Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

# Board Report

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**PLANNING AND PROGRAMMING COMMITTEE**
**AUGUST 19, 2020**

**SUBJECT: VALUE CAPTURE ASSESSMENT**

**ACTION: RECEIVE AND FILE**

## RECOMMENDATION

RECEIVE AND FILE Value Capture Assessment.

## ISSUE

Staff has prepared a Value Capture Assessment, which is the initial step in a broader Value Capture Strategy, that identifies and quantifies value capture potential along Metro transit corridors and sets out next steps, including working with municipalities in an attempt to realize multi-beneficial impacts of Metro's transit investments.

## BACKGROUND

Value capture enables communities to recover and reinvest land value increases that result from public investment, such as the expansion of the County's transportation system envisioned under Measures R and M. The opportunity for value capture is high in areas near Metro's current and planned transit infrastructure as there is potential for increased density and investment (if it does not already exist), and the resulting higher land value. The additional funding from value capture can help Metro and other stakeholders make betterments to stations; accelerate and/or enhance existing and new transit infrastructure; fund the local agency contribution for Metro transit projects; and realize transit-oriented communities.

Metro staff outlined a broad Value Capture Strategy for the Metro Board in July 2019 that begins with an assessment of value capture opportunities along existing and new transit corridors. The initial assessment has identified a rough estimate of the financial opportunity using tax increment and special tax districts, and the station locations that have the greatest potential.

Metro Station Locations

Metro's service territory currently has 93 rail stations in service. Much of the land surrounding the stations has been developed as the landowners have taken advantage of a higher level of density, both with and without the involvement of municipalities or other local government. On land that was initially purchased and then managed by Metro, we have also been successful in facilitating higher density transit-oriented development.

Metro’s service territory has over 75 additional station locations planned, and these locations may have a greater opportunity for value capture as the location may have not already been developed or entitled for future, higher density development.

**DISCUSSION**

The Value Capture Assessment has estimated potential value related to 67 planned Metro rail stations. This was done by first documenting the characteristics of 8 representative locations, creating “buckets” of location types, then sorting most future stations into the buckets and applying the potential value to those locations. The projected increase in assessed value was converted to property tax increment. This methodology provides a high-level estimate of the value capture potential at each future station that will facilitate our discussions with the related municipalities and landowners.

Estimated Future Tax Increment

When applied to all future stations included in the assessment, the estimated 45-year future tax increment at 100% build-out is $56.4 billion. The following table shows the total estimated tax increment by future rail line.

**Future Tax Increment**
**Planned Metro Stations**
($ in millions)

| Rail Line | Number of Stations | Opening Date | 45-Year Tax Increment |
|---|---|---|---|
| Crenshaw/LAX Transit | 9 | FY 2022 | $4,196 |
| Regional Connector | 4 | FY 2024 | $9,730 |
| Purple Line Extension Section 1 | 3 | FY 2024 | $6,869 |
| Purple Line Extension Section 2 | 2 | FY 2026 | $10,871 |
| Purple Line Extension Section 3 | 2 | FY 2027 | $2,851 |
| East San Fernando Valley | 14 | FY 2027 | $6,632 |
| Gold Line Foothill to Claremont | 4 | FY 2028 | $1,258 |
| West Santa Ana Branch | 11 | FY 2028 | $5,967 |
| Green Line to Torrance | 2 | FY 2030 | $1,677 |
| Sepulveda Transit Phase 2 | 6 | FY 2033 | $2,991 |
| Eastside 2 | 6 | FY 2035 | $2,051 |
| Sepulveda Transit Phase 3 to LAX | 4 | FY 2022 | $1,304 |
| Total | 67 | | $56,396 |

The analysis identifies between $18 and $22 billion of potential future tax increment (in present value) that would result from increased development density and land values surrounding future stations. The estimates derived from this analysis create a rough order of magnitude picture of the scale of the opportunity from the completion of new stations and rail lines. The actual value captured and available for infrastructure will likely be less due to the timing of the creation of future taxing districts and completing bond financings. In addition, the formation of an Enhanced Infrastructure


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Finance District (EIFD) would require the cooperation and consent of the affected taxing entities including the jurisdiction(s) in which the district is located, the county, and other impacted tax districts. In addition, the amount that can be financed upfront at the time the transit investments are made will be less than the present value because of significant uncertainty over the revenue (i.e., assessed values can go up and down over time). Nevertheless, the estimates do identify potential that can help with future decisions and prioritize Metro’s efforts going forward.

<u>Special Tax Findings</u>

An alternative to tax increment financing that can also capture value from future development is the special tax from a community facilities district (CFD). These are much more prevalent than the EIFD and many currently exist in Metro’s service territory. If a CFD is used at future Metro station locations, the estimated amount of annual special tax capacity is $785 million, which if extended over 45 years has a present value of $14 to $19 billion. We estimated the special tax capacity using the assessed value surrounding future stations and assuming the properties could be taxed from the current property tax rate to the statutory maximum of 2%.

## EQUITY PLATFORM

The Value Capture Assessment is consistent with the equity platform’s third pillar: “Focus and Deliver.” If any value capture strategies are pursued, Metro would require broad stakeholder engagement to determine priorities for use of any funds generated.

## DETERMINATION OF SAFETY IMPACT

The Value Capture Assessment 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 direct financial impact related to this receive and file.

## IMPLEMENTATION OF STRATEGIC PLAN GOALS

The Value Capture Assessment could lead to additional funding sources that can be invested in transit and active transportation infrastructure as well as community-serving uses around transit. These support three 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; and Goal 5.1, leverage funding to accelerate the achievement of goals and initiatives. The Value Capture Assessment also supports realization of Goal 5 in the Board-adopted Transit Oriented Communities Policy, “Capture Value Created by Transit”.


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## NEXT STEPS

The Value Capture Assessment shows:

- There is significant value generated by Metro's transit investment that may be recaptured either through tax increment or special taxes.
- Some areas may present an opportunity to participate immediately where significant new growth is anticipated, while others present a longer-term opportunity to capture incremental values that are currently underutilized but, with the transit investment, represent long-term growth potential.
- Transit-supportive land use policies will be critical to driving value around Metro stations.
- Funds collected can direct value generated by Metro's investment back into station areas and communities.

Our next steps will be to share the results and initiate discussions with municipalities, the county, and other stakeholders to determine if there is interest in advancing value capture around station areas or along corridors, and where Metro can be informed about current or planned development opportunities, including those that may grow from Metro-funded transit-oriented development studies. Metro can facilitate future discussions by providing additional technical information including debt financing plans, and use of state and federal grant funding, other countywide and local funding sources, and subsidized financing. This process may also result in recommendations for legislation to amend existing or create new value capture tools.

If municipalities are interested in partnering with Metro to pursue value capture, Metro would require broad stakeholder engagement including affected taxing entities, community-based organizations, the county, and property owners to determine priorities for use of any funds generated. There are, and will be, compatible and competing demands for funds generated by value capture, 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 value capture.

## ATTACHMENTS

Attachment A - Value Capture Strategy Report Executive Summary

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