LINK21

CONNECT NORTHERN CALIFORNIA

VALUE CAPTURE PAPER

DRAFT FINAL

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Prepared By:
Link21 Program Management Consultants (PMC)

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BART

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ACRONYMS AND ABBREVIATIONS

ACRONYM/ABBREVIATION	DEFINITION
BART	San Francisco Bay Area Rapid Transit District
CCJPA	Capitol Corridor Joint Powers Authority
AB	California Assembly Bill
BID	Business Improvement District
CCCRA	Contra Costa County Redevelopment Agency
CFD	Community Facilities District
CRIA	Community Revitalization and Investment Authorities
EIFD	Enhanced Infrastructure Financing District
FTA	Federal Transit Administration
IFD	Infrastructure Financing District
IRFD	Infrastructure and Revitalization Financing District
KC	Kansas City
MTR	Hong Kong Mass Transit Railway
MTS	San Diego Metropolitan Transportation System
MUNI	Municipal Railway
NoMa	north of Massachusetts Avenue
NYC MTA	New York City Metropolitan Transportation Authority
OODC	Outorga Onerosa do Direito de Construir
P3	public-private partnership
RRIF	Railroad Rehabilitation and Improvement Financing
SFMTA	San Francisco Municipal Transportation Agency
TCDP	Transit Center District Plan
TCRP	Transit Cooperative Research Program
TDD	Transportation Development District
TID	Transportation Improvement District
TIDF	Transit Impact Development Fee
TIF	tax increment financing
TIFIA	Transportation Infrastructure Finance and Innovation Act
TJPA	Transbay Joint Powers Authority
TOD	transit-oriented development
USDOT	United States Department of Transportation

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1. EXECUTIVE SUMMARY

Value capture is defined as the recovery by a public agency of a portion of increased property and other value created as a result of public infrastructure investment. Value capture mechanisms include impact fees, joint development, property taxation, property tax increment, community facilities districts, negotiated exactions, parking fees, sale or leasing of air rights, assessment districts, community facilities districts, station naming rights or line sponsorships, tax increment financing, and property taxation. This paper provides an inventory of various real estate value capture mechanisms that have been previously used in California and the United States, and it lays out their potential application in the context of the Link21 Program (Link21). Subsequent work will begin to synthesize this information into a value capture strategy taking into account various factors, including the potential value generation of particular mechanisms, consistency with San Francisco Bay Area Rapid Transit (BART) policies, and the need for legislative approval.

Value capture mechanisms generally require agreement among different stakeholders/ public bodies, and, depending on the mechanism, integration and/or coordination with land use, private development, and other real-estate-related decisions. Value capture mechanisms and strategies work best when defined and implemented early on in the project planning process in order to match the timing of the revenues with project needs.

By definition, value capture depends on growth in real asset value and requires careful planning and critical and realistic assessment of the timing of potential revenue generation and associated risks. Consequently, entities that use value capture for their projects generally conduct in-depth real estate, economic, revenue generation, and other studies for this purpose.

Not all value capture mechanisms offer the same potential. Several of the mechanisms discussed, such as impact fees and joint development, are difficult to finance due to the variance in the annual revenues. Additionally, mechanisms such as business improvement districts typically generate smaller ongoing revenues than other mechanisms, such as tax increment or Mello-Roos special taxes. Ad valorem property taxes are the easiest to use to raise financing, followed by parcel taxes, tax increment, and Mello-Roos special taxes, which are all proven revenue streams from the perspective of rating agencies and investors in the California municipal bond market.

As noted in the discussion, utilization of some mechanisms would require revisions to or even reversal of existing BART policies. Consideration of such changes would follow more detailed review of the potential of those mechanisms and other factors that BART would need to consider as part of the deliberative process.

Since value capture revenue for many mechanisms is generated over time, debt financing secured by value capture revenue streams is often used to accelerate the availability of proceeds for use on project capital costs. Financing can be secured by

such revenue streams once the revenue is sufficient in size to support a bond, loan, or other type of financing.

Case studies provide useful lessons learned on how to most efficiently utilize value capture. A successful value capture strategy requires the integration of certain critical components. These include:

- **Collaboration:** A successful value capture strategy requires a multidisciplinary, integrated approach that joins planning, real estate, and finance to understand the timing, size, and probability of effectiveness of specific value capture mechanisms. Success will also require collaboration and agreement among the impacted communities and other key stakeholders.
- **Advance Planning and Credibility:** Value capture mechanisms typically take tremendous upfront planning on the integration of transportation within each community; land use and associated private development; real estate development, absorption, and value growth rates; economic activity, employment, population, and other trends; and timing and magnitude of value creation attributable to the transit project, all with equity as an overarching principle. Early and sound planning is necessary to set the stage for successful value capture strategies. Peer-reviewed studies and projections for those value capture mechanisms and critical analyses that highlight the potential ease/difficulty of monetizing each value capture mechanism are a necessary starting point for defining a value capture strategy.
- **Multiple Value Capture Mechanisms:** Different mechanisms may be appropriate for different areas/subareas. For example, one station may be able to generate value from the sale of air rights for commercial property development while another community may have surrounding available land that can be used for creation of a transit rich neighborhood, including affordable and workforce housing. Further, for a megaproject such as the new transbay rail crossing (Crossing Project), as much value capture funding as possible will be required. Most large, transformative transit projects that rely on value capture employ several different value capture mechanisms.

2. INTRODUCTION

2.1. Background and Objectives

Link21 is a complex and long-term effort that will require a creative approach to funding and financing, utilizing a number of tools to fund development, construction, and operations. Value capture refers to the recovery of a portion of the real estate value created as a result of public infrastructure investment and is a powerful tool to fund transit projects, which has been applied in the San Francisco Bay Area, throughout the United States, and internationally but requires careful upfront planning to reach a successful outcome.

When selecting a value capture mechanism suitable for Link21, it is imperative that equity be taken into consideration. Not only will it be critical that Link21 incorporate tools to analyze and mitigate potential displacement in the early stages of a project, but it will also be critical to analyze how different value capture mechanisms will affect priority populations and communities of concern over time. Ultimately, the value capture mechanism should work to advance equity.

Value capture mechanisms generally require agreement among different stakeholders/ public bodies, and depending on the mechanism, often require integration and/or coordination with land use, private development, and other real-estate-related decisions. Value capture mechanisms and strategies work best when defined and implemented early on in the project planning process:

> *Where possible, value capture mechanisms should be structured early in the project development process, prior to the transit agency's commitment to or design of station locations. Early accommodation of value capture strategies provides developers with maximum potential control and design of sites, thereby allowing transit agencies to realize the maximum possible value capture. Transit agencies can jump-start the value creation process not only by participating in early conceptual planning, approving TOD[1]-supportive station-area plans, engaging with the local government, and partnering with the developer, but also by funding predevelopment such as site and infrastructure planning and entitlements.*[2]

This paper presents an overview of the most frequently used value capture concepts, and it provides lessons learned from the application of these mechanisms, including on recent projects in the Bay Area. This paper also looks at ways to expand real estate value capture techniques beyond the station level to a more holistic corridor approach

[1] Transit-oriented development
[2] Transit Cooperative Research Program (TCRP) Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.

or neighborhood approach, including other forms of transit near stations, active transportation, and overall mobility around the Link21 corridor.

This paper is intended to be the first in a series that will help shape the development of a value capture strategy for Link21.

2.2. What is Value Capture?

2.2.1. Definition

Value capture, as defined by the Transportation Research Board[3] is the, "public recovery of a portion of increased property and other value created as a result of public infrastructure investment." Value capture mechanisms include impact fees, joint development, property taxation, property tax increment, community facilities districts, negotiated exactions, parking fees, sale or leasing of air rights, assessment districts, community facilities districts, station naming rights or line sponsorships, tax increment financing, and property taxation. This paper focuses primarily on value capture strategies that have been used in different forms and on different projects in California and the United States.

2.2.2. Requirements

Successful implementation of value capture techniques depends on the specific conditions within a project area, including real estate markets, zoning and land use regulations, local economic conditions, interests and will of the public sector bodies involved, and many more factors.[4] For the Denver Union Station Project, feasibility and site-specific studies were conducted to determine growth trends, including demographic, economic, and real estate markets. Additionally, regional impacts and local submarkets were evaluated, including demand projections, current supply, and pipeline of new projects and absorption rates[5] to determine project feasibility.

For the Transbay Program in downtown San Francisco, the City and County of San Francisco led the Transbay Redevelopment Plan, a redevelopment plan for the 40 acres surrounding the new terminal (Salesforce Transit Center), long in advance of construction of the new terminal. The plan included land assembly and use, integration of transit facilities with surrounding land uses including housing/affordable housing, open spaces, and pedestrian connections. This plan was an early step in setting the stage for the future implementation of value capture strategies, which also required additional economic, real estate, and tax increment studies.

[3] TCRP Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.
[4] Ibid.
[5] Ibid.

Value capture does not require the transit agency to own the land. Development can be facilitated merely by taking care of related infrastructure around a site, such as transit and related connecting infrastructure. For example, the Transbay Redevelopment Plan covered both streetscapes on City and County of San Francisco property and BART station improvements. An expedited entitlement/pre-development process can also help meet value capture objectives.

Value capture strategies and their success will also vary depending on specific station characteristics, transit line characteristics, and urban or suburban nature of the region.

Projects under Link21 will traverse many different geographic areas and subareas, each with its own characteristics, within the Northern California Megaregion (Megaregion).[6] Consequently, land use, housing, transportation, equity, economic characteristics and growth, and related issues must be considered for each of these areas/subareas and the Megaregion when developing a holistic value capture strategy for Link21.

[6] The Northern California Megaregion is defined as the area covering the regions of the Bay Area, Sacramento Area, northern San Joaquin Valley, and Monterey Bay Area that is comprised of 21 counties.

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3. VALUE CAPTURE MECHANISMS

This paper includes descriptions of value capture mechanisms as well as examples of their use, applicability to Link21, and an analysis of pros and cons. Link21 will most likely require a combination of many of these value capture mechanisms to effectively and appropriately capture value for a project in terms of magnitude and efficiency of project funding, and to balance it with achieving broader objectives, such as equity and other established project goals.

3.1. Impact Fees

Impact fees are payments collected from newly developed real estate around public infrastructure projects and may be used toward further investments in the area or toward recouping costs of previous capital investments.[7] An Impact Fee is broadly defined as a payment, other than a tax or special assessment, imposed by a local government on a developer or developers in a particular area in connection with the approval for their proposed development. BART and Capitol Corridor Joint Powers Authority (CCJPA) could partner with relevant local jurisdictions to impose impact fees to defray capital costs associated with Link21, including stations. The objective of the Impact Fee is to pay for all or a portion of the costs of the impact of the development to the local government agency providing public services/additional service capacity (e.g., transportation infrastructure, sewer capacity, roads, parks, schools, affordable housing). In California, these charges on the development to defray local government costs are often referred to as California Assembly Bill (AB) 1600 requirements. The fee is voluntary and must be reasonably related to the impact and cost associated with it borne by the local agency; otherwise, it may be deemed a tax and require two-thirds voter approval. The way local governments structure their fees can affect the cost to developers, and it can incentivize different types of development (e.g., housing/ affordable housing).

Several examples of the application of impact fees in the Megaregion include those in fast growing cities such as Fremont and Roseville. Planning and implementation of Link21 will likely bring value growth to counties/cities through which it passes. Local agencies within those areas could implement impact fees on new development to help fund the cost of the project. “While fees offer a flexible way to finance necessary infrastructure, overly burdensome fee programs can limit growth by impeding or disincentivizing new residential development, facilitate exclusion, and increase housing costs across the state.”[8] As Link21’s footprint will traverse many local jurisdictions, interjurisdictional coordination should be considered with respect to impact fees to accomplish programmatic goals and objectives for the entire corridor area, rather than

[7] https://www.apta.com/wp-content/uploads/Resources/resources/reportsandpublications/Documents/APTA-Value-Capture-Options-2017.pdf
[8] http://ternercenter.berkeley.edu/uploads/Residential_Impact_Fees_in_California_August_2019.pdf

individual stations or subprojects. Incentivizing private development in a manner that accomplishes value growth and increased economic activity alongside appropriately promoting equity will require careful consideration and close coordination at the megaregional level.

Impact fees can be imposed by a jurisdiction for a project from another agency, as the project impact fees would not be "cannibalizing" the jurisdiction's existing fees, fines, and taxes. Political issues can however arise if the link to a project is abstract or tenuous. One way to structure impact fees for Link21 and avoid having each municipality approve would be to structure the impact fee similarly to BART's GO tax measures, which would only require a supermajority in the aggregate to approve placing the proposed impact fee in an election.

Impact fees have been collected for several decades. In 1981, the San Francisco Board of Supervisors authorized a fee to recover the operating subsidy and capital expansion costs of the San Francisco Municipal Transportation Agency's (SFMTA) Municipal Railway (MUNI). Because of the growth in development in downtown San Francisco, the Board of Supervisors enacted a Transit Impact Development Fee (TIDF) on new downtown office developments with proceeds to be used to expand MUNI's service capacity. This TIDF has changed over the years to respond to new issues, and most recently, in 2015, the TIDF was updated with the Transportation Sustainability Fee to increase fees and expand the fee applicability to include market-rate residential projects. The new mechanism is expected to increase revenues by $14 million per year, to an average of $38 million annually, which will fund new transit vehicles and infrastructure maintenance.[9] For fiscal year 2021 and fiscal year 2022, MUNI expects that the TIDF and Transportation Sustainability Fee will generate $26.1 million and $45.1 million respectively.[10]

The wide variance of projected revenues and their small scale relative to MUNI's $1.2 billion annual budget demonstrate a constraint of these development fees. They are one-time fees dependent upon the timing of development; therefore, they are a supplement to more predictable revenue streams but not a substitute. Impact fees in California are primarily governed by AB 1600, the California Mitigation Fee Act passed in 1987. Per AB 1600, impact fees can be imposed by the local jurisdiction (e.g., joint powers authority, city, county) without a popular vote. However, a nexus study is required, which restricts the amount of impact fees charged to the estimated benefits of infrastructure improvements or services. The impact fee passed by the local jurisdiction will be governed by an ordinance which will dictate the initial per square foot impact fee and any escalation. Regardless of regulatory requirements, if the impact fees are set too high they will have a negative impact on development as developers will avoid the high-fee area. In the context of a multi-jurisdictional program like Link21,

[9] https://www.apta.com/wp-content/uploads/Resources/resources/reportsandpublications/Documents/APTA-Value-Capture-Options-2017.pdf
[10] SFMTA, Fiscal Year 2021 – 2022 Budget & Fiscal Update, June 30, 2020

intergovernmental coordination will be required when setting impact fees to avoid disparities across the region that could be counterproductive.

Combined, all these characteristics (scale, variability, and sensitivity) make impact fees difficult to use to secure financing, so they are often used as a supplemental funding source for capital or operations.

3.2. Joint Development

Joint development is a broad term that typically refers to the partnership between a public agency, private developer, and other entities such as a local government. These can be partnerships where, for example, projects are developed on land owned by the transit agency or local government that is close to a transit facility.[11] Joint development projects can include mixed-use complexes, housing, or workforce developments around transit stations and can be used to address housing equity and other issues. Through the joint development process, the public agency can have some control over the type of development, requirements for the development, timing of the development, and other issues. Globally, revenues from joint development have enabled the Hong Kong transit system to operate without subsidy (see the case study in Section 5.6). Japanese railway operators have integrated real estate into their business models through the extensive use of joint development at their stations.

To date, BART's TOD policy has facilitated the development of over 3 million square feet of commercial space and over 6,000 housing units (including 1,800 affordable housing units), which have generated incremental ground lease revenues for BART along with incremental property tax revenues for operations and incremental farebox revenues.[12] After AB 2923 was signed into law in 2018, BART's 250+ acres of property near its stations gained expedited zoning entitlements, which should facilitate further joint development, although the bill itself generated significant local opposition from communities and businesses. For Link21, joint development could be considered for TOD around certain stations. Analyses of stations and agency-owned land around the stations would be required to determine which would be most appropriate for joint development in terms of revenue generation; opportunity for residential use, including affordable housing, open space, appropriate integration with the transit system; and other issues.

BART has the ability to enter into joint development processes with developers, as any landowner in California does. AB 2923 streamlines local zoning approvals as long as the proposed development meets certain requirements, including affordability and residential units as a percentage of the entire development. AB 2923 is scheduled to sunset by January 1, 2029. If it is not extended, it will be helpful to Link21 to secure

[11] TCRP Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.
[12] BART, BART's Transit Oriented Development Program Workplan Draft: August 2020

similar legislation, which would broaden the scope to include all properties within a station area not just those owned by BART. BART's current TOD Policy is a six-step process that encompasses the various commitments made by BART to meet its equity goals of providing jobs and affordable housing to communities at risk of displacement by the joint development. The downside of this policy is that it takes a significant amount of time to select developers that meet BART's required TOD criteria and work with the local jurisdictions. BART's current TOD work plan expects to generate an incremental $1.9 million in annual ground lease revenue on 3,400 housing units and 1.8 million square feet of commercial space. It is a useful source of supplemental revenue, but joint development alone is unlikely to create enough value to cover significant capital costs.

3.3. Negotiated Exactions

Negotiated exactions are direct payments from private developers to a local jurisdiction to offset development investment costs and for the right to proceed with a project. Negotiated exactions, as compared with impact fees, may be negotiated on a case-by-case basis with a private developer. In negotiated exactions, BART could partner with a local jurisdiction and get benefits from a private developer. These exactions can include development fees, infrastructure improvements, community benefits, or equipment or facility contributions, and they must meet two legal requirements: "1) a relationship, or nexus, between the exaction requested and the needs to government service provision created by the development, and 2) appropriate proportionality between the exaction and the impact imposed by the development."[13]

In 2010, the largest landowner in the Potomac Yard development in Alexandria, Virginia, approached the city with the idea of redeveloping the land into a 7.5 million-square-foot transit-oriented center that would include residential, retail, and office space. The city negotiated funding from the developer for $10/square foot in developer contributions for all development that would take place within 0.25 miles of the proposed Metrorail station, and, in return, the city approved a rezoning plan to allow for the new 7.5 million-square-foot mixed-use development project. The total cost of the project was estimated to be $320 million in 2018 when a contractor was selected.[14] This exaction translates to $49 million in developer contributions (in 2010 dollars).[15]

Negotiated exactions are legal in California, and local jurisdictions frequently use existing entitlements and zoning to capture value from potential developers. With AB 2923 and similar statewide legislation, it is increasingly difficult to use entitlement to obtain negotiated exactions from developers. An additional complexity for BART/CCJPA is their need to collaborate with the local jurisdictions (i.e., city and county) in the area where development is sought. Negotiated exactions may provide useful benefits in

[13] TCRP Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.
[14] https://www.wmata.com/about/news/Selection-of-Contractor-for-Potomac-Yard-Metro.cfm
[15] https://www.fhwa.dot.gov/ipd/project_profiles/va_potomac_metrorail_station.aspx

connection with TOD around Link21 stations and the corridor. However, it is unlikely that negotiated exactions will provide a stable, sizable revenue stream to raise financing for capital costs. Negotiated exactions may be used as a reinforcing tool to make sure equity is provided for existing residents in the Link21 corridor and for low-income area residents and BART/CCJPA riders.

3.4. Parking Fees

Parking fees can be established within a district or region-wide to fund transit investment.[16] BART is a major landowner in the Bay Area and generates significant revenue from the 47,000 total parking spots owned system-wide. In fiscal year 2020, parking was projected to generate approximately $36.5 million out of a total BART operating revenue of $545 million.[17] Parking fees can certainly supplement operating revenues to cover operating costs, but the greatest difficulty in maximizing this value capture mechanism is that BART seeks to maximize ridership by offering below-market parking rates. In BART's Station Access Policy, it seeks to balance making parking available at all times of the day for riders with parking management and favoring other modes of access. Parking is viewed as a secondary investment at stations and is not expected to be a major source of revenue. Moreover, parking is a divisive issue on BART's Board, which would need to be resolved to create a new parking policy and implementation plan for Link21-related parking fees. For Link21, the most likely use of parking revenue around new stations or elsewhere is to fund operating costs.

3.5. Air Rights

Air rights (also called transferable development rights) can be a valuable asset to transit agencies looking to transfer development rights directly above a transit facility, whether new or existing. The rights are sold or leased under a competitive process to a private entity that wants to develop in the air space above the facility.[18] The sale or leasing of air rights is most applicable in dense urban areas where there is high demand for additional space and developers are more likely to bid for air rights. For Link21, BART/CCJPA could consider the sale of air rights over stations along with tunnel portals. This has been used or considered in California for freeways in Southern California as well as the Transbay Joint Powers Authority's (TJPA) Downtown Rail Extension.

A recent example of the selling of air rights is the Hudson Yards redevelopment in New York City. Hudson Yards is a redevelopment of the space above the Long Island Rail Road's West Side Storage Yard. In one of the development spaces, Tishman Speyer purchased $157 million in air rights from the New York City Metropolitan Transportation

[16] https://www.apta.com/wp-content/uploads/Resources/resources/reportsandpublications/Documents/APTA-Value-Capture-Options-2017.pdf
[17] https://www.bart.gov/sites/default/files/docs/FY20%20Adopted%20Budget%20Manual_0.pdf
[18] http://p3policy.gmu.edu/wp-content/uploads/2016/03/Air-Rights-draft2_09102014.pdf

Authority (NYC MTA) and Hudson Yards Infrastructure Corporation to enable up to 669,000 square feet of development that they plan on using for the 65-story The Spiral office tower. The NYC MTA securitized the air rights and ground lease payments in a $1 billion transaction in 2016.

Air rights are legal in California, but impediments to using air rights include height restrictions in local zoning codes, technologies used, and program types. As parts of BART/CCJPA's service area grow denser, using air rights over existing stations or new Link21 stations is a potential revenue stream for capital costs given its one-time nature. If air rights were to be sold over BART/CCJPA assets, it is imperative that BART/CCJPA are consistent with their overall TOD policy and equity goals as well as any access requirements and structural limitations. As the buildout of the Transbay Redevelopment Area demonstrates (i.e., multiple land purchases sold in excess of $100 million), limited vertical options in San Francisco may present significant air rights value to BART depending upon the siting of the Link21 corridor.

3.6. Assessment Districts

3.6.1. Special Assessment Districts

Special assessment districts are annual assessments on property tax rolls charged to property owners whose properties are the primary beneficiaries of an infrastructure improvement project within a designated district. They apply to projects with a "specific benefit" only. Assessment districts are formed by sponsoring agencies such as cities, counties, joint powers authorities, and other special districts to fund public infrastructure projects that provide direct benefit to the property owners within the district. Many properties in California are part of an assessment district. The procedure for forming a district begins with a petition signed by owners of the property who want the public improvement. The proposed district requires approval from the majority of property owners to be implemented. The special assessment cannot be based on property value, it must be determined by direct benefit to the property. For Link21, the assessment district would need to obtain the necessary votes and the assessment would have to be in direct proportion to the benefit the properties receive. The applicability of assessment districts would have to be determined on a station-by-station, area-by-area, case-by-case basis since Link21 will traverse many communities each with its own characteristics and requirements.

For the Red Line of Los Angeles Metro, in 1992, "voters passed bond measures that created two benefit assessment districts around future Red Line stations. The districts included 1,500 properties, with a total area of over 67 million ft^2. By 2005, the districts

were generating $20 million per year in revenue and paid for 9% of the Red Line construction."[19]

3.6.2. Business Improvement Districts

A Business Improvement District (BID) gives local businesses the ability to join and assess themselves to pay for agreed upon improvements in the district. It is typically initiated by business owners petitioning a city to establish a BID on their behalf. The city proposes the BID and provides for public notice and a public hearing. Generally, the BID can be established if protests are not received from business owners that represent 50% or more of the total assessment to be collected. The city, county, or joint powers authority then establishes the BID and levies annual assessments, which are either by property or an annual business license assessment depending on the type of BID. Funds are used to pay for agreed projects in the BID's boundaries. The BID can be operated by a non-profit or a quasi-government entity, and the board usually consists of property owners, businesses, and government officials.

Several BIDs have been implemented in California to date, including in Mountain View, Sunnyvale, Palo Alto, Santa Clara, Oakland, San Diego, Long Beach, and others. BIDs can be used for projects including acquisition, installation, and maintenance of parking facilities; closing, opening, or widening of streets; parks; ramps; and rehabilitation and removal of existing structures, among other things. Many BIDs are geared toward marketing and promotion, special events, business attraction, security, beautification, and cleanliness. BIDs are less likely to be used for capital costs and capital financing for Link21, but BIDs may supplement station operating costs similar to the East Cut Community Benefits District, which is a BID that contributes to the operations of the rooftop park and surrounding areas at the Salesforce Transit Center.

An example of a transit-related BID can be found in Washington, D.C., which formed the NoMa (north of Massachusetts Avenue) BID. The NoMa BID encompasses 35 blocks and was set up to generate economic improvements for the district by levying property taxes on commercial, multi-unit residential, and hotel properties to support development of the NoMa neighborhood and the NoMa-Gallaudet U Metrorail Station. "The project exceeded its initial estimates of 5,000 new jobs and $1 billion in area investments… assessed valuation of the 350-block area increased to four times its initial amount from 2001 to 2007."[20]

[19] TCRP Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.
[20] https://www.fhwa.dot.gov/ipd/project_profiles/dc_noma.aspx

3.6.3. Community Facilities Districts (Mello-Roos)

Mello-Roos community facilities districts are a type of special tax district formed when property owners within a geographic area agree to impose a tax on property in order to fund infrastructure improvements or services.[21] This mechanism of value capture became available in California through the Mello-Roos Community Facilities Act of 1982. A Community Facilities District (CFD) is a special tax district created by cities, counties, and special districts in California to raise money for major improvements through the apportionment of special taxes at a chosen rate and applied to various selected classes of property. The creation of the district can be petitioned with as little as 10% of the property owners but requires two-thirds vote for approval (vote is by electorate of 12 or more registered voters, otherwise by landowners weighted by acreage). The taxes are levied against the annual property tax bill. The boundaries of the district can be drawn around specific parcels, can change over time through annexation, and can include non-contiguous areas. It is often considered a "designer" tax, with flexibility to set a tax rate at a "reasonable" level (but cannot be ad valorem) and to accommodate future development changes.

This mechanism can provide a good tool for financing major infrastructure projects, like those under Link21, because of the flexibility to design the boundaries and tax to meet specific needs. It can be established on a local or cross-jurisdictional basis. Mello-Roos CFDs have been employed for many projects in California to date, including the Salesforce Transit Center and Mission Rock projects in San Francisco, Bay Meadows in San Mateo, and others.

For the Transbay Program, the formation of a CFD was approved in 2014 in San Francisco within the Transit Center District Plan (TCDP) boundary, which had been adopted in 2012 after a multi-year public planning process. It provides funding for Phase 1 (Salesforce Transit Center) and Phase 2 (Downtown Rail Extension) and for other new public infrastructure that would be necessary to support growth and development of the neighborhood surrounding the Salesforce Transit Center. Approximately 82.6% of the CFD tax proceeds were to be devoted to financing the Transbay Program.[22] Of the approximately $480 million of CFD bonds issued to date, approximately $357 million has been allocated to the Salesforce Transit Center, a $2.2 billion project.

Mello-Roos CFD special taxes are very useful to generate upfront proceeds for capital costs and are flexible enough to be used for transit operations. Mello-Roos CFDs should be evaluated further for Link21 given their robust flexibility and the sizable amounts of proceeds that can be generated using Mello-Roos CFDs.

[21] http://iff.scag.ca.gov/Pages/FundingTool.aspx?Toolid=24
[22] https://www.onesanfrancisco.org/sites/default/files/2019-04/Agenda%20Item%205%20-%20Transbay%20CFD%20Memo.pdf

3.7. Station Naming Rights and Transit Line Sponsorships

Station naming rights and transit line sponsorships refer to the "upfront or ongoing payment from a private entity to an agency in return for naming a station or other assets for the private firm…[N]aming rights may also be appropriate for stations or even…light rail lines."[23] This may be an appropriate tool for Link21 for certain stations or the corridor, depending upon siting. Naming rights have been used in several cases in California, including the Salesforce Transit Center and San Diego Metropolitan Transit System (MTS) for the Sycuan Green Line. Additionally, many California transit agencies are seriously exploring pursuing naming rights such as Santa Clara Valley Transportation Authority and Sacramento Light Rail.

A prominent example of naming rights is the Salesforce Transit Center — in which a San Francisco-based tech company, Salesforce, agreed to a 25-year $110 million sponsorship of the then Transbay Transit Center (now the Salesforce Transit Center). Funding from Salesforce's sponsorship will cover maintenance and operating costs associated with the Salesforce Transit Center while prominently displaying the Salesforce name throughout the facility.[24]

For naming rights, BART/CCJPA should consider reviewing and updating their policies such as BART's Guiding Policy for Station Renaming, which discourages the use of corporate names. The policy revision would also serve to incorporate equity and other Link21 policy objectives. Subsequently, BART/CCJPA could host an industry forum or issue a Request for Information (RFI) to ascertain the interest in development and value capture initiatives such as naming rights. The amount raised from naming rights at individual stations is likely to not be significant enough to raise financing; therefore, BART/CCJPA should consider using this revenue stream as supplemental funding for operations.

3.8. Tax Increment Financing

Tax increment financing (TIF) is when Infrastructure Financing Districts (IFD) are established by local or state governments to raise funds from property taxes within the established district. Types of TIF allowed in California include Community Revitalization and Investment Authorities (CRIA), Enhanced Infrastructure Financing Districts (EIFD), IFD, and Infrastructure and Revitalization Financing Districts (IRFD). Each has its own nuanced requirements, and recent legislation expanded the powers and modified certain approval requirements for these IFDs (California Senate Bill [SB] 628: EIFD and

[23] TCRP Research Report 190 - National Academies of Sciences, Engineering, and Medicine. 2016. Guide to Value Capture Financing for Public Transportation Projects. Washington, D.C.: The National Academies Press.

[24] https://www.sfchronicle.com/bayarea/article/Salesforce-buys-naming-rights-to-Transbay-Transit-11274011.php#:~:text=Salesforce%2C%20a%20software%20company%20with,at%20Fremont%20and%20Mission%20streets

AB 229: IRFD). For example, a CRIA is not voted on, it is subject to a Revitalization Investment Plan, including properties that are not necessarily blighted, but the areas around it need to exhibit lower annual median incomes than 80% of the statewide annual median income. EIFDs in contrast are subject to an Infrastructure Financing Plan, are not subject to voter approval, do not require findings of blight in order to include certain parcels, and can exist for 45 years after the first bond issuance is approved. IRFDs require a supermajority voter approval, an Infrastructure Financing Plan, and can only exist for 40 years.

More specifically, the participating taxing entities share an agreed upon portion of their property taxes on incremental assessed value increases of properties. As a result, the revenue depends on and lags assessed value growth, so near-term revenue from the IFD is generally limited. The revenue can be used to secure financing as the amount becomes sufficient and mature enough. TIF could potentially be a good source of financing for Link21. However, because of limited near-term revenue, it may be most appropriate for use in later phases and likely in combination with other value capture mechanisms that produce revenues earlier.

The city of West Sacramento's EIFD covers almost a quarter of West Sacramento's land area (over 4,144 acres total), and it is projected to generate revenues of $1.1 billion in funding for revitalization and for development of public facilities and urban infill areas.[25] Due to the sheer size of the 21-county Megaregion, Link21 could generate significant TIF revenues to be securitized and used for capital costs.

3.9. Property Taxation

3.9.1. Assessed Valuation (Ad Valorem)

These are taxes levied on real property as a percentage of the assessed valuation of that property collected by counties allocated to the county, cities, special districts, and school districts.[26] In California, property taxes are regulated by Proposition XIII in the California Constitution, which limits assessed valuation growth to the lesser of California Consumer Price Index or 2%. The net effect of the change is that the majority of property taxes in California are paid for by the most recent property owners. For those who did not purchase their property recently, the market value for property is generally significantly higher than the assessed value.

Property taxation is allowed in California. However, BART/CCJPA will need to bring a bond measure and ordinance to the voters in the Link21 service area, and it will require a two-thirds majority to pass, which is a high barrier. BART/CCJPA could advocate for legislation to reduce the supermajority vote to 55%, as well as consider if it is more

[25] https://ternercenter.berkeley.edu/wp-content/uploads/2020/10/Enhanced_Infrastructure_Financing_Districts_West_Sacramento.pdf

[26] https://s3.amazonaws.com/cdn.orrick.com/files/Insights/California-Debt-and-Investment-Advisory-Commission-CDIAC-California-Debt-Finance-Guide.pdf

appropriate to tailor property taxation with the areas near the Link21 corridor or the BART/CCJPA stakeholder counties (if the former, legislation may be required). As BART's Measure AA and Measure RR demonstrate, it would be very valuable to obtain several billions through a property taxation measure for Link21.

In 2016, voters in the three BART counties (Alameda, Contra Costa, and San Francisco) approved Measure RR to issue $3.5 billion in general obligation bonds to pay for improvements for existing BART infrastructure and to be repaid by district property owners. To repay the $3.5 billion in general obligation bonds, property owners will pay a certain amount of money depending on factors, including assessed value of their property, amount of bonds outstanding in a particular year, and interest rates on the bonds. For this measure, BART estimates the yearly tax rate could range from 80 cents per $100,000 of assessed value to $17.49 per $100,000 of assessed value.[27] It is an unlimited tax measure. Consequently, if interest rates increase or assessed values decline, the increased tax rate will be borne by taxpayers and BART will still obtain the stated amount of proceeds that it originally requested from voters. As previously indicated, there is an equity consideration when determining which taxpayers are included.

3.9.2. Parcel Taxes

This is a tax on parcels of real property collected as part of a property tax bill not based on property value, but it is a flat tax that does not vary in respect to size of parcel.[28]

In 2016, voters in Alameda-Contra Costa Transit District (AC Transit), a Bay Area bus operator, considered a parcel tax to pay for operations. Alameda County District 1 approved the renewal of a parcel tax of $96 per parcel within District 1 for 20 years to generate approximately $30 million annually that will be used to preserve public transportation services.[29] Parcel taxes are easy for voters to understand; however, they are inequitable since large industrial property owners and affluent homeowners will pay the same as lower income homeowners. Additionally, it will be difficult to generate enough funds in a parcel tax for capital costs for Link21.

3.10. Other Value Capture Mechanisms

In addition to the value capture mechanisms previously discussed, which are all authorized in California, there are a host of international value capture mechanisms that could be considered for Link21. These international value capture mechanisms may require legislation in order to be used by BART/CCJPA. For example, density bonusing

[27] https://www.bart.gov/sites/default/files/docs/BART%20%243%205%20Billion%20GO%20Bond%20Measure%20Tax%20Analysis%20%284%25%20AV%20Growth%20Assumption%29%20Summary%20FINAL%20WEBSITE%20POSTING%208%2019%2016.pdf

[28] https://www.ppic.org/content/pubs/report/R_415JSR.pdf

[29] https://ballotpedia.org/Alameda-Contra_Costa_Transit_District_1,_California,_Parcel_Tax_Extension,_Measure_C1_(November_2016)

in Toronto has allowed the city to negotiate public amenities in exchange for added density to meet specific planning objectives. Sao Paulo, Brazil regulates charges for additional building rights using the Sale of Building Rights (Outorga Onerosa do Direito de Construir or OODC in Portuguese), which enable the regional and municipal governments to grant additional development rights to a parcel of land in exchange for urban improvements of social value to the community. Brazilian developers compensate the municipality in exchange for additional building rights.[30] These OODC charges may be used for urban improvements throughout the city rather than only near the new developments as in Toronto. Certificados de Potencial Adicional de Construção or Potential Additional Construction Certificates (also used in Brazil) is a market-based land value capture mechanism that monetizes land-use entitlements through upzoning, generating significant revenues for infrastructure improvements.[31] In Colombia, there is a Law of Territorial Development, whereby city and property owners can negotiate payment in cash, in-kind, or a combination of payment plus the formation of an urban development partnership.[32]

Although there are many iterations of value capture mechanisms available for BART/CCJPA to consider for Link21 (**Table 3-1**), it is important to realize that it is critical to use mechanisms that align with a project's construction schedule and operational activities and that are consistent with other project objectives regardless of which value capture strategy and mechanisms are used. Further, the most appropriate strategy for a megaproject such as the Crossing Project is that it is likely to employ multiple value capture mechanisms, possibly using different ones for different areas depending on the project and location characteristics in those areas.

Table 3-1. Summary of Value Capture Mechanism Attributes

MECHANISM	AVAILABILITY FOR CALIFORNIA PROJECTS	SCALE OF REVENUE GENERATION (LOW, MEDIUM, HIGH)	TIMING OF REVENUE GENERATION
Impact Fees	**Yes**	Low	Uncertain
Joint Development	**Yes**	Low	Uncertain
Negotiated Exactions	**Yes**	Low	Uncertain
Parking Fees	**Yes**	Low	Short-term/ Long-term
Air Rights	**Yes**	Med	Short-term
Special Assessment District	**Yes**	High	Short-term

[30] https://tspace.library.utoronto.ca/bitstream/1807/81190/1/imfgpaper_no33_land_value_capture_abigail_friendly_july_12_2017.pdf
[31] https://www.lincolninst.edu/sites/default/files/pubfiles/kim_wp18jk1_0.pdf
[32] https://www.lincolninst.edu/publications/articles/new-colombian-law-implements-value-capture

MECHANISM	AVAILABILITY FOR CALIFORNIA PROJECTS	SCALE OF REVENUE GENERATION (LOW, MEDIUM, HIGH)	TIMING OF REVENUE GENERATION
BID	**Yes**	Low	Long-term
Mello-Roos CFD	**Yes**	High	Short-term
Naming Rights	**Yes**	Low	Long-term
TIF	**Yes**	High	Long-term
Property Taxation: Assessed Valuation	**Yes**	High	Long-term
Property Taxation: Parcel Taxes	**Yes**	Med/High	Long-term

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4. HOW TO USE VALUE CAPTURE MECHANISMS TO FINANCE A PROJECT

By definition, value capture depends on growth in real asset value and, in turn, utilizing that growth on a project or for other purposes. Reliance on capturing value to provide project funding/financing requires careful planning and critical and realistic assessment of the timing of potential revenue generation and associated risks. Consequently, entities that rely on value capture for their projects generally conduct in-depth real estate, economic, revenue generation, and other studies for this purpose.

Several of the mechanisms discussed, such as impact fees and joint development, are difficult to finance due to the variance in the annual revenues. Additionally, mechanisms such as BIDs typically generate smaller, ongoing revenues than other mechanisms, such as tax increment or Mello-Roos special taxes, which makes them more cost prohibitive to finance. Ad valorem property taxes are the easiest to use to raise financing given that many highly rated issuers, such as school districts and BART, already use them in the current market. They are followed by parcel taxes, tax increment, and Mello-Roos special taxes, which are all proven revenue streams from the perspective of rating agencies and investors in the California municipal bond market.

Timing of value capture revenue depends on the specific mechanism used and whether it is being applied to existing private property/assets or new development. For example, if existing property owners recognize the value a specific project may bring to their property, they may agree to Mello-Roos special taxes or some form of assessment on their property, which could, in theory, generate revenue immediately. Other examples of potential immediate value capture revenue would be if a private developer, seeing the value of a project and its naming rights, were to agree to purchase naming rights in advance of project implementation.

More typically, however, value capture depends on value growth at least in part from new private development and consequently on value that grows over time as that private development progresses. In the case of tax increment specifically, regardless of whether the tax relates to new development or existing properties, revenue generation always depends on and lags property value growth, by definition, since the increment refers to incremental value growth over a base year or value. As a result, near-term revenue is generally limited.

Since value capture revenue for many mechanisms is generated over time, debt financing secured by value capture revenue streams is often used to accelerate the availability of proceeds for use on project capital costs. Financing can be secured by such revenue streams once the revenue is sufficient in size to support a bond, loan, or other type of financing (e.g., it is not cost efficient to issue multiple bonds for small amounts of less than $5 million, but a bond issuance of $50 million or more may make sense) and mature enough that lenders/investors can reasonably rely on the revenue as

forecast. Vehicles used for such financing range from municipal bonds, federal Transportation Infrastructure Finance and Innovation Act (TIFIA), and Railroad Rehabilitation and Improvement Financing (RRIF) loans, other types of loans, and/or private placements. Municipal bonds, TIFIA and RRIF loans, and other examples are described in more detail in the following sections.

4.1. Municipal Bonds

Municipal bonds, whether taxable or tax exempt, are frequently used to accelerate and use value capture revenue streams. Examples range from BART's Measure AA and Measure RR general obligation bonds programs backed by ad valorem property taxes approved by voters to more specialized financings such as IFD and CFD financings that are used frequently in the traditional municipal bond market. For many value capture mechanisms, there is significant precedent and examples that assist the rating agencies along with potential investors to understand and appreciate the value capture mechanisms.

In 2020, the Salesforce Transit Center obtained completion financing for its $2.2 billion Phase 1 through a $271.2 million bond issuance secured by a tax increment and $81.8 million of CFD bonds secured by Mello-Roos special taxes. As mentioned above, if the particular value capture mechanism in question does not generate significant and relatively stable revenue over time, it may not be financeable with municipal bonds. This is often the case for upfront impact fees and BIDs, which tend to generate smaller amounts and are often used for services.

4.2. TIFIA and RRIF

The TIFIA and RRIF credit programs are managed by the United States Department of Transportation's (USDOT) Build America Bureau. TIFIA provides credit assistance for qualified projects of regional and national significance, including highway, transit, railroad, intermodal freight, and port access. Eligible applicants include state and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities. TIFIA receives annual appropriations and loans are capped at 33% of eligible project costs. RRIF provide direct loans and loan guarantees up to a total of $35 billion over the life of a program to finance the development of railroad infrastructure. Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, limited option freight shippers that intend to construct a new rail connection, and joint ventures that include at least one eligible entity. RRIF loans can cover 100% of eligible project costs, but they require borrowers to pay a credit risk premium.

Several important transit projects have utilized TIFIA and RRIF credit assistance programs to monetize innovative value capture funding streams. Denver Union Station, a multimodal station in downtown Denver, is one of these. The redevelopment of Denver Union Station in large part was due to innovative TIFIA and RRIF loans backed

in part by a tax increment from the growth in the surrounding area. TIFIA and RRIF provide a lower cost of capital (i.e., one basis point over the prevailing 30-year Treasury rate) and cost-effective flexibility (e.g., loan draws over time during construction; extended grace period for repayment of principal and interest), which makes these programs particularly attractive for certain projects. Due to these benefits, the financing achieved with TIFIA and RRIF for Denver Union Station would have been extremely difficult to achieve in the traditional municipal bond market.

For the Salesforce Transit Center, TIFIA was able to commit financing secured by tax increment in 2010 prior to the private development being completed, much earlier than would have been achievable in the municipal bond market. In many cases, TIFIA and/or RRIF may be the best choice for value capture financing, especially given that RRIF has in excess of $15 billion of loans that it is authorized to make, and the entire eligible project costs can be financed with RRIF.

4.3. Other Innovative Finance Mechanisms

Other more innovative structures, including using a public-private partnership (P3) to obtain value for money for transit agencies, have also been attempted. However, it is worthwhile to note that for P3 transit projects, the P3 partner is typically a contractor, developer, financial investor, or some combination that is experienced with transportation projects in particular. Value capture tends to be focused on real estate, so it typically involves a different type of investor, one that has its expertise in real estate. Consequently, wrapping value capture opportunities into the scope of a transit P3 can prove difficult. TOD, joint development, and/or other forms of P3-type development focused on value capture may require a different set of private partners/developers. A P3 structure can also combine alternative delivery methods, such as design-build-operate-maintain, with financing to create advantages for the agency. This option will be explored further in subsequent work.

A P3 structure should be analyzed and evaluated early on in the process, and strategies should be designed with this in mind. It will be critical for the successful use of innovative value capture mechanisms for there to be significant outreach to P3 developers (transit and real estate), USDOT credit assistance programs, and traditional municipal bond investors. If a truly unique value capture mechanism is created for Link21, it will need to be socialized with the rating agencies, USDOT, and institutional investors in order to successfully achieve the lowest cost of capital.

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5. LESSONS LEARNED FROM SELECTED PROJECTS

The case studies that follow show how innovative value capture mechanisms have been implemented and financed. For Link21, it is critical to take heed of the successes and failures of each case study.

5.1. Salesforce Transit Center (CFD, Tax Increment)

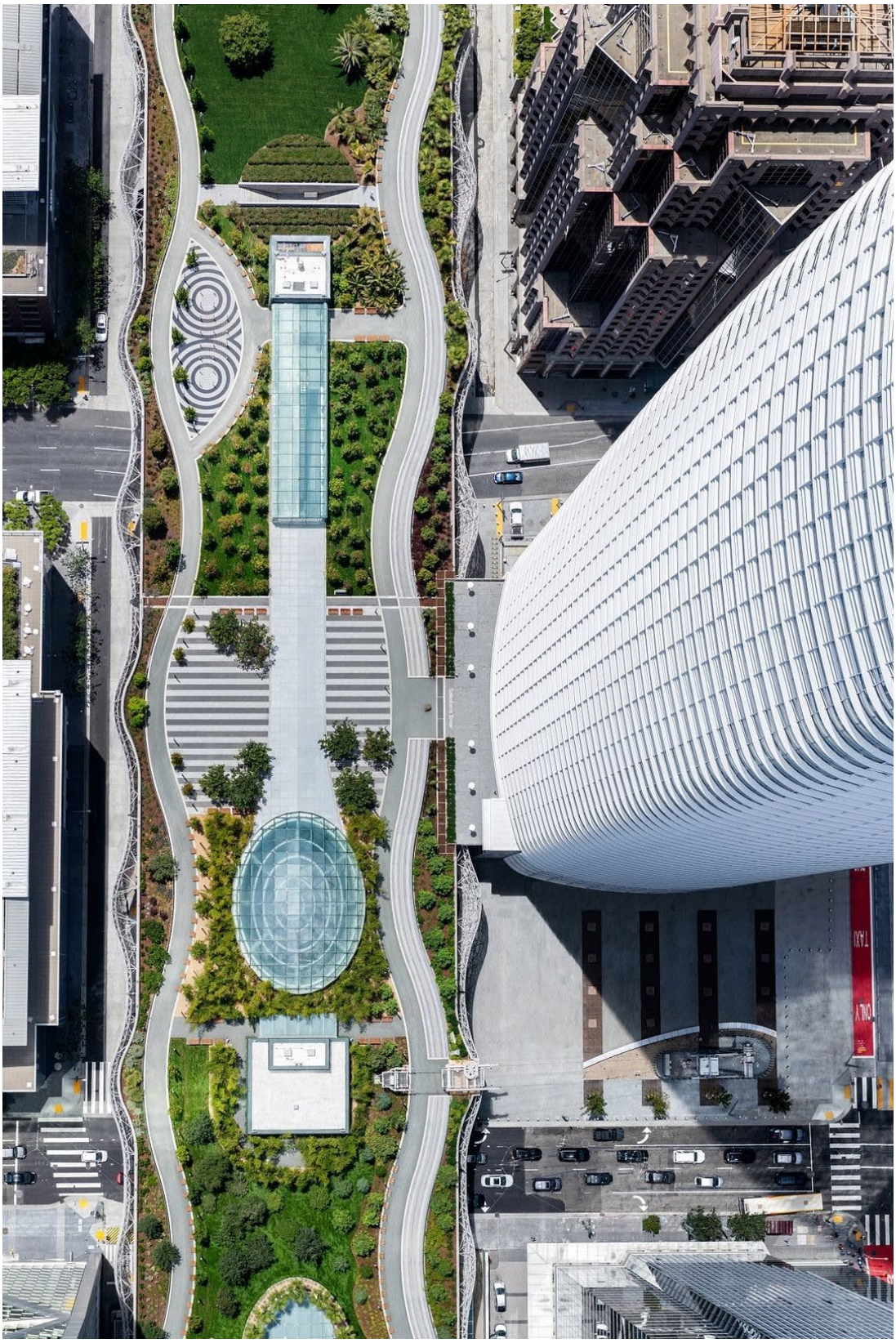
5.1.1. Background

The TJPA is a joint exercise of powers authority created in 2001 to execute the Transbay Program:

1. Replace the former Transbay Terminal with a new terminal, the Salesforce Transit Center ($2.3 billion, now open).
2. Build a 1.3-mile-long tunnel and extend Caltrain tracks from the current terminus at 4th and King streets to the new terminal and accommodate future high-speed rail (estimated in 2016 at $4 billion).
3. Creating a new neighborhood anchored by the Salesforce Transit Center (**Figure 5-1**).

The Salesforce Transit Center, a six-story, state-of-the-art regional transportation hub, connects eight Bay Area counties through 11 bus and rail transit systems, and it has transformed this downtown San Francisco area into a dynamic, transit-rich, mixed-use neighborhood.

Figure 5-1. Salesforce Park, Part of the Transbay Program



Source: Salesforce Transit Center

5.1.2. Value Capture Mechanism

The state of California transferred certain blighted and underutilized parcels of land (formerly state-owned parcels) to the City and County of San Francisco and TJPA and committed the land sales proceeds and net tax increment from those parcels to the Transbay Program. Based on this, and a newly created Mello-Roos CFD surrounding the Salesforce Transit Center, TJPA was able to generate value capture funding/financing equal to about half of the cost of the Phase 1 project (**Figure 5-2**). This relied on three primary value capture mechanisms:

1. Proceeds from the sale of the formerly state-owned parcels to private developers to be used for project costs.
2. Use of net tax increment attributable to those properties, once sold to and developed by private developers, to secure long-term financing for the project.
3. Use of special taxes within a Mello-Roos CFD surrounding the Salesforce Transit Center to secure financing for the project.

Of the formerly state-owned parcels, seven large development blocks are expected to generate material amounts of net tax increment pledged to TJPA. Five of these have been completed or are near completion, one has been sold but not yet developed, and one is yet to be sold.

Figure 5-2. Salesforce Transit Center Phase 1 Funding Sources

Sources of Funds	$	%
Land Sales	$672.6	29.8%
Tax Increment Financing (TIFIA)	$171.0	7.6%
CFD/Mello-Roos	$357.5	15.8%
CBD Impact Fees	$12.0	0.5%
Other Sources	$1,046.3	46.3%
Total	**$2,259.4**	**100.0%**

Source: TJPA Phase 1 TIFIA Financial Plan as of June 30, 2019

Of all new housing units built, 35% must be affordable. These private developments comprise marquee properties, Salesforce Tower (leased by Salesforce), Park Tower (leased by Facebook), and luxury residential for sale and for rent properties among other uses. In June 2020, TJPA issued $271 million in tax allocation bonds, secured by net tax increment, for the Transbay Program that refinanced a $171 million TIFIA loan (committed in 2010), also secured by net tax increment and generated additional proceeds for the project.

With respect to the CFD, in 2012 the City adopted a TCDP that eliminated certain density caps and increased height limits in a defined area surrounding the Salesforce Transit Center. This set the stage for a CFD, which was formed in 2014. If a developer uses these zoning bonuses, it triggers an obligation for the property to participate in the CFD. The property is subject to the special tax once it meets certain conditions,

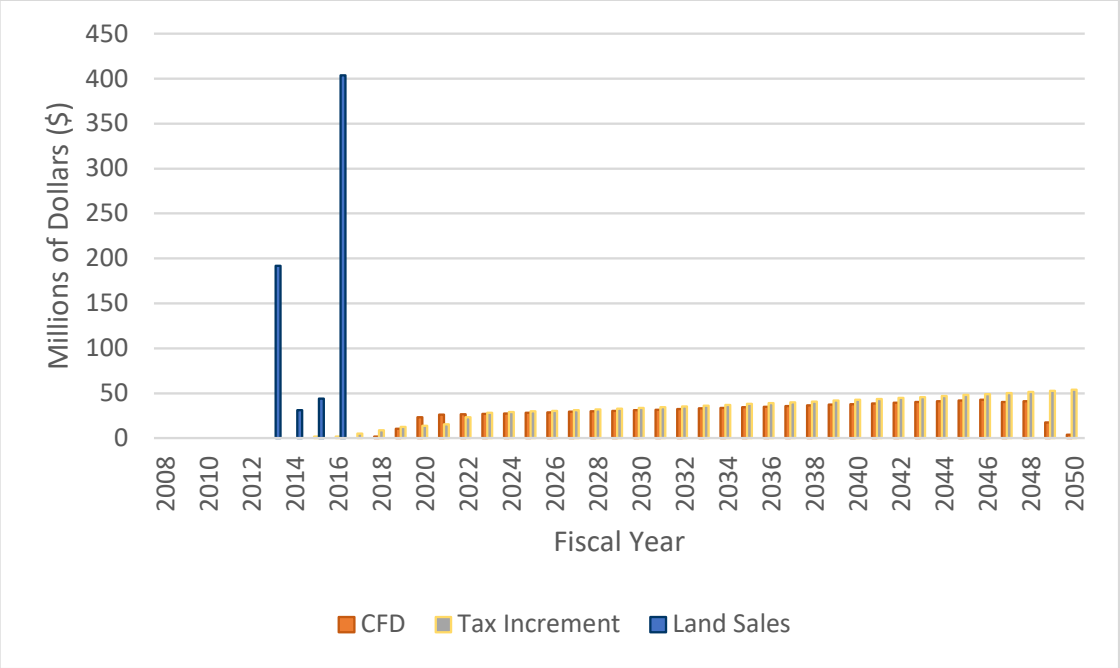
including receiving a certificate of occupancy. To date, the City has raised approximately $480 million in bonds back by CFD special taxes with a large portion of the proceeds dedicated to TJPA for the Transbay Program.

5.1.3. Lessons Learned

In the case of TJPA, the state agreed to transfer the formerly state-owned parcels to San Francisco and TJPA through a cooperative agreement in 2003. TJPA was first able to generate proceeds from financing secured by net tax increment revenue in late 2016 (the first draw under a TIFIA loan), and since has generated over $750 million of additional value capture financings over the past five years (some used to repay the original TIFIA loan).

Figure 5-3 illustrates the different timing of value capture revenue streams. It shows that while proceeds from the sale of the formerly state-owned parcels accrued to the project immediately, revenues from the CFD and tax increment lagged. However, these revenues grow steadily over time making them suitable to repay project debt.

Figure 5-3. Salesforce Transit Center Phase 1 Funding Sources by Fiscal Year



Sources: TJPA TIFIA Annual Financial Plan as of June 30, 2019, City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) 2017 and 2020 Official Statements

Without this early-stage coordination between planning and financing throughout the state, TJPA, and regional stakeholders including the City and County of San Francisco, the project would not have been achievable. Moreover, TJPA utilized multiple value capture mechanisms from tax increment and a Mello-Roos CFD for financing capital costs to BID and naming rights for operations. Cooperation among project stakeholders was critical to the success of the value capture strategies that were implemented.

5.2. Pleasant Hill TOD (Joint Development)

5.2.1. Background

The Pleasant Hill/Contra Costa Centre Station was the first suburban BART station to see significant development activity, which continued in the 1990s with its multimodal access to buses, Interstate 680 (I-680), and a popular hiking trail. As a mixed-use development stalled, BART and its partners redoubled their efforts to progress development with a long-term lease. The difficulty was the large surface-level parking lots adjacent to the station. BART, the developer, and the other stakeholders collaboratively identified a solution to build a multi-level replacement parking structure and add mixed-use buildings around the facility. That initial successful development has spurred two additional phases of development.

5.2.2. Value Capture Mechanism

To spur development near its Pleasant Hill/Contra Costa Centre Station, BART entered into a joint powers authority with Contra Costa County and the Contra Costa County Redevelopment Agency (CCCRA). This enabled BART to coordinate better with Contra Costa County and aggregate BART's parking lots with CCCRA's adjacent parcels of land. BART also signed a 100-year ground lease with the proposed developers.

5.2.3. Lessons Learned

BART learned the need to engage in planning at the earliest possible opportunity. BART built the Pleasant Hill/Contra Costa Centre Station in 1972 and included planning on the station area in the *Pleasant Hill Specific Plan* in 1983. This trickled down to the work that BART and its partners were able to facilitate in 2005, as well as later.

5.3. Kansas City Streetcar Transportation Development District

5.3.1. Background

The Kansas City (KC) Main Street Rail Transportation Development District (KC Main Street Rail TDD) was approved by voters in August 2017. In 2018, voters in this TDD approved the local funding for the KC Streetcar Main Street Extension project through the levying of sales and property taxes within its district. The KC Main Street Rail TDD represents both the existing service area in downtown KC as well as the area surrounding the proposed extension.

The project, which the KC Main Street Rail TDD will fund, will add 3.5 miles of streetcar track and nine new stations between the existing Union Station and the proposed University of Missouri-KC Station. The project includes the purchase of six vehicles, right-of-way acquisition, and vehicle maintenance facility expansions. The project

received a Federal Transit Administration (FTA) New Starts grant in August 2020 and will begin construction in late 2021 or early 2022. The KC Streetcar Main Street Extension is scheduled to open in 2025. The total cost of the project is estimated to be $351.7 million with local KC Main Street Rail TDD sources amounting to approximately half of the capital costs (**Figure 5-4**).

Figure 5-4. KC Streetcar Funding Sources

Sources of Funds	$	%
FTA New Starts	$174.1	49.5%
Main Street Rail TDD	$177.6	50.5%
Total	**$351.7**	**100.0%**

Source: KC Streetcar Main Street Extension New Starts Financial Plan August 23, 2019 https://kcstreetcar.org/wp-content/uploads/2019/09/5-KCMainExt-NewStarts-Financial-Plan-23Aug2019.pdf

5.3.2. Value Capture Mechanism

The KC Main Street Rail TDD primarily uses a funding structure similar to the current downtown KC TDD structure. It levies a sales tax, not to exceed 1%, on all retail sales within the TDD boundary. Additionally, a special assessment has been created on real estate within the TDD boundary, with maximum annual rates as follows.

- 48 cents for each $100 of assessed value for commercial property
- 70 cents for each $100 of assessed value for residential property
- 40 cents for each $100 of assessed value for real property exempt from property tax, such as religious, educational, charitable, etc. property, but only on market value more than $300,000 and less than $50 million[33]

Furthermore, there is a supplemental special assessment on surface pay parking lots within the KC Main Street Rail TDD boundary. The maximum rate for the supplemental special assessment on surface pay parking lots will be $54.75 per space per year, which will mostly apply to parcels in downtown.

[33] https://kcstreetcar.org/transportation-development-district/

Figure 5-5. KC Streetcar Vehicle

Source: www.visitkc.com/visitors/getting-around/kansas-city-streetcar

With these funding sources secured, the TDD intends to issue two special obligation bonds (Series 2020 and Series 2021) not to exceed $185 million. Revenue from the KC Main Street Rail TDD will be used to secure bonds and pay debt service on financing for the local match of the design and construction costs of the project, as well as operations and maintenance costs for both the combined starter line and extension streetcar projects.

5.3.3. Lessons Learned

The special assessment district created for the Main Street Rail TDD enabled the project to proceed without relying on major funding from the state and existing local revenue sources. Through capturing increases in property value by setting a tax within the district, this TDD created a future source of revenue to advance the project while adhering to its original goal of fareless transit. The TDD is expected to fund over half the project allowing the project to completely avoid the bureaucratic and political entropy that typically follows usual requests for existing funds from constrained state and local sources. In fact, it is predicted that between 2020 and 2030, the taxes levied along with an annual contribution from Kansas City and advertising revenue will generate approximately $290 million in operating revenue over the 10-year period.

One major downside is that the special assessment district is considered “planned” revenue by the FTA in its evaluation of the New Starts grant application, as there is no revenue stream that can be drawn upon upfront. The “planned” category is for funds that are identified and have a reasonable chance of being committed but are neither committed nor budgeted. Estimates are that the property assessments and taxes levied will generate $28.12 million annually by 2025. This resulted in the project being given a “low” rating by FTA for its rating on “Commitment of Capital and Operating Funds” because, by its very nature, this strategy is only effective at capturing incremental property value after a project has been completed. As a result, it is through the upfront bond financing secured by the TDD special taxes that value capture becomes an effective strategy for funding project capital costs. However, value capture may not be

an effective near-term operational funding strategy as it can be detrimental to obtaining FTA grant funds.

5.4. Dulles Metrorail Special Assessment District

5.4.1. Background

The Dulles Corridor Metrorail project (**Figure 5-6**) is an extension of the Washington, D.C. region's Metrorail system with a new line, the Silver Line. It consists of two phases totaling 23 miles of new track. The first phase opened in 2014 and the second phase is scheduled to open in 2021.

This project increased the size of the Washington Metropolitan Area Transit Authority (WMATA) system by over 20% in total track mileage. A unique feature of this project is that value capture sources are being used to fund approximately 20% of the $5.7 billion project cost. On December 4, 2008, the FTA approved $900 million in federal funding, which was only 15.8% of the project's funding. This caused the project stakeholders to search for alternative state and local sources of funding. As a result, the project funding was an innovative combination of tolls, commercial tax districts, and state and federal grants.

5.4.2. Value Capture Mechanism

Fairfax County, Virginia, through which most of the Silver Line passes, agreed to provide the largest share of local funding towards both phases of the project. It does this specifically through a value capture strategy known as a Transportation Improvement District (TID), which utilizes property taxes through assessment districts to capitalize on increased land value that results from the project. The county created a unique TID for each phase of the Silver Line and each TID based its taxation on the specific improvements being built in the county during that phase. Taxes levied for the Phase 1 TID were set at a maximum of 40 cents per $100 of assessed fair market value of all real estate within the TID.

Figure 5-6. Rendition of the Dulles Metrorail Corridor Project

Source: www.clarkconstruction.com/our-work/projects/dulles-metrorail-silver-line-phase-2

This strategy raised all $400 million that Fairfax County was expected to contribute to Phase 1 of the project (the TID began collecting in 2004). For Phase 2 of the project, Fairfax County is expected to contribute $515 million. Of this, $330 million is expected to come from the Phase 2 TID while the remaining $185 million will be from a TIFIA loan that was secured by and will be repaid by the county's commercial and real estate tax. Combined, the funding from Fairfax County for both phases is expected to total $915 million or 16.1% of all project funding.[34]

5.4.3. Lessons Learned

The Fairfax County TIDs demonstrate how value capture can be an effective local match solution for transit projects. Despite decades of planning and changing amounts of federal and state funding, the project was able to move ahead because of growing property values within the district, committed participants in both the public and private sector, decades of strong planning and outreach that justified early investment in the project, effective management of tax burden among participants, and the phasing of both the project and the TIDs which allowed for greater flexibility for both developers and participants.

5.5. MTS Sycuan Green Line (Naming Rights)

5.5.1. Background

The MTS is the public transit provider that serves most of San Diego County. Formerly known as "The Green Line," the 24-mile-long light-rail line that stretches from the eastern side of San Diego County to the heart of downtown San Diego is now called "The Sycuan Green Line" (**Figure 5-7**). In 2010, MTS retained a private firm to seek out

[34] https://www.fhwa.dot.gov/ipd/pdfs/value_capture/webster_rail_b.pdf

and negotiate with potential naming rights partners. After negotiations with the Sycuan Casino in October 2017, an agreement was reached to grant naming rights in conjunction with shuttle operations to the casino. This formally renamed the line to “The Sycuan Green Line” for the next 30 years.

5.5.2. Value Capture Mechanism

The naming rights agreement will generate $25.5 million in non-fare revenue for the MTS over the next 30 years. It specifically stipulates that the Sycuan Casino will receive the rights to rename the Green Line and three MTS stations and have bus and shuttle services operating regularly between the casino and those three MTS stations. MTS will realize a minimum payment of $600,000 per year, increasing by 3% annually beginning in year six of the agreement. The gross value will be $6.28 million over 10 years, $14.5 million over 20 years, and $25.5 million over 30 years. This contribution decreases the $66 million operating expenses for rail operations in fiscal year 2019. This marks the second naming rights agreement made by MTS. A similar agreement in 2015 renamed the agency’s Blue Line to the “UC San Diego Blue Line” as part of an agreement made with University of California San Diego Health.

Figure 5-7. MTS Sycuan Green Line

Source: https://www.sdmts.com/inside-mts/news-release/sycuan-casino-inks-naming-rights-agreement-mts-sycuan-green-line

5.5.3. Lessons Learned

By selling the naming rights to existing assets, MTS was able to generate $25.5 million from existing assets used for daily operations. Like other value capture strategies, one major drawback of this type of plan is that the funding comes in over an extended period of time unless the entity uses financing to accelerate the funding (i.e., borrows against the future revenue stream), which an entity may consider if it intends to use naming rights to pay for project costs. Transit providers who are interested in generating greater annual revenue from operations without expanding their revenue fleet or building new revenue track should consider this as a strategy to accomplish those goals.

5.6. Hong Kong Mass Transit Railway

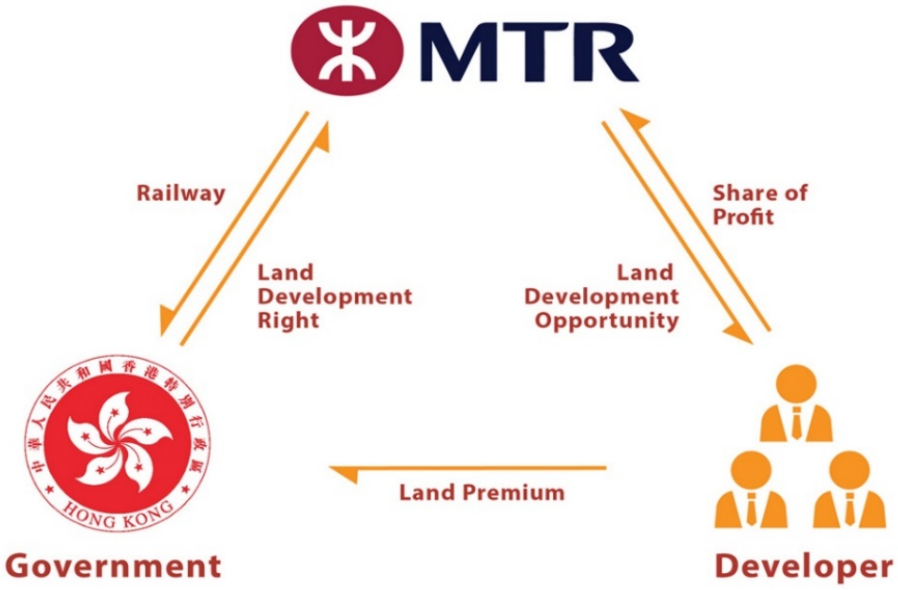
5.6.1. Background

The Hong Kong Mass Transit Railway (MTR) serves a population of more than 7 million people through the 1,104 square kilometers that make up the City of Hong Kong. In 2018, an average of 4.92 million passengers traveled on the MTR every single day. Despite being one of the largest transit entities in the world, MTR operates entirely without government subsidies and is, in fact, highly profitable. The MTR made approximately $11 billion in the 15-year period between 1998 and 2013 from its real estate operations.

5.6.2. Value Capture Mechanism

The MTR has an innovative "Rail plus Property Model" (**Figure 5-8**) that derives its revenue from profit sharing with private developers in real estate sales, as well as from renting and managing properties that it wholly owns (particularly commercial real estate and office spaces). This plan is implemented by the MTR identifying property development opportunities along any rail line that it has built or intends to build.

Figure 5-8. MTR Value Capture Process



Source: *https://www.mtr.com.hk/en/corporate/sustainability/2014rpt/finan-business.php*

Once the MTR has obtained necessary approval for the development of the land, it purchases the rights to develop property above and adjacent to existing rail lines and depots. This agreement lasts 50 years and involves the MTR paying the government a "land premium" for the property before it is developed or rail lines are built. Once this part of the process is complete, the land in question is allocated to private developers who pay the development costs, including the land premium, to acquire exclusive land development rights from the MTR.

The private developers bear the risks and costs associated with construction and commercialization of the property. Once the property is developed, the MTR receives an agreed upon percentage of the profit generated by the sale of developed property by the developer or receives unsold units from the developer instead and sells and leases them itself. Similarly, the MTR may generate a profit from commercial developments by leasing space directly with the developer or by keeping part of the assets developed to generate rental income.

A prime example of how this has worked well for the MTR is the jointly developed iconic International Financial Center towers on the Hong Kong Metro Station. The development included both towers of the International Financial Center, a commercial retail mall above the station, and a nearby Four Seasons Hotel.

5.6.3. Lessons Learned

This business model has generated an enormous profit for the MTR since its inception. It does have drawbacks, namely that the process can slow down land development programs as land premiums become increasingly expensive. This disincentivizes private developer participation to a certain degree. Additionally, the MTR is entirely dependent upon the government continuing to grant development rights, which it failed to do in the period between 2000 and 2010. While there is great potential for revenue by utilizing this strategy, it can create the potential risk of overdependence on real estate revenue and a distraction from the MTR's core competency of transit services to the City of Hong Kong. The Hong Kong MTR example leads to consider whether BART/CCJPA could potentially acquire some parcels for future development in advance of the environmental process for Link21. Additionally, the Hong Kong MTR example should lead transformative transit projects such as the Crossing Project to analyze any current means to maximize real estate value.

5.7. Summary of Lessons Learned

Table 5-1. Lessons Learned from Case Studies

PROJECT	LESSONS LEARNED
Salesforce Transit Center	Early-stage coordination between planning and financing was critical so timing of value capture revenues could be aligned to cash flow needs.
	Use of multiple value capture mechanisms was required.
Pleasant Hill TOD	Need to engage in planning at the earliest possible opportunity.
KC Streetcar TDD	Special assessment district enabled the project to proceed without relying on major funding from state and existing local revenue sources while adhering to the original goal of fareless transit.
	One major downside is that the special assessment district is considered "planned" revenue by the FTA in its evaluation of the New Starts grant application, as there is no revenue stream that can be drawn upon upfront. This can be detrimental to obtaining FTA funding.
Dulles Metrorail Special Assessment District	Value capture can be an effective local match solution for transit projects; despite changing amounts of federal and state funding, the project was able to move ahead because of growing property values within the district.
	Phasing of both the project and the TIDs allowed for greater flexibility for both developers and participants.
MTS Sycuan Green Line	By selling naming rights, MTS was able to generate $25.5 million from existing assets used for daily operations. However, naming rights accrue over an extended period of time, so the transit agency has to use financing to accelerate the timing of revenues if it wants to use them for a capital project.
Hong Kong MTR	Joint development business model has generated an enormous profit for the MTR since its inception.
	However, the process can slow down land development programs as land premiums become increasingly expensive, which can disincentivize private developer participation to a certain degree.
	The MTR is entirely dependent upon the government continuing to grant development rights, which it failed to do in the period between 2000 and 2010. Overdependence on real estate revenue can also become a distraction from the MTR's core competency of transit services to the City of Hong Kong.

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6. CONCLUSIONS AND NEXT STEPS

6.1. Criteria for a Successful Value Capture Strategy

The case studies and experience of others in implementing value capture mechanisms for transformative transportation projects give guidance on what is required for a successful strategy. A successful value capture strategy for Link21 will require the integration of certain critical components.

These include:

Collaboration

Properly exploring and executing a value capture strategy requires a multidisciplinary, integrated approach that joins planning, real estate, grants development, and finance to understand the timing, size, and probability of effectiveness of specific value capture mechanisms. Success will also require collaboration and agreement among the impacted communities and other key stakeholders. Garnering collaborative community/stakeholder support and commitment will be critical in developing the most effective value capture strategy for Link21. This will be particularly important for value capture mechanisms that may be best implemented on a cross-jurisdictional basis.

Advance Planning and Credibility

Value capture mechanisms typically take tremendous upfront planning on integration of transportation within each community; land use and associated private development; real estate development, absorption, and value growth rates; economic activity, employment, population, and other trends; and timing and magnitude of value creation attributable to the transit project, all with equity as an overarching principle. Early and sound planning is necessary to set the stage for successful value capture strategies.

Further, early planning and implementation is also required because, as described, with most value capture mechanisms sizable revenue generation takes time and acceleration of the availability of the revenue stream may require financing. For example, once the route and stations were identified on BART's Irvington and Warm Springs extensions, it was too late to acquire the land around the stations and effectively keep the value within the BART system. A Link21 funding and financing plan that relies on value capture will require, as a prerequisite, peer-reviewed studies and projections for those value capture mechanisms and critical analyses that highlight the potential ease/difficulty of monetizing each value capture mechanism as a starting point for defining strategy.

Link21 will be transformative for many communities within the San Francisco Bay Area. Consequently, the planning and analysis will be required on both a broad megaregion level and at a community-specific/local level. The results of these studies will drive the determination of which value capture mechanisms will be most effective in each

area/subarea and whether to implement certain mechanisms on a cross-jurisdictional basis. As examples, counties may collaborate and each agree to share some established portion of property tax increment for project funding, or a cross-jurisdictional CFD could be established with appropriate boundaries around those properties/areas that are likely to benefit most from Link21.

Multiple Value Capture Mechanisms

As discussed above, different mechanisms may be appropriate for different areas/ subareas. For example, one station may be able to generate value from the sale of air rights for commercial property development while another community may have surrounding available land that can be used for creation of a transit-rich neighborhood, including affordable and workforce housing. A successful value capture strategy for Link21 will require multiple mechanisms and reliance on the most effective mechanisms for each location.

Further, for a megaproject such as the Crossing Project, as much value capture funding as possible will be required. Most large, transformative transit projects that rely on value capture employ several different value capture mechanisms, as demonstrated by some of the case studies such as Hong Kong MTR, Salesforce Transit Center, and Pleasant Hill TOD.

6.2. Next Steps for Link21

As noted in the introduction, this paper presented an inventory of existing value capture mechanisms as an initial step towards the development of a value capture strategy for Link21.

As Link21 continues to progress toward the definition of programmatic alternatives, the development of a value capture strategy can continue in parallel to and in conjunction with other planning activities. In particular, the nexus between the selection of a delivery mechanism and the ability to capture value should be analyzed.

The immediate next step will be to develop a follow-on paper identifying how BART/CCJPA can best position to take advantage of value capture mechanisms for Link21. The approach for this paper will be to determine an ideal value capture strategy, maximizing the use of available mechanisms while taking equity into account. A gap analysis can then be conducted, identifying policy, legislative, and other actions that would be required in order to implement the ideal strategy. In parallel, discussions should occur regarding how to integrate the value capture strategy with the broader decision process for Link21. Further, agency resources should be identified to lead the development of a strategy.