Making the Business and Economic Case for Value Capture

Disclaimer: The contents of this presentation do not have the force and effect of law and are not meant to bind the public in any way. This presentation is intended only to provide information and clarity to the public regarding existing requirements under the law or agency policies. Value capture techniques and policies are often implemented outside of Federal funding or regulatory requirements.
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Purpose: Why Make the Business/Economic Case for VC?

- Major real estate developments are often triggered by transportation projects
- VC is about monetizing real estate value appreciation to help pay for transportation projects
- Key is to establish clear, direct nexus between real estate and transportation projects

To develop transparent, equitable win-win strategy to strengthen VC negotiating leverage by starting early and engaging multiple stakeholders

Starting at the project planning stage can help maximize VC monetization potential
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Overall VC Implementation Process

Feasibility/Evaluation → B/E Case QUALITATIVE Assessment

Preparation → B/E Case QUANTITATIVE Assessment

Formation

Financing

Lifecycle Administration

Stakeholder Coordination

Source: FHWA B/E Case Primer (2021)
Implementation Issues for Different VC Techniques

**Tax Increment Financing (TIF)**
Buy-in from City and/or County regarding the extent of local tax revenue sharing

**Special Assess. District (SAD)**
Determination of whether assessment is tax or fee—affects voter approval requirement

**Development Impact Fee (DIF)**
Nexus and fee studies to determine legally defensible and market feasible fee levels

*Often each VC technique is considered separately, not an integrated approach; Processes differ depending on applicable State and local laws*
California Community Facilities Act of 1982 (Government Code 53311-53368.3) established CFDs and their implementation processes.
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Basic Building Blocks for Making B/E Case

1. Clear Policy Objectives
2. Potential VC Opportunity Areas
3. Overall VC Typology and Techniques
4. Relevant VC Stakeholders
5. Key VC Evaluation Criteria
6. Framework for Integrated VC Strategy
## Clear Policy Objectives

<table>
<thead>
<tr>
<th>Funding Related</th>
<th>Long-Term Policy Related</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generating new funding sources for:</td>
<td>Meeting long-term growth and land-use planning goals:</td>
</tr>
<tr>
<td>✓ Public improvements to support major real estate developments (local)</td>
<td>✓ Job creation</td>
</tr>
<tr>
<td>✓ Local contributions to major transportation corridor projects (regional)</td>
<td>✓ Affordable housing</td>
</tr>
<tr>
<td></td>
<td>✓ Smart growth, TODs</td>
</tr>
<tr>
<td></td>
<td>✓ Improved connectivity</td>
</tr>
<tr>
<td></td>
<td>✓ Open space, parks, bike paths</td>
</tr>
<tr>
<td></td>
<td>✓ Balanced developments/ economic growth</td>
</tr>
</tbody>
</table>
VC Opportunity Areas and Techniques

**VC Opportunity Areas**

Defining VC opportunity areas (OAs) per TOD industry best practice:

- ✓ Geographic boundary (e.g., 1/2-mile radius)
- ✓ Locational characteristics (e.g., urban, rural)
- ✓ Site-specific buildout scenarios

**VC Techniques**

Select most appropriate VC technique(s) for specific OAs:

- ✓ Tax increment financing (TIF)
- ✓ Special assess. district (SAD)
- ✓ Developer impact fee (DIF) or other developer exactions
- ✓ Transport utility fee (TUF)
- ✓ Zoning incentives (density bonus, TDR)
- ✓ Contract-based (e.g., DA, CBA, JDA)

CTOD—Center for Transit-Oriented Development
FTA—Federal Transit Administration

TDR—Transfer of Development Rights, DA—Development Agreement, CBA—Community Benefits Agreement, JDA—Joint Development Agreement
### VC Stakeholders and Evaluation Criteria

<table>
<thead>
<tr>
<th>VC Stakeholders</th>
<th>VC Evaluation Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific VC technique chosen governs who stakeholders are:</td>
<td>VC evaluation criteria serve as the basis for qualitative assessment of VC techniques:</td>
</tr>
<tr>
<td>✓ Public agencies</td>
<td>✓ Yield/revenue potential</td>
</tr>
<tr>
<td>✓ General taxpayer (TIF)</td>
<td>✓ Equity</td>
</tr>
<tr>
<td>✓ Property or business owners (SAD, TUF)</td>
<td>✓ Efficiency</td>
</tr>
<tr>
<td>✓ Developers (DIF, exactions, DA, JDA)</td>
<td>✓ Transparency</td>
</tr>
<tr>
<td>✓ Communities (CBA)</td>
<td>✓ Administrative ease</td>
</tr>
<tr>
<td>✓ Lenders/investors</td>
<td>✓ Political/legal feasibility</td>
</tr>
<tr>
<td></td>
<td>✓ Meeting policy goals</td>
</tr>
</tbody>
</table>
### Lessons Learned/Best Practice

Two past lessons from local experience—(1) starting too late after value given away; (2) windfall gain by existing properties at the expense of new developments

- ✓ Start early
- ✓ Use larger footprint
- ✓ Apply for longer period

### Integrated Strategy

Multi-layered, multi-phased, risk-adjusted and equity-based approach:

- ✓ Engage multiple VC techniques/stakeholders
- ✓ Implement in multiple phases over long term
- ✓ Risk consideration—those who are best able bear the risk
- ✓ Equity consideration—those who benefit and can afford pay the most
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Qualitative Assessment Based on Evaluation Criteria

- **Yield/Revenue Potential**
  - ✓ Sufficient revenues within reasonable time
  - ✓ Revenue stability
  - ✓ Flexibility in fund uses

- **Equity & Efficiency**
  - ✓ Social equity/affordability—those who are able pay
  - ✓ Proportionality—those who benefit pay, usage-based
  - ✓ Sufficiency—magnitude of benefits

- **Political/Legal Feasibility**
  - ✓ Local political climate, community acceptance
  - ✓ Legal obstacles (e.g., enabling legislation)

- **Administrative Ease**
  - ✓ Ease in administrative process (e.g., fee collection)
  - ✓ Cost-effectiveness of governing entity

- **Transparency**
  - ✓ VC funding determination is transparent and visible
  - ✓ VC technique is easy to understand

- **Policy Goals**
  - ✓ Consistency with local policy goals
  - ✓ Regional, State, and Federal goals
## Comparative Qualitative Assessment

<table>
<thead>
<tr>
<th>Criteria</th>
<th>TIF</th>
<th>SAD</th>
<th>DIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield/Revenue</td>
<td>- Substantial but not predictable</td>
<td>- Fixed, predictable</td>
<td>- One-time payment, pay-go</td>
</tr>
<tr>
<td></td>
<td>- Vulnerable to econ. downturn</td>
<td>- Ensures funding needs are met</td>
<td>- Routinely lower than needed</td>
</tr>
<tr>
<td>Equity/</td>
<td>- Existing properties carry greater burden</td>
<td>- Both equity and net efficiency gain built into district formation</td>
<td>- Equity between existing vs. new development challenging</td>
</tr>
<tr>
<td>Efficiency</td>
<td>- Facilitate high-density develop.</td>
<td>- District management costly</td>
<td>- Proportionality is legal requisite</td>
</tr>
<tr>
<td>Political/Legal</td>
<td>- No change in tax rate makes it less politically sensitive</td>
<td>- May need up to 2/3 voter approval if deemed taxes</td>
<td>- Need to pass nexus/proportionality legal tests</td>
</tr>
<tr>
<td></td>
<td>- Opposition from developments without TIF benefits</td>
<td>- Limit on district members due to management costs</td>
<td>- Residents support developments paying their own way</td>
</tr>
<tr>
<td>Administrative</td>
<td>- Most local governments have TIF experience</td>
<td>- Requires technically skilled staff and procedure-laden</td>
<td>- Depends on fee complexity</td>
</tr>
<tr>
<td></td>
<td>- Reliance on consultants</td>
<td>- Inherent collection time risk</td>
<td>- Trade off bet. administrative ease vs. more layered equitable fees</td>
</tr>
<tr>
<td>Transparency</td>
<td>- Often criticized for being too complex</td>
<td>- District functions are transparent to members only</td>
<td>- More transparency if less complex</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Among most transparent VC tools</td>
</tr>
<tr>
<td>Policy Goals</td>
<td>- Better for meeting urban infill, blighted area policy goals</td>
<td>- Confined to specific district, less suited for broad policy goals</td>
<td>- Some are designed to serve affordable housing policy goals</td>
</tr>
</tbody>
</table>
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
Quantitative Assessments—Basic Components

1. Define VC Opportunity Areas (OAs)
2. Develop OA Buildout Scenarios
3. Estimate VC Revenue Potential
4. Develop Integrated VC Cash Flow
## VC Opportunity Areas and Buildout Scenarios

### VC Opportunity Areas (OAs)

Identify where substantive new developments could occur:

- ✓ **OA “Nodes”:** (1) Major highway intersections; (2) Transit stations with high growth potential
- ✓ Local GPs and SPs can help determine the extent of OA coverage

### Buildout Scenarios for OAs

Incremental development potential based on up-zoning:

- ✓ Maximum allowable density by land use
- ✓ Long-term growth plans per local GPs and SPs
- ✓ TOD guidelines (e.g., recommended urban/suburban density within 1/4 & 1/2-mi radius of BRT & rail transit stations)

BRT—Bus Rapid Transit
Maximum VC Revenue Potential

**TIF**
Estimate incremental tax revenues based on:
- ✓ Base year/baseline assessed value (AV)
- ✓ Buildout absorption schedule
- ✓ Future property value, AV escalation
- ✓ City/County participation levels

**SAD**
Estimate new special assessment revenues based on:
- ✓ Max. potential effective tax rate above existing rate
- ✓ Same as TIF assumptions on absorption, future value, AV escalation

**DIF**
In the absence of full nexus study, estimate revenues based on:
- ✓ Current DIF levels in adjacent areas (i.e., market-accepted rates)
- ✓ Different fee schemes: (1) urban/in-fill (marginal cost basis), (2) suburban (total cost basis)
VC Opportunity Areas and Buildout Scenarios

**Cash Flow by VC Technique**

For each VC technique, establish:

- Lifecycle timeframe (e.g., TI or SA district term)
- Bonding capacity based on timing of bond issuance(s) and debt financing terms
- Base year for PV analysis

**Integrated Lifecycle Cash Flow**

Estimate cumulative lifecycle cash flows:

- Single node: total combined cash flow for all VC techniques at an intersection or station
- Multiple nodes (corridor level): total combined cash flow for all VC techniques for multiple intersections/stations

TI—Tax Increment, SA—Special Assessment
Integrated Lifecycle VC Cash Flow—Single Node
San Diego Central Mobility Hub (CMH) Example

Annual Cash Flow: High Scenario

<table>
<thead>
<tr>
<th>Year (Base=2025)</th>
<th>TIF</th>
<th>SAD</th>
<th>DIF</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2035</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2040</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2045</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2050</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2055</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2060</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2065</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2070</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SANDAG Central Mobility Hub Alternative Funding Strategy (2021)
## Integrated Lifecycle VC Cash Flow—System Level
### LA Metro New Rail Transit Corridor Example

<table>
<thead>
<tr>
<th>Line/Corridor</th>
<th>No. Stations</th>
<th>Opening Date (Status)</th>
<th>2020-30</th>
<th>2030-40</th>
<th>2040-50</th>
<th>2050-60</th>
<th>2060-70</th>
<th>2070-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crenshaw/LAX</td>
<td>9</td>
<td>2022</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>Regional Connector</td>
<td>4</td>
<td>2022</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>Purple Line Extension</td>
<td>5 (Sect 1&amp;2)</td>
<td>2024</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td></td>
<td>2 (Sect 3)</td>
<td>2028</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>Gold Line Extension</td>
<td>4 (Foothill)</td>
<td>2026</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td></td>
<td>6 (Eastside)</td>
<td>2036</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>E. San Fernando Valley</td>
<td>14</td>
<td>2028</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>Green Line to Torrance)</td>
<td>2</td>
<td>2030</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>W. Santa Ana Branch</td>
<td>9</td>
<td>2042</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td>Sepulveda Transit</td>
<td>4 (to Westside)</td>
<td>2034</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
<tr>
<td></td>
<td>5 (to LAX)</td>
<td>2058</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
<td>⦿</td>
</tr>
</tbody>
</table>

Source: LA Metro Value Capture Assessment Study (2020)
Presentation Outline

1. Basic Purpose
2. VC Implementation Process
3. Key Building Blocks
4. Qualitative Assessment
5. Quantitative Assessment
6. Concluding Remarks
## Making B/E Case in Different Project Contexts

<table>
<thead>
<tr>
<th>If main VC driver is...</th>
<th>Making B/E case for VC is about...</th>
</tr>
</thead>
</table>
| Major real estate development project | ✓ Determining public improvements needed to support the real estate development program and related land use  
✓ Cost of these improvements define VC funding needs |
| Major infrastructure project (regional) | ✓ Establishing direct nexus between the infra project and real estate developments triggered by the infra project (e.g., shopping mall at hwy intersection, TOD at station)  
✓ Rationale for this nexus is on “but-for” grounds |
| Public-private partnership (P3) project | ✓ If P3 project has real estate component in addition to infrastructure component (e.g., Long Beach Civic Center)  
✓ Generating VC revenues on real estate side to defray public sponsor’s P3 payments on infrastructure side (which enhances real estate property value) |
Concluding Remarks

1. VC is a local tool and using VC techniques to pay for major infrastructure projects with regional benefits is still limited.

2. However, VC is becoming increasingly important as local funding source for major infrastructure projects to complement traditional Federal and State sources.

3. Future VC approaches need to be more expansive, innovative, and precedent-setting to become meaningful and substantive infrastructure funding sources.
Questions?