For release:
March 30, 2023

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Post-Pandemic Fiscal Crisis Brings Milwaukee County Transit Services to a Crossroads

Report looks at funding chasm under a status quo future, options to avert major service cuts

Amid ridership declines, local fiscal restraints, and the loss of federal pandemic aid, the Milwaukee County Transit System (MCTS) faces a fiscal "cliff" that could translate into a deficit in its operating budget of nearly $26 million annually in 2025 -- and more than $40 million by 2028. These figures don't include an additional funding gap that would emerge in MCTS's capital budget.

MCTS provides a critical source of mobility for the most vulnerable county residents and is a vital cog in the regional economy. Whether harmful impacts to those services can be averted will depend on what is done by state and local policymakers, according to a new Wisconsin Policy Forum report.

"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," the report finds. "While the system now appears on the brink of yet another fiscal crisis, the possibility of state-enabled solutions has never been more real."

The report – commissioned by the Milwaukee County Department of Transportation – employs a forecasting model that projects MCTS operating expenditures and revenues from 2024 through 2028. It also examines three potential scenarios for how policymakers might respond to the system's fiscal challenges.

It finds a potential long-term fix for the crisis is within reach and currently under discussion from state legislators from both parties: a referendum on a 1% countywide sales tax increase. Under this scenario, depending on how county leaders would choose to use the sales tax revenues, it's possible MCTS's financial challenges could diminish significantly. If a state-enabled solution is not enacted, avoidance of major service cuts would likely necessitate recurring vehicle registration fee (VRF) increases, sizable property tax levy increases, or both – while still failing to assure lasting stability.

Crisis more than 15 years in the making

As far back as 2008, the Forum warned that MCTS faced a fiscal crisis that – if unaddressed – would soon require substantial service cuts. While that day of reckoning was delayed – due largely to several unexpected infusions of federal funds as well as the imposition of a $30 VRF in 2017 – deep structural problems that most recently were masked by federal pandemic relief funds now are re-emerging.

MCTS's $160.4 million fixed route operating budget and its paratransit services are funded by four main revenue sources: federal aids; state operating assistance; revenue from riders ("farebox revenue"); and county revenue (via its property tax levy and VRF revenues).

The system's looming fiscal challenges stem mostly from the loss of federal pandemic relief aid beginning after 2024, and declining farebox revenues caused by falling bus ridership that preceded the pandemic but accelerated during it. Transit system officials expect ridership to continue to recover modestly but to remain well below pre-pandemic levels for at least the next few years.

'Fiscal cliff' likely to trigger service reductions

To quantify the upcoming fiscal "cliff," we created a forecasting model with "Baseline" and "Optimistic" models based on different revenue assumptions.

Barring an influx of new state or federal revenues, a sizable operating budget gap emerges in both models in 2025: about $25.7 million in the baseline model and $17.9 million in the optimistic model. The gap grows to $40.5 million under the baseline model and $28.4 million in the optimistic model by 2028. A sizable gap also would emerge for capital needs such as bus replacements.

Milwaukee County's other fierce financial challenges likely preclude a sizable increase in its levy allocation to transit, and the societal factors that already are depressing transit ridership could make fare increases counterproductive.

As such, the transit funding gap likely would have to be filled by increasing the VRF, reducing services, or a combination of the two. The most obvious would involve the elimination of several bus routes, leaving MCTS with the ability only to provide service on its most productive routes.

State solution could bring long-term stability

Milwaukee County's $30 VRF became an important revenue source for transit when it was adopted in 2017, and has not been increased since. Even if the fee was doubled to $60, however, 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.

A potential 1% countywide sales tax increase – which is being considered as part of state budget deliberations – could produce longer-lasting benefits depending on its use. The new tax would produce roughly $190 million in annual revenues at the outset that would be divided equally between the county and city of Milwaukee.

Under a hypothetical scenario in which county leaders allocated 10% of their share of the new tax (i.e. $9.5 million initially) annually to MCTS, and combined that move with successive $10 increases in the VRF in 2025, 2026, and 2027 and modest increases in MCTS's property tax levy allocation, MCTS's fiscal challenges could be largely addressed without severe service reductions. We project that MCTS would face a relatively manageable $5 million deficit in 2025, and the deficit would be erased by 2027 when the final $10 fee increase takes effect.

"Our aim here is not to portray this approach as a panacea, nor to disregard the impact of the modest service reductions that still may be required," concludes the report. "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."

Click here to read the full report:

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