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Business Impact Mitigations for Transit Projects

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Across the country, new light rail and bus rapid transit (BRT) projects are creating faster and more affordable transportation options for low-income residents and people of color. In several cities, these projects are also expanding opportunities for small, local, minority-, women-, and immigrant-owned businesses to reach new customers and benefit from the streetscape and other new investments in their neighborhoods. However, these new transit lines can also bring challenges to local businesses, causing extensive disruptions during construction and long-term changes to the corridor and particularly to their customer base. Ultimately, the success of a new transit line is dependent on the success of these businesses to serve as destinations for riders, provide employment opportunities, and maintain the cultural fabric of the different neighborhoods and communities. And if the proper strategies are in place from the beginning, these new transit lines can be a benefit to many of these businesses, as well.

This report outlines successful strategies that have been used to help businesses survive and thrive in two cities—Seattle, Washington, and St. Paul, Minnesota—that have recently built extensive new light rail lines through neighborhoods rich with small, local, minority- and immigrant-owned businesses. Research for these two case studies included a review of business impact reports, research papers, environmental assessments, and news articles, as well as interviews with staff and business owners directly involved in creating and implementing the programs described. A brief case study on the business impacts of a bus rapid transit project in a manufacturing and light industrial neighborhood in Cleveland, Ohio, is also included, based on a review of available reports and materials.

A number of factors determine the extent of a transit project's impact on small businesses. Light rail lines usually involve much more intensive construction and longer construction periods than bus rapid transit. In the Twin Cities, the Supplemental Economic Impact Study for the Central Corridor project compared potential construction impacts of both light rail and bus rapid transit project alternatives on businesses along the corridor, and concluded that although the duration of construction would be shorter with BRT, the impacts on businesses would be similar.[1] This report covers both light rail and BRT projects, with an understanding that the level of impact and the appropriate mix of business impact mitigation strategies for any particular project would be dependent on a range of factors, including project design, contractor capabilities and experience, and seasonal weather patterns.

In the course of conducting this research, the following best practices emerged:

- **The right type of financial assistance must be available to meet business's needs.** If the businesses are facing significant revenue losses, grant payments or forgivable loans are often a more effective strategy than traditional loan products.
- **Outreach to businesses should begin well in advance of construction**, ideally a year before or more, and needs to be done by trusted community partners who can be honest about impacts, but also help business owners see the vision of the project and have hope for the future.
- **Business technical assistance is vital** to help businesses take advantage of the financial assistance programs that are put in place, as well as strengthen the business overall to prepare them for the long term changes to the neighborhood
- **Projects can have unpredictable timelines,** so flexibility, trust, and constant communication are key to ensuring businesses know what to expect.
- **Strong advocacy and organizing** by multiple partners, including the small business community, community-based organizations, and community development corporations, is essential to developing a strategy that will work for businesses and the community.
- **In both Seattle and St. Paul, the cities played an important leadership role** in ensuring appropriate business impact mitigations were in place.

Details on each of these best practices are highlighted in the case studies below.

Seattle Light Rail Business Impact Mitigation Strategies

Rainier Valley Community Development Fund

Located roughly six miles southeast of downtown Seattle, Washington, Rainier Valley is one of the most diverse neighborhoods in the region. Three-quarters of the residents are of color and nearly a third are foreign born. The area is home to many important cultural centers and small, local, and minority-owned businesses.

In the mid-1990s, planning began to run a light rail line down 4.3 miles of Martin Luther King Jr. Way, one of the main commercial and cultural corridors in the Rainier Valley. Roughly 300 businesses employing 2,500-3,000 people are located along the corridor, 72 percent of which are owned by people of color. There are a mix of business types in the area, with roughly half of them in retail and services such as restaurants and grocery stores.

The Rainier Valley Community Development Fund

Community concerns over the proposed, at-grade alignment along the MLK corridor led to protests and a lawsuit to underground the line. Eventually, a compromise was reached with the regional transit authority, Sound Transit, and a $50 million fund was created to address both the construction and long term impacts of the new light rail line. A steering committee made up of 10 Rainier Valley community members and five government representatives was formed, who together established the priorities for how the fund would be used. Based on recommendations from the committee, the Rainier Valley

Community Development Fund (CDF) was created in 2002 to manage the $50 million fund and support businesses along the MLK corridor.[2] Construction began in 2006 and the light rail line opened in 2009.

The CDF was largely funded by the City of Seattle, which contributed $35 million of Community Development Block Grants (CDBG) over seven years and $7.8 million from the general fund. King County and Sound Transit combined contributed the remaining $7.2 million from their general funds.

The original mix of uses of these funds included $28 million to provide supplemental mitigation assistance and $21 million for long term investments in community development in Rainier Valley.[3] The supplemental mitigation assistance was further broken down into five financial products, two of which functioned as grants and three of which were loans. Only businesses along MLK were eligible for these products.

Re-establishment payments were available to businesses that were forced to physically relocate due to the light rail construction. These payments functioned as grants to the businesses and did not need to be repaid. The funds could be used to pay for moving expenses, site improvements at the new location, and up to 24 months in rent. The amount per business was originally capped at $100,000, and later increased to up to $250,000. Forty-four businesses were assisted, totaling $3.8 million in payments over a five-year period.[4]

Business interruption payments were created in order to compensate businesses located along the corridor for loss of sales due to construction impacts. Original estimates from Sound Transit were that construction would last between three and nine months in front of any particular property, but in reality lasted far longer in many cases. Initial payments were capped at $25,000 annually for up to two years based on demonstrated need for relocating businesses, and $30,000 for one year based on demonstrated need for non-relocating businesses. The program was amended nine times over a six year period and caps were eventually raised to a total of $150,000 for each business. Nearly 1,000 payments were made to 168 businesses, totaling $11 million.[5]

Three types of low-interest loans were also made available to businesses. **Working capital advances** were loans to cover operating expenses for businesses. **Equipment advances** and **tenant improvement advances** were loans offered to relocating businesses to cover expenses related to relocation. Only five advances totaling roughly $280,000 were made during the five year construction period.[6]

From 2003 to 2008, roughly 180 businesses (slightly more than half of the 300 eligible) received some sort of business mitigation assistance. The grant programs were much more widely used than the loans during the construction period. In the original projections for the fund, roughly $15 million was set aside for grant payments and $11 million was to be used for loans. At the end of the construction period, almost all of the grant payments had been spent out, but only $280,000 in loan products. In surveys and interviews with business owners, most felt too unsure about their future to take out a loan that would have be repaid, either because they were relocating to a new site or because they were unsure of the long-term impacts of light rail on the neighborhood. Many businesses felt that the grants available did not cover the full loss of sales they experienced due to construction impacts. In a 2008 survey of the businesses, all businesses reported a drop in revenues, and half of them reported reduced revenues of

50 percent.[7] One challenge small businesses faced in accessing the grants and loans was the high level of documentation necessary to fulfill federal CDBG reporting requirements.

By the end of the construction period in 2009, the retention rate was 85 percent for all businesses, and 90 percent for businesses that had received assistance. The racial mix of business owners has stayed mostly the same since construction began, as has the overall mix of businesses.[8] In a 2008 survey of businesses, business owners reported they had hope that the new rail line would bring customers to the area. Business owners also reported an improvement in neighborhood appearance.

Although the grants program has ended, the CDF has continued to provide low-interest loans and technical assistance to small businesses in the neighborhood. While they do not make high risk loans, they will often make a loan that a more traditional bank would not, based on an assessment of the business owner's relationships within the community. The current loan products are offered at about a half point below market rate.

Business outreach and technical assistance

Business outreach and technical assistance was conducted by the CDF, as well as by a local CDC, HomeSight, and Sound Transit. The CDF did not conduct a preliminary assessment of the economic conditions of businesses along the corridor due to time constraints. Instead, they focused on reaching each of the 300 businesses along the corridor to inform them of the project and prepare them for the construction. They provided technical assistance to strengthen the businesses and help them through the construction phase, including trainings on product marketing, leasing, bookkeeping, legal issues, and more.

According to staff, the CDF approached the business outreach as a merchant engagement and organizing strategy, with the goal of establishing relationships, identifying concerns, and creating a program with full community participation and buy-in. Staff had to make contact with each business several times over in the first six months in order to gain their trust. Because of the importance of building these relationships, it was important that this process was done by a local organization and not a public agency.

In 2008, business owners along the corridor came together to create the MLK Business Association. The business association is a self-governing association that attempts to address the needs that the businesses themselves identify, such as safety and crime, marketing of place, and other topics identified by the merchants.

In 2012, the City of Seattle Office of Housing launched Community Cornerstones, an initiative to implement the neighborhood plans for Southeast Seattle, with a focus on the five light rail stations along MLK. Community Cornerstones is funded with a $3 million HUD Challenge grant and $5.9 million in public and private matching dollars. Although the initiative is still getting underway, a key piece of the strategy is to stabilize the MLK commercial corridor. The CDF has played an important role in providing local capacity to help develop and implement the Community Cornerstones vision.

Twin Cities Central Corridor Business Technical Assistance

Ready for Rail Forgivable Loan, Business Resources Collaborative, and U7

The central corridor connecting downtown Minneapolis and St. Paul is home to an incredibly diverse number of businesses and local residents. In a recent survey of business owners along the corridor, 20 percent of owners are African American or black immigrant, and 18 percent are Asian/Pacific Islander. Roughly a third of business owners are foreign born. Three-quarters of the businesses surveyed have less than 10 employees, and the businesses themselves range from restaurants, retail, professional services, and nonprofessional services (ie. auto, plumbing, etc.).[9]

A new light rail line is nearing completion along the corridor. The Green Line, also called the Central Corridor, is 11 miles long and cost nearly $1 billion. Construction began in mid-2010 and concluded in 2013. The line will open in 2014.

Ready for Rail Forgivable Loan

At the beginning of the process, local businesses and community residents were concerned about the impacts of the light rail on the neighborhood and local businesses. A lawsuit by NAACP and others led to a 2011 federal court decision that found that the initial Environmental Impact Review for the project was inadequate because it failed to address the negative impacts to business revenues due to the construction. By that time, the regional planning agency (The Metropolitan Council, or Met Council), the two cities, the Central Corridor Funders Collaborative, and community partners had developed a number of programs and resources to support local businesses through the construction of the light rail. In total, over $16 million from public and philanthropic sources went to supporting businesses along the corridor. The Met Council contributed $10 million to business impact mitigations (one percent of total project costs), the Cities of St. Paul and Minneapolis contributed $3.5 million in both loans and grants, and philanthropy contributed $2.5 million.[10]

One of the largest programs created to support businesses was the $4 million Ready for Rail Business Support Fund. It was established in January 2011 through a Joint Powers Agreement between the Met Council and the Housing and Redevelopment Authority of the City of St. Paul (HRA). The $4 million fund was originally envisioned as a low-interest loan program, but quickly became a forgivable loan once it became clear that a repayable loan would not meet the needs of businesses that were facing significant revenue losses. Up to $20,000 is available for businesses along the corridor that have gross sales of no more than $2 million and can show a loss in sales due to the light rail construction. The loan is forgiven at a rate of 20 percent each year over a five year period.

The loan fund was originally seeded with a small grant by the Central Corridor Funders' Collaborative, which eventually grew into a $500,000 contribution. The Met Council contributed $2.5 million to the loan fund. The City of St. Paul contributed the remaining $1 million through a reallocation of funds.[11]

The loan fund is held by the HRA, but administered by two local nonprofits: the Neighborhood Development Center in St. Paul and the Metropolitan Consortium of Community Developers in Minneapolis. The loan program will continue through 2014 until all funds are expended; to date, it has supported 200 businesses in St. Paul, roughly one-third of all businesses eligible along the corridor.[12]

Table 1. Funding Sources for Construction-Related Business Impact Mitigation Activities in Twin Cities

Funding Source	Activities	Amount	Notes
Met Council	Construction Access Plan	$200,000	
	Contractor Incentive Program	$850,000	
	Community Outreach Coordinators	$4,000,000	
	Construction Communication Plan (Special Signage)	$200,000	
	Business Support Fund (Ready for Rail forgivable loan)	$2,500,000	Total fund size: $4 million.
	Improved Street Lighting/trees/street furniture	$1,000,000	Funded by Met Council for projects included in City of St. Paul's Capital Improvement Budget (CIB).
	Business Marketing Program	$1,200,000	Added in Sept 2011 for a consultant to provide marketing services.
	Additional Business Signage	$50,000	
	TOTAL	**$10,000,000**	
City of St. Paul	Neighborhood Commercial Parking Program	$2,100,000	Program provides low-interest loans up to $25,000 to improve off-street parking.
	Alley Improvements Program	$350,000	Dedicated from City's CIB.
	Business Support Fund (Ready for Rail forgivable loan)	$1,000,000	Total fund size: $4 million. City contribution from general fund, via re-allocation of several funding sources.
	TOTAL	**$3,450,000**	
Funder's Collaborative	University Avenue Business Preparation Collaborative (U7)	$800,000	$200,000/yr 2010 - 2013.
	Business Support Fund (Ready for Rail forgivable loan)	$500,000	Total fund size: $4 million.
	Business Resources Collaborative	$75,000	
	TOTAL	**$1,375,000**	
Living Cities	Business Improvement/ Expansion Loan program	**$700,000**	Includes small business expansion loan fund and small business ownership loan fund
City of Minneapolis	Great Streets and Business Association Assistance Program	$210,000	
	Business Façade Improvements	$150,000	
	TOTAL	**$360,000**	
Metro Transit	Transit Fare Passes and Cooperative Advertising	**$250,000**	
Other Foundations	University Avenue Business Preparation Collaborative (U7)	$275,000	$125,000 from the St. Paul Foundation, and $150,000 from the Bigelow Foundation.
	Business Resources Collaborative	$240,000	
	TOTAL	**$515,000**	
TOTAL		**$16,650,000**	

Source: Author calculations based on the following reports: "Supplemental Environmental Assessment: Construction-Related Potential Impacts on Business Revenues," April 2011; "Status Report on the Implementation of Mitigation Measures—CCLRT Construction-Related Business Impacts," March 2013.

Business Resources Collaborative and U7's Outreach and Technical Assistance

In addition to the loan fund, several other business outreach and technical assistance supports were established. The Business Resources Collaborative (BRC) in the Twin Cities, Minnesota, is a partnership of business coalitions, nonprofit community developers, and local and regional governments that came together to support small businesses through the construction process.[13] BRC began as an informal monthly gathering of 40 business and community leaders in fall 2008, and became a more formalized collaboration with its first strategic plan adopted in 2010.[14]

Early on, BRC considered conducting an objective assessment of the impacts of the project on small businesses along the corridor, but decided against it for two reasons: (1) the level of information each business was able to provide varied widely; (2) the amount of trust businesses had in the process also varied widely, which limited the amount and quality of information they were willing to share. These factors would likely have led to a partial or inconsistent assessment. Ultimately, they decided to instead collect qualitative data from select businesses, as well as conduct a mid-construction corridor-wide survey of a sample of businesses to assess the quality and effectiveness of the business supports provided. Both the survey and stories are available online.[15]

As a part of the BRC, the University Avenue Business Preparation Collaborative (U7) is a collaborative of seven community development organizations in St. Paul convened in order to provide outreach and targeted technical assistance to businesses along the corridor. The seven member organizations of U7 have a long history of working in the area and deep relationships with both businesses and residents. U7 originally identified 1,144 business entities located in the neighborhood. Of these, 530 were identified as small, for-profit business (under $2 million in annual sales) that would be eligible for technical assistance.

Outreach started nearly a year before construction began. U7 and the Met Council conducted four joint mailings to all the businesses along to corridor to inform them of the coming changes. U7 hired two full-time and one part-time "small business consultants" to do extensive outreach to the businesses along the corridor. The consultants walked through the neighborhood, knocking on every small business' door to talk to the owners about the state of their current business and how they might prepare for the coming changes. They handed out written materials (in the business owner's primary language) and provided one-on-one technical assistance to help the businesses stay and grow in the area. This assistance was mostly in two forms: (1) support with accounting and filing taxes, practices that both made the business stronger in the long run and made it easier for them to apply for the Ready for Rail forgivable loan program; and (2) marketing support, particularly creating or redesigning websites, establishing the businesses' online presence on third party websites, collecting and using customer emails, and setting up online retail opportunities. In addition to the business consultants, U7 hired staff specifically to provide marketing and branding support.

Of the 530 businesses targeted for outreach and assistance, 95 percent were eventually reached, according to U7 staff. More than 200 businesses worked with U7 staff to apply for a forgivable loan, the majority of which needed assistance on their financial records in order to apply. About 300 businesses requested design or marketing services, which included activities like designing business websites and creating new logos. A rough estimate from one of the business consultants said that the average business required about 80 hours of one-on-one assistance, which was significantly higher than the average of 14 hours per business given by comparable programs in the city. For several businesses, U7 staff provided over 400 hours of assistance over a three year period.

In total, U7 spent $1.6 million on business outreach and TA along the corridor, which included a matching grant for façade improvements. Roughly $1.2 million was spent on direct business TA and marketing support. Funding was provided primarily by the Central Corridor Funders' Collaborative, as well as by the St. Paul Foundation and Bigelow Foundation. U7 began with a budget of $300,000 in the first year and expanded to $450,000 by their third year. The annual budget included the 2.5 business consultant staff, a graphic designer, a full-time project coordinator, a small specialty technical assistance fund (for legal and other specific services), and a rotating number of interns and volunteers. Although working with the individual businesses was very time-intensive, they found that it was important for the core staff to do this work as much as possible in order to build trust with the business owners. Oftentimes, they would have to approach a business owner two to three times before the owner was willing to disclose sensitive financial information.

The wrap-around support and services provided by U7 and others have been largely successful in stabilizing the businesses along the corridor through the construction phase. In roughly two years of heavy construction, of the 1,144 businesses located along the corridor, 84 have closed or relocated, and 84 new businesses have opened. This is nearly even with normal business turnover for the area. But with the new light rail line set to open early in spring 2014, these businesses are in a strong position to take advantage of the new riders and patrons to the area. According to the 2012 survey of businesses along the corridor, nearly two-thirds of businesses expected their sales would increase in the next five years.

In addition to U7's small business consultants, the project agency, the Met Council, hired several community liaisons in order to facilitate communication with residents and business owners in the area about the project. However, these liaisons were seen by the business community as less effective than either the small business consultants or communicating directly with the contractor about construction-related concerns. The liaisons were not empowered to directly address the businesses' concerns, and at times contributed to the business owners' frustrations by not communicating their concerns quickly enough. Other programs led by the Met Council, such as incentives for contractors to work with businesses to minimize disruptions, were considered quite effective. In addition, the Met Council included measures to minimize construction-related disruptions to businesses in the contract specifications with contractors, such as construction access plans and construction employee parking plans.

The Cleveland HealthLine

In the mid-2000s, a bus rapid transit line was built in Cleveland, Ohio, to connect the downtown to the university and hospital hub and low-income communities in the eastern portion of the city. Named the HealthLine, it runs seven miles and was constructed over a 32 month period in 2006-2008 at a cost of $200 million. The line travels through MidTown, a once-thriving manufacturing and light industrial area hard hit by disinvestment and abandonment.

During the construction of the HealthLine, the existing local businesses located directly on the corridor were faced with a loss of revenue by as much as 80 percent according to one article.[16] To prevent business closures, in 2007 the city guaranteed $250,000 in loans from local banks to businesses. It was limited to $20,000 per business with a four year repayment period. Interest rates ranged from zero to two percent in the first year and increased to eight percent after that.[17]

Despite the construction challenges, the HealthLine quickly became an economic engine for the area once it opened in 2008. Property values increased by 30 to 100 percent, and $5 billion in new economic investments have gone in to the corridor since 2008.[18] The investment has taken a variety of forms, from new student housing near the university to new affordable housing projects and several new office developments in MidTown. MidTown Cleveland Inc., a community development corporation established in 1982 by a community of local small businesses to stabilize and revitalize the area, has played a strong role in attracting new businesses and development to the area.

To spur development on vacant properties, the City's Economic Development Department runs a vacant property loan fund that includes a forgivable loan linked to the job creation results of a proposed investment. The forgivable loans have a three- to five-year job creation period. As of 2012, the city had about fifty loans outstanding, totaling over $25 million and has spurred $260 million in new development, 3,500 new jobs, and nearly 2,000 in retained jobs.[19]

Conclusion

Light rail and bus rapid transit can bring improved transportation options and access for both residents and outside patrons to local businesses, as well as spur new investments and development in the neighborhood. Putting strong programs, policies, and processes in place early in the process will ensure local businesses and residents alike will benefit.

Notes

[1] Federal Transit Administration and the Metropolitan Council, "Central Corridor Light Rail Transit Project Supplemental Draft Environmental Impact Statement for Construction-Related Potential Impacts on Business Revenues," December 2012. http://www.metrocouncil.org/Transportation/Projects/Current-Projects/Central-Corridor/Publications-And-Resources/Environmental/BusinessImpactsSEA/CC-ConstructionSDEIS.aspx

[2] Charleete M. Black, "RVCDF Supplemental Mitigation Program Results," undated.

[3] In addition to business assistance grants and loans, $2 million of the fund was set aside for workforce training. The workforce training program placed slightly over 100 individuals into jobs as of March 2007.

[4] Alex Krieg, "Results of the Supplemental Mitigation Assistance Program on Businesses Impacted by Light Rail Construction in the Rainier Valley" (Masters thesis, University of Florida, 2009). http://www.reconnectingamerica.org/assets/Uploads/2009ResultsSupplementalMitigationProgram.pdf

[5] Ibid.

[6] Ibid.

[7] "MLK Business District," HomeSight. http://www.homesightwa.org/mlk-business-district/ (accessed November 25, 2013).

[8] Krieg, "Results of the Supplemental Mitigation Assistance Program."

[9] Cael Warren, Brian Pittman, and Ellen Shelton, "Mitigating business losses: services, strategies, and effectiveness. A survey of the businesses affected by Central Corridor Light Rail Construction," Wilder Research, 2012. http://www.funderscollaborative.org/sites/default/files/CentralCorridorBusinessSurvey_FinalReport_20121012.pdf

[10] Based on numbers provided in the March 2013 Status Report on the Implementation of Mitigation Measures—CCLRT Construction-Related Business Impacts.

[11] The reallocation was from $1 million in funds originally intended for streetscape improvements in the City's Capital Improvement Budget but that were funded by the Met Council, thus freeing up the money to be transferred to the HRA's Parking Enterprise Fund and then to the Ready for Rail fund. See City of Saint Paul RES 13-155 for a description of fund transfers.

[12] Information provided by the City of St. Paul.

[13] Business Resource Collaborative, "Building on the Strengths of the Central Corridor: Progress Report 2009-2012," 2012. http://www.readyforrail.net/sites/default/files/images/BRC_1112-1_Final_Report_SinglePages.pdf

[14] Central Corridor Business Resources Collaborative, "Strategic Work Plan," 2010.

[15] See Warren, Pittman, and Shelton, "Mitigating business losses." See also The U7 Project, "Small Businesses Along the Green Line: Providing a Model for Vulnerable Corridors to Survive Any Major Infrastructure Project," 2012. http://universityseven.squarespace.com/storage/Page-turner-U7Profiles.pdf

[16] Jay Miller, "City Considering Loan Program for Euclid Ave. Project," *Crain's Cleveland*, December 11, 2006. http://www.crainscleveland.com/apps/pbcs.dll/article?AID=/20061211/FREE/61211009

[17] Ibid.

[18] Jim Anderson, "Cleveland Offers Bus Rapid Transit Object Lesson for Washington County," *Star Tribune,* July 13, 2013. http://www.startribune.com/local/east/215377221.html

[19] Walter Hook, Stephanie Lotshaw, and Annie Weinstock, "More Development for Your Transit Dollar: An Analysis of 21 North American Transit Corridors." Institute for Transportation & Development Policy, 2013. http://www.itdp.org/documents/ITDP_MORE_DEVELOPMENT_924.pdf