



Cincinnati Streetcar: Options & Recommendations for Funding Operations

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Background & Context

In December, 2013, the Haile/U.S. Bank Foundation assembled a group of individuals willing to partner with the City of Cincinnati to backstop the first ten years of Cincinnati Streetcar operations. Specifically, the Haile-led group agreed to cover 2/3 of the system's possible overages, capped at \$900,000 per year; the City of Cincinnati agreed to cover 1/3 of the overages, with no cap. This backstop would begin with the start of revenue (paying passenger) service and required that the community (working with the City of Cincinnati and the Southwest Ohio Transit Authority) would design and implement a permanent, sustainable and equitable funding plan for the streetcar.

Since that time, the Foundation has been consulting with a range of stakeholders to gain a better understanding of the complexities of the Cincinnati Streetcar operating budget and to explore a range of tools available for funding the operations over the long term. The enclosed material is the result of that research and evaluation, with a set of specific recommendations that are shaped by the following policy positions:

1. Operational funding should not rely on City General Fund appropriations.
2. Any funding system should not adversely affect current bus service.
3. Those who benefit financially from the Streetcar should have a role in helping to fund it.
4. Highest priority should be on strategies that maximize ridership. Additionally, the local creative and branding community should be leveraged and embraced to create a best-in-class rider experience.
5. All stakeholders are expected to work together to maximize operational efficiency to reduce costs.

The recommendations in this document address Operation and Maintenance (O&M) expenses commencing with the start of revenue (paid passenger) service in September 2016 and do not apply to pre-revenue (testing and training) startup activities.



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Cincinnati Streetcar at a Glance

- Route:** Second Street at the Banks to Henry Street north of Findlay Market in Over the Rhine
- Length:** 1.9 miles (3.6 track miles)
- Hours of Operation:**
Sunday-Thursday 6 am - 10 pm
Friday-Saturday 6 am - 12 am
- Frequency:**
Monday-Friday peak: 12 minutes
Monday-Friday off-peak: 15 minutes
Weekends, holidays: 15 minutes
- Vehicles:** Five; three in service during peak times; four in service for high-capacity events
- Target Dates:**
Starting of Testing (pre-revenue): August 2015
Starting of Revenue Service: September 2016



Operating Model



Transportation Resources Associates (TRA) recommended three operating models for the Cincinatti Streetcar. SORTA selected the Contractor Turnkey model, which has been adopted for similar projects in cities without existing rail infrastructure.

1

CONTRACTOR TURNKEY

- Independent entity or joint venture provides all O&M personnel, supervision and management
- SORTA to serve as compliance contract manager, with appropriate staff to be hired

2

SORTA IN-HOUSE

- Current work rules with minimal modifications
- Covers all major O&M functions
- Using in-house personnel and resources
- Requires creation of new key competencies

3

SORTA SUBSIDIARY

- New business unit affiliated with SORTA
- Adapted work rules, different compensation structures
- Dedicated operators and maintenance pros to deploy flexibly and to perform multiple job tasks
- Requires creation of new key competencies



Adopted model for
Cincinatti Streetcar

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Operating Expenses: Estimates & Assumptions



This Report:

- Uses TRA's O&M estimate of \$4.2 million to ensure the recommended solutions are workable.
- Does not address the funding of start-up activities from August 2015 to September 2016 of \$1 million.
- Is aligned to "day one" operations (i.e., when revenue is being generated).
- Assumes no funding for O&M is available through governmental sources.

Annual O&M costs for the Cincinnati Streetcar are estimated to be \$4.2 million. This figure is based on the estimate provided by TRA, which is a more complete and conservative estimate than that provided by KPMG, LLC, the national audit and accounting firm.

Reason for differences:

- Different sources for revenue numbers: KPMG used National Transit Database (NTD); TRA was developed through data and costs exclusive to Cincinnati and region
- Risk and liability costs were not accounted for
- TRA incorporated some indirect costs, updated TMOP numbers and labor costs aligned to Amalgamated Transit Union work rules

The reports can be read [here >](#)

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Revenue Sources: An Overview

A combination of revenue sources will be necessary to fund ongoing operations for the Cincinnati Streetcar.

1

ASSESSMENT DISTRICT

Target: 68% of annual O&M costs

2

FARE REVENUE

Target: 24% of annual O&M costs

3

SPONSORSHIP & NAMING RIGHTS

Target: 8% of annual O&M costs





1

ASSESSMENT DISTRICT

Target: 68% of annual O&M costs

Under the Ohio Revised Code, there are multiple options for assessment districts for funding municipal projects like the Cincinnati Streetcar. All of the following have been considered. A Special Improvement District (SID) is the recommended option.

A New Community Authority:

Requires a single ownership entity – not workable for Cincinnati Streetcar

B Special Assessment District:

Would require a state legislative change to be applicable for transit projects – likely not feasible for Cincinnati Streetcar

RECOMMENDED

C Special Improvement District:

**Recommended for Cincinnati Streetcar* – see following pages for details



1

ASSESSMENT DISTRICT

Target: 68% of annual O&M costs

Special Improvement District Options

The creation of a special improvement district (SID) is the recommended option for funding the Cincinnati Streetcar. The options are described below, as well as the reasons that a “Super SID” is the recommended option.

A Combination of Existing Downtown Cincinnati SID with New Over-the-Rhine SID
Because revenue from the Downtown SID is already committed and because a new OTR SID would provide funding beyond Streetcar-related services, this “combination” approach is unlikely to generate sufficient revenue. Other considerations include financial and legal risks and duplication of services across the two SIDs.

B New Overlapping SID Closely Aligned to the Entire Streetcar Route
This approach will be complex to implement and may lead to higher percentages of opt-outs.

C A New “Super SID” - **Recommended for Cincinnati Streetcar*
This recommended approach recognizes the unity of downtown and OTR and provides a consistent level of service across the entire district. It provides “safe and clean” services, operational support for several parks and public spaces, and funding for Streetcar operations. It replaces the current downtown SID, with assessments based on the same DCID formula (i.e., based on a combination of frontage and value and non-profits and churches would be exempt as they are now), and incorporates the service area of the entire Streetcar route.

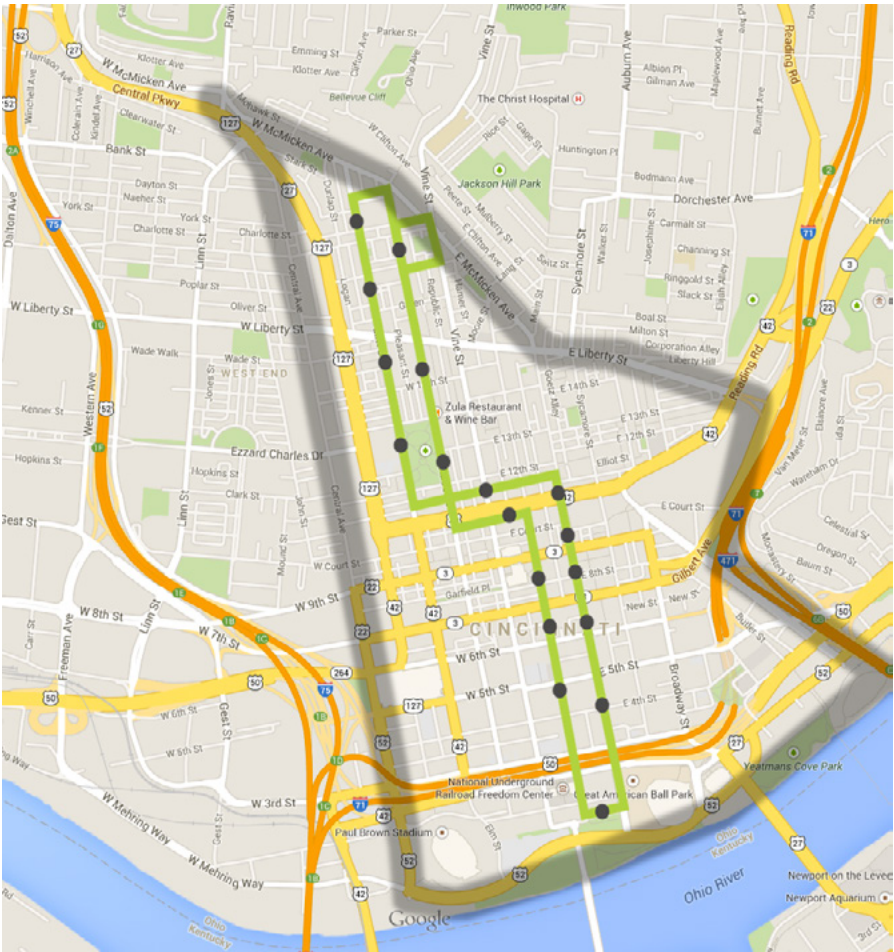




1

ASSESSMENT DISTRICT

Target: 68% of annual O&M costs



Proposed footprint for “Super SID”

Streetcar Route



2

FARE REVENUE

Target: 24% of annual O&M costs

- It is anticipated that \$1 million of revenue will be raised by Streetcar fare.
- Ridership estimates were developed by HDR Engineering and serve as the basis for fare revenue projections. They did not take into account special events (e.g., festivals, Reds games) which are likely to boost ridership on select days.
- The fare system will offer favorable transfer pricing to SORTA buses for riders who purchase Streetcar fares. Similarly, ACCESS fares would be accounted for.
- Objectives are affordable fares, a simple experience for riders and revenue generation. The primary options considered for adult base fare pricing were \$1.00 and \$1.75.
- Scenario modeling showed \$1.00 fares generated 76% higher ridership, but 1% less revenue than \$1.75.

Because revenue at the two primary fare options (\$1.00 and \$1.75) is comparable, the one more likely to boost ridership should be implemented. Thus, \$1.00 is recommended.

ADULT BASE FARES FOR OTHER SYSTEMS



Seattle

\$2.50



\$1

Tiered fare for access to broader transit system



\$1

Original plan was for \$2.50, same fare as MARTA system



FREE

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3

SPONSORSHIP & NAMING RIGHTS

Target: 8% of annual O&M costs

Sponsorship of vehicles, stations and other facilities has proven an effective funding mechanism for operational costs for other cities. We recommend an aggressive, but achievable, target of 8% of O&M costs.

Sponsorships:

- Stations and vehicles can be sponsored. For instance, sponsorships of Portland Streetcar stations are \$6,000 per year. If current City policies prohibiting advertising in the public right of way were reversed, additional revenue could be generated.
- Sponsorships of special events (such as Opening Day, New Year's Eve and the first day of School) could generate additional revenue.
- Smart, location-based advertising within the Streetcars may be an additional source of revenue.

Naming Rights:

- As seen with the HealthLine BRT In Cleveland, the naming rights for the system represents the most significant revenue opportunity.
- The Cleveland Clinic and Case Western purchased the naming rights for \$250,000 per year.
- The Superlative Group, which sold and negotiated the naming of the Cleveland system, has been engaged by the City of Cincinnati. It estimates naming of the Cincinnati Streetcar could generate \$260,000 per year.

Structure:

- A special 501(c)(3) group will be created to administer and oversee sponsorship, naming and advertising initiatives.
- This group will be charged to engage the local creative, branding, design, technology and arts community to develop innovative ideas to make riding the Cincinnati Streetcar a truly world-class experience.



Construction on the Cincinnati Streetcar is underway, on budget and on time, with revenue (paying passenger) service targeted to commence in September 2016. In advance of that date, this document is the Foundation's recommendation of the elements of a long-term, sustainable and equitable funding plan. We acknowledge that additional details still need to be developed - in partnership with stakeholders - for the tools recommended in this document.

There are certainly other funding options to consider, other revenue streams that warrant further study. One specific example is parking revenues, as the use of parking facilities has a logical connection to the use of the streetcar. In light of the ongoing political debate over parking issues, we decided not to incorporate any parking revenue streams in our proposal. However, for example, the City or its partners could decide to increase parking rates at meters or City-owned garages along the entire streetcar route and dedicate that incremental revenue to the streetcar operations. Or the City could decide to impose a special fee on surface parking lots along the entire streetcar route to encourage redevelopment of those sites.

The community wants to come together to find a solution. The Foundation stands ready to assist with any additional research or implementation of the model recommended in this document, or with other sustainable and equitable options that satisfy the policy objectives stated earlier.

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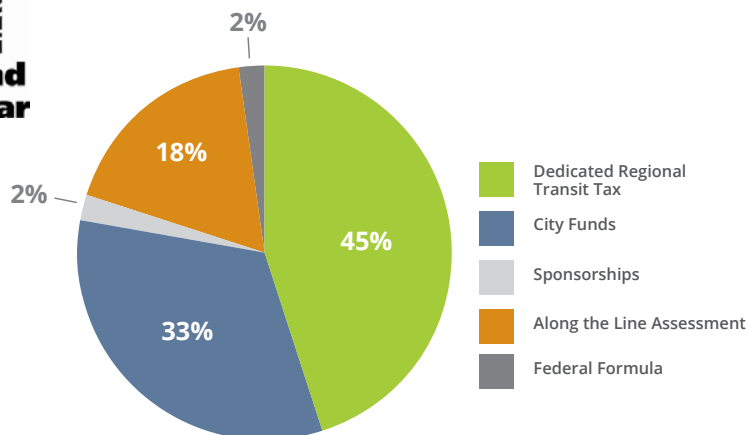
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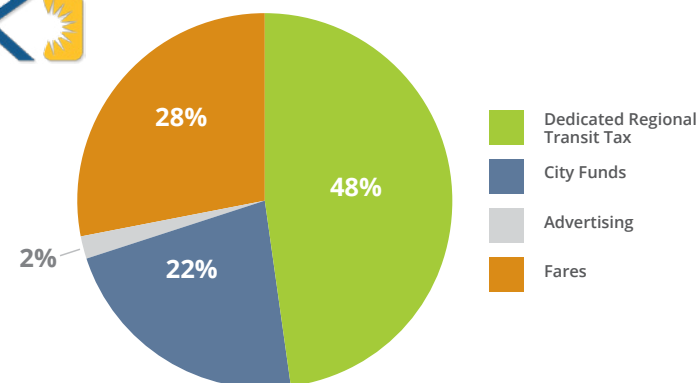
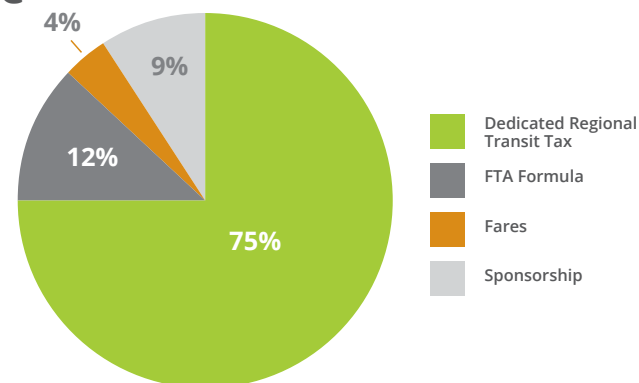
Appendix 1: Operations Funding in Other Cities



The Cincinnati Streetcar is unique among similar projects in other cities in that it anticipates receiving no ongoing funding from governmental sources for operating expenses.



Seattle



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Appendix 2: Additional Information



Further reading on the Cincinnati Streetcar Documents & References from the City of Cincinnati

<http://www.cincinnati-oh.gov/streetcar/documents-references/>

- > [KPMG Project Analysis](#)
- > [Feasibility Study from HDR](#)
- > [Economic Analysis from HDR](#)
- > [University of Cincinnati Assessment of the Feasibility Study](#)
- > [Overview of Project from City Manager \(April 2013\)](#)

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