



Chicago Metropolitan Agency for Planning

Transportation Value Capture Analysis for the CMAP Region

EXECUTIVE SUMMARY: June 2011



This study is a continuation of a prior study conducted by *S. B. Friedman & Company (SB Friedman)* in the fall of 2010 for the Chicago Metropolitan Agency for Planning (CMAP). The 2010 study analyzed the potential for utilizing value capture to fund transit projects in the Chicago region. Value capture refers to the practice of implementing a tax or fee on private property near a public improvement to take back or “capture” some of the monetary benefit that the property owners gain as a result of the public investment. The revenue from these fees or taxes is then used to pay for part, or all, of the cost of the improvement. The 2010 analysis focused on: identification of value capture mechanisms appropriate for the region; application of those mechanisms to a sample transit project; and analysis of the impacts of value capture on development economics.

CMAP has engaged *SB Friedman* and URS to build on the original results and apply the analysis to a broader set of transportation improvements. The overarching goals of this second analysis were to:

- Apply the transit-appropriate value capture mechanisms from the prior “Transit Value Capture Analysis for the Chicago Region” to at least one additional transit project.
- Research value capture mechanisms for their appropriateness for roadway projects and analyze their value generation potential for at least one roadway project.
- Evaluate the economic and/or development impacts of the chosen value capture mechanisms.
- Provide analysis and conclusions on the broader potential for value capture across multiple types of transportation improvements and development situations.

Background

CMAP’s GO TO 2040 Plan (“the Plan”) outlines a set of 18 priority, major capital projects which support the goal of reinvestment in existing communities and will expand the capacity of regionally significant transportation facilities. *Figure 1* on the following page provides a map of these projects. The Plan also lists 53 additional major capital projects that are either in early evaluation stages or need feasible funding sources to be moved onto the priority (fiscally constrained) list.

The prior 2010 value capture analysis highlighted the growing need for local match dollars to fund transit projects, with particular attention to applications to the New Starts program. However, the region also has a significant need for new highway facilities and upgrade and repair of existing highways. As with transit, federal sources of funding for major highway improvements are becoming increasingly limited. In particular, the federal and state gas tax structure, which have traditionally provided much of the funding for regional transportation infrastructure, have not been increased since 1993 and 1990, respectively. In addition to new infrastructure needs, recent reports have catalogued the need for repair of existing bridges and roads in Illinois and the United States as a whole. Despite these growing needs for new infrastructure and repair of existing facilities, there is significant political resistance to increasing gas taxes at the federal or state level.

Due to these factors, there is an increasing need for local contributions to fund new infrastructure. In this new economic reality, government agencies throughout the country have been exploring financing sources that leverage local resources to fund a portion of major transportation projects. Local contributions are also a strong testament to local support for a transportation project and, therefore, provide a competitive edge to project applications seeking federal support.

Figure I: GO TO 2040 Fiscally Constrained Major Capital Projects



Source: Chicago Metropolitan Agency for Planning, 2010

Major Findings of the Prior Value Capture Analysis

The prior analysis focused on evaluating a range of value capture mechanisms and applying them to a specific transit project on the CTA Yellow Line in Skokie (the Oakton Station). Value capture mechanisms similar to a Special Service Area (SSA) or Tax Increment Finance (TIF) district were identified as most appropriate for the CMAP region, with some limited applicability of development impact fees. Major findings included the following:

- **TIF-Like Mechanism:** A TIF-like mechanism has the greatest value generation capacity, but this capacity is dependent upon new development and, therefore, is less bondable. Additionally, the full increment generated is unlikely to be available, as there is a growing concern in Illinois regarding the finances of underlying taxing districts within TIF districts; value capture increment will need to be shared with these districts.
- **Special Service Area (SSA):** An SSA offers a more certain and predictable financing option than TIF, but requires buy-in from district property owners and taxpayers. An SSA mechanism appears to be able to sufficiently fund smaller-magnitude transit improvements (station only), but is unlikely to be able to produce the amount of funds necessary if new trackage is required.
- **Impact Fee:** Impact fees have relatively limited financing potential for new large-scale transportation projects because the timing and amount of new development is difficult to predict, and because the fee revenues are entirely dependent on that new development.

For best utilization of TIF- and SSA-like mechanisms, changes to statute may be required to allow for limited-purpose, multi-jurisdictional value capture districts and to allow TIFs to be created in areas that do not meet blight conditions, but do have a need for transit improvements.

Expanded Analysis of Value Capture Mechanisms

This report provides an expanded analysis of potential value capture mechanisms, with a specific focus on evaluating those mechanisms in the context of highway improvements. Nine value capture mechanisms were reviewed, and the mechanisms identified as having the highest potential for highway value capture scenarios are similar to those found in the transit value capture analysis. Likewise, many of the same statutory limits and/or political concerns apply, which excludes some mechanisms from being applicable. Finally, this analysis found that some of the mechanisms excluded from consideration during the transit-focused analysis either have more potential in a highway context or, with additional research and analysis, may actually have applications in a transit context.

The following value capture mechanisms were not considered viable for either highway or transit improvement projects in the region:

- **Land Value Tax:** As noted in the prior analysis, Illinois law does not allow for differential property tax rates for land and improvements. Furthermore, land assessments vary considerably from property to property. This lack of consistency in land assessment makes creation of a land-value only tax mechanism particularly difficult, even if all statutory blocks to this method were removed.

- **Negotiated Exactions:** Negotiated exactions are similar to development impact fees, but are negotiated on a case-by-case basis. Exactions do not have the direct benefit requirements of a development impact fee, and are therefore highly variable in nature. This results in a revenue stream that is highly unpredictable and likely unsuited as a capital funding source.
- **Air Rights:** Projects utilizing air rights sell development rights above or adjacent to new infrastructure in order to fund a portion of the project costs. This also implies control or ownership of the adjacent land by a transportation agency or some public body. Air rights are most suited to situations where land prices are high and there is significant market demand for new housing or commercial space. This combination of factors generally occurs only in dense, urban cores and is unlikely to occur in a highway setting.

Several additional mechanisms did not appear to have immediate or broad applicability, but may have potential in limited transportation improvement situations or require significant further analysis. These mechanisms were:

- **Transportation Utility Fee (TUF):** TUFs appear to be most commonly used for maintenance and repair of existing roads rather than construction of new roads, but have the benefit of targeting charges to properties that generate higher traffic, such as commercial properties. TUFs charge both existing and future users, which is a more equitable mechanism in areas that are already developed. As with impact fees, a direct and equitable connection to the service provided must be demonstrated, and TUFs without a sufficiently strong connection between the transportation improvement benefit and the imposed fee have been successfully challenged in court. Case studies in the full analysis demonstrate its successful application in Oregon. Given the legal uncertainty around this tool and its normal application to maintenance costs, significant additional research is needed to assess its potential application as a funding tool for new major roadways and its potential in Illinois.
- **Joint Development:** While joint development has produced major new infrastructure in the nation in several unique situations, this mechanism appears to have the strongest potential for contributing to ongoing revenue streams rather than up-front capital costs. Joint development is currently being pursued in the region through the installation of communication infrastructure in transportation right of way (ROW), but it does not appear to have significant potential to provide up-front capital funding. In Illinois (and many other states), public entities must purchase only the minimum amount of land required for an improvement project, and federal and state governments have strict requirements regarding disposition of land purchased with their funds. This results in minimal land being available for joint development projects. For creation of a better environment for joint development in Illinois, federal and state statutes and rules, and case studies would need to be considered to define avenues for allowing greater land acquisition and disposition powers.
- **Business District (BD):** Due to recent statutory changes allowing the use of all BD revenues for infrastructure projects, this Illinois-specific mechanism which allows for creation of a district-specific sales or hotel tax was added to the list of evaluated value capture mechanisms. In some portions of the region, current sales tax rates are a vital concern, but many communities still have the potential to increase their sales and hotel taxes as long as that increase is evaluated in concert with its potential impact on existing businesses and new development and on the

communities' competitive position. BDs appear to be most effective in situations where significant development of hotels or retail has already occurred, which indicates that they may be particularly suited to capacity expansion projects in developed areas. Some major new projects, such as the Elgin O'Hare Expressway and Western Bypass, are also likely to have potential because the surrounding areas are already built out.

- **Development Impact Fees (DIF):** Due to the need to demonstrate a link between new development and transportation needs, it is likely that this tool would be most useful for areas where ongoing development is creating the need for additional transportation infrastructure. Major improvement projects in already-developed areas will have a higher burden in proving that the proposed exaction is “uniquely and specifically attributable” to the benefits of the transportation improvement, and utilization of an impact fee for a major new transportation improvement in a developed area may unequally impact new development versus existing development, which also benefits from significant added access. Finally, since development impact fees are dependent upon the unpredictable nature of future development, it is difficult to monetize this revenue stream to generate up-front revenues for capital improvements. This tool has significant potential at the county level and for smaller projects, and is being successfully used in Kane and DuPage counties to fund road improvement programs.

Both the previous phase of work and the analysis herein have identified TIFs and special assessment districts as the most likely value capture tools to use to fund major transportation projects within the CMAP region. These tools are discussed below with regard to their overall benefits, limiting factors, and potential highway and transit applications. As already noted, this set of tools is primarily municipal in nature, although some can be established at the county level. This will pose problems for applications over the large geographic areas generally associated with major transportation improvements, and statutory modification of each of these tools should be considered to allow for the creation of multi-jurisdictional districts that can more efficiently fund transportation improvements.

- **Tax Increment Financing (TIF):** TIF districts are a critical tool for value capture, and have the advantage that they do not directly increase property tax rates. However, TIFs are widely used in Illinois and are currently facing significant resistance from underlying taxing districts. Furthermore, TIFs centered on roadway or transit improvements would be significantly larger in size than most existing TIFs in the region and would cross multiple municipalities. This large geographic scope and potential broad fiscal impact further emphasizes the need to analyze the options available to balance transportation funding needs with the fiscal concerns of underlying taxing districts, and work to reach an equitable increment sharing strategy.
- **Special Assessment Districts:** Illinois Special Assessment districts (SAs) and Special Service Areas (SSAs) are the most bondable source of value capture revenue, providing significant potential to generate up-front funding for capital costs. However, they must be calibrated so that they do not also reduce development demand by increasing costs too much. Moreover, due to the nature of special property tax districts, the boundaries must be calibrated to include only an area where direct benefits of the new infrastructure can be proven. While the research on the impacts of transit on property values is well established, the impacts are less certain for roadways, and positive impacts may be limited to non-residential property. This limits the application of SSAs to many roadway situations. Additionally, as with TIF, the size of the districts contemplated is very large and the boundaries are likely to cross multiple municipalities. In the case of either transit or roadways, this is likely to raise equity concerns as each community will

benefit differently from a given improvement. Therefore, benefits of an added tax to fund transportation infrastructure must likely be demonstrated to both municipalities and property owners, and tax rates should be carefully calibrated to account for those benefits.

Project-Based Value Capture Analyses

The core of this report provides an evaluation of these tools (TIF and special assessment districts) in the context of three planned transportation improvement projects in the region, keeping in mind the benefits and limitations described above. This will allow for further understanding of the potential for these value capture mechanisms in the region. The evaluated projects are:

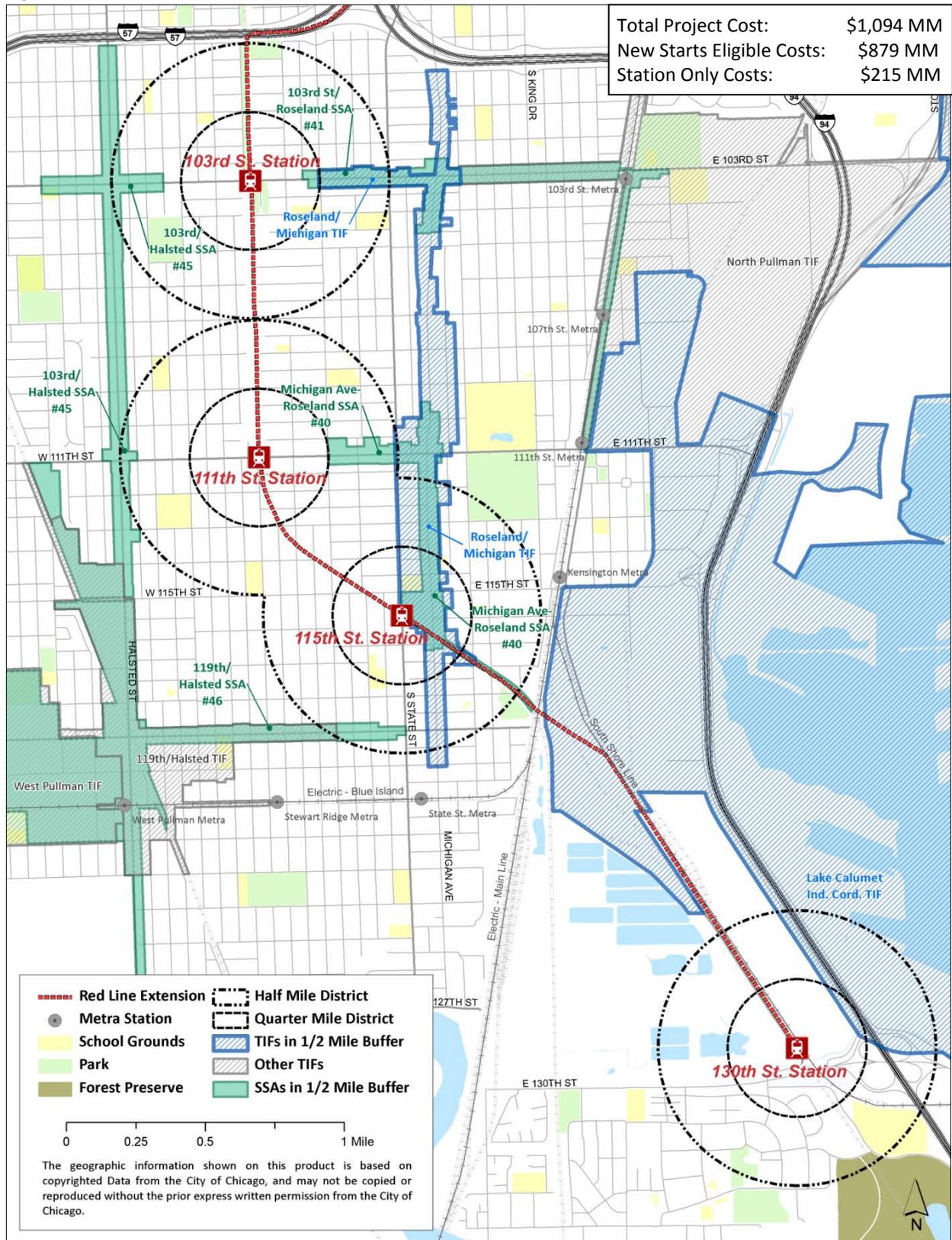
- 1) The CTA Red Line South Extension
- 2) A Parking Garage in Downtown Wilmette
- 3) The Central Lake Thruway/Route 120 Bypass

PROJECT 1: RED LINE SOUTH EXTENSION VALUE CAPTURE ANALYSIS

The Chicago Transit Authority (CTA) is currently evaluating the potential to extend the Red Line from its existing terminus at 95th Street, south to 130th Street, and add four new stops along this length. As shown in *Figure II*, the proposed path would follow I-57 to the existing Union Pacific Railroad (UPRR) right of way (ROW), then head south and east along that ROW and then shift to the Northern Indiana Commuter Transportation District's (NICTD) South Shore Line ROW near 120th street. The proposed terminus at 130th Street will include a new CTA rail yard and a large Park & Ride facility. The project is anticipated to cost approximately \$1.1 billion. The new CTA yard is not eligible for federal New Starts funding, and its costs are projected to be approximately \$215 million. This leaves approximately \$879 million in costs that are eligible for New Starts funding and have been utilized in this analysis. The portion of this cost that is attributable to the stations is also estimated to be \$215 million.

The Red Line Extension was selected for this analysis because: it is a Priority Project of the GO TO 2040 Plan; it will help further the infill development goals of the Plan; and it will provide access to an area with severe disinvestment and few transit options. Targeted redevelopment projects and creation of the new transit could generate a synergy that stimulates renewed private development and investment in the neighborhood. The prior value capture analysis study focused on a transit project within downtown Skokie, an area with relatively high property values and a clear market demand for transit and transit-supportive development. Not all areas in need of transportation investments have strong market potential and high property values. This analysis focused on an area with historic disinvestment to understand the potential for value capture across a wide range of scenarios.

Figure II: Red Line Extension, Stations, and Area TIFs and SSAs



SSA and TIF Analysis Results

For the purpose of this analysis, value generation was analyzed in the context of a competitive local match for the project to secure federal New Starts funding – which is estimated to be 40% of the New Starts eligible costs of \$879 million or approximately \$352 million. As an additional metric, the analysis also compared the value generation in comparison to 40% of the station costs of \$215 million or approximately \$86 million. The analysis estimated the value generation potential within one fourth mile and half mile value capture districts around the proposed four new Red Line extension stations using an SSA and TIF-like value capture mechanism. *Figures III* and *IV* outline the results of value capture potential analyses for these two mechanisms.

Figure III: Red Line Extension SSA Value Capture Sensitivity Testing

Value Capture District Radius	2009 EAV [1]	20-year Bondable Amount at 1.45% SSA tax rate [2]	Tax Rate Required to fund 40% of New Starts Eligible Costs [3]	Tax Rate Required to fund 40% of Station Costs [3]
Quarter Mile	\$ 61,549,747	\$9.4 to \$11.4 Million	44.8% to 54.0%	11.0% to 13.2%
Half Mile	\$ 250,725,258	\$38.5 to \$46.4 Million	11.0% to 13.3%	2.7% to 3.2%

[1] Less residential exemptions

[2] Amount provided in 2009 Dollars. Assumed Bond Issuance in 2012 and concurrent establishment of the VCD.

[3] These tax rates are significantly higher than normal SSA tax rates and are not recommended as a value capture implementation option.

Sources: Cook County Assessor, Cook County Clerk and *SB Friedman*

Figure IV: Red Line Extension TIF-Like Value Capture District Analysis Results

Value Capture District Radius	2009 EAV [1]	Full 20-Year Bondable Amount [2]	Assumed % of TIF Funds Available for Transit	Resulting 20-year Bondable Amount for Transit [3]
Quarter Mile	\$ 61,549,747	\$5.1 to \$10.9 MM	25%	\$1.3 to \$2.7 MM
Half Mile	\$ 250,725,258	\$20.9 to \$44.3 MM	25%	\$5.2 to \$11.1 MM

[1] Less residential exemptions.

[2] Base EAV year is 2012.

[3] Amount provided in 2009 Dollars. Assumed Bond Issuance in 2012 and concurrent establishment of the VCD.

Source: Cook County Assessor and *SB Friedman*

Overall as shown in *Figures III* and *IV*, both SSA and TIF value capture mechanisms can generate contributions of up to \$46 million toward the cost of the Red Line Extension. The analysis also shows that the SSA tax rates to generate the 40% local match for the New Starts eligible costs or even 40% of the station costs are significantly higher than normal SSA rates, and are considered infeasible for implementation. The available TIF Increment (after an assumed sharing rate for non-transit TIF eligible projects for neighborhood improvement) is also insufficient to achieve the local match. Therefore, either mechanism by itself is insufficient to generate a competitive local match requirement for the project funding.

In addition, an analysis of existing area SSAs and TIFs indicated that these districts are financially stressed, with higher than average tax delinquency rates and low area property values. The area SSAs have an average tax rate of approximately 1.45%, which are significantly above average City of Chicago SSA tax rates, and produce minimal levies in comparison to the high tax rates. The area TIFs are

generally producing small increment streams and are fully committed to redevelopment projects and small infrastructure projects.

Analysis of the Economic Impacts of Transit Access on Area Redevelopment Projects

A prototypical economic analysis was conducted for Roseland Plaza, a 64,000 square foot retail development being proposed at a 6.15-acre site located at the southwest corner of 115th and Michigan adjacent to the proposed station. The proposed development, as planned, will include an 18,000 square foot Aldi grocery store as an anchor, a 14,000 square foot pharmacy, and 31,000 square feet of in-line space. The purpose of the analysis was to test the real estate economics of redevelopment in this area with, and without, transit, and assess whether a developer could afford to pay for additional value capture taxes or fees for the proposed Red Line Transit Expansion. This analysis is shown in *Figure V* below.

Figure V: Development Economics of a Proposed Retail Project in Red Line Extension Station Area

Project Parameters	Baseline Economics with No Transit	Potential Economics with Transit: Assumed Rent Increase		
		5%	10%	20%
Total Stabilized NOI	\$763,784	\$802,613	\$841,442	\$919,101
Project Value (9% Cap Rate)	\$8,486,000	\$8,918,000	\$9,349,000	\$10,212,000
Project Development Cost	\$12,290,000	\$12,290,000	\$12,290,000	\$12,290,000
Project Financial Gap (Project Value - Cost)	(\$3,804,000)	(\$3,372,000)	(\$2,941,000)	(\$2,078,000)
TIF Capacity Generated from Project (In-Pin Increment) [4]	\$2,520,000	\$2,646,000	\$2,772,000	\$3,023,000
% of TIF Capacity needed to Support Project	151%	127%	106%	69%

Source: SB Friedman, Costar and City of Chicago

A review of the literature analyzing the impact of transit facilities on rental rates indicates that transit access results in rental rate increases ranging from 5% to 20%. Therefore, for illustration purposes, the economic analysis considered baseline rents that reflected current market area rents assuming no transit is developed and additional scenarios where rents were assumed to increase by 5%, 10% and 20% to reflect the range of potential transit impacts. The financing gap for the proposed project is estimated to range from \$3.8 million in the baseline scenario with current market rents to \$2.1 million in the scenario with the most aggressive rent increase assumption of 20%. All scenarios have a project financing gap because the estimated project value is significantly lower than estimated development costs. This phenomenon is typical of disinvested areas where supportable market rents are not high enough to pay for new construction, and therefore, new development requires public assistance.

Red Line Extension Value Capture Analysis Conclusions

The analysis indicates that traditional value capture tools may not be appropriate for highly disinvested areas which already face significant challenges associated with private sector redevelopment. Both SSA- and TIF-like value capture districts produce value capture revenues that are not of a sufficient scale to pay for the local match component of a federal New Starts project. As described above, the Roseland area is under significant economic stress and is currently fully utilizing its SSA and TIF options for new infrastructure and redevelopment, which not only limits the potential of a value capture district, but points to an ongoing need for additional funding for non-transit infrastructure investments and major redevelopment initiatives. In this framework of scarce resources, these various needs will compete for the same pool of TIF funds, regardless of their location within a normal TIF or value capture TIF.

Moreover, creation of an SSA in this area to fund new transit infrastructure may face significant neighborhood opposition, lead to questions regarding equity and fairness, and compete with the funding needs of service-based SSAs.

In addition, while transit is likely to improve development economics by increasing supportable rents or project value, it is unlikely that the new transit accessibility, itself, will dramatically change the competitive position of the neighborhood and attract financially self-supporting redevelopment. Local financing tools such as TIF and SSA will be needed to finance funding shortfalls of redevelopment projects, provide needed infrastructure enhancements, build new community facilities, and provide other services. While TIF is still a viable option within the limitations on increment availability noted above, an SSA, impact fee or other value capture mechanism involving an added tax or fee would likely add to the financing gap, and would most likely be a disincentive for redevelopment projects in this type of disinvested area. Furthermore, given the property values in the area, the SSA tax rate required to generate significant funds towards the cost of the Red Line Extension would need to be set at a rate that is onerous for area property owners and, in the case of properties already in an area SSA, lead to tax rates that are nearly double those of the remainder of the City.

Therefore, value capture mechanisms based solely on new value created within the proposed station areas are unlikely to provide a substantial source of funding for the Red Line Extension. As found in the prior analysis of the Skokie CTA Station, TIF and SSA are still likely to have potential in areas with strong property values and market demand for transit-supportive development. To generate sufficient financing for transit in disinvested areas, there is a need to tap broader resources at the federal, state and local levels. For the local funding contribution, it may be desirable explore strategies that leverage a broader potential revenue pool, such as:

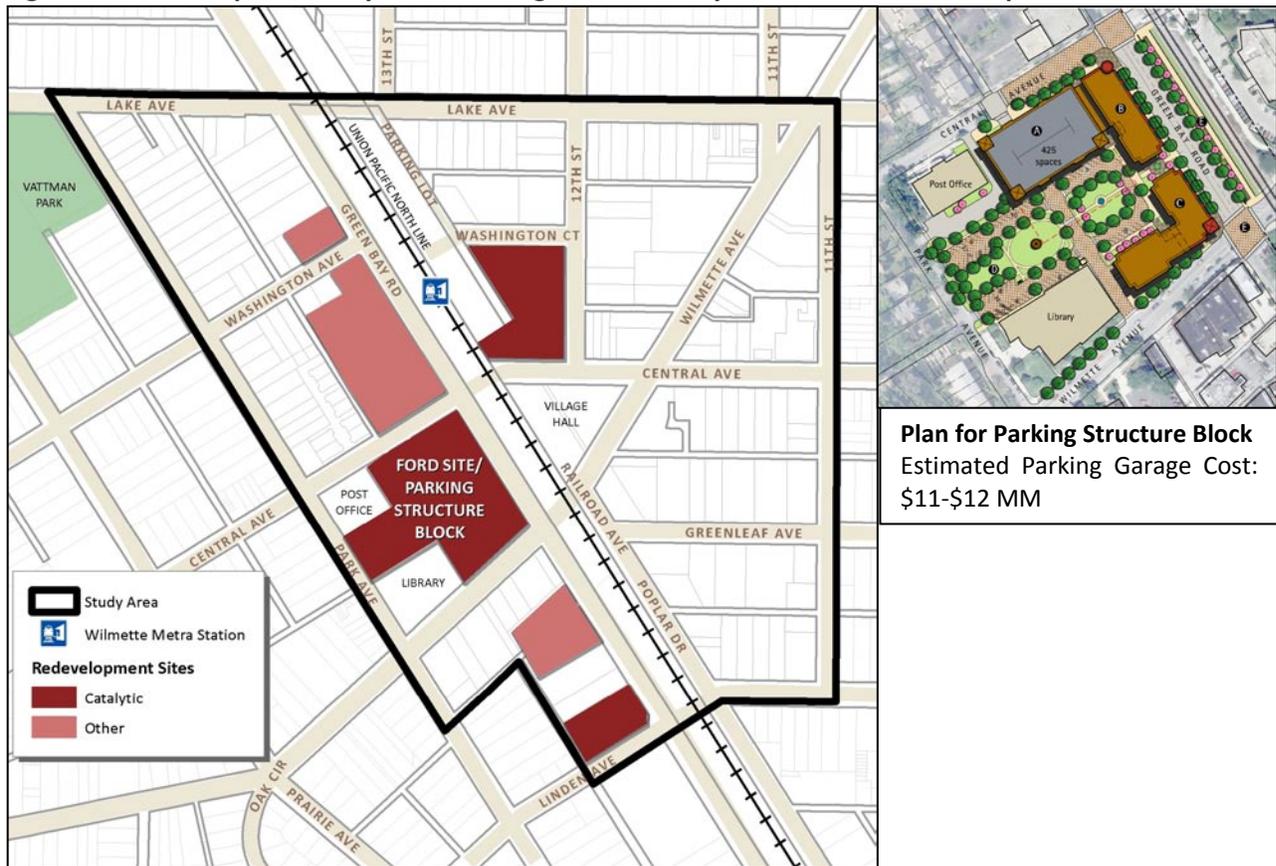
- Porting money from adjacent healthy TIF districts.
- Creating significantly larger, corridor-based TIF districts along the transit line to leverage higher property values in adjacent station areas.
- Designating a portion of other city-wide or county-wide revenue sources such as sales tax, parking tax, hotel taxes, etc. to fund transit needs on an ongoing basis or to create an initial infrastructure or transit capital fund that projects must repay.
- Allowing for transfer of funds from high-performing TIF districts towards significant infrastructure projects such as transit. This could be structured as a formal “infrastructure bank” or other tool with defined investment criteria. This type of initiative will require amendment of existing statutes or creation of a new statute.

PROJECT 2: WILMETTE PARKING GARAGE ANALYSIS

The Village of Wilmette recently completed a downtown planning process that calls for creation of a 425-space public parking structure near the Wilmette Metra station to provide new and replacement parking for commuters, as well as accommodate businesses and other nearby institutions such as the Wilmette Public Library, Post Office and Village Hall (see Figure VI). Construction of the structure is anticipated to cost between \$11 and \$12 million.

While parking garages and local infrastructure projects are too small to be evaluated within the set of Priority Projects identified by the GO TO 2040 Plan, providing parking in transit-oriented development situations does fulfill the goals of the plan to increase infill redevelopment potential and access to transit options. In many cases, the construction of a parking garage can free up existing parking lots for redevelopment or simply create the potential for additional development on a single site. Therefore, this analysis provides an opportunity to understand the potential to utilize value capture mechanisms to generate the required capital funds for a typical parking garage in a suburban downtown situation.

Figure VI: Value Capture Study Area, Parking Deck Site, Key Anchors and Redevelopment Sites



Sources: CMAP, Lakota Group and SB Friedman

Municipal Parking Garage Case Study Analysis

To understand the strategies that other area municipalities have used to fund TOD-oriented parking structures, *SB Friedman* compiled data on the costs and funding sources of similar projects in the region. *Figure VII* below provides a summary of this analysis.

Figure VII: Summary of Parking Structure Case Studies

	Depot District Garage	1800 Maple Garage	1st Street and Larch
City	Berwyn	Evanston	Elmhurst
Number of Spaces	378	1,400	253
Total Project Cost	\$ 11,000,000	\$ 30,000,000	\$7,500,000
Sources of Funds			
G.O. Bond Paid by TIF	\$ 8,565,000	\$ 30,000,000	
G.O. Bond Paid by Parking District Revenues			\$5,000,000
IDOT Capital Assistance Grant	\$ 2,000,000		
West Suburban Mass Transit District	\$ 435,000		
Metra			\$2,500,000
Parking Fees	Quarterly: \$90.00 Daily: \$ 3.00 Hourly: \$ 0.25	Monthly: \$85.00 (\$50 on upper deck) Daily: \$8.00 Hourly: \$1.00	Annual: \$400.00 Monthly: \$35.00 Daily: \$2.00

Source: *SB Friedman*

These case studies share several common themes and strategies:

Wider Development Activity. In all three communities, the parking garage was part of a wider revitalization of the surrounding downtown area. While a parking garage, in and of itself, does not spur development, it can play an important supporting role to promote denser development, particularly when developable land is scarce.

Financing. In general, parking garages are not paid for by the property tax base of the entire community. Although general obligation bonds are often used to finance construction, the sources of repayment are typically incremental revenue from TIF districts, sales taxes and/or parking fees. Grants from state sources and transportation agencies also play a role, so that garages often have more than one source of funding.

Multiple Users. A downtown environment needs to provide parking for customers, employees and commuters. More than one group is often accommodated within the same parking garage, which can complicate parking management and operations. Payment, validation and enforcement are important issues that should be considered early on in the process.

Parking Garage Financing Analysis

To estimate potential funding sources, three different combinations of up-front and ongoing revenue sources were produced for the Wilmette parking garage. The first scenario assumed that no developer contribution was available for retail parking spaces, all parking within the deck would include fees, and an SSA would be used to plug any financing gap. In Scenario 2, developers provide an up-front

contribution for retail spaces in exchange for free customer parking, and an SSA covers any financing gap. In Scenario 3, there is no developer contribution for retail parking spaces, no free parking within the deck, and incremental revenue from a TIF district is used to fill any financing gap. In all cases, estimated contributions from the Wilmette Library, Metra and the Congestion Mitigation and Air Quality fund were incorporated into the potential capital stack. *Figure VIII* below summarizes the resulting funding sources for the Wilmette parking garage.

Figure VIII: Alternate Funding Scenarios for Wilmette Parking Structure

Sources of Funds	Scenario 1: Pay Parking + SSA	Scenario 2: Free Retail Parking + Dev Fee	Scenario 3: Pay Parking + TIF
Up-Front Developer Contribution	\$0	\$756,000	\$0
Metra Pay-In	\$1,170,000	\$1,170,000	\$1,170,000
Library District Pay-In	\$216,000	\$216,000	\$216,000
CMAQ Grant	\$996,000	\$996,000	\$996,000
GO Bond Proceeds Paid by:			
NOI from Parking Fees	\$1,551,000	\$872,000	\$1,551,000
SSA Revenues	\$7,921,000	\$7,844,000	\$0
TIF Revenues	\$0	\$0	\$7,921,000
Total Sources	\$11,854,000	\$11,854,000	\$11,854,000

Source: SB Friedman

The analysis for the Wilmette garage shows that contributions from Metra, the developer or funding sources such as CMAQ are generally insufficient to pay for public parking structures. As shown in *Figure VIII*, the majority (over 65%) of funding for the parking structure would need to come from a local funding source such as a TIF or SSA.

Wilmette Parking Garage Analysis Conclusions

While both an SSA and a TIF appear to have strong potential for funding a parking structure in downtown Wilmette, there is also an important political dimension to the choice of financing. Some downtown businesses may be opposed to an SSA, even though they would theoretically benefit from it; likewise, some developers may oppose an up-front fee in-lieu of parking, even though their projects would otherwise have to pay to provide more on-site parking. Finally, TIF districts are facing significant concerns regarding the fiscal condition of underlying districts. Wilmette staff has indicated that either a TIF or SSA mechanism would have to be carefully presented to the public and other taxing bodies. This analysis also assumed that a major institutional user, Wilmette Public Library, would pay for approximately half of the cost of their additional spaces. Since many downtown parking facilities have multiple users, it may be desirable to evaluate the potential for contributions from major public and private users of a proposed parking garage to reduce bonding needs. Therefore, in addition to the financial trade-offs between different funding sources, there are also political and policy trade-offs that must be considered.

As previously mentioned, additional non-municipal or user sources of funding for parking structures exist, namely the CMAQ program, the Illinois Capital Assistance Grant and mass transit district funds. Each of the funds outlined above has its own requirements, and has limited pools of funds available that

generally cannot cover the full cost of structured parking. Metra is a key potential source of funds for parking garages in transit-oriented situations, but deck parking is generally funded at a rate that is approximately half of the cost of a deck space. Due to this and logistical concerns regarding the location and fees of commuter spaces, inclusion of Metra funding in a municipal garage funding package can present both opportunities and challenges.

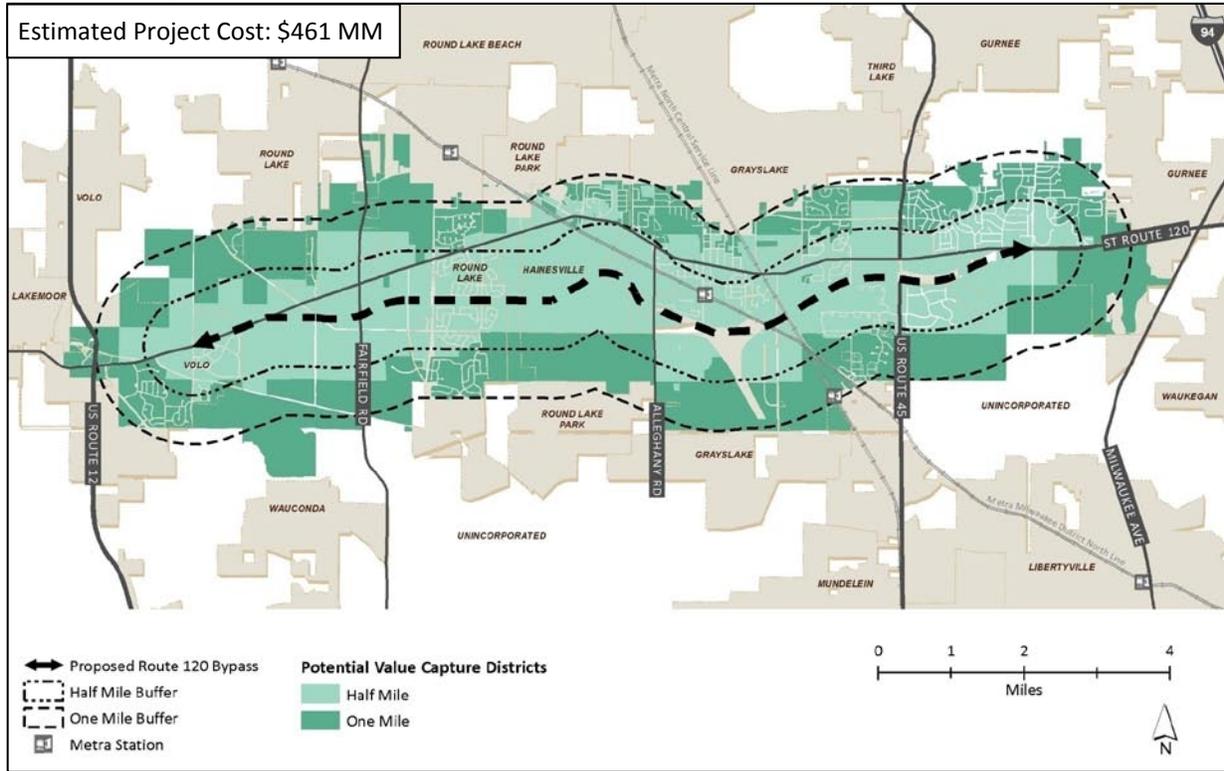
In conclusion, a parking structure in downtown Wilmette could be financed through a combination of several different sources of funds, with debt repayment provided by a combination of parking fees and either SSA or TIF revenues. While the majority of funding is likely to come from SSA or TIF revenues, up-front contributions from different users and outside grants can also make a significant contribution, and (in the case of SSA funding) help to keep the SSA tax rate at a realistic level. The needs of users and policy considerations should be carefully weighed when deciding on sources of funding, particularly where the choice between one source and another impacts users differently. If properly financed, a parking garage has the potential to alleviate parking supply constraints and help catalyze redevelopment activity in the downtown.

PROJECT 3: CENTRAL LAKE THRUWAY/ROUTE 120 BYPASS VALUE CAPTURE ANALYSIS

The Route 120 Corridor Planning Council recently published a Unified Vision (“the Vision”) for the Central Lake Thruway. The Vision proposes a new, eight-mile long, four-lane boulevard (“the Bypass”) that traverses undeveloped areas south of the current Route 120 (see Figure IX). This would create a strong east-west connection through northern Lake County, ease congestion in the area and allow the original Route 120 to return to maintain its exurban character that primarily serves as access to local residential and commercial development. For the purpose of this analysis, we defined the “improvement” as the Bypass only and excluded other portions of Route 120 that receive added capacity or other improvements under the Vision. This allowed the analysis to focus solely on the areas that receive new access and, therefore, new development value due to the improvements.

High-level funding options have been evaluated for the project, including federal, state, county and municipal contributions as well as user fees. Currently, the project is estimated to cost approximately \$461 million, nearly 90% of which is attributable to the proposed Bypass. Rough federal, state and local funding contributions have been estimated and an analysis of the funding potential of user fees (tolls) has also been completed. The purpose of this value capture analysis is to quantify an order-of-magnitude level of local funding that could be generated using value capture mechanisms and provide another funding option for the Bypass.

Figure IX: Proposed Route 120 Bypass and VCD Areas



TIF and SSA Analyses

Unlike redevelopment in previously-developed areas, new development in minimally developed areas such as central Lake County has the potential to increase property value, district-wide, by several orders of magnitude. Understanding the development potential created by the road is a critical component of understanding the value capture potential of the Bypass area. *SB Friedman* completed a high-level analysis of the development potential of the corridor if the Bypass is completed. The results are summarized by major land use in *Figure X* below. This development was in large part assigned to the three major intersections anticipated to be part of the Bypass project. They are: Route 120 & Route 45, Route 120 & Alleghany Road, and Route 120 & Fairfield.

Figure X: Estimated Future Development Potential in Route 120 Study Area

Land Use	Supportable SF
Office	3,000,000
Industrial	4,500,000
Retail	2,600,000
Total	10,100,000

Source: *SB Friedman* and URS

Once analysis of the future development potential and assignment of that square footage to locations within the Bypass study area was complete, TIF and SSA projections were created for a one-mile buffer area from the improvement. Residential property value was treated slightly differently across the two scenarios. Because there is conflicting evidence about the impact of new roadways on residential property values, both current and new residential development values were excluded from the SSA

analysis. It should be noted that, due to the preponderance of residential property near the bypass, this severely limits the value generation potential of the SSA scenario. For the TIF analysis, current residential property values were included in both the current year and inflationary value estimates. However, the value of new residential was excluded from TIF projections and any increment created by new residential development was assumed to divert to underlying taxing districts. *Figures XI and XII* below summarize the results of the SSA and TIF analyses. In both cases, conservative and optimistic scenarios are provided to bracket the potential value generation range.

Figure XI: SSA Analysis Bonding Potential by Scenario

Tax Rate Scenario	Baseline (no Inflation) [1]	Development [2]
Flat Rate - 0.5%	\$ 5,538,000	\$ 16,267,000
Flat Rate - 1.0%	\$ 11,076,000	\$ 32,534,000
Graduated Rates [3]	\$ 8,608,000	\$ 27,161,000

[1] The 2010 district non-residential EAV was obtained from the Lake County Assessor, inflated to the year of issuance at a rate of 2%, and then held flat during the life of the bond.
 [2] As described above, approximately 7.5 million SF of total development SF was phased in over the life of the bond, and the resulting new property value was incorporated in district EAV projections. Residential property was excluded from all value projections.
 [3] A 1.0% tax rate was assumed for the zero- to half-mile district and a 0.5% tax rate was assumed for the half- to one-mile district.
 Source: *SB Friedman*

It is notable that the SSA scenarios above produce less revenue than the smaller, half-mile transit-oriented districts contemplated in the prior analysis of the Skokie Oakton Station and in the Red Line Extension analysis included in this report. This is due to: the exclusion of residential property value from this analysis; the relatively low existing value that does not produce significant revenues until substantial development occurs; and the assumption of typical suburban, lower-density development typologies rather than the denser, mixed-use development assumed for the transit scenarios. Taken together, these factors lead to a less productive SSA value capture district even though the Bypass value capture district being studied is significantly larger in size.

Figure XII: Estimated Bondable Amounts for a Route 120 Bypass TIF Value Capture Scenario

Scenario	Estimated Bondable Amount
Inflation-Only[1]	\$ 115,318,000
Inflation + Development [2]	\$ 259,912,000

[1] Inflation of current EAV within the 1-mile buffer area at 2% annually. No new development is assumed.
 [2] Inflation of current EAV plus phasing in of new development EAV over the 25-year bonding period.
 Source: *SB Friedman*

In contrast, the TIF-generated bondable range of \$115 million to \$260 million indicates significant potential for a TIF-like value capture district (VCD) focused on the Bypass to contribute to financing of the Central Lake Thruway. This value range excludes increment produced by new residential development, and therefore, has an inherent assumption of diversion of some portion of the tax increment to underlying taxing bodies. However, it is likely that additional sharing of the increment above will be required to assure underlying taxing bodies that other infrastructure needs generated by the new development can be paid for. Additionally, the Inflation + Development scenario may prove too

speculative for IDOT, the County or other entity to provide credit enhancement. Therefore, the final bondable amount may be closer to the Inflation-Only scenario.

Route 120 Bypass Value Capture Analysis Conclusions

In practice, the potential use of either value capture mechanism will require extensive intergovernmental cooperation and consensus, and likely require changes in Illinois law. A host of issues will need to be examined through a collaborative process with involved stakeholders to identify an acceptable and effective value capture mechanism. These include the following:

- **Stakeholder Coordination.** Coordination of opportunities for an open dialog with all involved agencies and stakeholders are vital to establishing an acceptable mechanism for generating new local revenues for this project. Input on key aspects of the value capture mechanism and district boundary will be an important component of determining the available funding.
- **Proportionality to Benefits.** Tax rates and/or district boundaries must be properly calibrated and designated to ensure that local contributions equitably align with anticipated economic benefits from new development potential and from value increases to existing properties.
- **Defining the Governance Structure.** TIFs and SSAs are primarily municipal tools. In this analysis, the boundary crossed multiple municipalities. A unique governance structure may need to be established to manage a multi-jurisdictional district.
- **Securing Legislative Approvals.** Legislative amendments or new legislation will likely be needed to facilitate the application of TIF and SSA for regional transportation projects. This is likely to include variances on eligibility criteria for establishing districts for transportation improvements and the multi-jurisdictional applicability indicated above.
- **Validation of Future Land Use Concept.** If the bonding capacity relies on future development and a credit enhancement is provided by a credit-worthy entity, it is likely that the entity will require broad consensus on future growth policies by communities, including the appropriate level of zoning and density levels to facilitate the anticipated level of new development. This would likely require in-depth market analysis and collaboration with communities to establish appropriate zoning designations. Similarly, coordination with CMAP will also be necessary to maintain consistency and compatibility with regional growth policies and goals.

Value Capture Analysis Conclusions

The core of this assignment was to apply the lessons learned from prior value capture analyses and expand understanding of the tool's potential for funding a broader array of transportation improvement types. The review of value capture mechanisms and the project-based analyses included in this report have provided insights not only regarding the potential for value capture across different transportation improvement types, but also concerning the types of economic and development situations for which various value capture mechanisms may be best suited.

Additionally, the menu of value capture mechanisms that have potential for the region was expanded, based on both recent state statutory changes and new understandings regarding the capacity and national applications of the available tools. In summary, there appears to be significant potential for value capture in the region, but each situation will require a tailored approach that incorporates current economic conditions, projected development capacity, political concerns regarding value capture

mechanisms, and implementation considerations for the large geographic nature of most transportation improvements.

VALUE CAPTURE MECHANISM CONCLUSIONS

As has been noted throughout this analysis, each value capture mechanism has unique advantages and drawbacks regarding its application for transportation improvements. However, some conclusions regarding future implementation needs are common across all mechanisms. These overarching issues as well as mechanism-specific needs must be addressed to effectively utilize value capture tools in the region.

Overarching Issues

- **Local versus Multi-Jurisdictional Tools**

Most of the tools explored in this report can only be utilized at the municipal or, to a lesser extent, county level. However, many of the GO TO 2040 Priority transportation improvement projects cross municipal boundaries. As a result, if value capture is chosen as a funding strategy for large-scale transportation improvements, statutory amendments or new statutes creating multi-jurisdictional versions of existing tools (SSA, TIF, BD) to fund these improvements may be desirable. Such legislation will have to be carefully structured to assure underlying municipalities and taxing districts that they will have a say in the establishment process and will not experience adverse fiscal impacts. Creation of a single value capture district (VCD) has the potential to allow for more efficient management of the district, smoother establishment processes and timelines, and creation of a unified district that sits outside the variable fiscal and political conditions of individual municipalities.

- **Intergovernmental Cooperation and Partnerships**

As noted in the prior 2010 analysis, each of the evaluated value capture mechanisms will require participation of a number of local and regional actors. Many transportation improvements cross jurisdictional boundaries, and local funding contributions will therefore require the cooperation and work of multiple communities. Currently, the multi-jurisdictional tools noted above do not exist. In their absence, cooperative agreements will be required.

Additionally, the geographic scope of transportation-supportive value capture districts is large, which poses equity concerns. Therefore, utilization of many of the proposed district types will require careful analysis and negotiation regarding how communities benefit from a transportation improvement and how that benefit relates to the proposed fee, tax or increment.

Mechanism-Specific Needs

There are a number of tools that have potential for usage in Illinois, but the most broadly applicable mechanisms are likely to be TIFs and SSAs. These mechanisms have been successfully used nationally, as demonstrated in the highway case study analysis in this report and the transit case study analysis in the prior report. They are already enabled under Illinois statute, although some legislative changes are required to fully realize the potential of each mechanism for regional transportation projects. Key

aspects of these mechanisms and the implementation considerations required to make them effective as a transportation value capture tool include the following:

- **TIF:** The most significant advantage of a TIF-like value capture mechanism is that it does not directly increase the tax burden on property owners and does not negatively impact development. However, TIFs are currently facing significant resistance because they are perceived to divert taxes from underlying taxing districts. If TIF is to be used as a value capture mechanism in Illinois for major regional projects, it will need to have amendments to eligibility criteria and have a system for equitable increment sharing between the transportation project and other local needs.
- **Special Assessment Districts:** Illinois SAs and SSAs are the most bondable source of value capture revenue, providing significant potential to generate up-front funding for capital costs in well-developed areas. However, this mechanism involves imposing a new property tax, and the political and economic concerns surrounding that added tax appear to pose the most significant barrier for utilization. Therefore, the use of this mechanism requires that: the tax rate and boundary be calibrated so that they do not negatively impact development; the tax is applied only in areas where direct benefits of the new infrastructure can be proven; and the tax burden is proven to have proportionality to benefits.

In addition, a second set of mechanisms, Transportation Utility Fee, Joint Development, Business District and Development Impact Fees, appear to have some potential in the region, but require significant statutory changes or are only applicable in specific situations. This set of mechanisms may have potential in Illinois, but would require further study and/or significant policy and legislative changes to be utilized.

OVERALL CONCLUSION

The prior 2010 analysis demonstrated the effectiveness of value capture for transit projects and quantitatively showed that this tool could have been used to generate the required local match for a new station in Skokie, IL, an area of relatively high property values. This current study supports the conclusion of the prior study that value capture has significant potential as a financing mechanism and extends its application to a broader set of transportation improvement typologies and situations. Specifically, this study highlights the challenges associated with the use of value capture in an economically distressed area, illustrates its effectiveness to fund public parking within a TOD context, and also demonstrates that value capture can be successfully used to fund highway projects.

While each of the project-based analyses in this report found some amount of value capture potential, it is also clear that, in some cases, value capture is likely to provide only a portion of an overall package of local funding contributions for a transportation improvement. While other infrastructure finance tools are not the province of this report, options such as public-private partnerships, user fees/tolls, special sales or use taxes, special federal and state grants and financing tools, and similar funding tools may be necessary to create a full funding package for some transportation improvements. As the Red Line analysis indicates, areas with a history of disinvestment may pose a particular challenge for value capture mechanisms. In this type of area, it may be necessary to solicit additional federal or state resources or, if a local contribution is key, leverage broader municipal, county or regional tax bases to generate a local match.

We believe that in this new, resource-constrained economic reality, it will be necessary to use innovative financing mechanisms such as value capture to ensure that we can continue to build the critical transportation infrastructure to keep our region competitive. While value capture is not the only available tool for generating local infrastructure funding, it has the potential to provide significant contributions toward the capital needs of transportation projects. If value capture is to be utilized in large-scale transportation improvements, it will be necessary for major actors in our region and state to pursue the necessary legislative amendments to facilitate the use of value capture tools for financing regional infrastructure improvements.