JUNE 22-23, 2016

BATIC
INSTITUTE
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AASHTO
CENTER FOR EXCELLENCE

Station Redevelopment Peer Exchange

Summary Report

444 North Capitol Street NW, Suite 249, Washington, DC, 20001

Contents

Background and Scope of the Peer Exchange

The Build America Transportation Investment Center (BATIC) Institute: An AASHTO Center for Excellence supports public sector capacity building in the area of infrastructure finance. One of the services provided by the BATIC Institute is the development and delivery of customized peer exchanges that enable the participants to engage directly with individuals from other organizations who have similar responsibilities and challenges. Subject matter experts help develop the peer exchange programs and facilitate discussions among the participants.

On June 22-23, 2016, the BATIC Institute, in partnership with the US Department of Transportation, the American Public Transportation Association and the National Conference of State Legislatures, conducted a peer exchange on advancing rail station and transit-oriented real estate development projects. This peer exchange is built upon the BATIC Institute's *webinar case study of the Denver Union Station redevelopment project* presented in March 2016. The exchange also was informed by a new research report on value capture strategies undertaken through the Transit Cooperative Research Program and planned to be released in September, 2016.

The peer exchange involved 19 representatives from state, regional and municipal transportation agencies as well as Amtrak and USDOT, along with additional facilitators and presenters. The peer exchange included overview presentations, case studies and facilitated discussions on three focus areas: Partnerships, Value Capture Opportunities, and Funding and Financing Issues. The gathering provided an opportunity for participants to examine the lessons of recent projects and compare challenges and opportunities with peers planning or sponsoring station redevelopment and transit-oriented development (TOD) projects around the country.

The participants are associated with a diverse array of station redevelopment, transit and TOD projects:

- Intercity Passenger Rail Stations (Northeast Corridor, Charlotte, Los Angeles, Seattle)
- Multimodal Transportation Terminal (Denver)
- New rail station on existing commuter line (Boston New Balance)
- New heavy rail line (Silver Line to Dulles Airport)
- New light rail line (Phoenix)
- New downtown streetcar lines (Kansas City, Portland, Tucson)

Peer Exchange Topics and Discussion Notes

The program opened with Leo Wetula, a Program Manager at FRA, and Robert Tuccillo, FTA's Associate Administrator for Budget & Policy/Chief Financial Officer summarizing the federal perspective on TOD policies, practices and programs.

The following general introductory observations were made:

- Rail station redevelopment and new transit corridors can serve as both mobility enhancers and real estate development/economic generators.
- In planning to develop areas adjacent to stations, FRA encourages local sponsors to avoid taking actions that might preclude or hinder expanding the rail facility's capacity in years to come.
- The FTA is assisting TOD sponsors in three primary ways:
  - *The* TOD Technical Assistance Initiative *under the Administration's "Ladders of Opportunity Initiative" (*https://todresources.org/*). USDOT typically looks for evidence of the support of the mayor of the city where the project is located.*
  - *The* Pilot Program for TOD Planning*, which is authorized to provide $20M of funding under section 5309 to local communities to integrate land use and transportation planning with a transit capital investment. (*https://www.transit.dot.gov/funding/applying/notices-funding/pilot-program-transit-oriented-development-tod-planning*)*
  - *The National Transit Institute's* TOD professional training course *(*http://www.ntionline.com/transit-oriented-development/*)*
- For intercity rail stations, key partners are Amtrak and/or the Class 1 railroads owning the infrastructure/right-of-way. Amtrak has launched a value capture program--the Terminal Development Initiative or TDI—designed to enhance the revenue-generating capacity of 5 of Amtrak's high-density markets through retail and commercial development as well as ridership growth: Chicago Union Station, New York Penn Station, Philadelphia 30th Street Station, Baltimore Penn Station, and Washington Union Station. Amtrak is transitioning from focusing just on its railroad infrastructure to a more comprehensive approach of extracting value from all of its assets including the stations.

FOCUS AREA: PARTNERSHIPS

Several presenters described specific examples of how institutional partnerships can help advance transit-oriented development. **Rina Cutler**, Senior Director of Major Stations Planning & Development for Amtrak, described how Amtrak was partnering with public and private entities for major station redevelopments in Baltimore, Chicago, New York, Philadelphia and Washington, DC. **Waiching Wong**, Manager of IMG Rebel and Sasha Page, Senior Vice President of IMG Rebel presented brief case studies on the Kansas City downtown streetcar line and the Boston Landing (New Balance) commuter rail station in Brighton, MA. **Karen Hedlund**, a Vice-President at WSP | Parsons Brinckerhoff then facilitated a discussion in which the following points were made:

- Current ownership of station and related infrastructure assets is spread amongst railroads, transit agencies, state governments, local governments, non-profit organizations and private corporations. The wide range of ownership structures has resulted in inconsistent standards in terms of functionality, maintenance and quality of passenger experience, negatively impacting both rail passengers and the host communities.
- Because each major project has its own specific operational, financial and ownership characteristics, there is no single organizational template or business model that can be applied: Every project will need to custom-craft an institutional structure and business model based on local conditions. Although each station/project is unique, they do share a common goal of better integrating the stations into the cities they serve.
- The entity undertaking the station redevelopment should be structured so that every organization with a stake in the station's success has a say in its development and operation. However, it is important to distinguish between "partners" and "stakeholders." Partners have "skin in the game" (financial contributions) while stakeholders have influence, interest and even passion, but do not necessarily contribute any funding.
- The multiple stakeholders involved in station development have different interests and objectives. The project sponsor should convene the various parties to have a dialogue on how best to optimize the value of the station(s) to the community, to the national rail network, and also to the private sector (including developers), with the objective of balancing these interests in a sustainable way.
- Broadly speaking, there are 3 potential ownership models for station redevelopment:
  - *Public Ownership of the station, if the public sponsor has the money to pay for it;*
  - *Joint Development, if there is a shared financial commitment between the public sponsor and a private developer; and*
  - *Outsourced Master Development plan, where the master developer finances the development in accordance with general guidelines established by the public sponsor.*
- For public-private partnerships (either the second or third model, above), it is important to put milestone deadlines in the initial terms with the private developer. This will help ensure that the developer proceeds in a timely fashion.
- Circumstances can arise where public sector partners' financial interests may not be fully aligned. The example was cited of Charlotte Gateway Station, a $100 million multimodal transportation center being developed in the city's Uptown district. The City owns the station and would like to maximize income it receives from Amtrak and retail leases. However, the North Carolina DOT subsidizes intercity passenger rail service, including station rental costs. The City's strategy could result in higher required state payments to Amtrak to defray the added operating costs, putting the City and State at cross purposes.

- In Denver, four key governmental funders formed the project's financing and development entity (Denver Union Station Project Authority or DUSPA) and are represented on its board. DUSPA initially created a vision plan for the master plan for commercial development in the surrounding blocks, but early on in the process sought input from private developers. The developers proposed several important modifications to the plan that not only reduced capital costs for the public transportation terminal but also optimized real estate development potential in the immediate vicinity.

FOCUS AREA: VALUE CAPTURE

Bill Bishop of DPFG summarized key findings in the forthcoming TCRP paper entitled Guide to Value Capture Financing for Public Transportation Projects. Several examples were presented illustrating some of the techniques through which the economic value of transportation investments could be captured. **Peter Waldt**, Amtrak's Senior Director for Commercial Planning & Development, noted the various forms of value capture his organization considers: tax increment financing, special assessments, real estate asset sales, station and right-of-way leasing, joint venture development, density bonuses and corporate sponsorships. **Bill Sirois**, the Senior Manager for Transit Oriented Communities Denver's Regional Transportation District described the Denver Union Station redevelopment project. **Dan Bower**, the Executive Director at Portland Streetcar, Inc. and Bill Bishop described how a combination of special assessments, tax increment financing and parking revenues helped fund the Portland Streetcar project. **Mark Briggs**, a Vice President at WSP | Parsons Brinckerhoff moderated a discussion by asking attendees a series of questions, prompting the following observations:

- Although much of the public discussion on value capture centers on opportunities to create funding streams, the potential for value capture is reliant on the value creation underlying it.
  - *The extent of value creation is dependent on several key factors: local real estate market conditions, state-level legal authority authorizing various value capture tools, transit agency institutional capacity to execute the plan, a strong local political champion, and a compelling business case.*
- Delaying implementation of the value capture plan can result in a substantial opportunity cost. A significant amount of the value that is created (the "Value Premium") is already discounted and capitalized into land assets by the time the transit project comes to fruition, and certainly by the time transit service commences.
- Some part of the Value Premium can be used to provide a return on the transit agency's investment, or to fund other social objectives such as affordable housing. So long as the value capture imposition on the market (the economic tax on the value being created) is no greater than the Value Premium, the local government can charge this premium without creating a market disincentive to further investment and value creation.
- **Special Assessments (SA) vs. Tax Increment Financing (TIF)**
  - *Special Assessments typically take the form of surcharges on ad valorem taxes. They oftentimes are limited to commercial real estate, and typically are set at fixed rates, although the Fairfax County (VA) Special Assessment District established for the Dulles Corridor Silver Line project can be adjusted upward from the initial rate of $0.29 per $100 to a cap of $0.40 per $100, if required to meet debt service requirements in the event assessed values do not grow as anticipated.*

- *Under a special assessment approach, the SA district could start generating revenues immediately based on existing commercial properties. However, for the Charlotte Red Line light rail project, the Assessment District was created during the project planning process, but the tax didn't go into effect until the service was started. In this way, the benefit of the project was more clearly demonstrated to taxpayers.*

- *Under a TIF approach, the revenues only start coming in once new development occurs. If the development doesn't take place, there won't be any incremental revenues.*

- *It generally is easier to get an investment grade rating (BBB- or higher) on bonds backed by special assessments rather than by tax increments, because of the greater predictability. However, it may be more difficult procedurally since assessment districts (unlike TIF districts) increase a property owner's tax rate and may require a local referendum.*

- In many cases, municipalities offer real estate tax abatement as an incentive to drive development. But giving a grace period to developers on taxes undermines value capture potential through SA and TIF approaches.

- TIF value capture need not be restricted to incremental ad valorem property taxes. It also may include incremental sales tax, and corporate or personal income tax. In addition, public sponsors can sell "land banked" parcels for development, as was the case for Denver Union Station.

- In terms of identifying the appropriate boundaries for the value capture district, there are different implications for different forms of public transportation, such as light rail versus streetcar service. Light rail tends to have greater distances between stations (more akin to heavy rail or commuter rail); therefore, value creation potential is clustered around the stations. Streetcar lines have more frequent stops and operate more often in highly urbanized neighborhoods, lending themselves better to a "corridor approach."

- Winning buy-in from both the businesses and the communities that surround the station(s) is crucially important. Business owners are concerned primarily about tax burden, whereas residents tend to be concerned about both tax burden and "social equity" issues.

- If most of the value capture benefits are occurring on the economic development side (tax revenues to the city) but most of the operating costs are borne by the transportation agency, who should be paying for the upfront and continuing expenses—the transit operator or the municipality that is benefiting from the induced growth? In Portland, the nonprofit operator Portland Streetcar, Inc. has a unique agreement with the City of Portland and Tri-Met (the transit agency) to split operating costs, based on an estimation of economic and transportation benefits.

- Finally, another form of value capture is developer contributions. In developing its new corporate headquarters in the Brighton section of Boston, New Balance Corporation determined that building a major parking garage was going to cost over $30 million, and many of its employees were millennials who did not own cars. The company instead decided to contribute ~$25 million towards the cost of adding a new commuter rail station adjacent to its new building, reducing its capital spending while enhancing accessibility for its workforce.

FOCUS AREA: FUNDING/FINANCING

The final focus area dealt with how the organizational partnerships and value capture tools could be monetized to generate upfront capital for transit investment. David Seltzer, a Principal at Mercator Advisors outlined the plan of finance for the Denver Union Station intermodal terminal and historic train building, and Sasha Page described the special assessment district financing used to fund several hundred million dollars of capital costs of the Silver Line connecting Dulles Airport to Washington's Metrorail system. David Seltzer moderated the ensuing discussion, during which the following points were made:

- Federal financial assistance requires satisfying all federal requirements (Buy America, NEPA, ADA, etc.), which has both cost and timing implications.
- FTA has a $20M program to fund grants for TOD planning, but there is no capital grant program for TOD direct capital investment.
- USDOT receives relatively few TIGER applications for station redevelopment projects, even though the features of such projects are well-aligned with the TIGER Program's selection criteria. Because the average TIGER grant award has been $12 million, it will be able to fund only a minor portion of the cost of major projects.
- In terms of how best to source debt capital, project sponsors need to compare the relative merits of tax-exempt bonds vs. federal credit (TIFIA and RRIF loans). The federal credit programs generally offer lower interest rates (based on US Treasury bond yields) and potentially greater flexibility in structure. However, the lead time for approval can be much longer (GAO recently reported the average RRIF loan application processing time is 1.6 years). It likely is the case that any state or local debt issuance provisions (voter approval, issuer debt ceiling, etc.) would affect a project sponsor's borrowing, regardless of whether financed by TIFIA/ RRIF, commercial bank loans or public debt issuance through the municipal bond market.
- While the FAST Act conformed certain provisions, differences remain between the two programs.
  - *RRIF requires the borrower to fund the loan loss reserve (credit risk premium), which has ranged as high as 19% of the face amount of the loan (Denver Union Station). Yet, even with the upfront premium, the effective financing rate still may be less than the municipal bond market, depending on market conditions.*
  - *TIFIA can fund only part of the eligible project costs (technically up to 49%, but a policy maximum has been 33%). RRIF can fund up to 80% of TOD (and 100% for rail capital) projects. RRIF's TOD provisions expire at the end of 2019.*
  - *TIFIA requires senior debt to have investment grade (BBB- or higher) rating; RRIF does not.*
- USDOT has not yet come out with guidance on the new TOD provisions contained in the FAST Act for TIFIA and RRIF regarding eligibility and other features. Guidance is expected later this year. In the meantime, FRA encourages project sponsors to approach the TIFIA and RRIF staff with specific structuring proposals. There is an opportunity to bring an innovative idea that USDOT has not thought about, and USDOT's new Build America Bureau (which is managing the credit programs now) might be willing to incorporate it into the guidance.

Use of Value Capture for Selected Transportation Projects

VALUE CAPTURE:	NEW BALANCE STA. (BOSTON)	DULLES SILVER LINE (VA)	DENVER UNION STATION	KANSAS CITY (MO) STREETCAR	PORTLAND (OR) STREETCAR
R.E. Special Assessment		■	■	■	■
Sales Tax Assessment				■	
Tax Increment Financing			■		■
Parking Fees				■	■
Corporate Contribution	■				
Governmental & Other	■	■	■	■	■

RELEVANT WEB LINKS AND INFORMATION SOURCES

An information packet was compiled for the peer exchange participants that described federal assistance programs related to station redevelopment and TOD. The information packet included the web links and information sources listed below:

Build America Bureau

https://www.transportation.gov/buildamerica

Transportation Infrastructure Finance and Innovation Act Program (TIFIA)

www.dot.gov/tifia

Railroad Rehabilitation & Improvement Financing Program (RRIF)

https://www.fra.dot.gov/Page/P0128

Private Activity Bonds

http://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_debt_financing/private_activity_bonds/

TIGER Grant Program

https://www.transportation.gov/tiger

FASTLANE Grant Program

https://www.transportation.gov/FASTLANEgrants

FTA Capital Investment Grants (New Starts, Small Starts and Core Capacity)

https://www.transit.dot.gov/funding/grant-programs/capital-investments/capital-investment-grant-program

FTA Pilot Program for Transit-Oriented Development Planning

https://www.transit.dot.gov/TODPilot

FHWA Office of Innovative Program Delivery (IPD)

http://www.fhwa.dot.gov/ipd/

Report on Successful Practices for Public Private Partnerships (P3)

https://www.transportation.gov/sites/dot.gov/files/docs/P3_Successful_Practices_Final_BAH.PDF

Appendix A

PEER EXCHANGE AGENDA

DAY 1

2:00 – 2:10 P.M. **WELCOME AND OPENING REMARKS**

Jennifer Brickett, BATIC Institute | Darnell Grisby, APTA

2:10 - 3:00 A.M

Introductions

Jennifer Brickett, BATIC Institute | Project participants

Participants will provide brief introductions of themselves/their projects (3 min each)

3:00 - 3:45

Federal Perspective on Policies, Practices and Programs

Leo Wetula, FRA | Robert Tuccillo, FTA

Federal representatives will give views on rail and transit-related development projects, including key issues and program opportunities (RRIF and TIFIA eligibility, FTA's TOD technical assistance program, etc.)

3:45 – 4:00 P.M. **BREAK**

4:00 – 4:10

TCRP Study on Value-Capture Financing for Public

Bill Bishop, DPFG

FOCUS AREA I: VALUE CAPTURE OPPORTUNITIES

4:10 – 5:45 P.M.

Presentation: Amtrak's Approach to Value Capture

Peter Waldt, Amtrak

Presentation: Denver Union Station

Bill Sirois, Denver RTD

Presentation: Portland Streetcar

Bill Bishop

Group Discussion

Mark Briggs, WSP | Parsons Brinckerhoff

- Development Potential, Market Conditions
- Project Definition & Design, Mix of Uses
- Special Districts, Incremental Revenues
- Assigning Risk and Sharing Value
- Articulating the Business Case

DAY 2

7:15 – 7:45 A.M. BREAKFAST

FOCUS AREA II: PARTNERSHIPS

7:45 – 9:00 A.M.

Presentation: Amtrak's Perspective on
Rina Cutler, Amtrak

Presentation: Kansas City Streetcar
Waiching Wong, IMG Rebel

Presentation: Boston New Balance Station
Sasha Page, IMG Rebel

Group Discussion
Karen Hedlund, WSP | Parsons Brinckerhoff

- Public Agencies, Private Stakeholders
- Legal Framework, Regulatory Issues
- Processes and Approvals

9:00 – 9:15 A.M. BREAK

FOCUS AREA III: FUNDING AND FINANCING

9:15 – 10:30

Presentation: Denver Union Station
David Seltzer, Mercator Advisors

Presentation: Dulles Corridor Metrorail (Silver Line) Project
Sasha Page

Group Discussion
David Seltzer

- Federal, State, Local Funds
- Federal Financing (RRIF & TIFIA)
- Other Debt, Private Financing

10:30 – 11:15

Wrap Up
Key Takeaways and Follow-up Items for each project participant

11:15 – 11:30

Closing Remarks
Sen. Steve Farley, Arizona Legislature

Appendix B

PEER EXCHANGE PARTICIPANTS AND FACILITATORS

Kelly Betteridge *Manager of Capital Planning*
TriMet (Portland): Portland Bus Rapid Transit Project

Dan Bower *Executive Director*
Portland Streetcar Inc.: Portland Streetcar

Rina Cutler *Senior Director - Major Stations Planning and Development*
Amtrak: Baltimore, Chicago, New York, Phila., Washington

Senator Steve Farley *State Senator*
Arizona State Senate: Tucson Streetcar

Shellie Ginn *Transportation Planning Administrator*
City of Tucson DOT: Tucson Streetcar

Sarah Harpole *Senior Project Manager*
Portland Development Commission: Portland Union Station

Raymond Hess *Director of Planning Services*
Regional Transportation Commission of Southern Nevada: Las Vegas

Carla Kahn *Light Rail Coordinator*
City of Phoenix: Phoenix South Central Project

Bill LaBorde *Senior Policy Advisor*
Seattle DOT: King Street Station

Aaron Latham *Dir. of Communication and Policy Advisor*
Arizona State Senate Democratic Caucus: Tucson Streetcar

Scott Miller *Project Manager*
ValleyMetro: Phoenix South Central Project

Craig Newton *Facilities Engineer Consultant*
North Carolina DOT: Charlotte Gateway Station

Ken Pratt *Director - Los Angeles Union Station Property Management*
Los Angeles County Metropolitan Transportation Authority: LA Union Station

Bill Sirois *Senior Manager - Transit Oriented Communities*
Regional Transportation District: Denver Union Station

Marc Traasdahl *Director of Finance*
Regional Transportation Commission of Southern Nevada: Las Vegas

Robert Tuccillo *Associate Administrator for Budget & Policy/ Chief Financial Officer*
Federal Transit Administration: N/A

Tina M. Votaw *Transit Oriented Development Manager*
City of Charlotte/ Charlotte Area Transit System: Charlotte Gateway Station

Peter V. Waldt *Senior Director - Commercial Planning and Development*
Amtrak: Baltimore, Chicago, New York, Phila., Washington

Leo Wetula *Program Manager*
Federal Railroad Administration: N/A

** Program facilitators and organizers included Jennifer Brickett (AASHTO), Art Guzzetti and Darnell Grisby (APTA) and Douglas Shinkle (National Conference of State Legislatures) along with the following consultant support: Bill Bishop (DPFG), Mark Briggs (WSP | Parsons Brinckerhoff), Julian Gonsalves (WSP | Parsons Brinckerhoff), Bryan Grote (Mercator Advisors), Karen Hedlund (WSP | Parsons Brinckerhoff), Sasha Page (IMG Rebel), David Seltzer (Mercator Advisors) and Waiching Wong (IMG Rebel).*