I-5 (I-605 TO I-710) P3 FEASIBILITY

P3—A Tool for Development

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Briefing Outline

1. I-5 (I-605 to I-710) P3 Feasibility Study Findings

2. Land Value Capture (LVC) Tools—Local Revenue Generator
I-5 P3 Feasibility Study Objectives

Assess alternative delivery & financing options for I-5 (I-605 to I-710) Corridor Improvement Project (CIP)

• Means to expedite the current implementation schedule (FY2036-2042)

• Options considered

✓ Baseline: Traditional D-B-B, pay-as-you-go (per Measure M Funding schedule)

✓ Alternatives: (1) P3, (2) D/B

D-B-B—Design-Bid-Build
D/B—Design/Build
**P3 vs. Baseline**

Baseline:
- Gap (9 years) (FY2018 - 2025)
- Planning (FY2025 - 2030)
- Design (2030 - 2035)
- Construction (2035 - 2040)
- Opening Date (2027)

P3*:
- Planning (FY2018 - 2020)
- D&B (2020 - 2025)
- O&M (25 to 30 Years) (2025 - 2040)
- MM Fund Disbursement (2040 - 2045)

*Largely based on pre-Measure M P3 assessment provided by City of Los Angeles*
I-5 P3 Feasibility Study Findings

Compared to Baseline, P3 can provide:

• **Project Cost:** 15-20% capital cost savings*

• **Project Schedule:** Earliest opening in 2027 (15 years ahead)

• **Implementation Delay Impacts:** (1) +15 years of traffic delays; (2) cost escalation $340M (@ 3%/yr)

• **MM Funding Acceleration Needs:** $200M (Construction), $40M/yr (O&M—9 yrs)

* Baseline cost: $1.105B
1. P3 Enabling Legislation (SB2X4) (expired as of 1/1/2017)
   • Use 63-20 Lease/Leaseback Model

2. Measure M Funding Schedule
   • Meet Metro’s Acceleration Criteria (local participation, EIFD potential)

P3 financing/delivery option offers significant cost & schedule savings on its own merit but there are external barriers; we have identified remedies to deal with these barriers

EIFD—Enhanced Infra Financing District
3. By far, I-5 phasing and Metro’s funding priorities were most problematic

- Significant funding shortage overall
- I-605/I-5 Interchange (planning 2016-2021) and I-605 “hot spots” have funding priority
Land Value Capture (LVC)—
It’s All About Generating Revenues

Formal method to capture and monetize land value appreciation to generate revenues for improvements

- Most powerful local policy tool
- Involve local land use/zoning
- Public’s right to share land value appreciation
- Spreading the financial burden

LVC tools generates new revenues, not just financing mechanism
**LVC Tools—Who Pays?**

**Taxpayers Pay:**
- Property taxes and TIF

**Property Owners Pay:**
- Special assessment districts, Mello-Roos

**Developers Pay:**
- In-lieu fees—impact/linkage fees
- Land dedication
- In-kind provisions (facilities, service)

“*It’s mine—and I’d appreciate your not looking out of it.*”
Other Non-Mandatory LVC Tools

Contract-Based:

- Development Agreement (DA)
- Community Benefits Agreement (CBA)

Regulatory Incentives:

- Air rights/TDR
- Density bonuses

Investors Pay (New, Emerging):

- Land use entitlement certificates (CePACs) from Sao Paulo, Brazil

TDR—transfer of development; CePAC—Certificate of Potential Additional Construction
LVC Examples—Integrated Approach
Early Engagement of Stakeholders

Special Assessment Districts
• DC Metro Silver Line, BIDs

Development Agreement—OC
Foothill Circulation
• $250M improvements by 19 developers

Engaging Multiple LVC Tools
• NYC Hudson Yard

*BID—business improvement districts; OC—Orange County*
P3 Potential for Diverse Local Assets

- Civic Buildings
- Schools/Universities
- Public Healthcare Facilities
- Justice/Correctional Facilities
- LED/Streetlight Modernization
- Fiber/Broadband Network
- Waste-to-Energy Conversion

Use of LVC (and other tools such as EIFD and QOZ) will substantially improve the P3 viability and enable P3 usage for many diverse assets under local governments’ purview.
QUESTIONS?
P3 Option—Pros/Cons

**Upsides:**
- Lifecycle efficiency—integrate D&B with O&M, avoid deferred maintenance downstream
- Acceleration of delivery schedule
- Transfer of risk to private sector—at-risk equity capital, budget/schedule certainty
- Performance-based payment—“availability” or non-payment
- Opportunity for innovations

**Downsides:**
- Internal P3 capacity need for public sponsor
- Higher financing costs
- Political risks/challenges

D&B—design and build; O&M—operate and maintain
EIFD—Empowering Local Governments

Allows infra financing authority for local governments (SB628/AB126)

- Can finance local infra needs for one or more jurisdictions
- No voter approval if formed thru JPA; can be non-contiguous
- Can issue tax-exempt bonds w/ 45-year term
- Use TIF backed by multiple local revenue sources

 ✓ Taxes, user charges, vehicle license fees, hotel taxes, transit agency funding, impact fees, special assessments, private investments

TIF—tax increment financing
**QOZ—Involving Private Sector Capital**

Injection of private investments to help trigger TODs

- Created by The Tax Cuts and Jobs Act of 2017
- Provides tax incentives—base reduction/deferrals/exemptions
- $2.3T to $6T in total investment potential; long-term patient capital (7-10 years)
- 879 QOZs in CA, 274 in LA County alone
- Significant new real estate developments (TODs):
  - Enhance P3 deals with real estate component (e.g., LBCC P3)

**TOD**—transit-oriented development
**LBCC**—Long Beach Civic Center