Summary of Financing Options for Seattle South Lake Union Streetcar

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INTRODUCTION

Streetcars are uniquely suited as a tool for urban regeneration. Because systems are small, cars typically stop at every corner, promoting an intensity of development and of uses that make for vital neighborhoods. Because they integrate seamlessly into the built environment, they're very pedestrian friendly and promote an active street life. Because transit agencies often view streetcars as competition for scarce transportation dollars for regional projects, streetcars are most often championed by local businesses, developers, mayors, municipalities and chambers of commerce – not transit agencies. Because the impetus to build a streetcar system often comes from a desire to stimulate private investment in and business activity along a streetcar route, streetcars need to be implemented as part of a coordinated transportation, land use and economic development strategy. In places where streetcars have been implemented in this manner, economic development and substantial increases in land values have occurred. And this resulting development can often be captured by the city or transit agency to fill the void left by a lack of dedicated funding.

There is increasing interest in streetcar projects around the country – the National Streetcar Coalition now includes upwards of 70 cities that are planning streetcar systems and it is likely the new federal transportation bill will include a "Small Starts" streetcar funding program. Currently, as indicated above, no two streetcars are financed in the quite the same way. Some of the more common strategies include: sponsorships, naming rights and advertising; "value capture" from increased property values, and joint development or the sale of development rights; business improvement or benefit assessment districts; parking revenues; and the transfer of other transportation funds in return for service provided by the streetcar. What follows are brief descriptions of five strategies for the City Council's consideration. These include:

- sponsorships, naming rights and advertising;
- the bulk sale of passes;
- endowment
- sale of development rights
- leverage of revenues to obtain equity investments

These five strategies must be considered in light of the larger development and neighborhood plan of which the streetcar is a key component as they leverage the proposed development within those plans.

STRATEGY 1: BULK SALE OF TRANSIT PASSES

HOW IT WORKS: Bulk sales of transit passes in the U.S. are typically targeted to employers, universities, social service organizations, convention centers and visitor bureaus, businesses including hotels and restaurants, and/or neighborhood organizations. Some efforts, like the enormously successful Eco Pass program in Boulder, Colorado, have achieved exceptional reach – 60,000 Eco Passes were sold in 2004 to those living, working or going to school in a city of 100,000 residents. Others, like the U-Pass (universal pass) programs in place at many universities throughout the U.S., including the University of Washington, have also increased ridership by as much as 200 percent in the first year (and reduced the need to provide parking). These programs are typically intended to boost ridership rather than bring in revenues, however, and are usually offered at deep discounts or are designed to be revenue-neutral. Moreover, they typically offer access to regional transit networks, not a streetcar network with a more limited range.

Still, there are two streetcar networks (see below) that do make bulk sales, and one U-Pass program for which revenue increases were tallied, allowing for a comparison. The advantage of these programs is that the streetcar operator receives the money upfront and is likely to reach more customers (riders) than they would otherwise reach. These programs are even more successful when linked to parking. The University of Washington raised the price of parking significantly in 1991 to cover the cost of the U-Pass program, which was initiated because the university wanted to limit the amount of parking it had to provide; there are now 12,000 fewer parking spaces on campus even though there are 8,000 more students, faculty and employees.

RELEVANT APPLICATIONS:

- In **Galveston, Texas**, the University of Texas Medical Branch pays the Galveston Trolley $250,000 annually (some from their funding for patient transportation) in return for free service for all employees and patients. The Port of Galveston pays the trolley about $300,000 annually for tickets for those who come into port on the Carnival Cruise Lines. Merchants and social services organizations also buy passes at face value and provide them free to patrons, though this income is not as significant. Some employers also buy them for employees.
- The **Memphis Trolley**, which connects the Memphis Cook Convention Center to the Beale Street entertainment district and other attractions, makes bulk sales to conventioneers through the Convention and Visitors Bureau, which acts as a ticket broker. Memphis is not a big convention market, however, and the revenue is not significant.
- When the **Metro Transit system in Halifax**, Canada instituted a U-Pass program, the number of monthly transit trips by students at one university increased by 50,000, providing an extra $360,000 in revenue for the transit agency.

POTENTIAL IN SEATTLE: Large employers and institutions served by the line today, including the Fred Hutchinson Cancer Research Center, Tommy Bahamas, Cornish College of the Arts, Children's Hospital, Rosetta Inpharmatics, Zymogenetics, etc. as well as the expected 16,000 employees by 2020, could be targeted now and as they develop. In addition to office and research employers and employees, the restaurants in the South Lake Union neighborhood, in an effort to promote the area as a destination, and the hotels near the start of the route in downtown, may be interested in giving passes to their customers as a frequent diner reward or as a tourist amenity.

The streetcar could probably be included in the University of Washington's existing U-Pass program and receive revenue as a result. If parking is being built in South Lake Union, the price of parking could be increased to include the price of a monthly pass (as at the U of Washington) once the streetcar is in place, with the intent of creating a "park-once" environment and encouraging people to walk the streets and patronize local businesses. Arrangements to promote streetcar usage could be made with developers as well: perhaps parking standards could be reduced for those developers who agree to provide passes to new tenants or the city could in some other way bundle the cost of a transit pass into the cost of developing in the neighborhood. Developers could also add a car-share parking space in lieu of parking and along with discounted streetcar passes to promote its use by new residents. (The Gaia mixed-use building in Berkeley provides a City Car Share space for residents). It is likely that bulk sales could total at least $100,000 a year in the near term and much more in the long term as the area is developed and eventually supports 16,000 jobs (in 2020).

RECOMMENDED ACTIONS: The City should continue the discussions it started with merchants and hotels regarding the pass and should also identify an additional list of entities to target. It should also design and name an official program and campaign to tout the benefits of the streetcar, sell the benefits of the bulk pass, and explain the

pricing. Once the program is in place, the City could send a letter that explains the program to potential buyers; invite them to a breakfast meeting and/or follow up the mailing with calls and in-person visits. The Chicago Transit Authority has a similar campaign and in-person technical assistance program to encourage employers and employees sign up for the tax-free transit/transit voucher program.

STRATEGY 2: SPONSORSHIPS, NAMING RIGHTS, ADVERTISING

HOW IT WORKS: Increasingly cash-strapped government entities are using corporate sponsorships, naming rights and other forms of advertising to raise revenues for capital and operating expenses. Notable among these efforts is the non-profit Las Vegas Monorail Company, which built a 4-mile 9-station monorail with no public funding, and has inked sponsorships ranging from $1 million over 12 years for trains to $50 million over 12 years for the Convention Center station. The monorail company expects to bring in $6.5 million annually in advertising. The particulars of that local market (the convention center is one of the busiest in the U.S. and the monorail connects eight hotels that co-own and vigorously promote the monorail) make this funding strategy especially lucrative in Las Vegas, but three other systems in more traditional cities are comparable and bring in significant revenues. Revenue from these sales are amortized overtime and recognized as Deferred revenue, which is money received in advance for a ten year period. Revenue is recognized in the statement of revenues, expenses, and changes in net assets over the life of the agreement as a component of charges for sales and services.

RELEVANT APPLICATIONS:

- **Tampa.** TECO Electric, which created Tampa's historic streetcar system in the early 1900s, bought naming rights to the entire system for $1 million. Sun-Trust Bank and Time-Warner each paid $250,000 for naming rights to a car. Naming rights to eight of ten stations were sold for $100,000 each (for 10 years with an option for three 10-year renewals). Purchasers are allowed two years to pay, with one third of the money due at the first anniversary of the signing, and the last third due on the second anniversary. Benches in the cars are also sold for $250, entitling the sponsor to a brass plaque engraved with their name. Businesses that sponsor cars get their names or logos placed prominently on the front and back of a car's exterior and interior, on maps and on all marketing materials, and can hold special events on the streetcars twice a year. Businesses that sponsor station stops get their names placed prominently at the stop, on maps and marketing materials, and can hold one special event in a car each year. The streetcar website provides links to all sponsors, and their names appear in all collateral material distributed by marketing partners including area hotels and restaurants, the Tampa Bay Convention and Visitors Bureau and the Florida Aquarium. Sponsorship entitles businesses for a state tax credit for up to 50 percent of the value of their donation under Florida's Community Contribution Tax Credit program. Advertising in the form of interior ad cards is also available on all cars for $300 a month for commercial advertisers and $100 a month for non-profits, with discounts for contracts of six months or more. Tampa also earns revenue from Charter sales for special events--$7,000 in 2003.

- **Portland.** The sponsorship of Portland's streetcars and stations provided $200,000 toward the total $2.4 million operating budget in the first year. Car sponsorships cost $15,000 per year, and the sponsor's name and logo is displayed in two locations on the car. The sponsorship of a station costs $400 per month – or $600 per month for two stations. The sponsor's name and logo is displayed on the side of the shelter and on the board on which fare and scheduling information is displayed. And the sponsor's name is also announced as the streetcar approaches the stop. The sponsorship program has been very successful in raising revenues year-round.

- **Galveston, TX.** The Trolley brings in about $100,000 each month on advertising from the interiors and exteriors of the streetcars. Each streetcar accommodates approximately 12 interior ad cards (12"x24"), and 4 exterior cards which sell for $5 and $150 per month, respectively. Island Transit does not currently sell trolley wraps but does sell bus wraps, which cost $12,000 for the wrap and $1,000 per month. The advertising agency that handles the sale and placement of the ads estimates a trolley wrap would cost $6,000 for time and materials.

- **Little Rock.** The Central Arkansas Transit Authority has sold sponsorships to two streetcar stations for $100,000 a piece, to be paid in $10,000 installments over 10 years. The system opened in late 2004. The price of sponsoring the system has been set at $1 million (sponsor name will be on all cars, stops and maps) for 10 years, and the sponsor can hold special events on a streetcar four times a year. Streetcar sponsors can put their name on the exterior and interior of the car and on maps.

- **Memphis.** Sponsors pledged $300,000 for the Memphis Trolley but the mayor who helped secure the pledges lost his re-election bid, and the Memphis Area Transit Authority has never collected the money. But a spokesperson said the agency isn't expending much effort on marketing.

POTENTIAL IN SEATTLE: Seattle could generate approximately $150,000 to $325,000 per year from traditional advertising in and on the vehicles and transit shelters plus sponsorships of the system, vehicles and stations. The advertising revenue could raise approximately $65,000 per year given 12 ads per car interior at $10 each per month, four ads per car exterior at $150 each per month, and two ads per transit shelter at $175 each per month. A

successful sponsorship campaign could generate up to $260,000 per year if the City sold each of the 10-year sponsorships available for the system, each vehicle, and each station at $100,000, $25,000, and $10,000, respectively, per year.

RECOMMENDED ACTIONS: The city should decide whether to make both sponsorships and advertising inside cars available, and how much to charge for each; a list of likely sponsors/advertisers should be developed. Subsequently, a marketing package with an explanation of the prices, availability of signage, terms of purchase, expected ridership, etc. should be created and available on the website and in hard copy. In-person meetings and direct solicitations may also be necessary to reach the projected sponsorship and advertising sales.

STRATEGY 3: OPERATING ENDOWMENT

HOW IT WORKS: Endowments are funds in which a stipulated principal amount is to be maintained and invested for the purpose of producing present and future income which may either be expended or added to the principal. Non-profits across the country, namely universities and hospitals, use endowments as ways to create long term funding for their institutions typically through an ongoing fundraising campaign or single large donor. Seattle has the opportunity to create an operating endowment for the streetcar by using proceeds from a naming rights and sponsorship campaign, an individual donor campaign, or an equity contribution from a foundation with a Program Related Investment (PRI) program. The Tampa Historic Streetcar, Inc. serves as an example of funding a portion of streetcar operations through an endowment.

RELEVANT APPLICATIONS: Tampa Historic Streetcar, Inc. is a nonprofit corporation established to manage the streetcar finances and the naming rights and sponsorship campaign for the new Tampa Streetcar. It has an independent board consisting of four Tampa Bay appointees and three HART appointees. In the board's business plan for the streetcar, an $8M endowment is specified to cover the portions of the operating costs that are not covered by the trolley-dedicated special tax assessment or the typical operating revenues, e.g. transit agency funds and fare box revenue. To establish the endowment, they allocated $4M of a negotiated $5M payment from the company that previously ran the now defunct monorail in exchange for that company's release from its long term operating contract. (The corporation used the remaining $1M to demolish the monorail.)

Since operations commenced, the board has revised the business plan to increase the endowment target to $10M; which they estimate will cover the systems operating costs from year four on. Corporate sponsorships for naming rights and tax-deductible contributions have added another $2.5M, increasing the current endowment to $6.5M. As of 2003, the endowment earned an approximate 10% net return on investments, approximately $511,000 on $4.983M. The funds are invested in U.S. Government Securities (14%), Corporate Bonds (18%), Equity Securities (49%), and Mutual Money Market Funds (19%). For a full explanation, see the Tampa Historic Streetcar 2003 CAFR (www.tampagov.net).

POTENTIAL IN SEATTLE: The City (or transit agency) could target one or more sources to establish an endowment, including funds from the creation of a Business Improvement Area, a low-interest loan or equity stake from a foundation PRI, funds earned from naming rights and sponsorships, or individual or corporate donors. With a forecasted average annual operating cost of $1.5M, and fare box revenue covering approximately $400,000; an $11-$14M endowment with a targeted net investment return of 8-10% could cover the remaining $1.1M per year.

RECOMMENDED ACTIONS: The City or streetcar financing team should set a realistic target for an endowment amount based on the gap in operations funding and the potential sources for an endowment. In terms of the LID payments, a number of financial runs could be used to determine the breakeven point for splitting the amount of the LID money between a one time contribution to the capital gap and a permanent contribution to an endowment's principal. If an endowment is used, the city or transit agency should also determine how to manage and grow the endowment, whether it be managed as another governmental fund with normal operating procedures or whether a non-profit should be established that would sell and manage the naming rights and sponsorships program as well as oversee the investments and expenditures of the endowment, as in Tampa. Continuing discussions with area foundations on a PRI, which could provide a low-interest loan or an initial source of equity toward the principal, should be continued.

STRATEGY 4: JOINT DEVELOPMENT RIGHTS WITH MAINTENANCE FACILITY

HOW IT WORKS: Via joint development or through sale of development rights, a city sells the parcels, or development rights to the parcels, it owns as a revenue producing strategy, often to fund infrastructure for development on the site or in the area. Several cities use joint development rights for development around their transit stations, including cities throughout California, New York and New Jersey, and in Tampa, and the Washington D.C. area. Additionally, the development potential from transit extends beyond the station areas to land adjacent to or above the transit maintenance facilities.

RELEVANT APPLICATIONS:

- **Tampa.** Realizing the tremendous potential commercial value of both Ybor Station and Southern Transportation Plaza, the Hillsborough Area Regional Transit Authority is soliciting proposals from commercial developers for joint public/private development of these two key components of the streetcar system. Additionally, the maintenance and storage facility for the Tampa Ybor Streetcar project is in on the edge of Ybor City and was planned as a TOD site. Development is not yet complete at the site.
- **Los Angeles.** In Los Angeles, MTA is in the early proposal stages for a joint development on Taylor Yards which includes a mixed use housing and retail project and easement for a future revenue rail station. If the proposal receives board approval and the developer succeeds in assembling the appropriate financial support and land-use entitlements, the area will be a TOD adjacent to a rail maintenance facility.

  A further along example in Los Angeles is the Metro Red Line maintenance facility. At this location, the MTA Central Area Planning Team is working on a joint-development to create housing, retail, and parking on a portion of the rail yard. To date, the MTA Board approved an Exclusive Negotiation Agreement (ENA) with the developer and is in the detailed planning phase. The rail facility is located next to the Southern California Institute of Architecture, which relocated to this area about three years ago and has helped to turn the area into a work live artist loft district. Once the developer agreement is finalized the project will commence. For more information, contact Diego Cardosa of the Central Area Planning Team of MTA in Los Angeles, (213) 922-3076.
- **Chicago Wilson Yards**. The Wilson Yards, at the Wilson stop on the Chicago elevated Red Line were the home to Chicago Transit Authority's maintenance facilities until a new advanced yard was built at the Howard Stop. The yard is now being redeveloped as a $113M mixed use development with senior, affordable, and retail on a 164,000 s.f. parcel which the developer purchased for $6.6M, less $750,000 for environmental remediation. The transit authority, CTA, will retain permanent easement rights where necessary in order to have access for activities related to operations and maintenance of Red Line service and track structure.

POTENTIAL IN SEATTLE: The City sells the air rights above the proposed streetcar maintenance yard for $3M. These funds could then add to the operating endowment or go toward capital costs for the streetcar.

RECOMMENDED ACTIONS: The City should verify the appraisal of land and air rights at the facility and create an RFP for development of the site specifying the minimum and maximum amount of space available for development, design requirements and desired uses for the area. The City may also want to visit or interview those associated with the Taylor Yard in L.A. and the Ybor maintenance facility in Tampa for design considerations as well as legal arrangements that allow the city to use the facility for maintenance free of conflict from the adjacent use.

STRATEGY 5: LEVERAGE REVENUES TO OBTAIN EQUITY INVESTMENTS

INTRODUCTION: Program-Related Investments (PRIs) are made by foundations to support charitable activities that involve the potential return of capital within an established time frame. They include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits and even equity investments in charitable organizations or in commercial ventures for charitable purposes. They are used as a supplement to the foundation's grant structure in order to recycle their grant dollars and for circumstances in which the request suggests an alternative form of financing, when the borrower has the potential for generating income to repay a loan, and as a last resort when an organization – in most cases a charitable nonprofit but occasionally a commercial venture – has been unable to secure financing from traditional sources. Of the many thousands of grantmaking foundations in the U.S. only a few hundred make PRIs, including some in the Pacific Northwest.

RELEVANT APPLICATIONS: While a large portion of PRI dollars support affordable housing and community development, they also have funded capital projects ranging from preserving historic buildings and repairing churches to providing emergency loans to social service agencies and protecting and preserving open space and wildlife habitats. For example, in Seattle, 98% of the Bullitt Foundation's PRI's have been through a revolving loan fund for the acquisition of land with unique biological characteristics or attributes related to the foundation's other programs, which includes growth management and transportation. The other 2% have been small equity investments in potentially transformational technology with a large interested market and in which other sophisticated investors are involved. In both Houston and Philadelphia, the Business Improvement Districts (BID) near the transit were involved with the transit project by backing bond financing for infrastructure improvements.

POTENTIAL IN SEATTLE: A foundation may be involved in the funding of the streetcar as well as the greater South Lake Union plan, in a number of ways, if the plan and the streetcar meet one or more of a foundation's objectives, such as sustainable development or affordable housing. If a PRI proposal demonstrated how the streetcar project is planned as a multi-purpose sustainable and affordable demonstration project that co-joins construction of the streetcar to compact development with affordable housing adjacent to affordable transportation, one of the following foundations could conceivably be interested, including the Bulitt Foundation, the Enterprise Foundation's Green Communities Initiative, Kresge Foundation, Russell Family Foundation, Social Venture Partners, and Laird Norton and Murdoch.

In application, one possibility is a PRI loan to the streetcar to be repaid by the LID payments. Such a loan could either replace or reduce the proposed bond issue against the LID payments. The savings from the difference between the bond rate and the lower PRI-loan rate could then be used for the streetcar as well as for other projects of interest to a foundation. For instance, a portion of the savings could go toward an endowment for the streetcar and the remaining savings could help fund affordable housing, green buildings, discounted transit passes, or development in other neighborhoods. If necessary, the savings could help to fund the creation of a community development corporation (CDC) that would work on affordable housing and other community services in the South Lake Union area. In Phoenix, the Copper Square BID helped to create a CDC to address the affordable housing and community development initiatives the BID was unable to directly address, but was interested in supporting.

Hence, this strategy relies on a commitment by the area business owners, who are LID participants, to directly or indirectly support a foundation's interests by allowing their payments to be used on initiatives other than the streetcar as long as the streetcar is adequately funded. In exchange for a foundation's agreement to provide a lower rate loan, the LID payments would be leveraged to fund other social, economic, or environmental initiatives.

RECOMMENDED ACTIONS: The City should develop a PRI proposal that includes the following: an explanation of the South Lake Union Plan, including the job projections and affordable housing commitment; the current proposed streetcar funding strategy, including the LID / Bond portion; and how LID funds could instead be leveraged for more affordable housing and good public transit if a PRI could offer a lower rate than a bond issue. The proposal may include two comparative loan schedules, one depicting a PRI low-cost loan, and the other with the projected bond payments. This comparison would show the potential revenue generated from the interest rate savings and how it could be applied to other streetcar funding needs as well as other projects that would meet the foundation's interests.