Value Capture for Public Transportation Projects: Examples

Demand for housing in urban areas is growing in the United States. Cities are increasingly safe, making them attractive places to live. Property values are rising in dense, walkable areas with access to public transportation. These trends combine to make possible an innovative funding practice called value capture: when some of the ascending property values can be directed toward public transit improvements.

Land is more valuable when located near high-quality public transit infrastructure. Recent APTA research shows that, during the Great Recession, properties near public transit were more financially stable than properties located further away. Areas near public transit outperformed their regions as a whole by 41.6 percent. Research by public transit agencies and planning departments confirms that proximity to public transportation can increase property values. Around public transit infrastructure there is an opportunity for more value capture, and those revenues from public transportation-accessible locations will be more stable than general property tax revenues.

Value capture instruments allow jurisdictions to collect revenue in specific areas and direct that revenue towards specific improvements. Value capture is being used for a wide spectrum of projects, from targeted neighborhood street improvements to new public transit infrastructure.

Implementation Vehicles

Special assessment districts

Local jurisdictions can create special assessment districts around public transit infrastructure. They can impose new fees or tax increases on owners within those areas. The taxes can be based on property value, or sales, special business fees, or other measures of value.

TIF – Tax Increment Financing

Tax Increment Financing is also used at a district level. Local jurisdictions create TIF districts and then raise funds from properties within those districts. Tax revenue from properties in the district is capped at a certain level, and all revenue over the capped amount is directed into the TIF fund.

Impact Fees
Impact fees are monies collected from properties around public transit improvements, usually in a specific value capture area. The fees go into a specific fund directed towards the area. The impact fees method differs from other value capture fees in that they are usually collected up-front instead of depending on future revenues.

**Joint Development**

Joint development refers to the practice of developing public transit agency-owned land in partnership with a private entity. This can provide new sources of revenue for public transportation agencies, meaning more funding for public transit improvements.

**Air Rights Sale**

Selling or leasing air rights over public transportation agency land can provide new revenue sources directly to those agencies, similar to joint development. The agency usually has less involvement in the actual development process in these cases.

**Split-rate property taxes**

Most jurisdictions apply one property tax rate to the entire value of a parcel that includes the value of the land as well as the value of the buildings on the parcel. Split-rate property taxes impose separate tax rates on the values of land and buildings – with a higher rate on the value of the land. Higher tax rates on land encourage development in high-value areas, such as those with public transportation infrastructure, by making it more expensive to purchase an empty parcel and wait for the value to appreciate. This reduces land speculation and can help areas with infrastructure improvements grow faster than they would otherwise. In the late 1970s and 1980s, Pittsburgh increased its tax on land values to six times the rate of the city’s tax on buildings. Office and residential development in Pittsburgh grew considerably in the 1980s, even as the city’s steel industry was struggling. Development within the city was faster than in the suburbs, unlike much of the U.S.\(^iv\)

**Implementation Examples**

**Washington, DC Area– Silver Line (Special Assessment District)**

Washington Metro is the second-busiest heavy rail system in the U.S. The Silver Line is an extension to the Metro system being designed and built by the Metropolitan Washington Airports Authority (MWAA). Phase 1 consists of 11.6 miles of rail and five stations in Fairfax County, Virginia, and is in the final stages of construction. Phase 2 will add 11.5 miles of rail and six stations in Fairfax and Loudoun Counties, including a station at Dulles International Airport. In total, the project will increase the size of the Metro system by over 20 percent. Value capture elements will fund portions of both phases of the project.

Fairfax County established a special tax district on commercial and industrial properties in 2004 to fund the county’s portion of Phase 1 of the project. The district consists of most of the Tysons Corner Urban Center and an area around the Phase 1 stations, and the tax rate is $0.22 per $100 of value.\(^v\) In 2009 the county established a special tax district consisting of the area around its Phase 2 stations to pay for that portion of the project; the tax rate started at $0.05 per $100 and increases five cents each year to $0.20 per $100 in FY 2014.\(^vi\)
Loudoun County also implemented a Metrorail Service District to pay for its portion of Phase 2 of the project. The district consists of properties around the Phase 2 stations in Loudoun County. The levy within the district is $0.20 per $100 of value.vii

The project partners have also sent a TIFIA letter of interest to USDOT seeking credit assistance on the project.viii The TIFIA program would help reduce financing costs for this large and important public transportation investment.

Denver, CO – Union Station Metropolitan District (TIF)

Union Station will be the hub of Denver’s FasTracks rail system. The project will create a multimodal transportation hub for Denver, integrating bus, light rail, commuter rail, and Amtrak.

Voters approved a 0.4% sales tax increase in 2004 to help fund the project. In 2008, the city council created a Tax Increment Financing (TIF) district (Colorado calls them Metropolitan Districts) consisting of the station and surrounding 20 acres. The additional revenues from growth in the TIF district will be used to pay off federal TIFIA and RRIF loans. Construction on the station began in December 2012 and is expected to open in 2014.ix

San Francisco, CA – Transbay Transit Center (TIF)

The Transbay Transit Center will be a new terminal in San Francisco. Phase 1 of the project consists of a new terminal and bus storage facility. Phase 2 extends Caltrain’s commuter train line 1.3 miles from its current terminal to the Transbay Transit Center. Phase 3 will build a new neighborhood on 40 acres around the public transit center.x Construction of the public transit center and bus storage facility began in 2011, and completion of the project is expected in 2017.

The project is expected to cost $4 billion and the public transit hub will connect services from 11 different regional public transportation systems. The public transit center will serve 100,000 passengers per day and over 20 million people per year. More than 27,000 permanent jobs will be created between the public transit center, rail extension, and redevelopment area. Value capture revenues will be generated by the redevelopment around the public transit center. Three million square feet of new office and commercial space, 100,000 square feet of retail, and 2,600 homes will be developed in the area.xi The TIF district around the project is expected to generate $1.4 billion over 45 years.

Los Angeles, CA – Red Line Benefit Assessment Districts (Special Assessment District)

Metro Rail is the rapid public transportation system in Los Angeles. It consists of six rail lines: two heavy rail and four light rail in the Los Angeles County area. The system connects with the Orange and Silver Line BRT systems, also owned by LA County MTA, and the separately-owned Metrolink commuter rail system. The Red Line was the first heavy rail line and the second rail line constructed for the system.

Bond measures passed in 1992 created two Benefit Assessment Districts (BADs) around future Red Line stations. The districts included a combined 1,500 properties, with a total area of over 67 million square feet. The BAD fee grew from $0.17 per square foot to $0.33 over the 17-year period (1992-2009) – the average fee was $0.25 per square foot during the period. By 2005 the districts were generating $20 million per year in revenue. BAD
revenues paid for nine percent of the Red Line construction, but demonstrated important local buy-in for the project.

LACMTA had planned to set up assessment districts for segments 2 and 3 of the Red Line, but the passage of Proposition 218 in California in 1996 greatly increased the difficulty and expense of implementing these options. Proposition 218 now requires two-thirds-majority support from property owners to set up a BAD; LACMTA did not try to use value capture to fund segments 2 and 3 due to this restriction. Those segments were constructed without value capture elements.

**Seattle, WA – SLU streetcar (Special Assessment District)**

The South Lake Union Streetcar is a 1.3-mile streetcar line that connects Downtown Seattle with the South Lake Union neighborhood. It was the first line constructed of the future Seattle Streetcar Network; a second streetcar line east of South Lake Union began construction in 2012 and is expected to open in 2014.

A Local Improvement District (LID) was approved by voters in 2005. Ninety-eight percent of property owners in the area agreed to finance the project through the improvement district. The LID funded over half of the streetcar costs, providing $25.7 million in project funding. LID fees were based on property value, parcel type, and proximity to the streetcar line. Properties had the choice to either pay the fee up front, or over an 18-year period at 4.4% interest.xii

The streetcar has had a positive effect on the South Lake Union neighborhood. Since the project was approved in 2005, 3.3 million square feet of office space and 6,100 residential units were built within four blocks of the streetcar. Employers in the neighborhood recognize the value of quality streetcar service and have contributed to ongoing operating costs with multiple rounds of funding.xiii

**London, UK – Crossrail (TIF, Special Assessment)**

Julian Ware, Senior Principal at Transport for London (TfL), spoke about London’s Crossrail project at the International Practicum on Innovative Transit Funding & Financing hosted by APTA and CUTA in June 2014.xiv Crossrail employed several different value capture mechanisms as part of the funding package for the project. A 2% additional Business Rate Supplement is charged to large business properties in London – this element is expected to finance £4.1 billion for the project. A community infrastructure levy was also introduced to help finance the project. This is a special charge paid by developers of specific new projects in London. The charge is based on square footage on a sliding scale, but works out to around 1% of the finished value. Revenue will also be generated using a tax increment financing structure in the Royal Docks Enterprise Zone area along the project corridor. The enterprise zone was established in 2012 to encourage development on an area that was previously occupied by shipping docks, and raise funds for the Crossrail project.

**Chicago, IL – Wilson Yard Station TIF**

Illinois has been a leader in the US in terms of Tax Increment Financing. TIF-enabling legislation was passed in 1977 in Illinois. TIF districts have been used extensively in Chicago; as of June 2011, there were 166 active TIF areas in the city. To be declared a TIF district, an area must meet certain blighting factor requirements, like excessive vacancies, obsolescence, lack of maintenance, or deleterious condition.xv
Chicago Transit Authority’s ‘L’ is the third-busiest heavy rail system in the U.S. The Red Line is the L’s busiest line, and runs north-south through downtown. Wilson Station, on Chicago’s North Side near Truman College, was built in 1923 and had become seriously deteriorated after decades of use. In addition, a fire destroyed the CTA rail yard and train repair facility in the area in 1996, and the site remained vacant for several years.

The Wilson Yard TIF district was created in 2001 to finance many area improvements, including redevelopment of the yard space and plans for a new L station. As of 2012, the TIF district was generating over $7 million per year in revenue. The TIF district was slated to provide for only a small portion of the cost of the new station, with most TIF revenues going to other redevelopment projects and improvements in the area. However, the TIF revenues invested in the public transit station project indicate the local buy-in for the project.

In addition to the public transportation project, TIF revenues have been and will be used for a new retail development, new housing including affordable housing, facilitating the assembly and preparation of land for development, bicycle improvements, and other area improvements.

**Houston, TX – Uptown Tax Increment Reinvestment Zone (TIF)**

Houston’s Tax Increment Reinvestment Zones (TIRZ) are districts created by the city council to attract new investment to areas around the city. The TIRZ can encourage development in undervalued areas by providing financing incentives. Similar to Chicago, to be included in a TIRZ an area must “substantially arrest or impair the sound growth of the municipality or county creating the zone.” Certain criteria help define these areas. Houston’s TIRZ criteria specifically mention transportation. Areas where “the predominance of defective or inadequate sidewalk or street layout” is present can be included in a TIRZ. TIRZs use tax increment financing to collect revenues – property tax revenues are capped at a certain amount and any revenue collected over that amount is directed into the tax increment fund.

Uptown Houston is a neighborhood six miles west of downtown, centered along Post Oak Boulevard. It is a growing commercial and office space area, with more than 18% of Houston’s class A office space. The Uptown TIRZ was created in 1999 to improve mobility in the area.

In 2013 Houston Mayor Annise Parker announced a plan to build a Bus Rapid Transit (BRT) line on Post Oak Boulevard in Uptown, connecting Uptown to two public transit centers to the north and south of the area. The total cost of the public transit center improvements and BRT is projected at $177 million, with 46% of the cost paid for by Uptown TIRZ revenues. The preliminary plan calls for separated bus lanes in the median of Post Oak Boulevard, a new public transit center to the south of the neighborhood, and new infrastructure connecting the project to the Northwest Transit Center.

**Dallas-Ft Worth, TX – Cotton Belt Rail Corridor (Potential for Value Capture)**

The Cotton Belt Corridor is a planned 67-mile rail line in the Dallas-Fort Worth (DFW) area. The corridor runs from an area southwest of downtown Fort Worth, past DFW airport, to Plano at the northern end of the Red Line of the Dallas Area Rapid Transit light rail system. The portion of the corridor from Fort Worth to the airport is currently being planned by the Fort Worth Transportation Authority as the TEX Rail project.
The North Texas Council of Governments, the regional MPO, has conducted research into innovative financing options for the rail project, including value capture.\textsuperscript{1} Their report concluded that a special assessment district for TOD around station areas could generate over $300 million in funding over a 40-year period. Additionally, the report concluded that if 35% of the tax increment on a number of taxes in the area were directed to the public transportation project, $2.3 billion in funding would be provided during the 40-year period.

**Federal Policy Support**

**FTA and USDOT Policies Support Value Capture**

The Federal Transit Administration released a circular\textsuperscript{xi} in August 2014 related to value capture projects. The circular asserts, “FTA encourages all forms of value capture that may contribute to the operation, maintenance, or expansion of public transportation service.” FTA support for these innovative ways to finance public transportation projects is extremely important in order for them to take hold in the industry.

USDOT is also supporting value capture through its Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. The TIFIA program authorization in the MAP-21 transportation bill provides funding that could lead to up to $17.5 billion in loans at low credit rates. TIFIA loans are uniquely suitable for value capture projects, as the criteria require a dedicated revenue source such as value capture revenue. They are also intended to foster partnerships between public and private entities, such as those including private entity buy-in for a special district for TIF or impact fees.

**In Summary**

Value capture is a set of powerful funding tools that is gaining in popularity. As walkable neighborhoods with high-quality public transportation access become more popular and in-demand, cities will be under pressure to expand public transit service. Fortunately, those same pressures will also present more opportunities to use value capture tools to fund improvements to public transportation service.

More research into the state, local, and federal laws enabling value capture is needed. Understanding the variety of forces will help local jurisdictions better implement the tools used to capture value for public transportation improvements. As seen in these examples, value capture is an important element in realizing the vision of future public transportation service across the country.

\textsuperscript{1}WMATA, “Making the Case for Public transit: WMATA Regional Benefits of Public transit Technical Report,”
\textsuperscript{ii}APTA, “The New Real Estate Mantra”, \url{http://www.apta.com/resources/statistics/Documents/NewRealEstateMantra.pdf}
\textsuperscript{iv}APTA, “The New Real Estate Mantra”, \url{http://www.apta.com/resources/statistics/Documents/NewRealEstateMantra.pdf}
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\textsuperscript{vi}Fairfax County Government, “Fund 122 Dulles Rail Phase II,” \url{http://www.fairfaxcounty.gov/dmb/fy2013/adopted/volume2/122.pdf}
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The American Public Transportation Association (APTA) is a nonprofit international association of 1,500 public and private sector organizations, engaged in the areas of bus, paratransit, light rail, commuter rail, subways, waterborne services, and intercity and high-speed passenger rail. This includes: transit systems; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA is the only association in North America that represents all modes of public transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. More than 90 percent of the people using public transportation in the United States and Canada ride APTA member systems.

APTA Vision Statement

APTA is the leading force in advancing public transportation.