



GREATER DES MOINES TRANSIT FUNDING STUDY

Final Report

November 2017

Prepared for:



GREATER DES MOINES
PARTNERSHIP

Prepared by:

HNTB

ON BEHALF OF REGIONAL BUSINESS LEADERS

1 Executive Summary

The Greater Des Moines Partnership (The Partnership) recognizes the vital role that transit plays in the region’s growth and development. The Partnership is working in collaboration with the Des Moines Area Regional Transit Authority (DART) to develop a long-term transit investment strategy.

HNTB supported The Partnership and DART in the first phase of this process, developing a sophisticated, spreadsheet-based financial model, evaluating future transit funding options and ultimately defining a preferred funding strategy. Three stakeholder meetings resulted in substantial agreement among participants on financial assumptions, strategies for a path forward and a transit funding plan.

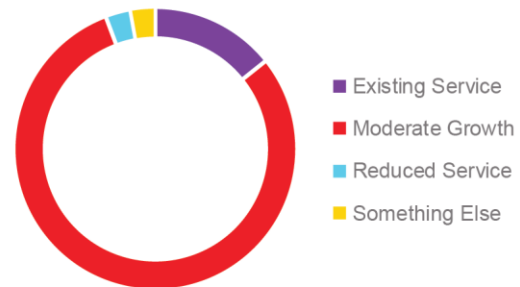
The financial model is a complex analysis tool using historical trends and assumptions about the future to predict transit costs and revenues. The model forecasts future cash flows for DART based on existing service, and assesses the long-term revenue outlook for a corresponding property tax, sales tax, vehicle registration tax or hotel/motel tax. A variety of inputs—such as the timing and amount of future service increases—were used to develop the Greater Des Moines Transit Funding Study model.

At the final stakeholder meeting in October 2017, participants reached substantial agreement on a long-term transit service growth and funding strategy that includes a new revenue source. After reviewing various funding scenarios, funding expansion with a dedicated sales tax received the greatest level of support. See the keypad polling results in Figure 1. Because the preferred strategy will take time to implement and would follow communities’ Local Option Sales Tax efforts, participants recommended the DART Commission continue increasing existing property tax levies as necessary along with pursuing supplemental funding through tax increment financing (TIF) and private contributions as a near-term strategy while a dedicated funding source, such as sales tax, is pursued through state legislation.

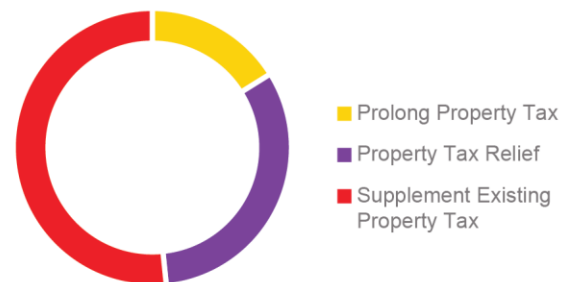
Section 2 provides an overview of the Greater Des Moines Transit Funding Study process. Section 3 describes DART’s recent investments and historical financial trends. Sections 4, 5 and 6 summarize the baseline funding analysis, potential funding sources, and funding scenarios respectively. Section 7 discusses implementation steps and Section 8 highlights emerging mobility considerations.

FIGURE 1: STAKEHOLDER WORKSHOP 3 POLLING RESULTS

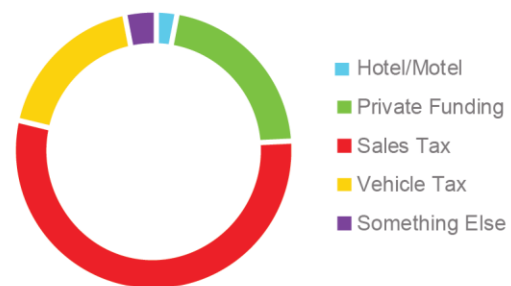
What is the preferred service level for the future?



What funding type is the best approach for DART?



Which supplemental funding option is preferred?



2 Transit Funding Study

PURPOSE

The DART Board of Commissioners requested that The Partnership collaborate with DART to develop the Transit Funding Study and evaluate future transit funding and mobility options for the fast-growing Greater Des Moines region. Planning for future mobility is crucial to connecting growing communities and supporting economic development.

The DART Board of Commissioners concurrently initiated a Governance Task Force in January 2017. The Governance Task Force evaluated DART's governance structure and provided recommendations that included expanding representation by including one representative per member community and enacting a voting system that would give each community representative a vote.

The majority of DART's operating revenue comes from a property tax levy imposed on each of its member cities. The levy varies by city, currently ranging from \$0.537 per \$1,000 taxable value in unincorporated Polk County, to \$0.95 per \$1,000 in the City of Windsor Heights. By law, the levy cannot exceed \$0.95 cents in any jurisdiction. As additional communities reach this cap, future levy increases will fall increasingly to the communities with remaining capacity.

The Greater Des Moines Transit Funding Study objectives include understanding DART's existing financial outlook, researching potential alternative funding sources, engaging with stakeholders to discuss options for the future of DART service and how to fund it and looking at the potential role of emerging technology.

Project tasks included:

- Data collection
- Stakeholder workshops
- Potential funding sources
- Scenario modeling
- Future impact of ridesourcing and automation on transit
- Recommendations and documentation

STAKEHOLDER WORKSHOPS

The following stakeholder workshops were held on July 27, Sept. 6, and Oct. 5, 2017:

- Workshop 1 focused on establishing how success of the study would be measured, including levels of consensus, reasonable tax rates, regional versus local outlook and actionable strategies to implement the study’s recommendations.
- Workshop 2 provided a detailed look at DART’s financial outlook and structural deficit, presented the ridesourcing and automation analysis results and emerging mobility considerations and solicited the feedback necessary to develop funding scenarios.
- Workshop 3 presented an extensive series of potential funding options which were voted on by participants using keypad polling.

A meeting was also held on Aug. 25, 2017 with local city and county managers. This meeting was convened to achieve consensus on the technical approach and a common understanding of DART’s current financial outlook.

A list of stakeholder workshop participants is provided in Table 1.

TABLE 1: PARTICIPATING ORGANIZATIONS

AARP	DMARC
Greater Des Moines Partnership Affiliate Chambers	Drake University
Atlantic Coca-Cola Bottling Co.	Easter Seals Iowa
Bankers Trust	Food Bank of Iowa
Brick Gentry Law	Goodwill of Central Iowa
Capital Crossroads	Grand View University
Catch Des Moines	Greater Des Moines Partnership
City of Altoona	Hubbell Realty Company
City of Ankeny	Iowa Department of Transportation
City of Bondurant	Kum & Go
City of Carlisle	McClure Engineering Company
City of Clive	Mercy Medical Center - Des Moines
City of Des Moines	Nationwide
City of Johnston	PolicyWorks
City of Pleasant Hill	Polk County
City of Polk City	Polk County Continuum of Care Board
City of Urbandale	Polk County Housing Trust Fund
City of West Des Moines	Principal
City of Windsor Heights	Taxpayers Association of Central Iowa
Community Foundation of Greater Des Moines	U.S. Bank
DART	United Way of Central Iowa
Des Moines Area MPO	UnityPoint Health – Des Moines
Des Moines Bicycle Collective	Urban Land Institute
Des Moines Public Schools	Wells Fargo
Des Moines University	Young Professionals Connection
DMACC	

3 DART Today

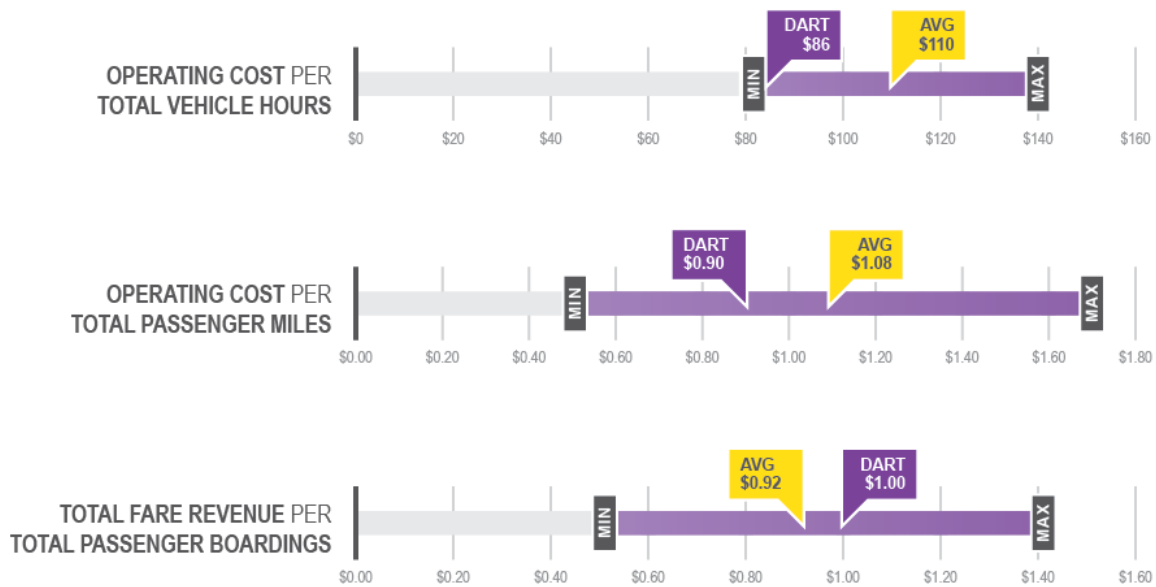
DART revenues have grown more slowly than expenses resulting in a “structural deficit.” This is not unique to DART and affects many local governments relying on property tax, as property valuations declined following the 2007 recession and housing market crisis.

DART’s costs have grown in part due to one-time major investments in its facilities, technology, and services. With long-term regional growth in mind, DART made significant capital investments, such as the opening of DART Central Station in 2012, implementation of a new dispatch and vehicle tracking system, the launch of real-time technology in 2013 and a new enterprise asset management system. DART also implemented significant service increases in 2012 and 2013, created new positions to staff DART Central Station, and is now investing in mobile ticketing and new fareboxes. DART is also now properly funding its insurance reserves.

In recent years DART has reduced its growth in operating costs. Nevertheless, DART’s budgeted operating costs have grown 4.3% per year since 2014, while the taxable property values of its member cities have increased only 3.6% per year in the same period. In the absence of a different revenue source, property tax levies are likely to continue rising until they reach the limit of \$0.95 allowed under Iowa law.

In spite of recent cost growth, DART is efficient and cost effective compared to its peer agencies around the United States. The American Bus Benchmarking Group (ABBG) benchmarks performance for North American mid-sized bus agencies (see Figure 2).

FIGURE 2: AMERICAN BUS BENCHMARKING GROUP KEY PERFORMANCE INDICATORS



4 Baseline Financial Analysis

BASELINE FUNDING ANALYSIS

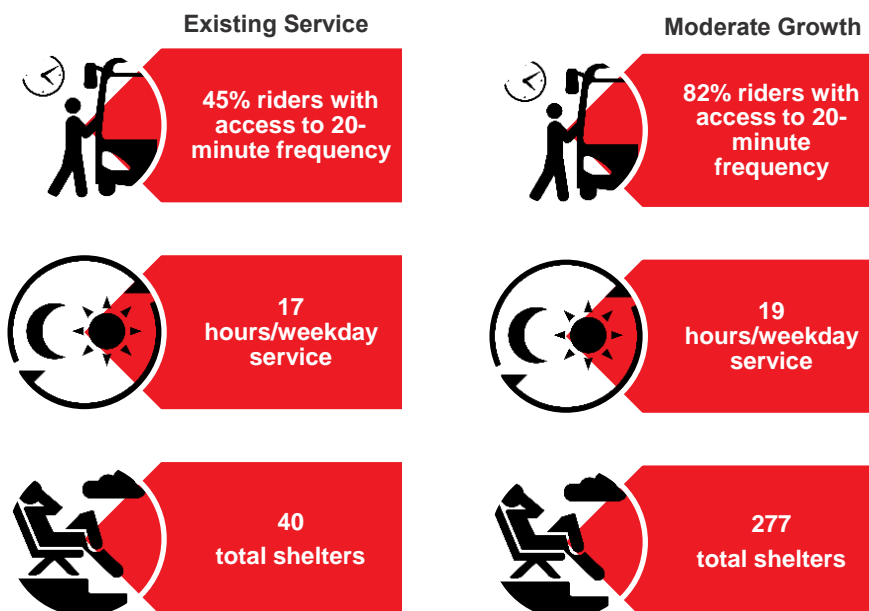
The financial model establishes a baseline to provide information for framing the discussion of other potential funding scenarios. This does not represent potential strategies based on stakeholder feedback. The following two baseline scenarios were developed to identify the necessary levy increases to maintain existing service or the necessary service cuts to maintain existing levies:

- To **maintain existing service levels**, incremental annual levy increases would continue until all member cities reach the maximum rate allowed under DART's enabling legislation (\$0.95 per \$1,000 of taxable property value), resulting in a **funding shortfall by 2025**.
- Conversely, **freezing levies at current FY 2018 levels** would require a **20% cut in service** in FY 2019, in order to maintain positive cash flow for at least five years following.

BASELINE SERVICE OPTIONS

Two service scenarios, "Maintain Existing Service" and "Moderate Growth," were tested for the potential funding scenarios described in Section 6. The moderate growth plan will provide enhanced service on existing corridors, new routes on major corridors and a robust bus shelter and mobility hub program. Existing service and moderate growth statistics are provided in the figures below.

FIGURE 2: DART SERVICE STATISTICS



5 Potential Funding Sources

The Transit Funding Study began by identifying and vetting potential sources of transit funding at the stakeholder workshops. The process included the development of a comprehensive “long list” of potential sources used by transit agencies around the country, and analysis of each funding source’s long-term reliability, sustainability, geographic alignment and permissibility under current Iowa law.

The long list of potential funding sources included the following taxes:

- Property Tax
- Sales Tax
- Vehicle Tax
- Parking Tax
- Income Tax
- Fuel Tax
- VMT Tax
- Impact Fee

Stakeholder feedback indicated that further scenario development should include only local funding sources that are currently permitted in Iowa. Workshop participants believed that legislative changes to existing revenue sources may be feasible (i.e. make sales tax available to DART). Most stakeholders supported increasing revenues and opposed service reductions. A large majority of stakeholders preferred a combination of more than one local funding source for DART. Most participants opposed increasing the current property tax cap but most also did not overwhelmingly support full repeal, either. The baseline scenario analysis indicates that existing services levels would result in a funding shortfall in 2025. The region has several years to permanently solve the structural funding deficit, but property tax levies are likely to continue rising in the meantime.

Stakeholders identified the “short list” of potential funding sources in the following table as priorities for further evaluation. Implementation options are included for each.

Potential Funding Source	Implementation Options
Sales Tax	<ul style="list-style-type: none"> ■ Voter referendum and agreement between cities/county and DART to split new revenue, OR ■ Modify state law to allow dedicated DART tax
Vehicle Tax	<ul style="list-style-type: none"> ■ Voter referendum and agreement between county and DART to split new revenue, OR ■ Modify state law to allow dedicated DART tax
Hotel/Motel Tax	<ul style="list-style-type: none"> ■ Agreement with cities to redirect existing tax revenue to DART, OR ■ Modify state law to raise 7% cap and/or allow dedicated DART tax
Property Tax	<ul style="list-style-type: none"> ■ Modify state law to increase \$0.95 cap
Private Funding	<ul style="list-style-type: none"> ■ DART staff seeks additional partnerships, potentially requiring additional staff

6 Funding Scenarios

The financial model was used to analyze the short list of potential funding sources prioritized by workshop participants. Analysis results were presented in four funding scenario groups: 1. Baseline, 2. Prolong Property Tax, 3. Supplement Property Tax and 4. Property Tax Relief. Each group included multiple scenarios that varied based on the tax rate assumptions. For example, some scenarios assumed that rates would continue to vary by city and some scenarios assumed a universal rate for all DART members. Results for each scenario were presented using both the existing service level and the moderate growth plan. A summary of scenario results is provided in the following tables.

Funding Scenario Group	Description	DART Property Tax Rate	Results	
			Existing Service	Moderate Growth
1. Baseline	1.a Maintain Existing Service <small>(Increase levies as needed)</small>	<ul style="list-style-type: none"> Varies by city Increase each year to max of \$0.95 	Shortfall in 2025	NA
	1.b Maintain Existing Levies <small>(Service cuts as needed)</small>	<ul style="list-style-type: none"> Varies by city Freeze 2018 property tax rates 	20% Service Cut	NA
2. Prolong Property Tax	2.a Exceed the \$0.95 Property Tax Cap	<ul style="list-style-type: none"> Varies by city Uncapped 	Min \$1.30 Max \$1.71 by 2040	Min \$2.03 Max \$2.44 by 2040
		<ul style="list-style-type: none"> Universal flat property tax rate enacted in 2019 Uncapped 	\$1.17 in 2019-2040	\$1.98 in 2019-2040
	2.b Property Tax with TIF <small>(9.6% Multiplier for TIF)</small>	<ul style="list-style-type: none"> Varies by city Increase each year to max of \$0.95 	Shortfall in 2028	Immediate Shortfall
	2.c Property Tax with Other Levies <small>(For DART FICA/IPERS; Other Employee Benefits; Liability, Property, and Self Insurance)</small>	<ul style="list-style-type: none"> Varies by city Increase each year to max of \$0.95 Hits cap in 2025 	Shortfall in 2028	Immediate Shortfall

Funding Scenario Group	Description	DART Property Tax Rate	Supplemental Funding Rate*	
			Existing Service	Moderate Growth
3. Supplement Property Tax	3.a Property Tax + Vehicle Tax	<ul style="list-style-type: none"> Varies by city Freeze 2018 tax rates 	\$22 Flat Rate (indexed) begins in 2019	\$63 Flat Rate (indexed) begins in 2019
	3.b Property Tax + Hotel/Motel Tax	<ul style="list-style-type: none"> Varies by city Freeze 2018 tax rates 	2.85% begins in 2019	8.35% begins in 2019
	3.c Property Tax + Sales Tax	<ul style="list-style-type: none"> Varies by city Freeze 2018 tax rates 	0.10% begins in 2019	0.28% begins in 2019
	3.d Property Tax + Business Partnerships	<ul style="list-style-type: none"> Varies by city Freeze 2018 tax rates 	\$2 million in 2019; increases thereafter	\$7.5 million in 2019; increases thereafter
4. Property Tax Relief	4.a Universal Property Tax and Sales Tax	<ul style="list-style-type: none"> Reduce property tax levy to a universal flat rate 	Property: \$0.45 in 2019 Sales: 0.15% begins in 2019	Property: \$0.45 in 2019 Sales: 0.34% begins in 2019
	4.b Replace property tax with universal sales tax	<ul style="list-style-type: none"> Fully repeal property tax 	0.26% sales tax in 2019	0.44% sales tax in 2019

* Supplemental funding rates are based on FY19 implementation and could change if implemented later.

WHICH FUNDING TYPE IS THE BEST APPROACH FOR DART?

52% Supplement Existing Property Tax (3)

32% Property Tax Relief (4)

WHICH SUPPLEMENT TAX FUNDING OPTION IS PREFERRED?

55% Sales Tax (3.c)

21% Private Funding (3.d)

Participants preferred supplementing the existing property tax (Option 3) rather than increasing or eliminating it, and the preferred supplemental funding sources were a new sales tax (3.c) or private funding (3.d). While there was widespread agreement that this was a viable approach to funding system expansion, there was also significant concern on the part of many communities that any sales tax referendum in Polk County is already committed to other uses. Communities indicated that the funds they would receive from a local option sales tax if approved by voters are intended for either property tax relief or other investments, and DART would be a late addition to a discussion that has been ongoing for many years. Stakeholders concluded sales tax is the preferred revenue source, but agree this option must be part of the long-term legislative strategy.

Ultimately, the DART Commission and communities will have to determine the funding source and strategy to pursue it in order for services to be sustained or for growth to occur.

7 Implementation Steps

Stakeholders supported a legislative strategy that enables DART to seek a new, dedicated funding source, such as a sales tax. A successful legislative approach would require:

- A united effort on the part of both the business community and the DART member cities; and
- An engagement and educational campaign by DART to the individual communities about the benefits of public transit and what moderate transit growth would mean for those communities.

A strategy that ends with new state legislation expanding DART’s local funding options will begin by laying the foundation and establishing the need for new funding with legislators and local stakeholders. The educational phase should begin immediately, but discussion of a specific funding source or legislative strategy should not commence until after the completion of ongoing efforts to pass a local option sales tax in Polk County. Thereafter, a legislative strategy to secure additional funding options for DART is expected to take two to three years.

Recognizing that a sales tax or other new funding source will take several years to implement, workshop participants agreed that the DART Commission should feel empowered to:

- Continue increasing levies as needed to meet current service commitments;
- Work with member cities to pursue supplemental funding through the release of TIF funds as needed; and
- Seek to expand DART’s successful private partnerships to sustain and expand service and also fund incremental capital improvements.

While DART has historically used partnerships with private employers to support operations, there was general support from participants that capital improvements such as bus shelters, mobility hubs and facilities could also be partially funded through public-private partnerships.

The Partnership Investors and Affiliate Members will be key leaders in the drive to develop a broad coalition of community and stakeholder support for DART. DART’s role will be education, initially focusing on communicating with member cities so they have the information necessary to support a future funding push.

WHAT IS THE PREFERRED SERVICE LEVEL FOR THE FUTURE?

80% Moderate Growth

WHICH FUNDING TYPE IS THE BEST APPROACH FOR DART?

52% Supplement Existing Property Tax

WHICH SUPPLEMENT TAX FUNDING OPTION IS PREFERRED?

55% Sales Tax

8 Emerging Mobility Considerations

Ridesourcing platforms (e.g. Uber and Lyft) have made taxi-like service less expensive, potentially complementing or competing with traditional fixed route transit. HNTB assessed the impact of shared mobility services (including autonomous vehicles) on DART’s future funding needs. The analysis examined relative competitiveness at a variety of hypothetical trip costs, comparing different DART bus routes and times of day. As costs decline, there are larger portions of DART’s network for which it may be beneficial to shift from fixed route transit service to technology-based on-demand service, especially in suburban areas at off-peak times.

SHOULD DART CONTINUE TO PURSUE NEW MOBILITY TECHNOLOGIES?



Based on today’s shared ride ridesourcing (e.g. UberPool and LyftLine) fare structure, up to 10% of DART’s bus trips could be beneficially replaced, yielding up to \$1 million of net annual operating cost savings for DART. However, if DART offers subsidized fares for shared ride services, it is possible that induced demand for this service could result in substantial cost increases which would be difficult to predict or budget. The majority of DART’s network remains cost effective as fixed route service and could potentially see increased ridership from connecting “first and last mile” services. Cost-effective replacement of some fixed-route service with on-demand services will become more viable as driverless technology reduces the cost of transportation, likely five to 10 years away at minimum.

Near-term recommendations for addressing new mobility technology were recommended, including a ridesourcing partnership pilot and integration of ridesourcing with the MyDART app. A significant majority (88%) of workshop attendees felt that DART should continue pursuing new mobility technologies.

The Partnership would like to offer a special thanks to the following investors for funding the Greater Des Moines Transit Funding Study:

- Atlantic Coca-Cola Bottling Co.
- Bankers Trust
- Capital Crossroads
- Catch Des Moines
- DART
- Des Moines Area MPO
- DMACC
- Drake University
- Greater Des Moines Partnership
- Kum & Go
- Mercy Medical Center – Des Moines
- Nationwide
- Principal
- Ruan Transportation
- United Way of Central Iowa
- UnityPoint Health – Des Moines
- Wells Fargo

