PRIVATE/PUBLIC COVENTURE FUNDING OPTIONS
LOS ANGELES METRO RAIL PROJECT

- Candidate Funding Instrument Profiles -

Prepared for:
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CHAPTER I

INTRODUCTION

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Overview

The development of the first stage Metro Rail rapid transit system has reached the critical, final consensus phase of its implementation. The recent Congressional House Committee mark-up, allocating $110 million to complete final engineering and begin right-of-way acquisition for the Metro Rail System is the first in a series of milestones that will eventually lead to a full Federal funding agreement. Due to changes in the statutory Federal funding formula for public transit projects (i.e., 75% versus 80%) and reduced funding availability for "new start" rail transit projects, the local share Metro Rail funding requirements will be more than 25% of the system's estimated $3.1 billion construction cost.

Under the most recent construction funding plan submitted to Congress, approximately 38% of the total Metro Rail construction costs would be provided by non-federal (i.e., state and local sources). In this funding plan approximately 5% (i.e., $170 million) of the total funding would be derived from real estate development related funding sources. Since the securing of these funds requires agreements between the private and public sectors this type of transit funding is termed private/public coventures.

Similar to financial packaging efforts required to secure a long term financial commitment for a real estate project, the "in-place" commitment for the Metro Rail project must be achieved by sequentially firming up the status of each funding source. For example, if the private/public coventure funding element of the Metro Rail financial program gains formal private sector endorsement, the willingness of Congress to commit to increased annual levels of Federal funding is greatly enhanced.

Key Issues

In the planned series of working sessions with representatives of the private sector development community of the Greater Los Angeles area, the public sector is not seeking a "carte blanche" "pro bono" endorsement. It is expected that in return for incremental private sector funding support, that the private sector will gain a greater voice in future system planning decisions. Of even more immediate concern to the private sector, there is a recognized need to ensure future public land use policy encourage higher density development at Metro Rail stations. In response to this issue, one of the primary candidate funding mechanisms proposed for serious private sector consideration is a density bonus/transfer of development rights program. This proposal is intended to reverse the prevailing movement in the City of Los Angeles towards potential downzoning of projects located at Metro Rail station.

At this stage of formulation of the Metro Rail financial program, the precise level of private/public coventure funding has not been formally established. For the purposes of financial planning, the individual candidate funding instruments have been examined at both a 5% and 10% level of construction cost support for the Metro Rail system. The final determination of both the combination of financial instruments and funding level that will be derived from Metro Rail station area development will be made on a consensus basis with the private sector. In order to assist the "consensus building" process, all available cost and financial data will be provided to the private sector. Supplemental analysis will also be made to address all pertinent questions raised in the joint working sessions.

CHAPTER II

CANDIDATE FUNDING INSTRUMENTS

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Overview

At the initial stage of formulation of an effective private/public coventure financial program for the first stage Metro Rail project, it is critical that the full spectrum of candidate funding options be identified and examined by representatives of the Greater Los Angeles private sector business community. RHA has prepared profiles of six candidate private/public coventure funding instruments. These include:

- Tax Increment Financing
- Benefit Assessment Districts
- Station Cost Sharing/Connection Fees
- Safe Harbor Lease Back
- Transfer of Development Rights
- Dedicated Infrastructure Fund

In all likelihood other candidate instruments may be identified. Alternatively, major refinements regarding the application or future combination of these funding instruments in a workable funding strategy will be suggested. In order to obtain the broadest range of comments and suggestions the profile description of this initial list of candidate funding instruments examines the key facts of each option. These include:

- A Basic Description of the Instrument
- An Estimate of its Revenue Potential

- Implementation Requirement(s)
- Relevant Application to Metro Rail
- Precedents
- A Discussion of Equitability
- Advantages
- Disadvantages

Next Steps

In response to the task forces' review comments, additional financial analysis will be completed for this set or a modified set of candidate revenue options. Subsequently based on a determination of the funding level of private/public coventure support for Metro Rail the final list of funding instruments will be combined into two or three viable funding scenarios. Ultimately, a consensus decision of the merits of the alternative Metro Rail private/public coventure funding scenarios will form the foundation for establishing an agreed upon funding strategy.

For reference in this initial step in determining the content of the Metro Rail private/public coventure funding program, RHA has prepared a series of financial tables that indicate the revenue requirements for a range of capital funding support under alternative interest rate and bond terms. These tables are contained in the appendix of this discussion paper report.

CANDIDATE FUNDING INSTRUMENT PROFILE (1)

NAME: Dedication of Tax Increment Revenue Fund

Basic Description:

The Community Redevelopment Agency (CRA) of the City of Los Angeles and the Los Angeles County Redevelopment Agency are authorized to collect tax increment revenues from development activity occurring within urban renewal districts. Currently there are four designated Metro Rail stations located in urban renewal areas. Two additional station areas (i.e., Hollywood/Cahuenga and Union Station) are under renewal area consideration. Under this program, after an area is declared blighted, the property tax base is "frozen" and any tax revenue derived from incremental property base increases are placed in a dedicated fund to support infrastructure improvements. The entire tax increment revenue stream accruing from new commercial development constructed by 1991 in established renewal districts will cumulatively equal approxmately $300 million between 1980-1990 and could exceed $450 million between 1991-2000. At least three/fourths of this revenue potential would be generated by new construction activity in the downtown Los Angeles area.

Revenue Potential

It is recommended at this initial stage of the formulation of the private/public coventure element of the Metro Rail financial program that full consideration be given to dedicate up to 25% of the post-1985 revenue accruing from renewal districts which contain Metro Rail Station Areas. This portion of the total tax increment revenue would be adequate to support up to $75 million of revenue bonds depending on the interest rate and the designated bonding period.

Implementation Requirements

In order to implement a dedication of a portion of future tax increment revenue to the Metro Rail funding program, the CRA Administrator must approve this revenue allocation. In renewal districts that are not currently established (e.g. Union Station) the tax increment revenue allocation to Metro Rail would have to be documented in the overall adopted "redevelopment plan". Formal City Council approval may be required for formal adoption of this approach.

In order to establish additional redevelopment districts that include Metro Rail stations, the following actions are required:

- The City Council of Los Angeles must concur in the CRA's recommendations and the findings of slum and blight.
- A detailed redevelopment plan must be prepared.
- The redevelopment plan must be approved by the City and/or County.
- Public hearings procedures requirements of the City and/or County must be met.
- Tax base of the designated area must be officially "frozen" and a trust fund formally established.

Without an allowance for delay because of legal suits, it would require one year or longer to complete these implementation steps for expansion of existing renewal districts or establishing a new district. The remaining portion of the tax increment funds, not committed to the Metro Rail, would also need to be formally allocated. Additional time may be required to reach political consensus on this important decision. Within existing renewal districts a formal amendment would need to be made to the existing renewal plan and fully adopted by the CRA board and the Los Angeles City Council.

Relevant Application

Depending on local consensus regarding the application of these funds, tax increment financing revenue could be utilized to fund a substantial portion of the capital cost of the Metro Rail System. There would be no restrictions as to which elements of the Metro Rail System would be paid for from this revenue source. The most likely application would be for station facilities and joint development infrastructure costs (such as pedestrian bridges, connector tunnels, etc.).

Precedents

This source of infrastructure capital funding has been widely utilized, but the City of Miami is the first U.S. City that has utilized these revenue sources to finance major transportation facilities.

The Community Redevelopment Agency of Los Angeles had previously pledged this source of revenue to the front-end capital costs for the fringe parking component of the Los Angeles DPM system. San Francisco paid for the Embarcadero Station utilizing this funding instrument. Other national project examples involving the application of tax increment funds include: the local share costs of the Philadelphia Commuter Connector Tunnel (linking the Galleria project), the Boston Redevelopment Authority's mixed use development of South Station. On a larger scale the City of Miami 1/ recently committed up to $100 million of their future tax increment funds to downtown transportation improvements.

Equitability

There is a direct relationship between the development influence of the Metro Rail System and the level of future tax increment revenues. The difficult equitability issue is determining the competitive ranking of the Metro Rail in relation to the portion of available revenues that should be allocated to the project.

Advantages

- Represents as yet a source of new, undedicated funds.

- There is a direct and documentable relationship to the development influence of the MetroRail.

- With allowance for other competitive projects, tax increment revenue represents a flexible and substantive revenue source.

- Dedication of these funds would not require an increase in taxes or on new private commercial development.

Trade-offs/Conflicts

- The implementation process required to dedicate these revenues requires CRA board and City Council approval and, in certain instances Los Angeles County Board of Supervisors approval.

- The level of competition for these funds is keen.

- Dedication of these revenues to the Metro Rail delimits their availability for other critically needed capital improvements.

1/ Under Florida statutes, traffic congestion is considered a blighting influence.

FUNDING INSTRUMENT PROFILE (2)

NAME: Assessment District

Basic Description

An assessment district is a special purpose taxing district established to fund a capital improvement or municipal service that provides primary benefits to the residents, businesses or property owners located within its boundries. In the case of the Los Angeles Metro Rail, the Senate Bill No. 1238, introduced by Senator Watson on March 7, 1983 would allow the Southern California Rapid Transit District to form special benefit districts. The specific assessment formula under consideration could include the value of real property, payrolls of employers or the building floor area or a combination of these factors.

The geographic boundaries of the benefit assessment districts would include the primary benefit area surrounding each Metro Rail station area. Under this legislation the County of Los Angeles would collect the assessment and (after deducting assessment and collector expenses) transmit the revenue to the SCRTD. By statutory requirement, the amount of the annual levy imposed cannot exceed the quantifiable monetary benefit received by the individual business or property owner paying the assessment. Under amended provision to this state legislation, this funding instrument could be implemented through a property owner rather than a general referendum.

Revenue Potential

The capital bonding potential of an assessment district established in Los Angeles around each first stage Metro Rail System station would conservatively range from $150 million to (in excess of) $300 million. This assessment estimate assumed a 20-year bonding period and an 11.0% interest rate. As noted in the Introduction chapter to this report, this revenue estimate was based on a 25¢ to 50¢ square foot assessment on commercial property (including hotel and retail outlets). This base would expand and (if a longer bonding period were utilized) the bonding capacity would increase to a level between approximately $350 million to $400 million.

Implementation Requirements

Subsequent to the enactment of Senate Bill 1238, the SCRTD would need to approve each benefit assessment district by a 2/3 voter approval of the board of directors. *In addition, the District would need to offer public notice and a* hearing and most probably hold a general election of affected property owners before proceeding. The actual levy could vary in the individual benefit districts. The assessment revenues would be collected by the County of Los Angeles (minus administration fees), and then directly dispersed to the SCRTD.

The single tiered 25¢ or 50¢ per square foot assessment formula is only an illustrative example. The actual formula would also need to be formulated by the District, and approved by the SCRTD Board and adopted by the property owners. Based on the experience of other cities, special analysis would be required to define a comparable hotel rate in order to include hotels in the assessment district. In general, a room night rate of approximately 75¢ to $1.50 per would be comparable to the 25¢ to 50¢ per square foot of leasable space in an office building. Prior to implementation of an assessment district, an economic evaluation needs to be conducted to determine that the proposed levy does not exceed the quantifiable economic benefits that would accrue to those subject to the levy.

Relevant Application

This funding mechanism generates a stable and predictable revenue that can keep pace with inflation. The incidence of burden can distinguish between level of benefit received and has a minimal level of increased maintenance cost. Its most relevant application is to support overall system capital or operating costs. In the case of a single-tiered assessment, the levy amount must be viewed as nominal to gain acceptance. At 25¢ per square foot, tenants served by the Metro Rail System would pay approximately the same amount now included in their rent for the annual maintenance and operation of elevators in their building.

Precedents

There are several national precedents for the application of this funding instrument to fixed rail transit projects. The downtown business communities of Miami and Denver, by consensus approval, supported incremental commercial property benefit assessments ranging from the equivalent of 10¢ to 25¢ per leasable square foot to support fixed rail or transit projects proposed in their cities. Given the evident national opposition to increase in citywide ad valorem taxes, the small area benefit assessment district is becoming a higher priority funding mechanism.

Equitability

This level of annual assessment represents between 20% & 40% of the quantifiable private sector benefits that would accrue to the private sector business community served by the first phase of the Metro Rail System. This assessment level is comparable to the assessment district approaches that were unanimously adopted by the downtown business communities in Miami and (with modest disagreement) reached in Denver.

Advantages

- Inclusion of all primary benefit recipients.
- Base expands over time and is not reduced if implementation occurs one or two years in the future.
- High degree of equitability.
- No disruption in normal real estate development process.
- Minimal incremental administrative costs.
- Incidence of burden defined by levels of benefits received.

Trade-offs/Conflicts

- Universal business community or property owner support needed to avoid general referendum.
- Distinction between type of property and proximity to station normally required if levy rate is viewed as more than nominal.
- Represents an incremental transferable cost to the private property owners.

FUNDING INSTRUMENT PROFILE (3)

NAME: **Station Cost Sharing/Connector Fees**

Basic Description

Major developers who elect to have a Metrorail system physically integrated with their new building normally incur all or at least a major portion of these capital costs. Their investment insures: 1) their ability to proceed with their developments in advance of system operation; and 2) provides a long-term competitive market advantage for their project. The ability to control the design of the station enhances the overall quality of the project.

The original Metro Rail system funding plan assumed that the public sector would provide a basic station. The portion of costs that the developer would pay for building/station integration and incremental structural support was not previously determined. One of the anticipated results of individual project negotiation was to secure dedicated easements through new commercial development. Under the altered federal funding conditions, the individual project negotiation approach policy is under re-evaluation.

The formal guidelines for these negotiations have not been established. For the current financial planning considerations, we are recommending that, at a minimum, the developers provide all required escalator and elevator access, even those elements that were included in the basic station design. As before, easements should be dedicated "probono" and the developer would incur all structural accommodation and physical integration costs.

Finally, the SCRTD would continue to have the option of including a connector fee in the station cost sharing formula. Our recommendation is that, only developments requesting physical connection to the system pay an additional connector fee, as well as, the other designated share-cost elements. The final determination of the shared-cost formulae will be up to the discretion of the SCRTD Board.

Revenue Potential

The estimates of the value of this revenue source range from $25 up to $50 million in incremental Metro Rail System revenues. A major portion of the private sector physical integration costs are not included in the current construction cost estimates. The actual amount will be a function of: 1) negotiations with the private sector; and 2) the number of projects that are developed at the proper time to be physically integrated with a station or are designed for later connection to a station. For financial planning purposes, we estimate that a minimum of $25 million could be generated from this revenue source. The reduced elevator and escalator costs, the value of dedicated easement versus right-of-way purchase, and the potential reduced structural costs could represent savings of approximately $1 to $2 million per station as compared to the proposed station costs. This level of cost reduction is hypothetical and is dependent on the outcome of future private sector negotiations.

Given that at least five station area projects are now contemplated that will desire physical integration to the Metro Rail System, the pre-system opening revenues estimated to be generated from this revenue sources would be $10 to $15 million. An additional $50 million in revenues should be sought in the form of connection fees from developers desiring physical integration or pedestrian bridge connection to Metro Rail stations after the system begins operation. On this basis, the SCRTD could ultimately receive $50 million in capital support from shared station costs and connector fees.

Implementation Requirements

This revenue instrument can be implemented by the negotiation committee designated by the SCRTD Board. Depending on the guidelines adopted, the revenue potential of this source should be able to meet, if not exceed, the current $50 million estimates. It will be important that a consistent set of guidelines and negotiations precedents be established in the upcoming round of negotiations.

Relevant Application

These cost sharing agreements are directly relevant to station or future pedestrian walkway elements. Escalator/elevator costs represent another valid application of this funding instrument. Finally, right-of-way land or easements should be dedicated to the Metro Rail Project as part of the cost sharing formulae. As noted, connector fees potentially, charged only to developments undertaken after Metro Rail operations begin, could be applied to partially satisfy future annual bond payments. If tax increment funds could be initially utilized for this type of joint development infrastructure costs, then the private sector would be more willing to negotiate annual connector fees.

Precedents

Several major developers have already expressed interest in physical integration of their projects with Metro Rail stations. To date, however, no cost sharing agreements have been consummated. In relation to the Washington, D.C. Metro System (WMATA), developers and existing department stores have paid connector fees ranging from $300,000 to $1,000,000. Under recent policy guidelines connector fees will be negotiated at each WMATA station. The SCRTD should develop a uniform set of guidelines for the negotiations of these agreements.

Equitability

This is a very equitable source of revenue since the costs are negotiated with a private entity who must take into account his/her financial returns. It will be important that a consistent set of guidelines be established during the first set of negotiations to insure the equitability of this approach as it is applied to future projects. The principle of only charging connector fees to developments that occur after Metro Rail system operations begin is equitable, because their risk is lower due to the fact that the operational benefits of the system can be more accurately determined on a project-by-project basis.

Advantages

- **Represents one of the most direct and equitable forms of capital funding.**
- Reduces remaining local/state capital funding requirements.
- Insures inflation cost coverages.
- Enhances Metro Rail system ridership potential.

Trade-offs/Conflicts

- Requires advance determination of overall business community financial participation program guidelines.
- Permanently determines system's station portal locations.
- Requires iterim and cost sharing considerations of adjacent building connections vis-a-vis pedestrian bridges.

CANDIDATE FUNDING INSTRUMENT PROFILE (4)

NAME: Private Sector Leaseback

Basic Description:

The specific provisions of the Economic Recovery Tax Act of 1981 (1982 Tax Act) paved the way for "Safe Harbor Leasing". Safe Harbor Leasing is an innovative financing mechanism designed to help underwrite the capital costs associated with the acquisition of mass transportation vehicles and related command control equipment. In exchange for the sale of accelerated depreciation deductions on the transportation equipment to eligible tax-paying private corporations, the participating public transit agency "leases back" its rolling stock. Under acceptable Safe Harbor Leasing provisions, the participating private corporations receive a legal shelter for their taxable income and the public transit agency significantly reduces its capital acquisition costs.

A prototypical Safe Harbor Lease agreement calls for the participating public transit agency to lend the tax-paying private corporations (through an acceptable debt instrument) the capital required to purchase the mass transit rolling stock. Normally the debt service is structured equitably to allow for the public transit agency to make leaseback payments equal to the debt service payments owed the transit agency by the participating private firms. Certain fundamental criteria must be met in forming an acceptable Safe Harbor Lease:

- Only the "non-Federal" matching share of the subject equipment purchase can spin-off the tax benefits transferred to the participating private investors (this base increases as the "local match" increases).

- The participating private investors must contribute (in cash) a minimum of 10% of the total purchase price of the subject transportation equipment.

- **The participating public transit agency must contribute a minimum of 5% of its share from a "non-taxable" funding source.**

- **Upon termination of the Safe Harbor Lease, the participating public transit agency must purchase full ownership of the** equipment (normally for a nominal sum).

Revenue Potential

Since the referenced Federal enabling legislation was adopted in 1981, approximately 15 - 20 Safe Harbor Lease transactions have been completed by public transit agencies across the United States. Documented findings in reference to selected Safe Harbor Lease transactions disclose a range of from 10% to 45% capital cost reductions achieved through their consummation.

Provided Congressional support remains in place for the "Safe Harbor Leasing" provisions of the ERTA 1981, this mechanism offers significant financing potential for the SCRTD in formulating its over Metro Rail financial program. Assuming adoption of an accepted Safe Harbor Leasing program with respect to the Metro Rail rolling stock and command control center equipment, it is estimated that the District can save something on the order of 15% to 25% on eligible capital equipment acquisition costs. Assuming these vehicle/equipment costs to run on the order of $450 million for the Metro Rail program, the mid-point range of potential savings on eligible equipment acquisition is estimated to total approximately $90 million.

Implementation Requirements

A series of supportive steps must be accomplished or undertaken by Los Angeles area transit industry interests to insure the successful utilization of the Safe Harbor Leasing financing mechanism. These actions include the following:

- Extended Congressional approval must be provided to insure long lasting legislative support of this innovative financing

mechanism. (Current provisions stipulate that all tax-exempt obligations supporting Safe Harbor Leases must be formally issued by December 31, 1984.)

- Legal and economic/financial analyses must be completed to insure acceptance of a Safe Harbor Lease and its optimal structuring.

- Specific terms and conditions of leaseback approaches for the Metro Rail program must be clearly defined and "put in place" in advance of negotiations with participating financial houses.

- Formal negotiations must be executed consistent with preaccepted and governing investment criteria.

Relevant Application

In 1981, New York City's MTA entered into a Safe Harbor Lease agreement with a private interest (Metromedia, Inc.) for the acquisition of over 600 buses and 1 dozen commuter rail cars. Metromedia, Inc. contributed approximately 15% of the $100 million total purchase price, with the Safe Harbor Lease structured on a 13-year basis for the buses and on a 20-year basis for the subject rail cars. At the termination of the Safe Harbor Lease agreement, the New York City MTA will purchase each vehicle for the nominal fee of $1.00. Participating private corporations are allowed to depreciate the full value of the "local share" of the mass transportation vehicles over a five-year period. (SCRTD's Safe Harbor Lease agreement executed in 1981 was based on a 20% "local share"; as opposed to an increasing local share requirement with respect to the subject Metro Rail project.)

Precedents

In 1981, the District executed a Safe Harbor Lease agreement with the Border Pipeline Company, whereby the SCRTD sold the tax benefits on the eligible $24 million local share (funded by vehicle equiment trust certificates). Similar to the referenced MTA Safe Harbor Lease agreement, the participating

private company contributed approximately 15% (i.e., $4 million); the lease extends for approximately a 13-year period and involves bus vehicles; and upon its termination, the District will purchase each of the vehicles for a nominal fee of $1.00. Safe Harbor Leases have been executed by a number of additional major public transit agencies throughout the United States including transit industry interests in Cincinnati, Baltimore, Houston, Portland, etc.

Equitability

With respect to the leasor/leasee provisions embodying the private and public interests participating in accepted Safe Harbor Lease agreements, this financing mechanism represents one of the most attractive and equitable capital vehicles available. However, the entire lease package must be carefully structured to insure IRS approval and local financial community support and acceptance. Acknowledgement must be made of the fact that some concern exists in Congress today with respect to the acceptability of denying the Treasury Department the foregone corporate tax revenue stream. To date, the national transit industry officials have made the case that the leveraged public transit improvements more than offset the foregone federal tax revenue stream.

Advantages

- The Safe Harbor Lease program can substantially reduce the local capital cost requirements associated with the Metro Rail, without adding to the tax or development cost burden of local businessmen.

- This innovative financing mechanism represents a source of capital support that can be generated outside the local community.

- No special state or local enabling legislation is required to utilize the "Safe Harbor Leasing" provisions of the Economic Recovery Tax Act of 1981.

Trade-offs/Conflicts

- Implementation requires the utilization of tax-exempt bonds and approval of a structured Safe Harbor Lease.

- Special packaging and incremental administrative costs must be undertaken in executing the subject Safe Harbor Lease.

- The reduced leaseback payments must be "guaranteed" by the participating public transit agency.

CANDIDATE FUNDING INSTRUMENT PROFILE (5)

NAME: Transfer of Development Rights

Basic Description

Currently, the maximum floor area ratio of development that is allowed in Los Angeles is 13:1. This high density zoning is principally found in downtown Los Angeles. Under the adopted citywide community plans any developer seeking a subdivision decision or other zoning modification is subject to downzoning in accordance with the community plan guidelines. If the current Los Angeles City Planning Department's development policy thinking prevails, most future Metro Rail station sites would receive approval for a higher density of development than the remaining portion of the City of Los Angeles; but, for most projects, less than what is allowed under current zoning.

Under the proposed transfer of development rights program, the SCRTD would support increases in the allowable floor area density to as high as 19:1 in a declining scale within defined concentric rings of Metro Rail Stations. Developers would be able to purchase the increased FAR Development rights (above that allowed under zoning) from existing property owners or the SCRTD. The SCRTD would be allocated at least the equivalent of 3 FAR development rights for all properties located within a two-or-three block area of each Metro Rail Station; which would be defined as the primary development zone. Similar to the Pershing Square project, this bank of FAR development rights would be sold at a market rate/appraisal document price.

Revenue Potential

Even if the proposed SCRTD development bank only covered the 10 acres of property in closest proximity to the Metro Rail Stations, the current value of a 3 FAR joint development bank would be in excess of $200 million. This estimate assumes the development rights were sold at the same market rate as Pershing Square (i.e., $10 per square foot); over a 15 to 17 year time frame, the revenue potential from this funding vehicle could exceed $500 million.

Under the current concept, contingent on prevailing market rates, the purchase of FAR development rights from existing residential property owners could create at least an equivalent line of funding for housing rehabilitation and commercial revitalization. In addition to this direct revenue, the transfer of development rights program - through inducement of higher density joint development - would substantially improve Metro Rail ridership revenues and enhance the system's overall cost efficiency.

Implementation Requirements

The development of a Metro Rail Station density bonus and transfer of development rights program would require the unified support of the private sector. Ultimately, the program would need to be specifically defined and adopted as part of the area-specific plans for the station areas. Existing area-specific plans would also need to be amended.

Given the fundamental zoning changes that are inherent to a density bonus and transfer of development rights program, the final results (including the allocation formula and administrative plan) will require City Council approval. Prior to presenting this program to City Council, extensive analysis will be required to delineate the primary impact zone, the development impact and development influence zones for each Station area.

Relevant Application

The revenue generated from the transfer of the development rights program could be applied to any element of the Metro Rail System. The most relevant application of these funds would be to defray station construction and joint development infrastructure costs. In the case of the First-stage Metro Rail System, the full application of the revenue potential of this funding instrument could pay for a substantive portion of the estimated station construction costs.

Precedents

The most relevant local example of the transfer of development rights is Pershing Square. In this project the development rights of the open space area were made available to surrounding property owners at $10 per square foot. The owner/developer of the Jewelry Mart building purchased approximately 40,000 square feet of the transferable development rights.

Previously in most other U.S. cities such as New York, San Francisco and Chicago that established density bonus programs, this instrument has been primarily utilized to resume design accommodations in major development projects. The actual sale of these development rights is being seriously considered in high growth downtown areas or major transportation corridors.

Equitability

Since this funding instrument is proposed as a market rate transaction above existing or allowable zoning, the private sector's decision to purchase is based on their judgement that an acceptable "rate of return" will be achieved. Therefore, the instrument is one of the most equitable forms of capital funding vehicles now available. The fact that development is being encouraged where there is adequate infrastructure requiring the largest public sector investment, also supports future municipal cost efficiencies in accommodating level of growth expected to occur in Southern California.

Advantages

- The sale or transfer of development rights represents a major source of capital funding that can be created in the real estate marketplace.

- This innovative financing mechanism represents one of the most equitable types of funding instruments.

- Utilization of this approach reinforces operational cost efficience for the Metro Rail System.

- **The transfer of development rights combats a potential public policy deterrant to optional joint development at Metro Rail Stations.**

Disadvantages

- Extensive area-specific planning and administrative program development is required.

- Considerable consensus building would be required at the Los Angeles City Council and among the private sector development community to implement the funding instrument.

- There would most probably be extensive legal and administrative costs associated with the implementation of a transfer of development rights program.

CANDIDATE FUNDING INSTRUMENT PROFILE (6)

NAME: Dedicated Infrastructure Fund

Basic Description

Under a dedicated infrastructure fund, all new development would be required to pay a flat fee of, for example, $5 per square foot to support the Metro Rail system and related infrastructure costs for the station area serving their project. The fund is more commonly termed a new development fee. The receipt of these funds are collected at the time a new development is constructed.

The technical basis for the infrastructure charge is to meet incremental public sector costs to accommodate the traffic and other municipal service needs associated with the increased development. Normally, the application of the funds is pre-determined by an activity center masterplan. The fee schedule established for a dedicated infrastructure fund can be adjusted for inflation.

Revenue Potential

The estimated cumulative revenue potential of a dedicated infrastructure fund ranges from $100 million to $250 million dollars. The actual revenue potential will be a function of: 1) the allowance for inflation; 2) the geographic coverage of the development zone subject to the fee; and 3) the duration of the program. The upper range of the revenue estimate could be realized if a 5% annual allowance for inflation was made on a base rate development fee of $5 per square foot. This fee would then be applied to between 65% and 70% of the future commercial development that will occur within the service corridor area of the first stage Metro Rail system between 1983 and the year 2000.

Implementation Requirement

This scale of development fee can be adopted as part of the specific area plans. Statutory authority exists for this type of fee within the current zoning code. At the present time these fees accrue to the City of Los Angeles and there is no provision for their allocation to the SCRTD or the Metro Rail Project.

At a minimum the following action would need to be taken to implement a dedicated Metro Rail infrastructure fund:

- **Formulation and adoption of a joint powers agreement between the SCRTD and the City of Los Angeles.**

- Establishment of a development fee schedule.

- Delineation of the development areas subject to this fee.

- Establishment of a collection procedure.

- Inclusion of the program in an amended or new specific area plan for each Metro Rail station area.

Relevant Application

The revenue from this funding instrument could be applied to any capital cost element of the Metro Rail System. Since the majority of the funds would accrue after the completion of the system construction, the funds are not as useful as other bondable revenue sources. The funds received prior to 1991 could be directly applied to needed construction outlays for the Metro Rail System. Funds collected after 1991 would be applied to bond retirement.

Precedents

There are several local working examples of the application of development fees to a dedicated infrastructure fund within the City and County of Los Angeles. The largest and best known project that utilized this funding instrument was Century City. The most recent example involved the future development at Universal Studios.

The application of this instrument in other U.S. cities has received mixed results. The City of San Francisco, for example, was recently successfully blocked in court from applying a developer fee. Miami eventually dropped it from consideration in their downtown transportation system financing program.

Equitability

As long as the fees are applied to infrastructure improvements that directly serve new development there is a high degree of equitability. If existing project owners do not provide a comparable level of financial support, scaled to their economic returns, this represents a major inequity in a dedicated infrastructure funding program. The fee payment schedule at the completion of building construction increases the "up front" risk capital requirements for the private developer and could deter the future pace and scale of joint development at Metro Rail stations.

Advantages

- The program is usually well received by existing building owners who are not subject to the infrastructure development fees.
- The program can substantially reduce local capital cost requirements through direct payment of fees from development that directly benefit from the Metro Rail system.
- Insures inflation cost coverage.
- Establishes an outside limit of cost burden on new development.

APPENDICES

TABLES 1 - 5

Annual Revenue Requirements Calculated for the

Retirement of Serialized Annuity Bonds

for the Capitalization of the

Los Angeles MetroRail System

Note: The collection and administration costs, insurance and reserve fund requirements for municipal bonds represent 45% to 50% additional revenue requirements beyond the principal/interest payments shown in the charts. The largest portion of this incremental cost, the reserve fund, can draw interest and be repaid after the bonds are retired.

TABLE 1

ANNUAL REVENUE REQUIRED TO
RETIRE A (10 YEAR) SERIALIZED ANNUITY BOND
($ Millions)

Bond Amount	INTEREST RATE 9%	9.5%	10%	10.5%	11%	11.5%	12%
$100.00	$15.58	$15.93	$16.27	$16.63	$16.98	$17.34	$17.70
$150.00	$23.37	$23.85	$24.30	$24.90	$25.50	$26.01	$26.55
$200.00	$31.20	$31.80	$32.40	$33.20	$34.00	$34.60	$35.40
$250.00	$39.00	$39.75	$40.50	$41.50	$42.50	$43.25	$35.40
$300.00	$46.80	$47.70	$48.60	$49.80	$51.00	$51.90	$53.10
$350.00	$54.60	$55.65	$56.70	$58.10	$59.50	$60.55	$61.95
$400.00	$62.40	$63.60	$64.80	$66.40	$68.00	$69.20	$70.85
$450.00	$70.20	$71.55	$72.90	$74.70	$76.50	$77.83	$79.65
$500.00	$78.00	$79.50	$81.00	$83.00	$85.00	$86.50	$88.50

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 2

ANNUAL REVENUE REQUIRED TO RETIRE A (15 YEAR) SERIALIZED ANNUITY BOND ($ Millions)

Bond Amount	INTEREST RATE						
	9%	9.5%	10%	10.5%	11%	11.5%	12%
$100.00	$12.41	$12.77	$13.15	$13.52	$13.91	$14.29	$14.68
$150.00	$18.60	$19.20	$19.65	$20.25	$20.85	$21.45	$22.05
$200.00	$24.80	$25.60	$26.20	$27.00	$27.80	$28.60	$29.40
$250.00	$31.00	$32.00	$32.75	$33.75	$34.75	$35.75	$36.75
$300.00	$37.20	$38.40	$39.30	$40.50	$41.70	$42.90	$44.10
$350.00	$43.40	$44.80	$45.85	$47.25	$48.65	$ 50.05	$51.45
$400.00	$49.60	$51.20	$52.40	$54.00	$55.60	$57.20	$58.80
$450.00	$55.80	$57.60	$58.95	$60.75	$62.55	$64.35	$66.15
$500.00	$62.00	$64.00	$65.00	$67.50	$69.50	$71.50	$73.50

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 3

ANNUAL REVENUE REQUIRED TO
RETIRE A (20 YEAR) SERIALIZED ANNUITY BOND
($ Millions)

Bond Amount	INTEREST RATE						
	9%	9.5%	10%	10.5%	11%	11.5%	12%
$100.00	$10.95	$11.35	$11.75	$12.15	$12.56	$12.97	$13.39
$150.00	$16.50	$16.95	$17.55	$18.15	$18.90	$19.50	$20.10
$200.00	$22.00	$22.60	$23.40	$24.20	$25.20	$26.00	$26.80
$250.00	$27.50	$28.25	$29.25	$30.25	$31.50	$32.50	$33.50
$300.00	$33.00	$33.90	$35.10	$36.30	$37.80	$39.00	$40.20
$350.00	$38.50	$39.55	$40.95	$42.35	$44.10	$45.50	$46.90
$400.00	$44.00	$45.20	$46.80	$48.40	$50.40	$52.00	$53.60
$450.00	$49.50	$50.85	$52.65	$54.45	$56.70	$58.50	$60.30
$500.00	$55.00	$56.50	$58.50	$60.50	$63.00	$65.00	$67.00

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 4

ANNUAL REVENUE REQUIRED TO
RETIRE A (25 YEAR) SERIALIZED ANNUITY BOND
($ Millions)

	INTEREST RATE						
Bond Amount	9%	9.5%	10%	10.5%	11%	11.5%	12%
$100.00	$10.18	$10.60	$11.02	$11.44	$11.87	$12.31	$12.75
$150.00	$15.30	$15.90	$16.50	$17.10	$17.85	$18.45	$19.05
$200.00	$20.40	$21.20	$22.00	$22.80	$23.80	$24.60	$25.40
$250.00	$25.50	$26.50	$27.50	$28.50	$29.75	$30.75	$31.75
$300.00	$30.60	$31.80	$33.00	$34.20	$35.70	$36.90	$38.10
$350.00	$35.70	$37.10	$38.50	$39.90	$41.65	$43.05	$44.50
$400.00	$40.80	$42.40	$44.00	$45.60	$47.60	$49.20	$50.80
$450.00	$45.90	$47.70	$49.50	$51.30	$53.55	$55.35	$57.15
$500.00	$51.00	$53.00	$55.00	$57.00	$59.50	$61.50	$63.50

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 5

ANNUAL REVENUE REQUIRED TO
RETIRE A (30 YEAR) SERIALIZED ANNUITY BOND
($ Millions)

Bond Amount	INTEREST RATE 9%	9.5%	10%	10.5%	11%	11.5%	12%
$100.00	$ 9.73	$10.17	$10.61	$11.05	$15.10	$11.96	$12.41
$150.00	$14.55	$15.30	$15.90	$16.65	$17.33	$18.00	$18.60
$200.00	$19.40	$20.40	$21.20	$22.20	$23.10	$24.00	$24.80
$250.00	$24.25	$25.50	$26.50	$27.75	$23.88	$30.00	$31.00
$300.00	$29.10	$30.60	$31.80	$33.30	$34.63	$36.00	$37.20
$350.00	$33.95	$35.70	$37.10	$38.85	$40.43	$42.00	$43.40
$400.00	$38.80	$40.80	$42.40	$44.40	$46.22	$48.00	$49.60
$450.00	$43.65	$45.90	$47.70	$49.95	$51.98	$54.00	$55.80
$500.00	$48.50	$51.00	$53.00	$55.50	$57.75	$60.00	$62.00

SOURCE: Robert J. Harmon & Associates, Inc.

TABLES 6 - 10

Financial Analyses of Total Supportable

Capital Bond Values Under Varying

Levels of Dedicated

Revenue Sources

Note: The collection and administration costs, insurance and reserve fund requirements for municipal bonds **represent 45% to** 50% additional revenue requirements beyond the principal/interest payments shown in the charts. **The largest** portion of this incremental cost, the reserve fund, can draw interest and be repaid after the bonds are **retired.**

TABLE 6

10 YEAR CAPITAL BOND VALUE SUPPORTED BY DEDICATED REVENUE RESOURCES ($ Millions)

Annual Net Revenue	INTEREST RATE						
	9.0	9.5	10.0	10.5	11.0	11.5	12.0
$10.0	$ 64.2	$ 62.8	$ 61.5	$ 60.2	$ 58.9	$ 57.7	$ 56.5
$15.0	$ 96.3	$ 94.2	$ 92.2	$ 90.2	$ 88.3	$ 86.5	$ 84.8
$20.0	$128.3	$125.6	$122.9	$120.3	$117.8	$115.3	$113.0
$25.0	$160.4	$157.0	$153.6	$150.4	$147.2	$144.2	$141.3
$30.0	$192.5	$188.3	$184.4	$180.5	$176.7	$173.0	$169.5
$35.0	$224.6	$219.7	$215.1	$210.5	$206.1	$201.8	$197.7
$40.0	$256.7	$251.1	$245.8	$240.6	$235.6	$230.7	$226.0
$45.0	$288.8	$282.5	$276.5	$270.7	$265.0	$259.5	$254.3
$50.0	$320.9	$313.9	$307.3	$300.8	$294.5	$288.3	$282.5
$55.0	$352.9	$345.3	$338.0	$330.8	$323.9	$317.2	$339.0
$60.0	$385.0	$376.7	$368.7	$360.9	$353.3	$346.0	$339.0
$65.0	$417.1	$408.1	$399.4	$391.0	$382.8	$374.9	$367.3
$70.0	$449.2	$439.5	$430.2	$421.1	$412.2	$403.7	$395.5
$75.0	$481.3	$470.9	$460.9	$451.1	$441.7	$432.5	$423.8
$80.0	$513.4	$502.2	$491.6	$481.2	$471.1	$461.4	$452.0

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 7

15 YEAR CAPITAL BOND VALUE SUPPORTED
BY DEDICATED REVENUE RESOURCES
($ Millions)

Annual Net Revenue	INTEREST RATE						
	9.0	9.5	10.0	10.5	11.0	11.5	12.0
$10.0	$ 80.6	$ 78.3	$ 76.1	$ 73.9	$ 71.9	$ 70.0	$ 68.1
$15.0	$120.9	$117.4	$114.1	$110.9	$107.9	$104.9	$102.2
$20.0	$161.2	$156.6	$152.1	$147.9	$143.8	$139.9	$136.2
$25.0	$201.5	$195.7	$190.2	$184.9	$179.8	$174.9	$170.3
$30.0	$241.8	$234.8	$228.2	$221.8	$215.7	$209.9	$204.3
$35.0	$282.1	$274.0	$266.2	$258.8	$251.7	$244.9	$238.4
$40.0	$322.4	$313.1	$304.2	$295.8	$287.6	$279.8	$272.4
$45.0	$362.7	$352.2	$342.2	$332.7	$323.6	$314.8	$306.5
$50.0	$403.1	$391.4	$380.3	$369.7	$359.6	$349.8	$340.5
$55.0	$443.4	$430.5	$418.3	$406.7	$395.5	$384.8	$374.6
$60.0	$483.7	$469.7	$466.4	$443.6	$431.5	$419.8	$408.7
$65.0	$524.0	$508.8	$494.4	$480.6	$467.4	$454.7	$442.7
$70.0	$564.3	$548.0	$532.4	$517.6	$503.3	$489.7	$476.8
$75.0	$604.6	$587.1	$570.5	$554.6	$539.3	$524.7	$510.8

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 8

20 YEAR CAPITAL BOND VALUE SUPPORTED
BY DEDICATED REVENUE RESOURCES
($ Millions)

Annual Net Revenue	INTEREST RATE						
	9.0	9.5	10.0	10.5	11.0	11.5	12.0
$10.0	$ 91.3	$ 88.1	$ 85.1	$ 82.3	$ 79.6	$ 77.1	$ 74.7
$15.0	$136.9	$132.2	$127.7	$123.5	$119.4	$115.6	$112.0
$20.0	$182.6	$176.2	$170.3	$164.6	$159.3	$154.2	$149.4
$25.0	$228.2	$220.3	$212.9	$205.8	$199.1	$192.7	$186.7
$30.0	$273.9	$264.4	$255.4	$246.9	$238.9	$231.3	$224.1
$35.0	$319.5	$308.4	$298.0	$288.1	$278.7	$269.8	$261.4
$40.0	$365.1	$352.5	$340.6	$329.2	$318.5	$308.4	$298.8
$45.0	$410.8	$396.5	$383.1	$370.4	$358.3	$346.9	$336.1
$50.0	$456.4	$440.6	$425.7	$411.6	$398.2	$385.5	$373.5
$55.0	$502.1	$484.7	$468.3	$452.7	$438.0	$424.0	$410.8
$60.0	$547.7	$528.7	$510.8	$493.9	$477.8	$462.5	$448.1
$65.0	$593.4	$572.8	$553.4	$535.0	$517.6	$501.1	$485.5
$70.0	$639.0	$616.8	$596.0	$576.2	$557.4	$539.6	$522.8

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 9

25 YEAR CAPITAL BOND VALUE SUPPORTED
BY DEDICATED REVENUE RESOURCES
($ Millions)

Annual Net Revenue	INTEREST RATE						
	9.0	9.5	10.0	10.5	11.0	11.5	12.0
$10.0	$ 98.2	$ 94.3	$ 90.8	$ 87.4	$ 84.2	$ 81.2	$ 78.4
$15.0	$147.3	$141.6	$136.2	$131.1	$126.3	$121.9	$117.6
$20.0	$196.5	$188.8	$181.5	$174.8	$168.4	$162.5	$156.9
$25.0	$245.6	$236.0	$226.9	$218.5	$210.5	$203.0	$196.1
$30.0	$294.7	$283.1	$272.3	$262.2	$252.7	$243.6	$235.3
$35.0	$343.8	$330.3	$317.7	$305.9	$294.8	$284.3	$274.5
$40.0	$392.9	$370.8	$363.1	$349.6	$336.9	$324.9	$313.7
$45.0	$442.0	$424.7	$408.5	$393.3	$379.0	$365.5	$352.9
$50.0	$491.1	$471.9	$453.9	$437.0	$421.1	$407.8	$392.2
$55.0	$540.3	$519.1	$499.2	$480.7	$463.2	$446.7	$431.4
$60.0	$589.4	$566.3	$544.6	$524.3	$505.3	$487.3	$470.6
$65.0	$638.5	$613.5	$590.0	$568.0	$547.3	$466.8	$509.8

SOURCE: Robert J. Harmon & Associates, Inc.

TABLE 10

30 YEAR CAPITAL BOND VALUE SUPPORTED BY DEDICATED REVENUE RESOURCES ($ Millions)

Annual Net Revenue	INTEREST RATE						
	9.0	9.5	10.0	10.5	11.0	11.5	12.0
$10.0	**$102.7**	**$ 98.3**	**$ 94.3**	**$ 90.5**	**$ 86.9**	**$ 83.6**	**$ 80.6**
$15.0	**$154.1**	**$147.5**	**$141.4**	**$135.6**	**$130.4**	**$125.4**	**$120.9**
$20.0	**$205.4**	**$196.6**	**$188.6**	**$181.0**	**$173.8**	**$167.2**	**$161.2**
$25.0	**$256.7**	**$245.8**	**$235.6**	**$226.3**	**$217.3**	**$209.0**	**$201.5**
$30.0	**$308.1**	**$294.9**	**$282.9**	**$271.5**	**$260.7**	**$250.8**	**$241.8**
$35.0	**$359.6**	**$344.2**	**$329.9**	**$316.6**	**$304.3**	**$292.7**	**$281.9**
$40.0	**$410.9**	**$393.4**	**$377.1**	**$361.9**	**$347.8**	**$334.5**	**$322.2**
$45.0	**$462.3**	**$442.6**	**$424.2**	**$407.1**	**$391.2**	**$376.3**	**$362.5**
$50.0	**$513.4**	**$491.7**	**$471.4**	**$452.4**	**$434.7**	**$418.2**	**$402.8**
$55.0	**$565.0**	**$540.9**	**$518.5**	**$497.6**	**$478.2**	**$460.0**	**$443.0**
$60.0	**$616.4**	**$590.1**	**$565.6**	**$542.8**	**$521.6**	**$501.8**	**$483.3**
$65.0	**$667.8**	**$639.3**	**$612.8**	**$588.1**	**$565.1**	**$543.6**	**$523.6**

SOURCE: Robert J. Harmon & Associates, Inc.