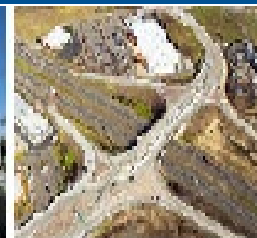
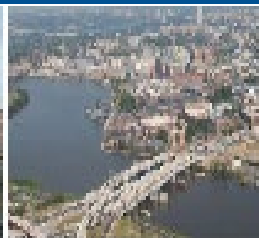
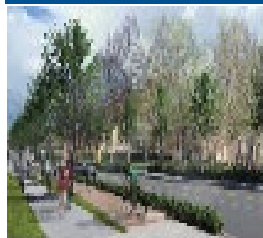




U.S. Department
of Transportation

**Federal Highway
Administration**

Center for Accelerating Innovation



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

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Purpose: Why Make the Business/Economic Case for VC?

1

Real Estate Developments



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

Transportation Projects



Property Appreciation



Funding through VC



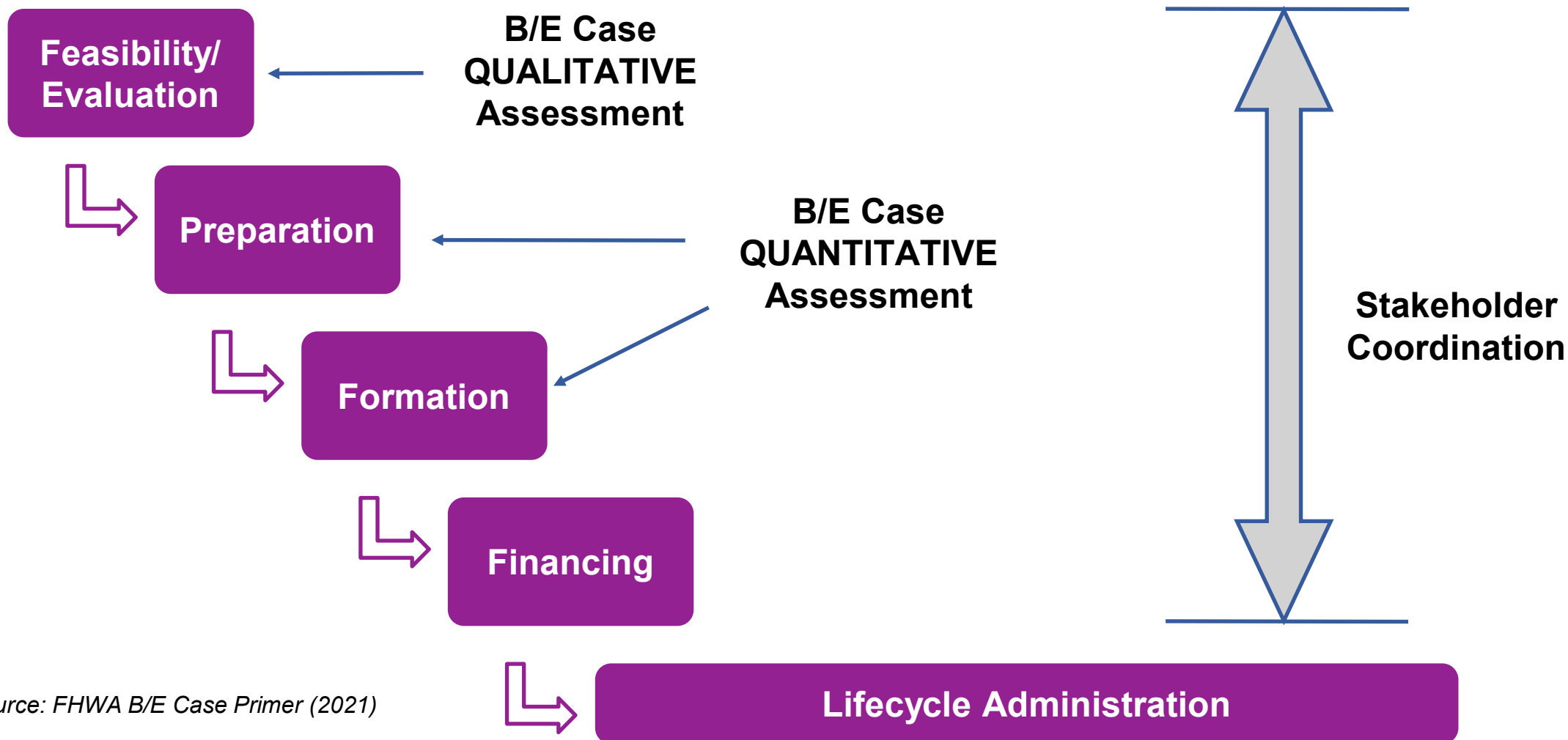
- ✓ Major real estate developments are often triggered by transportation projects
- ✓ VC is about monetizing real estate value appreciation to help pay for transportation projects
- ✓ Key is to establish clear, direct nexus between real estate and transportation projects

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

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Overall VC Implementation Process



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

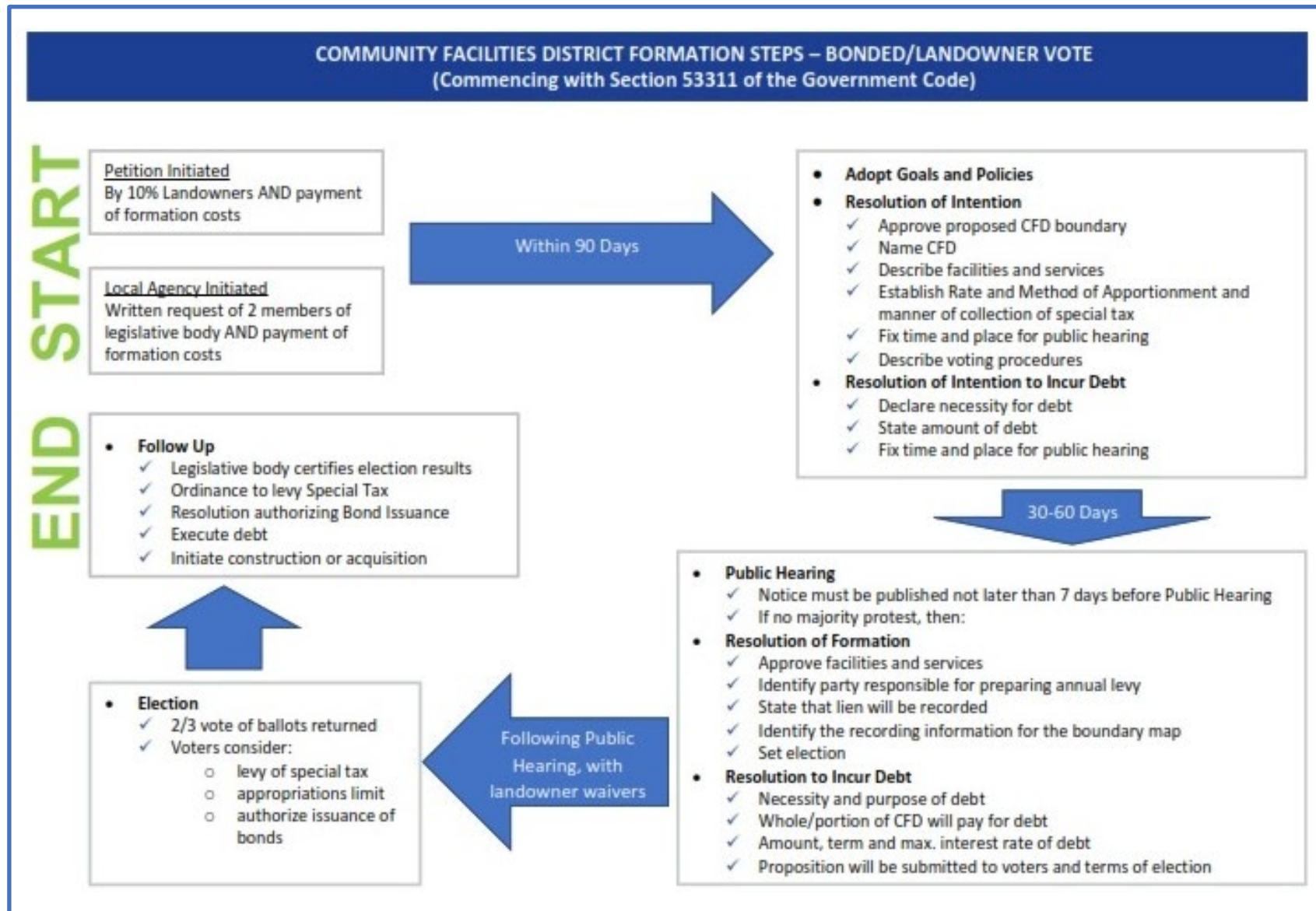
Development Impact Fee (DIF)

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*

Community Facilities District (CFD) Example

California Community Facilities Act of 1982 (Government Code 53311-53368.3) established CFDs and their implementation processes



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Basic Building Blocks for Making B/E Case

3

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

Funding Related

Generating new funding sources for:

- ✓ **Public improvements to support major real estate developments (local)**
- ✓ **Local contributions to major transportation corridor projects (regional)**

Long-Term Policy Related

Meeting long-term growth and land-use planning goals:

- ✓ **Job creation**
- ✓ **Affordable housing**
- ✓ **Smart growth, TODs**
- ✓ **Improved connectivity**
- ✓ **Open space, parks, bike paths**
- ✓ **Balanced developments/ economic growth**

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**

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

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)**

TDR—Transfer of Development Rights, DA—Development Agreement,
CBA—Community Benefits Agreement, JDA—Joint Development Agreement

VC Stakeholders and Evaluation Criteria

VC Stakeholders

Specific VC technique chosen governs who stakeholders are:

- ✓ Public agencies
- ✓ General taxpayer (TIF)
- ✓ Property or business owners (SAD, TUF)
- ✓ Developers (DIF, exactions, DA, JDA)
- ✓ Communities (CBA)
- ✓ Lenders/investors

VC Evaluation Criteria

VC evaluation criteria serve as the basis for qualitative assessment of VC techniques:

- ✓ Yield/revenue potential
- ✓ Equity
- ✓ Efficiency
- ✓ Transparency
- ✓ Administrative ease
- ✓ Political/legal feasibility
- ✓ Meeting policy goals

Framework for Integrated VC Strategy

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

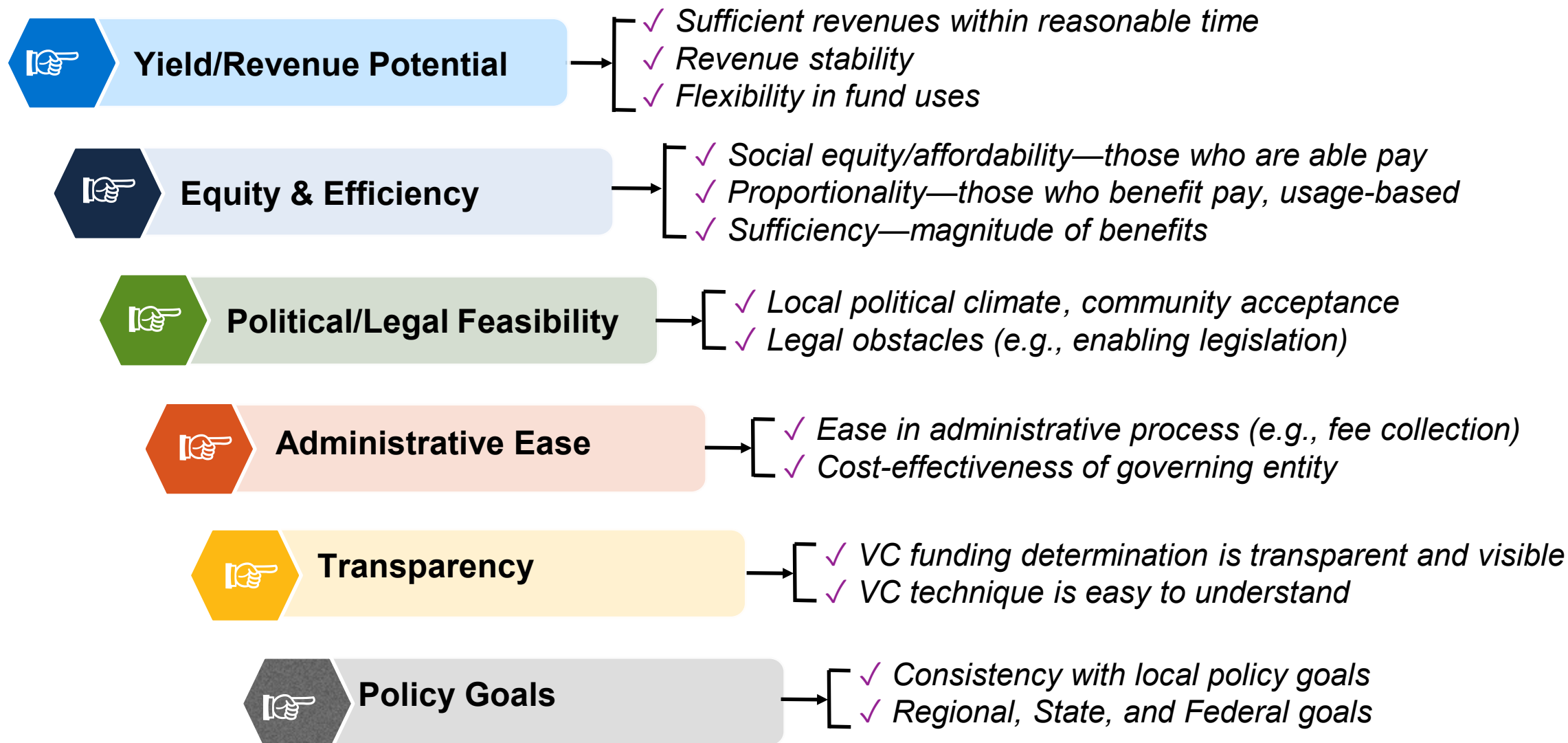
Multi-layered, multi-phased, risk-adjusted and equity-based approach:

- ✓ **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**

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Qualitative Assessment Based on Evaluation Criteria



Comparative Qualitative Assessment

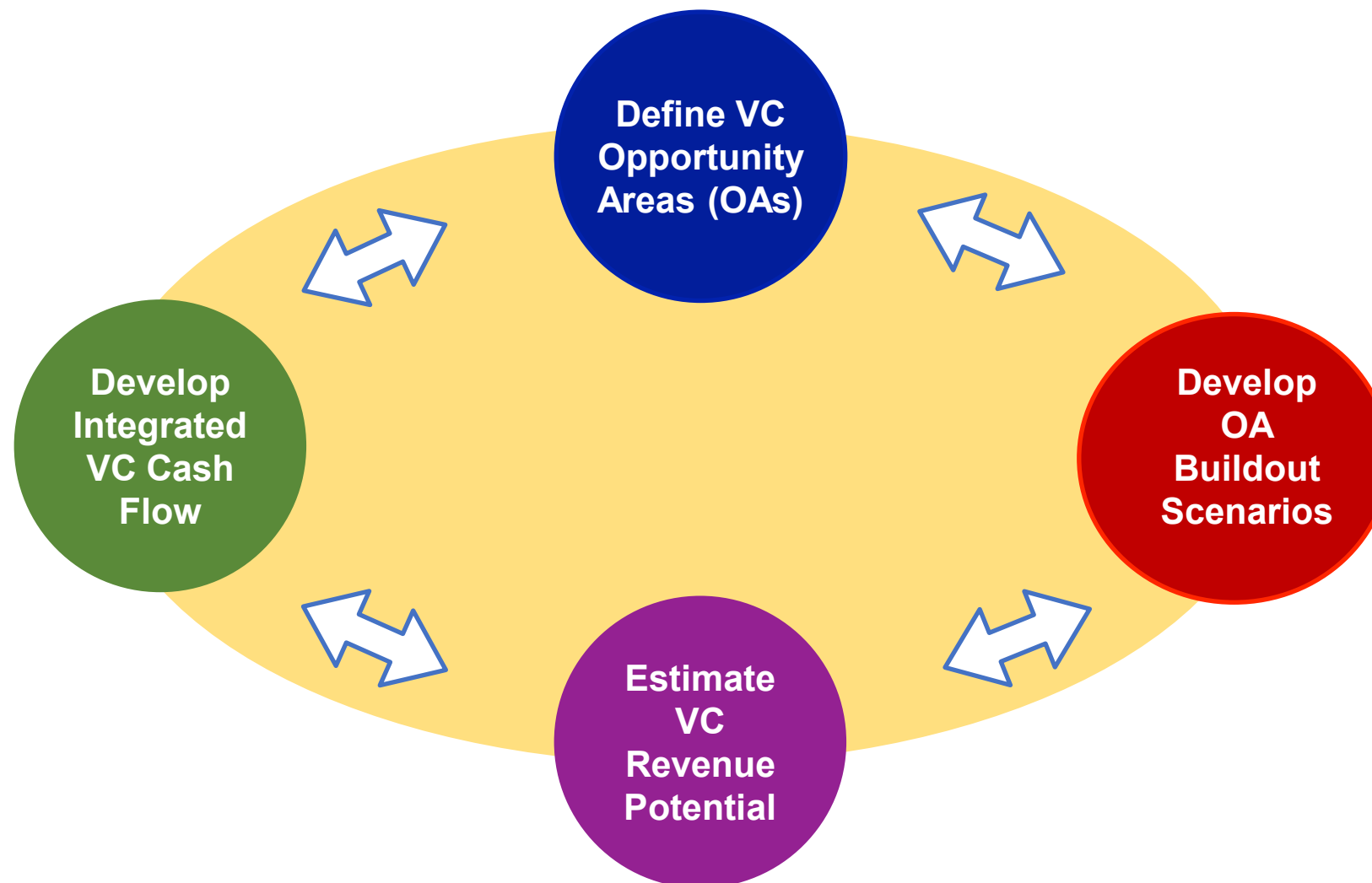
Criteria	TIF	SAD	DIF
Yield/Revenue	- Substantial but not predictable - Vulnerable to econ. downturn	- Fixed, predictable - Ensures funding needs are met	- One-time payment, pay-go - Routinely lower than needed
Equity/ Efficiency	- Existing properties carry greater burden - Facilitate high-density develop.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

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Quantitative Assessments—Basic Components

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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**

TI—Tax Increment, SA—Special Assessment

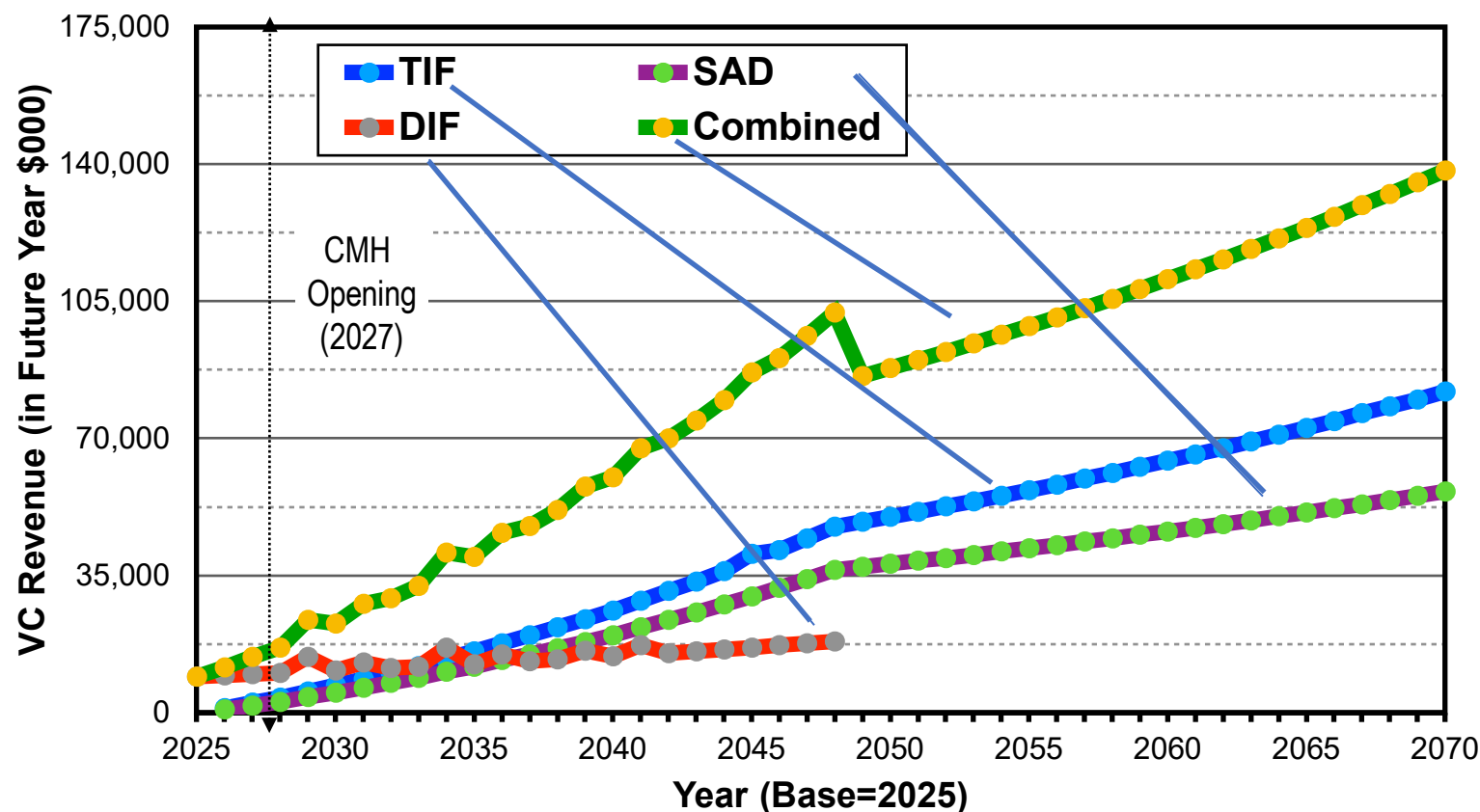
Integrated Lifecycle Cash Flow

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**

Integrated Lifecycle VC Cash Flow—Single Node San Diego Central Mobility Hub (CMH) Example

Annual Cash Flow: High Scenario



VC Type	Present Value (2025\$)	
	45-Year Lifecycle Cash Flow	Potential Bond Proceeds
TIF	\$463.2 M	\$ 188.2 M
SAD	\$306.1 M	\$189.9 M
DIF	\$ 189.5 M	n.a.
Total	\$958.8 M	\$378.1 M

Notional Only

Integrated Lifecycle VC Cash Flow—System Level

LA Metro New Rail Transit Corridor Example

5

Line/Corridor	No. Stations	Opening Date (Status)	2020-30					2030-40					2040-50					2050-60					2060-70					2070-80				
			2	4	6	8	10	2	4	6	8	10	2	4	6	8	10	2	4	6	8	10	2	4	6	8	10	2	4	6	8	10
Crenshaw/LAX	9	2022	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙								
Regional Connector	4	2022	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙								
Purple Line Extension	5 (Sect 1&2)	2024	⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙								
	2 (Sect 3)	2028			⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙							
Gold Line Extension	4 (Foothill)	2026		⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙							
	6 (Eastside)	2036							⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
E. San Fernando Valley	14	2028			⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙							
Green Line to Torrance)	2	2030				⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙						
W. Santa Ana Branch	9	2042									⊙	⊙	■	■	■	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Sepulveda Transit	4 (to Westside)	2034						⊙	⊙	■	■	■	■	■	■	■	■	■	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙				
	5 (to LAX)	2058																	⊙	⊙	■	■	■	■	■	■	■	■	■	■	■	⊙

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Making B/E Case in Different Project Contexts

If main VC driver is...

Making B/E case for VC is about...

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?