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**PLANNING AND PROGRAMMING COMMITTEE
FEBRUARY 20, 2008**

**SUBJECT: POTENTIAL TRANSPORTATION REVENUES FROM TAX INCREMENT
FINANCING**

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file this report on potential transportation revenue-generating opportunities using the tax increment financing mechanism to help fund construction of a proposed Westside Subway extension.

ISSUE

Los Angeles County's current and expected population growth and economic development is placing even greater demands on the multi-modal surface transportation system. Traditional local revenue sources (namely Propositions A and C sales taxes, transit fares and other local, state and federal transportation funding sources) are falling far short of current and future county needs. Several local elected officials and community members have suggested tax increment financing as a new source of transportation funding for a proposed Westside Subway extension. The Board of Directors has asked us to explore the potential of tax increment financing for transportation revenues to help fund a Westside Subway extension.

BACKGROUND

Tax increment financing (TIF) is a tool that cities have used to capture a portion of the future gains in taxes that redevelopment projects create for the surrounding area. Typically, a redevelopment plan allows a redevelopment agency to use TIF for improvements that are specifically intended to alleviate conditions of blight or economic and social degradation within the project area.

Tax increment is the growth in property tax revenue above the amount collected during the year that the redevelopment project is established (the baseline). When a redevelopment plan is approved, the property tax base is frozen. The various taxing agencies that were receiving shares of the property tax continue to receive the frozen dollar amount. As the assessed valuation of the project area or district increases due to new construction and property turnover, the redevelopment agency collects all or at least a portion of the additional property tax revenue generated, instead of the various taxing agency recipients. The TIF district usually is established for a period of approximately 20 years. For transportation

funding purposes, State law would have to be modified as there would not necessarily be a finding of blight, and increment funds would be dedicated to a regional transportation project.

Metro Rail Westside Subway Extension Case Study: Wilshire Boulevard from Western Ave to La Cienega Boulevard

For illustrative purposes, we assumed that a TIF district could be designated along one of the station areas along the potential first phase alignment for a Metro Purple Line extension. The Wilshire/La Brea, Wilshire/Fairfax, and Wilshire/La Cienega sites are fairly similar in terms of commercial, single family and multi-family land uses. The Wilshire/Crenshaw station has proportionally more single family residential land uses. We used the Wilshire/La Brea area as the proxy template and used the City of Los Angeles, and the Los Angeles County Assessor's databases to perform our analysis. A one half-mile radius TIF district was mapped to cover the potential station site. We limited the TIF district to commercial and multi-family zoned parcels. The Floor Area Ratio currently permitted along the corridor ranges from 1.5:1 to 3:1 (the Residential Accessory Services zoning).

Based on the Los Angeles County Assessors current evaluation and City of Los Angeles property tax rate, the commercial and multi-family parcels in the Wilshire/La Brea half-mile radius area now generate approximately \$17 million annually in property tax revenue (see Attachment A). This is the "baseline" to which the tax "increment" would be applied for funding purposes.

The property tax rolls for the Los Angeles County Assessor have grown at an average rate of 5.3% since 1990. Over the same period of time, sales taxes in the county have grown at an average rate of 4%. Since these rates are relatively close and follow similar cycles, and we have a 25 year forecast of sales taxes for the county, we decided to use the sales tax rate as a conservative proxy for the potential tax increment growth of the district. The potential 20-year growth in tax increment that the TIF district could generate, assuming construction of a subway project, current zoning, and proportional development to the region, would be roughly equal to the projected sales tax growth rate.

Based on the data available, a Wilshire/La Brea TIF district would generate approximately \$140 million total in current dollars over a 20-year period, assuming that none of the incremental tax is diverted to other units of government. With the possible exception of the no diversion assumption, this estimate is a conservative estimate of what the tax increment (over the base) would generate over the twenty-year period.

In order to obtain the construction money up-front, we would issue bonds in the early years to be paid off using the annual tax increment in the later years, with the rest required for debt service, other bond costs, and an adequate income to payment coverage ratio. We have followed prudent bonding practice assuming approximately 40% to 50% of the potential \$140 million (in current dollars) generated would be available bond proceeds for construction. With all of these assumptions, the potential Wilshire/La Brea TIF district could generate up to \$50-70 million (current dollars) in capital toward a Westside Subway extension.

If each station area (La Brea, Fairfax, La Cienega, and Crenshaw) could be designated a TIF district and have the same assumptions, these combined districts could potentially generate

approximately \$200 million to \$280 million for a first phase project segment. Other station areas might generate slightly more or less depending upon property values, the extent of new development, and other factors.

NEXT STEPS

We will consider further Board direction as we pursue more funding opportunities.

ATTACHMENT(S)

A. Wilshire/La Brea Tax Increment Finance Case Study

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Tax Increment Financing Case Study - Wilshire/La Brea Station Area

1/2 mile radius from Wilshire/La Brea Intersection

Map-book	Commercial Property Value*	Parcels	Multi Family Residential & Condominiums	Parcels	Total Valuation	Parcels	Estimated Property Tax (1.17% City Rate)
5084	\$ 25,428,237	39	\$ 115,232,508	250	\$ 140,660,745	289	\$ 1,652,433
5089	\$ 227,178,414	49	\$ 51,681,588	57	\$ 278,860,002	106	\$ 3,275,950
5507	\$ 139,669,513	38	\$ 8,307,338	8	\$ 147,976,851	46	\$ 1,738,380
5508	\$ 90,597,373	43	\$ 368,587,817	220	\$ 459,185,190	263	\$ 5,394,347
5509	\$ 5,944,490	4	\$ 394,934,961	37	\$ 400,879,451	41	\$ 4,709,391
Total	\$ 488,818,027	173	\$ 938,744,212	572	\$ 1,427,562,239	745	\$ 16,770,502
Tax Increment Baseline							\$ 17,000,000

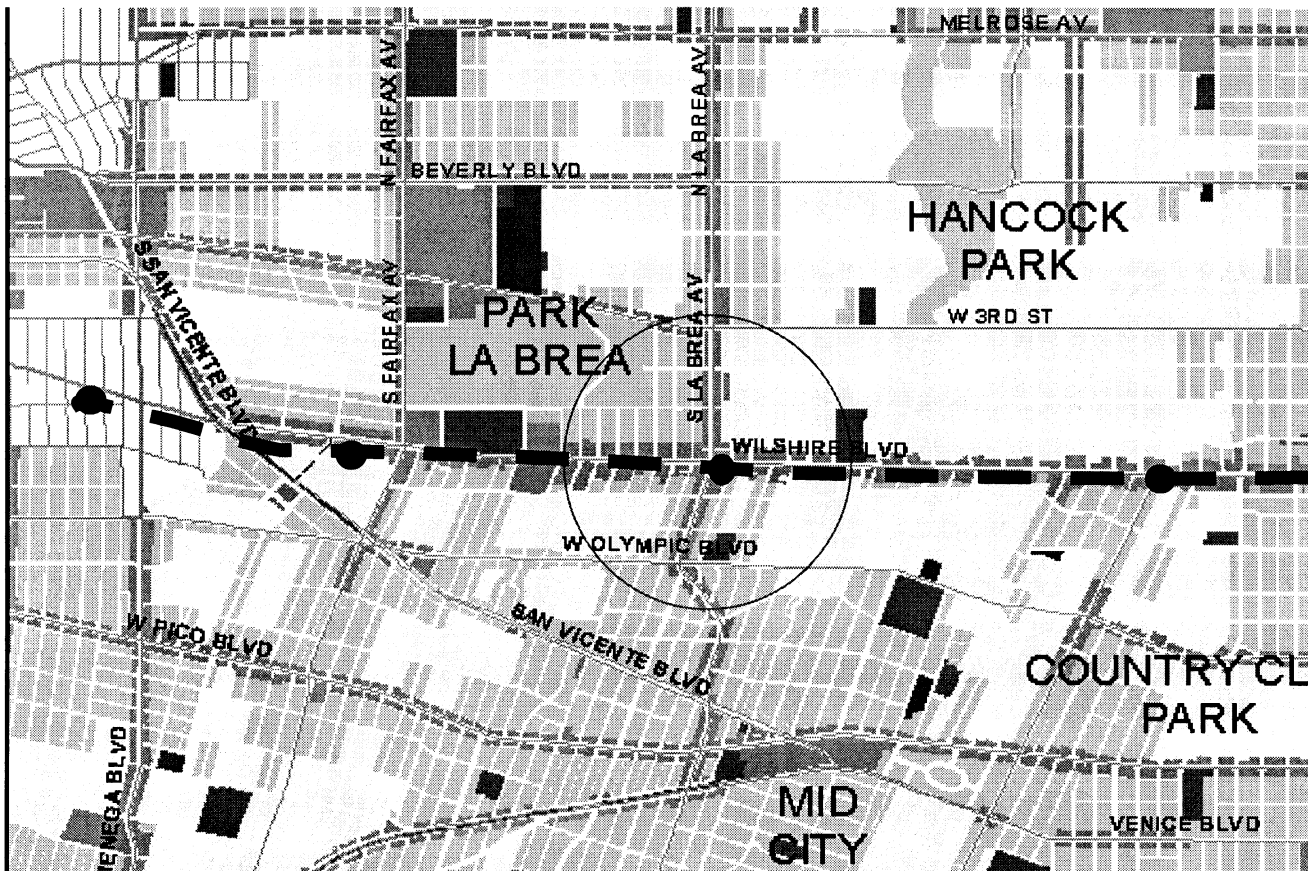
*Excludes public, school, and church properties

Potential 20 Year Tax Increment Forecast Using Baseline (\$ millions)*

20 Year	Tax Revenue Estimate	Estimate of Growth Over Tax Baseline	Present Value of Growth Over Tax Baseline	Estimated Bond Proceeds (40%)	Estimated Bond Proceeds (50%)
Total	\$ 540	\$ 180	\$ 140	\$ 50	\$ 70

* Numbers rounded to nearest \$10 million

Potential First Phase of Metro Westside Extension



General Zoning

- Single Family Residential
- Multi-Family Residential
- Commercial

Proposed Purple Line Extension & Station

1/2 Mile Radius Tax Increment Finance

