

Dulles Metrorail Case Value Capture Financing Guide

TCRP Project J-11/Task 22, FY 2015

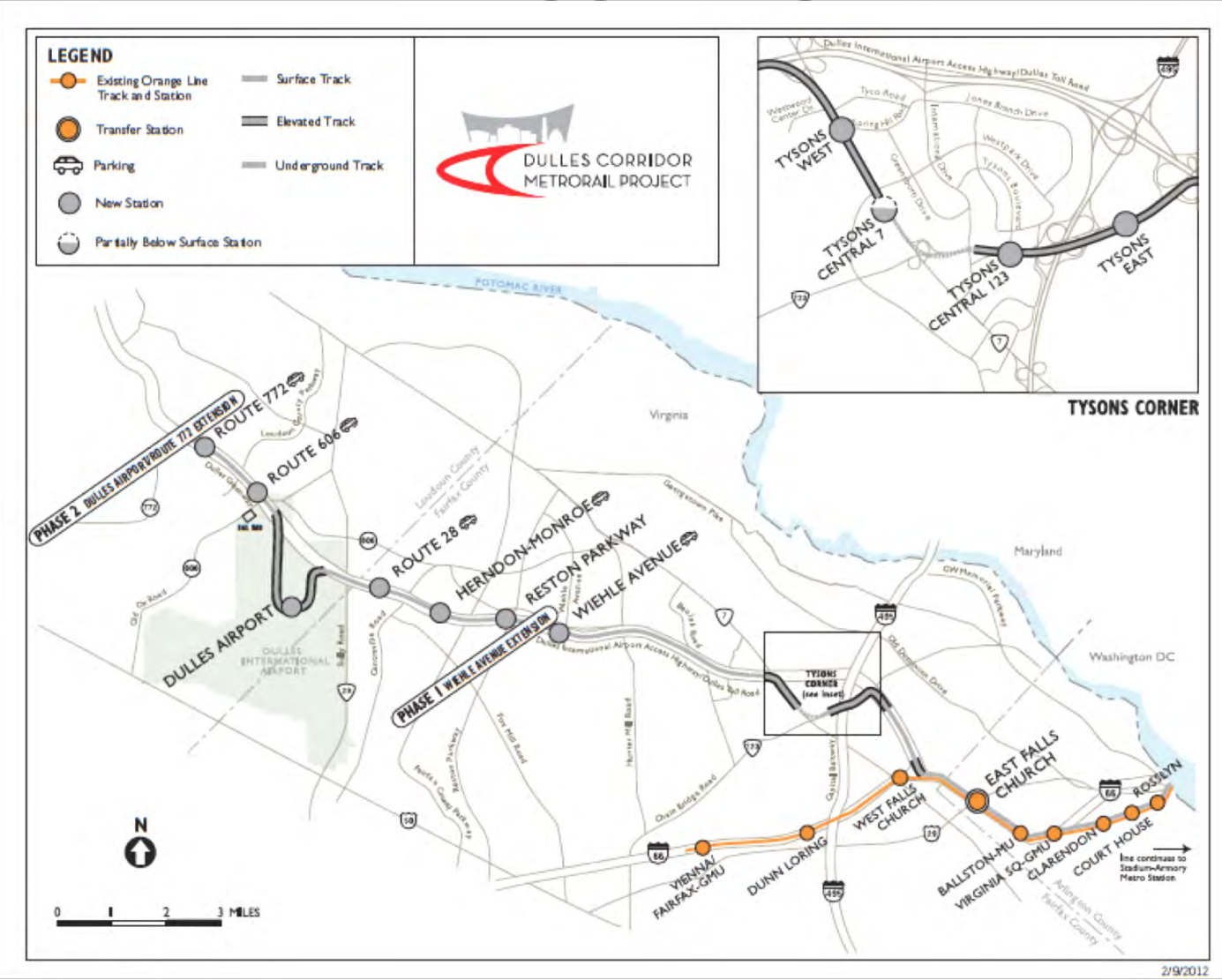
Station Development Peer Exchange

June 23, 2016

Overview

- Growing Market
- Committed Public and Private Participants
- Meaningful Planning
- Managing Value Capture Burden
- Phasing Flexibility

Dulles Metrorail serving growing market



Source: Dulles Corridor Metrorail Project, 2015

Growing market enabled value capture sources fund one-fifth of Project, through two counties

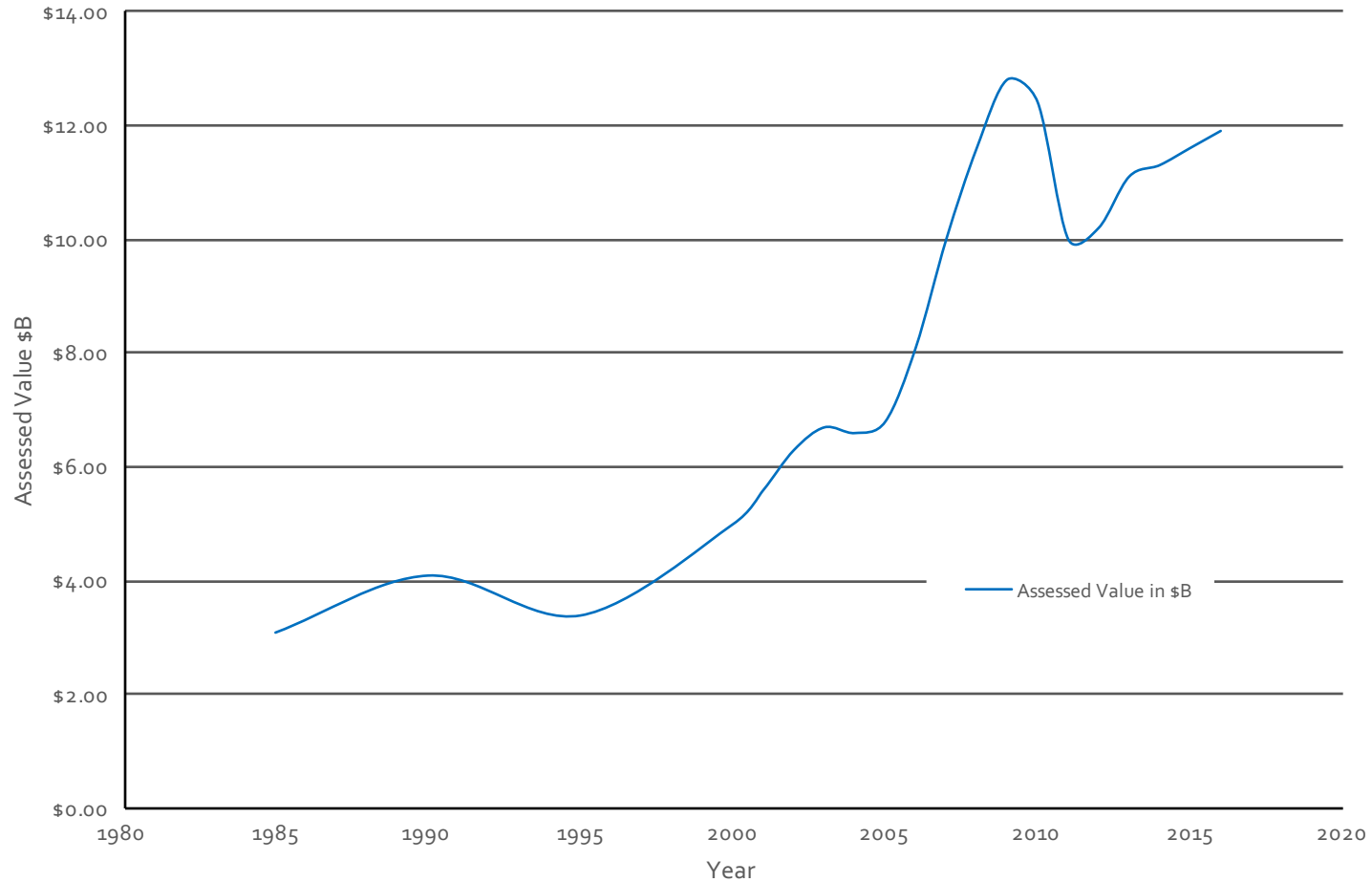
Sources of Capital / Funds	Phase 1	Phase 2	Rail Project Budget		TIFIA Loan
			Total	% of Total	
Federal	\$900	-	\$900 ¹	15.8%	
Commonwealth of Virginia	252	323	\$575 ¹	10.1%	
Fairfax County	400	515	915	16.1% ²	403
Loudon County	-	273	273	4.8% ²	195
MWAA (Aviation Funds)	-	233	233	4.1% ²	-
MWAA (Dulles Toll Road)	<u>\$1,354</u>	<u>\$14,34</u>	<u>\$2,788</u>	<u>49.0%³</u>	<u>1,277</u>
Total Sources of Funds	\$2906	\$2,778	\$5,684	100.0%	\$1,876 (33% of total)

¹Fixed amount; ²Fixed percentage of total cost, ³Residual

Source: Dulles Corridor Metrorail Project, 2015

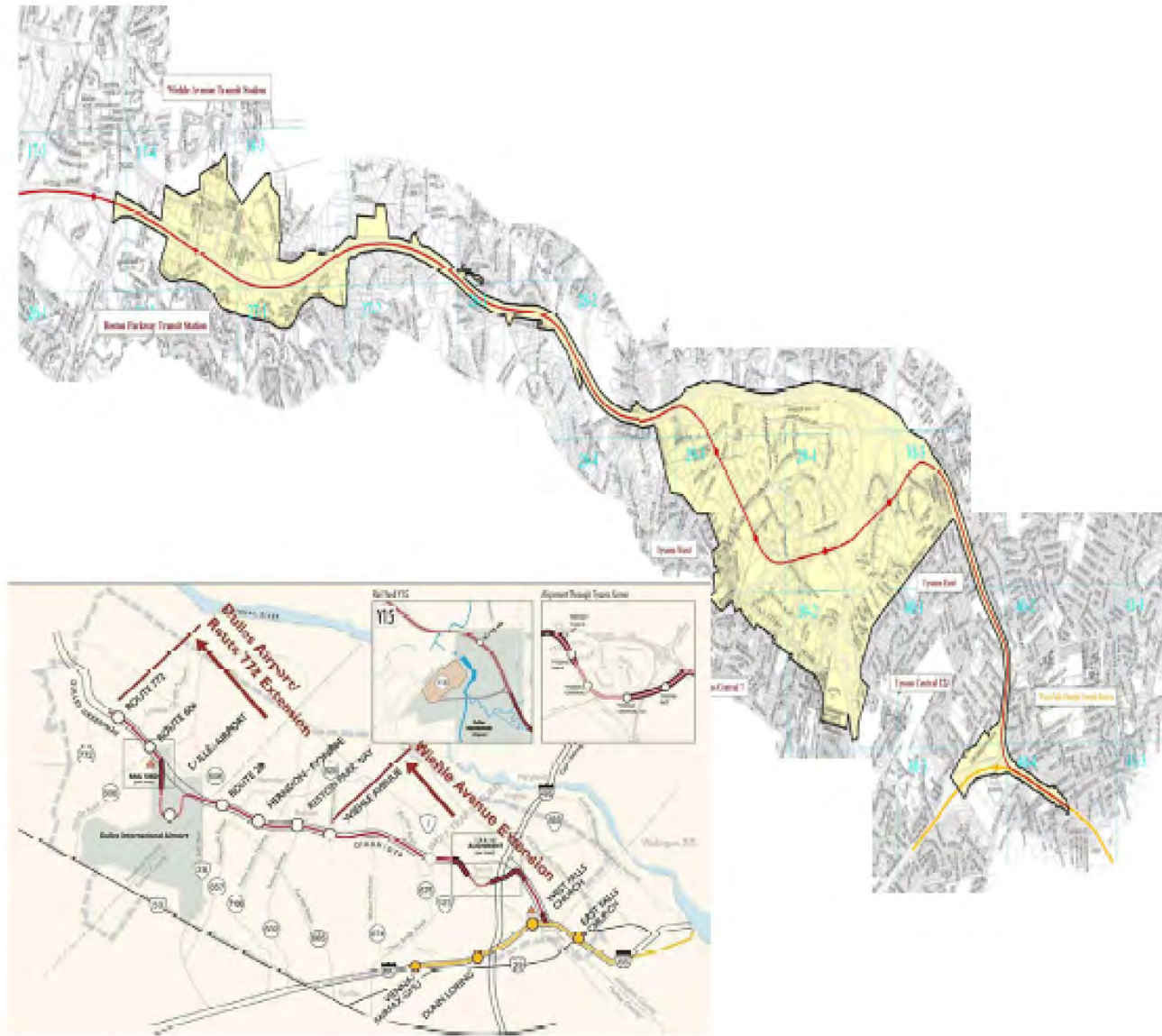
- Phase 1 Transportation Improvement District (TID) assessed value increased healthily over past two decades
- Relative prosperity motivated private landowners and gave local and state policymakers confidence in Project

Assessed value of taxable commercial/industrial property in Phase 1 TID in \$ billions mostly grew over 20 years



Source: Fairfax County Economic Development Authority, 2016

Phase 1 TID primarily covers Tysons corner (in east) as well as some properties towards Dulles International Airport



Growing market and strong existing market resulted in strong bond ratings

- Phase 1 TID bonds were rated **AA, Aa1, and AA** by Fitch, Moody's, and Standard & Poor's, respectively
- Key strengths according to FitchRatings of these bonds were as follows:
 - Good coverage and liquidity of 1.45 maximum annual debt service (MADs) and 3.1x at maximum legal rate
 - County target of minimum coverage ratio of 1.5x
 - **Tax rate flexibility**, allowing rate to change to maintain revenue at sufficient level to cover debt service
 - Strong but concentrated tax base: Phase 1 TID includes corporate **headquarters of five Fortune 500 companies** and growing assessed valuation

Principal stakeholders were highly committed to project

Partner	Role
Washington Metropolitan Area Transit Authority	Transit agency responsible for Phase 1 and Phase 2 operations
Metropolitan Washington Airports Authority	Airport authority overseeing Project construction
Fairfax County, Loudon County	Local governments that established special districts for value capture
Commonwealth of Virginia	Enacted legislation allowing for special districts, and provided grant funding
LEADER	Private development group advocated for Project and helped to organize the Phase 1 TID
US DOT	Federal Transit Administration provided New Starts grant and loan to finance Phase 2 of project; (USDOT Secretary LaHood also played role in bringing Phase 2 partners together)

Principal stakeholders were highly committed to project (cont'd)

- Numerous public and private participants were committed to Project for years, overcoming variety of challenges including:
 - questions about alignment
 - planning delays
 - debates about costs of project elements (such as tunnels)
 - interregional differences and
 - federal funding limitations
- For value capture developers, like those initiating Phase 1 TID, were highly committed for two decades in advocacy and resources for studies, legal costs, and paid spokespeople
 - Advocacy continued through economic downturns which in retrospect appear to be small “blips”, but at time severely challenged number of businesses advocating for Project

Meaningful planning

- Tyson's Plan and similar planning throughout corridor reflected transportation impacts of Dulles Metrorail—fostering denser, more pedestrian-oriented area
- Also allowed developers to further leverage landholdings, justifying early investment in advocating for Project and setting up TIDs

Meaningful planning example: Parking ratios for Phase 1 (TID) form part of Dulles Metrorail planning

Use	Previous*	< 1/8 mile Metro Station**	1/8 – 1/4 mile Metro Station**	1/4 – 1/2 mile Metro Station**	Non-TOD**
Townhouse	2.75	1.75 – 2.2	1.75 – 2.2	2.0 – 2.5	2.0 – 2.7
Multifamily (MF) 0-1 bedroom	1.6	1.0 – 1.3	1.0 – 1.3	1.1 – 1.4	1.1 – 1.4
MF 1-2 bedroom	1.6	1.0 – 1.6	1.0 – 1.6	1.35 – 1.7	1.35 – 1.7
MF 3+ bedroom	1.6	1.0 – 1.9	1.0 – 1.9	1.6 – 2.0	1.6 – 2.0
Hotel	1.08	None – 1.0	None – 1.0	None – 1.05	0.85 – 1.08
Office	2.6	None – 1.6	None – 2.0	None – 2.2	2.0 – 2.4

*Per unit or 1,000 square feet. **Minimum – Maximum

Source: Fairfax County, 2014

Managing value capture burden

- It will take over decade to assess TIDs benefit/cost and impact on land values. Based on available evidence, increased assessments are reportedly **not creating competitive disadvantage** for developers
- Nevertheless, obtaining agreement on special assessments among **smaller land holders** was challenge
 - At issue for some is that Tysons Plan **imposes additional fees**, including Tysons Service District rates of \$0.06 per \$100 of AV
- As Tysons densifies over next decades, these rates will remain in place:
 - Additional \$0.19 Phase 1 TID tax increased base tax rate by 22%, not including taxes for storm water, leaf collection, and water
 - While this could present competitive disadvantage, developers believe that competing locations throughout Washington, D.C. region **have similar all-in tax burdens**

Phasing flexibility

- Project and value capture effort underwent several phases, including **splitting Project into two phases and dividing Fairfax County TID in two**
- Project and value capture participants nimbly responded to these changes

Final thoughts

- Growing Market: Made value capture possible
- Committed Public and Private Participants: Long-term commitments are a requirement
- Meaningful Planning: Allowed developers to maximize TOD premium
- Managing Value Capture Burden: May be an issue in some projects; not necessarily Dulles Metrorail
- Phasing Flexibility: Watchword of all major infrastructure projects

Contact

Sasha Page

IMG Rebel
4350 East West Highway
Suite 950
Bethesda, MD 20814

T 301-280-0155
M 301-675-3102

SPage@IMGRebel.com
www.IMGRebel.com

