Capturing the Value of Transit

Harnessing Connecticut's Future to Create Healthy Transit Neighborhoods

A report by Partnership for Strong Communities and the University of Connecticut Center for Land Use Education and Research for the Capitol Region Council of Governments and the Sustainable Knowledge Corridor Consortium
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The new New Haven-Hartford-Springfield commuter rail line and CTfastrak Bus-Rapid-Transit line put Connecticut state and municipal officials, community leaders and residents at a critical crossroads: they can either recognize the profound opportunities the new transit lines present and capitalize on them, to help transform our economy and their communities, or they can risk continued economic difficulty because they failed to act decisively.

For many years Connecticut's pace of housing production has not kept pace with market demand, causing high prices that strain our economy. But the upside is that our real estate market is ripe for transit-oriented development (TOD). Like other states and regions that have married transit, housing, environmental, recreational and placemaking policy, TOD can bring significant growth in economic activity and property values, and that future growth can help pay for the transit and other infrastructure we need right now.

TOD's economic and fiscal benefits are not inevitable. They depend on choices, cooperation, and the political will to move quickly.

TOD could create tremendous value in the future, but Connecticut and its municipalities need money now to build out the transit systems and invest in infrastructure, streets, planning, administration and much more that will support vibrant development.

This paper frames two key questions: How can we orient public policy toward creating economic value with TOD? And how can we harness that value to fund the investments to enable that value creation?

The answer is tied to the common Catch-22 felt by state and local officials: they lack revenue to invest in development, but need to spur development to raise revenue. Connecticut can use innovative financing approaches to bridge the gap between current needs and future revenue growth.

Other states and cities have done it.

### Thriving Communities

Across the country many places have seen TOD property values rise significantly more than property away from transit. A sampling:

- **Santa Clara, CA** – +17-28% in apartment values
- **Arlington, VA** – +81% hike in land values around 5 stations over 10 years
- **Dallas, TX** – +29.9% rise in retail property values, +10.3% in office values
- **San Diego County, CA** – +91% commercial, +46% condos, +17% single-family homes & multifamily rental
- **Eastern Massachusetts** – +9.6% to +10.1% for all types of property
- **Atlanta, GA, Beltline** – +15-30% single-family homes, even before transit built
- **Minneapolis, MN, Hiawatha Line** – +10% multifamily, +4% single-family
- **Chicago, IL, Midway transit line** – +10% single-family home values
- **Portland, OR** – +31% vacant residential parcels during two years after announcement of rail plans

Value Capture

“Value capture” is a term increasingly used to describe ways that governments recoup or capture public investment and use that captured value to create and operate transit and foster other development around stations.

This approach acknowledges that publicly-funded transit and related infrastructure typically create significant private-market value, by spurring new development and increasing the value of existing development. The new value would not exist without the public investment. Value capture allows governments and residents/taxpayers to share the benefits of the value they create – and help pay for the investments that make it possible.

Market Potential: Greater In Connecticut

Connecticut may be poised for even greater success than many other transit-served markets:

- There is tremendous pent up demand for housing. Connecticut has the 8th highest rents in the U.S., driven by an undersupply of housing. Over the last decade Connecticut is 50th in housing production per capita even though developers can command a high price for housing they produce. Restrictive zoning, a confusing morass of regulations, and disinvestment in our cities has kept the homebuilding industry from creating enough housing to satisfy market demand. Connecticut’s undersupply is greatest in modestly-sized, modestly-priced apartments and smaller starter homes in walkable neighborhoods – exactly the housing most conducive to TOD.

Even without transit, demographic and economic forces have combined to create demand for tens of thousands of smaller, denser, more affordable, energy-efficient units. Putting much of that housing near transit makes them even more valuable because households living in them can reduce their transportation expenses.

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CTfastrak Service Routes

CTfastrak Service Routes

New Britain-Hartford Busway Service Plan Routes

Source: CT Dept. of Transportation, ctfastrak.com
Beyond the likelihood that housing creation itself will be an economic success, nearby businesses are also likely to flourish: housing can fuel economic activity because its residents will also be customers and workers at local businesses.

- In most states, transit and/or surrounding development emerged incrementally over many years, or new transit was built in already-dense areas. Connecticut, on the other hand, will see greatly enhanced service within a relatively shorter window of time, serving many transit corridors with development potential – in suburban towns with room for new development, or in already-built areas which need redevelopment. Other states have seen economic and fiscal improvement, but the benefits to Connecticut could be quicker and more dramatic.

- Whereas other states embarked on TOD in the ‘80s, ‘90s and 2000s, Connecticut will benefit from new demographic and market trends that support TOD. Nationwide, migration to sparser suburban areas is reversing, and now denser cities and town centers are seeing population growth.

Higher energy costs, combined with growing environmental and climate concerns, are leading to unprecedented demand for transit, especially among younger adults. A sluggish economy, Baby Boomers’ need to downsize and Millenials’ education debt have sparked higher demand for smaller, denser, more affordable homes. In addition, households living in auto-dependent places typically spend 25% of their budgets on transportation, while those near transit spend 9%. Transit proximity will be prized.

Additional resources:


Value capture should be seen as a concept that embodies a range of techniques. There are many ways to harness value. We can look to experience elsewhere to ease our learning curve, but every situation is different. With strong coordination, the state, municipalities, development authorities and business improvement districts can create value in the form of a robust transit system and high-quality mixed-use development around stations. Then revenue is raised using various taxes or fees – more revenue than
that area produced before the TOD. The additional revenue is used to pay back development debt or support other needs.

There is no cookie-cutter approach to value capture, and simply applying some other state’s formula may miss the mark in Connecticut. The ideal approach will be one where all stakeholders share in the benefits of value capture, and are motivated to work together for success.

**Maximizing Value**

Value capture is dependent on creating value to draw revenue from. Successful value capture is not just a set of financing or revenue tools; it is a comprehensive approach that will maximize use of land, infrastructure and other resources, enhance the market values of areas around stations and make development easier.

**Zoning**

Transit works best when people can walk to stations to and from home, work, shopping, entertainment and other needs. Second best is when transit is convenient to and from these destinations with a short shuttle, trolley or bike ride. To maximize the overall value that can be captured, municipal and state policies should do everything possible to maximize development in this prime space.

- Zone to allow higher density (housing units per acre, or square footage per acre). Instead of a maximum density allowed, consider a minimum density developers must build. Municipalities may maximize density because it is in their best interest. Consistent with Connecticut smart growth policies, the state may condition municipal requests for funding on higher density zoning in the area around transit stations.

- Minimize surface parking, using garages instead. Make public, shared garage parking available. Instead of minimum parking spaces required by housing or businesses, use a maximum parking spaces allowed. Minimizing parking further promotes transit, and leaves space for more intensive development.

- Encourage mixed-use development. Make sure zoning regulations are suitable. State agencies or local development authorities may offer specialized financing where traditional bank financing is difficult to obtain.

- As-of-right zoning and up-front planning that does not require special permits or approvals if a development meets the clearly articulated zoning and other regulations. Towns should decide exactly what development they want and build that into regulations so that development permitting goes quickly and more predictably, making it easier for developers to build and create value.

**Planning**

For TOD areas to thrive, they need to be coordinated, attractive, and well-functioning. That requires proactive planning by municipalities and the state that a) sends clear signals to developers about what is allowed and encouraged, b) coordinates the activities of many partners, such as local, state and federal governments, RPOs, development agencies and financing entities, and c) involves the public in transparent planning that pulls together many perspectives and builds a shared vision that the public supports. Important focal points include:

- Walkability – pedestrian safety, convenience, navigation.

- Aesthetics – landscaping, public art, signage, streetscaping, nature.

- Complementary uses within/among TOD areas on a transit line to foster balance between housing, retail, office, entertainment, shopping and other development.

- Community vision processes like charrettes and crowdsourcing that build understanding/support for development and gain valuable ideas from residents.

- Manage data and information sharing so everyone involved can make good decisions and know the consequences of choices: What properties are available? What’s the market demand? What public and private stakeholders are involved, and what are they each responsible for?

**Regulatory Streamlining**

Because time is money, developers need predictability and speed in the permitting process. They reduce developers’ costs and ensure the market for their product doesn’t change during a years-long
permitting process. Regulatory relief is often framed as a need for removing regulations, but that isn’t always necessary. Agencies can use due diligence to protect safety, environment and other factors, but can do so in ways that are responsive to development needs.

- Simultaneous review by several agencies can save time.
- Interagency teams with representatives working together can more quickly coordinate the review process, and resolve conflicts between various regulations.
- Pre-development reviews by local and state agencies can analyze particular properties or TOD areas based on what development is being planned. Some reviews must wait for proposed development to emerge. But for some factors, like environmental or traffic impact, agencies can begin studying an area to determine what activity will or will not adhere to existing regulations, and then share that information with developers.

**Discouraging Speculation, Encouraging Development**

Because property values are likely to increase in Connecticut’s TOD areas, there may be owners that choose to leave their properties undeveloped and sell at a profit once the market gets hotter. Doing so could hold back an entire TOD area. Picture an old car dealership or ugly unkempt building where the community vision is a vibrant town center. Municipalities may need policies that will encourage owners to improve their properties, or sell them to others who will. One method is land value taxation.

**Land Value Tax (LVT) is an alternative version of real property tax** that the Connecticut General Assembly has identified for in-depth study and pilot programs as a potentially promising means of promoting development in areas where publicly-funded improvements – including new commuter rail and bus-rapid-transit lines – call out for optimal use of adjacent land.

LVT is sometimes referred to as a “split-rate” property tax system, however that term can be confusing because split rate tax also refers to a system with different rates for commercial/industrial and residential properties. Property tax is generally divided into two components—improvements (buildings) and land. While it varies, the assigned mill rate for property tax in the Central Business District (CDB) is usually significantly greater on buildings than on land. In many cases the assessed value on land is less than 20% of the total. In residential areas it is roughly equally divided between land and buildings. LVT shifts this relationship so the greater share of property tax burden falls on the land. The intent of LVT is to discourage property owners from maintaining land in an undeveloped or underdeveloped state. With the larger property tax burden on the land, property owners are encouraged to develop or upgrade the property to produce more revenue to cover the tax burden on the land. According to the Center for the Study of Economics (CSE), LVT is used in 20 cities, school districts and counties as well as most communities in Australia and New Zealand. In the US, it is most widely used in Pennsylvania. LVT removes incentives that reward private land banking as a viable business model, provides permanent incentives for growth and reinvestment by going beyond temporary and targeted tax incentives, and ensures that the value created by the community is recaptured in the form of taxation. The concept is that public investment in the form of infrastructure improvements creates land value and tax revenues should mainly be derived from the land rather than privately created wealth (buildings).

In Connecticut, PA 09-236 authorized the creation of a pilot program in a single municipality to develop a plan for the implementation of a LVT. The selection criteria were fairly narrowly drawn so that New London emerged as the pilot community. Over the course of several years, a study committee looked at several implementation scenarios. The subject is complicated and the end result was a majority and minority report. The majority recognized the potential benefits of LVT in certain areas but concluded that it should not be implemented because the city had too many unique parcels and businesses to benefit from any impact that LVT might have. There were concerns that a change to LVT would drive some businesses out of the city or pose an unfair burden on some property owners that had limited ability to improve their properties in a manner that would increase revenues.

For example, car dealers would be hard hit with higher taxes and but still need the “vacant” land to store their inventory. Those in the majority felt this was unfair to car dealers and were afraid some of them
may move out of the city. Those in the minority viewed the increased tax rate as a cost of doing business for locating in an area that had significant publically funded infrastructure and was capable of supporting a more intensive use. They argue that even if the car dealers left, the property could be purchased by someone else for development. This, of course, assumes that there is an economic climate that supports development.

The minority report concluded that LVT would encourage investment in underdeveloped and vacant properties and called for a pilot program of phased-in LVT in the CBD. There are a number of property owners in the CBD who have done little to improve their properties for decades. Some other properties are owned by people or entities with little or no connection to New London other than property ownership. Some have also seen no reason to improve their properties only to see their taxes go up.

Proponents of the LVT point to the example in Table 1 (below) of the inequities of the current system and why LVT would encourage development. Property A is in good condition, fully occupied and has had recent investment. Property B is owned by an out-of-town investor, is being used as storage and is in need of significant investment. The following table shows a comparison of assessed value of the properties located in New London's CBD. Note: numbers have been rounded.

If the owner of Property B is speculating the value of the property will go up in 5-15 years, he/she has little incentive to make improvements that would cause his/her taxes to go up to the level of those on Property B. However, if the assessment were based on a LVT system, that would change.

The Center for the Study of Economics did an analysis of the effect of a LVT on Properties A & B. The results of the analysis follows:

To simulate the effect the various stages of land value tax introduction on two parcels in downtown New London, Connecticut, CSE used the current grand list, and calculated an introduction of a full land value tax citywide. These numbers do not reflect the outcomes if only the central business district were designated for LVT.

With the current property tax rate of 27.5 mills, Property A currently pays $35,750 annually. Full land value tax would cut the annual tax bill in half to $17,708, a savings of around 50% annually.

Property B currently pays $10,588 annually, and if there were no tax on structures and improvements in New London, the tax would increase to $15,293 a year, an increase of around 45% annually. In this particular case, the percentage levy changes are fairly matched between the two parcels.

The dollar levy change is much greater for Property A, due to its higher assessed value and its higher ratio of building value to land value, as well as the intensity of development per square foot. These changes are based upon the static “snapshot” of the current grand list. Evidence from Pennsylvania cities that use the land value tax indicate tax bills will change over the years due to improvements/deterioration and changes in the citywide taxable base.

Both proponents and opponents of LVT have valid points. In New London’s case, it seems that LVT was not well understood by some people and there were too many implementation options that further confused the issue. Transitioning from traditional property tax to LVT is revenue-neutral, meaning the resultant tax income will satisfy municipal budget requirements, not that individual property owners will not realize a tax burden shift. There are winners and losers and in some cases they changed depending on the LVT model that was used. In New London’s case, five options were considered:

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Property A</th>
<th>Property B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assessed Value</td>
<td>$1.3 million</td>
<td>$385,000</td>
</tr>
<tr>
<td>Land Area</td>
<td>.29 acre</td>
<td>.28 acre</td>
</tr>
<tr>
<td>Land Assessed Value</td>
<td>$198,000</td>
<td>$171,000</td>
</tr>
<tr>
<td>SF Area of Improvements</td>
<td>27,000 SF</td>
<td>40,000 SF</td>
</tr>
<tr>
<td>Assessed Value of Improvements</td>
<td>$1.102 million</td>
<td>$214,000</td>
</tr>
<tr>
<td>Current Tax</td>
<td>$35,750</td>
<td>$10,588</td>
</tr>
</tbody>
</table>
• Two-rate system with a 10% per year phase-in. Rates on buildings would go down 10% each year with corresponding increase in tax on land.

• Assessment exemption on improvements—blanket permanent exemption on a certain dollar amount on a building.

• Two versions of a combination of the two shown above.

• Two different mill rates—one on land with improvements and one on vacant land – with vacant land paying the higher rate.

During the most recent legislative session the MORE Commission (Municipal Opportunities and Regional Efficiencies) recommended that the Office of Policy and Management (OPM) establish an LVT pilot program for up to three municipalities. The communities would apply to OPM for the designation and would be selected based on a procedure to be established by OPM. Following the designation, the community would be required to establish a committee consisting of a member of the legislative body, a representative from the business community, a land-use attorney, and relevant taxpayers and stakeholders.

The bill, passed and signed by the governor, directs the Secretary of OPM to develop a plan for the implementation of a LVT that:

1. classifies real estate included in the taxable grand list as (A) land or land exclusive of buildings, or (B) buildings on land; and
2. establishes a different mill rate for property tax purposes for class, provided the higher mill rate shall apply to land or land exclusive of buildings.

Once a pilot municipality is selected, the committee appointed by the chief elected officer is required to prepare a plan for implementation of LVT. The contents of the plan shall (A) provide a process for implementation of differentiated tax rates; (B) designate geographic areas of the municipality where the differentiated rates shall be applied; and (C) identify legal and administrative issues affecting the implementation of the plan. The chief executive officer, the chief elected official, the assessor and the tax collector of the municipality shall have an opportunity to review and comment on the plan. On or before December 31, 2014, and upon approval of the plan by the legislative body, the plan shall be submitted to the joint standing committees of the General Assembly.

CSE plans to meet with representatives in New Haven, Hartford, New London, Waterbury and other distressed municipalities to promote the concept of LVT. In addition, CSE is scheduling meetings and preparing information for OPM and other state officials.

The concept does appear to be sound but the implementation, going from a traditional property tax model to LVT, is going to be an involved process. That said, using LVT as a technique to encourage development near stations along the New Haven/ Hartford/Springfield commuter rail line and the New Britain/Hartford busway (CTfastrak) is an idea worth exploring.

**Harnessing Value**

In successful TOD, investments by federal, state and local government help these areas thrive. Developers benefit from higher property values than they otherwise would have, and a variety of additional businesses operating in the zones benefit as well. So, with multiple public investments and multiple stakeholders benefiting financially, there are multiple ways that governments can recoup some of the value they helped create. Some of these are direct, like taxes or fees. Some are indirect, like requiring a developer to include affordable housing units. Some tools can be well-suited to the local level, whereas some tools can rely on the much larger fiscal and administrative capacity of state government. Ultimately, a combination of tools can be used, and ideally those tools can be well-coordinated.

**Solid Planning / Leveraging Data**

There are many reasons why proactive, coordinated, comprehensive land-use planning is essential to ensuring quality TOD. For value capture, the planning can: a) show lenders/bondholders a solid plan worth investing in, and demonstrate clearly how actions by many stakeholders will come together to create future value, and b) explain the many interconnected parts of TOD creation and offer credible estimates of future revenue, so policymakers can make decisions on how much to borrow, and bondholders and rating agencies can clearly see how payback will happen.
**Tax Increment Financing (TIF)**

Tax increment financing (TIF) has been used in the United States since 1958. 49 states, including Connecticut, have enacted enabling legislation for TIF. TIF is a governmental finance tool that provides funds to construct public infrastructure, promote development opportunities and expand future tax base – within a defined geographic area targeted for revitalization or redevelopment. While details vary across states and jurisdictions, most TIFs share the same general characteristics.

After a local government has designated a TIF district, property taxes (and sometimes sales taxes) from the area are divided into two streams. The first tax stream is based on the original assessed value of the property before any redevelopment; the municipality, school district, or other taxing body still gets that money. The second stream is the additional tax revenue generated after development takes place and the property values are higher. Typically that revenue is used to pay off government bonds that raised money for initial infrastructure improvements in the TIF district, for land acquisition or for direct payments to a private developer for site preparation and construction.

TIF can be used either on a project-specific basis or through the creation of a larger Tax Increment District (TID). Each Tax Increment District is subject to specific rules related to its creation and operations. TIDs generally:

- Are limited to a specific geographic area and are designated pursuant to the adoption of a TID Plan.
- Are limited to a specific number of years after which bond repayment ends and property tax stays with the municipality.
- Are not development-ready because of impediments such as blight, lack of infrastructure, need for environmental remediation or a financing gap. But there must be reasonable expectation of development occurring to generate TIF revenues.
- May contain a set-aside for a specific purpose. For example, a percentage of TIF revenues could be set aside to finance affordable housing.
- Use all or part of the incremental revenue for financing purposes.

In addition to using incremental tax revenues to pay back initial investments, TIF can be structured to support ongoing anticipated needs. Possibilities include:

- Include agreements between the government and the developer on the size and use of incremental revenue.
- The proposed development should be consistent with and reinforce all municipal plans, and in many cases redevelopment plans are required as part of the TIF process.

In addition to using incremental tax revenues to pay back initial investments, TIF can be structured to support ongoing anticipated needs. Possibilities include:

- Operating costs in affordable/mixed-income housing to keep rental rates affordable.
- Preserving affordable housing in areas set to experience rapid increases in property values.
- Assisting developers with land acquisition, infrastructure improvements, building construction and renovation, and other related costs.
- Operating costs of the transit system and/or local feeder transit.
- Additional maintenance, infrastructure, parking garages or public services to accommodate additional growth in the TOD area.
Generally, TIF has seen limited use in Connecticut compared to other states. Connecticut Innovations’ Brownfield Tax Incremental Financing Program (CGS Section 32-23zz) has a legislative mandate “to encourage remediation and economic redevelopment of the state’s many contaminated industrial and commercial sites.” This program was administered by the Connecticut Development Authority before it was merged into Connecticut Innovations last year. The program provides direct financing to a developer for brownfield remediation or for information technology projects.

While the program has a $10 million limit, historically financing through the program has been between $500,000 to $3 million per project. The municipality in which the development is located repays Connecticut Innovations using a percentage of the incremental tax increase from the development. More detailed program information can be found at the CDA website: http://www.ctcda.com/Landing/.

A few factors limit the use of tax increment financing in Connecticut:

- Repayment of TIF bonds typically rests upon the increased property tax revenue alone, not the full faith and credit of the municipality or the state. This increase risk for the investor results in higher interest rates for TIF bonds, leading municipalities to sometimes use General Obligation bonds instead – but that capacity is limited. Recently, municipalities have asked the legislature for a Special Act that will allow them to establish a quasi-TIF structure (discussed below). The promise of tax increment financing is that – based on TOD value to be created – new sources of financing can be used.

- Connecticut Innovations’ use – and most municipal use – of TIF has been for individual developments, which is certainly a valid use of TIF. But as TOD zones are built out, there will be financing needs for neighborhood-level investments – like roads, parking and streetscaping – that will serve more than a single development project.

- For many towns, TOD areas will be historically large, and financing the necessary infrastructure may be too much for them to take on compared to the size of their budgets. If a municipality bonds for a TOD area that doesn’t turn out as expected, it could hurt the municipality’s bond rating and fiscal health. But with the state carrying the bonds, if one TOD area out of several perform below expectations, it is still relatively small compared to the state’s budget and bond capacity.

These factors all point to the benefits of the state taking a larger role in Tax Increment Financing. Of course, the state has fiscal limitations, but its larger capacity can leverage far more activity than towns can handle themselves. Statutory changes may be necessary to facilitate a larger and different role for the state. Possibilities include:

- Increased TIF activity by Connecticut Innovations or another state quasi-public agency, where municipalities channel a portion of property tax revenue back to that agency to pay back the bonds.

- TIF bonds sold by municipalities or local development authorities, but with the state guaranteeing those bonds, thus reducing the risk to investors and facilitating a lower interest rate.

Over the past several years a few Connecticut communities have set up several special tax districts to provide a quasi-TIF structure. The special tax district enters into an interlocal agreement with the municipality to share its incremental property taxes. The special tax district has the authority to levy benefit assessments on public infrastructure, including assessments on projects that are not completed.

For example, special legislation was passed authorizing the City of Stamford to create the Harbor Point District. Through an inter-local agreement between the Harbor Point District and the City, bonds were issued to make infrastructure improvements in the district. The repayment of the bond comes from the incremental increase in tax revenues from new development within the district. To further secure the bonds, a special assessment was placed on properties in the district in case incremental tax revenues fell short of the amount necessary to pay the debt service.

Special Acts to authorize special taxing districts are not limited to large cities. Recently, the Town of Windsor has used this authority to create the Great Pond Improvement District for a multiuse project that includes diverse housing choices, retail and office space and public amenities.

Example: Dallas, TX TOD Tax Increment Financing District. http://goo.gl/BsFVq
Revenue Tools

A variety of tools can be used, to customize Connecticut’s approach to our unique governance structures. These tools used by the state, municipalities, development authorities and other entities should be seen as a coordinated package, based on: a) the amount of borrowing by the various stakeholders that needs to be repaid, b) how much revenue each entity should reasonably receive over time, to continue supporting the health of the transit system and TOD communities, and to recognize how much “heavy lifting” each entity has done, and c) to ensure that cumulatively the revenue extracted is not so much that it suppresses market activity or overburdens certain households or businesses. Possibilities include:

- Property taxes, with predefined percentages of the property tax revenue used to repay debt or share among involved stakeholders, or with those amounts indexed to the transit-related increment, by comparing property values in TOD areas with similar local property away from transit.

- Sales and/or income taxes within TOD areas, recognizing there will be new jobs and economic activity in these zones that otherwise would not occur.

- Impact fees, which apply best to areas where new or significantly increased development is taking place in a defined period of time. These are fees on property owners/developers in a neighborhood that go directly toward particular investments from which they have clearly benefitted.

- Transportation utility fees, which charge various property owners and businesses in TOD areas based on averages of how many transit trips they generate. The owner of an apartment building would be charged based on how many residents live there, and by extension, approximately how many transit riders live there. A store, restaurant or larger attraction would be charged based on averages of how many customers or visitors they draw.

- Special assessment districts or business improvement districts, which can be managed by municipalities or entities created for this purpose. They levy fees on local businesses and/or property owners to fund local needs in that TOD area, such as sidewalks, streetlights, signage, marketing and other improvements that make the area function well and attract visitors and residents.

- Leasing land, which can be facilitated by a development authority or government agency that is buying and selling properties to facilitate growth and development, or even by the state of Connecticut where the transit right-of-way is not fully used. These entities could buy property now at relatively lower prices, which then generate long-term rents. The public entity could fully own and manage the properties, or it could just retain ownership of the underlying land while the building itself is owned separately. Rents can be pegged to growth in property value, as has been done in Singapore, Amsterdam and other countries.


- Air rights and joint development, which use transit stations and adjacent land, in partnership between a public entity and private developer. This often makes for good TOD as well, by offering a compact mix of uses. “Air rights” refers to the legal and financial structures related to building above station areas. Often in these arrangements, the public agency building or upgrading the station will jointly plan that work, and share the resulting revenue, with the private developers.

- Housing impact fees, which are used by some jurisdictions where development pressure is pushing housing prices upward and pricing out workers, young people, retirees and other members of the community. Because land is finite, all development in TOD zones will create upward pressure on housing prices. A fee on commercial development can be earmarked for affordable housing subsidy, and could complement mixed-income zoning.

Additional resources:


In quantifying the above revenue instruments, it will be important to recognize that typically the property value increases as one gets closer to the station. So within a larger TOD area, rates may have tiers or gradations based on proximity to the station.

Another consideration with some tools is how large a footprint will be designated to draw revenue from. This is a judgment call and political consideration, based on how much benefit various stakeholders receive from the transit access. Some argue that a larger footprint is ideal because different properties or blocks will vary in their success, so even if some are slow to develop, others in that district will thrive and generate the needed revenue.

**Ongoing Use of Revenue**

It should be noted that, although repaying initial investments/debt is an important benefit of value capture, it can also fund ongoing needs. Those needs could include: affordable housing subsidy, transit operating costs, station maintenance, maintenance of infrastructure in TOD areas, or various municipal functions like schools, public safety and road maintenance.

**Non-Revenue Value Capture Tools**

There are additional ways to capture value without taxes or fees, by requiring property owners, developers or businesses to directly provide public benefits that governments often pay for.

- **Mixed-income zoning** requires that a portion of housing units created in a given area must be kept affordable to lower-income households. For instance, in the state’s HOMEConnecticut program, up to 80% of housing units in Incentive Housing Zones can be market-rate, but at least 20% of the units must be affordable to households earning less than 80% of Area Median Income (AMI).

Other facets of the program, like greater allowed density and as-of-right zoning, offer added value to the housing developer and offset the required affordability. HOMEConnecticut is an excellent template for zoning TOD areas, and the state may wish to make it a precondition for receiving various state TOD-related investments.

In the case of TOD, because of the remarkable property value increases that can occur, mixed-income zoning may be able to achieve even greater affordability than HOMEConnecticut’s 80%/20% mix. With developers earning greater profits, they may afford to create more than 20% of the units as affordable, or make units affordable to households earning significantly less than 80% AMI.

- **Private investment in infrastructure** can be traded for abatement of future property tax or other taxes. This is sometimes done by a large developer or company about to do business in that area. This can work especially well for roads or other infrastructure adjacent to that business or that is critical to its success.

**Trade-Offs**

Because TOD areas will change rapidly with development, and because value capture can be a powerful tool, there are important policy considerations to balance various needs and minimize hardship.

**Balance Value Capture With Value Creation**

Development is the result of many decisions by many stakeholders, especially the developer. Everything has to work for developers, or else they won’t build. A balance must be struck: capture enough value to pay for essential investments, but don’t take so much that it discourages development (which then would mean there’s no value to capture).

A similar trade-off applies to other property owners, businesses and residents in the TOD area. If taxes and various fees are too onerous, they’ll avoid living or doing business in that zone. That could then suppress property values and property tax revenue.

**Housing Affordability is Critical**

Especially when considering increased revenue, there could be a temptation to allow escalating housing costs. It may be fine for a portion of the housing stock to be priced as high as the market will bear. But without maintaining housing for a variety of income levels, there could be harmful social and fiscal consequences:
Lower-income households are the most dependable transit riders. Their need for transit will ensure the consistent ridership and farebox revenue the transit system needs. Conversely, research shows higher-income residents near transit still tend to use their automobiles.

Transit savings determine household budgets, and the economy. Households in transit-poor neighborhoods on average spend 25% of their income on transportation, but 9% in transit-rich neighborhoods. If handled properly, freeing up 16% of the budgets of many thousands of Connecticut households could help the economy. But that requires housing affordability in TOD areas.

A primary goal of transit is to get cars off the roads. If lower-income people are priced out of TOD areas, they’ll be driving. And they’re least likely to afford newer energy-efficient cars. This would include people driving to transit stations to get to work, and the many retail and other workers employed in TOD zones. Road and parking capacity and air pollution can be saved by ensuring housing affordability.

Economic and racial segregation – which in Connecticut is worse than most other states – can be reduced by fostering mixed-income neighborhoods near transit. Connecticut’s segregation could become worse if the state creates more places where only higher-income households can afford to live. This segregation has policy consequences – and costs the public money – in education and health disparities and other impacts of concentrated poverty. Thus, as we capture value and consider TOD approaches that are most fiscally prudent, impact on segregation should be figured in.

Value capture has been recognized as good public policy all over the nation and the world. Governments investing taxpayer-provided revenue in public improvements argue persuasively that the benefits of those investments should benefit all taxpayers, not just the private landowners and investors proximate to those investments. Moreover, they believe that not arranging appropriate methods to capture the value created by public investments “leaves money on the table” – requiring them to find new funding for other public investments that should have come, at least in part, from capturing value already created.

Value capture requires serious consideration and the right method must be applied to the circumstances. There are no silver bullets, only an array of tools from which the appropriate ones must be chosen. It can be complex, but does not have to be overwhelming. Quality TOD, and the fiscal tools related to it, involve cooperation and planning between agencies, levels of government and other stakeholders. But many other jurisdictions have employed it to the advantage of residents, businesses and all other taxpayers. Using value capture to harness the economic engine of transit for public good can benefit the Connecticut towns that employ it, and the larger economy of Connecticut.

Footnotes: