Value Capture As a Tool to Fund or Finance Transit

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Overview

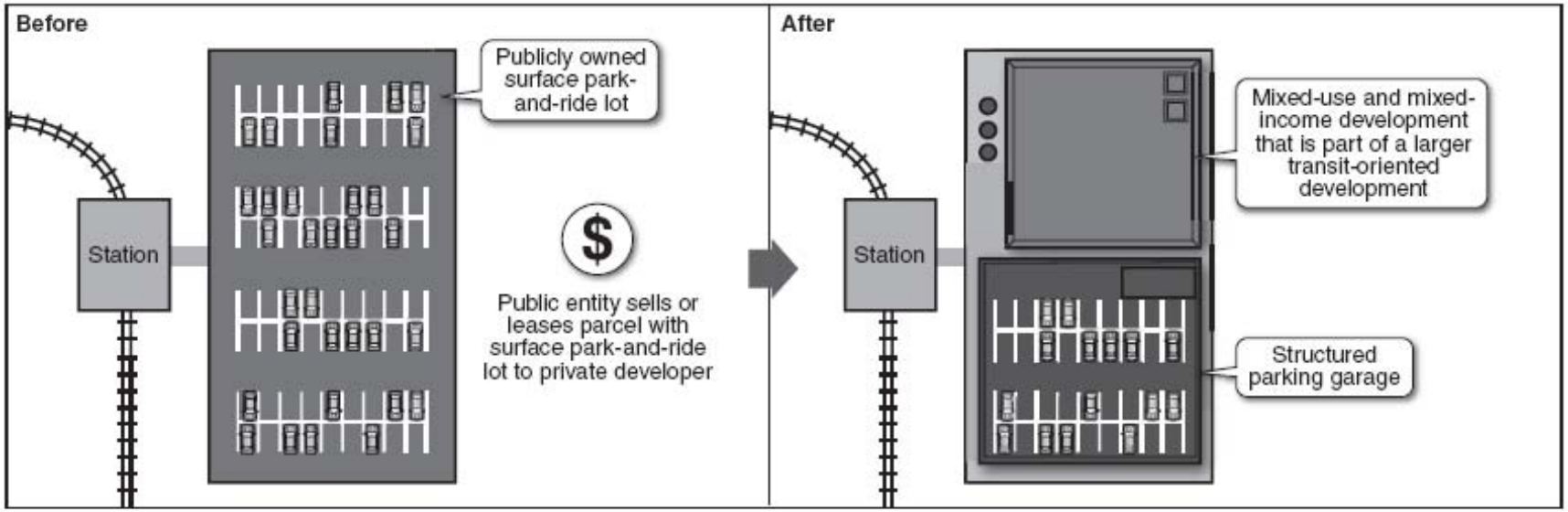
- GAO study issued in July 2010; GAO-10-781
- Value capture strategies background
- Extent of strategies' use to fund or finance transit
- Facilitators of or hindrances to strategies' use
- Effects of federal policies and programs on strategies' use

Value Capture Strategies Background

- Administered at the state, regional, and local level
- Both private- and public-sector entities benefit
- GAO study looked at four strategies:
  - Joint development,
  - Special assessment district,
  - Tax increment financing, and
  - Development impact fees

Value Capture Strategies

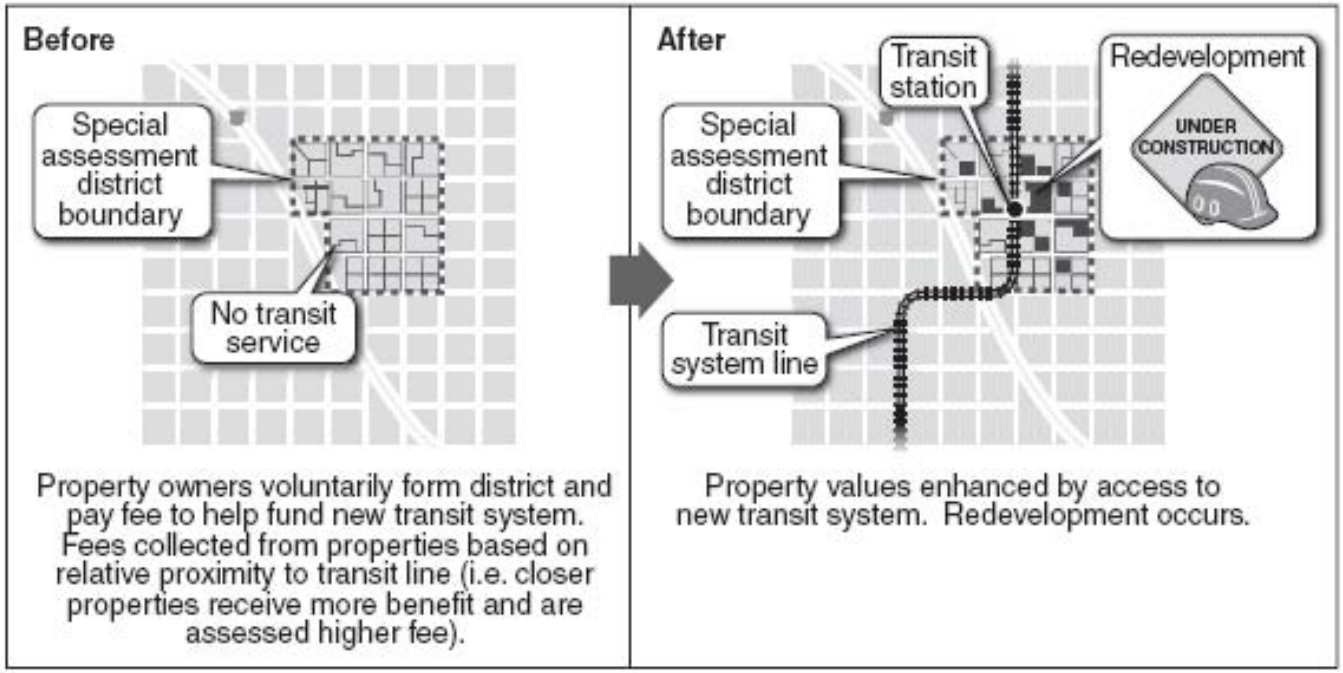
- **Joint development** is generally a real estate development project that involves a cooperative agreement between public- and private-sector partners, often as part of a transit-oriented development



Source: GAO.

Value Capture Strategies

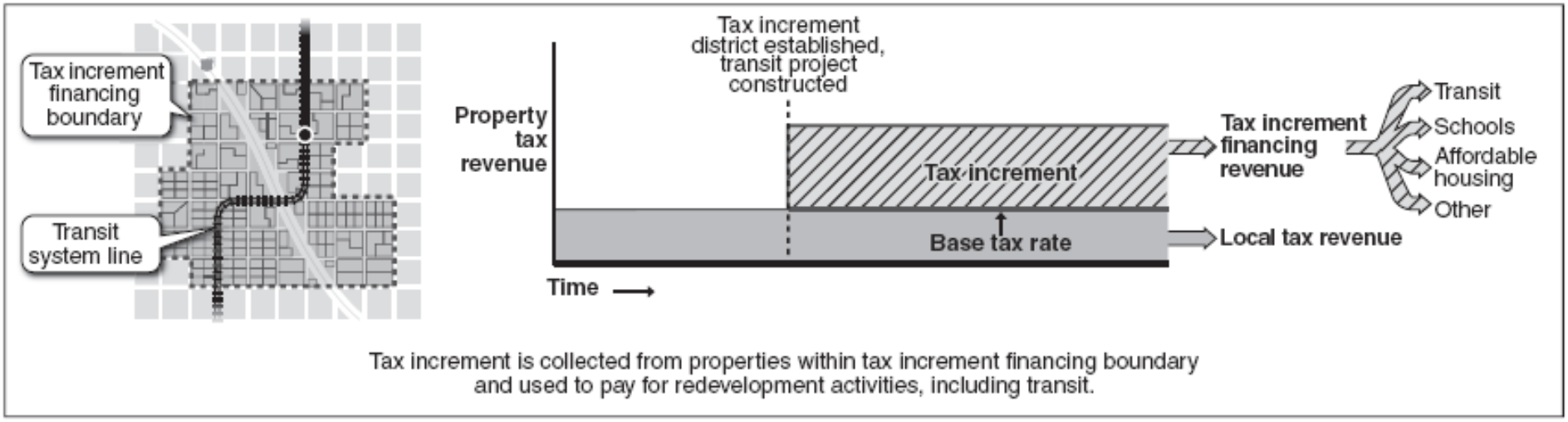
- **Special assessment district** is designated by a formal boundary within which properties are assessed a tax or fee based on the benefit expected from their geographic proximity to a new transit facility or other unique amenity.



Source: GAO.

Value Capture Strategies

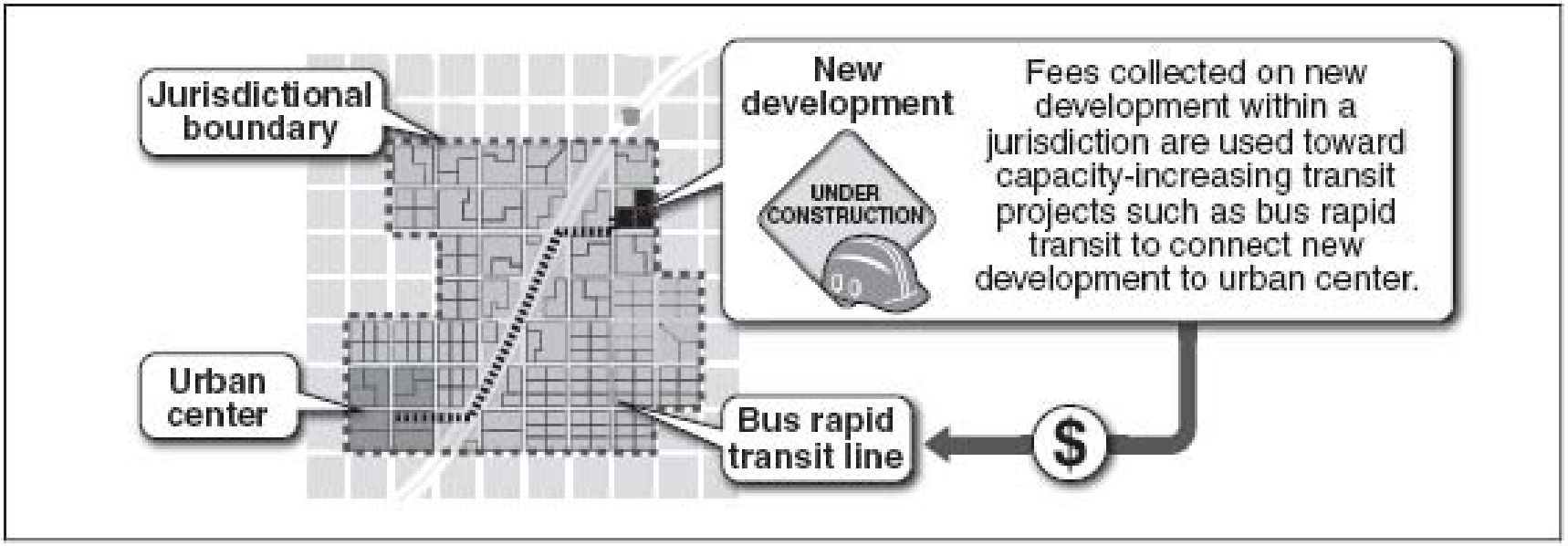
- **Tax increment financing** is a public financing technique used by local entities to encourage economic development. Typically, a public-sector agency issues a special bond to finance the infrastructure necessary to support new development and uses the incremental increase in property value within a formally designated district to fund repayment



Source: GAO.

Value Capture Strategies

- **Development impact fees** are one-time charges collected to help defray the cost of new or expanded infrastructure and services



Source: GAO.

Extensive use of joint development has been limited

- GAO collected data from 55 transit agencies
  - More than half (32 of 55) have used joint development
  - One-fifth (11 of 55) have used joint development extensively*

- Transit agencies reported 166 joint developments
  - Three agencies were responsible for 58 of 166 reported developments—Los Angeles Metro, Metropolitan Atlanta Rapid Transit, Washington Metro (WMATA)

* "Extensively" is defined as 6 or more developments

Agencies that have used joint development extensively typically share certain characteristics

- Operate older, larger, fixed-guideway systems
- Have formal joint development or transit-oriented development policies
- Have in-house real estate expertise
- Have developable land holdings on which to build joint developments

Joint development revenue is generally small relative to annual operating expenses

- For fiscal year 2008, annual joint development revenue was less than 1 percent of annual operating expenses for the three transit agencies with the most experience
- Revenue may go into a set-aside joint development fund or the agency's general fund
- Most agencies would rather lease than sell agency-owned land when entering into joint development agreements

SAD, TIF, and DIF strategies have not been widely used

GAO collected usage data from 55 transit agencies for

- **Special assessment districts (SAD), Tax increment financing (TIF)**, and **Development impact fees (DIF)**

	Special assessment district for transit	Tax increment financing district for transit	Development impact fee for transit
Number of transit agencies out of 55 reporting use	10	6	10
Total number of uses of each strategy	17	13	22

Source: GAO analysis of transit agency-reported data.

Revenue from SAD, TIF, and DIF has varied

- Revenue data are available for 9 major infrastructure projects
  - Amounts range from $20 million to $1.7 billion (or 4 to 61 percent of total project costs)
- Revenue data are available for 5 TODs, which included construction of parking garages, parks, and other place-making and basic infrastructure
  - Amounts range from $14 million to $750 million
- Can be critical to financial feasibility because it may fill a funding gap

Facilitators of and Hindrances to Using

- **Public-Sector Coordination and Private-Sector Support** Can Facilitate Implementation of Transit Projects Using Value Capture Strategies
- **Transit Project Location and Design** Influence How Much Value Can Be Captured
- **Unfavorable Economic Conditions** Can Hinder the Use of Joint Development and Other Value Capture Strategies
- **State Laws** Can Authorize but May Also Limit Use of Value Capture Strategies

FTA's Joint Development Guidance

- Agencies are required to follow the FTA's joint development guidance when
  - Joint development revenue is collected using land purchased as part of a federally funded transit project, or
  - Improvements are being built as part of the development using federal funds.

Stakeholders Report Uncertainty Over FTA's Joint Development Guidelines

- Transit agency officials have had difficulty understanding FTA guidance on which **types of developments are eligible** to become joint developments and **which types of structures can be constructed** using federal transit funds
- Transit agency officials are unclear to what **extent FTA requires that parking spaces be replaced** in joint developments, particularly when existing surface park-and-ride lots are to be converted into transit-oriented developments

FTA Is Aware of Ongoing Confusion

- FTA officials told us they are aware of ongoing confusion
- Officials noted that additional issues have arisen because of recent policy changes due to the current administration's livability initiative.
- FTA's task force is clarifying activities that are eligible for support through provisions and applications of FTA's joint development requirements

Federal Requirements Can Be Burdensome or Impede the Use of Joint Development

- Receive highest possible return value through a competitive bidding process
- Maintain continuing control over property purchase with federal funds
- Use of proceeds of sale or lease of land purchased with federal dollars

Federal New Starts Program Can Affect Use of Value Capture Strategies

- Economic development is important to the successful use of value capture strategies
- New Start's program's past emphasis on cost-effectiveness:
  - favored less expensive routes over routes that better incentivize economic development*
  - limited the potential for joint development by deterring land acquisition near transit stations*

* According to transit agencies we spoke with

Federal New Starts Program Can Affect Use of Value Capture Strategies, cont

- Ridership forecasting models used to determine cost-effectiveness for New Starts projects limit longer-term TOD opportunities by creating unrealistic parking requirements, according to some transit agencies
- FTA does not have parking requirements in the New Starts program, and FTA officials explained that the planned number of parking spaces needs to be consistent with the ridership estimates

Recent Changes to New Starts Program and Procedures

- Recent changes to the federal New Starts program and procedures have encouraged some transit agencies that are considering the use of value capture strategies
- The changes' overall effect on use is still unclear

Expanded Federal Role in Supporting Value Capture Strategies

- According to some stakeholders and transit agencies, the federal government could further support the use of value capture by providing financing options for projects with value capture revenue stream. Proposals included
  - Expanding TIFIA loan program
  - Creating a National Infrastructure Bank, or other national infrastructure loan fund

GAO's recommendation to FTA

- Transit agencies' confusion about aspects of FTA's joint development policy hinders the use of this value capture strategy
- GAO recommended that FTA issue additional guidance on federal joint development requirements to further clarify
  - Types of development and structures that are eligible under current law
  - Any requirements or conditions for parking replacement

Questions

GAO on the Web

Web site: http://www.gao.gov/

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