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ANALYSIS CONCLUDES THAT REGIONAL TRANSIT PROPOSAL WILL PRODUCE A NET ECONOMIC GAIN FOR THE REGION

Over its useful life, the regional transit system proposed to voters on this November's ballot will generate a positive return on investment to the region of 7.36 percent, according to the latest economic analysis of the Central Puget Sound Regional Transit Authority proposal. The study was conducted by Porter and Associates, a firm recognized nationally for its analytical work in the economics of transportation. The analysis was commissioned by the transit authority at the urging of the state's independent Expert Review Panel which believed the RTA may have underestimated certain system benefits. It is the latest of several analyses looking at the financial and economic implications of developing the proposed regional express bus and rail system.

Porter and Associates used the economic evaluation method known as discounted cash flow analysis to measure the plan's net benefits. The analysis calculated the benefits that can be expressed in dollar terms, less the system's costs (capital, operating and maintenance and capital replacement). The study concludes that the regional transit system will produce a rate of return of 7.36 percent in real terms after inflation. The rate of return has been calculated over the average useful life of the capital assets to be constructed under the plan, estimated to be 50 years following the first full year of operations. According to the report, the 7.36 percent real rate of return compares favorably to benchmarks used to evaluate the economic performance of public projects.

Values in the study have been discounted to compensate for potential future risks using the discount rate recommended by the Congressional Budget Office and the General Accounting Office. The study concluded that the plan's net present value after 50 years will be about \$4 billion. In other words, over its 50-year useful life the system would pay back the \$3.9 billion initial investment to build the system, its operation and capital replacement expenses over its life, retire all debt, and produce an additional \$4 billion in economic benefits to the region.

In the executive summary the study's author, Ben Porter, cautions that although the regional transit system as proposed would produce a positive economic return to the region, "...a go or no-go decision on this proposal should not be based on economic performance alone. Not all of the benefits that may result from this plan can be expressed in terms of dollars."

Other recent independent analyses of the transit authority proposal have concluded that the RTA's technical and financial analyses are reasonable, credible and conservative. Detailed reviews of the RTA's analytical work have been conducted by the state's independent Puget Sound Region's High Capacity Transit Expert Review Panel, transportation economist Cyril Hodgins, Ph.D. for the Downtown Seattle Association, the King County Joint Review Team, and Doolittle and Associates for King County. The Hodgins' study, for example, concluded that "implementation of the RTA Ten-Year Plan would be a big benefit for residents and businesses throughout the entire urbanized area of Metropolitan Seattle...."

Two additional reviews of the transit authority's analytical work are expected out shortly. They include a report by Daniel Malarkey of the consulting firm, ECONorthwest, and the final report of the state's Expert Review Panel.

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An Economic Analysis of Sound Move

October, 1996

Prepared for the Central Puget Sound Regional Transit Authority by Porter & Associates, Inc. Transportation Economics & Management

Note: this is the executive summary of "An Economic Analysis of Sound Move" report prepared for the RTA.

This report presents the findings of an economic evaluation of the Sound Move regional transit proposal. This evaluation rests on a discounted cash flow analysis of the plan's benefits and costs, insofar as these can be readily expressed in monetary terms. Except for a few instances, these estimates of benefits and costs have been reviewed by the state's Expert Review Panel. Interestingly, the Panel found RTA's published benefits to be understated. Some of the factors which led the Panel to reach this conclusion have been adjusted for in this report..

We found that the implementation of Sound Move will produce a return on investment of 7.4% in real terms -- that is, net of inflation. This is the internal rate of return (IRR) for a baseline scenario, reflecting a standard set of assumptions for the readership models employed by the RTA to estimate travel-related benefits. This rate of return is computed over the average useful life of the capital assets to be acquired in the plan, estimated to be 50 years following the first full year of operations. This period is also referred to herein as the project's economic life. The 7.4% rate of return compares favorably to benchmarks used to evaluate the economic performance of public projects.

The net benefits that would be produced by Sound Move can also be expressed in dollars. We found that the plan would realize undiscounted benefits of \$9.9 billion, expressed in 1995 dollars. When these net benefits are discounted to compensate for future risks -- at a discount rate advised by the Congressional Budget Office and the General Accounting Office -- the project's net present value (NPV) is about \$4 billion.

Despite these favorable results, we caution that the plan's economic performance, as expressed by the internal rate of return and the net present value, is but one of the considerations for deciding whether or not Sound Move meets the needs of this region. The form of economic analysis presented in this report has two inherent shortcomings which suggest that a go or no-go decision not be based on economic performance alone. First, not all the benefits that may be produced by this plan can be expressed in dollars. In fact, a major reason why the region is considering a high-capacity transit investment instead of a commensurate increase in highway capacity is that it best supports the land-use and environmental goals articulated in Vision 2020 the adopted regional development plan. Second, the economic benefits presented herein will be valued differently by different researchers. This reflects the fact that these benefits often cannot be counted as easily as one counts money, which for better or worse is central to assembling a discounted cash flow analysis.

The remainder of the "Economic Analysis of Sound Move" report is organized to expand on these summary findings , as follows:

- * Methodology -- This section presents the mechanics of a discounted cash flow analysis, contrasts its application in the private and public sectors, and outlines its application to valuing the benefits and costs of Sound Move

- * Annual benefits and costs -- This section summarizes the undiscounted benefits and costs of Sound Move, and describes the methodology and assumptions on which the estimates are based.

- * Economic analysis results -- This section presents the IRR and NPV for the baseline scenario of Sound Move, explores the sensitivity of these estimates to changes in key assumptions, and describes the plan's range of economic performance based on higher and lower ridership relative to the baseline scenario.

- * Other benefits -- This section presents certain potential benefits of Sound Move that were excluded from the economic analysis, either because they cannot be reduced to monetary terms, or require more time and effort to develop.

The text of the report is followed by two appendices that provide additional information in support of the economic analysis: (a) discounted cash flows for the Sound Move scenarios considered in the economic analysis; (b) estimates of capital replacement costs and residual values; and (c) a description of transportation alternatives to Sound Move that have been considered and rejected in prior analyses.