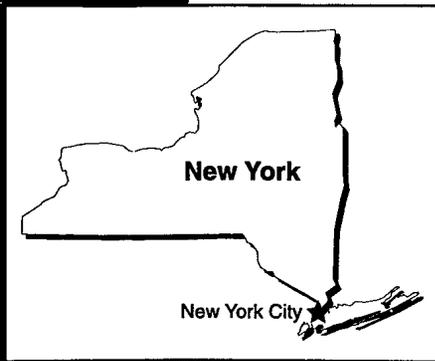


Station Concessions

**Metropolitan Transportation Authority
New York City, New York**

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Metropolitan Transportation Authority

Background

Transit systems have many assets which provide attractive business opportunities to the private sector. One of these assets, real estate in high-traffic stations, can provide retailers with a steady stream of potential customers. Both large and small systems can benefit from the productive use of excess space in transit stations.

Large transit systems serve thousands of people daily and many small systems have central transfer points through which large numbers of people pass. In high-traffic stations transit agencies can raise funds and provide their riders with conveniences such as food, newspapers, flowers, or dry cleaning through concessions.

Case Background

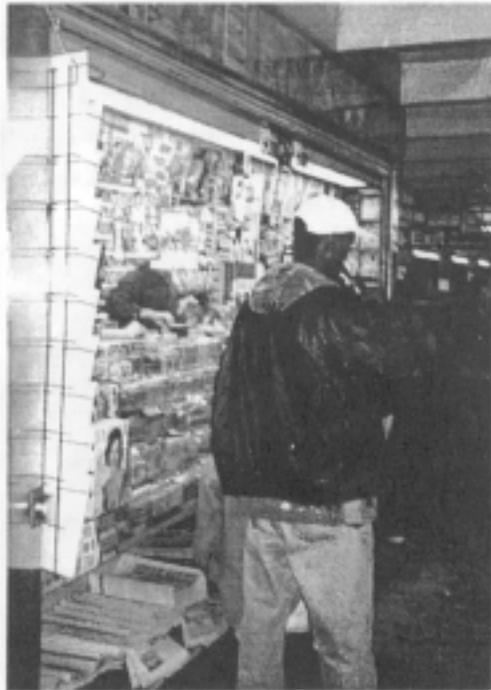
For over a century, the transit system in New York City has recognized the value of the premium real estate it holds. One of the founders of the system, August Belmont, saw concessions as a way to make additional money. When the transit system was purchased by the public sector, the city, and since 1953, the New York City Transit Authority (now part of the Metropolitan

Agency Profile

Service Area	New York City
Modes	Bus, Heavy Rail, Commuter Rail
FY96 Operating Budget	\$5.7 billion
FY96 Capital Budget	\$2.4 billion
Annual Ridership	
Bus	434.7 million
Heavy Rail	1.1 billion
Commuter Rail	Not available
Revenue Vehicle Miles	
Bus	92.5 million
Heavy Rail	309.8 million
Commuter Rail	1.9 million
Fares	
Bus	\$1.50
Heavy Rail	\$1.50
Commuter Rail	\$1.50

Transportation Authority [MTA]), maintained this program to generate revenue from otherwise unused space. This space is licensed to concessionaires — individuals, partnerships, or corporations — who pay rent to occupy space on MTA property.

While concessions can exist at any high-density station, in New York, concessions are concentrated in about one-fourth of the 470 stations of the New York subway system. Concessionaires typically want to rent space in high-capacity stations. In New York, 15 stations carry 25% of the passengers; 56 stations carry 50% of the passengers. The minimum threshold for a station to support at least one store is 5,000 passengers/day. Only the 100 stations with the highest daily ridership have concessions in them.



Newstand

Example of concession businesses include newsstands (90% of MTA concessions), florists, shoe stores, shoe repairs, gift shops, compact disk shops, photo processing stores, and barbers. Up until 10 years ago, MTA also allowed food stands and restaurants, but now prohibits food sales (except packaged foods, e.g. potato chips) in subway stations because of the associated trash and vermin. Currently MTA is trying to attract automated teller machines to the stations. Because of the large number of people that pass through the stations, automated teller machine customers would be

safer in subway stations than on the streets of New York City.

The RFP Process

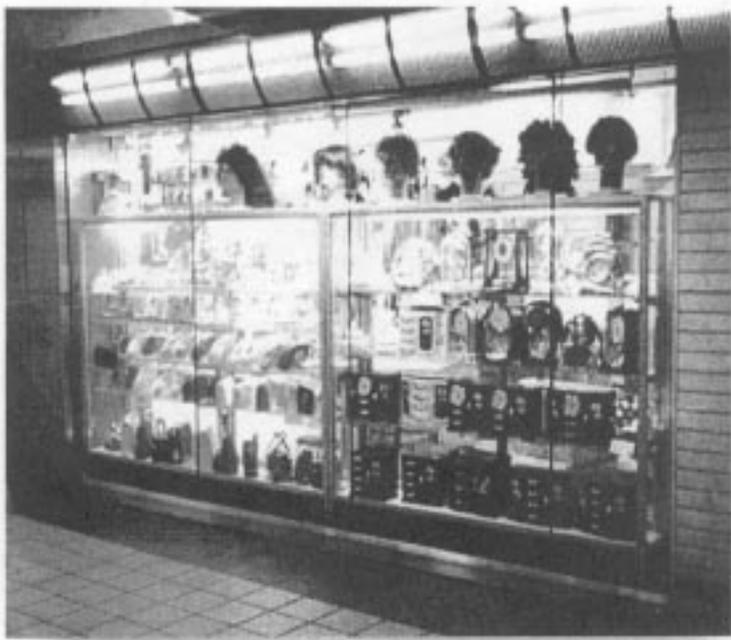
MTA selects concessionaires through a request for proposal (RFP) process. As old rentals expire or MTA permits leasing of new sites, the transit agency sends RFPs to several thousand names on the concessions mailing list, advertises the space in local newspapers, and hangs "For Rent" signs in empty windows. The

purpose of this process is to select the most financially rewarding business to maximize income to MTA.

Proposals must contain the following:

- **Application information statement.** This standard form requests information on the prospective business, including owners and incorporation information; past business experience; other municipal leases or contracts; real estate owned in the state of New York and a history of payment of taxes, assessments, rent, and loans on the aforementioned property; business and bank references; available lines of credit; assets; liabilities; a detailed one-year business plan; and authorization to request a credit report.
- **Proposal compensation form.** This form lists the rent schedule for the five-year period.

"Concessionaires — individuals, partnerships, or corporations — who pay rent to occupy space on MTA property."



Wig store

- **Description of the business.**
- **Description, conceptual drawing (stamped by licensed engineer), and cost estimate for necessary site improvements.**
- **Proposal deposit.** A certified check for the amount of three months of the proposed first year's rent.¹

MTA's real estate department then selects the best proposals based on the following criteria:

- Business experience,
- Financial qualifications,
- Income potential for MTA,
- Wig store
- Operation and management plan, and
- Schematic drawings of required improvements.

Program Structure

Because the primary goal of the MTA is to move people, the real estate department can only use the space in a station for concessions if the use will not interfere with passenger movement. MTA has the usual landlord-tenant problems with maintenance and rent (most stores are "Mom and Pop" operations). As a government agency, MTA finds it hard to rely on the courts to enforce landlord-tenant laws because private individuals often claim oppression by a large, uncaring government agency. Despite these issues, Real Estate is the only revenue positive department in the MTA: annually concessions yield \$2.7 million for the subway system.

There are three key elements to the programs' structure:

- Station improvements,
- Lease term, and
- Rent levels.

Station Improvements

When concession contracts expire, the site typically requires significant reconstruction or rehabilitation. Although MTA may perform some construction on the concession site during station rehabilitation, in four out of five cases, the cost for the new store infrastructure is borne solely by the new concessionaire. Title to the improvements is later transferred to MTA.

MTA informs potential concessionaires that building in subway stations is more expensive than building at street level because material must be brought underground and garbage transported to surface level.

Moreover, construction cannot interfere with passenger movement. For example, an 85-square-foot newspaper stand at the 116th and Columbia Station (on the IRT Broadway/7th Avenue line) cost \$60,000 to build. Part of this cost was a result of the fact that the station is a historical landmark, and no architectural improvements could be made unless they are approved by the local board. In order to recoup the high cost of the stand, the lessee was allowed a longer license term.

License Term

The license term has historically been five years. Last year MTA instituted a new term of five years with a five-year renewal option. This new policy was instituted because often when the lease expired, rental would continue from month to month until the MTA had a chance to remarket the space. A month-to-month lease yields less revenue than a five-year lease because there are no scheduled increases in rent payments.

Rent

MTA assigns rent based on the amount charged to the previous concession adjusted for inflation. The agency also researches the rent levels for comparable commercial space in the city and contacts brokers for price information. As appropriate, rents may be adjusted to reflect market conditions. In addition to the base rent, a rent premium is charged for busy stations. The

old axiom, "location, location, location" holds true: MTA can charge a significant premium for transfer stations and CBD stations.

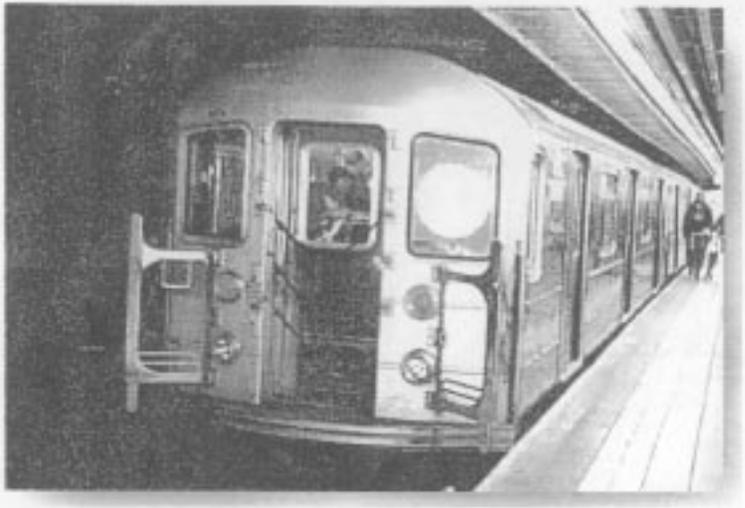
Concessionaires can successfully lower rent payments with adequate justification. For example, a potential concessionaire might agree that a site is worth \$1000 per square foot per month, but might negotiate an escalating schedule of rents due to higher up-front construction costs. The concessionaire might pay \$750 in the first year, \$850 in the second year, \$1,000 in the third year, \$1,150 in the fourth year, and \$1,250 in the fifth year. The total rent paid remains the same, but the cash flow burden on the concessionaire is relieved.

"The old axiom, 'location, location, location' holds true: MTA can charge a significant rent premium for transfer stations and CBD stations."

Lessons Learned

Leasing retail space in transit stations provides an attractive way for a transit system to raise additional funds. The most important lesson an agency can learn is that it is necessary to put concessions where the people are. A transit agency can often double the rent of a stand by moving it 20 feet in the right direction.

It is very difficult for a transit agency to realize the maximum revenue from concessions if they are not a priority. The MTA Real Estate Department could generate more concessions revenue if the success of the program was as high a priority as people movement.



Numerous passenger surveys have shown that concession stands give riders a sense of well-being and security because people are moving and congregating in numbers.

Finally, in order to ensure that a transit system attracts viable retailers who will pay the required rent promptly, it is essential to have a well-controlled RFP process. Proposers must provide a business history and references, bank references, a business plan, and a credit check.

Contact Information

Peter Hine
Metropolitan Transportation Authority
212-878-7395
Barber shop



Barber shop

Endnotes

- 1 Deposits plus interest are returned for the unsuccessful proposals.

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Advertising

**Chicago Transit Authority, Chicago, Illinois
Sun Tran, Albuquerque, New Mexico**

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Advertising

Buses and trains traverse entire cities and metropolitan areas and serve riders in locations (such as downtowns) where strict sign ordinances may prohibit billboards and other types of advertising. When a company advertises on the outside of a bus, it is essentially advertising on a moving billboard. Bus exteriors are the most popular place to advertise in a transit system because of the large number of people who will see the ad. Exterior bus and shelter ads target drivers and pedestrians, rather than transit users.

Advertising on transit platforms and inside transit vehicles targets the transit users.

Since 1989, advertising on transit vehicles and in transit facilities has become more and more acceptable. Transit advertising is significantly cheaper than television advertising and reaches just as many people. Marketing on moving vehicles has three other advantages that transit agencies can sell to potential advertisers:

- moving buses will pass customers, not wait for them to drive by as with a stationary sign;
- transit vehicles can advertise in places where billboards are not allowed, *e.g.* the highly sought-after downtown markets; and
- passengers have no scenery to look at while sitting in subways, so their eyes are inevitably drawn to advertisements inside the rail car.

In Chicago the ads have been so successful in reaching their target markets that 50% — an industry high — of the advertisers advertise again on transit in a twelve-month period. The advertising industry is

starting to realize the potential of transit: this year transit advertising revenues will match billboard advertising revenues nationwide.

Transit revenues from advertising can be attractive, especially in the current funding environment. For example, last year the Chicago Transit Authority (CTA)

"Buses only go where people go."

—John Blunda, TDI

received \$7 million in advertising revenue. Out of a total CTA operating budget of \$790 million, advertising pays for about 1% of the operating costs. While this amount may seem small compared to the total CTA operating budget, it pays for service on a number of routes.



Wrapped bus



Ad on back of bus

New revenue sources can be exciting, but some individuals feel that advertising detracts from the attractiveness of transit vehicles or stations. These citizens may object to the use of a public asset to promote private products, especially tobacco and alcohol.

In this case study, we examine the advertising programs of a large, multimodal transit system, the Chicago Transit Authority, and a small transit system run by the Albuquerque Transit and Parking Department, Sun Tran.



The Experience of the Chicago Transit Authority

Background

Transit advertising has existed in Chicago since the 1900s. Streetcars had ads inside (to reach riders) and outside on the front and back (to reach pedestrians and drivers). A company called Chicago Car handled all of the advertising until the 1940s. In the 1950s, Chicago Car introduced the "side ads" that are now so popular.

In the 1960s, the public sector assumed transit responsibilities in Chicago. Today there are ads on and in 2,218 buses, in 1,217 trains, and at all 143 rail stations except those located on expressways.¹ Some El tracks also have billboards on them, but CTA does not allow ads on bus shelters for aesthetic reasons.²

Implementation

CTA outsources its advertising program because it feels that industry specialists can produce more revenue than CTA could itself. Every five years, a competitive bidding process is used to select the contractor that submits the most financially attractive bid. The current advertiser, Transportation Displays, Incorporated (TDI), is a major transit advertising company which handles

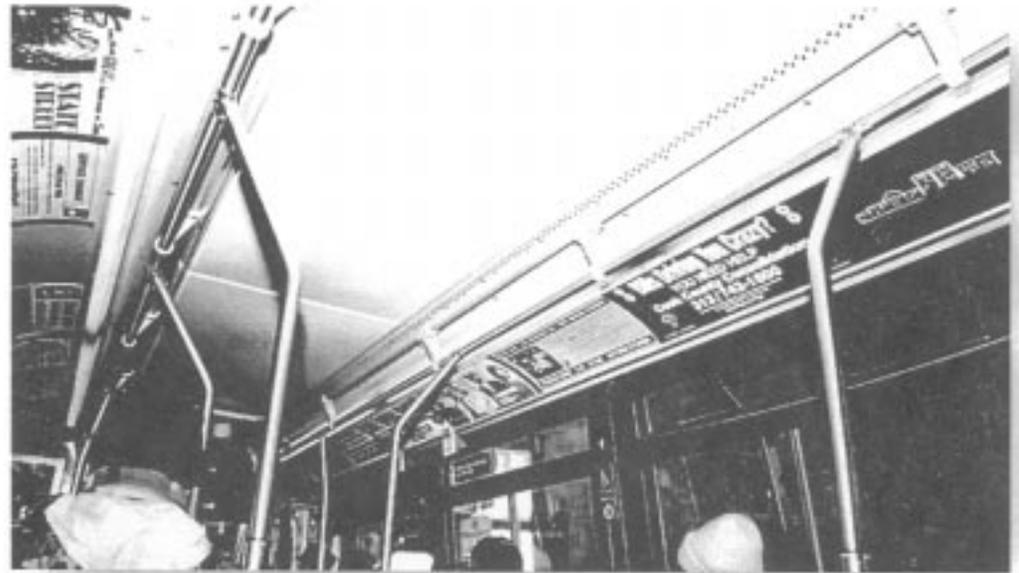
Agency Profile	
Service Area	Chicago and nearby suburbs
Modes	Bus, Heavy Rail
FY96 Operating Budget	\$790.5 million
FY96 Capital Budget	\$290.3 million
Annual Ridership	
Bus	306.1 million
Heavy Rail	135.4 million
Revenue Vehicle Miles	
Bus	76.6 million
Heavy Rail	63.5 million
Fares	
Bus	\$1.25
Heavy Rail	\$1.50

advertising in cities such as Chicago, New York, and London. TDI draws from its 20 years of advertising experience to design and run all aspects of CTA's advertising program. CTA only provides the vehicles and signage space in stations, yet it receives the greater of guaranteed minimum revenue (about \$5 million per year) or 60% of TDI's net billings.

CTA feels that choosing the right contractor is the key to an advertising program. TDI was selected due to its 20 years of experience, dedicated sales force, and global contracts with transit agencies. This global network allows TDI to access national and international marketing campaigns.

Program Structure

TDI and CTA have a five-year contract with a five-year renewal option. TDI is responsible for finding advertisers, installing ads, maintaining the ads and equipment, collecting receipts, and removing outdated ads.



Advertising inside of bus



King size ad on outside of bus

Each month, TDI sends CTA a check for 60% of its net advertising billings (gross billings minus 15% commission minus uncollected accounts). If at the end of the year 60% of the net billings is less than the guaranteed minimum amount specified in TDI's contract, TDI pays CTA the difference.

Annually, CTA receives \$7 million from the program and can use this money for any purpose, including as a local match for federal grant funds. In addition to cash, the contract states that CTA may request



Rail station advertisement

up to \$250,000 in marketing services from TDI. This service utilizes Geographic Information Systems and other computer programs to analyze bus routing, fares, and system ridership. The service can also be used to target CTA's own advertising and promotions to increase ridership.

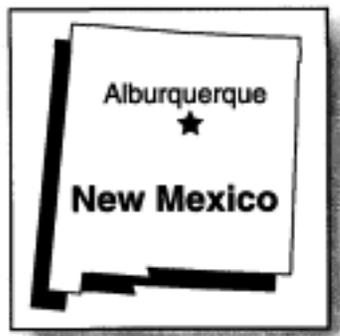
Key Contractual Language

CTA suggests including language in the contracts between a transit agency and its vendor or the vendor and an advertiser to encourage the promotion of transit in the ads. For example, for a special event, the

advertiser can stress the use of transit: "Take bus route X to the boat show at McCormick Place"; "Airline X to 30 destinations from Chicago — take the El's Blue Line to O'Hare Airport;" or " Bring your transit pass to the opening of Movie X and get \$1 off admission."

Another CTA suggestion is to include in the contract a well-defined schedule for replacement of outdated ads, so as not to lose revenue.

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The Experience of Sun Tran

Background

The City of Albuquerque's Transit and Parking Department operates the local transit system, Sun Tran. Sun Tran's 123 buses provide vehicles for advertising which reach the population of the entire metropolitan area.

The advertising program began a number of years ago when the city council was looking for new ways to raise revenue from the transit system. Sun Tran's current advertising vendor is Templeton Marketing Services. Although the contract is rebid every four years, Templeton Marketing Services has won the contract since 1992.

Program Structure

Templeton Marketing Services sells advertising space on Sun Tran's buses by aggressively calling companies which may be looking for advertising space. Advertisers pay per panel per month according to the fee schedule on the following page. Sun Tran receives a share of Templeton Marketing Services' gross billings (equal to about \$100,000 per year). This revenue equals

Agency Profile	
Service Area	Albuquerque
Modes	Bus, Demand Response
FY96 Operating Budget	\$17.4 million
FY96 Capital Budget	\$1.9 million
Annual Ridership	
Bus	6 million
Demand Response	147,348
Revenue Vehicle Miles	
Bus	3.7 million
Demand Response	1.2 million
Fares	
Bus	\$.75

about 5% of Sun Tran's 1996 capital budget. Templeton Marketing Services also purchases local media time on behalf of the transit agency. Thus advertising revenue is used directly for transit marketing to increase Sun Tran's ridership.

	King Size Displays				Queen Size Displays				Tail Light Displays				New Tail Displays				Interior Displays			
Board Size	30" x 144"				30" x 88"				21" x 72"				17" x 48"				11" x 28"			
1 Month	\$136/month				\$106/month				\$126/month				\$100/month				\$7/month			
3 Month	5% Discount				5% Discount				5% Discount				5% Discount				—			
10+ Boards	10% Discount				10% Discount				10% Discount				10% Discount				—			
Showing	100	75	50	25	100	75	50	25	100	75	50	25	100	75	50	25				
# of Units	45.50	35	25	15	60	20	45	30	60	20	45	30	60	20	45	30				

The Importance of an Aggressive Advertising Vendor

Previous advertising vendors for Sun Tran were not as aggressive sellers nor as innovative as Templeton Marketing Services. Since Templeton Marketing Services took over advertising for Sun Tran, advertising revenues have climbed.

For many years, the system attracted only local advertisers such as stores, seasonal ads for ski equipment, radio stations, and non-profit services. Templeton Marketing Services felt that it could



Advertising Innovations: Wrapped Vehicles

The latest craze in transit advertising is fully wrapped buses and rail vehicles (wraps). These wraps generate revenue above and beyond traditional advertising. Before the introduction of wrapped buses, Citibus in Lubbock, Texas received \$300 annually in advertising revenue. With the introduction of wrapped buses in 1997, the system will generate \$150,000 of advertising revenue, a 50,000% increase! In Chicago, a traditional advertisement on an exterior bus side generates \$3,120 a year or \$260 per month; a wrapped bus generates \$84,000 a year or \$7,000 per month. The Massachusetts Bay Transportation Authority wraps light rail cars for \$10,000 a month.



Cost Reductions

Not only do wrapped buses provide revenue, but they can also lower maintenance costs. The advertiser pays for the cost of the wrap design, application, and maintenance. Since a wrapped bus or rail car does not need to be painted, the associated maintenance costs are avoided. The wrap material also acts as an insulator that keeps the buses cooler in summer and warmer in winter, further reducing operating costs.

Community Feelings

Community residents like the wrapped buses. As the buses take on new and exciting designs of products such as tennis shoes, bread, or houses, residents enjoy spotting the new designs. Some residents have indicated that they specifically wait to take wrapped buses over traditional buses.

The Premium Medium

With all this excitement, transit agencies may find it difficult not to convert too many buses or rail vehicles to wraps. In Mobile, Alabama, the transit agency wrapped too many buses and no longer has the ability to market wraps as different or special. Transit agencies should instead market the wrapped buses as a premium medium and keep a waiting list for advertisers.

increase billings by attracting national advertising campaigns (for example, a Powerade sport drink ad). To interest national advertisers in Albuquerque, Templeton Marketing Services contacted the companies that purchase outdoor advertising for national companies to discuss the consumer market in Albuquerque. The clients of these outdoor advertising companies that have advertised in Albuquerque have been so pleased with the advertising results, that the outdoor advertising buyers now recommend advertising on Sun Tran to other clients. These national advertising campaigns have helped increase advertising revenues.



Sun tran's quality customer service has attracted new advertisers to transit. The personal attention to accounts, creative and quality artwork, and prompt installation of ads by Templeton Marketing Services has increased demand for ad space. Templeton Marketing Services has increased revenues by 10 to 15% annually.



Lessons Learned

The experiences of CTA and Sun Tran have shown that creative transit advertising can provide a system with a new or expanded revenue source. The funds generated may be small, but often cover the costs of service on a few routes in the service area. By following three key points, a transit agency can increase its advertising revenues:

- enlist an aggressive advertising vendor,
- include penalties in the vendor's contract for unfilled space, and
- reference the transit system in ads as much as possible.

Importance of Vendor Selection

Hiring an aggressive company to find customers for transit advertising space is crucial to raising revenue. How aggressively a vendor markets space directly affects the revenue that a transit agency will receive.

To this end, agencies can include an explicit schedule in the vendor contract detailing how long it has to replace outdated ads and establish a penalty schedule for delayed ad replacement to guard against revenue loss.



Useful Contractual Phrases

Many vendors like to advertise using national brands with predesigned print ads for national campaigns. With these advertisers, promoting transit in the ads is not always possible. In a transit agency's contracts with its advertising vendor, try to specify that in the vendor's dealings with advertisers, the vendor should try to structure ads to promote transit ridership. For example, for a special event, the advertiser can stress using transit to travel to the event: "Take bus route X to the boat show at the Convention Center."

Contact Information

Ron Weslow
Chicago Transit Authority
312-514-4271

John Blunda
Transportation Displays, Incorporated, advertising sales
company for Chicago Transit Authority
312-280-7829

Don Templeton
Templeton Marketing Services, advertising sales company
for Sun Tran
505-898-3757

John Wilson
Citibus
806-767-2380

Endnotes

- 1 There are ads in all stations except those located on the expressways because of federal regulations regarding billboards on interstates.
- 2 CTA has considered advertising on bus shelters to pay for their maintenance, but aesthetic arguments have prevailed.

Leasing Right-Of-Way

**Bi-State Development Agency
St. Louis, Missouri**

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Bi-State Development Agency

Background

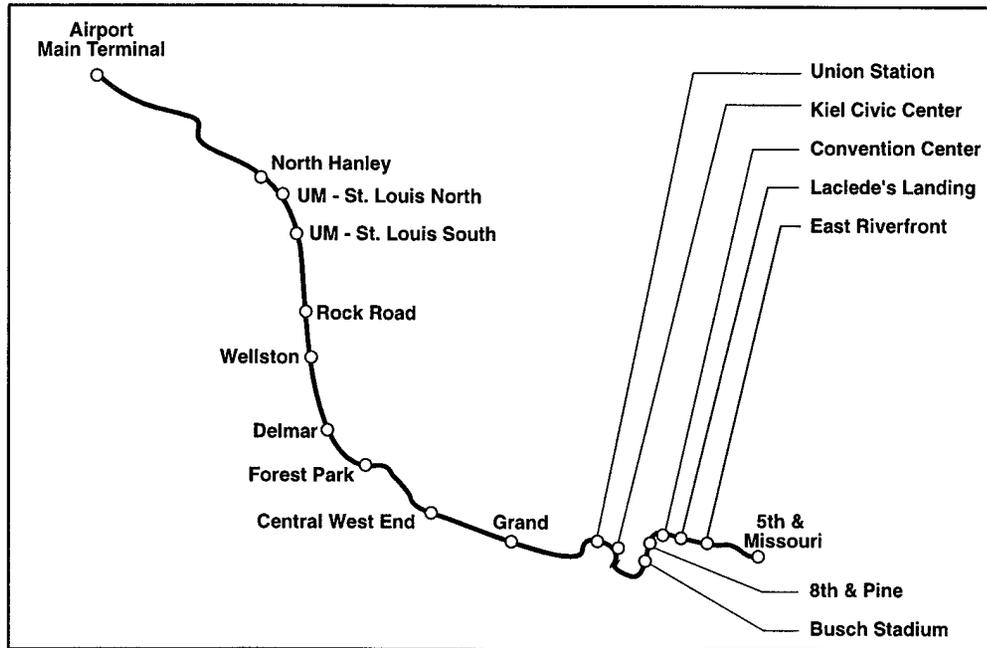
Right-of-way (ROW) is a transit resource that is very valuable to telecommunications, utility, and other companies with linear networks. Companies in the telecommunications industry are expanding voice, data, internet, and video services over fiber-optic networks. Entry into new local markets is accomplished through expanding a company's own cable network, forming agreements with companies which already own an existing local network, or acquiring companies which cover the interested area.

Transit agencies can take advantage of the potential value of ROW to telecommunications providers and other private sector companies. In this case study, we examine Bi-State Development Agency's (BSDA's) leasing of ROW for use by a telecommunications company interested in expanding its local cable network.

BSDA provides transit to residents of the St. Louis metropolitan area in two states: Missouri and Illinois. The bus and paratransit systems serve over 2.5 million people in metropolitan St. Louis and travel over 27 million vehicle miles in revenue service. In 1993, BSDA

Agency Profile	
Service Area	Metropolitan St. Louis
Modes	Bus, Light Rail, Demand Response
FY96 Operating Budget	\$113.8 million
FY96 Capital Budget	\$108.6 million
Annual Ridership	
Bus	37.6 million
Light Rail	12.9 million
Demand Response	332,312
Revenue Vehicle Miles	
Bus	19 million
Light Rail	1.4 million
Demand Response	2.6 million
Fares	
Bus	\$1.00
Light Rail	\$1.00
Demand Response	\$3.00

began to operate light rail service, called Metrolink, in addition to the bus and van service. The 18-mile-long light rail system has 18 stations which connect the airport, universities, residential areas, and downtown St. Louis. BSDA recently received funding to double the



Service area

length of the light rail system and will add eight new stations to serve Illinois.

During Metrolink construction, BSDA requested proposals for a 20-fiber command and control system for the light rail system. Several telephone/data service companies saw this Request for Proposals (RFP) and contacted BSDA to discuss the possibility of mutual use of BSDA's right-of-way.

Implementation

Given the demonstrated interest of telecommunication companies in expanding their fiber-

optic networks in the area, BSDA decided to pursue sharing its light rail right-of-way with a private sector telecommunications company. Because BSDA was able to use the fiber-optic cable for its own command and control system, it saved the capital which would have otherwise been required. In addition, the transit agency gained a new annual revenue source.

In its search for potential partners, the transit agency first approached Southwestern Bell Telephone, the local telephone company. Unfortunately, Southwestern Bell was uninterested in the proposal. In August 1991, BSDA canceled the original RFP for a 20-fiber command and control system and issued a new RFP soliciting private partners for ROW use. Four telecommunications companies requested the RFP.

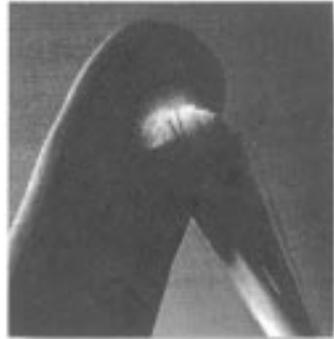
In the RFP, BSDA required that the private partner provide the 20 fibers it would need; Other requirements were that the proposer



A Snapshot of the Telecommunications Industry

Deregulation and recent legislation are accelerating competition to provide new services such as voice, data, internet, and video communications over expanded fiber-optic networks. Companies enter into new local markets by expanding their own cable network, forming agreements with other companies that already own an existing local network, or acquiring companies that cover the expansion area.

In the expansion process, telecommunications companies favor fiber-optic cable over traditional copper-wire lines. Some advantages of fiber-optic cable use include: high capacity; small, light-weight cables; easy installation; immunity to electrical and radio interference; and difficulty in wire tapping. Transit ROW is desirable because it provides long, linear stretches of ROW with a single owner.



- purchase the cable,
- pay any installation costs above \$2.28 per lineal foot (BSDA's expected cost for the installation of a 20-fiber cable to serve the Metrolink system),
- install the cable in accordance with BSDA's construction schedule,
- pay BSDA a ROW rent of at least \$1 per foot of cable along the 90,000-foot light rail system, and

- lease BSDA the 20 fibers necessary for the Metrolink command and control system for \$1 per year.

BSDA received three proposals for the project with options of 72-, 96-, and 144-fiber cables to run the length of the light rail system. BSDA chose the winning proposal based on the construction costs that would be saved, long-term revenue provided, and the earnestness of the proposing company.

Program Structure

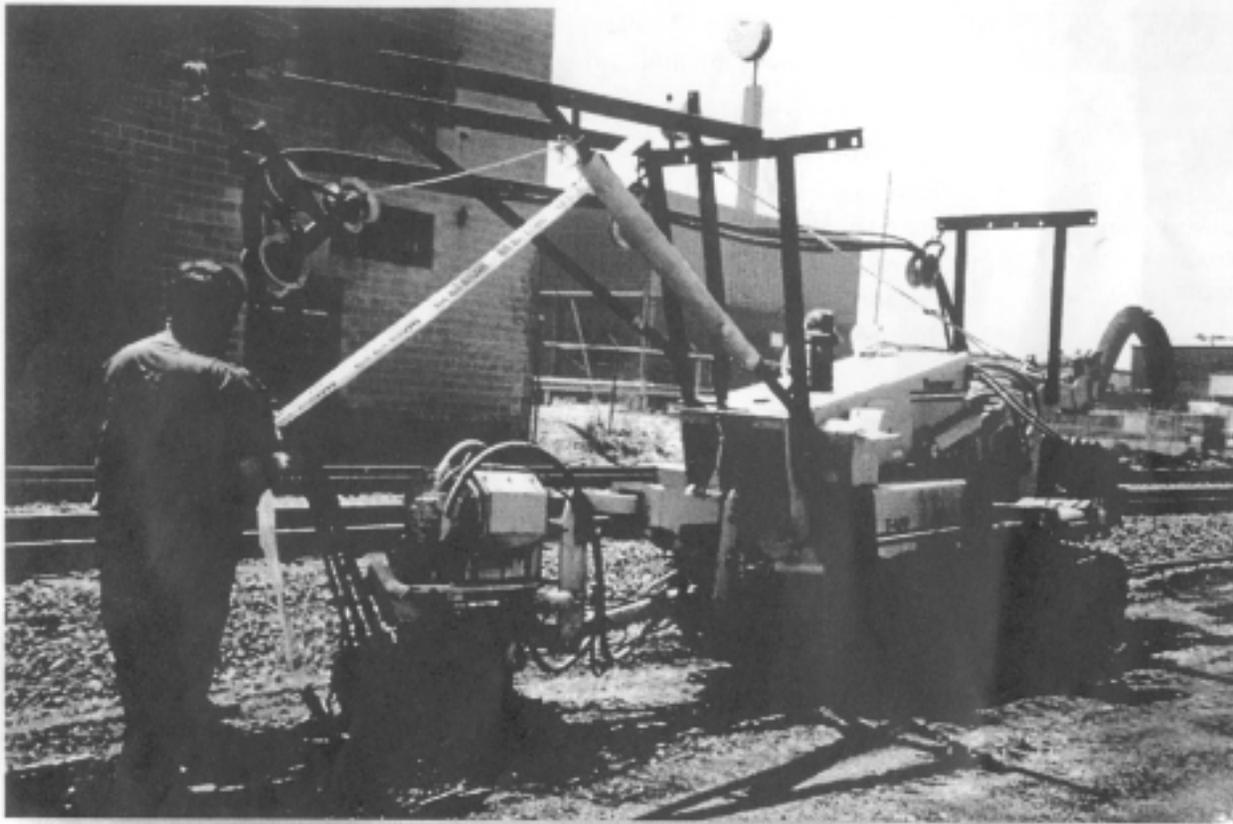
The winning RFP was submitted by WorldCom. Under this agreement, BSDA will receive the use of 20 fibers for a total cost of \$1 a year for the lifetime of the agreement and receives annual lease payments as shown in the table below. The first year's lease payment was expected to total \$90,000. The agreement will last 25 years with three renewal options, and the transit agency controls the access of WorldCom to cable.

Because BSDA is paid by the activated foot, the faster the cable is activated, the more revenue BSDA receives. In future contracts for a ROW lease for the Metrolink expansion, BSDA plans to include an activation schedule, including penalties for slower activation, to protect against revenue loss.

Lease Fees

Year	Payment Per Active Linear Foot
FY 1995	\$1.55
FY 1996	\$1.60
FY 1997	\$1.65
FY 1998	\$1.70
FY 1999	\$1.75
FY 2000	\$1.80
FY 2001	\$1.90
FY 2002	\$2.00
FY 2003	\$2.10
FY 2004	\$2.20

* For succeeding years, the cable rent is tied to the "Consumer Price Index for All Urban Consumers, All Cities, All Items."



Installation of fiber-optic cable

BSDA also receives lease income for the entire year up front. In 1995, the first year of operation, WorldCom activated more cable than expected, and BSDA received \$96,500 (for 62,256 lineal feet of activated cable). By 1997, 10,000 more feet of cable will be activated for a total of \$125,800 in revenue. Over the long term, the ROW lease creates a dedicated revenue stream which BSDA can use for operations or capital expenses or to match future federal grant dollars.

WorldCom's ownership of the cable preserves annual federal operating funds in two ways. BSDA has no cable maintenance costs and does not need to employ any fiber-optics experts since it relies on the MFS WorldCom for the expertise.

Financial Results

The number one goal of BSDA for this lease was to preserve FTA funds during the Metrolink construction. The public-private partnership has enabled BSDA to save \$206,000 of the FTA capital grants and the associated 20% local match because BSDA did not have to purchase the cable itself. This grant money can be used for other essential capital costs that BSDA incurs.

Lessons Learned

The example of BSDA demonstrates how ROW can generate revenue for a transit system from the telecommunications industry during a period of expansion and beyond.

BSDA has proven that a transit agency can find a private company to

- purchase fiber-optic cable,

- install the cable,
 - make lease payments for ROW in which to lay the cable, and
 - maintain the cable
- in connection with a rail transit system.

Contact Information

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314-982-1547

Mary Moriarty
Bi-State Development Agency
314-982-1739

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Joint Development

**Washington Metropolitan Area Transit Authority
District of Columbia**

**Metro-Dade Transit Agency
Miami, Florida**

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Joint Development

Summary of Federal Register Notice: March 14, 1997 (Volume 62, Number 50)

The policy enacted permits transit agencies to retain all rent from joint development on land acquired with federal funds and applies to all transit property (even land that was acquired prior to its enactment). Each joint development project must create a revenue stream or single payment for which the present value exceeds the fair market value of the property. The transit agency must also retain control over the property and development through easements, contract clauses, deed restrictions, or other methods. The market value of the property is determined via the appraisal method of "highest and best transit use." Highest and best transit use means that the joint development project is the best project for the transit agency in terms of ridership generation, community needs, and revenue.

To be eligible, FTA requires that each project:

- includes a transit element,
- involves development or other private investment, and
- allows individuals using the development to easily access transit.

Transit agencies often have significant holdings of property in high-rent, downtown areas and can use joint property development as an additional revenue source. Developers will pay transit agencies for permission to build retail, commercial, and residential structures on transit land. Up until 1997, transit property bought with federal dollars could only be used for transit purposes (otherwise the federal funds reverted back to the United States Treasury). Recent policy changes by FTA have made joint development more feasible. FTA now considers revenue from joint development as income that transit agencies can keep — without jeopardizing the revenue stream generated.

"Recent policy changes by FTA have made joint development more feasible by changing the rules regarding the use of land purchased with federal funds."

In this case study, we examine two joint development programs. The Washington Metropolitan Area Transit Authority (WMATA), serving the Washington, D.C., metropolitan area, has been undertaking joint development projects since the 1970s. The Metro-Dade Transit Agency (MDTA) provides transit service to the Miami metropolitan area. The joint development program in Metropolitan Dade County (Dade County) is much smaller and provides insight for transit agencies that want to establish a joint development program.



Washington Metropolitan Area Transit Authority

Background

WMATA provides bus, paratransit, and heavy rail service to Washington, D.C., and suburban jurisdictions in the states of Virginia and Maryland. During its heavy rail system (Metrorail) construction in the 1970s, WMATA initiated its joint development program. Since that time, its portfolio of projects has grown significantly to include developments at 15 stations.

WMATA defines joint development as a lease of agency land near rapid transit stations. The transit agency actively solicits joint development projects for its heavy rail stations. These projects encourage joint development through the leasing of land and air rights over stations or connection and cost sharing agreements with properties on non-WMATA owned land surrounding the transit stations. In exchange for building a connection to a WMATA station, property owners grant WMATA easements, contribute to station construction costs, and pay annual connection fees. This development strategy increases ridership and therefore farebox revenue providing WMATA with an income stream through lease payments.

Agency Profile	
Service Area	Washington, D.C. Metropolitan Area
Modes	Bus, Heavy Rail
FY96 Operating Budget	\$654.8 million
FY96 Capital Budget	\$576.6 million
Annual Ridership	
Bus	107.8 million
Heavy Rail	145.7 million
Revenue Vehicle Miles	
Bus	41.2 million
Heavy Rail	43.4 million
Fares	
Bus	\$1.10
Heavy Rail	\$1.10

WMATA's joint development program has three goals:

- increase ridership,
- create new revenue sources, and
- help the localities "recapture a portion of past financial contributions and continue making



subsidy payments by expanding the local property tax base by adding value to local revenue."¹

Implementation

During land acquisition for Washington, D.C.'s heavy rail system, WMATA acquired all property anticipated for future expansion. This policy saved money in the long term because land was steadily increasing. The land purchases were funded from four sources:

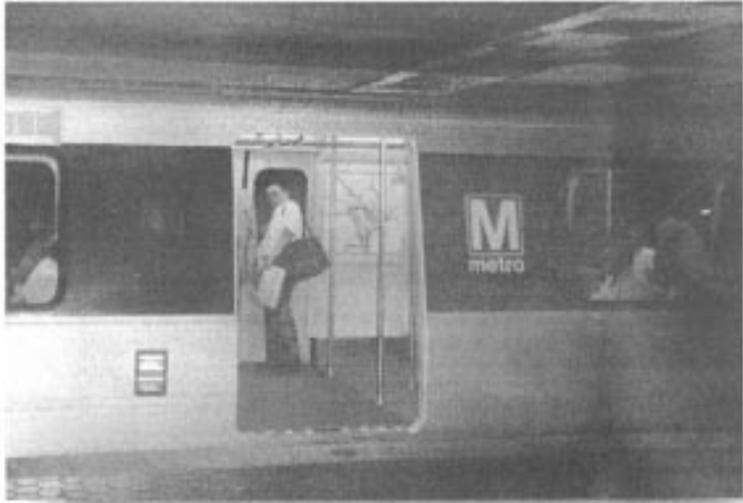
- a direct congressional appropriation (2/3 federal and 1/3 local match),
- bonds,
- Highway Transfer Funds, and
- Stark-Harris Funds.

Unlike the FTA/UMTA funds used to acquire land for most transit systems, none of this money was required to be returned to the U.S. Treasury if the land was not directly used for transit (according to pre-1997 federal transit policy).

During the construction of the Rosslyn Station in Arlington, Virginia, a developer approached WMATA, proposed development over part of the station, and asked for the air rights to land that was being used as a bus turnaround. This agreement became WMATA's first joint development project.

In the mid-1970s, a developer approached WMATA for a land lease to construct a building

Service area



over the Farragut North Station. The developer proposed an office and retail complex with no parking; tenants would need to use the rail system. This lease now generates \$600,000 per year for WMATA, and payments will be increased to \$1 million in 2000. This successful project opened the eyes of Washington developers to the value that proximity to the Metrorail system can bring to a location.

Soon developers were lobbying the WMATA board for joint development at many rail stations, and the board decided to establish formal joint development procedures. In 1994, WMATA made a serious effort to define the future of the joint development program as cuts in federal funding made joint development revenues that much more important. In 1995, a committee decided that the program needed to be more private sector friendly with fewer procedures and shorter project review time.

Program Structure

Four parties are responsible for joint development at WMATA: the WMATA Board of Directors, the general manager and staff, localities, and developers.

The WMATA Board oversees and approves the *Joint Development Work Program* in addition to any other agreements with developers. The WMATA general manager is responsible for the program's management and administration. The local jurisdictions help plan and coordinate the projects, comment on and review the *Joint Development Work Program* and RFPs, and assist WMATA in conducting joint development studies. The developers propose (or respond to an RFP for) a development and help with station area planning.

The Joint Development Work Program

WMATA and the local jurisdictions annually prepare the *Joint Development Work Program* which lists

"During the construction of the Rosslyn Station in Arlington, Virginia, a developer approached WMATA, proposed development over part of the station, and asked for the air rights to land that was being used as a bus turnaround. This became the first joint development project."



This development at the Ballston Station includes condominiums, a Hilton Hotel, retail shops, the heavy rail station, and a bus transfer facility. It generates \$400,000 per year in guaranteed rent.

all joint development sites, their descriptions, and their current status. To gather the necessary information, WMATA performs physical inspections and evaluations

"WMATA collects nearly \$6 million in joint development revenue each year."

of each site. By March 31 of each year, the WMATA Real Estate department writes a draft *Joint Development Work Program*. The localities have 15 days to review the

program and submit comments to WMATA, which incorporates the comments into the document. Finally, the General Manager approves the document by June 1, and the WMATA Board of Directors approves the work program and allocates funding by June 30.

The Request for Proposal Process

WMATA typically issues an Offering Document, or a Request for Proposals, for Development. This document is prepared by WMATA, but also includes comments from local jurisdictions. After being approved by the general manager, the RFP is advertised to the public in local and national newspapers for two weeks. WMATA holds a pre-proposal conference during the preparation period, 30 to 90 days from the date of the initial offering. A contracting officer is assigned and appoints a panel which recommends the best proposal. The criteria examined are



This exit from the Metro Center Station leads to a Hyatt hotel, convention center, and office building.

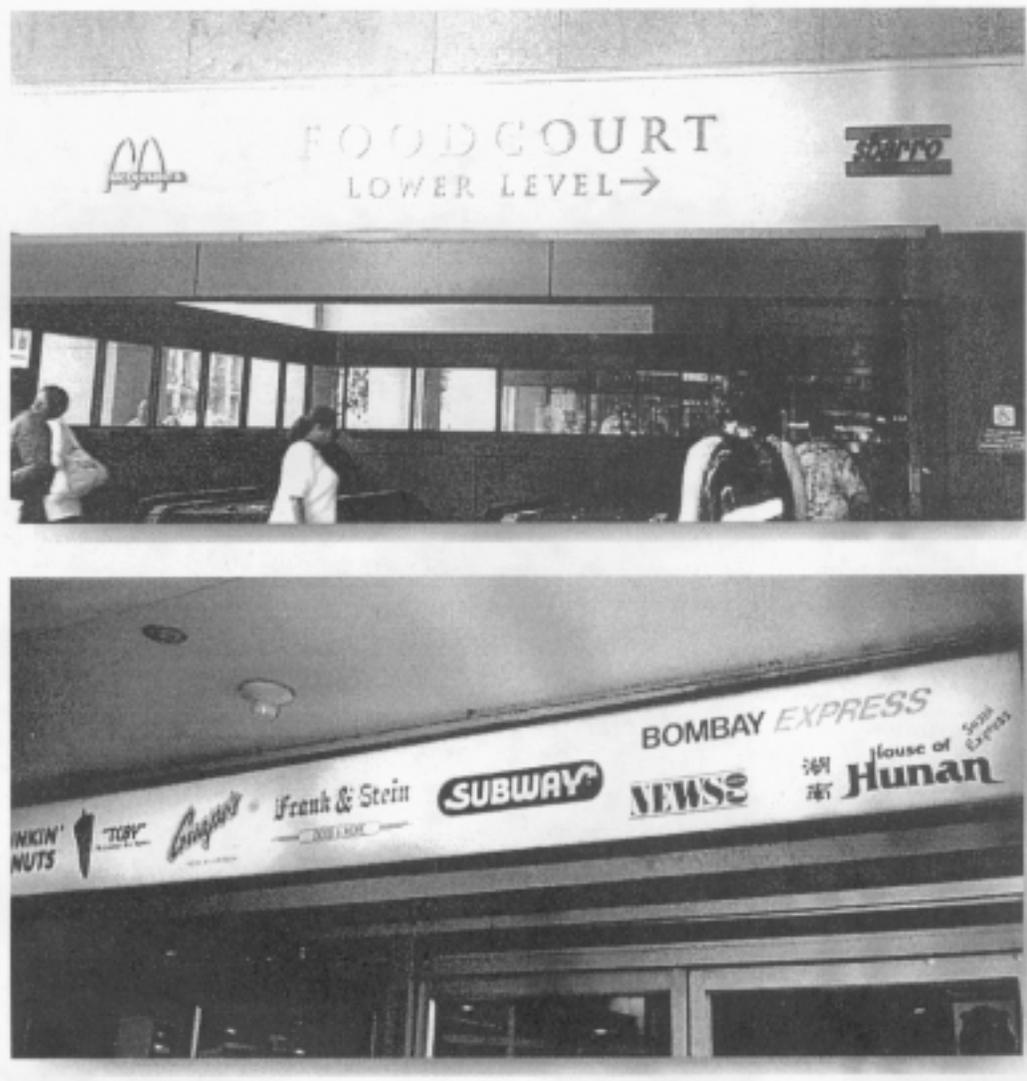
- financial viability of project (based on proposer's financial capability, resources, and experience),
- effect on ridership, and
- amount of revenue generated for WMATA and the local jurisdiction.

The information that WMATA requests is:

- **Business structure of proposer;**
- **Project organization:** organization chart, resumes, and description of the responsibilities of subcontractors;
- **Business experience:** references, material on similar projects undertaken, and major tenants in current projects;
- **Financial capability:** credit references, audited financial statements, and sources of debt and equity raised for earlier projects;
- **Financial proposal:** financing structure, letters of financial support from financial institutions, breakdown of project costs, ten year pro-forma cash flow analysis, planned use schedule, and assumptions;
- **Transportation effects:** ridership forecasts, trip generation, and circulation plans within the development;
- **Local tax base effects:** taxes generated, jobs created, location and description of amenities, and the cost of transit facilities provided by the developer; and
- **Revenue for WMATA:** structure of WMATA's share of the revenue.



This development at the Friendship Heights Station paid 10 years of its rent up-front.



This exit from the Farragut North Station leads to a food court.

WMATA then negotiates with the best offer(s). The board makes the final determination of the winning proposal and contract.

Contract Structure

The initial lease term for most projects varies from 50 to 60 years with an option for renewal to a 99-year term. Rent is structured to include guaranteed revenue and "bump up rent." Because the lease is unsubordinated, the guaranteed portion of this revenue is received by the system, even if the developer declares bankruptcy. The "bump up rent" is paid for premium locations (such as downtown stations) so that WMATA can realize the increased value to its property as the downtown area develops into prime real estate space. Developers can pay rent up front or annually. WMATA invests the up-front rent payments and receives 10-15% interest annually on these holdings.

Financial Effects

WMATA collects nearly \$6 million in joint development revenue each year for a total of \$60 million since the program began. Additional revenues of \$55 million are anticipated through 2002 based on the development of new projects.

In addition, new development at downtown and suburban stations has increased ridership which leads to additional passenger revenue. Downtown developments provide model splits of more than 60 percent transit and 25 percent in the suburbs. Research shows that a 20,000-square-foot downtown office building generates 300,000 trips annually, which provides WMATA with \$500,000 in revenue.

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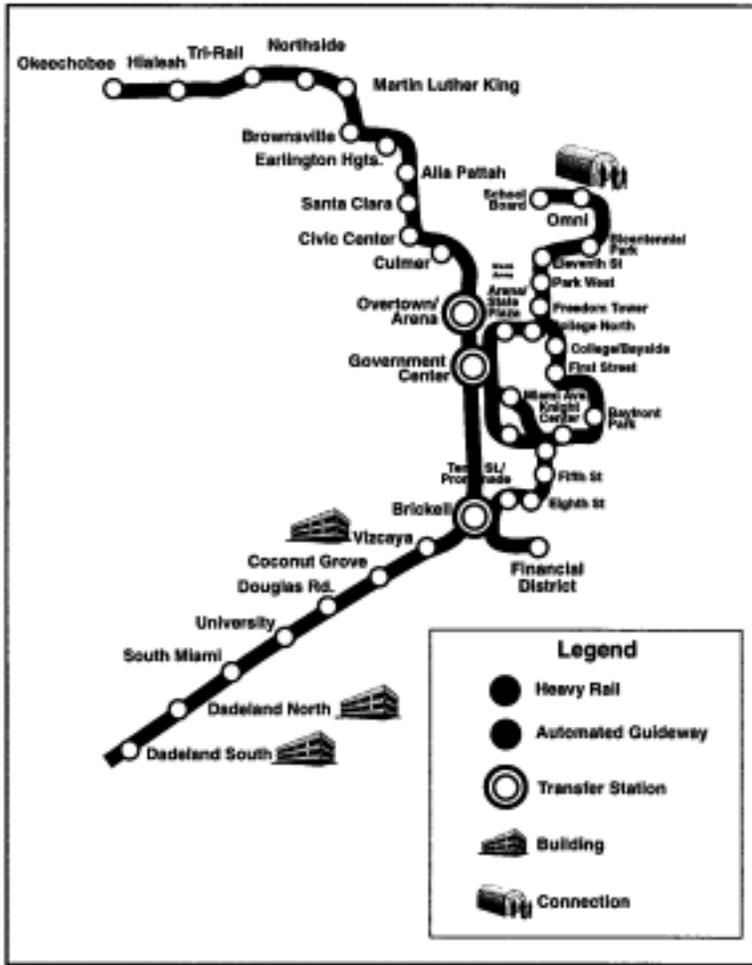
Metro-Dade Transit Agency

Background

MDTA, the local transit provider for the Miami, Florida metropolitan area, is a department within the Dade County government. The agency provides bus, demand response, heavy rail (Metrorail), and automated guideway (Metromover) transit for Dade County. During construction of the Metrorail system, MDTA purchased excess land around many of the stations. When considering development on this land, MDTA works with local municipalities to determine the zoning and building codes. MDTA leases the excess land at these rail stations to private sector developers and uses the revenue generated by the development to support the transit system.

In the past, MDTA's joint development program was reactive. The agency waited until the real estate market in the station's area attracted developers' interest before soliciting joint development projects at a transit station. Only after MDTA was approached by developers would its leasing department request proposals for joint development projects. MDTA currently has three contracts for joint development projects: two with for-profit developers and one with a non-profit entity.

Agency Profile	
Service Area	Metro Dade County
Modes	Bus, Heavy Rail, Automated Guideway, Demand Response
FY96 Operating Budget	\$198.9 million
FY96 Capital Budget	\$43.6 million
Annual Ridership	
Bus	61.4 million
Heavy Rail	14.4 million
Automated Guideway	4 million
Demand Response	850,000
Revenue vehicle miles	
Bus	22.9 million
Heavy Rail	5.9 million
Automated Guideway	844,000
Demand Response	8 million
Fares	
Bus	\$1.25
Heavy Rail	\$1.25
Automated Guideway	\$.25
Demand Response	\$2.50



Service area



Most land surrounding the Dadeland Mall (pictured here) is already built up, with little room for further construction.

Implementation

In 1978, Dade County passed an ordinance which establishes a Rapid Transit Zone along the entire length of the heavy rail system. This zone is controlled by the county, but local jurisdictions are included in development negotiations. The ordinance defines the Dadeland Subzone and discusses the mixed use developments allowed. After this ordinance was passed, MDTA created an Office of Leasing which employs five people who manage and market the joint development sites.

The Dadeland South Site

The first joint development project that MDTA became involved in is located at the Dadeland South

The goal of the joint development program is to increase:

- density around stations,
- system ridership, and
- revenue.

Station. During the construction of the system, MDTA needed to purchase land for this station. A developer, Green Dadeland Station, Limited, owned the land and proposed a "land swap" with MDTA. The developer donated the land to the transit agency in exchange for the right to develop a hotel, office complex, and retail stores on the site. The developer also financed and built a 1,650-space parking garage. MDTA owns 1,000 spaces and the remaining 650 are reserved for the office complex. Because the spaces were financed through the developers issuance of development bonds, the bond issue did not count against MDTA's debt financing limits.

The Dadeland North Site

The Dadeland area is built up with shopping sites, offices, and car dealerships and is convenient to suburban residents. The area's main attraction is the Dadeland Mall, the busiest mall in the southeastern United States. Due to lack of other available space in the area and proximity to Metrorail, MDTA was approached by developers who wanted to build on the station site.

After this show of interest by developers, MDTA issued RFPs for joint development in timed stages: the project has a number of phases, and the developer has a time limit for how long it can take to build each phase.

Program Structure

The Dadeland South Project

The Dadeland South Station development, called the Datran Center, began in the early 1980s and is a four-phase project:

- Phase I — hotel,
- Phase II — retail shopping center,
- Phase III — offices, and
- Phase IV — convention center.

The first three phases are complete. The developer pays the complete costs for the development's construction and maintenance; MDTA receives rent for the property.

The Dadeland North Project

The second project, at the Dadeland North station, is a three-phase project:

- Phase I — retail shopping center,
- Phase II — hotel, and
- Phase III — offices.

In 1994, the developer and MDTA signed a land lease contract for this development. The lease runs from 1994 to 2093. Phase I must be built within 5 years of the contract signing, Phase II within 10 years, and Phase III within 15 years, but each phase will probably be built much sooner due to demand in the area. Phase I opened in Fall 1996.

Financial Structure

In order for the developer to recover cost and profit, these leases are for a 99-year term. For each development, MDTA receives the greater of a guaranteed minimum rent or a percentage of the gross profits, both of which increase over time. The lease payments are unsubordinated. The following examples illustrate the financial arrangement for the Dadeland North development:



The Dadeland South Station development consists of a hotel, two office buildings, and shops on the lower level. A convention center will be built here in the future.

Datran Center generated nearly \$900,000 in property taxes. When all phases of the Dadeland South development are completed, it will generate \$1.3 million in property taxes a year. When the leases expire, Dade County will own all improvements made to the site throughout the lease period.

The developers lease the ground space from MDTA and sublease the retail space to tenants at fair market value. MDTA approves the subtenants to make sure that they comply with all county laws (*e.g.*, equal opportunity laws). The retail stores at Dadeland South include a travel agency, gift shops, and restaurants. The retail mall at Dadeland North is multi-level shopping center with nationally known stores such as Bed, Bath, and Beyond; Sports Authority; Michael's; Best Buy; and Target. Dadeland South has a Marriott Hotel, and a high-end hotel is planned for Dadeland North as well.

- Guaranteed minimum rent: in 1995, \$100,000; in 1998, \$350,000;
- Percentage of the project's gross income: for the first \$7 million, 5%; between \$7 and \$10 million, 5½%; and over \$10 million, 5½%.

In addition to being a source of revenue for MDTA, the developments generate significant tax revenue for Dade County because the developers pay all property taxes associated with the improvements that they build. In 1996, the



The Dadeland North Station development is currently a shopping center. In the future, a high-end hotel and an office building will be built here.

Joint Development with a Non-Profit Organization

Site Background

In December 1996, MDTA signed a contract for a land lease at the Vizcaya Metrorail Station. The station neighborhood is primarily residential, but located in the immediate station vicinity are two museums: the Miami Museum of Science & Space Transit Planetarium and the Vizcaya Mansion Museum (Vizcaya may expand its holdings to build a petting zoo in the area as well). To walk to the museums from the Metrorail station, rail customers must cross a pedestrian bridge over U.S. Highway 1, a main thoroughfare for the Miami area.

The Miami Children's Museum, a non-profit Museum, is currently located in a shopping center but wants to find a permanent site where it can construct its own building. The Museum contacted MDTA to discuss joint development at the Vizcaya Station. Proximity to other museums and the Metrorail stop were factors in Children's Museum's decision to seek this location.

At the station, MDTA currently has a 104-space, 50,000-square-foot parking lot; 4 bus bays; and 30 kiss and ride parking spaces. Since park-and-ride customers only use 30 to 40 spaces of the 104 available during the day, there is currently a parking surplus at the station.

Contract Structure

MDTA is leasing the museum 25,000 square feet of land for 50 years for \$1 per year. The goal of MDTA for this project is not revenue, but increased ridership (*e.g.*, school trips on rail to the museum) and the creation of a museum hub. The Children's Museum is building a 50,000-square-foot facility and must replace any of the parking spaces that are destroyed during construction. The Museum must also build any additional parking for its own needs.

As with the other joint development projects, the Museum will pay all required taxes, and MDTA will own the building at the end of the lease period. The Museum will decide where on the station property to build its structure, but the location and building design are subject to approval by MDTA. MDTA and the Museum will share in the revenues of any for-profit organizations (*e.g.*, fast food restaurants or bookstores) which locate in the Children's Museum building. This entire agreement was reached in under a month from the time the Museum approached MDTA.

The developers want to attract both the rail riders and non-rail customers. Thus the stores have found it profitable to extend their hours to cater to Metrorail passengers. For example, Target, a large, all-purpose, discount department store opens at 8 a.m. and closes late so that rail riders can purchase merchandise either on their way to or from work.

The shopping centers, office buildings, and hotel advertise their proximity to transit. For example, the Dadeland Marriott advertises that customers can easily travel to the Bayside Marketplace, a downtown shopping and entertainment center, from the hotel using Metrorail.



MDTA included transit access to the development in the lease arrangement for Dadeland North. The result is a pedestrian-friendly, covered walkway.

Problems

The process of putting together a standard commercial lease and making sure Disadvantaged Business Enterprise (DBE) requirements are fulfilled is time-consuming. There are also numerous government regulations with which to comply.

Station Access

One of the lessons that MDTA learned from the Dadeland South development is that development at transit stations needs to be user-friendly to attract transit system customers. Unfortunately, the Dadeland South Station development was built without consideration for transit customers. When rail customers exit the transit platform, large walls and escalators discourage entry into the mall, and elevators are needed to access the hotel. To remedy this problem in subsequent development, MDTA will include specifications for transit access in the development contract (as it did for Dadeland North).

When these projects are completed, heavy rail customers will walk out of the station and see the buildings in the development; the environment will be transit-friendly.

In the past, successful joint development projects have required MDTA to be reactive to markets. Developers know the market and approached the transit agency with unsolicited proposals. In the 1990s, MDTA must be proactive in its joint development program. However, before issuing an RFP, any transit agency interested in joint development should obtain the consensus of the development industry as to what type of projects will work.

Maximizing Revenue

In its first agreement, MDTA did not include penalties for finishing phases late. As a result, the developer did not complete construction on schedule. MDTA therefore lost income (through the percentage of gross sales provision). In the subsequent projects, MDTA has included provisions for late construction penalties. At Dadeland North, if any phase is delayed, the developer must pay the transit agency \$20,833 per month (which is equal to \$250,000 for the entire year) until the construction has been completed. MDTA indexed this payment to inflation.

Development Sale Requirements

After an agreement was reached for the Dadeland South site, the developer sold the rights to develop Phases I, II, and III. MDTA received the rent as expected, but did not receive any portion of the developer's profits from the sale. In the Dadeland North project, if the developer sells the development rights, MDTA receives five percent of the payment that the developer receives.

Lessons Learned

The experiences of WMATA and MDTA have demonstrated ways that transit agencies can realize many benefits from a joint development program, including increased

- local tax and transit system revenue,
- density at stations, and
- ridership.

Joint development creates activity centers at transit stations which generate ridership-associated revenue. Another benefit of joint development that is often underrated is that the tax revenue from the development is paid to local jurisdictions. This revenue can then be returned to the transit system in the form of local subsidy payments. The Dadeland North development in Dade County is expected to generate \$1.3 million in local property taxes. Thus this single rail station development will generate over 3% of the local general revenues that support the transit system.

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Endnotes

- 1 *Joint Development Policies and Guidelines*, WMATA.

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Introduction

Commuter rail train, courtesy of the Virginia Railway Express

Demand response vans, courtesy of the Arkansas Highway and Transportation Department

Local Taxes

RTC service area map, courtesy of the Regional Transportation Commission

The T's service area map, courtesy of the Regional Transportation Commission

MARTA rail system map, courtesy of Metropolitan Atlanta Rapid Transit Authority

Pullman Transit service area map and bus, courtesy of Pullman Transit

Transit Impact Fee

Muni vehicles, courtesy of the San Francisco Municipal Railway

Levi's Plaza, courtesy of Interland-Jalson

Creative Use of Federal Funds

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Turnkey Procurement

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Bus, courtesy of King County Department of Transportation

Progress Payments

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MARTA rail system map, courtesy of Metropolitan Atlanta Rapid Transit Authority
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Cashless Fare Payment

Service area map and commuter rail train, courtesy of the Virginia Railway Express
Fare collection machines, courtesy of Mina Faltas

Eco Pass Program

Service area map, courtesy of Regional Transportation District

Partnerships with the Community

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Citibus Bus, courtesy of Citibus

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Advertising

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Leasing of Right-of-Way

Cable installation and light rail train, courtesy of Bi-State Development Agency

Joint Development

WMATA service area map and developments, courtesy of Washington Metropolitan Area Transit Authority

MDTA service area map, courtesy of Metro-Dade Transit Authority

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