

# MINNPOST

## Bringing streetcars to Minneapolis: Some perplexing twists and turns

By: Marlys Harris – June 4, 2013

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Streetcar service in Minneapolis ended about 60 years ago — except for the tourist trolley running between Lake Harriet and Lake Calhoun. But in a what's-old-is-new-again twist, the city is looking to bring them back.

Already, there have been studies and more studies — in 2007, in 2010 and another going on right now, not just of streetcars but also of the alternative, bus rapid transit. (BRT, as opposed to bus un-rapid transit, stops at set stations rather than every other block and sometimes uses dedicated lanes.)

Minneapolis is not alone in what Finance & Commerce, the local business daily, called "a desire named streetcar." Atlanta, Cincinnati, Charlotte, Fort Lauderdale, Los Angeles, Portland, Seattle and Washington, D.C., among others, have either started operating a system recently or are in the process of getting one launched. Even pipsqueak Missoula, Mont., (population 67,000) has one under consideration. The revival has come partly at the behest of the federal government. In 2009, Transportation Secretary Ray LaHood pledged \$280 million for urban-transit projects, such as streetcars, and the Department of Transportation has been doling out millions ever since.

There is a contention floating about — mainly from Randal O'Toole of the right-leaning Cato Institute — that streetcars are just the latest urban planning fad designed to benefit engineering and construction companies. But Peter Wagenius, policy director for Minneapolis Mayor RT Rybak, says there are reasons to prefer them over buses. Studies have shown that streetcars generate more economic activity. Developers have more confidence making an investment, he says, "when they know there's a permanent amenity" like tracks, rather than bus routes, which can be changed. He also points out, "more people are willing to ride streetcars," because they're easier to get into than buses, quieter, smoother-riding and generate fewer fumes. And I would add: They are adorable. Who wouldn't want to ride a one-car choo-choo rather than a big, smelly bus?

### On mayor's agenda

Mayor Rybak has had streetcars on his agenda for years, but the goal has eluded him. In his final State of the City address this April, he vowed to have a financing plan in place before leaving office. The feds, after all, will not underwrite the entire cost of the line — about \$220 million for the first route, which would run along Nicollet from a wee bit past University Avenue to Lake Street. Minneapolis would have to come up with at least half the funds, probably more, given the ongoing sequester and Congressional tight-fistedness. And, it can't look to the state, the county or Metro Transit for help since the streetcar's use would be purely local.

So after an intense lobbying effort by the mayor — he gave House Tax Committee Chair Ann Lenczewski (DFL-Bloomington) a personal tour of potential streetcar sites — the state Legislature created a new, somewhat gimmicky financing tool: the value capture district. It allows the city to funnel new tax revenues from five specified districts to pay for the line.

For you wonks out there, it's a variation on a Tax Increment Financing (TIF) district, another device commonly used by localities to see that both public and private projects get funded. The theory behind it is that completion of a sewer line, a housing development or some other improvement will boost the value of the real estate around it. That increment in value produces higher tax revenues, which are used to repay the bonds the city floated to help finance the thing in the first place. One of the latest TIFs allowed by the Legislature went to 3M to help it finance a new \$150 million R & D lab in Maplewood.

TIFs have come in for heavy-duty criticism because there's some question whether companies like 3M or Baxter Pharmaceuticals (another recent beneficiary) couldn't finance expansion on their own. But Art Rolnick, a senior fellow at the Humphrey School of Public Affairs, who has long decried what might be called corporate welfare, says that most towns and cities are helpless to deny them. If a city doesn't help a company, the next town over will. However, he adds, to create a value capture district for a public project like streetcars makes sense. After all, they would benefit the entire populace, not just one corporation.

Why not bonds?

But why resort to a value capture district? The city could instead merely float bonds to finance the line and presume that, as a result, new commerce springs up to produce more tax revenues to repay what was borrowed.

The answer to that is a bit murky — at least to me. Wagenius says that a value capture plan will help show the feds that "we are connecting land use and transportation." In its approval process, the Department of Transportation looks for projects that don't just move people from point A to point B but that concentrate economic development as well — which presumably cuts energy costs and boosts job creation. "We want to demonstrate that revenue will come from properties right on the line," says Wagenius.

I do not see why creation of a value capture district necessarily accomplishes that, but, OK, maybe there is some bureaucratic imperative from federal funders. Another thought, however, is that if the city merely floated bonds, any boost in tax revenues would have to be split with Hennepin County and the Metropolitan Council. With a value capture district, says Joel Michael of the research department at the Minnesota House of Representatives, the city gets to keep the entire tax increment.

Would that increment be enough to repay, say, \$150 million in bonds? That's questionable because the value capture district is restricted to five discrete areas near and not necessarily on Nicollet. The definitions are narrow. One area described by the legislation lies between First Avenue North, Washington Avenue, Hennepin and Second Street North. "We chose those areas because there are already new developments in the pipeline," says Wagenius. He gave as examples Nic on Fifth, 222 Hennepin and Magellan Tower.

But because those are already in the pipeline, they wouldn't provide any increment, right? The hope is, he says, that those buildings will stimulate more development both in and outside the special district. What's built within the district would provide a tax increment of about \$5 million to \$6 million a year, Wagenius estimates. What's built outside would generate taxes for the general fund. That in turn could also be tapped to pay off the bonds supporting the streetcar line.

The whole arrangement sounds woefully complex, but it's a done deal now. Anyway, as with all things transit-related, there's never an end to complexity. Another looming question is: Who will pay for operating and maintaining the line? Revenues from the value capture district may be used only for planning and construction. Doubtless, there will be a need for operating subsidies, as there is with all forms of transit, from cars to light rail. Can the city afford the expense or will it be able to convince Metro Transit to take it on?

That's a story for another day.