

Potential Funding Options

A preliminary review of funding options is provided for funding the development, capital and operating costs associated with streetcar implementation in Minneapolis. Several potential sources are explored, including federal, state and local sources, as well as private financing options. A review of funding mechanisms for six cities that have successfully implemented streetcar systems is also provided.

Federal Funding Options

Project Earmarks/Federal Demonstration Projects

While recent federal transportation policy focuses on the devolution of spending decisions to state, regional and local entities, congressional earmarking of funds for projects still occurs, especially during the transportation bill reauthorization process (which will occur again in 2009). To obtain an earmark, project sponsors must raise the profile of their project and local congressional representation must be effective in advocating for the project during legislative negotiations. A key to the federal earmarking process is local support for a project. Members of Congress have limited access to earmarked funds, and since each member is interested in returning funds to their home district for projects that are broadly popular, it is important that a proposed project have high visibility and a high degree of local support.

Earmarking can often jump start a project, by providing initial funds for environmental analysis or another specific aspect of the project development process. Earmarks are not available for operating funds. It should be noted that congress is currently attempting to restrict earmarking.

Federal Transit Act Formula Funds

This federal program is devoted to funding the region's capital improvement program. Public transit operators can claim these funds for the purchase of buses, trains, vans and support equipment. Formula Funds require a 20 percent local match. The formula funds that Metro Transit might be able to claim are generally fully allocated to replacement vehicles and is currently being used to help fund the purchase of hybrid vehicles.

Federal Transit Act New Starts/Small Starts Discretionary Program

The New Starts Discretionary Program is the primary federal funding source for new rail transit services. Projects are determined via a highly competitive process. While the funds are allocated at the Federal level, a critical component of this process is regional support and coordinated land use planning. Another critical component for New Starts funds is the ability to leverage funding for both the capital investment and ongoing

operating support for a project. The Administration proposed to increase the local share requirements for New Starts to 50 percent. Currently, transit programs have the same federal share requirements as highways (80% federal, 20% state or local).

Figure 1 shows criteria and measures that are being used to support funding decisions for FTA New Starts program. It is assumed that similar criteria will be applied for Small Starts.

SMALL STARTS PROGRAM SUMMARY AND STATUS (January 2007)

The following summarizes the requirements of the Small Starts program:

- \$75 million in New Starts Funds and total project costs must be under \$250 million.
- Small Starts will have a separate funding category beginning in FY 07, starting at \$200 million per year.
- Streamlined criteria and approval process.
- Non-fixed guideway corridor improvements (e.g., Bus Rapid Transit) are allowed under Small Starts.
- Exemption for projects under \$25 million eliminated once Small Starts regulation is final. All projects receiving funding will be analyzed and rated.

Initially \$200 million per year was scheduled for FY2007 through FY2009. However, the House of Representatives approved the Fiscal Year (FY) 2007 Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations bill (H.R. 5576) on June 14 by a vote of 406-22. The House bill redirected the \$200 million in funds that SAFETEA authorized for the Small Starts program in FY2007 to the New Starts program for future earmarking. The House Appropriations committee report noted that the Federal Transit Administration would not complete the program guidelines until June 2007, leaving only a few months remaining in the fiscal year for funds to be spent subsequent to the guidelines being finalized.

Figure 1 FTA New Starts Project Justification Criteria and Measures

Criteria	Measure
Mobility Improvements	Hours of Transportation System User Benefits Low-Income Households Served Employment Near Stations
Environmental Benefits	Change in Regional Pollutant Emissions Change in Regional Energy Consumption EPA Air Quality Designation
Operating Efficiencies	Operating Cost per Passenger Mile
Cost Effectiveness	Incremental Cost per Hour of Transportation System User Benefit
Transit Supportive Land Use and Future Patterns	Existing Land Use Transit Supportive Plans and Policies Performance and Impacts of Policies Other Land Use Considerations
Other Factors	Project benefits not reflected by other New Starts criteria

Source: Federal Transit Administration

SAFETEA LU established a new category of New Starts projects that require less than \$75 million in federal funding as “Small Starts.” These projects would have a streamlined evaluation process. This new category was developed to foster the development of less capital-intensive transit systems, such as Bus Rapid Transit and urban streetcar. However, rulemaking is not expected to be complete until June 2007 and FY2007 funds for Small Starts have been rolled into the general New Starts program for allocation (See sidebar).

Housing and Urban Development Funds

While this is not a traditional source of support for transportation projects, Portland Streetcar, Inc. has been successful in lobbying the Federal Housing and Urban Development Department (HUD) for earmark funds, citing the important connection to new housing. On average, Portland Streetcar has received \$500,000 per year from HUD. These monies have largely supported planning and design work and have not been used for construction to avoid federal requirements on construction projects. Strong support from the area’s Congressional delegation has made this funding possible.

HUD earmark funds do require local match. In Portland, the City provided the local match requirements for these funds.

State and Local Funding Options

Locally, there are a variety of financing tools available for funding capital and operating and maintenance costs for streetcars. A good number of these options, however, are not unique to streetcar funding and will present competition for other transit and transportation funding needs.

The more traditional funding mechanisms such as tax increment financing, the Motor Vehicle Sales Tax (MVST), metro transit funding or fare box receipts, although legislatively available, will likely create the most competition with other priorities. Some of the funding options require support of local developers or land owners for implementation authority. For example, in lieu of parking fees, density bonuses or development fees for transit oriented development have all been used to fund transit infrastructure, but are unlikely to be implemented without support for local zoning code amendments. Similarly, local improvement districts, or special assessment districts, will provide a level of funding reliability, but also would require support from businesses in the area.

There are also a variety of tax options that would provide new funding. Most of these sources are somewhat controversial and for many, some sort of special legislation or new legislation is required. For example, for a local sales or county sales tax, special legislation is needed and a transit utility tax would be a new taxing vehicle for the City but not available without new legislation.

Figure 2 provides a summary of available financing tools. It includes their potential reliability as a funding source, whether or not the legal authority exists, and discusses some of the potential barriers, as well as some examples of where the tool has been utilized elsewhere. This list is not intended as an endorsement of any funding source. In fact, a combination of a variety of sources will be needed to develop an urban streetcar system in Minneapolis. This list simply identifies possibilities.

Figure 2 Summary of Funding Options

	Brief Description	Estimated Annual Revenues (High, Medium or Low)	Estimated Annual Revenue	Capital or O&M	Reliability as a Funding Source	Legislative Change Required? (Yes, No or Possibly)	Notes	Best Practices / Examples
Federal								
Federal Earmarks/ Demonstration Projects	Funding from direct earmark of federal funds procured by congressional delegation.	Low	Up to \$15 million	Capital only	Low	No	Reduced interest in earmarks by Congress	
Federal Transit Act - Formula Funds	Federal program to fund region's capital improvement program.	Low-Medium		Vehicle purchases	High	No	Limited funds cover extensive regional needs	
Federal Transit Act - New Starts Program	Grants are for capital costs associated with new fixed guideway systems, extensions, and bus corridor improvements	Low	Varies tremendously	Capital only	High	No	20% local match requirement; FTA encourages higher local match	
Federal Transit Act - Small Starts Program	Grants are for capital costs associated with new fixed guideway systems, extensions, and bus corridor improvements	Low	In 2007, up to \$75 million from feds per project	Capital only	High	No	Total project costs must be under \$200 million	
Congestion Mitigation and Air Quality (CMAQ)	Funding for surface transportation and other related projects that contribute to air quality improvements and reduce congestion	Low	Between \$500 K - \$7 M per project	Capital only	Moderate	No	One-time, three-year grants; requires 20% local match	
Housing and Urban Development Grants	Non-traditional Federal source, but have been know to earmark funds for streetcar projects	Low	Up to \$500,000	Capital only	Moderate	No	20% local match requirement	Portland
State and Local								
Taxes								
Convention Center Taxes	Revenues generated from the Minneapolis Convention Center Tax. Rate is 1/2 of 1% and is restricted to convention center related use legislatively; sources include food, liquor, hotels and sales tax.	Medium	Dependant on rate set	Capital only	High	Yes	Currently used for debt service on convention center	Charlotte
Local Sales Tax	Revenues generated from general sales tax imposed by local unit of government.	Medium	Dependant on rate set	Capital only	High	Yes	Would require an increase as current taxes are already pledged.	Tacoma
County Sales Tax	Revenues generated from general sales tax imposed by local unit of government.	Medium	\$25-28 million/annually (ball park estimate).	Capital and O & M	High	Yes		
Hotel Guest Tax	Revenues generated from tax on hotel guests (tourists).	Low		Capital	Moderate	Possibly	Recently increased to 3%; ties into convention center tax; city will not want to be non-competitive	New Orleans
Transit Utility Tax	A fee for public transit added to sewer/garbage bill (indirect tax).	Low-Medium		Capital and O&M	Moderate to High	Yes	Benefit study would probably be needed.	

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Land Gains Tax	Tax is paid when land is sold or exchanged and is calculated based upon the pre streetcar appraisal as compared to the sales price following completion of the streetcar.. Data would indicate that increase in value can be attributed to the benefit of the streetcar if property is within 3 blocks distance of line.	Low	Amount may be initially somewhat speculative	O&M	Moderate	Yes	New; will require some speculation	Vermont (not due to transit benefit)
Motor Vehicle Sales Tax	Sales tax on motor vehicles, all of which is dedicated to transportation. Transit is guaranteed 40% of these funds.	Medium	\$120 M annually (only 50% for Metro)	Capital and O&M	High	No	Viewed as insufficient for transit needs; lots of competition	
Tax Abatement	Revenues from a tax collected by the City and held for a designated purpose.	Medium	Maximum of \$200,000/year or 10% of current levy, whichever is greater	Capital	High	No	Not available on property within TIF district;; city, county, school approval required	
Wheelage Tax	Revenues generated from tax on motor vehicles using public streets or highways.	Medium	Annual for City residents \$15 for trucks, \$10 for other motor vehicles	Capital and O&M	High	Special Election Vote	Requires a general referendum	Dakota County has collected and used for Cedar Avenue Transitway; Tacoma
Parking Tax	A tax on parking similar to a use tax.	Medium		Capital and O & M	Moderate	Yes	Would not generate revenue where parking is free; State would receive and return a portion to the City.	SF and LA
Fees								
Parking Impact Fee	An annual fee charged based upon the number of spaces available to property owners.	Medium		Capital and O&M	Moderate	Yes	Annual amount, Impact fee; free parking does not avoid the need to pay	Sydney
Regional Rail Authority	Revenues from an authority organized and existing as a political subdivision.	Medium- High		Capital only	High	No	Authority rests with the County; 6 weeks public notice; may require public vote	
Transit Impact Development Fee	One time fee (typically) on new property based upon projected usage of transit and benefit created by proximity of tenant.	Low		Capital only	High	Yes	Requires developer support	
In Lieu of Parking Fee, Density Bonus, Development Fee (TOD)	One time payment from developers. [Example: City negotiates one time payment for increased density, or one time payment for relief from parking requirements within certain distance of streetcar, (found in transit oriented developments) payment by developer for density increase over what is allowable by zoning.]	Low-Medium	One time fee	Capital only	High	Zoning code amendment	Requires developer support	Lynn Lake model; buy credits; annual assessment or consider downtown where zoning code does not require parking and a fee in lieu to all buildings
Benefit Districts								
Local Improvement District (Special Services District)	District where special services are rendered and the costs of such services are paid from service charges collected; typically used for advertising, lighting, parking; may NOT be for services typically paid for through general funds.	Low		Capital and O&M	Moderate	Yes if wish to include residential properties	If route largely serves residential this would present a challenge; would require local business/developer support	Minneapolis, Seattle, Portland

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Special Assessment District	Revenues generated from a district established for improvements paid by special assessment.	Medium		Capital only	High	Yes	Must satisfy the law that benefit is received; change needed to apply to residential; developer/business support needed	Similar to special district on Nicollet Mall
Housing Service District	Similar to special assessment district but would apply to residential and not just commercial and industrial.	Low-Medium		Capital and O&M	Moderate	Yes		
Tax Increment Financing (TIF)	Tax increment financing for improvements: water, sewer, roads and parking facilities, etc.	Medium - High		Capital	High	Possibly	Very competitive; restricted uses; 15% of total market value currently in TIF	Austin; Portland
Recycled Matured TIF	Dedicated portion of previous TIF stream when TIF districts sunsets.	Medium - High	Some portion of current districts that are expiring in 2009	Capital and O&M	High	Possibly	Very competitive; restricted uses; 15% of total market value currently tied up in TIF in Minneapolis	
State Aid; MSAS	DOT funding for City of Minneapolis' highway maintenance and construction.	Low	M.S. 162 State funding varies	Capital for designated municipal state aid streets	Low	Yes	Very competitive; cannot be used for rail projects	
Parking								
Parking Meter Revenues	Revenues received from use of parking meters.	Medium	Downtown or throughout city?	Capital and O&M	Moderate	No	Already funding other priorities; ordinance may be required	Portland
Parking Ramp Revenue	Revenues received from use of parking ramps.	Medium		Capital and O&M	Moderate	No	Already funding other priorities; ordinance may be required	
Streetcar Funding								
Streetcar Farebox Revenues	Revenues generated directly from rider fares.	Low		O&M only	Moderate	No		
Streetcar Advertising Revenue (Vehicles and Shelters)	Monthly revenue from interior/exterior ads, ads on benches and stations/stops.	Low	Annual amount	O&M only	Moderate to High	No	Will need to be negotiated with entity owning or operating	Many examples. Galveston generates \$100,000 month for interior and exterior ads.
Streetcar Naming Rights	Naming the system, individual cars or stations for a fee; can be a one time or annual sponsorship	Low		Capital or O & M	Moderate			
Other								
Air Rights	Revenues generated by selling of air rights over part of a corridor or maintenance building, etc.	Low	Route dependent; involving sale of City owned air rights	Capital only	Moderate	No		Seattle

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Non-Profit (Streetcar Established as Non-Profit)	Endowment similar to non-profits, hold events to fund streetcar service.	Low		Capital and O&M	Low	Possibly	Legal input needed	Tucson
Operating Endorsements (Program Related Invest Program)	Foundations with PRI can provide endowment; distinguish from corporate grants, grants for livability improvements to community.	Low		Capital and O&M	Moderate	Yes	Competition for non profit and foundation support for affordable housing, social welfare, etc	

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Review of Funding Mechanisms in Peer Cities

A review of six streetcar systems around the US shows that cities and transit systems use a variety of funding mechanisms to pay for capital and operating costs. These range from Federal New Starts, HUD, and CMAQ grants to sales tax measures, bonds, sale of naming rights, improvement districts, tax increment financing, and parking meter revenue. This chapter provides an overview of the capital and operating funding mechanisms used by streetcar systems in Charlotte, North Carolina; Memphis, Tennessee; Portland, Oregon; Savannah, Georgia; Tacoma, Washington; and Tampa, Florida.

Charlotte, North Carolina

Charlotte's streetcar line began service as a weekend-only service in 1996, over a one-mile route south of downtown. It was operated by Charlotte Trolley, Inc., a non-profit organization staffed with volunteers, using a single diesel engine car.

From 2001 to 2004, new track and electric overhead wires were installed along an extended two-mile streetcar route, which opened for service in late June 2004. The new service is operated daily by the Charlotte Area Transit System (CATS), and was constructed to serve as a portion of a longer light rail route.

Funding for capital and operating costs came primarily from a 0.5% sales tax for mass-transit improvements, approved by voters in 1998. Additional capital funding contributions came from the Charlotte Convention Center and CATS. A portion of the operating costs is from the local Arts and Science Council.

Memphis, Tennessee

In 1990, Memphis began construction on a 2.5 mile streetcar line in an effort to redevelop its failing downtown pedestrian mall. The line extended beyond the pedestrian mall, operating on-street to other areas in need of economic development. Operation began in 1993, and was extended into a loop using an existing railroad right of way, in 1997. A third line, which was engineered for eventual light rail use, opened in Spring 2004, bringing the system to a 10 mile total.

The initial line cost \$34.9 million to construct. Both the first and second lines were funded by Federal Interstate Substitution Funds (80%) and the City's General Fund (20%). The 2004 line was constructed using Federal New Starts (80%) and the City's General Fund (20%). The Memphis Area Transit Authority (MATA) owns and operates the lines using General Fund money (45%), State Department of Transportation funding (15%), and Federal Grants and Fares (40%). For the first three years of operations, CMAQ funds were also used.

Portland, Oregon

Construction on the Portland Streetcar began in 1999, with the original line opening in 2001. Since then, two extensions to the line have been constructed, with the newest one opening for service in Summer 2006. Another short extension is expected to open in mid-2007 and several additional lines are in the planning stages, including an entirely new line on the east side of the Willamette River. Portland's streetcars are owned by a non-profit public benefit corporation and operated and maintained by the City of Portland.

Funding for the original \$57 million, 2.4 mile portion came from a number of sources: Federal Transportation Funds - reallocated with TriMet for local funds (9%), a Federal HUD Grant (1%), Local Improvement Districts (17%), Tax Increment Financing (13%), the City Parking Fund - Cash (4%), the City Parking Fund - Bonds (50%), the City Transportation Fund (2%), the City General Fund (3%), and a Tax-Advantage Lease Agreement (1%).

The second \$16.0 million, 0.6 mile extension to RiverPlace was financed through the following sources: Tax Increment Financing - North Macadam URA (53%), transportation land sale (19%), a Local Improvement District (19%), a Federal HUD grant (5%), the City Transportation Fund (4%), and miscellaneous funds accounting for less than 1% of the project cost.

The third extension is a 0.6 mile single track segment estimated to cost \$15.8 million. Funding sources for this segment include: Regional Transportation Funds (63%), Tax Increment Financing – North Macadam URA (24%) and the Local Improvement District (13%).

Operating funds for the Portland Streetcar come from TriMet, parking meter revenue, advertising and sponsorships, and fares.

Savannah, Georgia

In 2000, the City of Savannah purchased several miles of existing railway along River Street, the main tourist district in Savannah. In mid-2007, 1.25 miles of track will open for service. The City is hoping that this project will garner interest in a more extensive streetcar network.

Funding to purchase the tracks came from a voter approved sales tax; additional capital costs came primarily from the City's General funds. The City did not seek Federal funding because it is a small system and is unlikely to have any commuter base. Operations will also be paid for primarily from the City's General Fund though there may be a small amount of on board advertising and a nominal fare.

Tacoma, Washington

The 1.6 mile Tacoma streetcar line began service in 2003, as part of a plan to reduce traffic downtown. Commuters park at remote parking garages or transfer from the Sounder Commuter Train and Amtrak, and take the streetcar into the downtown.

Funding for the initial \$80.4 million in capital costs as well as about 91% of operating costs are from a transportation package that went before voters in 1996. That package included a new regional sales tax, motor vehicle excise tax, and rental car tax to fund specified transportation projects. Currently, this includes approximately 71% of operations funding from the Retail Sales and Use Tax, 20.4% from the Motor Vehicle Excise Tax and Rental Car Tax. Additional operating funds come from fares (5%), and other income sources including advertising on other Sound Transit services, rental income, and interest earnings (4%).

Tampa, Florida

The Teco Line Streetcar began operation in Fall 2002, and is a partnership between Tampa Historic Streetcar Inc., the City of Tampa, and Hartline - the regional transit authority contracted to operate the system. The initial 2.4 mile line operates between downtown, Channelside, and Ybor City, with a .3 mile extension planned to connect the downtown with major parking garages.

Initial capital funding for Tampa's streetcar came from Federal TEA-21 grants (50%), State Department of Transportation funds (10%), and local funds generated by the sale of gas tax bonds (38%). Operating costs for the line total \$1.2 million per year and are funded by a voluntary special assessment district within downtown Tampa, Ybor City and Channelside (12%), income from a naming rights endowment (49%), fares (18%), advertising (0.6%), the Port Authority (8%), and car leasing (0.3%).

