Applying Innovative Financing Options for a New Fixed-Route Transit in the Miami-Dade County

Miami-Dade Citizens' Independent Transportation Trust

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A Report by
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Introduction

- The recent completion of the Orange Line extension to Miami International Airport was the first major PTP rail project to enter service
- In order to maintain momentum, the IMG-PEG team was asked to examine the two potential innovative options discussed in recent reports to help fund other PTP projects:
  1. Value capture from real estate
  2. Parking fees
- As a case study, the proposed rapid transit connection from downtown Miami to South Beach was selected.
  - Estimated cost of $1 billion for planning purposes
  - Technology undecided (e.g., light rail, Metromover, BRT, streetcar)
  - Ridership and operating costs to be determined
- This report complements ongoing efforts including Miami and Miami Beach collaborating and examining alternatives, MPO studies, and previous CITT reports
- The methodology and findings of this report can be to evaluate policy options for this and other potential fixed-route transit projects

Value Capture Financing

- Fixed-Route transit drives significant value to properties by improving access and encouraging more trips
- Value capture utilizes the financial benefits gained by landowners to help pay for the transit system capital and/or operating costs
- Value capture financing involves funding a transit development through levying a fee on property owners around the transit system to "capture" a part of the benefit that the property owners realize due to the transit system
  - A typical value capture implementation creates a zone around the station, often 1/2 mile, with property owners within the zone paying a tax or fee based on real estate valuation of such property (*ad valorem* benefit assessment), or a levy per square foot of floor area (specific benefit assessment)
  - Eight case studies found a wide range of costs paid through value capture from 4% to over 60% (see Appendix)
- The Report explored two specific value capture mechanisms:
  1. Assessment districts (AD)
  2. Tax increment financing (TIF)

Estimating Potential for Value Capture Financing to fund the Fixed-Route Project

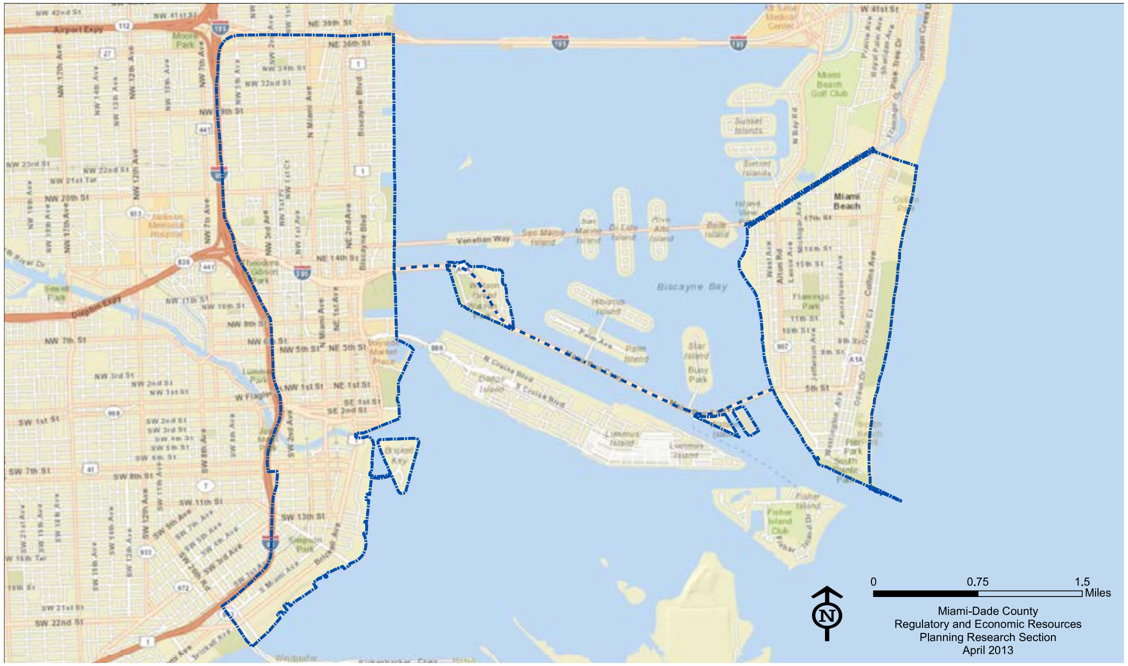
- Three types of assessment districts are considered in the Report:
  - AD 1 and AD 2 based on benefit assessment districts
  - TIF based on tax increment financing

Mechanism	*AD 1*	*AD 2*	*TIF*
Type of Assessment	*Ad valorem* assessment (millage)	Assessment on the projected total floor area	*Ad valorem* assessment
Basis	Assessed value of the properties	Assessment per square foot of floor area	Assessed value of the properties
Pros	Progressive structure – those who benefit most pay the most	Simple computation. Does not vary with assessed value	No increase in amount property owners pay
Cons	Revenue can be unpredictable	Does not differentiate higher value property	Depends entirely on rising assessments

Key Value Capture Assumptions

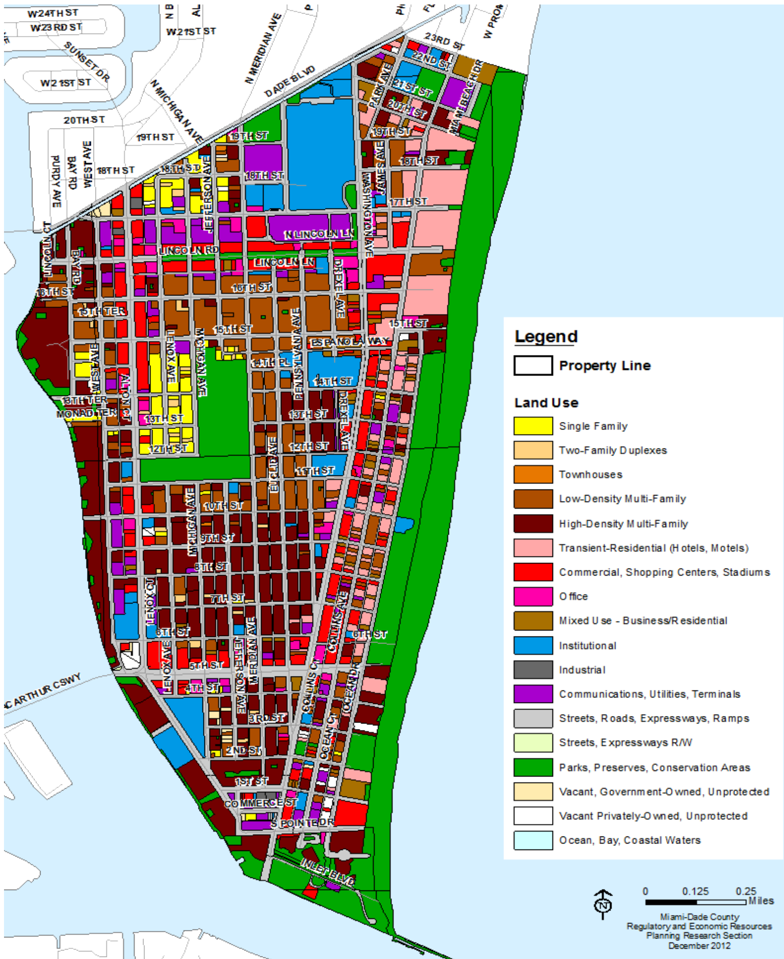
- **Area of Impact.** Greater Downtown Miami, Miami Beach below Dade Blvd, islands along alignment
- **Density of Development.** The future floor area development that will be built by the end of the 30-year time horizon
- **Pace of Development.** How rapidly development proceeds from existing to maximum
- **Value Premium.** The increase in property value due to fixed-route transit

Study Area

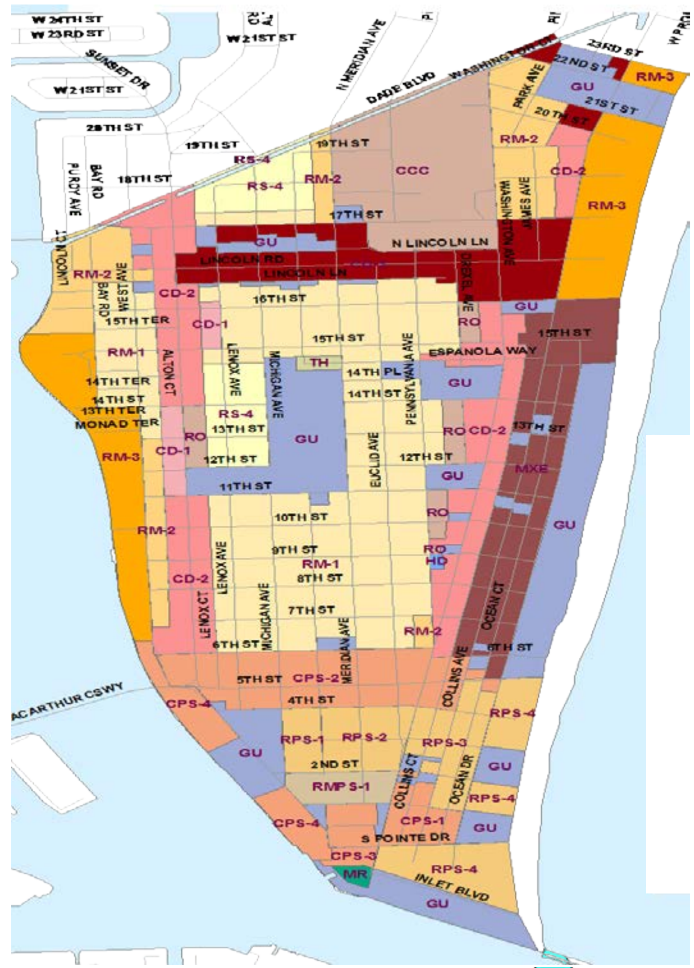


Example of a Value Capture Assessment Districts

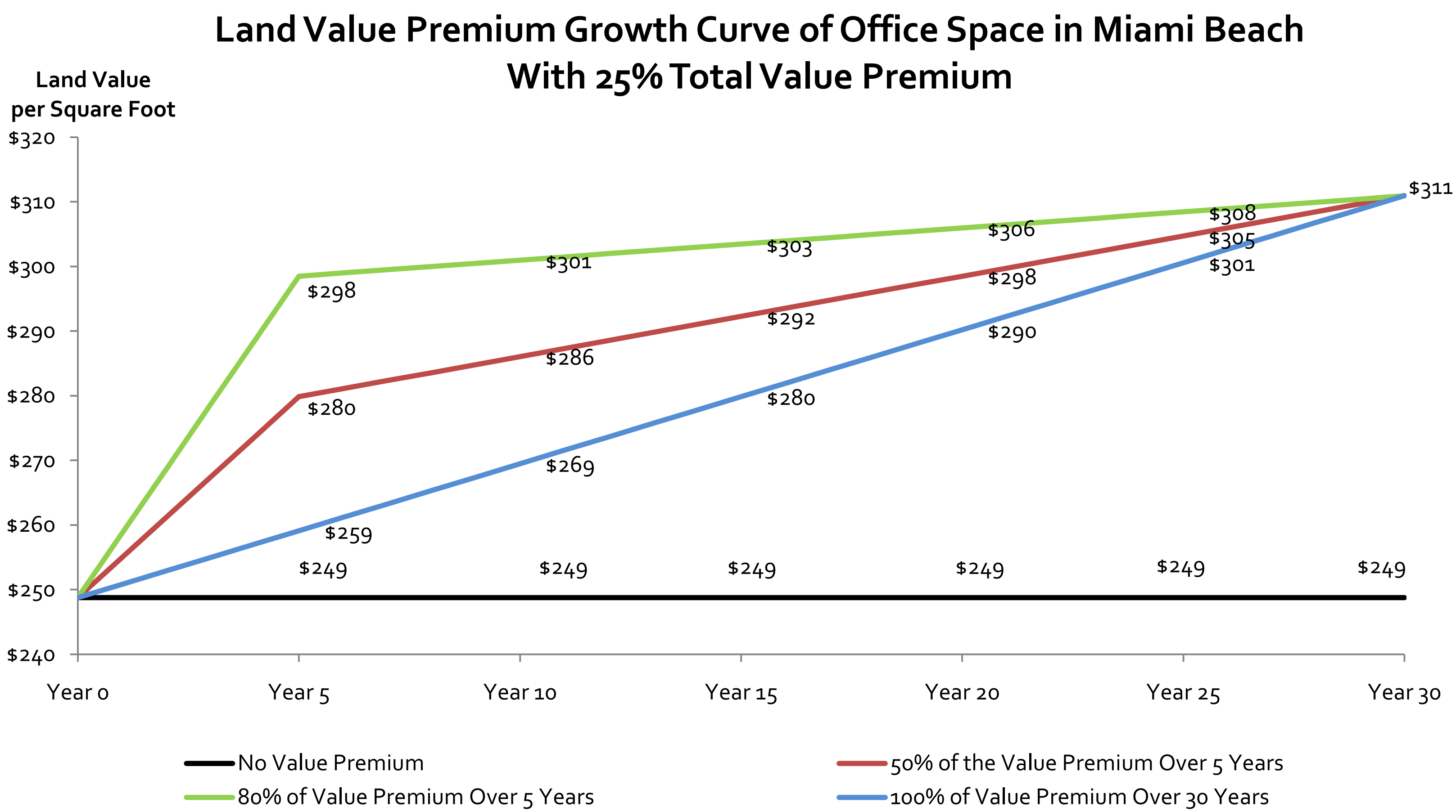
Miami Beach Land Use



Miami Beach Zoning



Value Premium Growth Curve Example



Estimating Potential for Value Capture Financing to fund the Fixed-Route Project

- Nominal revenues for AD1, AD2, and TIF were estimated annually

- The bonding capacity of value capture revenues equal the net present value of future revenues (accounting for bond issuance fees and debt service reserves)

- The key bonding capacity assumptions were as follows:
  - Discount rate of 6% based on Miami-Dade County's interest rate on long-term bond issues 5% plus 1% towards future increases in interest rates
  - 10% towards bond issuance fees and debt service reserves

Value Capture Financing Estimates

Value Capture Financing Estimates - All Stations						
All Stations	**Assessment District 1**		**Assessment District 2**		**TIF**	
USD Million	Bonding Capacity (After Issuance Fees & Debt Service Reserve)	Average Value Capture Revenue	Bonding Capacity (After Issuance Fees & Debt Service Reserve)	Average Value Capture Revenue	Bonding Capacity (After Issuance Fees & Debt Service Reserve)	Average Value Capture Revenue
Slow Growth - 50% of New Development in 20 Years	306 - 321	796 - 844	306	882	221 - 318	726 - 1,024
Medium Growth - 50% of New Development in 10 Years	332 - 348	861 - 911	380	1,066	305 - 404	932 - 1,241
Fast Growth - 50% of New Development in 5 Years	350 -366	893 - 945	429	1,158	360 - 461	1,036 - 1,347

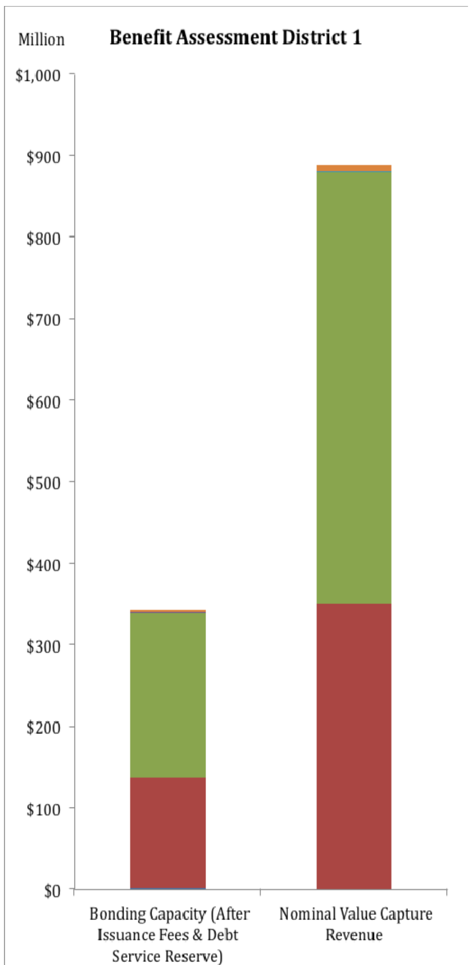
Note:

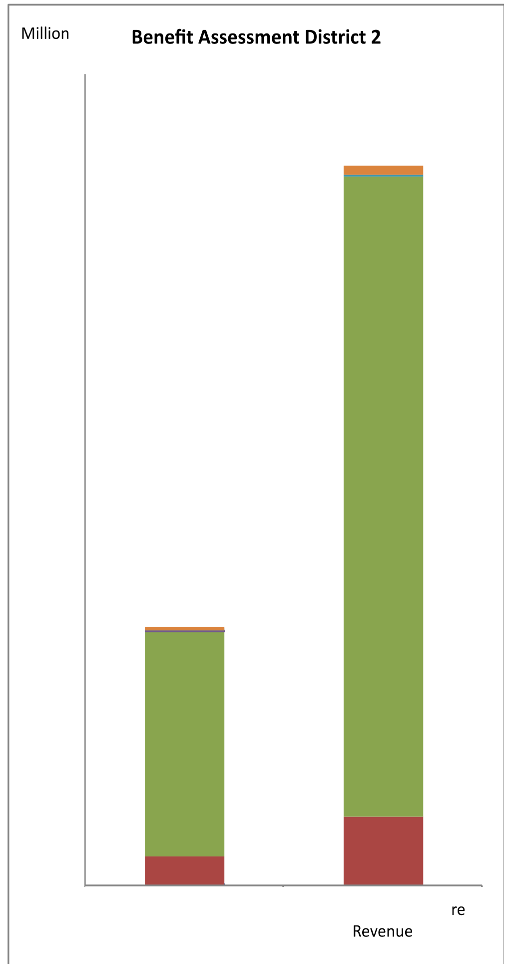
AD 1 Benefit Assessment of $ 1 for every $ 1000 of Assessed Value

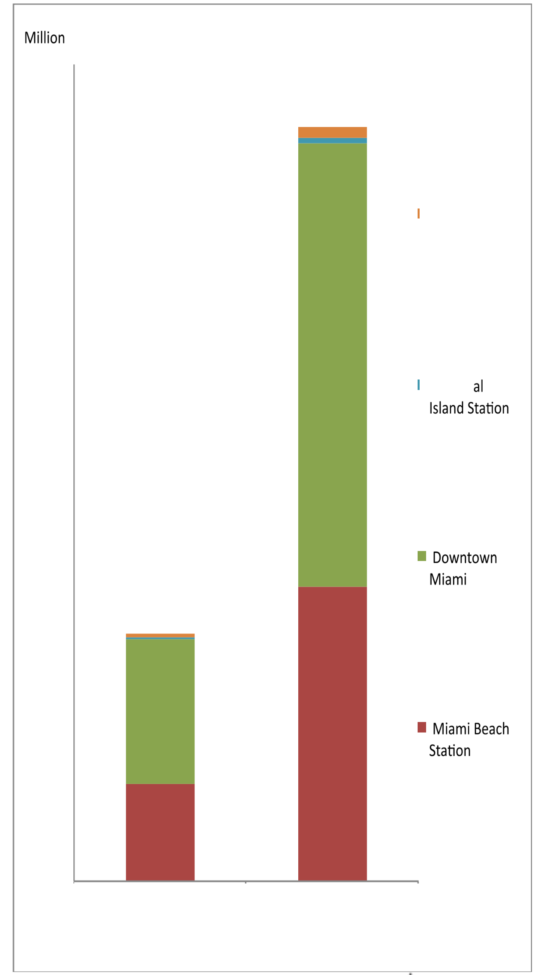
AD 2 Benefit Assessment of $ 0.10 per square foot of floor area

The ranges in estimates are due to various cases, which include: 1) 0% Value Premium and no new floor area development; 2) 15% land value premium and 0% building value premium; 3) 25% land value premium and 5% building value premium; and 4) 30% land value premium and 10% building value premium

Value Capture Revenues by Station ($ million)







Financing a Fixed-Route Project

Financing a Fixed-Route project will require using many available funding/financing source:

- FDOT State Infrastructure Bank (SIB) program could provide limited subordinate, subsidized financing
- MAP-21 grant programs (New Starts and Small Starts) could provide up to about 50% funding
- Joint development at selected stations could defray costs
- TIFIA can be a significant source of financing, but is highly competitive (see Appendix)
- Public-private partnerships (P3) could reduce public costs and/or risk

Conclusions and Next Steps

- **Conclusions:**
  - Real estate value capture, coupled with parking fees, could reasonably fund 30% or more of the $1 billion fixed-route link from Miami to Miami Beach(depending on the fees)
  - Parking fee increases in Miami Beach and Downtown Miami could raise $50 to $67 million in funding for the project
  - Value capture alone will not be sufficient to build, much less operate, a new system
  - This methodology can be replicated for any proposed fixed-route transit line in the County

Appendix: Value Capture Financing Examples

Project Name	*Project Description*	*Year*	*Value Capture Mechanism(s)*	*Value Capture Revenue (USD Million)*	*Total Project Cost (USD Million)*	*Value Capture Revenue as a Percentage of Project Cost*
San Francisco Transbay Transit Center	Multi-modal transit center in downtown San Francisco serving ten transportation systems, including high speed intercity passenger rail. Project includes a new mixed-use, transit-oriented neighborhood with residential towers, shops, parks, and office buildings on surrounding land.	2010	TIF and AD	$1,400	$4,185	33%
City of Portland Streetcar	An 8.0-mile continuous loop (4.0-mile in each direction) through multiple neighborhoods in Portland.	Several phases from late 1990s through 2000s	TIF and AD	$41	$103	40%
Atlanta Beltline	A 22-mile transit loop along underused railroad corridors in Atlanta, including mixed-use transit-oriented developments, 1,300 acres of new parks and green space, and 33 miles of walking and biking trails.	2005	TIF	$1,700	$2,800	61%

Appendix: Value Capture Financing Examples, cont'd

Project Name	*Project Description*	*Year*	*Value Capture Mechanism(s)*	*Value Capture Revenue (USD Million)*	*Total Project Cost (USD Million)*	*Value Capture Revenue as a Percentage of Project Cost*
Seattle South Lake Union Streetcar	A 2.6 mile streetcar line connecting Seattle's South Lake Union neighborhood to the Westlake Hub	2005	AD	$25	$53	47%
Washington, D.C. Metro Dulles Corridor Extension	A 23-mile extension of the existing Metrorail system, which will be operated by the Washington Metropolitan Area Transit Authority.	2004 (Phase 1) 2009 (Phase 2)	AD	$730	$5,250	14%
Washington, D.C. Metro New York Avenue Station	An in-fill station designed to be a catalyst for transit-oriented economic development in Washington's NoMa neighborhood.	1998	AD	$25	$110	23%
Los Angeles Metro Red Line, Segment One	5 underground heavy rail stations in downtown Los Angeles.	1993	ADs	$130	$1,420	9%
Seattle Bus Tunnel	A five-station, 1.3 mile transit tunnel under the downtown area	Pre-1990	AD	$20	$469	4%

Appendix: Transportation Infrastructure Finance and Innovation Act (TIFIA)

- TIFIA is a loan program sponsored by the U.S. Department of Transportation to provides subordinate, patient capital to surface transport projects

- TIFIA funds are highly competitive: Currently there are at least 28 projects needing over $41 billion in funding – compared to about $16 billion in TIFIA capacity

- Besides creditworthiness, the following are the other major eligibility requirements of the project as per MAP-21:
  - Fosters partnerships that attract public and private investment for the project
  - Proceeds at an earlier date or can demonstrate reduced lifecycle costs
  - Reduces contribution of Federal grant assistance for the project
  - Project is ready to commence construction in no more than 90 days from execution of a TIFIA credit instrument