The ROI of increased investment in regional transit

William Schroeer
Why is transit a priority for the Chambers of Commerce?

Today:
Transit gets people to work

• 80% of riders going to work or school
  • US Bank: 50%
  • Ameriprise: 60%
Today and tomorrow

We need transit to compete for workers
Transit makes possible a region that draws workers and jobs

“Companies are recruiting and targeting the next generation of talented workers, the Generation Y/millennials who increasingly prefer urban lifestyles with mass transit.”

— Urban Land Institute

A thriving region is a product we are making.

Transit is a necessary component.

If we put in too little, we’ll get a less competitive product.
Other regions know this

Maps to same scale
Source: Bill Rankin, McKinsey team analysis
Our competition is far ahead
And widening their lead

Openings and Construction Starts Planned for 2013

» Construction continues on rapid transit expansion projects around the country.

http://www.thetransportpolitic.com/2013/01/01/openings-and-construction-starts-planned-for-2013/
...And are benefitting from their investments

Denver:

#1 Destination for Millennials

Minneapolis: #39

Mayor Hancock: “They’re coming for transit.”
Would transit investment be worth it here?

Regional Transit System: Return on Investment Assessment
Itasca Project

**What is Itasca?**

An employer-led civic alliance focused on:

- Building a thriving economy and quality of life in the Minneapolis-Saint Paul Metropolitan region
- Reducing and eliminating socioeconomic disparities

**Who is Itasca?**

50-plus cross-sector community leaders from Minneapolis-Saint Paul:

- Private sector CEOs
- Public sector leaders: the Governor, the Mayors of Minneapolis and St. Paul, Chair of the Metropolitan Council, the leaders of the University of Minnesota and MnSCU
- Leaders of major foundations and United Way
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 with developing transit systems experience more growth near transit stations. *Would such expectations for growth change the return on investment?*
We compared four scenarios

**Base case**
- Includes current transit options and assumes outstanding commitments are built out (including Central Corridor)

**2030 regional plan**
- Assumes Metropolitan Council 2030 plan is executed, including expansion of bus service at 1% annually, nine arterial BRTs, four completed BRT corridors, and three new LRT lines

**Accelerated regional plan**
- Accelerates the regional plan from scenario one to a 2023 completion

**2030 plan with growth near stations**
- Proposes 2030 plan is built as in scenario one, but reallocates 25% of expected community growth to station areas (i.e., assumes station areas absorb more of future growth. Does not presume new growth)
Current Regional Transit System
Regional Transit System – 2030

A regional transit system in the Region area includes:

- 1% per year bus service expansion
- Addition of nine arterial BRTs
- Four BRT lines
- Total of five LRT lines

Mode and alignment for each corridor are still being determined

Source: The Twin Cities Metropolitan Council's 2030 Transitway Plan, adapted by Chambers of Commerce.
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

We worked with the Metropolitan Council to develop costs for each scenario: capital + operations & maintenance
The benefits of regional transit far outweigh the costs

Comparing to base case scenario
2010 $ Millions

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Investment</th>
<th>Total direct impacts</th>
<th></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>
<td>7.8 – 14.8%</td>
</tr>
<tr>
<td>2. Accelerated Regional Plan</td>
<td>$5,289</td>
<td>$10,762</td>
<td>$16,516</td>
<td>11.2 – 18.0%</td>
</tr>
<tr>
<td>3. 2030 Plan with more growth near stations</td>
<td>$4,361</td>
<td>$9,082</td>
<td>$13,927</td>
<td>13.0 – 20.9%</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 dollars.

*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
## Direct impacts by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Compared to base case 2010 $ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Travel time savings and reliability</td>
<td>$4,643 - $11,429</td>
</tr>
<tr>
<td>2. Vehicle operating cost savings</td>
<td>$1,479 - $4,717</td>
</tr>
<tr>
<td>3. Shipper and logistics cost savings</td>
<td>$185 - $271</td>
</tr>
<tr>
<td>4. Reduction in emissions</td>
<td>$185 - $395</td>
</tr>
<tr>
<td>5. Safety benefits</td>
<td>$53 - $88</td>
</tr>
<tr>
<td>6. Pavement maintenance savings</td>
<td>$26 - $54</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$6,571 - $16,516</td>
</tr>
</tbody>
</table>

Note: Benefits and operating and maintenance costs are calculated for 15-year period 2030-2045 for regional system or 2023-2045 for accelerated scenario. All are reported in 2010 dollars.
The benefits of regional transit 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

- 2030 regional plan with growth near transit stations would increase return on investment by $2 - $4 billion
Transit build-out increases access to jobs

Building the regional transit system would put employers within a 30-minute commute of 500,000 more employees.

= a 25% increase.
Example: SW LRT

- Downtown Minneapolis: 147,000
- West Calhoun: 4,200
- Beltline Business Park: 6,000
- Methodist Hospital: 5,200
- K-Tel Drive Industrial Park: 3,500
- Opus Business Park: 11,000
- Golden Triangle Business Park: 18,000
- Highway 212 Corridor: 16,000
- Jobs within ½-mile of station

Downtown Minneapolis serves and connects job centers.

Downtown Minneapolis

55
394
55

West Calhoun

394

Beltline Business Park

147,000

Methodist Hospital

6,000

K-Tel Drive Industrial Park

5,200

Opus Business Park

4,200

Golden Triangle Business Park

11,000

Highway 212 Corridor

18,000

Jobs within ½-mile of station
How should we pay for it?
Program of Projects Study

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

Study 2
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
Governor’s
Transportation Finance Advisory Committee

“While the existing transit system is efficient and cost-effective, it is undersized and needs to expand to make the region's projected economic growth a reality.

“Regions with robust transit systems work better and are choice destinations for employers and employees....

“Uncertainty in transit development delays private investment.

“To remain competitive and attain regional economic goals, the Twin Cities must continue to strengthen its transit system.”

www.dot.state.mn.us/tfac/
Governor asked *Transportation Finance Advisory Committee* for recommendations

- Recommends *economically competitive* regional transit

- Requires ~$4.2 billion over 20 years.

- Recommendations sent to Governor *all include ½ cent local sales tax.*
  - Reliable
  - May allow reduced state funding
  - Successful in competitor regions