

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

DO NOT INCLUDE MORE THAN ONE
SUBJECT IN THIS COMMUNICATION

DATE: January 23, 1989

TO: Charles C. Schimpeler
FROM: Gary S. Spivack
SUBJECT: Comments on Assessment Structures Option Paper

Following a thorough review of the subject paper, we have compiled the comments listed below. An issue of great concern is the paper's constant reference to events and/or actions related to MOS-1. The paper appears to assume that options developed for the first phase will also work on Phase 2. Although this may be the case, it is not the approach the paper should take in the second phase. Of equal concern, in many instances, the paper does not provide the Task Force with the full array of options for certain actions. In other cases, the paper does not include basic information and/or related background data, which we think is essential. We would like the Assessment Structure Options Paper to be a self supported document based on objective analysis and research. For each recommendation, being discussed, the paper should 1.) clearly state the issue, 2.) present and thoroughly evaluate the pros and cons of several reasonable options, and 3.) make a recommendation and state the basis for it. It may then be informative to compare the recommended action with the MOS-1 program and note any similarities and/or inconsistencies. This also could be addressed in a separate section rather than discussed after each item.

Whenever possible, our comments on the paper have been identified by page and section number.

Page 1

1. Introduction

No comments.

2. Summary of Recommendations

See Attachment 1 for addition to Recommendation 1.

The order of Recommendations 2 and 3 should be reversed.

Page 2

Recommendation 6 should be expanded to include a brief explanation of what determines a building to be less than 80 percent efficient.

Recommendation 9 should be clarified to indicate that private uses in publicly owned buildings should be assessed. It should also address the treatment of private industrial uses and parking uses in publicly owned buildings.

Recommendation 11 should be expanded to indicate that it conforms to the City's requirement for approval for MOS-1.

For Recommendation 12, see Attachment 2 for word change. Recommendation 12 should also have a brief description of the basis for the proration.

Recommendation 14 should be part of a subset of recommendations designated as "Other Recommendations" and should be located at the end of Section 2, following Recommendation 20.

Recommendation 15 should indicate that the assessment district should be reviewed at a minimum every two years. Furthermore, the early retirement of the bonds should be included as an option resulting from increased growth. Also, somewhere in the paper, "temporary occupancy permit" should be defined.

Page 3

Recommendation 16 should be included under "Other Recommendations." Please see comments on Recommendation 14, above.

3. Assessment District Outer Boundary Recommendations

All boundary recommendations (Recommendations 1-7) contained in this section appear to be of importance only to Section 4.10 (Rate Options and Revenue Implications). These boundary recommendations do not need to be a section but rather should be an attachment to the paper and referenced in Section 4.10.

Recommendation 3 should also indicate that whenever whole blocks are not readily defined, the Assessors Map Books pages or Assessor's Tax Maps, where appropriate, will be used to define the area.

Page 4

4. Critical Assessment Structure Elements

The organization of Section 4 should follow the same order used in Section 2 (Summary of Recommendations). Also, for all remaining sections, please present and evaluate alternatives as discussed in the first paragraph of this memo.

The last two sentences of paragraph one, starting with "For the MOS-1 Benefit Assessment Districts,..." should be deleted from this section and incorporated into Section 4.2 (Parcel and Improvement).

In paragraph three, the reference to the less than 80 percent efficient buildings seems out of place. It should not be mixed with the recommendations of Section 4.1. Also the paper should contain a discussion of alternatives and a justification for the 80 percent efficient recommendation.

Page 5

4.3 Treatment of Land Uses

In the second paragraph the words "on a square footage basis" should be deleted. The paper should avoid the impression that we have to calculate precise amounts of benefits per square foot for property owners.

4.3.1 Residential

For the second paragraph, the quoted rate should be that predicted for MOS-2 and not MOS-1. The paragraph should be expanded to include assumptions on lot size and current rents. Also, the discussion should note if the increases due to the assessment are allowed to be passed on to tenants under L.A. City rent control.

4.3.2 Parking

See Attachment 3 for suggested word change to the end of the second sentence of the first paragraph.

Some special discussion may be appropriate regarding potential benefits to privately operated parking lots serving park and ride patrons at appropriate Metro Rail stations. (See comment below)

Page 7

4.3.2 Parking (Cont')

The statement of the last paragraph of this section may no longer be true. Please research recent literature to see if benefits can be attributed to parking garages near Metro Rail stations.

4.3.3 Income Producing Rule

This Section or Section 4.4 should be expanded to include the idea that non-profit organizations which have income producing components (e.g. a private cafeteria inside a non-profit hospital) may be partially assessed.

4.5 Mixture of Assessable and Exempt Property

The formula at the bottom of page 7 should be modified. The word "assessable" should be replaced by "non-exempt."

4.6 Internal Zones

This section should be expanded to include a description and evaluation of several zone scenarios. The financial implication of each scenario should also be discussed.

Page 9

4.6 Internal Zones (Cont')

The premium zone description needs a map to show what the zone boundary might look like at a sample station area.

Page 10

4.7 Constant Versus Phase-in Rates

According to the GPC, Phase 2 will have to phase in rates under a long-term bonding scenario because of the timing of the bond issues and arbitrage rules. If this is the case, phase-in of the assessments is not an option, as indicated in paragraph two - it would be automatically required.

Page 11

4.10 Rate Options and Revenue Implications

As noted in our comments on Section 3, the boundary recommendations should be referenced and included as an attachment.

Page 12

4.10 Rate Options and Revenue Implications (Cont')

The first paragraph should be expanded to include discussion as to why the rates change dramatically under the deferral option. Explain in layman's terms the basis for the rate increase.

Regarding paragraphs two and three, the discussion should be presented in the same format as the first scenario under Section 4.10 (Rate Options and Revenue Implications). Additional tables similar to the first table in Section 4.10 may be required.

4.11 Assessment Collection

As an alternative, would it not be possible to put the assessment revenues into an escrowed account or into a sinking fund until the commitment letters are signed?

4.12 Appeals

Please note that there is a fifth step in the appeals process in that the SCRTD Board may make final judgement to accept, deny, or accept as amended the decision of the three-party review panel. The fifth-level appeal should be added to the list, as follows: SCRTD Board Final Judgement.

The last Paragraph of this page/section is weak. It could be expanded to include a discussion of how the current appeals process was developed, how well it works, and how the process was refined several times to cover all cases, and ensure equity, due process, and administrative feasibility.

ASSESSMENT STRUCTURE OPTIONS

1. INTRODUCTION

This paper reviews a number of alternative program structures for the Southern California Rapid Transit District (SCRTD) Metro Rail Phase II Benefit Assessment Program. Prior to implementation of the Phase II Benefit Assessment Program, a number of elements must be defined regarding such factors as method for assessment measurement, types of land uses to be assessed, exemptions to the program, use of internal zones, timing and level of assessment rates, and appeals to assessments. This report discusses options for these program elements. As a point of reference, the approach taken for the MOS-1 Metro Rail Benefit Assessment Program for each of these elements also is presented. A recommendation is presented for each program element for consideration by the Phase II Benefit Assessment Task Force.

The underlying basis for the SCRTD Benefit Assessment Program is the realization that properties near the Metro Rail stations will realize monetary benefits from development of the Metro Rail system. Other papers have been written or will be presented regarding this relationship, so this paper will not review this subject in detail. The program elements selected for the Phase II Benefit Assessment Program must, however, take into account this relationship. This relationship of assessment program options to benefit is discussed as it applies to each of the options.

2. SUMMARY RECOMMENDATIONS

Based on a review of various assessment program options and the elements of the MOS-1 Benefit Assessment Program, this paper offers for consideration by the Phase II Benefit Assessment Task Force the following recommendations for the structure of the Phase II Benefit Assessment Program :

WITHIN ANY BENEFIT ASSESSMENT DISTRICT, THE,

1. Assessments should be based on the square footage of the parcel area or the square footage of the improvement, whichever is larger, for properties containing improvements in use as offices, other commercial, retail stores, hotels/motels.
2. Assessment rates should not vary between different types of land uses.
3. For properties not containing improvements in use as offices, other commercial, retail stores, hotels/motels, and for vacant properties, assessments should be based on square footage of the parcel area only.
4. Square footage measurements for parcel area should be developed based on tax assessor maps and other public records.

Attachment 2

5. Square footage of improvements should include gross square footage of all assessable structures and should be based on public records.
6. Appeals should be allowed for a property owner whose building is less than 80% efficient.
7. Residential properties should not be assessed, including that portion of residential hotels with long-term residents.
8. That portion of a structure (improvements) used for parking should not be assessed, although the parcels on which parking structure are located and surface parking lots should be assessed on the basis of parcel area. The square footage of parking that is developed as part of a full development and the square footage of stand alone parking structures should be treated in the same manner wherein this square footage is not used in the calculation of assessments.
9. Property in use as office, other commercial, retail sales, and motel/hotels located in a publicly owned building should be assessed on the basis of square footage of these uses.
10. Privately owned and publicly used facilities should be assessed consistent with other Program criteria.
11. Property that is publicly (or non-profit) owned and publicly (or non-profit) used should not be assessed. Qualified non-profit organizations should include those defined by Sections 202, 203, 206, 207 and 214 of the California Revenue and Taxation Code.
12. For properties with a mixture of assessable and exempt land uses, assessment amounts should be based on a ~~proportion~~ of the parcel size compared with the total assessable improvement square footage in the improvement, whichever is larger.
→ PROPORTION
13. Internal zones should be considered by the Phase II Benefit Assessment Task Force for inclusion in the Assessment Program, wherein the Premium Zones (closest to station) are assessed at a higher rate than the Secondary Zones (surrounding the premium zones).
14. Consideration should be given by the Phase II Benefit Assessment Task Force to the phase-in rates for the initial years of the Phase II Assessment Program.
15. Rates for each assessment district should be reviewed every two years and adjusted either upward or downward to reflect the addition of new development to the assessment base. New development should be added to the assessment rolls as temporary occupancy permits are issued.

Due to their unique characteristics, certain land uses deserve special consideration for a benefit assessment program. These land uses are discussed below.

4.3.1 Residential

Although there is some evidence to indicate that residential properties will benefit from the proximity to rail transit stations, there is a prior stated position of the SCRTD Board of Directors in opposition to the assessment of residential properties. The City of Los Angeles voters approved a Charter Amendment 7 that states that the City may not approve a rail rapid transit benefit assessment district if it proposes to assess properties in residential use or under construction for residential use before April 9, 1985. Assessment of residential properties which were developed after April 9, 1985 could create an equity problem, in that similarly situated properties would not be similarly treated. It is recommended that residential properties not be included in the land uses to be assessed for Phase II. Under the MOS-1 Program, hotels with long-term residents are classified as residential for that portion of the hotel containing these long-term residents.

Based on a preliminary analysis, if apartments were assessed at the same rate as was used for MOS-1 (\$0.30 per square foot), the increase on the average duplex in a sample Phase II area would be \$91 per month per unit; \$65 per month per unit for a triplex; and \$51 per month per unit for a fourplex. These assessments would represent an average increase in rent of 7 to 12 percent for the sample area.

4.3.2 Parking

Monetary benefits for parking structures have not been identified for other transit systems across the country. In fact, one of the objectives of rail transit systems is to promote the use of the transit system thereby reducing usage of the private automobile. While certain parking structures may realize increased demand due to Metro Rail park-and-ride patrons, it would be difficult to precisely identify the extent to which this parking demand can be attributed to Metro Rail versus the extent to which people have chosen not to utilize their automobile thereby decreasing demand for public parking.

For this reason, the MOS-1 Benefit Assessment Program did not assess structures (improvements) used for parking. The parcels on which parking structures are located and surface parking lots are assessed on the basis of parcel area for the MOS-1 Assessment Program. This assessment is based on expected land value increases associated with the Metro Rail System for these properties.

Parking square footage that is developed as part of a full development and parking structures that are developed as stand alone structures are treated in the same manner for the MOS-1 Program, i.e., the parking improvement square footage is not used in the calculation of assessments.