

## SUMMARY OF METRO AT POTOMAC YARD

January, 1998

There have been recent press reports and rumors relating to Metro at Potomac Yard. In order to update the community on the matter, the following is a brief summary of the issues relating to construction of a Metrorail Station on the property, including a discussion of the history, recent events, and current status.

- **CAP has had a long-term commitment to Metro at Potomac Yard.** No private developer in the country has been more committed or undertaken greater effort to locate a Metrorail facility at its property than has Commonwealth Atlantic Properties (CAP) and its predecessor, RF&P, on Potomac Yard. This process began in 1986 when RF&P requested that WMATA adopt a policy supporting Metrorail facilities at Potomac Yard. Every plan subsequently proposed or supported by RF&P/CAP since that time has included a transit hub at Potomac Yard, including the 1988 "20/20 Plan," the 1992 Small Area Plan, the "Redskins Stadium Proposal in 1993," and most recently the Patent and Trademark Office Plan of last year. Further, it was contemplated that CAP would pay for the Metro in each of these plans. This emphasis on Metro has been a company priority despite these important facts:
  - Major infrastructure improvements such as a Metro facility are typically planned and built by governmental entities at public cost. In fact, Potomac Yard would have been the only privately financed station in the history of the WMATA System, and perhaps the United States. To our knowledge, no private developer has directly contributed any funds to offset the design and construction costs of such a facility;
  - Potomac Yard would be the only station in the history of the Metro System to be constructed within the existing operating line, rather than as an extension of an existing line, which greatly complicates costs and feasibility.
- **CAP has taken many steps to attempt to locate a Metro facility at Potomac Yard.** Through a series of agreements, proposals, and other activities over the past decade, RF&P/CAP has attempted to locate a Metrorail facility at Potomac Yard, including the following:
  - In 1993, RF&P at its initiation and cost prepared and provided an analysis to WMATA formally requesting a Metrorail facility at Potomac Yard, which was subsequently accepted by WMATA;
  - In November, 1995, RF&P conditionally agreed to construct a Metro at Potomac Yard, pursuant to a written agreement with WMATA. The WMATA Agreement provides three phases: Phase 1 being conceptual design; Phase 2 being completion of final design and construction documents; and Phase 3 being actual construction of the project. All costs relating to the Agreement, including design and construction, are to be paid by CAP.

- The first phase (conceptual design) has now been virtually completed. In order to complete this phase, CAP has done the following:
  - Assembled and managed a world class team of experts to work with WMATA in the design of the Metro station and related facilities;
  - Worked with WMATA regularly and continuously for over 2 years to develop the design, schedule, and logistics of the station; and,
  - Expended almost \$700,000 to date to pay for design costs, and committed company personnel and other substantial resources to the effort.
- Since 1990, CAP has undertaken extensive planning and related efforts to propose various plans to the City for approval, each of which has included Metro. Each of these plans proposed by CAP which has included Metro has been defeated, due to major community opposition and/or by formal City rejection. The most recent such action was defeat of CAP's Patent and Trademark Office plan by the Planning Commission in January, 1998.
- **Flexibility in the location of a Metro station at Potomac Yard is limited.** It would likely be infeasible to construct a Metro facility at a location other than as previously proposed on the east side of the tracks adjacent to Potomac Greens in Alexandria.
  - Some have suggested locating a facility along the west side of the property next to Route 1, adjacent to neighborhoods. This is not possible, as CAP has only last year completed a \$40 million +/- project to relocate the rail corridor to the east side of the yard pursuant to City and other approvals;
  - Some have requested consideration of a Metro in Arlington, north of Four Mile Run, or at Four Mile Run. WMATA and other experts previously indicated this is not feasible from an engineering and logistical perspective. However, at a recent meeting between CAP and WMATA, WMATA agreed, at CAP's cost, to restudy the issue. WMATA indicated that even if technically feasible, the cost of a Metro in Arlington would likely be significantly greater than in Alexandria.
  - It should also be noted that much of the commercial development which is proposed in Alexandria would be located immediately adjacent to, or otherwise in very close proximity to, the existing Braddock Street Station. Also the Crystal City Station is less than one (1) mile from the vast majority of development which is proposed in Arlington, and the Crystal City Station is closer to such proposed development than a new station in Alexandria.
- **Previous cost estimates based upon WMATA's requirements were prohibitive.** In the period 1990-1992, projected budgets for the construction of a Metrorail facility at Potomac Yard were at a total cost of approximately \$25 million. The actual cost based upon WMATA's previously approved concept is \$75 million or more. This estimate is

based upon actual design requirements and approvals from WMATA which have resulted from completion of the extensive conceptual planning phase of the WMATA-CAP Agreement. There are several facts to understand with respect to these costs, including the following:

- A major reason for the increase in the costs from the original estimates is that the original projections did not include “systems” costs relating to the costs associated with maintaining existing Metrorail service while constructing a new station at Potomac Yard. At the request of WMATA, CAP paid for an independent analysis of such costs, which was completed by Raytheon last year and confirmed such costs alone to be in the area of \$20-\$23 million.
- As WMATA has continued to have more experience in construction of new stations, and evaluating existing stations, their specifications became more “state-of-the-art” and more expensive.
- The team assembled to design and estimate the costs of a station at Potomac Yard per the WMATA-CAP Agreement is the same team of planners, designers, contractors, and engineers, which has been responsible for the design and construction of virtually every other existing Metrorail facility in the System and are therefore extremely knowledgeable about construction scope and costs
- Recent press reports and rumors have indicated that a new station could be built for “as little as \$26 million to \$34 million, just a fraction of the original estimate.” Any such projection is erroneous and very misleading. First, any such guesstimate is without any actual study or proper analysis by WMATA or other experts. Conversely, the \$75 million estimate was the product of detailed and exhaustive evaluation of a specific design concept and specifications, including cost projections by the construction company that has built most if not all of the existing Metro stations. Second, based upon the prior studies, we believe any such guesstimate must have been taken out of context and could only be with reference to the so called “direct” costs of construction (i.e, “bricks and mortar”). This ignores very substantial systems and indirect costs which were previously estimated by WMATA and the consultant team to cost an additional \$30 to \$35 million or more. As described below, we hope to end the speculation by funding a new and detailed cost analysis which is now being undertaken by WMATA.
- **CAP cannot bear the costs of construction of a Metrorail facility at Potomac Yard.** CAP has been indicating for at least the past 2 years, both in conjunction with the Patent and Trademark Office application and in the current planning process, that it cannot afford to bear costs relating to construction of a Metrorail facility. The many reasons for this fact have been described and discussed at public meetings, and before the Planning Commission hearing on the Patent and Trademark Office application last January. They include the following:

- Under the approaches previously considered, CAP would bear 100% of the costs of the Metro at Potomac Yard, but would receive no direct Metro revenue, as all such revenues are received by WMATA. Accordingly, almost all of the costs are “sunk” and not recoverable by CAP. CAP would be the indirect beneficiary of having a Metro at its project, however this is very difficult to quantify or measure, and any such indirect benefits are but a small fraction of the cost.
- Without appropriate funding from third parties, the total capital costs required for the construction of the Metro facilities must be available and funded “up front,” and all at once, rather than spread incrementally over time during the development of the project. This would be comparable to being required to pay for a house all cash before moving in, rather than paying off a 15-year or 30-year mortgage over time as one is able to do so through an annual salary.
- As CAP has described frequently, the only way in which a Metro can be privately financed at Potomac Yard would be by obtaining a very large (one to two million foot plus) tenant/user at the inception of the project. This is because indirect costs such as a Metro facility must be allocated to and paid for by rents from tenants or other users, and since a Metro must be built all at once it is necessary to have a major tenant locate at the site at the same time as development of the Metro. Overall density by itself is not the solution; the timing of a critical mass to coincide with Metro is key. The Patent and Trademark Office would have been such a tenant, but tenants of this size and financial capability are extremely rare and are a generational opportunity – once every ten or twenty years.
- Based on these facts, CAP cannot, as part of the current process and in the abstract, commit to fund any portion of the capital costs associated with the construction of a new Metro Station at Potomac Yard. Any such commitment could only occur, if at all, in the context of real development opportunities and known project financial requirements as they might evolve in the future.
- **Efforts to date to identify alternative funding to pay for a Metro facility at Potomac Yard have been unsuccessful.** CAP has made many efforts to attempt to structure creative financing approaches for the construction of a Metro in the event of a very major tenant locating at the property, and to identify if possible alternative sources of funding for the facility. These efforts have included the following:
  - In 1997, in conjunction with the Patent and Trademark Office plan, CAP proposed that the project be subject to a Community Development Authority (“CDA”) bond financing approach which could allow for financing over time related to the tenancy of the PTO and paid for by the project, not the City. This included many meetings with the Director of Finance and City Attorney of Alexandria, together with the City’s bond and other council and advisors. Such financing approach was very strongly opposed by the community and some elected officials and staff, and as a result withdrawn by CAP.

- In addition to CDA financing, CAP and City officials met many times last year and discussed other alternative structural approaches for bond or other publicly assisted financing, none of which proved feasible.
- In addition to financing techniques relating to a major tenant, CAP has and continues to work to attempt to identify sources of funds which might be made available for a Metro facility at Potomac Yard, including WMATA, the Commonwealth of Virginia, and through federal programs. As described below, the process is continuing, but to date has not identified any potential sources which might be utilized at Potomac Yard in the foreseeable future.
- **The development programs now being pursued at Potomac Yard by CAP are far less dense than previously considered.** All prior plans for Potomac Yard included substantially greater density than now contemplated – as much as two or three times more development:
  - The original “20/20 Plan” contemplated between 18-20 million feet of development at Potomac Yard/Potomac Greens, plus approximately 5 million feet in nearby Arlington. These plans included approximately 2.5 million feet of predominately office use at Potomac Greens, immediately adjacent to the proposed location of a new Metrorail facility.
  - The 1992 Small Area Plan contemplates approximately 12 million feet of development on Potomac Yard/Potomac Greens (plus the approximate 5 million feet of development in Arlington).
  - As a result of projects which have been completed to date at Potomac Yard, and many decisions and policies of the City of Alexandria over the years, the actual density which will exist at Potomac Yard as now proposed by CAP is far less than previously envisioned. Specifically, the Retail Center is approximately 600,000 feet on 70 acres, will remain for at least 20 years, and cannot be redeveloped to a higher density in the future without City approval at that time; and, the remaining portion of Potomac Yard will be developed either under a low density or medium density program, which range in total development from approximately 3.5 to 5.5 million feet. Accordingly, the actual development of Potomac Yard will probably be approximately 50% of that contemplated in the 1992 Small Area Plan, and 25% of that proposed with the “20/20 Plan.” As such, even with alternative funding the appropriateness of a Metro at Potomac Yard should continue to be examined.
  - In addition to significantly less density at Potomac Yard, the distribution of uses has changed significantly. For example, consistent with Alexandria policy and strong community desires, Potomac Greens will be developed for residential purposes only at a low density, and it is this area which would be immediately adjacent to the site of the previously planned Metro facility. Further, office use under either CAP proposed scenario would be significantly less than previously contemplated, ranging from a low of only approximately 500,000 feet to a high of less than 2 million feet.

- **Existing Metro facilities have substantial additional capacity, require major public subsidies, and are in close proximity to proposed future development.**
  - The existing Metro Stations in Alexandria have very significant additional capacity and require substantial subsidies from the City, State, and Federal Government. The stations at Braddock, King, and Eisenhower are generally among the most underutilized in the entire System. Further, less than one-half of all operating costs are covered by fares, which results in public subsidies of Metro and Dash Systems in Alexandria in the magnitude of \$20 million per year.
  - As described above, some of the commercial development proposed in Alexandria would be located in close proximity to the existing Braddock Street Station. Further, the existing Crystal City Station is less than one (1) mile from the vast majority of development proposed in Arlington, and is closer than a new station in Alexandria.

### **CONCLUSION/FUTURE STEPS**

Although many factors have combined to adversely affect the potential of Metro at Potomac Yard (including rejection of prior plans, substantially increased costs, failure of alternative financing proposals, lack of alternative funding sources, and a material change in the likely land uses and densities), CAP continues to desire to pursue all opportunities and provide the flexibility necessary for the future. While the history described above is valuable in understanding the context of Metro at Potomac Yard, the more important question is what will CAP, the community, and the City do now with respect to possible Metro use at Potomac Yard for the future. In that regard, CAP is actively pursuing the following approach:

1. **Preserve Future Metro Site Availability:** Based upon the most recent meetings with WMATA and their current design specifications and criteria, the existing rail right of way will accommodate a Metrorail facility at Potomac Yard in the future, so that CAP's land use plans do not preclude the opportunity, if appropriate and financially feasible, to construct a Metrorail facility in the future. Accordingly, if circumstances change significantly at any time (such as substantially reduced costs and/or availability of alternative funding, substantially greater density at the site, etc.), then Metro could be added to the project infrastructure at that time.
2. **Emphasize Transit Friendly and Pedestrian Oriented Plan:** CAP's current planning is and will continue to be focused on a transit friendly and pedestrian oriented framework even without a new Metro. This will include providing the best possible access to existing stations in Alexandria (including Braddock Station which adjoins Potomac Yard) and Crystal City, and to the regional bus system.
3. **Complete New Metro Station Cost Study:** CAP is continuing its ongoing efforts to meet and strategize with WMATA leaders so that coordinated efforts can be made to be certain that opportunities are not missed. In that regard, on December 15, 1998, CAP met

with Dick White, General Manager of WMATA, and his key staff members to discuss the issues. One of the primary areas of focus during that meeting and in subsequent discussions was the question of whether or not the physical design of a prospective facility could be sufficiently modified from that previously required and approved by WMATA to achieve material cost savings. WMATA is not able to determine that question without detailed analysis, and as discussed above speculation as to a breakthrough on cost reductions is without foundation and at the very least premature. Accordingly, CAP has committed to fund such a study to be conducted by WMATA at a cost of approximately \$20,000 to \$30,000. That study is now underway, and CAP has a scheduled meeting with WMATA at the end of January to receive an update. We will all be better informed on the cost issues upon completion of that study and receipt of further input from all appropriate sources.

4. **Pursue Possible Alternative Funding Sources:** In addition to these continuing efforts to arrive at a materially less costly design, if possible, CAP, with the help of other stakeholders, is continuing in its attempt to identify potential sources of funds which could be made available for the construction of the facility. In that regard, CAP has retained a consultant who is an expert on this issue, and who will complete an analysis and evaluation of options within the next several weeks. The consultant's scope of responsibilities is to examine every potential alternative so that all interested parties are fully informed as to any viable options. Regardless of the findings of that study, CAP will continue on a regular basis to explore opportunities. This will include: further meetings with WMATA; continuing meetings with community members, Alexandria and Arlington elected officials and staff; meetings with Congressman Moran and other elected officials; and, discussions with other jurisdictions (such as "BART" in San Francisco) which have comparable transit systems in order to share new ideas.

CAP appreciates continued dialogue and ideas from all stakeholders on these difficult Metro issues, and will continue to consider and pursue all future opportunities.