



## Board Report

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**File #:** 2021-0698, **File Type:** Informational Report

**Agenda Number:** 42.

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**REVISED**  
**REGULAR BOARD MEETING**  
**DECEMBER 2, 2021**

**SUBJECT: WEST SANTA ANA BRANCH FUNDING PLAN AND P3 ASSESSMENT UPDATE**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE the:

- A. West Santa Ana Branch (WSAB) Funding Plan; and
- B. WSAB P3 Assessment Update.

**ISSUE**

Metro released a draft environmental report (Draft EIS/EIR) for the West Santa Ana Branch Transit Corridor (WSAB) project in July 2021. The Draft EIS/EIR project cost estimates for the alternatives, based on 15% level of design, are higher than the prior estimate in the Measure M Ordinance and Long-Range Transportation Plan. The entire project's cost from the southern terminus to downtown Los Angeles increased from \$4.0 billion to \$8.567 billion. Because of the increase in cost, there is a significant funding gap. Metro staff is following the steps outlined in the Unified Cost Management Policy to address the increase and develop a proposed funding plan and schedule. The alternatives for addressing the cost increase include seeking additional federal funding, seeking additional state funding, and scope reductions (segmenting or phasing the project). Additional local funding was also reviewed.

**BACKGROUND**

The WSAB project is a 19-mile corridor that Metro is evaluating for a new light rail transit line that would connect southeast LA County to downtown Los Angeles. The Measure M Ordinance identified the cost of a "FY28" segment from Artesia to the C Line (Green) at \$1 billion and a "FY41" segment to downtown Los Angeles at approximately \$3 billion (in 2015 dollars). Metro staff identified funding for the FY28 segment, including allocated Measure R and M sales tax and a \$300 million State cap-and-trade grant, which has been awarded to Metro. The Draft EIS/EIR includes cost estimates for the segment to the C Line ranging as high as \$2.346 billion (Alternative 4, in 2020 dollars, based on 15% level of design) and from Artesia/Pioneer Station to Union Station at \$8.567 billion (Alternative 1a),

including a maintenance facility. The Draft EIS/EIR identifies a segment of the project from Pioneer to the Slauson (A Line) station as the Staff Preferred Alternative (SPA).

In 2016, LA County voters approved Measure M, which indicated that Metro could deliver the WSAB project through a public private partnership (P3). Metro also received several Unsolicited Proposals for P3 delivery of the project, which demonstrated both private sector interest and potential benefits to Metro. Since then, staff have developed a collaborative and interdepartmental process to identify, develop, evaluate, and implement procurement methods for Metro’s major capital projects. WSAB has completed Step 6 of this process, as shown below. This process aims to identify the project delivery strategy with the lowest potential lifetime risks and costs for the WSAB project. The Eno Center recently recommended such a formal, evidence-based evaluation process to reduce cost and schedule risk in their report *Saving Time and Making Cents: A Blueprint for Building Transit Better*. The recently passed Infrastructure Investment and Jobs Act requires such an evaluation for all projects with budgets in excess of \$750 million that seek TIFIA loans.



## DISCUSSION

The Draft EIS/EIR cost estimates in 2020 dollars are shown below:

Alt 1A (Pioneer to Downtown)	Alt 3 (Pioneer to Slauson)	Alt 4 (Pioneer to Green Line)
<b>\$8.567B</b>	<b>\$4.902B</b>	<b>\$2.346B</b>

The proposed funding strategy would address the financial shortfall, with a more aggressive federal New Starts grant strategy.

The funding plan includes approximately \$3.15 billion of additional New Starts for Alternative 3. The amount of the New Starts request is limited to less than 50% of the cost of the project in order to garner a rating from the Federal Transit Administration above the minimum threshold. The existing State cap-and-trade grant award is used for the Alternative 3 segment and \$850 million more in State funds is needed to complete the SPA to Slauson. Value capture is not yet included as a secured source but Metro and the cities on the project corridor will continue to pursue their development. This process involves the cities and county and extensive analysis, which can take multiple years and can be used for the required 3% local agency contribution. The funding plan allows for completion of the project to Slauson as early as FY35 to FY38, in advance of the Measure M Ordinance FY41 date. This estimated schedule based on funding availability could be advanced if new funding is available. The estimated construction schedule independent of funding availability delivers the project as early as FY33 to FY35.

The balance of the project to downtown LA could be addressed with segmenting or phasing of future sections of the project and additional New Starts funding, State grants, and local sales tax, including Measure M designated for the Central City Area, which encompasses downtown LA. However, a detailed funding strategy and timing for the downtown LA segment will depend on the ultimate cost, alignment, and mode, which have yet to be determined. Based on the cost for Alternative 1A in the Draft EIS/EIR and funding availability, the segment to downtown LA could be completed as early as FY44 to FY53. But this estimated schedule will change depending on the ultimate features of the segment to downtown LA. This proposed plan is comparable to the approach taken by Metro with the Westside Purple Line Extension, which has 3 sections and was awarded separate New Starts grants for each section. A detailed funding plan for the SPA Alternative 3 and full alignment to downtown that shows the annual capital costs and funding by sources is included as Attachment A.

New Starts Strategy

The use of New Starts on the FY28 segment is a change from the 2020 Long Range Transportation Plan (LRTP) that the Board adopted in September 2020. The LRTP includes a \$1 billion cost estimate for the FY28 segment, and a New Starts grant was not needed to fund this segment.

New Starts is a competitive program under the federal Capital Investment Grants (CIG) program and the amount that Metro can expect to receive is limited by the total amount of New Starts funding that the federal government appropriates, the maximum grant awards and annual payments from the New Starts program, Metro’s current and planned share of New Starts, the New Starts rating of the project assigned by the Federal Transit Administration (FTA), and the project’s readiness.

The CIG program, which encompasses New Starts, currently receives \$2.3 billion per year in federal appropriations, and this is used to fund 13 projects nationwide that have New Starts grant

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agreements. The largest active New Starts grant is \$1.3 billion for the Metro Westside Purple Line Extension Section 3. The annual CIG appropriation has increased to \$4.6 billion with the recent passage of the Infrastructure Investment and Jobs Act (i.e., the 2021 Bipartisan Infrastructure Bill). The amount of the New Starts request is limited to less than 50%, as this is expected to increase the New Starts rating above the minimum threshold.

The overall New Starts ratings have a project justification and a financial capacity assessment component. A subcomponent of the financial capacity assessment, which involves a review of Metro's multiyear financial forecast, is the reasonableness of assumptions, and this constrains the amount of New Starts that Metro can assume for WSAB and other Metro projects. An excessive amount of assumed New Starts would tend to lower the rating.

#### State Funding

The proposed funding plan relies on a substantial amount of additional, future funding from the State, which provides needed non-federal match dollars for the planned New Starts grants. Metro staff will target existing grant programs funded from ongoing State excise taxes and other sources, as future grant cycles are made available, and monitor any new or one-time funding that may arise as part of the State budget.

#### Local Funding

WSAB has funding from both the Measure R and Measure M ordinances, which are included in the proposed funding plan for the segment to the C Line, segment to Slauson, and segment to downtown LA. Additional local funding is assumed from Proposition A and C sales tax and Measure M 3% local agency contributions. Other funds available along the corridor, including the Measure M multi-year subregional programs and city local return sales tax are not assumed as a separate funding source, as the subregions and cities have the discretion to use these funds for other purposes (including to help fund the 3% local agency contributions).

Value capture is identified as an unsecured local funding source given the uncertainty over the amount of funding, if any, that can be generated for WSAB. Nevertheless, Metro staff and the cities along the WSAB corridor are evaluating the formation of new taxing districts for funding of the project, and in the event future funding arises, it can be used to close the project funding gap, and/or offset or supplement the local funding, or provide funds for enhancements or other additional costs of the project. Metro staff estimated in August 2020 (Board report #2020-0335, Attachment B - Value Capture Assessment), that the WSAB corridor has the potential to generate up to \$5.957 billion of tax increment revenue over 45 years, which has a present value of \$2.3 billion (The present value gives an indication of the amount that can be debt financed; however, the total of any actual debt financings would be less due to uncertainty over the tax increment projections and timing of any financing).

#### P3 Finance and Market Sounding

Metro has also prepared a draft P3 delivery model for the project that would include private sector investment and finance with a goal of opening the Staff Preferred Alternative (SPA) to the public within 10 years of a Record of Decision (ROD) from FTA and right of way agreement with Union Pacific Railroad (UPRR). This delivery method, which continues to be updated and reviewed, would include approximately \$2 billion of private financing and equity, which Metro would repay with interest

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over time. Potential investors could include pension funds and environmental, social, and governance (ESG) funds. It also includes a Pre-Development Agreement (PDA) style opportunity to complete the line in Downtown LA.

Metro has prepared a draft evaluation comparing the total costs, including long term operations, maintenance, and state of good repair costs, of Design-Build and P3 delivery of the SPA. This evaluation has assumed a separate Construction Manager/General Contractor (CM/GC) contract for delivery of certain critical early scope items, such as UPRR relocation. Right of way (ROW) acquisition and UPRR relocation costs account for a significant portion of the total capital cost of this project, and Metro cannot transfer these costs to the private sector, under this conceptual approach. By procuring these items through a CM/GC method, Metro could potentially reduce the project's overall cost and schedule risk.

After incorporating risk adjustments and anticipated inflation costs, the CM/GC+P3 model is projected to cost Metro less over the life of the project when compared to the CM/GC+DB model. These potential savings result from the contractual model that requires the P3 contractor to meet specific requirements throughout the project lifecycle in order to receive payment from Metro. As the P3 contractor would take on debt and investments that they must repay, they are incentivized to open and operate the transit line at the customer experience levels that Metro specifies in order to be paid and meet their own payment obligations. Furthermore, under a potential P3, Metro would only pay the contractor for a portion of the total design and construction costs during that project phase. The P3 contractor would only receive full payment for these costs if they continued to operate and maintain the system over a 30-year term at Metro's specified service levels. This contrasts from traditional Design-Build delivery, where Metro pays in full for construction progress, regardless of the ultimate operational service levels or quality. In addition, the P3 procurement process would include performance specifications that would encourage submission of innovative alternative technical concepts that could improve service quality and customer experience, while also reducing costs. P3 delivery, as envisioned in the conceptual P3 model, requires additional upfront effort from Metro to develop an enforceable and commercially viable contract. Staff are available to provide more detailed briefings on the methodology and results of the assessment upon request.

In September 2021, Metro conducted a market-sounding by reviewing this potential project delivery method with nearly twenty design-build, engineering, operators, investment, and financial firms in confidential one-on-one sessions. The firms viewed this proposed delivery model as being an optimal model for both Metro and the marketplace. Firms appreciated that Metro had learned the lessons from its own experience and that of other agencies nationwide.

While firms understood the funding challenges, they suggested that a P3 could conceptually finance the gaps in funding and warned that segmenting the project into separate contracts would likely result in higher costs and integration challenges. Firms that would undertake the design-build work nearly unanimously recommended that Metro seek to begin the CM/GC process as soon as possible to remove risk elements from the design-build work. Alternatively, some firms suggested using a full PDA, especially if negotiations with UPRR became protracted, to identify significantly different technical solutions that would reduce interfaces with UPRR compared to those already analyzed during the environmental process.

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Staff also presented Metro's labor strategy for the project, whereby a P3 contractor would be required to negotiate comparable agreements with Metro's existing labor unions. Firms viewed this type of requirement as industry standard and encouraged Metro to provide as much clarity as possible on this approach to the market in advance of the procurement. Throughout the sessions, firms emphasized the importance of Metro committing to a clear project scope and achieving project readiness before issuing a P3 procurement. Achieving project readiness on WSAB includes the aforementioned labor strategy, a clear process for UPRR negotiations, a ROW acquisition strategy, an Early Works strategy, a funding plan, and a ROD from the FTA. A summary of the P3 evaluation and recent market sounding effort are included in Attachment C.

## **EQUITY PLATFORM**

The WSAB project will provide a fixed guideway transit option that is a new high-quality transit investment intended to serve the predominantly minority and low-income populations within the project area (as defined in the Draft EIS/EIR). Most of the transit service in the project area is local bus with limited express buses, which operate on the congested roadway network. Minority residents are 66% of the total project area population and 25% of project area residents live below poverty, which is higher than the LA County average of 17%. The entire corridor has been identified as an environmental justice corridor.

WSAB is anticipated to significantly reduce travel times and Vehicle Miles Traveled (VMT) in the project area, which is expected to result in air quality, safety, and livability improvements for the project area, including Equity Focus Communities in Bellflower, Paramount, and Lynwood.

## **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The WSAB project supports Strategic Plan Goal 1: Provide high-quality mobility options that enable people to spend less time traveling. WSAB will provide light rail transit from the City of Artesia to downtown LA and intersect with the existing Metro A and C Lines. The WSAB corridor includes the county's most densely developed, historically underserved, and environmental justice communities, with transit-dependent populations that lack access to a reliable transit network. The area is currently served by buses that operate along a heavily congested freeway and arterial network and have limited connections to the Metro rail system. The WSAB project will provide mobility and travel options that reduce dependence on auto travel, increase mobility, reduce travel times on local and regional transportation networks, and accommodate population and employment growth.

## **NEXT STEPS**

Metro staff is continuing to work with FTA staff to pursue the environmental clearance of the project in light of the estimated cost of each segment or phase and the amount of funding from federal, State, and local sources, and will present the locally preferred alternative to the Metro Board in early 2022. Metro staff will proceed with the steps needed to secure federal and State grant funding, including the initial request for New Starts (referred to as the "request to enter project development").

Metro will continue to update its assessment of delivery methods for this project as the project scope, negotiations with UPRR, other project elements, and construction and financial marketplaces evolve.

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An important next step is to align the committed and anticipated available project funding, including any additional funding from the Infrastructure Investment and Jobs Act, with the anticipated costs of the delivery method in order to determine project affordability. Staff intends to return to the Board in Summer 2022 with a recommended delivery method for the project in order to release the procurement immediately following FTA's issuance of a ROD. Should Metro choose to begin a P3 procurement, we would incorporate the price proposals from contractors into the existing assessment in order to ensure that Metro is getting the best value for money for LA County. Metro would have the ability to choose an alternative method of delivery should the costs be higher than expected.

...Attachment

**Attachment**

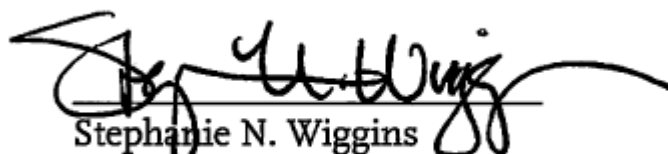
Attachment A - Funding Plan

Attachment B - Value Capture Assessment

Attachment C - WSAB P3 Assessment Update

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**ATTACHMENT A**  
**West Santa Ana Branch**  
**Funding Plan (Alternative 3) (Dollars in Millions)**

	<u>TOTAL</u>	<u>PRIOR</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>	<u>2036</u>	<u>2037</u>	<u>2038</u>
Project Cost	6,871.0	2,984.5	104.8	107.9	141.2	92.8	222.9	262.4	337.9	452.4	537.7	590.7	722.5	313.3
Total Uses	<u>\$ 6,871.0</u>	<u>\$ 2,984.5</u>	<u>\$ 104.8</u>	<u>\$ 107.9</u>	<u>\$ 141.2</u>	<u>\$ 92.8</u>	<u>\$ 222.9</u>	<u>\$ 262.4</u>	<u>\$ 337.9</u>	<u>\$ 452.4</u>	<u>\$ 537.7</u>	<u>\$ 590.7</u>	<u>\$ 722.5</u>	<u>\$ 313.3</u>
<u>Yet-To-Be-Secured Funding</u>														
Section 5309 New Starts/Grant Bonds*	2,574.5	1,246.0	-	-	-	-	222.9	262.4	337.9	278.4	226.9	-	-	-
SB1 Grants	850.0	-	-	-	-	-	-	-	-	57.4	264.6	228.0	150.0	150.0
Other Local (incl. Value Capture)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Secured Funding</u>														
Other Federal Funds	2.0	2.0	-	-	-	-	-	-	-	-	-	-	-	-
Prop A/C	960.8	221.9	104.8	107.9	141.2	92.8	-	-	-	-	46.2	246.1	-	-
Measure R	348.9	348.9	-	-	-	-	-	-	-	-	-	-	-	-
Measure M	1,604.7	752.2	-	-	-	-	-	-	-	-	-	116.7	572.5	163.3
Local Agency Transit Project Contributions	206.1	89.5	-	-	-	-	-	-	-	116.6	-	-	-	-
Transit and Intercity Rail Capital Program	300.0	300.0	-	-	-	-	-	-	-	-	-	-	-	-
SB1 - Local Partnership Program	23.9	23.9	-	-	-	-	-	-	-	-	-	-	-	-
Total Sources	<u>\$ 6,871.0</u>	<u>\$ 2,984.5</u>	<u>\$ 104.8</u>	<u>\$ 107.9</u>	<u>\$ 141.2</u>	<u>\$ 92.8</u>	<u>\$ 222.9</u>	<u>\$ 262.4</u>	<u>\$ 337.9</u>	<u>\$ 452.4</u>	<u>\$ 537.7</u>	<u>\$ 590.7</u>	<u>\$ 722.5</u>	<u>\$ 313.3</u>

\* Net of interest cost



**ATTACHMENT A**  
**West Santa Ana Branch**  
**Funding Plan (Full Alignment) (Dollars in Millions)**

	<u>TOTAL</u>	<u>PRIOR</u>	<u>2041</u>	<u>2042</u>	<u>2043</u>	<u>2044</u>	<u>2045</u>	<u>2046</u>	<u>2047</u>	<u>2048</u>	<u>2049</u>	<u>2050</u>	<u>2051</u>	<u>2052</u>	<u>2053</u>	
Project Cost	<b>\$15,531.4</b>	<del>14,831.5</del>	6,871.0	227.3	234.1	241.1	67.1	207.2	498.0	586.2	754.7	1,010.5	1,201.0	1,319.5	1,613.9	699.9
Total Uses	<b>\$15,531.4</b>	<del>\$ 14,831.5</del>	\$ 6,871.0	\$ 227.3	\$ 234.1	\$ 241.1	\$ 67.1	\$ 207.2	\$ 498.0	\$ 586.2	\$ 754.7	\$ 1,010.5	\$ 1,201.0	\$ 1,319.5	\$ 1,613.9	\$ 699.9
<b>Yet-To-Be-Secured Funding</b>																
Section 5309 New Starts/Grant Bonds*		5,424.2	2,574.5	-	-	-	-	200.0	498.0	586.2	295.2	350.7	501.0	418.6	-	-
State Grants		3,388.7	850.0	159.1	163.9	168.8	46.9	-	-	-	400.0	400.0	400.0	400.0	400.0	-
Other Local (incl. Value Capture)		500.0	-	-	-	-	-	-	-	-	-	-	250.0	250.0	-	-
<b>Secured Funding</b>																
Other Federal Funds		202.0	2.0	-	-	-	-	-	-	-	-	-	-	100.0	100.0	-
Prop A/C		2,191.7	960.8	68.2	70.2	72.3	20.1	7.2	-	-	59.5	-	50.0	150.9	732.5	-
Measure R		348.9	348.9	-	-	-	-	-	-	-	-	-	-	-	-	-
Measure M	<b>\$2,686.0</b>	<del>1,986.1</del>	1,604.7	-	-	-	-	-	-	-	-	-	-	-	381.4	699.9
Local Agency Transit Project Contributions		465.9	206.1	-	-	-	-	-	-	-	259.8	-	-	-	-	-
Transit and Intercity Rail Capital Program		300.0	300.0	-	-	-	-	-	-	-	-	-	-	-	-	-
SB1 - Local Partnership Program		23.9	23.9	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Sources	<b>\$15,531.4</b>	<del>\$ 14,831.5</del>	\$ 6,871.0	\$ 227.3	\$ 234.1	\$ 241.1	\$ 67.1	\$ 207.2	\$ 498.0	\$ 586.2	\$ 754.7	\$ 1,010.5	\$ 1,201.0	\$ 1,319.5	\$ 1,613.9	\$ 699.9

\* Net of interest cost



## Board Report

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**File #:** 2020-0335, **File Type:** Informational Report

**Agenda Number:** 18.

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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.

<b>Future Tax Increment Planned Metro Stations</b>			
(\$ in millions)			
<b>Rail Line</b>	<b>Number of Stations</b>	<b>Opening Date</b>	<b>45-Year Tax Increment</b>
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
<b>Total</b>	<b>67</b>		<b>\$56,396</b>

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.

### Special Tax Findings

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".

## **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.

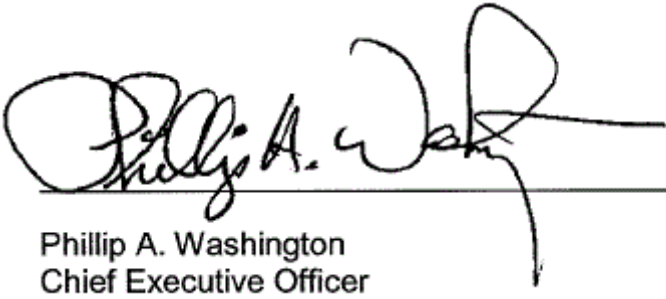
If municipalities are interested in partnering with Metro to pursue value capture, Metro would require broad stakeholder engagement including affected taxing entities, community-based organizations, the county, and property owners to determine priorities for use of any funds generated. There are, and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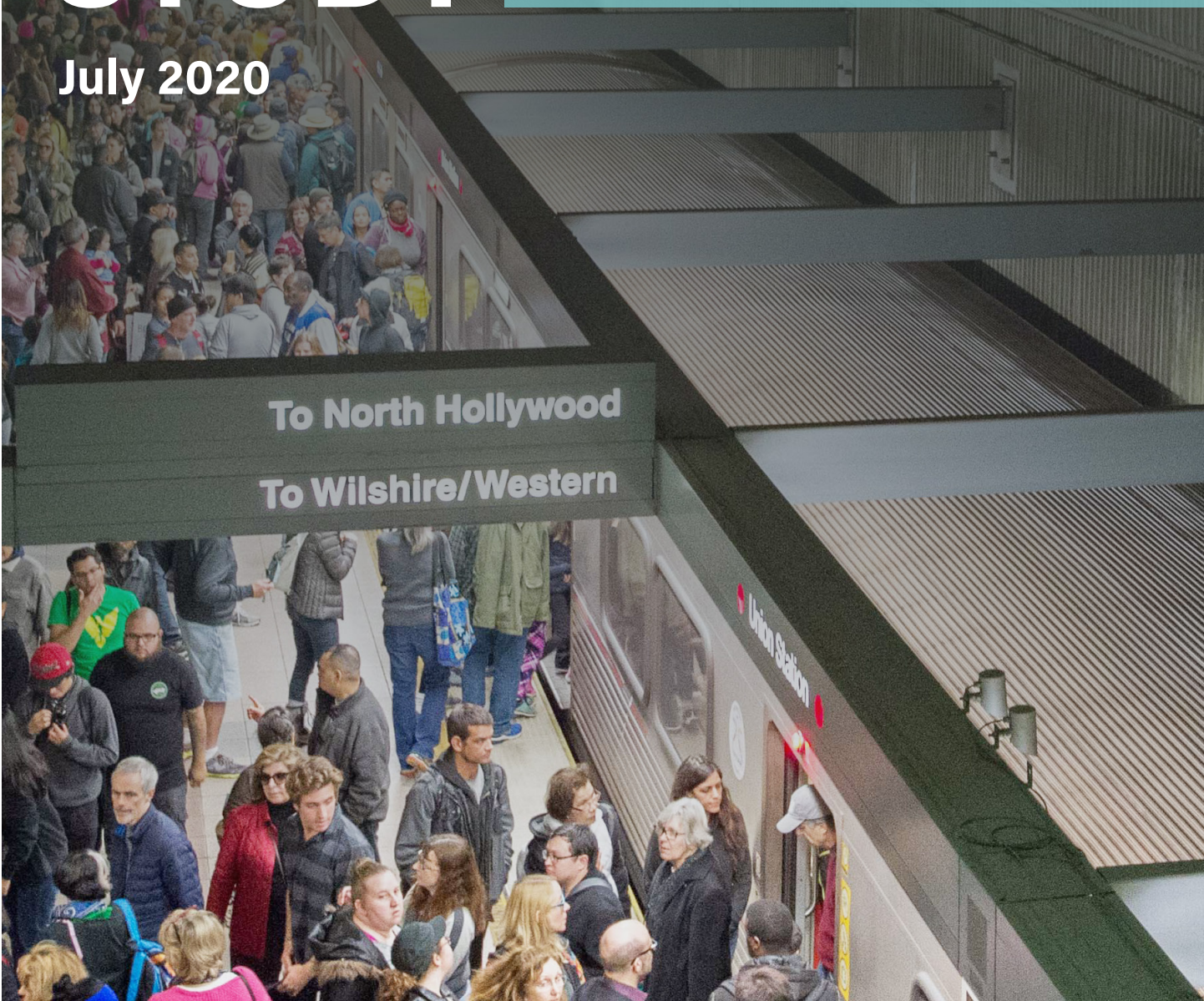


Los Angeles County Metropolitan Transportation Authority

# VALUE CAPTURE ASSESSMENT STUDY

Executive Summary

July 2020



**PREPARED BY:** \_\_\_\_\_

Morgner Enterprise  
Keyser Marston Associates  
NBS Government Finance Group

D'Leon Consulting Engineers  
Casamar Group, LLC



## Executive Summary

### Introduction and Goals

A study was conducted to identify potential opportunities for Metro and local communities to capitalize on value capture (VC) tools available today. The study, led by Morgner Enterprise and supported by Keyser Marston and NBS, first and foremost provides an initial assessment of the magnitude of potential additional funding that could be secured, in particular, through two of the more prevalent VC tools—i.e., (1) Existing tax based Tax Increment Financing (TIF) utilizing the Enhanced Infrastructure Financing District (EIFD) vehicle, and (2) Special tax based Special Financing Districts (SFD), in particular, the Community Facilities District (CFD) vehicle. Informed by the initial assessment, the study also recommends components of a longer term VC strategy, including implementation priorities and phasing, potential use of other effective and innovative VC tools, and new legislative needs to facilitate VC implementation.

Propelled by the capital funding gap issues that are becoming increasingly acute in the midst of the COVID-19 pandemic, the future use of VC tools could prove essential and precedent-setting both for Metro and local communities to keep apace of the planned transit projects and public spending that could in turn support the timely economic recovery.

### Initial Assessment— Understanding Potential Magnitude Of VC Funding

#### Effectiveness of TIF and EIFD Tools

VC tools are many and their uses involve many stakeholders—be they taxpayers, land and property owners, business owners and tenants, and developers—who are directly impacted both on the benefit and cost side of the VC equation. Among others,

one of the most prevalent VC tools used historically has been TIF based on the existing tax base without involving new assessments to stakeholders. California was the first to use the TIF tool and subsequently the first to overextend its use causing undesirable and lasting fiscal impacts. With the Great Recession, the State eliminated the TIF program and subsequently broadened the use of the existing infrastructure financing district (IFD) to create a better and improved version of TIF in the way of the EIFD. The EIFD is still in its infancy and its effectiveness is yet to be proven. However, a series of amendments since its initial legislation in 2015 (the most recent being the removal of voter approval for issuing EIFD bonds) are making the tool much more flexible and robust, empowering cities and counties with powerful means to raise much needed funding for critical infrastructure projects, including transit.

Over three dozen EIFD feasibility studies have been initiated by local and regional agencies since the 2015 EIFD legislation. To date, however, only a handful has been formally approved and, among those, only two (2) EIFDs identified below are of sufficient size with a detailed infrastructure financing plan (IFP) having substantive commitment of local tax increments that exceed \$1 billion in scale:

1. West Sacramento EIFD No. 1 to provide \$1.5 billion in infrastructure funding to help transition 4,100-acre waterfront properties from heavy industrial to mixed use
2. Otay Mesa EIFD to provide \$1.2 billion in infrastructure funding to support 9,300-acre Otay Mesa Community Plan Area (CPA) development envisioned by City of San Diego

There are others that are much smaller in scale, e.g., *City of La Verne EIFD* No. 1 for \$33 million in infrastructure funding to support the Old Town La Verne Specific Plan implementation. Although La Verne's Specific Plan hinges on transit-oriented developments



(TODs) around a future Gold Line station, its EIFD infrastructure financing plan does not include the Metro Station as part of its financing requirements. Of note in this regard, most of the EIFD feasibility studies to date—including the Redondo Beach EIFD in LA County currently under consideration to support a coastal community park and wetlands restoration—and a majority of TOD-driven local specific plans (many in LA County funded through Metro’s TOD grants) are similar to La Verne in that they are small in scale where core transit facilities are excluded in their infrastructure financing requirements with the presumption that the transit will be paid for elsewhere. At minimum, the 3% local contribution for transit investments by local jurisdictions required by the Measure M sales tax should become a pre-established consideration in these studies and plans.

Notwithstanding West Sacramento and Otay Mesa EIFDs, it is clear that the EIFD tool is not applied currently in its full capacity for major infrastructure improvements. More specific to Metro, the recent West Hollywood EIFD feasibility assessment along the Crenshaw Northern Corridor demonstrates the tool’s potential utility in addressing Metro’s capital funding needs specifically. If done right, the EIFD feasibility studies for West Santa Ana Branch (WSAB) and Vermont Transit corridors currently under consideration by SCAG should also provide opportunities to set the course for how best the EIFD tool could be utilized specifically to help fund Metro’s major transit projects. The initial assessment for this study thus focuses on the TIF and EIFD potential to help Metro gain a better grasp of the magnitude of additional funding that could be achieved through these tools.

### **Assessment Methodology Based on TOC Planning Principles and Guidelines**

The initial assessment was guided by the established industry standards and planning principles pertaining to TODs. Several TOD guidelines at federal, state, and local levels were consulted. In particular, to characterize a VC opportunity area, the study applied: (1) TOD

amenability factor as recommended by the Center for Transit Oriented Development (CTOD) (mapped along the average vehicle miles traveled (VMT) per household and employment concentration dimensions) and (2) TOD density guidelines (dwelling units/acre and floor area ratio (FAR)), respectively, for residential and commercial land uses) recommended by Federal Transit Authority (FTA).

Given the sheer size of Metro’s operational domain and time limitations, VC opportunity areas (OAs) had to be prioritized to include those with relatively higher VC potential. For the initial assessment, therefore, only the rail (not bus) transit facilities and only those rail corridors under construction or in planning stages (not existing) were included for initial quantitative analyses. Many station areas having already developed, the VC potential for existing transit stations were generally considered lower than those for future stations and, as discussed later, only a select few with significant development potential were considered as part of the initial assessment.

Excluding Crenshaw Northern (because EIFD assessments have been performed by West Hollywood and Arts District/6th St corridors (which is undertaking an independent VC assessment)), the remaining OAs were represented by 67 separate stations across 11 corridors along 8 major lines. Performing detailed analyses on all 67 stations was deemed virtually impossible given the time/budget constraints. As a result, with close coordination with Metro, a set of stations representative of key TOD categories (e.g., along urban vs. suburban groupings with varying densities) established by CTOD and FTA were selected for more detailed quantitative analyses. The results of these stations were then reviewed to gain insight into VC potential for each category and used as the basis for system-wide extrapolation. It should be recognized that the results of these initial assessments reflect at best a rough order-of-magnitude estimate of the VC tools’ potential relative to Metro’s larger overall portfolio.

## Representative Stations and Their VC Characteristics and Potential

According to FTA guidelines, the TOD influence area for a light and heavy rail transit system is represented by 1/2-mile buffer zones around each station along its corridor. Detailed quantitative assessments were performed on eight (8) select representative stations spread across multiple corridors. For each 1/2-mile buffer zones, parcel level data characterizing each station were first obtained, including land use/zoning, dwelling units, lot and building size, current assessed valuations, and assigned tax rate areas (TRA) and County/City tax allocations. In addition, relevant demographic data (population, employment, household, business) were also collected for each 1/2 mile buffer zone as well as for a 2-mile radius surrounding each station for additional insights. Several data sources were used for this purpose, including those from Metro (station GIS), LA County Assessor and Auditor (assessed value and tax), SCAG (land use GIS), and ESRI (demographics).

Based on the existing demographics, each station was categorized according to the aforementioned CTOD/FTA typology defined largely in terms of TOD amenability and TOD density guidelines. To develop the TOD buildout scenario for each station, the existing densities for residential and commercial zones were increased to reach the higher recommended TOD density (specifically, recommended residential dwelling units/acre and commercial FAR) for that category. In general, where additional land is required to accommodate the new density, industrial zones (and vacant land, where available) were converted to residential and commercial uses. For each station, both general plans and specific plans for local jurisdictions were consulted for specific land use and zoning guidelines. With few exceptions, the TOD densities applied were within the maximum density allowed by the localities for a given land use and zoning specification.



Purple Line 2 Station Credit: Metro

In assessing the EIFD funding potential, the new assessed value (AV) for the TOD buildout Scenario for each station was estimated based on the increased density and higher unit pricing projected for the new properties. Commensurate with the EIFD financing terms, 45-year cash flow was then developed for the TOD buildout Scenario using the same assumptions on all stations for apples-to-apples comparisons. Using 2020 as the base year, these assumptions, generally consistent with other EIFD assessments, included 20-year TOD buildout starting 2025, 2% statutory appreciation of AV with additional consideration for turnovers, and 3% discount rate for the present value analysis.<sup>1</sup>

**Table ES-1** summarizes the results of the 8 representative stations. Collectively, the 8 stations are capable of securing over \$5 billion in additional funding (almost \$2 billion in present value) and 78% increase in total AV if the stations can reach their TOD buildout potential. In reviewing the results, not surprisingly, it was found that the magnitude of the current AV within each station buffer zone had significant bearing on the TOD buildout AV more than any other variables. As presented, the increase in AVs between the current and TOD buildout for individual stations is shown to range from 60% on the low end to not much more than 100% on the high end.

<sup>1</sup> Assumptions on turnovers reflect the findings from a recent UCLA study that indicates that LA County experienced a 16% increase in the number of gentrified neighborhoods (and resulting displacements) between 1990 and 2015.

**TABLE ES-1: Potential VC for Representative Future Stations (in \$Million)**

Station	Current AV	TOD Buildout AV	% Increase in AV	45-Year Tax Increment	Present Value
Westwood/UCLA	\$6,284	\$10,053	60%	\$2,304	\$905
Van Nuys/MOL	\$1,203	\$2,069	72%	\$548	\$215
Westchester/Veteran	\$1,079	\$2,088	94%	\$486	\$191
Lambert	\$992	\$2,488	151%	\$524	\$205
Greenwood	\$738	\$1,188	61%	\$274	\$108
Sylmar	\$722	\$1,452	101%	\$361	\$142
Norwalk	\$676	\$1,283	90%	\$203	\$80
Pomona	\$611	\$1,237	102%	\$320	\$126
<b>Total</b>	<b>\$12,305</b>	<b>\$21,858</b>	<b>78%</b>	<b>\$5,020</b>	<b>\$1,972</b>

### Systemwide EIFD VC Estimation through Extrapolation

The insights gained from the representative station results were applied to the remaining 59 stations for system-wide extrapolation. In particular, the TOD buildout scenario for each of the remaining stations was developed based on (1) potential increase in the current AV of the 1/2-mile buffer zones informed by its TOD-relevant demographics and (2) TRA and tax allocations specific to each station. In general, the current AV was increased by 60 to 100% to provide a reasonable range of TOD buildout AV potential for each station. This range was not applied to the 8 representative stations (where detailed analyses were undertaken) and several other stations that were considered to have less development potential due to (a) their connection with an already-developed existing station, (b) overlap of the market area between stations, and/or (c) the existence of large public land holdings that limit private development.

The same underlying assumptions as the 8 stations were used in developing the 45-year cash flow except, respectively, the EIFD base year and the start of the 20-year TOD buildout schedule were assumed to coincide with the expected groundbreaking and opening date of each corridor as shown in **Exhibit ES-1**.

**Table ES-2** summarizes both the systemwide and corridor specific VC potential. Collectively, 67 future stations are capable of capturing additional funding that could range between \$46 to 56 billion (\$18 to 22 billion in present values) with as much as \$70 to \$100 billion in incremental total AV that could be attributable to these future stations. At the corridor level, the VC potential varies widely from as low as \$1.1 billion (\$0.4 billion in present value) for Sepulveda Westside-LAX Corridor to as high as \$17.7 billion (\$6.9 billion in present value) for Purple Line Extension Sections 1 and 2.

**EXHIBIT ES-1: VC Assessment Phasing Based on Expected Opening Date (2020-2080)**

Line	Opening Date (No. Stations)	2020-2030	2030-2040	2040-2050	2050-2060	2060-2070	2070-2080
<b>Crenshaw/LAX</b>	2022 (9)	[Bar chart showing VC potential from 2020 to 2060]					
<b>Regional Connector</b>	2024 (4)	[Bar chart showing VC potential from 2020 to 2060]					
<b>Purple Line Extension</b>	2024-2026 (5)	[Bar chart showing VC potential from 2020 to 2060]					
	2027 (2)	[Bar chart showing VC potential from 2020 to 2060]					
<b>Gold Line Extension</b>	2028 (4)	[Bar chart showing VC potential from 2020 to 2060]					
	2035 (6)	[Bar chart showing VC potential from 2030 to 2070]					
<b>East San Fernando Valley</b>	2027 (14)	[Bar chart showing VC potential from 2020 to 2060]					
<b>Green Line to Torrance</b>	2030 (2)	[Bar chart showing VC potential from 2030 to 2070]					
<b>West Santa Ana Branch</b>	2028 (11)	[Bar chart showing VC potential from 2020 to 2060]					
<b>Sepulveda Transit Corridor</b>	2033 (6)	[Bar chart showing VC potential from 2030 to 2070]					
	2057 (4)	[Bar chart showing VC potential from 2050 to 2080]					

**TABLE ES-2: Systemwide EIFD VC Potential for Future Transit Corridors (in \$Billion)**

Rail Corridor	Project Status	Current AV	TOD Buildout AV	45-Year Tax Increment	Present Value
Crenshaw/LAX	Construction	\$9.6	\$14.8~\$17.1	\$3.3~\$4.2	\$1.3~\$1.7
Regional Connector	Construction	\$47.4	\$55.8	\$9.8	\$3.9
Purple Line Ext. (Sect 1/2)	Construction	\$32.6	\$52.2~\$65.2	\$12.5~\$17.7	\$4.9~\$6.9
Purple Line Ext. (Sect. 3)	Construction	\$8.2	\$12.5	\$2.9	\$1.1
Gold Line Foothill-Claremont	Construction	\$2.9	\$5.0~\$5.9	\$1.0~\$1.3	\$0.4~\$0.5
Gold Line Eastside Phase 2	Planning	\$5.0	\$8.7~\$9.7	\$1.7~\$2.1	\$0.7~\$0.8
Green Line to Torrance	Planning	\$2.9	\$4.6~\$5.7	\$1.2~\$1.7	\$0.5~\$0.6
East San Fernando Valley	Planning	\$12.9	\$21.2~\$25.6	\$5.1~\$6.6	\$2.0~\$2.6
West Santa Ana Branch	Planning	\$18.6	\$26.6~\$30.5	\$4.8~\$6.0	\$1.9~\$2.3
Sepulveda Valley-Westside	Planning	\$12.5	\$16.6	\$3.0	\$1.1
Sepulveda Westside-LAX	Planning	\$8.0	\$12.3~\$14.3	\$1.1~\$1.3	\$0.4~\$0.5
<b>Total</b>		<b>\$160.7</b>	<b>\$230.1~\$258.9</b>	<b>\$46.3~\$56.4</b>	<b>\$18.1~\$22.1</b>

**Use of Special Financing District Tool**

In addition to TIF and EIFD, potential VC opportunity for the second prevalent tool, i.e., special taxes using special financing districts, in particular, CFD, was examined. CFDs are more prevalent than EIFD with many currently existing in Metro’s service territory. At a very conceptual level, an initial assessment of CFD VC potential was

performed for the 67 stations based on the same TOD buildout scenarios assumed under the EIFD analyses. **Table ES-3** shows, in present value, both the system-wide and corridor specific CFD VC potential if the TOD buildout were to materialize and if the effective tax rate were to be raised to the industry standard maximum of 2% allowable for each station.

**TABLE ES-3: Systemwide CFD VC Potential for Future Transit Corridors (in \$Billion)**

Rail Corridor	Current AV	TOD Buildout AV	CFD VC in Present Value	
			EIFD Assumption (45-Year @ 3% discount rate)	CFD Financing Term (30-Year @ 5% interest rate)
Crenshaw/LAX	\$9.6	\$14.8~\$17.1	\$1.0~\$1.5	\$0.6~\$0.9
Regional Connector	\$47.4	\$55.8	\$1.6	\$1.0
Purple Line Ext. (Sect 1/2)	\$32.6	\$52.2~\$65.2	\$3.8~\$6.4	\$2.4~\$4.0
Purple Line Ext. (Sect. 3)	\$8.2	\$12.5	\$0.9	\$0.5
Gold Line Foothill-Claremont	\$2.9	\$5.0~\$5.9	\$0.4~\$0.6	\$0.2~\$0.4
Gold Line Eastside Phase 2	\$5.0	\$8.7~\$9.7	\$0.7~\$0.9	\$0.5~\$0.6
Green Line to Torrance	\$2.9	\$4.6~\$5.7	\$0.3~\$0.6	\$0.2~\$0.4
East San Fernando Valley	\$12.9	\$21.2~\$25.6	\$1.6~\$2.5	\$1.0~\$1.5
West Santa Ana Branch	\$18.6	\$26.6~\$30.5	\$1.6~\$2.3	\$1.0~\$1.5
Sepulveda Valley-Westside	\$12.5	\$16.6	\$0.8	\$0.5
Sepulveda Westside-LAX	\$8.0	\$12.3~\$14.3	\$0.8~\$1.2	\$0.5~\$0.8
<b>Total</b>	<b>\$160.7</b>	<b>\$230.1~\$258.9</b>	<b>\$13.6~\$19.2</b>	<b>\$8.5~\$12.1</b>

As shown, under the same conceptual present value assumptions used for EIFD (i.e., 45-year term at 3% discount rate), the maximum CFD VC potential could range between \$13.6 to \$19.2 billion for the 67 stations. Under the financing terms that are more typical of CFD (i.e., 30-year term at 5% interest rate), CFD VC upfront potential could range between \$8.5 to \$12.1 billion. It is important to recognize that there may be significant challenges in using the CFD for VC purposes. CFDs require a 2/3 voter approval from either property owners or registered voters depending on the number of registered voters within the proposed CFD. Further, CFDs are typically smaller in scale created on an individual development project basis with each issuance requiring the 2/3 voter approval (from property owners or registered voters, as the case may be). For each station with a 1/2-mile TOD buffer zone, numerous districts, each burdened with the voter approval requirement, may be necessary before the VC potential shown can be achieved. Nevertheless, a CFD was successfully implemented for the planned Historic Downtown Streetcar project, and a CFD is being considered for a potential Arts District Red Line station.

### VC Potential for Existing Stations

As mentioned earlier, with the help from Metro, a select few existing stations having significant development potential were identified, including Willowbrook/Rosa Parks (Blue Line), Vermont/Beverly and Westlake/MacArthur Park (Red Line), and El Segundo (Green Line). Among these, the El Segundo station was considered as being relatively less developed with higher VC potential and thus selected for more detailed analysis of the level similar to the eight representative stations described earlier. Near the El Segundo station is a large parcel developed as industrial formerly owned by Raytheon (recently merged with United Technologies). The TOD buildout scenario entailed redeveloping the low density industrial parcel to high density, high value commercial developments. The analysis showed that, through the TOD buildout, this station can achieve close to a 45% increase in AV (from \$3.0 billion to \$4.4 billion) with a VC potential of \$826 million (\$325 million in present value) over the 45-year period.



More qualitatively, the study team also reviewed the current development activity near Metro stations provided in Metro's CY2019 Development Review. The Review identifies 22 proposed or under development projects near existing station sites which would require some level of Metro involvement. Many of these sites could be "TOD-amenable" with substantive VC potential, especially where large parcel sizes are available and where the existing density is low (e.g., FAR under 1.0). A very preliminary review indicates that these projects could generate between 1,400 and 1,600 new residential units and between 700,000 and 1,000,000 square feet of new commercial or industrial space. The incremental AV of these new developments could range between \$900 million to \$1.2 billion. If a tax increment VC program were in place and if, for example, the share of tax revenues devoted to Metro infrastructure was 15%, then these projects could mean additional VC potential of between \$1.4 and \$1.8 million annually.

Over and beyond the direct monetization, at minimum, these sites could also serve as potential candidates for affordable housing where grants and subsidies (e.g., affordable housing sustainable communities grants) could be sought to further Metro's policy priorities. In short, with better information about future station-adjacent development plans, further and more detailed assessment of the overall VC potential for existing stations, inclusive of the availability of relevant grants and subsidies, could be beneficial.

## Short and Long Term Value Capture Strategy

An effective VC strategy is ultimately about starting **early** when there is a general recognition of TOD's potential value and **before** it is given away without proper assessment of its monetization potential based

on benefits and costs to each major stakeholder involved. For each major corridor, a long term value capture strategy should be integrated, phased, and risk-adjusted across multiple stakeholders and planned well in advance alongside the capital project planning process and long before the opening date.

In general, various VC tools presented in this study can be used on a case-by-case basis. At a strategic level over a longer term, the basic approach should be to start with those tools that have the least new impact on stakeholders (real or perceived) and proceed with new charges in a manner that is risk-adjusted so that the stakeholders can better bear the VC financial burden. The following two broad risk-adjusted VC implementation layers are thus recommended:

1. Given that it can be multi-jurisdictional and non-contiguous, the use of EIFD/TIF tool is recommended at an entire corridor level<sup>2</sup>, tapping on organic increase in tax revenues from TODs linked to all new stations along a new corridor without imposing new taxes. Not all affected local jurisdictions along a given corridor may be interested in participating initially but, over the long run, with the appropriate value proposition and emphasis on the "but-for" factor<sup>3</sup>, the EIFD/TIF tool has a potential to trigger a ripple effect and help maximize local contributions.
2. The use of CFD is recommended at an individual station level because it is likely triggered by developers and property owners based on their individual development projects around each station. As CFD involves new taxes and requires voter approval, its applications may be easier where the project does not involve multiple and diverse voter communities. At the station level, as called for by the funding needs, it may also be desirable to combine CFD (new owners) with SFD (existing owners) and various forms of developer exactions (e.g., impact fees) that are implemented in phases

<sup>2</sup> The recent West Hollywood EIFD feasibility was a corridor-level assessment for the Crenshaw Northern Corridor. Likewise, the WSAB and Vermont Transit Corridor EIFD feasibility studies under consideration by SCAG should be at corridor-level to maximize the tool's benefits.

<sup>3</sup> The "but-for" factor refers to the recognition from the outset that the TOC VC opportunities and the resulting increase in local revenues would not be possible without the transit facilities.



7th Street Metro Train Station Rendering. Credit Metro

such that developers' contributions kick-in later in the development phase when their risks are lower and their willingness to pay is higher.

The two implementation layers should be explored in parallel to determine the best and most practical path forward. More importantly, regardless of the path chosen in the end, the overall VC implementation framework for how various VC tools are to be used should be laid out well in advance as an integral part of the overall VC strategy for each corridor for purposes of providing full transparency from the outset for local jurisdictions, property owners, and developer community.

A broad stakeholder engagement both at the municipal and state levels would also be an essential element of a VC strategy. Close coordination with municipal partners is needed, for example, to prioritize VC generated funds amongst competing demands and to implement a new taxing district. As the best path forward is identified and select VC tools are pursued, the VC strategy may also entail legislative recommendations to amend existing tools or create new tools, requiring close coordination at

the state level. It is recommended that an internal inter-departmental VC task force within Metro be established to facilitate not only the stakeholder engagement efforts but also overall implementation of the VC strategy both in the short- and long-term.

Finally, as practical, other innovative VC tools gleaned from global best practices should also be explored in developing the long term VC strategy, particularly when new sources of funding can be identified to further spread the VC financial burden. Of particular interest in this regard is CEPAC bonds from Sao Paulo, Brazil, where the effective use of innovative VC tools has been prevalent and long standing. By leveraging less than 0.1% of their developable land and directly adding the larger investor community to the VC stakeholder equation, the City has been able to convert TOD-driven incremental density into tradable securities sold through public auctions. The CEPAC proceeds alone helped the City to raise as much as 15% of its overall capital spending needs, including much needed affordable housing provisions to help mitigate the larger gentrification issues facing the City.

# Glossary

AV	Assessed Value
BRT	Bus Rapid Transit
CBA	Community Benefits Agreement
CEPAC	Certificate for Potential Additional Construction
CFD	Community Facilities District
CID	Community Improvement District
CTOD	Center for Transit Oriented Development
DA	Development Agreement
EIFD	Enhanced Infrastructure Financing District
ESFV	East San Fernando Valley
ESRI	Environmental Systems Research Institute
FAR	Floor Area Ratio
FTA	Federal Transit Authority
IFD	Infrastructure Financing District
IFP	Infrastructure Financing Plan
JD	Joint Development
JPA	Joint Powers Authority
LMD	Landscape Maintenance District
MOL	Metro Orange Line
ROW	Right of Way
SCAG	Southern California Association of Governments
SFD	Special Financing District
TFAR	Transfer of Floor Area Rights
TIF	Tax Increment Financing
TOC	Transit Oriented Community
TOD	Transit Oriented Development
TRA	Tax Rate Area
VC	Value Capture
VMT	Vehicle Mile Traveled
VNY	Van Nuys
WeHo	West Hollywood
WSAB	West Santa Ana Branch



# WSAB P3 Assessment Update

Regular Board Meeting

December 2, 2021

OEI



**Metro**

# Metro's P3 Assessment Process

Voter approved  
Measure M  
indicates WSAB  
could be  
delivered by P3

## Step 1

Project  
Screening &  
Identification

## Step 2

Qualitative  
Project  
Assessment

## Step 3

Market  
Sounding

## Step 4

Project Cost  
Report

## Step 5

Project Risk  
Assessment

## Step 6

Value-for-  
Money &  
Financial  
Analysis

## Step 7

Project  
Funding &  
Affordability  
Assessment

## Step 8

Metro Board  
Approval of  
Project  
Delivery

## Step 9

Final Project  
Performance  
Specifications

## Step 10

Release  
Procurement  
Package



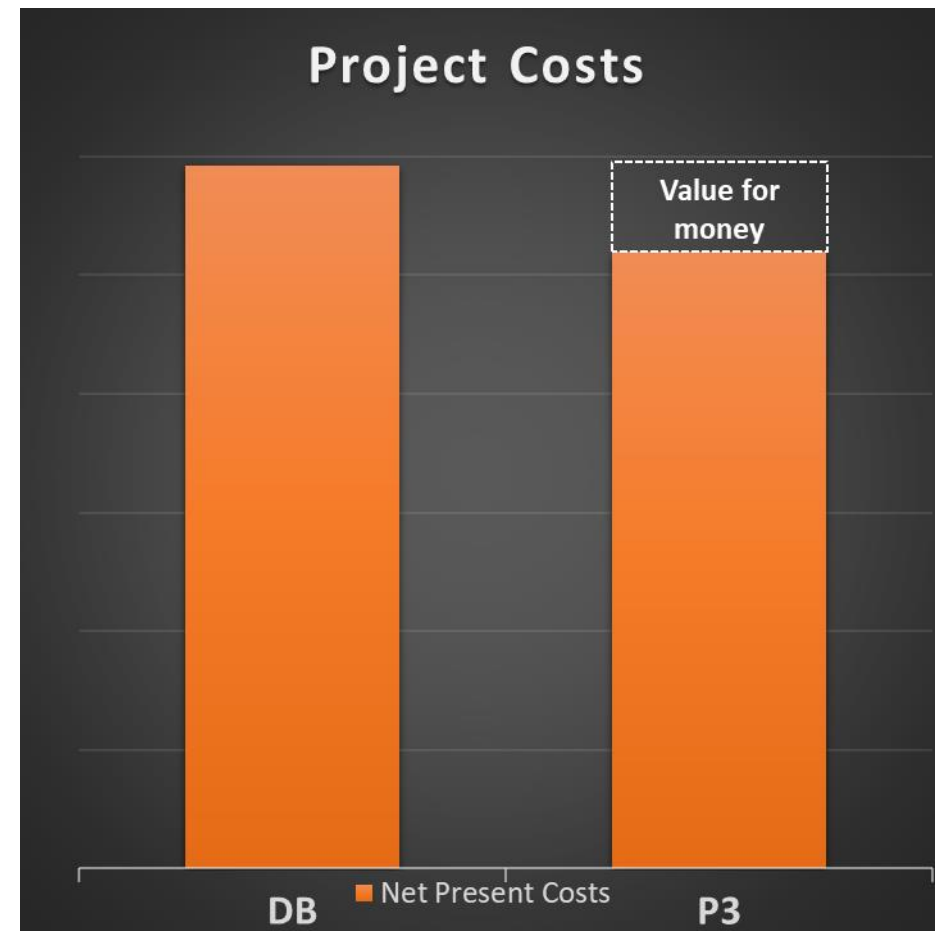
Completed step of assessment



Metro

# Value for Money (VfM) Evaluation

- Identifies the project delivery strategy with the lowest potential lifetime risks and costs for the WSAB project
- In line with Eno recommendation to adopt “a formal evaluation process to determine the appropriate procurement method on a project-by-project basis” in order to control cost and schedule risk, as well as Infrastructure bill requirements
- Staff are available to provide detailed briefings on VfM evaluation and results



# Project Delivery Strategy

- Staff are developing a unique strategy to deliver WSAB:



- CM/GC contract for delivery of Early Works
  - Including freight rail relocation, utility relocation, and other 3<sup>rd</sup> party items
- P3/DBFOM contract for delivery of the LRT
  - Includes PDA style opportunity to complete the line to Downtown LA

# CM/GC+P3 Benefits

- CM/GC Early Works could reduce the risk of change orders in the LRT contract
- P3 investors, including pension and ESG funds among others, could raise ~\$2 billion of private financing for the project, reducing Metro's cash required to complete design and construction and allowing us to build more of the project sooner
- P3 contract would directly link Metro's payments to the P3 Developer's performance, incentivizing Developer to open, operate, and maintain the WSAB transit line according to our performance requirements



# Market Sounding

- Project team staff re-engaged with infrastructure firms through one-on-one interviews to review and refine Metro's project delivery strategy in September 2021
- 18 firms, including design-builders, investors, light rail vehicle suppliers, operators, and multi-industry conglomerates participated
- Broad and enthusiastic market interest in proposing on this potential WSAB procurement



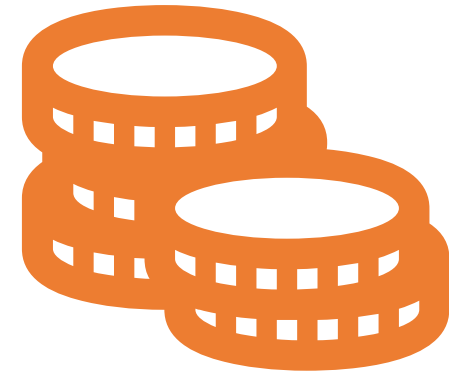
# Market Sounding

- Firms appreciated Metro's pragmatic and innovative approach that has incorporated lessons learned from Metro's major projects and others (e.g., Maryland Purple Line)
- Current strategy was viewed as the optimum delivery model across a range of perspectives
  - Competition
  - Affordability
  - Schedule
  - Risk, responsibility, and performance



# Market Sounding

- Firms advised that segmenting the project could increase project costs due to interface challenges, cost inflation, and additional mobilization and demobilization work
- Metro's labor requirements were viewed as acceptable and industry standard





# Market Sounding

- Firms recommended that Metro continue to achieve project readiness and commit to a clear project scope before beginning P3 procurement
  - UPRR Approach
  - ROW Acquisition Strategy
  - Labor Strategy
  - Early Works
  - FTA Record of Decision
- PDA style opportunity to complete the line to Downtown LA was viewed as an exciting prospect that would incentivize potential teams

# P3 Assessment Next Steps

- Align committed and potential project funding, including new funding from Infrastructure Investment and Jobs Act and value capture strategies, with estimated costs of CM/GC+P3 delivery model
- Continually update assessment as project evolves to ensure Metro delivers the highest quality transit service in the most affordable and efficient way
- Recommend best value procurement strategy for Board selection in Summer 2022 to ensure procurement can begin immediately following ROD

# Next stop: new rail to southeast LA County.

WEST SANTA ANA BRANCH TRANSIT CORRIDOR



**FUNDING PLAN AND P3 ASSESSMENT UPDATE**

Regular Board Meeting

Item 42

December 2, 2021

# West Santa Ana Branch Funding Plan and P3 Assessment Update

- Goal is to deliver the WSAB from Pioneer to Downtown LA
- The Draft EIS/EIR project cost estimates for the alternatives are higher than the prior estimate (in current dollars)

<b>Alt 1A</b> (Pioneer to Downtown)	<b>Alt 3</b> (Pioneer to Slauson)	<b>Alt 4</b> (Pioneer to Green Line)
<b>\$8.567B</b>	<b>\$4.902B</b>	<b>\$2.346B</b>

- There is a shortfall in identified funding and the proposed funding strategy would address this with a more aggressive federal New Starts grant strategy
- The funding gap for the full alignment is at least \$4.6B
- Analysis of P3 project delivery is ongoing

# Funding Sources

- A \$3.15 billion New Starts for Alternative 3 – limited to less than 50% of the cost
- Target State funding (\$850 million)
- Compile \$3.12 billion in total local funds including Measure M, Measure R, 3% local contribution, innovative finance (pension funds)
- Working to secure value capture as a funding source; Metro and cities will continue to pursue their development
  - this process involves the cities and county and extensive analysis, which can take multiple years
  - can be used for 3% contribution
- Funding plan allows completion to Slauson as early as FY35 to FY38, in advance of the Measure M Ordinance (new funding can advance schedule)



# Downtown Segment

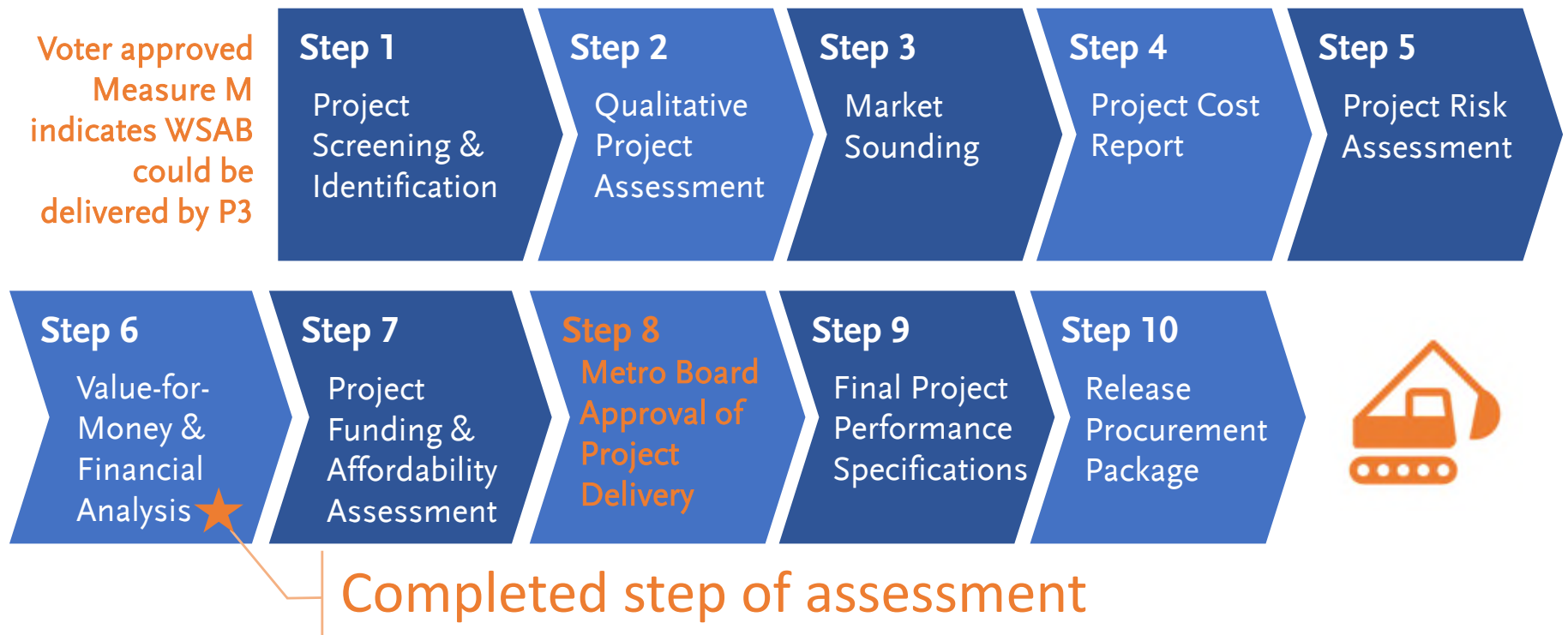
- Board action in Jan 2022 to:
  - Approve a terminus in downtown
  - Work with downtown communities to address impacts and evaluate ways to reduce cost on northern segment
  - Select an **Initial Operable Segment (IOS)** for initial grant funding and as the Locally Preferred Alternative (LPA)

# Project Schedule for Initial Segment

LPA Selection:	January 2022
First Last Mile Planning:	Following LPA Selection
Work with Communities; Evaluate Ways to Reduce Cost on Northern Segment:	Following LPA Selection
Board Selection of Project Delivery Method:	Summer 2022
Metro Board to Certify Final EIR:	Winter 2022
FTA to issue Record of Decision:	Spring 2023
Begin CPUC Application*	2023 to 2025 (18-month process)
Begin Right of Way Acquisition*	2023 to 2026 (2 to 3-year process)
Groundbreaking:	As early as 2023/25
Advanced Engineering Works (IOS):	2023 to 2026 (3 years)
LRT Construction (IOS):	2026 to 2033/35 (7 years)

\* Final EIR Certification/ROD prerequisite

# Metro P3 Assessment Process





# Metro P3 Costs and Benefits

- Investors, including pension and ESG funds among others, could raise ~\$2 billion of private financing for the project
  - Reducing Metro's funding required during construction and allowing us to build more of the project sooner
- P3 delivery could provide greater cost and schedule certainty than DB delivery by tying payment to performance
- P3 contractor would be required to negotiate comparable agreements with existing labor unions for operations and maintenance

# Additional Actions

- Request entry into FTA New Starts project development for the IOS
- Board action on project delivery method in Summer 2022
- Procure technical advisors for value capture financings that will help initiate a potential multiyear process – proceeds can be used for 3% contribution