Financing Strategies to Encourage Transit-Oriented Development

Rail~Volution 2009

October 31, 2009
Six considerations for successful funding of transit-oriented development.

1. Transit alone cannot create market demand.
2. Public-private partnerships require an empowered public partner.
3. Public sector must have flexible goals to respond to shifts in market and timing.
4. Anchor tenants and thoughtful phasing are critical to long-term project success.
5. Public sector must utilize available tools and often make significant investments to incentivize risky private investment.
6. Parking is a persistent constraint for TOD and must be addressed creatively.
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Challenges & risks inherent in TOD for private developers.

1. **Land assembly** around transit stations
2. **Infrastructure upgrades** to accommodate density
3. **Structured parking** to accommodate density and replace surface parking
4. **Limited private market** of mixed-use expertise and financing
5. **Regulatory risks** with local municipalities
Public sector actions need to target the developer’s pro forma.

**Program** Create more development potential and higher value

**Sources** Provide capital funding and infrastructure financing

**Expenses** Reduce upfront and ongoing costs, and tax burden

**Cash Flow** Mitigate pre-development risk by streamlining approvals
HUDSON YARDS DISTRICT, NEW YORK, NY:
Aggressive zoning and incentives for a New Midtown

Implementation Entity:
Hudson Yards Development Corp.

2005 Rezoning. Changed use from industrial to commercial, including some residential. Up-zoned from a 2 FAR to 10 FAR, with bonus up to 33 FAR.

District Improvement Bonus. Development rights sold to finance extension of the 7 subway line.

Transferrable Development Rights. The MTA’s Eastern Rail Yards parcel was up-zoned to 19 FAR with only 11 FAR allowable on site to create TDR’s to enhance large-scale development opportunities and revenue for the MTA.

Tax Abatements. PILOTs allow up to 40% abatement for 20 years.
West Chelsea/High Line 2005 Rezoning. Parcels acquired and sites selected to facilitate the High Line’s reuse as an open space. Changed use from industrial to commercial and residential.

Creation of neighborhood amenity. To encourage preservation of light, air and views around the High Line, the rezoning also allowed development rights to be transferred from High Line properties.

Value Creation. City and non-profit $100 million investment to preserve the High Line plus rezoning leverages $2 billion in new development to date.

Implementation Partners: City of New York, Friends of the High Line
ANACOSTIA WATERFRONT, WASHINGTON, DC:
Revitalization creates a mixed-use transit-oriented neighborhood

Implementation Entity:
Anacostia Waterfront Corporation

Revitalization of Near Southeast through Creation of a Mixed-Use, TOD District. This section of the waterfront located near Navy Yard Station was transformed through:
• Rezoning to mixed-use
• Strategic relocation of the U.S. DOT headquarters
• Siting of the Nationals Ballpark

Investments in infrastructure catalyzed District’s growth.
• Relocation of U.S. DOT HQ through a GSA lease with a private developer created $100 million in TIF financing - reinvested in infrastructure by the District of Columbia.
• Nationals Ballpark project included area infrastructure: roads, Navy Yard Metro station enhancements, and public plazas.
• Since 2001: 4.8 million square feet of office, 1,500 residential units, 88,000 square feet of retail and 200 hotel units have been completed in the district.
RAHWAY, NJ:
Station and parking improvements support a suburban transit village

Implementation Partners:
*City of Rahway, NJ Transit*

Renovation of Station. NJ Transit and the City of Rahway invested $16 million in the rehabilitation of the Rahway station, completed in 1999. A public plaza in front of the station opened 2 years later.

Public Investment in infrastructure. Rahway was designated a Transit Village in 2002. NJ Transit contributed $2 million to the construction of a $11 million, 524-space structured parking garage that opened in 2005. This freed up a surface lot for new, denser redevelopment.

Catalyzing development.
• Downtown revitalization anchored by $6 million Performing Arts Center.
• Hotel and several residential developments, including Riverwalk at Rahway and Carriage City, have been completed.
• A mixed-use Town Center is proposed.
### What are the financing mechanisms to encourage TOD?

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Cutting Edge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zoning</td>
<td>Federal Stimulus – Recovery Bonds</td>
</tr>
<tr>
<td>Tax Increment Financing</td>
<td>Livable Communities Grants</td>
</tr>
<tr>
<td>Tax Abatements</td>
<td>Aggressive Tax Credits</td>
</tr>
<tr>
<td>Funding for Infrastructure and Pre-Development</td>
<td>Expansive Tax Increment Financing</td>
</tr>
</tbody>
</table>
Recovery Zone Economic Development Bonds (RZEDBs). Taxable government bonds that allow state and local governments to obtain lower borrowing costs through a new direct federal payment subsidy (45% of the interest paid).

Recovery Zone Facility Bonds (RZFBs). Tax-exempt bonds for private businesses in recovery zones to finance a range of capital projects.

Eligibility. Any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures of general distress; economically distressed by reason of a military closure or realignment; designated as an empowerment zone or renewal community

*Bonds may only be issued through Dec 31, 2010.*
CUTTING EDGE FINANCIAL INCENTIVES: Proposed Federal Livable Communities Grants

Livable Communities Act
Federal Government

Proposed Federal initiative. In this proposed legislation, TODs are re-branded as “Livable Communities”. It proposes $3.75B in sustainability challenge grants for implementation of long term plans that include public transportation, affordable housing, complete streets, transit-oriented development, and brownfield redevelopment investments. The proposed legislation would also provide $400M in competitive planning grants. It would establish the Office of Sustainable Housing and Communities and the Interagency Council on Sustainable Communities.
**CUTTING EDGE FINANCIAL INCENTIVES:**

**NJ Urban Transit Hub Tax Credits**

**Targeting ½-mile radius.** Originally introduced in 2006, the NJ Stimulus Act of 2009 enhanced this program for redevelopment near transit stations in nine NJ Cities.

**Tax Credit for Jobs and Housing.** Office, industrial and distribution facilities eligible for tax credit up to 100% of project cost. Transit Hub residential projects eligible for up to 20% of project costs. With 2009 stimulus, credits are now tradable.

**Capital investment minimums.** For single-tenant building, $50 M capital investment and 250 full-time employee are required as minimums. For multi-tenant building, the minimum is $17.5M with 250 full-time employees combined for 3 tenants.
CUTTING EDGE FINANCIAL INCENTIVES:
NJ Urban Transit Hub Tax Credits

Original 2006 UTHTC
Verizon Sale/Leaseback
Newark, NJ

Revised, 2009 UTHTC
Pennrose Mixed-Use Project
New Brunswick, NJ

300-Unit Housing Project
Trenton, NJ

Business Day
WEDNESDAY, MARCH 18, 2009

Powerful Incentives, but No Takers

New Jersey’s Tax Credit Program Faces an Office Downturn

By ANTHONY MARTIN

It sounds like the end of a big story—where a big news event could not otherwise affect financial incentives in a way that would earn it visibility for six years. In another part of this city, for the past six years, a proposed $500 million in incentives for a future urban transit hub in central Trenton has been the subject of much debate.

The center is located in an area that has been designated as a transit-oriented development zone, with the goal of attracting new businesses and residents to the area. The incentives offered by the state include tax credits, grants, and other forms of financial assistance.

The project has faced many challenges, including funding, opposition from residents and city officials, and delays in the construction process. However, despite these challenges, the project continues to move forward, with plans to complete construction in the coming years.

The incentives that the project has received have helped to attract new businesses and residents to the area, and have contributed to the overall development of the central Trenton area. The project is expected to create hundreds of new jobs and provide a boost to the local economy.

In conclusion, the project in central Trenton is an example of the power of financial incentives in attracting new businesses and residents to an area, and of the challenges that come with such incentives. As the project continues to move forward, it will be interesting to see how it develops and what impact it has on the local community.
CUTTING EDGE FINANCIAL INCENTIVES: NJ Economic Redevelopment Growth Grant

An expanded Tax Increment District program.
• Introduced as part of the NJ Stimulus Act of 2009 to replace underutilized Revenue Allocation District program
• ERGG provides incentive grants for development of up to 75% of incremental state and local revenues
• Provides gap financing for up to 20% of project cost.

Utilizes state and/or local revenue sources.
State Taxes:  
• Corporate Business  
• Gross Receipts & Excise  
• Net Profits  
• Sales  
• Hotel Occupancy
Local Taxes:  
• Property  
• Payroll  
• Parking  
• Sales  
• Lease Payments

Eligibility. Designated urban and suburban growth areas identified in State Plan, and designated Centers and Transit Villages. Projects must demonstrate a financing gap.
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