Priority:

Increase investment in regional transit

William Schroeer
Would the investment be worth it here?

Regional Transit System: Return on Investment Assessment
Itasca asked 3 questions about regional transit investments

1. A built-out regional transit system would require substantial investment.  
   What would be the return on that investment?

2. Investments can be made more or less quickly.  
   Would accelerating build out change the return on investment?

3. Many communities are interested in focusing more growth near transit stations.  
   Would such actions, regionally, change the return on investment?
We compared four scenarios

- **Base case**

- **2030 regional plan**
  - Includes current transit options and assumes outstanding commitments are built out (including Central Corridor)

- **Accelerated regional plan**
  - Assumes Metropolitan Council 2030 plan is executed, including three new LRT lines, four completed BRT corridors, and nine arterial BRTs

- **2030 plan with focused growth near stations**
  - Accelerates the regional plan from scenario one to a 2023 completion
  - Proposes 2030 plan is built as in scenario one, but reallocates 25% of expected community growth to station areas (i.e., station areas absorb more of future growth; does not presume new growth)
We calculated six kinds of direct impacts

1. Vehicle operating costs
2. Travel times and travel reliability
3. Shippers and logistics costs
4. Emissions
5. Safety costs
6. Road pavement conditions

Costs for each scenario: capital + operations & maintenance
(Metropolitan Council)
## Direct Benefits – Results

**Compared to base case scenario**  
*2010 $ Millions*

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Investment</th>
<th>Total direct impacts</th>
<th>IRR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2030 Regional Plan</td>
<td>$4,361</td>
<td>$6,571</td>
<td>$10,083</td>
</tr>
<tr>
<td>2. Accelerated Regional Plan</td>
<td>$5,289</td>
<td>$10,762</td>
<td>$16,516</td>
</tr>
<tr>
<td>3. 2030 Plan with focused growth near stations</td>
<td>$4,361</td>
<td>$9,082</td>
<td>$13,927</td>
</tr>
</tbody>
</table>

Note: Benefits and operating and maintenance costs are calculated for 15-year period 2030-2045 for regional system, 2023-2045 for accelerated system. All are reported in 2010 dollar.

*IRR = Internal Rate of Return, the discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero*
Summary:

The benefits of implementing a regional transit system far outweigh the costs

- Building the 2030 regional plan = $6.6 – 10.1 billion in direct benefits, on a $4.4 billion investment.

- Accelerating the system build-out would increase direct benefits: $10.7 – 16.5 billion on a $5.3 billion investment

- Focusing more community growth near transit stations would increase return on investment by an additional $2 - $4 billion
How should we pay for it?
Program of Projects Study

Determine the feasibility of accelerating development and construction of multiple transitways to serve the region.
## Build-out scenario

<table>
<thead>
<tr>
<th>Mode</th>
<th>Core Projects</th>
<th>Expansion Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>LRT</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>BRT – Highway</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Commuter Rail</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Arterial BRT</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>9</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

Then estimated costs for capital and operations.
Studied
Funding and financing for build-out

Conclusions

– No major untapped funding sources available

– No financing techniques that will significantly, buy themselves, improve funding outcomes

Cannot build a competitive system with current revenue streams
How have Peer Regions done it?

1. All cities defined and developed a specific program of projects.
2. All cities use sales taxes as the primary local funding source.
3. All cities use sales taxes for transit and transitway capital & operations.
4. All cities use FTA New Starts funding
5. Several cities are implementing projects using all non-federal funds.
6. Most of the cities had to raise their sales tax rate to fund a Program of Projects.
7. Only two of the seven cities receive state funding.
Governor asked *Transportation Finance Advisory Committee* for recommendations

Charged TFAC with describing three scenarios:

- Status quo
- Maintaining current performance
- Economically competitive / world class
What does TFAC think?

- Recommends *economically competitive* regional transit
- Requires ~$4.2 billion over 20 years.
- Options sent to Governor all include ½ cent local sales tax.
  - Reliable
  - May allow reduced state funding
  - Successful in competitor regions
What can you do?
Like many policy arguments, the one about transit has often been miscast. The issue isn’t “social engineering,” but business growth, and how this region can survive, let alone thrive, against competitive peer regions that are increasingly ahead of the Twin Cities in investing in multi-modal transit.

A recently released Itasca Project study makes the point. Viewed through green eyeshades, it concludes that if the Metropolitan Council’s 2030 transportation plan is implemented, the return on investment will be robust. And if the build-out is sped up by seven years and there’s more focused, private-sector growth near planned transit stations, the returns are even better.

The study was commissioned by the Itasca Project, the state’s business-led civic alliance, and completed by transportation economics experts at Cambridge Systematics. It was guided by a local technical advisory committee.

The researchers looked at three transit scenarios.

The first assumed completion of the 2030 plan, which consists of adding three new light-rail transit lines, four completed bus-rapid transit (BRT) corridors, and nine arterial BRTs. This plan -- encompassing capital, operating and maintenance costs -- would require an overall investment of nearly $4.4 billion.

The study estimates the total direct impact between 2030 and 2045 to be $6.6 billion to $10.1 billion. (Direct impacts included vehicle operating cost savings, travel time savings, shipper and logistics cost savings, emission reductions, safety benefits, and pavement maintenance savings. Not included, but still very significant, are more than 30,000 full-time jobs created during the construction period.)

The second scenario speeds up the build-out by seven years. It would be more expensive, $5.3 billion, because operating and maintenance costs would begin sooner. But it would increase the return on investment to between $10.8 billion to $16.5 billion. And if a greater proportion of already anticipated private-sector growth occurred around transit stations, as it has in other markets, the net benefits would jump by another $2 billion to $4 billion.

This transit investment must be accompanied by increased funding for highways and roads. But because they are already clogged, increased transit must be part of the solution, which benefits not just transit riders but individual drivers, too. It also helps employers, who need efficient and dependable methods for their workers.

While the Great Recession has brought appropriate focus to joblessness, demographic trends indicate that the future challenge will be a worker shortage. This is particularly true of highly mobile millennials, the young workers who indicate more interest in transit than their older cohorts.

"When I was growing up, freedom meant having a car. Today freedom for many 19- to 35-year-olds is a smartphone, a wireless hub, and a laptop, and they would prefer to be on a transit vehicle and not driving," said Jay Cowles, president of Unity Avenue Associates and co-chair of the Itasca Project’s Transportation Initiative.

"We come at this from a business perspective. The region is a product. ... We better have transit if you want to remain competitive."

-Selling the Region
Our competitors know this, & are far ahead
Other regions know transit matters, and are investing more

<table>
<thead>
<tr>
<th>Sales Tax dedicated to Transit</th>
<th>Total sales tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>1.05% 8.5% total</td>
</tr>
<tr>
<td>Atlanta</td>
<td>1% 8%</td>
</tr>
<tr>
<td>Boston</td>
<td>1% 6.25%</td>
</tr>
<tr>
<td>Cleveland</td>
<td>1% 7.75%</td>
</tr>
<tr>
<td>Dallas</td>
<td>1% 8.25%</td>
</tr>
<tr>
<td>Denver</td>
<td>1% 7.62%</td>
</tr>
<tr>
<td>Houston</td>
<td>1% 8.25%</td>
</tr>
<tr>
<td>Seattle</td>
<td>0.9% 9.5%</td>
</tr>
<tr>
<td>San Jose</td>
<td>0.875% 8.375%</td>
</tr>
<tr>
<td>St Louis</td>
<td>0.75% 8.491%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>0.566% 9.3%</td>
</tr>
<tr>
<td>San Diego</td>
<td>0.42% 7.75%</td>
</tr>
<tr>
<td><strong>Minneapolis / St Paul</strong></td>
<td>0.25% 7.75%</td>
</tr>
</tbody>
</table>

Source: TLC, 2012
...And are benefitting from their investments

• Downtown Denver: New US Patent Office
  – $440 million economic impact over 5 years
  – $90,000 average salary

  – Chosen over other regions because of
    #1. Transit
      – Then, Quality of Life
...And are benefitting from their investments

Denver:

#1 Destination for Millennials, 2008-2010

Mayor Hancock: “They’re coming for transit.”

Minneapolis: #39