Final Regional Value Capture Strategy

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A Sperry KPMG

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INTRODUCTION

Overview of Study

The HR&A-Sperry-KPMG Team (Consultant Team) is conducting the **Regional Value Capture Assessment Study** (the Study) for the San Diego Association of Governments (SANDAG)

The purpose of this study is to:

I. Identify and evaluate value capture instruments and joint development opportunities for SANDAG's Regional Plan projects and the challenges in their implementation;

II. Develop a long-term strategy that can aid SANDAG and partner agencies in advancing regional housing goals and raising sustainable revenue to implement Regional Plan projects; and

III. Produce policy recommendations for SANDAG on how to overcome these challenges, particularly in light of the multi-jurisdictional nature of addressing regional housing needs and critical infrastructure projects in the San Diego region.

Purpose of this Document

This document summarizes tasks completed to date under the study. This report also includes, as Task 5 of this study, an **Implementation Strategy** for implementing and pursuing value capture and joint development mechanisms for a pipeline of regional projects. Task 5 builds on prior study work and includes.

- Near and long-term recommendations, that encompass regional priorities, for value capture and joint development, including:
  - Leveraging existing SANDAG housing efforts;
  - Strategies to facilitate implementation of value capture/joint development;
  - Challenges associated with implementation;
  - Member agency and stakeholder outreach; and
  - Evaluation of technical assistance for local jurisdictions to support implementation.
- Sample value capture policies for local agencies

Prior Study Work: Key Take Aways from Tasks 2–4

Task 2: Summary of Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation

Task 2 Purpose

In Task 2, the Consultant Team conducted a **Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation** in the San Diego region. This document, located in Appendix I, contains three sections, including:

I. An Overview of Regional Context for Value Capture and Joint Development Implementation. This sections covers:
   I. A summary of key government stakeholders, statutes and legislation needed to implement VC instruments and pursue JD opportunities in the region that would allow to increase housing supply;
   II. The existing gaps and challenges for implementation; and
   III. A review of existing local taxing mechanisms in the region and whether they conflict or support SANDAG's goals of promoting VC instrument and JD opportunities.

II. Case studies of VC instruments and JD implementation in the United States and abroad hat help address regional housing and infrastructure goals, as well as the existing gaps and challenges for implementation in the San Diego region.

III. Key lessons with regards to policies that SANDAG could consider promoting to address existing gaps.

Task 2 Takeaways

- **Community Facilities Districts (CFDs), Special Assessment Districts (SADs), Tax Increment Financing (TIF), Impact Fees, Joint Development (JD), and Air Rights** are the most relevant value capture instruments to the San Diego Region to generate revenue and support housing goals based on potential applications.
- The Team identified the challenges and gaps in the existing legal and regulatory; institutional and governance; market and financial; and operational context to effectively implement these instruments and provided recommendations informed by case studies and best practices.
- To address legal and regulatory challenges, it is important to have **regional agencies with land use and tax sharing authority** and **regulation enforcing county participation** in instruments like EIFDs.
- Institutional and governance challenges can be alleviated by creating **special purpose entities that unify land use, infrastructure, and tax authority** to streamline project planning and delivery. **Well-developed initial plans** can also aid in getting stakeholder support for value capture instruments.
- For market and financial gaps, multiple value capture tools can be combined, and financing can be **structured to smooth out deficits in timing or magnitude of expected revenues**. Cities or counties can also offer backstops, although not without risk.
- Operational challenges like staffing needs, ringfencing funds, and obtaining necessary authority may require **adaptation to internal** statues or the **creation of special purpose entities**.

Task 3: Summary of Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities

Task 3 Purpose

In Task 3, the Consultant Team produced a **Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities** in the San Diego region, included in full in Appendix II. This criteria evaluates the potential to use value capture and joint development as a funding and financing source to support initiatives included in SANDAG's 2021 Regional Plan, including but not limited to transportation and mobility investments, climate adaptation and resilience strategies, digital infrastructure, and housing incentives. The criteria that the Consultant Team developed includes:

- **Criteria A – Value Capture Instruments**, including how to screen sites or projects in which these instruments could be used and the viability of specific instruments (i.e., tax increment financing, assessment districts, impact fees), including their potential for revenue generation and ease of implementation; and
- **Criteria B – Joint Development,** including how to screen sites suitable for real estate development, the viability of developing these sites, and its potential revenue generation.

Task 3 deliverable is a guide on how to use Criteria A and B, which are laid out in full detail in the following dynamic Excel model.

Task 3 Takeaways

- An entity can evaluate the **potential viability of value capture tools to generate revenue and support projects like infrastructure or housing development** by, first, asking a set of "go" and "no-go" questions to determine if value capture is possible in the area, like whether there are **drivers for land or property value appreciation**, if its **developable in the near term**, and if development is in **line with policy goals**. If determined possible, the entity can estimate the suitability of the tool through another set of more qualitative questions around the **real estate market**, **physical characteristics** of the site, and the entity's **ability to implement**.
  - Once determined suitable, there are specific criteria to assess for different types of instruments that address the **regulatory, governance, market, and operational needs for successful implementation**, as identified in Task 2.
  - Task 3's deliverable also lays out additional considerations for each tool around combining multiple tools and the use of proceeds, specifically for affordable housing.
- Task 3 lays out a similar framework for evaluating sites for **joint development potential of publicly owned land**. First, the site must be determined to be in **excess to the agency's needs for normal operations** and be **physically developable**. If both are true, the framework then assesses 1) **local real estate market** to approximate potential returns for the private developer; 2) potential **constraints or delays to development** to approximate timing of the development; and 3) potential roadblocks in implementing the joint development, factoring in **agency goals and procurement rules** around joint development, **community sentiment** and expected **cooperation from local jurisdictions**.

Task 4: Order-of-Magnitude Estimates from Value Capture Implementation in Kearny Mesa Station Area and Tecolote Village

Task 4 Purpose

As part of Task 4, in full in Appendix III, the Consultant Team produced an **Order-Of-Magnitude Value Capture Assessment** for one value capture pilot and one joint development pilot. The high-level planning of value capture initiatives and order-of-magnitude estimates of revenue generation can be used to understand the potential scale and effectiveness of possible value capture and joint development funding for priority projects selected by SANDAG.

For value capture, SANDAG selected the **Purple Line Commuter Rail project**. HR&A then followed the Value Capture Evaluation Framework developed in Task 3 to illustrate what station areas would be most appropriate to pilot a value capture assessment. Given the real estate market, development, and implementation conditions, SANDAG and HR&A selected **Kearny Mesa** station area. Using the instrument-specific frameworks from Task 3, HR&A selected an **Enhanced Infrastructure Financing District (EIFD)** and a **Community Facilities District (CFD)** given perceived revenue magnitude and ease of implementation. For both pilots, the Team estimated order-of-magnitude revenue projections and an analysis of potential debt issuance capacity.

For joint development, following the Joint Development Evaluation Framework developed in Task 3, SANDAG selected a **housing development** around **MTS-owned land at Tecolote Road Station**.

Task 4 Takeaways

- HR&A assessed the **revenue potential of an EIFD and CFD** in the Kearny Mesa pilot area by:
    1. Defining the study areas and development programs by land use
    2. Studying socioeconomic and real estate market trends, to inform assumptions on assessed value appreciation and property turnover rates
    3. Determining the amount and type of market-supportable development in the study area by looking at regional population and employment trends, capture rates of the study area, and valuations of development comps
    4. Projecting incremental property tax revenue and estimating possible EIFD contribution rates and CFD assessment rates based on best practices and local context
- Sperry then conducted a financing capacity assessment of these revenue streams, informed by data on similar transactions in California, estimating **$184-558 million in debt capacity from EIFD revenues** and about **$70 million from CFD revenues**.
- HR&A assessed the financial feasibility of joint development at the Tecolote site by conducting a **Residual Land Value (RLV) model** based on a hypothetical residential development program in line with policy and housing goals and recent rezoning plans in the area. The total residual land value was $6 million, meaning a program **of 240 units, 15% of which are affordable for households with incomes 80% below the Area's Median Income, would be financially feasible**.

Task 5: Implementation Strategy

Task 5: Implementation Strategy
Key Challenges Summary

Challenges the Implementation Strategy Must Address

- Fragmentation
  - The San Diego region has many local governments/agencies (e.g., the County of San Diego, 18 cities, NCTD, MTS, housing agencies) with potentially different objectives, such as revenue maximization versus providing/protecting affordable housing
  - Land use policy making, taxing authority, and land ownership sits with different entities
  - Inconsistent or lack of value capture/joint development policies across jurisdictions
  - Varying levels of knowledge and experience with value capture/joint development across jurisdictions
- High infrastructure funding/financing needs for projects that can cross jurisdictional boundaries

Task 5: Implementation Strategy
Implementation Strategy Foundation

Implementation Strategy Foundation

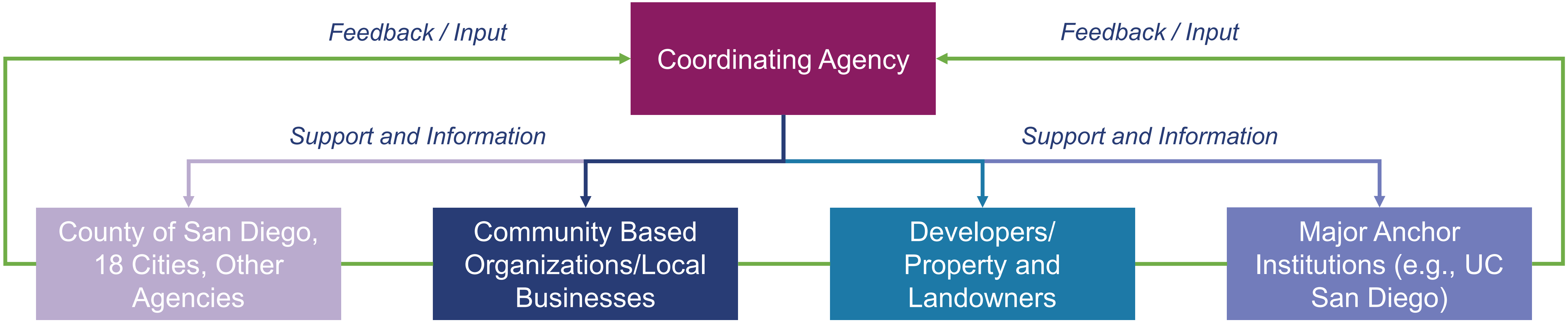
Value capture/joint development opportunities require careful and early planning, combined with long term partnerships, to realize value and meet other local/regional project infrastructure goals and other objectives

Key pillars of a value capture/joint development implementation strategy should include:

1	2	3	4	5
Establish a **coordinating agency**	Encourage **long term partnerships and alignment** across key stakeholders	Develop a **regional strategy / vision**	Implement local **policies / guidelines**	Provide **resources** to local public entities

Implementation Strategy Foundation – Establish a Coordinating Agency

Strong leadership for value capture/joint development implementation is critical, particularly for the San Diego region, which has many local governments/agencies with different objectives. Establishment of a coordinating agency, to provide knowledge, support and tools and encourage collaboration, is helpful to this process.



Implementation Strategy Foundation – Establish a Coordinating Agency

Considerations for forming a new agency versus positioning an existing agency are:

	Pros	Cons
Forming a New Agency	• Easier to start fresh and create tailored policy solutions • Can add accountability and transparency • A new agency would have limited political history	• Adds administrative burden (e.g., staffing, governance, formation, other resources) • There may be political resistance • An agency dedicated solely to value capture/joint development may contribute to overreliance on it
Positioning an Existing Agency	• Can leverage existing resources and staffing • Able to use institutional knowledge and relationships • Can decrease time required for implementing the role	• Existing protocols may hinder new creation of guidelines and policies • May have political resistance to an existing agency taking on this role

Implementation Strategy Foundation – Establish a Coordinating Agency

Coordinating agency activities:

- Develop in-house knowledge of and tools for best practices
- Work with stakeholders to achieve agreement on key objectives (e.g., increased density near transit, meeting housing objectives, advancing equity, sustainability and quality of life objectives)
- Coordinate stakeholder advocacy efforts
    - With the County for rational countywide policies
    - With the State regarding ease of implementation of tools (e.g., tax increment, TOD/zoning requirements)
- Assist in prioritizing regional projects
- Provide technical support to the County of San Diego, its 18 cities, and transit agencies as they evaluate and implement value capture/joint development opportunities

Los Angeles County Metropolitan Transportation Authority

- Plays a lead role in evaluating the potential for value to fund transportation projects.
- Implemented a value capture strategy in 2019 to help fund transit infrastructure and support transit-oriented development.
- Provided over $350k in consulting services to local governments to evaluate the potential for and support the development of value capture districts.
- Since 2022, Metro has hosted over 17 meetings with local municipalities and organizations interested in learning more about value capture mechanisms.
- Was awarded a $1 million federal grant in 2022 to fund value capture technical advice.

A coordinating agency could prove particularly important, especially for regional, cross jurisdictional projects. The coordinating agency itself will require dedicated staff, strong knowledge base, and tools to maintain, update, and share best practices.

Pillar 2

Implementation Strategy Foundation – Encourage Long-Term Partnerships and Stakeholder Alignment

A successful value capture/joint development strategy requires coordination of land use planning/zoning with decisions on public infrastructure investment, value capture taxes/fees, and distribution of value/benefits (e.g., affordable housing). Authority for each of these rests with different entities. Balancing objectives will require long-term partnerships among the county, cities, transit agencies, housing agencies, other stakeholders.

Developers/Landowners: real estate development decisions

County, Cities, Special Districts: tax increment contribution decisions, formation of VC districts

Cities: land use/zoning for TOD, impact fee decisions

Implementation of Value Capture/ Joint Development

Cities: decisions on public infrastructure investment and timing

SANDAG, Transit Agencies,
Cities: transportation planning and investment

Voters/Landowners: voting on CFD, protest rights/vote for TIF and SAD

Stakeholders will need to be convinced that working together will bring overall best results, locally and regionally, through business case development.

Pillar 2

Implementation Strategy Foundation – Encourage Long-Term Partnerships and Stakeholder Alignment

Coordinating agency activities could include assistance and support for:

1. Establishing framework for ongoing coordination meetings and workshops with cities, transit agencies, housing agencies

2. Developing long-term working partnerships to develop, set and achieve common goals among key stakeholders

3. Land use planning in advance to achieve real estate development value increases to fund transit and other public infrastructure

4. Jointly pursuing grants and other funding sources for priority projects
   - Value capture/joint development brings a portion of the funding required for infrastructure projects
   - It can also assist in making the case for state and federal grants through building community support and providing local match

5. Reviewing partnership progress over time in collaboration with stakeholders and adjusting where needed

Case Study: Transbay Program, San Francisco, Multiple Parties, Long Term Partnerships, Stakeholder Alignment, and Planning

TJPA: created in 2001 by the City and County of San Francisco (CCSF); AC Transit; Caltrain, Caltrans, and later CHSRA joined

2003

Cooperative Agreement, executed by: the State, CCSF, and TJPA

State agreed to transfer 10 acres (State-owned parcels) to the City and TJPA with lands sales proceeds and net tax increment committed to the Transbay Program.

2005

Transbay Redevelopment Plan adopted, parties involved: CCSF, former Redevelopment Agency (now OCII), TJPA

Plan includes 40 acres around the Transit Center with private development to be governed by the Plan (included 36% affordable housing requirement).

Implementation Agreement, executed by: the former Redevelopment Agency and TJPA

Provides framework to implement, plan and sell formerly State-owned parcels to private developers.

2008

Pledge agreement, executed by: CCSF, former Redevelopment Agency, and TJPA

Pledges land sales proceeds of formerly State-owned parcels and net tax increment attributable to formerly State-owned parcels to TJPA for the Transbay Program.

2012

Transit Center District Plan (TCDP), which laid groundwork for Mello-Roos CFD adopted, parties involved: CCSF, OCII, TJPA

TCDP removed density caps and increased height limits in an area around the Salesforce Transit Center to promote transit-oriented development. Properties taking advantage of up-zoning must participate in CFD.

2014

CFD formation approved for Transbay, CCSF sponsored formation process, landowners voted

CFD formation approved in 2014. The levy of special taxes on development projects in the district that received zoning bonuses to support future issuances of up to $1.4B in special tax bonds.

First tax increment financing in 2015, first CFD bond issuance in 2017, Salesforce Transit Center completed 2018, The Portal under development

Pillar 2

Case Study: Aggie Square EIFD and UC Davis, Long-Term Partnerships and Stakeholder Alignment

- $1.1 billion proposed multi-phase, mixed-use innovation and research district adjacent to the UC Davis Medical Center in Sacramento
- The Aggie Square EIFD was initiated through adoption of a Resolution of Intention to form the EIFD in October 2020. The EIFD is a 42-acre area and includes the funding/financing for roadway, storm water, water and sewer improvements, affordable housing elements, and other public improvements
- EIFD is expected to generate over $250 million in revenues over the life of the EIFD
    - 20% of the EIFD tax increment is slated for affordable housing
- Additionally, the City is contemplating forming a CFD, with coterminous boundaries with the Wexford Development area, which is part of the EIFD

Rendering of Proposed Aggie Square Development

Sources: [ROI to Establish an EIFD](), [Aggie Square EIFD Draft IFP]()

Pillar 3

Implementation Strategy Foundation – Develop a Regional Strategy / Vision

The coordinating agency can assist with efforts to establish regional guidelines/framework for implementation, recognizing that cities and other local jurisdictions will be making decisions based on their specific needs

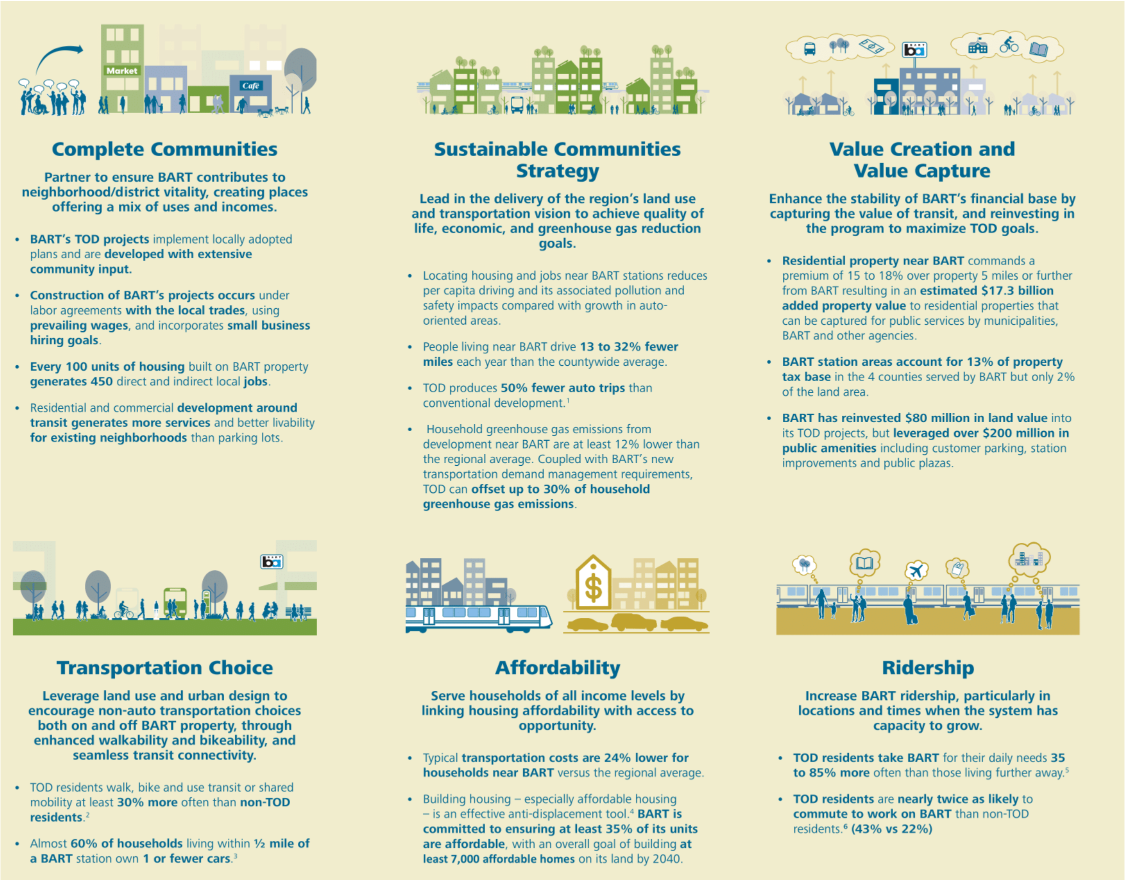
- Update land use policy and zoning around stations to generate value that can be captured and create good transit-oriented development (TOD) (e.g., appropriate density, increased housing and ridership, balanced with mixed use development for value creation)
  - BART has legislation specifically for development surrounding stations – AB 2923 (*link*)
  - Each station has unique characteristics (e.g., real estate market, stakeholder/community support, stage of planning; however, a regional approach can provide consistency, efficiencies and alignment of objectives
- Establish housing requirements and other community considerations for TOD
  - Leverage public property, where appropriate, for affordable housing and implement policies to preserve existing housing
- Standardize screening tools to assess where value capture/joint development is appropriate and the best tools
- Promote transparency for value capture/joint development guidelines across jurisdictions

In March 2019, City of San Diego removed minimum parking requirements for multi-family residential uses in downtown San Diego and areas within ½ mile of a major transit stop following a study that determined 89% of the 41 multi-family apartment sites within ½ mile of a major transit stop had lower demand than the prevailing requirement ratio

Value capture/joint development strategies can be used to shape outcomes

Case Study – BART Transit Oriented Development (TOD) Legislation and Policy, Develop a Regional Strategy / Vision

- AB 2923 (link), 2018, affects zoning requirements on BART owned properties, requires cities and counties to adopt the zoning standards in BART's TOD guidelines, and establishes a streamlined approval process for certain projects
  - BART worked with local jurisdictions and stakeholders to support AB 2923 implementation
- BART's Board of Directors adopted a TOD policy in 2016, which was amended in 2020
  - Objectives include: to provide greater transparency and predictability in the development process, offer guidance to cities and developers, facilitate discussion about BART's expectations, and advance implementation of BART's strategic plan
  - TOD policy outlines goals and strategies for implementation (link)
  - Projects that best meet policies and performance standards are prioritized
- BART created a development parcel viewer (link) which identifies sites that can accommodate future development in its 250 acre, 27 station area
- TOD Program Work Plan was released in 2020 (link)



Source: BART TOD Website

Case Study – BART Transit Oriented Development (TOD) Legislation and Policy, Develop a Regional Strategy / Vision

BART TOD Policy Performance Measures and Targets

BART Board of Directors: Transit-Oriented Development Policy Performance Measures and Targets

Adopted December 1, 2016

POLICY GOAL	INTENT	STANDARDS FOR TOD ON BART LAND					STATION AREA GOALS	
		#	Draft Performance Measures	Baseline	2025 Target	2040 Target	2040 Target	Unit of Measurement
A. Complete Communities	District Vitality and Growth	A1.	Residential Units to be produced on BART property	2,397	7,000	20,000	84%	Increase in Housing Units within 1/2 mile of BART stations from 2010 to 2040[1] (155,800 new units)
		A2.	Office/Commercial Square Feet to be produced on BART property	208,682	1,000,000	4,500,000	53%	Increase in Jobs within 1/2 mile of BART stations, 2010-2040 (277,500 new jobs)[1]
		A3.	Minimum net density threshold for units on BART property		Min 75 DU/Acre			
	Mix of Uses	A4.	# Station areas (1/2 mile) more than 1 mile from grocery store	9	7	0	85	Average Walkscore® for BART Stations (2016 Average: 75)
B. Sustainable Communities Strategy	Plan Bay Area (PBA) Implementation & Regional Quality of Life	B1.	% Units on BART Property supporting Station Area goal of 155,800 new units within 1/2 mile of BART	0.4%	3%	12%	All stations have a Station Area Plan supporting Plan Bay Area growth targets	
		B2.	% Planned jobs on BART Property supporting Station Area Goal of 277,500 new jobs within 1/2 mile of BART	0%	1%	5%		
		B3.	# Catalytic Development Projects (pushing market, using innovative materials, assembling land, etc)	8 total	1 per year	2 per year		
	Reduce Greenhouse Gas Emissions (GHG)	B4.	Regional GHG reduced by TOD on BART property (pounds/day)	TBD	TBD	TBD	TBD	% Reduction in per capita CO2 emissions, region-wide[1]
C. Ridership	Increase BART ridership	C1.	Estimated Weekday Riders generated from TOD on BART property (weekend ridership not included)	3,800	6,000	20,000	200,000	Added weekday ridership from growth within 1/2 mile of BART stations
	Increase off-peak and reverse commute ridership	C2.	TDM Programs established by cities, job centers, institutions near BART to encourage transit use	7	16 (All Regional Centers, City Centers)	33 (All Regional Centers, City Centers, Suburban Centers, Mixed-Use Corridors)	Growth in morning peak hour exits from 2015-2040 is 25% greater in Centers outside San Francisco than in Downtown San Francisco[2]	
D. Value Creation/Value Capture	Capture value of transit for infrastructure, TOD	D1.	Pilot new finance mechanisms to support transit, TOD	1: TBAD (In Progress) 2: Density Bonus for Community Benefits (El Cerrito)	TBAD, Density Bonus, EIFD, VMT Impact Fee all tested near BART stations	Test new tools as needed	Successful value capture mechanisms in widespread use to finance transit, TOD	
E. Transportation Choice	Reduce overall car ownership	E1.	Maximum parking spaces/residential unit	1.47	0.9 average across all BART development	lower than 2025 target of 0.9	65%	Share of HH with 0 or 1 Car within 1/2 mile of BART stations (2014: 57% with 0 or 1; 22% with 0 cars 4-County Total: 32%; 7%)[3]
		E2.	Maximum parking spaces per 1,000 square feet office/retail	1.43 (Fruitvale, Richmond, Pleasant Hill)	1.6 average across all BART development	lower than 2025 target of 1.6		
	Reduce vehicle miles traveled	E3.	Reduction in vehicle trips from standard development via TDM-related measures (e.g. car share, bike share, transit passes) - equivalent to GreenTrip		1/2 of BART housing projects incorporate TDM to reduce vehicle trips	3/4 of BART housing projects incorporate TDM to reduce vehicle trips	65%	Non-auto mode to work share for workers living within 1/2 mile of BART stations (2014: 54%; 4-County Total: 30%)[3]
F. Affordability & Equity	Ensure all incomes can live near transit	F1.	# affordable units on BART property	764	2,450	7,000	No net loss of low income households (91,000 HH earning less than $50,000 living in 1/2 mile in 2014)[4]	
		F2.	Share of housing units systemwide that are affordable	32%	35%			
	Increase Opportunities for Disadvantaged Businesses (Federal) and Small Businesses	F3.	Disadvantaged Business and Small Business Utilization	TBD	TBD	TBD		

[1] Source: Plan Bay Area 2040 Preferred Scenario. Scenario may be changed once EIR is complete in 2017. Includes stations that are currently under construction, but not planned stations. Goals for 1/2 mile are derived from evaluation of Plan Bay Area growth allocated to Priority Development Areas in Alameda, Contra Costa, San Francisco and San Mateo counties, and analysis of growth distribution to TAZ's near stations. Regional GHG goal will be aligned with forthcoming targets established by State of California.

[2] Consistent with Station Access Performance Targets, but extended to 2040.

[3] Source: U.S. Census: 2009-2014 American Community Survey. Rolling average data across 4 year period. Data is for U.S. Census tracts clipped to 1/2 mile of BART, and proportionately adjusted.

[4] Ibid. "Low Income" is defined as households earning less than $50,000. In 2016, HUD defines a 2-person "Low Income" Household as earning less than $60,150 in the East Bay, and $78,800 in the West Bay. Data and future targets are in 2014 Inflation Adjusted dollars.

Source: BART TOD Policy Performance Measures and Targets

Pillar 4

Implementation Strategy Foundation – Implement Local Policies / Guidelines

Encourage the County of San Diego, 18 cities, and transit agencies to develop value capture/joint development policies that are consistent with regional strategy/vision

- Developing sound policies requires specialized knowledge and alignment with
  - Other local policies and goals
  - Regional strategy/vision
- Several California governments/agencies have policies on value capture/joint development, such as
  - County of Los Angeles EIFD and CRIA Policy (*link*)
  - County of San Diego CFD Goals and Policies (*link*)
  - Los Angeles County Metropolitan Transportation Authority Joint Development Policy (*link*)
- Other SoCal local governments/agencies use consultants to provide training, develop manuals, and conduct workshops on
  - Value capture/joint development mechanisms
  - Specific tools for screening and go-no go decision making
  - Process for implementing value capture/joint development tools

Policies can bring clarity and transparency for government practitioners, developers, other key stakeholders to make the process more efficient

Pillar 5

Implementation Strategy Foundation – Provide Resources to Local Public Entities

Successful delivery of value capture/joint development requires knowledge, tools, and systems

- The coordinating agency can support in providing knowledge and screening and other tools to assist with evaluating and implementing opportunities
- Local governments will require dedicated, knowledgeable staff with
  - Appropriate expertise
  - Ability to work across agencies and for city staff across departments (e.g., planning, housing, community and economic development, assessor controller)
- Appropriate technology, systems and processes are required to support instrument use
  - Tools for collecting, depositing/ringfencing and using moneys should be clear and detailed



Task 5: Implementation Strategy
Prioritizing and Implementing Value Capture/Joint Development for Regional Projects

Prioritizing and Implementing Value Capture/Joint Development Regional Projects

Successful implementation of value capture/joint development for regional projects requires:

High level screening of sites for key characteristics to establish **selection and sequencing**

Strengthening key partnerships for selected sites

Detailed screening and **business case development** for selected sites and tools

Implementation of value capture/joint development

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: High Level Screening

Value capture and joint development can potentially be used as a funding source to compliment other sources for SANDAG's 2021 Regional Plan

- Screening criteria, as developed by the HR&A Team, can be used
  - **A: Value Capture Instruments**, including how to screen sites or projects in which these instruments could be used and the viability of specific instruments (i.e., tax increment financing, assessment districts, impact fees), including their potential for revenue generation and ease of implementation; and
  - **B: Joint Development,** including how to screen sites suitable for real estate development, the viability of developing these sites, and its potential revenue generation.

SANDAG's 2021 Regional Plan Goals	
1	**Efficient** movement of people and goods
2	**Access** to affordable, reliable, and safe mobility options for everyone
3	**Healthier air** and reduced GHG emissions regionwide

SANDAG 2021 Regional Plan Goals Source: SANDAG

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: High Level Screening

Criteria A for **Value Capture Opportunities** involve a series of sub-criteria and steps laid out below.

A.1. General Value Capture Potential

A.1.1. Eligibility Threshold	A.1.2. Suitability Score
Is the area eligible for Value Capture?	What is the suitability of implementing Value Capture in the area?

A.2. Value Capture Instrument Potential

A.2.1. Eligibility Threshold	A.2.2. Suitability Score
What Value Capture instruments are eligible for implementation?	How suitable or effective is each eligible instrument to generate infrastructure funding?

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: High Level Screening

Criteria B for **Joint Development Opportunities** involve a series of sub-criteria and steps laid out below.

B.1. Eligibility Threshold

Is the site eligible for Joint Development?

- Filters out sites where there is no or limited potential for joint development of residential and commercial projects given physical conditions of the site and its ability to support development.
- If eligible, move to B.1.2 to determine the degree to which joint development would be effective in generating revenues.

B.2. Suitability Score

Will Joint Development generate meaningful revenues?

- Assesses the potential success of the Joint Development venture by evaluating 1. Real Estate Market Viability; 2. Development Viability, given the potential of the site to be developed in the short term, physical constraints, and land use regulations; 3. Ease of Implementation, related to how prepared the agency is to lead the venture, the degree of coordination between the agency and local jurisdictions, and regulations that restrict the type of procurement that can be done for developing the site.
- The resulting score can be used to rank potential joint development opportunities.

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: Strengthening Key Partnerships

- Stakeholders consist of people, groups, and organizations that can take on different roles in the planning and project development process, working with the sponsor of the value capture-related project
    - City, County, State
    - Legislature
    - Neighbors and other community groups
    - Developers and other business groups
- Stakeholder outreach and community engagement is crucial in determining the success of projects that rely on value capture and/or joint development
- Important to identify relevant stakeholders
- Consider developing public improvement programs to increase community engagement

Example: Kearny Mesa Station

- SANDAG
- City of San Diego
- San Diego Trolley
- Private developers
- For voluntary tax increment contributions, County and City of San Diego, Special Districts (not schools)
- Landowners for new development for CFD special taxes

Public Involvement Program Framework

1. Determine goals and objectives
2. Identify what members of the public should be involved
3. Determine approach
4. Ensure strategies and techniques support decision making

Source: FHWA

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: Detailed Screening and Business Case Development

- After prioritization of regional projects is completed, more detailed feasibility studies, market analyses, demand, and revenue projections are required
- Develop a project or district feasibility study, including expected build out, timeline, risks, and a contingency plan to mitigate risks, as appropriate

Project Screening Process

Step 1. DEFINE	Step 2. STUDY	Step 3. DETERMINE	Step 4. PROJECT
Study Areas and Project Program	**Socioeconomic and Real Estate Market Trends**	**Market-Supportable Development**	**Revenue Generation Potential**

↓

Business Case Development

↓

Form Districts, Implement Plans

Prioritizing and Implementing Value Capture/Joint Development for Regional Projects: Detailed Screening and Business Case Development

Detailed screening should support the development of a business case, for example:

Tax Increment Financing	1) compare additional fiscal revenue from new development (e.g., incremental property tax net of EIFD contribution, sales, transfer, other taxes) to cost of supporting new development under different assumed tax increment scenarios 2) assess debt capacity from tax increment 3) determine other funding sources available for projects to be financed, 4) compare timing of revenue/debt with timing of need
Community Facilities District	1) assess revenue under different tax rate assumptions 2) consider impact of incentives (e.g., zoning bonuses in exchange for CFD participation) 3) determine costs of new development 4) assess debt capacity 5) compare timing of revenue/debt with timing of need

Business Case Development – *Should demonstrate to key stakeholders that implementation:*

Provides a positive net fiscal impact	Distributes in benefits equitably	Integrates land use, transportation, mobility to achieve local/regional objectives

Form Districts, Implement Plans

Task 5: Implementation Strategy Sequencing and Key Takeaways

Value Capture/Joint Development Implementation Strategy: Implementation Strategy Sequencing

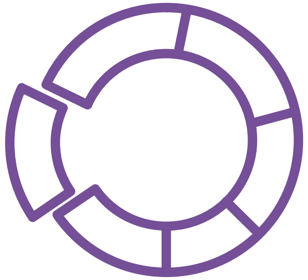
	0 – 3 Years	*Within 5 Years*	*Longer Term*
Laying the Foundation	• Establish coordinating agency • Development partnerships • Establish regional strategy • Develop local guidelines and policies • Provide resources	• Continue to grow partnerships • Understand lessons learned • Review/refine strategies and policies • Provide resources	• Continue to refine strategies and policies
Prioritizing and Implementing	• Implement value capture/joint development for high scoring sites • Work through challenges on medium scoring sites • Identify roadblocks for lower scoring sites	• Implement value capture/joint development after challenges are overcome for sites • Continue to work through sites with roadblocks, as appropriate	• Implement sites as challenges are overcome

*See Task 3 Screening Tool

Key Takeaways for Value Capture/Joint Development Implementation Strategy

- A coordinating agency provides technical assistance and resources for cities, agencies, other stakeholders
- Early collaboration provides the best outcomes
- A regional strategy promotes consistency, transparency, and efficiencies
- Transparent, carefully considered policies can facilitate value capture/joint development implementation
- Technical support can promote local/regional success
- One strategy/tool does not fit all circumstances




Final Regional Value Capture Strategy

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A Sperry

July 2023

Appendix I

Task 2 Deliverable: Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation

Task 2 Deliverable: Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A

February 2023

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Overview

The HR&A-Sperry-KPMG Team (the Consultant Team) is conducting the **Regional Value Capture Assessment Study** (the Study) for the San Diego Association of Governments (SANDAG). The purpose of this study is to:

I. Identify and evaluate value capture (VC) instruments and joint development (JD) opportunities for SANDAG's Regional Plan projects and the challenges in their implementation;

II. Develop a long-term strategy that can aid SANDAG and partner agencies in advancing regional housing goals and raising sustainable revenue to implement Regional Plan projects; and

III. Produce policy recommendations for SANDAG on how to overcome these challenges, particularly in light of the multi-jurisdictional nature of addressing regional housing needs and critical infrastructure projects in the San Diego region.

Introduction

As part of this study, the Consultant Team is conducting the present **Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation** in the San Diego region (Deliverable 2). This document contains three sections, including:

I. An <u>Overview of Regional Context for Value Capture and Joint Development Implementation</u>. This sections covers:

   I. A summary of key government stakeholders, statutes and legislation needed to implement VC instruments and pursue JD opportunities in the region that would allow to increase housing supply;

   II. The existing gaps and challenges for implementation; and

   III. A review of existing local taxing mechanisms in the region and whether they conflict or support SANDAG's goals of promoting VC instrument and JD opportunities.

II. <u>Case studies of VC instruments and JD implementation</u> in the United States and abroad hat help address regional housing and infrastructure goals, as well as the existing gaps and challenges for implementation in the San Diego region.

III. <u>Key lessons</u> with regards to policies that SANDAG could consider promoting to address exiting gaps.

EXECUTIVE SUMMARY AND LESSONS FOR SANDAG

Key Takeaways from Gaps and Challenges Analysis

Instruments Affected	Gap/Challenge
Common to all VC instruments	Fragmented municipal governments with competing objectives
	SANDAG lacks land use control and taxing authority
	High infrastructure funding and financing needs for large transformative TOD projects
	Underleveraged opportunities to monetize non-real estate assets
	Uneven project delivery capacity across jurisdictions
Community Facilities District (CFD)	CFD tax levy requires 2/3rds vote of registered voters of district if 12 or more of landowners.
	The County of San Diego has a tax burden limit of 1.86% from all taxes on a property.
Special Assessment District	Requires special and direct benefit to properties that are assessed. The benefit must be particular and distinct as compared to general benefits received by other properties in the district.
Tax Increment Financing (TIF)	Taxing entities must agree to redirect their property tax increment away from general fund for other purposes to TIF district for its uses. Some entities do not receive a significant enough share to be meaningful participants.
	Revenue growth takes time and there is lack of bond financing precedent in California.
Impact Fees	Fees require a nexus between the development project and the cost of its impact, and the fee must be proportional to the cost/impact of the project. The timing and amount of fees are unpredictable.
Joint Development and Air Rights	Lack of robust and consistent joint development/transit-oriented development policies across cities and agencies throughout region.
	Land ownership is held by different public bodies/transit entities (NCTD, MTS, city governments, county governments) with competing timing and objectives.

Lessons from Case Studies on SANDAG's Gaps and Challenges Regarding Value Capture and Joint Development Implementation

Lessons for Legal and Regulatory Challenges

- **Regional Agencies assigned with land use and tax sharing authority can be more successful in optimizing implementation of VC tools.** This would address the issue of municipal governments in the SANDAG region having competing objectives and SANDAG's lack of land use control and taxing authority. In the case of the Metro de Medellin, acquiring a special "*Urban Operator*" status through new regulations allowed Metro to take over functions from different city agencies within areas close to public transit.
- **There is no optimal TIF instrument in California,** as taxing entities within a TIF district are not required to redirect property tax increment. This is partly due to the lack of state-level criteria and regulations on the participation of counties in EIFDs. Regulations such as the one approved in LA County, which guides county decisions over EIFD participation, could be considered in the San Diego region to help streamline the decision-making over participation of Counties in EIFD governance and funding contributions.

Lessons from Case Studies on SANDAG’s Gaps and Challenges Regarding Value Capture and Joint Development Implementation (cont.)

Lessons for Institutional and Governance Challenges

- **The creation and organization of special purpose entities that can work across public and private stakeholders as well as execute land use, infrastructure, and tax functions can be an effective way to streamline planning and delivery.** A special purpose joint powers entity can be a valuable vehicle to drive decision-making and group resources and expertise between stakeholders with differing capabilities and desires, as in the case of the Transbay Joint Powers Authority. Through the *Operador Urbano* figure, Metro de Medellin exercises multiple functions that allows it to spearhead capital improvements, lead the revitalization of areas around Medellin’s mass transit corridors, and obtain funding and financing for large infrastructure projects.
- **Initial planning for a development project can include support for future land value capture instruments**. For example, the initial Transbay Redevelopment Plan was approved in 2012, two years before the Transbay CFD was. This publicly-developed plan helped lay the path for the approval of the CFD.

Lessons from Case Studies on SANDAG's Gaps and Challenges Regarding Value Capture and Joint Development Implementation (cont.)

Lessons for Market and Financial Challenges

- **Multiple value capture tools can be combined to balance the timing and magnitude of expected revenues.** In Hudson Yards, since most revenues from Payment-in-lieu-of-taxes are not immediate, the one-time payments from density bonus sales provided revenue upfront. In the case of Transbay, the creation of a TIF district was combined with land sales and a CFD and a lease agreement over facilities that represented shorter-term sources of funding.
- **Future lease payments in long-term ground leases of public property can be used to leverage upfront financing.** In New York, the MTA issued $1B in bonds against its Hudson Yards ground leases to private developers, Related and Oxford Properties, which are expected to bring in cash flows of over $2 billion over a 99-year term.
- **A backstop from city or county governments can help spearhead the implementation of VC instruments**, particularly of those that can back debt issuances. However, backstops expose local jurisdictions to substantial market risks. For example, the City of New York's promise to cover interest payments for the Hudson Yards Investment Corporation (HYIC) became an expensive obligation as it supported HYIC's bonds during economic downturns like the Great Recession.
- **Revenues obtained thus far by approved EIFDs are quite limited in magnitude**, which prevents the issuance of EIFD-bonds to finance their infrastructure goals. Despite the existing limits in obtaining higher revenues, cities with approved EIFD are finding ways to use future revenues to accelerate the execution of infrastructure projects today in ways that do not necessarily include EIFD-issued bonds. In La Verne, the City is issuing bonds to pay for infrastructure works and the EIFD commits to reimbursing the City once it had a sustained revenue stream.

Lessons from Case Studies on SANDAG's Gaps and Challenges Regarding Value Capture and Joint Development Implementation (cont.)

Lessons for Operational Challenges

- **Existing entities may need to adapt their internal statues and organization structure to be able to effectively exercise delegated or newly-acquired authority to implement and manage VC.** As part of its conversion to an Urban Operator, Metro de Medellin changed internal processes and statutes, and created an Enterprises Management Division with attributions to sponsor and participate in business deals outside strictly transportation-related operations.
- **Special purpose entities with VC revenue collection authority may allow to streamline and ringfence funds for priority projects.** In the case of Hudson Yards, revenue is collected in a way that all proceeds go towards the financing of the project by avoiding passing through the City Finance Department and General Fund. PILOTs in the Hudson Yards Financing District are collected by the Industrial Development Agency, then transferred directly to HYIC as revenue to repay debt obligations.
- **The creation of special purpose entities can bring operational challenges to cities, particularly when it requires new dedicated staff**. In the case of EIFDs, their governance is exercised by Public Financing Authorities (PFI), where both county and city representatives are members (if the county agrees to participate in the EIFD). In all cases, PFIs are reliant on staff and technical resources from each city. This could potentially strain city operations and/or require significant existing capacity in city staff in order to support EIFD operations.

OVERVIEW OF REGIONAL CONTEXT FOR VALUE CAPTURE AND JOINT DEVELOPMENT IMPLEMENTATION

Summary of Key Government Stakeholders, Statutes and Legislation

Value Capture Instruments
Definitions

The following value capture instruments are most relevant for implementation in the San Diego region:

Value Capture Mechanism	Definition	Potential Applications
Community Facilities District (CFD)	CFDs are special tax districts generally created by cities or counties in California to raise revenue to finance facilities and services through the levy of special taxes on properties in the district. The setting of district boundaries and the tax levy are flexible. The tax must be reasonable and cannot be ad valorem. Often used for new developments. CFDs are used frequently in California, and many implemented at the County and City level in San Diego.	CFDs are flexible in the type of improvements or services that can be paid for. They are used most commonly for streets, water, sewer/drainage, electricity infrastructure, schools, parks & police.
Special Assessment District (SAD)	SADs provide for annual assessments on properties within a designated district and can be applied only if those properties receive a special benefit (over and above any benefit that other properties or the general public may receive) from the public improvement. The assessment must be based on the proportional cost of the "special benefit" received by each property owner in the district. The San Diego region has several assessment districts.	The most common districts are for improvement and maintenance of roads, annexations to the Countywide Street Lighting District; and County Services Areas (CSAs) for landscape maintenance, park maintenance, fire protection services, and paramedic services.
Tax Increment Financing (TIF)	Various types of TIF can be used to fund and finance facilities and improvements of communitywide significance in California. Participating taxing entities may voluntarily agree to contribute some or all of their property tax revenues on incremental assessed value increases of properties in the district for this purpose. Due in part to Proposition 13 – which, in broad terms, limits the annual growth of assessed values to 3%, unless the property is transacted – it takes time for incremental assessed value, and as a result TIF revenue, to grow. However, growth can take place faster when properties are transferred from one party to another (e.g., from public to private ownership) and in areas of significant new private development activity*. School districts are unable to participate in TIF.	TIF requirements vary by program and state to state and are most often used in areas suffering from blight or declining property values for improvements like affordable housing, utility upgrades, or infrastructure investments.

** Increases in properties' assessed value also take place in the case of completion of new construction on the property, including new buildings or additions.*

Value Capture Instruments
Definitions

The following value capture instruments are most relevant for implementation in the San Diego region:

Value Capture Mechanism	Definition	Applications
Impact Fees	Also called mitigation fees, they refer to payments (not a tax or assessment) imposed by local governments on developers of proposed real estate projects to cover all or a portion of the cost of impact (i.e., the cost of provision of new public facilities/services) stemming from the development project. The impact fee must correlate to the cost of impact created by the development project. Impact fees can be included as part of development agreements or through a broader impact fee program associated with all new development to support certain area-wide improvements. Cities throughout San Diego County have development impact fees programs that provide revenue to the cities for covering costs associated with new development.	New development requiring use of public infrastructure like roadways, utilities, and schools.
Joint Development (JD)	JD consists in a partnership between a public agency, private developer, and other entities such as a local government to develop land owned or controlled by the public sector. The public agency typically maintains some control over development type and project requirements, among others. JD agreements can be structured as public-private partnerships or with other cost and profit-sharing arrangements	In addition to public facilities, projects can include mixed-use complexes, housing, or workforce developments, and can be used to address housing equity and other issues.
Air Rights	Rights sold or leased under a competitive process to a private entity to develop the air space above a new or existing public facility or infrastructure.	Any type of development, often with certain specifications from the public entity selling or leasing the rights, like affordable housing.

Value Capture Instruments
Key Stakeholders, Relevant Statutes, and Legislation

The table below provides an overview of the relevant statutes, stakeholders and enabling legislation for the value capture mechanisms in California and the San Diego region.

Value Capture Instruments	Key Stakeholders	Relevant Statutes and Legislation
CFD	Public Sponsor Entity, Landowners / Registered Voters	Authorized by the Mello-Roos Act of 1982. Requires 2/3rds of the vote by registered voters (if 12 or more) or, if less than 12, then landowners within proposed district. The County of San Diego has produced a sample policy for the implementation of CFDs.
SAD	Property Owners, Public Sponsoring Agency	Authorized under the Improvement Act of 1911 (Streets & Highways Code sect. 5000 et seq.), the Municipal Improvement Act of 1913 (Streets & Highways Code sect. 10000 et seq.), and the Improvement Bond Act of 1915 (Streets & Highways Code § 8500 et seq.). Requires voter approval—the SAD can proceed with no majority protest of property owners within proposed district.
TIF	City, County, Other Taxing Entities, Landowners / Registered Voters, when vote is applicable	Each TIF type has its own nuanced requirements. The governing body is either the sponsor’s legislative body or a separate governing body and document (e.g., for an EIFD the governing body is a Public Financing Authority and governing document is an Infrastructure Financing Plan). Enabling legislation*: • Infrastructure Financing District (IFD): SB 308 (1990) • Infrastructure and Revitalization Financing Districts (IRFD): AB 229 (2013) • Enhanced Infrastructure Financing District (EIFD): SB 628 (2014) • Community Revitalization & Investment Authorities (CRIA): AB 2 (2015) Voter approval depends on form of district. For EIFD and CRIA, no vote required for district formation or bond issuances, but there is a public hearing process that must not have majority protest against formation The City of San Diego has released a set of sample policies for the implementation TIF tools within its jurisdiction.
Impact Fees	City and Developers	Primarily governed by AB 1600 California Mitigation Fee Act passed in 1987. AB 1600 allows impact fees to be imposed by the local jurisdiction without a popular vote. However, a nexus study is required. The City of San Diego has released a set of sample policies for the implementation of impact fees within its jurisdiction.

**There have been several other legislative updates over time for some of these tools.*

Value Capture Instruments

Key Stakeholders, Relevant Statutes, and Legislation (cont.)

Value Capture Instruments	Key Stakeholders	Relevant Statutes and Legislation
Joint Development	Agency, City, Developers	A public sector entity that owns or controls land in California can enter into a joint development agreement with developers (within the context of local procedures and regulations). No voter approval is required. In the San Diego region, both MTS and the North County Transit District have JD programs in place.
Air Rights	Agency and Developers (within zoning constraints)	Air rights are considered real property by Property Tax Rule 124 in California. Air rights are legal in California, but are restricted by height in local zoning codes, technologies used, and program types. No voter approval is required.

Gaps and Challenges for Value Capture and Joint Development Implementation

Gaps and Challenges

Common to all VC instruments in the SANDAG region (cont.)

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 1: Coordination and alignment across jurisdictions	Multi-jurisdictional infrastructure projects would benefit from the implementation of VC instruments for its funding across all the jurisdictions served by transit or other investments, but not all jurisdictions might agree on their value or have the conditions to implement them.	✓	✓		
Challenge 2: Lack of regional-level land use and taxing powers	Fragmentation in decision-making for VC instruments could be addressed by centralizing land use and taxing decisions in SANDAG, but the agency does not have this power and therefore needs to coordinate individually with each local jurisdiction.	✓	✓		
Challenge 3: High infrastructure funding and financing needs for large transformative TOD projects (for e.g., Central Mobility Hub, High Speed Rail)	Layering of multiple tools and resources with multi-jurisdictional coordination is required to reach magnitudes that are relevant for projects with large capital costs, with VC being a significant resource only in high-value and/or dynamic markets.			✓	
Challenge 4: Underleveraged ancillary sources of revenue	Missed opportunities for obtaining additional revenues from non real estate resources such as advertising, media, retail and broadband leases/concessions.		✓	✓	✓

Gaps and Challenges

Common to all VC instruments in the SANDAG region (cont.)

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 5: Uneven project delivery and administrative capacity across jurisdictions	Not all jurisdictions can implement VC instruments that require dedicated staff as well as regularly updated land and property value assessments.				✓

Gaps and Challenges
By type of instrument: Mello-Roos CFD

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 6: Challenging approval processes.	CFD tax levy requires 2/3rds vote of registered voters of district if 12 or more of landowners, weighted by acreage, if less than 12. The approval process is more efficient and generally less challenging through a landowner vote. As a result, CFDs are often used for new (greenfield) developments. As an example, sole landowners approved the tax levy for CFDs: in 2014 in the City of Ramon and in 2020 for the Mission Rock CFD in SF. [1] Some landowner votes have been questioned, so appropriate legal support is necessary.[2]	✓	✓		
Challenge 7: Taxes should not be so high as to discourage development/property ownership.	The County of San Diego has a tax burden limit where the total of all taxes on property is capped at 1.86%, at the time the CFD is formed, of the estimated sales price of subject properties to an end user within the district. This tax burden cap applies at the time the CFD is adopted and is only applicable to the parcels within the region that is under the County of San Diego's land use jurisdiction.[3]				✓

1. *https://www.counties.org/csac-bulletin-article/recent-ruling-clarifies-mello-roos-issue; and https://onesanfrancisco.org/sites/default/files/2020-02/Agenda%20Items%204%20and%205%20-%20Mission%20Rock%20CFD%20Memo.pdf*
2. *Examples: City of San Diego vs Shapiro (2014) and Horizon Capital Investments, LLC v. City of Sacramento (2019)*
3. *https://www.sandiegocounty.gov/content/dam/sdc/grandjury/reports/2021-2022/CommunityFacilitiesDistrictReport.pdf*

Gaps and Challenges

By type of instrument: Special Assessment District

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 8: Complexities in relating an improvement to a property assessment	In determining whether to form an assessment district, the public agency must define: the services or improvements to be funded; the special benefit that properties in the district will receive; the cost of the services and improvements; and the direct connection between the share of costs each property in the district will bear in relation to the benefit it will receive. Requires special and direct benefit to properties that are assessed; with the assessment being proportional to the benefit received by the property. The benefit must be particular and distinct as compared to general benefits received by other properties in the district or the general public at large. Requires an engineer to determine the specific benefit and fair allocation of taxes. Consequently, its implementation can be more complex/time consuming, and limitations exist on applicability of this type of district and on amount of funding/financing it can raise.	✓		✓	

Gaps and Challenges

By type of instrument: Tax Increment Financing (TIF) Districts

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 9: Alignment across tax entities on EIFD contributions.	Taxing entities (cities and counties) must agree to redirect incremental revenue from their taxes (i.e., Property tax and tax In Lieu of Vehicle License Fee) away from the general fund to an EIFD. While partnering among taxing entities can bring a larger stream of revenue, their participation is voluntary, even if their jurisdiction is benefitted by EIFD-related infrastructure works. Moreover, the decision to participate requires, at a minimum, a finding of net fiscal benefit (i.e., considering impacts to the general fund and additional costs of public service provision due to new development in the EIFD) to contributing entities.	✓	✓		

Gaps and Challenges

By type of instrument: Tax Increment Financing (TIF) Districts

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 10: Revenue growth takes time and there is lack of bond financing precedent in California.	Several EIFDs (one of the more flexible types of TIF districts) have been formed in California (e.g., Otay Mesa in San Diego, West Sacramento, Fresno, LA Verne, Palmdale, Placentia) but no bonds have been issued to date. One bond issuance for Treasure Island, an IFRD, was issued in 2022 in the par amount of $29.39M (district formed in 2017). The lack in issuances results, in large part, because revenue growth tends to be slow; it depends on, and lags assessed value growth. This tool generally works best in high assessed value/private development growth areas.			✓	

Gaps and Challenges

By type of instrument: Impact Fees

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 11: Unpredictable magnitude and timing of impact fees.	Impact fees are one-off fees that require a nexus between the development project and the cost of its impact, and the fee must be proportional to the cost/impact of the project. The timing and amount of fees are unpredictable. As a result of the requirements, impact fees/impact fee programs can be complex to implement. They also can be seen as a disadvantage to new property purchases/developments in relation to existing properties and generally less effective/applicable in lower growth and less populated areas. As a result of the one-off, unpredictable nature, they cannot be used to leverage upfront financing.	✓		✓	

Gaps and Challenges

By type of instrument: Joint Development and Air Rights

Gap/Challenge	Impact	Type of Gap/Challenge			
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Challenge 12: Lack of robust and consistent joint development/transit-oriented development policies across cities and agencies throughout region.	For instance: • NCTD Joint Use and Development of Real Property Board Policy #33 has focus on maximizing revenue, minimizing risk, design and placemaking, increasing transit ridership, supporting dense uses. • MTS Joint Development Program, April 2019 has focus on MTS view of property as a good candidate, support from city, sufficient parking ratios, housing affordability (minimum of 20% affordable), high density, mobility hub services, transit amenities and technologies.		✓		✓
Challenge 13: Competing timing and objectives of public landowners.	Land ownership is held by different public bodies/transit entities, NCTD, MTS, cities, other entities sometimes with. No single entity leading the effort for a coordinated joint development/TOD approach in each city to maximize value and achieve other common local/regional objectives. Examples include NCTD plans at Carlsbad Village, Poinsettia Stations, and Oceanside Transit Center and MTS at Encanto and Grantville Trolley Stations. Some cities also lack TOD-supportive zoning in their station areas.		✓		

Existing Taxing Mechanisms and Implications for Value Capture Instruments and Joint Development Implementation

Existing Taxing Mechanisms
Criteria to Assess Interaction with VC and JD

The Consultant Team has assessed six taxing mechanisms suggested by SANDAG, which predominately rely on property taxation. The Consultant has assessed each tax against the following two key considerations related to the implementation of value capture instruments and joint development:

1. **Significant revenue potential:** based on precedents in the San Diego region and other markets, the Consultant Team assessed whether the taxation mechanism has the potential capacity to provide a significant revenue for reinvestment.
2. **Potential threat of over-taxing development:** the Consultant Team assessed whether the existing tax, in conjunction with additional taxes, fees, and charges brought by VC implementation, could pose a risk of over-taxing developers and/or property owners, thereby disincentivizing real estate development and negatively impacting the financial viability of potential projects and real estate supply.

Details on each taxing mechanisms are included as part of Appendix 1 – Existing Taxing Mechanisms in SANDAG Region.

Existing Taxing Mechanisms

Summary of Interaction with VC

The table below summarizes the potential interactions – either positive or negative – of existing real estate taxes in the San Diego region with value capture instruments. These conclusions are based on the descriptions of each instrument in the following pages.

Name	In use in the San Diego region?	Main Characteristics	Key Considerations		Observations
			Significant Revenue Potential	Threat of over-taxing development	
Documentary Transfer Tax *(California Department of Tax and Fee Administration)*	YES	• Occurs when property ownership changes hands • Traditionally paid by the seller • Varies depending on County	●		Expected to raise $600M - $1.2B annually in Los Angeles. However, the amount may be significantly less in the City of San Diego.
Parcel Tax *(Local Government)*	YES	• A property tax levied on owners of parcels • Predominately a flat rate (not levied based on size or value), limiting its function • Requires 2/3 voter support to be imposed		●	Parcel tax is predominately a flat rate. However, it can also be levied on land size, providing a greater potential revenue stream.
Commercial Linkage Fee *(Local Government)*	YES	• A fee levied on all new commercial and institutional developments larger than 100,000 square feet	●	●	Housing Impact Fee in the City of San Diego, as of 2019, has raised over $65M, with funds supporting the construction of over 5,000 affordable housing units.

Existing Taxing Mechanisms
Summary of Interaction with VC

Name	In use in the San Diego region?	Main Characteristics	Key Considerations		Observations
			Significant Revenue Potential	Threat of over-taxing development	
Vacant Property Tax *(Local Government)*	NO	• Precedent exists in San Francisco. • Applies to owners of residential buildings with three or more units vacant for more than 182 days per year. • The Commercial Vacancy Tax rate is a tax on certain commercial spaces that are vacant for more than 182 days.	●		In San Francisco, precedent suggests that this tax mechanism has the capacity to produce over $20M of revenue annually. No such precedent exists for the San Diego region.
Business License Tax *(California Department of Tax and Fee Administration)*	YES	• A tax on business owners • The tax can relate to property owners, linked to an LLC or partnership, extending its reach and capacities		●	The tax increase is expected to raise $2.98M - $3.45M annually with funds going towards affordable housing initiatives.
Corporate Real Estate Investor Tax *(Proposed)*	NO	• Proposed in the state of California • May levy a 25% tax on an investor's net capital gains from the property's time of purchase until final sale or exchange	Undetermined		Has potential to raise $4B across the state but it is only a proposal at this stage.

CASE STUDIES

Case Studies
Overview

The Consultant Team conducted the four case studies highlighted below, which were identified and prioritized from a longer list in coordination with SANDAG. In each case study and following the categories of the “gaps analysis”, the Consultant Team analyzed the implementation of VC instruments and JD through four lenses: a) Legal and Regulatory; b) Institutional and Governance; c) Market and Financial; and d) Operational. Each case study provides an overview of the project using these four criteria and expands on those most relevant to address the identified gaps for SANDAG.

Far West Side and Hudson Yards Redevelopment

Far West Side and Hudson Yards Redevelopment
Overview

Location	New York, NY
Start Date	Planning began in 2001 and broke ground in 2012
Project Stage	Expected to be fully completed by 2027, with much of the development already operational today.
Capital Cost	The public cost of the project was over $3 billion, with private investment bringing the total development to over $25 billion
Value Capture Instruments Used	PILOT, Tax Equivalents, Density Bonuses
Joint Development Agreements	Ground lease between the MTA and Private Developer, with deck built over rail yards by Private Developer
Key Stakeholders	City of New York, City-owned Economic Development Corporation, Local Transit Authority (MTA), Private Developers
Governance	Two special purpose non-profit corporations, the Hudson Yards Development Corporation (“HYDC”) and Hudson Yards Investment Corporation (“HYIC”)
Description of Infrastructure project	Following the rezoning of the 60-block district on the Far West Side of Manhattan, the City of New York planned and redeveloped the formerly industrial area into a high-density, mixed-use neighborhood, now called Hudson Yards. Hudson Yards became the most expensive real estate development project ever in the United States and the largest in over 80 years.

Far West Side and Hudson Yards Redevelopment
Relevance for SANDAG

Legal and Regulatory

- The project is able to work around the constraints and requirements of the TIF laws in NYS through Pilot Increment Financing (PIF), a TIF-like district that involves the use of payments in lieu of taxes (PILOTs) instead of the property tax levy. Local governments enter into PILOT agreements with the owners of specific redevelopment sites and agree to use a portion of the proceeds to fund capital improvements related to the development.

Institutional and Governance

- The City created two non-profit special purpose entities to manage the project.
    - HYDC is a local development corporation that manages the implementation and ongoing operations of the public investments.
    - HYIC has the authority to issue debt to finance the public investment, separating the debt obligation from the City.

Market and Financial

- The City enhanced the credit conditions of HYIC's bonds by pledging to provide interest support when the HYIC receives insufficient funds from its primary sources of revenue, addressing the challenge of high project costs (challenge 3).
- The Metropolitan Transit Authority ("MTA") used its ground lease agreement with private developers, to issue $1B in debt by offering the Hudson Yards ground leases as securities.

Operational

- PILOTs in the Hudson Yards Financing District are collected by the Industrial Development agency (IDA), then transferred directly to HYIC as revenue. Since HYIC receives PILOTs directly, the funds do not flow through the City, avoiding the City's budget-making process and streamlining revenue collection (challenge 9).

Far West Side and Hudson Yards Redevelopment

The City formed two special purpose entities to finance and oversee the public infrastructure projects.

Governance Structure

Initial district planning and rezoning efforts for the full project district were City-led, executed by the New York City Department of City Planning and Economic Development Corporation.

When the project went to the implementation stage, two independent local development corporations were created to manage and execute the public investments as per the Far West Side Plan:

- **The Hudson Yards Development Corporation ("HYDC")** is a local development corporation under the laws of the State of New York, with board members appointed by the Mayor, that was charged with managing the planning, design and development of the rezoning area (except for the 7-train extension, overseen by the MTA). Established by the City in 2005, the HYDC spearheaded the implementation of the City's Hudson Yards development program. To accomplish its mission, HYDC collaborates with the various City and State entities and agencies that are involved in financing, planning, development and construction of the area, ensuring that the vision for the district is realized.
- **The Hudson Yards Infrastructure Corporation ("HYIC")** is a not-for-profit corporation with the ability to issue bonds to finance capital improvements in the area. The 7-train extension was an expensive public investment that otherwise was not a capital priority for the MTA or the State but was critical to draw private investment and development to the project area. The creation of the HYIC created a designated entity responsible to take on the risk of financing the extension and other public real improvements in the plan.

Far West Side and Hudson Yards Redevelopment

Roles and Responsibilities by Entity

Planning & Design

Department of City Planning (DCP)

- Identified the Far West Side as a redevelopment priority
- Along with NYCEDC, develops planning, real estate, & financing studies

Implementation

HYIC
Special purpose local development corporation created by the City as an instrumentality of the City

- Issued $3.5B of revenue bonds to provide initial financing

HYDC
Local development corporation created by the City to manage the Hudson Yards Project

- Manages the planning, design, and development of the Hudson Yards area

MTA

- Designs and constructs the 7-train extension, financed by HYIC

Related Companies & Oxford Properties

- Master developer for the West Side Rail Yards
- Funded deck construction, land creation, and a public square

Operations

HYDC

- Managing and overseeing the Hudson Yards full development

Related Companies & Oxford Properties

- Acts as master developer of Hudson Yards.
- Holds a 99-year NNN air rights lease.

Key

Far West Side

Hudson Yards

Far West Side and Hudson Yards Redevelopment

HYIC backs it debt issuance with a combination of recurring and non-recurring revenues.

<u>HYIC Revenue</u>

To finance the public investment in the 7-train and public realm, HYIC issued $2 billion in bonds in 2007, followed by another $1 billion in 2012.

Bonds issued by the HYIC are backed by revenue generated through new development within the 130-acre Hudson Yards Financing District (HYFD). Revenue includes a combination of recurring and non-recurring sources to address the lag in revenue growth from TIF-like sources, such as PILOTs (Challenge 10):

- **Payments in Lieu of Taxes (PILOT) Payments**: Rather than paying real income tax to the City, developers in HYFD are given abatements and instead, make PILOTs directly to HYIC offering a "substantial discount" from typical property tax rates for up to 19 years. The level of discount was determined by the developer's site's proximity to the new train line with up to a 40 percent discount.
- Other **Tax Equivalency Payments (TEPs)** are made by the City to HYIC, in an amount equal to real property taxes received by the City from new and substantially renovated commercial and residential developments in the HYFD that are not covered by a PILOT agreement.
- A smaller component of expected revenue comes from the sale of **density bonuses,** known as "District Improvement Bonuses" in this development, where developers can contribute to HYIC in exchange for additional air rights. The maximum air rights is determined on a site level.

Far West Side and Hudson Yards Redevelopment

The project made an innovative use of a backstop from the City to further support HYIC's debt issuance.

City Backstop

Given the expected lag between infrastructure construction and tax/fee revenue to be generated by commercial development, the City agreed to make **Interest Support Payments (ISPs)** should HYIC's revenue fall short. Such "moral obligation" provided assurance to bondholders and signaled commitment to private developers and enhanced the marketability of the bonds.

The City ended up contributing $360 million to cover interest payments from 2007 to 2017, greatly exceeding the estimated contribution required. In an initial feasibility study, Cushman and Wakefield projected City contributions to range from $7.4 to $205 million.

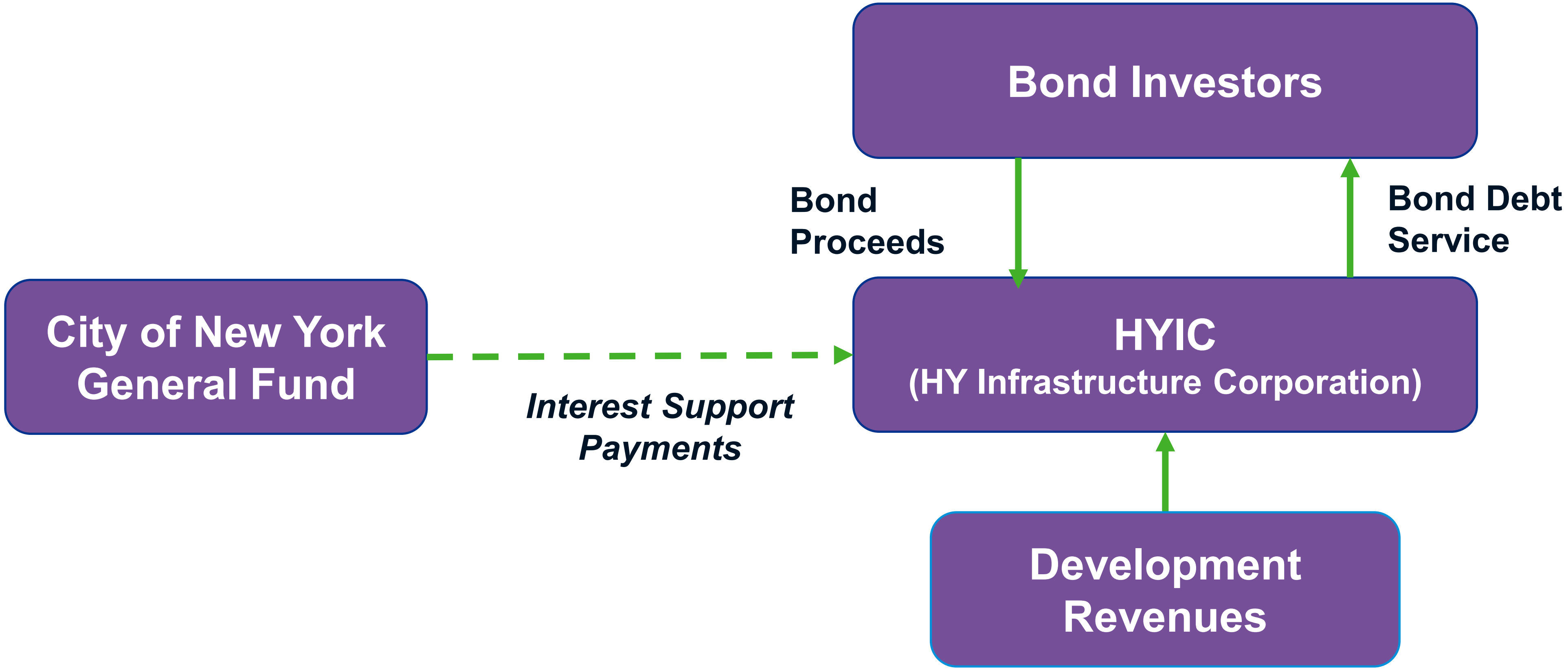
The additional expenses demonstrate the **market risk of PILOT and other TIF-like revenue sources**. Since property taxes depend on value appreciation from successful development, the Great Recession in 2008 caused unanticipated delays to private development as well as the 7-train extension.

As development projects in Hudson Yards have become operational and market conditions have stabilized over the past few years, **PILOTs are now beginning to provide a steady, recurring revenue base** for HYIC's debt obligations.

In 2017, HYIC issued $2.1 billion in additional debt to refinance the full $2 billion of 2007 bonds and part of the 2012 issuance at a lower rate, reducing interest obligations and pushing out principal repayment requirements. In 2021, Bloomberg reported that the City estimates around $27 billion in revenue from fiscal year 2021 to 2047.

Far West Side and Hudson Yards Redevelopment

HYIC Debt Repayment Structure



Far West Side and Hudson Yards Redevelopment

The MTA supported the private development of the West Side Rail Yard by offering private developers a ground lease of the site. Using the leases as security, the MTA was able to issue debt.

<u>Monetization of Hudson Yards Ground Leases</u>

In a separate transaction for development of the West Side Rail Yard, a site within the district owned by the MTA, Related Companies and Oxford Properties Group formed a joint venture as private developers on the project. In April 2013, **the joint venture executed a ground lease contract with the MTA, the owner of the site.**

The contract is composed of several 99-year ground leases of different parcels on the West Side Rail Yard (WSRY). The leases on the Eastern portion started at the end of 2012 with a 6-year period of phased out rent abatement, and the leases on the Western side started at the end of 2013 with a 7-year period of phased out abatements as vertical development advanced.

The ground lease payments were structured as triple-net, meaning that Related and Oxford are responsible for all operating and other expenses associated with the constructed improvements.

In 2016, for the first time in its history, the **MTA pledged the Hudson Yards leases as security for the Series 2016A Hudson Yards Trust Obligations** that had a face value of approximately $1B, were graded A2 by Moody’s, and which proceeds were used for capital program and repayment of outstanding debt.

The stream of cash flows that the MTA expects to collect from the ground leases as of December 2017 totals $2.64B in nominal terms.

Developments on the WSRY now include cultural sites like the Vessel, as well as luxury office and retail space.

Far West Side and Hudson Yards Redevelopment

The private development joint venture included provisions for affordable housing

15 Hudson Yards

Private development included provisions for affordable housing. **As part of the original Hudson Yards deal between the MTA and the Related and Oxford Properties joint venture, 107 units were set aside for affordable housing.**

In 2018, 15 Hudson Yards opened its lottery for 107 affordable units catering to 50-60 % average median income (AMI) households.

In addition, the City agreed to allow developers to count affordable units created in the area serve as an in-kind contribution of their Inclusionary Housing Bonus, which is sold in exchange for higher density. This, and other incentives, have led to additional affordable units to open including 235 units in the 3ELEVEN building for households earning between 40 to 100% of AMI and 177 units in the Lyra, with affordability levels ranging from 70 to 130% AMI.

Gaps and Challenges

Addressing Gaps and Challenges

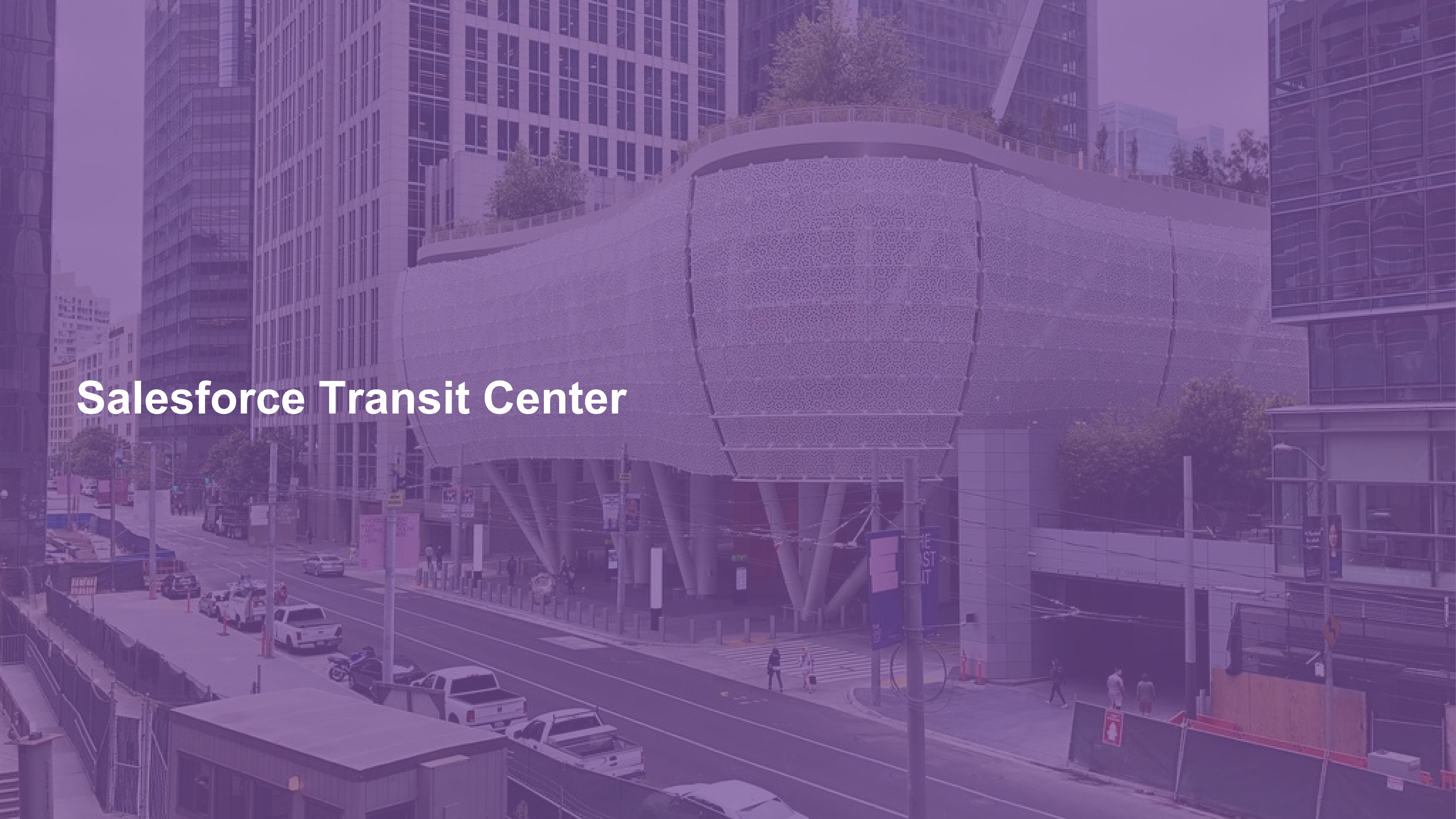
		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
General	SANDAG lacks land use control and taxing authority	The City formed two special purpose vehicles to operate and manage the project			
	High infrastructure funding and financing needs for large transformative TOD projects (for e.g., Central Mobility Hub, High Speed Rail)			A backstop from the City allowed HYIC to issue a large amount of debt and to cover interest payments in the case of cost overruns	
	Taxes should not be so high as to discourage development/property ownership.				Developers are offered a discount to regular property taxes through PILOT payments.
TIF Districts	Taxing entities must agree to redirect their property tax increment away from general fund for other purposes to TIF district for its uses and some do not receive a significant enough share to be meaningful without partnering.	PILOTs in the Hudson Yards Financing District are collected by the Industrial Development agency (IDA), then transferred directly to HYIC, avoiding the City's general fund.			
	Revenue growth takes time and there is lack of bond financing precedent in California.			HYIC combined non-recurring revenue from instruments like impact fees with the TIF revenue to smooth cashflows	

Gaps and Challenges

Addressing Gaps and Challenges

		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
Joint Development	Land ownership is held by different public bodies/transit entities, cities, other entities sometimes with competing timing and other objectives.		To develop the transit authority-owned land above a rail yard, the MTA entered a ground lease agreement with private developers		

Salesforce Transit Center



Salesforce Transit Center
Overview

Location	San Francisco, CA
Start Date	The plan for both phases of the redevelopment was approved in 2005
Project Stage	Phase I has been completed and Phase II is in planning phases.
Capital Cost	$2.26 billion for Phase I
Value Capture Instruments Used	Land Sales, TIF, Community Facilities District, Development Rights
Joint Development Agreements	Master Lease Agreement (“MLA”) with a private developer for O&M of commercial/non-transit program
Key Stakeholders	City and County of San Francisco, Multi-Jurisdictional Transit Agencies, Private Developers and Asset Managers
Governance	Joint Powers Authority, the Transbay Joint Powers Authority (“the TJPA”)
Description of Infrastructure project	The redevelopment of the former San Francisco Transbay Terminal was divided into two phases. Phase I included the demolition of the old terminal and the construction of a transportation hub, bus terminal, rooftop park, and subsequent adjacent private real estate redevelopment, like the Salesforce Tower and three other towers above 700 feet in height. Phase II, in planning is the extension of Caltrain service from its current San Francisco terminus at 4th and King Streets to the Transit Center, and eventual California High Speed Rail service.

Salesforce Transit Center

Relevance for SANDAG

Legal and Regulatory	Institutional and Governance	Market and Financial	Operational
• The formation of a Joint Powers allows the City, County, and transit agencies to jointly exercise common powers, giving the project's governing entity the authority to influence land use and taxation.	• Procurement of a private developer through a master lease agreement ("MLA") allows the TJPA to retain ownership of private assets while delegating certain operational risk to a third-party, addressing of maximizing value through Joint Developments.	• An incentive-based revenue sharing agreement in the MLA motivates the joint venture partner to maximize the economic capacity of the asset, which also helps align partners in maximizing value without needing to be the asset owner.	• The State was able to transfer state-owned parcels to TJPA which allowed TJPA to generate revenue from sales proceeds and value capture tools.

Salesforce Transit Center

The creation of the Transbay Joint Powers Authority ("TJPA") aligned interests and grouped authorities of the multijurisdictional public agencies involved.

Governance

To construct a new transit center on top of the old Transbay Terminal site, stakeholders formed **a new special-purpose joint entity under the 2001 Joint Powers Agreement, named the Transbay Joint Powers Authority (TJPA).** The Joint Exercise of Powers Act codified by California Government Code section 6500 allows two or more public agencies to jointly exercise common powers or form a separate legal entity with its own independent rights. The TJPA is the former, and, most valuably, has the funding and approvals power of the City and the County.

Shareholders from the City, the County, and various transit agencies had representation in the JPA as voting board members. TJPA board members use staff from their respective home agencies to support them in their role as board members.

The TJPA as an agency has its own staff of about twenty individuals that handle the day-to-day advancement of the project.

The TJPA was formed in part to address Challenge 5 where **no individual partner agency had the capacity, resources, and desire to run the entire Transbay project or take on the responsibility of a special-purpose joint entity.** Each partner agency, including the City, the County, and three separate transit agencies, had its own interests, concerns, and jurisdictions that were not all aligned.

TJPA brought together each partner and their relative resources and authority under one roof and provided a devoted vehicle for decision making and dispute resolution through its Board of Directors. The TJPA has met regularly since its inception and continues to meet regularly as Phase II continues in its planning phase.

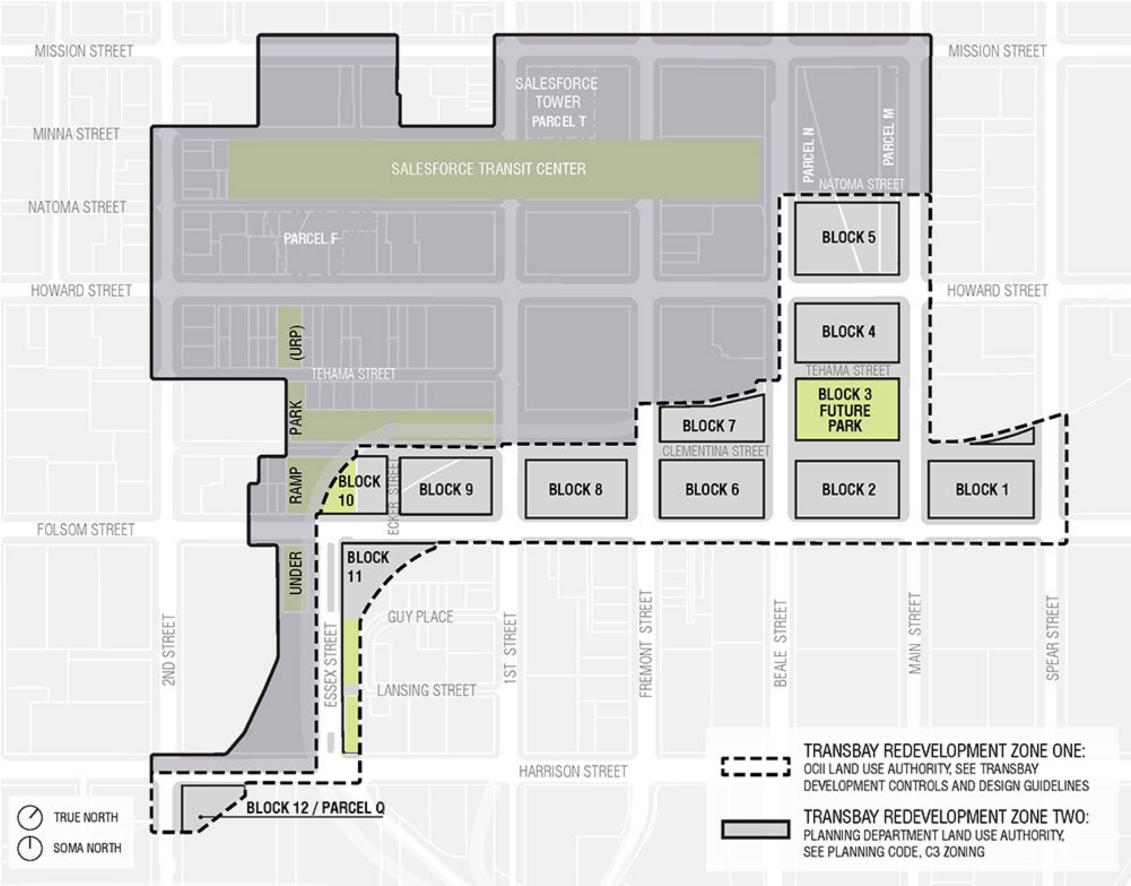
Salesforce Transit Center
The Transbay Redevelopment Project Area

The Transbay Redevelopment Plan

The Transbay Redevelopment Plan (“Transbay Plan”) was adopted in June 2005. The Transbay Plan calls for the redevelopment, rehabilitation, and revitalization of the area generally bounded by Mission, Main, Second and Folsom Streets in downtown San Francisco.

Along with TJPA, the Office of Community Investment and Infrastructure (OCII) is a state-authorized local entity serving as the successor to the former San Francisco Redevelopment Agency, is also responsible for executing the plan, as per a 2005 Implementation Agreement.

OCII has authority of Zone One of the Project Area, while the San Francisco Planning Department has control of Zone Two.



Salesforce Transit Center
Housing goals of the Transbay Plan

When fully built out, the Project will deliver new construction in the Project Area as per the numbers below:

Total Housing	3,800 units
Affordable Housing	1,400 units
Parks and Open Space	3.5 acres
Office and Retail Space	800,000 square feet

<u>Affordable Housing</u>

The Project has a goal that 35% of all housing units delivered will be affordable to low- and moderate-income households. These units will be in both market-rate housing developments as well as stand-alone, 100% affordable housing developments by OCII.

A number of developments have already been completed. For example,. Transbay Block 9 was developed into 500 Folsom Street, a combined market- and affordable-rate building. It was 100% occupied in August of 2020 and includes 108 affordable units by lottery.


500 Folsom

Salesforce Transit Center

Nearly half of required funding for phase I was financed through value capture tools, including land scales, TIF, and CFD special tax proceeds.

Phase I required $2.26 billion in funding, part of which was generated using the following value capture sources:

Land Sales

In 2004, the state government agreed to transfer to the City and County of San Francisco 12 acres of underutilized state-owned land surrounding the old Transbay Terminal, free of charge. Development would be subject to by-parcel development agreements, with parameters (e.g., building height, land use) defined by the TJPA in partnership with the San Francisco Planning Department during the environmental review process. **Land sales generated $515.6 million in proceeds and were ringfenced for the transit center development.**

TIFIA Loan

In 2010, the TJPA secured a $171 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the finding of the phase I. To repay the loan, with a term of 35 years after substantial project completion, TJPA pledged net tax increment revenues from certain State-owned parcels in the designated “Transbay Redevelopment Project Area” along with passenger facility charges (“PFCs”) received from use of the new Transit Center.

Gap financing provided by San Francisco, secured by TIF and Community Facility District Special Taxes

In 2015, the Metropolitan Transit Commission (MTC) recommended a Phase I budget increase bringing the total cost to $2.26 billion, leaving TJPA with a budget gap. **The City and County of San Francisco plugged the budget gap with $260 million in interim financing.** This indebtedness was an obligation of the City and County’s general fund but was expected to be repaid through TIF and “Mello-Roos” Community Facility District special taxes from the Transbay Redevelopment Project Area. The TJPA fully repaid this debt to San Francisco in May 2020.

Salesforce Transit Center

Proceeds from the Transbay Community Facility District (CFD) have been able to support over $500 million in bond issuance

Terms of the Transbay Transit Center Community Facilities ("Mello-Roos") District

The Transbay Transit Center CFD was approved by the City of San Francisco in 2014 following the City's adoption of the Transit Center District Plan in 2012 that set the stage for the development of the area around the Transit Center.

The CFD allows the levy of special taxes, up to $1.4 billion, on properties within the District, approximately 15 acres in Downtown San Francisco around the Transit Center. There is also a provision for properties to be annexed into the CFD if they use density bonuses and are located within the "Future Annexation Area". The benefit of the Future Annexation Area is the expansion of the special tax base with fewer procedural requirements.

The special tax was low enough that it did not deter development in the District or the Future Annexation Area. For example, in 2018, 250 Howard (Park Tower) was annexed in due it is use of zoning bonuses.

The proceeds of the CFD are split between the City and the TJPA, pursuant to a Joint Community Facilities Agreement. The Agreement dictates that 82.6% of proceeds from the special tax to TJPA to finance the project, while the remaining 17% go to general streetscape and transportation enhancements in the District, including a portion allocable to the San Francisco Bay Area Rapid Transit ("BART").

As of December 2022, proceeds from the Transbay CDF have been pledged as securities for **five bond issuances with an aggregate par amount of $593 million.**

Salesforce Transit Center

Joint Venture through a Master Lease Agreement

Master Lease Agreement with Third-Party Asset Manager

After the completion of the Salesforce Transit Center, the TJPA sought a partner to:

1. Fit-out, lease, and manage the retail space;
2. Develop and operate the promotional platform;
3. Manage and produce private and public events; and
4. Operate and maintain facilities and capital improvements.

Through an RFP process, the TJPA contracted a private third-party entity, the Lincoln Property Company, as the asset manager of the Transit Center.

The TPJA and Lincoln Property Company entered into a master lease agreement. Through the agreement, Lincoln Property Company is **responsible for operations and management of the Transit Center's assets, with limited oversight from the TJPA.** This agreement also allows the TPJA to transfer a share of risk while maintaining ownership of the Center and receiving a share of generated revenues through a pre-negotiated rent from the private party.

Revenue Generation

Lincoln Property company receives a combination of flat management fees, commission, and revenue share as specified in the agreement.

Over 64% of fees, commissions, and revenue sharing are incentive-based, designed to **incentivize Lincoln Property Company to maximize the economic capacity** of the Transit Center, one of the TJPA's goals for the partnership.

Salesforce Transit Center

Joint Venture through a Master Lease Agreement

Ancillary Revenue Generation

In addition to generating revenue off the leasing of the real estate space, the high volume of foot traffic throughout the facility, and the opportunity to coordinate promotional content across the facility, results in **strong advertising sales and naming rights potential.**

As part of the master lease, a private media company is responsible for programing and managing the promotional platform, leveraging the opportunity for additional income (Challenge 4). Responsibilities include developing and managing the content management system, running content on the Transit Center's digital screens, as well as managing the sale of advertising, sponsorship, and naming rights agreements. The promotional platform will also include, potentially as a part of the above items, promotional events.

To incentivize performance, the TJPA and the private partner, Pearl Media, follow the following revenue sharing structure:

Pearl Media is committed to providing the greater of i) $1.25 million or ii) 80% of the prior year's digital advertising net revenue to the TJPA as a **minimum annual guarantee (MAG)**. This guarantee will be backed by a letter of credit, to be drawn on in the case that Pearl misses this target in any given year. Each year, Lincoln will provide a reconciliation of promotional platform revenues to ensure that this MAG was reached. In any case in which the MAG is not reached, Pearl will owe the TJPA the remaining amount.

Gaps and Challenges
Addressing Gaps and Challenges

<table>
<tr><th></th><th></th><th>Legal / Regulatory</th><th>Institutional / Governance</th><th>Market / Financial</th><th>Operational</th></tr>
<tr><td rowspan="4">General</td><td>Fragmented municipal governments with competing objectives</td><td colspan="2">The formation of a Joint Powers Authority with board representation from all stakeholders served as a dedicated decision-making vehicle for the project.</td><td></td><td></td></tr>
<tr><td>SANDAG lacks land use control and taxing authority</td><td colspan="2">The Joint Powers Authority includes both the City and the County and allows them to exercise their common powers.</td><td></td><td></td></tr>
<tr><td>High infrastructure funding and financing needs for large transformative TOD projects (for e.g., Central Mobility Hub, High Speed Rail)</td><td></td><td></td><td>Combination of a number of funding sources including debt supported by value capture tools.</td><td></td></tr>
<tr><td>Underleveraged opportunities to monetize non-real estate assets</td><td></td><td colspan="3">Generated ancillary revenue by entering a master lease agreement with private partners specializing in advertising, events, and leasing. Private partners were incentivized to maximize the economic value TJPA’s assets through incentive-based revenue sharing agreements</td></tr>
<tr><td rowspan="2">Mello-Roos CFD</td><td>CFD tax levy requires 2/3rds vote of registered voters of district if 12 or more of landowners, weighted by acreage, if less than 12.</td><td>The approval of a district plan helped set the stage for the approval of the CFD</td><td></td><td></td><td></td></tr>
<tr><td>Taxes should not be so high as to discourage development/property ownership.</td><td></td><td></td><td>The district is in a desirable part of downtown and the special tax levy did not deter development.</td><td></td></tr>
</table>

Gaps and Challenges

Addressing Gaps and Challenges

		Legal / Regulatory	Institutional / Governance	Market / Financial	Operational
TIF Districts	Taxing entities must agree to redirect their property tax increment away from general fund for other purposes to TIF district for its uses and some do not receive a significant enough share to be meaningful without partnering.	The TIF is pledged under a pledge agreement through 2050, after which the property taxes will no longer be allocated to TJPA.			
	Revenue growth takes time and there is lack of bond financing precedent in California.			TIF was not used for bond financing but was used to partially repay part an interim financing debt obligation to the City of San Francisco.	

Metro de Medellin Urban Operator (*Operador Urbano*)

Metro de Medellin Urban Operator
Overview

Location	Medellin, Colombia
Start Date	Metro Medellin was granted the status of Urban Operator (*Operador Urbano*) in 2019, which provided it with special attributions to advance urban regeneration projects for infrastructure development, land use, value capture, and joint development.
Project Stage	Metro de Medellin has used its faculties as Urban Operator in the redevelopment of Parque Berrio, a central historic area in Medellin home to one of the system's most important stations. Moreover, Metro de Medellin is currently using its new attributions on the redevelopment of the "Corredor 80" mass transit corridor, which is in planning stage and will involve the construction of a new metro line, bike lanes, sidewalks, and an overall revitalization of the area.
Capital Cost	The redevelopment of Parque Berrio had a cost of approximately $9.4 million (2022 dollars) As of 2022, Carrera 80 has a projected cost of 3,540 COP billion / $782 million.
Value Capture Instruments Used	Metro de Medellin can implement a variety of VC instruments, including tax increment financing, density bonuses, and special assessments.
Joint Development Agreements	Metro de Medellin can implement JD agreements.
Key Stakeholders	Metro de Medellin, Medellin City Government.
Description of Governance Mechanism	Through an agreement between Metro de Medellin and the Medellin City Government, Metro de Medellin was granted in 2019 the status of "Urban Operator", a new legal figure regulated in the city in 2017. As Urban Operator, Metro de Medellin is a state-owned enterprise with attributions of both a government agency and a private enterprise, including sponsoring real estate development deals, participating in land use decisions around mass transit corridors, and implementing value capture to fund its own capital investments and operations.

Metro de Medellin Urban Operator

Relevance for SANDAG

Legal and Regulatory	Institutional and Governance	Market and Financial	Operational
• Local Decree 893/2017 established and regulated the legal figure of Urban Operator in Medellin • 2019 Inter-administrative agreement between City and Metro de Medellin assigned Metro de Medellin its status as Urban Operator and jurisdiction over "areas of influence" around mass transit corridors, bridging the challenges presented by fragmented jurisdictions.	• As *Operador Urbano,* Metro de Medellin centralizes several functions and powers otherwise spread out across different agencies, including participating in business deals, manage land use decisions, implementing value capture, and receiving revenue from value capture tools, among others	• N/A	• Enterprises Management Division within Metro de Medellin has attributions to sponsor and participate in business deals outside transportation-related operations (Challenge 4).

Metro de Medellin Urban Operator

Legal figure of *Operador Urbano*

Municipalities in Colombia have created institutions that act as “Urban Operators” (*Operadores Urbanos*) with budget and legal autonomy to make land transactions, invest in specific areas defined in their statutes, capture public and private capital for project development, and issue bonds. A prominent case of Urban Operator is Metro de Medellin, which operates and invests on the city’s metro and gondola lines, and invests and promotes investments in areas around the stations

The genesis of Metro de Medellin’s designation as an Urban Operator in 2019 is directly related to the limited resources it faced to build 16 new mass transit corridors, the need to obtain non-fare related revenues, and its reliance on discretionary federal funding to pursue major projects. Metro de Medellin found that leveraging its own asset to engage real estate development around mass transit corridors and capturing increases in land value around the stations could provide substantial resources in the mid- and long-term to fund its new mass transit corridors. Its designation as *Operador Urbano* was needed for Metro de Medellin to be able to undertake those activities.

Metro de Medellin Urban Operator

Legal figure of *Operador Urbano*

As Urban Operator, Metro de Medellin can capture the increase in land values from the construction of new lines and from the unlocked real estate potential around its stations. As an *Operador Urbano*, Metro de Medellin can jointly lead network improvements, engage in real estate projects, receive contributions from private investors in public-private partnership agreements, and receive revenue from the implementation of value capture instruments. While the main purpose of Metro de Medellin continues to be the management and operation of Medellin's mass transit system, as an Urban Operator Metro de Medellin can now also manage land use decisions around its corridors, pursue real estate deals and other businesses, and promote the revitalization of areas adjacent to the stations.

As part of its conversion to an Urban Operator, Metro de Medellin underwent a deep institutional and operational re-structuring, including the change of internal processes and statutes, as well as the creation of an Enterprises Management Division (*Gerencia de Desarrollo de Negocios*) with attributions to sponsor and participate in business deals outside strictly transportation-related operations.

Metro de Medellin Urban Operator

As *Operador Urbano*, Metro de Medellin gained four additional functions for overall administration priorly distributed among other stakeholder and three specific roles related to VC and JD implementation.

Metro de Medellin's new functions as *Operador Urbano* include:

- Land and real estate management: Metro de Medellin guides the process of land use regulations around the system stations and corridors;
- Financial management: Metro de Medellin collects, administrates, executes and directs public and private resources towards capital investments, including those coming from VC instruments and real estate deals.
- Management of social issues: Metro de Medellin manages and coordinates policies to benefit residents around transit corridors; and
- Interinstitutional coordination: Metro de Medellin integrates the economic, government, and social stakeholders relevant to its capital investments and real estate developments.

With regards to implementing value capture and joint development, Metro de Medellin also has specific roles and attributions, including:

Participation in Business Deals

- Structuring of real estate deals
- Partnering with real estate developers
- Exchange, bailment, concession, and leasing of properties

Management of Stakeholders and Land Use

- Implementation of land use decisions and value capture instruments
- Administration of revenues from value capture instruments
- Managing relations among community groups, utilities, government agencies and property-owners

Management of Public Resources

- Conduct investments in public infrastructure and social projects
- Manage a land bank

Metro de Medellin Urban Operator

As *Operador Urbano*, Metro de Medellin participates in businesses like a private entity, while administrating taxes and receiving revenues like a government agency.

As a private-like entity, metro can make land and property transactions, participate in business deals, and partner with real estate developers.

As a government entity, Metro de Medellin has direct management over government projects and resources. For .e.g., they are the sponsors of the *Metro de la 80*, a new subway line, and can implement value capture tools and receive the revenue arising from them.

Metro de Medellin Revenues

From participation in Business Deals

Metro de Medellin acts like a private company

Private resources:
- Real estate deals
- Land and property transactions
- Advertising
- Donations
- Fees from administering assets
- Bonuses from good performance in service provisions

From government interventions

Metro de Medellin acts like a government entity

Public resources:
- Land value capture proceeds (for e.g., revenues from tax increment financing or improvement district assessments)
- User fees
- Proceeds from public financing instruments
- Transfers from local and national government

Metro de Medellin Urban Operator

Implementation of Parque Berrío Project

The City of Medellin is pursuing the revitalization of Parque Berrío, an area located in the city's historic center. This Project involves:

- Renovating the Parque Berrío Metro station
- Intervening public spaces in Plaza Botero, the main public park in the area
- Renovation of building facades and the city's historic heritage.
- Building public art installations

As Urban Operator, Metro de Medellin is guiding this redevelopment project, particularly by:

- <u>Land and real estate management</u>: the City of Medellin delegated in Metro de Medellin the administration of public spaces in the area, as well as the creation of partnership with concessionaries in order to reactivate and revitalize these spaces.
- <u>Financial management</u>: Metro de Medellin is leading the formation of a Business Improvement District (*Áreas para Revitalización Económica*). The BID will involve a system of voluntary contributions from landowners to fund the project, mostly provided by large institutions and commercial developments in the area. Revenue from these contributions will go to Metro de Medellin for its use in the revitalization of the Parque Berrío area.
- <u>Interinstitutional coordination</u>: Metro de Medellin leads an alliance of institutional, government, and market stakeholders in the Parque Berrío Area in order to formulate planning strategies and the management of public spaces in the Parque Berrío area.

Gaps and Challenges
Addressing Gaps and Challenges

<table>
<tr><th></th><th></th><th>Legal / Regulatory</th><th>Institutional / Governance</th><th>Market / Financial</th><th>Operational</th></tr>
<tr><td rowspan="5">General</td><td>Fragmented municipal governments with competing objectives</td><td colspan="2">Urban Operator designation gave Metro de Medellin jurisdiction over “areas of influence” around mass transit corridors, bridging the challenges presented by fragmented jurisdictions</td><td></td><td></td></tr>
<tr><td>SANDAG lacks land use control and taxing authority</td><td colspan="2">The legal status of Urban Operator grants Metro de Medellin the authorities of a government agency, like land use control around station areas.</td><td></td><td></td></tr>
<tr><td>High infrastructure funding and financing needs for large transformative TOD projects (for e.g., Central Mobility Hub, High Speed Rail)</td><td></td><td></td><td>Metro de Medellin has access to a number of revenue generating opportunities, like land value capture and private partnerships.</td><td></td></tr>
<tr><td>Underleveraged opportunities to monetize non-real estate assets</td><td></td><td colspan="3">As part of the Urban Operator designation, Metro de Medellin created a new division that was permitted to participate in business deals outside of strictly transportation-related operations.</td></tr>
<tr><td>Uneven project delivery capacity across jurisdictions</td><td></td><td></td><td></td><td>Metro de Medellin centralizes functions like value capture implementation that were otherwise spread between agencies</td></tr>
</table>

Gaps and Challenges

Addressing Gaps and Challenges

<table>
<tr><th></th><th></th><th>Legal / Regulatory</th><th>Institutional / Governance</th><th>Market / Financial</th><th>Operational</th></tr>
<tr><td>TIF Districts</td><td>Taxing entities must agree to redirect their property tax increment away from general fund for other purposes to TIF district for its uses and some do not receive a significant enough share to be meaningful without partnering.</td><td colspan="2">The Urban Operator designation delegated responsibilities from the cities to Metro de Medellin in the areas around transit stations.</td><td></td><td></td></tr>
<tr><td rowspan="2">Joint Development</td><td>Lack of robust and consistent joint development/transit-oriented development policies across cities and agencies throughout region.</td><td rowspan="2"></td><td rowspan="2">Metro de Medellin has the authority across the multiple jurisdictions where it operates to execute real estate transactions and private partnerships, unifying policies.</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>Land ownership is held by different public bodies/transit entities, sometimes with competing timing and other objectives.</td></tr>
</table>

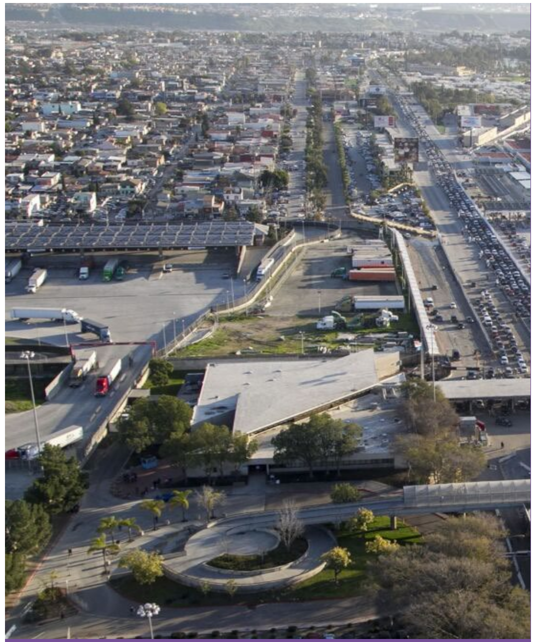
Approved Enhanced Infrastructure Financing Districts

San Diego (Otay Mesa)
La Verne (Transit-Priority Project)
West Sacramento
Los Angeles County EIFD Participation Policy

Approved EIFDs

Overview

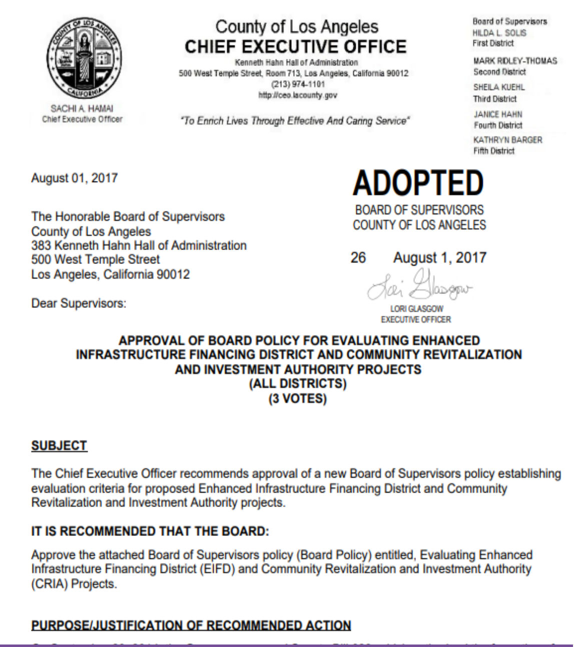
Since the regulation of Enhanced Infrastructure Financing Districts in 2014, only three districts have been approved in the State of California, and only one county has regulated its participation. This subsection provides an overview of the characteristics and regulations concerning their operations, sources and destination of revenues, as well as amount of funds obtained to date.



San Diego - Otay Mesa - EIFD

La Verne - EIFD

West Sacramento - EIFD



County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
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(213) 974-1101
http://ceo.lacounty.gov

SACHI A. HAMAI
Chief Executive Officer

"To Enrich Lives Through Effective And Caring Service"

Board of Supervisors
HILDA L. SOLIS
First District
MARK RIDLEY-THOMAS
Second District
SHEILA KUEHL
Third District
JANICE HAHN
Fourth District
KATHRYN BARGER
Fifth District

August 01, 2017

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
26 August 1, 2017
Lori Glasgow
LORI GLASGOW
EXECUTIVE OFFICER

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

APPROVAL OF BOARD POLICY FOR EVALUATING ENHANCED INFRASTRUCTURE FINANCING DISTRICT AND COMMUNITY REVITALIZATION AND INVESTMENT AUTHORITY PROJECTS
(ALL DISTRICTS)
(3 VOTES)

SUBJECT

The Chief Executive Officer recommends approval of a new Board of Supervisors policy establishing evaluation criteria for proposed Enhanced Infrastructure Financing District and Community Revitalization and Investment Authority projects.

IT IS RECOMMENDED THAT THE BOARD:

Approve the attached Board of Supervisors policy (Board Policy) entitled, Evaluating Enhanced Infrastructure Financing District (EIFD) and Community Revitalization and Investment Authority (CRIA) Projects.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Los Angeles County EIFD Participation Policy

San Diego – Otay Mesa

Category		Characteristics
Date of formation		July 2017
Operations		The Public Financing Authority (PFI) has no staff and therefore relies on the City to provide for its operational staffing needs. This is accomplished via a Memorandum of Understanding between the PFI and the City outlining how the City provides operational staff services to the PFI, and how the PFI reimburses the City for those services. The board has five members, all of which are appointed by City Council.
Origin of Tax Increment revenue	Type of tax	Property tax in-lieu of vehicle license fee increment, otherwise allocable to the City.
	Who contributes?	No taxing entity other than the City will allocate tax increment revenues to the EIFD.
	Maximum contribution (%)	The maximum portion of the City's property tax increment revenue allocation to be committed to the EIFD will be 50% through June 30, 2022, and 100% throughout the remaining duration of the EIFD.
	Revenue collected ($)	$2.7 million (cumulated till FY 2021)
Use of Tax Increment revenue	Regulations on destination of funding	As sufficient EIFD proceeds are collected by County of San Diego and deposited at the City, staff pursues the necessary actions to appropriate the funds to the designated project part of the local capital improvement program CIP.
	Current use of funds	Funds are allocated to La Media Road project ($1.1 million). This improvement is part of an integrated transportation network that will provide mobility and accessibility to the residents and businesses of the community. It is also part of the designated Truck Route for the Otay Mesa Port of Entry, and once completed will accommodate future development and commercial traffic.
	Has the EIFD issued debt?	No, but in August 2022 the Board approved the first issuance of bonds by the district for $57 million. The issuance of bonds is imminent.

La Verne

Category		Characteristics
Date of formation		2017
Operations		There is no publicly available information on the internal operations of the PFI, but all staff mentioned across external documents belongs to the City of La Verne government. The board has five members, two from the County of Los Angeles and three from the City of La Verne.
Origin of Tax Increment revenue	Type of tax	Property tax in-lieu of vehicle license fee increment, otherwise allocable to the City
	Who contributes?	City of La Verne and Los Angeles County allocate tax increment revenues to the EIFD.
	Maximum contribution (%)	The maximum portions of the City's property tax increment revenue allocation to be committed to the EIFD will be 100% throughout the duration of the District, and 50% for the County of Los Angeles.
	Revenue collected ($)	$155,000
Use of Tax Increment revenue	Regulations on destination of funding	EIFD will be used to pay for the cost of installing various public improvements in the City's Old Town Area in advance of opening Metro's Foothill Gold Line station at an estimated cost of $33 million.
	Current use of funds	The Authority has entered into a reimbursement agreement with the City in order to fund street improvements on E and 2nd Streets. The City is responsible for these costs initially, with the Authority being responsible to repay those expenses once the fund balance can support the repayment.
	Has the EIFD issued debt?	No. However, in order to fund works in E and 2nd Streets, the City is issuing bonds to pay for this work with the EIFD reimbursing the City once it had a sustained revenue stream.

West Sacramento

Category		Characteristics
Date of formation		June 2017 (oldest EIFD in the state)
Operations		There is no publicly available information on the internal operations of the PFI, but all staff mentioned across external documents belongs to the West Sacramento government. The board has five members, two from the County of Los Angeles and three from the City of La Verne.
Origin of Tax Increment revenue	Tax EIFD receives	Portion of existing Redevelopment Property Tax Trust Fund (RPTTF) revenues and, potentially, incremental property tax in-lieu of motor vehicle license fee (VLF). The City does not intend to deposit property tax in-lieu of motor VLF revenues into the EIFD but retains the right to do so over the term of the EIFD.
	Who contributes?	The City of West Sacramento is the only taxing entity in the EIFD.
	Maximum contribution (%)	100% of the City's share of incremental property tax increment generated by properties within the EIFD.
	Revenue collected ($)	$7.0 million (cumulated till FY 2021)
Use of Tax Increment revenue	Regulations on destination of funding	The EIFD covers approximately 25% of the entire City with a diverse set of land uses. Expenditure of the EIFD revenues will provide community-wide benefits, including housing, economic development, mobility, and parks and recreation.
	Current use of funds	Detailed information on current uses is not available. The City's 2021-2023 Operations & Maintenance Budget recommends use of EIFD revenue for a new neighborhood park and street improvements along the riverfront, but there is no further confirmation of how funds are being effectively used.
	Has the EIFD issued debt?	At this time, the City does not intend to secure voter approval for the issuance of bond debt. The City intends to fund improvements on a "pay-go" basis or to use non-bond debt instruments.

Los Angeles County EIFD Participation Policy

Key characteristics

In 2017, the County of Los Angeles Board of Supervisors approved a policy for evaluating the County's potential participation in proposed EIFDs from city governments, including the following minimum requirements:

- The City's share of the general property tax must equal at least 15% for every dollar captured in the EIFD Project Area.
- The City's contribution of property tax must be at least equal to the contribution from the County and its special districts.
- The County must not contribute 100 percent of its property tax increment
- There must be a positive impact to the County General Fund from the EIFD, demonstrated through a fiscal analysis conducted by the County Chief Executive Office.
- In addition to supporting economic development, the proposed EIFD Project must align with established Board priorities in one or more of the following areas: 1) affordable housing; 2) homeless prevention; 3) workforce development; or 4) sustainability
- Any rental housing proposed for the EIFD must allocate a minimum of 20 percent of all units for affordable housing. In certain circumstances, this requirement may be satisfied through payment of an in-lieu fee, or through provision of an equivalent number of affordable housing units at a separate location in proximity to the economic development site.
- The EIFD must be consistent with State EIFD law.

The County has since participated in EIFDs like that with the City of La Verne.

Experience from Existing EIFDs Concerning Identified Gaps and Challenges

<table>
<tr><th></th><th>Challenge</th><th>Legal / Regulatory</th><th>Institutional / Governance</th><th>Market / Financial</th><th>Operational</th></tr>
<tr><td rowspan="4">Challenges Affecting all VC Instruments</td><td>Fragmented municipal governments with competing objectives</td><td colspan="2">EIFDs must be governed by a newly created entity named Public Financing Authority (PFI).</td><td></td><td></td></tr>
<tr><td>SANDAG lacks land use control and taxing authority</td><td colspan="2">Taxing authorities within the EIFDs must agree to participate in the PFIs and contribute to the EIFD.</td><td></td><td></td></tr>
<tr><td>High infrastructure funding and financing needs for large transformative TOD projects</td><td></td><td></td><td>Revenues obtained thus far by approved EIFDs are quite limited in magnitude.</td><td></td></tr>
<tr><td>Uneven project delivery capacity across jurisdictions</td><td></td><td></td><td></td><td>Public Financing Authority can operate across multiple jurisdictions, but relies on the staffing capacities of jurisdictions involved</td></tr>
<tr><td rowspan="2">Challenges Affecting EIFDs specifically</td><td>Taxing entities must agree to redirect their property tax increment away from general fund for other purposes to TIF district for its uses and some do not receive a significant enough share to be meaningful without partnering.</td><td colspan="2">LA County established a policy where the City's contribution must be at least equal to the County's and other special districts'.</td><td></td><td></td></tr>
<tr><td>Revenue growth takes time and there is lack of bond financing precedent in California.</td><td></td><td></td><td>The Otay Mesa EIFD has received board approval to issue bonds.</td><td></td></tr>
</table>

APPENDIX I.I - EXISTING TAXING MECHANISMS IN SANDAG REGION

Existing Taxing Mechanisms
Documentary Transfer Tax & Parcel Tax

Documentary Transfer Tax

Overview

When the ownership of a property changes hands, the ownership transfer document needs to be recorded in the County Recorder's office where the property is located. The County Recorder, under the Revenue and Taxation Code, collects a "transfer fee" on behalf of the State Board of Equalization. This fee is the Documentary Transfer Tax and is part of the revenue that is generated for the individual counties and cities. The tax is traditionally paid by the seller. Changes to the documentary transfer tax rate require a simple majority voter approval.

Calculation

$1.10 per $1,000 (or $0.55 per $500.00 to be exact per the Code) of the transfer value (sales price) of the property to be transferred.[1]

Key Precedents

Los Angeles Measure ULA (2022); San Francisco Proposition I (2020)

Relevance to VC

The "Homelessness and Housing Solutions Tax" recently approved in Los Angeles will impose a new and additional transfer tax on real estate valued at more than $5 million to fund affordable housing initiatives. This tax can provide additional funding for affordable housing and other purposes without imposing additional taxes on new property owners and developers, on whom additional LVC taxes may be imposed. Mechanisms such as this can support new development while not imposing additional burden on developers and disincentivizing housing supply.

Parcel Tax

Overview

The parcel tax is a tax on parcels of real property collected as part of a property tax bill. Unlike the property tax, the parcel tax cannot be based on property value. Typically, it is a flat tax that does not vary with the size or characteristics of a parcel. To impose a parcel tax, governments must win support from two-thirds of voters.[2] However, if a parcel tax is put on the ballot by a citizen's initiative, it can be passed with only a simple majority.[3]

Calculation

In San Diego, parcel tax reflects a type of property tax that is based on units of property rather than assessed value—of up to $1,400 per parcel for the first 10 years, and up to $500 per parcel thereafter, to provide road maintenance services.

Key Precedents

San Diego Permanent Road Division Zone No. 117 (2017)

Relevance to VC

Parcel tax predominately reflects a flat rate and can not be reformed to be levied on land value (as property tax already does this). However, there is potential for it to be based on size. This would enable it to be a more useful long-term revenue option to local governments.

Sources:
1. CA Rev & Tax Code § 11911
2. Public Policy Institute of California
3. City and County of San Francisco *v. All Persons Interested in the Matter of Proposition G (2021) court decision*

Existing Taxing Mechanisms
Vacant Property Tax & Commercial Linkage Fee

Vacant Property Tax

Overview

There is currently no Vacant Property Tax (VPT) in the City of San Diego. However, a recently passed VPT in San Francisco is a helpful for reference for what its implementation could look like.

Residential properties: a vacant property tax, commencing January 2024 and start applying to owners of buildings with three or more units vacant for more than 182 days per year.

Commercial properties: the Commercial Vacancy Tax rate is a tax on certain commercial spaces that are vacant for more than 182 days.

Enactment of a VPT requires simple majority voter approval.

Calculation

Residential: between $2,500 and $5,000 per empty unit for the first two years of vacancy, with up to $10,000 for any at three or more years.[1]

Commercial: calculated based on a building's frontage, to the nearest foot. $250-$1,000 per foot of frontage (based on vacant years)[2]

Key Precedents

San Francisco Proposition M (2022), Proposition D (2020); Oakland Measure W (2018)

Relevance to VC

Precedent suggests that this tax mechanism has the capacity to produce over $20M of revenue annually in San Francisco. It is unclear how developers would incorporate a potential tax like this into their feasibility analyses.

Commercial Linkage Fee

Overview

In the City of San Diego, new non-residential developments in the categories of office, retail, research and development, and hotel development are required to pay a fair share of the costs of subsidy necessary to house the low- and very low-income employees who will occupy the jobs new to the region that are related to such development, in the form of a commercial linkage fee. A nexus study which demonstrates the link between new commercial development and the need for additional affordable housing is required to adopt a commercial linkage fee.[3]

Calculation

The fee charged per square foot and building type is specified in the City of San Diego Municipal Code. Linkage fees vary based on the type of property and range from $0.80 per square foot (PSF) for R&D facilities to $2.12 PSF for new office space.[4]

Key Precedents

San Diego Housing Impact Fee; Los Angeles Affordable Housing Linkage Fee

Relevance to VC

The commercial linkage fee, also known as the Housing Impact Fee is charged to commercial developments to help finance affordable housing for low-income workers whose jobs were created by commercial, industrial or retail development. Additionally, need to consider the potential of "over-taxing" developers to the point of disincentivizing development.

Sources:
1. San Francisco Proposition M (2022)
2. San Francisco Proposition D (2020).
3. San Diego Municipal Code Chapter 9, Article 8, Division 6
4. San Diego Municipal Code Chapter 9, Article 8, Division 6; Appendix A

Existing Taxing Mechanisms
Business License Tax & Corporate Real Estate Investor Tax

Business License Tax

Overview

The City of San Diego Municipal Code Section 31.0121 states that no person shall engage in any business, trade calling, or occupation until a certificate of payment of a Business License Tax is obtained. Self-employed persons and independent contractors are also required to pay the Business Tax.[1] Changes to the business license tax rate require a simple majority voter approval. This tax can change depending on each City.

Calculation

- $34.00 for a business with 12 employees or fewer.
- $125.00 plus $5.00 per employee for a business with 13 employees or more.

Key Precedents

Berkeley Measure U1 (2016)

Relevance to VC

Relevance to VC appears unclear. Berkeley, CA saw an amendment to the City's business license tax ordinance, which increased the gross receipts tax on owners of five or more residential rental units from 1.081% to 2.880%. This amendment is estimated to raise approximately $3.9M annually, increasing with rents. However, should a tax like this cause rents to increase to a level that is perceived as above market, it would negatively impact demand.

Corporate Real Estate Investor Tax

Overview

California Assembly member Chris Ward recently introduced the California Housing Speculation Act. It would impose a 25% state tax on an investor's net capital gains from the property's time of purchase until final sale or exchange. The tax could create an estimated revenue of $4.02 billion. That money would be put back into the community, benefiting infrastructure, schools and affordable housing, according to the bill.[2]

Calculation

25% tax on an investor's net capital gains from the property's time of purchase until final sale or exchange.

Key Precedents

San Diego Housing Impact Fee; Los Angeles Affordable Housing Linkage Fee

Relevance to VC

The potential revenue that a tax like this could provide is substantial and therefore makes its relevant for VC. However, the introduction of such a tax could disincentive development. The mechanism is not yet in motion.

Sources:
1. San Diego Office of the City Treasurer
2. NBC San Diego

Existing Taxing Mechanisms
Precedents of implementation

Name	City/County/State	Relevant Taxation Mechanism	Key Takeaways
Measure ULA (2022)	Los Angeles	Documentary Transfer Tax	Taxes transfers of residential and commercial property valued in excess of $5M to fund affordable housing initiatives. Properties valued at $5M - $10M are taxed at 4%, and properties valued in excess of $10M are taxed at 5.5%. Expected to raise $600M - $1.2B annually.
Proposition I (2020)	San Francisco	Documentary Transfer Tax	Increased the transfer tax rate on real estate sales and leases of 35 years or more for transactions of $10M and higher. The tax increase is expected to generate $196M annually.
Permanent Road Division Zone No. 117 Measure A (2017)	City of San Diego	Parcel Tax	This measure – the most recent parcel tax measure to be enacted in San Diego – levies a parcel tax of $1400 per parcel for the first 10 years, and up to $500 per parcel thereafter, on parcels located within the Permanent Road Division Zone No. 117 boundaries in order to provide road maintenance services for the zone.
Proposition M (2022)	San Francisco	Vacant Property Tax	Taxes property owners of three or more residential units if any unit is left vacant for more than 182 days in a year. Tax rate is $2500-$5000 per vacant unit starting in 2024 with adjustments for inflation in future years. The tax is expected to generate $20M - $37M annually until 2053 with funds going towards rent subsidies and affordable housing.

Existing Taxing Mechanisms
Precedents of implementation (cont.)

Name	City/County/State	Relevant Taxation Mechanism	Key Takeaways
Proposition D (2020)	San Francisco	Vacant Property Tax	Taxes retail property owners who keep commercial space vacant for more than 182 days at rates between $250 - $1000 per linear foot of frontage. The tax is expected to generate up to $5M annually.
Measure W (2018)	Oakland	Vacant Property Tax	Taxes properties that are deemed to be vacant (in use for less than 50 days per year) at annual rates of $3000 - $6000 depending on property type. The tax is expected to generate $10M annually for 20 years to fund resources to address homelessness and illegal dumping.
Housing Impact Fee	City of San Diego	Commercial Linkage Fee	The City of San Diego established a housing impact fee in 1990. As of 2019, the fee has raised over $65M, with funds supporting the construction of over 5000 affordable housing units. Linkage fees range from $0.80 per square foot (PSF) for R&D facilities to $2.12 PSF for new office space.
Affordable Housing Linkage Fee	Los Angeles	Commercial Linkage Fee	Los Angeles implemented linkage fees in 2017. Fees range from $3.11 to $18.69 PSF, depending on property type and market area. The linkage fee program is expected to generate $104.4M annually with funds used to finance the construction/preservation of ~1,700 affordable housing units per year.
Measure U1 (2016)	Berkeley	Business License Tax	Permanently increases the business license tax from gross receipts on owners of five or more residential units from 1.081% to 2.880%. The tax increase is expected to raise $2.98M - $3.45M annually with funds going towards affordable housing initiatives.

Task 2 Deliverable: Case Study & Statutory Authority Review of Value Capture and Joint Development Implementation

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A

February 2023

Appendix II

Task 3 Deliverable: Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities

Task 3 Deliverable: Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A

March 2023

Table of Contents

Overview of the Study

The HR&A-Sperry-KPMG Team (the Consultant Team) is conducting the **Regional Value Capture Assessment Study** (the Study) for the San Diego Association of Governments (SANDAG). The purpose of this study is to:

I. Identify and evaluate value capture (VC) instruments and joint development (JD) opportunities for SANDAG's Regional Plan projects and the challenges in their implementation;

II. Develop a long-term strategy that can aid SANDAG and partner agencies in advancing regional housing goals and raising sustainable revenue to implement Regional Plan projects; and

III. Produce policy recommendations for SANDAG on how to overcome these challenges, particularly in light of the multi-jurisdictional nature of addressing regional housing needs and critical infrastructure projects in the San Diego region.

Purpose of this Document

As part of Task 3 of this study, the Consultant Team has produced a**Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities** in the San Diego region. This criteria evaluates the potential to use value capture and joint development as a funding and financing source to support initiatives included in SANDAG's 2021 Regional Plan, including but not limited to transportation and mobility investments, climate adaptation and resilience strategies, digital infrastructure, and housing incentives. The criteria that HR&A has developed includes:

- **Criteria A – Value Capture Instruments**, including how to screen sites or projects in which these instruments could be used and the viability of specific instruments (i.e., tax increment financing, assessment districts, impact fees), including their potential for revenue generation and ease of implementation; and
- **Criteria B – Joint Development,** including how to screen sites suitable for real estate development, the viability of developing these sites, and its potential revenue generation.

This presentation is a guide on how to use Criteria A and B, which are laid out in full detail in the following dynamic Excel model. In the next phase of this study (i.e., Task 4), HR&A will test these criteria over the portfolio of infrastructure projects included in SANDAG's 2021 Regional Plan and select two pilot projects for further analysis. The test in Task 4 may allow HR&A to refine the questions and scores included in the current screening and evaluation framework.

Criteria A: Overview

Criteria A for **Value Capture Opportunities** involves a series of sub-criteria and steps laid out below.

A.1. General Value Capture Potential		**A.2. Value Capture Instrument Potential**	
A.1.1. Eligibility Threshold	A.1.2. Suitability Score	A.2.1. Eligibility Threshold	A.2.2. Suitability Score
Is the area eligible for Value Capture? →	What is the suitability of implementing Value Capture in the area? →	What Value Capture instruments are eligible for implementation? →	How suitable or effective is each eligible instrument to generate infrastructure funding?

Criteria A: Characteristics of Evaluation Steps

A.1.1 Is the area eligible for Value Capture?

- Filters out areas where value capture would not be possible, based on whether there is a trigger for valuation increases and if development is physically possible in the area.
- If value capture is possible on the area, move to A.1.2 to determine the degree to which value capture would be effective in generating revenue.

A.1.2 What is the suitability of implementing Value Capture in the area?

- Evaluates the potential success of a value capture initiative by checking: 1) Real Estate Market Viability; 2) Development Viability, given potential of the area to be developed in the short term, physical constraints, and land use regulations; and 3) Ease of Implementation, given degree of existing support from stakeholders and experience of the jurisdiction implementing value capture.
- Rank sites/areas with resulting scores and proceed to A.2.1 to assess which type of value capture instrument would be most effective in those sites/areas with the highest scores.

A.2.1 What Value Capture instruments are eligible for implementation?

- Evaluates whether each value capture instrument (Tax Increment Financing, Community Facilities District, Special Assessment Districts, and Impact Fees) can be implemented on the site given its regulatory and procedural requirements and the ability of the initiating jurisdiction to comply with them.
- If implementation of value capture instrument is possible, move to A.2.2 to determine the degree to which they would be effective in generating revenue for infrastructure funding.

A.2.2 How suitable or effective is each eligible instrument to generate infrastructure funding?

- Evaluates how effective each instrument may be in providing funding and financing for infrastructure

Criteria B: Overview and Evaluation Steps

Criteria B for **Joint Development Opportunities** involves a series of sub-criteria and steps laid out below.

B.1. Eligibility Threshold

Is the site eligible for Joint Development?

- Filters out sites where there is no or limited potential for joint development of residential and commercial projects given physical conditions of the site and its ability to support development.
- If eligible, move to B.1.2 to determine the degree to which joint development would be effective in generating revenues.

B.2. Suitability Score

Will Joint Development generate meaningful revenues?

- Assesses the potential success of the Joint Development venture by evaluating 1. Real Estate Market Viability; 2. Development Viability, given the potential of the site to be developed in the short term, physical constraints, and land use regulations; 3. Ease of Implementation, related to how prepared the agency is to lead the venture, the degree of coordination between the agency and local jurisdictions, and regulations that restrict the type of procurement that can be done for developing the site.
- The resulting score can be used to rank potential joint development opportunities.

A.1. GENERAL VALUE CAPTURE POTENTIAL

Value Capture Evaluation: General Potential

The evaluation of Value Capture general potential involves two steps:

A.1.1 Eligibility Threshold asks a set of “go” or “no-go” questions to determine if value capture is possible in the area; if the threshold if met, the area is then evaluated for potential success of value capture implementation (step A.1.1);

A.1.2 Suitability Score estimates how successful value capture implementation could be by evaluating the area in three ways: 1) Analysis of the local real estate market demand to approximate potential revenue generation; 2) Analysis of potential constraints or delays to pursue development and timing of revenue generation; and 3) Analysis of potential roadblocks in implementing the value capture initiative, factoring in community sentiment and the track record of the leading entity.

The final score from A.1.2 can be used to compare and prioritize between different areas for value capture. Areas that score highest should go to the next round of assessment: **Value Capture Instrument Potential (A.2).**

A.1.1 Eligibility Threshold

Q1 Infrastructure project and enabling of real estate development

Q2 Capacity for development

Q3 Alignment with Jurisdiction Goals

A.1.2 Suitability Score

Real Estate Market Viability	35
Development Viability	35
Ease of Implementation	30
	100

A.2 Value Capture Instrument Potential

Value Capture Evaluation

A.1.1. Eligibility Threshold

Are there planned or existing infrastructure projects that may trigger increases in land or property value in the project area?

Is the project area developable in the near term?

Is development of the project area aligned with local policy goals?

If all answers are "Yes"

A.1.2. Suitability Score

Real Estate Market Viability	Is there demand for development in the project area?	35%
Development Viability	Are there physical constraints on the development of the project area? Is current zoning aligned with market demand?	35%
Ease of Implementation	Is there public support for value capture and its intended proceeds? Has the leading entity implemented any value capture before? Does the implementing jurisdiction have a strong fiscal track record?	30%

= Total Score for Value Capture Potential

Highest scores proceed to A.2, instrument specific evaluation

A.2. VALUE CAPTURE INSTRUMENT POTENTIAL

Suitability of Value Capture Instruments: Overview

The evaluation of the potential of each value capture instruments involves two steps:

A.2.1 Eligibility Threshold includes a set of questions covering the legal and procedural requirements for implementation of each instrument, and whether the jurisdiction looking to implement the instrument can comply with them; if this is the case, then the evaluation should proceed to the next step (A.1.2 Suitability Score);

A.1.2 Suitability Score estimates how successful the implementation of the instrument could be. This analysis contemplates several dimensions that differ depending on the instrument evaluated. At a high level, these dimensions cover the capacity and timing for revenue generation to fund infrastructure needs, the presence of incentives for real estate development, and the capacity of the jurisdiction to lead the implementation process. Each dimension is informed by a set of questions, each of which is assigned a weight depending on the answer provided that ultimately informs a Low, Medium, or High grade for each dimension. Unlike Step A.1., scoring/grading is assigned only by dimension and does not include an aggregate score for the site.

A.2. TAX INCREMENT FINANCING

Overview of Evaluation Criteria for Tax Increment Financing

There are several TIF tools enabled by California law, including: Enhanced Infrastructure Improvement Districts (EIFD), Community Revitalization & Investment Authorities (CRIA), Infrastructure Financing District (IFD), and Infrastructure and Revitalization Financing District (IRFD). Each has its own nuanced requirements concerning governance, voter approval for district adoption and bond issuances, time limits, type of properties that can be included in the district, low- and moderate-income housing requirements, inclusionary housing requirements, and type of facilities that can be funded, among others. However, they all share a set of factors that informs their suitability for implementation on a certain site, which is addressed in the current Evaluation Criteria. Appendix I includes further details on each instrument.

A.2.1. Eligibility of Area for TIF

Critical Questions

- Does the TIF District align with the city or county TIF policy, provided there is one in place?
- Is there likely to be a fiscal net benefit to contributing entities?
- Do the intended uses of TIF revenues comply with the limitations of State statutes over the type of infrastructure that can be funded with TIF proceeds?
- Is public buy-in likely such that there will not be a majority protest during protest hearings?

A.2.2. Suitability of TIF

(if critical questions are addressed)

- **Revenue Magnitude Capacity**
- **Timing of Revenues and Capacity to Target Infrastructure Needs**
- **Political and Community Buy-in**
- **Capacity to Lead the Process and Engage Multiple Jurisdictions**

Questions on Suitability of Tax Increment Financing

Dimension	Question	Possible Answer
Revenue Magnitude Capacity	Is the current share of property taxes received by the taxing jurisdictions interested in participating in the TIF or other potential revenues for a TIF District enough to support accumulation of TIF revenues over time?	1 = Yes; 0 = No
	Is there high enough new development potential, expected increases in assessed value of existing properties, and/on a high enough turnover rate that can produce significant tax increment revenue?	1 = Yes; 0 = No
Timing of Revenues and Capacity to Target Infrastructure Needs	How compatible is the timing over which tax increment revenues are likely to build up versus when the jurisdiction expects to be able to fund investment needs?	1 = Timing mostly overlaps; 0.5 = Timing partly overlaps; 0 = Timing does not overlap.
	Is the potential TIF District included within the boundaries of a prior Redevelopment Agency (RDA) to which tax increments are partly committed to in order to service its obligations?	0 = No impact; 0.5 = TIF area overlaps with RDA and impacts its potential revenues without compromising the ability of the TIF to fund the area's most pressing infrastructure needs; 0 = TIF area overlaps with RDA and substantially reduces its revenue potential.
Political and Community Buy-in	Is there buy-in from more than one jurisdiction to participate in the TIF District and is (are) the entity(ies) able to commit to a share of increment tax that is high enough to provide meaningful revenues for the TIF District?	1 = Tax increment is high enough to cover cost of targeted works; 0.5 = Tax increment is moderate and partly cover cost of targeted works; 0 = Tax increment is low and cannot produce meaningful revenues for infrastructure funding.
Capacity to Lead the Process and Engage Multiple Jurisdictions	Does the leading entity have enough staff and resources to put together a case for other jurisdictions to participate in the TIF district, support negotiations with them, and/or obtain political buy-in within its own departments?	1 = Yes; 0 = No
	Does the leading entity have an TIF policy in place?	1 = Yes; 0 = No

A.2. COMMUNITY FACILITIES DISTRICTS

Overview of Evaluation Criteria for Community Facilities Districts

CFDs are special tax districts generally created by cities or counties in California to raise revenue to finance facilities a nd services through the levy of special taxes on properties in the district. The setting of district boundaries and the tax levy are flexible. The tax must be reasonable and cannot be ad valorem. CFDs are often used for new developments.

A.2.1. Eligibility of Area for CFD

Critical Questions

- If the CFD boundaries are likely to extend over multiple local jurisdictions, are all jurisdictions involved willing to enter into a Joint Powers Agreement?
- Is the CFD aimed at mitigating the impacts of new development?
- Do the intended uses of CFD revenues comply with the limitations of the State statute over the type of infrastructure that can be funded with CFD proceeds?
- Is there enough buy-in from voters/landowners to pass a threshold vote to form the district?
- Is there sufficient voter/landowner support (i.e., 10%) to compel the CFD formation process? Otherwise, is the County/city interested in forming it and gathering their support?

A.2.2. Suitability of CFD

(if critical questions are addressed)

- **Revenue Magnitude Capacity**
- **Timing of Revenues and Capacity to Target Infrastructure Needs**
- **Incentives for Development**
- **Capacity to Lead the Process**

WIP DRAFT FOR DISCUSSION

Questions on Effectiveness of Community Facilities Districts

Dimension	Question	Possible Answer
Revenue Magnitude Capacity	Is the proposed special tax enough to support accumulation of CFD revenues over time?	1 = Yes; 0 = No
	Is there high enough new development potential in the area that can pay the special CFD tax?	1 = Yes; 0 = No
	Are there additive, existing taxes such that a new CFD special tax would impose too much of a burden on property owners?	1 = No; 0 = Yes
Timing of Revenues and Capacity to Target Infrastructure Needs	How compatible is the timing over which tax increment revenues are likely to build up versus how the jurisidiction expects to be able to fund investment needs?	1 = Timing mostly overlaps; 0.5 = Timing partly overlaps; 0 = Timing does not overlap
Incentives for Development	Are there mechanisms (e.g., up-zoning) that can provide incentives for participation of property owners/new developments in a CFD and potentially increase its revenue?	1 = Yes; 0.5 = No, but there is potential for rezoning over time, given nature of rezoning process and community preferences; 0 = No, and rezoning is not feasible

A.2. SPECIAL ASSESSMENT DISTRICTS

Overview of Evaluation Criteria for Special Assessment District

Local agencies, including cities, counties, and special districts, may establish Special Assessment Districts (SADs) for the purposes of financing all or a portion of the cost of certain public improvements and services. SADs can be initiated by a local government or by a petition from property owners.

A.2.1. Eligibility of Area for SAD

Critical Questions

- Is there a clear understanding of the works that the SAD will fund and whether they comply with the limitations of Proposition 218, especially with regards to the assessment having a special direct benefit to properties being assessed that is not available to other properties or to the general public?
- Does the sponsoring jurisdiction have resources to accommodate the required engineering studies needed to support the special benefits requirement?
- Is weighted majority (in proportion to the benefit/assessment) of property owners likely to be achieved?

A.2.2. Suitability of SAD

(if critical questions are addressed)

- **Revenue Magnitude Capacity**
- **Timing of Revenues and Capacity to Target Infrastructure Needs**
- **Incentives for Development**
- **Capacity to Lead the Process**

Questions on Effectiveness of Special Assessment District

Dimension	Question	Possible Answer
Revenue Magnitude Capacity	Is the proposed assessment enough to support accumulation of revenues over time?	1 = Yes; 0 = No
	Is there high enough new development potential in the area or enough existing properties in need of additional improvements/services that can pay the SAD assessment?	1 = Yes; 0 = No
	Are there additive, existing taxes such that a new SAD special tax would impose too much of a burden on property owners?	1 = No; 0 = Yes
Timing of Revenues and Capacity to Target Infrastructure Needs	How compatible is the timing over which tax increment revenues are likely to build up versus how the jurisdiction expects to be able to fund investment needs?	1 = Timing mostly overlaps; 0.5 = Timing partly overlaps; 0 = Timing does not overlap
Incentives for Development	Are there mechanisms (e.g., up-zoning) that can provide incentives for growth in a SAD area and potentially increase its revenue?	1 = Yes; 0.5 = No, but there is potential for rezoning over time, given nature of rezoning process and community preferences; 0 = No, and rezoning is not feasible
Capacity to Lead the Process	Does the leading entity have experience in implementing SADs?	1 = Yes; 0 = No

A.2. IMPACT FEES

Overview of Evaluation Criteria for Impact Fees

Cities or county administrations can implement, with agreement from their local council, ordinances establishing an impact fee program that can be targeted towards different types of infrastructure, including affordable housing; transportation; environmental mitigation programs, fire and public safety, libraries, parks, capital improvements of local facilities and existing works, and expansions of water, sewer, electricity, and gas infrastructure.

A.2.1. Eligibility of Area for Impact Fee Program

Critical Questions

- Does the impact program comply with legal conditions required by State statutes (for e.g., California's Mitigation Fee Act)?
- Have land use assumptions for growth areas been determined?
- Can a Nexus Study be prepared in the near term?
- Does the impact fee required to cover the cost of the works compromise the financial viability of new development?

A.2.2. Suitability of Impact Fees
(if critical questions are addressed)

- **Revenue Magnitude Capacity**
- **Incentives for Development**
- **Capacity to Lead the Process**

Questions on Effectiveness of Impact Fees

Dimension	Question	Possible Answer
Revenue Magnitude Capacity	Is the proposed fee enough to cover the full cost of public facilities related to the development project?	1 = Yes; 0.5 = Partly; 0 = No
	Is there high enough planned development potential in the area that can pay the impact fee?	1 = Yes; 0 = No
	Are there additive, existing taxes such that an impact fee would impose too much of a burden on property owners?	1 = No; 0 = Yes
Incentives for Development	Are there mechanisms (e.g., up-zoning) that can enable additional development and reduce the cost/unit or SF of the mitigation works (and therefore the impact fee per unit or SF)?	1 = Yes; 0.5 = No, but there is potential for rezoning over time, given process involved and community preferences; 0 = No, and rezoning is not feasible
Capacity to Lead the Process	Does the leading entity have experience in implementing impact fees?	1 = Yes; 0 = No
	Has the local jurisdiction drafted a capital improvement program (CIP) in concert with the proposed fee program?	1 = Yes; 0 = No

ADDITIONAL CONSIDERATIONS ON IMPLEMENTING VALUE CAPTURE INSTRUMENTS

Overview of Additional Considerations

Following the screening criteria on site eligibility threshold, suitability of value capture, and potential of value capture instruments, there are three groups of additional considerations related to implementation of these instruments.

#	Consideration	Rationale
1	**Potential for Implementation of Multiple Value Capture Instruments** Can multiple value capture instruments be implemented on a certain site or area at the same time? Under which conditions is this advisable?	The revenue generation mechanisms of each value capture instrument combined with the pace of development in a certain area results in each instrument delivering revenues for infrastructure funding across different timelines. For example, TIF often generates revenues over time as development takes place, while impact fees are one-time payments often charged to developers upon obtaining construction permits. Under certain conditions, instruments can be implemented simultaneously in order to maximize revenue for infrastructure funding and accelerate the timing in which funding becomes available.
2	**Value Capture Instruments and Affordable Housing** What are the interactions between the implementation of value capture instruments and the production of affordable housing?	Implementation of certain value capture instruments may require the production, support, or replacement of affordable housing units. Moreover, proceeds from some of these instruments may be used to fund affordable housing development.
3	**Use of Proceeds from Value Capture Implementation** What aspects should be considered with regards to use of proceeds from value capture instruments for funding of infrastructure works and/or subsidizing affordable housing production?	Revenues from value capture can be used to support a wide range of infrastructure works, including the production and preservation of affordable housing.

Potential for Implementation of Multiple VC Instruments

Instrument	Compatibility with Simultaneous Implementation of Other Value Capture Instruments	Considerations for Simultaneous Implementation of Instruments
Tax Increment Financing	**Can be implemented jointly with all other value capture instruments.**	**TIF** involves the earmarking of tax increment for specific infrastructure works and does not involve creation of new taxes. Therefore, there is no conflict from a project financial viability to implement **TIF** in conjunction with other instruments. Moreover, existing regulations do not prevent implementation of TIF in conjunction with other value capture instruments. Simultaneous implementation of **TIF and CFD** is especially helpful when development is likely to occur over the long-term. In the ramp-up phase of tax increment, revenue from CFD taxes can be allocated to a TIF district fund and accelerate the financing of infrastructure projects. The CFD may expire, or its revenues complemented with tax increment revenue once substantial development has taken place.
Community Facilities Districts	**Can be implemented jointly with TIF and Impact Fees.** **Unlikely to be implemented in conjunction with a Special Assessment District.**	**Impact fees** and **CFDs** can be used together to finance the infrastructure and services needed to support new development. **Impact fees** can be used to finance the initial construction or expansion of public facilities, while **CFDs** can provide ongoing funding for maintenance and operations. However, special consideration needs to be given as to the effect the combination of these charges would put into the financial viability of new development. Both **CFDs** and **SADs** involve new recurring assessments and are unlikely to be overlapped. A jurisdiction would likely implement one or the other.
Special Assessment Districts	**Can be implemented jointly with TIF and Impact Fees.** **Unlikely to be implemented in conjunction with a Community Facilities Districts.**	Idem **CFDs**.
Impact Fees	**Can be implemented jointly with all other value capture instruments.**	There are no regulatory barriers to implementing **Impact Fees** with other instruments. However, special consideration needs to be given as to the effect the combination of these charges would put into the financial viability of new development.

VC Instruments and Affordable Housing

Instrument	Implementation Requirements Related to Affordable Housing	Potential to promote affordable housing development
Tax Increment Financing	Some TIF instruments include requirements around creation of low- and moderate-income housing. See Appendix I for further details.	While TIF instruments are not specifically designed for affordable housing, they can be used to fund a wide range of public infrastructure and facilities that are necessary to support the development of affordable housing and that can lower the cost of affordable housing development. Moreover, the tax revenue generated by new development within a TIF district can be used to fund ongoing maintenance and operations of affordable housing units.
Community Facilities Districts	None.	Similar to TIF, works funded with CFD proceeds can help enable affordable housing. Moreover, CFD special taxes can exempt or have special tax rates on affordable housing units.
Special Assessment Districts	None.	None. SAD revenues can only be used for improvements that benefits those units that are paying the special assessment.
Impact Fees	Impact fees can be designed so that their revenues are assigned to an affordable housing fund, as long as a nexus is established between new development and a negative impact on an area's housing affordability. Moreover, local agencies sometimes waive or lower impact fees on affordable units as well as on Accessory Dwelling Units. The latter is aimed at incentivizing the production of a naturally affordable housing type	

Use of Proceeds from Value Capture Implementation

Revenues from value capture instruments can often be used for a variety of purposes, including general infrastructure works and to support affordable housing development. The latter may happen either through direct funding of housing or through the construction of horizontal infrastructure that can enable new housing development. Key considerations around the use of value capture funds for either of these purposes include:

1. The **magnitude of revenue generated** from value capture instruments and the extent to whether they can fund general infrastructure works, affordable housing production, or both.

2. The **ability to acquire or issue debt** leveraging revenues from value capture, which may determine whether value capture is effective at funding capital works versus acting as a "pay as you go" subsidy or in support of operations and maintenance.

3. The **effectiveness of value capture**, defined as the relative institutional effort to generate net revenue for housing initiatives, compared to the effectiveness of direct jurisdiction contributions to housing funds, tax abatements, and credits that may yield a greater number of new or preserved units than indirect funding through value capture.

4. The ultimate decision on how to use these funds depends upon a **policy decision from the city or county implementing value capture**. Such policy will be aligned with the jurisdictions' comprehensive land use plans, capital improvements plans, and capital improvement programs, among others.

B. JOINT DEVELOPMENT OPPORTUNITIES

Joint Development Evaluation

The evaluation of joint development potential involves two steps:

B.1.1 Eligibility Threshold asks a set of “go” or “no-go” questions to determine if joint development is possible on the site in question; if this is the case, it is then evaluated for its potential effectiveness (Step B.1.2)

B.1.2 Suitability Score estimates how successful the joint development could be by evaluating the site in three ways: 1) Analysis of local real estate market to approximate potential returns for the private developer; 2) Analysis of potential constraints or delays to development to approximate timing of the development; and 3) Analysis of any potential roadblocks in implementing the joint development, factoring in agency goals and procurement rules around joint development, community sentiment and expected cooperation from local jurisdictions.

B.1.1 Eligibility Threshold

- **Q1** Excess Property
- **Q2** Physical Development Potential

B.1.2 Suitability Score

Real Estate Market Viability	35
Development Viability	35
Ease of Implementation	30
	100

Joint Development Evaluation

B.1.1 Joint Development Suitability

Is the site not needed by the public agency to sustain agency operations? In other words, is the site "excess property"?

Is development of the site physically possible?

If all answers are "Yes"

B.1.2 Suitability Score

Real Estate Market Viability	Is there demand for new development in the area?	35%
	Is there a need for tax abatements or other incentives for the project to be financially feasible? If so, are they available?	
Development Viability	Is the site developable in the near term?	35%
	Is rezoning required given the type of real estate development needed to make the JD feasible?	
Ease of Implementation	Does development of the area have community support?	30%
	Has the public agency defined goals or a stragety for the disposition of excess land/ potential joint development?	
	Does the public agency have clear guidelines that can orient the JD process, including selection of developers, community engagement, and use of proceeds?	
	How cooperative is the local jurisdiction with the public agency or on joint development ventures?	

= Total Score for Joint Development Potential

APPENDIX II.I – TIF TOOLS

Comparison of TIF tools

	CRIA	IFD	EIFD	IRFD
Governance	Separate governing board	Sponsoring jurisdiction’s legislative body	PFA appointed by sponsoring jurisdiction’s TIF legislative body	Sponsoring jurisdiction’s legislative body
Voter approval required for adoption	No, but subject to protest	Yes, 2/3rds vote of registered voters if at least 12 otherwise landowners with 1 vote per acre	No, but subject to protest	Yes, 2/3rds vote of registered voters if at least 12; otherwise, landowners with 1 vote per acre
Voter approval required to issue bonds	No	Yes, 2/3rds vote of registered voters if at least 12 otherwise landowners with 1 vote per acre	No	Yes, 2/3rds vote of registered voters if at least 12; otherwise, landowners with 1 vote per acre
Entity time limits	30 years to establish debts; 45 years to repay debts; and 45 years to complete activities.	District must cease to exist 30 years from adoption of ordinance forming the district	District must cease to exist within 45 years of PFA’s approval of bond issuance or first loan issuance.	District must cease to exist within 40 years from adoption of ordinance forming the district or a later date if specified by ordinance.
Property to be included	No blight findings required but some income and unemployment and/or other restrictions on a portion of properties.	No blight or other specific restrictions	No blight or other specific restrictions	No blight or other specific restrictions
Low/moderate income housing requirement	25% of taxes allocated	No	No	No
Inclusionary housing requirement	Yes	Yes	No	Yes
Examples of facilities that can be funded	Rehab/upgrade/ construct infrastructure; low- and moderate-income housing; hazardous substance removal/ remediation; seismic retrofits; construct foundations/ platforms for air rights sites	Highways, streets, parking facilities, transit facilities; sewage, solid waste, and water treatment plants; flood control infrastructure; childcare facilities; libraries; parks and open space	Highways, streets, parking facilities, transit facilities; sewage, solid waste, and water treatment plants; flood control infrastructure; childcare facilities; libraries; parks and open space; environmental mitigation; former military base development projects; affordable housing; planning and design work	Highways, streets, parking facilities, transit facilities; sewage, solid waste, and water treatment plants; flood control infrastructure; childcare facilities; libraries; parks and open space; environmental mitigation; former military base development projects; affordable housing

Task 3 Deliverable: Screening and Evaluation Criteria for Value Capture Instruments and Joint Development Opportunities

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A

March 2023

Appendix III

Task 4 Deliverable: Order-of-Magnitude Estimates from Value Capture Implementation in Kearny Mesa Station Area and Tecolote Village

Task 4 Deliverable: Order-of-Magnitude Estimates from Value Capture Implementation in Kearny Mesa Station Area and Tecolote Village

SANDAG Regional Value Capture Assessment Study

SANDAG HR&A

June 2023

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INTRODUCTION

Overview of Study

The HR&A-Sperry-KPMG Team (Consultant Team) is conducting the **Regional Value Capture Assessment Study** (the Study) for the San Diego Association of Governments (SANDAG). The purpose of this study is to:

I. Identify and evaluate value capture (VC) instruments and joint development (JD) opportunities for SANDAG's Regional Plan projects and the challenges in their implementation;

II. Develop a long-term strategy that can aid SANDAG and partner agencies in advancing regional housing goals and raising sustainable revenue to implement Regional Plan projects; and

III. Produce policy recommendations for SANDAG on how to overcome these challenges, particularly in light of the multi-jurisdictional nature of addressing regional housing needs and critical infrastructure projects in the San Diego region.

Purpose of this Document

As part of Task 4 of this study, the Consultant Team has produced an **Order-Of-Magnitude Value Capture Assessment** for one value capture pilot and one joint development pilot. The high-level planning of value capture initiatives and order-of-magnitude estimates of revenue generation can be used to understand the potential scale and effectiveness of possible value capture and joint development funding for priority projects selected by SANDAG.

For value capture, SANDAG selected the **Purple Line Commuter Rail** project. HR&A then followed the Value Capture Evaluation Framework developed in Task 3 to illustrate what station areas would be most appropriate to pilot a value capture assessment. Given the real estate market, development, and implementation conditions, SANDAG and HR&A selected **Kearny Mesa** as the pilot station. Using the instrument-specific frameworks, HR&A selected an **Enhanced Infrastructure Financing District (EIFD)** and a **Community Facilities District (CFD)** given perceived revenue magnitude and ease of implementation.

For joint development, following the Joint Development Evaluation Framework developed in Task 3, SANDAG selected a **housing development** around **MTS-owned land at Tecolote Road Station**.

Value Capture Analysis – Kearny Mesa

Enhanced Infrastructure Financing District (EIFD) Assessment

EIFD Assessment: Methodology

Step 1. DEFINE

Study Areas and Project Program

STUDY AREA

Kearny Mesa Station Area

LAND USES

- Residential (Multifamily)
- Commercial (Office, Industrial, and Retail)

Step 2. STUDY

Socioeconomic and Real Estate Market Trends

- Historic real estate and demographic trends
- Assessed values appreciation
- Property turnover

Step 3. DETERMINE

Market-Supportable Development

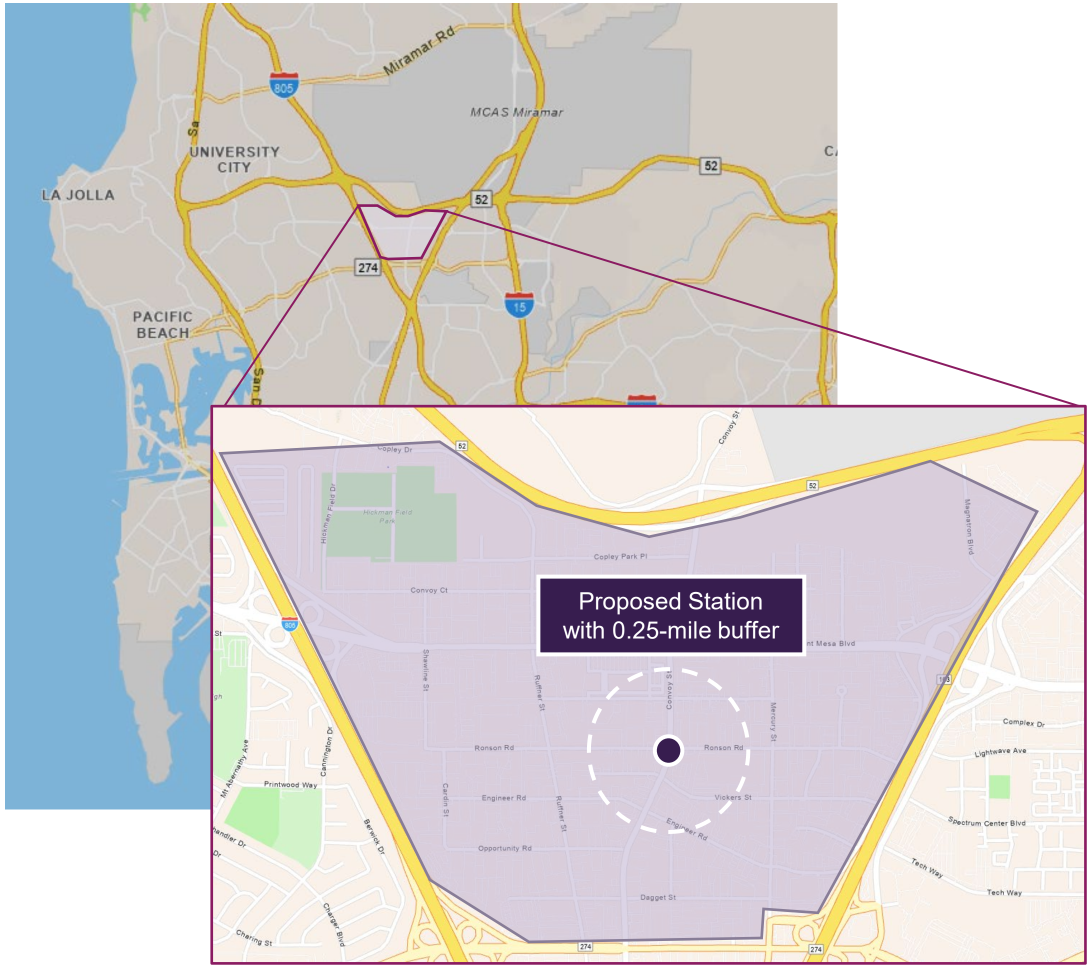
- Population and employment trends in County and City
- Capture of County and City demand in Study Area
- New development valuations and comps

Step 4. PROJECT

Incremental Property Tax Revenue and EIFD Contributions

- Distribution of property taxes collected to relevant jurisdictions
- Sensitivity analysis of contributions from relevant jurisdictions to the EIFD
- Sensitivities on demand capture and market and assessed value premiums as a result of transit investment

EIFD Assessment: District Area



EIFD Area: Kearny Mesa Station Area

The boundaries for the projected EIFD assessment were determined in line with the station area proposed in the planning of the Purple Line, at the intersection of Convoy Street and Ronson Road.

Bound by I-805 to the west, SR-52 to the north, SR-163 to the east, and Balboa Ave to the south, the area aligns with the commercial district of Kearny Mesa, including industrial space, office parks, and retail, including the Convoy District centered along Convoy St.

An updated Community Plan was passed in 2020, which approved rezoning for the area to promote new, mixed-use development.

The area is 19.4 square miles, or 12,416 acres, and includes 804 parcels, assessed at a total value of $1.5B as of the 2022-2023 assessor year.

EIFD Assessment: Real Estate Market Trends

APPRECIATION

- Existing properties appreciate a maximum of 2% annually, as per Proposition 13. When turned over, values are reassessed on par with new assessments.

TURNOVER

- 5% of properties turnover and are therefore reassessed each year, in line with historical sales trends for properties in the area.

DEMAND TRENDS

- Demand for new residential and non-residential development is estimated at the City level, based on household and employment projections by SANDAG.

DEMAND CAPTURE

- Demand for new development in the District is estimated as an average 3% capture of residential demand and 6% of non-residential in the City, in line with the historical capture trends of the Zip Code.

DEVELOPMENT

- Projected new developments are valued in line with comparable properties in the area. When the Purple Line is expected to open, the market values factors in a premium of 25%, supported by existing TOD efforts in the country.

EIFD Assessment: Market-Supportable Development

HR&A estimated residential and non-residential* real estate demand in the City of San Diego over a 45-year period, the maximum EIFD term, using demographic projections of household and employment growth.

To estimate how much of that demand will be take place within the EIFD, HR&A used the zip code's specific demographic projections[1] to calculate capture rates of the city over then next 45-years. Non-residential capture is higher in this area than residential since Kearny Mesa is a large employment center.

Demand is translated to development capacity by making assumptions on average household size and average commercial square foot per employee and factoring in long-term vacancy rates for the San Diego area.

		EIFD Area	
Development Type	**Citywide 45-Year Demand**	**Avg. Capture Rate**	**45-Year Demand**
Residential Units	132,100 Units	3.4%	5,400 Units
Non-Residential SF	168,230,000 SF	6.4%	12,170,000 SF

** Includes office, retail, and industrial properties*
[1]*SANDAG Series 14 Regional Growth Forecast*

EIFD Assessment: Tax Revenue Assumptions

Incremental Assessed Value (AV) of Property in EIFD Boundary

General Tax Levy (GTL)
1% of AV

City of San Diego's Share of GTL

General Share[1]
14.6%

VLF* as % of AV
0.076%

San Diego County's Share of GTL

General Share[1]
15.2%

VLF as % of AV
0.079%

** Vehicle License Fees are often included as potential sources of revenue for value capture instruments like EIFDs and are calculated as a fixed ratio of assessed property values*

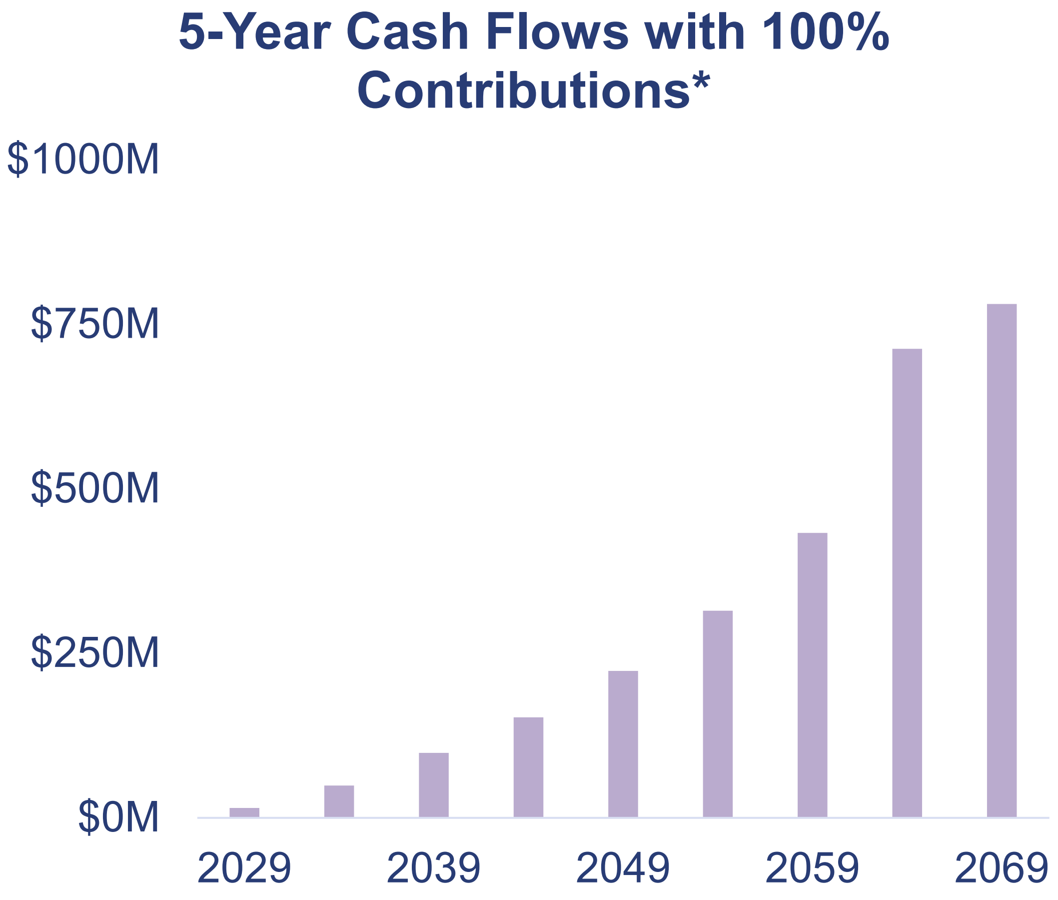
[1] Based on reported direct share of property tax rates in San Diego County Auditor and Controller's 2022 Fiscal Year Annual Report excluding schools and special districts.

EIFD Assessment: Summary of Revenue to EIFD by Source

	NPV* of Revenue from 45 Years (2025-2069)		
Incremental Assessed Value		**$248.9B**	
General Tax Levy Revenue		**$2.5B**	
Contributions to EIFD	*100%*	*75%*	*50%*
City Share	$364.2M	$273.2M	$182.1M
City's Share of VLF	$188.9M	$141.7M	$70.9M
County Share	$378.6M	$283.9M	$189.3M
County's Share of VLF	$196.3M	$147.3M	$98.2M
Total EIFD Revenue	**$1.13B**	**$846.M**	**$540.4M**

** Discounted at a 3% rate to adjust for inflation*

EIFD Assessment: 100% Contribution from All Sources Scenario



5 Years Ending	Revenue*
2029	$15.0M
2034	$49.0M
2039	$98.6M
2044	$152.6M
2049	$223.0M
2054	$314.6M
2059	$432.9M
2064	$712.8M
2069	$780.7M
Total 45-Year Revenue*	**$1.13 Billion**

** Discounted at a 3% rate to adjust for inflation*

Revenue from Special Assessments

Typology of Assessment Districts

Assessment Districts are created by cities and counties in California to raise revenue to finance facilities and services through the levy of special taxes on properties in the district. The two most common Assessment Districts are Community Facilities Districts (CFDs) and Special Assessment Districts (SAD). CFDs are more flexible with regards to setting the district's boundaries, its assessment, and the purpose of the revenues. Therefore, the revenue analysis conducted considers the implementation of a CFD as opposed to a SAD as a proxy for a more flexible scenario in terms of revenue generation.

Community Facilities Districts

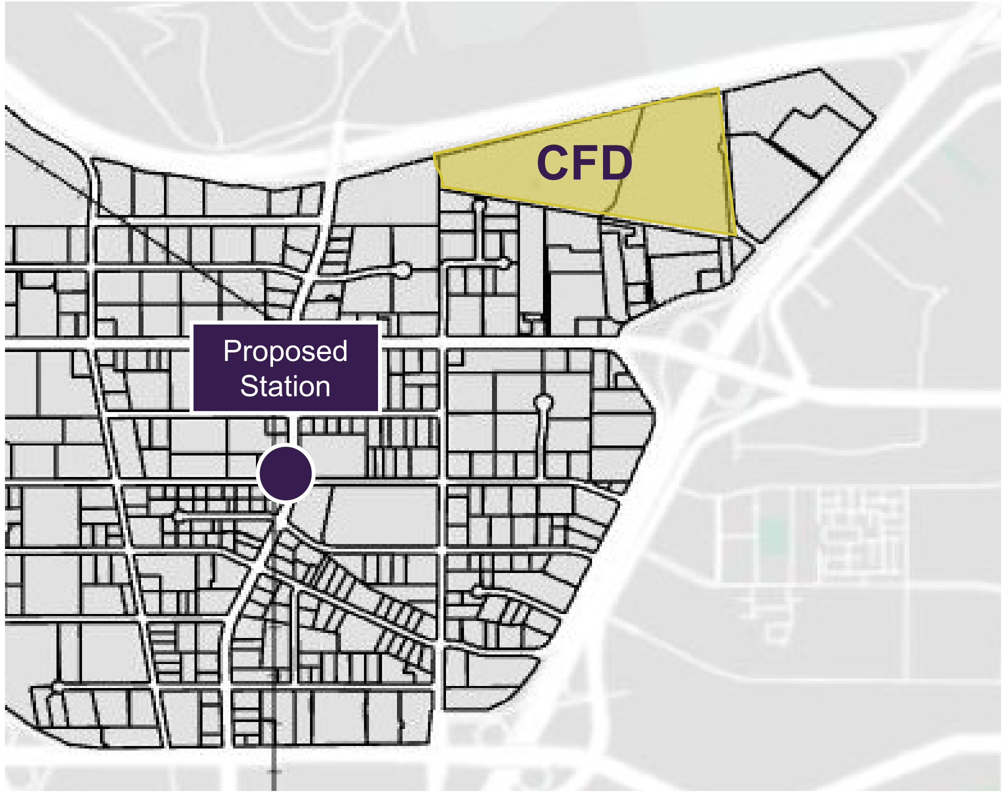
- Setting of district boundaries and the tax levy are flexible.
- The tax must be reasonable and cannot be ad valorem.
- Often used for new developments.
- CFDs are flexible in the type of improvements or services that can be paid for. They are used most commonly for streets, water, sewer/drainage, electricity infrastructure, schools, parks & police.

Special Assessment Districts

- Can be applied only if properties receive a special benefit (over and above any benefit that other properties or the general public may receive) from the public improvement.
- Assessment must be based on the proportional cost of the “special benefit” received by each property owner in the district.
- The most common districts are for improvement and maintenance of roads, annexations to the Countywide Street Lighting District; and County Services Areas (CSAs) for landscape maintenance, park maintenance, fire protection services, and paramedic services.

Geography and Program of CFD

The evaluation of potential CFD revenues was conducted over the two parcels in the Station Area rather than the whole Station Area given its size and the existence of multiple landowners. The parcels are currently zoned for open space but were selected for illustrative purposes given their size, unified ownership, and greenfield opportunity. Moreover, the analysis assumes mixed-use zoning to illustrate greenfield development potential. It is worth noting that parcels in a CFD do not necessarily need to be contiguous.



Indicator	Value
Estimated Development Capacity	
Total Acreage	57 Ac.
Assumed Zoning	Mixed-Use (MX-1)
% of Land for Construction	50%
Developable Acreage	29 Ac.
FAR	2.5
Total Gross Developable SF	3.1 Million GSF
% Net Developable Land*	80%
Total Net Developable SF	2.5 Million NSF
Assumed Program	
Residential	2,300 Units (54% of Area Demand)
Non-Residential	0.5 Million SF (5% of Area Demand)

(*) Excluding internal roadways, sidewalks, and public spaces

Methodology of CFD Revenue Estimates

To arrive to a potential assessment for the parcels considered, the analysis first estimates the financial feasibility of various type of development typologies. This includes estimating the “Excess Value” remaining from developing each property, after accounting for Land Acquisition Costs, Construction and Operating Costs, Revenues, and Developer Returns.

Income-producing typologies

Indicator per GSF		Residential Rental	Office	Retail	Industrial
Net Operating Income*	*(a)*	$28	$29	$37	$21
Loaded Capitalized Rate**	*(b)*	6.2%	7.4%	6.8%	6.5%
Capitalized Value	*(c) = (a) / (b)*	$444	$397	$541	$327
Development Costs***	(d)	($370)	($444)	($432)	($118)
Excess Value	*(e) = (c) + (d)*	**$74**	**($47)**	**$109**	**$209**

For-sale typologies

Indicator per GSF		Residential for Sale
Gross Sale Price	*(a)*	$431
Costs of Sale	*(b)*	($9)
Net Sale Price	*(c) = (a) + (b)*	$422
Development Cost***	*(d)*	($370)
Developer Profit Margin****	*(e)*	($42)
Excess Value	*(f) = (c) + (d) + (e)*	**$10**

Based on the feasibility assessment, **a developer would pursue a combination of residential (rental and for-sale), retail, and industrial development.** Office use is not financially feasible in the parcels of study and would likely not be considered in a potential program.

(*) Includes income from rents minus vacancies, operating expenses, and property tax payments.
(**) Applies 150 bps premium to average capitalization rates to account for developer’s return on development cost
(***) Includes cost of land acquisition, hard and soft costs of construction, cost of financing, and cost of parking.
(****) Equivalent to 10% of profit margin over net project value.

CFD Assessments

Having determined the financial feasibility of each development prototype, the analysis determines a potential assessment for each feasible prototype under two scenarios:

1. **Base Scenario**: the annual assessment plus the annual property tax payment cannot exceed 2% of the properties' Assessed Value. This is a common benchmark used by developers to decide whether to proceed with development within the area of a new assessment district.
2. **Aggressive Scenario**: the CFD or SAD assessment is maximized to the point where the "Excess Value" for each typology approaches zero.

Given that the Base Scenario yields the most conservative estimate, its assessments were considered to estimate potential CFD revenues. For simplicity and in order to compare proceeds from implementing a special assessment with EIFD proceeds, the assessments can be averaged for "Residential" and "Non-Residential" uses, depending on the mix of development pursued on the site. These rates are summarized below.

CFD Assessments by Typology per GSF

Scenario for CFD/SAD Assessment per GSF	Base Scenario
Residential Rental	$0.9
Residential for Sale	$2.6
Retail	$4.5
Industrial	$1.8

Average CFD Assessments by Use per GSF

Use	Typology	Breakdown of Development by Use	Avg. Base Scenario Assessment
Residential	Rental	90%	$1.05
	Sale	10%	
Non-Residential	Retail	70%	$3.68
	Industrial	30%	

CFD and EIFD Revenues Over Parcels of Study

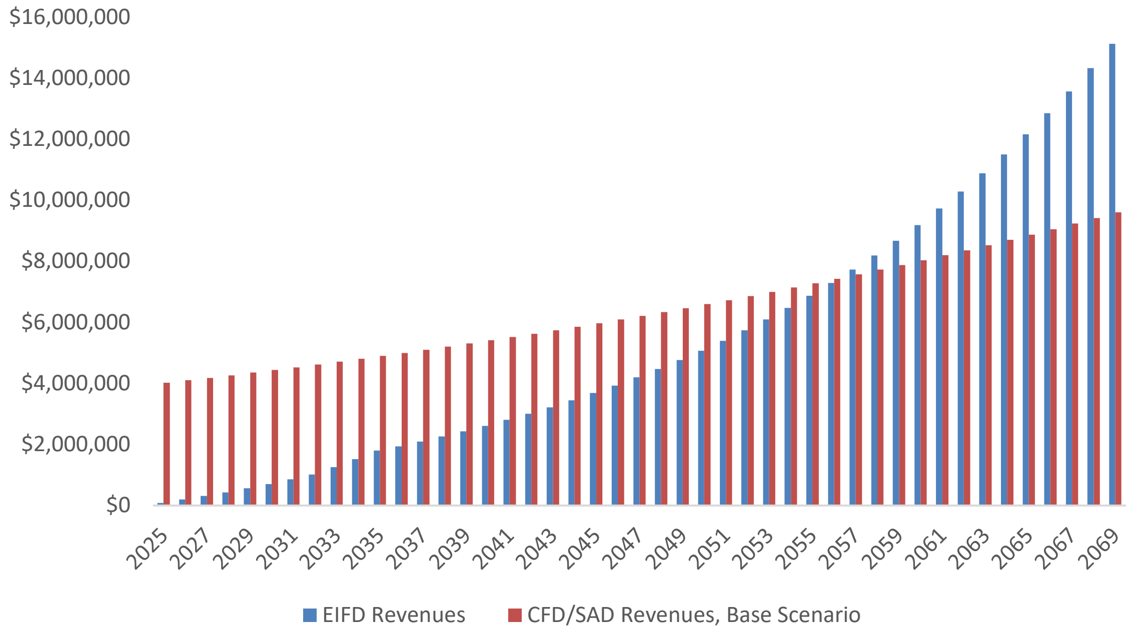
The CFD revenues estimate assumes that the collection of assessments would begin once the district is approved in Year 1 (2025) of the period studied and consider the full development program, which is assumed to be developed and completed between Years 1 and 10. During these years, payment of the assessment is distributed between the developer and the new owners of residential and commercial space. After Year 10, all CFD payments would stem from owners of finalized commercial and residential program.

The table below summarizes the net present value of revenues from implementing a CFD and an EIFD. Both mechanisms can be implemented simultaneously. After ~20 years the magnitude of EIFD revenues would be equal to CFD's and the CFD debt could eventually be "retired" as EIFD revenues should be enough to cover CFD-related debt service.

Net Present Value of Revenues over 45 Years, by Instrument

Use	Residential	Non-Residential	Total
Total Development	2,300 Units	500,000 SF	-
CFD/SAD Revenues, Base Scenario	$76.1 M	$66.7 M	$142.8 M
EIFD Revenues	$60.5 M	$34.5 M	$95.0 M

Annual Nominal Revenue by Source



Debt Financing Capacity Analysis

Debt Capacity Methodology

Based on the EIFD tax increment and CFD special tax revenue projections conducted by HR&A, Sperry conducted a financing capacity assessment of these revenue streams. This assessment considered the following assumptions:

- The analysis is informed by California Debt and Investment Advisory Commission Debt Watch database of recent transactions of par amount of at least $12.5M, including:
  - For CFD, ten recent CFD transactions and their rounded average credit spread of the 20- to 30-year maturities for those issuances as a credit spread approximation;
  - For EIFD, recent tax increment transactions (there have been no EIFD bond financings to date[1]) over the past year, with credit spreads comparable to the CFD transactions;
- Bonds assumed to be senior lien, tax exempt, non-rated;
- Each issuance assumes par bonds with interest rate based on current market GO AAA scale from the Municipal Market Data (MMD) as of 6/5/23 with an added a premium of 25 basis points (0.25%)[2] plus credit spread;
- Debt service reserve fund sized based on three prong test[3]; and
- Debt structure sized based on minimum required debt service cover ratios and other assumptions.

1. Treasure Island (SF) did issue IRFD bonds, also secured by tax increment, par amount of $24M for 2022A bonds and $5M for 2022B bonds
2. Over the past 15 years, premium bonds (the coupon rate exceeds the yield) have been the market standard. For the purposes of this analysis the bonds were structured as par bonds and given current interest rates par bonds require increased yield. As such a 25 bp premium was added
3. The three-prong test is the lesser of: (i) 10% of par amount of the bonds, (ii) maximum annual debt service, or (iii) 125% of average annual debt service.

Key Debt Financing Assumptions

Assumption*	EIFD	CFD
Bond Type	Senior lien, tax exempt, nonrated bonds	Senior lien, tax exempt, nonrated bonds
Issuance costs (% of par)	2%	2%
Yield/coupon (sold at par)**	MMD GO AAA Scale + 25 bps par adjustment	MMD GO AAA Scale + 25 bps par adjustment
Term	Earlier of 30 Years and 1 Year Before EIFD Termination	21 Years
Credit spread	200 bps	200 bps
Debt service coverage ratio (min.)	1.5x	1.1x
Debt structure	Level debt service until the last transaction which is ascending	Ascending; structured to min DSCR
Debt service reserve fund***	Three prong test	Three prong test
Issuance frequency	Every 8 years, commencing 2029	Two issuances, in 2026 and 2047

**Among other assumptions*

***Over the past 15 years, premium bonds (the coupon rate exceeds the yield) have been the market standard. For the purposes of this analysis the bonds were structured as par bonds and given current interest rates par bonds require increased yield. As such a 25 bp premium was added*

****The three-prong test is the lesser of: (i) 10% of par amount of the bonds, (ii) maximum annual debt service, or (iii) 125% of average annual debt service.*

Notes:

- *EIFD tax increment and CFD special tax revenue projections provided by HR&A*
- *MMD AAA GO based on current market (6/5/23)*
- *CFD assumptions are based on 10 recent CFD transactions with a par amount greater than $12.5M and a rounded average spread of the 20–30-year maturities for those issuances*
- *No EIFD transactions to date. Based on recent tax increment transactions (over the past year). Credit spread were similar to CFD transactions described above.*

EIFD DEBT CAPACITY | Debt capacity from EIFD bonds based on revenue projections, scenario and other assumptions*

Kearny Mesa (19.4 square miles)
804 parcels with current assessed value of $1.5B

Estimated Bond Proceeds for Projects	2029 Issuance ($M)	2037 Issuance ($M)	2045 Issuance ($M)	2053 Issuance ($M)	Total
City and County contribute 50% each of tax increment share (no VLF)	$17	$45	$53	$69	**$184**
City and County contribute 100% each of tax increment and VLF shares	$51	$136	$160	$211	**$558**

Indicates project fund amounts.
Note: After debt service payments are made, remaining revenue can be used on a pay-go basis.

Analysis and results are high level, based on revenue estimates and on financing and other assumptions; results are indicative only, and assumptions may not hold true; for discussion purposes only

CFD DEBT CAPACITY | Debt capacity from CFD bonds based on revenue projections, scenario and other assumptions*

2 undeveloped parcels northeast of the proposed Kearny Mesa Purple Line station totaling 57.8 acres

Estimated Bond Proceeds for Projects	2026 Issuance ($M)	2047 Issuance ($M)	Total
CFD - Base Scenario (Max 1.8% aggregate tax)	$28	$42	**$70**

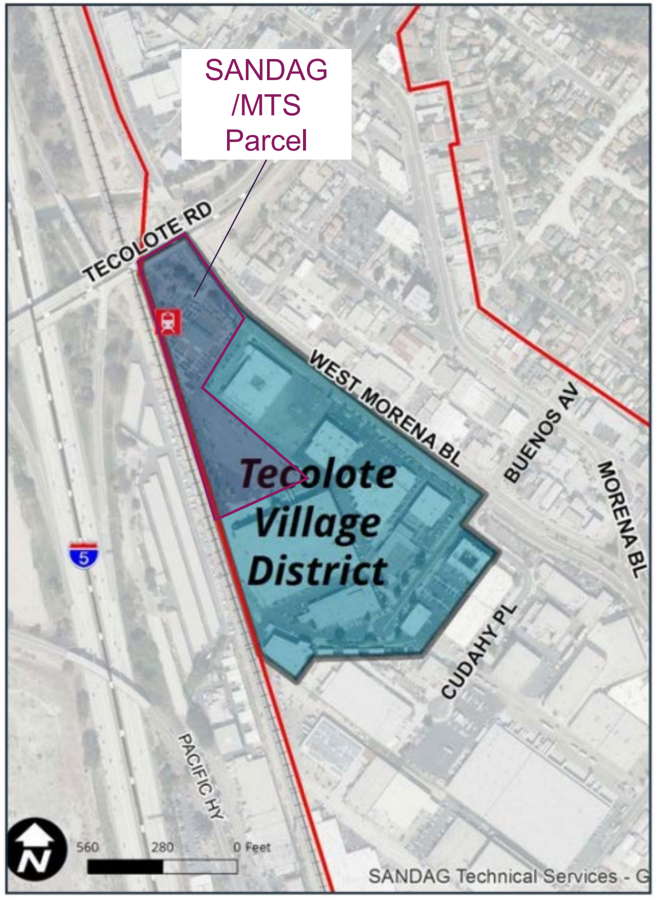
Indicates project fund amounts.
Note: After debt service payments are made, remaining revenue can be used on a pay-go basis

Analysis and results are high level, based on revenue estimates and on financing and other assumptions; results are indicative only, and assumptions may not hold true; for discussion purposes only

Joint Development Assessment – MTS/SANDAG Parcel in Tecolote Village

Geography and Program of JD

The evaluation of potential proceeds from a Joint Development Agreement was conducted over a parcel owned by SANDAG and MTS in the "Tecolote Village" site at Tecolote Road Station, considering a hypothetical development program that is based on the new zoning regulations established in the Morena Corridor Specific Plan.



Indicator	Value
Developable Land	
Total Acreage	2.75 Ac.
% Developable	80%
Developable Acreage	2.20 Ac.
Assumed Program	
Max. Density of DU per Acre Permitted	109
% of Affordable Units Required	15%
Max Number of DU Permitted	240 Units
Affordable Units	36 Units
Market Units	204 Units
Retail Program	10,000 SF

JD Revenues

In order to determine the feasibility of Joint Development, the Residual Land Value (RLV) of the site was estimated, assuming the hypothetical development program outlined prior. The RLV is estimated as the difference between the Project's Value – determined by rents and the developer's required capitalization rate – and Costs (including Costs of Development, Developer Profit, and Administrative Costs).

Indicator	Residential Rental: Market	Residential Rental: Affordable	Retail
Annual Net Operating Income Per NSF	$26.94	$14.32	$30.61
Capitalization Rate	4.7%	4.7%	5.3%
Total Project Value	$573	$305	$578
Cost of Sale	($11)	($6)	($12)
Net Project Value per NSF	$562	$299	$566
Net Project Value per GSF	$477	$254	$481
Developer Profit Margin	($48)	($25)	($48)
Development Cost	($370)	($370)	($432)
RLV per GSF	$60	($142)	$1
SF per Unit	842	842	
Units or SF	204 Units	36 Units	10,000 SF
RLV per Use ($M)	$10.3	($4.3)	$0.0

Total RLV ($M)	$6.0

Key Takeaways:

- Total Residual Land Value for Tecolote Village is positive, at $6.0 million.
- The RLV estimate is based on a program of 240 units, 15% of which are affordable for households with incomes 80% below the Area's Median Income. The positive RLV obtained from market products can subsidize the development of affordable housing units.
- Each 5% increase in the affordable housing requirements decreases total RLV by approximately $2 million. An affordability requirement of over 30% of units results in a negative RLV and turns the development financially unfeasible.

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Task 4 Deliverable: Order-of-Magnitude Estimates from Value Capture Implementation in Kearny Mesa Station Area and Tecolote Village

SANDAG Regional Value Capture Assessment Study

June 2023