

Utilizing Value Capture for Transportation Funding

Transport Chicago 2011 Conference

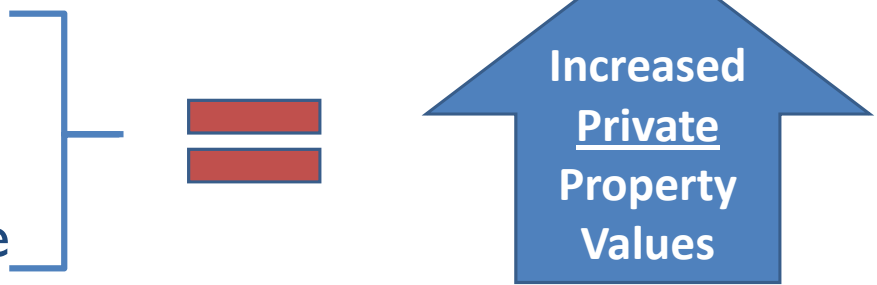


Go To 2040 Capital Transportation Projects

- ▶ **Go To 2040 Fiscally Constrained Projects**
 - ▶ 5 Extension/new projects
 - ▶ 10 Transportation improvement projects
 - ▶ 3 Managed lanes/multimodal corridors
- ▶ **Priority projects in Go To 2040**
- ▶ **Have significant regional impact, support the preferred regional scenario, and emphasize investment in existing systems**
- ▶ **Go To 2040 Fiscally Unconstrained Projects**
 - ▶ **25** Extension/new projects
 - ▶ **9** Transportation improvement projects
- ▶ **May still be in the early feasibility and analysis stages**
- ▶ **May have completed initial analyses, but do not have sufficient or feasible funding sources identified**



What is Value Capture?

- ▶ Public investment
 - ▶ Transit
 - ▶ Roads
 - ▶ Other infrastructure
- A diagram illustrating the concept of value capture. On the left, a blue bracket groups three items: 'Transit', 'Roads', and 'Other infrastructure'. To the right of this bracket is a red equals sign. Further right is a large blue upward-pointing arrow containing the text 'Increased Private Property Values'.
- ▶ Value capture utilizes a fee, tax or other mechanism to “capture” part of the increased private property value to fund a portion of the public infrastructure investment
 - ▶ Transit investments and roadway investments can increase property values:
 - ▶ Transit: 5% to 20% increase in home prices, office rents, and apartment rents
 - ▶ Highways: Highest increases within 2 miles, expressway visibility has the largest impact

Reduced Funding Sources for Transportation

- ▶ **Highways:** \$225 billion required annually for the next 50 years to bring the system to good repair
(National Surface Transportation Policy and Revenue Study Commission)
 - ▶ Combined federal, state and local efforts are currently spending approximately 65% of this annually
 - ▶ Highly competitive environment for available federal dollars

- ▶ **Transit:** The federal government requires a minimum of a 40% local match for transit projects
 - ▶ “...FTA continues to encourage project sponsors to request a Federal New Starts funding share that is as low as possible. The Congressional Conference Report that accompanied the FY 2002 Department of Transportation Appropriations Act instructs ‘FTA not to sign any new full funding grant agreements after September 30, 2002 that have a maximum Federal share of higher than 60 percent.’”
 - ▶ Competitive communities should be able to provide a local match of 40%-60%

Typical Value Capture Mechanisms

▶ Special Assessment

- ▶ An added tax on a defined district that most benefits from the improvements
- ▶ Offers a stable source of bond revenue

▶ Tax Increment Financing

- ▶ A defined district for which taxes on property values above a base assessed value are diverted to the TIF district to fund infrastructure improvements
- ▶ Offers a source of long-term, but more speculative revenues

▶ Other Common Mechanisms

- ▶ Land Value Tax, Joint Development, Transportation Utility Fee, and Development Impact Fees

GAO Transit Agency Value Capture Funding Analysis

Project Name (status)	Value capture strategy(ies)	Amount of revenue generated through use of value capture strategy(ies) [millions]	Total project cost [millions]	Value capture revenue as a percentage of project costs
Atlanta Beltline (planned)	[TIF]	\$1,700	\$2,800	61%
Seattle South Lake Union streetcar (completed)	[SA]	\$25	\$53	47%
Portland streetcar (completed)	[TIF and SA]	\$41	\$103	40%
San Francisco Transbay Transit Center (in progress)	[TIF and SA]	\$1,400	\$4,185	33%
Washington Metro's NY Avenue Station (completed)	[SA]	\$25	\$110	23%
Dulles Corridor extension (in progress)	[SA]	\$730	\$5,250	14%
Los Angeles Metro Red Line, Segment One (completed)	[SAs]	\$130	\$1,420	9%
Seattle Bus Tunnel (completed)	[SA]	\$20	\$500	4%

Source: Government Accounting Office. (2010). *Public Transit: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies* (GAO-10-781). Washington, DC: Government Printing Office.

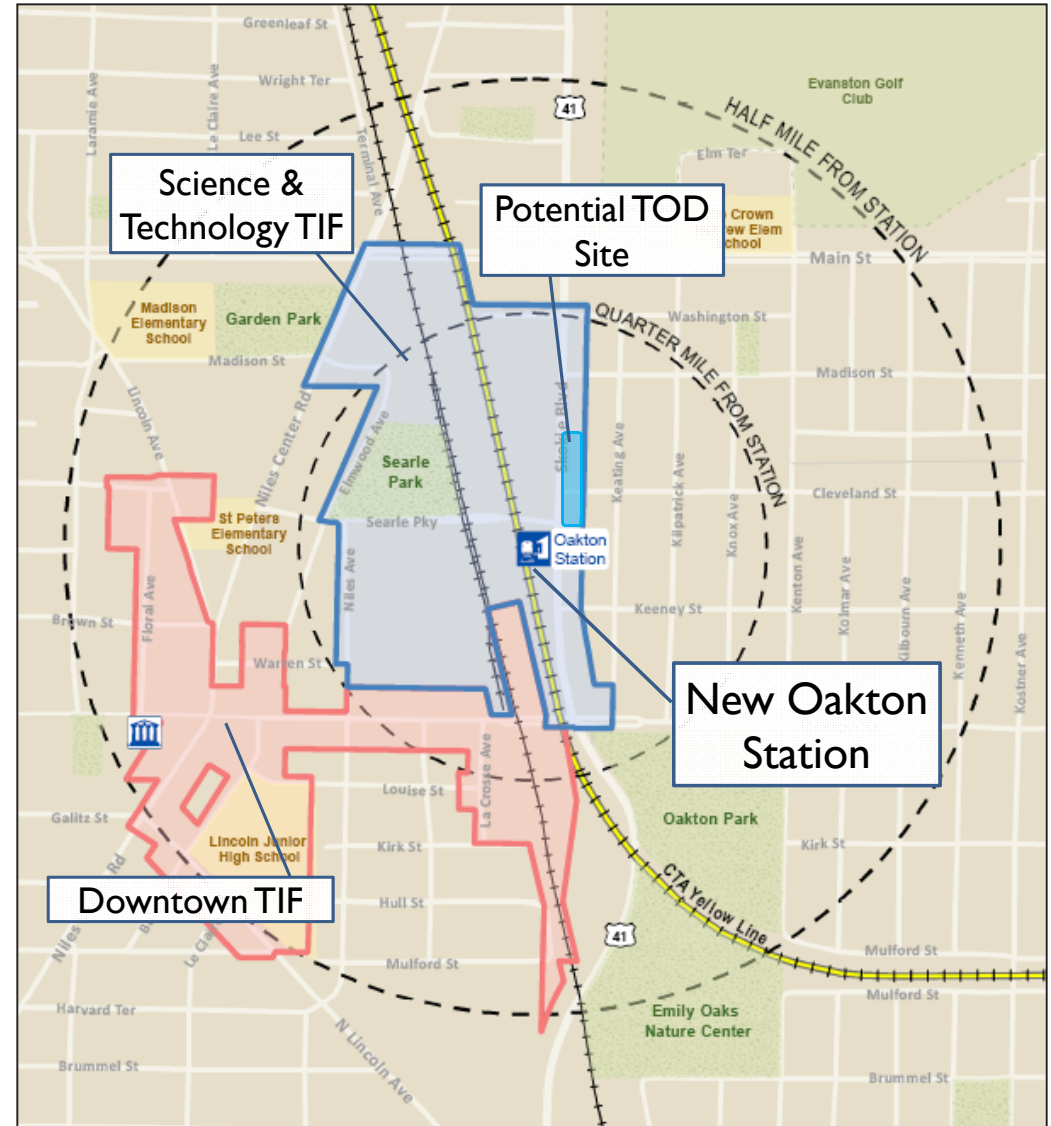
Chicago Area Transit Value Capture Analysis Background

- ▶ CMAP Funded
- ▶ Evaluation of typical value capture mechanisms
 - ▶ Applicability for transit
 - ▶ Implementable in Illinois and the Chicago region
- ▶ Quantification of:
 - ▶ Value capture revenue potential
 - ▶ Impact on development economics
- ▶ Sample station analysis: Skokie Oakton Station on the CTA Yellow Line

Skokie Station Analysis

- ▶ Under construction with timeline, local match and cost data
- ▶ Existing TIF districts and redevelopment projects

	Amount	
Total Station & Area Improvement Costs	\$23,835,000	
Skokie Local Sources Committed	\$10,510,000	44% of Total
Competitive Local Match for the Future	\$13,000,000	55% of Total



Skokie Station Analysis: Value Generation Potential

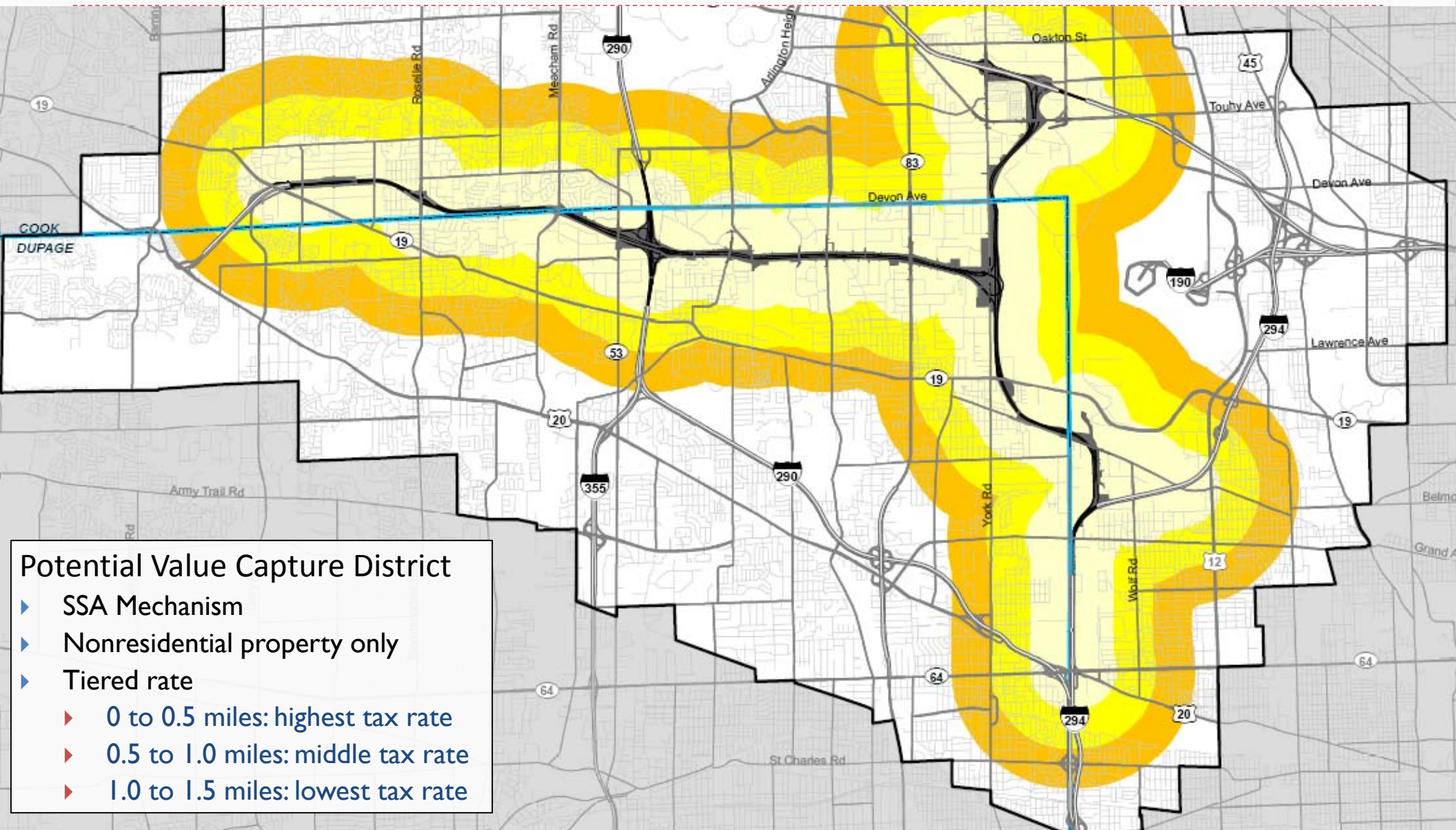
	TIF-Like District		SSA-Like District		½ Mile Impact Fee District
	¼ Mile	½ Mile	¼ Mile	½ Mile	
Maximum Bondable Amount (millions)	\$45.8	\$172.6	\$11.5 (at a constant 1.0 % tax rate)	\$34.0 (at a constant 0.75% tax rate)	Not Bondable
Local Match for Transit Improvements (millions)	\$13.0				
Existing Obligations	- Downtown TIF: All funds - Science & Tech TIF: \$10 MM in bonds		None, but SSA tax rate must account for funds diverted to underlying TIF districts		N/A
Excess Funds (millions)	\$36.0	\$162.9	\$0.0	\$23.7	\$0.0
Notes	Likely that some portion of the TIF increment will be shared with underlying taxing districts		Average tax rate to fund \$13 MM bond: 1.1%	Average tax rate to fund \$13 MM bond: 0.28%	5,600 new apartment units or 3.7 million SF of new office space needed to pay for transit improvements

Skokie Station Analysis: Impacts on Development Economics

- ▶ The addition of a transit station increases land value (assumed 5% increase in rent)
- ▶ Impact fees and SSA taxes decrease land value to varying extents (TIF would not decrease land value)
- ▶ Calibration of the tax/fee is necessary to ensure that the value increase associated with the improvement is not eliminated

	Baseline with No Transit	Transit and No New Tax or Fee	Transit and SSA Tax		Transit & Impact Fee (\$3,760 per unit)
			0.28% tax on 1/2 mile district	1.1% tax on 1/4 mile district	
Assumed Apartment Rent Increase Due to Transit	N/A	5%	5%	5%	5%
Supportable Land Acquisition Price in Millions (baseline price @\$15,000 / unit)	\$3.8	\$6.8	\$6.4	\$5.4	\$5.9
% Increase in Land Acquisition Potential (Residual Value)	N/A	81.3%	71.2%	42.7%	56.3%

Other Analyses: Elgin-O'Hare Expressway and Western Bypass



Other Analyses: Elgin-O'Hare Expressway and West Bypass Analysis

- ▶ Analyzed as one of several options for local match \$s as part of the EIS Phase II and community input processes
- ▶ Tax rates evaluated for impact on:
 - ▶ Overall tax rate
 - ▶ Location competitiveness (Cook vs DuPage base rates)
 - ▶ Ability to generate buy-in from stakeholders
- ▶ Initial analyses indicate the potential to generate 3% to 7% of costs
- ▶ Still under evaluation by the Advisory Council and impacted communities

Value Capture: Mechanism-Specific Conclusions

- ▶ **TIF-Like Transit Value Capture District**
 - ▶ Largest value generation potential
 - ▶ Increment will need to be shared with underlying districts
 - ▶ TIF eligibility requirements limit the use for new transit and new roadways
- ▶ **SSA-Like Transit Value Capture District**
 - ▶ More predictable and bondable funding source
 - ▶ Impacts development economics and feasibility
 - ▶ Requires significant property owner/taxpayer buy-in
 - ▶ May be most appropriate for new interchanges or transit stations rather than new roadways or trackage

Value Capture: Mechanism-Specific Conclusions, continued

- ▶ **Impact Fee Transit Value Capture District**
 - ▶ Limited in terms of financing capacity
 - ▶ Impacts development economics and feasibility
 - ▶ Timing and amount of new development is difficult to predict
 - ▶ Impact fee must be “specifically and uniquely attributable” to the transit demand

New Research and Initiatives

- ▶ **Fast Forward America**
 - ▶ Creation of “Qualified Transportation Improvement Bonds”
 - ▶ Modification of the TIFIA program to allow funding for up to 49% of project costs and phased in funding via a master credit agreement
 - ▶ Value Capture could provide a potential revenue source
- ▶ **BUILD Act**
 - ▶ National Infrastructure Investment Bank
 - ▶ Focus on ROI
- ▶ **Focus on improving and fully utilizing existing infrastructure**
 - ▶ Brookings: “Fix It First, Expand It Second, Reward It Third: A New Strategy for America’s Highways”
 - ▶ Transportation for America: “The Most for Our Money: Taxpayer Friendly Solutions for the Nation’s Transportation Challenges”
 - ▶ Recent “State of” studies for bridges and other infrastructure

Overall Conclusions

- ▶ Value capture funding is needed to generate local match \$s
 - ▶ Part of a package of funds for the local match component
 - ▶ Education of stakeholders is required
- ▶ TIF and SSA are the most viable transportation value capture mechanisms in Illinois
 - ▶ Not intended for large, multi-jurisdictional areas
 - ▶ Legislative amendments are required to create new, transportation-specific value capture district types
- ▶ Layering of mechanisms could generate enough funds for all components – stations/interchanges, trackage/roadways, and related infrastructure.

Development Advisors to the Public and Private Sectors



- ▶ Real Estate Economics
- ▶ Public-Private Partnerships
- ▶ Developer Solicitation
- ▶ Development Management
- ▶ Public Financing
- ▶ Area Plans & Implementation
- ▶ Fiscal & Economic Impact



221 North LaSalle Street
Suite 820
Chicago, IL 60601
(312) 424-4250
www.friedmanco.com