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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

	Public Transport System	Year	Farebox Recovery Ratio
Hong Kong	Mass Transit Railway Corporation	2012	1.8
London	Underground	2012	0.9
Washington, D.C.	Metro	2013	0.7
Montreal	Subway	2013	0.7
Paris	Metro	2012	0.6
New York	New York City Transit*	2012	0.4
San Francisco	MUNI*	2012	0.3
Portland	TriMet*	2013	0.3

* Both rail and bus



Opinion

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**

Today's Travel Deals

- \$639 & up** -- 4-Star Riviera Maya All-Incl. Trip w/Air*
- \$995*** -- Australia: Flights to 7 Cities on Sale (Roundtrip)
- \$1076** -- Best of Italy 6-Night Guided Vacation*

Listed by **TRAVELZOO**. *Some taxes, fees additional

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In Case You Missed It



The Hillary and Billy ta Unedited

5:35 PM

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

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A photograph of a subway station entrance. The word "Subway" is written in large, blue, illuminated letters on a brown wall. Above the letters are several colored circles containing the letters A, C, E, N, Q, R, S, 1, 2, 3, and 7. A man in a dark jacket is walking on a moving walkway in the foreground.

A C E N Q R S 1 2 3 7
Subway

Value Capture Case Studies: Portland's Cascade Station and Light Rail to PDX



Background: Transit Leadership Summit

- 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



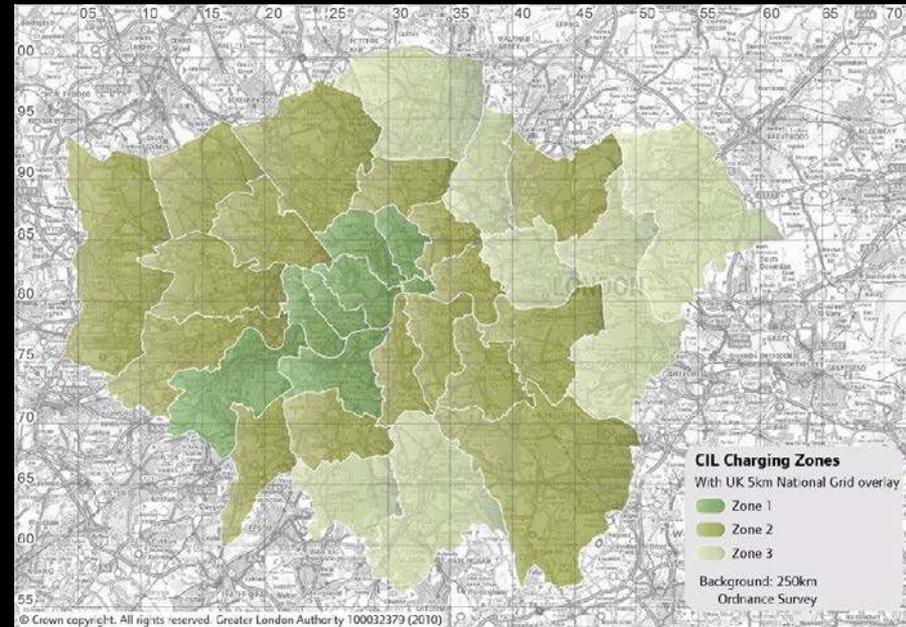
Hong Kong's International Finance Center mall and cinema with an MTR station integrated into the building

A continuum of location value

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

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

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

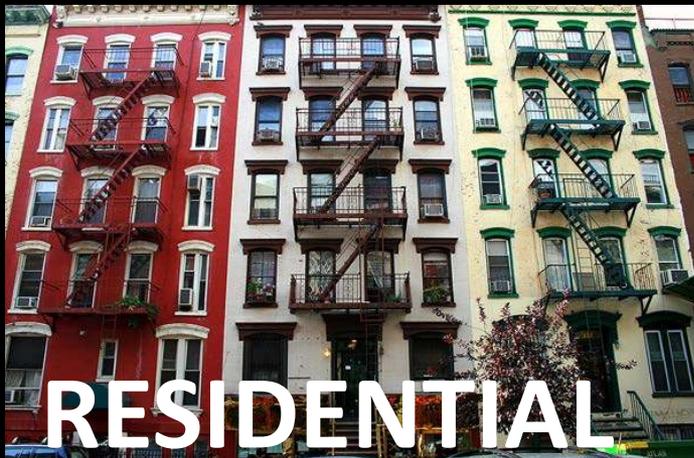
Efficiency

- 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?



**WHO
PAYS
← ?? →**



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

	London	Paris	DC	NYC	Montreal	San Fran.
Land value tax/location benefit levy	X					
Joint development	X	X	X	X		X
Tax increment financing (TIF)	X			X		
Transit-focused development fees	X	X				X
Transit-focused property transaction taxes				X		
Special assessment districts			X			
Motorist fees	X			X		X
Payroll-based tax		X		X		

Funds Raised for Selected Projects

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

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](https://www.ny.curbed.com)



New York Ave (now NOMA) station in Washington, DC. Photo by Matt Johnson via flickr

London, Paris, San Francisco, and Montreal: Institutional change enables location value capture

- In both London and Paris, entirely new regional governments have been created
 - Greater London Authority (2000)
 - Société du Grand Paris (2010)
- 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





A Métro train in Paris

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.



Flickr: Sergio Ruiz

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

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QUESTIONS?

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