Image credit: Jeff Wood

Why is Value Capture Not a Common Form of Transit Funding?

Rail~Volution

October 15, 2012

Ian Carlton

TRANSACT

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"Although we cannot yet say that value capture will be unfailingly successful in defraying the capital costs of development in all U.S. cities, it offers a major untapped source of transit revenue."

Robert M. Patricelli
Former UMTA Administrator
Circa 1979

Callies, David L. 1979

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Why is value capture still “a major untapped source of transit revenue”?

- In spite of smart growth benefits, it’s not required
- Transit agencies get **“little $”** because they lack control over most value capture tools and locals identify “better” uses for locally controlled funds
- Complexity and political risk to agencies > **“little $”**
- Smart growth benefits are difficult to measure so we don’t plan transit to optimize value capture

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This is a “market failure” to be corrected by government

- From their economic vantage point, transit agencies and cities are correct not to pursue value capture to fund transit infrastructure and operations

- Therefore, agencies fail to plan transit so that it optimizes value capture benefits, neither **“little $”** or smart growth

- Need higher levels of government (Feds, states, MPOs) to prioritize transport proposals that include value capture funding sources to achieve benefits

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TransACT helps clients unlock the value of real estate near transit

TransACT has the demonstrated ability to bring together the vision, political momentum, phasing plans and financial strategies necessary to promote all aspects of Transit Oriented Development.

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Value capture is a tool used to fund services every day in every U.S. city

- Sewer
- Water
- New roads
- Initial road paving
- Street lights
- Public parking garages
- Highway interchanges
- Transit stations
- Parks
- Community programs
- Libraries & schools
- Local shuttles
- Fire and emergency
- Security/Policing
- Transportation demand management programs
- Affordable housing
- Real estate development subsidies

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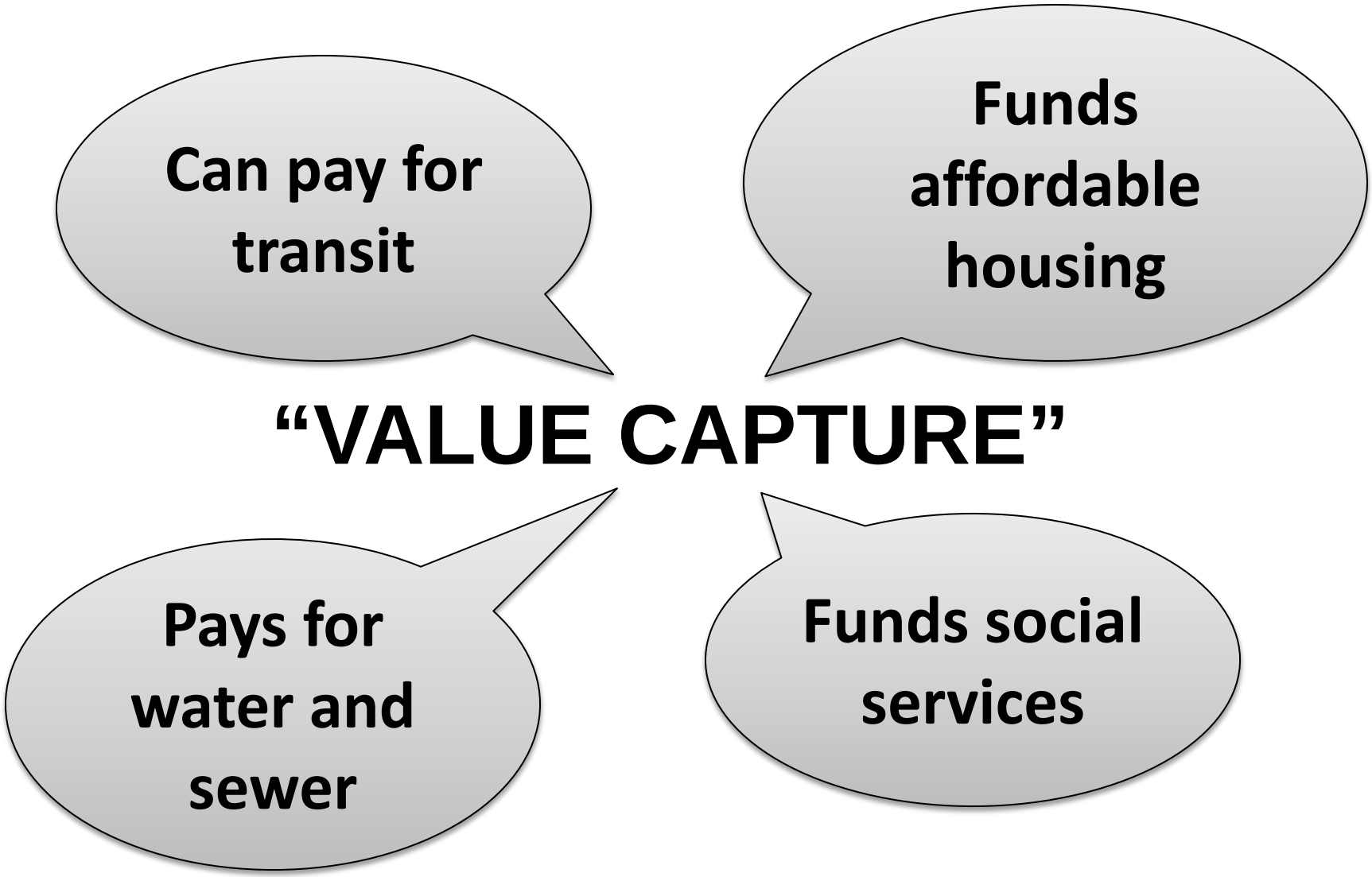
Many sectors stake their claim



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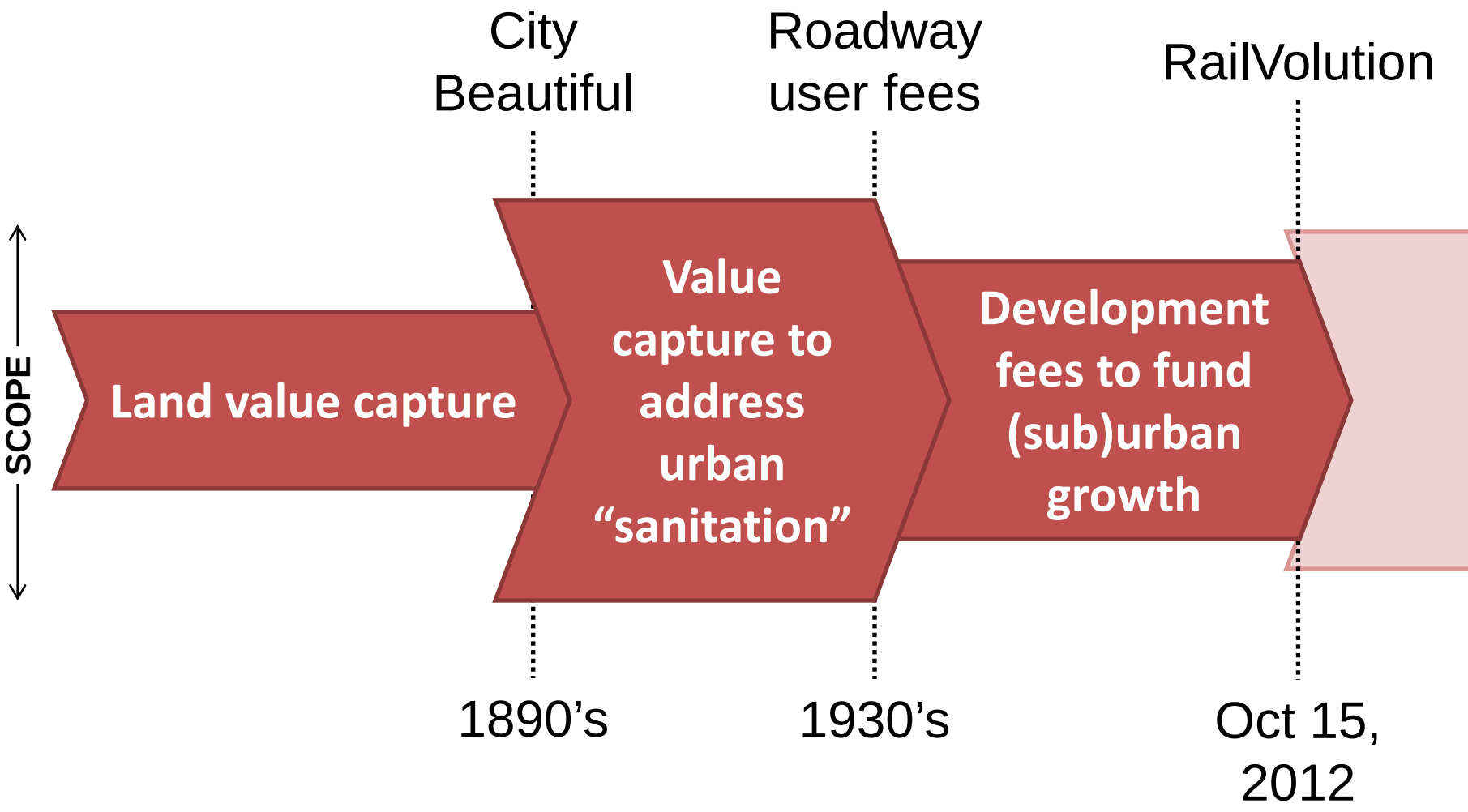
Stylized evolution of value capture



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Value capture reorients prime planning concern from transit costs to benefits

City of Berkeley residents voted to pay property assessments for 30 years to route BART through downtown in a subway rather than above ground along a lower-cost route

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Value capture is often promoted by landowners interested in TOD

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Value capture mechanisms can contribute to TOD outcomes

- Land value capture is a Smart Growth tool because it incentivizes efficient use of land
- Funding districts help align landowner interests and reduce information asymmetry
- Value capture can be a critical tool to fund non-transit components of the sustainability agenda (e.g., affordable housing, food access)

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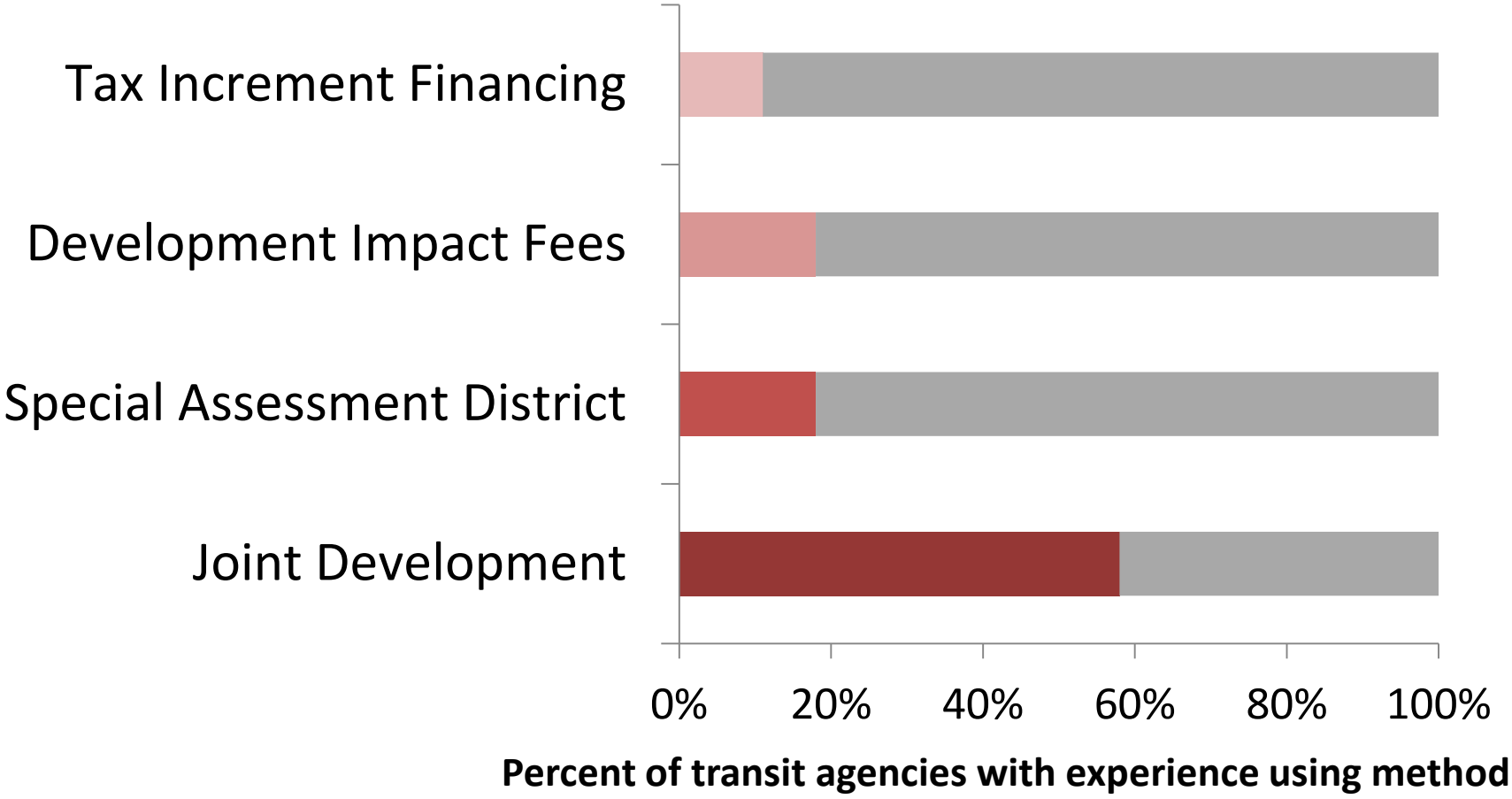
GAO survey identified prevalence of joint development experience



Source: Latour, Matthew; "Public Transportation: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies, GAO-10-781"; United States Government Accountability Office; July 29, 2010

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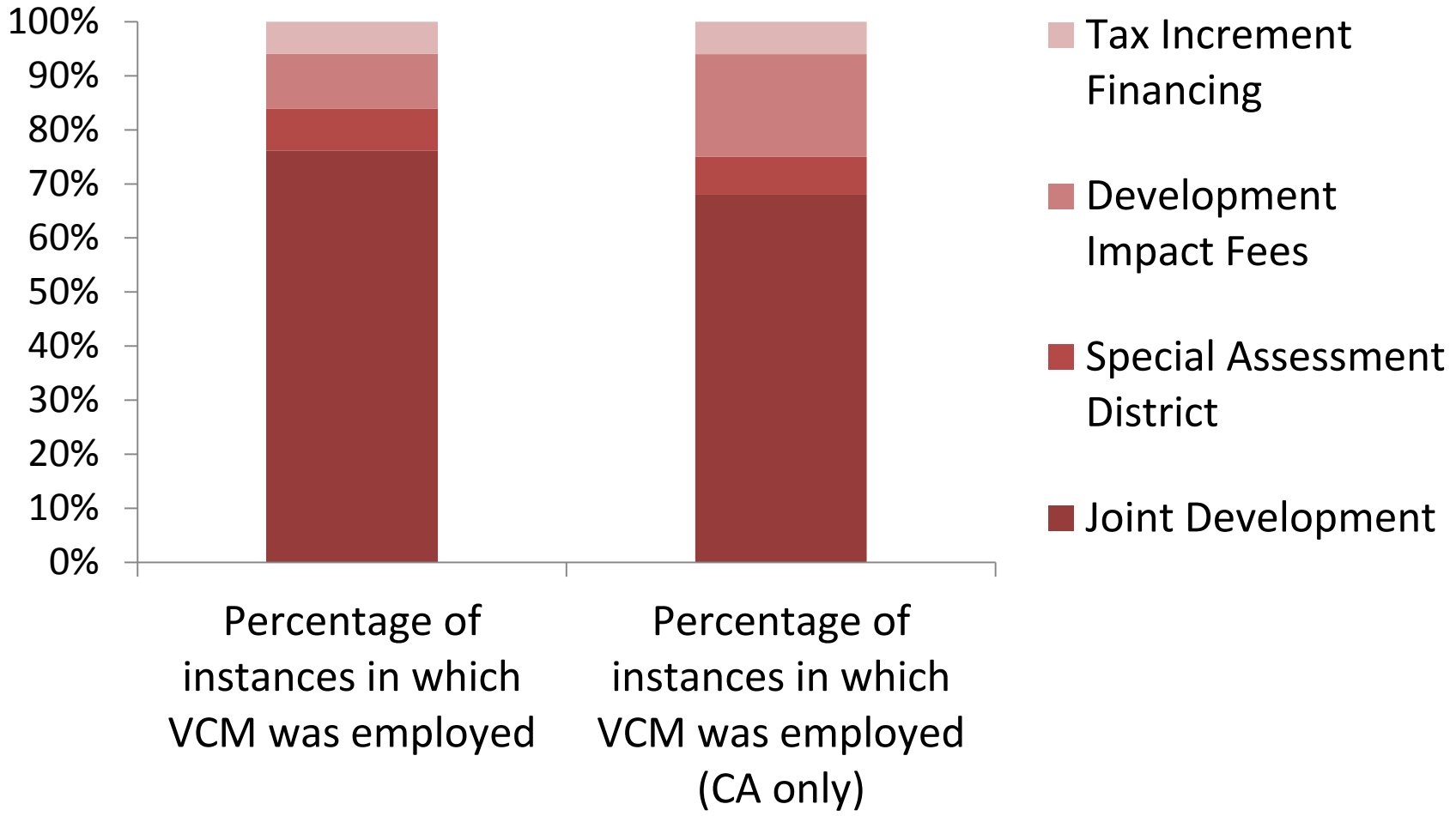
GAO survey identified prevalence of joint development implementation



Source: Latour, Matthew; "Public Transportation: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies, GAO-10-781"; United States Government Accountability Office; July 29, 2010

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Why is joint development widely used?

- Implemented by transit agency, revenues go to transit agency
- Can be initiated long after transit is operating
- FTA promotes joint development
- Low risk for transit agencies
  - Invested capital is a ”sunk cost”
  - Avoids public-private transfer issues
  - Agencies can retain some control over what is built on their land
  - Generates revenues that exceed cost of program administration

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Yet, “best” U.S. joint development program earns ~$10MM annually

- Long-term ground leases
- Station connection fees
- Retail lease agreements

~1% of WMATA’s annual operating budget

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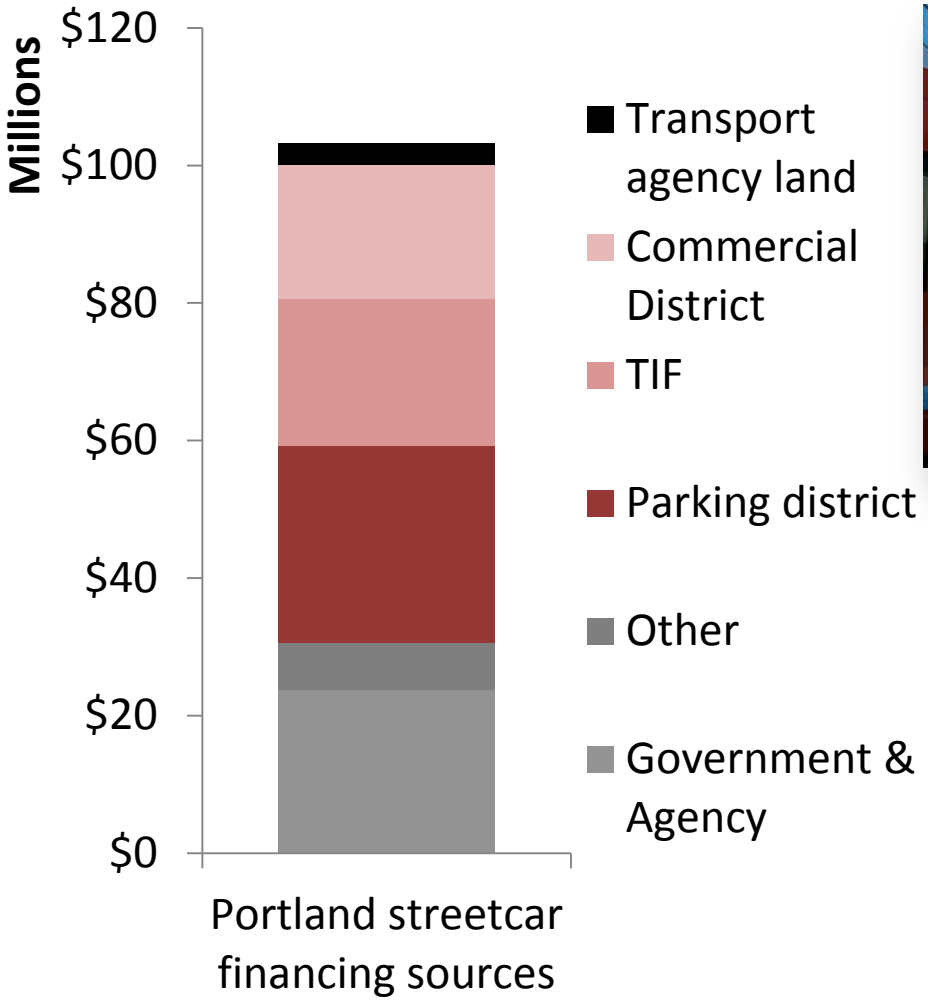
Districts can generally produce more revenue than joint development



Source: City of Portland; “Portland Streetcar: Development-Oriented Transit”; ”2008

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Why is TIF less prevalent as a transit funding tool?

- FTA funds projects that have no value capture, planners don't consider it
- TIF enabling legislation limits expenditure types
- Initiated by city agency, funds go to city agency, but TIF hits bottom line of city, county, schools
- Even if locals can justify forfeiting funds, transit may be a low priority
- TIF bond underwriting requires a revenue stream be established for ~5 years
- Easier to identify alternate local match

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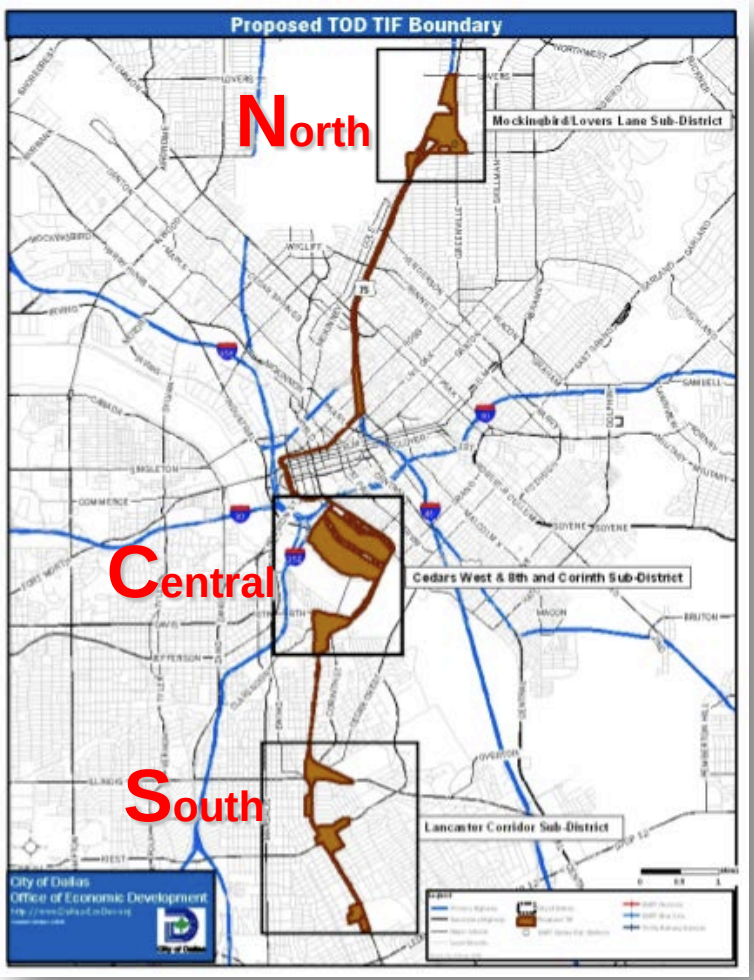
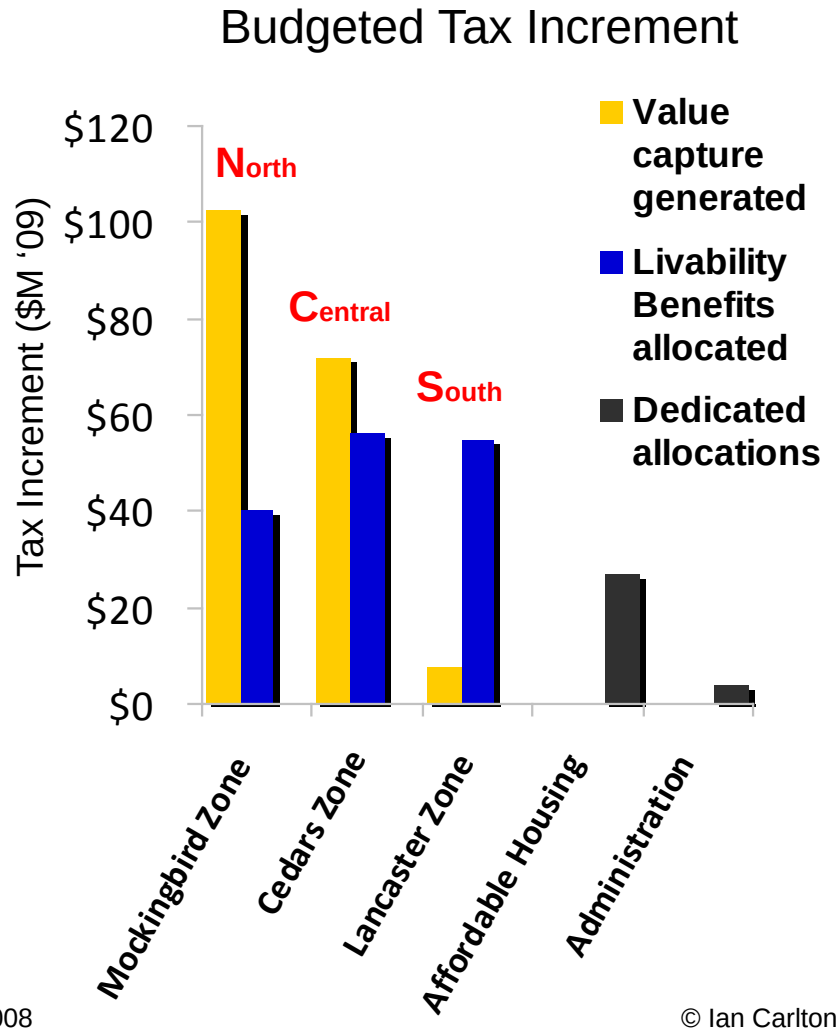
Twelve-mile Dallas TIF to fund transit-related livability, not transit





Source: Office of Economic Development; "Dallas TOD TIF Plan;" City of Dallas; 2008

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Why is district-based transit finance rare in the U.S.?

- FTA funds projects that have no value capture
- Transit planning must consider value capture to be effective
- Districts optimally established before transit (transit=carrot)
- Districts hit landowners' bottom line
- Initiated by local gov's, funds collected by local gov's, money goes to local priorities
- Therefore, regions find alternate local match

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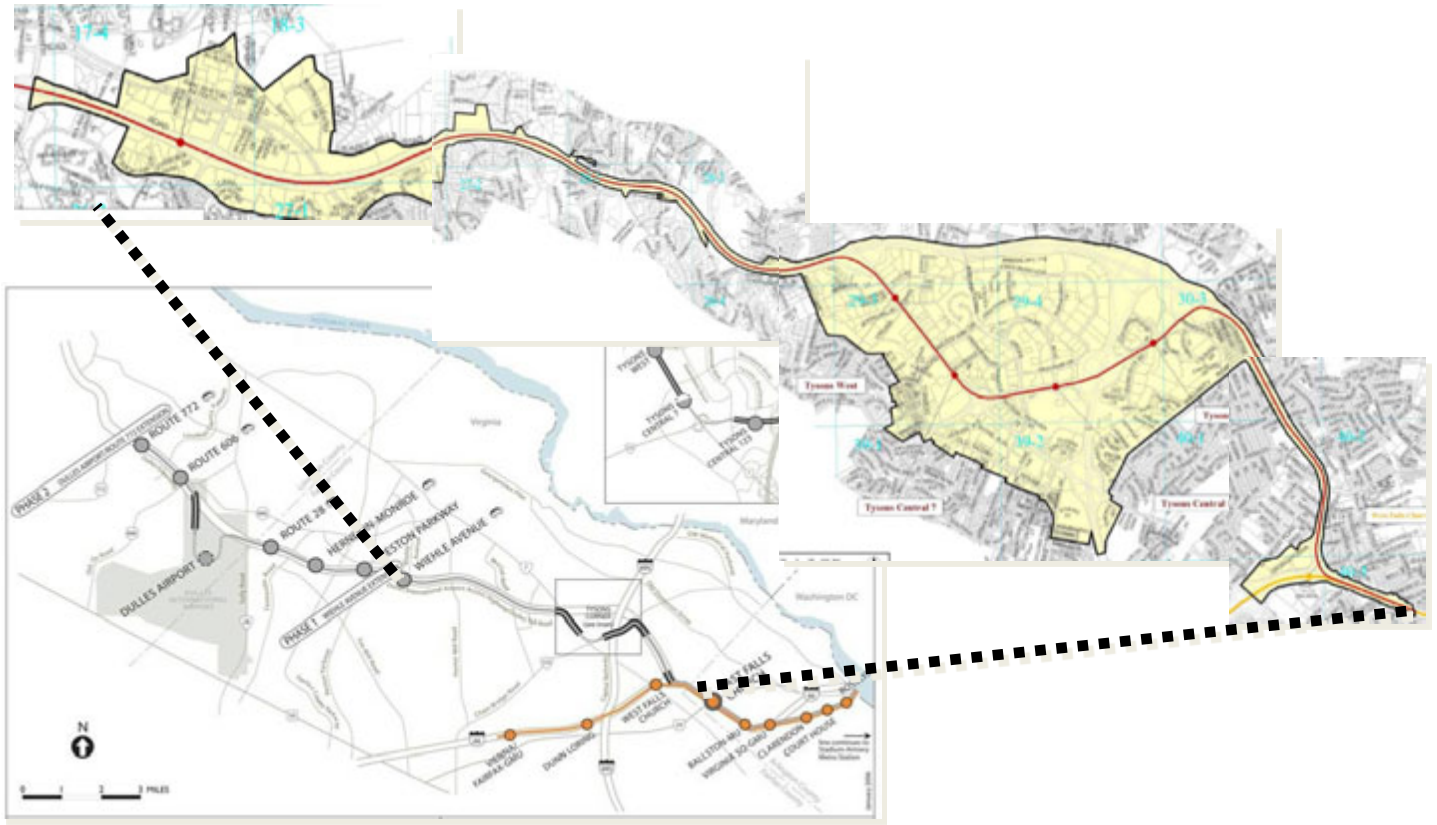
District funding requires strong market and transit must be a top local priority



Tysons Corner district to generate ~15% ($400M) of Phase 1 cost

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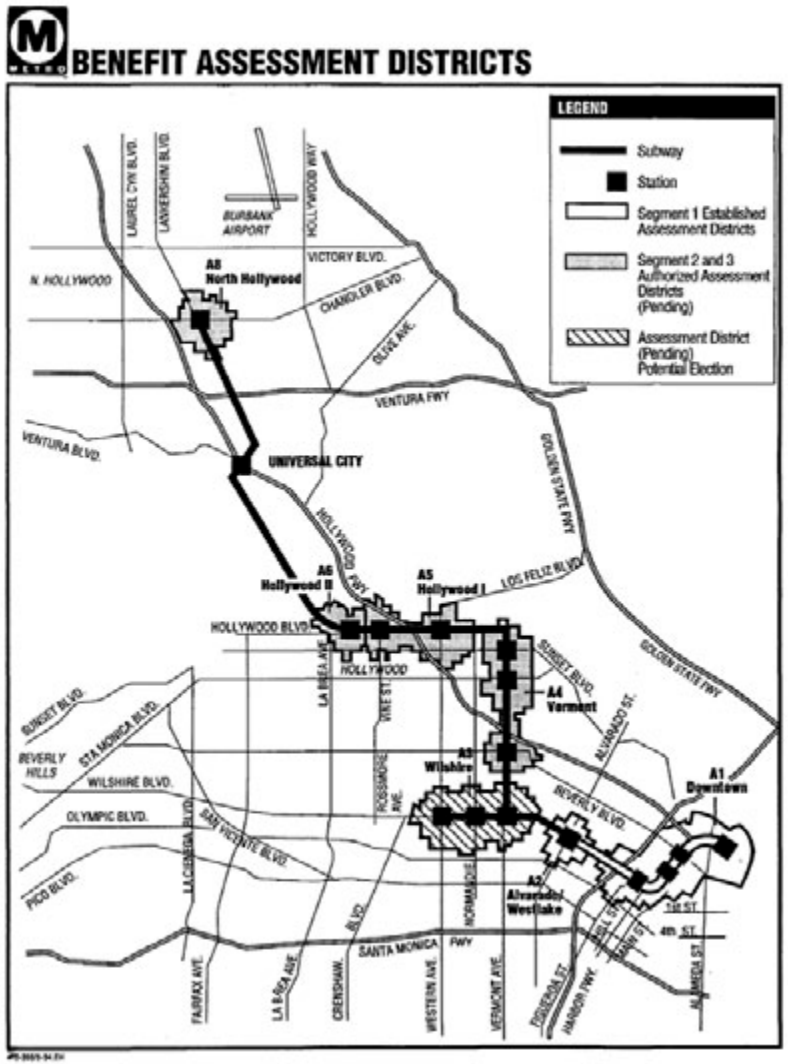
Would you take on the political risk and timeline risk for the small $'s?



- Court battles over benefits assessment districts added uncertainty to L.A. Red Line funding in the late '80s and early '90s
- District revenues were capped at the amount needed to repay bonds representing <10% of Phase I-III capital budgets

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- Complexity and political risk > **“little $”**
- **“Non-$”** benefits are difficult to measure so we don’t plan transit with value capture in mind

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- Need higher levels of government (Feds, states, MPOs) to prioritize transport proposals that include value capture funding sources to achieve benefits

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