



## Board Report

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### PLANNING AND PROGRAMMING COMMITTEE JULY 17, 2019

**SUBJECT: VALUE CAPTURE STRATEGY**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE Value Capture Strategy (Attachment A).

#### **ISSUE**

Value capture can generate additional funding resources from increased land values or through taxing authority such as special assessments. The opportunity for value capture is particularly high in areas with proximity to Metro's current and planned transit infrastructure. Staff will undertake a Value Capture Assessment as part of a broader Value Capture Strategy that will allow Metro to identify and quantify value capture potential along transit corridors and create opportunities to partner with municipalities to realize multi-beneficial impacts of Metro's transit investments.

#### **BACKGROUND**

The Metro can have an important role in supporting and partnering with municipalities to realize value capture strategies around both existing and in-development transit corridors. The Transit Oriented Communities Policy adopted by the Board of Directors (Board) in June 2018 has five goals, one of which is to "capture value created by transit."

Value capture can generate additional funding resources from increased land values or through taxing authority such as special assessments. The opportunity for value capture is particularly high in areas with proximity to Metro's current and planned transit infrastructure. The additional funding resources realized through value capture can help Metro, municipalities and stakeholders realize a number of benefits, including:

- Funding betterments, acceleration and/or enhancements to existing and new transit infrastructure;
- Improving active transportation infrastructure;
- Funding the local agency contribution for transit projects (the "3% contribution"); and
- Realizing transit oriented communities by supporting equitable development that:

- expands and preserves the supply of affordable housing,
- protects and preserves legacy businesses, and
- ensures that community serving amenities are located near transit.

### A Value Capture Assessment

The Value Capture Assessment can be applied to both existing and new transit corridors, though focus will likely start with new corridors funded by Measure R and Measure M. The assessment includes a work plan to:

1. Educate staff about value capture and key value capture tools;
2. Inform municipal stakeholders about the Metro work plan, and map any existing value capture efforts underway across Los Angeles County;
3. Perform an initial assessment of value capture opportunities along Measure R and Measure M transit corridors to determine a rough estimate of the financial opportunity across a number of different value capture tools, and identify locations that have the best potential and could be prioritized; and
4. Share results of the initial assessment with municipal stakeholders to identify the best path forward, which could include pursuit of an identified value capture tool and/or recommendations for legislation to amend existing or create new tools.

Each aspect of the work plan is further detailed in the attached Value Capture Strategy. The Strategy has incremental steps, initially focused on sizing the opportunity, considering the appropriate tools, and gauging interest from key partners. While stakeholder engagement is not included in this initial assessment, if municipal partners decide to partner with Metro to pursue a value capture tool, Metro would require broad stakeholder engagement to determine priorities for use of any funds generated.

### Key Considerations

The assessment work plan is guided by four key considerations:

1. The starting point for the work plan is to assess the opportunity for value capture where Metro is making major transit investments. It will identify corridors with potential to capture significant value, provide a rough estimate of the value potential across the existing tools, compare the tools, and determine interest from municipalities in pursuing a value capture tool. It will not definitively determine what funding would be spent on or preclude options to pursue value capture along other corridors.
2. Metro understands that municipalities, and in particular the entities that collect property taxes, have the authority to form value capture districts, and in the case of tax increment finance (TIF) districts, these entities determine if and how much tax increment will be included in a TIF district.
3. There are, and will be, compatible and competing demands for funds generated by value capture tools, both market driven and in consideration of public policy objectives. Many stakeholders must be at the table to discuss potential funding levels and tools, and to prioritize

any funds generated through implementation of a value capture tool.

4. Once the initial assessment is completed, next steps for forming any value capture districts must include deeper engagement of community stakeholders, and in particular, consideration of impacts on equity.

#### Staff Resources

The work plan will be carried out by staff in the Countywide Planning & Development department. The Strategic Financial Planning Unit will be the lead with close support and coordination from the Transit Oriented Communities team and input from the Treasury and Finance team, Communications, and others as appropriate. Metro will utilize professional services to undertake the Value Capture Assessment.

#### Timeline and Reporting

Staff anticipates completion of the Value Capture Assessment and identification of next steps within one year and will provide a report to senior leadership and the Metro Board with findings and recommendations.

#### Equity Platform

The Value Capture Strategy is consistent with the equity platform's third pillar: "Focus and Deliver". The assessment stage does not recommend broad community engagement because the focus is on sizing the opportunity and determining interest. If any value capture strategies are to be pursued, Metro will recommend, and if directly involved, Metro will require, broad stakeholder engagement to determine priorities for use of any funds generated. This is consistent with the "Listen and Learn" pillar of the Metro equity platform.

### **DETERMINATION OF SAFETY IMPACT**

The Value Capture Strategy will have no impact on safety. If value capture strategies are pursued and funding is generated, future infrastructure improvements could improve safety for both users and non-users of transit.

### **FINANCIAL IMPACT**

There is no financial impact related to this receive and file.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The Value Capture Strategy could lead to additional funding sources that could be invested in transit and active transportation infrastructure as well as community serving uses around transit. These support four Strategic Plan Goals: under Goal 1, improve connectivity to provide seamless journeys; Goal 3.2, leverage transit investments to catalyze transit oriented communities and help stabilize neighborhoods where these investments are made; Goal 4.1, collaborating with cities to create new opportunities to meet broader policy objectives like transit oriented communities, active transportation, and additional housing; and Goal 5.1, leverage funding to accelerate the achievement of goals and initiatives. The Value Capture Strategy also supports realization of Goal 5 in the Board-

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adopted Transit Oriented Communities Policy, "Capture Value Created by Transit."

**NEXT STEPS**

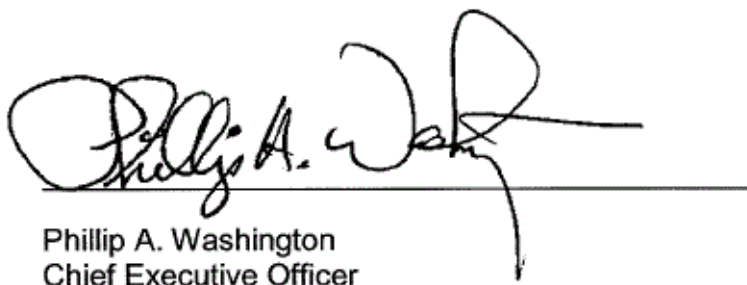
Staff will solicit a professional services contract to begin the Value Capture Assessment, and will report back to the Board with findings and recommended next steps by mid-2020.

**ATTACHMENTS**

Attachment A - Value Capture Strategy

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## **ATTACHMENT A**

### **Value Capture Strategy**

Metro has developed a Value Capture Strategy (“Strategy”) to evaluate the potential value capture mechanisms, which may allow local municipalities (and/or Metro) to recover the value created by Metro’s transit investments. The intention is to generate interest and partnerships with municipalities to put in place value capture mechanisms that support increased access to transit, and equitable, sustainable and inclusive growth in Los Angeles County. Prior to developing this Strategy, Metro sought input from academics and professionals in finance, public policy and related fields with expertise on value capture.

The Strategy’s Work Plan will consider all potential sources of value capture funding, including those that have been previously implemented by Metro. The potential sources include Impact Fees, Enhanced Infrastructure Financing Districts (EIFD), Community Revitalization and Investment Areas (CRIA), Special Benefit Assessment Districts (BAD), Community Facilities Districts (CFD), Assessment Districts, and Business Improvement Districts (BID). The Work Plan will achieve the following key objectives:

- Improve understanding of value capture mechanisms across Metro departments;
- Initiate discussions with municipal stakeholders regarding value capture potential and realization of shared interests for a value capture strategy;
- Generate a rough estimate of value capture potential (funding) system-wide, based on an array of value capture tools, for existing and in-development transit corridors;
- Prepare a strategy for realizing value capture potential in those areas/corridors that are identified as feasible and have municipal support;
- For feasible areas/corridors, achieving consensus on the use of funds, value capture mechanism, schedule, and steps required for implementation; and,
- Completing value capture financings and/or implementation of funding, and expenditure of funds for the desired uses.

#### **What is Value Capture?**

According to the Lincoln Policy Institute, Land Value Capture is a policy approach that enables communities to recover and reinvest land value increases that result from public investment and other government actions. It is rooted in the notion that public action should generate public benefit. Value capture can be realized in the form of direct financial/monetary “capture” of value, which generates additional funding resources by tapping the incremental increase in the value of land, or through the creation of a new taxing authority. It can also be indirect through various planning tools and regulations. There are indirect/regulatory forms of value

capture such as inclusionary zoning and/or transferable development rights. While indirect forms of value capture do have financial impacts on a project, they do not produce funding that supports infrastructure and other projects. This Strategy document focuses only on direct/financial forms of value capture, with a focus on those forms of value capture currently allowed under State Law and local/municipal regulatory codes. These value capture mechanisms include:

- a. **Impact Fees:** Affected local government may impose impact fees on land owners for the right to develop a parcel, or for specific improvements such as transportation, parks, affordable housing or other infrastructure.
- b. **Infrastructure Financing Districts:** Approved by the State legislature, these are tax increment financing (TIF) districts that capture incremental property tax revenue above current levels (excluding school district portions). California law currently supports the creation of Enhanced Infrastructure Finance Districts (EIFDs) and Infrastructure and Revitalization Financing Districts (IRFDs) which may be used to finance infrastructure and operations (including transit), affordable housing and community facilities. Local taxing entities must agree to contribute their portion of tax increment, along with how much to provide. Voter approval is needed to incur debt. Requires formation of a Joint Powers Authority consisting of the taxing entities.
- c. **Community Revitalization and Investment Area (CRIA):** This approach is similar to the former California redevelopment agencies, in that eligibility is tied to various indications of blight. There is no voter approval requirement, and CRIAs require a 25% set-aside of TIF for affordable housing. Similar to EIFDs, local taxing entities must agree to contribute their portion of tax increment, along with how much to provide.
- d. **Special Benefit Assessment District (BAD):** The BAD was created in State law specifically for Metro, and was previously used for the Metro Red Line in 1992. It involves the voter-approved creation of a new assessment and district. The assessment can be difficult to define as it must be related to the benefit received. It imposes a new tax and therefore requires significant stakeholder support for adoption.
- e. **Community Facilities District (CFD):** This involves the creation of a new taxing district and special tax. Also called Mello-Roos financing, it requires 2/3<sup>rd</sup>s voter approval but provides flexibility in determining the characteristics of the new special tax, along with a focused use of the tax. This approach has been used in Los Angeles County for both transit and parking infrastructure, including the downtown CFD created in 2012 to support financing the proposed Downtown streetcar.
- f. **Assessment District:** This would involve the creation of a new, property owner-approved assessment and district. This approach has been in existence for over a century, and used for a range of public infrastructure, but not specifically crafted for transit improvements.
- g. **Business Improvement District (BID):** These are special districts that are created to fund mostly “safe, clean and green” services. The district “special assessments” are voter-approved and restricted to the district. There are numerous BIDs within Los Angeles County

that have helped fund transportation improvements and Metro programs, and Metro is a contributing member of several.

A few notes regarding EIFD and CRIAs:

- The Southern California Association of Governments (SCAG) has implemented an EIFD/CRIA Technical Assistance program that offers technical and financial assistance, and an online mapping and informational tool. The focus is to determine eligibility and a general “litmus” test for the feasibility of these two TIF tools.
- The County of Los Angeles has adopted a policy making clear their conditions for and process leading to consideration of proposed EIFD and CRIA districts. The Policy states that under no circumstance will the County contribute more than 50% of eligible TIF funding.
- The City of Los Angeles is poised to adopt a similar EIFD/CRIA policy, and is anticipated to limit participation in TIF districts to 50% of eligible TIF funds.
- There are a number of current State legislative proposals that address EIFDs, mostly making them more flexible. Staff is monitoring this legislation and will reflect new regulations in any analysis completed.

### **Metro’s Existing Efforts Around Value Capture and Transit**

Below is a description of current, ongoing work across Metro departments in support of value capture around existing and future transit investments:

- ***Transit Oriented Communities (TOC) Tax Increment Financing (TIF) Pilot Program/Arts District Station:*** In April 2017 the Metro Board approved Round 5 of the Transit Oriented Development (TOD) Planning Grant program, which includes creation of the TOC TIF Pilot Program. The Pilot Program provides funding to cities and/or the County to conduct TIF feasibility studies in areas that include transit stations. The goal of this program is to encourage cities and the County to pursue TIF in support of transit supportive infrastructure and economic and community development around transit stations. During the first round of funding, Metro funded the cities of Azusa, Los Angeles, and El Monte to study formation of TIF districts.

Key to note about this program is that it was developed in close coordination with the LA County Office of the CEO, who is tasked with managing if and when the County will participate in a TIF district, as well as the SCAG technical assistance program described above. The pilot program is designed to thoughtfully elevate TIF districts by: (1) allowing cities interested in TIF to take initiative in forming districts, thus ensuring their interest in contributing tax increment to a district; (2) giving Metro a place at the table as a funder of

the feasibility studies; and (3) engaging the County CEO early on to secure commitment of County tax increment funds.

Finally, the City of Los Angeles' TIF study is focused on forming a TIF district in support of a proposed Arts District/6th Street station, as an extension of the Red Line. Community stakeholders and the City of Los Angeles (Mayor's and Councilmember Huizar's Office) have recommended an EIFD as a means to capitalize on the investment happening in the Arts District and to help finance this station, along with exploration of property benefit assessment districts.

- ***Inglewood NFL Stadium.*** At the direction of the Metro Board, in 2016 Metro formed the NFL task force to coordinate with the City of Inglewood and The LA Rams and Chargers Football Teams on transportation to LA Rams Games at the Coliseum in the short term and the new Inglewood Stadium in the long term. Metro's transit corridor planning team hired AECOM to study alternatives for a transit connection between the Crenshaw/LAX and Green Lines and the NFL stadium. The City is now preparing an Environmental Impact Report for that transit connection. Metro and the City of Inglewood were interested in the potential for an EIFD or IRFD to provide funding for this critical transportation linkage. Metro completed a preliminary feasibility analysis to determine the potential tax increment and bonding capacity based on the TIF that will be generated through anticipated commercial development in the stadium area. Metro can support the City of Inglewood with forming an infrastructure finance district, and if necessary, could participate in the formation of a Joint Powers Authority or a funding agreement with the City or a future EIFD's Public Financing Authority. However, Metro may not join the EIFD under current law, and therefore may not exercise any authority over the EIFD or its use of revenues. Control would come through any funding agreements that would ensure Metro's role in the design and construction of jointly funded projects.

The City may also have the option to create a Communities Facilities District in proximity to the stadium that can be a funding source for the transit connection or other improvements, including a Centinela grade separation on the Crenshaw/LAX line.

- ***Union Station/Civic Center Area.*** In October 2016, the Metro Board approved a Motion calling for interagency coordination geared towards creating opportunities for equitable transit oriented communities around Los Angeles Union Station and the Civic Center areas, through the creation of an Exploratory Taskforce that includes Metro, the County and City of Los Angeles, and the California High Speed Rail Authority. One of the strategies anticipated is examination of the formation of a TIF district to support active transportation



(such as the Connect US Action Plan) and affordable housing improvements in the area. To that end, in February 2017, Metro was awarded \$375,000 from SCAG's Sustainability Planning Grant Program to support a TIF feasibility study and related community engagement. This work will begin in Summer 2019, and will proceed in close coordination with the City and County of Los Angeles. The grant funds include stipends to work with Community Based Organizations to engage stakeholders in developing a prioritized list of investments that could be supported through a TIF district.

- **West Santa Ana Branch (WSAB).** In October 2016, Metro, in partnership with the City of South Gate, was awarded a \$2 million grant under the FTA's TOD Planning Pilot Program. The grant funded the development of a TOD Strategic Implementation Plan that provides a holistic strategy for the 13 cities within and adjacent to the WSAB corridor. The Plan includes an economic development strategies report, which considers funding and governance mechanisms well suited to a TIF or other special assessment district. Moving forward, Metro may provide technical assistance to the cities looking to implement the recommendations, which would likely include a value capture strategy. The WSAB Corridor is also part of the SCAG Pilot Program, discussed below.
- **South Park Business Improvement District.** The South Park BID is pursuing a study of value capture potential with a focus on generating funds for both an east-west transit connection between the Pico Station and the Arts District, connecting the Blue, Expo, and West Santa Ana light rail lines, as well as undergrounding and/or expanding the Pico Station of the Blue Line.
- **SCAG Pilot Program.** Metro has received a technical assistance grant from the Southern California Association of Governments to evaluate the feasibility of economic development tools within the Vermont BRT project study area, including a summary of the economic development mechanisms (i.e. formation requirements, project types that could be funded, primary funding resources, bond issuance, longevity of district, eligible areas, use of eminent domain, foreseeable challenges in establishment). Tools to be evaluated include: Benefit Assessment District, Tax Increment Financing mechanisms, Enhanced Infrastructure Financing District, Community Revitalization and Investment Authority, Affordable Housing Authorities, Workforce Housing Opportunity Zones, Housing Sustainability Districts, and Neighborhood Infill Finance and Transit Improvements Districts. The project also includes stakeholder engagement, anticipated to occur during the 2019 calendar year, in which Metro will further engage with impacted local jurisdictions, elected officials, community-based organizations, and impacted communities.

- **Joint Development (JD) Program.** The JD Program, launched in the 1990s, is a real estate development program whereby Metro procures developers to build commercial developments on Metro-owned property. The Ground Leases generated by these developments produce (nominal) income for Metro. Much like other forms of value capture, these projects also provide a means to realize other non-financial goals such as affordable housing, improved public spaces and connectivity to transit, and sometimes betterments to Metro’s transit facilities.

### **Detailed Work Plan**

This section provides detail on the Value Capture Strategy Work Plan.

#### ***1. Educate staff about value capture and key value capture tools.***

The term “value capture” is often touted both as a way to capture value created by public investment and generate more public benefits, as well as a funding source for infrastructure projects. The knowledge about what tools exist, how they are implemented, and the magnitude of their impact and funding potential, however, is limited. Staff will develop and/or engage a consultant to offer a “Value Capture 101” to targeted staff, including Senior Leadership, the Countywide Planning & Development Dept. (CP&D), Office of Extraordinary Innovation, Office of Management and Budget, Board staff, Communications and others who may be interested.

*Timing:* Within the first quarter of the Work Plan kickoff.

#### ***2. Inform municipal stakeholders about the Strategy and Work Plan, and determine any existing value capture efforts underway across Los Angeles County.***

It is critical to engage and inform municipal stakeholders about Metro’s Value Capture Assessment Work Plan, to ensure they understand what the work entails and to reinforce its guiding principles. Because cities and the County of Los Angeles must be a partner, and likely the leader, of any value capture strategy that is pursued as a result of this assessment, they must be on board and open to the strategy from the beginning. CP&D staff will reach out to the following groups to share the Work Plan:

- LA County Councils of Government
- LA Metro Board deputies
- Metro Technical Advisory Committee (TAC)
- Metro Policy Advisory Committee (PAC)
- LA County CEO’s office

- SCAG
- Other interested organizations (EcoRapid, etc.)

Staff will also work with Community Relations, Board Staff, the Mobility Corridors and TOC teams that have working relationships with the relevant local government staff and stakeholders to identify key points of contact for cities that will be included in the value capture assessment.

Through this outreach, Metro will solicit information on any and all value capture efforts currently underway. For example, staff knows anecdotally that upwards of 20 EIFDs are in various stages of formation in the State of California; many of these are likely in LA County and should be known and considered as part of this strategy.

*Timing:* Outreach to begin immediately upon approval of the Work Plan; mapping of current value capture efforts to be completed within the first quarter of the Work Plan.

***3. Perform initial assessment of value capture opportunities along Measure R and Measure M transit corridors; develop a rough estimate of the financial opportunity.***

To identify areas of opportunity and estimate potential revenue, Metro will, working with the local governments, identify the current land uses and designations, significant land owners and any development plans, entitlements, and existing taxing districts that have been implemented which are comparable (i.e., case study data). Revenue potential will be analyzed for each applicable value capture tool.

Metro may utilize professional services to undertake this initial assessment. Professional services will be provided by firms with demonstrated experience in the area of need, and may include real estate consultants, land use planners and economists, special tax consultants, financial advisors, bond underwriters, and land use and municipal bond attorneys.

*Timing:* Procurement estimated at 3 months, analysis completed within 6 months.

***4. Share results of the initial assessment with municipal stakeholders to identify the best path forward, which could include pursuit of an identified value capture tool and/or recommendations for legislation to amend existing or create new tools.***

Metro will return to the stakeholders identified in Task 2 to share the results of the value capture assessment. It is anticipated that the information will spark interest in further

exploration of value capture at specific locations, as well as lead to discussion on priorities for funding generated by a value capture tool.

At this stage, and based on the interest level of the partner municipalities, staff will identify next steps, which may include any of the following:

- Metro will work with the local government to identify resources that can help pay the cost of planning for identified value capture tools and initiate outreach to stakeholders and land owners;
- Partner with the interested municipality on targeted outreach to develop a prioritized list of projects that could be funded using value capture;
- If appropriate, identify and determine costs of infrastructure (including transit) and other investments that could be funded by the proposed value capture tool;
- Explore partnership structures for revenue sharing;
- Explore opportunities to apply value capture tools to a municipality's 3% contribution; and/or,
- Recommend a legislative strategy to better align value capture opportunities with existing tools and regulations.

*Timing:* Outreach on results completed by month 12.

***5. Assist the value capture team with the creation of the funding source and any associated financing.***

In the event Metro, municipalities, and stakeholders, including affected land owners, agree to pursue value capture, Metro will provide technical support to establish the value capture mechanism(s) and, if applicable, may assist in financing projects based on future revenue streams.

*Timing:* TBD, case-by-case.

**Staffing**

The Work Plan will be led by Metro Countywide Planning & Development with input and assistance from other Metro staff as needed. Planning staff in Mobility Corridors, Transit Oriented Communities and Strategic Financial Planning will be responsible for outreach to local government, with direction and input from Community Relations. Strategic Financial Planning will lead any consultant procurement and analysis efforts.

**Funding**

Funding for any consultant-driven work for the assessment is available in the FY20 budget. Funding for any recommended activities or additional analysis, including further analysis of the types of infrastructure that could be pursued and/or initial start-up and implementation work to create a value capture district and associated financing, will need to be identified. Metro will identify potential sources from State and local grant programs, eligible Metro funds, and Measure M Local Return and the proceeds from any newly created value capture funding.



# Next stop: building communities.

## Value Capture Strategy

Planning and Programming Committee

July 17, 2019

Legistar Item: 2019-0463

Agenda Item: XX



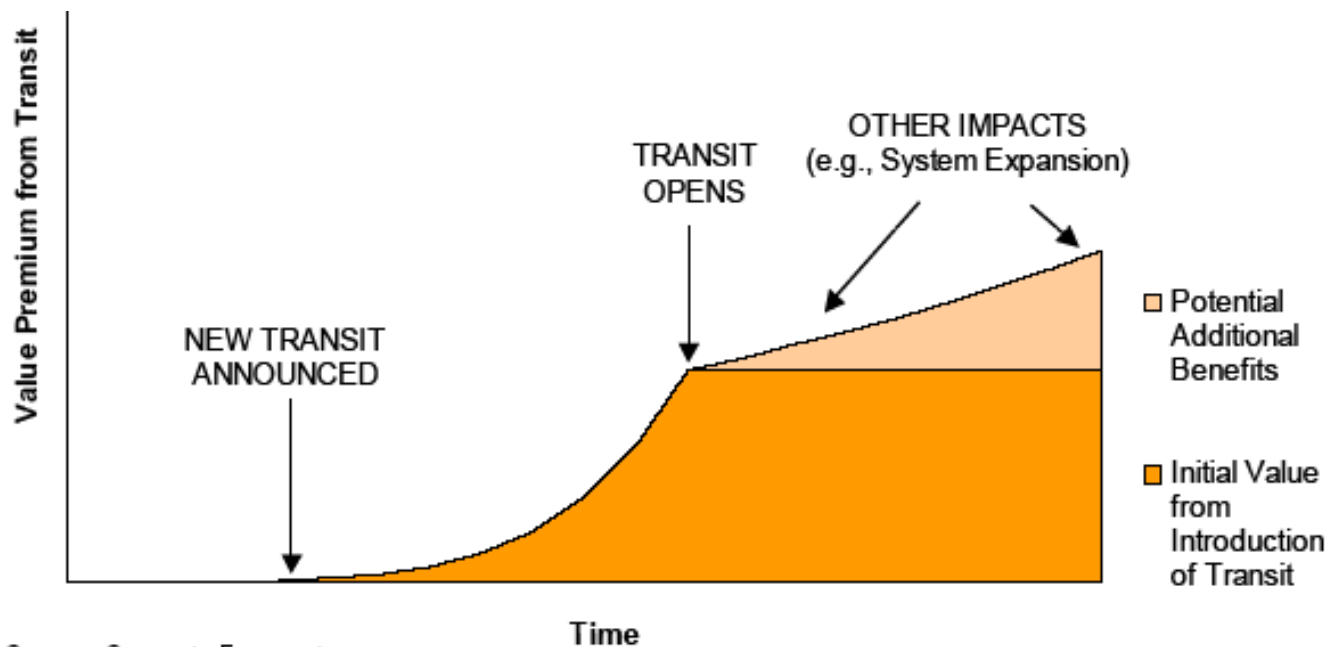
Metro



# Value Capture Basics



- *Land Value Capture* is a policy approach that enables communities to recover and reinvest land value increases that result from public investment and other government actions.
- Community partnership is essential.



Source: Strategic Economics.

**Metro**



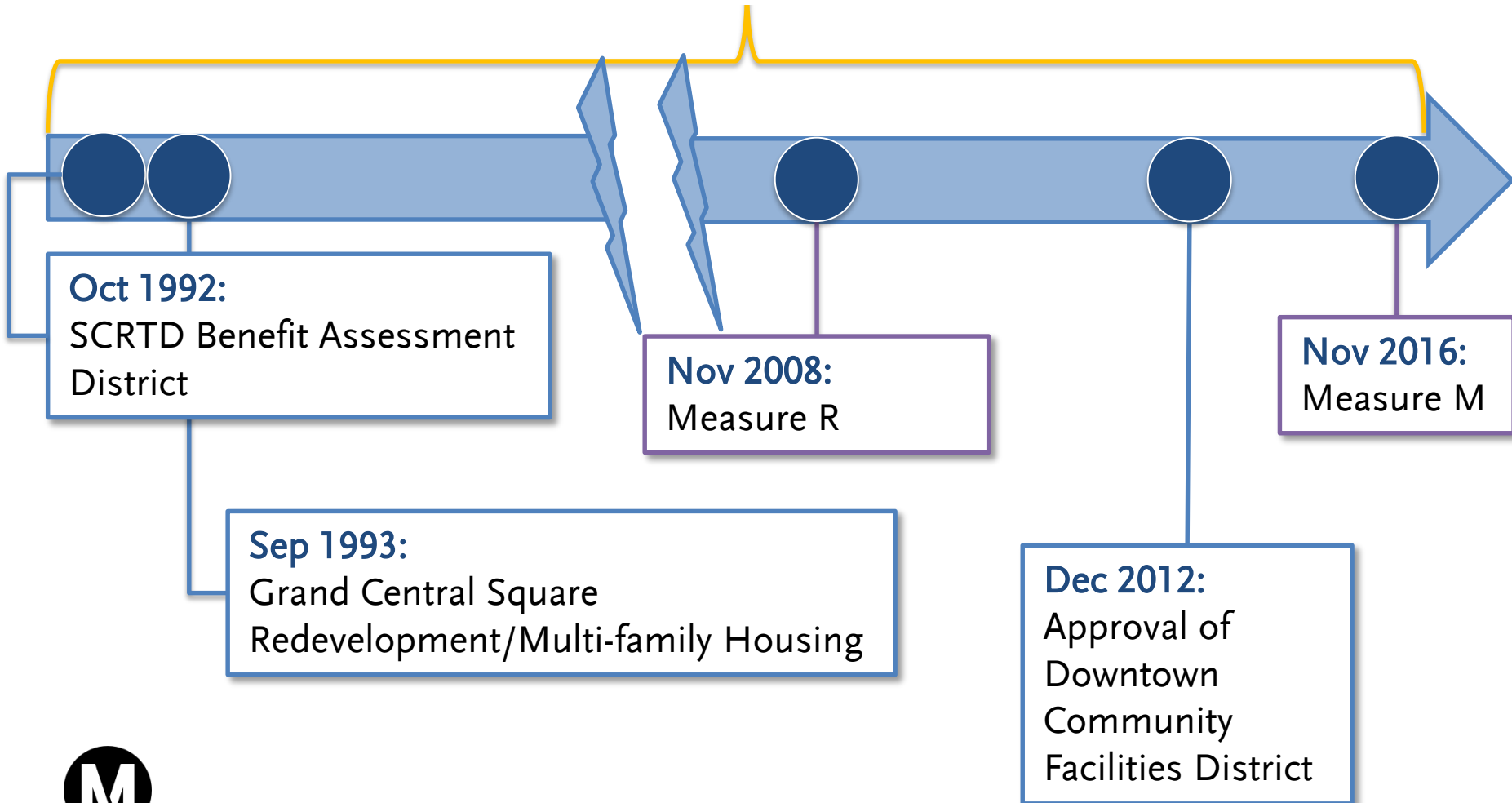
- Tax increment financing (TIF) Districts
  - Enhanced Infrastructure Finance District (EIFD)
  - Community Reinvestment Areas (CRIA)
  - Infrastructure Revitalization Financing Districts (IRFD)
- Assessment Districts
  - Benefits Assessment Districts (BAD)
  - Community Facilities Districts (CFD)
- Business Improvement Districts (BID)



# Metro Value Capture Efforts



Metro Joint-development



# Opportunities – Past



Metro®

# Opportunities – Future





- Help Metro, municipalities and stakeholders identify opportunities to fund betterments, acceleration and/or enhancements to existing and new transit infrastructure
- Fund the local agency contribution for transit projects (the “3% contribution”)
- Advance transit oriented communities, including potential support for affordable housing and local businesses

# Key Considerations



- The Value Capture Assessment is a starting point.
- Metro will not itself form tax increment finance (TIF) districts.
- There will be compatible and competing demands for funds.
- Requires broad participation and partnerships among municipal and community stakeholders.
- Equity impacts are central to the process.



**Metro**

# First Step: Value Capture Assessment



1. Educate Metro staff on tools available
2. Inform municipal stakeholders about strategy and identify value capture efforts underway
3. Identify financial opportunities and estimate potential
4. Share results with municipal stakeholders and determine best path forward

## Next Steps (Based on Assessment)



- Work with local governments on planning and outreach
- Develop a prioritized list of projects and financing approaches
- Explore revenue sharing, including use toward 3% contribution
- Potentially recommend legislative strategy to facilitate use of value capture



|                    |                                                       |
|--------------------|-------------------------------------------------------|
| <b>Summer 2019</b> | Baseline assessment and internal education            |
| <b>Fall 2019</b>   | Outreach to municipal stakeholders                    |
| <b>Winter 2020</b> | Evaluate value capture potential along key corridors  |
| <b>Spring 2020</b> | Report back to Board with preliminary recommendations |