
Executive Summary of MINNEAPOLIS STREETCAR FUNDING STUDY



March 2010



Background

The *Minneapolis Streetcar Feasibility Study* (Nelson Nygaard & Associates) was completed in conjunction with the Access Minneapolis Ten-Year Transportation Action Plan in December 2007. The feasibility study was undertaken because streetcars offer the benefits of a legible, high amenity transit service without the high costs and large scale of light rail and have been shown in other cities to offer many benefits including:

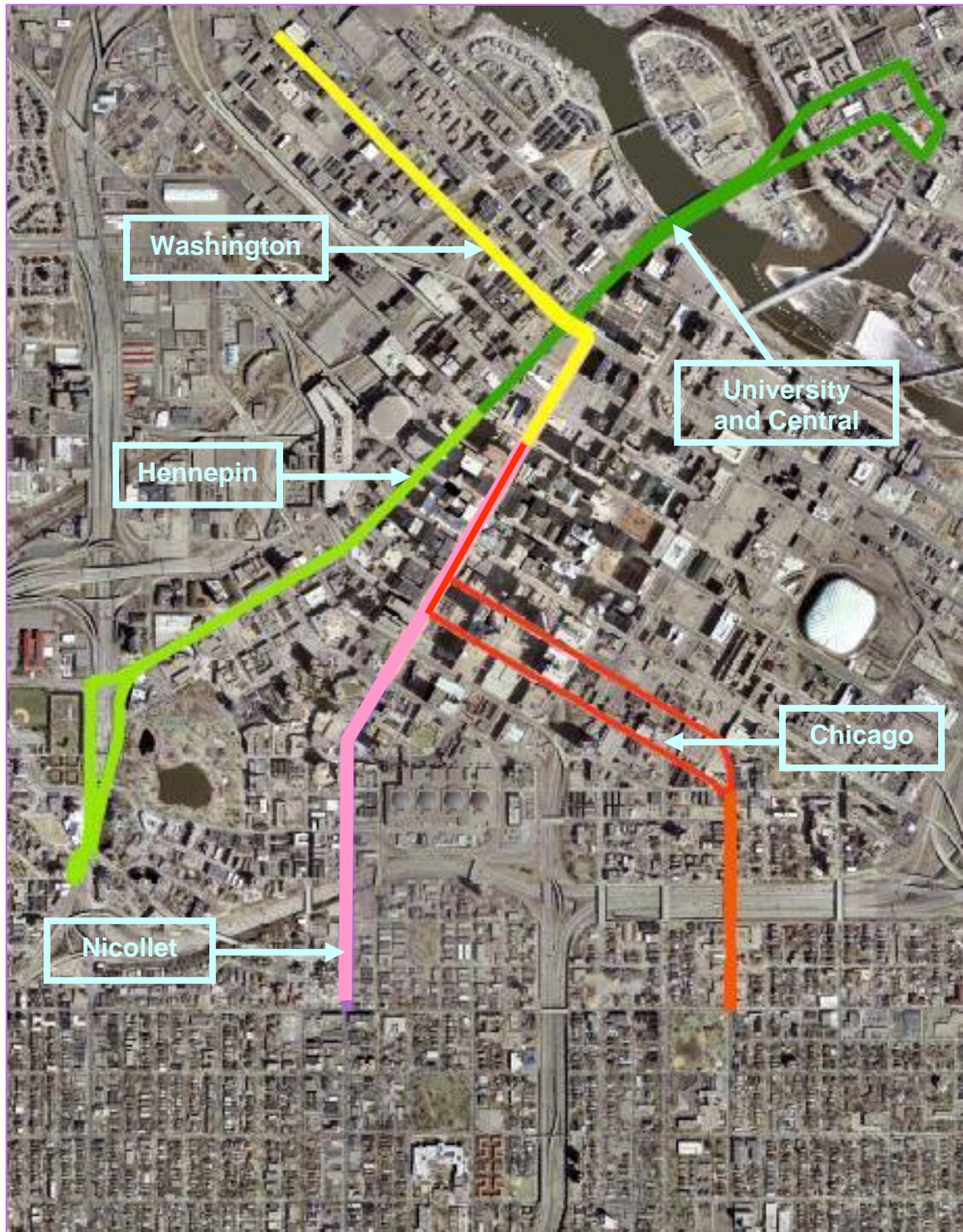
- Increasing transit ridership by both regular and occasional riders, especially by providing enhanced and attractive local circulation service connecting city neighborhoods with the downtown core
- Increasing attractiveness of transit to new markets by providing a unique vehicle and customer experience
- Improving connections and distribution between high capacity regional transit and local neighborhoods
- Enhancing environment by replacing diesel bus service with clean and quiet electric vehicles
- Catalyzing and organizing development and redevelopment around a transit investment by providing a quality transit line with a sense of permanence

The Streetcar Feasibility Study evaluated fourteen Primary Transit Network (PTN) routes identified in Access Minneapolis as highly productive transit routes. Seven routes were recommended as a long-term streetcar network. The study acknowledged that federal and regional funding for streetcar construction or operation was not available. Therefore, “shortest operable segments” were identified that represented a relatively low-cost short segment which could serve as a building block to an ultimate line or system and be funded with local and/or private funding sources.

The *Streetcar Feasibility Study* was presented to City Council for “receive and file” in January 2008. At that time, the Council directed additional research into local funding options for streetcar, focusing on the “shortest operable segments” identified in the Streetcar Feasibility Study. The City retained HDR Engineering to examine local funding alternatives for streetcars in Minneapolis. The funding study was predicated on the assumption that the likelihood of Federal funds for streetcar projects was remote and that, similar to cities such as Portland and Seattle, Minneapolis might identify a viable first phase project that could be funded 100% out of local resources.

Following an initial review of costs, development potential, tax base and other factors, five segments (ranging up to approximately 1.5 route miles in length and up to \$78 million in capital cost) were identified as the most viable starter line candidates (Figure 1). The financial analysis in the *Streetcar Funding Study* focused initially on these five starter lines.

Figure 1: The 5 “Short” Initial Operating Segments Studied





- **“Hennepin”**: From Groveland Avenue to 5th Street S LRT Station
- **“Nicollet”**: From Franklin Avenue to 5th Street S LRT Station
- **“Chicago”**: From Franklin Avenue to 5th Street S LRT Station
- **“University/Central”**: From 4th Street SE to 5th Street S LRT Station
- **“Washington”**: From 10th Avenue N to 5th Street S LRT Station

The financial study started with a list of 26 potential funding sources, and evaluated those that had the most potential for generating the amount of revenue needed to fund a streetcar line if the City had to “go it alone”. The most promising City of Minneapolis based or controlled funding sources for funding these starter lines were identified as follows:

- Increases in parking meter fees and a surcharge on public and commercial parking spaces – it was assumed that half of a 25% increase in parking revenues would be dedicated to streetcar. This equates to approximately a 12.5% increase in parking meter revenues and an annual surcharge of approximately \$50/non-residential parking space.
- City tax abatement related to future development (excluding existing TIF districts) and future increases in property value caused by streetcar presence (city share only) – it was assumed that city property taxes (not county or school district) generated by new development outside existing TIF districts in a streetcar benefit zone would be dedicated to streetcar for a period of ten years. In addition, city property taxes generated by increases in value due to the presence of streetcar would be dedicated to streetcar for a period of ten years.
- Special assessments within a streetcar benefit district – it was assumed that a special assessment of 2.5-5.0 cents per \$100 estimated market value (EMV) would be applied to properties in a streetcar benefit zone (1/4 mile from stops/stations) except residentially zoned properties with less than four units.
- Revenues from fares, bulk user agreements, advertising and naming rights – it was assumed that 15 to 25 % of annual revenues would come from these sources.

Specifically, the *Minneapolis Streetcar Funding Study* shows how a starter streetcar segment in the range of \$65 to \$80 million (the likely minimum capital cost of an effective first short segment) could be funded using combinations of the above identified local funding sources. While particular combinations of these tools were modeled in the funding study, in fact, any combination of them (as well as many of the other 26 potential funding sources) could be used. How funding is ultimately structured is a policy decision that may vary depending on the corridor. While the specific funding sources modeled have promise, they all have implementation challenges and all have competing demand for their use.

In addition to these five starter segments, three longer potential initial streetcar projects were also analyzed:

- **“Combined Hennepin/University/Central”**: From Groveland Avenue to 4th Street SE (2.3 route miles and \$106 million capital cost)
- **“Midtown Greenway-Ballasted Track”**: From Southwest LRT to Hiawatha LRT (4.4 route miles and \$87 million capital cost)
- **“Midtown Greenway-Embedded Track”**: From Southwest LRT to Hiawatha LRT (4.4 route miles and \$115 million capital cost)



Since the completion of the draft *Minneapolis Streetcar Funding Study Final Report* (February 2009), the Federal funding environment for streetcar projects has become much more favorable. Potential federal funding sources for streetcar capital projects are shown in Table 1 (page 5). There have been three significant changes that have had a positive impact on federal funding for streetcars:

- Federal policies, as evidenced by the DOT-HUD-EPA Partnership for Sustainable Communities, are placing a much greater emphasis on livable communities and sustainable development. All new and updated funding programs within these agencies are following the livability principles articulated in this partnership. FTA is in the process of updating policy guidance related to the New Starts and Small Starts program which will place a much higher value on criteria related to livability, economic development, environmental, social and congestion relief benefits. Streetcar projects will likely be more competitive for federal funding under these revised criteria. The Small Starts program provides up to \$75 million for capital transit projects costing no more than \$250 million.
- \$130 million in Federal funding for “Urban Circulator” projects was announced in December 2009. These grant applications were for a maximum of \$25 million per project. Streetcar projects are eligible for these funds. FTA will select projects for these grants in late spring of this year. There *may* be another round of discretionary funding for these types of projects later in the current fiscal year.
- Four streetcar projects were recently funded through the Transportation Investment Generating Economic Recovery (TIGER) grant program, under the American Recovery and Reinvestment Act (ARRA). A second round of TIGER funds is anticipated to be available in Fall 2010. Streetcar projects were funded in New Orleans, Dallas, Portland and Tucson.

Given the changing and positive Federal funding stance towards streetcars, the City of Minneapolis earlier this year asked HDR to revisit its funding scenarios for the earlier studied lines - this time assuming that 50% of the initial capital costs could be covered through Federal programs. In March 2010, HDR completed a *Federal Funding Update Addendum* to the original 2009 report.

Table 2 (page 6) shows the annual financial results for the five “short line” starter segments assuming 50% Federal funding.



Table 1: Federal Capital Funding for Streetcar Projects

Program	Total Available	\$ Per Project	Key Criteria	Funded Projects	Timeline/Process
TIGER Transportation Investments Generating Economic Recovery	\$1.5 billion in first round, \$600 million slated for second round	No limitation, but informal statements by USDOT that amounts will be smaller in next round, and that level of local commitment is important	State of Good Repair Economic Competitiveness (jobs) Livability Sustainability Safety	Portland - \$75m Tucson - \$63m New Orleans - \$45m Dallas - \$23m	Next round will be opened for applications in September Title of program will change to “National Infrastructure Investment Program” Criteria likely to remain as before, or similar Joint USDOT/HUD/EPA review of applications <u>Process:</u> Application/NEPA/commit to construction by 2/2012
FTA Urban Circulator Grant Program	\$130 million	\$25 million	Livability Sustainability Economic Development Leverage of public and private investment	Applications were submitted February 10 th 70 projects submitted, for a total amount of over \$1 billion	Selected projects to be announced in May/June Unclear if funding will be found to support another round of project awards <u>Process:</u> Alternatives Analysis/NEPA/FTA review/Commit to begin construction within 18 months/Construction grant
FTA Small Starts	\$200 million in current appropriations	\$75 million Total project cost: no more than \$250 million	Transportation Cost-Effectiveness Economic Development Land Use	None Portland and Tucson were in the review process, but were shunted to TIGER	Criteria under review, but likely to evolve closer to Urban Circulator criteria, with additional attention to ridership and cost-effectiveness <u>Process:</u> Alternatives Analysis/NEPA/FTA Review/Project Development Agreement/Design/FTA Review/Construction grant



Table 2: Short Line Segment Financial Results with 50% Federal Capital Funding

Segment	Capital Cost	Year	Annual Surplus or (Deficit) in millions Assumes 50% Federal Funding of Capital Cost					
			A. Parking Fees/Surcharges and Streetcar Benefit District Assessment		B. Parking Fees/Surcharges and Tax Abatement		C. Parking Fees/Surcharges Only	
			Low	High	Low	High	Low	High
Hennepin Line	\$70 million	Start of Operations	\$0.5	\$2.7	\$0.7	\$1.9	(\$0.4)	\$0.7
		5 Years after Start	\$1.1	\$3.8	\$4.6	\$5.9	(\$0.2)	\$1.2
Nicollet Line	\$75 million	Start of Operations	\$0.8	\$3.4	\$1.0	\$2.1	(\$0.5)	\$0.6
		5 Years after Start	\$1.6	\$4.8	\$5.9	\$7.3	(\$0.3)	\$1.0
Central and University Line	\$67million	Start of Operations	\$0.5	\$2.5	\$0.8	\$1.9	(\$0.3)	\$0.8
		5 Years after Start	\$1.1	\$3.7	\$4.5	\$5.8	(\$0.1)	\$1.2
Chicago Line	\$78 million	Start of Operations	\$0.7	\$3.2	\$0.9	\$2.1	(\$0.6)	\$0.5
		5 Years after Start	\$1.5	\$4.6	\$5.9	\$7.3	(\$0.4)	\$0.9
Washington Line	\$65 million	Start of Operations	\$0.8	\$3.0	\$0.8	\$2.0	(\$0.3)	\$0.9
		5 Years after Start	\$1.4	\$4.1	\$4.3	\$5.7	(\$0.0)	\$1.3

Notes:

- Tax Abatement: Only city share of property taxes is assumed abated for streetcar; 50% of potential new development assumed in TIF districts which are not included in tax abatement; applied only to ten years of future development and to increases in value due to streetcar presence
- Special District: Assumes low of 2.5 cents and high of 5 cents per \$100 EMV applied to all properties except residentially zoned properties with fewer than four units; applied to properties within ¼ mile of line or stations
- Parking Revenues: Assumes use of 50% of a 25% increase in Downtown parking revenues.

The Update Addendum concludes that for each of the 5 short “starter segments” identified, the City would have a more comfortable range of flexibility in raising the 50% local share, either being able to rely on using fewer local tools and/or assessing lower levies to raise the funds. For example, for any of the five short segments, all located in downtown, the local share could be raised solely by relying on an increase in parking meter fees (about 12.5%) and a parking surcharge (about \$50/space/year) that might be generated on downtown public and commercial (non-residential) parking spaces. Alternatively, various combinations of parking fees/surcharges, tax abatement, and/or assessments in a streetcar benefit zone, could be used. In short, the Federal funding assumption gives the City more flexibility in terms of funding its local matching share.

The longer Hennepin/University/Central line has a plausible chance of breaking even in the opening year, when using the 50% Federal funding scenario (Table 3). The funding sources analyzed are not adequate to fund the construction and operation of the Midtown Greenway line. This line would require additional funding sources or a higher percentage of federal/regional participation. This may also be true for other corridors outside the downtown area, which generates significantly greater potential revenues from the analyzed funding sources than other parts of the city.



Table 3: Longer Line Segment Financial Results with 50% Federal Capital Funding

Segment	Capital Cost	Year	Annual Surplus or (Deficit) in millions Assumes 50% Federal Funding of Capital Cost					
			A. Parking Fees/Surcharges and Streetcar Benefit District Assessment		B. Parking Fees/Surcharges and Tax Abatement		C. Parking Fees/Surcharges Only	
			Low	High	Low	High	Low	High
Hennepin to Central/ University	\$106 million	Start of Operations	(\$0.9)	\$1.7	(\$0.8)	\$0.4	(\$2.2)	(\$0.9)
		5 Years after Start	(\$0.3)	\$2.9	\$3.4	\$4.9	(\$2.1)	(\$0.6)
Midtown Greenway- Ballasted	\$87 million	Start of Operations	(\$5.5)	(\$3.8)	(\$5.3)	(\$4.0)	(\$5.9)	(\$4.6)
		5 Years after Start	(\$5.9)	(\$3.9)	(\$3.9)	(\$2.4)	(\$6.4)	(\$5.0)
Midtown Greenway - Embedded	\$115million	Start of Operations	(\$6.2)	(\$4.5)	(\$6.0)	(\$4.8)	(\$6.6)	(\$5.4)
		5 Years after Start	(\$6.6)	(\$4.6)	(\$4.6)	(\$3.2)	(\$7.2)	(\$5.7)

Notes:

- Tax Abatement: Only city share of property taxes is assumed abated for streetcar; 50% of potential new development assumed in TIF districts which are not included in tax abatement; applied only to ten years of future development and to increases in value due to streetcar presence
- Special District: Assumes low of 2.5 cents and high of 5 cents per \$100 EMV applied to all properties except residentially zoned properties with fewer than four units; applied to properties within ¼ mile of line or stations
- Parking Revenues: Assumes use of 50-75% of a 25% increase in Downtown parking revenues for the Hennepin to Central/University line and 100% of a 25% increase in parking revenues within ¼ mile of Midtown Greenway streetcar for the Midtown Greenway line.

Conclusions:

- The Federal funding environment for streetcars has turned significantly positive in the past year and it is now reasonable for the City of Minneapolis to factor some level of future Federal funding into its streetcar planning scenarios. The percentage of federal funding available will vary depending on the federal program. Urban circulator grants are limited to \$25 million and Small Starts grants are limited to \$75 million. In general, projects with a higher local share will be more competitive for limited federal funds.
- While there are many possible funding sources, many are not controlled directly by the city, are already dedicated to other programs, or do not generate significant revenues. The most promising city-controlled sources are: (1) increases in parking meter fees and a surcharge on public and private non-residential parking spaces (requires authorizing legislation), (2) tax abatement on new development outside TIF districts and on growth related to streetcar benefit (city share only), and/or (3) an assessment within a streetcar benefit district.
- Any of the 5 “short line” starter segments could be financed and sustained on an ongoing basis with 50% federal funding and using local revenues derived from increased parking meter fees (about 12.5%) and surcharges (about \$50/year) on downtown public and commercial parking spaces. Only those starter lines that intersect downtown are financially feasible using only these funding scenarios.
- A longer line in the \$100 to \$150 million capital cost range also appears financially feasible at the local level (assuming 50% Federal financing) provided it is located in the downtown area where it can be supported by the downtown parking supply and/or tax base. The line should pass through or into downtown to be within walking distance of the properties and/or



parking spaces that would need to be assessed for the local share of funding and to generate the ridership likely to make it attractive for federal funding.

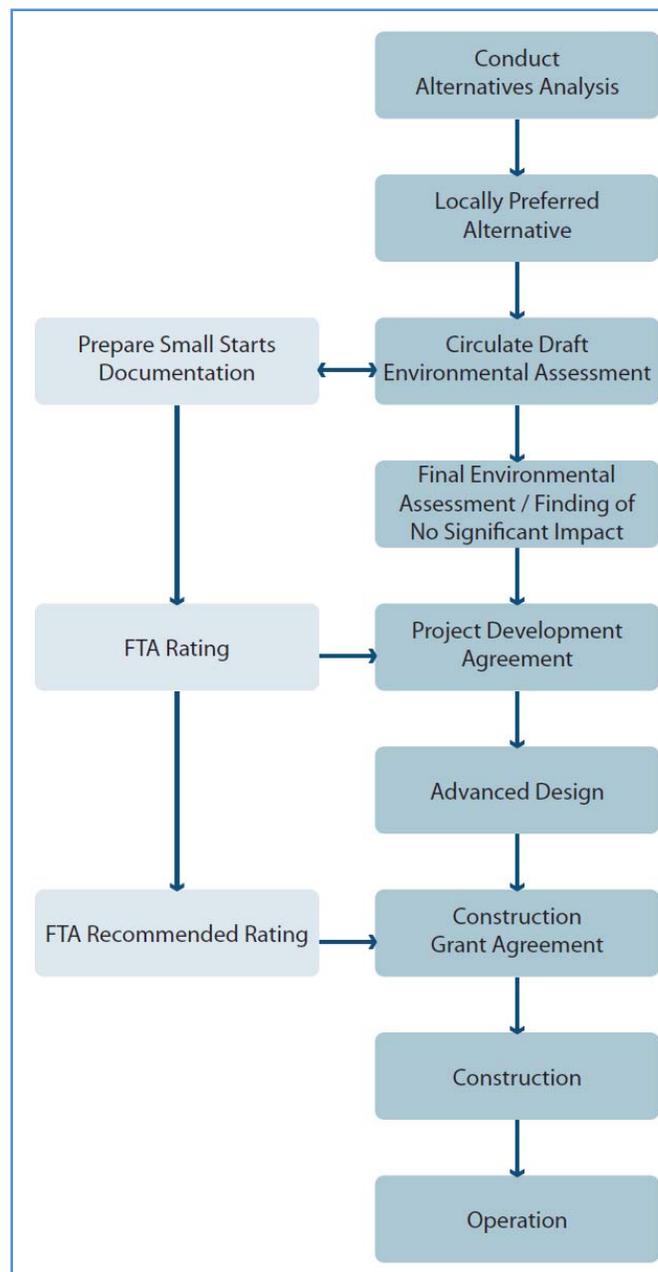
- Funding the Greenway (whether ballasted or embedded track) remains problematic, even with the 50% Federal funding assumption, since the local “benefits based” funding tools, when applied to the Greenway alignment, still fall short of producing the revenues needed to cover the local costs. Additional funding sources and/or higher federal and/or regional participation would be needed to fund this corridor.

Next Steps:

The City has completed enough work to date to have a reasonable understanding of the engineering and financial challenges, as well as the transportation and economic development potential, of the various line alternatives. If the City is interested in continuing to pursue developing a streetcar system, the first step is to select a corridor or limited set of corridor segments upon which to focus efforts. Then the following activities would be logical next steps:

1. Assemble, and supplement as needed, the technical data required to aid the Council in selecting the corridor priorities for entering into the federal project development process.
2. Work closely with local and regional partners to determine funding and implementation strategies, including incorporation of streetcar as part of the regional transportation policy plan.
3. Initiate outreach to potentially affected businesses, developers and property owners in the downtown area to assess support for streetcar implementation and proposed funding tools.

Figure 2 – FTA Project Development Process





4. Select preferred local funding tool(s), detail how these funding tools would be structured, and pursue the necessary legislative and/or Council actions for utilizing those tools for streetcar implementation.
5. Once the above four steps have been completed, the City and its partner agencies should be in a position to initiate the federal transit project development process (Figure 2) for a priority corridor or limited group of corridor segments – this will require discussions with the FTA and will likely require following the New Starts/Small Starts process including completion of a corridor-level “Alternatives Analysis,” appropriate environmental reviews (most likely an Environmental Assessment), and some degree of preliminary engineering.

Costs for conducting these analyses and preparing these documents vary significantly, but there are some factors in Minneapolis’ case that should moderate the cost, particularly having already completed a thorough feasibility study and financial analysis for multiple streetcar alignments over the past few years. These previous studies provide a good basis for preparing the required documentation. The Federal Transit Administration is also making changes now in its approach to their project development process, which may make the process less complex, and thus less costly. As a result, there may be opportunities to more closely integrate the AA and EA processes.