Can Location Value Capture Pay for Transit? Organizational Challenges of Transforming Theory Into Practice

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Can location value capture pay for transit?

Organizational challenges of transforming theory into practice

Deborah Salon, Elliott Sclar, and Richard Barone

October 14, 2016

Portland State University Transportation Seminar
“To place the full burden of rapid transit service on the passenger does not seem just, in view of the collateral advantages which flow to neighboring property owners in the form of enhanced land values, and to business interests and the public at large by reason of increased prosperity and convenience....An equitable division of the cost of service between the passenger through his fare, the neighboring property owner through assessment, and the business man and citizen through general taxation should make feasible the expansion of rapid transit facilities without weighing too heavily on any of the interests affected.”

New York Times, Dec 12, 1930
Paying for transit

- Riders
- General public of the state, province, or nation
- General public within the transit service area
- Property owners, businesses, and even motorists near stations

Location value capture
### Example farebox recovery ratios

<table>
<thead>
<tr>
<th>Public Transport System</th>
<th>Year</th>
<th>Farebox Recovery Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Transit Railway Corporation</td>
<td>2012</td>
<td>1.8</td>
</tr>
<tr>
<td>London Underground</td>
<td>2012</td>
<td>0.9</td>
</tr>
<tr>
<td>Metro</td>
<td>2013</td>
<td>0.7</td>
</tr>
<tr>
<td>Subway</td>
<td>2013</td>
<td>0.7</td>
</tr>
<tr>
<td>Metro</td>
<td>2012</td>
<td>0.6</td>
</tr>
<tr>
<td>New York City Transit*</td>
<td>2012</td>
<td>0.4</td>
</tr>
<tr>
<td>MUNI*</td>
<td>2012</td>
<td>0.3</td>
</tr>
<tr>
<td>TriMet*</td>
<td>2013</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* Both rail and bus
Op-Ed  How L.A. can improve its return on our multibillion-dollar transit investment

A train rides over a bridge to the 26th Street/Bergamot station in Santa Monica. (Los Angeles Times)

By Marlon G. Boarnet and Gary Painter
3 Missed Chances to Pay for New York's Subway Expansions

It's time to cover the costs of transit investments by capturing the rising value of adjacent land.

ERIC JAFFE | @e_jaffe | Nov 12, 2013 | 8 Comments
Value Capture Case Studies: Portland’s Cascade Station and Light Rail to PDX
• Senior executives of major transit agencies worldwide met three times – 2012, 2013, 2014 – to share ideas and experiences
• The first version of this work was commissioned as a white paper to spark a discussion of location value capture strategies at the 2014 Summit in London
Research questions

1. Why hasn’t use of location value capture for transit funding become standard practice?
2. What are the challenges and opportunities faced by transit agencies that are implementing location-based funding strategies?
3. What practical lessons can be drawn from the experiences of “leader” agencies that will allow others to take better advantage of location-based funding opportunities?
Method: In-depth case studies

- Interview key decision makers at each of six major transit agencies in North America and Europe
Presentation Outline

• Review of location value capture and its challenges
• Selected stories of location value capture implementation from each agency studied
• Lessons learned: How can practitioners facilitate location-based funding for transit?
Capturing location value is complicated
Location value of transit depends on:

- Type of service (bus, rail)
- Distance between property and transit infrastructure
- Property use (residential, commercial, etc.)
- Transit service quality
- Transport alternatives at the location

Hong Kong’s International Finance Center mall and cinema with an MTR station integrated into the building
## A continuum of location value

<table>
<thead>
<tr>
<th>Location of value</th>
<th>Location Value Capture Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service region</td>
<td>Income or payroll-based tax</td>
</tr>
<tr>
<td></td>
<td>Motorist fees</td>
</tr>
<tr>
<td>Station district – service region</td>
<td>Land value tax/location benefit levy</td>
</tr>
<tr>
<td></td>
<td>Transit-focused development fees</td>
</tr>
<tr>
<td>Station district</td>
<td>Tax increment financing (TIF)</td>
</tr>
<tr>
<td></td>
<td>Special assessment districts or Betterment fees</td>
</tr>
<tr>
<td>Station and adjacent property</td>
<td>Joint development</td>
</tr>
<tr>
<td></td>
<td>Sale or lease of land, development rights, or air rights</td>
</tr>
<tr>
<td></td>
<td>Leasing of commercial space in and around stations</td>
</tr>
</tbody>
</table>
When to use location value capture?

- Transit adds clear location-based value
- Spatial extent of benefit zone can be identified
- People living and/or working within that benefit zone have the ability to pay

Important Note: The public sector should not try to capture all of the transit value added. Denser development near transit should be encouraged!
## Key Dimensions of Value Capture Mechanisms

<table>
<thead>
<tr>
<th>Value Capture Mechanism</th>
<th>Contributor</th>
<th>Timing</th>
<th>Spatial Extent of Benefit Zone*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Value/Property Tax</td>
<td>Property owners</td>
<td>Ongoing</td>
<td>Metropolitan Area</td>
</tr>
<tr>
<td>Tax Increment Financing</td>
<td>Property owners</td>
<td>Ongoing</td>
<td>Neighborhood of Improvement</td>
</tr>
<tr>
<td>Special Assessment District</td>
<td>Property owners, Businesses</td>
<td>Ongoing</td>
<td>Neighborhood of Improvement</td>
</tr>
<tr>
<td>Transit-Focused Payroll Tax</td>
<td>Businesses</td>
<td>Ongoing</td>
<td>Metropolitan Area</td>
</tr>
<tr>
<td>Transit-Focused Real Estate Transaction Tax</td>
<td>Property owners</td>
<td>One-time</td>
<td>Metropolitan Area</td>
</tr>
<tr>
<td>Transit-Focused Development Fee</td>
<td>Developers</td>
<td>One-time</td>
<td>Metropolitan Area</td>
</tr>
<tr>
<td>Development Rights/Air Rights</td>
<td>Developers</td>
<td>One-time</td>
<td>Specific parcels at or near station</td>
</tr>
<tr>
<td>Joint Development</td>
<td>Developers</td>
<td>One-time</td>
<td>Specific parcels at or near station</td>
</tr>
</tbody>
</table>
Efficiency

- Land value taxes are *theoretically* most efficient in capturing “pure” location value, but are also logistically difficult to implement.
- When value capture mechanisms capture *privately created* value, as distinct from improved location value, this negatively impacts local economic growth.

Note: *Taxes levied chiefly on existing buildings that are expected to become more productive as a result of new transit access, is less important as an efficiency issue.*
Equity Questions

- Who is providing the value capture funds?
  - the same group that will experience windfall benefits from the new infrastructure?
  - What is their ability to pay?
  - Are the location benefits liquid, or are they tied to value increases in real property?
In summary

• Capturing the value of locations is complex, often requiring a *package* of taxes and fees
• This makes sense, as there are multiple economic actors who reap location value from transit
• There are also important pitfalls to avoid – both to ensure an equitable outcome and to guard against suppressing the local economy
Location value capture in six cities
## Value Capture Mechanisms In Use

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>London</th>
<th>Paris</th>
<th>DC</th>
<th>NYC</th>
<th>Montreal</th>
<th>San Fran.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land value tax/location benefit levy</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint development</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Tax increment financing (TIF)</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transit-focused development fees</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Transit-focused property transaction taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Special assessment districts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Motorist fees</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Payroll-based tax</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
# Funds Raised for Selected Projects

<table>
<thead>
<tr>
<th>City</th>
<th>Value Capture Financed Project</th>
<th>Funds Raised or Projected</th>
<th>Percent of Project Cost or Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>Crossrail</td>
<td>£4.1 billion (BRS) £0.6 billion* (CIL)</td>
<td>32%</td>
</tr>
<tr>
<td>Paris</td>
<td>Grand Paris Express</td>
<td>€21.8 billion*</td>
<td>80%</td>
</tr>
<tr>
<td>Washington</td>
<td>New York Avenue Metro Station (2001)</td>
<td>$25 million</td>
<td>28%</td>
</tr>
<tr>
<td>Washington</td>
<td>Dulles Metrorail Silver Line Expansion</td>
<td>$400 million (Tyson’s Corner SAD) $330 million (Reston/Herndon SAD)</td>
<td>14%</td>
</tr>
<tr>
<td>New York</td>
<td>Subway 7 Line Extension</td>
<td>$2.1 billion (Hudson Yards TIF-like)</td>
<td>98%</td>
</tr>
</tbody>
</table>
What percent of costs are covered?

- London: 10% of total system costs (all mechanisms)
- New York: 10% of total system costs (payroll tax)
- Paris: 40% of operating costs (payroll tax)
- San Francisco: 25% of operating costs (parking fees)
New York and Washington DC: Location value capture without institutional change

• Two of the nation’s strongest transit-enhanced economies and real estate markets
• Institutional structures that make location value capture very difficult (jurisdictional boundaries problem)
• Despite challenges, major project-based value capture examples
• Interviewees not optimistic about scope for more
Hudson Yards construction in New York,
ny.curbed.com
New York Ave (now NOMA) station in Washington, DC. Photo by Matt Johnson via flickr

- In both London and Paris, entirely new regional governments have been created
  - Greater London Authority (2000)
- Montreal leaders are seriously considering following suit, looking to London and Vancouver, BC as models
London and San Francisco: Transit → Transportation Agencies

• These new agencies control both the transit system and the streets, including parking, tolls, and bike/ped infrastructure

• Transit in these cities can capture part of the location value of central destinations by charging cars for driving and parking.

• Again, Montreal leaders are considering this model.
Governmental partnerships

• All case study agencies partner with other governments to implement tax-based location value capture strategies.

• In New York and Washington, partnerships occur when the local governments or tax-paying stakeholders champion the idea.

• In our other case cities, agencies are actively seeking to change the legal framework in specific ways so that using tax-based location value capture to fund transit is the norm.
Tying Paris Back Together

The French capital has embarked on the most ambitious new subway project in the Western world.
INVEST: Transportation Sustainability Fee

The Transportation Sustainability Fee (TSF) has been adopted by the Board of Supervisors and went into effect on December 26, 2015. Please visit the Development Impact Fees page for more information and fee rates.

Require new development to invest more in our transportation system to help address the impacts of growth

Source: http://sf-planning.org/invest-transportation-sustainability-fee
Lessons learned: How can practitioners facilitate location-based funding for transit?
“You never let a serious crisis go to waste” - Rahm Emanuel, Mayor of Chicago

- An acute funding or operational crisis was a catalyst for institutional reform and/or location value capture implementation in 5 out of 6 of our case cities/agencies.

- This is not new, but it is important. Crises open windows of opportunity for new policy adoption.
Public support

• General support for transit is critical
• Support for the specific mechanism being proposed to capture its value
  – Must be viewed as equitable
  – Much easier to tax businesses, developers, and motorists than to tax households
• “An Englishman’s home is his castle.” - TfL interviewee, regarding residential property tax
Agency mission is critical

Differences in mission translate into differences in the ways that agencies view opportunities.

“Our spaces are used to move passengers, and we don’t have a lot of excess [space].”
- WMATA (DC)

VS.

All transit agencies in Montreal are working to increase their non-fare revenue sources, and they aim to lease commercial space in their stations wherever it will be profitable to do so.
- AMT (Montreal)
Agency mission is critical

Differences in mission translate into differences in the ways that agencies view opportunities.

“[Large-scale value capture] is a very attractive yet very impossible way to generate funding.”
- WMATA (DC)

VS.

“Remarkably little fuss” about use of value capture to finance London’s Crossrail - TfL
Agency mission is critical

Differences in mission translate into differences in the ways that agencies view opportunities.

“It’s an ongoing struggle. Nobody wants to pay more taxes, and one-off value capture projects will never do it.” - NYMTA

VS.

“We’re an experiment. Can you manage the right of way in a congested city?” - SFMTA
Agency authority is important

- Broader authority and stronger intergovernmental partnerships give agencies more options, allowing for creativity in developing packages of location value-based funding strategies.
- Agency mission and culture can change most easily when agencies are fundamentally transformed in some way.
Biggest takeaway

- Dramatic institutional change was a key enabler in the majority of our cases.
- “Traditional” organizational characteristics of transit agencies appear not well-suited to implement non-traditional, complex funding mechanisms.
- Agencies seriously interested in location value capture funding strategies should seriously consider whether they have the authority and agency culture to make them happen.
Biggest takeaway

• Agencies interested in location value capture funding strategies should seriously consider whether they have the basic authority and agency mission/culture to support them.

• If not, remember that major institutional change – while certainly difficult – may not be impossible.
Thanks to my collaborators, interviewees, and funders

- Elliott Sclar, Columbia University
- Richard Barone, Regional Plan Association, NY
- Regional Plan Association staff members
- Interviewees in all case cities
- Volvo Research and Educational Foundation