

An Eye on Sacramento Report
on
The Sacramento Streetcar Project
January 13, 2015

EXECUTIVE SUMMARY

Key Findings

Impacts of Streetcar Project on Economic Development

- ✓ After a review of the experiences of other U.S. cities and an examination of the proposed Sacramento streetcar system, we've concluded that streetcars would not increase mobility, cut commute times or reduce traffic congestion and would be less cost-effective than buses due to their higher capital costs.
- ✓ These days, streetcars are being promoted as a catalyst to development and economic growth. However, we find no credible evidence that establishes that streetcars are a significant factor in stimulating development. While promoters of streetcars cite instances of increased development in areas of some cities in which streetcar lines have been built, they have failed to prove "causation," that is to say, that streetcars were the actual cause of the concurrent building development.
- ✓ In the frequently cited case of Portland, development along its streetcar line was greatly assisted by significant tax and other government subsidies that were extended to developers.
- ✓ But Sacramento cannot currently offer developers the same generous package of development incentives that local government in Portland was able to provide to developers of property near their new streetcar line. Consequently, we don't place much credence in economic forecasts that predict that Sacramento will experience development increases comparable to what Portland experienced when it installed its streetcar line.
- ✓ To the extent that streetcars do serve as a catalyst to economic growth, we believe that essentially the same economic impact can be secured at a fraction of the proposed cost by, instead, purchasing and deploying redesigned and reengineered modern transit buses that are virtually indistinguishable in appearance and function from modern streetcars (a picture of such a modern transit bus appears on page 15 of this report).

✓ Based on cancellations of streetcar projects and overruns of both construction and operating costs experienced by other U.S. cities, and our review of studies, reports and media accounts, it appears that public opinion - and the opinion of many transit experts - is shifting away from the modern version of the streetcar. In fact, it appears that much of the impetus for building such systems has been the willingness of the federal government in recent years to fund half of the costs of construction, which, in Sacramento's case, is expected to amount to \$75 million.

✓ In other cities that have built streetcars, some local merchants and businesses have experienced major disruptions to their businesses during the 24-month construction period involved in building a streetcar system. We have seen no indication that the project will offer assistance to help such impacted businesses.

Impacts of Streetcar Project on Traffic

✓ Based on our detailed review of every almost element of the proposed streetcar system, we conclude that it would increase traffic congestion on I, J and L Streets and will create major traffic problems near the I-5 on-ramps and off-ramps at 3rd and J Streets, as well as problems on the Tower Bridge and at the intersection of J and 19th Streets.

✓ The streetcar is slated to use existing Light Rail tracks on some streets in Downtown, including 7th and 8th Streets and one block of H Street. Since streetcars are much slower than Light Rail trains, there are real concerns that streetcars will cause back-ups and delays for Light Rail trains, which, at 360-feet long, can clog up intersections, trip traffic signals and aggravate congestion at Downtown intersections.

The Special Tax Levy

✓ Downtown and Midtown property owners are being asked to cast advisory ballots on a proposed special tax levy on their properties without the benefit of having correct or complete information on important details of the tax levy, bond financing costs or the streetcar project itself, including financial risks and impacts of the project.

✓ Media reports on the streetcar project have included erroneous information about the amount of the total taxes that would be paid by property owners and how long such tax payments must be made.

✓ The total assessment will not be \$30 million as has been erroneously reported, but will, instead, be 20% of the total costs of constructing the streetcar project (estimated to be \$150 million), plus interest and other financing costs on Mello-Roos bonds that will have a maturity of up to 40 years (not 30 years, as has been reported in the media).

- ✓ The bonds will finance a \$30 million cash contribution to the construction costs of the streetcar project. Additional amounts will be borrowed to cover prepaid bond interest, bond reserves and issuance costs, up to a maximum authorized borrowing of \$38 million.
- ✓ If the full \$38 million is borrowed, the total interest and other financing costs on the bonds could amount to as much as \$58 million, depending on interest rates, bond maturities, payment and other terms, which could bring total tax payments by property owners to pay off the bonds (including financing costs) up to as much as \$96 million. It is more likely, however, that total tax payments will be closer to \$75 million.
- ✓ Property owners will pay a tax rate that's based on how close their property is to the proposed streetcar line, with those parcels located within one block of the line paying the highest rate, those within two blocks paying the second highest rate and those within three blocks paying the lowest rate.
- ✓ Commercial and office property owners will pay a rate based on both the square footage of their land and the square footage of their buildings. For example, a commercial office building located within two blocks of the line would pay an annual rate of \$0.040 cents for each sq. ft. of land and a rate of \$0.112 cents for each building sq. ft. Owners of residential property will pay a rate based on the number of units on the property.

Special Tax Break for Arena's Owners: \$10,000,000 Estimated Tax Subsidy

- ✓ Owners of the new Downtown Arena, however, will be paying much lower tax rates than other commercial property owners. They will pay no tax at all on their land and will pay a \$0.040 rate on most of its building square footage, a rate 64% lower than the rate paid by all other commercial property located the same distance from the streetcar line (\$0.112).
- ✓ Based on media reports, it appears that Arena owners will be paying approximately \$250,000 less each year than they would otherwise be required to pay if the Arena was taxed at the same rate as similarly situated commercial property. Over 40 years, tax savings from their discounted tax rate will amount to an estimated \$10,000,000 to Arena owners.
- ✓ This major tax subsidy will be made up by all other property owners in the district who will pay higher tax rates than they'd otherwise have been required to pay had the Arena not been given this special tax break. Consequently, Eye on Sacramento (EOS) believes that this special tax break is grossly unfair to other Downtown and Midtown property owners. City taxpayers are already providing the Arena owners with hundreds of millions of dollars of subsidies. Further subsidies are unnecessary, wasteful and injurious to other property.