Commercialization of Rest Areas in California

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The California Department of Transportation (Caltrans) is studying the feasibility of establishing private commercial services in rest areas. A lease was signed in late 1990 for the first traveler services rest area (TSRA), which provides such commercial services. Under the agreement, a private partnership will build, operate, and maintain the rest area for 35 years, after which all improvements will become the state's property. Caltrans will contribute the land and $500,000 in exchange for an operating rest area and revenues from the commercial operations, estimated to be at least $9 million over the life of the agreement. TSRAs are still in an experimental stage, and two main obstacles impede further developments: federal law prohibiting commercial services on Interstates and opposition from local business operators who fear additional competition. However, during development of the first TSRA, ways were found to avoid these obstacles. Procedures being used in the investigations and implementation of the first TSRA development effort are discussed here, including the importance of community relations, dealing with local opposition, and approaches to the division of responsibility between the private sector and state. It is concluded that the approaches used to develop commercial services in new and existing rest areas in California hold great promise. State officials are encouraged that the new federal attitude toward privatization and the willingness of the state to work with local interests will engender greater latitude in implementing future projects.

For the past 5 years, the California Department of Transportation (Caltrans) has been studying the feasibility of incorporating private commercial services into as many as 6 new rest areas and 4 existing rest areas. The procedures being used in the investigations and the results of California's first effort to implement such a development are discussed here.

BACKGROUND

During the 1960s and 1970s, a portion of Federal-aid for highways was available for rest areas, but priorities and policies have since changed. Rest areas now compete with other transportation needs for available federal money. Compounding the funding issue, California had to give programs such as financing of rest areas low priority because of burgeoning demands to fix deteriorating roads, relieve traffic congestion, and improve overall highway safety. The state still wants to maintain its existing 88 rest areas and even add as many as 14 new units to its system. To do that, it is clear that funding, to a large extent, will have to come from sources other than the gasoline tax or other public funds.

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The cost of building a new rest area that serves both directions of freeway travel to Caltrans' standards is about $5 million plus the expense of land, which varies considerably from site to site. A standard full-size rest area, located adjacent to the freeway and accessible from an existing interchange, provides parking spaces for 240 vehicles and modern comfort stations, fully supported by utilities and site amenities.

In addition, annual maintenance costs are between $75,000 and $125,000, not including the hidden costs of insurance (California self-insures) and security (provided by the California Highway Patrol and local law enforcement agencies). Of course, future costs must be considered for major repairs and rehabilitation of facilities as they wear out.

Another reason that Caltrans would like to include commercial services in rest areas is that crime has become a significant and growing problem in many areas. Despite the best efforts of the California Highway Patrol and local police, the nature and frequency of crimes (including violent crimes) in a number of rest areas have caused many potential users to avoid the facilities entirely. Crime is considered to be a significant problem in 20 percent of the state's rest areas.

Furthermore, commercial services are being provided quasi-legally and even illegally adjacent to and at a number of rest areas. Food and beverages, vehicle repairs, and other goods and services are being offered in rest areas and "through the fence." Law enforcement authorities have only limited abilities to control these enterprises, and some vendors are able to use First Amendment protection to legally "sell" their products for a "contribution." The contention is that rest areas are public forums open to anyone who wants to express his or her beliefs. Legal precedents have enforced the position of nonprofit organizations that the provision of services to travelers is an extension of their right to free speech.

The provision of permanent commercial services within a rest area could provide Caltrans with rental income that it does not currently have. Also, this provides an opportunity to eliminate quasi-legal and illegal activities.

To pursue the idea of including commercial services in rest areas, Caltrans broadened its authority because such facilities within freeway right-of-way were prohibited by law. Federal regulations and state law permit only vending machines, the sale of newspapers, and space for commercial traveler information in Interstate rest areas. One of the first actions then was to secure authorization to at least test the concept of joint private-public projects.

Efforts to gain approval for a federal joint development demonstration have not been successful. However, California legislation authorizing a rest area joint economic development demonstration project became effective January 1, 1985. It requires that joint development contracts be awarded on the basis of competitive bidding. The sale of alcoholic beverages is prohibited within the rest area. Other provisions are as follows: there must be at least the opportunity for a public hearing for each unit; law enforcement responsibilities are to be the same as on the highway system; revenue received by the state is to be deposited in the State Highway Account; and the legislature is to be kept informed annually on the actual operations.

The California authorization is for commercial facilities in as many as six new rest areas. To deal with the Interstate restriction, Caltrans adjusted siting criteria to require the locations to be outside controlled access rights-of-way. Until federal sanction is received, such locations accessible from existing interchanges are the most likely places for joint private-public facilities on Interstates.

FIRST CALIFORNIA REST AREA TO INCLUDE COMMERCIAL SERVICES

Caltrans signed the lease late in 1990 for its first rest area to include private commercial services. The new traveler services rest area (TSRA) will be located near the I-15/Route 395 Interchange in San Bernardino County, south of Victorville. Average traffic flow past the site is about 68,000 vehicles a day. The new TSRA will include all of the usual services available at the state's other rest areas, such as rest rooms, parking, landscaped areas with walkways for people to stroll and walk pets, and picnic tables.

Most of the 14 acres of the San Bernardino TSRA will be devoted to free public uses. A total of 250 parking spaces will be provided, with 68 percent dedicated to automobiles. Large-vehicle parking will be separate. Only a small portion of the site will contain commercial services, which will include a restaurant, a fuel service facility, and a convenience store.

The restaurant/store building is to be 16,400 ft^2 in size. The main comfort station of about 2,500 ft^2 is to be set in the "green" area occupying some 30 percent of the site. In addition, a uniformed security guard will patrol the picnic area, and call buttons throughout the site will allow motorists to summon emergency help.

To develop the TSRA, Caltrans is contributing the land and $500,000. In exchange, the private developer/operator (TSRA operator) will build, operate, maintain, and be responsible for the security of the entire facility for 35 years, after which all the improvements will become the state's property. In addition, the developer/operator will pay Caltrans annual rent and a percentage of the sale of all goods and services at the rest area, which are estimated to be at least $9 million over the life of the agreement.

Although Caltrans initiated the project, performed the feasibility study, and identified the site to be developed, the TSRA operator was responsible for the engineering and architectural design and for obtaining permits and environmental approvals. The on- and off-site improvements were designed to Caltrans' standards, and Caltrans reviewed and approved the plans before they were submitted to the county for permits.

The agreement between Caltrans and the TSRA operator puts full responsibility for all mishaps, such as fuel tank leaks, on the operator. Caltrans was particularly careful about insisting on full insurance coverage by the operator because of concern about the effects of other unfortunate occurrences, which might affect the public's perception and use of the rest area. Among these was Caltrans' responsibility for correcting problems, even to the extent of the operator going bankrupt or abandoning the project. To the degree that it was possible to use the agreement to protect against the negative effects of these occurrences, Caltrans attempted to do so.

However, Caltrans officials felt that one of the best ways to avoid such problems would be to implement a project with a high probability of financial success, for both the operator and Caltrans. Such a project would serve as a good example for future TSRAs. This reasoning led to the decision to use the I-15/Route 395 site because it is expected to generate high commercial sales revenues.

OTHER PROJECTS

Joint Development

Based on its experience with the San Bernardino TSRA, Caltrans has pursued a second project in response to legislative direction to try the joint private-public concept in another area. A feasibility study showed that expected revenues from commercial services would justify soliciting proposals for a similar type of facility on I-8 in Imperial County, west of the California-Arizona border. Although this TSRA would be developed at an entirely new site, it would replace an existing rest area that has a number of safety problems and which Caltrans has wanted to remove for some time. The department will soon solicit proposals from prospective developers for this second project.

Privatization

Projecting the concept further, the feasibility of privatizing four existing rest areas, including additional commercial services, is being studied. As with the two new projects, these four existing rest areas are accessed from interchanges. Caltrans reasons that the access control line is located so that the rest areas are outside the zone in which the federal restriction against commercial services would preclude such activities.

Authority from the state's standpoint is based on established airspace procedures to maximize benefits from the department's holdings. Although never applied to rest area right-of-way before, the concept seems sufficiently broad to permit such consideration. Airspace is any property within the right of way limits of an existing operating highway that is capable of other uses without undue interference with the operation and foreseeable future expansion of the transportation corridor for highway or other transportation uses.

METHOD FOR EVALUATING FEASIBILITY

Approach

The studies for evaluating the feasibility of including commercial services at a new or existing rest area generally address the following questions.

- What are the physical limitations and advantages of the site? What types and sizes of commercial services are feasible?
- What additional or expanded public services would enhance the use of the commercial services? How can the commercial services be physically incorporated within or in relation to the rest area?
- What utilities need to be developed or expanded?
- To what degree would the commercial services enhance the use of the public services?
- What is the sales revenue potential of the commercial services?
- How can the joint development be achieved at minimum cost and maximum revenue generation for the transportation department?
- How much land is required, and is it desirable to purchase or option land not owned by the state?
- How can procurement be structured to obtain the broadest competition among proposers and most advantageous proposals for the state?

Estimation of Commercial Development and Sales Potential

Commercial development potential is estimated based on analysis of the following information:

- Average annual daily traffic passing the rest area.
- Traffic seasonality and peak hours.
- Mixture of automobiles, trucks, and recreational vehicles.
- Primary trip purposes and locations of principal origins and destinations.
- Percentage of traffic stopping at the rest area, and available surveys reporting characteristics of rest area use.
- Existing and planned commercial enterprises in the region that may complement or compete with services at the rest area.
- Sizes and proximity of nearest population centers.
- Visibility and accessibility of the site.
- Signing (special opportunities and restrictions).
- Site parking and circulation potential and limitations.
- Site capacity for public facilities.
- Site ability to accommodate private commercial services at desirable locations.
- Availability, capacity, and quality of utilities.
- Special use and maintenance issues or problems (such as recreation staging area, traveler information service center, illegal use or undesirable activities, etc.)
- Public agency jurisdiction, land use restrictions, and compatibility with other land uses in the area.
- Special environmental and archaeological constraints.
- Land ownership issues, including possible federal or private control and restrictions on use.

After thorough examination of this local information, it is wise to review experiences from a broad range of sources before reaching conclusions. Available data and studies on commercial patronage and sales from elsewhere in the state and country (including toll road commercial service plazas) assist in estimating the following factors:

- The additional stopping traffic percentages induced by the presence of candidate commercial enterprises in the TSRA, by vehicle type;
- The expected number of persons per vehicle, by vehicle type;
- The percent of patrons who will purchase various goods and services;
- The expenditure per person by type of goods and services; and
- The total annual sales by enterprise type.

The most lucrative commercial operations were found to be restaurants, fuel services, and convenience stores. Motels would also normally be profitable ventures. However, they were excluded for three reasons. In the particular case studies, motels would require expansion of utilities and parking to a degree that would make it expensive to serve them as well as the other services. Second, it was felt that TSRAs should be primarily for travelers who would not spend long periods of time there. This reasoning excluded destination-type entertainment services. Third, local opposition, a factor at a number of the sites, could be reduced by excluding motels from consideration.

Cost Versus Revenue Potential

The purpose of the cost-revenue analysis was to determine whether it made sense for Caltrans to seek development proposals for a TSRA development at a particular site or sites. The state specified two objectives to be met for it to consider implementation of a TSRA project. First, the state desired to contribute no more than half the cost to develop a project. Second, the state desired to obtain at least a 10 percent rate of return on its investment. When the financial analysis showed that both objectives stood a reasonable chance of being met, Caltrans proceeded to solicit proposals.

LOCAL OPPOSITION AND COMMUNITY RELATIONS

Where opposition to a project was encountered, it generally came from the existing local business community and tended to relate to the number and proximity of service businesses to the proposed TSRA and the economic viability of those services. The most significant opposition was encountered where the economy of the region was weak, where the local businesses' dependence on highway users was high, and where those businesses believed that the TSRA's enterprises would take a significant share of their revenues.

In areas of high traffic volumes, numerous commercial services exist already, and the economic base is broad. Caltrans has encountered little opposition in those areas. In fact, strong support has been expressed by local business and political leaders for locating one TSRA near two communities where those leaders expect the TSRA to attract large numbers of highway users to their downtown commercial district.

Caltrans developed a number of approaches for working with community and business leaders who expressed opposition to locating TSRAs near their commercial services. Of primary importance is to open lines of communication early to achieve the following objectives.

- Provide local jurisdictions with complete information on the proposed project, including a summary of why the state is undertaking private-public sector joint development, the proposed nature and scope of the project, maintenance and operation issues, the potential benefits to various constituencies, the process by which the state would identify and select a private developer, project timing, and specific opportunities for public input and comment.
- Gather information concerning local and regional planning and economic development goals, local market conditions, and other considerations that might influence the type and scale of the project.
- Solicit community input regarding special project components such as tourist information centers, interpretive centers, or other services that relate directly to local concerns.
- Identify key areas of support and opposition within the community and attempt to build consensus in support of the project.
- Explore the possibilities for financial participation in the project from local jurisdictions. It is also important to proceed slowly and not attempt to ram the project through the opposition, but to seek to work with their concerns and attempt to find methods for overcoming their objections. The key here is to find out what the local community wants and try to find a way to achieve its objectives.

Caltrans representatives have met with local business people, staff of local chambers of commerce, tourism promotion organizations (such as convention and visitors bureaus), elected officials, and other interested parties. This has helped to show how the TSRA might satisfy their needs and served to identify what types of private commercial services at the TSRA might be acceptable to them.

Ultimately, a good strategy is to locate groups within the community that favor the TSRA and to support those groups in their efforts to counter the opposition. Local "ownership" of the concept is critical to achieving community support. Caltrans' experience shows the developer/operator can play an important role in achieving this through interaction with local groups during the process of obtaining necessary approvals and permits.

Local business people favor including a staffed traveler information center within the TSRA. Such a center can help to generate a considerable amount of tourism and business sales in the region, but as a separate facility, it can cost at least $250,000 to build and $50,000 a year to operate.

California has elected not to finance such centers on its own, and the development and operation costs are generally well beyond the reach of most communities, even where a region's private and public sectors work together to sponsor such centers. However, by incorporating the center within one of the TSRA's commercial buildings, its construction and operation costs can be reduced significantly, and if the state chooses, a portion of the rental revenues obtained from the private TSRA operator can be used to offset a portion of the center's operating costs.

Inclusion of a traveler information center is certainly not a compelling reason for the operators of existing nearby competing services to support a TSRA, but it does generate support from the owners of other businesses who stand to gain from the promotion it offers. Whether sufficient support can be generated to make the TSRA possible ultimately depends upon the strength of the backers. A key influence is the degree to which the local economy is driven by groups on either side of the issue and the ability of each group to mobilize political support.

ALTERNATIVE METHODS FOR DIVIDING RESPONSIBILITY

Before the first TSRA was developed, it was not clear what division of responsibilities between Caltrans and the private developer/operator would be most effective toward accomplishing the state's objectives. Two primary alternatives were considered: turnkey and project packaging.

Under the first alternative, turnkey, the private sector would be responsible for the entire project, including land assembly (if necessary), development planning, design, environmental documentation and permits, construction, operation, and maintenance.

Under the second alternative, project packaging, the state would acquire the land, lease portions to private operators (controlling and managing the private construction and operation), and develop and maintain a portion of the site for the public facilities.

A third option, coordination, was briefly considered. Under this option, both the state and private businesses would acquire adjacent sites, with each entity developing and constructing its own facilities. This alternative was rejected because of problems associated with the state maintaining sufficient legal and administrative control over the private development.

Other alternatives consisted mainly of variations on the first two options, with the state participating to varying degrees in the following aspects:

- Development planning;
- Design;
- Obtaining permits;
- Financing;
- On- and off-site improvements (especially roadway improvements and signalization), signing, promotion, specifying and monitoring operation and maintenance standards, pricing control, and inspections;
- Auditing; and
- Possibly, the provision of special services, such as security and liability insurance.

Primarily to attract the widest possible response from proposers, and therefore presumably the most potentially attractive proposal, the San Bernardino TSRA request for proposals allowed for either a turnkey or project packaging approach. At that time, research indicated that a number of large national corporations were reluctant to join forces with one another to provide a mix of food, fuel, and convenience store services as well as bear responsibility for developing the entire site.

The primary reasons for trying to attract large national corporations as tenants in the TSRA development are their demonstrated operating experience at similar sites, proven financial ability to support operations through potential lean years, managerial capability, and the ability of their name to attract a high volume of users and other tenants to the rest area. However, smaller organizations that may be well qualified, though less well known, may offer higher rents to compete with larger national corporations. In fact, Caltrans chose a local organization to develop and operate the San Bernardino TSRA.

Although the proposals indicated that many of the large national corporations preferred not to combine into a joint development/operation venture, it appears that they are now prepared to do so. For this reason, the fact that large national corporations are not considered to be necessary to make a TSRA successful, and because the state's administrative responsibilities are much less for a turnkey project, Caltrans has elected to solicit only turnkey proposals for its future TSRAs.

MONITORING

Following development, Caltrans will monitor these projects to achieve three purposes. The first is to ensure that Caltrans' policies and standards for maintenance, operation, and security are followed throughout the contractual period. Second, Caltrans wants to ensure that the contract terms are met during all phases of development and operation. Third, the department needs to gather information on TSRA use and operations that will be useful in performing feasibility analyses on future TSRA developments.

CONCLUSION

It appears that the approaches used to develop commercial services in new and existing rest areas in California hold great promise. Caltrans has succeeded in obtaining a new operating rest area at a low investment cost and simultaneously gained an asset with the potential for generating significant amounts of surplus revenues that can be used to finance other transportation facilities and services. However, TSRAs are still in an experimental stage.

Caltrans found that relying on a private developer to take responsibility for implementing the development worked well in the first project. Although it is still too early to report on the administrative problems encountered during the project's implementation, so far they have proven to be not much greater than for airspace leases.

The two main obstacles to further development of TSRAs are the federal law prohibiting commercial services on Interstate rights-of-way and local opposition from business operators who fear the effects of additional competition. California has found ways to avoid these obstacles in developing its first TSRA. Given the new federal attitude toward privatization of transportation projects, and the state's willingness to work with local interests to reduce the negative impacts, Caltrans is hopeful that it will gain greater latitude in implementing such projects in the future.

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