Chicago Metropolitan Agency for Planning

Transit Value Capture Analysis for the Chicago Region

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CMAP

S. B. Friedman & Company
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Chicago Metropolitan Agency for Planning
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1. Executive Summary

S. B. Friedman & Company (*SBFCo*) was engaged by the Chicago Metropolitan Agency for Planning (CMAP) to research and analyze the potential for value capture financing for transit improvements in the CMAP region. The recently adopted comprehensive regional plan for the Chicago region, Go To 2040 ("The Plan") delineates eight "fiscally constrained" transit projects that have been evaluated to meet significant regional needs and for which sufficient funds are anticipated to be available. However, the Plan also lists 24 additional transit improvement and expansion projects that are either still in the early evaluation stages or need feasible funding sources to be moved onto the priority (fiscally constrained) list. As a result of the mismatch between available funding and the need for transit improvements, CMAP identifies a significant need to evaluate innovative funding options. The Plan specifically identifies value capture as one of the innovative funding mechanisms that should be further explored. This analysis was commissioned to evaluate the specific potential of value capture to generate funds for transit improvements and new projects.

Project Background

Value capture refers to the practice of implementing a tax or fee on private property near a public improvement to take back or "capture" some of the monetary benefit that the property owners gain as a result of the public investment. The revenue from these fees or taxes is then used to pay for part, or all, of the cost of the improvement. Value capture has been utilized in various forms in both the United States and internationally to pay for new infrastructure. In recent years, there have been multiple studies that indicate that transit improvements increase the value of nearby properties, with recent studies indicating a 10% to 20% increase in home prices and office rents, and a 5% to 20% increase in apartment rents. Value capture is one mechanism for the municipality/transit agency to utilize a portion of that value increase to pay for the capital investment. This analysis sought to:

- Review alternative value capture mechanisms and identify those most appropriate for Illinois and the CMAP region.
- Evaluate the financing potential of each mechanism for a planned station in the region.
- Evaluate the potential effect of each of these mechanisms on the private development economics of a hypothetical transit-supportive project in the vicinity of the station.
- Provide overall conclusions and insights from the analysis regarding implementation of transit value capture mechanisms.

As noted, the Go To 2040 plan delineates 24 new transit or transit improvement projects in the unconstrained category, the designation for projects that are either still in the planning stages or lack funding. In addition to this current lack of funding sources, the federal government requires a minimum of a 40% match from local funds for the New Starts Program, the primary federal funding source for locally-driven transit projects. In order to remain competitive in the application process, a local match should be able to cover between 40% to 60% of anticipated project costs. While municipalities and transit agencies can also seek state funding to assist in meeting the local match requirements, transit funding in Illinois has been severely affected by the State's larger budget concerns. Illinois does have a Transit Bond Program, but there is currently a significant backlog of approved projects for which the state has not yet issued bonds. This analysis focuses on the ability of each potential value capture mechanism to generate a competitive local match for transit projects.

Value Capture Mechanisms

As noted, value capture utilizes a tax, fee or other mechanism to recapture a portion of the increase in private property value due to public infrastructure investments. There are a number of types of value capture, but the most commonly utilized value capture mechanisms include:

- **Land Value Tax:** This is an additional tax solely on the land value of a property, without regard to improvements on the property.

- **Special Assessment:** This is an additional tax or assessment on the full value of a property, usually paid by property owners within a defined district that benefit from the improvement. Although most value capture literature refers to the special assessment as a single mechanism (Value Capture SA), Illinois has two types of very distinct special assessment districts: Special Assessment district (Illinois SA) and Special Service Area (SSA). An Illinois SA requires a detailed establishment process and demonstration of a specific benefit to the property owner, while an SSA is easier to establish but requires the support of property owners.

- **Tax Increment Financing:** Tax Increment Financing (TIF) assumes that redevelopment will not occur in an area without public investment/intervention. Funds accrue to the district via tax increment– the equalized assessed value (EAV) of the district at its establishment is set as the base EAV of the district, and all taxes on property EAV above that base EAV are diverted to the district to fund improvements. A TIF-like value capture mechanism would capture some portion of the growth in property value due to the installation of the transit improvements, but Illinois law would need to be modified to allow creation of a TIF district based on adjacency to existing or planned transit centers as opposed to other factors. Furthermore, given the current political climate and concerns of underlying taxing districts, it is likely that a new type of TIF district will redistribute some portion of increment to underlying districts or work within some other, as yet undeveloped, limitations on increment.

- **Development Impact Fees:** This is a one-time fee charged to a development based on a justifiable relationship between the impact of the proposed development and the transit improvements being constructed. In the context of value capture, the fee charged would likely be required to relate to potential transit trips generated or some similar measure.

- **Joint Development:** In this scenario, a municipality or transit agency utilizes land it owns, often in the form of surface parking lots or excess rail right of way, for a transit-supportive redevelopment project in which it shares profit from the development through a variety of forms of financial participation in the real estate project.

- **Transportation Utility Fee (TUF):** A transportation utility fee treats roads and transit networks in the same manner as other public utilities, such as a sewer system. Using this logic, transit utility, or usage, fees are then applied to all properties district-wide based on a feasible measure, such as street frontage, number of housing units, or trip generation models.

According to a July 2010 Government Accounting Office (GAO) study, joint development is the most commonly utilized value capture mechanism in the United States. However, that same study also

provides an analysis of existing projects, indicating that Value Capture SA and TIF appear to have the highest potential to provide funding for project-specific costs. Both of these mechanisms are already available in some form in Illinois, via Special Assessment Districts (Illinois SA), Special Service Areas (SSA) and Tax Increment Finance (TIF) Districts.

All of the potential tools are likely to require new legislation or legislative amendments at the state level to facilitate effective use of the mechanisms and generate the local match component for transit funding. However, some of the value capture mechanisms pose particular difficulty in light of Illinois statutes, are not well-matched to the typical types of transit improvement situations in the CMAP region, or appear to be more suited to funding roads rather than transit. Specifically, the following were removed from the set of mechanisms modeled in this analysis:

- **Land Value Tax:** Illinois law does not currently allow for differential property tax rates for land and improvements. Furthermore, because of the lack of vacant, unimproved land in Cook County to provide value comparisons, land assessments vary considerably from property to property. Lack of consistency in land assessment makes creation of a land-value only tax mechanism particularly difficult, even if all statutory blocks to this method were removed.

- **Joint Development:** Successful use of joint development is limited to jurisdictions that have ample available land for development in locations where they wish to place new transit facilities. Many suburban communities in the region do have significant land holdings near *existing* stations in the form of surface parking lots, but unless land acquisition for *new* transit lines and/or stations creates significant remainder parcels, the costs of additional land acquisition limit the potential of this tool for jurisdictions without prior land holdings.

- **Transportation Utility Fee (TUF):** TUFs are most often used for road improvements, and a direct and equitable connection to the service provided is often proven via trip generation models. TUFs without a sufficiently strong connection between the transportation improvement benefit and the imposed fee have been successfully challenged in court. Given the lack of clarity on their use in Illinois, this option has been excluded.

Based on the above considerations, it appears that a TIF-like mechanism, special assessment (via the Illinois Special Service Area mechanism) and impact fees would potentially be the most viable value capture mechanisms in Illinois and the CMAP region. Each mechanism also has the potential to generate the larger amounts required for a 40% to 60% local match and is already enabled under Illinois statute, although some legislative changes are required to fully realize the potential of each mechanism. Therefore, this analysis focuses on the transit funding potential of a TIF-like mechanism, a Special Service Area (SSA) mechanism and development impact fees.

Value Capture Analysis

SBFCo analyzed the three value capture mechanisms indicated above in the context of a prototypical new transit project. After reviewing the general market conditions of each project area, the potential for redevelopment, availability of project cost and funding data, applicability to transit improvement scenarios in the broader region, and other area factors, *SBFCo* chose the planned Oakton Station in Skokie on the Chicago Transit Authority's (CTA) Yellow Line as a prototypical project. For the purposes of

this analysis, the total station construction and related improvements cost was estimated to be $23.8 million, with a local match of 55% ($13 million).

Once a station was chosen, *SBFCo* tested three potential value capture mechanisms– a TIF-like mechanism, an SSA, and development impact fees– for their ability to pay for the required local match for the project, its overall value generation potential and financeability. Where applicable, each mechanism was tested for value generation potential based on both a quarter-mile and half-mile district. *SBFCo* also structured the analysis of each mechanism to account for potential interaction with underlying TIF districts, the need to pay any prior obligations of those TIFs, and the bond required to fund the local match amount. The framework for each value capture mechanism analyzed is summarized below:

- **TIF-Like Mechanism:**
  - *SBFCo* assumed that a potential Value Capture District (VCD) received tax increment similar to a conventional TIF district, although actual establishment of this type of district would require new legislation or modification of the existing TIF statute. This would allow for a transit-supportive TIF without a requirement for a finding of blight, but with a requirement to provide a minimum level of transit improvements.
  - The analysis framework isolates preexisting TIFs from the VCD and repays existing debt service or redevelopment agreement pledges before returning any remaining increment to the overlapping VCD.
  - Tax increment was calculated in the same manner as current Illinois TIFs, with establishment of a base equalized assessed value and calculation of revenues based on new property value above that base.

- **SSA:**
  - SSA tax rates were calculated in the same manner as current SSA tax rates are calculated. The tax rate adjusts based on current district equalized assessed value and the required bond payment, recalculating each year to meet debt service obligations.
  - Property-by-property SSA tax amounts were not calculated as part of this analysis. An SSA tax rate is usually equal across all properties and is based solely on property EAV. However, the SSA statute allows for allocation based on reasonable factors such as land area, frontage or other calculations that may be more appropriate for a station area.
  - Interaction with underlying TIF districts was accounted for, with an SSA taxing only the base EAV of these areas.

- **Impact Fee:**
  - Current state statute for transportation impact fees appears to focus on road improvements. However, *SBFCo* assumed that an impact fee for transit would have the same base requirement as road impact fees in Illinois, i.e., the fee applied must be "specifically and uniquely attributable" to the service demands created by the new development paying the fee.
  - *SBFCo* developed a rough estimate of impact fee per residential unit and 1,000 square feet (SF) of commercial office based on ridership, population and employment projections for the Oakton Station area, provided in the Skokie Swift Station Location Feasibility Study ("Feasibility Study") completed by Parsons Brinckerhoff in 2003, and typical population and

employment generation rates per use type. The estimates of impact fee and the methodology of estimating the fee are shown in the full report.

Based on this analysis framework, the value generation of each mechanism within the quarter- and half-mile areas from the planned Oakton Station in Skokie were quantified. Figure 1 summarizes the results of this portion of the analysis.

It should be noted that the estimates of value generation are purely for illustration purposes to demonstrate the relative value generating effectiveness of each mechanism, based on the analysis framework conceived by *SBFCo* for this study. Actual value generation estimates for the mechanism will materially differ depending on the actual format of the mechanism put in place, the taxable EAV and the market conditions around the station area being considered.

Figure 1: Bonding Capacity of Tested Value Capture Mechanisms in Millions (2010 Dollars)

	TIF-Like District		SSA-Like District		½ Mile
	¼ Mile	½ Mile	¼ Mile	½ Mile	Impact Fee District [4]
Maximum Bondable Amount [1][2]	$45.8	$172.6	$11.5	$34.0	Not Bondable – Value generation depends on extent of new development and fees, approx $0.9 MM per average multifamily building
Local Match for Transit Improvements	$13.0		$13.0		$13.0
Existing Obligations	- Downtown TIF: All funds - Science & Tech TIF: $10 MM in bonds		None, but SSA tax rate must account for funds diverted to underlying TIF districts		N/A
Excess Funds [3]	$36.0	$162.9	None	$23.7	None
Notes			Average tax rate to fund bond: 1.1%	Average tax rate to fund bond: 0.28%	5,600 new apartment units or 3.7 million SF of new office space needed to pay for transit improvements

[1] TIF-like district maximum bondable amount after payment of obligations in underlying TIF Districts. Note that a TIF-like district will likely need to share some portion of its increment with underlying taxing districts, reducing the bondable amount.
[2] Assumes a maximum SSA tax rate of 1% for a quarter-mile district and 0.75% for a half-mile district.
[3] PV of remaining funds in Value Capture District after paying for existing obligations and local match for transit bonds.
[4] Impact fee estimated based on projected ridership generation by use. See full report for details on fee estimate.
Source: Village of Skokie and *S. B. Friedman & Company*

- **TIF-Like Mechanism:** Within a quarter mile, this mechanism generates over one and a third times the bonding capacity as a half-mile SSA, and the half-mile TIF-like mechanism generates over five times the bonding capacity of the half-mile SSA. However, the scale of the district and funds generated is such that some portion of these funds would likely need to be distributed back to underlying tax districts, once debt service obligations associated with the transit improvements are met. While some of the excess funds may be utilized for additional public improvements or transit-supportive redevelopment, some redistribution back to the other taxing districts should be assumed.

- **SSA:** In this analysis, while the average required tax rate in the half-mile SSA area is only 0.28%, the average rate sufficient to pay debt service in the a quarter-mile SSA is 1.1%, higher than *SBFCo* typically sees in a service-only SSA district. Infrastructure SSA rates can range much higher– 3% to 4%, or more– but those rates are related to roads, utilities and other items that property owners are more accustomed to being required to contribute to. Taxpayers do have

the ability to stop the creation of an SSA, so any new district will need to be undertaken carefully.

- **Impact Fee:** An impact fee offers significant potential revenue per project, but new development of the scale required would usually not be predictable enough to issue bonds as a front funding mechanism for the transit improvement. The impact fees would have to be placed in a capital reserve fund to be used as front funding for a later project, or used to repay spent funds once sufficient dollars were available for a new station.

Effect of Value Capture Mechanisms on Development Economics

SBFCo also reviewed the financial effect of the value capture mechanisms (TIF, SSA and impact fees) analyzed in this study on the development economics of a hypothetical project near the proposed Skokie Swift Station. Because a TIF-like mechanism would have no additional tax or fee that would impact the development economics of a project, it has been folded into the scenario that assumes a new transit improvement with no new tax or fee imposition, and not reviewed separately in this analysis. For this analysis, *SBFCo* assumed the construction of a typical residential apartment project with 250 units and ground floor retail.

SBFCo used a "residual land value" analysis to test the financial impact of the proposed transit station, the SSA tax and an impact fee on the hypothetical project. Residual land value is the amount of money that a developer can afford to pay to acquire land after deducting all other development costs (i.e., hard and soft costs including developer's fee) from the market price (or capitalized net income, if it is leasable property) that the developer expects to receive for the project. In a redevelopment context, the increased rents and/or prices that a project will achieve due to transit accessibility (a conservative 5% rent increase is assumed for the analysis) will enhance the market price or value of the project, which in turn will allow the developer to pay a higher price for the acquisition of land. Similarly, a value capture SSA tax or impact fee will increase operating costs or initial development costs, respectively, and in turn will decrease the potential residual land value. The summary results of the effect of transit and value capture mechanisms on the development economics of a hypothetical 250-unit apartment project are shown in Figure 2 and discussed on the following page.

Figure 2: Summary of Effect of Transit & Value Capture Mechanisms on Development Economics
(all numbers are in millions of 2010 dollars)

	Baseline with No Transit	Transit and No New Tax or Fee	Transit & SSA Tax		Transit & Impact Fee ($3,760 per unit)
			0.28% tax on 1/2 mile district	1.1% tax on 1/4 mile district	
Assumed Apartment Rent Increase Due to Transit [1]		5%	5%	5%	5%
Total Annual NOI	$2.9	$3.1	$3.1	$3.0	$3.1
Total Project Value (6% Cap Rate)	$48.6	$52.1	$51.6	$50.4	$52.1
% Project Value Increase		7.2%	6.3%	3.8%	7.2%
Net Supportable Project Cost	$42.3	$45.4	$45.0	$43.0	$44.4
Supportable Land Acquisition Price (baseline price @$15,000 a unit)	$3.8	$6.8	$6.4	$5.4	$5.9
% Increase in Land Acquisition Potential (Residual Value)		**81.3%**	**71.2%**	**42.7%**	**56.3%**

[1] Based on literature review of rent increases associated with transit improvements.

The analysis results are as follows:

- The assumed transit access benefit of a 5% increase in rental revenue translates to an approximately 81% increase in residual land value, indicating that a developer could afford to pay approximately 81% more for land acquisition.

- An SSA tax rate of 0.28% (corresponding to a half-mile value capture district) reduces the increase in the residual land value due to transit accessibility from 81% to 71%. The SSA rate of 1.1% (corresponding to a quarter-mile value capture district) reduces the increase in the residual land value due to transit accessibility to 43%.

- The development impact fee of $3,760 per unit, calculated based on the likely transit ridership generation from the apartment project, reduces the increase in the residual land value from 81% to 56%.

- As previously indicated, a TIF-like value capture mechanism as conceived in this study would have no impact on development economics because it imposes no new taxes or fees on new development. As a result, the increase in the residual land value due to transit accessibility is the full 81%.

The analysis highlights that proper calibration of the SSA tax or impact fee is critical to ensuring that the value capture mechanism does not become a disincentive for transit-supportive private development. The actual effect on development economics is highly sensitive to the actual rent/price increase achieved due to a transit station and the tax or fee levels established. Because a tax or fee does diminish project value, it must be sized correctly such that the entire value enhancement associated with a transit improvement is not eliminated.

Implementation Considerations

Based on the analysis in this study, it appears that a TIF-like mechanism, an SSA and impact fees would potentially be the most viable value capture mechanisms in Illinois and the CMAP region. These mechanisms have the potential to generate the larger amounts required for a competitive 40% to 60% local match for station improvements, but also have key implementation-related considerations:

- Value capture has been utilized for over a century in the United States, but is not well known in the region. It is critical to educate municipalities, taxpayers and underlying taxing districts regarding the need for increased transit, the high competitive local match requirement and the value capture tool.

- Potential value capture districts will require significant intergovernmental cooperation, as each of these tools will require participation of municipalities, transit agencies and other taxing districts to establish them and ensure the proper flow of funds. Each of the evaluated mechanisms is currently only allowable at the municipal or county level, but transit improvements are rarely municipally based. If these tools are to be used for multiple stations or intra-municipal trackage projects, then extra cooperative agreements or higher-level mechanisms will be needed. Therefore, transit agencies will need to work in tandem with

municipalities to create the required districts and to educate the public about the potential value capture district.

- While all of these mechanisms are already enabled in a basic form, legislative amendments are required to make them effective as a viable transit value capture mechanism.

Conclusions

Overall, there is significant potential for transit value capture districts in Illinois to serve as a new source of local match funding. As demonstrated in our study, all of these mechanisms can be calibrated such that they do not have a material impact on development economics. Each situation is likely to require a unique approach and district tailored to its characteristics:

- **TIF-Like Mechanism:** As conceived in this study, a TIF-like mechanism generates the greatest bonding capacity, up to five times the bonding capacity of the similarly-sized SSA. However, this capacity is dependent upon the accelerated inflation rate (from normal property inflation, transit access-related value enhancements and new development) anticipated in a new station area, and the level of base EAV. Furthermore, the full capacity is unlikely to be available, as there is a growing concern in Illinois regarding the finances of underlying taxing districts in TIFs. In the context of value capture, the scope of the districts being contemplated is large, and any potential TIF-like value capture district will need to be carefully designed to meet both the requirement for transit funding and the need to provide incremental taxes back to underlying districts.

  Additionally, as currently designed, TIF is used by single municipalities for local improvements. Should a transit agency desire to utilize a TIF-like mechanism to fund trackage, rolling stock or other types of improvements that cross multiple municipalities, TIF-sponsored development on a municipality-by-municipality basis to cover all the desired improvement areas will likely be difficult to achieve. An alternative may be to create a limited-purpose type Value Capture District with a limited TIF-like mechanism that only transit agencies can create, and is utilized solely to fund transit improvements. This type of TIF would be similarly limited by the need to share increment with underlying districts or to limit the portion of increment allocated to the value capture district.

- **SSA:** An SSA offers a more certain and predictable financing option than TIF, but requires buy-in from district property owners and taxpayers. Therefore, education regarding the benefit of the new transit infrastructure within the potential SSA area is necessary. Strong, organized taxpayer opposition can block creation of a potential SSA district. An SSA mechanism appears to be able to sufficiently fund smaller magnitude transit improvements (station only) with a reasonable tax rate in a half-mile district. However, it is unlikely to be able to produce the amount of funds required if new trackage is required, unless the potential improvement area is densely built and of high value.

  Like a TIF district, SSAs are now only sponsored by municipalities or counties for localized improvements. To be truly effective in funding transit, a transit agency-sponsored SSA mechanism may need to be created to allow for streamlined and consistent funding processes. Like the transit-sponsored TIF district above, this district would likely be limited to solely funding

transit improvements, without the other types of improvements and services that the current SSA law allows.

- **Impact Fee:** Impact fees are the most limited because the timing and amount of new development is difficult to predict, as well as the fee revenues dependent on that new development. An impact fee offers significant potential revenue per project, but new development of the scale required is not predictable enough to issue bonds, and may only be suitable when entire transit-oriented districts are being contemplated for new construction or redevelopment.

In the course of our analysis, we determined that the preferred value capture tools are generally municipal in nature. This study shows the application of these mechanisms individually on a single, prototypical station area. We believe that the greatest potential arises when multiple new station areas are combined to generate funds. Under current law, these arrangements would be completely voluntary, and it may be desirable to explore county-level, line-level or regional-level variants. In addition, these individual mechanisms can be combined for single station areas to further enhance the revenue-generating potential and fairly distribute costs. In these situations, municipalities and transit agencies will have to weigh the costs and benefits of each mechanism to reach an optimal allocation of funds towards the local match component of the transit improvements and other transit-supportable expenditures.

2. Introduction and Purpose

S. B. Friedman & Company (*SBFCo*) was engaged by the Chicago Metropolitan Agency for Planning (CMAP) to research and analyze the potential for value capture financing for transit improvements in the Chicago region. The goals of this analysis were to:

- Review alternative value capture mechanisms.
- Evaluate the financing potential of each mechanism for a typical potential station in the region;
- Evaluate the potential effect of each of these mechanisms on the private development economics of a hypothetical transit-supportive project.
- Provide overall conclusions and insights from the analysis regarding implementation of transit value capture mechanisms.

This report describes the research and data compilation processes, the methodologies used to construct each of the value capture analyses, and the results of the analyses.

Background and Context

According to CMAP's Go To 2040 Plan (the "Plan"), transit agencies in the region spend approximately 95% of their available funds on operations and maintenance, leaving only 5% for transit improvements and new capital investment. While the Plan outlines strategies for operational savings and revenue increases, funds for new major capital projects (versus repair and enhancement of existing infrastructure) are still estimated to be limited to approximately a total of $10.5 billion (in year of expenditure dollars) through 2040 for both transit and highway projects. The Plan outlines a set of 18 priority projects for enhancement and improvement of existing transportation networks as well as for new projects and extensions. However, the Plan also lists 53 additional projects that are either still in the early evaluation stages or need feasible funding sources to be moved onto the priority (fiscally constrained) list. In recognition of this, the Plan notes the need for innovative financing mechanisms, including value capture, public-private partnerships, and/or other methods to finance transportation projects.

Specifically, the Plan outlines a set of 18 fiscally constrained priority projects that include 5 new highway/transit projects, 4 expressway access improvements/widening, 3 managed lane/multimodal corridor projects, and 6 improvements to existing transit lines. Of the five "new" projects, two are transit projects: the extension of the CTA Red Line to 130th Street and the creation of a West Loop Transportation Center. The unconstrained list includes a total of 53 new capital projects, 24 of which are transit projects. Of these transit projects, 20 (or 83%) are for new transit service and lines or extension of existing lines. This backlog of transit projects that are either unfunded or still in the evaluation stage indicates the need to find significant additional funding sources.

In addition to the need to find additional funding sources for capital projects, transit agencies must be able to provide an increasingly high local match to qualify for federal grant programs. For example, the Federal Transportation Administration's (FTA) website on the New Starts program states the following about the required local match component:

> *"The statutory match for New Starts funding is 80 percent Federal, 20 percent local. However, FTA continues to encourage project sponsors to request a Federal New Starts funding share that is as low as possible. The Congressional Conference Report that accompanied the FY 2002 Department of Transportation Appropriations Act instructs 'FTA not to sign any new full funding grant agreements after September 30, 2002 that have a maximum Federal share of higher than 60 percent.'"*[1]

This statement has been generally interpreted to mean that, in order to remain competitive, local communities and transit agencies must find a way to fund 40% to 60% of transit project costs. While municipalities and transit agencies can also seek state funding to assist in meeting the local match requirements, transit funding in Illinois has been severely affected by the State's larger budget concerns. Illinois does have a Transit Bond Program, but there is currently a significant backlog of approved projects for which the state has not yet issued bonds.

In summary, there is a pressing need for additional financing sources for transit projects. As part of its planning process, CMAP has requested that *SBFCo* evaluate value capture – one of the potential funding sources for transit. The subsequent chapters provide a summary analysis of value capture mechanisms, a case-study analysis of the effectives in value generation of a sample of such mechanisms and their effect on transit-supportive private development.

[1] Federal Transportation Administration. (2010). *Major Capital Investments (New Starts & Small Starts) (5309): Overview.* Retrieved from: http://www.fta.dot.gov/funding/grants/grants_financing_3590.html

3. Value Capture Mechanisms

At its base, value capture refers to the practice of implementing a tax or fee on private property near a public improvement to take back or "capture" some of the windfall monetary benefit that the property owner gains from the public investment. The revenue from these fees or taxes is then used to pay for part or all of the cost of the improvement.

Value capture is not a new mechanism, and has been used in various forms to fund infrastructure. One of the earliest incidences of the implementation of value capture in the United States occurred in Washington, DC in 1894. At the time, many of the streets and sidewalks in DC were unpaved, and it was recognized that being located on a newly paved street would confer a significant monetary benefit on a property owner. Therefore, Congress enacted a law requiring property owners to contribute half of the cost of paving for any previously unpaved street, sidewalk, gutter, etc.

In recent years, there have been multiple studies that indicate that transit improvements increase the value of adjacent properties, with potential differing impacts on residential and commercial property types. A 2004 study by Rabia Benjari, Graham Crampton, and Carmen Hass-Klau evaluated the change in property value and residential and commercial rents in multiple cities in the US and internationally after installation of a nearby transit station. Value change results were: a 10% to 20% increase in home prices and office rents and a 5% to 20% increase in apartment rents.[2] This and other studies indicate that the capital investments of transit agencies and municipalities can lead to the increase in value of private property. Value capture is one mechanism for the municipality/transit agency to utilize a portion of that value increase to pay for the capital investment.

Types of Value Capture Mechanisms

There are a number of types of value capture mechanisms, including direct fees, special assessments, and other strategies. Commonly utilized value capture mechanisms include:

- **Land Value Tax:** This is an additional tax solely on the land value of a property, without regard to improvements on the property. This type of tax is one of the preferred mechanisms in value capture literature because, in theory, it does not tax new improvements and encourages the movement of lower value property or unimproved land (such as surface parking lots and vacant property) into more intensive uses by increasing the carrying cost of vacant land relative to fully developed land. This type of tax is rarely seen in the United States, with the exception of split land and improvement tax rates in several cities in Pennsylvania. While it is theoretically one of the optimal mechanisms, this type of tax is not currently authorized in Illinois, and actual land assessment practices are not consistent enough to provide a predictable, financeable return.

- **Special Assessment:** This is an additional tax or assessment on the full value of a property, usually paid by property owners within a defined district that benefits from the improvement. In the case of transit value capture, the district would likely be demarcated by distance from the transit improvement. Although most value capture literature refers to the special assessment as a single mechanism, Illinois has two types of very distinct special assessment districts: Special

[2] Hass-Klau, Carmen, Graham Crampton and Rabia Benjari. (2004). *Economic Impact of Light Rail: The Results of 15 Urban Areas in France, Germany, UK, and North America.* Environmental & Transport Planning.

Assessment (SA) and Special Service Area (SSA). These are delineated in Figure 3 on pages 12 to 14. In brief, SA districts are generally utilized to provide new infrastructure in a variety of situations, including sewer and water for new subdivisions, roadway construction and repaving in urban and rural areas, new lighting, parking, and similar high-cost items. This type of district has very specific establishment requirements, including the need to prove a direct benefit to the property owner. SSA districts can be utilized to provide similar infrastructure improvements (most common) or special services in addition to municipal services. SSA districts have a less complicated establishment process, but can be stopped by public petition and therefore require more public education and input processes. In Illinois, this type of tool is municipally based and best used for a single station area. Putting a line within multiple communities would require a series of multijurisdictional agreements for creation of an SSA or Illinois SA.

- **Tax Increment Financing:** Tax Increment Financing (TIF) assumes that redevelopment will not occur in an area without public investment/intervention. Funds accrue to the district via tax increment – the equalized assessed value (EAV) of the district at its establishment is set as the base EAV of the district, and all taxes on property EAV above that base EAV are diverted to the district to fund improvements. A TIF-like value capture mechanism would capture some portion of the growth in property value due to the installation of the transit improvements, but Illinois statutory establishment requirements would need to be tailored to allow creation of a TIF district based on adjacency to existing or planned transit centers. Further, given the current political climate and concerns of underlying taxing districts, it is unlikely that a new type of TIF district would be able to receive all of the tax increment it generates. Again, this is a municipally-based tool, and its use for a line that crosses multiple communities would require a series of multijurisdictional agreements and, likely, a series of separate districts.

- **Development Impact Fees:** This is a one-time fee collected on whatever basis is considered most applicable to the relationship between the proposed property land use and the transit improvements being constructed. Fees have been based on new dwelling units, new employees, new commercial square footage, etc. The relation of the fee charged and benefit of the improvements must be clearly justified. In the context of transit value capture, the fee charged would likely be required to relate to potential transit trips generated or some similar measure. An impact fee also raises the capital requirements of a developer, and may be an impediment to development under conditions where financing is difficult to obtain (ex: the current market).

- **Joint Development:** In this scenario, a municipality or transit agency utilizes land it owns, often in the form of surface parking lots or excess rail right of way, for a transit-supportive redevelopment project in which it shares profit with the developer. Profit sharing can come in the form of land leases, revenue sharing or other methods. In order to be most successful, this scenario requires that the municipality or transit agency already own the land it wishes to redevelop.

- **Transportation Utility Fee (TUF):** A transportation utility fee treats roads and transit networks in the same manner as other public utilities, such as a sewer system. Using this logic, transit utility, or usage, fees are then applied to all properties district-wide based on a feasible measure, such as street frontage, number of housing units, or trip generation models. This type of fee has faced legal challenges in some states, but has been successfully utilized in others, particularly Oregon. It is more often utilized for road improvements rather than transit improvements.

Figure 3 below outlines the value capture methodologies evaluated in this study and potential alternatives adapted to Illinois statutes.

Figure 3: Summary of Feasible Value Capture Mechanisms for the Chicago Region

Value Capture Program	Public Entity to Control / Administer District	IL Legislative Status	Advantages	Issues / Disadvantages
Land Value Tax	Municipality / County / Other underlying taxing district	Requires new legislation	- Can incentivize the movement of underutilized land into more intensive uses by increasing the holding cost of vacant/underutilized property - Does not tax improvements	- Land value assessment is not consistent - Land value is generally a small portion of overall property value
Joint Development	Transit Agency or Municipality	Enabled	- Most widely used mechanism in the nation - Stronger transit agency control of development outcomes	- Requires prior land holdings by transit agency / local municipality next to transit facility - Requires in-house real estate experience by public entity - Value generation limited by extent of land holdings
Illinois Special Assessment District	Municipality / County	Enabled, may require amendments related to TOD	- Can easily be portioned out to account for land use - Not dependent on EAV as the easiest measure. - Can account for land area/value.	- Time-consuming to establish - Complicated establishment process - Strict specific benefit requirement may not allow for transit improvements that can benefit a larger area - Reapportionment process for new PINs may pose difficulties in a broader area with the potential for multiple redevelopments over time
Special Service Area	Municipality / County	Enabled, may require amendments related to TOD	- Can easily be designed to account for land use/area in the tax formula. - Not dependent on EAV as the most easy measure. - Tax can be calibrated to account for land area/value.	- Current law requires that taxes only benefit the properties within an SSA. - Transit improvements may be interpreted to fall outside of this. - Most useful at the municipal level, will be difficult to coordinate for improvements across multiple municipalities.

Value Capture Program	Public Entity to Control / Administer District	IL Legislative Status	Advantages	Issues / Disadvantages
Tax Increment Finance (TIF)	Municipality	Enabled	- Among the highest value generation potential of all value capture mechanisms - Financial institutions have experience underwriting bonds based on this mechanism	- Subject to eligibility finding in proposed catchment area according to IL TIF law (i.e. blighted areas or areas that may become blighted) - Not dedicated for transit facilities and improvements - Transit agencies have no legal control over use of TIF funds - Political difficulties related to establishing TIF - Growing concerns regarding the need to pass some amount of increment back to underlying taxing districts - Most useful at the municipal level, will be difficult to coordinate for improvements across multiple municipalities.
Potential TIF for TOD /Transit Value Capture	Municipality	Requires new legislation	- Among the highest value generation potential of all value capture mechanisms - Financial institutions have experience underwriting bonds based TIF/TIF-like mechanisms. - Could be constructed to allow layering with overlapping existing TIF districts - Could be constructed to allow for an increasing base or other mechanism to divert additional funds back to underlying taxing bodies.	- May be difficult to pass legislation. Could be made more palatable only if a portion of increment is dedicated to fund transit facilities and associated transit infrastructure. - Need to balance between funds use for transit and funds used to facilitating private TOD development projects (could require that private projects be financed only on based on gap financing) - Financial institutions may need credit enhancements to underwrite bonds if incremental value is generated over an inflated base - Most useful at the municipal level, will be difficult to coordinate for improvements across multiple municipalities.

Value Capture Program	Public Entity to Control / Administer District	IL Legislative Status	Advantages	Issues / Disadvantages
Development Impact Fees	Municipality / County / Other underlying taxing district	Enabled for roads, may need amendment for transit	- Focuses charges on new development that may be spurred by transit - Can be tailored to a specific type of development (office, residential, etc)	- Entire value generation burden is shifted to new development. Existing properties do not contribute financially to the transit improvement even though they stand to gain from it. - There is limited value generation in mature areas where no significant redevelopment is likely to occur. - Very difficult to generate front funds for transit improvements through a bonding mechanism because of the uncertainly in timing of future projects - Existing legislation for road improvements has a relatively restrictive test that requires that the impact fee charged to a development must be "uniquely and specifically" attributable to the development. - May be a disincentive to development if impact fee is not properly calibrated - Increases the initial capital required and may negatively affect ability of the developer to obtain capital in a market where financing is difficult
Transportation Utility Fee	Municipality / Transit Agency	Requires new legislation	- The fee basis can be based on a variety of criteria rather than just EAV	- Not proven in Illinois and has been successfully challenged in court in other states - Most commonly used for road improvements - Must prove a direct and equitable connection between the fee and transportation provided

Uses of Value Capture Mechanisms in the Nation

Incidence and use of these value capture mechanisms varies greatly across the country. A recent Government Accounting Office (GAO) study of existing value capture usage in transit agencies found that joint development was the most commonly used strategy but that, even in agencies that utilized it extensively, joint development revenues represented only 1% of overall operating expenses. A summary of the value capture mechanisms analyzed in the GAO survey and their incidence can be found in Figure 4 below. The full survey and results can be found in Appendix 1.

Figure 4: Summary of GAO Value Capture Mechanism Usage Survey[3]

	Joint Development	Special Assessment District	Tax Increment Financing District	Development Impact Fee
Number of transit agencies out of 55 reporting use	32	10	6	10
Total number of uses of each strategy	166	17	13	22

Although the data above indicates that Joint Development was by far the most widely used value capture mechanism among the agencies responding to the GAO survey, the study found that the other funding strategies yielded revenue streams that were often more critical to the success of a given project. Figure 5 below is an excerpt from the GAO report that summarizes value capture projects where full financial data was available.

Figure 5: GAO Summary of Select Major Transit Infrastructure Projects Funded in Part Using Other Value Capture Strategies[4]

Project name (status)	Value capture strategy(ies)	Amount of revenue generated through use of value capture strategy(ies) [millions]	Total project cost [millions]	Value capture revenue as a percentage of project costs
Atlanta Beltline (planned)	[TIF]	$1,700	$2,800	61%
Seattle South Lake Union streetcar (completed)	[SA]	$25	$53	47%
Portland streetcar (completed)	[TIF and SA]	$41	$103	40%
San Francisco Transbay Transit Center (in progress)	[TIF and SA]	$1,400	$4,185	33%
Washington Metro's NY Avenue Station (completed)	[SA]	$25	$110	23%
Dulles Corridor extension (in progress)	[SA]	$730	$5,250	14%
Los Angeles Metro Red Line, Segment One (completed)	[SAs]	$130	$1,420	9%
Seattle Bus Tunnel (completed)	[SA]	$20	$500	4%

[3] Government Accounting Office. (2010). *Public Transit: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies* (GAO-10-781). Washington, DC: Government Printing Office. Retrieved from GAO Reports Main Page http://www.gao.gov/new.items/d10781.pdf

[4] Ibid. Page 20.

Additionally, *SBFCo* completed a review of literature and case studies, and has outlined a series of examples of value capture strategies utilized or modeled within the United States and internationally. The full matrix is available in Appendix 2.

Implications for Using Value Capture in the Chicago Region

While this broad array of tools is available for value capture, several of them are difficult to use in Illinois. In particular, land value tax, joint development, a transportation utility fee and an Illinois Special Assessment District pose major implementation challenges:

- **Land Value Tax:** Illinois law does not currently allow for differential property tax rates for land and improvements. Furthermore, because of the lack of vacant, unimproved land in Cook County to provide value comparisons, land assessments vary considerably from property to property. Lack of consistency in land assessment makes creation of a land-value only tax mechanism particularly difficult, even if all statutory blocks to this method were removed.

- **Joint Development:** Successful use of joint development is limited to jurisdictions that have ample available land for development in locations where they wish to place new transit facilities. Without pre-existing ownership of the land, the transit agency or municipality must purchase the land required, significantly adding to costs. Many suburban communities in the region do have significant land holdings near *existing* stations in the form of surface parking lots. As Palatine did in the early 2000s, these communities may wish to redevelop these lots into TOD-supportive uses and/or construct a new station. However, unless land acquisition for *new* transit lines and/or stations creates significant remainder parcels, the costs of additional land acquisition limit the potential of this tool for jurisdictions without prior land holdings.

- **Transportation Utility Fee (TUF):** TUFs are most often used for road improvements, and a direct and equitable connection to the service provided is often proven via trip generation models. However, utilizing TUFs for new transit presents much more difficulty in allocating benefits and fees for each type of land use. Furthermore, TUFs without a sufficiently strong connection between the transportation improvement benefit and the imposed fee have been successfully challenged in court. Given the lack of clarity on their use in Illinois and the region-wide scope of this analysis, this option has been excluded.

- **Illinois Special Assessment District (Illinois SA):** The Illinois SA district is most often utilized to pay for new or replacement infrastructure and easily allows equitable allocation of infrastructure costs per property on a basis other than assessed value. However, a government must follow a detailed establishment process, including proving of property-specific benefits similar to that of an impact fee, and must take establishment through judicial court. Given the regional nature of transit networks, it may be difficult to prove that a new or improved transit station only benefits the SA area. An SSA is a more flexible district that can also fund infrastructure, and is recommended instead for a value capture scenario.

Based on the above considerations, and the application of value capture mechanisms in different parts of the country, it appears that a TIF-like mechanism, SSA and impact fees would potentially be the most viable value capture mechanisms in the Chicago region. Each mechanism has the potential to generate the larger amounts required for a 40% to 60% local match and is already feasible under Illinois statute,

although some legislative changes are required to fully realize the potential of each mechanism. Therefore the following analysis focuses on the transit funding potential of TIF, SSA and impact fees.

4. Analysis of Effectiveness of Select Value Capture Mechanisms

This chapter discusses the analyses that evaluate the financing potential of the three selected value capture mechanisms– TIF, SSA and impact fees, for a typical potential station in the region. This chapter contains two key sections: a review of the analysis context, which includes the station selection, key assumptions and data collection; and an analysis of the value generation and financing potential of each of the chosen value capture mechanisms.

Analysis Context

There are a number of factors that impact the value capture revenue generation potential of a given project site. In this analysis, *SBFCo* sought to provide an analysis of a real-world transit improvement project that could also provide critical insights into the potential of value capture financing for transit improvements throughout the region. This section of the memorandum reviews the reasoning behind the selection of the Oakton Station in Skokie, *SBFCo's* modifications to the Oakton Station scenario for the purposes of this analysis, key assumptions utilized throughout the analysis, and the data collection process.

STATION SELECTION

Per CMAP's direction, *SBFCo* focused on potential new transit stations that are found within CMAP's baseline scenario in the Go To 2040 plan or are already underway. The Plan includes two new transit facilities: the West Loop Transportation Center and an extension of the Red Line from 95th Street to 130th Street with four potential new stations. Additionally, construction for the new Oakton Station on the Skokie Swift/CTA Yellow Line was already underway. After reviewing the general market conditions of each project, the potential for redevelopment, applicability to transit improvement scenarios in the broader region, and other area factors, *SBFCo* chose the Oakton Station project in Skokie. This station is an approved, under-construction project that was able to provide data on construction cost, project timelines and local match percentages. The station is also overlapped by or adjacent to two existing TIFs, and has multiple opportunities for transit-oriented redevelopment nearby. *SBFCo* believes that this combination of factors makes the station a strong case study to demonstrate the types of obstacles and benefits that a potential transit value capture district might face. Figure 6 below outlines the Oakton Station costs.

Figure 6: Oakton Station Costs and Funding Sources

Oakton Station Construction Costs	
State/Federal Sources	$14,000,000
Local Match from TIF	$7,000,000
Total Estimated Transit Station Cost	$21,000,000
Public Infrastructure Improvements	
ICE Funds	$1,300,000
Stimulus Funds	$860,000
TIF	$675,000
Parking & Streetscaping Cost (TIF-supported)	$2,835,000

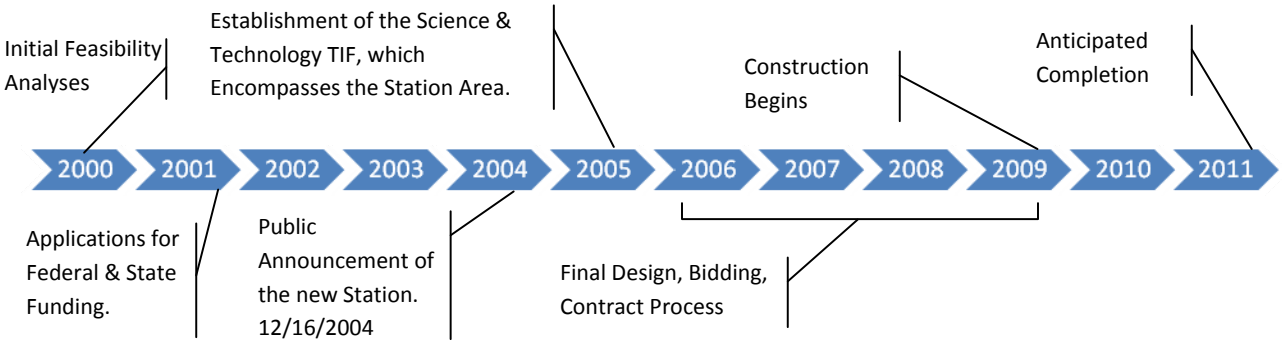
Total Transit Station and Related Infrastructure Cost		**$23,835,000**
Local Sources Committed	**$10,510,000**	44% of Total
Local Sources to be Competitive in the Future	**$13,000,000**	55% of Total

Source: Village of Skokie

DATA COLLECTION

SBFCo performed several tasks in the data collection phase. First, we interviewed Village staff regarding the genesis of the plan to construct a new station, the timeline of the overall process from feasibility analysis to construction, and potential redevelopment near the station. Figure 7 below outlines the overall project timeline.

Figure 7: Skokie Oakton Station Project Timeline



In our research regarding the station area, we focused on the Science & Technology Park improvements and Village monetary commitments as well as on a vacant site directly across from the proposed station on Skokie Boulevard. This site was planned for construction of two new condominiums towers prior to the economic downturn. The owners are currently waiting for the Village to approve its new building code and are likely to adapt the plan for both the new code and a conversion to residential apartments. Both of these initiatives have significant impact on the value capture potential of the station area. Figure 8 on the following page provides a map of the study areas, TIFs and landmarks.

SBFCo also collected base mapping and assessment data for the quarter- and half-mile radii from the station. GIS parcel shapes and TIF boundaries were obtained from Village staff. Current and historic assessment data was obtained from the Cook County Assessor. Since 2010 assessed values are in the proposed stage and the first round of appeals is not complete, 2010 assessed values and PINs were not incorporated into this analysis.

In order to efficiently track equalized assessed value (EAV) over time in the proposed quarter- and half-mile study areas, *SBFCo* included only entire blocks within each study area. This allowed for collection of past assessment data at the block level rather than the PIN level, eliminating the need to track PIN subdivisions and combinations over the analysis period. Blocks were included or excluded based on the percentage of the block within the study area. Additional blocks were included on the southern boundary in some cases, since there will be a secondary station access/drop-off point near Oakton Street. Appendix 3 provides a map of the blocks utilized for each analysis area.

Figure 8: Oakton Station Value Capture Analysis Areas

Figure X: Existing TIF Boundaries

Skokie CTA Yellow Line Station	Legend Downtown TIF District Science & Technology Park TIF District	0 250 500 Feet NORTH *DRAFT* November 2010	Chicago Metropolitan Agency for Planning S. B. Friedman & Company

OVERLAPPING TIF DISTRICTS

As noted above, the quarter- and half-mile analysis areas overlap two existing Skokie TIF districts: the Downtown TIF and the Science & Technology TIF. *SBFCo* believes that some of the potential areas for transit value capture districts in the Chicago region are likely to include pre-existing TIF districts within the quarter- and half-mile areas. Therefore, we chose to address these TIF districts and incorporate them into projections of the differing types of value capture mechanisms. Pre-existing TIF districts will impact two of the value capture methodologies: a TIF-like district and a Special Service Area.

For PINs within the Downtown and Science & Technology Park TIF districts, base equalized assessed value (EAV) data were obtained from the Cook County Clerk. PINs in these TIFs were tracked for PIN subdivisions from the start of the analysis period (2004) through 2009.

In order to account for all pre-existing TIF commitments, *SBFCo* requested information on the current obligations of those TIFs. Village staff indicated that all the remaining funds in the Downtown TIF were committed to improvements on Oakton Avenue; this TIF will expire in 2013. The Science & Technology TIF is committed to refund the Village for $10 million of costs related to the conversion of the former Searle campus into the Science & Technology Park as well as the local match for the new Oakton Station, a portion of streetscape and other station-related improvements. In total, the Science & Technology TIF is expected to pay for approximately $10 million of improvements related to the Oakton Station. For the purposes of this analysis, *SBFCo* only included the $10 million commitment to the former Searle Campus and assumed that the potential Value Capture District would pay for the $13 million local match for station construction.

Methods utilized to account for pre-existing TIFs and repayments of their existing obligations are discussed under each analysis methodology section below.

BONDING ASSUMPTIONS

As noted in the Station Selection section, *SBFCo* assumed that bonds would be issued for the $10 million dollar commitment in the Science & Technology TIF and for $13 million to serve as the local match for the Oakton Station construction. This $13 million is approximately 55% of the total station construction cost. Current trends indicate that projects applying for federal funds must be able to supply 40% to 60% of the project cost to remain competitive.

Skokie utilized an economic development reserve fund to front fund both the Searle Campus/Tech Park improvements and some portion of the Oakton Station costs. To make this scenario more consistent with the financial reserves and conditions of more communities, *SBFCo* is assuming a bond issuance. Key bonding assumptions included:

- Interest rate: 5%
- Bonding term: 15 years
- Bonds issued in: 2009

These bonding assumptions were used for both the TIF-like and SSA value capture scenarios. Further assumption details are available under each projection in the appendices.

Value Capture Analysis

As indicated in the review of value capture mechanisms, *SBFCo* has chosen to analyze three value capture district (VCD) scenarios as follows:

- TIF-like mechanism
- Special assessment via the SSA mechanism
- Development impact fee

The following provides a discussion of each analysis methodology, unique assumptions, value generation and financing capacity. The estimates of value generation in this section are purely for illustration purposes to demonstrate the relative value generating effectiveness of each mechanism, in the form conceived by *SBFCo* for this study. Actual value generation estimates for the mechanism will materially differ depending on the actual format of the mechanism put in place, the taxable EAV and the market conditions around the station area being considered.

TIF-LIKE VALUE CAPTURE DISTRICT (VCD)

In this scenario, *SBFCo* assumed that a potential value capture district received tax increment similar to a conventional TIF district. However, actual establishment of this type of district would require new legislation or modification of the existing TIF statute. The current TIF statute requires a finding of blight, conditions that may lead to blight, or specific vacant land conditions for a TIF district to be established. A TIF-like value capture district would likely require properties to be within a given distance of a transit investment. Further refinements may also include a minimum level of transit improvement before a district can be created. If improvements are required across multiple jurisdictions, such as new trackage and lines, it may desirable to put in place a TIF-like district initiated by a transit district, with the above limitations on the use of funds.

Additionally, TIF districts in Illinois are beginning to face significant opposition from underlying taxing districts due to the lifespan of a TIF and the amount of funds held within some TIFs. Taxing districts in areas with many TIFs/large TIFs indicate that they have had to increase their tax rates due to the amount of revenue allocated to those TIFs. The district sizes contemplated in this analysis – a quarter-mile and half-mile – are particularly large and therefore have the potential to have a significant impact on the tax potential of underlying districts. Any legislation seeking to create a transit-supportive TIF district would need to take these concerns into account and introduce a mechanism for distribution of some portion of the tax increment back to underlying districts. Multiple different scenarios for sharing of increment have been contemplated in Illinois, and many jurisdictions already regularly declare a surplus and share funds with underlying districts. This report does not contemplate a particular tax sharing methodology. However, results of the analysis should be interpreted with the need to share a portion of the increment generated in mind.

The TIF-Like scenario was tested for both a quarter- and half-mile radius from the station. Global assumptions include:

- Actual district EAVs were used through 2009.
- Annual assessed value inflation is 3.5%. Normal inflation is between 2% and 2.5%, but this increased rate accounts for the potential for enhanced development value spurred by the new

transit station. Underlying TIFs were inflated at 2.5% to account for some amount of redevelopment already present in those TIFs.

- A VCD is set at the same 23-year life span as current TIF statute in Illinois.
- This potential VCD is established in 2005 to coincide with the official announcement of the project in December of 2004. This year was chosen to capture any increase in property value due to speculation.
- Base EAV year is 2005.

Pre-existing TIF Districts: *SBFCo* worked from the assumption that a VCD layered over pre-existing TIF districts must, at a minimum, allow those pre-existing districts to pay their current obligations. Therefore, *SBFCo* created an analysis framework that isolates pre-existing TIFs from the VCD and repays existing debt service or redevelopment agreement pledges before returning any remaining increment to the overlapping VCD.

In order to incorporate the commitments of the pre-existing TIFs, *SBFCo* structured the hypothetical TIF-like value capture analysis as follows:

1) All pre-existing TIF commitments were assumed to be paid via bonds at normal municipal bonding costs and interest rates. *SBFCo* calculated bond payments for the Science & Technology Park TIF and the potential Oakton Station. All Downtown TIF funds simply remained within that TIF.
2) A 2005 base EAV was calculated for the new Value Capture District (VCD).
    - Current EAV in pre-existing districts was removed from the base EAV of the value capture district.
    - After the expiration of a pre-existing TIF, the 2005 EAV of that TIF was added into the base EAV of the VCD.
3) An annual inflated EAV was calculated for the VCD.
    - As noted above, area-wide inflation was assumed to be 3.5%.
    - The inflated EAV of the pre-existing TIF districts was removed from the VCD district and calculated separately.
4) Annual tax increment was calculated for the VCD.
    - Tax increment was calculated for each underlying TIF district and the VCD.
    - Required bond payments were deducted from the increment for each TIF and the VCD (see the blue, yellow and red areas in Figures 9 and 10 below).
    - All remaining increment was pooled into a single fund (see the green area in Figures 9 and 10 below).

Figures 10 and 11 on page 25 show SBFCo's projections of the total annual tax increment available by year, before and after debt repayment for the assumed quarter- and half-mile value capture districts. Figures 9 and 10 illustrate this information in a chart format. Full TIF-like value capture district projections for both the quarter- and half-mile are available in Appendix 4.

As the charts below depict, the properties within both a quarter mile and half mile of the proposed Oakton Station can generate enough increment to meet both pre-existing commitments for the underlying TIF districts and fund a 15-year bond for $13 million in matching funds. In this scenario, all of the increment produced by the Downtown TIF is diverted back to that district, while the Science & Technology TIF is also able to make its required payments on a $10 million bond issued in 2005. In total,

a projected $94 million of undiscounted increment is available in the quarter-mile VCD and $400 million in the half-mile VCD for other TOD projects, redevelopment projects, distribution to underlying jurisdictions, or other initiatives.

Figure 9: Quarter-Mile Value Capture District Increment Chart

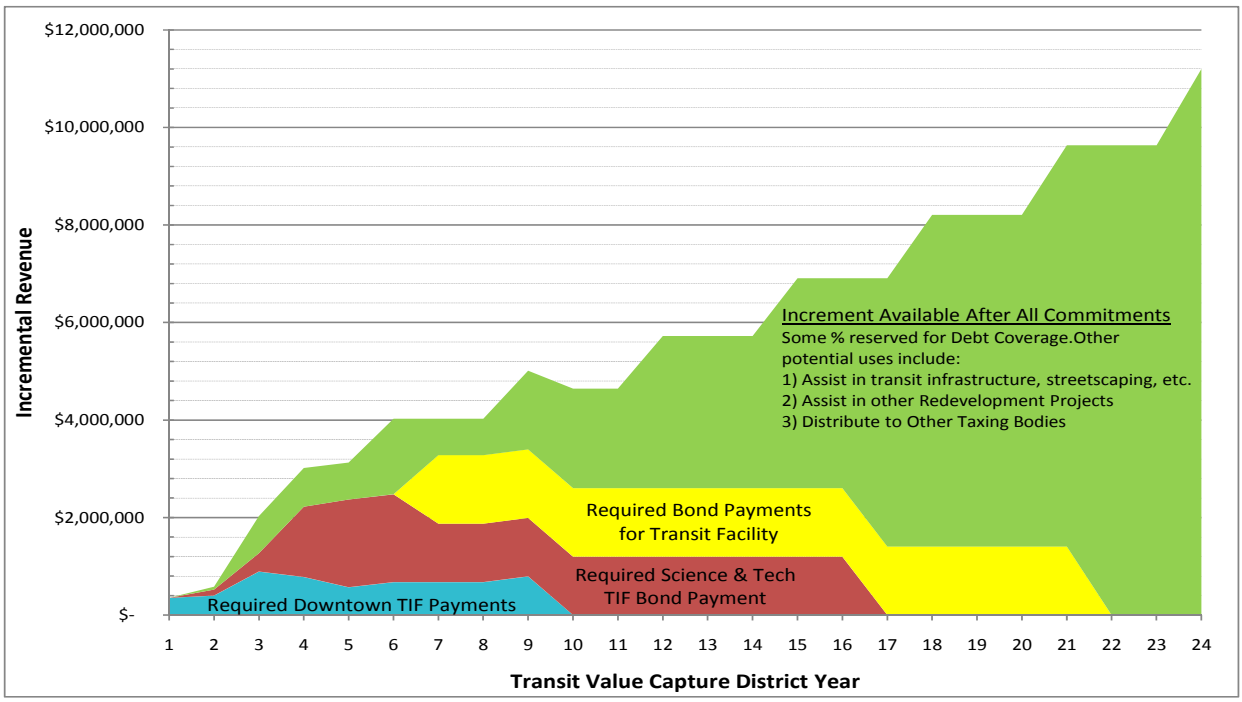
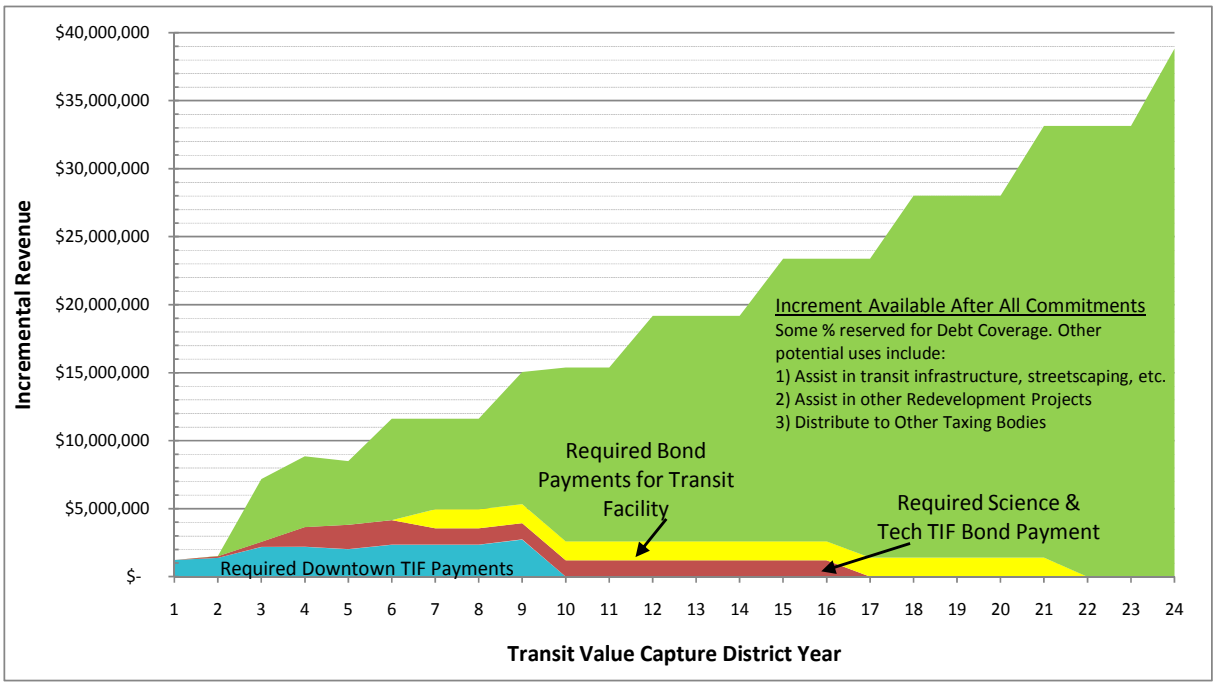


Figure 10: Half-Mile Value Capture District Increment Chart



Sources: Cook County Assessor, Cook County Clerk, Villaeg of Skokie, *S. B. Friedman & Company*

Figures 11 and 12 below provide the annual tax increment available by year, in full and after debt repayment for both the quarter- and half-mile districts.

Figure 11: Annual Tax Increment and Debt Payments for a Potential Quarter-Mile Oakton Station VCD

VCD Year	Calendar Year	Initial Tax Increment Available	Science & Tech TIF Bond Payment	Downtown TIF Payments	Increment Available after Underlying TIF Commitments	Bond Payments for Transit Facility, Streetscaping, & Related Costs	Increment Available after Underlying TIF Commitments & Transit Bond
0	2005						
1	2006	$ 352,978	$-	$ 352,978	$-	$ -	$-
2	2007	$ 580,292	$122,134	$ 399,279	$ 58,878	$ -	$58,878
3	2008	$2,028,575	$373,302	$ 893,563	$761,710	$ -	$761,710
4	2009	$3,015,957	$1,440,905	$ 781,335	$793,717	$ -	$793,717
5	2010	$3,128,197	$1,798,346	$ 570,370	$759,481	$ -	$759,481
6	2011	$4,025,922	$1,798,346	$ 677,063	$ 1,550,513	$ -	$1,550,513
7	2012	$4,025,922	$1,196,110	$ 677,063	$ 2,152,749	$1,405,527	$747,222
8	2013	$4,025,922	$1,196,110	$ 677,063	$ 2,152,749	$1,405,527	$747,222
9	2014	$5,010,288	$1,196,110	$ 795,355	$ 3,018,822	$1,405,527	$1,613,295
10	2015	$4,642,059	$1,196,110	$ -	$ 3,445,949	$1,405,527	$2,040,422
11	2016	$4,642,059	$1,196,110	$ -	$ 3,445,949	$1,405,527	$2,040,422
12	2017	$5,721,641	$1,196,110	$ -	$ 4,525,530	$1,405,527	$3,120,003
13	2018	$5,721,641	$1,196,110	$ -	$ 4,525,530	$1,405,527	$3,120,003
14	2019	$5,721,641	$1,196,110	$ -	$ 4,525,530	$1,405,527	$3,120,003
15	2020	$6,905,883	$1,196,110	$ -	$ 5,709,773	$1,405,527	$4,304,246
16	2021	$6,905,883	$1,196,110	$ -	$ 5,709,773	$1,405,527	$4,304,246
17	2022	$6,905,883	$-	$ -	$ 6,905,883	$1,405,527	$5,500,356
18	2023	$8,205,188	$-	$ -	$ 8,205,188	$1,405,527	$6,799,661
19	2024	$8,205,188	$-	$ -	$ 8,205,188	$1,405,527	$6,799,661
20	2025	$8,205,188	$-	$ -	$ 8,205,188	$1,405,527	$6,799,661
21	2026	$9,631,012	$-	$ -	$ 9,631,012	$1,405,527	$8,225,486
22	2027	$9,631,012	$-	$ -	$ 9,631,012	$ -	$9,631,012
23	2028	$9,631,012	$-	$ -	$ 9,631,012	$ -	$9,631,012
24	2029	$ 11,195,978	$-	$ -	$11,195,978	$ -	$11,195,978
2009 NPV at 5%		*$80,790,934*			*$61,783,808*		*$48,551,255*
Bondable Amount [1]		***$59,850,000***			***$45,770,000***		***$ 35,960,000***

[1] Net Present Value was divided by a combined debt coverage and capitalized interest rate of 1.35 and rounded to the nearest 10,000.

Sources: Cook County Assessor, Cook County Clerk, Village of Skokie, and *S. B. Friedman & Company*

Figure 12: Annual Tax Increment and Debt Payments for a Potential Half Mile Oakton Station VCD

VCD Year	Calendar Year	Total Tax Increment Available	Science & Tech TIF Bond Payment	Downtown TIF Payments	Increment Available after Underlying TIF Commitments	Bond Payments for Transit Facility, Streetscaping, & Related Costs	Increment Available after Underlying TIF Commitments & Transit Bond
0	2005						
1	2006	$1,227,691	$-	$ 352,978	$-	$ -	$-
2	2007	$1,530,890	$122,134	$ 399,279	$ 29,171	$ -	$29,171
3	2008	$7,188,158	$373,302	$ 893,563	$ 4,619,336	$ -	$4,619,336
4	2009	$8,856,355	$1,440,905	$ 781,335	$ 5,211,697	$ -	$5,211,697
5	2010	$8,507,889	$1,798,346	$ 570,370	$ 4,689,855	$ -	$4,689,855
6	2011	$11,616,350	$1,798,346	$ 677,063	$ 7,457,708	$ -	$7,457,708
7	2012	$11,616,350	$1,196,110	$ 677,063	$ 8,059,944	$1,405,527	$6,654,417
8	2013	$11,616,350	$1,196,110	$ 677,063	$ 8,059,944	$1,405,527	$6,654,417
9	2014	$15,051,797	$1,196,110	$ 795,355	$11,117,754	$1,405,527	$9,712,227
10	2015	$15,385,821	$1,196,110	$ -	$14,189,711	$1,405,527	$12,784,184
11	2016	$15,385,821	$1,196,110	$ -	$14,189,711	$1,405,527	$12,784,184
12	2017	$19,182,962	$1,196,110	$ -	$17,986,851	$1,405,527	$16,581,325
13	2018	$19,182,962	$1,196,110	$ -	$17,986,851	$1,405,527	$16,581,325
14	2019	$19,182,962	$1,196,110	$ -	$17,986,851	$1,405,527	$16,581,325
15	2020	$23,380,210	$1,196,110	$ -	$22,184,100	$1,405,527	$20,778,573
16	2021	$23,380,210	$1,196,110	$ -	$22,184,100	$1,405,527	$20,778,573
17	2022	$23,380,210	$-	$ -	$23,380,210	$1,405,527	$21,974,683
18	2023	$28,020,089	$-	$ -	$28,020,089	$1,405,527	$26,614,562
19	2024	$28,020,089	$-	$ -	$28,020,089	$1,405,527	$26,614,562
20	2025	$28,020,089	$-	$ -	$28,020,089	$1,405,527	$26,614,562
21	2026	$33,149,666	$-	$ -	$33,149,666	$1,405,527	$31,744,140
22	2027	$33,149,666	$-	$ -	$33,149,666	$ -	$33,149,666
23	2028	$33,149,666	$-	$ -	$33,149,666	$ -	$33,149,666
24	2029	$38,821,049	$-	$ -	$38,821,049	$ -	$38,821,049
2009 NPV at 5%		*$263,910,249*			*$233,055,783*		*$219,823,231*
Bondable Amount [1]		***$ 195,490,000***			***$172,630,000***		***$ 162,830,000***

SPECIAL SERVICE AREA (SSA) VALUE CAPTURE DISTRICT

For a special assessment or service area district in a value capture context, bond payments for transit improvements would be calculated and the tax rate would be adjusted annually to make the debt service payments. District property owners may also choose for the Special Service Area (SSA) to provide additional services, increasing the tax rate. *SBFCo* evaluated the potential range of taxes for an SSA that is created to fund the $13 million local match component of the station construction cost. State statute currently allows for both Special Assessment (Illinois SA) districts and Special Service Areas (SSAs). Both are special taxing districts that can be used to fund infrastructure to serve a defined area; the services or

infrastructure must be specific to the area taxed and not general municipal services. However, an SA also has detailed difficult establishment process, requires demonstration of a specific monetary benefit and has a cumbersome procedure for dividing assessments between new PIN(s). In either case, modification of the statute may be required to allow transit benefits, which could be interpreted to benefit a larger area. In particular, Metra and regional-serving transit that draws ridership from a large catchment area for each station are likely to face this issue.

Special Service Areas (SSAs) are somewhat easier to establish than an SA, and simply require a majority vote of the enabling body (county or municipality). However, SSA establishment can be blocked if both 50% + 1 of property owners and 50% + 1 of registered voters in a potential SSA sign and submit petitions against the SSA. This type of district can be used to fund infrastructure or services, and its purpose must be defined in the enabling ordinance. All services and infrastructure must be provided within the boundary of the SSA, which can cross municipal boundaries. Since transit improvements are generally part of a much larger system, proving the cost/benefit relationship to property owners will have to be carefully undertaken.

The advantage of an SSA district is that the tax amount per property does not need to be tied directly to EAV. A tax formula can be created that incorporates land area, street frontage, building height, property class, or some other reasonable measure. This type of tax can be used to further a number of political aims, including levying a lesser burden on single family homes, taxing based on land area alone to incentivize development of underutilized land, etc. However, like a TIF district, SSAs are approved and utilized by municipality, which make implementation for larger improvements across multiple jurisdictions difficult. Creation of a transit agency-sponsored SSA with funding and usage limitations may make the use of SSAs in transit funding much simpler and more efficient for larger improvements.

As indicated, SSA bonds in this analysis are anticipated to be repaid over a 15-year period, with two additional years of capitalized interest incorporated into the bonds. Global assumptions regarding bonding and inflation are identical to those in the TIF-like district analysis. The average annual tax rate to fund $13 million in the quarter-mile district is 1.1%, and 0.28% in the half-mile district. For comparison, the current weighted average property tax rate for the area is 7.416%. Although it is statutorily allowed, *SBFCo* usually does not see SSA taxes exceeding 1% for service-based SSAs. A review of SSA tax rates in Lake, McHenry, Kane, and Dupage counties indicates that SSAs is these areas are more heavily-used to fund infrastructure. In these counties, approximately 15% of active SSA districts have tax rates above 1%. Overall, approximately 11% of active SSAs maintain a tax rate between 1% and 2%. This tax range was chosen because it excludes outliers and unique districts with very high tax rates.

Alternatively, *SBFCo* also tested the capacity of the SSA districts at a set tax rate (1% for a quarter-mile district and 0.75% for a half-mile district). These rates would generate approximately $13.4 million and $39.5 million in 2009 dollars. SSAs are not utilized in this manner, but this analysis provides a picture of potential funding capacity, within normal tax rate ranges, in a situation where additional services or infrastructure beyond the transit station are desired within the potential SSA.

Pre-existing TIF Districts: Taxing for the SSA works in the same manner as any other new taxing district– the tax is applied on top of the existing property tax rate for a given district. In both cases, if TIF districts exist within the potential SSA, the SSA district may only tax the base EAV of TIF district PINs. This interaction raises the tax rate that an SSA must levy to reach a given bond payment requirement. The TIF district interaction has been accounted for in our projections of potential SSA tax rates. The full SSA

projections are available in Appendix 5. While it is possible to redirect SSA taxes from the TIFs to the SSA, this is not always done and may require amendments to the existing TIF districts.
Figure 13 below provides the annual quarter- and half-mile overall tax rates for an SSA district and for multiple bonding amounts.

Figure 13: Quarter- and Half-Mile Value Capture District Annual SA/SSA Tax Rates

VCD District Year	Calendar Year	$13 Million Debt Service Payment Amount	Tax Rate Required for Debt Service		Revenue Generated from Static Tax Rate	
			Quarter Mile	Half Mile	Quarter Mile @1.0%	Half Mile @ 0.75%
1		**Bond Payments From Capitalized Interest**	0.00%	0.00%		
2			0.00%	0.00%	$ 1,006,857	$2,850,465
3	2011	$-	1.40%	0.37%	$ 1,006,857	$2,850,465
4	2012	$ 1,405,527	1.40%	0.37%	$ 1,006,857	$2,850,465
5	2013	$ 1,405,527	1.31%	0.34%	$ 1,072,885	$3,119,130
6	2014	$ 1,405,527	1.19%	0.31%	$ 1,178,918	$3,392,887
7	2015	$ 1,405,527	1.19%	0.31%	$ 1,178,918	$3,392,887
8	2016	$ 1,405,527	1.11%	0.28%	$ 1,269,609	$3,732,625
9	2017	$ 1,405,527	1.11%	0.28%	$ 1,269,609	$3,732,625
10	2018	$ 1,405,527	1.11%	0.28%	$ 1,269,609	$3,732,625
11	2019	$ 1,405,527	1.03%	0.26%	$ 1,370,160	$4,109,299
12	2020	$ 1,405,527	1.03%	0.26%	$ 1,370,160	$4,109,299
13	2021	$ 1,405,527	1.03%	0.26%	$ 1,370,160	$4,109,299
14	2022	$ 1,405,527	0.95%	0.23%	$ 1,481,643	$4,526,924
15	2023	$ 1,405,527	0.95%	0.23%	$ 1,481,643	$4,526,924
16	2024	$ 1,405,527	0.95%	0.23%	$ 1,481,643	$4,526,924
17	2025	$ 1,405,527	0.88%	0.21%	$ 1,605,245	$4,989,952
18	2026	$ -	0.00%	0.00%	$ 1,605,245	$4,989,952
19	2027	$ -	0.00%	0.00%	$ 1,605,245	$4,989,952
20	2028	$ -	0.00%	0.00%	$ 1,742,286	$5,503,319
Average Annual Tax			**1.11%**	**0.28%**		
2009 NPV @ 5%					$ 13,395,410	$45,896,632
Bondable Amount [1]					**$ 11,500,000**	**$34,000,000**

[1] Net Present value was divided by a combined debt coverage and capitalized interest rate of 1.35 and rounded to the nearest 10,000.
Sources: Cook County Clerk, Cook County Assessor, *S. B. Friedman & Company*

DEVELOPMENT IMPACT FEE VALUE CAPTURE DISTRICT

As previously indicated, a development impact fee in a transit value capture context is a one-time fee, based on a justifiable relationship between the proposed land use and the transit improvements. While there is no specific transit-development impact fee legislation in Illinois, the transportation impact fee legislation, which pertains to roadways, provides some guidance to ensure that the fees would be fair and equitable. The key factor in the impact fee legislation for roads is that the fee must be "specifically

and uniquely attributable"[5] to the traffic demands generated by the new development paying the fee. If this standard is applied to an amended or new legislation specifically for transit improvements, it is likely that the impact fee will be based on ridership demands by land use type.

With this standard in mind, *SBFCo* developed a rough estimate of impact fees based on ridership, population and employment projections for the Oakton Station area provided in the Skokie Swift Station Location Feasibility Study ("Feasibility Study") completed by Parsons Brinckerhoff in 2003. The impact fees represent a fair share of the cost of the local match portion of the transit improvement (including interest) and are estimated for two key land uses: apartments and office uses. These uses were selected because they each represent a key population and employment-generating use. The methodology and impact fee estimates are illustrated in Figures 14 and 15 and are discussed below.

Figure 14: Estimation of Ridership Percent and Cost per Transit Rider

	2030 Projections
Average Daily Weekday Boardings	1,050
Total Population and Employment in 1/2 Mile	11,090
Percent of Population/Employment in 1/2 Mile using Transit	**9.5%**
Competitive Local Match for Proposed Transit Improvement (with Interest)	$21,080,000
Estimated Fair Share of Cost per Transit Rider	**$20,076**

Source: Skokie Swift Station Location Feasibility Study, Village of Skokie and *S. B. Friedman & Company*

The Feasibility Study projects 900 to 1,200 daily boardings (a boarding is counted as every time a person enters a transit vehicle) per average weekday at the Oakton Station by 2030. For our analysis, we used the mid-point value of 1,050 daily boardings. The study notes that ridership would be predominantly from the area immediately adjacent to the station, and uses a half-mile radius for the population and employment projections. The 2030 projections for the half-mile station area are 7,080 people and 4,010 employees, for a total of 11,090 people and employees. If we assume that transit riders are equally distributed among resident population and employees, this suggests that approximately 9.5% of the total people and employees in the half-mile area will use transit. If the $21 million (including interest cost) local match component of the transit improvement cost is spread among the projected 1,050 transit riders, the estimated fair share of the transit improvement cost per rider is $20,076.

For application of an impact fee, the cost per rider needs to be allocated on a standard basis, such as per dwelling unit or per 1,000 square feet of office space. To approximate an allocated fee, we first estimate the population and employment generated for apartment and office uses, based on Ehler's Population Generation Ratios by residential product type and Urban Land Institute estimates of office employment density. We then multiply these population and employee estimates by the 9.5% ratio of the percent of people/employees within the half-mile, projected to use transit, to obtain the estimated ridership or daily boardings per dwelling unit and per 1,000 square feet of office. The cost per rider of $20,076 is then applied to estimate the impact fee, per proposed apartment dwelling unit and per 1,000 square feet of office space (see Figure 15). A key consideration in the setting of impact fees is that the fee imposed should not exceed the value enhancement that a transit facility brings to the proposed

[5] Illinois Highway Code, Il Statute 605 ILCS 5/Art. 5 Div. 9. Retrieved from Illinois Compiled Statutes at http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=060500050HArt.+5+Div.+9&ActID=1745&ChapterID=45&SeqStart=24600000&SeqEnd=26600000

development, as this would effectively diminish the incentive for developing new projects near transit stations.

Figure 15: Estimated Ridership Generation & Impact Fee by Land Use Type

Apartments				
Unit Type	**Population Generation per Unit [1]**	**Multiply by % Using Transit**	**Ridership per Residential unit**	**Potential Impact Fee (Ridership x Fair Share Cost of $20,076)**
Efficiency	1.29	*x 9.5%*	0.12	$2,460
1 Bedrooms	1.76		0.17	$3,342
2 Bedrooms	1.91		0.18	$3,638
3 Bedrooms	3.05		0.29	$5,803
	Weighted Average Fee Based on Typical Apartment Unit Distribution [2]			**$3,760**
Office				
	Employee Generation per 1,000 SF [2]	**Multiply by % Using Transit**	**Ridership per 1,000 SF**	**Potential Impact Fee (Ridership x Fair Share Cost of $20,076)**
Per 1,000 SF of Office Space	3.00	*x 9.5%*	0.28	**$5,700**

[1] Based on Ehler's Population Generation Ratios by residential product type
[2] Assumes a distribution of 8% efficiency units, 55% 1-Bedroom, 20% 2-Bedroom and 17% 3-Bedroom based on comparable properties
[3] Based on Urban Land Institute estimates of employment density of office buildings
Source: Ehler's, Urban Land Institute and *S. B. Friedman & Company*

Based on this analysis and a typical distribution of apartment unit types, an average impact fee of approximately $3,760 per dwelling unit is estimated. For office uses, an impact fee of $5,700 per 1,000 square feet is estimated. At these fee levels, over 5,600 apartment units or approximately 3.7 million square feet of office space (or an equivalent combination of such uses) would be required to generate the required funds for transit improvement (Figure 16).

Figure 16: Scale of Development Necessary to Pay for Transit Improvement via Impact Fees

Competitive Local Match for Proposed Transit Improvement (with interest) [1]	$21,080,000
Impact Fee per Apartment Dwelling Unit	$3,760
Impact Fee per 1,000 SF of Office Development	$5,700
Number of Apartment Dwelling Units Required to pay for Transit Improvement	5,610
Area of Office Development Needed to pay for Transit Improvement (SF)	3,700,000

[1] All numbers have been rounded to the nearest 10 for numbers under 1 million and to the nearest 100,000 for numbers over 1 million.

This analysis suggests that impact fee in itself is not sufficient to generate adequate funding to meet the local match thresholds unless there is potential for large-scale development in the vicinity of the proposed transit improvement.

Summary and Comparison of Results

Each of the potential value capture districts produces different amounts of potential revenue via different scenarios. Figure 17 below provides a summary of the bonding capacity of each district type, as well as other key metrics related to value generation potential.

Figure 17: Bonding Capacity of Tested Value Capture Mechanisms

	TIF-Like District		SSA-Like District		
	¼ Mile	½ Mile	¼ Mile	½ Mile	**Impact Fee District**
Maximum Bondable Amount [1][2]	$45,770,000	$172,630,000	$11,500,000	$34,000,000	Not Bondable – Value generation depends on extent of new development and fees
Assumed Local Match for Transit Improvements	$13 Million		$13 Million		$13 Million
Existing Obligations	- Downtown TIF: All Funds - Science & Tech TIF: $10 Million in Bonds		None, but SSA tax rate must account for funds diverted to underlying TIF districts		NA
Excess Funds	$35,960,000	$162,830,000	None	$23,710,000	None
Notes			Tax Rate to fund $13 MM: 1.1%	Tax Rate to fund $13 MM: 0.28%	5,600 new apartment units or 3.7M sf of new office space needed to pay for transit improvements

[1] TIF-like district maximum bondable amount after payment of obligations in underlying TIF Districts. Note that a TIF-like VCD will likely need to share some portion of its increment with underlying taxing districts, reducing the bondable amount.
[2] Assumes a maximum SSA tax rate of 1% for a quarter-mile district and 0.75% for a half-mile district.
Source: Village of Skokie and *S. B. Friedman & Company*

As Figure 17 indicates, each type of value capture mechanism has benefits and potential caveats. The key conclusions for each district are:

- **TIF-Like Mechanism:** As conceived in this study, a TIF-like mechanism generates the greatest bonding capacity. Within a quarter mile, this mechanism generates over one and a third times the bonding capacity as a half-mile SSA, and the half-mile TIF-like mechanism generates over five times the bonding capacity of the half-mile SSA. However, this capacity is dependent upon the accelerated inflation rate (from normal property inflation, transit-access related value enhancements and new development) anticipated in a new station area, and the level of base EAV rate.

  As noted above, the growing concern regarding potential diversion of funds from underlying taxing districts is likely to create the need for a mechanism to share some portion of the projected increment with those districts once existing obligations are paid.

  While the proposed Oakton transit station did not require any funding for the transit line (because the station was located on an existing line), given the scale of the remaining bonding capacity generated by this mechanism, it appears that a TIF-like value capture mechanism could also be used to fund line-related costs of a new transit improvement. In such cases, the

municipality in partnership with the transit agency would need to make decisions regarding the allocation of funds towards the local match component of the transit improvements, sharing of funds with underlying districts, and other transit-supportable expenditures (e.g., public improvements and gap financing of private development).

- **SSA:** An SSA offers a more certain and predictable financing option, but requires buy-in from district property owners and taxpayers (many commercial tenants are required by their lease to pay their portion of the property taxes), and demonstration of the benefit of the new transit infrastructure to the potential SSA. In this analysis, while the average required tax rate in the half-mile SSA is a low 0.28%, the average rate sufficient to pay debt service in the quarter-mile SSA is 1.1%, higher than *SBFCo* typically sees in an SSA district. For example, Skokie currently has seven active SSAs, with tax rates ranging from 0.228% to 0.697% in 2009. However, this value capture district is being contemplated to fund infrastructure, which typically carries a higher cost. For example, rates in an infrastructure SSA, though generally within the range seen in Skokie, can reach as high as 3% or 4%. SA districts simply apply a debt service payment per property, but normal payments range from less than $1000 to $5,000 per home per year. A rate this high in an SSA is unusual however. Taxpayers do have the ability to stop the creation of an SSA, so any new district should be undertaken carefully.

- **Impact Fee:** An impact fee offers significant potential revenue per project, but new development of the scale required is not predictable enough to issue bonds; the impact fees would have to be placed in a fund and used once sufficient dollars were available for a new station. This would require significant advance planning regarding transit and redevelopment projects, and may be suitable when entire transit-dependent districts are being redeveloped

Figure 18 below summarizes the economic and practical considerations underpinning the bonding potential of different types of value capture mechanisms in Illinois.

Figure 18: Factors Affecting Bonding Capacity and District Suitability

	TIF-Like District	SSA-Like District	Impact Fee District
Factors Influencing Financeable Amount	- Historic and projected property value inflation - Size of district - Potential for redevelopment - Pre-existing TIF obligations	- Historic and projected property value inflation - Size of district - Feasible tax rate - Taxpayer support	- Number of potential new projects - Impact fee amount, property types targeted, etc. - Overall real estate market
Type of Financing	Bondable	Bondable	Pay-As-You-Go
Major Payer of Fee/tax	Underlying taxing districts receive less funds over time. A sharing mechanism will need to be put in place or only partial increment generation may be allowed.	All taxpayers, as determined by SSA tax formula	Developers
Timing of Fee/Tax	Annually, dependent on inflation & redevelopment extent.	Annually, SSA rate adjusts to meet bond payment requirements.	As new projects are constructed.
Most Suited to:	Areas with high potential property value increase due to transit improvements.	Areas with significant buy-in from property owners regarding the need for transit improvements.	Larger areas with major redevelopment and significant numbers of new units/commercial space planned.

Source: *S. B. Friedman & Company*

5. Effect of Value Capture Mechanisms on Development Economics

SBFCo reviewed the financial effect of two of the three value capture mechanisms (TIF, SSA and impact fees) analyzed in this study on the development economics of a hypothetical project near the proposed Skokie Swift Station. Because a TIF-like mechanism, as discussed in the value capture analysis, would have no additional tax or fee that would impact the development economics of a project, it has been folded into a scenario that assumes a new transit improvement with no new tax or fee imposition and is not reviewed separately in this analysis.

Based on discussion with Village of Skokie staff, *SBFCo* selected a pair of vacant sites totaling 1.3 acres and located opposite to the train station as a test case for the analysis. A developer had originally proposed 156-unit condominium development for the site. Since the for-sale housing market crash in 2008, the project as originally conceived was withdrawn. The developer is now considering redesigning the project as a mixed-used project with a rental residential component, but has not yet submitted any formal plans for review by the Village. *SBFCo* assumed a hypothetical mixed-use rental development project with 250 rental units and approximately 10,000 sq feet of retail. This site maximizes the development density that is allowable by the recently updated Village zoning code. The apartment product type is assumed to be a 10-storied development with structured parking. The retail component is not included in the financial analysis because it is a small component of the overall project, and will be driven primarily by the strength of financials of the rental component.

ANALYSIS APPROACH

SBFCo used a "residual land value" analysis to test the financial impact of the proposed transit station, the SSA tax and an impact fee on the hypothetical project. Residual land value is the amount of money that a developer can afford to pay for acquiring land after deducting all other development costs (i.e., hard and soft costs including developer's fee) from the market price (or capitalized net income, if it is leasable property) that the developer expects to receive for the project. If development costs remain the same but the project's value increases, the residual land value increases. Similarly, if development costs increase but the project value remains the same, residual land value decreases.

The residual land value approach is particularly applicable for such an analysis because the benefits of transit accessibility in terms of increased rents and/or prices (see prior discussion on impacts of transit) are ultimately realized through increased property/land values. In a redevelopment context, the increased rents and/or prices that a project will achieve due to transit accessibility will enhance the market price or value of the project, which in turn will allow the developer to pay a higher price for the acquisition of land. Similarly, a value capture SSA tax or impact fee will increase operating costs or initial development costs, respectively, and in turn will decrease the potential residual land value.

SBFCo's analysis accounts for the combined effect of the transit access benefit and the negative impact of an additional tax or fee on the baseline residual land value. The baseline project development financials, the transit access benefit, and the effect of the SSA tax and impact fee are shown in full in Appendix 6 and in summary, in Figure 19 below. The key assumptions, the key analysis metrics and the implications are discussed below.

Figure 19: Effect of Transit & Value Capture Mechanisms on Development Economics

Development Program		Baseline Weighted Average Rents		
	Total Units	Rent per Unit per month	Rent per SF	Average Unit Size in SF
Apartment Units	250	$ 1,900	$ 1.81	1,050

Economic Analysis

	Baseline Economics with No Transit	Economics with Transit	Economics with Transit & SSA Tax		Economics with Transit & Impact Fee ($3,760 per unit)
			0.28% tax on 1/2 mile district, $13M Bond	1.1% tax on 1/4 mile district, $13M Bond	
Rent Increase Due to Transit [1]		5%	5%	5%	5%
Rental Revenue per Unit per month	$1,900	$1,995	$1,995	$1,995	$1,995
Parking Revenue per Unit per month	$120	$120	$120	$120	$120
Gross Revenue Potential per Unit	$2,020	$2,115	$2,115	$2,115	$2,115
Vacancy	5%	5%	5%	5%	5%
Non-Tax Operating Exp. & Reserves	33%	32%	32%	32%	32%
Property Tax as % of Gross Revenue [2]	13.9%	14.3%	14.1%	13.8%	14.3%
SSA Taxes as % of Gross Revenue Potential [1]			**0.5%**	**2.0%**	
Vacancy Loss	($101)	($106)	($106)	($106)	($106)
Non-Tax Operating Expenses	($667)	($667)	($667)	($667)	($667)
Property Taxes [1]	($281)	($302)	($299)	($292)	($302)
SSA Taxes/Impact Fee [1]	$0	$0	($11)	($43)	$0
NOI per Unit/Month	$971	$1,041	$1,032	$1,008	$1,041
Total Annual NOI	**$2,913,338**	**$3,123,277**	**$3,097,310**	**$3,023,687**	**$3,123,277**
Total Project Value (6% Cap Rate)	**$48,555,625**	**$52,054,623**	**$51,621,831**	**$50,394,782**	**$52,054,623**
% Project Value Increase		**7.2%**	**6.3%**	**3.8%**	**7.2%**
Debt Coverage Ratio	1.20	1.20	1.20	1.20	1.20
Debt Service Capacity	$2,427,781	$2,602,731	$2,581,092	$2,519,739	$2,602,731
Up-front Debt, 70% of Constr. Cost (@6.5%, 25 yr. Term)	$29,613,776	$31,747,794	$31,483,836	$30,735,467	$31,747,794
Equity, 30% of Constr. Cost	$12,691,618	$13,606,197	$13,493,073	$13,172,343	$13,606,197
Total Supportable Development Costs	$42,305,395	$45,353,991	$44,976,909	$43,907,810	$45,353,991
Less Impact Fee @ $3,760/unit (27% of value increase)					**($939,000)**
Net Supportable Project Cost	**$42,305,395**	**$45,353,991**	**$44,976,909**	**$43,907,810**	**$44,414,991**
Supportable Land Acquisition Price (baseline price @$15,000 a unit)	**$3,750,000**	**$6,798,596**	**$6,421,514**	**$5,352,415**	**$5,859,596**
% Increase in Land Acquisition Potential (Residual Value)		**81.3%**	**71.2%**	**42.7%**	**56.3%**

[1] 5% is a conservative estimate. Literature indicates 5% to 20%.

[2] Appendix 6 provides detailed calculations for property tax and SSA tax calculations as a % of gross revenue and on a per unit basis.

Sources: REIS Inc., Cook County Tax Assessor, Village of Skokie and *S. B. Friedman & Company*.

Rental Rates: A baseline average rental rate of $1,900 per unit or $1.81 per rentable square foot is assumed for a no-transit scenario based on comparable Class A developments in Evanston where average rents ranged from $1,866 to $2,066 per unit (see Appendix 7). While rental properties in Evanston already have transit access, the proposed development will be the newest product in the market, have I-94 access, be accessible to jobs in close proximity, and be near downtown Skokie, all of which should allow the project to obtain similar rents levels. We are assuming that a new transit station would lead to a conservative rent enhancement of 5%. A review of the literature analyzing the impact of transit facilities on rental rates indicates that transit access results in rental rate increases ranging from 5% to 20%.

NOI, Project Value and Supportable Development Costs: NOI is the net annual revenue after deducting total operating expenses from gross rental revenue. *SBFCo* assumed total operating expenses to be 47% (they usually range from 45% to 50%) of total gross revenue potential and include property taxes, maintenance and other costs. The property tax component of the expenses for the baseline no-transit scenario is estimated to be approximately 14% of gross revenue potential based on a tax comparable analysis conducted by *SBFCo* (see Appendix 7). Because property taxes are based on the market value of the property, and the market value is affected by changes in the rents and taxes, the property tax rate as a percentage of gross revenue and the dollar value of the taxes are adjusted to reflect project market-value changes for the various scenarios. The non-property tax expenses are held constant for all scenarios.

Project Value and Supportable Development Costs: The NOI is capitalized to estimate project value. As shown in Figure 19, the assumed 5% rent increase related to transit access increases the project value by 7%. The SSA taxes however reduce the project value, while impact fees which are levied on the development cost do not decrease the project value. NOI is also used to determine the debt capacity and supportable development costs of a project. Assuming a more normal financing environment where a developer can receive a debt coverage ratio of 1.2 and a 70% debt and 30% equity ratio, the supportable development cost is estimated based on the NOI generated for the various scenarios.

SSA Rates: While the assumed 5% rent enhancement related to transit access increases the NOI and supportable development costs, the SSA tax increases operating expenses and therefore decreases the NOI and supportable development costs. Two SSA tax rates are assumed based on the ability to pay off the $13 million bond for the proposed transit improvement and correspond to the value capture analysis conducted in the earlier section. The 0.28% tax rate corresponds to an SSA district encompassing properties within a half mile of the station and the 1.1% tax rate corresponds to a quarter-mile district. Similar to property taxes, the SSA taxes are expressed as a percentage of gross revenues to reflect changes in tax assessments that occur with rent increases from associated transit (see Appendix 6).

Impact Fee: An impact fee is a one-time fee charged at the time of development usually prior to construction and therefore does not impact the NOI. However, it directly increases the development cost without increasing the NOI and debt capacity. For the purposes of this analysis, the $3,760 per dwelling unit impact fee estimate was used based on the analysis in the prior chapter. This fee represents 27% of the value enhancement related to the transit improvement and therefore leaves sufficient incentive for development of transit-supportive uses.

Supportable Land Acquisition Price and Impact of Value Capture Taxes/Fees: Because development costs can vary based on building quality, parking format (structured or surface) and amenities provided, *SBFCo* used a normative land residual value estimate of $15,000 per apartment unit entitled, based on interviews with apartment developers and land acquisition costs of comparable developments in the Chicago region. This rule of thumb residual value estimate reflects the typical price that a developer will pay for land acquisition for redevelopment into a rental apartment project. The positive impact of the transit access and the negative financial impact of the SSA and impact fee mechanism are estimated in terms of the percentage change in the land acquisition potential, relative to the baseline value, and are discussed in the following section.

Analysis Results and Approach

As shown in Figure 19, the analysis results related to the effect of the transit improvement and the value capture mechanisms on the hypothetical development project are as follows:

- The transit access benefit of a 5% increase in rental revenue translates to an approximately 81% increase in residual land value indicating that a developer could afford to pay approximately 81% more for land acquisition.

- An SSA tax rate of 0.28% (corresponding to a half-mile value capture district) reduces the increase in the residual land value due to transit accessibility from 81% to 71%. The SSA rate of 1.1% (corresponding to a quarter-mile value capture district) reduces the increase in the residual land value due to transit accessibility to 43%.

- The development impact fee of $3,760 per unit calculated based on the likely transit ridership generation from the apartment project reduces the increase in the residual land value from 81% to 56%.

- As previously indicated, a TIF-like value capture mechanism as conceived in this study would have no impact on development economics because it imposes no new taxes or fees on new development.

The analysis highlights that proper calibration of the SSA tax or impact fee is critical to ensuring that the value capture mechanism does not become a disincentive for transit-supportive private development. The actual effect on development economics is highly sensitive to the actual rent/price increase achieved due to a transit station and the tax or fee levels established. Because a tax or fee diminishes project value, it must be sized correctly such that the entire value enhancement associated with a transit improvement is not eliminated.

6. Conclusions and Implementation Considerations

The analysis of the planned Oakton Station indicates that there is potential for the usage of multiple types of value capture mechanisms in the Chicago region. Specifically, a TIF-like district has the potential to produce funds for both a transit station and pre-existing projects; an SSA district can raise the required bond payments within the normal range of SSA taxes for a half-mile district; and an impact fee offers high potential revenue per project.

Intergovernmental Cooperation and Partnerships

Each of the evaluated value capture mechanisms will require participation on the part of the transit agencies as well as the municipality. In fact, the funds generated by each mechanism currently flow to municipalities or counties, and require local consent and support for establishment of the appropriate district or impact fee. Transit is only partly municipally based. Stations area usually located in a single municipality, but lines and dedicated bus routes run through many jurisdictions and rolling stock, yards, and maintenance facilities all serve multiple jurisdictions. If these tools are to be used for multiple stations or intra-municipal trackage projects, then extra cooperative agreements or higher-level mechanisms will be needed. Therefore, transit agencies will need to work in tandem with municipalities to create the required districts and educate the public about the potential value capture district. Similarly, transit agencies will need to work to educate municipalities regarding the need for new transit, the funding limitations related to the federal local match requirement, and the potential innovative funding tools available to local governments and transit agencies.

Additionally, there is growing concern in Illinois that underlying taxing districts are negatively impacted in the short term by TIF districts, particularly in areas with large TIF districts or a high inflation. Legislation has been introduced at the state level attempting to require current TIFs to distribute increment back. Although this legislation was not passed, any legislation creating new type of TIF is likely to require some mechanism for additional required disbursements to underlying taxing districts or only a partial increment for the value capture district. In the context of Value Capture, the scope of the districts being contemplated is large, and pose equity concerns if some amount of funds are not redistributed. Therefore, any potential TIF-Like value capture district will need to be carefully designed to meet both the requirement for transit funding and the need to provide tax increment back to underlying districts.

Legislative Issues

Each of the mechanisms evaluated may require legislation or the amendment of existing statutes to allow value capture in the context of transit improvements. These concerns focus on the following areas:

- **Development Impact Fee:** The Illinois statute enabling impact fees currently allows this type of funding to be utilized solely for roadways, and the fee charged must be “specifically and uniquely attributable” to the traffic demands created by the new development. For a hypothetical transit-supportive impact fee, *SBFCo* has attempted to address this concern by basing the impact fee amount on potential ridership generated.

- **Special Service Area:** The SSA statute states that in an SSA, "special governmental services are provided in addition to those services provided generally throughout the municipality or county." Some SSAs contract to provide specific services outside their area, and others provide services that arguably benefit many people beyond property owners. However, a transit station that is part of a regional network may be seen as providing too "general" of a benefit rather than an area-specifc service. Therefore, additional legislation may be required.

- **Tax Increment Finance:** Current TIF law requires a finding of blight or area decline to establish a TIF district. However, this may not be the case with areas that are slated for new transit, or the entirety of the district required to fund the improvements may not qualify. Therefore, new law may need to be enacted that allows a TIF-like district for transit improvements in cases where the improvements have been fully analyzed and need sources of local match funding. As noted, and new TIF law will need to contemplate mechanisms for sharing of some portion of increment with underlying districts.

Therefore, any potential value capture district in Illinois is likely to require new legislation or modification of an existing statute.

Conclusions

The core of our assignment was to identify and test potential value capture tools. In the course of that, we have shown that there is significant potential for transit value capture districts in Illinois to serve as a new source of local match funding. As demonstrated in our study, all of these mechanisms can be calibrated such that they do not have a material adverse impact on development economics. New transit improvements are often targeted in areas where redevelopment, or new development that is transit-supportive, is desired. Any value capture funding mechanism should take these other goals into consideration. Each situation is likely to require an approach and district tailored to its unique characteristics.

- **TIF-Like Mechanism:** As conceived in this study, a TIF-like mechanism generates the greatest bonding capacity, up to five times the bonding capacity of the similarly-sized SSA. However, this capacity is dependent upon the accelerated inflation rate (from normal property inflation, transit access related value enhancements and new development) anticipated in a new station area, and the level of base EAV. This capacity may also be limited by the apparently growing call to share increment with underlying taxing districts.

  Additionally, as currently designed, TIF is used by single municipalities for local improvements. Should a transit agency desire to utilize a TIF-like mechanism to fund trackage, rolling stock, or other types of improvements that cross multiple municipalities, TIF sponsored on a municipality-by-municipality basis to cover the all of the desired improvement areas is likely to be difficult to achieve. An alternative may be to create a limited-purpose type of TIF that only transit agencies can create and is utilized solely to fund transit improvements. This type of TIF would be similarly limited by the need to share increment with underlying districts or limit the portion of increment allocated to the value capture district.

- **SSA:** An SSA offers a more certain and predictable financing option than TIF in already developed areas, but requires buy-in from district property owners and taxpayers and therefore,

requires education regarding the benefit of the new transit infrastructure within the potential SSA area. Strong, organized taxpayer opposition can lead to the repeal of a potential SSA district. An SSA mechanism appears to be able to sufficiently fund transit improvements with a reasonable tax rate at a smaller scale in a half-mile district, but is unlikely to be able to produce the amount of funds required if new trackage is required unless the potential improvement area is densely built and of high value.

Like a TIF district, SSAs are now only sponsored by municipalities or counties for localized improvements. To be truly effective in funding transit, a transit-agency-sponsored SSA mechanism may need to be created to allow for streamlined and consistent funding processes. Like the transit-sponsored TIF district above, this district would likely be limited to solely funding transit improvements, without the other types of improvements and services that the current SSA law allows.

- **Impact Fee:** Impact fees are the most limiting because the timing and amount of new development is difficult to predict, as well as the fee revenues dependent on that new development. An impact fee offers significant potential revenue per project, but new development of the scale required is not predictable enough to issue bonds. Funds would instead be diverted into a capital reserve, or utilized as available to pay off general obligation bonds. This would require significant advance planning regarding transit and redevelopment projects, and may only be suitable when entire transit-oriented districts are being contemplated for new construction or redevelopment.

In the course of our analysis, we determined that the preferred tools are generally municipal in nature, and this study shows the application of these mechanisms individually on a single station area. We believe that the greatest potential arises when multiple new station areas are combined to generate funds for new stations, new trackage, rolling stock, and other capital items. Under current law, these arrangements would be completely voluntary and it may be desirable to explore county-level, line-level, or regional-level variants. In addition, these individual mechanisms can be combined for single station areas to further enhance the revenue generating potential and fairly distribute costs. In these situations, municipalities and transit agencies will have to weigh the costs and benefits of each mechanism to reach an optimal allocation of funds towards the local match component of the transit improvements and other transit supportable expenditures.

7. Appendix

Appendix 1: Public Transit: Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies (GAO-10-781)

United States Government Accountability Office

GAO

Report to Congressional Committees

July 2010

PUBLIC TRANSPORTATION

Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies

GAO-10-781

July 2010

PUBLIC TRANSPORTATION

Federal Role in Value Capture Strategies for Transit Is Limited, but Additional Guidance Could Help Clarify Policies

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Highlights

Highlights of GAO-10-781, a report to congressional committees

Why GAO Did This Study

State and local governments are looking for alternative strategies to help fund transit systems. Value capture strategies—joint development, special assessment districts, tax increment financing, and development impact fees—are designed to dedicate to transit either a portion of increased tax revenue or additional revenue through assessments, fees, or rents based on value expected to accrue as a result of transit investments. GAO was asked to review (1) the extent to which transit agencies and local governments use joint development and other value capture strategies to fund or finance transit; (2) what stakeholders have identified as facilitators of, or hindrances to, the use of these; and (3) what stakeholders have said about the effects of federal policies and programs on the use of these strategies. GAO analyzed data from 55 of the 71 transit agencies that responded to its information request; reviewed literature, and statutes and regulations; and interviewed transit agency, local government, and Federal Transit Administration (FTA) officials; developers; and experts.

What GAO Recommends

The FTA should issue additional guidance on federal joint development requirements to clarify the types of developments eligible under current law, and requirements and conditions for parking replacement.

FTA agreed to consider GAO's recommendations.

View GAO-10-781 or key components.
For more information, contact David Wise at (202) 512-2834 or wised@gao.gov.

What GAO Found

More than half of the transit agencies from which GAO collected data (32 of 55) reported that joint development—in which a transit agency and a private entity partner to create development at a transit station—has been used as a source of funding for transit, while about a third (19 of 55) reported that special assessment districts, tax increment financing, and development impact fees have been used. Transit agencies that have extensively used joint development typically share characteristics, such as having formal joint development policies and in-house real estate expertise. Financial data collected from several transit agencies indicate that revenue generated annually through joint development is generally small when compared with an agency's annual operating expenses. Revenue generated by the other three value capture strategies has varied, but in some cases has been critical to the financial feasibility of the transit project or to improvements that support transit-oriented development.

Several factors can facilitate or hinder transit agencies' and state and local governments' use of value capture strategies, such as coordination and support from public- and private-sector entities, transit project location and design, and state laws. For example, transit agencies, which generally do not have taxing authority, often have to coordinate with local taxing authorities to help establish a tax increment financing district. Also, according to several stakeholders, value capture strategies have the potential to generate more revenue when a project is designed with land-use zoning that allows for high-density development. However, some states do not authorize the use of certain strategies or may limit their use. For example, tax increment financing is currently not authorized under Arizona state law.

Several transit agency officials told GAO that FTA's joint development guidance is confusing, which can hinder their use of joint development when federal funding is involved. For example, transit agencies are sometimes unclear about which types of developments and structures are eligible for joint development sites and the extent to which FTA requires replacement of parking spaces when surface parking lots are converted to structured parking garages that support transit-oriented development. This confusion can delay final federal approval of a project. Transit agency officials also told GAO that federal requirements, such as limitations on the use of joint development revenue for operations, maintenance, or acquisition of land for future joint development, can be burdensome. Transit agency officials also said the strict cost-effectiveness requirement for federal New Starts funding limited the competitiveness of some transit projects designed to use value capture strategies. Recent changes to the New Starts program, including amending the current cost-effectiveness measure and increasing the significance of economic development along with other factors, may affect transit projects, yet it is unclear how these changes will ultimately affect the use of value capture strategies.

Contents

Figures

Abbreviations

DOT	Department of Transportation
FHWA	Federal Highway Administration
FTA	Federal Transit Administration
MDOT	Maryland Department of Transportation
RRIF	Railroad Rehabilitation and Improvement Financing
SAFETEA-LU	Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users
TIFIA	Transportation Infrastructure Finance and Innovation Act of 1998

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

July 29, 2010

The Honorable James L. Oberstar
Chairman
The Honorable John L. Mica
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Peter A. DeFazio
Chairman
The Honorable John J. Duncan, Jr.
Ranking Member
Subcommittee on Highways and Transit
Committee on Transportation and Infrastructure
House of Representatives

State and local governments across the country are increasingly looking to build new transit systems to help alleviate the adverse effects of traffic congestion and support growth and redevelopment in the urban cores of metropolitan areas. However, the desire for increased investment in transit infrastructure coincides with increasing strains on traditional sources of funding for these projects. Fixed-guideway transit projects are costly to build, and limited funding for transit projects at the state and local level has created intense competition for federal transit funds.[1] Moreover, in addition to facing challenges in obtaining funds to construct new transit systems, many transit agencies are struggling to keep up with mounting operations and maintenance costs of existing transit systems. Facing budget shortfalls, transit agencies are forced to raise fares or cut service, either of which can drive transit users away, potentially reducing ridership and exacerbating funding issues. Furthermore, the sales tax receipts and other funding sources that many transit agencies rely on to fund capital projects and agency operations have significantly declined

[1]Fixed-guideway systems are permanent public transportation facilities that use and occupy a separate right-of-way or rail for the exclusive use of public transportation and other high-occupancy vehicles, or use a fixed catenary system and a right-of-way usable by other forms of transportation. Fixed-guideway systems include all forms of rail transit (light, heavy, commuter, and streetcar), ferryboats, exclusive busways (for bus rapid transit), and HOV lanes constructed for the exclusive use of public transportation and other high-occupancy vehicles.

during the recent economic downturn. Given this economic environment, transit project sponsors are increasingly looking for alternative mechanisms to help finance and deliver new, large-scale transit projects.

There is a well-established relationship between public transit investments and nearby property values. We have previously reported that plans for transit stations and amenities commonly found in transit-oriented developments generally increase nearby land and housing values, but the magnitude of the increase varies greatly depending upon several characteristics.[2] Value capture strategies—mechanisms designed to harness increases in value for properties surrounding transit to help fund investments in public transit infrastructure or related improvements—are designed to take advantage of this increase to create beneficial outcomes for both the public and the private sectors, as well as link funding to the beneficiaries of a transit system. Value capture strategies used to fund transit vary in form; however each typically involves a private sector contribution through an assessment or fee, or a public sector contribution drawn from increased property tax revenue. One value capture strategy, joint development, often generates revenue for the transit agency through a lease or sale of publicly-owned land through partnerships with private or nonprofit developers, or other public sector partners to create a portion of a transit-oriented development.

Value capture strategies are administered at the state, regional, or local level. As a result, the federal government does not play a direct role in implementing value capture strategies—its role is primarily limited to providing the federal share of capital construction and land acquisition costs. However, federal policies and programs can affect the cost, design, and routing of transit systems—characteristics vital to the viability of value capture strategies. Recently, the federal government has increased its focus on creating "livable" communities by better linking transportation, housing, and environmental programs and policies. Part of this focus reflects the federal government's recognition of the increasing demand for transit-oriented developments. Recent policy changes by the Department of Transportation (DOT) are designed to provide more flexibility for transit agencies and local governments to accommodate transit-oriented development near stations and multi-modal transportation

[2]GAO, *Affordable Housing in Transit-oriented Development: Key Practices Could Enhance Recent Collaboration Efforts between DOT-FTA and HUD*, GAO-09-871 (Washington, D.C.: Sept. 9, 2009).

sites. For example, in 2007, the Federal Transit Administration (FTA) issued joint development guidance, which is intended to provide flexibility for transit agencies interested in pursuing transit-oriented development on lands purchased with federal funding.[3] In addition, over the past year, FTA has proposed and implemented several changes to how cost effectiveness, economic development effects, and other factors are considered in the evaluation and rating process for FTA's New Starts grant program.[4]

You asked us to provide information on the experiences of transit agencies and local governments in using value capture strategies for transit. More specifically, this report addresses the following questions:

1. To what extent do transit agencies and state and local governments use joint development and other value capture strategies to fund or finance transit?

2. What have selected stakeholders and literature identified as facilitators of, or hindrances to, the use of joint development and other value capture strategies to fund or finance transit?

3. What have stakeholders said about the effects of federal policies and programs on the use of joint development and other value capture strategies to fund or finance transit?

To address these questions, we reviewed relevant literature to determine the most commonly used value capture strategies and to help identify facilitators of, and hindrances to, using value capture strategies. We requested data from the 71 transit agencies that we identified as operating a fixed-guideway or large bus system on the extent to which value capture strategies were used to fund or finance transit on their system. We analyzed data from the 55 transit agencies that provided data to us in response to our request. We conducted site visits to the Washington/Baltimore metropolitan area; Atlanta, Georgia; Los Angeles, Sacramento, San Jose, and the San Francisco Bay metropolitan area in California; Portland, Oregon; and Seattle, Washington. We selected this nongeneralizable sample of cities and metropolitan areas based on criteria

[3]*See* Notice of Final Agency Guidance on the Eligibility of Joint Development Improvements Under Federal Transit Law 72 Fed. Reg. 5788, 5789 (Feb. 7, 2007).

[4]New Starts is FTA's major capital investment program for new, and extensions to existing, fixed-guideway transit systems.

we established, including locations where value capture strategies had been used or were under formal consideration for use, and geographical diversity. During our site visits, we interviewed transit agency, state, and local government officials, and private developers about selected transit projects, as well as individuals with expertise in the area of value capture strategies, to determine the extent to which value capture strategies are used to fund or finance transit and to identify facilitators of, and hindrances to, using value capture strategies. We also interviewed federal, state, and local transit officials to identify ways federal policies and programs affect the use of value capture strategies. Finally, we reviewed applicable state constitutions, statutes, and regulations to identify facilitators of, and hindrances to, using value capture strategies, and relevant federal statutes and regulations to determine federal requirements and program implications for joint development and other value capture strategies. We conducted this performance audit from August 2009 to July 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See appendix I for more information about our scope and methodology.

Background

Numerous local communities are seeking to expand housing opportunities and other amenities located near transit by promoting transit-oriented development—commonly defined as compact, mixed-use, walkable neighborhoods located near rail stations or other permanent transit facilities.[5] Many transit agencies view such development as a way to accomplish multiple goals, including promoting transit-supportive land use near stations and increasing ridership. In addition, research generally shows that land and housing values tend to increase with proximity to a transit station. While the magnitude of these increases can vary, residents place a premium on living near public transportation, retail development, and other amenities such as parks and sidewalks commonly found in transit-oriented developments.[6]

[5]A mixed-use development includes residential, commercial, cultural, or institutional uses on the same site, which can allow for greater housing density, encourage more compact development, and promote pedestrian-friendly environments.

[6]GAO-09-871.

Both the private and public sector entities benefit financially from these increases in value; private parties through increased land values and rents and public-sector agencies through increased revenue from property or other taxes. For the purposes of this report, the term "value capture" generally refers to strategies that allow local governments or transit agencies to dedicate to transit either a portion of the increased tax revenue, or additional revenue through assessments or fees based on value expected to accrue as a result of public improvements or investments. While many of these strategies are used in the United States to fund or finance infrastructure improvements, such as water, sewer, and other utility systems, this report focuses on the use of these strategies specifically to fund or finance transit or transit-related facilities or improvements. The four strategies that are the focus of this report are as follows:

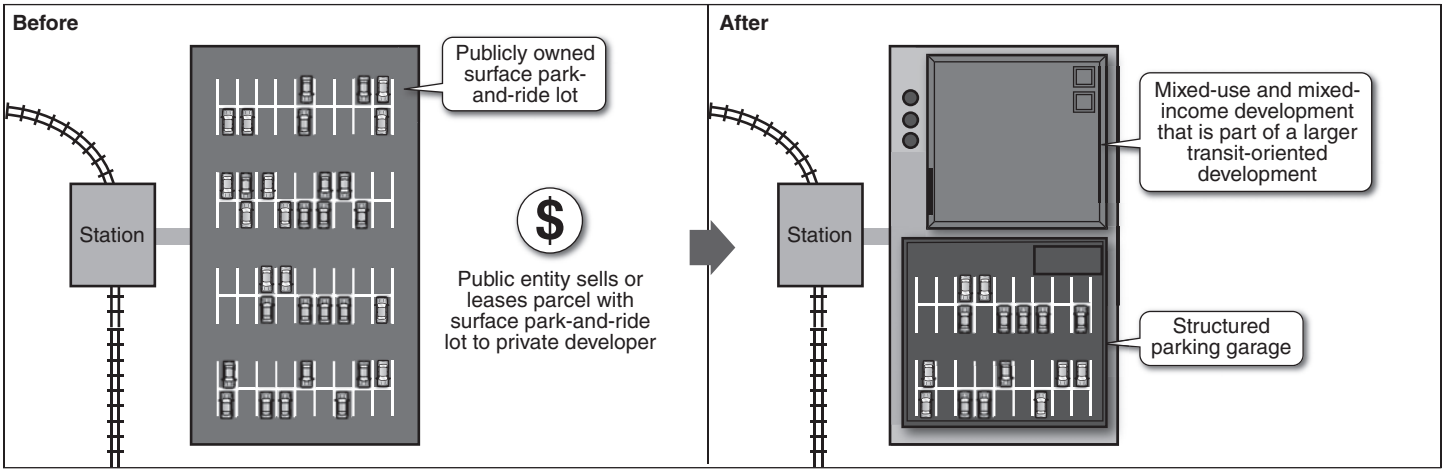
- **Joint development** is generally defined as a real estate development project that involves a cooperative arrangement between public and private sector partners, often as part of a transit-oriented development.[7] Joint development arrangements can take a number of forms, including a lease of land, air rights, or space to a developer; sale of land for specific types of development; joint construction of a transit facility and private development; and others.[8] Public and private partners can share costs, revenues, or financial risk depending on the particular arrangement. Any joint development using federal funds to make capital improvements must

[7]Joint development and transit-oriented development have several common characteristics, however in most cases joint development takes place on or above property owned by a transit agency or other public entity. In addition, while transit-oriented developments generally are envisioned to encompass multiple city blocks and are similar to a neighborhood in size and character, joint development tends to be project-specific, often occurring within a city block and tied to a specific real estate development.

[8]Joint developments can also be arranged through construction cost sharing, station connection fees, and negotiated private contributions.

follow FTA's joint development guidance and meet the statutory definition of an eligible capital project.[9] See figure 1.

Figure 1: Example of a Joint Development



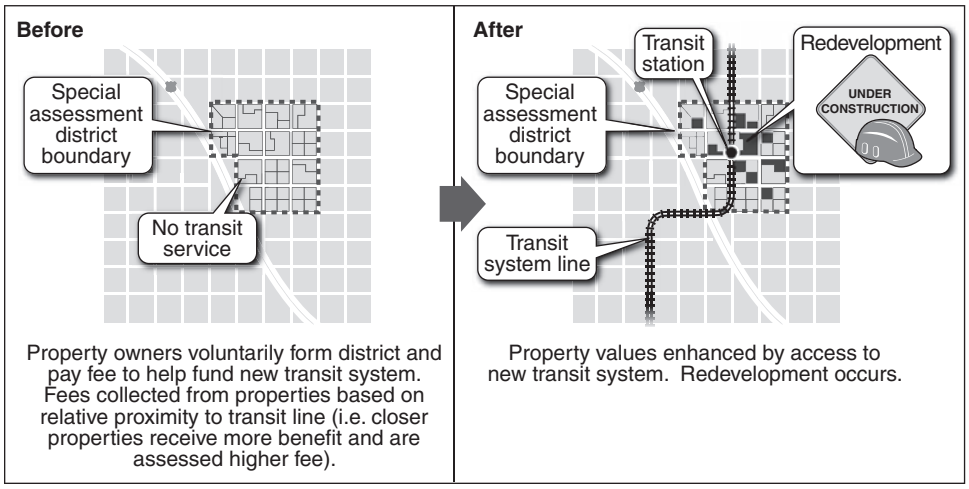
Source: GAO.

- **Special assessment districts** designate a formal boundary in which taxes or fees are assessed on properties expected to see a projected benefit due to the geographic proximity of a new transit facility or other

[9]Federal transit law defines a "capital project" for joint development as follows: A public transportation improvement that enhances economic development or incorporates private investment, including commercial and residential development, pedestrian and bicycle access to a public transportation facility, construction, renovation, and improvement of intercity bus and intercity rail stations and terminals, and the renovation and improvement of historic transportation facilities, because the improvement enhances the effectiveness of a public transportation project and is related physically or functionally to that public transportation project, or establishes new or enhanced coordination between public transportation and other transportation, and provides a fair share of revenue for public transportation that will be used for public transportation. In addition, a person making an agreement to occupy space in a facility under this subparagraph shall pay a reasonable share of the costs of the facility through rental payments and other means. 49 U.S.C. § 5302(a)(1)(G). Joint development improvements shall be eligible for FTA funding if they satisfy the criteria set forth above, and do not fall within the exclusion detailed at 49 U.S.C. 5302(a)(1)(G)(ii), which excludes the construction of a commercial revenue-producing facility (other than an intercity bus station or terminal) or a part of a public facility not related to public transportation.

unique amenity. The revenue collected is then used to help pay for such facility or amenity.[10] See figure 2.

Figure 2: Example of a Special Assessment District Used to Fund Part of a Transit Project



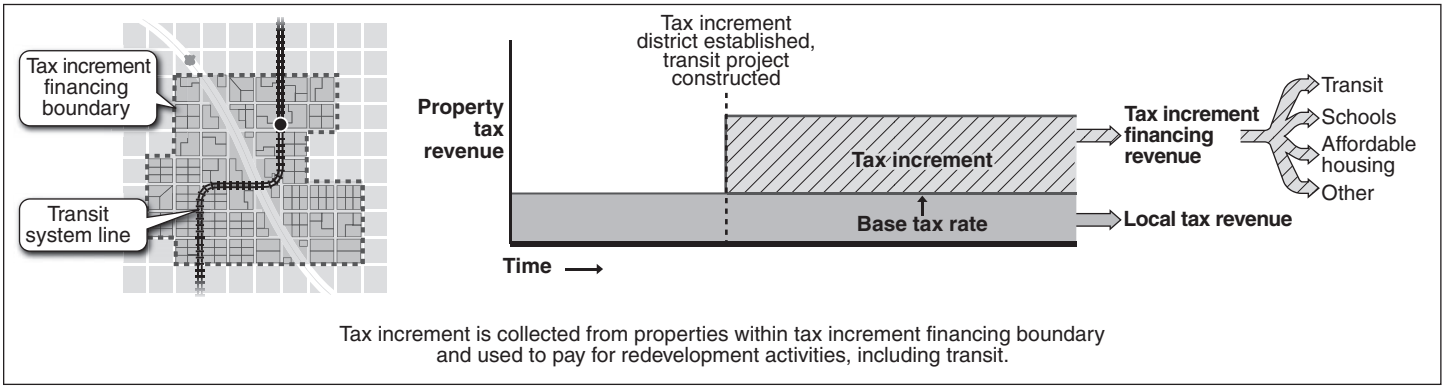
Source: GAO.

- **Tax increment financing** is a public financing technique used by local entities to encourage economic development.[11] Typically, a public-sector agency issues a special bond to finance the infrastructure necessary to support new development and then uses the incremental increase in property value within a formally designated tax increment financing district to fund repayment of the bonds for the development-related costs, including the costs of transit infrastructure improvements. See figure 3.

[10]Special assessment districts are also sometimes referred to as business improvement districts, local improvement districts, benefit assessment districts, community facilities districts, and others.

[11]Economic development is broadly defined to include activities to promote business growth, workforce development, entrepreneurship, community economic development, and quality-of-life issues. Public transit investments are one of many important factors determining a locale's economic development.

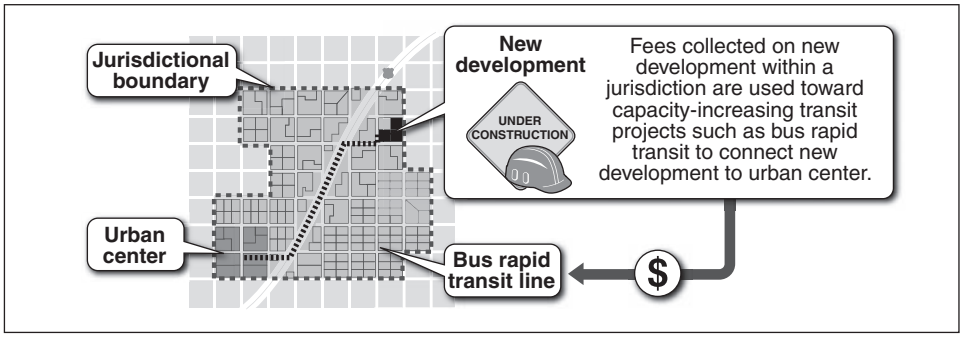
Figure 3: Example of a Tax Increment Financing District Used to Fund Part of a Transit Project



Source: GAO.

- **Development impact fees** are one-time charges collected by local governments from developers to help defray the cost of new or expanded infrastructure and services associated with new development, including capacity-increasing transit projects. See figure 4.

Figure 4: Example of Development Impact Fees Used to Fund Part of a Transit Project



Source: GAO.

The use of value capture strategies may be authorized by the state, and can be limited or restricted by state governments. For instance, state legislatures generally provide the authority to public entities to establish special assessment districts or tax increment financing districts and to use the revenue generated from the districts for specific purposes. State and local governments also play a role in creating the environment needed to optimize the value created by transit projects or improvements. For example, local governments create the zoning environment, which may,

for example, allow developers to build mixed-use developments at higher densities. The implementation of any of the above strategies requires coordination among a number of key public and private sector entities. Their principal roles are summarized as follows.

- **Local transit agencies**, such as transit authorities or transit operators, are responsible for building, maintaining, and operating transit systems. These transit systems can include fixed-guideway transit systems—such as light or heavy rail, streetcars, ferry systems, and some bus rapid transit—and local bus service. Transit agencies may be direct recipients of federal transit funds, particularly in major urban areas.

- **State and local departments of transportation and metropolitan planning organizations** develop transportation plans and improvement programs; build, maintain, and operate transportation infrastructure and services; and distribute federal funds to local entities for specific projects.[12]

- **Local county and city governments** are typically responsible for assessing and collecting property taxes, development impact fees, or special assessments. In addition, local governments, through agencies such as county or city planning departments or redevelopment agencies, have control over land use planning, which includes zoning and growth management policies.

- **Private developers** decide on and create developments and build and manage housing units and commercial developments. In some cases,

[12]Metropolitan planning organizations are federally mandated regional organizations responsible for comprehensive transportation planning and programming in urbanized areas with a population of more than 50,000 and are required by federal law to develop long-range regional transportation plans and transportation improvement programs. 23 U.S.C. § 134. The current framework for federal participation in surface transportation is set forth in authorizing legislation, most recently amended by the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Pub. L No. 109-59, 119 Stat. 1144 (2005). These pieces of legislation have established an overall approach for surface transportation planning and decision making that generally gives local and state governments significant responsibilities for these activities in their own regions. For example, 23 U.S.C. § 134 establishes specific planning task requirements that metropolitan planning organizations, in conjunction with states, public transportation operators, and other stakeholders, must perform, which include (1) developing long-range transportation plans and transportation improvement programs for metropolitan planning areas of the state, (2) specifying financing for the transportation plan and transportation improvement program, and (3) involving a wide range of stakeholders in the process which emphasizes consultation and coordination.

private developers enter into sale or lease agreements with transit agencies or other public-sector entities when undertaking joint developments.

- **Property owners**, in addition to paying property taxes, sometimes agree to enter into formally established districts and pay assessments to local public-sector entities for the purpose of funding new transit projects, other infrastructure (e.g., sidewalks, utilities), or improvements to existing transit services.

In general, FTA plays no role in the direct implementation of most value capture strategies. However, transit agencies must follow a number of federal requirements if, for example, a joint development includes land that was purchased as part of a federally funded transit project or receives federal funds. In 2007, FTA issued guidance on joint development requirements that clarified the eligibility of joint development activities for federal capital funding.[13] Transit agencies must receive FTA concurrence to sell or lease federally funded property for joint development purposes.[14] To use program income or FTA grant funds for a joint development improvement, a local transit agency must demonstrate that the improvement provides economic and public transportation benefits, raises revenue for public transportation, and covers a reasonable share of costs (if applicable).

While FTA does not have formal policies or programs related to forms of value capture for transit other than joint development, FTA programs fund capital transit projects—a key step in creating a transit-oriented development and of creating value. FTA's New Starts program—its major capital investment program for new, and extensions to, existing fixed-guideway transit systems—awards funds to individual projects through a competitive selection process, which applies ratings to potential projects based on local financial commitment and project justification criteria, including cost effectiveness, land use, operating efficiencies, environmental benefits, economic development effects, and mobility

[13]Notice of Final Agency Guidance on the Eligibility of Joint Development Improvements Under Federal Transit Law 72 Fed. Reg. 5788 (Feb. 7, 2007).

[14]See Common Grant Rule, 49 C.F.R. part 18.

improvements.[15] FTA also provides funding to state and local governments, and metropolitan planning organizations through a number of other programs, that may be used for transit, including:

- Transit Capital Assistance (Recovery Act)
- the Surface Transportation Program
- the Congestion Mitigation and Air Quality Improvement Program[16]
- Transportation Investment Generating Economic Recovery Discretionary Grant Program[17]
- Transportation Planning Funds
- Transit Formula and Discretionary Programs

In addition, the federal government also currently has two programs designed to offer credit assistance to states for surface transportation projects. The Transportation Equity Act for the 21st Century[18] established the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), which authorized DOT, who later delegated this authority to the Federal Highway Administration (FHWA),[19] to provide credit assistance, in

[15]49 U.S.C. § 5309(d)(2). In addition to New Starts, SAFETEA-LU established the Small Starts program for lower-cost capital projects, which may include non-fixed-guideway corridor-based bus capital projects. Small Starts projects are defined as those capital investment grants with a request for less than $75 million and a total estimated net capital cost of less than $250 million. 49 U.S.C. § 5309(e). FTA also subsequently introduced a subset of the Small Starts program, called Very Small Starts, for projects with a total capital cost of less than $50 million.

[16]Several programs administered by the Federal Highway Administration (FHWA) have transit eligibility, in particular, the Surface Transportation Program and the Congestion Mitigation and Air Quality Program. These two programs are eligible for use on both highway and transit projects. When these FHWA funds are used for transit projects, states have the authority to request transfer of the funds from FHWA to the FTA, up to a certain amount, to be administered as FTA grants.

[17]Transportation Investment Generating Economic Recovery (TIGER) and Transit Capital Assistance grants were provided appropriations by the American Recovery and Reinvestment Act of 2009. DOT announced TIGER grantees on February 17, 2010. An Interim Notice of Funding Availability for a similar program referred to as TIGER II Discretionary Grants was issued on June 1, 2010. 75 Fed. Reg. 30460.

[18]Pub. L. No. 105-178, 112 Stat. 107, 241 (1998).

[19]65 Fed. Reg. 2827 (Jan. 5, 2001).

the form of direct loans, loan guarantees, and standby lines of credit, for projects of national significance.[20] A similar program, the Railroad Rehabilitation and Improvement Financing (RRIF) program, offers loans to acquire, improve, develop, or rehabilitate intermodal or rail equipment or facilities.[21]

DOT has recently begun to emphasize livable communities. For example, DOT has refocused the goals of some existing programs and entered into the Sustainable Communities Partnership with the Department of Housing and Urban Development and the Environmental Protection Agency. This partnership is intended to help American families gain better access to affordable housing, more transportation options, and lower transportation costs by coordinating and leveraging federal programs. FTA also introduced funding opportunities for fiscal year 2010 for urban circulator and bus-related livability projects that promote livability, sustainability, economic development, and the leveraging of public and private investments. In addition, FTA grant program funds can promote livability by funding eligible expenses, such as joint developments, bicycle and pedestrian access, and other amenities near transit stations.

[20]Pub. L. No. 105-178, §§ 1501-1504, 112 Stat.107, 241-255 (1998), codified as amended at 23 U.S.C. chapter 6.

[21]Pub. L. No. 105-178, § 7203, 112 Stat. 107, 473-475 (1998), codified as amended at 45 U.S.C. §§ 822, 823.

Use of Joint Development and Other Value Capture Strategies Has Been Limited but Is Sometimes Critical in Funding and Financing Transit

The Few Transit Agencies with Extensive Joint Development Experience Have Common Characteristics

According to data collected from 55 transit agencies, experience with joint development varies widely, both in quantity and type. More than half of the transit agencies we collected data from (32 of 55) have used joint development, while one-fifth (11 of 55) have used joint development extensively (6 or more joint developments). Moreover, the 11 agencies with extensive joint development experience were responsible for 115 of the 166 reported developments, and just 3 agencies (Los Angeles Metro, Washington Metro, and Metropolitan Atlanta Rapid Transit) were responsible for 58 of the 166 reported developments. These developments varied greatly in size and type. For example, while joint developments are often small and on a single parcel of land near a transit station, a few transit agencies have completed neighborhood-scale transit-oriented joint developments. For instance, Atlanta's Lindbergh City Center will eventually encompass 47 acres of mixed-use development near a Metropolitan Atlanta Rapid Transit station. Joint developments also varied in the types of uses; while many joint developments include housing, offices, and retail space, they sometimes include hotels, youth services, clinics, or other civic uses.

We found that transit agencies that have used joint development extensively typically share certain characteristics. Specifically, these transit agencies generally

- operate older, larger fixed-guideway systems;[22]
- have formal joint development or transit-oriented development policies;
- have in-house real estate expertise; and
- have developable land holdings on which to build joint developments.

According to state and local transit officials we spoke with, the permanency of stations along fixed-guideway systems makes station areas on these systems more attractive for joint development than station areas along bus lines or other non-fixed-guideway systems. Although joint development is more often undertaken on fixed-guideway systems, King County Metro in Seattle has implemented a number of joint developments at permanent intermodal transit centers and park-and-ride lots along its bus routes.

Most transit agencies with extensive joint development experience also have formal joint development or transit-oriented development policies and in-house real estate expertise. State and local transit officials we spoke with told us that formal policies allow transit agencies to prioritize joint developments and align them with broader agency and community goals. Based on our review of transit agencies' joint development policies, we found that these policies often have common goals, which include increasing transit ridership; reducing automobile dependency; generating revenue to support transit operations; and partnering with local communities to achieve intensive, high-quality development near transit stations.

In addition, state and local transit officials we spoke with emphasized the importance of having an in-house real estate office, along with outside consultants, dedicated to managing their agency's real estate assets, including its joint developments.[23] For instance, Maryland Department of Transportation (MDOT) officials told us the department's Office of Real Estate has a $3 million bi-annual budget and several in-house staff

[22]Ten of these transit agencies operate fixed-guideway systems that opened during or before 1990. Seven of these transit agencies have a service area of least 500 square miles, and eight had at least 100,000,000 annual trips.

[23]A transit agency's real estate department is typically responsible for managing the agency's acquisition and disposition of land, lease and rental agreements, and station area development.

dedicated to transit-oriented development. The officials further estimated that the Office of Real Estate spends about $300,000 a year on outside real estate consultants to assist its in-house staff in managing MDOT-owned property. According to MDOT officials, transit-oriented joint development is unlikely to take place unless state and local transit agencies have an office dedicated to managing agency-owned properties in ways that promote transit-oriented development.

Also, transit agencies with extensive joint development experience are also likely to have developable land holdings on which to build joint developments and transit-oriented developments. Many state and local transit officials we spoke with told us their agency made land available for joint development by converting expansive, underutilized surface park-and-ride lots at their stations into transit-oriented developments with structured parking garages. Several of these transit agencies have also constructed a number of joint developments on land holdings they originally acquired for construction staging purposes during their system's initial construction and subsequent expansions.

Joint Development Revenue Is Generally Small Relative to a Transit Agency's Annual Operating Expenses

Although several transit agencies have generated millions of dollars in annual revenue from joint development, this annual revenue is generally small when compared with an agency's annual operating expenses.[24] For example, the three transit agencies with the most joint development experience—Los Angeles Metro, Washington Metro, and Metropolitan Atlanta Rapid Transit— generated between $184,000 and $8.8 million in revenue from their joint developments in fiscal year 2008, while their total operating expenses for fiscal year 2008 ranged from $374 million to $1.3 billion. Specifically, each agency's fiscal year 2008 annual joint development revenue—when compared with the agency's total annual operating expenses—amounts to no more than 1 percent. See table 1.

[24]Generally, transit agencies generate joint development revenue by selling or leasing agency-owned land.

Table 1: Joint Development Revenue Relative to Total Operating Expenses Fiscal Year 2008

Transit agencies	Revenue from joint development (FY 2008)	Total operating expenses (FY 2008)	Joint development revenue relative to total operating expenses for FY 2008 (as a percentage)
Los Angeles Metro	$184,000	$1.2 billion	0.02%
Washington Metro	$8.8 million	$1.3 billion	0.7%
Metropolitan Atlanta Rapid Transit	$3.95 million (projected)	$374 million	1.0%

Source: GAO analysis of transit-agency-reported data.

State and local transit officials we spoke with told us that joint development revenue goes into either a set-aside joint development fund or the agency's general fund. Whereas general fund revenue is used by transit agencies for operations and maintenance as well as capital projects—including joint developments—set-aside funds target funds for specific purposes. For example, Santa Clara Valley Transportation Authority officials told us that revenue from the agency's joint developments is placed in a set-aside fund, rather than its general fund, and used to fund the continued operation and development of the agency. Moreover, revenue from one phase of a joint development can also be used to fund a later phase of the same development. For example, MDOT transferred approximately 10.2 acres of state-owned land adjacent to one of its commuter rail stations to a developer for a transit-oriented development at the station. The developer considered this land contribution (valued at $3.3 million) a credit toward the construction of a commuter garage on the transit-oriented development site.

A majority of transit agency officials we spoke with told us that, for a variety of reasons, they prefer to lease agency-owned land rather than selling it when entering into joint development agreements. Agencies often favor leasing because it allows them to maintain direct control over land use and receive an ongoing revenue stream. For instance, Los Angeles Metro officials told us that leasing land generates significant revenue for the transit agency, and allows the agency to require "attractive" developments and hold developers accountable if they walk away from a failed development. But several transit agencies told us that, in some cases, selling land makes sense. For example, Washington Metro officials told us that although the transit agency's board members prefer to lease agency-owned parcels, the agency may sell the parcel if it needs upfront money to build a parking structure on the development site. Furthermore, if a planned joint development includes for-sale condominiums, Washington Metro officials stated they may sell the parcel rather than

lease it because the agency does not have the authority to own land where condominiums are sold.

Other Value Capture Strategies Have Not Been Widely Used to Fund or Finance Transit

According to transit agencies that we collected data from and relevant literature that we reviewed, special assessments, tax increment financing, and development impact fees (other value capture strategies) have not been widely used as a source of funding for transit. Nineteen of the 55 transit agencies that we collected data from reported that one or more of these strategies was used to fund transit projects on their system. Five of the 55 reported that at least two of the three other value capture strategies had been used to fund transit projects on their system. These transit agencies reported that special assessment districts had been used in 17 instances, tax increment financing in 13 instances, and development impact fees in 22 instances. See table 2.

Table 2: Use of Special Assessment Districts, Tax Increment Financing, and Development Impact Fees to Fund Transit

	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.

In addition, according to literature on value capture strategies that we reviewed, public entities more often use special assessment districts, tax increment financing, and development impact fees to fund public infrastructure improvements—such as water and sewer systems, roads, schools, or parks—than they do to fund transit or transit-related projects. However, state and local transit officials we spoke with told us about several major transit infrastructure projects funded by one or more other value capture strategies. For example:

- **Local governments in the Washington, D.C., region** have generated revenue for two major projects on Washington Metro's system through special assessment districts: the Dulles Corridor Metrorail Project, which is extending the Washington Metro system 23 miles, including a station at Dulles International Airport, and the New York Avenue Metro Station

project, which is the agency's first infill station built without discontinuing passenger service.[25]

- **The cities of Seattle and Portland** have constructed several new streetcar lines using value capture strategies. Seattle's South Lake Union streetcar capital costs were funded in part through a special assessment district, and Portland has funded portions of its 4-mile streetcar line using special assessment districts and tax increment financing.

- **Sacramento County** is planning to dedicate a portion of a development impact fee to fund three proposed bus rapid transit lines in the county.

- **The Transbay Joint Powers Authority (TJPA) in San Francisco** is using tax increment financing revenue to fund repayment of a TIFIA loan it received for the construction of a planned new multimodal transit center in the city's downtown.

- **The city of Atlanta** established a tax increment financing district to pay for a majority of the costs associated with the proposed Atlanta Beltline project, a 22-mile transit loop that will run along existing underused rail corridors.[26]

In addition, transit agency and local government officials we spoke with informed us that other value capture strategies are being used to fund basic infrastructure and streetscape and station improvements at several transit-oriented developments. Several of these transit-oriented developments also include a parcel (or parcels) that is being jointly developed by a transit agency and a private sector partner:

- **Contra Costa County, California**, is using combined revenue from special assessments and tax increment financing to construct a variety of public infrastructure improvements at the Pleasant Hill transit-oriented development. These improvements include backbone infrastructure, such as roads and drainage systems; place-making infrastructure, such as parks and plazas; and a new structured parking garage to replace the station's existing surface parking lot.

[25]An infill station is a new station built between two existing stations along a transit line.

[26]The Beltline project will be funded using a tax allocation district, which is similar in form to a tax increment financing district. In addition to funding the transit portion of the project, funds generated by the tax allocation district will be used to pay for other project components, including 1,300 acres of new parks and green space and 33 miles of trails.

- **The city of Dallas, Texas**, has recently established a transit-oriented development tax increment financing district that includes seven station areas along Dallas Area Rapid Transit's light rail system. According to Dallas Area Rapid Transit officials, funds generated by this tax increment financing district can be used to help pay for basic infrastructure improvements—such as streets, water and sewer systems, and a portion of structured parking garages—at the transit-oriented developments.

- I**n Baltimore County, Maryland**, locally administered tax increment financing revenue will be used to pay for two state-owned structured parking garages at the planned Owings Mills transit-oriented development. MDOT officials told us that a special assessment district will also be established to help fund operation and maintenance of the state-owned structured parking garages, roads, and other on-site improvements. In addition, revenue generated through the special assessment district may be used to help pay bond debt if the tax increment financing district is unable to generate sufficient revenue to cover debt service payments.[27]

Revenue Generated by Other Value Capture Strategies Has Varied, and in Some Cases Has Been Critical to Projects' Feasibility

Based on our review of financial data for several major transit infrastructure projects and transit-oriented developments that have been (or are being) funded in part by other value capture strategies, these strategies have generated—or are projected to generate—between

- $20 million and $1.7 billion—or between 4 percent and 61 percent of the total project costs—for nine major transit infrastructure projects; and

[27]In Maryland, special assessments are often established along with tax increment financing districts and may be used to repay the tax increment financing bonds in the event that the revenue from the tax increment financing district is not sufficient to service the debt in a given year. The assessments are refunded if the tax increment financing district generates sufficient revenue to cover the debt service on its own.

- between $14 million and $750 million for the construction of parking garages, parks, and other place-making and basic infrastructure at five transit-oriented developments.[28]

Tables 3 and 4 provide additional information about these projects and developments, including their status and the types of value capture strategies used.

Table 3: Summary of Select Major Transit Infrastructure Projects Funded in Part Using Other Value Capture Strategies

(Dollars in millions)

Project name (status)	Value capture strategy(ies)	Amount of revenue generated through use of value capture strategy(ies)	Total project cost	Value capture revenue as a percentage of project costs
Atlanta Beltline (planned)	Tax increment financing	$1,700	$2,800	61%
Seattle South Lake Union streetcar (completed)	Special assessment district	$25	$53	47%
Portland streetcar (completed)	Tax increment financing and special assessment district	$41	$103	40%
San Francisco Transbay Transit Center (in progress)	Tax increment financing and special assessment district	$1,400	$4,185	33%
Washington Metro's NY Avenue Station (completed)	Special assessment district	$25	$110	23%
Dulles Corridor extension (in progress)	Special assessment districts	$730	$5,250	14%
Los Angeles Metro Red Line, Segment One (completed)	Special assessment districts	$130	$1,420	9%
Seattle Bus Tunnel (completed)	Special assessment district	$20	$500	4%

Source: GAO analysis of transit agency-reported data.

Note: See app. II for additional information about these transit projects and others that transit officials informed us about during our site visits, but did not provide complete financial data for.

[28]During our site visits, state and local transit officials identified and provided us with financial data for several major transit infrastructure projects and transit-oriented developments that have been (or are being) funded in part by other value capture strategies. In some cases, revenue generated through the use of value capture strategies was projected, not actual. We included these transit projects and transit-oriented developments in our analysis because (1) the developers and local governments have agreements in place, or (2) the tax increment financing or special assessment districts have already been formally established and a portion of expected taxes and fees are already being collected.

Table 4: Summary of Transit-Oriented Development Infrastructure Improvements Funded in Part Using Other Value Capture Strategies

(Dollars in millions)

Transit-oriented development (status)	Value capture strategy(ies)	Amount of revenue generated through the use of value capture strategy(ies)	Onsite infrastructure improvements funded through the use of value capture strategy(ies)
BART Pleasant Hill transit-oriented development (in progress)	Tax increment financing and special assessment district	$750	Backbone infrastructure, such as roads and drainage systems; place-making infrastructure, such as parks and plazas; and a new structured parking garage to replace the station's existing surface parking lot.
Dallas Area Rapid Transit transit-oriented development tax increment financing district (established)	Tax increment financing	$182	Basic infrastructure improvements, including parking garages and water and sewer systems.
MDOT State Center transit-oriented development (in progress)	Tax increment financing (backed by a special assessment district)	$100	Structured parking, station amenities, affordable housing, and other infrastructure improvements, in combination with other local bonds.
MDOT Owings Mills transit-oriented development (in progress)	Tax increment financing and special assessment district	$60	Tax increment funds to pay for the construction of two state-owned parking garages and special assessment funds to pay for the operation of state-owned garages, roads, and other improvements.
MDOT Savage transit-oriented development (in progress)	Tax increment financing (backed by a special assessment district)	$14	Structured parking garage to replace the commuter rail station's surface parking lot.

Source: GAO analysis of transit agency-reported data.

Note: See appendix II for additional information about these developments and others that transit officials informed us about during our site visits, but did not provide complete financial data for.

Although revenue generated from other value capture strategies varies—and typically represents one of multiple sources used to fund a transit project or the infrastructure supporting a transit-oriented development—this revenue can be critical to the financial feasibility of these projects and developments. Several state and local transit officials we spoke with told us that the use of one or more other value capture strategies was critical to the feasibility of their project or development, typically because it filled a funding gap. For instance:

- Washington Metro officials told us that the New York Avenue Metro station project would not have happened without nearby property owners' financial support through a special assessment district. According to a key

private sector partner for the project, the local government's financial situation at the time prevented it from funding the entire nonfederal share of the station's construction costs. As a result, nearby property owners voluntarily agreed to provide the remaining $25 million needed for the station's construction through a special assessment district.

- Seattle Department of Transportation officials explained that a special assessment district was critical to funding the city's South Lake Union streetcar line because the city of Seattle does not have a stream of money dedicated to large capital transit projects.

- Local transit officials in Portland explained that special assessment districts and tax increment financing have played a major role in funding the city's streetcar system because, unlike many other cities, Portland does not have a sales tax dedicated to transit. An official from one local government also noted that Portland's lack of a sales tax may explain why residents are more supportive of tax increment financing than residents of other cities.

- MDOT officials told us that tax increment financing is being used to pay for the construction of structured parking garages at several new transit-oriented developments throughout the state. According to MDOT officials, finding a way to pay for the construction of structured parking garages represents the biggest hurdle for all jurisdictions undertaking transit-oriented developments.

Several Factors Can Facilitate or Hinder the Use of Joint Development and Other Value Capture Strategies to Fund or Finance Transit

Public-Sector Coordination and Private-Sector Support Can Facilitate Implementation of Transit Projects Using Value Capture Strategies

Coordination among public-sector entities can facilitate the implementation of projects using value capture strategies because such projects generally require the involvement of multiple public entities with different authorities. Specifically, transit agencies are responsible for building, maintaining, and operating transit, but need to coordinate with local and state governments that generally have authority over taxation, land use, and development. For instance, when tax increment financing is involved, transit agencies—which generally do not have taxing authority—often have to coordinate with local taxing authorities to help establish a tax increment financing district and dedicate a portion of the tax increment toward a transit project. In addition, because high-density zoning around transit stations helps optimize the value available for capture, transit agencies often work with local zoning authorities to modify zoning regulations to allow for higher-density development. Zoning regulations may also need to be modified to allow for mixed-use development, particularly in joint developments.

Some transit agency officials told us that they have successfully coordinated with local governments when using value capture strategies, while others have faced challenges. For example, officials told us that transit projects have been successful because of effective coordination with local governments to rezone areas surrounding the transit project to allow for more dense development, while effective coordination with redevelopment agencies helped dedicate some of the tax increment collected from the urban renewal area to transit projects and transit-oriented developments. Moreover, some transit agencies in California have created joint powers authorities—partnerships with local jurisdictions, which allow multiple public entities to operate collectively. Through such authorities, officials told us that the partners can collaborate to establish common goals and ensure that the design for the transit project is

integrated with the surrounding development. Conversely, officials from other transit agencies said it was challenging to convince local governments to allow for higher-density development near transit and they are working to improve their relationships with local governments. An official from one transit agency that operates a transit system through a large metropolitan area told us the agency has not yet been able to capitalize on some joint development opportunities because of disagreements between the transit agency and some local governments about the level of density a new development should have.

Transit agency and local government officials told us that support from private developers advances the implementation of projects that incorporate the use of value capture strategies. For instance, private or nonprofit developers or other public sector partners must have an interest in partnering with a transit agency to develop the area around a transit station for joint developments to occur. Several officials from transit agencies and local governments that we spoke with emphasized that the support of private developers, typically financial support, was critical to implementing their projects or developments. For example, officials from a few transit agencies said that the upfront funds provided by the private developer for one of its joint developments helped fund the transit infrastructure, including the parking structure and other transit station improvements.[29] Another official from a different transit agency said that in-kind land contributions (paid in lieu of a monetary development impact fee) will be critical to implementing a planned transit project. Furthermore, an official from one county government noted that substantial interest from developers has allowed the county to be more selective about which transit projects it undertakes because it can focus on projects with the highest priority and revenue generation potential. Some officials stressed that the private developer's long-term support was critical to the success of their joint developments because publicly funded infrastructure projects may take longer than a typical developer is accustomed to.

According to several transit agency and local government officials, the support of private property owners in the vicinity of their transit project was critical to the establishment of a special assessment district, which in turn was critical to the financial feasibility of the project. In one instance,

[29]In some cases, the upfront funds for the transit infrastructure were repaid to the private developer through credits toward lease payments.

the special assessment district—which was established while the transit project was still in the planning stage—could have dissolved at two points because of delays in acquiring other funding. However, the property owners petitioned to maintain the district and the fees. Without this support, a sizeable funding source for the project would have been eliminated. Another local agency official told us that the support of one property owner, who was a majority owner in a proposed special assessment district, was critical to bringing a project to fruition. In contrast, officials from another transit agency told us that opposition from property owners surrounding a planned transit station prevented the establishment of a special assessment district. The transit agency then had to downsize the project because the available funding was less than anticipated.

Transit Project Location and Design Influence How Much Value Can Be Captured

Transit project location and design—including zoning and parking requirements—affect the feasibility of using value capture strategies and the amount of revenue that can be generated. Based on our review of literature and the views of transit officials, we found that some metropolitan areas—and locations within these areas—have the potential to raise more revenue than others through value capture strategies. For example, officials from one transit agency told us their agency cannot generate as much revenue from its joint developments as other metropolitan areas in the country, such as the Washington D.C., metropolitan area or San Francisco, California, because ridership and density are not comparable. Furthermore, an individual with expertise on value capture strategies told us that land in locations that are deemed regionally significant—areas that are important to a region's economy, and include employment, commercial, and residential areas—as opposed to locations that are mostly residential in nature, can generate more value, or revenue, through new transit infrastructure or improvements to existing transit service. Also, as previously discussed, the extent to which land and housing values increase[30] depends on several project characteristics. The quality of transit service and the project's proximity to neighborhood amenities, such as retail services, parks, and schools can generate larger increases while lower relative incomes and higher crime rates have been

[30]Value capture strategies often rely on the actual or projected increase in property values to generate revenue to help fund transit or transit-related projects. Consequently, transit project characteristics and project designs that positively affect property values help to optimize the use of value capture strategies.

found to negatively affect the increase in property values.[31] One transit agency official added that a good transit system with a lifestyle level of service—beyond simple commuting—is essential for successful use of value capture strategies and transit-oriented development.

In addition, several officials, as well as an individual with expertise in the area of value capture strategies that we spoke with stated that for value capture strategies to be useful, it is critical that the project be designed with land use zoning that allows for high-density development. High-density zoning is needed around transit infrastructure because it encourages private development—particularly joint development—by increasing the project's revenue potential, which in turn helps optimize the value available for capture by the public sector. On the other hand, the need to replace parking in joint developments can limit the benefits of using joint development. Commonly, joint developments involve replacing surface parking with structured parking on a portion of the former surface lot to allow space for new development. Several officials and experts that we spoke with acknowledged a need to replace at least a portion of the existing parking spaces, but emphasized that the construction of structured parking—needed to maintain parking capacity and to free up space on the parcel for new development—can limit the amount of value that can be captured because such construction can substantially increase a project's cost, thereby reducing the revenue raised through the use of the value capture strategy.

Unfavorable Economic Conditions Can Hinder the Use of Joint Development and Other Value Capture Strategies

Unfavorable economic conditions can hinder the implementation of transit projects that incorporate the use of value capture strategies, as well as the ability of value capture strategies to raise revenue. Most transit agency, state and local government, and FTA officials that we spoke with told us that the current economic downturn has negatively affected the use of value capture strategies to fund transit.[32] For instance:

- Several joint developments have been recently stalled or terminated because of the current weak economy. For example, an official from one transit agency told us that one joint development project is on hold until the developer can obtain financing for construction of the development. In

[31] GAO-09-871.

[32] In addition, literature that we reviewed reported that the risk in using value capture strategies increases during poor economic times.

addition, this agency has identified other parcels that it would like to use in joint developments, but the head of the agency's economic development department said the agency is currently waiting until the economy improves before issuing requests for proposals for projects.

- The use of tax increment financing is hindered by difficulty in selling bonds on the market at a favorable interest rate due to a weak local economy. Specifically, officials from several governments told us their transit projects are (or were) delayed or postponed until the agency is able to issue bonds at a favorable interest rate.[33]

- Revenue raised through development impact fees is directly dependent on new development projects. Because new development generally slows down during a weak economy, development impact fees may yield little or no revenue. For example, officials from one county government told us their timetable for collecting the total revenue needed to fund their transit project will likely be longer than originally expected because of the weak economy and lack of new development.

- Special assessment districts are more difficult to establish, and the assessments are more difficult to collect during a weak economy. Property owners in the vicinity of transit may be less likely to voluntarily contribute fees toward a project if they see a decline in their property value. On the other hand, another official told us that the strong economic conditions that preceded the current downturn helped facilitate implementation of a project that was funded in part by a special assessment district.

State Laws Can Authorize but May Also Limit Use of Value Capture Strategies

Some state laws specifically authorize the use of value capture strategies for transit purposes. For example, a California law passed in 1968 specifically allows the board of directors of any rapid transit district to establish special assessment districts for the purpose of raising revenue for transit.[34] In Maryland, legislation passed in 2009 allows revenue

[33]One official told us that as of June 2010, the market for selling tax increment bonds has improved, and that some projects that were on hold because of the weak economy are now being pursued.

[34]The Mills Act, codified at Cal. Pub. Util. Code § 99000 et seq. In addition, in 1983, the California State Legislature specifically authorized the Southern California Rapid Transit District to levy special benefit assessments upon parcels of land and corresponding improvements that surround the Metro Rail rapid transit stations. Cal. Pub. Util. Code § 33000 et seq.

generated from special assessment districts to fund infrastructure improvements, and related operations and maintenance, located in or supporting a transit-oriented development.[35] By contrast, some states do not have laws authorizing the use of certain value capture strategies, which effectively precludes their use of these strategies. For example, Arizona does not have a law authorizing the use of tax increment financing.

Furthermore, in some states, revenue generated through special assessment districts or tax increment financing districts cannot be used for funding operations and maintenance of the transit system. For example, in California, a state statute permits the Southern California Rapid Transit District to establish a special assessment for financing a rail transit station or related facility. However, the statute specifically limits the revenue generated from that assessment to the financing of the facility for which it was levied—the revenue cannot be used for any other purpose, including transit, transportation, or operating expenses.[36] Additionally, in Maryland, state statutes authorize the use of tax increment financing for development projects, including transit-oriented developments, but do not allow revenue from bond proceeds to be used to operate and maintain projects.[37]

Some officials we spoke with also reported that state laws have sometimes indirectly hindered the use of value capture strategies. Some states limit the amount of revenue that can be raised or the locations from which it can be raised. For example, California's Proposition 13, which amended the Constitution of California, caps local property tax increases by limiting the annual real estate tax to 1 percent of a parcel of property's assessed value (which can only be increased by 2 percent annually absent a change in ownership).[38] An official in California told us that this cap can limit the amount of revenue that can be raised through tax increment financing

[35]Md. Code Ann., Corporations-Municipal, art. 23A, §44A(b). See 2009 Md. Laws HB300.

[36]Cal. Pub. Util. § 33002(d)(2009).

[37]Md. Code Ann., Economic Development, art. EC §§ 12-204, 12-207; §§ 12-208-210 (2010). Senate Bill 63, introduced in the 2010 Maryland General Assembly, would authorize counties and municipal corporations to directly fund the costs of the operation and maintenance of certain improvements for transit-oriented development from the levy of tax increment revenues.

[38]Cal. Const. art XIIIA. California's Proposition 13 amended the California Constitution in this regard.

until or unless a property changes ownership. Also, in both California and Oregon, tax increment financing can be used only in areas that are "blighted" and are designated as redevelopment or urban renewal areas, respectively.[39] Moreover, in Oregon, the amount of land that can be established as an urban renewal area is capped by state law—as little as 15 percent of the total land area or 15 percent of the total assessed property value for municipalities with a population over 50,000 and 25 percent of each for municipalities with a population under 50,000.[40]

Stakeholders Report That Uncertainty over FTA Policy Can Hinder the Use of Joint Development

Transit Agencies Say FTA's Joint Development Policy Is Confusing and Impedes Joint Development

A number of transit agency officials told us that following FTA's joint development guidance and requirements is confusing, burdensome, and time consuming, which can impede the transit agency's use of joint development. These agencies are required to follow the FTA 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. Transit agency or local government officials identified specific FTA joint development guidelines they find confusing or burdensome. For example:

- These 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. Some officials told us that, in their view, confusion partially exists because the flexibility provided by FTA's joint development guidance does not necessarily seem consistent with federal statutes cited in the guidance. Specifically, these officials told us that the flexibility in FTA's joint development guidance that allows for ancillary development to support

[39]Cal. Const. art XVI,§ 16; Cal. Health & Safety Code § 33030 et seq. Or. Rev. Stat. chapter 457.

[40]Or. Rev. Stat. § 457.420.

the overall vision of a transit project is not consistent with the law that prohibits the use of federal transit funds for private use or benefit.[41] Both transit agency officials and FTA regional officials told us that as a result of confusion over eligibility of certain uses and developments, increased interaction between FTA officials and transit agency officials is often necessary, which lengthens the approval process. These officials told us that the guidance seeks to allow the maximum flexibility under the law, and they are working internally to clarify which uses are eligible and whether statutory changes are necessary for certain developments to be eligible. FTA regional officials noted that interaction between FTA and transit agencies earlier in negotiations could help ease the joint development approval process. Sometimes transit agencies first contact FTA about a potential joint development when negotiations between the transit agency and the private developer are already too far along to allow changes to the design without significantly disrupting or delaying the development's implementation. In 2007, FTA helped clarify certain uses that are eligible by eliminating a requirement for transit agencies to find the "highest and best transit use" for a joint development—a requirement that transit agencies told us was challenging for transit agencies because appraisers could not properly define projects in these terms.[42]

- These officials are unclear to what extent FTA requires parking replacement in joint developments, particularly when they plan to convert existing surface park-and-ride lots into transit-oriented developments. FTA's joint development guidance does not provide examples of shared parking, but does address parking replacement. In response to a concern raised by a commenter, FTA stated that "FTA does not require [transit agencies] to replace parking spaces on a one-to-one basis if those spaces are used for joint development purposes and using them for such purposes will not decrease public transportation trips to and from the station."[43] In addition, FTA officials told us that shared parking arrangements are allowed with complementary uses such as theaters, so long as there is an

[41]49 U.S.C. § 5302(a)(1)(G)(ii), which defines "capital project for joint development, excludes the construction of a commercial revenue-producing facility (other than an intercity bus station or terminal) or a part of a public facility not related to public transportation.

[42]*See* Notice of Final Agency Guidance on the Eligibility of Joint Development Improvements Under Federal Transit Law 72 Fed. Reg. 5788, 5800 (Feb. 7, 2007).

[43]*See* Notice of Final Agency Guidance on the Eligibility of Joint Development Improvements Under Federal Transit Law 72 Fed. Reg. 5788, 5798 (Feb. 7, 2007).

agreement in place that spaces will be available primarily for transit purposes—which typically involves transit riders using park and ride lots between mornings and afternoons, Monday through Friday. However, several local government officials told us that FTA required that the agency replace all existing parking spaces, and did not allow shared use even though arranging a shared parking agreement with the new development, or reducing the total number of spaces, was preferable to replacing all existing surface parking with parking garages at great cost. Another agency interested in constructing a joint development on an underutilized surface park-and-ride lot told us the joint development guidance is unclear as to whether FTA would allow the agency to replace all the current parking spaces or whether FTA would ask for the agency to return the funds invested by FTA to purchase the land for the park-and-ride lot because the parking spaces were not used to support transit—the original intent of the FTA investment.[44]

- Transit agency officials told us that federal laws require they receive highest possible return value for the sale of property through a competitive bidding process and these requirements can be burdensome in certain circumstances. FTA requires transit agencies to receive the highest possible return from the sale of property purchased using federal grant funds.[45] Transit agency officials told us this requirement can stall negotiations with developers and limit flexibility, which transit agencies need to create incentives for investment in transit-oriented joint developments because these developments can be more expensive to build than traditional developments.[46] One agency cited competitive bidding requirements[47] as an obstacle to a proposed joint development in which the developer plans to develop transit-agency-owned-land as part of a larger adjacent development—an arrangement that would give this

[44]At the time of our meeting, this official had not yet contacted FTA regarding the proposed joint development. Transit agency officials told us that park and ride users were directed to other parking lots at nearby stations, alleviating the need for the parking spaces.

[45]49 C.F.R. § 18.31(c)(2).

[46]Transit-oriented developments can be more expensive because they (1) often include structured parking, (2) require expensive firewalls to separate retail and residential uses if they are mixed-use developments, and (3) incorporate pedestrian-oriented design to provide connections to transit.

[47]*See* FTA Circular 4220.1E, Third Party Contracting Requirements, June 19, 2003. See also 49 U.S.C. § 5302(a)(1)(G), making third party contracting requirements applicable for joint development improvements, as applied by FTA through 72 Fed. Reg. 5788 (Feb. 7, 2007).

developer a competitive advantage. Transit agency officials told us that in this case, when the outcome is likely predetermined, the requirement could add time and cost to the efforts of both the public and the private sector. FTA officials highlighted that there are established procedures to potentially grant a waiver from this requirement. In addition, such requirements promote full and open competition.

- One transit agency official told us that federal requirements to maintain continuing control over property purchased with federal funds can be confusing and burdensome. Specifically, if a property purchased with federal transit funds is sold for joint development, FTA requires that the grant recipient maintain effective continuing control of the use of the project property.[48] The transit agency official told us that although the joint development guidance describes several methods of maintaining effective continuing control, FTA regional officials require a deed restriction—and monitoring of the property indefinitely to ensure the land is being used as specified in the deed restriction is a long-term burden for the agency and an impediment to creating a transit-oriented development. FTA officials told us these requirements reflect governmentwide procurement or excess land disposal requirements, and FTA regional officials said they do their best to help transit agencies solve these types of issues within the law.

- Transit agency officials noted that federal restrictions on the use of revenues generated by joint developments can be a hindrance for transit agencies. Per statute, the proceeds of a sale or lease of land purchased with federal dollars must go back to FTA or be applied toward other eligible capital transit projects.[49] Some transit agency officials stated that FTA's requirement to use joint development revenue for capital transit purposes precludes the use of these funds for operations or maintenance, or to acquire land for future transit-oriented joint development. FTA has stated, however, that transit agencies are permitted to use joint

[48]FTA Master Agreements, Section 19.a, October 1, 2009. According to FTA, a fee simple sale would require the grantee to remit the proceeds to the federal government. Other transfers would require the grantee to protect the "federal interest" in the use and control of the real property for a public transportation purpose.

[49]49 U.S.C. § 5334(h)(4).

development revenues for these purposes in certain circumstances.[50] At one agency, officials told us they would like to see their agency's joint development revenue (for projects with a federal interest) go into a transit-oriented development fund. In this official's view, FTA's requirements prioritize earning revenue from joint developments rather than as a catalyst for transit-oriented development and livable communities.

While FTA guidance is confusing or burdensome to many transit agency officials, a few others with extensive joint development told us their experience using the guidance has helped clarify the process and lessen the burden. Officials from one transit agency told us that although the requirements are initially confusing, they have learned through experience to anticipate and work through significant issues. According to officials at these agencies, joint development guidance issued by FTA in 2007 is an improvement over past versions, and FTA regional officials have been helpful in clarifying FTA's requirements. However, according to some of these officials, additional clarification and guidance on which types of developments and structures are eligible for joint development, particularly given recent policy changes due to DOT's livability initiative, could help ease the process and potentially entice more private developers.

FTA officials told us they are aware of ongoing confusion, and noted that additional issues have arisen because of recent policy changes due to the current administration's livability initiative. These officials also told us that a task force is clarifying activities that are eligible for support through the provisions and applications of FTA's joint development requirements, including whether transit funds can be used to purchase land and how to dispose of land or release it to other government entities, such as housing authorities or regional governments. In addition, FTA's 2007 joint development guidance indicates that FTA intends to consolidate guidance on the eligibility of joint development improvements currently appended to three circulars (guidance for new Major Capital Investments, Grants Management, and Formula Capital Grants), as a stand-alone FTA Circular

[50]49 C.F.R. § 18.25(g)(5) allows FTA grantees to retain program income for allowable capital or operating expenses. According to FTA, program income can include income generated by a lease. In addition, according to these officials, FTA policy considers joint development revenues as program income, which can be used for either capital or operating expenses.

titled The Eligibility of Joint Development Improvements under Federal Transit Law. As of July 2010 this Circular has not been issued.

FTA Is Not Directly Involved in the Use of Other Value Capture Strategies, but Some Federal Programs Can Affect the Use of These Strategies

According to FTA officials, FTA has no authority on the use of other value capture strategies because they are administered by local governments. FTA's role is primarily to provide the federal share of capital construction and land acquisition costs when a local share is funded through a value capture strategy. FTA officials told us that if a transit agency proposes a value capture strategy as a source of local funding for a transit project, they evaluate the viability of the revenue source and the likelihood that revenue projections will be met in the future the same as they would for any other proposed local funding source.[51]

However, transit agency officials told us that past New Starts project selection criteria and program requirements limited the competitiveness of some transit projects that promote economic development—an important element to the successful use of value capture strategies. For example:

- Several transit agency officials told us that the New Starts program's past emphasis on cost effectiveness favored less expensive routes over routes that better incentivize economic development. For example, the cost-effectiveness criterion favors travel time savings, which puts streetcar or light rail projects at a disadvantage because they are often designed with frequent stops to promote economic development and create value for property owners.[52] Furthermore, features of a transit-oriented development such as parks, bike access, and pedestrian amenities add costs and potentially make them less competitive. Several officials representing potential project sponsors with a planned contribution from a value capture strategy, told us their projects will not be competitive for New Starts funding because frequently stopping trains, designed to generate economic development, do not necessarily generate the travel time savings needed to meet federal cost-effectiveness requirements.

[51]A standard grant requirement for FTA funds is that the transit agency demonstrate financial capacity (as well as legal and technical capacity) to carry out the program, including development of a transit investment. See FTA Circular 5010.1D, Chapter II.

[52]One project sponsor told us that although the Small Starts program was designed to provide funding for less expensive projects, such as streetcars, the program has the same requirements as larger projects and the program has not been supportive of streetcar projects. The first streetcar project funded through Small Starts was approved in October 2009.

- Similarly, transit officials told us that the New Starts cost-effectiveness criterion limits the potential for joint development by deterring land acquisition near transit stations because costs for extra land purchases potentially reduce the cost effectiveness and competitiveness of a potential New Starts project. According to several transit agency officials, this requirement in effect allows transit agencies to acquire land to attract riders through surface parking lots, but not through transit-oriented joint developments.

  Other New Starts program requirements can also limit transit agencies' use of joint development and other value capture strategies.

- Some transit agency and local government officials told us that ridership forecasting models generally used to determine cost-effectiveness for New Starts projects limit longer-term transit-oriented development opportunities by creating unrealistic requirements for parking spaces near stations. For instance, officials at one transit agency told us the results of their forecasting models require that they purchase land to construct park-and-ride lots near six proposed stations, even though they expect to attract riders through high-density transit-oriented developments around the transit stations once construction of the transit system is completed. However, according to these officials, the New Starts process does not effectively take into account the effects of future high-density transit-oriented developments (which are in-line with FTA's livability goals) on parking when seeking funds for transit capital projects. In effect, the need to purchase land for the park-and-ride lots significantly increases a project's cost, which reduces the project's cost-effectiveness. Moreover, if the transit agency pursues transit-oriented joint development in the future, parking replacement requirements—in this case imposed by other local governments—could create a challenge to constructing transit-oriented joint developments on the sites of the parking lots built for the new line. FTA officials explained that FTA does not have parking requirements in the New Start program and that project sponsors assume a number of parking spaces in their ridership models based on the design of their proposed project. FTA requires that the ridership estimates for the project be consistent with the number of parking spaces the project sponsor intends to build. However, without accounting for future high-density development around the station in the forecasting model—which a transit agency cannot do until these effects are taken into account in metropolitan planning organization travel forecasts—the results of the

model would likely include a ridership level that does not generate enough benefits to make the proposed system competitive in the New Starts grant evaluation process.[53]

- According to officials at a few transit agencies and local governments, the length of the New Starts grant approval process can erode the effectiveness of value capture strategies. For example, one local government official told us that during the multiyear review of a proposed New Starts project, construction costs for the project more than doubled, while the contribution from a special assessment district remained fixed through an agreement with affected property owners.[54] As a result, the proportion of the local share of the project paid for using special assessment district revenue was significantly lower than anticipated, forcing the local government to draw from other local revenue sources to complete funding for the project. In addition, another transit agency official noted that private developers often work with narrow timelines in an effort to open the development during favorable market conditions. Developers calculate the feasibility of a development over about 12 months, whereas transit projects can take several years to plan and develop. FTA noted that the New Starts process includes multiple steps that are required by law, and shortening the process would require legislative changes. In addition, FTA officials cited a number of reasons that a project could be delayed during preliminary engineering or final design that are outside FTA's control such as changes to a project's scope, changes in local political leadership, or the loss of local financial commitment.[55]

[53]FTA officials explained that the New Starts process requires project sponsors to use the future population and employment forecasts officially adopted by the Metropolitan Planning Organization (MPO) as inputs to the travel forecasting model. Thus, to the extent these forecasts take into account future high-density development, they are considered in the New Starts process. FTA does not allow project sponsors to assume growth beyond that officially adopted in the MPO forecasts because there would be no basis on which FTA could verify the legitimacy of the projections.

[54]The transit agency told us that during this period of time, construction costs increased in part due to increasing world-wide demand for materials needed for the rail project.

[55]GAO, *Public Transportation: Better Data Needed to Assess Length of New Starts Process, and Options Exist to Expedite Project Development*, GAO-09-784 (Washington, D.C.: Aug. 6, 2009). FTA noted it has taken several steps in the last year to streamline the New Starts process to the extent possible under the existing statutory and regulatory framework. FTA has also undertaken the rulemaking process to help improve the process further.

DOT and FTA have recently implemented and proposed several changes to the New Starts program and procedures. In 2009, FTA revised the weights given to each of the project justification criteria in accordance with direction in the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Technical Corrections Act of 2008 that they be "…comparable, but not necessarily equal…."[56] As part of this, according to FTA, the weight given to cost effectiveness was lessened and the land use and economic development criteria were split apart and each assigned specific weights rather than being considered together as had previously been the case. In January 2010, the Secretary of Transportation announced that transit agencies are no longer required to have at least a "medium" cost-effectiveness rating for their project to be recommended in the President's budget for New Starts funding.[57] In addition, FTA issued a request for comments in an Advance Notice of Proposed Rulemaking in June 2010 to seek input on how to improve its calculation of "cost effectiveness" and input on how FTA should evaluate economic development effects and environmental benefits in the evaluation and rating process for the New Starts grant program, among other things.[58] This rulemaking follows FTA's change to consider economic development separate from land use.[59] Prior to July 2009, the project justification rating was split evenly between cost effectiveness and land use. These changes have encouraged some transit agencies that are considering the use of value capture strategies, however the overall effect is still unclear. For some transit agencies officials, the removal of the medium cost-effectiveness rating requirement may affect planned transit projects, but one transit agency official noted that regardless of the change, the routes will still need to be cost effective because finding funds for the local match will always limit how much additional land or other user-friendly amenities the agency can buy. One agency official told us that planned transit routes would be aligned differently if spurring economic development becomes a heavily weighted criterion in the New Starts process. Another agency official said

[56]Pub. L. No. 110-244, § 201(b)(1)(d), 122 Stat. 1572, 1610.

[57]To evaluate cost effectiveness for New Starts projects, FTA establishes five breakpoints, each of which reflects a dollar range for different ratings of a project's cost effectiveness (i.e., high, medium-high, medium, medium-low, and low). FTA assigns a cost-effectiveness rating to each project, and annually updates these breakpoints to reflect inflation.

[58]*See* Advance Notice of Proposed Rulemaking (ANPRM), Major Capital Investment Projects, 75 Fed. Reg. 31383 (June 3, 2010).

[59]FTA issued final policy guidance in July 2009, which among other things weighted economic development separate from land use. 74 Fed. Reg. 37763 (July 2009).

that changes are not going to alter where the agency plans new projects; however, the elimination of a minimum cost-effectiveness rating certainly might influence agency plans to acquire additional land in station areas. FTA officials told us they are not sure how the recent and proposed changes to New Starts project evaluation criteria will affect the number or cost of projects seeking funding under the program. Transit agencies could have more flexibility to purchase land for joint development, or additional parking to help meet ridership projections, which has been a challenge in the past. However, FTA also noted that local transit agencies will still need to fund the local match, which can also be a challenge.

Stakeholders See an Expanded Federal Role in Supporting the Use of Value Capture Strategies through Potential and Existing Federal Loan Programs

Some stakeholders and transit agency officials we spoke with told us that the federal government could further support the use of value capture strategies by providing financing options for projects with a value capture revenue stream. Some project sponsors and experts believe federal loans, loan guarantees, or credit enhancements could help bridge a financing gap. Several agency officials noted that the federal government could better promote livable communities and transit-oriented development if it could help agencies overcome parking replacement challenges through targeted grants or loans.

Currently, DOT provides loans for major capital infrastructure projects through the TIFIA and RRIF loan programs. However, most TIFIA projects have been used to finance highway projects, typically with user charges or another revenue source to repay loans. Transit systems farebox revenue rarely covers capital and operations expenses, so another revenue stream is necessary to repay loans. Value capture strategies are one way to create a revenue stream from a transit project to repay the loan.[60] Two specific projects—Denver's Union Station and San Francisco's Transbay Transit Center—are planning to use tax increment financing to repay TIFIA and RRIF loans.

In recent years, proposals to expand federal financing for infrastructure projects have surfaced from stakeholders, including the current administration and Congress. Proposals have included creating a National Infrastructure Bank, other forms of a national infrastructure loan fund,

[60]Other taxes, such as sales taxes, fuel taxes, or other vehicle-related taxes could be used as a source of repayment. For instance, a TIFIA loan for the Tren Urbano transit project was issued based on a pledge of fuel taxes, tire taxes, and vehicle registration fees.

and expanding TIFIA's allocation limits.[61] DOT recently announced that demand for the TIFIA program now exceeds budgetary resources, and as a result, DOT will now, among other changes, evaluate projects against criteria including livability and economic competitiveness.[62]

Conclusions

Value capture strategies can be an effective means for the direct users and beneficiaries of a transit system to contribute to its funding, although past use of these strategies to fund and finance transit is limited. Because these strategies largely involve funding sources administered by local governments, the federal role in the use of value capture strategies is likely to remain relatively limited. However, federal transportation policies can affect local governments' ability to use some value capture strategies, particularly when a federal grant is part of the funding for a transit project. DOT's proposal to change how it evaluates economic development effects in the New Starts evaluation and rating process, and the removal of the requirement that projects receive a medium cost-effectiveness rating or better to be recommended in the President's budget could enhance federal funding prospects for transit projects with contribution from a value capture strategy, as well as transit agencies' ability to pursue joint development. However, value capture strategies are not a panacea. Funds generated through the use of value capture strategies are typically only a limited portion of the total funding needed to complete a transit project. Additionally, states may preclude or limit the use of these strategies or support may not be forthcoming from all the private- and public-sector parties whose concurrence is needed to implement the strategies.

Moreover, transit agencies' confusion about aspects of FTA's joint development policy hinders the use of this value capture strategy. This confusion—despite the 2007 guidance from FTA—about which types of developments and structures are eligible for joint development and how many surface parking spaces must be replaced with structured parking has contributed to project delays and potentially limited transit agencies' ability to facilitate transit-oriented development and "livable" communities along transit corridors. Clarifying early in a project's design phase which

[61]SAFETEA-LU authorized $122 million in TIFIA financing for fiscal years 2005 through 2009. Pub. L. No. 109-59, § 1601, 119 Stat. 1144, 1242. In addition, TIFIA is limited to financing one-third of a project's reasonably anticipated eligible total cost. Pub. L. No. 109-59, § 1601, 119 Stat. 1144, 1241.

[62]74 Fed. Reg. 63498 (Dec. 3, 2009).

types of structures are eligible for joint development could streamline negotiations with developers and FTA and produce more cost-effective results for all parties. In addition, clarifying FTA's requirements and conditions for parking replacement would reduce the potential for transit agencies to design projects with more parking than is actually needed or required and to invest money in costly structured parking that could be put toward enhancing other aspects of the project's design, including economic development components.

Recommendation for Executive Action

To facilitate transit agencies use of joint development, we recommend that the Secretary of Transportation direct the Administrator of the Federal Transit Administration to issue additional guidance on federal joint development requirements including at a minimum,

- further clarification on the types of developments and structures that are eligible under current law, and
- further clarification on any requirements or conditions for parking replacement.

Agency Comments

We provided a draft of this report to the Department of Transportation for its review and comment. DOT agreed to consider the recommendations in this report, and provided technical comments, which we incorporated, as appropriate.

We are also sending copies of this report to interested congressional committees, the Secretary of Transportation, and other interested parties. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact David Wise at (202) 512-2834 or wised@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this report are listed in appendix III.

David Wise
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

To address the use of value capture strategies to fund or finance transit, we reviewed (1) the extent to which transit agencies and state and local governments use joint development and other value capture strategies to fund or finance transit; (2) what selected stakeholders and literature identified as facilitators of, or hindrances to, the use of joint development and other value capture strategies to fund or finance transit; and (3) stakeholders' views about the effects of federal policies and programs on the use of joint development and other value capture strategies to fund or finance transit.

We addressed four value capture strategies: (1) joint development; (2) special assessment districts; (3) tax increment financing; and (4) development impact fees. We chose to focus on these strategies because our review of relevant literature on value capture strategies and interviews with relevant stakeholders found that these four strategies were the most commonly used value capture strategies by transit agencies and state and local governments to fund or finance transit.

To determine the extent to which transit agencies and state and local governments use joint development and other value capture strategies to fund or finance transit, we requested information from the 71 transit agencies that we identified as operating a fixed-guideway system—commuter rail, heavy rail, light rail, streetcar,[1] and bus rapid transit—and the 30 largest U.S. bus agencies.[2] We requested information on the use of each type of value capture strategy in projects on or around any of their transit stations, including the number of projects and the lead agency of the project. In response to our request, we obtained information from 55 of the 71 transit agencies contacted. We then analyzed the information reported by the transit agencies. To ensure the reliability of the information provided, we interviewed stakeholders about the design of our information collection instrument, reviewed responses to ensure that the value capture strategies reported met our definitions of each value capture strategy, and when possible corroborated the reliability of the information through interviews or other agency documents obtained. The information we collected was deemed reliable for our purposes.

[1]Small-scale streetcar systems were excluded because a review of systems in this category determined that most were trolley museums or intended primarily for tourists, rather than a form of public transportation.

[2]Twenty-two bus agencies operated a fixed-guideway system and were also identified as one of the 30 largest bus agencies (based on average weekday ridership).

We also conducted site visits to, or interviewed officials from, transit agencies, state and local governments, and private developers in Atlanta, Georgia; Dallas, Texas; Portland, Oregon; Los Angeles, Sacramento, the San Francisco Bay metropolitan area, and San Jose, California; Seattle, Washington; and the Washington/Baltimore metropolitan area on selected transit or transit-related projects incorporating the use of value capture strategies.[3] Using information from literature that we reviewed and information we collected from the 55 transit agencies, we selected this nongeneralizable sample of cities and metropolitan areas based on criteria we established, including locations where value capture strategies had been used or were under formal consideration for future use and geographical diversity. Where available, we collected and reviewed information obtained from transit agencies on the costs and value capture revenue for projects that used value capture strategies.

To identify facilitators of, and hindrances to, the use of joint development and other value capture strategies, we reviewed relevant literature on value capture strategies. We also interviewed transit agency, state and local government, and FTA headquarters and regional officials, as well as representatives from private developers and individuals with expertise in the area of value capture strategies. In addition, we reviewed applicable state statutes and regulations.

To identify stakeholders' views about the effects of federal policies and programs on the use of joint development and other value capture strategies to finance transit, we interviewed federal, state, and local officials to identify ways federal policies and programs affect the use of value capture strategies. We also reviewed applicable federal regulations and statutes to determine federal requirements and program implications for joint development and other value capture strategies.

We conducted this performance audit from August 2009 to July 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient,

[3]We contacted operators of fixed-guideway systems because we believe based on prior work that the permanency of stations along these systems is more likely to encourage nearby private development, and therefore the use of value capture strategies, than systems with less permanent facilities. However, we contacted the largest 30 U.S. bus agencies to ensure that the information we collected was robust, and to get a sense of whether bus agencies are finding ways to implement value capture strategies despite the lack of a fixed guideway.

appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Descriptions of Select Transit Projects or Developments

Major Transit Infrastructure Projects (by Percentage of Revenue Contributed by Value Capture)	
Atlanta BeltLine	
Project Description	The Atlanta BeltLine is a proposed 22-mile transit loop along underused railroad corridors in Atlanta. The proposed project also includes mixed-use transit-oriented developments, 1,300 acres of new parks and green space, and 33 miles of walking and biking trails. Project sponsors plan to use tax increment financing to help fund project components, including transit, parks and green space, and trails.
Project Status	Planned
Value Capture Strategies	Tax increment financing
Lead Agency	Atlanta BeltLine, Inc.
Value Capture Revenue	$1,700 billion (projected)
Total Project Cost	$2,800 billion (projected)
Percentage Value Capture	61%
Type of Transit	To be determined: streetcar or light rail
Seattle South Lake Union Streetcar	
Project Description	The South Lake Union Streetcar is a 2.6 mile streetcar line that connects Seattle's South Lake Union neighborhood to the Westlake Hub. This project cost $53 million to complete, half of which was paid for using revenue from a special assessment district (locally referred to as a local improvement district) which generally surrounds the line by approximately four blocks. The city of Seattle issued bonds for the project, which will be repaid using the stream of payments from the property owners.
Project Status	Completed
Value Capture Strategies	Special assessment district
Lead Agency	City of Seattle, Department of Transportation
Value Capture Revenue	$25 million (approximate)
Total Project Cost	$53 million (approximate)
Percentage Value Capture	47%
Type of Transit	Streetcar
City of Portland Streetcar	
Project Description	The Portland streetcar runs on an 8.0-mile continuous loop (4.0-mile in each direction) through multiple neighborhoods in Portland, OR. The multi-phased streetcar project cost approximately $103 million with about $19.4 million raised through a special assessment district (locally referred to as a local improvement district) and $21.5 million bonded through tax increment financing from the City's urban renewal agency, Portland Development Commission. The Portland Streetcar is owned and operated by the City of Portland.
Project Status	Completed
Value Capture Strategies	Tax increment financing Special assessment district
Lead Agency	City of Portland Portland Streetcar, Inc.
Value Capture Revenue	$41 million (actual)
Total Project Cost	$103 million (actual)
Percentage Value Capture	40%
Type of Transit	Streetcar

San Francisco Transbay Transit Center	
Project Description	A new multi-modal transit center in downtown San Francisco that will serve ten transportation systems, including high speed intercity passenger rail. Project also includes the creation of a new mixed-use, transit-oriented neighborhood with residential towers, shops, parks, and office buildings on surrounding land. Tax increment financing will be used to repay a $171 million federal TIFIA loan used for construction of the new transit terminal. A planned special assessment district will be used to fund a portion of the construction and maintenance of public infrastructure and facilities needed for the new development.
Project Status	In progress
Value Capture Strategies	Tax increment financing Special assessment district
Lead Agency	Transbay Joint Powers Authority
Value Capture Revenue	$1,400 million (tax increment - projected)
Total Project Cost	$4,185 million (projected)
Percentage Value Capture	33%
Type of Transit	Multimodal

Washington Metro New York Avenue Station	
Project Description	The New York Avenue station was built between two existing stations on Washington Metro's Red Line. The station was deigned to be a catalyst for transit-oriented economic development in Washington's NoMa neighborhood. The $110 million station was built using a unique private-public partnership between adjacent property owners, the District of Columbia, and the federal government. Local property owners agreed to pay $25 million towards the projects through a special assessment district (locally referred to as a Metro Benefit Assessment Fee).
Project Status	Completed
Value Capture Strategies	Special assessment district
Lead Agency	Washington Metro
Value Capture Revenue	$25 million (actual)
Total Project Cost	$110 million (actual)
Percentage Value Capture	23%
Type of Transit	Heavy rail

Washington Metro Dulles Corridor Extension	
Project Description	The Metropolitan Washington Airports Authority (MWAA) is constructing a 23-mile extension of the existing Metrorail system, which will be operated by the Washington Metropolitan Area Transit Authority. The two-phased extension commences at the East Falls Church station on the existing orange line and runs to Washington Dulles International Airport and west to Ashburn. The cost estimate for the two phases of the project is $5.25 billion, with about $400 million raised through a special assessment district for phase I. An additional special assessment district is in place to contribute approximately $330 million of phase II capital construction costs.
Project Status	In progress
Value Capture Strategies	Two special assessment districts
Lead Agency	Metropolitan Washington Airports Authority (construction) and Fairfax County (special assessment district)
Value Capture Revenue	$730 million (projected)
Total Project Cost	$5.25 billion (estimated)
Percentage Value Capture	14%
Type of Transit	Heavy rail

Los Angeles Metro Red Line, segment 1	
Project Description	Segment 1 of the Metro Red Line consists of 5 underground heavy rail stations in downtown Los Angeles. In 1986, Metro formed two special assessment districts (locally referred to as benefit assessment districts) to pay for a portion of the construction costs of the Metro Red Line Segment 1.
Project Status	Completed
Value Capture Strategies	Two special assessment districts
Lead Agency	Los Angeles Metro
Value Capture Revenue	$130 million (actual)
Total Project Cost	$1,420 million (actual)
Percentage Value Capture	9%
Type of Transit	Heavy rail

Seattle Downtown Transit Tunnel	
Project Description	The five-station, 1.3 mile downtown transit tunnel opened in 1990, costing approximately $469 million. King County established a special assessment district (locally referred to as a benefit assessment district) to help finance the tunnel under the downtown area. The assessment provided approximately $20 million dollars toward the project. In 2009, Sound Transit's Link Light Rail line began service—sharing the downtown tunnel with existing bus service.
Project Status	Completed
Value Capture Strategies	Special assessment district
Lead Agency	King County Metro
Value Capture Revenue	$20 million (approximate)
Total Project Cost	$469 million
Percentage Value Capture	4%
Type of Transit	Bus and light rail

Sacramento County Bus Rapid Transit Lines	
Project Description	Sacramento County currently collects a development impact fee, part of which is dedicated to transit. Specifically, the County plans on using the fee's dedicated transit funds to establish bus rapid transit routes on three major congested corridors. County officials told us that they expect funds to be raised over 22 – 25 years.
Project Status	Planned
Value Capture Strategies	Development impact fee
Lead Agency	Sacramento County
Value Capture Revenue	Not available
Total Project Cost	Not available
Percentage Value Capture	Not available
Type of Transit	Bus rapid transit

Transit-oriented Development Infrastructure Improvements (by Total Value Capture Revenue)	
Pleasant Hill Transit-Oriented Development	
Project Description	Bay Area Rapid Transit (BART), Contra Costa County, CA, and the County Redevelopment Agency have created a joint powers authority to construct one portion of a multiple property transit-oriented development at the Pleasant Hill BART Station. Revenue from special assessments and tax increment financing is being used to pay for a variety of public infrastructure improvements at the transit-oriented development site, including the BART patron replacement parking garage, backbone infrastructure (roads, drainage, etc.) and place making infrastructure (parks, plazas, and street furniture).
Project Status	In progress (90% complete)
Value Capture Strategies	Joint development Special assessment district Tax increment financing
Lead Agency	Joint Powers Authority between Bay Area Rapid Transit, Contra Costa County, and the County Redevelopment Agency
Value Capture Revenue	$750 million (projected)
Type of Transit	Heavy rail
Dallas' Transit-Oriented Developments	
Project Description	Transit-oriented developments at 7 light rail stations in Dallas, TX are included in one tax increment financing district. Tax increment financing will be used to pay for basic infrastructure improvements—including water and sewer systems and parking garages—at the transit-oriented developments. A portion of the increment generated on the more developed, north end of the district will be used to fund project elements on the south end of the district, where development is not expected to occur for several years.
Project Status	District established
Value Capture Strategies	Tax increment financing
Lead Agency	Dallas Area Rapid Transit and the city of Dallas
Value Capture Revenue	$182 million (projected – net present value)
Type of Transit	Light rail
State Center Transit-Oriented Development	
Project Description	Maryland Department of General Services is planning to lease state-owned land adjacent to Baltimore's Cultural Center Light Rail Station and State Center Metro Station to a developer for construction of a mixed-use, mixed-income transit-oriented development. Project sponsors plan to use tax increment financing backed by a special assessment to repay bond debt. Revenue from the special assessment will be used to pay bond debt in the event that the tax increment financing revenues are insufficient. In addition, the state of Maryland will receive 7 percent of all project profits as a form of additional ground rents above base rent. The present value of these rents over 50 years is $25 million for a $2 million parcel of land.
Project Status	Groundbreaking expected in 2010
Value Capture Strategies	Tax increment financing (backed by special assessment district)
Lead Agency	Maryland Department of General Services
Value Capture Revenue	$100 million (projected)
Type of Transit	Heavy rail and light rail

Owings Mill Transit-Oriented Development	
Project Description	Maryland Department of Transportation is planning to lease state-owned land to a developer to construct a transit-oriented development at the Owings Mills Metro Station in Baltimore County, MD. Project sponsors plan to use tax increment financing to help pay for the construction of two state-owned parking garages at the transit-oriented development. According to State officials, revenue generated from a special assessment will be used to pay for operations of the state-owned garages, roads, and other improvements; however it may also be used to help pay bond debt in the event that the tax increment financing revenues are insufficient.
Project Status	Groundbreaking expected in 2011
Value Capture Strategies	Tax increment financing Special assessment district
Lead Agency	Maryland Department of Transportation
Value Capture Revenue	$60 million (projected – tax increment financing)
Type of Transit	Heavy rail

MacArthur Station Transit-Oriented Development	
Project Description	The City of Oakland Redevelopment Agency has partnered with Bay Area Rapid Transit and the private developer MacArthur Transit Community Partners, LLC to design and build the mixed-use MacArthur Transit Village adjacent to Bay Area Rapid Transit's MacArthur Station in Oakland, CA. The transit-oriented development will include residential units, commercial and neighborhood-serving retail, a new structured replacement parking structure, new public roads, and various other improvements to the transit station.
Project Status	Planned
Value Capture Strategies	Tax increment financing
Lead Agency	City of Oakland Redevelopment Agency
Value Capture Revenue	$16.8 million (projected non-housing tax increment financing, $17.2 million projected affordable housing tax increment financing)
Type of Transit	Heavy rail

Savage Town Center Transit-Oriented Development	
Project Description	Maryland Department of Transportation is planning to transfer property to a developer to construct a transit-oriented development at the Savage Commuter Rail Station in Howard County, MD. Tax increment financing will help pay for the construction of a parking garage at the transit-oriented development site. According to Howard County officials, revenue generated from a special assessment district will be used to pay bond debt in the event that the tax increment financing revenues are insufficient. Revenue generated through the special assessment district that is not used will be credited back to its contributors annually.
Project Status	Planned
Value Capture Strategies	Tax increment financing (backed by special assessment district)
Lead Agency	Maryland Department of Transportation
Value Capture Revenue	$14 million (projected)
Type of Transit	Commuter rail

Source: GAO analysis of information provided by transit agencies or local governments

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

David Wise at (202) 512-2834 or wised@gao.gov

Staff Acknowledgments

In addition to the contact named above, Raymond Sendejas, Assistant Director; Lauren Calhoun; Elizabeth Eisenstadt; Terence Lam; Matthew LaTour; Amanda Miller, Sara Ann Moessbauer; Jaclyn Nidoh; Josh Ormond; and Gretchen Snoey made key contributions to this report.

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Appendix 2: Summary of Value Capture Case Studies and Mechanisms Utilized in the US

CMAP Value Capture Analysis
Summary of Value Capture Strategy Case Studies

Title	Date	Author(s)	Source	Key Topics for Value Capture	Value Capture Tool	Catchment Area	Terms	Actual or Model?	Total Cost	Fed $	State $	Local $	Value Capture
Using Value Capture to Finance Infrastructure and Encourage Compact Development	2004	Rick Rybeck	CMAP - Public Works Management Policy	Pittsburgh history of land value vs. bldg value taxation	Land Value Tax (LVT)	Citywide	No specific data - only states rate of LVT to Building tax over time	Actual - Pittsburgh and 20 other PA cities					
				DC Metrorail station construction @ New York & Florida Avenues, landowners ok special assessment to pay for half of $50MM construction costs. SA based on both land and bldg value, not land alone. Assessed to owners within 2000 feet.	Special Assessment	Commercially-zoned parcels within 2,500 feet of the transit station entrances but not within 1,250 feet of Union Station.	Property owners pay $25 MM of $50 MM cost. Special assessment used to finance 30-year bond. $1.84 million annual debt service divided by AV each year, tax rate has substantially declined.	Actual	$ 109,700,000	$ 31,000,000		$ 53,700,000	$ 25,000,000
Applying Value Capture in the Seattle Region	2001	THOMAS A. GIHRING	CMAP - Planning Practice & Research, Vol. 16, Nos 3/4, pp.307-320, 2001	Focuses on Land Value Tax Model is 95% tax on Land, 5% tax on Improvement Value Table of differential effect of LVT on by land utilization (vacant vs. simulation model of tax-allocation bond financing	LVT Bond Financing with multiple diff tools - LVT, Incremental LTV, etc			Model					
Policies and Mechanisms on Land Value Capture: Taiwan Case Study	1998	Alven H.S. Lam and Steve Wei-cho Tsui	CMAP - Lincoln Institute of Land Policy Working Paper	Review of LVT in Taiwan, how it was impacted by changing politics and desired social/economic outcomes Initially effective as a tool to control land value inflation Poor political and administrative processes led to failure of mechanism - lots of business developed workarounds and backdoor ways to artificially increase land value				Actual					
Value Capture and Tax-Increment Financing Options for Streetcar Construction	2009	Brookings, HDR, Re-Connecting America, RCLCO	SBFCo research	Seattle Case Study	Local Improvement District (Spec Assmt)	no data	Local funds came from sale of surplus property	Actual	$ 52,100,000	$ 14,900,000	$ 3,000,000	$ 8,500,000	$ 25,700,000
				Portland Case Study	Local Improvement District (Spec Assmt), TIF	contribution based on size of lot and proximity to streetcar - no further detail available	$28.5 m from bonds backed by city parking revenues; $9.6 m from the LID in one-time payments from property owners $5 m in federal funds re-allocated to Tri-Met in exchange for local funds; $2 m in revenues from city-owned parking garages; $7.5 m TIF from the South Park Blocks Urban Renewal District; $500,000 each from the HUD and the Portland DOT $850,000 in tax breaks on a tax advantage lease/sales agreement; $355,000 in interest earned on project funds; $160,000 for helping the Seattle, Wash.-area Sound Transit system in its railcar procurement process; $1.9 million in city general funds to purchase the 7th streetcar.	Actual	$ 54,470,000	$ 5,500,000		$ 39,370,000	$ 9,600,000
N/A				Contra Costa County, CA Case Study	Joint Development	N/A - Land owned by BART, leased to developers. Contribution is lease pmts.	BART owns land (formerly BART parking lots) and shares land lease revenues - 25% to BART, 75% to County. 100-year Leases. Funding strategy: • Redevelopment Authority (RDA) funds BART replacement parking structure - $45.7 million, as does developer - $5.5 million • RDA contributes to place making (parks, civic uses) - $9 million • RDA contributes to backbone infrastructure (roads, drainage, etc.) - $2.7 million • County issues $135 million in tax exempt housing bonds to reduce borrowing costs; and RDA contributes $2.5 million for housing construction, and commits to annual subsidy payments to achieve housing affordability.	Actual	$ 2,000,000,000				
N/A				Dallas	TIF	One TIF district around 7 light rail stations		Actual					$ 182,000,000

Appendix 3: Half- and Quarter-Mile Station Area Blocks Utilized for EAV Analyses

Appendix 4: Quarter-Mile and Half-Mile TIF-Like Value Capture District Projections

Appendix 4: CMAP VALUE CAPTURE ANALYSIS
Skokie/Oakton Station TIF-Like VCD Projections Quarter Mile Area

Bonding Assumptions

Interest Rate on Bonds	5.00%
Issuance Costs @	1.00%
Capitalized Interest Allowance @	10.00%
Assumed Level P&I Payments	15

Year of Overlapping TIF Expiration

Downtown	2013
Science & Technology	2028

Projected Inflation

	Rate	Triennial
TOD-Area Inflation Rate	3.50%	110.9%

Bonding Calculations

Bonding Amount	$ 13,000,000
Issuance Costs	$ 130,000
Capitalized Interest	$ 1,458,889
Total Issuance	$ 14,588,889
Year of Issuance	2009
Year of First Interest Payment	2010
Years of Capitalized Interest	2
Year of First Bond Payment	2012
Year of Final Bond Payment	2026

Value Capture Projections

Transit Value Capture District (TVCD) Year	Calendar Year	TOD Area Triennial Inflation	Base EAV [1]	Inflated at TOD Rate [2]	TOD Increment	Tax Rate [3]	Total Tax Increment in TOD Area - Excluding Underlying TIFs	Total Tax Increment from Science & Tech TIF [4]	Total Tax Increment from Downtown TIF [4]	Total Tax Increment Available	Required Bond Payments for Transit Facility, Streetscaping, & Related Costs [5]	Required Science & Tech TIF Bond Payment [6]	Required Downtown TIF Payments [7]	Increment Available after Underlying TIF Commitments	Increment Available After all Commitments
0	2004				$ -	7.511%					$ -				
0	2005		$ 44,652,950		$ -	7.908%	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
1	2006		$ 44,652,950	$ 45,348,748	$ 695,798	8.462%	$ -	$ -	$ 352,978	$ 352,978	$ -	$ -	$ 352,978	$ -	$ -
2	2007		$ 44,652,950	$ 54,866,282	$ 10,213,332	7.458%	$ 58,878	$ 122,134	$ 399,279	$ 580,292	$ -	$ 122,134	$ 399,279	$ 58,878	$ 58,878
3	2008		$ 44,652,950	$ 55,234,432	$ 10,581,482	7.501%	$ 761,710	$ 373,302	$ 893,563	$ 2,028,575	$ -	$ 373,302	$ 893,563	$ 761,710	$ 761,710
4	2009		$ 44,652,950	$ 54,778,017	$ 10,125,067	7.501%	$ 793,717	$ 1,440,905	$ 781,335	$ 3,015,957	$ -	$ 1,440,905	$ 781,335	$ 793,717	$ 793,717
5	2010	10.87%	$ 44,652,950	$ 60,733,366	$ 16,080,416	7.501%	$ 759,481	$ 1,798,346	$ 570,370	$ 3,128,197	$ -	$ 1,798,346	$ 570,370	$ 759,481	$ 759,481
6	2011	0.00%	$ 44,652,950	$ 60,733,366	$ 16,080,416	7.501%	$ 1,206,192	$ 2,142,668	$ 677,063	$ 4,025,922	$ -	$ 1,798,346	$ 677,063	$ 1,550,513	$ 1,550,513
7	2012	0.00%	$ 44,652,950	$ 60,733,366	$ 16,080,416	7.501%	$ 1,206,192	$ 2,142,668	$ 677,063	$ 4,025,922	$ 1,405,527	$ 1,196,110	$ 677,063	$ 2,152,749	$ 747,222
8	2013	10.87%	$ 44,652,950	$ 67,336,169	$ 22,683,219	7.501%	$ 1,206,192	$ 2,142,668	$ 677,063	$ 4,025,922	$ 1,405,527	$ 1,196,110	$ 677,063	$ 2,152,749	$ 747,222
9	2014	0.00%	$ 55,041,323	$ 83,418,803	$ 28,377,481	7.501%	$ 1,701,468	$ 2,513,464	$ 795,355	$ 5,010,288	$ 1,405,527	$ 1,196,110	$ 795,355	$ 3,018,822	$ 1,613,295
10	2015	0.00%	$ 55,041,323	$ 83,418,803	$ 28,377,481	7.501%	$ 2,128,595	$ 2,513,464	$ -	$ 4,642,059	$ 1,405,527	$ 1,196,110	$ -	$ 3,445,949	$ 2,040,422
11	2016	10.87%	$ 55,041,323	$ 92,487,918	$ 37,446,596	7.501%	$ 2,128,595	$ 2,513,464	$ -	$ 4,642,059	$ 1,405,527	$ 1,196,110	$ -	$ 3,445,949	$ 2,040,422
12	2017	0.00%	$ 55,041,323	$ 92,487,918	$ 37,446,596	7.501%	$ 2,808,869	$ 2,912,772	$ -	$ 5,721,641	$ 1,405,527	$ 1,196,110	$ -	$ 4,525,530	$ 3,120,003
13	2018	0.00%	$ 55,041,323	$ 92,487,918	$ 37,446,596	7.501%	$ 2,808,869	$ 2,912,772	$ -	$ 5,721,641	$ 1,405,527	$ 1,196,110	$ -	$ 4,525,530	$ 3,120,003
14	2019	10.87%	$ 55,041,323	$ 102,543,008	$ 47,501,686	7.501%	$ 2,808,869	$ 2,912,772	$ -	$ 5,721,641	$ 1,405,527	$ 1,196,110	$ -	$ 4,525,530	$ 3,120,003
15	2020	0.00%	$ 55,041,323	$ 102,543,008	$ 47,501,686	7.501%	$ 3,563,101	$ 3,342,782	$ -	$ 6,905,883	$ 1,405,527	$ 1,196,110	$ -	$ 5,709,773	$ 4,304,246
16	2021	0.00%	$ 55,041,323	$ 102,543,008	$ 47,501,686	7.501%	$ 3,563,101	$ 3,342,782	$ -	$ 6,905,883	$ 1,405,527	$ 1,196,110	$ -	$ 5,709,773	$ 4,304,246
17	2022	10.87%	$ 55,041,323	$ 113,691,266	$ 58,649,944	7.501%	$ 3,563,101	$ 3,342,782	$ -	$ 6,905,883	$ 1,405,527	$ -	$ -	$ 6,905,883	$ 5,500,356
18	2023	0.00%	$ 55,041,323	$ 113,691,266	$ 58,649,944	7.501%	$ 4,399,332	$ 3,805,856	$ -	$ 8,205,188	$ 1,405,527	$ -	$ -	$ 8,205,188	$ 6,799,661
19	2024	0.00%	$ 55,041,323	$ 113,691,266	$ 58,649,944	7.501%	$ 4,399,332	$ 3,805,856	$ -	$ 8,205,188	$ 1,405,527	$ -	$ -	$ 8,205,188	$ 6,799,661
20	2025	10.87%	$ 55,041,323	$ 126,051,539	$ 71,010,217	7.501%	$ 4,399,332	$ 3,805,856	$ -	$ 8,205,188	$ 1,405,527	$ -	$ -	$ 8,205,188	$ 6,799,661
21	2026	0.00%	$ 55,041,323	$ 126,051,539	$ 71,010,217	7.501%	$ 5,326,476	$ 4,304,536	$ -	$ 9,631,012	$ 1,405,527	$ -	$ -	$ 9,631,012	$ 8,225,486
22	2027	0.00%	$ 55,041,323	$ 126,051,539	$ 71,010,217	7.501%	$ 5,326,476	$ 4,304,536	$ -	$ 9,631,012	$ -	$ -	$ -	$ 9,631,012	$ 9,631,012
23	2028	10.87%	$ 55,041,323	$ 139,755,595	$ 84,714,272	7.501%	$ 5,326,476	$ 4,304,536	$ -	$ 9,631,012	$ -	$ -	$ -	$ 9,631,012	$ 9,631,012
24	2029	0.00%				7.501%	$ 6,354,418	$ 4,841,560	$ -	$ 11,195,978	$ -	$ -	$ -	$ 11,195,978	$ 11,195,978
					Undiscounted Total		**$ 66,598,776**	**$ 65,642,480**	**$ 5,824,068**	**$ 138,065,324**	**$ 21,082,904**	**$ 17,494,137**	**$ 5,824,068**	**$ 114,747,119**	**$ 93,664,215**
					2009 NPV @ 5%		$ 36,686,824			$ 80,790,934				$ 61,783,808	$ 48,551,255
					DCR & Cap Int @ 1.35		$ 27,175,425			$ 59,845,136				$ 45,765,783	$ 35,963,893
					Projected Bondable Amount		**$ 27,180,000**			**$ 59,850,000**				**$ 45,770,000**	**$ 35,960,000**

[1] 2005 Equalized Assessed Value. Excludes any PINs in Underlying TIFs.

[2] Actuals through 2009, and estimated at 3.5% annually (applied triennially per Cook County assessment practices) thereafter

[3] Weighted composite tax rate for TOD area. Actuals through 2009, with a flax tax rate thereafter.

[4] Actuals through 2009, with underlying EAV projected to increase at 3.5% annually (applied triennially per Cook County Assessment practices) thereafter, with resulting increases in tax increment funds.

[5] Bond payments estimated based on $13 million total costs for Station construction and related track improvements, streetscape improvements, and traffic lights in signalization related to the station. Total costs with federal contribution are $24 million.

[6] Bond payments estimated based on a $10 MM RDA pledge and associated bond for Tech Park improvements. Typical Municipal bond rates and terms used - payments as available in years 1 through 5, with stable P&I in years 6 through 15.

[7] Assume that all available increment is committed to infrastructure improvements downtown.

Appendix 4: CMAP VALUE CAPTURE ANALYSIS
Skokie/Oakton Station TIF-Like VCD Projections - Half Mile area

Bonding Assumptions

Interest Rate on Bonds	5.00%
Issuance Costs @	1.00%
Capitalized Interest Allowance @	10.00%
Assumed Level P&I Payments	15

Year of Overlapping TIF Expiration

Downtown	2013
Science & Technology	2028

Projected Inflation

	Rate	Triennial
TOD-Area Inflation Rate	3.50%	110.9%

Bonding Calculations

Bonding Amount	$ 13,000,000
Issuance Costs	$ 130,000
Capitalized Interest	$ 1,458,889
Total Issuance	$ 14,588,889
Year of Issuance	2009
Year of First Interest Payment	2010
Years of Capitalized Interest	2
Year of First Bond Payment	2012
Year of Final Bond Payment	2026

Value Capture Projections

Transit Value Capture District (TVCD) Year	Calendar Year	TOD Area Triennial Inflation	Base EAV [1]	Inflated at TOD Rate [2]	TOD Increment	Tax Rate [3]	Total Tax Increment in TOD Area - Excluding Underlying TIFs	Total Tax Increment from Science & Tech TIF [4]	Total Tax Increment from Downtown TIF [4]	Total Tax Increment Available	Required Bond Payments for Transit Facility, Streetscaping, & Related Costs [5]	Required Science & Tech TIF Bond Payment [6]	Required Downtown TIF Payments [7]	Increment Available after Underlying TIF Commitments	Increment Available After all Commitments
0	2004				$ -	7.511%					$ -				
0	2005		$ 234,663,176		$ -	7.908%	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
1	2006		$ 234,663,176	$ 235,007,899	$ 344,724	8.462%	$ -	$ -	$ 1,227,691	$ 1,227,691	$ -	$ -	$ 1,227,691	$ -	$ -
2	2007		$ 234,663,176	$ 296,601,169	$ 61,937,993	7.458%	$ 29,171	$ 122,134	$ 1,379,585	$ 1,530,890	$ -	$ 122,134	$ 1,379,585	$ 29,171	$ 29,171
3	2008		$ 234,663,176	$ 304,143,211	$ 69,480,035	7.501%	$ 4,619,336	$ 373,302	$ 2,195,521	$ 7,188,158	$ -	$ 373,302	$ 2,195,521	$ 4,619,336	$ 4,619,336
4	2009		$ 234,663,176	$ 297,186,233	$ 62,523,057	7.501%	$ 5,211,697	$ 1,440,905	$ 2,203,753	$ 8,856,355	$ -	$ 1,440,905	$ 2,203,753	$ 5,211,697	$ 5,211,697
5	2010	10.87%	$ 234,663,176	$ 329,495,688	$ 94,832,513	7.501%	$ 4,689,855	$ 1,798,346	$ 2,019,688	$ 8,507,889	$ -	$ 1,798,346	$ 2,019,688	$ 4,689,855	$ 4,689,855
6	2011	0.00%	$ 234,663,176	$ 329,495,688	$ 94,832,513	7.501%	$ 7,113,387	$ 2,142,668	$ 2,360,295	$ 11,616,350	$ -	$ 1,798,346	$ 2,360,295	$ 7,457,708	$ 7,457,708
7	2012	0.00%	$ 234,663,176	$ 329,495,688	$ 94,832,513	7.501%	$ 7,113,387	$ 2,142,668	$ 2,360,295	$ 11,616,350	$ 1,405,527	$ 1,196,110	$ 2,360,295	$ 8,059,944	$ 6,654,417
8	2013	10.87%	$ 234,663,176	$ 365,317,759	$ 130,654,584	7.501%	$ 7,113,387	$ 2,142,668	$ 2,360,295	$ 11,616,350	$ 1,405,527	$ 1,196,110	$ 2,360,295	$ 8,059,944	$ 6,654,417
9	2014	0.00%	$ 245,051,548	$ 416,660,096	$ 171,608,548	7.501%	$ 9,800,400	$ 2,513,464	$ 2,737,932	$ 15,051,797	$ 1,405,527	$ 1,196,110	$ 2,737,932	$ 11,117,754	$ 9,712,227
10	2015	0.00%	$ 245,051,548	$ 416,660,096	$ 171,608,548	7.501%	$ 12,872,357	$ 2,513,464	$ -	$ 15,385,821	$ 1,405,527	$ 1,196,110	$ -	$ 14,189,711	$ 12,784,184
11	2016	10.87%	$ 245,051,548	$ 461,958,497	$ 216,906,948	7.501%	$ 12,872,357	$ 2,513,464	$ -	$ 15,385,821	$ 1,405,527	$ 1,196,110	$ -	$ 14,189,711	$ 12,784,184
12	2017	0.00%	$ 245,051,548	$ 461,958,497	$ 216,906,948	7.501%	$ 16,270,190	$ 2,912,772	$ -	$ 19,182,962	$ 1,405,527	$ 1,196,110	$ -	$ 17,986,851	$ 16,581,325
13	2018	0.00%	$ 245,051,548	$ 461,958,497	$ 216,906,948	7.501%	$ 16,270,190	$ 2,912,772	$ -	$ 19,182,962	$ 1,405,527	$ 1,196,110	$ -	$ 17,986,851	$ 16,581,325
14	2019	10.87%	$ 245,051,548	$ 512,181,643	$ 267,130,095	7.501%	$ 16,270,190	$ 2,912,772	$ -	$ 19,182,962	$ 1,405,527	$ 1,196,110	$ -	$ 17,986,851	$ 16,581,325
15	2020	0.00%	$ 245,051,548	$ 512,181,643	$ 267,130,095	7.501%	$ 20,037,428	$ 3,342,782	$ -	$ 23,380,210	$ 1,405,527	$ 1,196,110	$ -	$ 22,184,100	$ 20,778,573
16	2021	0.00%	$ 245,051,548	$ 512,181,643	$ 267,130,095	7.501%	$ 20,037,428	$ 3,342,782	$ -	$ 23,380,210	$ 1,405,527	$ 1,196,110	$ -	$ 22,184,100	$ 20,778,573
17	2022	10.87%	$ 245,051,548	$ 567,864,943	$ 322,813,394	7.501%	$ 20,037,428	$ 3,342,782	$ -	$ 23,380,210	$ 1,405,527	$ -	$ -	$ 23,380,210	$ 21,974,683
18	2023	0.00%	$ 245,051,548	$ 567,864,943	$ 322,813,394	7.501%	$ 24,214,233	$ 3,805,856	$ -	$ 28,020,089	$ 1,405,527	$ -	$ -	$ 28,020,089	$ 26,614,562
19	2024	0.00%	$ 245,051,548	$ 567,864,943	$ 322,813,394	7.501%	$ 24,214,233	$ 3,805,856	$ -	$ 28,020,089	$ 1,405,527	$ -	$ -	$ 28,020,089	$ 26,614,562
20	2025	10.87%	$ 245,051,548	$ 629,602,013	$ 384,550,464	7.501%	$ 24,214,233	$ 3,805,856	$ -	$ 28,020,089	$ 1,405,527	$ -	$ -	$ 28,020,089	$ 26,614,562
21	2026	0.00%	$ 245,051,548	$ 629,602,013	$ 384,550,464	7.501%	$ 28,845,130	$ 4,304,536	$ -	$ 33,149,666	$ 1,405,527	$ -	$ -	$ 33,149,666	$ 31,744,140
22	2027	0.00%	$ 245,051,548	$ 629,602,013	$ 384,550,464	7.501%	$ 28,845,130	$ 4,304,536	$ -	$ 33,149,666	$ -	$ -	$ -	$ 33,149,666	$ 33,149,666
23	2028	10.87%	$ 245,051,548	$ 698,051,005	$ 452,999,457	7.501%	$ 28,845,130	$ 4,304,536	$ -	$ 33,149,666	$ -	$ -	$ -	$ 33,149,666	$ 33,149,666
24	2029	0.00%				7.501%	$ 33,979,489	$ 4,841,560	$ -	$ 38,821,049	$ -	$ -	$ -	$ 38,821,049	$ 38,821,049
				Undiscounted Total			**$ 373,515,767**	**$ 65,642,480**	**$ 18,845,057**	**$ 458,003,304**	**$ 21,082,904**	**$ 17,494,137**	**$ 18,845,057**	**$ 421,664,111**	**$ 400,581,207**
				2009 NPV @ 5%			$ 207,958,800			$ 263,910,249				$ 233,055,783	$ 219,823,231
				DCR & Cap Int @ 1.35			$ 154,043,555			$ 195,489,073				$ 172,633,914	$ 162,832,023
				Projected Bondable Amount			**$ 154,040,000**			**$ 195,490,000**				**$ 172,630,000**	**$ 162,830,000**

[1] 2005 Equalized Assessed Value. Excludes any PINs in Underlying TIFs.

[2] Actuals through 2009, and estimated at 3.5% annually (applied triennially per Cook County assessment practices) thereafter

[3] Weighted composite tax rate for TOD area. Actuals through 2009, with a flax tax rate thereafter.

[4] Actuals through 2009, with underlying EAV projected to increase at 3.5% annually (applied triennially per Cook County Assessment practices) thereafter, with resulting increases in tax increment funds.

[5] Bond payments estimated based on $13 million total costs for Station construction and related track improvements, streetscape improvements, and traffic lights in signalization related to the station. Total costs with federal contribution are $24 million.

[6] Bond payments estimated based on a $10 MM RDA pledge and associated bond for Tech Park improvements. Typical Municipal bond rates and terms used - payments as available in years 1 through 5, with stable P&I in years 6 through 15.

[7] Assume that all available increment is committed to infrastructure improvements downtown.

Appendix 5: Quarter-Mile and Half-Mile SSA-Like Value Capture District Projections

Appendix 6: Economic Impact of Value Capture on Potential Development

Property Taxes Estimated as % of Gross Revenue

	Baseline Economics with No Transit	Economics with Transit	Economics with Transit & SSA Tax		Economics with Transit & Impact Fee
			0.28% tax on 1/2 mile district, $13M Bond	1.1% tax on 1/4 mile district, $13M Bond	
Market Value of Project	$48,555,625	$52,054,623	$51,647,537	$50,455,358	$52,054,623
Market Value Per Unit	$194,223	$208,218	$206,590	$201,821	$208,218
EAV/Unit [1]	$45,000	$48,243	$47,865	$46,761	$48,243
Village of Skokie Property Tax Rate	7.50%	7.50%	7.50%	7.50%	7.50%
Taxes/Unit per year	$3,375	$3,619	$3,590	$3,508	$3,619
Taxes/Unit per month	**$281**	**$302**	**$299**	**$292**	**$302**
Total Annual Taxes	$843,863	$904,673	$897,598	$876,879	$904,673
Property Tax as % of Gross Revenue	**13.9%**	**14.3%**	**14.1%**	**13.8%**	**14.3%**

[1] Baseline EAV/Unit based on Tax Comparables shown in Table X.
Source: Cook County Tax Assessor, Village of Skokie and *S. B. Friedman and Company*.

SSA Taxes Estimated as % of Gross Revenue

	To Pay 13M Loan - 1/2 Mile District	To Pay 13M Loan - 1/4 Mile District
SSA Rate	0.28%	1.10%
SSA Tax/Unit per year	$134	$514
SSA Tax/Unit per month	$11	$43
SSA Taxes as % of Gross Revenue	**0.5%**	**2.0%**

Source: *S. B. Friedman and Company*.

Appendix 7: Rental Properties Utilized for Rent Rate and EAV Comparables

Figure A7-1: Comparable Properties for Rental Rates, Unit Size, and Unit Type Distribution

Property Name	Street Address	City	Size (units)	Floors	Year built	Class	Rent / Unit	Vacancy Rate	Studio Size (SF)	1BR Size (SF)	2BR Size (SF)	3BR Size (SF)	Studio Number	1BR Number	2BR Number	3BR Number
The Reserves at Evanston	1930 Ridge Ave	Evanston	193	4	2003	A	$1,866	4.1%	645	678	990	1,325	7	101	77	8
Evanston Place	1735 Chicago Ave	Evanston	189	9	1990	A	$1,903	2.6%	553	823	1,096		16	125	48	-
The Park Evanston	1630 Chicago Ave	Evanston	283	24	1997	A	$2,069	9.9%	540	847	1,267	1,575	28	141	9	105

Sources: Reis Apartment Market Comparables and *S. B. Friedman & Company*

Figure A7-2: Equalized Assessed Value Comparable Rental Apartment Properties

Property Name	Street Address	City	PIN	Class Code	2009 EAV	2009 EAV per Unit
2121-2135 N Ridge Ave	2121 Ridge Ave	Evanston			$2,140,610	$ 35,092
			11-07-119-010-0000	315		
			11-07-119-011-0000	315		
Hinman Apartments	1606 Hinman Ave	Evanston			$3,540,506	$ 45,981
			11-18-403-017-0000	318		
			11-18-403-018-0000	318		
Maple Grove Apartments	1501 Maple Ave	Evanston	11-18-316-033-0000	391	$3,043,770	$ 43,482
The Reserves at Evanston	1930 Ridge Ave	Evanston			$9,367,072	$ 48,534
			11-18-106-007-0000	391		
			11-18-106-008-0000	391		
			11-18-106-009-0000	391		
			11-18-106-021-0000	391		
The Park Evanston	1630 Chicago Ave	Evanston	11-18-306-038-0000	391	$13,038,074	$ 46,071
				Weighted Average EAV per Unit		**$45,512**

Sources: Cook County Assessor and *S. B. Friedman & Company*