



**COUNTY OF MILWAUKEE**  
**INTEROFFICE COMMUNICATION**

Office of the Comptroller

**DATE:** February 25, 2014

**TO:** Supervisor Marina Dimitrijevic, Chairwoman, County Board of Supervisors  
 Supervisor Michael Mayo, Sr., Chairman, Transportation, Public Works & Transit Committee  
 Supervisor Willie Johnson, Jr., Co-Chairman, Finance, Audit & Personnel Committee  
 Supervisor David Cullen, Co-Chairman, Finance, Audit & Personnel Committee

**FROM:** Scott B. Manske, Comptroller on behalf of the Transit Workgroup

**SUBJECT:** Milwaukee County Transit System Outsource versus In-Source Report(for Information only)

**REPORT OVERVIEW**

The 2014 Adopted Budget for Milwaukee County included language directing the County Comptroller to form a Workgroup to identify and report on the advantages and challenges of in-sourcing versus outsourcing transit management and operations. The report of the Workgroup was to be submitted for review during the March 2014 committee cycle.

The Comptroller convened the group in early 2014 with the following groups represented:

1. County Comptroller
2. MCDOT
3. DAS-Office for Persons with Disabilities
4. Transit Services Advisory Committee
5. County Board designee
6. Corporation Counsel
7. SEWRPC

The Workgroup held multiple sessions and created a comprehensive list of relevant areas for inclusion in a discussion of the various models for operating the transit system in Milwaukee County. Substantial discussion occurred regarding blended models of in-sourcing and outsourcing although the report deals mainly with the current out-source model and full in-source model. Attached to this report is that document for your review. The document attempts to identify areas of analysis needed in addition to a discussion of impacts that switching models would have upon the operation of the system. The

document is an attempt to provide a starting point for the transition to in-house operations if that is the decision of the policymakers at a future date.

The Workgroup did not provide an endorsement of either model. It should be noted that there is limited experience available in other transit jurisdictions of a transition from an out-sourced system to an in-house system.

## **RECOMMENDATION**

This is an informational report only. This report should be referred to and reviewed by the Transportation, Public Works and Transit Committee and the Finance, Personnel and Audit Committee.

### **Attachments:**

**Comparative Chart of current out-source model and insource areas of issues and discussion**



**Scott B. Manske**  
**Milwaukee County Comptroller**

**cc: Supervisor Theo Lipscomb**  
**Brian Dranzik, MCDOT Director**  
**Steve Nigh, MCDOT**  
**Bill Sell, Transportation Services Advisory Committee**  
**Jeramey Jannene, Transportation Services Advisory Committee**  
**Paul Bargren, Corporation Counsel**  
**Lee Jones, Corporation Counsel**  
**Kevin Muhs, SEWRPC**

Category	Outsourced	In-Sourced
<b>A. Personnel</b>		
Salary Related	<ol style="list-style-type: none"> <li>1. All employees are employed by MTS.</li> <li>2. Salaries ranges submitted annually to MC from MTS.</li> </ol>	<ol style="list-style-type: none"> <li>1. All employees would have to be evaluated and re-hired when employed by MC. A transition of this size and scope may require additional staffing to handle all aspects of re-hiring.                             <ul style="list-style-type: none"> <li>❖ Corporation Counsel and Human Resources would have to give opinion on job classification, salary range and civil service classification.</li> </ul> </li> <li>2. Will require ordinance changes to Chapter 17 on personnel regarding benefits not addressed in the Union contract.</li> <li>3. All salary ranges determined by union agreement or by DHR with some approvals required by the County Board.</li> </ol>
Unions	<ol style="list-style-type: none"> <li>1. The two (2) unions under MTS have existing contracts that were negotiated and are administered by MTS. Under this scenario, MTS submits ratified contracts as an informational report to the County Board. There are approximately 900 members of the ATU – drivers and mechanics and 30 members of office union.</li> <li>2. There are approximately 70 non-represented FTEs.</li> <li>3. Act 10 does not apply to the transit employee contracts per FTA rules, and since MTS is a private company.                             <ul style="list-style-type: none"> <li>❖ If vendor for County contract for transportation services moves away from MTS, concern is union may not agree to transfer</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Existing labor contracts would be transferred to Milwaukee County if the unions agreed to the transfer. If not, the contracts would have to be renegotiated. As with Salaried personnel, a transition of this size and scope may require additional HR staffing to handle all aspects of re-hiring or transfers.</li> <li>2. Contracts expire March 31, 2015 for both unions which is 3 months after projected transfer date of January 1, 2015 if it were to occur. Until new contracts are approved, status quo of current contracts prevails.</li> <li>3. All future labor contracts negotiated by county administration and approved by County Board.</li> <li>4. Act 10 does not apply to the transit employee contracts per FTA rules.                             <ul style="list-style-type: none"> <li>❖ If move away from current contract, concern is union may not agree to transfer.</li> <li>❖ Issue of seniority would need to be resolved if employees are hired by the County with new start dates.</li> <li>❖ FTA law requires under 13(c) that you must honor current negotiated contract or suffer penalty. Penalty is payment of wages for a period of six years.</li> </ul> </li> </ol>

Category	Outsourced	In-Sourced
<b>Benefits</b>	<ol style="list-style-type: none"> <li>1. MTS has a separate pension system that vested employees are members of.</li> <li>2. As of 1/1/13 MTS pension 83.40% funded and is current on its actuarial obligations.</li> </ol>	<ol style="list-style-type: none"> <li>1. An analysis would need to be conducted to ensure that if the employees became MC employees that the pension could remain separate and if unable to remain separate, ensure that enhanced benefits or added pressure on the plan do not result from becoming MC employees.</li> <li>2. As of 1/1/13 MC ERS 87.32% funded and is current on its actuarial obligations.</li> <li>3. FTA law requires under 13(c) that you must honor current negotiated contract or suffer penalty. Penalty is payment of wages for a period of six years.</li> <li>4. County would be required to run two benefit systems for pension. Additional County pension staff may be required.</li> <li>5. For health benefits, both entities have United Health Care, however, the County must honor contract with union for 3 months assuming 1/1/15 in source date and 3/31/15 end of existing contracts.</li> </ol>
<b>Grievances</b>	<ol style="list-style-type: none"> <li>1. Currently handled by MTS with existing staff resources and outside legal counsel.</li> </ol>	<ol style="list-style-type: none"> <li>1. Would become a responsibility of Labor Relations.</li> </ol> <p>❖ Increased work load would most likely require additional staff resources including for Corporation Counsel.</p>
<b>Work rules</b>	<ol style="list-style-type: none"> <li>1. Existing work rules are covered under union agreement.</li> </ol>	<ol style="list-style-type: none"> <li>1. If covered by contract, must be followed by County.</li> </ol>
<b>B. Financials</b>		
<b>Federal Funding</b>	<ol style="list-style-type: none"> <li>1. County is the contracting agency for all State and Federal funds.</li> <li>2. Section 5307 funding of \$18.0 million annually for mainly capital investments</li> <li>3. Section 5339 funds of \$2.0 million annually for bus and bus facilities.</li> </ol>	<ol style="list-style-type: none"> <li>1. No change since County is the contracting agency for all State and Federal funds.</li> </ol>

Category	Outsourced	In-Sourced
State Funding	<ol style="list-style-type: none"> <li>1. No change since the County is the contracting agency for all State and Federal funds.</li> <li>2. Section 85.20 Urban Mass Transit Operating Assistance Program with annual operating assistance of \$62.0 million for day-to-day operations.</li> <li>3. Section 85.21 Specialized Transportation Assistance Program funding of \$2.0 million for specialized operating services with some caveats.</li> </ol>	<ol style="list-style-type: none"> <li>1. No change since the County is the contracting agency for all State and Federal funds.</li> </ol>
Fare box Revenue	<ol style="list-style-type: none"> <li>1. Revenue estimated at \$42.0 million annually is collected by the MTS and deposited and used as cash flow in operations.</li> </ol>	<ol style="list-style-type: none"> <li>1. No changes would occur in internal process used by MTS to deposit fare box revenue. Banking contract may change for where funds are deposited.</li> <li>2. Would have to transfer to Treasurer cash sweeping functions so they become part of total County cash system.</li> </ol>
Tax Levy	<ol style="list-style-type: none"> <li>1. Annual Tax levy of \$18.5 million is provided by Milwaukee County.</li> </ol>	<ol style="list-style-type: none"> <li>1. Tax Levy need would continue under insourcing.</li> <li>2. May require additional tax levy for administrative overhead from MC DOT.</li> <li>3. Possibly require transition costs for a two year period to migrate the following functions: payroll, treasurer, procurement, HR, Risk, Legal services and IT.</li> </ol>
Oversight	<ol style="list-style-type: none"> <li>1. Contract Administration is provided by the Milwaukee County Department of Transportation under the policy authority established by the County Board and County Executive. Annual operating and capital budgets established the monetary threshold to provide service.</li> <li>2. MTS provides direct day-to-day oversight of the system.</li> </ol>	<ol style="list-style-type: none"> <li>1. Milwaukee County Department of Transportation – Director’s Office would likely oversee this as division within the department with greater involvement in the direct day-to-day operation of the system. This would not change policy or budgetary authority currently in place.</li> <li>2. Direct oversight would result in greater time commitment for DOT, policy personnel may be needed for developing resolution and ordinances.</li> <li>3. County Board and County Executive would take a greater role in the approval of policy for MCTS.</li> </ol>

Category	Outsourced	In-Sourced
Procurement	<ol style="list-style-type: none"> <li>1. By contract, MTS performs all procurement activities necessary to operate transit services.</li> <li>2. MTS is not required to come back to the County Board for approval of contracts once the funding is established through the annual budget process.</li> <li>3. MTS must conform to FTA circular 4220.1F, MCO Chapters 32, 44, 56 in order to maintain federal funding.</li> <li>4. MTS employs six (6) FTE to handle purchasing in addition to eight (8) FTE in the Stores. In addition, MTS utilizes outside legal counsel.</li> <li>5. MC Procurement currently issues purchase orders for major FTA-funded capital equipment (e.g. buses, fare boxes) following MTS recommendation.</li> </ol>	<ol style="list-style-type: none"> <li>1. Will require an exemption to current Procurement policies to ensure expedient purchasing and/or compliance with FTA regulations.</li> <li>2. Federal transit purchases have a distinct and significant regulation that must be followed.</li> <li>3. An analysis would need to be performed to determine if the purchasing function could be merged with the existing procurement division or if maintaining a separate purchasing department for transit makes more sense.</li> <li>4. This may require changes in ordinances to make certain transit operations are maintained and uninterrupted.</li> <li>5. County must conform to FTA circular 4220.1F, MCO Chapters 32, 44, 56 in order to maintain federal funding.</li> <li>6. MC Procurement currently issues purchase orders for major FTA-funded capital equipment (e.g. buses, fare boxes) following MTS recommendation.</li> </ol>
Budget	<ol style="list-style-type: none"> <li>1. Annually submit an operating budget conforming overall to the County's adopted budget structure.</li> <li>2. All expenses for transit operations (with the exception of county charges) are essentially consolidated into a single object of expenditure.</li> <li>3. One (1) FTE of Budget Manager at MTS.</li> </ol>	<ol style="list-style-type: none"> <li>1. Full immersion in the County Budgeting process with line items included in the County's system.</li> <li>2. The County must follow budget rules under State Statute 59.60.                     <ul style="list-style-type: none"> <li>❖ Decisions would need to be made regarding the ability to reallocate money without board approval when appropriate. For other Departments, reallocation of money is performed via fund transfers approved by the Board.</li> <li>❖ State Statute requires fund transfers for all transfers between major budget groups.</li> </ul> </li> </ol>
Policy	<ol style="list-style-type: none"> <li>1. Policy (such as fares and routes) established by the County Board.</li> <li>2. Intergovernmental and regional initiatives (if any) per County Board and administration.</li> </ol>	<ol style="list-style-type: none"> <li>1. No Change.</li> </ol>

Category	Outsourced	In-Sourced
Systems	1. All systems are separate and independent from Milwaukee County.	1. MTS has a number of its own systems from IT to purchasing to payroll that are completely separate from and not linked to Milwaukee County systems. An inventory and analysis of these systems would need to be conducted to determine which could be absorbed by MC's systems and which would need to remain stand alone at Transit.  2. In a transition, Milwaukee County would have to pay the costs of operating systems for identical functions until transition is complete.
<b>C. Administration</b>		
Payroll	1. Four (4) FTE provide payroll services. The frequency of certain payroll functions is determined through collective bargaining. For example, certain employees are paid weekly while others are paid bi-weekly per union contracts.	1. County currently pays employees bi-weekly but payroll software has the ability to pay weekly if required. A staffing analysis would need to be conducted to determine number of payroll staff needed to transfer payroll to MC.
Human Resources	1. Eight (8) FTE provide Human Resource and Benefit services.	1. HR functions (inclusive of Labor Relations, Benefits, staffing and employee management) would need to be added to existing Milwaukee County HR functions.
Legal Services	1. Contracted out with two (2) different law firms	1. Handled by Corp Counsel? Add staff? Maintain contract?
Accounting	1. Eleven (11) FTE provide accounting and budget services. In addition, there are eight (8) FTE providing cashiering functions and five (5) FTE providing printing functions.	1. A staffing analysis would need to be conducted to determine number of staff needed to transfer accounting and budget functions to MC.
Information Technology	1. Eleven (11) FTE provide information technology services at MTS.	1. A staffing analysis would need to be conducted to determine number of IT staff needed to transfer IT functions to MC.
Risk Management/ Insurance Services	1. Six (6) FTE provide risk management services including worker's compensation services for MTS.	1. A staffing analysis would need to be conducted to determine number of risk staff needed to transfer payroll and risk functions to MC.
Contracts	1. Contracts are signed and executed by MTS.	1. All contracts would require review to determine assignability or to determine if they are in conflict with other contracts the county may have.  2. Due diligence review of all existing contracts required to determine whether contracts would be assignable to county (penalty?), terminated (penalty?) or renegotiated.
Government Relations	1. Conforms to Federal Public Law 101-121, Section 319 of FY 1190 Department of Interior Act.	2. Would have access to county lobbyists.

Category	Outsourced	In-Sourced
Marketing/Outreach	<ol style="list-style-type: none"> <li>Handled in-house with five (5) FTE and through advertising agency.</li> <li>Volunteer riders groups provide assistance. County Board appointed: Transportation Services Advisory Committee (TSAC) and Citizens' Initiative: Milwaukee Transit Riders Union (MTRU) are the two main entities. Volunteer efforts could be continued and expanded.</li> </ol>	<ol style="list-style-type: none"> <li>Marketing function needed, whether in-house or through agency.</li> <li>Volunteer efforts could be continued and expanded.</li> </ol>
Paratransit	<ol style="list-style-type: none"> <li>Handled in-house with twelve (12) FTE and two (2) outside contracts with providers for vans and one (1) for taxis.</li> </ol>	<ol style="list-style-type: none"> <li>Maintain existing staff and evaluate the status of contracts.</li> </ol>
Maintenance	Approximately 170 FTE providing both building and vehicle maintenance.	<ol style="list-style-type: none"> <li>Majority of staff would remain. An examination of any potential efficiency with Fleet and Facilities Maintenance departments would be warranted.</li> </ol>
Scheduling/Planning	Ten (10) FTE provide this function.	<ol style="list-style-type: none"> <li>Maintain existing staff.</li> <li>Planning could be on a longer term basis vs. the duration of a contract under the out-source model.</li> </ol>
<b>D. Outstanding/Open Questions</b>		
Legal Issues		<ol style="list-style-type: none"> <li>Status of Paratransit contracts?</li> <li>Could contracts be assigned?</li> <li>Would new contracts be needed?</li> <li>Would there be penalties?</li> </ol>
Insurance	<p>MTS is self-insured and maintains some insurances, indemnity and bonding coverage. County pays for cost.</p> <p>UIC, WC, FMLA handled by MTS.</p>	<ol style="list-style-type: none"> <li>MC would need to examine what changes would be needed to current insurance to include transit coverage. May affect premiums.</li> <li>Employees probably would become part of county's risk pools (effect?); administration needs would increase.</li> </ol>
Employees		<ol style="list-style-type: none"> <li>If all employees become MC employees can current MC employees apply for jobs with transit?</li> <li>If 2 pension systems are maintained, how will the lateral transfer of vested employees from one system to the other be handled?</li> </ol>
Union		<ol style="list-style-type: none"> <li>What is the impact of Act 10 v. federal collective bargaining rights? Are there any areas that are not subject to collective bargaining similar to the public safety unions?</li> </ol>
Other options		<p><b>Option one</b> - Move only top two management positions in-house. Assume ownership of MTS but employees do not become MC employees.</p> <p><b>Option two</b> - Contract out for top two management positions and all remaining employees become MC employees.</p>



Category	Outsourced	In-Sourced
Regional Transit Authority		1. Consideration should be given to which structure would be easiest to transition to a RTA should one be created in future years.