,500 | \$2,206,313 | \$2,261,470 | \$2,318,007 | \$2,375,957 |
| Capital | \$10,800,000 | \$7,800,000 | \$10,800,000 | \$ 4,602,248 | \$441,763 | \$1,077,807 |

Results of Our Models

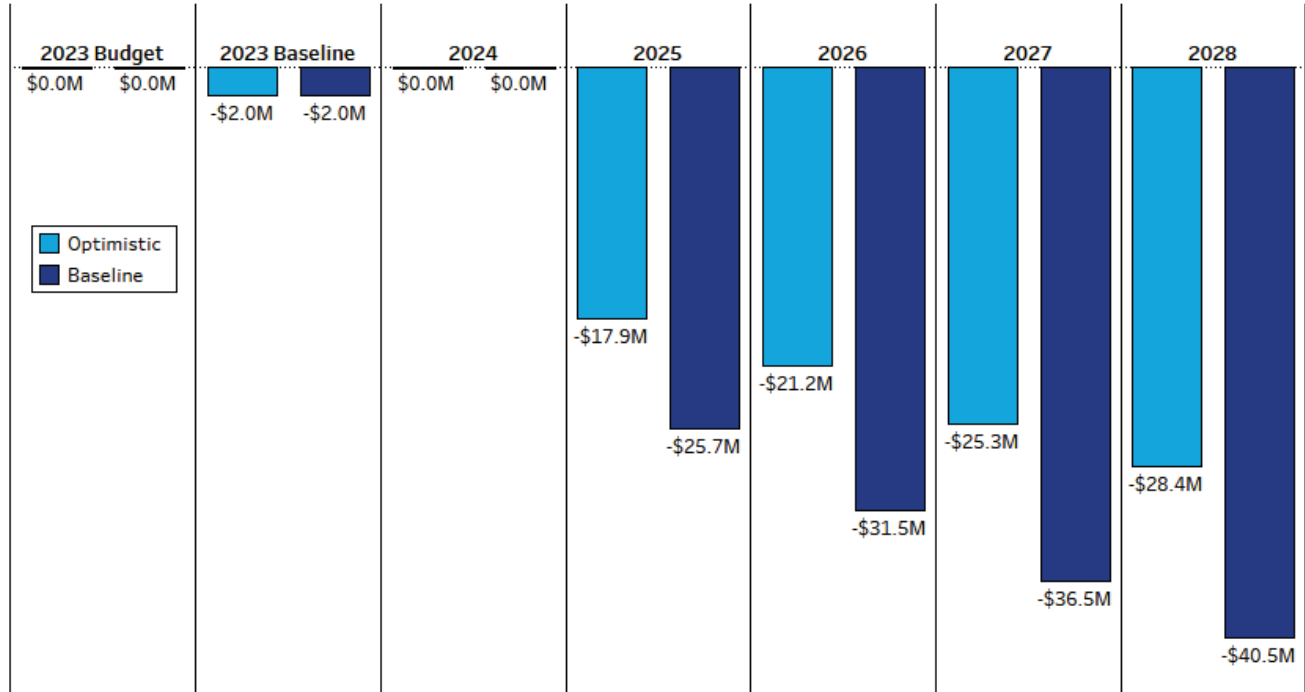
By plugging all of these assumptions into a five-year forecasting model, we are able to gain insight into the potential size of MCTS’s annual operating budget gap over the next five years. **Figure 15** shows the results for both our baseline and optimistic models.

Both models show a \$2 million deficit in the 2023 baseline, which results from the under-budgeting of operator and mechanic salaries this year in light of the new labor agreement, which was approved



after budget adoption. We assume the hole will be filled either with ARPA monies, 5307 reserve funds, or other unbudgeted revenues or expenditure reductions that materialize during the year; because we cannot determine how this will precisely occur, we do not account for it in our model.

Figure 15: MCTS Operating Deficit, Projected 2024-2028



For 2024, both models show balanced budgets. Because MCTS should have about \$20.6 million in ARPA funds remaining for next year, the gap heading into the year will be far smaller than in 2025, but it still would total more than \$9 million according to our models. Both models assume the gap would be offset largely with additional use of 5307 funds for capitalized maintenance. The optimistic model assumes that about \$1.3 million fewer ARPA funds would be required to balance the budget than in the baseline model, and we assume that those funds would be used to address capital needs outside of bus purchases.

With the elimination of ARPA funds in 2025 and the use of 5307 funds for operations largely tapped out, a sizable gap emerges in both models – about \$25.7 million in the baseline model and \$17.9 million in the optimistic model. The difference in the two stems largely from our assumptions, in the optimistic model, that MCTS’s state operating assistance will be increased by 2% and that county policymakers will adopt a \$10 increase in the VRF in 2025. Both models assume that 5307 funding in the operating budget will be maximized at \$25 million.

From there, the models show that the annual operating gap will grow to \$40.5 million in the baseline model and \$28.4 million in the optimistic model by 2028. That gap likely would have to be filled by local revenue increases (either property tax levy or VRF revenue), expenditure and service reductions, or a combination of the two.



MCTS’s Capital Needs Also Would Suffer

While the primary objective of this report is to analyze and quantify MCTS’s potential operating budget gap, our modeling also sheds light on the enormous challenges the transit system faces with regard to its capital program. As noted above, our model assumes county leaders will prioritize use of the annual 5307 allotment and reserves for capitalized maintenance to shore up the operating budget in the face of the loss of ARPA funds. Such a strategy seems reasonable – at least for the short term – given that the county has been able to maintain a relatively healthy bus replacement schedule in the past few years in light of pandemic relief aid and the ability to buy 15 new buses with special funds available for the new BRT line.

However, as shown in **Table 5**, a sizable gap in capital funding for bus replacements would emerge in 2026 assuming the county’s current replacement schedule remains intact.¹² That gap would need to be filled with other sources of federal funds (which may be plausible, at least in part), increased county borrowing, or both. The county also could opt to delay bus purchases, but its ability to do so indefinitely would not be sustainable.

Table 5: Projected Capital Funding Gap, 2023-2028

| | 2023 Budget | 2024 | 2025 | 2026 | 2027 | 2028 |
|--------------------|--------------|-------------|--------------|--------------------|---------------------|--------------------|
| Capital - 5307 | \$10,800,000 | \$7,800,000 | \$10,800,000 | \$4,602,248 | \$441,763 | \$1,077,807 |
| Capital - 5339 | \$3,600,000 | \$3,600,000 | \$3,600,000 | \$3,600,000 | \$3,600,000 | \$3,600,000 |
| Capital Gap | | | | \$6,197,752 | \$10,358,237 | \$6,842,193 |

It is critical to note that even if MCTS finds some way to bridge its substantial operating budget gap and to reduce bus replacements in the short term, its continued need to use roughly \$25 million of its 5307 funds for operations would **leave it with insufficient federal resources to sustain a healthy bus replacement schedule going forward and to meet other capital needs that are likely to emerge.** That, in turn, would create greater pressure on the county to borrow substantial sums annually to support bus purchases, which could be exceedingly difficult given the county’s nearly \$1 billion estimated backlog of capital needs.

¹² The gap would be more than double the size of the amount shown in the table if the county seeks to purchase electric battery buses instead of clean diesel buses. Also, just before this report went to press, Governor Tony Evers announced that MCTS will be receiving a CMAQ grant of \$8.4 million to support the purchase of 16 battery electric buses. County officials say they currently plan to use the buses on a proposed new North-South BRT route; while it is possible that there could be some usage on regular routes, the buses purchased with the help of these grant monies would not impact the current replacement schedule.



POLICY OPTIONS

In our 2008 report on MCTS’s stark financial challenges, we suggested that county and state leaders faced three potential scenarios as they mulled their paths forward:

- The first was a “Year-to-Year Approach” that illustrated the service reduction consequences should county leaders be required to grapple with MCTS’s budget gap each year with no new forms of revenue, flat state aids, and a growing need to use 5307 funds for bus replacements.
- We referred to the second as a “Triage Approach” under which the county would use the one major new local revenue tool at its disposal – the VRF – to buy some short-term relief.
- The third was labeled “Long-Term/State-Enabled Solutions” and included more comprehensive revenue options that could avert service reductions but required state approval to implement.

Fifteen years later, the landscape has changed somewhat in that a \$30 VRF already has been implemented and has played an important “triage” role. Also, the most commonly discussed state-enabled solution for MCTS – a dedicated sales tax – has been superseded by discussion of a possible one-cent sales tax increase for the county as a whole, with county government receiving one half of the proceeds and the city of Milwaukee the other half.

Still, despite these developments, we believe it is helpful to consider the three scenarios that existed in 2008 when contemplating MCTS’s options today.

Year-to-Year Approach

Per our baseline model, if the status quo continues with regard to MCTS’s major revenue streams, then it faces a budget gap of nearly \$26 million after ARPA funds expire in 2025. Our optimistic scenario for that year projects a gap of about \$18 million in light of assumed improvements in MCTS’s revenue picture in the form of a 2% increase in state operating assistance and a \$10 increase in the VRF. Without additional boosts to major revenue streams, however, the county would have limited choices outside of service reductions to plug the budget holes created by either of our models.

One option would be to seek to fill as much of the gap as possible with property tax levy, which today comprises only about 5.4% (\$8.7 million) of MCTS’s total budgeted revenue, but once accounted for closer to 20% of the total. The county’s ability to build a sizable debt service reserve and its successful efforts to control levy-supported spending in areas like behavioral health and employee benefits makes that a less dubious proposition than it was 15 years ago. Its capacity to identify more than a few million additional dollars annually for transit still would appear doubtful, however, given competing needs in other functional areas and state-imposed levy limits.

Another option would be to boost fixed route and/or paratransit fares to attempt to increase passenger revenue. However, on the fixed route side in particular, the many societal factors that already are depressing transit ridership could make doing so counterproductive, as riders could be lost, thus erasing gains generated by increased fares (in fact, some transit systems nationally are



moving in the opposite direction by moving toward free fares to boost ridership). Meanwhile, on the paratransit side, the implementation of sizable fare increases for elderly and disabled populations on fixed incomes would be difficult to justify.

In light of the above, it appears likely that MCTS and county leaders would need to implement expenditure reductions to address much of the funding gap. One-time budgetary maneuvers like increased use of MCTS's OPEB reserves to reduce retiree health care spending or underfunding of pension payments could account for a portion of those reductions, but those moves would be unsustainable and financially inadvisable. Consequently, leaders would need to consider a reduction in bus routes and/or frequency to trim the number of current operators and buses.

It is likely that MCTS and county leaders could identify some options to reduce expenditures or increase revenues that would not involve service cuts. Consequently, for contextual purposes, we consulted with MCTS officials to gain insight into what \$15 million of service reductions would look like. Several factors would enter into consideration of which routes to cut, including population, jobs served, and impacts on racial equity, but a key factor considered by MCTS is “productivity” as defined by passengers per bus hour. Based on that measure, MCTS would hypothetically need to cut seven of its least productive routes and eliminate some service on one other¹³ to achieve about \$15 million in annual expenditure reductions.¹⁴ Those routes – and the number of weekday rides that would be lost – are shown in **Table 6**.

Table 6: MCTS Route Eliminations and Reductions Under Hypothetical \$15 Million Cut Scenario*

| Route | Name | Rides | Hours / Weekday | PBH |
|----------------------|-------------------|--------------|-----------------|------|
| 20 | S. 20th | 359 | 29.7 | 12.3 |
| 68 | Port Washington | 314 | 27.6 | 12.1 |
| 60 | 60 th | 1,943 | 170.3 | 11.8 |
| 28 | 108 th | 756 | 68.0 | 11.6 |
| 34 | Hopkins | 791 | 70.7 | 11.5 |
| 88 | Brown Deer | 568 | 52.1 | 11.4 |
| 92 | 92 nd | 941 | 93.2 | 10.5 |
| 58 | Villard | 506 | 51.7 | 10.3 |
| 52 | Clement | 247 | 28.5 | 8.8 |
| Total Weekday | | 4,482 | 391.8 | |

*Route 60 is highlighted in yellow because it would see segments eliminated but would not be eliminated entirely. The numbers that correspond to that route reflect data for the full route but the total at the bottom reflects estimates pertaining only to the segments that would be eliminated.

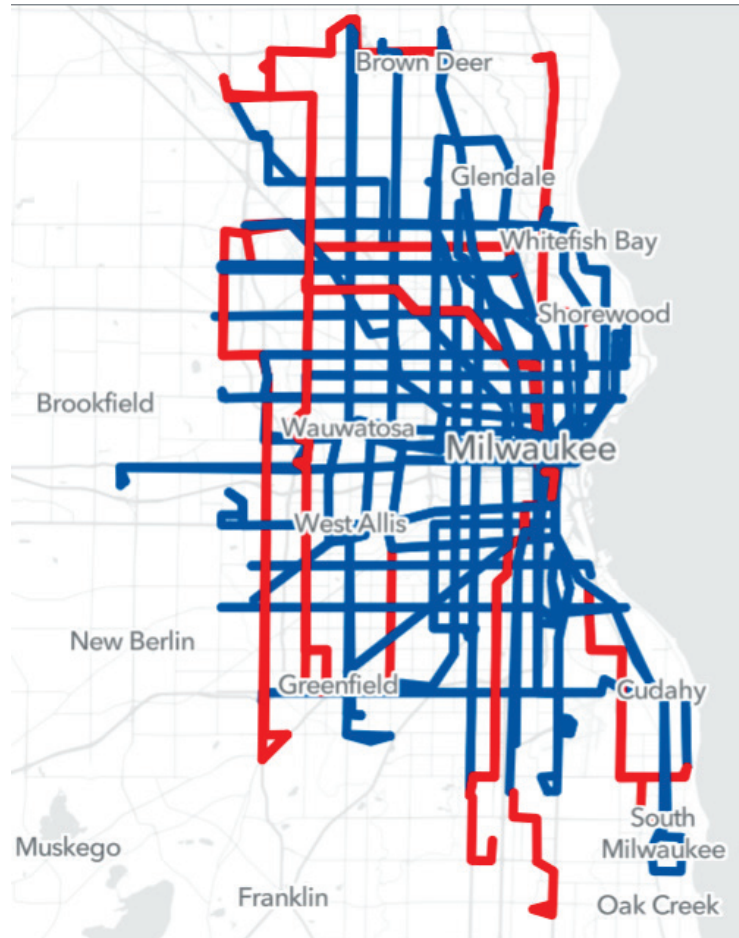
¹³ According to MCTS officials, Route 60 would see the elimination of two buses.

¹⁴ The expenditure reduction estimate speaks only to cost reductions but does not reflect any farebox revenue that would be lost – we are unable to calculate that lost revenue but it could require some additional service reductions to arrive at a net deficit reduction goal of \$15 million.



These routes are least productive because they mostly serve or extend to the outskirts of the city of Milwaukee or the county, where there is less population and employment density than in areas in and around Milwaukee's downtown and central city, which tend to be home to the most productive routes (see **Figure 16**). Their elimination or reduction still would include some loss of service in high-density areas and would affect nearly 4,500 riders each weekday, however, impacting and perhaps precluding their ability to get to jobs, medical appointments, etc.

Figure 16: Hypothetical Route Cuts (in Red)

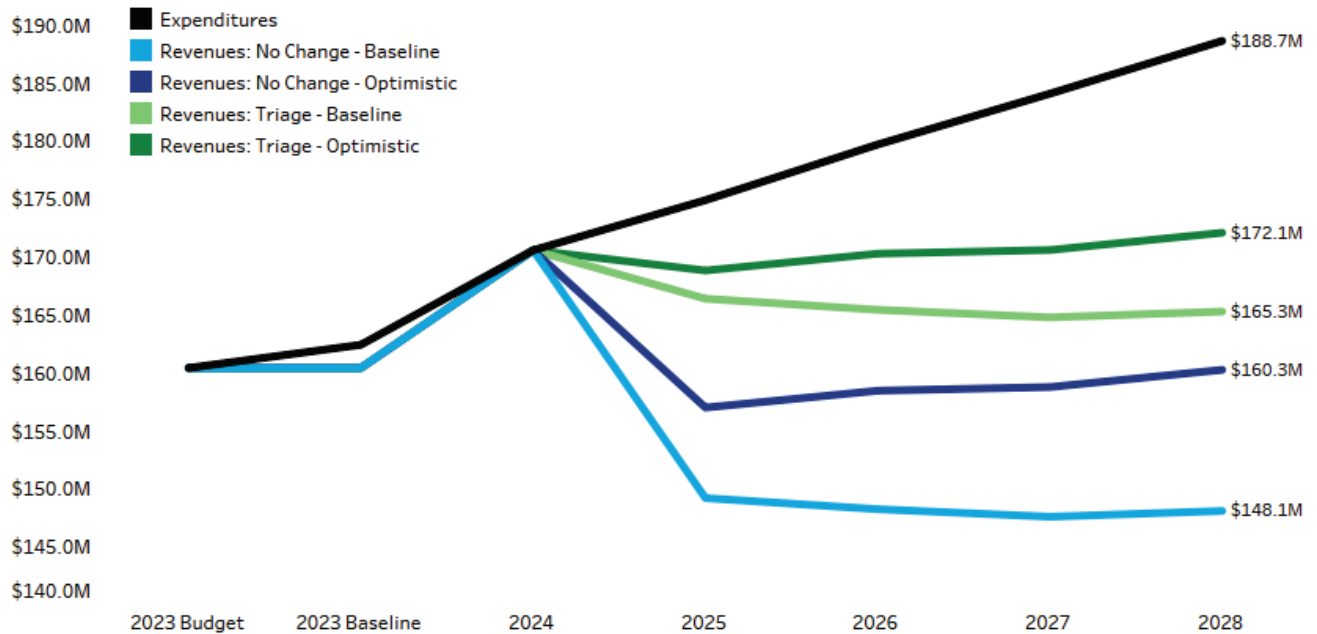


Triage Approach

A 2023 version of the Triage Approach would involve a doubling of the size of the current \$30 VRF, coupled with modest increases in the amount of property tax levy allocated to MCTS. Our optimistic model assumes a \$10 VRF increase in 2025, with MCTS receiving just under \$5.4 million of the \$5.7 million generated and the Highway Division receiving the remainder. If, instead, the increase was boosted to \$30 in 2025 and all of the additional proceeds were directed to MCTS, then the gap that year would shrink to a more manageable \$8.5 million in our baseline model and \$6.1 million in our optimistic model (see **Figure 17**). These smaller gaps ostensibly could be filled with a combination of more modest allocations of increased property tax levy and more limited service reductions than would be required under the year-to-year approach.



Figure 17: Triage Option Revenue/Expenditure Projections, 2023-2028



Source: Wisconsin Policy Forum projection model

Another option – in light of the impact that a \$30 VRF increase would have on low-income vehicle owners – would be to phase it in with \$10 increases in 2025, 2026, and 2027. However, while that would ease the burden somewhat on residents, it would leave much larger budget gaps in each of the three years that likely would require increasingly severe service cuts to bridge.

It is important to note that a doubling of the VRF would constitute only a “triage” option because while it would provide considerable short-term relief, the revenues it would generate would be unlikely to increase much from year to year. In the meantime, after the initial surge in revenue, MCTS’s structural gap would continue to grow by roughly \$3 million to \$5 million annually (or more if additional 5307 monies are required for capital as time goes by). Consequently, unless county leaders are willing to increase the tax levy dedicated to MCTS by that same amount each year or commit to regular VRF increases, the triage approach likely would not be sufficient to avert substantial service reductions after the first year or two.

State-Enabled Solution

In contrast to the pessimism surrounding the prospects for a state-enabled solution in 2008, today such a solution is already under discussion by state legislators from both parties. That solution is a 1% countywide sales tax increase, with the roughly \$190 million in annual revenues divided equally between the county and city.

Milwaukee County leaders certainly have several competing needs that would vie for the use of those dollars, including its huge capital backlog and parks and corrections operations. It is also possible that even if they allow local leaders to pursue this approach via referendum, state policymakers would require some portion of the funds to be used to pay down pension liabilities.

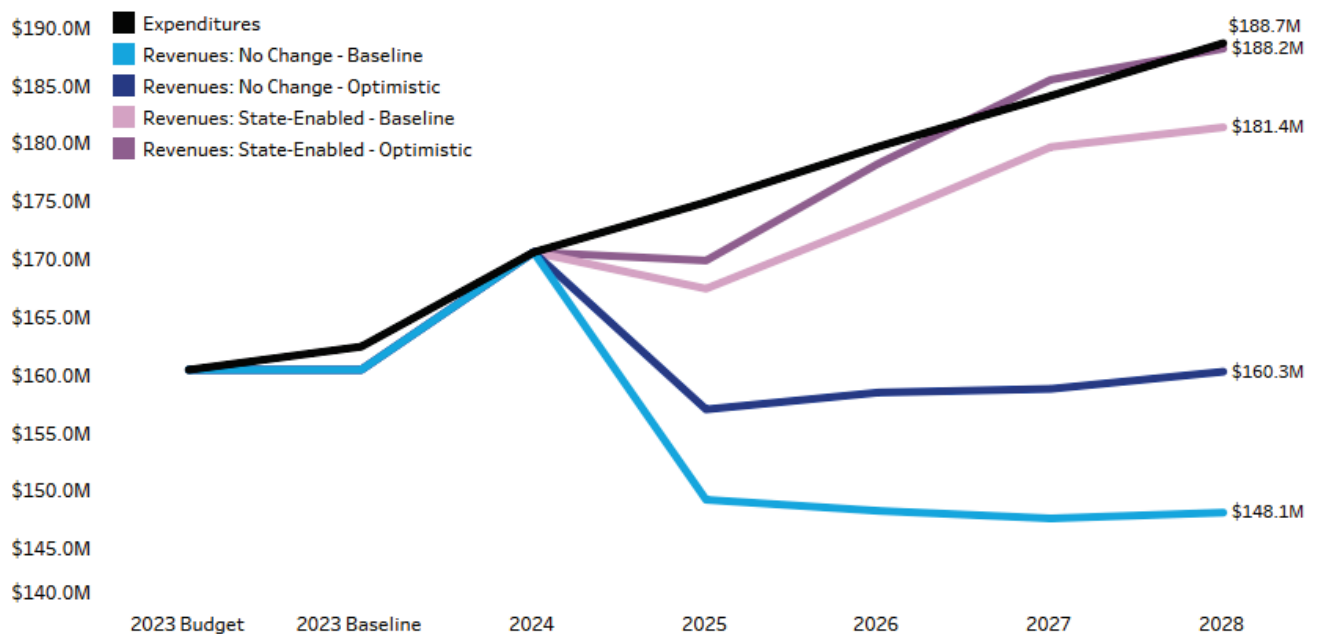


Nevertheless, if the proposed sales tax is adopted and county leaders have discretion to allocate the bulk of the resources as they see fit, then MCTS’s financial challenges could diminish significantly, particularly if coupled with the triage options.

In **Figure 18**, we show the results of one hypothetical model of how that scenario might play out by adding a portion of the proceeds from a 1% county sales tax increase to some of the elements from our triage approach. In our model, we assume:

- County leaders would allocate one-tenth of their projected \$95 million share of new sales tax revenues (i.e. \$9.5 million) to MCTS operations in 2025. That allocation would then grow by 2% each year reflecting estimated growth of sales tax revenues.
- Per one variation of the triage approach, they would also implement successive \$10 increases in the VRF in 2025, 2026, and 2027.
- Also per the triage approach, they would dedicate an extra \$3 million of property tax levy to MCTS beginning in 2025. The total levy amount would then grow by \$1 million annually from 2026 to 2028.

Figure 18: State-Enabled Option Revenue/Expenditure Projections, 2023-2028



Source: Wisconsin Policy Forum projection model

When we apply these assumptions to our optimistic model, which also includes 2% increases in state operating assistance in 2024, 2026, and 2028, we find that **MCTS would face a relatively manageable \$5 million deficit in 2025 that ostensibly could be filled with modest service reductions or efficiencies or perhaps a larger property tax levy increase than we have assumed. The deficit would then be erased completely by 2027 when the final \$10 VRF increase kicks in and remain at less than \$500,000 in 2028.** For our baseline model, the annual gap would range from \$4.4 million to \$7.5 million, which again likely would require some service cuts to address, but of much lesser magnitude than shown in the year-to-year approach.



It is important to note that MCTS's improved fiscal outlook would deteriorate over time after the \$30 VRF increase is fully phased in and that larger deficits ultimately would emerge once again in light of a continued structural imbalance. However, that smaller imbalance could be at least partially addressed by somewhat regular VRF increases based on inflation or consistent inflationary increases in state operating assistance. Also, the county would continue to face challenges with regard to MCTS's bus replacement and other capital needs, particularly if there is a desire to transition to battery electric buses.

Summary

Our modeling shows that MCTS's pending 2025 fiscal cliff is substantial and real, and in this section we briefly lay out the options that local and state policymakers could contemplate to address it. In considering those options, it is important for readers to understand that MCTS and county leaders have been on the precipice of fiscal turmoil for years. Nevertheless, they have been able to avoid severe service reductions both because of several unexpected infusions of federal and state funds and some difficult decisions, including the imposition of a \$30 VRF and cuts to commuter and specialized routes. In the meantime, they have also been able to leverage limited local funds to initiate a new BRT line and to implement MCTS Next – an effort to boost speed and frequency on popular routes – as strategies to increase service quality and ridership.

So, is there some hope that MCTS can confront its fiscal cliff with only minimal impacts to riders and the local economy? Some might argue that even the extensive service reductions we hypothesize in the year-to-year approach will not have grave impacts, as they eliminate relatively low-ridership routes and reflect a need for MCTS to respond to a new post-pandemic world of lower transit usage with a justifiable reduction in its footprint.

Yet, on the other hand, the impacts of such cuts on mostly low-income citizens must be recognized, as well as what they would portend for the county's efforts to go in the opposite direction by adding new and faster service that is designed to recapture riders. Also, at a time when employers are struggling to find the workers they need, and in an era when volatility on the global stage can produce sharp spikes in gasoline prices, some would question the wisdom of cutting any important transportation option for area residents.

In our triage scenario, we show how county leaders might use the one local revenue tool in their toolbox to preserve most service in the near term. However, unless they wish to commit to regular, substantial increases in the VRF, that tool only will buy a short amount of time and again will preclude plans for any service expansion.

Finally, the state-enabled solution approach shows that, for perhaps the first time in recent memory, there is real hope for a lasting solution. Our aim here is not to portray this approach as a panacea, nor to disregard the impact of the comparably modest service reductions that still may be required. We recognize the uncertainty surrounding approval of the 1% county sales tax proposal in the first place, let alone the capacity and willingness of county leaders to devote one-tenth of the proceeds to transit, double the size of the VRF, and commit substantial additional tax levy to MCTS.

By presenting this approach, however, **we are able to show that a long-term solution to the current fiscal crisis is within the grasp of state and local policymakers**, and that would particularly be the case if regular, inflationary increases in state operating assistance are added to the state-enabled solution package.

CONCLUSION

Fifteen years after we issued a warning that MCTS finances were on the brink of crisis, our latest deep dive into the system's structural budget challenges compels us to sound a similar alarm. A much-discussed fiscal "cliff" caused by the exhaustion of federal pandemic relief aid is a primary culprit, but we also find that dwindling passenger revenue, flat state aids, and a continued conflict between use of federal formula funds for operations versus bus replacements have combined to perpetuate deep structural problems irrespective of the pandemic.

The following key findings support this conclusion:

- MCTS's 2023 operating budget is balanced on the back of a \$21.3 million allocation of federal ARPA funds and a \$17.1 million allotment of federal 5307 funds. The ARPA funds will be exhausted after 2024 and the 5307 funds – while potentially growing by 2% to 3% per year – will be critical to maintaining a healthy bus replacement schedule and cannot be counted upon to permanently help resolve the ARPA cliff, let alone be maintained in the operating budget at their current levels.
- Recent fixed route passenger revenue trends point to an equally pressing problem. This is MCTS's second largest source of revenue (after state aids) and it was declining even prior to the pandemic. In fact, passenger trips on MCTS's fixed bus routes fell by 31.3% (13.2 million) from 2010 to 2019. COVID-19 caused ridership to plummet by another 45.7% in 2021 relative to 2019 levels, and while it rebounded somewhat in 2022, annual passenger revenue is expected to remain at least \$5 million below pre-pandemic levels for the foreseeable future.
- MCTS was able to generate sizable savings in annual expenditures on pension and retiree health care from 2018 to 2023, but its ability to do so has now appeared to run its course, and a key question is whether it can limit annual growth in those costs at least to the rate of inflation. Meanwhile, growth in employee wages is predictable through 2024 in light of a new labor contract with operators and mechanics, but that growth already will be challenging to accommodate and may need to rise at an even greater rate in future years in light of the tight labor market.
- We developed baseline and optimistic models to project the size of MCTS's structural operating budget gap from 2024 to 2028. For 2024, both models show balanced budgets, but the elimination of ARPA funds in 2025 creates a \$25.7 million deficit in the baseline model and a \$17.9 million deficit in the optimistic model. From there, the models show that the operating gap will grow to \$40.5 million in the baseline model and \$28.4 million in the optimistic model by 2028. Sizable shortages of funds needed for bus replacements also would be created under both models.

Looking to the future, it is clear that MCTS and county leaders will need to consider a series of undesirable options barring an influx of new state or federal revenues. The most obvious would involve the elimination of several bus routes, including a potential scenario in which MCTS is only able to provide service on its most productive routes.



On the revenue side, the VRF has been established as an important revenue source for transit and has not been increased since its initiation in 2017. However, even if the fee was doubled from \$30 to \$60, it only would “triage” the structural problem for a few years and would soon need to be increased substantially again to continue to avert major service cuts.

The good news is that state leaders are contemplating a local option sales tax proposal that – when combined with increased VRF and property tax revenues by the county per our triage approach and modest annual increases in state operating assistance – could provide a lasting solution to MCTS’s longstanding fiscal woes. While we take no position on the specifics of the sales tax proposal and the extent to which any new sales tax revenues should be earmarked for MCTS, we hope that our hypothetical modeling is instructive to policymakers as they consider the next state budget.

As we have shown, MCTS provides a critical source of mobility for the most vulnerable county residents and serves as a vital cog in the regional economy. For almost two decades, the system has been hamstrung by structural budget challenges that have resulted in some painful service cuts and precluded expansion to suburban job centers. While the system now appears on the brink of yet another fiscal crisis, the possibility of state-enabled solutions has never been more real, and the introduction of BRT service soon will give residents new perspective on the benefits of high-quality bus service. Consequently, there is at least hope that a long-term solution may finally be within reach.



APPENDIX

Table A: WPF Model - Expenditures

| | 2023 Budget | 2023 Baseline | 2024 | 2025 | 2026 | 2027 | 2028 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Wages - Operators | \$51,402,660 | \$53,402,660 | \$55,138,246 | \$56,241,011 | \$57,365,832 | \$58,513,148 | \$59,683,411 |
| \$ Mod. | \$2,000,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 3.25% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Wages - Other | \$24,883,770 | \$24,883,770 | \$25,381,445 | \$25,889,074 | \$26,406,856 | \$26,934,993 | \$27,473,693 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Fringe - Medical, Actives | \$15,700,000 | \$15,700,000 | \$16,014,000 | \$16,334,280 | \$16,660,966 | \$16,994,185 | \$17,334,069 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Fringe - Medical, Retirees (OPEB) | \$5,802,539 | \$5,802,539 | \$5,918,590 | \$6,036,962 | \$6,157,701 | \$6,280,855 | \$6,406,472 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Fringe - Pension | \$5,396,445 | \$5,396,445 | \$5,649,342 | \$5,762,329 | \$5,877,576 | \$5,995,127 | \$6,115,030 |
| \$ Mod. | \$0 | \$252,897 | \$112,987 | \$115,247 | \$117,552 | \$119,903 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fringe - Other | \$8,408,508 | \$8,408,508 | \$8,576,678 | \$8,748,212 | \$8,923,176 | \$9,101,639 | \$9,283,672 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Bus Fuel | \$5,103,069 | \$5,103,069 | \$8,103,069 | \$8,103,069 | \$8,103,069 | \$8,103,069 | \$8,103,069 |
| \$ Mod. | \$0 | \$3,000,000 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Paratransit Subcontract | \$16,816,942 | \$16,816,942 | \$18,465,436 | \$20,020,652 | \$22,002,581 | \$23,515,989 | \$25,134,274 |
| \$ Mod. | \$0 | \$1,648,494 | \$1,555,216 | \$1,981,929 | \$1,513,408 | \$1,618,285 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Depreciation & Interest | \$4,305,793 | \$4,305,793 | \$4,305,793 | \$4,305,793 | \$4,305,793 | \$4,305,793 | \$4,305,793 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Bus Repair | \$5,986,064 | \$5,986,064 | \$6,075,855 | \$6,166,993 | \$6,259,498 | \$6,353,390 | \$6,448,691 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| Other Expenses | \$16,636,607 | \$16,636,607 | \$16,969,339 | \$17,308,726 | \$17,654,900 | \$18,007,998 | \$18,368,158 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| TOTAL EXPENDITURES | \$160,442,397 | \$162,442,397 | \$170,597,794 | \$174,917,101 | \$179,717,946 | \$184,106,187 | \$188,656,332 |
| % Change | | 1.25% | 5.02% | 2.53% | 2.74% | 2.44% | 2.47% |



Table B: WPF Model - Fixed Route Revenue

| | 2023 Budget | 2023 Baseline | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---------------|---------------|----------------|---------------|---------------|---------------|---------------|
| 5307 Fixed Route Operating | \$14,970,750 | \$14,970,750 | \$24,338,046 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 |
| \$ Mod. | \$0 | \$9,367,296 | \$661,954 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other Federal Grants | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ARPA - OPTIMISTIC | \$21,280,218 | \$21,280,218 | \$19,273,428 | \$0 | \$0 | \$0 | \$0 |
| \$ Mod. | \$0 | (\$634,294) | (\$20,645,924) | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ARPA - BASELINE | \$21,280,218 | \$21,280,218 | \$20,645,924 | \$0 | \$0 | \$0 | \$0 |
| \$ Mod. | \$0 | (\$634,294) | (\$20,645,924) | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| CMAQ - OPTIMISTIC | \$624,000 | \$624,000 | \$624,000 | \$364,955 | \$364,955 | \$624,000 | \$624,000 |
| \$ Mod. | \$0 | \$0 | (\$259,045) | \$0 | \$259,045 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| CMAQ - BASELINE | \$624,000 | \$624,000 | \$624,000 | \$364,955 | \$364,955 | \$624,000 | \$624,000 |
| \$ Mod. | \$0 | \$0 | (\$259,045) | \$0 | \$259,045 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| State Urban Mass Transit Operating Assistance - OPTIMISTIC | \$59,568,000 | \$59,568,000 | \$60,759,360 | \$60,759,360 | \$61,974,547 | \$61,974,547 | \$63,214,038 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% |
| State Urban Mass Transit Operating Assistance - BASELINE | \$59,568,000 | \$59,568,000 | \$59,568,000 | \$59,568,000 | \$59,568,000 | \$59,568,000 | \$60,759,360 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.00% | 0.00% |
| Vehicle Registration Fee - OPTIMISTIC | \$16,134,776 | \$16,134,776 | \$16,134,776 | \$21,512,497 | \$21,512,497 | \$21,512,497 | \$21,512,497 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 33.33% | 0.00% | 0.00% | 0.00% | 0.00% |
| Vehicle Registration Fee - BASELINE | \$16,134,776 | \$16,134,776 | \$16,134,776 | \$16,134,776 | \$16,134,776 | \$16,134,776 | \$16,134,776 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Passenger Revenue - OPTIMISTIC | \$23,623,651 | \$23,623,651 | \$24,500,000 | \$24,500,000 | \$24,500,000 | \$24,500,000 | \$24,500,000 |
| \$ Mod. | \$0 | \$876,349 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Passenger Revenue - BASELINE | \$23,623,651 | \$23,623,651 | \$24,500,000 | \$23,441,600 | \$22,428,923 | \$21,459,993 | \$20,532,922 |
| \$ Mod. | \$0 | \$876,349 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | -4.32% | -4.32% | -4.32% | -4.32% | -4.32% |
| Other Transit Revenue | \$1,473,433 | \$1,473,433 | \$1,473,433 | \$1,473,433 | \$1,473,433 | \$1,473,433 | \$1,473,433 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Tax Levy | \$4,694,639 | \$4,694,639 | \$4,694,639 | \$4,694,639 | \$4,694,639 | \$4,694,639 | \$4,694,639 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTAL - FIXED ROUTE, OPTIMISTIC | \$142,369,467 | \$142,369,467 | \$151,797,682 | \$138,304,884 | \$139,520,071 | \$139,779,116 | \$141,018,607 |
| % Change | | 0.00% | 6.62% | -8.89% | 0.88% | 0.19% | 0.89% |
| TOTAL - FIXED ROUTE, BASELINE | \$142,369,467 | \$142,369,467 | \$151,978,818 | \$130,677,403 | \$129,664,726 | \$128,954,841 | \$129,219,130 |
| % Change | | 0.00% | 6.75% | -14.02% | -0.77% | -0.55% | 0.20% |



Table C: WPF Model - Paratransit Revenue

| | 2023 Budget | 2023 Baseline | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|-------------|---------------|-------------|-------------|-------------|-------------|-------------|
| All State Aid - OPTIMISTIC | \$9,056,797 | \$9,056,797 | \$9,237,933 | \$9,237,933 | \$9,422,692 | \$9,422,692 | \$9,611,145 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% |
| All State Aid - BASELINE | \$9,056,797 | \$9,056,797 | \$9,056,797 | \$9,056,797 | \$9,056,797 | \$9,056,797 | \$9,237,933 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.00% | 0.00% |
| ARPA | \$134,250 | \$134,250 | \$134,250 | \$0 | \$0 | \$0 | \$0 |
| \$ Mod. | \$0 | \$0 | (\$134,250) | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 5307 - Paratransit Operating | \$2,100,000 | \$2,100,000 | \$2,152,500 | \$2,206,313 | \$2,261,470 | \$2,318,007 | \$2,375,957 |
| \$ Mod. | \$0 | \$52,500 | \$53,813 | \$55,157 | \$56,537 | \$57,950 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Tax Levy | \$3,987,247 | \$3,987,247 | \$3,987,247 | \$3,987,247 | \$3,987,247 | \$3,987,247 | \$3,987,247 |
| \$ Mod. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Passenger Revenue & Trip Subsidy/Agency Fare | \$2,794,636 | \$2,794,636 | \$3,288,182 | \$3,288,182 | \$3,288,182 | \$3,288,182 | \$3,288,182 |
| \$ Mod. | \$0 | \$493,546 | \$0 | \$0 | \$0 | \$0 | \$0 |
| % Mod. | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

| | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| TOTAL - PARATRANSIT, OPTIMISTIC | \$18,072,930 | \$18,072,930 | \$18,800,112 | \$18,719,675 | \$18,959,591 | \$19,016,128 | \$19,262,531 |
| % Change | | 0.00% | 4.02% | -0.43% | 1.28% | 0.30% | 1.30% |
| TOTAL - PARATRANSIT, BASELINE | \$18,072,930 | \$18,072,930 | \$18,618,976 | \$18,538,539 | \$18,593,696 | \$18,650,233 | \$18,889,319 |
| % Change | | 0.00% | 3.02% | -0.43% | 0.30% | 0.30% | 1.28% |

Table D: WPF Model – Total Expenditures, Revenues, Deficits

| | 2023 Budget | 2023 Baseline | 2024 | 2025 | 2026 | 2027 | 2028 |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| TOTAL EXPENDITURES | \$160,442,397 | \$162,442,397 | \$170,597,794 | \$174,917,101 | \$179,717,946 | \$184,106,187 | \$188,656,332 |
| % Change | | 1.25% | 5.02% | 2.53% | 2.74% | 2.44% | 2.47% |
| TOTAL REVENUE - OPTIMISTIC | \$160,442,397 | \$160,442,397 | \$170,597,794 | \$157,024,559 | \$158,479,662 | \$158,795,244 | \$160,281,138 |
| % Change | | 0.00% | 6.33% | -7.96% | 0.93% | 0.20% | 0.94% |
| TOTAL REVENUE - BASELINE | \$160,442,397 | \$160,442,397 | \$170,597,794 | \$149,215,942 | \$148,258,422 | \$147,605,074 | \$148,108,449 |
| % Change | | 0.00% | 6.33% | -12.53% | -0.64% | -0.44% | 0.34% |
| OPERATING DEFICIT - OPTIMISTIC | \$0 | (\$2,000,000) | (\$0) | (\$17,892,542) | (\$21,238,285) | (\$25,310,943) | (\$28,375,193) |
| OPERATING DEFICIT - BASELINE | \$0 | (\$2,000,000) | \$0 | (\$25,701,159) | (\$31,459,525) | (\$36,501,113) | (\$40,547,883) |

