



Metro Transit

Innovative Financing Strategies for
Blue Line Extension TOD
Task 5: Executive Summary
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Innovative Financing Strategies for Blue Line Extension TOD

Executive Summary

As part of the FTA TOD Pilot Program Grant for the Blue Line Extension/Bottineau Corridor, Metro Transit commissioned Baker Tilly, together with Kaskaskia Engineering Group, to perform a study to identify financing tools available for TOD and explore their use along the Bottineau Corridor.

The objective of transit-oriented development is to create a mutually beneficial relationship between a major people-moving infrastructure investment and the communities that it serves. The transit line moves people to and from an area, leaving increased property value in its wake. Studies have determined that the added value can easily be a double-digit increase. While generally viewed as a good thing, increased value can also destroy modest neighborhoods and small commercial ventures by taking away the affordability that they need to survive. A task of TOD is to balance the radiating economic power of a transit line and its need of riders with the needs of the communities that exist where that economic power is being unleashed.

Key to successful TOD is not only finding the resources to accomplish it but to consider the needs and wants of neighborhoods in which it will occur as well as the characteristics of the existing neighborhoods. Both differ among station areas along the Bottineau Corridor and interested parties can benefit from previous study efforts that dive deeply into both topics. They give insight into perceptions of what is viewed as needed and what needs to be protected. They identify challenges such as a weak real estate market relative to the region, little vacant land in some station areas, and auto-oriented land use. They identify a desire in some station areas to be able to retain their unique cultural flavor and the affordability of housing and commercial spaces. In others, to add diversity by adding more upscale development. Bottom line: one size will not fit all.

The Study

Task 1 of the study was to identify the tools that are available for TOD projects. This task resulted in a searchable guide to federal, state, and local resources of a wide variety and applicable to the Blue Line extension station areas. While the hope was that studying 'innovative financing' would uncover new tools, instead we found that the tools available in our area will be familiar and do not drastically differ from those used in other parts of the country. The updated TOD Funding Guide will be made available on the Metro Transit website for interested parties to access and will be monitored and updated as necessary. Unique to some other areas of the country, but not facilitated without new legislative authority in Minnesota, is the ability to capture value increases from properties along the length of corridor and employ it to advance TOD initiatives.

Task 2 of the study grouped and discussed the tools identified by the type of project for which they might be used. The groupings include: bike and pedestrian infrastructure costs, real estate (housing, commercial, mixed use), and site acquisition. Financing issues that are common for many TOD projects include challenges of financing commercial (typically retail) components, either as standalone or mixed-use, infrastructure costs that include parking, pedestrian and bicycle access and strategic site acquisition. Affordable housing is no less challenged along transit corridors than elsewhere and is an essential link between affordable transportation and those who need it most.

- Infrastructure projects present extraordinary challenges to most TOD projects as they do not generate revenues to support the costs. Infrastructure needs differ and reflect the nature of station areas, but often the goal is to increase accessibility by providing easy access through varying modes of transportation that include walking and biking. Roads, bicycle paths, walkways and sidewalks, and structured parking that may include underground parking to maximize density, ground level uses, and multilevel structures for park-and-ride locations are also TOD infrastructure components.
- Commercial/Retail projects that include retail and other community space are generally an important feature in every TOD project. Commercial space within TOD projects helps to reduce auto use, provides

available resources for the community while supporting sustainable communities. For many projects that include commercial/retail components, especially where opportunity and affordability is desired by the community, market rents will not support the upfront construction costs and operating expenses that allow it to be financially feasible.

- Strategic site acquisition is an important component of successful TOD projects. Increased values resulting from TOD can price certain projects out of the market. Methods for acquiring sites prior to this occurring is necessary to retain smaller scale opportunities for development.

Community based solutions are often called upon to meet some of these needs and nationally and locally there are examples that are called on to help such as land banks, community owned businesses, and creative of other existing tools such as tax increment, sometimes assisted by targeted legislative efforts.

While some identified financing strategies may be specific for a certain type of project, many of the strategies are applicable to multiple types of projects and used in a layering effect to meet varying needs.

For Task 3, the cities along the line – Brooklyn Park, Crystal, Golden Valley, Minneapolis, and Robbinsdale – were asked to provide real or sample projects in their respective station area to be examined for detailed analysis of financial viability. The projects varied in the type of development and target market. In each case, challenges were identified, financial assumptions made, and a proforma was developed. Due to assumptions utilized and feedback from City staff regarding desired uses that may not be supported in the market without financial assistance, in all project scenarios a funding shortfall resulted. Various tools and financing strategies were then identified to assist in bridging the gap using information gathered from other project tasks. The intent of these analyses was to understand how the identified project sites could be developed/redeveloped in a way that met the public objectives but could also be financially feasible with additional funding sources and private developer investment. Most projects were mixed-use in some capacity with a mix of housing options including senior, mixed-income, market rate and affordable at all targeted income levels. Solutions varied based on the characteristics of the project, its location, and target market refining the set of tools that best matched the funding issue presented.

Task 4 addressed the question of commercial affordability and best practices available to maintain long-term affordability for commercial project types along the corridor, analyzing local and national models already in place, responding specifically to the project types identified by the cities. Residents would like the developed commercial spaces to be community driven and reflect the needs and diversity of the people that live in the area adjacent to the Bottineau Corridor. We found that much of the commercial space along the corridor is naturally affordable as compared to elsewhere in the metro but could be threatened if value added by the Bottineau line causes increased rates. For the retail segment, access, visibility, proximity to households and workers, and the potential to capitalize on a critical mass of activity and other complementary retailers will play a factor in where development will ultimately occur. Office development is most likely to occur in neighborhood-serving small-business formats in each of the station areas that could also be occupied by retail uses, as a shifting of market demand may occur. Developers may be looking for viable options to encourage mixed use development that incorporate small office and/or retail space in new projects.

The results of researching available tools and strategies did not produce any previously unidentified sources. There may be advantages to incorporating added flexibility into some existing tools, such as tax increment, to address opportunities and needs unique to TOD. Key to many of the approaches implemented in other areas is the need for collaboration, reflected in the work that preceded this study effort. While true for all project types, this may be particularly true of the commercial sector where the changing dynamics within station areas could present challenges to existing and emerging businesses.

What was learned

There are familiar tools and concepts that have been used in alternative creative ways in and outside of our area. This study reflects on locally developed solutions and provided insight as to how the tools identified have been used in other parts of the region and country. There are also those strategies that are available but may not be commonly used. The results of the study are generally summarized below:

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1. Most TOD projects will experience a financial gap.
 2. Property values along TOD corridors generally increase and without care, certain uses will be priced out of affordability.
 3. Value capture tools we are familiar with such as tax increment financing or tax abatement – have been used on a broader perspective – such as corridor-wide – to capture the increased values resulting from TOD and new development to help finance necessary improvements.
 4. Strategies that could be implemented to preserve affordability include land banking and/or community land trusts.
 5. Community-focused programs such as community land trusts, community-owned cooperatives, employee stock ownership plans, community-owned businesses, incubators and resource centers are just samples of strategies that could be used to facilitate successful commercial TOD projects and potentially attract additional funding sources (philanthropic equity investors).
 6. Communities are exploring and creating readily available local tools that can provide additional financing such as loans or grants for specific types of projects – that include infrastructure, affordable housing and redevelopment-specific support.
 7. Communities wishing to support TOD have examined existing zoning, ordinance and other regulations that could be a hindrance to development opportunities. In some cases, existing City practices are outdated with updates required to allow for modern uses necessary to successfully support new TOD.
 8. Cities have created planning and zoning standards for station areas and TOD sites that allow certain changes in development expectations for developers that include increased density, reduced parking, and other standards.

Participant Feedback

In the interest of identifying what will be helpful going forward, the communities impacted by the Blue Line Extension provided their feedback regarding the study as it progressed and upon completion. Here is what they said:

There was a strong desire to understand the link between funding strategies and programs to availability of financial resources that would allow the projects to be financially feasible. The cities were interested in analyzing what the estimated financial gap would be of the various project sites if they included components that would not be generally supported by the market on their own.

The communities indicated the analysis provides a baseline from which actual development and redevelopments will occur. The cities also responded that they would work with their financing team as the specific projects came to fruition.

Some of the communities intended to share the results with current property owners and prospective developers to assist with future development planning efforts. They were interested in knowing where and what resources would be available for future assistance.

Before we conclude we would like to express gratitude to the cities and their staff that participated side-by-side with us as we evaluated various project alternatives and financial impacts. We also thank the Metro Transit staff for the guidance they provided throughout the project to help bring it to a successful conclusion. And finally, our work would have been much more difficult without the previous efforts of Hennepin County and participating cities through the Bottineau Community Works advance planning efforts and the willingness of others throughout the country to generously share their inventive use of the tools available to help advance successful TOD in the communities that they serve.