

MNCAR's August Program Recap:

Commercial Real Estate Community Can Impact Transportation Issues

No one could have anticipated just how timely MNCAR's August breakfast meeting would be. Held Aug. 9, it was titled "*Minnesota Transportation Issues: An Obstacle or a Real Estate Opportunity?*" This was just eight days after the Interstate 35 bridge collapse.

The meeting's panel of experts addressed the bridge collapse, the shortfall in transportation funding and how commercial real estate professionals can have an impact on Minnesota's transportation system through public-private partnerships.

Bridge collapse/lack of funding

"If we talk about transportation, everything has changed," moderator Elwyn Tinklenberg told the packed audience, referring to the I-35 bridge catastrophe. Tinklenberg is president of The Tinklenberg Group, a consulting firm specializing in transportation issues, and the former commissioner of MnDOT.

"It's a little bit like that famous opening line from *A Tale of Two Cities*: 'It's the best of times and it's the worst of times,'" Tinklenberg continued. "It's the best of times because it finally appears that the log jam that we've faced for the last couple of decades on transportation funding is going to be broken. And we're going to have some real progress in terms of moving forward to address the infrastructure needs of our state and the rest of the country. If this had happened someplace else, it wouldn't have had the same impact. But it happened in Minnesota...We have one of the best departments of transportation in the country and it happened here. And if it can happen here, it can happen anywhere. It has helped the nation engage the discussion about transportation issues."

However, Tinklenberg said it's the worst of times in the way that it happened and that loss of life was part of it. He also said that it's the worst of times because, "We've gotten ourselves in such a hole that even the steps we're going to take [to help with transportation funding] in a special legislative session will not get us far enough down the road...There are a lot of challenges that lie before us, and your engagement in that process is going to be important," he told MNCAR members. "The connection between transportation, commercial development, commerce and the economy is just absolutely inescapable."

The "rich uncle in transportation," Tinklenberg said, is running low in cash. The massive and exuberant days of road building are gone. Most of the interstate system is 30 or 40 years old and in desperate need of rebuilding.

"Minnesota's 20 cents-per-gallon gasoline tax passed in 1988 is now only worth six or seven cents," he said, "and the cost of steel, asphalt and concrete are going up at two to three times the normal rate of inflation. And contrary to what most people think, the fastest-growing source of new transportation dollars is not the gas tax or any of the tab fees, it's the property tax, as local governments try to find ways to keep their transportation systems going and support their development and redevelopment plans."

Tinklenberg also said that as evident as this funding crunch is in our highways, it's even more evident in our transit systems. For major capital investments in new transit options like the Hiawatha LRT, only one per decade is scheduled due to funding shortfalls.

MnDOT projects that the Twin Cities needs \$26.4 billion to handle transportation infrastructure, congestion and safety issues between 2005 and 2030, said Chris Roy, North Area Manager with MnDOT.

“Then you look at the anticipated funding coming from federal, state, gas taxes, etc., in that same 25 years,” Roy says. “It’s \$6.5 billion – a shortfall of about \$20 billion.”

Public/private partnerships

So what can be done? “We need to examine the role that all of us can play in developing partnerships that can engage the public and private sectors in helping support the transportation improvements critical to our region, Tinklenberg warned.

Samantha Orduno, Dayton’s city administrator, has experience in these partnerships, including the current Brockton Interchange project in the Northwest metro and the Penn Avenue and I-494 Interchange completed in 2001 when she was Richfield’s city administrator.

A perfect example of local collaboration was the Best Buy project and the Penn Avenue bridge, Orduno told the audience. The \$160 million Best Buy campus couldn’t have been built without replacing the old Penn Avenue bridge, she said. And not only did the bridge need to be replaced, but the interchange needed to be improved to MnDOT’s design standards for the future expansion of I-494. Local roads had to be improved, right-of-way acquired, businesses relocated and an entire residential neighborhood bought out and the site cleared.

“It turned into an over \$34 million transportation project,” Orduno said, adding that the new interchange was completed in just 10 months.

Orduno said the project was an incredible effort between the cities of Richfield and Bloomington, Hennepin County, the Metropolitan Council, MnDOT and congressional representatives. Also, Best Buy contributed significantly.

“The bridge was built and stands today as a prime example of inner-governmental cooperation and private-sector ‘do it,’” she said.

Brockton Interchange

A current example of multi-jurisdictional cooperation that’s accelerating a transportation project is the Brockton Interchange project in the Northwest metro.

In late 2005, budget cuts forced MnDOT to eliminate the I-94 transportation study that would have examined the I-94 corridor from County Road 30 in Maple Grove to Highway 101 in Rogers, Orduno explained. This is an over five-mile stretch of interstate with no access on or off.

“The cities of Dayton and Rogers along with Hassan Township took action,” she said. “Banding together they funded a Phase I study to determine how best to proceed with an interchange at Brockton Lane and I-94. These are small cities with small budgets and they funded the study.”

Enter developer The Beard Group with the proposal for a 634-acre residential/commercial development called Stone’s Throw in Hassan Township, on the border of Dayton, at Brockton Lane.

“This development was the impetus for Rogers, Dayton and Hassan Township to further dedicate funds to partner with The Beard Group and The Tinklenberg Group, which came on board, to take it to the next step with an over \$200,000 Phase II transportation study, of which The Beard Group is paying a significant share,” Orduno said. “The study will determine a transportation system plan for the I-94 Northwest corridor that will hopefully form a mandated basis for an interchange at Brockton Lane, alleviating gridlock on I-94, providing access to local cities, increasing public safety and allowing development.”

Tom Gump, a partner in The Beard Group, has made solid headway in forming a public-private alliance with Hassan Township, Dayton and Rogers to give his firm more control of the transportation system that impacts his planned development. His development plans call for 1,500 homes, 200 acres of open space and 136 acres of commercial development.

“The reason we picked this site it has close access to I-94. The state demographer tells us that I-94 is the fastest-growing corridor in the state and the third fastest-growing in the country,” Gump said. “Our brokers suggested we try and get the interchange built, which we’ve never tried in any of our projects before. When we first started talking about the interchange, our performa for our commercial area when up by about 50 percent. Now we have five national and international mall developers, who are thinking of purchasing the site.”

Not waiting around

In the past, Orduno said cities waited to work with MnDOT until a specific plan was on its five- or 10-year plan, but now cities are not waiting and being creative in their thinking in how they can accelerate projects.

While waiting for the results of the Phase II transportation study, Dayton, Hassan Township, The Beard Group and The Tinklenberg haven’t been idle. This past legislative session, Dayton introduced legislation that would authorize the city to create a special transportation TIF district, which would allow the bridge to be built. The Beard Group offered to front a large share of the cost of the bridge as long as there’s a payback mechanism.

Unfortunately, the legislation didn’t make it into the tax bill. “But we haven’t given up,” Orduno said. Discussion has begun about tax abatement to try and secure funds to build this interchange.

New approaches

While TIF, tax abatement and local government financing mechanisms -- like site assessments and gas taxes – previously were used only by state transportation organizations, today we’re seeing new uses across the nation -- starting on the West Coast.

“We’re seeing in California, Arizona, Nevada and Oregon transportation impact laws where cities are authorized to charge impact fees on new roads that generate new traffic and new transportation needs,” she pointed out. “At some point, transportation impact fees, or a close relative, will represent new funding opportunities.”

Locally, cities like Rogers and Maple Grove have started implementing similar type fees with permission from the developers in and around the new hospital that will be built in Maple Grove.

“Will these transportation impact fees or some relative make housing costs higher?” Orduno asked. “Yes. Will commercial retail development costs be higher? Yes. Will it help us maintain our transportation system plans and build for growth? We just can’t afford not to try.”

These trends are not going to happen overnight, Tinklenberg noted. “In that respect, they’re less like a wave crashing over us and more like a frog in a pot of slow-heating water. We’re approaching a boil and it’s time for us to jump or sink.

“We’re all not going to move suddenly into mixed-use developments where we can carry out much of our travel on foot,” he added. “The state and federal governments are not going to change their funding patterns dramatically, although I think here in Minnesota we’re going to see

some changes. But the slow evolutionary pace of the changes we're experiencing doesn't mean they're not happening. And that's one of the problems with our infrastructure systems: The pace of deterioration is so slow and spread out over so many years that we become complacent and believe we can ignore it without cost. As we've seen, we cannot. We cannot ignore it without doing damage to our community and economy."