

# Moving Towards Joint Development: The Economic Development- Transit Partnership



National Council for Urban Economic Development



Urban Mass Transit Administration

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# The National Council for Urban Economic Development

The National Council for Urban Economic Development was founded in 1967 by a handful of professionals testing a new approach to urban revitalization--the use of public resources to leverage large amounts of private reinvestment in our nation's cities.

But times change, and so have local development policies and issues. What hasn't changed over the years is what is at the heart of CUED's services--the understanding of the major role that information plays in the ability of local and state officials to design and implement development strategies. To this end, CUED dispenses information through three basic methods.

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\* *Commentary* is a quarterly journal presenting in-depth articles about innovative and effective programs and approaches in economic development.

\* *Economic Development Abroad* provides a global view of the field bi-monthly.

\* Annual reviews of the economic development field and the federal budget.

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\* Members of CUED, both institutional and individual, represent all facets of economic development. There are state and local development professionals, elected local officials, community organization leaders, Chamber of Commerce directors, entrepreneurs, developers, public utility executives, academicians and others who need to keep abreast of the latest trends and strategies.

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# CONTENTS

---

<b>Introduction</b>	<b>1</b>
Demographic Trends	2
Joint Development Defined	3
<b>Chapter 1--The Transportation Connection</b>	<b>5</b>
Commuting Trends	7
What Plagues Mass Transit?	9
The Financing Dilemma	12
Private Involvement	14
Case Example: Datran Center, Miami, Florida	15
Transit Decision-making	16
Case Example: Ballston Metro Center	18
Where Do We Go From Here?	20
<b>Chapter 2--Financing Trends: The Policy Framework</b>	<b>23</b>
Historical Trends	24
The Policy Framework	25
Fairness	25
Market Sensitivity and Elasticity	26
Case Example: Atlanta's Southern Bell Building	27
Economic Basis For Calculating Costs	28
Case Example: Long Island City Improvements	29
<b>Chapter 3--Public Tools to Leverage Private Investment</b>	<b>31</b>
Federal Programs for Joint Transit-Development Projects	31
Urban Mass Transit Administration (UMTA)	32
Economic Development Administration (EDA)	32
Department of Housing and Urban Development (HUD)	33
Community Development Block Grant (CDBG)	33
Section 108 Guaranteed Loans	34
Local Government Initiatives	34
Tax Exempt Bonding	35
Loans/Guarantees	35
Incentives	36

## Chapter 4--Public-Private Financing Techniques

39

Special Districts	39
Special Assessment Districts	40
Transportation Development Districts	41
Case Example: Colorado's Metropolitan Improvement Districts	42
Independent Development Districts	43
Developer Contributions, Impact Fees & Exactions	44
Profile: Denver's 16th Street Mall Management District	45
Case Example: San Francisco Transit Impact Fee	48
Economic Considerations	49
Equity Investment Strategies	50
Passive/Active Participation	51
Profile: Cleveland's Dual Hub Corridor	52
The Use of Property and Property Rights	54
Leasing/Selling Development Rights	54
Leasing/Selling Existing Facilities	56
Negotiated Land Leasing	56
Land Assembly/Land Banking	57
Transit-Related Development Initiatives	57
Profile: Cedar Rapids Joint Development	58
Turnkey Approach to Development	61
Partial Turnkey Approach	62
Transit Access Arrangements	62
Summary	63
Profile: New York City's Station Improvements	64

## Chapter 5--Moving Towards Joint Development

69

Building the Framework	71
Profile: Transportation Management: Bellevue, Washington	74
Doing the Deal	80
Profile: Newark Airport-Elizabeth Transit Linkage	81
Profile: Baltimore's Light Rail Transit	85

## Conclusion

91

## Appendix--CUED-UMTA Technical Assistance Site Visit Summaries

93

Buffalo, New York	94
Atlantic City, New Jersey	97
Denver, Colorado	100

## References

105



## INTRODUCTION

The relationship between transit and economic development has never been as critical as it is today. Employers consistently and increasingly cite the efficient movement of people and products as a major consideration in a site location decision. As quality-of-life factors also become more important, a locality's ability to maintain efficient access can mean the difference between economic expansion and recession. As a result, economic development practitioners depend on a properly planned and managed public transit system to help attract and retain business and industry.

On the other hand, transportation officials depend on a healthy and diverse economic climate to generate riders and raise revenues for building, operating and maintaining expensive public transportation systems. An efficient public transit system is dependent upon an active workforce, off-peak ridership, and high density uses around rail lines. The decisions made by economic development officials with regard to land use planning and job generation clearly have an effect on the success and failure of public transit systems. Also important to transportation officials is the relationship between economic

developers and the private sector. Finding innovative ways to encourage cost-sharing with business--whether it be highly-complicated joint development deals and privatization arrangements, or simply leasing space in a station to a vendor--has become an increasingly important role for the transportation official and one with which the economic developer can assist.

Though the link between transit, and specifically, rail systems and economic development could reasonably be described as symbiotic -- each arguably needs the other to survive -- it is all too often forgotten. In city after city, transportation planners draw maps of ideal routes while economic development officials target growth areas. Often, the two plans are not congruous nor done in consultation. Unfortunately, when transportation and economic development officials are working independently the results can be haphazard, and often counterproductive.

An effective partnership, however, can be the key to success. By working with transportation officials to target growth near stations, encourage the most appropriate uses for property near rail lines and provide incentives such as density bonuses in return for developer contributions, economic developers can play a critical role in the success of the transportation system. In return, transportation officials can offer flexibility in the design of stations and routes, extend air rights over lines and stations, and offer concessions critical to enticing developers. Ultimately, by using these incentives, the public sector can add significant value to the real estate developer's project. In return, the developer contributes some of this

added value back to the community and a partnership is formed.

## DEMOGRAPHIC TRENDS

While these factors illustrate the complimentary roles of economic development and transit, some recent trends are stimulating their cooperation. First of all, demographic changes affecting both employment and commuting patterns are of immediate concern to transportation and economic development officials. A record-high labor force has significantly increased the number of commuters. Commuting patterns have also changed causing an increase in suburb-suburb and reverse commutes. Exacerbating the congestion problem is the demand for single family housing resulting in low densities and the political unwillingness to spend money on roads financed by general funds. Because the automobile continues to be the preferred mode for commuters, traffic congestion in some cities and suburbs has reached crisis proportions.

Second, the regional nature of transportation corresponds with growing awareness of the interdependence of local economies and the existence of regional economies and subeconomies. One example of this is the current employment problem facing many areas of the country. "Help wanted" signs abound with increasing frequency throughout the suburbs due to the inability of local officials to move people to jobs. Clearly, the problem has become a regional one which will require cities and suburbs to work together to solve.



Finally, more and more pressure to develop and maintain effective and efficient public transportation systems at the same time that the costs of building and maintaining these systems mount has left transportation officials searching for innovative financing alternatives. Facing continued federal cutbacks and constrained local budgets, any transportation improvements will require the most creative financing schemes and strong community consensus. The increasing trend towards cost-sharing and creative financing mechanisms between the public and private sectors requires the involvement of all local constituents. Additionally, any public sector share will require strong community support and private sector activism. Clearly, any future strategy will necessitate a strong public-private partnership to encourage cost-sharing and build consensus for public investment in transportation improvements.

## **JOINT DEVELOPMENT DEFINED**

Joint development has emerged as one product of the transportation-economic development relationship. Strictly defined, it is the relationship between transit and real estate whereby each contributes significantly to the other's value. A successful joint development must derive mutual economic benefit and provide value capture from so heightened a benefit to the individual property owner that he/she has an economic incentive to contribute financially to it. According to Lawrence Houstoun, a joint development consultant in New Jersey, in order to contribute to the transit component, the property owner would need to be guaranteed a virtual monopoly on the

benefits of that transit linkage. Absent that economic incentive, the contribution or exaction becomes impossible.

Loosely defined, joint development is any private sector contribution towards public transportation which either decreases the costs of operating or constructing public transit systems, stations or improvements, or somehow contributes to the increased ridership of the system. Often termed "transit-related development initiatives," it can include voluntary or involuntary contributions such as right-of-way or parking, station improvements, commercial ventures such as convenience stores and bank machines in stations, access paths, farecard distribution, and other public transit ridership incentives.

For consistency throughout this report, we've taken the middle ground and defined joint development as any public-private partnership designed to decrease the costs of operating or constructing public transportation systems, stations or improvements through creative public-private financing arrangements. This report will discuss some of the techniques available to encourage joint development partnerships including, special districts, developer fees and linkages, equity investment, transportation access arrangements, turnkey development approaches, public sector financing tools and federal programs.

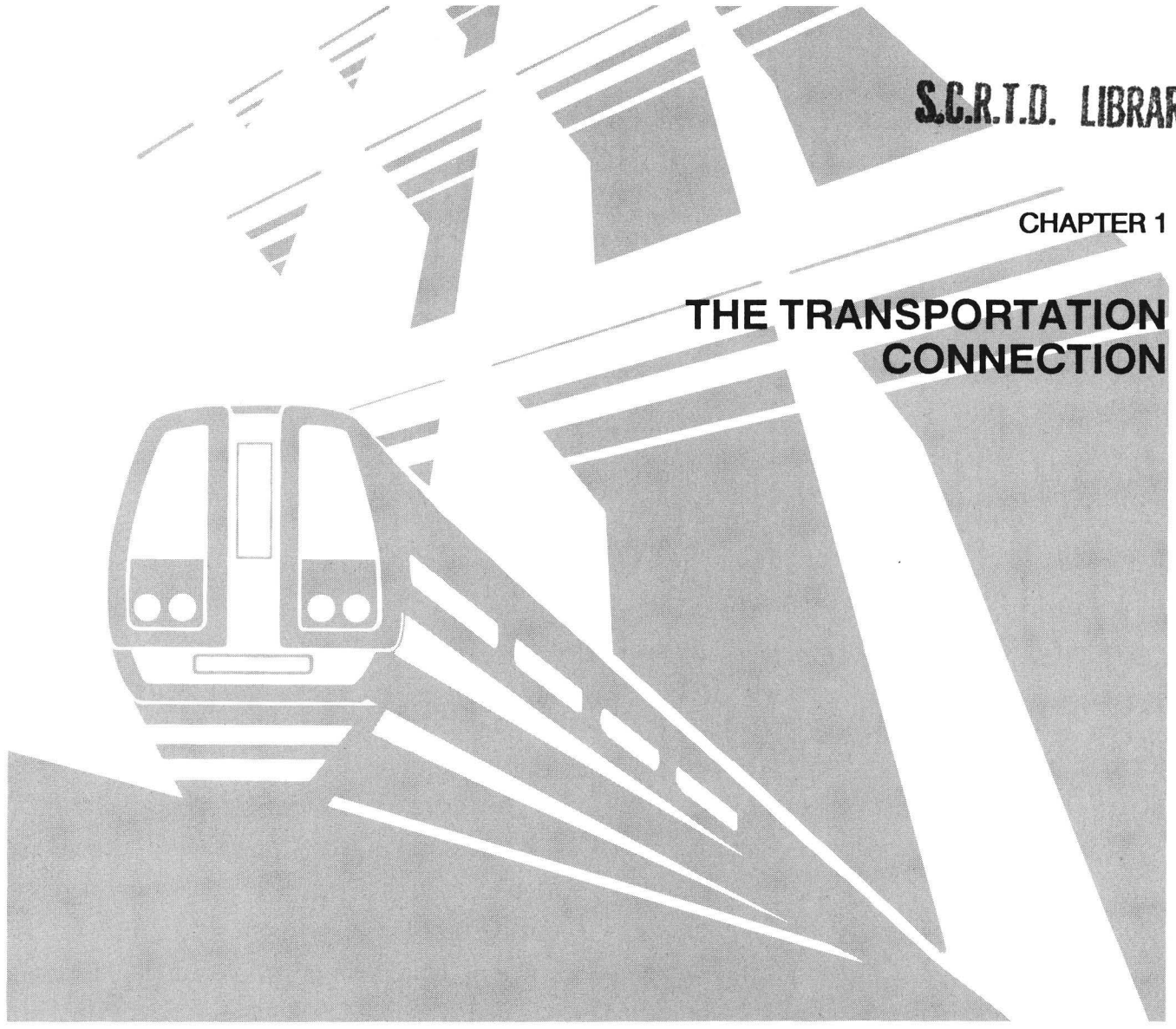
Transportation's concessions to private business in order to forge a useful partnership can be minimal in the long term, including re-routing a targeted line, moving or redesigning an entrance or station, allowing commercial activities in tran-

sit areas, or offering air rights in return for right of way. By providing density bonuses, targeting growth along rail lines, offering incentives, changing zoning requirements to encourage growth, helping to obtain crucial private sector support, and identifying complementary financing arrangements, economic development officials become an important catalyst. The developer benefits through increased value by making his site more prominent and reducing labor and parking costs, thereby leasing or reselling the site faster. The results for everyone are significant: more development, jobs, ridership and revenue.

With the assistance of the Urban Mass Transit Administration (UMTA), CUED undertook a project to examine and encourage the development of joint transportation-economic development projects in three cities. This report examines the results of these technical assistance visits conducted in Buffalo, New York; Atlantic County, New Jersey and Denver, Colorado and suggests ways in which economic development practitioners can move towards implementing successful joint development projects. Of critical concern

to the team members participating in each of these visits was the obvious lack of formal economic development-transportation linkages. A key theme that emerged from these technical assistance projects was that successful joint development hinges on an effective transportation-economic development linkage.

This report is designed to provide the framework for establishing the partnership which will lead to joint development. By first examining the dynamics of transportation problems and the interrelationship with economic development, it will underscore the importance of developing a successful partnership to maximize the impact of each. A discussion of various transit-related incentives and requirements will indicate the financing opportunities available. Finally, the elements of a successful partnership will be discussed by examining the three technical assistance site visits which CUED undertook with assistance from UMTA. Throughout the report, case studies and examples of successful economic development-transportation projects will be highlighted.

**THE TRANSPORTATION  
CONNECTION**

Traffic congestion, choking communities of all sizes across the country and impacting both cities and suburbs equally, is described by business and residents everywhere as a problem of crisis proportions. More drivers, changing travel patterns and the inability of localities to keep up with needed infrastructure improvements only threatens to exacerbate the problem. Consider the following trends:

- o While the country's population grew 18 percent between 1970 and 1985, the number of cars and trucks increased 63 percent.
- o The number of miles of roads and streets on which to maneuver our vehicles rose by less than 5 percent.
- o Freeway congestion alone in the 37 largest metropolitan areas of the U.S. causes 1.2 billion vehicle-hours of delay every year, according to Morris J. Rothenberg in a paper presented at the National Council for Urban Economic Development's 1987 annual conference.
- o The job market is larger than ever before, significantly increasing the number of commuters. In 1982 there were approximately 100 mil-

lion jobs in the U.S. economy; by 1995 there will be 125 million. The American Public Transit Association's (APTA) Transit 2000 Task Force points out that female participation alone in the labor force will jump from 45.5 million in 1980 to 65.1 million in 2000.

- o There are more Americans of driving age (16 and older) than ever before. Eighty-five percent of the adult population of the United States now possesses a driver's license; even more significantly, 96 percent of the population between 25 and 35 years of age has one.

- o Since 1986, there have been more registered vehicles than licensed drivers in the United States (the ratio is about 1.1 to 1), says Glenn Emery of *Insight Magazine*.

- o Emery also points out that an increase in suburban office and commercial development has caused an increase in suburb-to-suburb and reverse commuting, resulting in outlying thoroughfares choked with unprecedented volumes of traffic.

- o Already strapped federal, state, and local budgets face further cutbacks indicating less resources available for transportation improvements, according to Robert Cervero, a professor at University of California-Berkeley.

The growth of urban mass transit across the nation has not lessened Americans' reliance on the automobile. In fact, mass transit's share of the regional market declined from 3.6 percent of all trips in 1969 to 2.6 percent of all trips in 1983.

While many transit agencies have enjoyed increases in ridership over the past decade, statistics demonstrate that relatively few have been able to increase the regional percentage of trips by transit. Instead, more and more people are choosing to take to the streets, and roads and freeways are suffering from overuse and neglect. Chart 1-1 taken from the Federal Highway Administration's Transportation Planning Data for Urbanized Areas Based on the 1980 Census (DOT-I-85-20, January 1985) illustrates the transportation choices of workers in urbanized areas.

The effect of these trends is startling. If automobile travel continues to outpace mass transit ridership, local governments everywhere will be facing serious environmental, economic, and financial hazards. The effects of heavy automobile travel are clear: air pollution increases causing ancillary environmental problems, the efficient movement of people and goods diminishes, affecting the ability of business to perform its functions, and roads deteriorate more quickly, costing taxpayers more and more money.

One way to address the problem, of course, is to try and decrease the numbers of commuters on the streets at any one time and increase the miles of roadway to accommodate them, easing auto travel for everyone. For example, it is conceivable that roads can be "rationed" by charging a market price for the right to use them. Drivers would be charged for the amount they travel by electronically monitoring how frequently their cars pass certain points. Another possibility is staggered work hours. This could markedly reduce traditional "rush hour" traffic. Also, subur-

ban work settings with an even balance between numbers of jobs and housing units generally suffer less peak-period congestion. Better planning could help achieve more reasonable balances, thus unclogging highways. And requiring private developers to share in the cost of new roads as well as improvements to existing ones eases the burden on local governments and provides superior commuting conditions for workers.

In addition, the ability of local governments to step in, take action to encourage mass transit ridership, and find creative alternatives to financing operations and improvements on existing systems is one way to ameliorate the problem.

## COMMUTING TRENDS

The commutation needs of the workforce, quite different now than they once were, have significantly changed travel patterns. Once upon a time, buses and trains collected commuters at suburban points such as rail stations and park-and-ride lots and sped them directly to their jobs in the central business district. Now, workers are traveling between suburbs, and many are making a reverse commute.

Suburb-to-suburb commuting has become the predominant national commuting pattern as growth continues around outer borders of metro-

Chart 1-1

<u>Urbanized Area Factor</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>
Workers as percent of population	38.5	40.3	45.7
Autos per household	1.0	1.2	1.3
Persons per auto	3.3	2.6	2.1
Workers per auto	1.3	1.1	0.9
Persons per household	3.2	3.1	2.8
Workers per household	1.3	1.3	1.3
Percent of workers making trip by:			
Auto	73.4	77.3	83.4
Rail	8.2	4.9	3.4
Bus	16.4	8.7	6.1
Percent of households with:			
0 Autos	25.3	20.1	16.7
1 Auto	54.6	45.5	44.6
2 Autos	17.8	29.0	30.3
3 Autos	2.3	5.4	8.4

politan areas, between the recognized suburbs and what was traditionally considered rural expanse. This type of suburban sprawl makes traditional mass transit quite impractical. As a derived demand, transportation is affected by the kinds, density, and location of economic activity, as well as household location. People in search of lower residential densities move farther and farther out; employers follow, often seeking lower costs; and concentrations of people and jobs are simply too low to justify mass transit. These types of land use patterns match and reflect the service characteristics of the auto much more closely than they do transit. Cars remain the primary means of getting around and more congestion is created.

Additionally, many workers cannot afford to live near their places of employment. This phenomenon adds to traffic congestion as employees travel long distances to their jobs, and points up the need for mass transit that can efficiently transport people from where they live to where they work, keeping in mind the multiplicity of live/work combinations available.

"Mismatches" between jobs and housing are most common in areas with large shares of workers in clerical, sales, and other moderate-salaried positions. Nearby housing in these settings tends to be relatively expensive and employees in those industries are frequently priced out of local neighborhoods. The practice of "fiscal zoning" is not uncommon, as municipalities prefer the taxes paid by offices and commercial development to the service demands often associated with residential development. Workers must live farther away than they would like, clogging suburban

highways. Transit that meets the emerging needs and changing commuting patterns of the workforce could help ameliorate the problem.

Meanwhile, the increasing number of commuters has placed a serious strain on street and freeway systems designed for substantially lighter levels of activity. Millions of cars compete with increasing volumes of trucks for space on interstates; the congestion often results in particularly serious accidents such as those occurring in recent months on the Washington Beltway. While many drivers in D.C. have demanded that these trucks be banned from the beltway, the flip side of the argument is that interstates were primarily intended for commerce and travel -- not for daily worker commutes. Heavy use by commuters imperils the ability of the system to perform its original missions of interstate commerce and national defense. Eventually, local substitutes for lost interstate capacity will have to be devised, or new facilities built to do the job the original structures were intended to do.

The effect of heavy truck and automobile use on America's streets is clear. Many of the nation's interstates, secondary roads, state highways, and interstate connectors are in alarming disrepair. Since 1975, the portion of our interstate system rated in a very good condition or better decreased from nearly one-half to less than one-third, and the total in fair or poor condition rose from 19 percent to 28 percent. Also, a 1986 Federal Highway Administration report on 218,087 miles of urban roadways concluded that 60 percent of that mileage was in fair or poor condition. Some 42 percent of the country's 575,607 bridges are classified as structurally

deficient or functionally obsolete. The level of investment in maintenance and improvement of these structures was about \$66 billion in 1987. Yet, just to hold steady and stave off further decay would likely require \$80 billion per year, and solving only some of the congestion problems would cost approximately \$100 billion annually.

Another ill effect of intense automobile use-- pollution-- presents a serious danger as well. The consequences for our environment and air quality are of tremendous concern not only to state, local, and federal government, but to the population at large. In California, with its massive freeway system, efforts to reduce air pollution caused by carbon monoxide, save the ozone layer, and avoid EPA sanctions possibly leading to loss of federal highway funds are well underway. These efforts include substituting methanol for gasoline and curtailing private vehicle use. Cities such as Los Angeles, San Francisco, and Sacramento are designing and implementing transit systems.

According to the Environmental Protection Agency (EPA), in 1987, 14 metropolitan areas were threatened with EPA sanctions unless they met the agency's ozone and/or carbon monoxide air quality standards "in the near term" (which could be interpreted by the EPA to mean as long as three to five years). Among the areas affected were Chicago, Cleveland, Los Angeles, Sacramento, and Atlanta. Proposed sanctions included a construction ban on electric utilities, industrial boilers, iron and steel production plants, major painting operations, and industrial dry cleaners. Clearly, heavy automobile usage has negative

repercussions not just for the air we breathe, but also for economic development.

### **WHAT PLAGUES MASS TRANSIT?**

Transformations in the make-up of the workforce and the economy, in demographics, social organization and lifestyle, and in the spatial distribution of these features are expected to have strong consequences for the transit service market. According to Elizabeth Deakin in her paper "Issues and Opportunities for Transit: An Exploration of Changes in the External Environment and Land Use and Development Trends," prepared for the APTA Transit 2000 Task Force, an older, more affluent population "...increasingly located in the auto-oriented cities and suburbs of the South and West will present quantitatively and qualitatively different demands for transit service from those of past decades." Public policy decisions on finance, environmental and energy issues, congestion relief and economic development will influence markets and the range of potential responses to those markets, too.

Federal, state, and local policy toward transit and its competitors plays a key role as well, and it is important to remember that marked differences exist among transit agencies, geographic regions, and markets within regions. Thus it is, in some sense, risky to generalize about the needs of "the commuting workforce." At the same time, broad trends and factors in transit can be identified.

The issue of insufficient density arises again in the context of already-in-place transit systems. Many transit stops currently generate low num-



*Parking garage and office building in the Ground Transportation Center in Cedar Rapids, Iowa.*

bers of rides and revenue as a result of either poor planning or again, migration of jobs to the suburbs. This is hardly surprising when one considers the savings to business that a suburban location may offer. An analysis performed by The Office Network, a Chicago consulting firm, concluded that employers moving to the suburbs in 1984 saved \$3,850 per worker per year in San Francisco; \$3,438 in Miami; \$2,970 in Washington, D.C.; \$2,338 in Los Angeles; and \$1,306 in Chicago. Sophisticated electronic communications allow even those in relatively inaccessible locations to remain in close contact with the rest of the world.

The result of this vast proportion of commute trips ending as well as beginning in dispersed suburban locations is that there is just not enough "mass" to enable mass transit to operate effectively. Chart 1-2, prepared by JHK & Associates, a consulting firm in Washington, D.C., illustrates

person and transit trip generation rates by land use type near Washington Metropolitan Area Transit Authority Rail Stations. Significantly, WMATA's system enjoys fairly substantial ridership compared to other cities.

As demonstrated by this chart, transit's share of daily person-trips was smaller for offices, retail centers, and hotels located in close-in suburban locations than in downtown locations. One could predict that the farther out the stations were located, the smaller transit's share would become. And if an average of 15 percent of travelers in these close-in suburbs use public transportation, 85 percent are using autos. Ideally, transit would be moving greater numbers of people into the city from outlying areas.

Adding to the density predicament is the marked contrast between peak demand and demand during the remaining portions of the



Chart 1-2

<b>Person and Transit Trip Generation Rates Near WMATA Rail Stations by Land Use Type</b>			
<u>Land Use</u>	<u>Typical Daily Person-Trip Generation Rate (per 1,000 S.F. GFA)</u>	<u>Typical Daily Transit Mode Share (in percent)</u>	<u>Implied Daily Transit Trip Generation Rate (1,000 S.F. GFA)</u>
<b>Office:</b>			
Downtown	15	35	5.3
Close-in Suburban Stations	15	15	2.3
<b>Residential:</b>			
Close-in Suburban Stations	5	35	1.8
<b>Retail (major complex):</b>			
Downtown	30	35	10.5
Close-in Suburban Stations	30	15	4.5
<b>Hotel:</b>			
Downtown	14	15	2.1
Close-in Suburban Stations	14	10	1.4

day. Transit authorities must purchase and maintain large fleets of cars to service riders during "rush hours;" these cars then sit unused at other times. This constitutes a considerable expense that is not recouped. Mixed-use developments can partially address this problem. By combining employment, residential, retail and entertainment facilities, a more continuous demand for travel throughout the day and evening is created.

In many places, mass transit systems suffer insufficient use due to local policies that conflict with efforts to encourage transportation by means other than private automobile. For example, many local governments require liberal parking ratios, and employers often provide reimbursement of parking expenses to their employees. Also, the decision of local policymakers to restrict densities at some suburban centers reflects

the preference given to accommodating the automobile over the encouragement of ridesharing or transit commuting. While this may make short-term sense, in the long run higher densities would produce the necessary concentrations of activity to make ride-sharing and mass transit viable alternatives to commuting alone.

## THE FINANCING DILEMMA

Costs and how to cover them are a critical question for mass transit. According to the American Public Transit Association's (APTA) Transit 2000 Task Force,

The fiscal limitations at all government levels are among the most significant external factors expected to affect public transit's future. As the public transit industry moved from private to public ownership in the 1960s and 1970s, it came to rely almost totally for capital investment on a funding mix from the federal, state, and local governments. Federal aid has been a critical ingredient in the rebuilding of existing systems and the construction of new ones; today, it represents between 60 and 70 percent of public transit capital expenditures. After its authorization in 1973, federal operating support first surged, and then leveled off as a share of total system deficits. Today, federal operating assistance represents less than 8 percent of total operating costs.

Many argue that reduced federal assistance creates a serious funding problem for some transit authorities. However, the Urban Mass Transportation Administration found that the transit industry's operating costs increased and productivity declined after federal operating subsidies were introduced in the sixties. Real unit operating costs have leveled off as federal assistance was reduced; this raises the question of whether

the assistance itself contributed to the deterioration in performance. If so (and a similar relationship has been observed in other countries), perhaps federal help can be further reduced with little ill effect. In 1985, approximately 44 percent of operating costs were financed through fares and other system revenues, 48 percent by state and local subsidies, and only 8 percent by federal assistance. Chart 1-3 demonstrates the declining level of federal assistance.

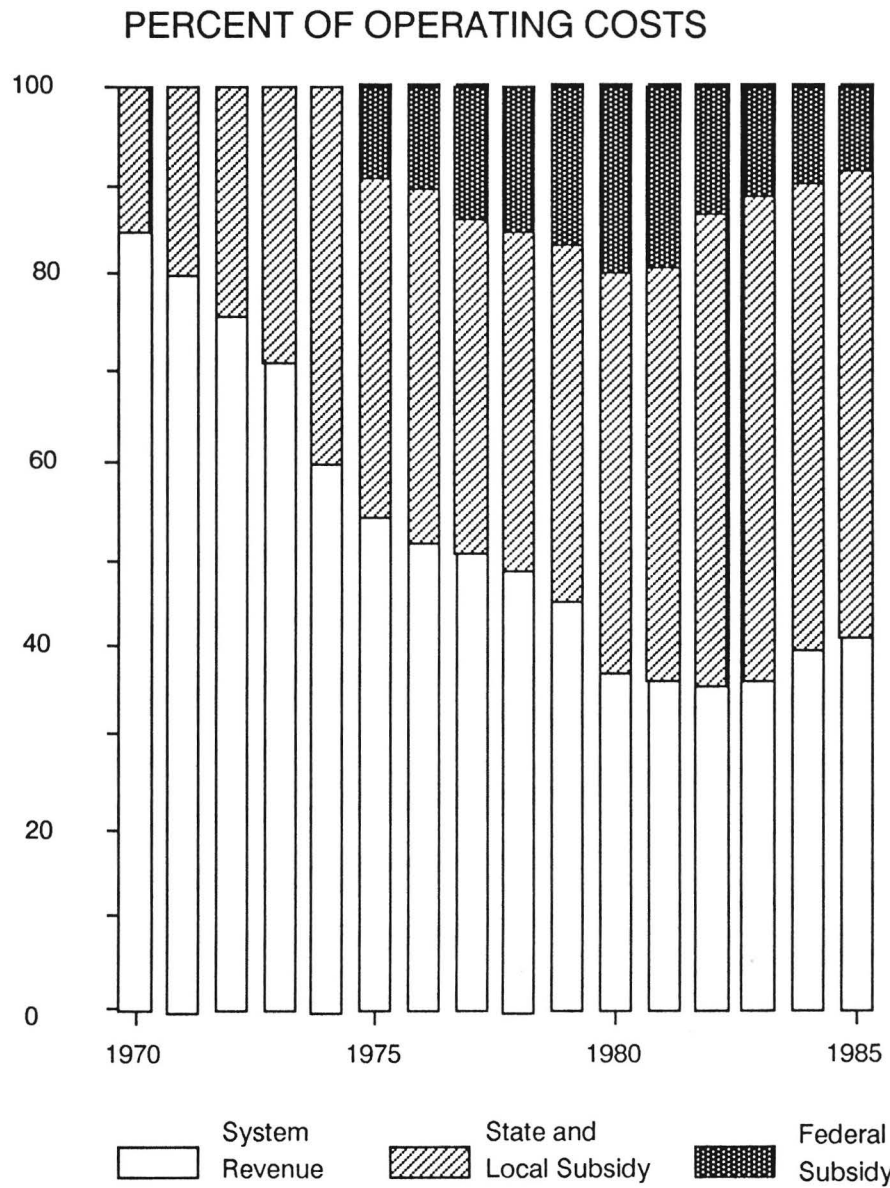
While fare increases designed to cover a greater portion of operating costs are feasible in certain instances, and have been employed, transit authorities worry about the effect on ridership. Some riders will choose to use their automobiles rather than pay what they believe to be unreasonable fares. Also, high fares tend to discourage low-income riders from using the system, and these are the people who are often most dependent on it. Still, the shift continues from reliance on federal funds to state and local subsidies and increased operating revenue.

New transit projects are a costly undertaking and so is maintaining a transit system. Traditionally, the federal government has picked up the tab for a large portion of capital expenditures. As a result, some federal officials argue, local representatives have not fully considered the real cost of these projects; in particular, they ignore the cost of capital in assessing total project benefits.

For example, the Secretary of Transportation in a report titled *The Status of the Nation's Local Mass Transportation: Performance and Conditions* noted that the federal government has committed nearly \$5 billion in capital to the

Chart 1-3

## Sources of Transit Operating Revenues 1970 to 1985



Source: APTA Fact Book and  
UMTA Section 15 Data

Washington Metropolitan Area Transit Authority's rail system. If the average interest on the federal debt is 9 percent, the annual financing cost of Metrorail comes to \$450 million; add to this another \$2 billion in capital provided from local sources, and finance charges rise by an extra \$180 million a year. Eventual completion of the system may demand as much as \$12 billion in additional capital investment. Repair and replacement costs after completion would total more than \$130 million annually. Current operating expenditures are less than \$200 million a year and could be expected to rise to \$291 million for the finished system. The point is that annual capital costs -- interest plus repayment of principal -- are quite a bit larger than operation, repair, and replacement expenditures for new rail systems.

This is true not only in Washington but in other cities as well. To complicate matters, costs in general are often woefully underestimated, and ridership projections suffer from the opposite problem. As the funding torch is passed from the federal government to state and local authorities, plans to launch new transit systems may be reconsidered unless private financial participation is encouraged and innovative techniques devised.

## PRIVATE INVOLVEMENT

Private sector involvement in transit development becomes even more critical as traditional funding sources decline. In 1984, the American Public Transit Association estimated that annual mass transit capital needs in the United States totaled \$7.3 billion. APTA also

estimated that annual UMTA authorizations, including local project shares, added up to \$4.3 billion. This left a shortfall of \$3 billion. Two years earlier, the Congressional Budget Office had arrived at a figure of \$5.5 billion in total needs. With the same UMTA authorization level, states and localities were then \$1.2 billion short.

Though these "deficits" appear daunting, there are other ways to approach it. UMTA's 1987 Rail Modernization study "crudely assessed the relative cost-effectiveness of [rail] improvements identified on a segment-by-segment basis." The study found that federal funding for rail modernization needs at the time totaled about \$650 million. Coupled with the required local match, about \$1.3 billion would be available for rail improvements. This was not enough money to completely revamp the deficient segments, but it was "more than adequate to allow the restoration of the segments with over 80 percent of the benefits over a 10-year period." In other words, a system can reap most of the benefits for only part of the cost.

Different rail line segments have vastly differing ratios of benefits to costs, and if choices are made wisely, money is spent and improvements made on those segments that will generate the most benefit to the system. Any remaining lack of funds further points up the need for help and funding from private sources.

What sort of deals can be worked out among local governments, transit authorities, and the private sector? One possibility is a special benefit assessment district. In Los Angeles, legisla-

## **Case Example: Datran Center, Miami, Florida**

The Miami Metrorail's first joint development includes 900,000 square feet of office, hotel and retail space and a multi-level parking garage adjacent to the Dadeland South Station. The station is in a fast-growing suburban area near one of Florida's largest shopping centers, Dadeland, 12 miles south of downtown Miami. Metrorail is negotiating with the developer, the Green Companies, on another joint development to be built around the Dadeland North Station less than a mile away. The proposed North Station includes 1.7 million square feet of office, retail, residential and hotel space and parking for 4,880 cars, with 2,085 spaces for Metro park-and-ride use at no cost to Metro.

Under a practice followed by Metrorail in keeping with its Joint Use Policy, Metrorail acquired property owned by the Green Companies to build the Dadeland South Station. In exchange, Metrorail leased property rights at the station back to Green. The initial term of the lease of air rights is for 55 years/6 months and can be renewed for another 44 years or more. The Green Companies pay to the County the greater of an annual minimum rent or an annual additional rent consisting of four percent of the unadjusted gross income from the project. Metro realizes nearly \$1 million annually and the developer provides 1,000 of 3,300 parking spaces in the garage for Metro. Green has exclusive connection rights to the station and the County cannot allow commercial vendors in the station. The developer pays all applicable taxes and special assessments.



*Datran Center, Miami.*

An objective of the Metro Joint Use Policy is "to promote high density land use at appropriate station sites leading directly to greater transit ridership." The Dadeland South Station serves this purpose as an important junction in the Metrorail system for transporting commuters between the south end of the system and downtown Miami, the major employment and activity center. The daily ridership at the station is 6,000, making it one of the busiest stations in the Metrorail system which has an overall daily ridership of 45,000.

tion that established a district for the construction, operation, and maintenance of transit was passed in 1983. The law permits the Southern California Rapid Transit District to levy assessments on property owners within these districts in direct proportion to the benefits their property gains from proximity to Metro Rail. The law permits the District to issue bonds to help cover costs, based on anticipated revenue.

Miami also has a special benefit assessment district. Its purpose is to underwrite \$20 million of capital costs, the figure that has been agreed upon as the private sector's contribution toward implementing Miami's Metromover project. In November 1984, Metropolitan Dade County began collecting this special assessment on about 700 properties. The fees are adjusted annually to account for new development and at the end of 15 years, levies on properties will have raised enough money to repay approximately \$7 million of debt service plus the \$20 million of capital contributed toward Metromover by the private sector.

In 1981, the San Francisco City and County Board of Supervisors enacted the Transit Impact Development Fee Ordinance. The city is authorized to collect a one-time fee of \$5 per square foot from owners and developers of new downtown office space. The fee is paid as a condition of obtaining a certificate of occupancy, and proceeds are used to pay for the capital and operating costs of additional peak-period transit services.

These examples illustrate options for leveraging private money; at the same time, it is

important that the strategies employed not be overly demanding of local businesses. Fees levied in special benefit assessment districts should not be so high that companies located there, especially small businesses, cannot comfortably pay them.

Nor is it advisable to generate or create land and office space that firms cannot afford. Expectations of private contributions should be kept reasonable and manageable, and this requires communication among all of the players involved -- transit authorities, state and local governments, and the private sector. Each of these actors has different interests to promote and protect.

## **TRANSIT DECISION-MAKING**

The public and private sectors have traditionally conducted their business in very different ways. This appears particularly true in the case of urban transportation. It was not long ago, for example, that breaking even was not a leading concern for transit operators. Clearly, few private companies could survive if unconcerned about revenue.

According to a U.S. Department of Transportation report, "Key Decisions in Urban Transportation Public-Private Cooperation," public sector urban transportation has traditionally not utilized "standard business functions" such as production planning, facility location, production facility layout, operationalizing production, production control, marketing strategy, new product development, production distribution strategy, business relationships, and competitive advantage.

Chart 1-4

### Urban Transportation Functions in a Business Context

Business Functions:

1. Production Planning
2. Facility Location
3. Production Facility Layout
4. Operationalizing Production
5. Production Control
6. Marketing Strategy
7. New Product Development
8. Product Distribution Strategy
9. Business Relationships
10. Competitive Advantage

Urban Transportation Functions:

- Systems Planning
- Project Planning
- Site Planning
- Operations Planning/Programming
- Route/Service Planning/Programming
- Planning/Management
- Research/Demonstration Planning/Management/Finance
- Service/Management/Finance
- Management
- Management

The same basic functions presented in an urban transportation conceptual format are customarily found in the following sequence:

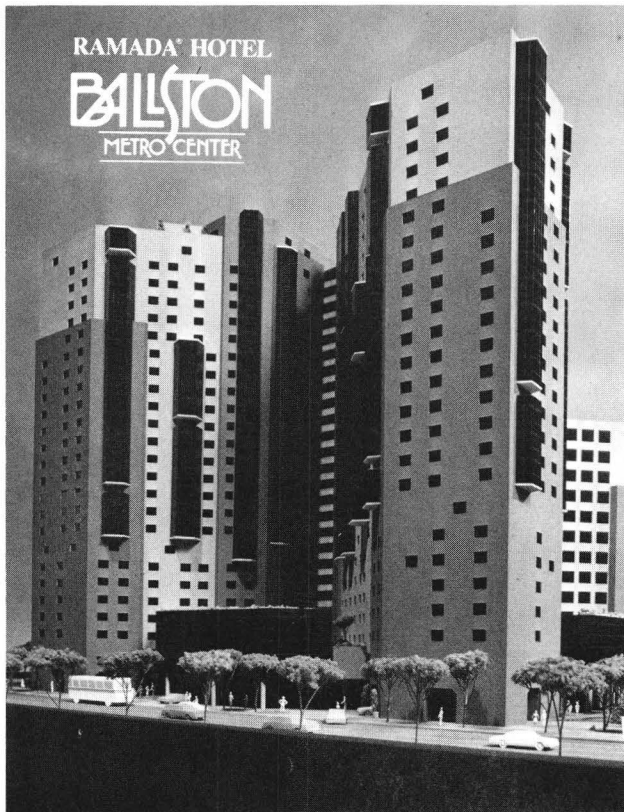
1. planning
2. programming
3. finance
4. service
5. management

## **Case Example: Ballston Metro Center, Arlington, Virginia**

Ballston, a station stop in Arlington, Virginia, is one of the newest joint development projects in the Washington, D.C., Metro system. The station is the focal point for office, commercial and residential development covering 200 acres and several surrounding city blocks. The joint development, Ballston Metro Center, is a mixed-use project with 203,000 square feet of office space, a 210-room hotel, 198 condominium units and 26,000 square feet of retail space. The project features two towers and a seven-story glass-enclosed atrium. It utilizes air space leased from the Metro for 99 years.

Including the Ballston project, the Washington Metropolitan Area Transit Authority (WMATA) has secured nine joint development agreements with private developers. The system has potential for joint development at many more stations over the next 20 years. WMATA's annual income from joint developments is \$4 million per year with cumulative revenues of \$21 million. Metro also has agreements with commercial property owners for access connections with another nine stations. Through these "system-interface" projects, Metro trades access rights for capital improvements and has property easements which reduce

potential costs. It negotiates a fee with owner/developers based on the value added to the commercial development by Metro allowing the station access connection.



Arlington County's Office of Economic Development marketed the Ballston area's potential development to property owners and other developers in keeping with the county's Ballston sector plan. The Arlington County plan provided a high density for Ballston to create a

*A model of the Ballston Metro Center and hotel under construction in Arlington, Virginia.*



submarket for new retail, office and residential growth, allowing it to compete with neighboring jurisdictions. A private sector partnership of property owners and developers has taken a leadership role in promoting and developing the Ballston area.

Completion of the Ballston Metro Center buildings is scheduled for 1989. When completely developed, the Ballston area, including Ballston Metro Center, will have 6 million square feet of office space, a million square feet of retail space and 3,000 residential units, including 1,700 apartments and 950 condominiums and townhouses.

Rather, certain functions are consolidated or de-emphasized. Marketing, for example, is frequently absorbed by planning functions. From a business perspective, omitting or combining these concepts may lead to uncertain thinking about what the agency needs to do to operate efficiently and serve its customers. Chart 1-4 compares urban transportation functions to business ones.

However, economic development practitioners, wishing to see more private sector involvement in mass transit, must gain an understanding of the dynamics of transit decision-making. Various constraints are present, beginning with the participation of as many as 10-12 localities, counties, or townships in addition to regional, state, and federal entities. While economic development projects are also subject to certain regulations, there is hardly the same degree of involvement and oversight. Not just one, but often several levels of government are joining in as systems are approved, planned, and funded. The Washington Metropolitan Area Transit Authority, for example, is overseen by the District of Columbia, the states of Maryland and Virginia, and the federal government. This may

be an extreme case given D.C.'s status as the nation's capital, but the fact remains that the "free market" to which private development is accustomed does not exist in quite the same way for transit operators.

Even if such interaction and approval were not required, it would be necessary among regional entities and local jurisdictions. Transit systems cross city and county boundaries, need permits and rights-of-way, require subsidies from beneficiaries, and must serve competing areas and populations. Public concern about a system's impact on neighborhoods and the environment is also more direct and widespread than is common with individual development projects. A mass transit system affects many portions of a metropolitan area. Though some sections of a city might welcome the revitalization that accompanies construction of rail stations, for example, others are not interested in the noise, crowds, disruption, and far-reaching economic development spurred by transit facilities.

At the same time, mass transit's effect on the environment in terms of pollution control is usually

considered a plus. There are transportation control measures included in the Clean Air Act that will precipitate actions likely to encourage, if not force, a diversion into transit of some of the trips now made by automobile or taxi into or within central cities. Reduction of carbon monoxide and ozone problems is the goal. In the 59 metropolitan areas and 100 suburban areas found not to be in compliance with the current standard for carbon monoxide, several potential strategies exist to effect greater use of mass transit. According to APTA's Transit 2000 Task Force Summary Report, these include upgrading, expansion, and marketing of local service, provision of peripheral park-ride lots, subsidy of employee fares, taxing of employer-provided parking, ordinances holding employers responsible for their employees' over-reliance on single-occupant autos, promotion of flexible work hours, and voluntary relinquishment of auto trips or various forms of mandatory auto use restrictions or congestion pricing.

Transit decision-making is also a here-and-now proposition. The soundness of the idea is evaluated in terms of current ridership projections; in other words, how many users can we expect to attract based on existing development? There is less emphasis on potential development and all the employees and riders transit-spurred growth is likely to bring. The private sector, on the other hand, banks almost entirely on potential when designing new developments and projects.

The tremendous costs of constructing and operating a mass transit system again require cooperation among a consortium of contributors and

participants. Planners of public transportation must work within financial and regulatory boundaries and organize the numerous players.

As demonstrated by Chart 1-4, transit operators heavily emphasize the planning function. Typical business functions are subsumed under planning activities, and key figures have little experience in negotiating deals or in entrepreneurial development. These characteristics, by contrast, are commonly great strengths of private businesspersons and are essential to their success.

The private sector thinks and acts differently than the public sector, and economic development practitioners, as the party trying to get the other two together, frequently fall somewhere in the middle. It is therefore important that practitioners be familiar with the methods and concerns of transit decision-makers as well as those of the concerned private sector.

## **WHERE DO WE GO FROM HERE?**

Economist Anthony Downs of the Brookings Institution argues that most suburbanites are wrong in believing that the recent surge in outlying commercial and other nonresidential development is the primary cause of rising traffic congestion. Rather, the complainers themselves are to blame. First, suburbanites generally oppose higher residential densities, even though in the long run such densities might mean less overall travel and greater use of public transit. Second, they wish to have a wide combination of choices of where to live and where to work. The locations they eventually choose are usually not designed

to minimize commuting time; rather, the focus is on other values such as the quality of jobs and homes. Third, tremendous numbers of suburbanites prefer to commute by private car, usually alone. Most Americans want others to use public transportation, freeing the roads for themselves.

One task for local governments becomes clear: encourage more dependence on mass transit systems. Coordinated efforts among varying jurisdictions, agencies and the private sector will help to solve critical planning and financing problems plaguing mass transit. Only by making public transit improvement a priority, and backing that up with significant investments and policies, can they begin to tackle the problem.

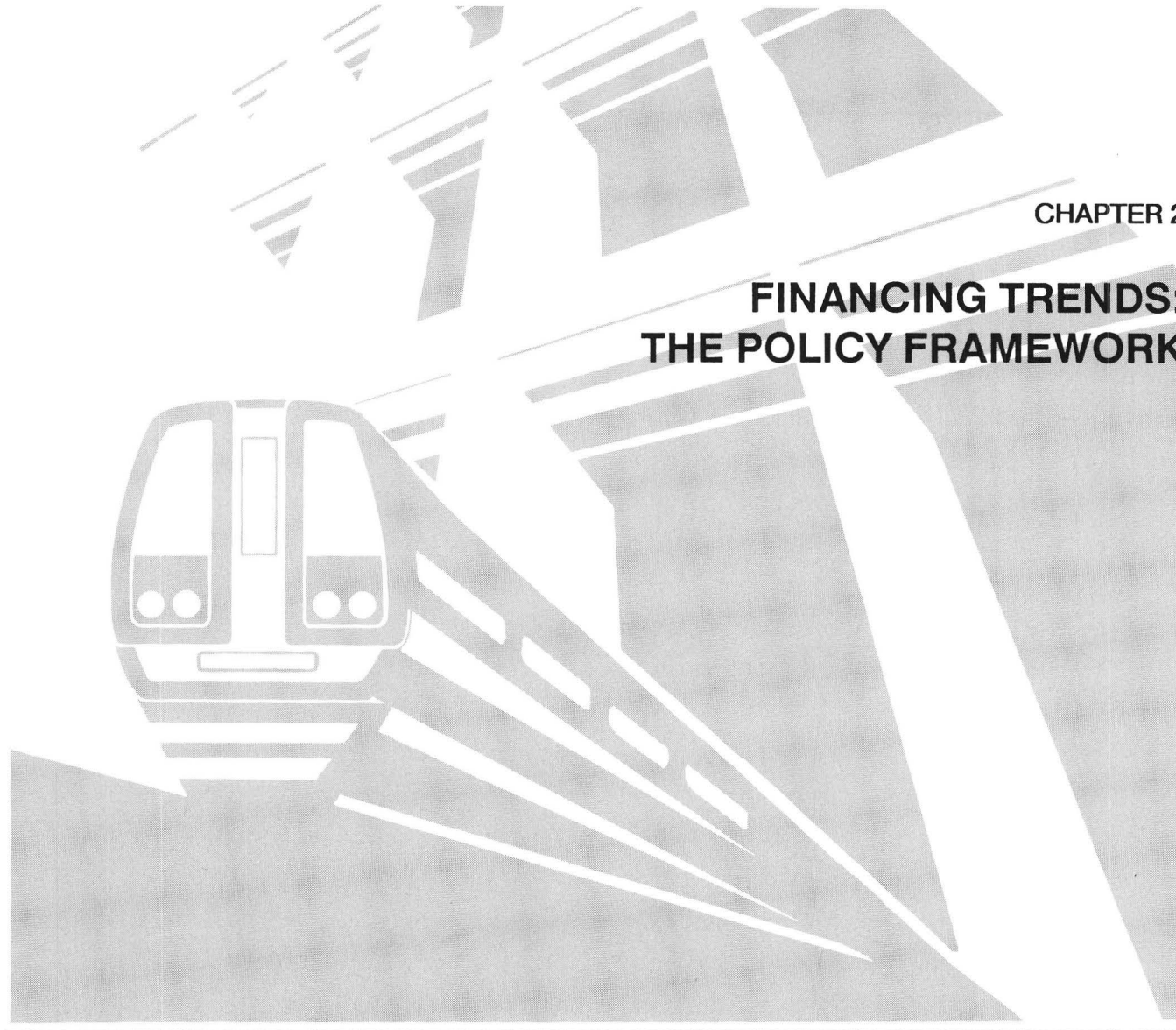
The task for individual transit agencies is demanding too. APTA's Transit 2000 Task Force points out that transit agencies will need to be more aggressive in matching services to markets as well as more explicit about the conditions necessary for markets to be served well. Agencies also must develop capabilities for working with local governments in land use and transportation planning, and for working with the private sector.

Finally, the private sector can do its part. By trading off costs and benefits of mass transit with local governments and transit authorities, developers and businesspersons can make a useful contribution and turn a profit, too. The long-term outlook for increased private involvement is promising -- the private sector probably will participate more and more in planning, financing, and even service.

Joint development projects are complex and sometimes risky ventures, and public and private entities operate differently. While the public sector is accustomed to lengthy planning and construction schedules, for example, the private sector normally is not. The former takes a chance in relying on private capital; the latter assumes risk in the slow public decision-making process, and either one could abandon the project with losses for the other. However, joint development has tremendous potential to serve the needs of many actors. It offers the unique opportunities and innovative approaches necessary to increase transit's market share, relieve America's roads, and lessen our reliance on the automobile.



## FINANCING TRENDS: THE POLICY FRAMEWORK



The fiscal responsibility for public transit, at one time in the hands of the private sector and more traditionally the burden of the public sector, has recently become the concern of both sectors as constrained public dollars are unable to keep up with the transportation improvements required. Additionally, as developers recognize the added value they earn from projects containing a transit component their willingness to contribute to transit improvements increases. Public sector officials, anxious to capture some of the added value, are willing to share in the risk of costly development deals.

The final outcome of this partnership is joint development, and the tools and techniques available to ensure its success are as varied as the projects themselves. There is no cookie-cutter approach to joint development. However, there are a variety of financing techniques available to encourage and leverage private sector involvement. Determining which tools and techniques will work in a particular locality is as much a function of policy as it is availability. Market conditions and equity concerns also play a role in determining which techniques will work best. This chapter will outline some of the issues involved in deciding among financing techniques.

## HISTORICAL TRENDS

Mass transit was initially a private undertaking. Decades ago, railroad companies began local commuter services, creating a central hub in the city with "spokes" leading out to rural areas due to be developed. New technology soon gave birth to elevated tracks as well as subways in large cities. These transit systems were overwhelmingly privately developed, owned, and operated. Local governments issued the companies monopoly franchises as a utility, and they were in business. The private sector bore all the risk, and when the industry became less profitable services diminished.

The advent of automobile technology brought the private sector into the bus business, which became a lower cost alternative to electric trolleys. Bus transit was an effective competitor to automobiles from the late 1920s to the early 1950s. After this time, privately-owned bus companies lost riders to the automobile, the use of which was subsidized by "free" roadways built and maintained by local governments. When the urban transportation industry found itself unable to generate a profit, it abandoned the business, and local governments took over.

The costs of maintaining and operating costly public transit systems, always a problem for local government, have been aggravated by changing public attitudes resulting in louder calls for tax relief and the growing unpopularity of general obligation bonds, long a traditional technique for financing public infrastructure. With few exceptions, state governments have provided little programmatic or policy impetus for develop-

ment management planning tied to transportation or funding.

Simultaneously, federal aid is decreasing and does not represent a steady and viable source of monies. In fiscal 1981, UMTA received \$4.6 billion for program and operation funding; for fiscal 1989 it was \$3.15 billion. This is expected to drop in ensuing years. In February 1989, Transportation Secretary Samuel Skinner announced a program to encourage local operators to increase the local share of public transit financing. Under the Secretary's plan, a bonus program or system of incentives reward state and local governments that do so. Thus, innovative financing techniques that stress both public and private sector cooperation and participation are critical to getting needed federal monies.

In the case of local transit, federal, state and local operating subsidies, increased user fares, local bonding authority and the establishment of transportation management districts have assisted in helping communities defray the costs of public transport. Other revenue-raising techniques include state gas taxes, local fuel taxes, higher registration, licensing, and user and titling fees.

Public-private initiatives have emerged as a practical means for providing funding to help solve our infrastructure, and more specifically, urban transit problems. As the private sector becomes more aware of the added value from transportation-related projects, a willingness to participate financially (and otherwise) will develop. In choosing among the techniques available to leverage private sector support, an understanding of the policy framework is essential.

## THE POLICY FRAMEWORK

The pace of local growth often outstrips the financial capacity of local governments to provide public infrastructure such as roads and mass transit facilities, and make necessary improvements to existing infrastructure. To bridge this gap, many localities resort to non-traditional financing methods that require private sector participation. Usually these techniques shift the financial burden from taxpayers to beneficiaries of the new or improved infrastructure. Some of these user-based financing approaches are similar to development impact fees in that they are dependent on new development and thus work best in growth areas. Others are suitable in communities with slower growth or in low density areas.

When evaluating the utility of the financing techniques available, it is important to bear in mind two critical concerns: equity and market sensitivity.

### **Fairness**

The issue of who pays for growth and the related services required from it is a difficult decision facing local policymakers across the country. Perceptions of unfairness can lead to public resistance to private-sector financing and/or influence the types of innovative financing selected by public officials. Of critical concern is whether or not the benefits of the new development to established users will themselves outweigh the associated transit costs that they might be asked to finance. Another concern is the extent to which current users or developers have

an obligation to future generations of users to provide transit facilities.

While the current generation of developers and users may have caused an infrastructure shortfall or a need for transit facilities, it is not clear that they should be held responsible for the full costs of expansion since future generations of developers and users will also benefit from these investments. Thus, the selection of financing instruments, the scale of transit investments and the proportion of investment costs recouped from the current generation of users are affected by considerations of equity.

Certain public-private financing arrangements are considered more equitable than others, depending on how you define equity. For instance, special assessment or special benefit districts involve a close geographical association between fees paid and facilities financed, thereby providing an equitable distribution of financial burden within a specifically defined area.

Independent district user fees and impact fees are also considered fair because they are based on actual consumption and imposed at the same rate for both established users and future ones in the same service area, and often, in the whole service system. Tax Increment Finance districts ensure equality of assessment for both established users and developers as well as new developers and users. However, this approach may be considered inequitable by existing users/developers who believe that new entrants should pay for at least a portion of the incremental facilities needed with fees as well as regular property taxes. In contrast, developer contribu-

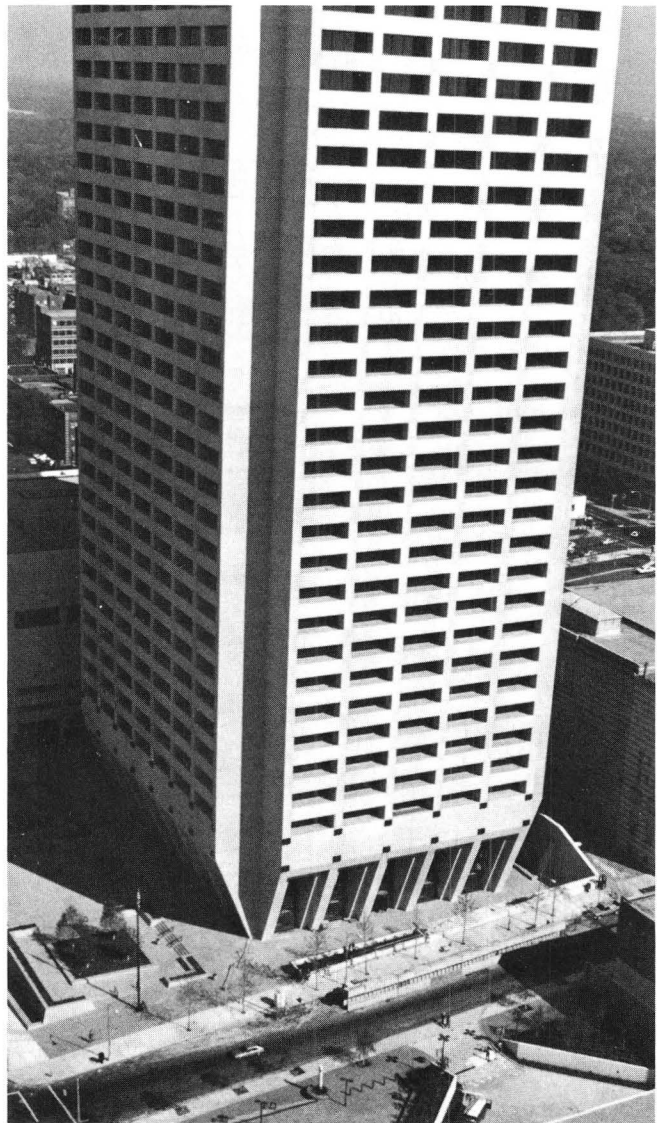
tions and negotiated exactions focus on maximizing private contributions to public facilities with little attention paid to overall fairness.

When designing developer-local government financing of public transit facilities, public officials first must define equity as they perceive it. Second, they must decide whether equity is a primary consideration and, if not, what other considerations take precedence. In short, they must determine to what degree they are willing to trade off equity in order to achieve mass transit goals. However, fairness is unlikely to be the sole standard in selecting among financial options. Careful evaluation of the local marketplace, the impact of the project on the local community, and the relative importance of the transit linkage to the overall success of the project is also critical in determining financing methods.

### **Market Sensitivity and Elasticity**

Local officials must balance their funding needs for prescribed transit facilities with the effects such costs may have on the nature, volume, timing and prices of the development itself. In other words, how are these various financing techniques likely to impact future economic development decisions? What is the balance between leveraging private participation and ensuring that the specific development project will occur?

With fewer public resources, the private sector has to take a larger role in financing transit improvements. The question is how large a role will they take? It becomes critical for the economic development practitioner to understand



*The Southern Bell Building at the North Avenue MARTA Station in Atlanta, Georgia.*

local market sensitivities in order to understand the limits of private sector involvement and the factors influencing a developer's decision.

The three areas likely to affect this decision are as follows:

1.) Market Entry. If the financial burden of providing transit facilities or improvements is



## **Case Example: Atlanta's Southern Bell Building**

The \$100 million, 1.9-million-square-foot Southern Bell building is one of the most significant private developments in a transit station area of the Metropolitan Atlanta Rapid Transit Authority (MARTA). In a 47-story complex of shops, restaurants and office space, Southern Bell consolidated 3,500 employees from 12 different locations. The project was constructed using air rights at MARTA's North Avenue Station. The 53-mile MARTA system includes 46 stations and the authority has participated in several joint development projects. These projects vary according to the five development policy classifications that MARTA applies to the stations to monitor transit impact: high intensity urban node, mixed use regional node, commuter, community center and neighborhoods.

High intensity urban node stations are located primarily in the central business district and areas with high commercial use. In addition to the Southern Bell site, the Georgia State Station project includes two state government office buildings leasing air rights. The IBM Tower has a long-term lease agreement at the Arts Center Station. Outside the Central Business District, several major activity centers for major office, residential and retail development, including a new \$225 million office tower at Buckhead, are enhanced by the presence of MARTA stations.

The Southern Bell project is an example of extraordinary cooperation in a joint development effort. The major participants were MARTA, Southern Bell and Atlanta Landmarks, a real estate firm, which brought about a land swap with Southern Bell. MARTA authorized the opening of its North-South line before completion of an important station on the line so the North Avenue Station could be ready for Southern Bell's opening. It provided a one-track shuttle as an interim measure to accommodate the completion schedule.

Southern Bell had sought purchase of Peachtree Corner for its new regional headquarters but the site was occupied by a local landmark, the Old Fox Theatre. The theatre became the subject of a public protest and a "Save the Fox" campaign ensued. The solution was a land swap giving Southern Bell the remainder of the block in exchange for the Fox site. At the request of both the City and MARTA, Southern Bell scaled down its parking lot.

MARTA's enabling legislation restricts it from directly participating in joint development activities. But MARTA uses growth management tools such as land assembly, underwriting of feasibility studies, direct station connections, property leases, financing assistance and creation of special public interest districts to support development.

considered too great, a developer may choose to relocate to another site. The decision to continue the development or not is referred to as a function of "demand elasticity." The decision to remain at the site or move the project to another depends on the strength of commitment the developer has to the site. This is referred to as the "elasticity of location."

2.) **Project Size/Mix of Uses.** A requirement to provide funding for transit facilities may influence the size, type and timing of a project. For instance, a fee assessment based on square footage or acreage may encourage the developer to decrease the size of the project or increase the density on a smaller site. A developer may also redesign a development to increase commercial space over residential if a fee or contribution is based on a number of residential units, or phase the development to avoid fees that kick in at certain project sizes, resulting in a less optimal development.

3.) **Land and Development Costs.** Developers, when assessed a transit impact fee or required to contribute funding for transit facilities, will naturally try to reduce the burden of the cost-sharing by either passing the costs forward to final customers and users (i.e., lessors, renters, buyers) or backward to landowners from whom they buy property for the project. The ability to pass these added costs forward depends on the strength of demand in the local marketplace; if it is inelastic, the incremental costs can be passed forward to final users without much effect on local demand. Similarly, the ability to pass costs backwards by paying less for the land depends on the elasticity of land supply. If there is a glut of

land or the market is soft, then it will be easier for developers to pass the transit infrastructure costs backward and force the price of land down.

Research performed by several real estate development and building trade associations indicates that developers view impact fees, assessments and exactions for public facilities as the lesser of three evils, the other two being development moratoria and case-by-case negotiated exactions. Many developers have consistently opposed mandated impact fees and exactions on the grounds that they increase prices and rents.

Cost and confidence are also primary concerns. Early in the development review process a developer wants to know what transit/infrastructure fees, improvements or linkages local officials expect him/her to provide. While established fee systems allow a developer to know in advance the transit infrastructure obligations, the fee systems still may not adequately address more specific concerns. For example, typically, the developer wants other developers and the locality to share in the expense of off-site improvements which benefit other developments.

### **Economic Basis for Calculating Costs**

How does a community measure the private sector's benefit from a particular transit service or facility? Some infrastructure costs are so closely tied to a particular development that it is easy to calculate the project's fair share -- such as the costs of tying in to the main water and sewer system or building a connecting road. And, on-site costs are clearly the burden of the particular

## **Case Example: Long Island City Improvements**

Citicorp recently completed construction of a 45-story office building in Long Island City, Queens. A mandatory requirement of the Court Square Sub-District zoning, which changed the zoning of the site from a low-density manufacturing to a high-density commercial use, was the construction of a subway transfer connection through the project site. The improvement project allows free transfers between the 23rd Street-Ely Avenue IND and the Court Square BMT subway stations via a 30-foot wide corridor. The project also includes a new entrance, with escalators and fare controls, located in a skylit rotunda at the middle of the corridor and the relocation and widening of an entrance stair to the BMT station. The transfer connection was opened for use in January 1989.

Development of a second site in the Court Square Sub-District requires the construction of an escalator transfer connection between the Court Square BMT subway station and the elevated Court House Square IRT station. Development of a third site would require further improvements.

development. In the mass-transit case, however, a project's fair share of off-site transit facilities is not so easily specified, especially when there is no simple way to tailor the capacity of the development exactly to the immediate demand created, or what that demand will be. Moreover, sometimes the provision of infrastructure will depend on the financial success of the project itself.

The question then arises as to how new developments (or existing ones) are to be assessed their fair share of the costs of new transit services. Should the new development pay the full cost of service provision or the full "marginal costs"? Or should each user of the system, old and new, pay an equal portion of the costs of providing services, thus assessing new entrants only their proportion of the "average cost" of the whole system?

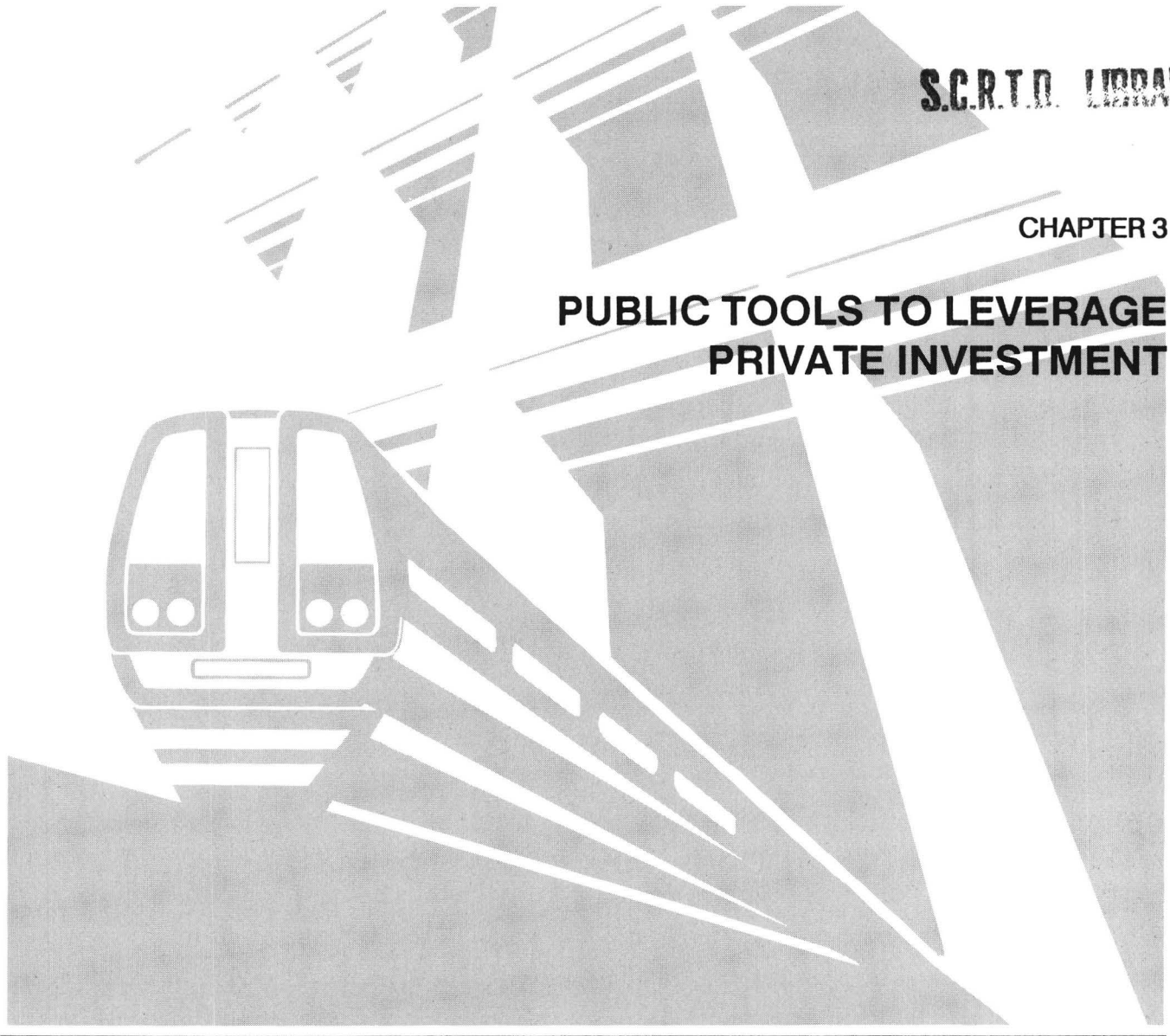
If marginal cost pricing is used, should new development pay for the whole sum of investment, or only the share that is required now?

However, as in the example of development fees, the introduction of a "fair share" system can have a feedback effect on the actual number of transit or infrastructure users. For instance, if fees are set at the average marginal cost, the developer may reduce the size of the development or alter its configuration so that the formula for calculating the fees shows lower increase in commuter traffic than is anticipated. Some communities, in order to take advantage of economies of scale in construction, encourage oversizing when charging developers only the average cost of providing transit facilities. The cost of constructing transit facilities or operating transit

systems beyond a development's immediate needs is subsequently reimbursed either by the local jurisdiction or by future developers that enter the transit service area.

When evaluating the policy alternatives of various financing techniques, it is important to keep in mind the following: transit makes money for the developer. Though concerns of equity and market elasticity are critical in determining which methods will work best, it is important not to lose sight of value added to the development

which makes public sector value capture possible. Transit makes the developer's site more prominent and reduces labor and parking costs, thereby leasing faster. A policy decision to cut parking requirements in return for a contribution to transit can save the developer a lot of money and make a difference in choosing between transit and non-transit sites. If the developer doesn't need transit then he should use another site and the city should get another developer who understands the value. The decision for the public sector then becomes one of which technique will work best.

**PUBLIC TOOLS TO LEVERAGE  
PRIVATE INVESTMENT**

Often, successful joint development projects require financial participation by the public sector to help bridge a financing gap. Conventional public sector participation has been in the form of debt servicing and federal funding. The following reviews those more traditional sources and describes the status of these programs.

**FEDERAL PROGRAMS FOR JOINT  
TRANSIT-DEVELOPMENT PROJECTS**

Over the past 12 years or so, the structure of the federal transit assistance programs has been

shifting gradually away from discretionary funding and toward formula funding. A program that began in 1964 as 100 percent discretionary capital assistance funding has shifted to roughly one-third discretionary and two-thirds formula with the formula portion including a significant amount of funding for operating assistance. Moreover, one-third of the discretionary portion has begun to include routine allocations to larger cities such as New York and Philadelphia for large-scale rail rehabilitation projects, and other allocations for major but fairly predictable bus replacements. Nevertheless, federal funding for transit and

transit-related development is available for projects that demonstrate that development or rehabilitation will have a significant impact on the local economy.

### **Urban Mass Transit Administration**

The Urban Mass Transit Administration (UMTA) offers a variety of grant and loan programs for funding transit-related capital facilities and operating costs. The bulk of its funding is the Section 9 Block Grant program; this funding is provided at 80 percent for all capital projects and at 50 percent for operation. A certain amount of capital funding, however, can be traded for operating funds. An applicant must submit a "program of projects" which serves as the principal element of the application. All projects listed must also appear in the annual element of the locality's transportation improvement program. Annual appropriations are distributed on the basis of a formula relating to population. Jurisdictions with populations of more than 200,000 receive 80-90 percent of the annual appropriation, distributed among them according to population, density and bus and/or fixed railway revenue miles and fixed railway route miles. Communities with 50,000 to 200,000 people receive approximately 7-15 percent of the funding on the basis of population and density, while non-urbanized areas receive 3-5 percent of the funding, distributed on the basis of population alone.

The Urban Initiatives Program administered by UMTA funds joint development projects in redevelopment areas. The objective is to link transit systems with economic development and

attract private investment to distressed areas. Projects undertaken with UMTA funds are linked either physically or functionally to a public transportation facility. UMTA's discretionary grant program provides funding for extremely expensive transit projects, such as the construction of a fixed guideway (rail) system or the rehabilitation of a major transit system. These projects typically require funding that goes beyond block grants. Depending on the program for which funds are requested, the federal cost share is usually 75 to 80 percent. The Section 3 Discretionary Grant program, for instance, emphasizes labor-intensive projects and construction or production of which can be begun within the shortest possible time.

In Long Beach, California, an improved transit system was a major component of the city's downtown redevelopment effort. The project linked a transit mall with downtown renewal and also included reconstruction of streets, pedestrian improvements, landscaping and street lights. The transit mall was constructed to provide a central location for the convergence of several public bus routes. The mall is adjacent to Long Beach Plaza and has dramatically changed the once-blighted area. The transit mall/transportation project was funded by a \$14 million grant from UMTA and \$8 million in state transit funds. A state transportation development program also provided initial funds for planning and design studies.

### **Economic Development Administration**

Economic Development Administration

(EDA) grants are used by many communities for rehabilitating, repairing or constructing public works facilities for industrial, commercial or tourism development. Funds are typically used in conjunction with new development or redevelopment. Presently, there is approximately \$126 million of public works grants and \$25 million for economic adjustment assistance grants to help areas experiencing either long-term or sudden, severe job loss. While these funds can be used for filling funding gaps for real estate projects, they are overwhelmingly targeted to innovative projects that commit state or local funding matches. However, EDA continues to emphasize that only projects in "highly distressed" areas will receive funding, and in almost 80 percent of the cases, funding is targeted to rural areas. While not excluding urban areas, EDA officials recommend that cities submit funding requests that demonstrate "exceptional potential" for mitigating severe economic distress and have proven job creation opportunities. Projects with an emphasis on mass transit or transportation linkage and job creation are considered for funding.

Federal funds typically cover 50 to 80 percent of the project costs, with the grantee providing the rest. Local share must be in place before funds are dispersed and the grants cannot be passed through or reused by organizations other than the initial grantee. In addition to state or local funds, grantees may use other forms of federal assistance such as Community Development Block Grants (CDBG) or Farmers Home Administration (FmHA) rural development grant funds, as part of the match.

## U.S. Department of Housing and Urban Development

*Community Development Block Grants.* CDBG remain as the lone tool that offers flexible federal funding for economic development activities in distressed communities. However, these funds have also been reduced, and there are limited CDBG funds available for real estate development. Funded activities must also meet the objectives of the CDBG program: to benefit low- and moderate-income people, to eliminate or prevent blight, and to fill urgent community needs. Turnkey or high impact development projects generally meet the blight elimination criteria most easily. Available CDBG funds can help reduce a project's financing costs, and enhance returns to the developer. Funds can be used for low-interest loans and/or grants to development projects; to provide interest rate subsidies and secondary loans or short-term construction loans; and to support land purchase, transit infrastructure and site improvement costs.

Cities can use CDBG in combination with other programs to develop innovative programs to fund joint development activities. The funds can be structured in many ways: as direct or secondary loans to developers; as loan guarantees or as default reserves for a guaranteed loan; to provide collateral for private financing; for insurance costs on notes or bonds, or administrative fees imposed by financial institutions on transactions related to the project; and to provide planning and administrative costs related to the city's development program. Administrative costs can take no more than 20 percent of the

city's total CDBG resources. For example, the Louisville Galleria, a major office and retail downtown revitalization project, involved many infrastructure facets. The \$140 million project received \$30 million in public funds, including \$8 million in Urban Development Action Grant (UDAG) funds for site assembly and other public funds to build parking, and portions of the shopping mall. An initial \$275,000 CDBG was used to identify federal, state and local financial incentives to attract business construction and job expansion.

*Section 108 Guaranteed Loans.* The loans are available to CDBG communities with eligible projects that cannot be financed from single-year CDBG allocations or other local sources. Loans can be used to acquire or rehabilitate property critical to an economic development project. The project must also meet CDBG objectives. The program allows a community to borrow from designated private investors up to three times the city's annual CDBG entitlement using the entitlement as security for the loan. Cities generally use the loan guarantees for revenue-producing activities that will produce funds to repay the loan, rather than using CDBG funds to liquidate the debt. Cities can also avoid risk by investing in many projects rather than investing in fewer large deals. Restrictions also preclude using more than half of any single year's allocation on one project.

Eligible applicants are local governments and public agencies designated by the government to finance property acquisition or rehabilitate publicly-owned property. The program is valuable

early in a development project for up-front costs because draw-downs can be made as needed for an approved project. Any repayment structure, such as deferred or balloon payments, can be negotiated with HUD.

Congress amended the Section 108 program in the 1987 Housing & Community Development Act to assist communities in filling the gap left by the demise of UDAG funding. Up until 1988, Section 108 loans could only be used for acquisition or rehabilitation of publicly owned facilities. The 1987 amendments, though, broadened usage regulations to include assistance for almost any CDBG-eligible rehabilitation or economic development activity. As a result, all of the money authorized for the loan program (\$144 million in 1988) was obligated in fiscal 1988, this is expected to be the case for fiscal 1989.

Reliance on funds other than those from federal and state coffers depends on the amount of experience a locality has in packaging joint development/transit deals, the amount of resources available (bonding capacity, revenue sources, private sector commitment etc.) and the legal and regulatory restrictions that may apply to cofinancing transit development projects.

## **LOCAL GOVERNMENT INITIATIVES**

Much of local support for real estate development projects has focused on reducing the costs to finance debt using the government's tax-exempt status and local powers to provide credit enhancements or decrease tax liabilities. Land-use control has also been an important factor in



encouraging development that has a public purpose. For a long time, tax-exempt bonding was an important resource for low-cost financing, but recent tax changes have reduced the availability and increased the cost of that mechanism. Direct loans and guarantee programs have also typically provided pass-throughs of federally funded programs while land assembly and density bonuses are being used in certain market conditions to target development on specific sites.

### **Tax-Exempt Bonding**

*Public-purpose revenue bonds* can have up to 10 percent private participation or benefit which makes them appropriate for joint real estate/transit development ventures. *General obligation bonds (G.O.)* are backed by the full faith, credit and taxing power of the city or state issuing the debt. Local jurisdictions typically use them for public works or infrastructure. G.O. bonds are also used to finance land acquisition for the purpose of blight elimination and for write-downs on land sold to developers of redevelopment projects. Because of their effect on overall borrowing authority and political scrutiny, G.O. bonds are generally not used to fund private downtown projects, but are a useful tool in funding activities that complement downtown redevelopment projects.

*Industrial revenue bonds* are used for projects such as toll roads or industrial facilities. New tax laws have sharply reduced the types of development-related activities eligible for tax-exempt funding and have also imposed a limit on the volume of tax-exempt revenue bonds issued. Since most IRBs are deemed private activity bonds, no

more than 5 percent of the issue's total proceeds can be used for private purposes. Bonds that exceed the 5 percent cap are designated as private activity bonds and are subject to restrictions on the size of individual deals. The 1986 Tax Act narrowed the definition of *industrial revenue bond (IRB)* uses. Private purpose issues are now limited by the state to the greater of \$50 per capita or \$150 million. Each state's unified volume limitation is allocated among governmental units within the state. Under the act, mass transit facilities may still be financed by IRBs. However, it should be noted that airports, docks, wharves and mass-transit vehicles financed with IRBs must be government owned to retain their tax-exempt status. In addition, the 1986 act no longer allows the use of IRBs for parking facilities unless related and subordinate to other tax-exempt facilities.

Restrictions on tax-exempt financing has caused cities to begin experimenting with alternative financing programs such as *taxable bond financing*. Taxable bonds are not subject to the same volume and use restrictions as tax-exempt financing, but they also hold a higher interest rate than tax exempts. Because of lower costs of packaging these deals and local incentives such as local and state tax exemptions, taxable bonds are often less expensive than commercial offerings.

### **Loans/Guarantees**

*Direct loans* financed using public funds can sometimes be used to bridge the financing gap between the debt and equity funds needed to complete a transit project and to ensure capital access for the project. In many examples of

development projects, loans were provided at below market rates from UDAGs or tax-exempt bond funds to finance the costs of land acquisition, physical transit facilities or service improvements. CDBG funds and EDA revolving loan funds can be used effectively to provide *subordinated*, long-term, low-interest loans to development projects in which a transit or public transport element has been designed. *Interest subsidies* reduce a developer's interest rate for a development project, and a low-interest public sector loan can also be made as a companion loan to a private one to produce a lower "blended" interest rate in the early years of a project. This helps improve the cash-flow when a development project is often most vulnerable. Interest subsidies are more useful when interest rates are high and significantly reduce the project's cash flow and net income. By reducing lender's risk, *loan guarantees* can leverage private investment and may reduce the cost of the loan. Reserve deposits are a form of guarantee that have used

CDBG and other public funds by depositing those funds in a financial institution to cover a portion of a loan.

### Incentives

Communities can help developers improve their cash flow by eliminating or reducing property taxes on projects with a transit linkage. Property tax reduction methods can include straight or scheduled tax abatements, credits, deductions and exemptions. Tax abatement programs are authorized by states and designed by local governments to meet specific development objectives, such as the provision of transit services. Generally, a period of abatement will be granted based on the scope or degree of the public transit benefit provided by the project.

While there are many variations on ways to structure a tax abatement to stimulate investment, there are very few examples of a locality



*Denver's 16th Street  
Transit Mall and shuttle.*

providing a tax credit or abatement to encourage a transit-linked real estate development. Most innovative financing mechanisms for real estate-related transit co-financing involve taxing the developer or employer rather than granting an abatement or exemption.

Several cities have used a *tax-deferred exchange* of properties in conjunction with grants to induce a developer to provide certain transportation facilities or amenities, or even to retain a business and its jobs. Tax-deferred land swaps have been used in locations where the city and a landowner hold fragmented parcels in redevelopment areas. The land is appraised, and parcels of total equal value are traded to assemble a usable land parcel for both parties. This technique has been critical in assembling the large sites needed for development of several high-impact downtown projects with integral transit components, such as the Dallas Arts District.

The tax-free exchange, while seen as a valuable tool by some localities, may be eliminated in the future as Congress seeks ways to eliminate tax breaks in order to generate revenues. Real-estate industry experts contend, however, that eliminating the tax-exchange benefits won't raise additional monies for the U.S. Treasury because people will simply stop making deals.

Cities with dynamic real estate markets, most notably New York and Washington, D.C., have developed structured zoning ordinances that provide developers with an incentive to build functional improvements to transit stations. Another incentive, *density bonuses*, allow developers to increase the size of their proposed devel-

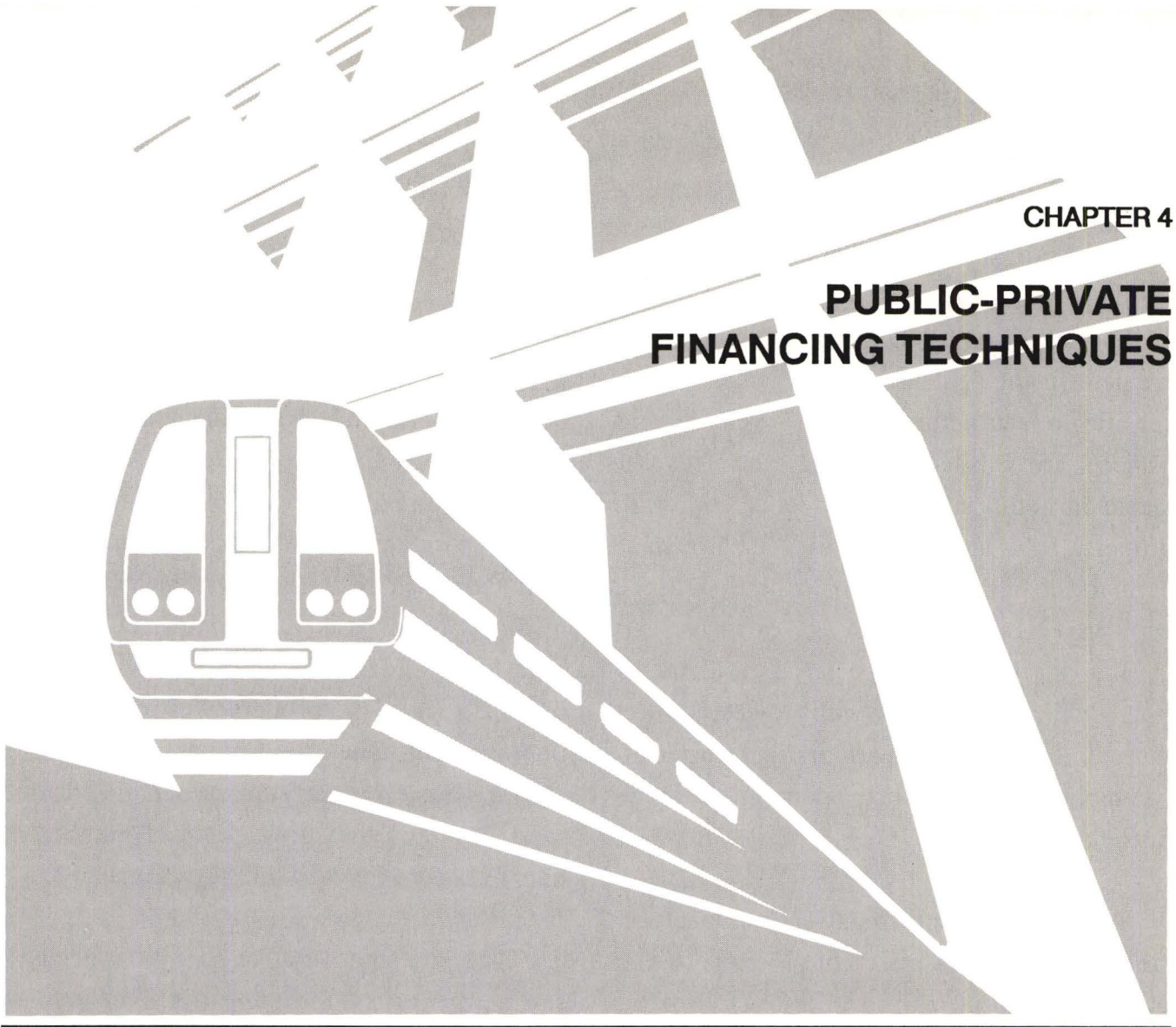
opment by providing certain proffers. For instance, a developer who builds and manages the retail component of a transit station on his/her site may be allowed to increase the size of the office component of the total project by the same square footage as the retail.

The use of special zoning or density bonuses to leverage specific types of development and transit improvements should be carefully evaluated. The system should clearly delineate the nature and amount of permitted bonus for each specific transit improvement or payment in lieu of actual construction. In a well publicized case in New York City, a developer was given increased floor area ratio for a high rise development in exchange for making improvements at a nearby subway station. Local residents were upset when the final arrangement consisted of the developer hiring 10 minority youths to clean the station during their summer break.

The virtual elimination of tax-exempt bond financing and the significant reduction of federal programs has reduced the resources traditionally made available by the public sector. Consequently, local development practitioners are becoming increasingly creative in their approaches to encouraging joint development. Taxable financing has been used in some instances in the place of tax-exempt revenue bonds. Erie County, New York, has been especially successful at blending these financing mechanisms with state and local tax exemptions. However, no known examples have used taxable financing in conjunction with joint transit-related development projects.

Furthermore, available federal programs for development centered around UDAGs which offered flexible financing for significant development projects. With that program's virtual elimination, CDBG's Section 108 program will play a larger role in development project financings, although it will likely focus on targeted areas with pre-existing slum and blight condition.

Creativity will be the watchword, as local development practitioners leverage private investment using its ever decreasing financial resources. The results are innovative financing alternatives that encourage the public sector to take an equity interest in joint development projects providing transit-related services as well as commercial uses.

**PUBLIC-PRIVATE  
FINANCING TECHNIQUES**

Communities have responded to the increasing financial constraints of providing public transit by involving the private sector. Local governments and their transportation planners are often involved in finding the financial support necessary to put plans into operation or to maintain those that already exist. In response to financial constraints and cutbacks in federal funding, local governments have begun to obtain substantial financial commitments from the private sector for constructing and operating of transit facilities and improvements; they have also learned to evaluate alternative financing methods such as impact fees and equity investment.

**SPECIAL DISTRICTS**

Special districts are one increasingly popular transportation financing technique available to many local governments to leverage private sector participation. Special districts can be independent of the local government, having nearly complete autonomy to finance, construct, and manage specific projects. Or, they can be dependent extensions of local government created only to raise revenue for projects administered by the local government. This section will examine the following special districts: special assessment districts, tax increment finance districts,

transportation development districts and independent districts or utilities.

### **Special Assessment Districts**

Special financing districts, including tax increment financing districts, are created to fund specific projects within a defined area. District projects are financed through extra fees collected in addition to regular jurisdiction-wide property, sales and income taxes or through an earmarking of taxes to a project fund. Districts with projects financed through extra fees are usually referred to as "special assessment districts," while those districts with projects financed through a diversion or earmarking of taxes are commonly known as tax increment financing districts or "TIFs."

While state and local legal requirements vary, creation of special assessment districts often requires some form of approval by a simple majority of district property owners or agreement by owners who control a majority of the land area. Consequently, unless mandated to protect public safety or welfare, such incremental fees are essentially self-imposed or sanctioned by the landowners themselves. Typically, once a district is approved, participation in special assessment district financing is compulsory for all landowners, though exceptions do exist.

Landowners involved in special assessment district financing may be residents desiring infrastructure improvements, developers interested in preparing property for major construction, or commercial establishments helping to fund in-

frastructure or marketing improvements expected to enhance local economic activity. Generally, assessments are based on those property attributes that are assumed to be directly proportional to benefits enjoyed by the property owners.

Conceptually, special assessment districts can be used to pay up to 100 percent of the capital and operating costs of transit facilities or services within the district. Special assessments on individual properties are set in accordance with a formula which relates assessments to (1) the district's annual costs (debt service and/or operating costs) and (2) estimates of the value of the benefits such as the property's proximity to the improvement. The rates are based on site size, square footage, property tax surcharge, floor area ratio or other measures, such as number of employees or gross annual sales (for retail).

There are some disadvantages to special assessment districts, including the likelihood of altering the economic decisions that would have occurred without such fees. Furthermore, there is the possible perception that property owners within the district are receiving preferential treatment in the form of new or improved infrastructure.

Currently allowed in 37 states, tax increment financing districts (TIF) are not always grouped in special financing districts but can be considered as a subcategory since they are created specifically for funding. A TIF district is specially delineated to allow the diversion of increases in property tax revenues for repaying project investors.

While TIF has been generally applied to public improvements other than transit, such as roads, utility lines, sewers and parking facilities, there are isolated examples of its use for transit-related facilities. The development of the Embarcadero Station on San Francisco's BART system in the early 1970s serves as the main example. Since TIF assumes an increase in property values, it is therefore limited to areas with potential new real estate development. Marketability of TIF bonds is highly dependent upon investor confidence in the area's future development and in the jurisdiction's willingness to reinforce the revenue stream should tax increments not be sufficient to service the TIF debt. If bonds were sold and development did not manifest itself as projected, the taxing jurisdiction would have to resort to ad valorem tax revenues to retire the bond debt based on its full faith and credit promise to repay the debt in case of a revenue shortage.

### **Transportation Development Districts**

Transportation Development Districts (TDD) refer to government authorized and dependent districts recently approved by New Jersey and Pennsylvania. In New Jersey, they are used to finance highway and mass transit improvements in high growth corridors and regions; Pennsylvania has authorized them for broader purposes.

The 1986 New Jersey Transportation Development Act, "Transplan," allows for the imposition of fees on private development to help pay for road and mass transit improvements necessitated by the new development. Included in the Transplan package are two other measures that

assist county planning and development site approval powers and strengthen access regulations and standards for developments along state highways. While an ambitious transportation initiative, the major hurdle to Transplan is New Jersey's home-rule governance, which refers to the state's 567 independent municipalities. In states with many geographically small units of government and special purpose districts, funding of public service systems that have a large service area is politically very difficult.

As directed by the act, a county (or counties) that receives designation as a TDD must certify that it will conform to an up-to-date county plan and the state transportation plan in addition to drafting a TDD proposal that has the approval of the state, county, municipal governments and the private sector. This proposal sets goals and objectives for all transportation modes in a project improvement program that will be financed from a district trust fund administered by the county. Subsequently, a development fee ordinance exacts impact fees for the trust fund and fixes a date--not more than 10 years before the ordinance's effective date--in which developments are exempt from being assessed. While proponents of Transplan feel that it will satisfy high growth communities' pressing transportation infrastructure needs, opponents believe it raises as many questions as it solves and adds another layer of governmental control to new development. Presently there are several proposals to amend Transplan.

At the local level, Los Angeles, Portland and Miami have demonstrated the most widespread use of transportation development districts to

## **Case Example: Colorado's Metropolitan Improvement Districts**

Colorado has used special districts widely in conjunction with various sorts of development fees and taxes to provide services and facilities supporting new development. Southeast of the Denver area, 11 independent metropolitan districts formed the Joint Southeast Public Improvement Association (JSPIA) in 1982 to plan, design and construct regional transportation facilities to relieve the growing access problems along the southeastern portion of Interstate 25.

The projected amount of commercial office and industrial space to be built within the commercial corridor along I-25 is expected to rival Denver's downtown office space volume within 10 years. The creation of the JSPIA allows the 11 individual metropolitan districts to wholly or partly finance five interchanges and an overpass involving a projected \$16.8 million in association funds alone.

The JSPIA arrangement also promotes coordination with other local government agencies in working out financial plans and construction schedules and in contracting for major service improvements, including transportation. Governed by a 12-member board (one from each district plus one at-large), all matters are decided by a two-thirds majority except financing decisions, when unanimity is required. Coordination of services extends to cost and debt sharing and the assessment of taxes. Since each member can use property taxes to fund bond issues, developers can reduce the "front-end" cost incurred in making improvements.

Interestingly, all JSPIA members participate in capital improvement decisions even though such projects may be located neither within nor adjacent to their district. The premise underlying this approach is that any transportation capital improvement within the JSPIA's jurisdiction is providing, at minimum, indirect benefits to all association members.

date. Los Angeles, which broke ground last year for the \$1.25 billion, 4.4 mile first leg of a planned 20-mile subway system, will raise between 15-20% of the cost through assessment districts around the subway stations. The assessments, however, will be deferred until the line opens in 1992. Miami financed \$20 million of its \$148 million "Metromover" with a 50-block assessment district. The district charges an 18-cents-

per-square-foot fee on office space in the district which will go to repaying \$20 million in bond debt. In addition, approximately \$10 million from joint development and station connection fees helped to fund Metromover.

In Portland, Oregon, the \$214 million, 15.1 mile "MAX" light-rail system was funded by federal, state and local sources with \$1.6 million



coming from downtown businesses which formed a local improvement district to fund design improvements on the downtown portion of the system. Both the Miami "Metromover" and the Portland MAX serve as planning models for other cities demonstrating how the city, realizing it was short on capital funds for construction, negotiated a solution with the business community, which supported the additional levies.

### **Independent Districts or Utilities**

Utilities are independent public corporations established to finance, construct, operate and maintain public works. Transit utility approaches parallel those used for traditional utilities such as gas, power and water.

A number of local governments nationwide have segregated their mass transit activities into independent utilities that oversee all aspects of the provision of public transport from funding to construction to operations and maintenance. Utilities and independent special districts may be distinguished by the scale of their activities, geographical expanse and functional scope.

As referred to here, utilities may be given perpetual responsibility to operate and maintain transit facilities. Further, a utility is not confined to a local component of a transit system but includes the whole generating and distributing network. Finally, a utility does not delegate the administrative decisions concerning financing, personnel, etc., to another governmental department; these are handled within the utility, which operates as an independent public corporation. Characteristically, utilities charge initial hook-

up fees for capital expansion plus periodic charges based on actual or presumed use for operations and maintenance. However, transit utilities recapture service costs through user fees and other types of cost-sharing arrangements.

There are two advantages in organizing public works as utilities: (1) financial support is user based and is related to the actual use or benefits received, and (2) planning and financial management are not subject to the uncertainties of general revenue budgeting, such as local government transit agencies. The disadvantage is the public resistance to what is perceived as additional taxes rather than fees in lieu of increased taxes.

For example, Fort Collins, Colorado, uses the principle that costs should be borne by those who benefit from public works, and as a result, the city has established separate utilities for stormwater, water and sewer, and transportation services. Like the other utilities, the Fort Collins transportation utility charged users for both capital and ongoing costs according to actual use or presumed benefit. Under the auspices of the utilities, the city has promoted more cost-effective construction of public facilities for the future by reimbursing developers for oversizing or building in excess of current needs. The transportation utility was established in early 1984. It uses a transportation utility fee system which is based upon the amount of street frontage for each property and traffic generation factor assigned to each use category. However, since mid-1986, the program has been frozen due to a class action suit brought by local citizens and developers who charged that the utility fee was a tax.



*Civic Center Transfer Station in Denver at one end of the 16th Street Mall. The State Capital is in the background.*

Prior to the lawsuit, there had been some objections raised concerning the utilities fee (based on the intergenerational equity argument). The city, however, tried to point out that the transportation utility fee was not a tax since it is based on presumed use of the transportation infrastructure whereas a tax is related to value of property, income or sales. Until the program was frozen, the transportation utility collected \$500,000 annually. The average developer was paying \$40-50 month for commercial property, while the typical homeowner was charged \$1.50. At present, the Colorado State Supreme Court is considering the city's appeal after a lower court ruled in favor of the citizens.

### **Developer Contributions, Impact Fees & Exactions**

Development fees refer primarily to charges levied on developers to pay for additional public facilities made necessary by a project. They can also be called system development charges and transit facility fees and imposed systematically, according to a fixed schedule and with no allowances for negotiation. Linkage fees refer to programs that require a developer to pay a negotiated or structured fee not explicitly impact-oriented and not intended to finance improvements immediately adjacent to the developed site.

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**PROFILE:**  
**DENVER'S 16TH STREET MALL MANAGEMENT DISTRICT**

Denver's 16th Street Transit Mall is widely recognized as a successful working system that links mass transportation with pedestrian access for workers and shoppers to destinations in the city's downtown area. The 16th Street project provides shuttle vehicle service along 14 blocks between two bus transfer stations at either end of the Mall. About 40,000 pedestrians use the Mall daily while ridership on the shuttle vehicles is 35,000 per day.

Financing for maintenance, management, planning and public purpose development of the Mall comes from assessments on property owners located within a special 77-block Mall Management District. Downtown Denver, an arm of the public/private Denver Partnership, manages the Mall's public space under contract to the city. The Partnership also raises funds for special events, advertising and promotions. The Mall gave impetus to the joint development of the One Civic Center Plaza office development using air rights over the Civic Center Terminal, the Mall's southeast terminal transfer station.

*Major Actors.* Since the early planning stages, the 16th Street project has been an outstanding example of a public/private partnership which required coalition and consensus-building, group decision-making and conflict resolution. The decision involved UMTA, City of Denver, the Regional Transportation District (RTD) and Downtown Denver. Downtown Denver originally proposed and worked for the Mall and carries out its ongoing maintenance as well as raising other monies for events and promotions. Downtown Denver's advocacy efforts persuaded about seven percent of the property owners in the district to change their votes to support the establishment of the assessment district. Opposing property owners wanted contributions to the district to be voluntary. The city restructured its traffic system to accommodate the Mall and continues to provide for public, private and emergency access to the area. RTD took on organizational, planning, design, coordinating and operational responsibilities for constructing the mall and providing the shuttle service.

*Financing.* The cost for the Mall project was \$76 million with about 80 percent funded by UMTA. The Federal dollars were from Interstate Highway Transfer Funds provided through UMTA and from UMTA Section 3 and 5 grants for the two transfer stations. The Federal Highway Transfer Funds

became available when the governor of Colorado cancelled a proposed interstate highway for Denver. The City of Denver and the Colorado Division of Highways provided funds for related street improvements. RTD provided a share of local matching funds for the federal dollars. Construction of the Mall cost \$57 million, implementing a design planned by architect I.M. Pei. This included the widening of sidewalks along the 80-foot-wide Mall, paving, tree planting, lighting and the placement of the transfer stations. A fleet of 26 diesel-powered shuttle buses made in West Germany was purchased from Minicars of California.



*Aerial view  
looking west over  
the 16th Street  
Mall.*

The budget for the Downtown Mall Management District primarily covers maintenance, management and police patrol services. Other items are capital improvements, events and promotions, and planning and coordinating services. The maintenance and management funds are supplemented and leveraged by Downtown Denver, from private sources. There are about 860 property owners in the District with annual assessments of between 6 cents to 68 cents per square foot, depending on the project. The most recent annual budget for the Mall Management District was \$1.77 million.

Under the air rights lease agreement for the One Civic Center Plaza development, RTD is expected to net over \$55 million over a 15-year period. The locational advantage of the transfer terminal is demonstrated by building occupancy and square foot lease rates that are both 25 percent higher than in comparable buildings further away from the transit improvements.

*Results.* The 16th Street Mall has succeeded as a focal point for organized and non-organized people activity and given the city a unifying design feature. It has also reduced bus traffic and attendant noise and pollution in the area and cut travel time for riders who have increasingly accepted the new shuttle system. Downtown Denver has worked with public space consultants, the local business community and marketing experts to liven "dead spots" along the Mall and developed programs to benefit all users of the Mall and the businesses located there. Plans are under consideration for extending the Mall further and for another 8-block transitway that would intersect with the existing mall. (The implementation of the 8-block proposed transitway was examined through a CUED-UMTA technical assistance site visit which will be discussed in Chapter 5.)

*Lessons Learned.* Many lessons have been learned in the design, planning, construction and management of the mall. Overall, a successful mall must be designed as an integral component of a larger redevelopment plan and have consolidated public and private support through all phases. Since most urban malls are competing with enclosed suburban malls, they must establish standards of cleanliness, security and safety and have maintenance programs which keep them competitive. According to the Denver Partnership, the usual public maintenance will not suffice. To maintain competitive standards, malls must have legal structures or funding mechanisms for maintenance and security which are targeted to the mall on an ongoing basis. The legal authority is also necessary to support professional management that can control the quality, consistency and promotional activities.

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The use of voluntary linkage fees is becoming more popular as developers become convinced of the advantages of setting aside monies for public facilities or special uses not contiguous to their project. While density bonuses or other regulatory relief is used by some cities to induce voluntary linkage contributions, many cities "suggest" to the development community that a mandated fee system or building moratorium can be a more expensive and onerous option than a system based on voluntary fees. Exactions involve the dedication of land for public use or payment of a fee in lieu of such dedication. Exactions are primarily for on-site improvements and often involve negotiation between the developer and the local jurisdiction.

Developer fees, impact fees, exactions and linkages are increasingly being used to fund transportation and/or transit related facilities required to support new growth and development. Local governments and agencies are turning to fees to avoid raising taxes and to make up for cutbacks in

federal monies for public investments, such as infrastructure and mass transit facilities. Developer fees (and their derivatives) have been primarily employed to finance new construction and improvements for roads, sewer and water systems, parks, schools, police and fire stations, and in some cases (as linkage fees) job training programs, childcare and the development of low-income housing. Some developer requirements are imposed on the grounds that development will exacerbate peak-hour traffic and transit problems. Developer fee programs are traditionally found in strong markets and have often been utilized as an anti-growth mechanism. Localities believe developers should pay for solutions to the new congestion their projects may generate.

Development fees for transit-related financing fall into two general categories. One is a fee system with requirements specifically set forth in local ordinances as a condition for receiving zoning approval or a building permit. The fee is

## **Case Example: San Francisco Transit Impact Fee**

The City of San Francisco's "Transit Impact Development Fee Ordinance," instituted in 1981, remains as the paramount example of the use of transit impact fees. Under the city's program, owners and developers of newly developed buildings in downtown San Francisco must pay a fee of up to \$5 per square foot on new office or commercial space. The fee was designed to provide revenue to offset increasing operating and capital costs of the San Francisco "Muni" (municipal rail) system, and is assessed to cover the increased transit costs which the city predicts will be generated over the 45-year life of each office building. The fee is paid in a lump sum at the end of construction. The developers of a dozen projects, however, have been allowed to pay in installments over a several year period since their projects were approved prior to 1981. Through January 1989, the city has collected over \$58 million in fees from development projects.

The transit fee ordinance, which applied to approximately 10 square miles of the downtown area, was legally challenged by two class action suits following its initiation. Plaintiffs originally argued that the \$5 per square foot fee exceeded the reasonable cost of the increased services to be provided, and thus was not a legitimate development fee but a special tax, which must be approved by two-thirds of the state's assembly. Both the trial and appellate courts found that the fee was not a tax, since it is designed to fund only Muni maintenance and development and not earmarked for general funds. However, the appellate court did find that the retroactive application of the fee for buildings constructed after 1979 was technically illegal.

normally based on a project's square footage, the amount of peak-hour vehicular trips the development will generate or sponsorship of ridesharing programs. The second category deals with requirements that may also be negotiated by the developer with the local zoning or development agency when a developer applies for rezoning or a project approval. In the case of negotiated requirements, also called "proffer" or "incentive" zoning or development agreements, local governments withhold permit approvals until a developer commits to paying cash or in-kind transit

related improvements needed to support the user traffic generated by the new development.

While developer contributions and fee systems are being accepted as innovative methods of financing essential public works, there is debate about the role that they play in economic development and the provision of public facilities. Some developers view these "proffer" and fee systems as thinly veiled growth limitation policies. In addition, development fees have evoked concern among economic development

professionals because of their unknown short- and long-term effects on growth in general. As a result, developer "fair-share" policies, such as exactions, proffer and impact fees are sometimes viewed with suspicion, and can lead to legal action against the jurisdiction imposing the transit impact fee.

The few examples of development fees in use around the country for financing transportation and transit improvements are based on the maxim that transportation facilities and economic development are inextricably linked. The movement of goods to market and movement of inputs to firms, including workers to their jobs, requires roads. If a road system becomes too burdened, and there are inadequate mass transit facilities to substitute, businesses may relocate and constituents may demand that local authorities implement some form of immediate improvement.

Critics of development fees also believe that they impede economic development by forcing potential developers and businesses to look elsewhere when considering new facilities in a particular jurisdiction. However, some studies have found that while developers are generally opposed to widespread development fee use, they support well targeted fee programs. This support is sometimes for defensive reasons since they fear building moratoria on new development.

Furthermore, developers have reasoned that insufficient public facilities might be built instead, or that none will be built, thus decreasing the marketability of their subdivision or commercial/office development. Traffic is and usually remains a dominant factor in any project.

Many developers feel the fees will give them the necessary leverage to demand public facilities needed to develop their land in a timely and orderly manner.

### **Economic Considerations**

The feasibility of development fees is dependent on a strong local economy. The supply and demand for developable land must be adequate to absorb the added costs of development fees. An area with a soft economy, however, is an entirely different situation. Publicly funded improvements are often necessary to attract development to the area. History shows that development fees evolved as an element of a broader growth management strategy for localities experiencing strong development pressure, e.g., cities in California, Florida, Texas, Washington and Colorado. The objective was to encourage development where public facilities were adequate. Following rapid growth, many communities began to see deficiencies in the quantity and quality of infrastructure that had lured development in the first place. If these communities sought to maintain their rate of development, or at least balance it, then they had to develop alternative infrastructure financing tools. Hence, the use of development fees as a charge for development in areas where there is insufficient capacity.

Cumulative experience from around the country shows that development fees have not stopped or stymied growth. Most developers understand the rationale for mandated fees and negotiated exactions, and regard them as part of doing business. Even developers in areas that do

not have formal programs have taken to volunteering transit facilities in the hope of winning approval for their projects. For instance, in Alexandria, Virginia, developers of a proposed 38-acre commercial center have offered to build a station on the nearby Washington Metro line to improve the chances of the project's approval. Local officials, though, are pressing additional demands that the developers also widen an adjoining roadway and build a series of parkway interchanges for the project. In Portland, Oregon, a private developer was required to provide the local match for an 80% UMTA grant to construct a transit transfer center in return for a conditional use permit for its mixed-use development.

Another concern is the complication factor between bordering localities due to the traffic/transit/infrastructure impacts of development in an adjacent jurisdiction. Presently there are no formal mechanisms for enacting development fees across separate government domains. Neighboring jurisdictions need to coordinate development approvals near their boundaries and negotiate joint financing agreements with developers to share in the cost of capital improvements in the area. An ill-fated situation is the case of two neighboring localities with and without development fees. The community without the fees will have an advantage in attracting development, while the other community endures the traffic and transit impacts with little prospect for a joint agreement providing for fee sharing.

Development fees are implemented through land-use controls, and thus play an important role in a locality's planning and management of

growth. These fees may become commonplace tools in a community's comprehensive plan. The plan then becomes essential in justifying a program of exactions, especially when legally challenged. By designing and implementing development fees that can provide adequate public transit facilities, communities can justify development fee systems as central to their economic development strategy.

## **EQUITY INVESTMENT STRATEGIES**

Public-private partnerships refer to working relationships in which the public and private interests share ownership, or certain features of ownership, in public transit facilities. Examples include direct private investment or contribution for capital costs to build transit facilities as well as joint operation of such a facility.

Equity arrangements between the public and private sectors refer to several types of public equity or equity-like participation in private ventures in return for public services or property and private equity public works with or without active involvement by the private sector developer. In some cases, a turnkey process will permit transit agencies to contract with a developer for delivery of a fully-completed and operational transit project, which in some cases the developer (and subsequent tenants) may or may not choose to utilize. In other instances, voluntary participation by either a developer, employers and/or businesses in the form of solicited donations for transit-related purposes have been used for capital and service improvements.

Public equity in private undertakings is a less



common approach to generating income for local government service provisions such as transit. Characteristically, a locality or its transportation entity receives income from a developer or private venture based upon the gross or net revenues of the project. This income repays for property purchased by the local government or for public transit service rendered. The local government thus becomes a de facto joint partner in the private development in return for its aid in establishing the project.

**Passive/Active Participation**

Private equity in transit facilities and services can be separated into two groups: active and passive. Active private participation can include direct private investment and administration of basic transit services, such as a shuttle bus service for residents and employees of a large mixed-use development to a rail station or the actual construction of a rail station, both of which were funded by Hartz Mountain Industries, a New Jersey development firm, for their Harmon Cove development in Secaucus, New Jersey.

An ambitious example of active equity participation would be the Front Range Transportation Corridor in Colorado, where a private group has organized the initial engineering and financial effort for a 210-mile toll road and transportation corridor stretching from Fort Collins to Pueblo. In this case, there is no formal participation by public officials or governments in the project, except their approval of the privately funded transit activities. The project involves a multipurpose transportation corridor to accommodate up to eight lanes of traffic, a high-speed

rail line and space for a water and power utility hookup. Presently, though, the project company is still trying to arrange financing.

There are several types of passive private participation in transit investments. First, private equity in transit facilities can take the form of private capital contribution in exchange for acknowledged or contractually defined rights to use the transit services being developed. Donations, cash or in-kind, are another form of passive equity participation. For example, the developer of a shopping center might donate land for a bus transfer center, in order to attract more customers, reduce the need for additional parking spaces, or lessen traffic congestion around the development. In these cases, the transit agency usually identifies the project need, and then approaches developers and property owners who will benefit from the project. For instance, in Grand Rapids, Michigan, a donation of the local match for downtown bus system was made by an individual in return for the city lengthening one of its bus system routes to include a stop at the city zoo. The system purchased five new buses to cover the route extension and the individual garnered good public relations.

Another type of passive private participation in which the participants are removed from direct involvement in the transit facilities or services being funded is investment participation. In this example, investors or developers "own" a limited portion of transit infrastructure through the purchase of certificates of participation or equipment trust certificates. The transit facility or equipment itself is held by a trustee as collateral, and the transit user repays the debt through

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**PROFILE:  
CLEVELAND'S DUAL HUB CORRIDOR**

Cleveland's Planning Commission is finalizing a plan for a rail line with about 10 station stops that will serve the city's Dual Hub Corridor which runs five miles eastward from downtown Cleveland at Tower City Center to the city line east of University Circle. Under consideration are 12 major rail alternatives for three segments of the Corridor to find the most efficient alignment for serving the Corridor and the adjacent neighborhoods. Private voluntary contributions from institutions to be served by the line are expected to be a major part of the private sector's 20 percent share of constructing the line.

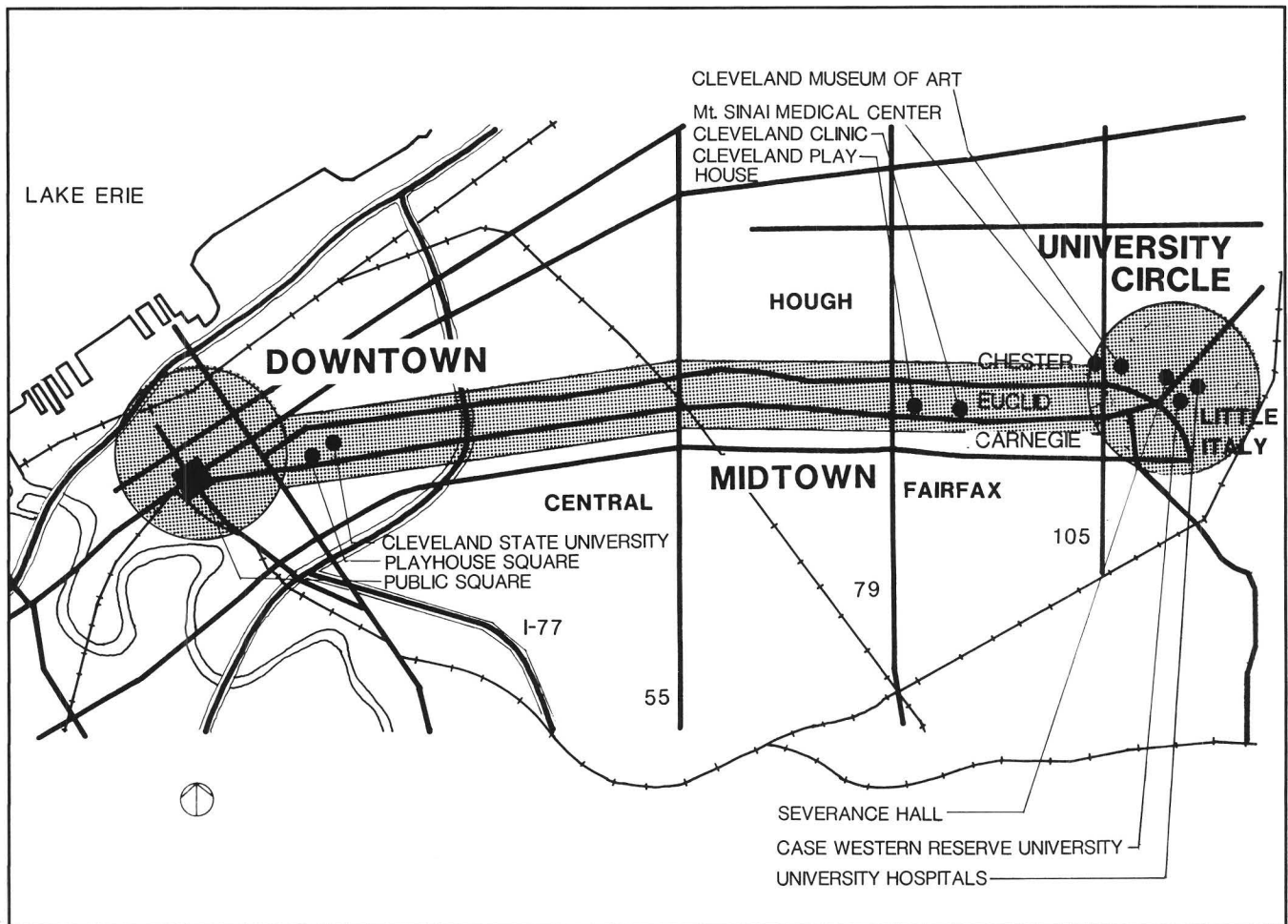
The Corridor is the city's largest employment center with businesses, institutions and public agencies employing more than 160,000 people. Some 83,000 people reside in neighborhoods along the Corridor. Major institutions in the Corridor are the Cleveland Clinic, University Hospitals and five other medical centers; Cleveland State University and Case Western Reserve University; the theatres of Playhouse Square and the Cleveland Play House; the Cleveland Orchestra's Severance Hall, the Museum of Art and other cultural facilities in University Circle.

While a rail line is in service between downtown and University Circle, it is along a railroad right-of-way that skirts the edges of downtown and the Circle and runs far south of the major institutions and businesses in the Corridor. Of 128,000 people who use public transportation daily in the Corridor, 95 percent use buses. Buses must deal with traffic on congested streets and are not an efficient way to move high volumes of riders.

*Major Actors.* The alternatives analysis is being done by the city in cooperation with the Greater Cleveland Regional Transit Authority, the Northeast Ohio Areawide Coordinating Agency, UMTA, and the private sector through organizations such as Cleveland Tomorrow and the Greater Cleveland Growth Association. Stakeholder organizations in the Corridor include St. Vincent Quadrangle, Nouvelle Espoir Development Corporation, Midtown Corridor, Inc., Doan Center, Inc., Hough Area Partners in Progress, and New Cleveland 6, Inc., which are advocates for redevelopment of large areas.

*Financing.* Since the study has not indicated a preferred alignment at this writing, it has estimated the cost of a "generic" project to be \$600 million. Cost

would be shared by UMTA, 50 percent; the State of Ohio, 12.5 percent; the Greater Cleveland Regional Transit Authority, 12.5 percent using its 1 percent sales tax which yields about \$100,000 annually; the City of Cleveland, 5 percent; and the private sector, 20 percent. The private sector share is expected to come from direct contributions from the institutions along the Corridor or special assessments on other property owners.



*Development Potential.* Since 1980, \$1.3 billion has been invested in development projects in the Corridor from downtown to the Midtown and Doan Center areas and University Circle and in surrounding neighborhoods. By 1995, another \$1.8 billion is projected for development investment in the Corridor. The institutions in the Corridor have long range master plans for development. The middle of the Corridor has large tracts of vacant land and numerous underutilized industrial structures which might compete with suburban locations for commercial development with the transit line in place. Location of new office development in Cleveland will be focused along the new rail line by offering development incentives, including higher building height limits and reduced parking requirements.

*Map of Cleveland's Dual Hub Corridor.*

*Joint Development.* The study anticipates joint development of one site, an office development with 1.5 million to 2 million square feet of space located in the first segment of the line nearer to downtown. The major development role of the Corridor is expected to be catalytic in spurring actions by the institutions along the route.

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lease payments. In essence, each investor owns a percentage of the title to the facility or equipment and leases his/her share back to the community.

For example, the Southern California Rapid Transit District has issued three series of equipment trust certificates, raising over \$50 million to underwrite the costs of a portion of new transit bus purchases. With these certificates, the buses themselves are owned by a trustee on behalf of the certificate purchasers and the bank issuing the supporting letter of credit, and are leased back to the district until the certificates are fully redeemable. The district is responsible for payments to the trustee to sufficiently cover all principal and interest payments. The approximate \$9.1 million in debt service for three different certificate issues is covered by the District's actual and anticipated revenues.

### **The Use of Property and Property Rights**

Both local governments and transit agencies utilize several techniques to generate additional revenues for transit services by leasing air rights, land, or facilities to developers and private sector groups. Either the local development or transit agency can use or dispose of any portion of

property--subject to legal restrictions--not needed for transportation purposes. The uses of such property fall into three general categories. The most popular is the leasing or selling of development rights. Negotiated land leases and the leasing and selling of existing facilities are the other two techniques used.

*Leasing/Selling Development Rights.* By far the most popular leasing method is the leasing or selling of development rights. By leasing or selling development rights associated with space above, below or adjacent to their transit facilities (or rights of way), local governments and transit agencies can recapture partial to full value of their land and asset holdings. Transit agencies working in conjunction with local development agencies have leased both developed and undeveloped land and space above rail and bus stations for numerous commercial and mixed-use development projects. Space adjacent to transit facilities is often sold to developers and neighboring businesses interested in improving access to transit stations through the construction of pedestrian access ways.

Most local governments and transit agencies prefer to lease development rights rather than sell unless financial analysis indicates otherwise.

By leasing rather than selling, the community maintains public ownership of its assets and receives a steady stream of income for the term of the lease, rather than a one-time lump sum. In either case, however, funds can be used to offset operating costs or to finance future capital investments on site or elsewhere. Some cities have aggressively pursued joint development of their transit facilities, while others have been cautious due to legal questions surrounding whether or not public agencies can acquire air and subsurface rights from properties that have been condemned for transit purposes.

Washington, DC, for example, has developed a formal program for implementing joint development opportunities on properties adjacent, below or above its transit facilities. Since the Washington "METRO" system became operational in 1975, the Washington Metropolitan Area Transit Authority (WMATA) has secured and has completed six joint development arrangements with private developers in and around METRO stations. WMATA now receives nearly \$10 million per year in direct income from leasing arrangements. This figure does not include additional income that may come from improved financial performance of commercial projects, or revenues generated by increased ridership.

Air rights associated with public land are commonly transferred or leased to provide developable space to investors. This strategy allows the city to retain ownership of the land for possible future deals and to control what goes on the land. The public agency may maintain use at the ground or lower level. In addition, lease payments and property taxes on the improvements

can be structured to provide an incentive to the developer and also provide a share of the profits for the city. In Pasadena, California, for example, the city redevelopment agency kept title to its property and leased the air rights over a parking garage to the developer of a downtown shopping center. The lease terms defer rent payments during construction and for the first five years of the project, but the lease is at market rate after that period.

In some downtown development rights projects, the local government sponsor agrees to build a facility, then leases the facility to a developer for either a set management fee or a portion of the facility's income. In Pasadena, the city parking authority built a parking facility at no cost to the developer of Plaza las Fuentes. In Trenton, the state agreed to acquire a site to build a parking garage for the Trenton Commons project.

In Long Beach, a more complex arrangement was involved in the Hyatt Hotel project. The hotel developer built a hotel, parking structure and public facilities on land leased from the city. The developer then subleased the parking structure and public facilities back to the city. The city forgives all property taxes and utilities on the parking structure and then sub-subleases a portion of the public facilities to the hotel. This arrangement made it possible for the developer to secure favorable financing, because the city subordinated the priority of its rents to pay the developer's loan debt.

While equity investment is a viable source of income for transit agencies and local govern-

ments, the public may complain that the lease/sale agreement benefits the private developers more than the public sector, particularly if the agreement obligates the transit agency or local government to build a portion of the facility or to offer extremely favorable terms to the developer or developers.

*Leasing/Selling Existing Facilities.* Local governments and transit agencies in need of additional funds have found that leasing vacant or underutilized transit facilities and properties can be highly profitable. Transit terminals, park and ride lots, parking garages and maintenance facilities may be available for private sector use or conversion because of changes in anticipated real estate development, construction of new facilities or creation of new authorities. In these cases, local governments and transit agencies have the opportunity to generate additional revenues through the sale or lease of the existing facilities.

For example, agencies might be able to lease a portion of their facilities to compatible service providers or sell the entire facility to an inter-city bus or trucking industry. In other cases, new construction provides an opportunity to plan for space that might be leased to the private sector.

The Santa Cruz Metropolitan Transit District (SCMTD) is leasing office and retail space in its new downtown intermodal transfer facility to offset operations and maintenance costs. The facility is located south of downtown, next to a shopping mall and includes pedestrian, bus and bicycle facilities. Tenants are leasing approximately 4,500 square feet of restaurant, office and

retail space from SCMTD, which spent \$2.5 million in state funds to develop the facility.

The degree of revenue generated by leasing or selling transit facilities depends on several factors: (1) the availability and condition of underutilized facilities or property; (2) the strength of the real estate market surrounding the facility; and (3) the proportion of the original investment by the transit agency, because the local or state government and UMTA may require transit agencies to return a percentage of lease or sale proceeds from projects partially financed with local, state or UMTA funds.

Private sector developers are amenable to leasing various types of facilities because it enhances their own projects. Parking, in particular, is often the reason a developer or property owner will lease facilities from a local transit agency. The cost of providing parking can be one of the most significant barriers to development downtown. While the amount of parking needed may not be as great as in suburban locations because of public transportation access, providing it is far more costly in high density areas such as downtowns, and must be provided as required by local regulations and to ensure the project's success. However, in cities trying to limit the number of private vehicles in the downtown area, developers are not allowed to provide parking, and thus, are dependent on public transit facilities.

*Negotiated Land Leases.* Negotiated land leases are agreements between developers/land owners and transit agencies under which land is leased to the agency in exchange for construction of transit facilities. Typically, land is leased for a

20-30 year period for a nominal cost. In addition to obtaining a facility for little cost, transit agencies have occasionally negotiated for financial assistance in constructing or operating the facilities. For example, Pierce Transit in Tacoma, Washington, built six transit transfer centers on private property leased at \$1 per year for 30 years.

Developers are often interested in having transfer centers adjacent to their commercial and residential projects because they encourage greater use of their projects and better access; they also reduce the need for additional costly parking structures. Local governments and transit agencies benefit from not having to condemn and buy needed land and possibly from receipt of actual funding for capital or operating purposes.

#### **LAND ASSEMBLY/LAND BANKING**

This is another significant use of property but in the form of leverage used by local governments to assemble a site by using various legal and administrative powers, such as eminent domain, negotiated purchase, or by using other techniques such as land swaps. For many developers, land assembly may be the single most important factor in developing a downtown project with a transit linkage. Control of the land is an essential first step without which the project cannot proceed. Once the public agency gains control of the site, it can then use various tools to reduce the developer's land cost. Public funding of land clearance, site improvements and relocation costs can be an important form of leverage if those costs are excessive for the area.

If the land is sold to the developer, land price write-downs may be used to bring development costs in line with other available sites. Land purchase deals allow the developer to borrow the land purchase amount from the city, and for the city to participate in project returns. The land purchase agreements can be structured to reduce the developer's risk by making land purchase payments conditional upon project cash flows. The city can defer land payments until returns are adequate to cover the developer's construction loans.

Increasingly, cities are holding ownership of land and making leasing arrangements that also allow equity participation in the project. These land leases also reduce cost of land for the developer. In these participatory or percentage leases, the city receives income from the project which may be in the form of a percentage of project revenue. The city retains control of the land until the end of the leasing period, when the developer is generally given a purchase option. This arrangement lowers the developer's up front costs and reduces risk by tying lease payments to project performance.

#### **TRANSIT-RELATED DEVELOPMENT INITIATIVES**

Not always considered joint development by the strictest definition, transit-related development initiatives provide an important source of private sector participation in transit-related development financing. Whether through a turn-key approach to development, allowing the private sector to take a lead role in transit development, or through transit access agreements which

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**PROFILE:**  
**CEDAR RAPIDS JOINT DEVELOPMENT**

The joint development of the Cedar Rapids Ground Transportation Center (GTC) complex, completed in October 1984, demonstrated that smaller communities also can use transit as the keystone for public-private partnerships. Construction on the \$32.5 million complex was begun in June 1982 and was completed in October 1984. The finished complex includes:

- o A new intermodal transit terminal with ticket offices, baggage storage, and parcel services;
- o taxi stands, special minibus transit services and car pick up/drop off area;
- o a 500 space parking garage connected by skywalk;
- o a 15-story, 160,000 square foot private office building;
- o a pedestrian mall concourse/walkway that connects to adjacent commercial development in the central business district; and
- o a 96-unit housing project for the elderly and handicapped.

*Overview.* The second largest city in Iowa, Cedar Rapids is a commercial, industrial and transportation center for the surrounding eight-county metropolitan area (population 375,000). Major employers in the area include Rockwell International, Quaker Oats and FMC. The original impetus for the project came in 1977 when the Transit Division of the Iowa Department of Transportation sponsored a feasibility study to look at the possibility of linking private development with the proposed multimodal ground transportation centers in the state's seven largest cities. Following these initial studies, Cedar Rapids was selected for a second study phase, which included site search and selection, functional planning, market analysis, concept design and an implementation program.

The site chosen for the proposed transit center was a dilapidated warehouse district south of the central business district, which was bisected by several abandoned railroad tracks. Both the study consultants and city economic development officials felt that the new transportation center and related private development would act as a catalyst for ancillary new development in the adjacent business district.



The city then applied for and received an Urban Initiatives grant from UMTA in 1979 and began lining up additional financing from other sources. Key to supplemental financing was the city council's mandate that no new general property tax levies would be allowed. Instead, local transit and development officials decided to create a tax increment financing district, which allowed the issuance of \$4.5 million in TIF bonds, \$2 million of which was used to cover the local share in the project's capital costs. The remaining TIF funds were for the construction cost of the adjacent parking ramp.

The \$10 million costs for land acquisition, clearance, relocation, construction of the transportation center itself, and soft costs (architectural, legal, etc.) were paid for by the grant from UMTA and an additional grant from the Iowa DOT. Funding for the \$15 million office building, which was built by a local developer, was partially covered by issuing industrial development bonds. The \$3 million housing project was financed conventionally and with a HUD Section 202 loan.

The project was not without its share of problems. For example, the city wanted developer commitments early on so that the private sector could be involved in the planning and design phases of the project. Yet, high interest rates and budget cuts took their toll early in the development process, causing the elimination of the second story retail mall component and the withdrawal of potential retail and housing developers. However, an innovative leasing agreement with a new developer finally enabled the project to proceed as planned.

*Joint Development Results.* City development officials, to supplement local revenues for the project, executed several leases for service concessions and development rights. A 20-year lease was effected with Greyhound Bus Lines and a five-year lease with Burlington Northern Rail. The leases cover bus bays and shared terminal space on a pro-rated basis, and generate \$28,000 annually. The increased tax proceeds from an estimated \$40 million in private investment



*Office building in the Ground Transportation Center complex, Cedar Rapids, Iowa.*

adjacent and near the GTC, will pay for a new \$10 million public works improvement program for the area.

Development air rights were leased to the office tower developer for 50 years with three automatic renewals. The lease calls for annual rent based on 15 cents per square foot of each floor or condominium unit, for the first 10 years. Thereafter, the value of the land under the building will be appraised, and each floor of the building will generate lease income equivalent to 1 percent of that valuation. Once the developer has transferred possession of these floors to one or more of the purchasers, the new owners will pay the rent on their leased space directly to the city. The annual yield of such leases is approximately \$27,500.

*Legal Issues.* Before groundbreaking in May 1982, two general contract bids were submitted on the public transit portion of the GTC. RinderKnecht Associates, Inc. in association with a minority firm, Newson Construction, submitted a bid of \$6.4 million. Newson's financial participation gave the package over 10 percent in business for minority firms. A lower bid came from Knutson Construction, and included about 4 percent for minority firms. The city's minority business enterprise committee recommended, with UMTA concurrence, that the city accept the higher bid from Rinderknecht. When the city awarded the contract to Rinderknecht, Knutson threatened suit. An agreement was finally reached that allowed the two companies to share the contract. Rinderknecht subcontracted roughly 80 percent of the award to Knutson, and in return, Knutson withdrew its bid and its threatened legal action. In the end, construction work on the public portion of the GTC included about 8 percent minority participation.

*Political Concerns.* The completion of the GTC joint development project was possible only because of the extensive cooperation between local, state and federal officials, private developers, and community representatives. The project almost fell through because the original plan called for a retail mall on the second level which was to be an extension of the second street mall, near the center; an eight-to-twelve story office building; and a ten-to-twelve story apartment complex. When the second street mall was cancelled, the retail component of the center was no longer economically feasible. The housing developer also withdrew for economic reasons.

At that point, the city development and transit officials began to hold meetings with other developers and interested tenants, and finally reached an agreement with a developer to construct the apartment tower on the condition

that he could also develop the office building. The original office tower developer transferred his rights to the new developer and was allowed, in return, to retain ownership rights in one floor of the building. The new developer proposed to sell floors of the office tower as condominiums, and after several floors had buyer commitments, the project was resumed.

*The Final Benefits.* City officials viewed the GTC not just as a one-shot government development project, but as an impetus for additional development in the nearby central business district. The boost to the downtown area adjacent to the GTC has been quite evident in the past four years. There has been a complete renovation of a major office building one block to the east of the GTC; the renovation of an abandoned warehouse one block away for use as a high-tech center; the construction of a new YMCA; rehab of a neighboring vacant building as the corporate headquarters of a data processing company; the construction of a new \$8 million central library and a city-sponsored riverfront park across the street from the GTC.

Development and transit officials from Cedar Rapids claim that the GTC project proves that office, commercial and residential development can indeed be jointly financed, and co-exist, with a transportation center. Not only do these joint development projects help increase the tax base of smaller cities and communities, but they also can exert significant ancillary development impacts on surrounding areas. Cedar Rapids clearly demonstrated that the sometimes perceived stigma attached to bus and rail transit centers as non-activity stations is indeed a fallacy.

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provide easier access to developers in return for station improvements, these techniques are applicable to many communities across the country.

### **Turnkey Approach to Development**

One approach to involving the private sector in public transit projects is turnkey, in which the private developer in effect produces the transit system following the design and specifications of

the public authority, and the authority purchases the completed product. In Minneapolis, the Hennepin County Regional Railroad Authority is considering a turnkey approach to building a 29-mile, \$417 million light-rail system. A consortium would undertake the entire project as well as provide some financing from value capture on joint development. Under this "super turnkey" approach, the contracting consortium is responsible for system financing and related land development.

The advantage of turnkey is that the public authority does not have to deal with numerous separate contractors. The authority signs a fixed-price contract with a single source. It is in the interest of the developer to produce at the agreed-upon price and within a time that minimizes the effect of inflation on costs. Joint development projects would alleviate the financing burden on the developer and the public.

The Authority's project manager/engineer provided preliminary design plans for locations and stations and performance specifications for system elements such as vehicles, electrification, signals, communications and fare collection. The consortium that is selected from competitive bidders would construct, supply and install the system and operate it for an interim period to establish that the authority is buying a cost-effective system. A minimum of five years is suggested as an interim period to address any problems that might develop with the system. During this period, authority personnel would be trained to operate the system.

However, to ensure a fully competitive process, UMTA determined that Hennepin County's competition should actually include several stages. In the first stage, a turnkey approach will likely be attempted on a four-mile segment of the proposed line, a \$100 million project. The Authority is awaiting UMTA review and approval of this new process.

Financing for the light rail line would come primarily from Hennepin County's authorization to levy about \$20 million annually in new property taxes. Half of this is dedicated to the light-rail

system which provides 44 percent of the cost. Another 16 percent would come from a motor vehicle excise tax and 6 percent from tax increment financing around the stations. The tax increment yield is based on a conservative estimate of \$5 million in development in the first few years to \$75 million as the system expands under a 25-year bonding program. The eight municipalities along the line would designate districts around the stations for incremental tax revenues. These would be negotiated with the municipalities.

### **Partial Turnkey Approach**

Plans for Baltimore's new north-south light rail line (see case study, Chapter 5) have included a solicitation for proposals on packages which included the procurement of rail cars along with developer ideas for joint development projects at rail stops. This is not a full turnkey approach but it sought some developer financing as a way to alleviate costs to the new system. Out of this solicitation two joint development sites emerged, each in the suburbs -- one north and one south. The Maryland Mass Transit Administration has decided to separate the rail car procurement from joint development proposals.

### **Transit Access Agreements**

One application of joint development is the role of private developers in providing entrances and connections to subway stations and making improvements to existing stations that are linked to new adjacent developments. Transit systems receive modest revenues from such arrangements, avoid the capital costs of construction, and benefit from these station enhancements and the

expertise and design amenities of the private sector. In Toronto, transit access agreements are used to generate revenue and to encourage joint development by offering developers direct station access at no charge. Adjacent property owners are required to pay all capital costs of extending pedestrian walks and escalators to the station. Most downtown subway stations in Toronto connect to large developments which are part of an extensive underground pedestrian mall system.

In Atlanta, the Five Points Station has a direct entrance to Rich's Department Store, a major retail anchor in the downtown area. The connecting tunnel was built by Rich's which was charged a connection fee by MARTA. Under the construction agreement, Rich's is reimbursing MARTA a total of \$265,000 with annual payments over 25 years for the fee. Rich's is responsible for all maintenance. The Washington, D.C., Metro has a "system-interface" program under which nine stations have been connected to adjacent commercial properties. Metro negotiates the amount of compensation paid as a fee by owner/developers whose property values are increased because of the tie-in with the stations. Though recently rejected by voters in Phoenix, the proposed \$8.4 billion ValTrans system would have generated income, offset costs and enhanced the attraction of the stations by direct access links between stations and private, retail, commercial and residential developments. Developers would have been asked to include stations in their developments and cash flow would derive to the system from a percentage above an agreed upon floor amount for the development. In New York City, the Planning Commission offers floor area

bonuses to developers to induce their participation in improving access to and traffic flow in its in-town stations.

## SUMMARY

The recent trend to allow or require private developers and entities to pay some or all of the cost of constructing or rehabilitating transportation facilities can create controversy. The inherent problem with private sector funding of all or part of a transit system is, obviously, increased involvement by the private entity in the design, planning, etc., of the transit facilities. Private plans and preferences can conflict with federal, state and/or local requirements or needs. Meeting requirements and satisfying preferences at the same time becomes more difficult with additional actors involved.

Cofinancing or joint development of transportation investments is not always voluntary. Several states, most notably Colorado, California and Florida, have enabled local governments to assess developers not only for on-site transportation improvements but also for transit improvements needed in the entire regional or city-wide transportation system. The courts have generally upheld such programs if developers are asked to pay only for additional improvements or services whose necessity is directly created by their development; in most cases they cannot be asked to share the cost of an existing structure if capacity is already available.

Because of legal challenges, many communities are developing models and programs that attempt to predict the local and regional trans-

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## **PROFILE: NEW YORK CITY'S PRIVATE DEVELOPMENT STATION IMPROVEMENTS**

Significant improvements in access and circulation to the Lexington Avenue/53rd Street Subway Station on the east side of midtown Manhattan exemplifies the participation of private developers in the financing, construction and maintenance of transit facilities under a reconstruction program of the New York Metropolitan Transportation Authority (MTA). Since 1978, four separate projects by private developers have substantially changed the environment of the entire Lexington Avenue Station complex by rebuilding accesses from the mezzanine and platform and incorporating them into architectural designs for new buildings.

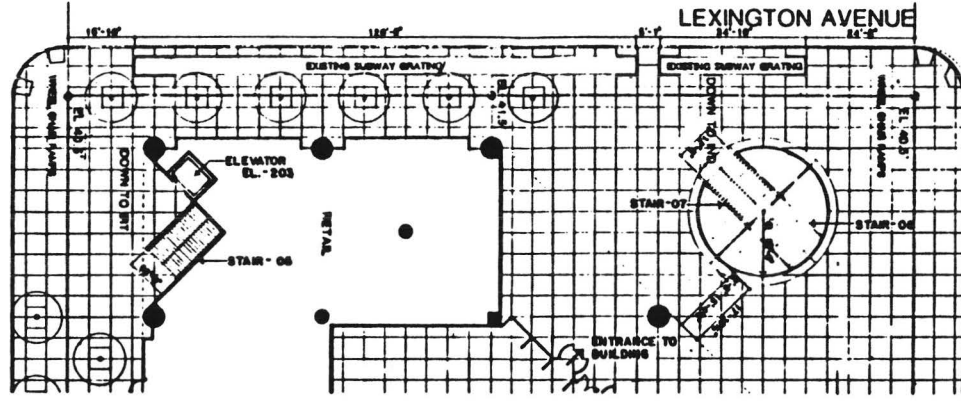
Overall, 25 privately built improvement projects in the New York City subway system have been completed or committed to construction since 1977 with an estimated value of \$128 million. According to MTA, the cost of these improvements is only a fraction of what it would be if the projects were done by the public sector. The projects also provide for a variety of design features that would not be available if the public authority were to build them.

*Lexington Avenue Improvements.* At the Lexington Avenue/53rd Street Subway Station, Citibank constructed a new off-street plaza for its Citicorp Center requiring the relocation of the original sidewalk subway entrance staircase to a new off-street plaza within the development. The station mezzanine, to be accessed by the new off-street plaza, was also refurbished.

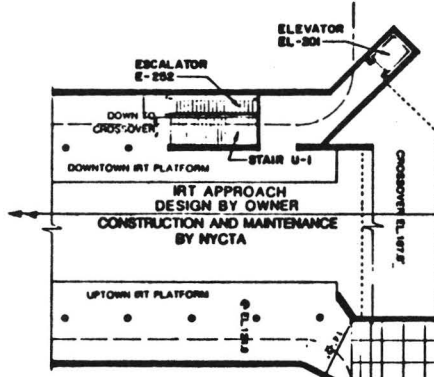
The developer of the second of four buildings located at 875 Third Avenue at the east end of the station at the southeast corner of Third Avenue and 53rd Street constructed a covered pedestrian space within the building leading to the existing subway mezzanine. This provided a new in-building subway entrance becoming an extension to the building's public space and retail arcade. A new off-street escalator and stair entrance will be added in the early 1990s.

The developer of 885 Third Avenue, the northeast corner of Third Avenue at 53rd St., constructed an off-street plaza entrance, expanded the existing mezzanine and built a new escalator from the mezzanine to the

Plan drawing for the 599 Lexington Avenue Improvements.

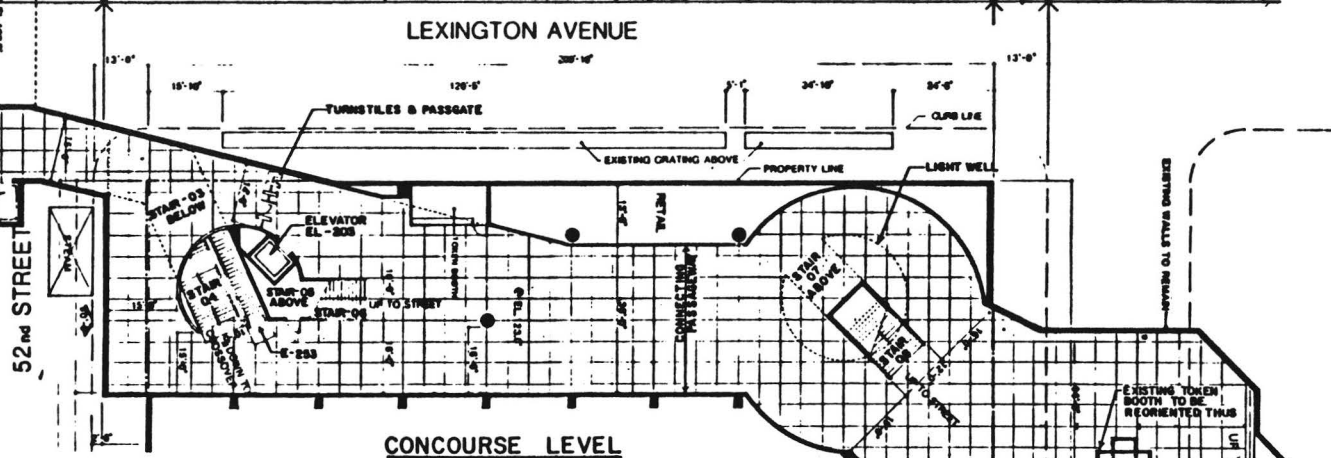


**STREET LEVEL**

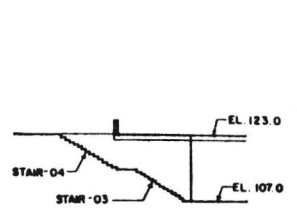


(TRANSIT CONNECTION AND ACCESS) DESIGN AND CONSTRUCTION BY OWNER

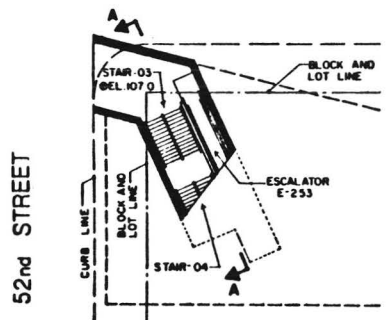
IRT APPROACH DESIGN AND CONSTRUCTION BY OWNER EXISTING MEZZANINE



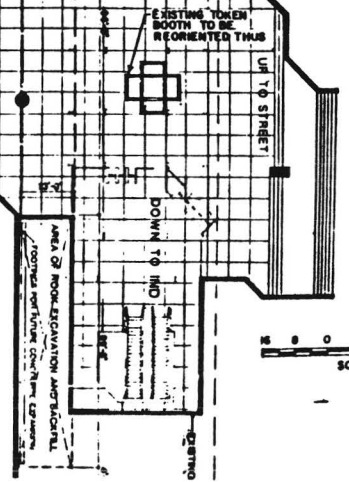
**CONCOURSE LEVEL**



**SECTION A-A**



**UNDERPASS LEVEL**



platform. This addressed severe capacity problems in the station. The architectural detailing of 875 Third Avenue was continued through the 885 Third Avenue improvements.

At the western end of the station, the developer of 599 Lexington Avenue relocated the existing subway entrances from the street to within the property line. The new design includes a wide, glass-covered staircase increasing natural light to the subway level. A concourse runs the length of the entire block along Lexington Avenue from 53rd to a new stair and elevator entrance at 52nd St. This high volume passageway conveys pedestrian traffic from the northside of 53rd Street and provides a free transfer for passengers between the IND Station and the northern end of the 51st Street/Lexington IRT Station at 52nd St. Linking these two lines at a common sense transfer point had been a goal of the New York City Transit Authority since 1968. The Authority constructed the remaining part of the passageway to connect the concourse to the IRT platform, but commitment of the developer to build the concourse made the linkage feasible. In addition to other projects planned in Manhattan, MTA is encouraging similar programs in Brooklyn Queens.

*Major actors.* The City Planning Commission administers a city zoning provision which requires developers of certain sites in high density districts of Manhattan to reconstruct subway entrances within their new buildings. Incentives, in the form of floor area bonuses, encourage developers to construct functional improvements to transit facilities adjacent to their properties (mandatory improvements are sometimes required). The city allows as much as a 20 percent increase in floor area ratio in exchange for construction and maintenance of subway stations adjacent to or beneath the development.

The transit special improvement districts in New York City are Greenwich Street Development in lower Manhattan, Special Midtown District, Union Square, and Court Square in Long Island City, Queens. In all the transit projects, private developers design, construct and maintain their improvements. Public sector participants are the City Planning Commission, MTA, New York City Transit Authority, Community Planning Boards and Board of Estimate.

*Results.* The program demonstrates that subway systems can benefit from a close working relationship between the public and private sectors. Pedestrian traffic problems and those of physical constraint were significantly alleviated at Lexington Avenue Station while creating a more pleasing environment and integrating the design elements of the adjacent buildings into the station entrances.

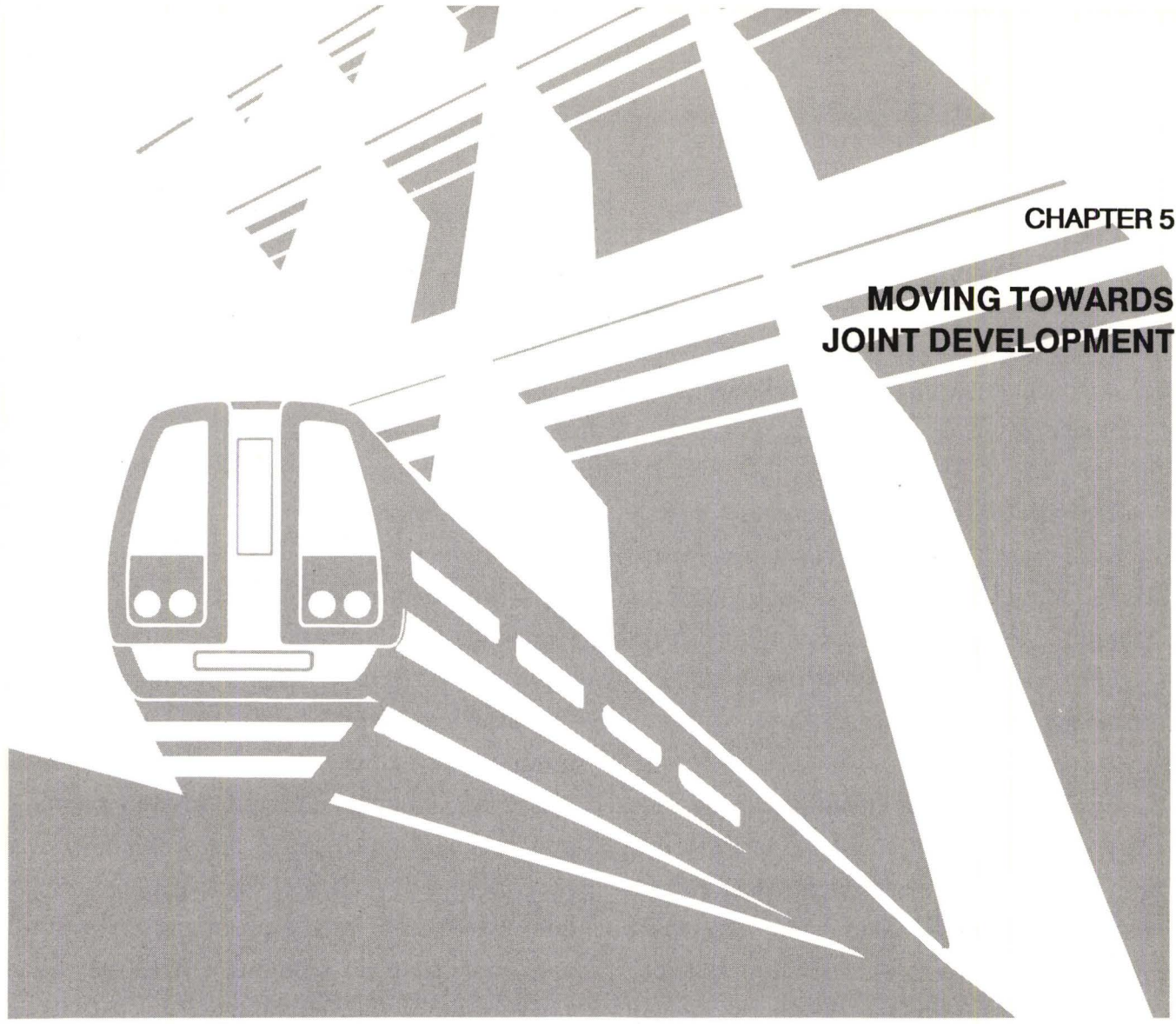


portation impact of residential or commercial development. Accordingly, planners are developing financial models to evaluate when and where impacts will be felt and how to match private sector contributions or fees to those impacts. The appropriateness of either voluntary or mandatory cofinancing is site specific. Low-growth areas that wish to encourage commercial or industrial development can harm themselves by adding the costs to the costs of development. As a result, the community may have to offer some form of an incentive to attract development to an area lacking the necessary "critical mass" of transportation infrastructure.

In considering cofinancing or joint develop-

ment as an option, local governments must be wary to the extent that it does not change the priority of transit facilities to be constructed. If a transportation project sought by developers is not scheduled for public construction in the near term, it is usually because the locality or regional transportation planning agency has given a higher priority to other projects. If projects are taken from the bottom of the list because joint development or cofinancing is available, commendable project proposals, originally rated higher but without such funding, may be displaced. Economic development and transit officials and their objectives, while often emanating from truly different sources, must strive to cooperate when considering their respective program goals.



**MOVING TOWARDS  
JOINT DEVELOPMENT**

Joint development is defined here as a public-private partnership designed to decrease the costs of operating or constructing public transportation systems, stations or improvements through creative public-private financing arrangements. Joint development is gaining popularity as an economic development and transportation financing tool. Because developers benefit significantly from the transit relationship and the access to riders, they are often willing to contribute to the transit system to ensure its continued success. Transit officials are also pursuing these projects because transit-related developments improve ridership and reduce costs. While the benefits are clear, the risks are potentially as

high, and therefore, an effective strategy is critical.

An effective strategy depends on the cooperation of economic development and transportation officials. All too often, however, both parties make many of their decisions separately and in a vacuum, with different goals, considerations, and interferences. Barriers such as poor access, poorly designed internal circulation roads, poor or non-existent pedestrian facilities, prohibition of transit vehicles, long walking distances, and poor parking design greatly reduce the effectiveness of high priced road and transit systems. In addition, the public investment in transit may

not be supported by proper zoning, parking policies and flexible work hours to maximize the use of the service and encourage joint development. Even when dedicated joint planning occurs, some seemingly obvious points and strategies are overlooked. The results of this lack of communication and cooperation are clear in the following kinds of conflicts:

- o In cities that claim a preference for workable mass transit over clogged highways, high parking ratios discourage the use of public transportation. The potential of a community's parking policy to influence transit use is not fully acknowledged or employed.

- o High density development occurs in places unserved by transit or unable to be served by transit; conversely, developments near rail stations do not make efficient use of land and space. "Highway sprawl" creates commuter corridors that are not related to the existing or planned transit system.

- o Though efforts are made to coordinate planning, specific projects may not receive enough attention. For example, a rail station that is part of a joint development project may fail to meet the needs of workers in the accompanying office/commercial development. In this situation, the transit system's potential is not maximized. Or, the retail aspect of a mixed-use development might not serve employees as planned, the result being that the services and activities available in the project are not attracting people after all.

- o Sharing and evaluating market information is a necessary facet of a successful public/private

partnership, yet frequently a lack of communication occurs. Market research is a critical element in transit planning as well as in real estate development. Planning and implementing effective joint development projects requires full information for both partners. Key aspects of demographic and consumer surveys, for example, should be shared among all players in order to understand target audiences for both ridership and mixed-use services.

The connection between economic development and mass transit may appear obvious and is often stressed by practitioners in both fields. But the dearth of specific programs and projects usefully integrating the two indicates that this connection is being neglected. Flawed planning and integration have led to the problems previously discussed -- lack of density, ill-conceived land use, conflict with local employer policies, and poor financial planning. And these are precisely the factors that influence the success or failure of joint development projects.

Recognizing the effectiveness and popularity of joint development as a transportation and economic development technique, UMTA sponsored an effort by CUED to help three cities with joint development projects. Also recognizing that economic development practitioners play a crucial role in catalyzing joint development projects, CUED worked with the economic development entities within these cities to examine particular economic development/transportation projects for joint development potential.

While the recommendations in this chapter are based on the CUED/UMTA visits to Atlan-

tic County, New Jersey; Denver, Colorado; and Buffalo, New York, the lessons learned are applicable to projects throughout the country. In all three cases, discussion regarding joint development focused on rail systems and on real estate development in conjunction with an existing or proposed rail line.

In Atlantic County, the transportation and economic development department is examining the feasibility of adding a station to a new intercity line which will run from Philadelphia to Atlantic City. The site is in a county-designated growth area and the possibility of joint development will greatly influence their ability to develop the station.

In Denver, the regional and downtown chambers of commerce are working together on the development of a transitway, which may eventually include a rail line. The ability to leverage joint development projects will help reduce the costs of constructing stations and help increase ridership.

City leaders in Buffalo are anxious to encourage joint development around one station on their new rail line. The station sits adjacent to an urban renewal area and any attempts to improve the area would also serve to improve ridership. A detailed description of each of the projects is highlighted in the appendix.

Consistently, the teams found that while joint development potential existed, it would not be realized until other, more fundamental, transportation/economic development problems were solved. In particular, they encouraged the forma-

tion of an effective transportation/economic development partnership as a critical first step and noted other programmatic resources as important elements in a successful joint development. Chart 5-1 details guidelines that provide the basis for a successful joint development strategy.

## **BUILDING THE FRAMEWORK**

The critical first-step of any joint development effort involves coordinating all resources to determine not only the goals but the tools available to meet those goals. Since any joint development effort involves a variety of actors from both the public and private sector, an umbrella group that helps to perform the necessary steps is often recommended. Members of the umbrella group or task force should include representatives of the various public agencies involved as well as private sector leaders. Goals should include the establishment of an effective transportation-economic development partnership, integration and prioritization of goals, and identification and coordination of available resources.

*Establish an effective economic development-transportation partnership.*

One problem that consistently emerges in any examination of joint development potential is the lack of a formal economic development - transportation linkage. No matter what type of structure is selected for the joint public-private development of transit-related facilities, public agencies and private firms have to first enter into new relationships to make the mass transit development process work. This approach is much

Chart 5-1

### Guidelines for Successful Joint Development

Establish an effective economic development-transportation partnership.

Integrate economic development and transportation goals, and set priorities, through an action strategy and implementation plan within an adopted policy framework.

Identify and coordinate available resources to encourage private sector participation.

Identify potential joint development sites and developers.

Initiate dialogue with developers.

Conduct realistic market and feasibility studies early on to determine the best use for land.

Prepare a development program and plan.

Negotiate development arrangements.

Prepare an implementation agreement and obtain public approval.

Implement the agreement and the project.

more than the public sector merely offering cooperation to the private sector to facilitate economic activities for a private or community gain; it is far more than scheduled meetings between the local business organizations, the economic development agency and local elected officials. While these activities are important, and integral to good business and government relations, they do not constitute true partnerships among the sectors. Partnerships, on the other hand, are shared commitments to pursue

common objectives, such as mass transit facilities, jointly determined by public, private and community sectors and instituted as joint actions.

In Atlantic County, the team recommended the development of a county-wide public-private task force to guide the implementation, planning and development of the transportation center and to guide in the coordination of several regional transportation planning issues. Throughout its visit, the team met with numerous private

and public sector individuals with interest in the proposed rail station and related development. These included local jurisdictions within the county, chambers of commerce, state representatives, regional planning organizations, environmental groups, transportation authorities, developers, and major property owners. The team recommended that these individuals and organizations be included in the early stages of the rail station to insure that it is developed and managed to meet the transit and development needs of the county and its residents.

The coordination of major constituencies in transportation decision-making contributes to the success of individual projects, especially joint development projects. A successful partnership includes a network of key groups and individuals, encourages communication among leaders and facilitates mediation of differences among competing interests. This network builds respect and confidence in the community. It allows business, labor, and government to work out their differences in private rather than in public, thereby allowing the focus of public discussion to be on the areas of agreement rather than on the problems of poor relationships.

Essentially, public-private partnerships are bridges of trust based on similar objectives but mindful of differences in roles. Achieving public/private cooperation is the first step toward engaging actual projects. The projects will follow easily if the structure is there to facilitate the relationships. Developing the correct organizational form is just as important as determining a viable economic development - transit strategy.

The form as well as the staffing will depend upon the resources as well as the situation. Almost all development projects depend on public-private coordination and cooperation. It is essential that the pattern of these cooperative arrangements be worked out carefully so that all parties know what to expect.

A realistic and commonly accepted vision of the community that is based on the area's strengths and weaknesses as well as on a common conception of the potential for the area is the most important component for partnership formation. Without a common understanding of what the community has or what it can become, it is impossible to build or provide better transit facilities. Furthermore, unless there is a realistic vision of the potential for the area with enhanced transit facilities, the community will never come together to achieve its goals.

A positive community attitude that encourages citizen participation and is related to long-term employment as well as transit concerns and needs of the community is critical to the success of this partnership. The goals for the transit development process must be shared among the community.

An effective transit organization that can blend the self-interest of the members with the broader interests of the community will undoubtedly spark the most action. If the interest of civic leaders, as well as individuals, can be collectively marshalled through some structure to achieve common ends for the total community, the transit development process will work.

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**PROFILE:**  
**TRANSPORTATION MANAGEMENT, BELLEVUE, WASHINGTON**

Over the last 15 years, Bellevue, Washington, has evolved from a suburban bedroom community in the Seattle metropolitan area to a major employment and office/retail center for a subregion of 400,000 people east of Lake Washington. With several completed and ongoing development projects in its downtown, Bellevue has developed several policies to control traffic density and discourage the use of single-occupant vehicles (SOVs). Central to this effort is a transportation management program developed by the city and the business community with the regional transit agency, Metro, and the city's imposition of approval conditions for most development projects using powers authorized by the state's environmental policy act.

Under an incentive agreement with Metro, Bellevue earns additional bus hours of service for its demonstrated progress in increasing employment density downtown while reducing the parking ratio. In the first four years of the agreement, Bellevue earned an additional 4,000 hours of bus service. The city code requires at least two parking spaces and a maximum of 2.7 spaces per net 1,000 square feet of office space. The original goal was to achieve a level of one parking space per 1,000 square feet of gross floor area (GFA) in a project, but new buildings are running at about 2.5 spaces per 1,000 GFA. The city still faces tremendous traffic pressures as the majority of its downtown employees drive to work alone. A new downtown freeway interchange will force the city to widen some arteries to accommodate projected traffic increases.

*Major Actors.* The city government, Metro, the Bellevue Downtown Association, several downtown building owners and numerous citizens concerned with traffic spillover into their neighborhoods, were the impetus for the creation of the transportation management program.

*Financing.* UMTA awarded Metro a \$158,000 grant in 1986 to establish and support a local Transportation Management Association (TMA) within the Bellevue Downtown Association with a provision that TMA would become self-sustaining. TMA now has an annual operating budget of about \$300,000 of which \$20,000 comes from the local government. The remainder is paid for in membership dues most of which come from assessments on eleven building owners and their tenant companies which employ about 17,000 people. These



assessments are part of project agreements worked out between the city and the developers. The average assessment is \$5 per employee. TMA's executive director reports that an average assessment of between \$7.50 and \$10 will be reached in the next year and that there is strong approval among the building owners and tenant companies for TMA's performance. The membership dues are set to meet TMA's operating costs.



TMA works to discourage use of SOVs downtown, sets up rideshare and car pool programs and operates a park and non-stop shuttle service from three suburban sites to downtown. It carries on an intensive informational campaign about the availability of bus service to and from Bellevue. Companies provide subsidies to employees who purchase monthly transit passes. Passes cost \$28 and employers provide a subsidy of \$15.

*Bellevue Place,  
Bellevue, Washing-  
ton.*

*Joint Development.* Illustrative of the program is a transportation management agreement worked out with the developers of Bellevue Place, a mixed-use development which includes hotel, conference, office, athletic and retail space

totaling 1.6 million square feet. After laying out a detailed plan, the city allowed the developer, Bellevue Properties, to propose its own program. The result was a negotiated package of performance goals, programmatic actions and incentives.

The developer agreed to performance requirements that meet two goals at project buildout. Peak employee parking must not exceed 1,117 spaces and outbound trips are limited to 852 vehicles in the afternoon peak hour. The developer pays \$42 in the first year for each peak hour trip (above the threshold) leaving the project with that charge reduced to \$24 over four years. This arrangement produces \$23,500 annually for TMA's program support. Intermediate goals or target maximums were set for building occupancy levels, starting at 50 percent. These are more lenient when occupancy is low and more restrictive as it increases. If the maximums are exceeded, the developer must implement additional programs to discourage SOV use. These target maximums remain in effect for four years after 50 percent occupancy is achieved or six years after a temporary certificate of occupancy is issued.

The agreement also includes program requirements such as an ongoing educational/informational program to promote ridesharing, transit use and flexible hours. TMA serves as transportation coordinator for the development to maintain the agreement's programs and works with owners, tenants and the Metro. It certifies carpools and vanpools and administers incentive payments for them. It administers employee travel/parking surveys and coordinates with Metro for support services. The program has a precisely defined monitoring process for counting parked vehicles and exiting vehicles. Tenant companies are allocated two spaces per 1,000 net sq. ft. Tenants pay an additional \$120 a year for each additional space with the money going to TMA's operating funds.

*Results.* In its first full year of operation (1988), TMA formed 141 carpools, five metro vanpools, generated 240 ridematch applications, began a park-and-ride shuttle service and helped to initiate new bus service from Metro and the Community Transit in Snohomish County. TMA reports a 38 percent increase in bus ridership among the employees of eleven downtown office buildings during 1988. This represents a modal switch of 3 percent increasing bus ridership from 7.9 percent to 10.9 percent of all the commuting modes used by these employees.

*Integrate economic development and transportation goals, and set priorities, through an action strategy and implementation plan within an adopted policy framework.*

The partnership provides an ideal forum for integrating and prioritizing the myriad of transportation and economic development goals. An existing institutional mechanism like the capital improvement process of a city or state is another important way of achieving the linkage. Where government has an official who is the development coordinator, that person has responsibility to achieve coordination among development projects. High-level leadership is also critical to help solve problems of inter-governmental jurisdictions.

Denver provides a good example of the necessity for such a plan. A severe lack of coordination between and among competing transportation and economic development organizations in the metro region has resulted in a series of proposed projects vying for community consensus and funding. For example, several transportation organizations have emerged with what they indicate are crucial projects. These include the development of a new airport, a new beltway, several new rail lines, a bus high occupancy vehicle lane, and finally, the downtown transitway. At the same time, various economic development agencies have moved forward with their agendas including a new convention center, a new mixed-use development, and talk of a new stadium. Add to this the severe financial constraints of the state and local government and the problem becomes quite clear: who gets what first?

Team members in Denver recommended that the city make a concerted effort to consolidate transportation functions into one authority. From there, they recommended a prioritization of transportation projects. Once this occurs, an effective partnership can integrate goals and develop an action strategy for planning, financing, and implementing transportation-economic development projects.

Any plan should be recognized at the highest level of state, regional or municipal authority and be incorporated into a policy framework. The continuity of policy, including the ability to adapt to changing circumstances and reduce uncertainty for private sector individuals willing to take economic risks is critical. Too frequently, government, in the absence of any consistent goals, pursues ad hoc policies that are disruptive to the development process. There are steps that can be taken to minimize this. First, the community should work on a set of development policies that frame their actions in the development arena. For example, a community might adopt policies that promote projects with innovative transport/transit linkages. Subsequent projects as well as regulations would have to be examined to see that they met that test. Second, local government and private enterprise, along with community groups, should try to determine what kind of community and projects they really want and build economic and physical infrastructures accordingly.

The ability and desire to nurture civic entrepreneurship, that is, to encourage the risk-takers and build their confidence in implementing innovative joint transit projects is an impor-

tant element of an action strategy. There is nothing more damaging to the notion of economic development than communities that dismiss the work of effective, innovative people. It takes bold action to move an area or community into new development ventures. It will be a few active and motivated persons willing to make the effort that will ensure its success. If these people are not rewarded and encouraged, the development process, and the project in particular, will stop and the community may lose a valuable opportunity.

*Identify and coordinate available resources to encourage private sector participation.*

The design and location of station entrances and routes have a direct influence on joint development opportunities by influencing pedestrian flow to major employers. Additional resources that transit can contribute to joint development include assistance with marketing, signage and access. The ability of transportation officials to coordinate this planning with economic development initiatives can be critical to the success of joint development. However, transportation planning must also be coordinated with land use regulations, development incentives, parking requirements, and other factors.

CUED's visit to Buffalo provides a good example of the importance of such coordination. Unfortunately, the exact location and entrance of the Allen-Hospital transit station is not particularly conducive to joint development. Though better initial coordination on the station location might have resulted in more joint development opportunities, the city must now work with what

it has and make the most of it. Located in the midst of an urban renewal area, any effort to encourage joint development in the area would require higher densities and different land uses than are specified in the urban renewal plan. The team recommended that the city use zoning restrictions and land use incentives to promote certain types of development on key parcels. The city can also inhibit development where it conflicts with the potential highest and best use of property. For example, the CUED team determined that a site set aside for a mission for battered women could probably be used for a more efficient economic purpose.

Carefully considered land use policies are one method of promoting positive impacts on development patterns and ridership. Besides shaping growth, they can help build markets for transit services and perhaps provide revenues to support capital and/or operating expenses. Potential policy directives include station locating and siting designed to assure access to jobs and housing, as well as encouraging development around the stations which promote transit ridership, especially off-peak. One strategy applauded by all is mixed-use development.

According to Robert Cervero, Associate Professor at University of California - Berkeley, an examination of land-use variables indicates that the degree of mixed-use development in a project most influences the modal choices of suburban office workers. Projects made up almost wholly of offices are associated with solo-commuting. The point is, if workers are given one easily accessible center where they can not only work, but also walk to dinner afterwards and take

care of shopping needs, and that center is served by mass transit, they are much more likely to take advantage of public transportation. If the drug-store is not across town, people will not require an auto to reach it. Highly mixed-use centers allow employees to take personal trips on foot in a contained area. Also, mixed-use environments allow for more shared parking. This reduces the total number of spaces in a site as well as potentially the overall scale of a project.

Combining office, commercial, and also residential activity, and offering not only daytime but nighttime attractions, is an effective use of land for both public and private entities. The private sector profits from increased density of employment or residences and higher land values. Obviously, greater density is expected to lead to increased ridership for transit authorities. Sale or lease of real estate or air rights is also a possibility for the transit operator.

Strategies intended to influence density must be developed to aid and encourage the use of transit. Land-use regulations can be altered to allow higher-density zoning and density bonuses near transit stations and corridors. The key is achieving sufficient density to allow construction and operation of mass transit to be a successful undertaking. Densities of suburban areas must reach levels where the overlapping of common trip paths begin to form viable transit markets. While this is currently happening in many urbanized areas, the population also continues to migrate outward into low density suburban and exurban environs.

Complicating matters is the fact that density

data are the weakest of metropolitan statistics. Consultant Alan Pisarski contends that the key issues in analyzing transit markets include, "At what densities do most people live? What service characteristics are mated to those density levels?" He adds that, "These questions are really not answerable with the present structures of metropolitan data....The main problem is that average densities conceal as much as they reveal."

The authority of the local government to identify and acquire critical land parcels is also an important resource. Property ownership represents control over the actual use of the land. Acquiring land permits the city to regulate precisely what sites are developed and how. Absent this ability, localities can lend their powers of eminent domain to private developers attempting to assemble property within a designated area.

Parking policies have direct impact on the success of transportation and development projects. Parking restrictions and pricing in districts well served by transit will encourage public transit usage. For example, elimination of free or subsidized employee parking helps to discourage single occupant vehicle trips. However, such a decision should be combined with a ban on parking on residential streets and other free facilities to guard against spillover. Focusing development in areas served by transit and restricting it elsewhere are other possibilities.

Setting definitive transit goals is made more complex by the relatively tight hold regional and state transit agencies, as opposed to state devel-

opment agencies, have on their local counterparts. Rarely can a state development agency veto a municipality's plans to construct an office, commercial center, or other project. The state transit agency, however, often does possess these powers and may well use them.

## DOING THE DEAL

The three guidelines mentioned above help to build the framework for effective joint development projects. Once these programs are incorporated, identifying and implementing the project becomes easier. The following guidelines serve to assist with that process.

### *Identify potential joint development sites and developers.*

A city may select a sole developer to work with it on a transit project at a point when not much information is available about the project, the facilities to be provided or its demand market. In this situation, the developer attempts to assess his/her position without significant expenditures of cash or time. In some cases, he/she may decide that the project appears feasible, ask for the city's designation and support, and then expend a prudent amount of front-end money to proceed. Some developers may not want to investigate the project's feasibility but will first request that the city designate them "official developers" (or provide an unofficial "blessing") and then request financial assistance from the city to determine the project's viability, thereby avoiding all risk. In this instance, the city would be committed to one developer.

To avoid these extremes, a city can invite interest from developers on properties it is promoting. This puts the city in a better negotiating position if it has identified joint development potential on its own before dealing with developers. Consultants and joint development study groups are other ways to identify joint development projects. The invitation to consider the project (or the formal Request For Proposals (RFP)) can be sent to several different development firms. It is possible to begin formal work (or designate a developer) too early or too late in the development process. If the city's formal involvement with a developer is too early, it might be months before both parties realize that the wrong developer is working on the project, with the unnecessary expenditure of significant sums of public or private money. On the other hand, if the designation comes too late, many of the city's decisions and actions might have to be changed or restructured to develop a successful project. As an inexact science, it requires a degree of sophistication on the part of the city's economic development and transit staff.

### *Initiate dialogue with developers.*

The public sector's involvement in the development of real estate projects and private sector's role in financing transit improvements is likely to be characterized by a series of progressively more detailed and involved phases that can take years to complete. Initial discussions between city transit/development and private developers; initial preparation of the development program and plan; negotiations between other public and private sector individuals; prepara-

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**PROFILE:**  
**NEWARK-AIRPORT-ELIZABETH TRANSIT LINKAGE**

A public/private ownership and financing concept is a major element in a proposal to build a \$280 million, seven-mile transit link joining Newark's Broad Street Station with the terminal at Newark International Airport and Elizabeth's Midtown Station. The project would include about 10 station stops with at least two of them, Newark's Waverly Yards and Airport City in Elizabeth, as prime sites for the joint development of major office, retail and residential real estate projects. A state-funded study estimates that the transit system would attract 12.5 million square feet of office and retail space to the Newark/Elizabeth Corridor along with 5,000 hotel rooms and 3,200 housing units.

Northern New Jersey's economy is one of the strongest in the nation supporting potential new economic development opportunities in two of the state's largest cities, Newark and nearby Elizabeth. At the same time, the fast-growing Newark International Airport, located between the two cities, does not have an adequate public transit link to these important commercial centers. If airport growth is not served by a transit system to handle the increased passenger load, traffic congestion will reduce development opportunities in the area and increase highway expenditures as well as operating and construction costs at the airport. It is estimated that with the transit link, the Newark/Elizabeth corridor would have 15 percent of Northern New Jersey's regional office growth through 1995 with 28,700 new jobs and 54,000 new jobs in the long term. Without the link, the corridor's growth share would remain at 6 percent and may decline to 2 percent in a few years.

*Financing.* The report, prepared for the New Jersey Department of Transportation and the North Jersey Transportation Coordinating Council, recommends that initial capital investment and continuing coverage of operating cost and/or debt service be shared by federal, state and local public entities and private developers.

Capital Cost Sharing for Approximately	\$280 million
Port Authority of New York/New Jersey (part of adopted five-year capital program)	\$60 million
Developers, Local/State and UMTA (presumes UMTA private initiatives grant)	\$70-100 million
Private Financing	\$120-150 million

The report proposes a public/private ownership financing concept which shares responsibilities between a Private Transit Development Corporation and a Public Transit Services Corporation. The public entity would obtain the right-of-way, establish performance requirements for the system and fare levels. A private co-venture would be selected to arrange construction financing, assemble long-term equity and debt and contract to provide a predetermined level of service for a guaranteed cost. The public entity would obtain local capital funds to augment private venture financing, collect fare box revenues and purchase the services provided by the private co-venture.

The annual cost for repaying operating, maintenance and capital costs is estimated to be \$45 million in 1996 dollars. If projected ridership levels are reached, the system would require no operating subsidy. A land use policy that limits parking is recommended to help the system reach the desired ridership.

Other sources being considered to fund the project are renewal of the state transportation trust fund, developer service fees, special transit improvement districts with levies assessed on properties and businesses within the districts or benefitting from the transit, tax increment bonds and dedicated revenues.

The report recommends the adoption of an Automated Guideway Transit (AGT) system of automated driverless vehicles operating on an exclusive guideway separated from other traffic. AGT would allow for smaller vehicles and more frequent service. The report also recommends an across platform transfer plan which would provide for direct transfer between the transit link and the airport's passenger distribution system.



The Growth Connection, a coalition of area business, civic and government leaders, proposes that a vendor be selected early to negotiate for a conditional franchise with the AGT manufacturer, planners, engineers and financial institutions. It has proposed that the line be built in two concurrent segments so development revenues from the first segment, Newark's Penn Station to Airport City in Elizabeth, can be used to finance the second segment. This presumes that heavy borrowing could be avoided as farebox revenues would cover the cost of operating and maintaining the system. Under the Growth Connection proposal, private sector financing share would be increased and a initial construction grant would be required from UMTA's New Starts Program.

*Joint Development.* The transit link includes opportunities for joint development of station sites and value capture by the public sector to help pay for the system. Joint development techniques considered are negotiated private sector investments in property and transit capital costs; access agreements for direct tie-ins to transit stations; land and air rights leasing; and public/private joint venture participation in real estate development. It is estimated that potential joint development projects would yield \$42.1 million in local tax revenues in 1995 and grow to \$77 million annually in the long term.

One potential site for joint development is Airport City. Projected development calls for 1.2 million square feet of office space, 50,000 square feet of retail space, a hotel and conference center and parking for over 4,000 cars. Another site is located in a 14-acre blighted area in Elizabeth which has been earmarked for redevelopment. The presence of a transit station would greatly affect the market for office development. Development plans for the Station Park site include 610,000 square feet of office space, 464 residential units and over 2,600 parking spaces.

References: Final Summary Report: Newark/Elizabeth/NIA Economic and Transit Access Study, New Jersey Department of Transportation and North Jersey Transportation Coordinating Council, prepared by Gannett Fleming. The Growth Connection: Urban Development in Northern New Jersey Through the Transit Link to Newark Airport, Newark/Elizabeth Technical Advisory Committee, Elizabeth Development Co.: The Atlantic Group.

tion of an implementation agreement; acquisition of public approval; and implementation of the agreement and the project are all elements that must be handled by both groups. Cities can initiate projects by issuing a request for proposals to jointly develop a transit/real estate site or can react to proposals submitted by developers. In either case, successful completion of the first phase is critical.

*Conduct realistic market and feasibility studies early on to determine the best use for land.*

Successful public/private collaboration on transit development depends upon early and continued discussions during the project's feasibility stage, when the developer assumes many risks, such as the expenditure of front end money for feasibility and market studies of location, circulation, site, and soil. If the project does not proceed, the developer is left with nothing to show for his/her time and effort but a large expenditure for predevelopment analysis. It is therefore vital that the developer and local development and transit officials define responsibilities and initiate the various phases required for public planning, review and approval before either party invests time or money. This initial phase is crucial for establishing a clear understanding and working arrangement between the public sector and the developer.

If the developer initiates the project, he/she will contact the development and/or transit agency of the locality. The early discussions between the city and the developer should include facility or service objectives, denote the type(s) of use(s) desired and propose potential locations, and so

on. Ideally, the development and transit agencies would then form a team of professionals to assist the developer in meeting requirements for the project's development and the city's needs. It is important that the developer and the city begin to discuss responsibilities for phasing development, time constraints, potential public incentives or potential private funding. These preliminary discussions should result in an informal agreement that assigns responsibilities and establishes a timetable. Agreement at this stage will lay the foundation for successful joint development.

In some circumstances, it may be advantageous for a city to perform or fund an economic, demand or other feasibility study, particularly when the city is proposing the development of a transit facility in an economically weak or undesirable area. A city may need market studies to attract developers to an area or to resolve basic issues -- for example, questions about the market (i.e., can office and retail be supported in a transit node) or about the site (poor soils that present a need for expensive mitigation measures). Moreover, before the city or state does agree to fund such studies, it should fully understand the types of studies needed and credentials (and the ability) of consulting firms that might perform them.

Cities should also be aware of the problems that can occur in providing all the capital for predevelopment expenses. Therefore, exclusive public expenditures for front end expenses can sometimes hinder rather than accelerate private progress on the project. The developer should be somewhat more at risk than the city.

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**PROFILE:**  
**BALTIMORE'S LIGHT RAIL TRANSIT**

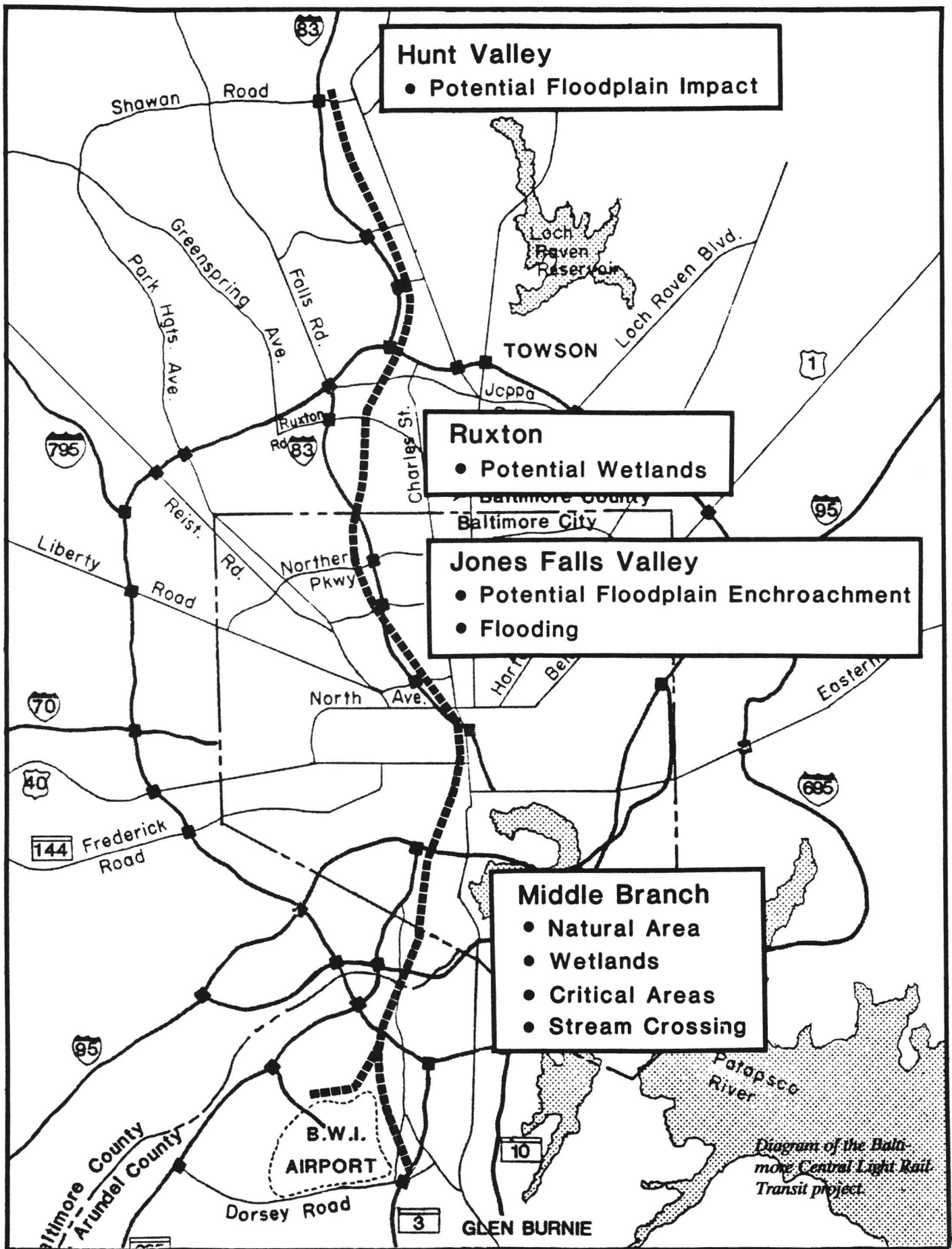
Private financing of joint development sites will help pay for a 27-mile Central Light Rail Transit (CLRT) project under consideration by the Maryland Mass Transit Administration (MTA). The \$290 million line with 37 stops will link downtown Baltimore with expanding suburban centers of employment and activity to the north and south. In addition to two prospective sites in the suburbs, developers have identified between \$75 million and \$125 million in potential development projects near stations in the city and Baltimore County.

The major employment/activity centers are Hunt Valley/Cockeysville north of the city, downtown Baltimore, and Baltimore/Washington International Airport (BWI) to the south. These developed centers have major new development projects in planning or construction which the placement of the CLRT should enhance. The CLRT would also provide station stops to serve the planned new stadiums in the city's Camden Yards area for the Baltimore Orioles baseball team and for a professional football franchise. Permanent connection of the region's employment/activity centers is critical to control growth in the Baltimore area.

The project would be built primarily on existing rights-of-way and railroad corridors, making for a relatively low capital cost of about \$10.7 million per mile.

*Major Actors.* The light rail proposal has evolved over 20 years since a mass transportation plan for the Baltimore area was completed in 1965. Since then, several studies have examined alternative ways to provide public transit services to the corridors of the region. Maryland MTA decided on light rail in 1987. Over the years, business and community groups at the metropolitan and local level have been apprised of these plans and have generally supported rail as a solution to the area's transportation problems. The three local governments, Baltimore City, Baltimore County and Anne Arundel County, are each contributing \$15 million to the \$45 million local share of the project.

*Financing.* The \$290 million capital costs of the project (figure adjusted for inflation through the construction period) includes \$178 million for construction, \$52 million for transit vehicles, \$30 million for right-of-way acquisition, and \$30 million for design. Financing would come from public federal, state and



local sources with revenues from private investment expected later from the joint development of transit station sites and adjoining parcels.

#### Capital Cost Sharing for \$290 Million

State Transportation Trust Fund	\$205 million
Local Jurisdictions (\$15 million each)	45 million
UMTA (for suburban extensions)	40 million

Farebox revenue is expected to cover 69 percent of operating costs after the first year of operation. Daily ridership is projected to be 33,100, resulting in \$8.3 million in annual revenue against an annual cost of \$12 million. Revenues are expected to grow at a faster rate than operating costs as ridership increases.

*Joint Development Potential.* MTA is working with local jurisdictions to assure the greatest amount of benefit in already planned and proposed projects. In downtown Baltimore, development along the line is being formulated with the plans of Market Center Development Corporation and Charles Center Inner Harbor Management for several major developments. These include expansion of the Baltimore Convention Center; an office building at the northwest corner of Pratt and Howard Streets; a federal office building at Redwood and Howard Streets; and the Brexton Building at Chase and Howard Streets.

Hunt Valley and Cockeysville are expanding rapidly with large office/business parks. Projects include Hunt Valley Business Community, 305 International Circle, Longview Phase 4 and Park Plaza in the North Park in Cockeysville. BWI Airport is expanding with new business parks such as Airport Square Technology Park, Airport Square and International Trade Center. Planning for the stadiums in the Camden Yards is being coordinated between MTA, the Maryland Stadium Authority and Baltimore City to attain the best use of resources.

MTA proposed an innovative financing approach by seeking private bids on packages that linked rail car procurement with development proposals. The agency has since separated the rail car financing from development but proposals on two sites that resulted from these bids are under consideration. These are in Timonium, north of the city, and at Dorsey Road, on the southern extension. Timonium, with nearby industrial and business parks is proposed for high-rise office development. Dorsey Road is a less developed area and is seen as a potential low-rise commercial/office development. Both sites are park-and-ride stops in the new system.

### *Prepare a development program and plan.*

Early demand and market analyses and preparation of a completed plan identify the basic assumptions upon which further negotiations will rest. The municipality should at this stage perform a first analysis to assess whether the project meets its transit needs as well as provides the developer with sufficient financial return. Unfortunately, a developer's presentation of a completed development plan that identifies the major phases, property uses, and design characteristics of a project is often the city's first involvement in a project. This sequence has caused misunderstandings and delay in the development process. A city's involvement in preparing a development plan can help avoid costly delays and problems, particularly about decisions that contradict city policy. A joint transit development plan should include an initial agreement that states desired and necessary public and private actions and the phasing for each to clarify the positions of both parties.

### *Negotiate development arrangements.*

In most large developments, a series of negotiations takes place after an initial development plan is tentatively selected. The developer attempts to reduce his/her risk and increase his/her return on investment. The municipality tries to meet its objectives at the least cost to the city. In essence, what takes place during this phase of negotiation is a combination of the traditional analysis of the project's feasibility by the private developer with a new analysis of the project's likely public "return."

Discussions will be much more specific and useful if the resulting information is treated confidentially. In some states, keeping the information confidential is difficult because local officials are required by statute to hold public meetings and make their proceedings available to the public, especially when state and federal monies are used. In those cases, a nonprofit development corporation may be established to negotiate for the city to maintain confidentiality, as the staff of a nonprofit entity have more flexibility and a greater ability to negotiate privately and confidentially.

If a proposal or any part of it proves infeasible, further negotiations are necessary. For example, the city, to meet its transit and development objectives, might ask for changes in the project's design, siting or packaging. If both parties agree on the terms, then the process moves to the next step: a formal or informal implementation agreement, depending on the legal and political context of the development

### *Prepare an implementation agreement and obtain public approval.*

A major transit joint development project might involve a complex set of agreements, phased over the pre-development and development stages. Financing, public or private acquisition of land, public reviews and approvals, and construction must be timed to allow efficient completion of the project. An implementation agreement should define the necessary public sector actions, which may require the approval from government agencies and/or elected officials, and private actions. Public sector actions might include such issues as

adjustments to zoning, public hearings, land acquisition and disposition, additional infrastructure improvements, permits, leasing arrangements, additional funding, tax abatements and special assessments/fees. Private actions include preparing a plan, financing, timing construction, attending public hearings and dedicating land.

If a joint transit venture between a city and a developer is undertaken, the diverse interests of both parties must be considered. A public/private implementation agreement should be very specific addressing the following issues:

- o How depreciation is to be defined and allocated;
- o Who will be responsible for cost overruns and operating deficits on the project;
- o Who will approve and monitor management fees, developer fees, contingency funds, and reserves for replacements, as well as who will police their operation;
- o Who will hire (and if necessary fire) the

project manager, approve the leases and para-transit service contracts (if necessary), supervise construction, and generally control the project; and

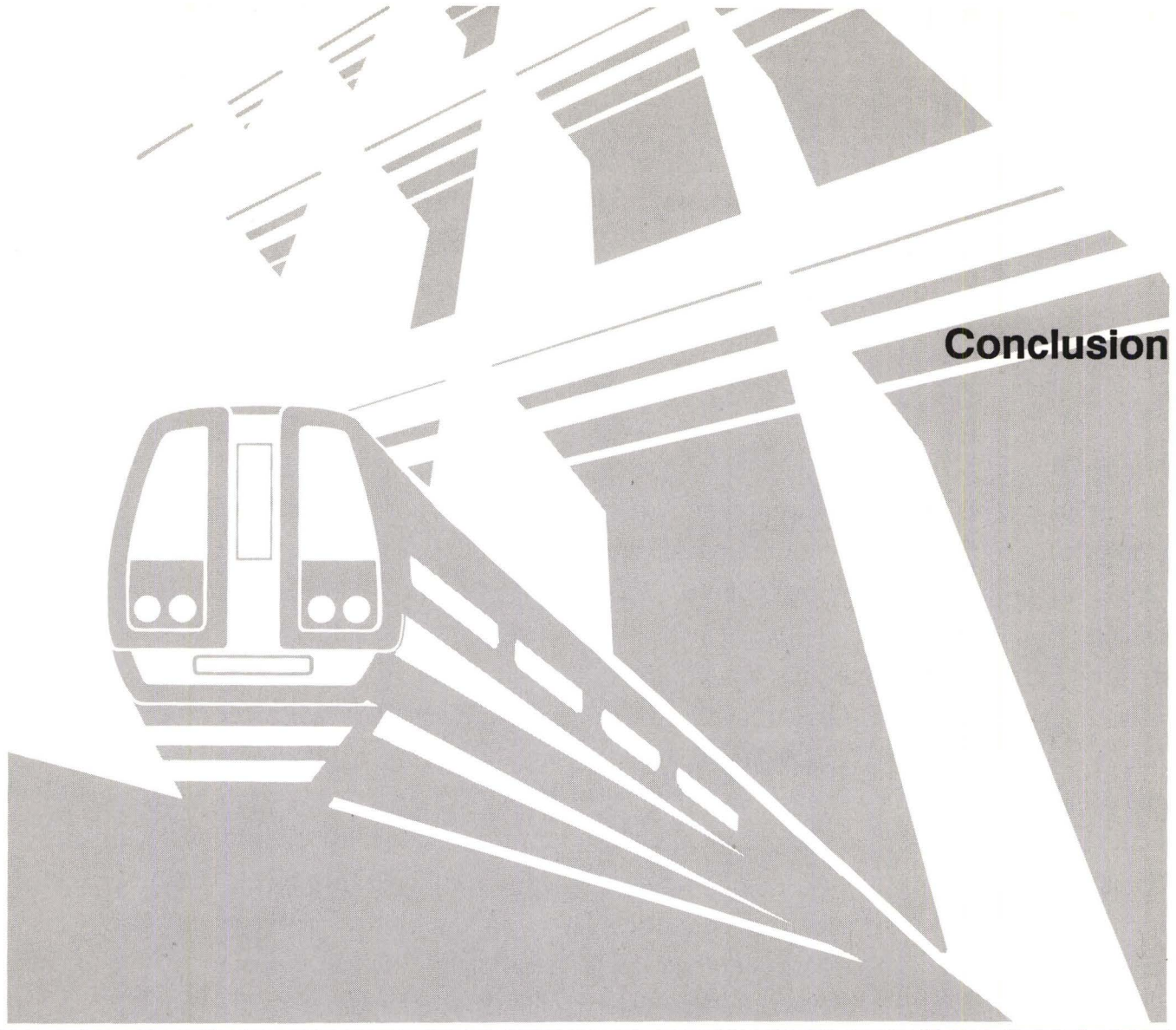
- o How will the partnership be dissolved in the event of a dispute.

*Implement the agreement and the project.*

As the project proceeds, parts of the agreement will likely be adjusted to reflect changes in the market conditions, more detailed knowledge about the site and local demands, and financing. Throughout the entire process, the public, elected officials, news media, special interest groups, and other public bodies must constantly be informed about the development plans. The education process and local learning curve varies by the size of the city and complexity of the project. As joint development proceeds, the key to success may rest in the community's ability to use its resources and incentives in strategic combinations that contribute to making a desirable and financially feasible real estate and transit investment -- for both the public and private sector participants.







## Conclusion

Significantly, adequate transportation of people and products is a characteristic ranked at the top of nearly all locational preference studies. Companies trying to make a decision about where to build or move their operations are concerned with highway accessibility, condition, and capacity, airport availability, and railroads as a means for transferring their materials and products. They are also concerned with transit as a means for getting employees to work. A good transit system provides employees with more choices of where to live and gives employers a wider pool of people from which to choose. Lack of transit limits worker availability.

The lack of adequate mass transit facilities is correctly blamed on the American commuter's post-war dependence on the automobile and the evolutionary shift away from public transport. In addition, it can be traced to three causes: deliberate public policies such as rapid economic development, inadequate public finance policies to deal with such growth, and the behavioral patterns of residents. While rapid residential and commercial development in many suburban areas is partly a result of public policies adopted to expand tax revenues, many suburban and some city residents believe that these have worked too well. Most believe that the recent surge in com-

mercial and non-residential development has been the main reason behind rising traffic congestion. As a result, they have begun to demand limits on the scale and speed of future growth.

In reality, there are several reasons for this growing congestion and its negative impact on local attitudes toward growth. First, primary patterns of urban growth frequently work against mass transit, as residential areas and commercial employment centers are spread throughout the region where they cannot be easily served. Second, increased congestion is also based in the behavioral patterns of the same households that are now complaining about traffic congestion; suburban residents who chose to escape high densities and congestion in the city are inextricably linked to the convenience and luxury of the automobile for commuting to work. Often, public transportation is something most suburban Americans want someone else to use so those people will get off the roads they themselves want to drive on.

The construction of more roads is not necessarily the answer, considering that freeways and highway construction costs between \$50 - \$100 million per mile, not including acquisition of right-of-ways, compared to the \$20-\$25 million a mile for a light rail line running at street level or on a private right of way. The development of transit facilities must be combined with other measures to mitigate America's growing infrastructure predicament. Some cities have moved in this direction by persuading businesses to stagger work hours at major commercial nodes, creating van pools, designating HOV (high occupancy vehicle) lanes and developing more mass transit facilities, such as light rail systems to

alleviate traffic congestion (unfortunately, in the long run these steps will probably succeed in decreasing some traffic congestion but may do nothing to reduce the dependence on cars).

Though it is difficult to predict how many people will be convinced to leave their treasured automobiles at home (overestimations of projected ridership are very common), making a dedicated effort to integrate economic development with transit can be expected to help reduce congestion on our streets and highways somewhat. Potential riders must be persuaded that mass transit, as a method for getting around, is more efficient, less stressful, and no more costly in the long run. In addition, these riders will be able to "do" just as much without a car as with one. A true reduction in congestion will help ward off "no-growth" or "slow-growth" movements in our cities and suburbs. These movements, obviously, can largely inhibit development of both the well-planned and haphazard sort.

Coordinated joint development provides measurable benefits for all players: transportation officials, developers, economic development officials, municipalities and citizens. Joint development plans (for mostly privately financed mass transit systems) are still relatively experimental, and thus far, have amounted to only a few interesting projects. However, there are several ways in which joint development of transit facilities and services can be developed and promulgated. Because each project is unique, no single technique can be judged as always "best." But, the development of an effective public-private partnership is a necessary first step toward a more mobile urban society.

A stylized, high-contrast graphic illustration of a train and its tracks. The train is shown from a front-three-quarter perspective, moving towards the viewer. The tracks recede into the distance, creating a sense of depth. The background consists of large, angular, overlapping shapes in shades of gray and white, suggesting a modern architectural or urban environment. The overall style is clean and graphic.

**APPENDIX:**

**EXECUTIVE SUMMARIES  
OF CUED-UMTA TECHNICAL  
ASSISTANCE SITE VISITS**

- o Oak Street Redevelopment Project, Buffalo, New York
- o The Pomona Rail Station and Transportation Center, Atlantic County, New Jersey
- o California/Stout Street Transitway, Denver, Colorado

## OVERVIEW

In response to recent public investments such as the light rail rapid transit and new development pressures, the city is reexamining the Oak Street Development Project urban renewal plan, which has not been updated since 1970. Lying just to the north of the Central Business District along Main Street, the plan area includes about 30 blocks to the south, east and north of the Allen-Hospital Transit Station. The city is preparing for anticipated future growth that will occur because of activity related to both the station as well as four important regional medical-related facilities.

The planning process will incorporate four major objectives: (1) maximize the benefits to be derived from both public and private investment within the corridor; (2) encourage and promote ridership on the Light Rail Rapid Transit System; (3) maintain stable residential neighborhoods while encouraging high density residential development where appropriate; and (4) consolidate and concentrate retail commercial activity on Main Street in close proximity to the transit stations.

As an element of the larger transit corridor study, the Allen-Transit Station area has been identified as a significant resource for improving Buffalo's economic climate because it is an important regional hospital and science center. The city of Buffalo would like to take advantage of that development potential to encourage new development near the station and to improve ridership on the transit system. The city is reviewing its vision for the area in light of new development pressures resulting from the existing economic base and the impact of improved transportation to the area.

## SCOPE OF SERVICES

Within a two-block radius of the transit station can be found one of the nation's leading cancer centers and a recently certified heart transplant center. Buffalo General, Buffalo Medical Group, the Medical Foundation of Buffalo and Roswell Park Memorial Institute have all indicated that expansion plans could well be in their future. Parking is already a problem in the area, which future development may only exacerbate.

The station, located on Main at Allen Street, is the first of eight stations outside the Central Business District extending northward to the Buffalo-Amherst city line. Although the area has major medical-related employers and other activity, a great deal of vacant and underutilized property is also located within the Oak Street Redevelopment Project area and the area to the west of the station. The city is reexamining ways to encourage future institutional development while optimizing the use of mass transit.

CUED was asked to help by:

- (1) Examining how zoning and land use planning is coordinated in the project area;
- (2) Evaluating the influence of station entrance locations on joint development opportunities by determining how they impact on pedestrian flow to major employers;
- (3) Suggesting how the relationships among the major constituencies might be better coordinated to encourage joint development;
- (4) Identifying land acquisition opportunities that could put the Buffalo Urban Renewal Agency (BURA) in the position to encourage joint development opportunities; and
- (5) Analyzing the strength of the hospital/institutional market and its potential impacts on ancillary retail and residential demand.

## **FINDINGS AND RECOMMENDATIONS**

Based on its study, the CUED team made a number of observations regarding the Allen-Hospital Transit Station area. The hospitals and health-related institutions are the driving eco-

nomie force in the station area, employing more than 6,800 people. These health-related institutions are key in creating new demand for development in the station area and providing value-added service jobs. They expressed a need for additional research and development space.

Transit ridership at the Allen-Hospital Station is higher than expected, yet still quite low relative to the proportion of potential riders. In large part, this has resulted because major employers subsidize parking and the transit system only has one line. In order to achieve the Niagara Frontier Transportation Authority's (NFTA) goals of essentially doubling ridership on the system within the next decade, development policies along the system must encourage high-density commercial and residential development.

Unfortunately, the CUED team identified potential conflicts between current development proposals before the city and future institutional development potential. Finally, the team found that the city's role must be a catalyst for development, but positive inter-institutional relationships are key to successful implementation of any new plan. Building on these relationships can also help create new opportunities for joint ventures and allow more formal collaborations on projects of mutual interest.

CUED concurred that the urban renewal plan needs updating and suggested ways to reconcile differences between NFTA's goals and the present renewal plan objectives. Specifically, CUED recommended:

(1) The city should begin updating the urban renewal plan to incorporate economic changes such as the transit, but also, to be more inclusive and forceful. The plan should specify activities to be allowed, the city's commitment, urban design guidelines, expanded boundaries of the urban renewal area, and a consortium of local property owners to be an integral part of the process.

(2) The Transit Corridor Master Plan should be revised and recognized at the highest level of public authority. A master plan for the corridor completed in 1985 provides fairly detailed information about the market and potential development opportunities at the Allen-Hospital Station as well as the remainder of the light rail system. That plan was never officially adopted, and thus, has not been implemented.

(3) The city should organize an implementation plan within an adopted policy framework. The city should take a pro-active role in seeing that the plan is implemented.

(4) The city should coordinate public and private activities to insure proper uses of inputs and resources. The city, State University of New York (SUNY) at Buffalo, the medical institutions, and a consortium of the private property owners can all bring resources to the table in implementing a station area plan.

(5) The city and the proposed property consortium should periodically review and update the redevelopment plan and implementation

schedule. The plan must adapt to changes in the environment to remain effective.

(6) The city should generate the maximum use of publicly owned land in the urban renewal area. Ownership represents control over the actual use of property.

(7) Mixed-use development should be a primary consideration in the area. The residential use proposed under the current urban renewal plan should be a secondary consideration in the area to the east of Main Street.

(8) NFTA, the city and area institutions and businesses should encourage increased transit ridership in the short term at Allen-Hospital through improved marketing, signage and access. A partnership among all the local actors that tries to change attitudes and provides financial incentives would likely be most effective in attracting commuters and visitors to use transit.

#### **TECHNICAL ASSISTANCE TEAM**

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**David O. Hash**, Director of Property Development, Dome Corporation, Baltimore, Maryland

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**Atlantic County, New Jersey  
The Pomona Rail Station and  
Transportation Center  
Atlantic County Department of  
Regional Planning and Development  
December 15-16, 1988**

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## **OVERVIEW**

Atlantic County, New Jersey, through its Department of Regional Planning and Development proposes to build a rail station and develop a transportation center in an effort to meet the growing transit needs of its residents and labor force and to facilitate private investment in one of the fastest growing areas of the county. In the late spring of 1989, passenger rail service will be initiated between Philadelphia and Atlantic City. There are four stops planned for Atlantic County which will serve both the local and inter-city user. Pomona, located in the fast growing Galloway Township with some of the area's largest employers, was not slated for a rail stop by the New Jersey Transit Corporation which will operate the rail line.

Local officials believe that a rail stop at Pomona could be an integral part of an intermodal transfer point because of its proximity to existing and planned transportation infrastructure and major office and commercial development. The proposed station could become part of a transportation center providing easy access to the nearby Atlantic City International Airport as well as bus and auto services.

The county has been very aggressive in seeking ways to diversify its economy which is based to a large extent on the casino industry and related activities. An expanded convention center, a recently announced effort to build a 220-acre office and research park and new business development generated by the national Federal Aviation Administration (FAA) Technical Center are key ingredients of the county's economic diversification effort. The airport to support the expanded convention industry, the proposed Atlantic Research Park and the FAA technical Center are all located adjacent to the proposed rail site. Consequently, the Pomona rail stop is considered essential by many public and private officials to the success of these and other efforts.

## **SCOPE OF SERVICES**

Atlantic County is seeking to identify the most suitable development expected as a result of the Pomona station and to point out initial steps in a long-term strategy to implement and finance the rail station and transportation center.

Specifically, the CUED team was asked to:

- (1) Examine the value of the transportation center in attracting new development and ex-

panding existing facilities. What types of development would find the area near the station most attractive?

(2) Consider the alternative public/private financing strategies for the feeder transit services to the transportation center. What are the appropriate funding mechanisms for the service?

(3) Identify the initial steps to implement the transportation center. What actions should be taken beyond the feasibility study?

(4) Analyze the applicability of joint development/value recapture. What actions should be taken by the public sector to leverage private investment in the transportation center or any related service?

## **FINDINGS AND RECOMMENDATIONS**

The CUED team found that the Pomona site is a unique concentration of existing and proposed transit services and major residential and non-residential development. In this growth area as defined by the Pinelands Commission, the area's environmental planning agency, the county's major assets for technology development are centered. The FAA National Technical Center, the Atlantic City International Airport, the area's state college and medical center are already located in the Pomona area. Within the next ten years, the area will change dramatically with the expansion and possible relocation of the airport, the 220-acre Atlantic Research Park, additional development due to expansions at the FAA and medical center, the beltway and the Atlantic City-Philadelphia rail line.

The CUED team found that the Pomona site, based on existing and proposed residential and

non-residential development, supports the location of a rail station. The employment projected for the research park, the planned expansion of the airport and the expected growth of the convention industry and the county's ever widening labor market point to use of a Pomona station at least equal to already approved stops.

Support for a transportation center linking air and rail service, providing auto access and meeting the needs of the research park was evident in the team's discussions with public and private sector representatives. The developers of the research park consider it essential--second only to the beltway. Convention authority officials believe that an improved airport with direct rail service to the new convention center will enhance the area's ability to attract major meetings and exhibitions. Both the county and Township consider the rail station essential to local efforts to promote economic diversification and reduce traffic congestion. Private developers believe the station would be an asset to the area and several expressed interest in participating in a possible joint venture arrangement.

The tremendous growth in the area and the importance of effectively linking the airport, rail service and beltway points to the need for additional planning, according to the CUED team. The potential impact of the major development near the Pomona site on Galloway and nearby Hamilton townships needs to be analyzed and efforts undertaken to minimize negative impacts. The team noted that planning assistance to undertake the necessary analysis of regional growth issues and transportation linkages was available from the state and the Pinelands Commission.



The CUED team was also asked to identify the potential users of the rail station. Employees of the research park who can walk from the proposed station site to their offices, convention visitors arriving by air or from Philadelphia and seeking to go downtown to the convention center at the rail line's terminus, and resident commuters to Atlantic City or possibly the Cherry Hill-Philadelphia area are the most likely transit users. Casino visitors and employees are initially unlikely to use the station because of the existence of casino-specific transit services. The schedule and number of daily trains will be the critical determinants of use.

CUED's recommendations fall into two categories: (1) short-term actions to develop the necessary information and public-private dialogue to design the rail station and (2) long-term strategies related to the rail station and its linkage to other transit modes and proposed development.

CUED recommends that the county take immediate action to get approval for the proposed feasibility study of the Pomona site. This effort will identify the specific market, provide initial physical design requirements and suggest possible financing scenarios. Additionally, the county should expeditiously move to take advantage of available planning funds to address regional growth issues. It should also meet with township planning officials in the very near future to discuss the Pomona station, review the status of the UMTA grant for the feasibility study and examine potential areas of concern. Finally, the CUED team recommends that the county establish a public-private task force to design and

implement the Pomona rail station and transportation center. This group would examine the goals and objectives of the rail station, review the scope of services and work of the consultant for the feasibility study and provide a forum for the necessary dialogue which must occur in any major development project. This task force with its public and private sector interests could also begin to develop a framework for a future joint venture arrangement for the rail station and transportation center.

In the long term, the county needs to: (1) establish an economic and structural link between the Atlantic Research Park and rail station; (2) continue public-private communication to provide an opportunity for joint venture arrangements and value recapture; (3) design the station so that it can be developed into a multi-modal center if demanded and include retail and commercial space; (4) pursue the expeditious development of the beltway including the linkage to the Pomona area and (5) coordinate the physical and operational design of the rail station with the airport including scheduling, baggage handling and transfer.

#### **TECHNICAL ASSISTANCE TEAM**

**Steven J. Budd**, Executive Director, Dayton City-Wide Development Corporation, Dayton, Ohio  
**Michael Cohan**, Principal, New Vistas Corporation, Ventnor, New Jersey

**Lori Gillen**, Special Projects Director, National Council for Urban Economic Development, Washington, D.C.

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## OVERVIEW

Capitalizing on the success of the 16th Street Transit Mall, the public and private leaders in Denver are working to develop another public transportation transitway in an effort to improve downtown traffic circulation and strengthen the link between economic development and transportation. Plagued with an economic recession associated with the 1984 slump in the energy market, city leaders must build upon every asset to return the area to its competitive position. One advantage they intend to utilize is Denver's attraction as a transportation hub for tourist en route to the Rocky Mountains. Recent efforts to build on this include the development of a new convention center and what is slated to be the world's biggest airport.

Yet, solving downtown circulation problems and coordinating regional transportation projects are crucial first-steps to any economic development efforts. According to a recent study, with 45 percent of commuters driving alone, Denver would have to build up to 38 more traffic lanes into downtown by the year 2010 to accommodate even slow growth in the city. This is environmen-

tally unfeasible, as well as financially and physically impossible.

To resolve the access problem, the City of Denver and the Denver Partnership, Inc. jointly developed a Downtown Area Plan calling for significant transportation improvements. The Plan demonstrates the need to double downtown transit ridership by the year 2000 and to double it again in the longer term in order to maintain high quality and efficient access. A convenient, attractive rapid transportation system is suggested as paramount to this effort.

The cornerstone of a new rapid transit system is the proposed California/Stout Street Transitway. Running perpendicular to Denver's successful 16th Street Transit Mall, the California/Stout Street project would improve access to the heart of downtown by converting 12 vehicular blocks into a public transit thruway. The Transitway will provide quick and easy access into downtown for the new north corridor busway, reducing both travel time and traffic congestion and increasing public transportation ridership. The Transitway is also designed to accommodate an at-grade rail system that is being planned from the southeast corridor.

## SCOPE OF SERVICES

The recession-plagued financial constraints of the state and local government and the inability of the regional community to reach consensus on transportation priorities have created obstacles to implementing the Transitway. The Denver Partnership and the Greater Denver Chamber of Commerce believe that the project is both a necessary first-step in improving transportation access and uniquely linked to the community's economic development goals. Committed to making the project happen, they invited a CUED team to recommend the best sources of financing and identify joint development opportunities as well as next step alternatives.

In particular, they requested technical assistance in the following areas:

- (1) Examine the current design for the transitway;
- (2) Evaluate the influence of the convention center and Transitway on joint development opportunities;
- (3) Analyze organizational relationships and how they might be better coordinated to encourage joint development;
- (4) Identify land acquisition opportunities to encourage joint development;
- (5) Analyze market conditions to determine the strength of the market as well as ancillary demand.

## FINDINGS AND RECOMMENDATIONS

In general, the team found the Transitway project to be both beneficial and well thought

out. The team recommended that city leaders continue to make its implementation a priority. Finding joint development potential limited, a strong private sector activism, fragmented transportation leadership, and a weak linkage between economic development and transportation, the CUED team made the following recommendations:

- (1) Coordinate regional transportation functions into one regional transportation financing authority.
- (2) Undertake a reexamination of zoning and land-use practices to encourage coordination with the Transitway.
- (3) Set up a benefit assessment district to finance the Transitway.
- (4) Institute a parking tax dedicated to transit development.
- (5) Encourage private sector contributions of Transitway stations.
- (6) Designate property around the convention center for appropriate uses.

Recommendations were based on findings surrounding the following issue areas: joint development, financing, policy and planning, and leadership and management.

With regard to joint development, the team studied three obvious sites and concluded that joint development potential was limited to the

construction of station shelters or aesthetic improvements. Though suggested as a potential joint development site, a property directly across from the new convention center was recommended for convention center related uses, which is not conducive to joint development. The prospective convergence of two additional transit lines should provide strong attractions for office development, although their peak-hour service commuter orientation will be of slight economic benefit to the convention center and its related hotels.

The second site at the intersection of the Transitway and 16th Street Mall would normally provide the greatest opportunity for joint development because of the enormous additional value added by the combined commuter facilities. This does not appear feasible in downtown Denver, however, because the property that might provide the greatest increase in economic value as the result of transit location has already been intensely developed, is being held for retail or contains historic structures. The final site at the turn-around provided some joint development potential, although limited, due to the heavy presence of government buildings.

Impressed with the history of private sector activism in Denver, the team advised the city leaders to build on this momentum with respect to alternative financing plans for the Transitway. In particular, they recommended an assessment district and parking tax as additional financing mechanisms. Given the absence of a strong incentive to develop heavily because of the transit lines, developer contributions or exactions are

not a significant source of funding for transit improvements. Faced with this, Denver was advised to create a new special tax district to spread the costs as widely as the benefits throughout the business district. The significant presence of transit as proposed means that a relatively simple cost-benefit formula can be adopted reflecting the fact that a quarter of the downtown employees use transit now. This is a district-wide benefit without which further expansion of downtown would be most unlikely.

In reference to policy and planning, the team made three recommendations for the city to consider to insure the success of the proposed Transitway. The team found impressive elements of vitality in the downtown but noted the relative scarcity of housing and entertainment. Because public transportation is dependent upon off-peak ridership, it is important that the city make every effort to insure that the downtown remain vital beyond the workday. They recommended a reexamination of land-use and zoning policies to encourage the development of housing and entertainment in the downtown, drawing on walking ranges from transit for residential, office and retail uses.

Additionally, the team found the development process in the downtown to be haphazard. The success of the Transitway is dependent on development nearest it, and the city should make every effort to target development to that area and, in general, better coordinate land use policy, economic development, and transportation efforts. Finally, they pointed out that while the economy remains fragile in Denver the retention

of existing businesses must continue to be a priority. A proposed beltway is likely to encourage decentralization, and the team advised city leaders to install the proposed North and Southeast transit lines before the beltway is completed.

With regard to transportation leadership and management, the team recommended the consolidation of transportation planning and operations which is currently shared by several special districts and corridor specific organizations. In addition, they concluded that the southeast rail line and north busway connections are essential to the success of the Transitway, and city leaders

should make every effort to insure that this relationship is fostered.

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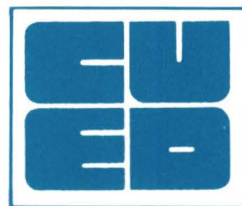
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