The mission of the State Smart Transportation Initiative is to promote practices that advance environmental sustainability and equitable economic development, while fostering government efficiency and transparency. This series of smart transportation snapshots is intended to highlight innovative practices at the state level that advance these goals.

Value Capture for Transit

"Value capture" refers to a variety of methods that attempt to channel some of the economic benefits from a transportation system or project into that project or system. For transit, these methods include:

> **Joint development,** which involves cooperative real estate development between public and private sector partners and is often used for transit oriented developments (TODs). Specific arrangements may include the lease or sale of land or air rights to a developer or the joint construction of a transit facility with adjoining private development. Public and private partners may share costs, revenues or financial risk.
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> **Special assessment districts,** which designate a boundary around properties that are expected to benefit from a new transit facility or other amenity. Properties in the district are assessed a fee based on their projected benefit from the project.
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> **Tax increment financing**, which is used to pay for infrastructure that will support economic development. Typically, a public agency issues a bond to finance the infrastructure, which could include transit investments, and then uses the taxes from the increase in property value to repay the bonds.
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> **Development impact fees,** which are one-time charges collected by local governments from developers to help offset the cost of new or expanded public infrastructure or services, including those related to public transit, associated with new development.

According to the Government Accountability Office (GAO),[1] out of 55 transit agencies from which data was collected, 32 had used joint development. Although many of these joint developments were quite small, consisting of only a single parcel near a transit station, some were much larger, neighborhood-scale joint projects. Washington Metro, the agency receiving the largest amount of revenue from joint development in 2008, generated $8.8 million.

Despite the large number of projects, joint development revenue accounted for less than 1 percent of total annual operating expenses for all agencies surveyed.

[1] Public Transportation: Federal Role in Value Capture Strategies for Transit is Limited, but Additional Guidance Could Help Clarify Policies. Government Accountability Office (July 2010). GAO-10-781

Special assessment districts, tax increment financing, and development impact fees are used much less often than joint development to fund public transit, although they are often used to fund other types of public infrastructure improvements, such as sewer systems, roads, parks, and schools. However, among the transit agencies surveyed, special assessment districts and tax increment financing generated far more revenue than joint development. The San Francisco Transbay Transit Center project, currently in progress, has raised $1.4 billion of a $4.2 billion project cost through a combination of tax increment financing and special assessment districts.

All value capture strategies to fund public transit require coordination between the transit agency and outside groups—other governmental entities, private developers, or the public. Coordination between transit agencies and government partners is needed to ensure that zoning is appropriate for potential projects and to establish tax increment financing districts. Joint developments require support from private developers. And, special assessment districts, because of their voluntary nature, require the support of nearby property owners.

Transit project location and design are critical to the success of value capture funding strategies because they affect project feasibility and the amount of revenue that can be generated. Key factors include zoning and parking requirements, level of transit service, and neighborhood characteristics—such as household income, crime rates and density.

The economy is another major factor affecting the viability of value capture for transit. The inability to obtain financing or sell bonds at a favorable interest rate may hinder joint development and tax increment financing. The ability to finance projects with development impact fee revenue is contingent on new development, which may be scaled back during a weak economy. Finally, special assessment districts are more difficult to establish and revenues are more difficult to collect when the economy is sluggish.

State laws also play a major role in determining the effectiveness and type of value capture strategies that may be used. States directly affect the viability of such strategies through differing regulations authorizing or limiting their use. The effectiveness of value capture strategies is also limited by state caps on local property tax increases or limits on the proportion of total land area or assessed property value that may be included in a tax increment finance district.

Finally, it should be noted that even successful value capture strategies generally only cover initial costs of a project, and not ongoing operation costs or end-of-life recapitalization. Early 20th century streetcar systems were almost all built with private value capture, and one reason for their disappearance was that as they systems aged there was no mechanism to infuse new capital.

More information:

***Public Transportation: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies*, Government Accountability Office, Report 10-781 (July, 2010): http://www.gao.gov/new.items/d10781.pdf**