

# Financing Station-Area Development in Connecticut with Value Capture Approaches

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## Executive Summary: Value Capture to Support Station-Area Development

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In the last few years, Connecticut has continued its transition to a transit-based economic development strategy. Improvements to our transit system include new train cars on Metro-North, a new train station in Fairfield and one under construction in West Haven, and the introduction of articulated and/or hybrid buses in the CT Transit service areas. New services are planned with the New Britain- Hartford Busway and the New Haven- Hartford-Springfield Commuter Rail. Improved transit service coupled with a growing demand for housing and commercial space in neighborhoods with transit options will draw new commercial and residential development around transit hubs, increasing local property values and tax revenues. With a value capture program, a portion of that increased value or tax revenue can be harnessed to support station area revitalization, invest in infrastructure, and spur additional development.

Transit-oriented development - housing, offices, and retail built within walking distance of stations - will not occur without strong public support demonstrated through local and state policy. Improvements to public areas in and around station areas, such as renovated sidewalks, streetscapes, or brownfield remediation are often necessary before private investors will commit to development. In order for the potential economic benefits that could be spurred by transit service to be realized, Connecticut and its towns and cities will need to proactively invest in station-area improvements. These investments will set the stage for private sector participation through development and business location, maximizing the return on the state's investment in transit stations and operations. A value capture program will enable the public sector to demonstrate its commitment to Connecticut's station areas by leveraging the new local value created by regional transit investments and lay the foundation for responsible growth in the state. The potential program outlined in this document is designed for use in communities receiving expanded transit service along the New Haven-Hartford-Springfield rail corridor and New Britain-Hartford Busway, but a similar program could also support growth around existing or new rail stations throughout the state where service enhancements are being implemented.

The potential program described here would support partnerships between the state and municipalities to maximize the economic benefits of new or enhanced transit services. The state would offer planning grants and bonding capacity to municipalities to enable them to identify and finance priority station-area improvements. In exchange, municipalities would adopt targeted zoning revisions to unlock development potential and would contribute to a statewide Transit Hub Development Fund with a portion of the increased property tax revenues resulting from new transit services. The proposed program links supportive planning policies with low-cost and flexible incentives that can be implemented by municipalities to unlock development potential in their downtown station areas.

## Value Creation and Value Capture Through Transportation

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Facing severe fiscal constraints, governments across the U.S. and abroad are increasingly turning toward creative financing strategies to fund public transportation and transit-related investments. Value capture has emerged as a means to harness the increased property values created by transit as a means to close public sector financing gaps for improvements to transit stations and station areas. Value capture refers to a collection of financing tools that range from joint development and long-term leasing on public properties to tax increment financing across large districts. Public transportation in particular can generate significant financial advantages to private landowners of adjacent properties, and value capture mechanisms return a portion of that benefit to the public sector in order to fund supporting infrastructure. Compared to more traditional public-private-partnerships, value capture and transit-oriented development have the significant benefit of unlocking new revenue from latent development potential spurred by transit but enabled by zoning changes and other public sector policies. Public assets are not sold, nor is the ability to levy user fees on public infrastructure ceded to the private sector.

The positive impact of transit investment on property values has been well documented. Studies across the U.S. have shown that investment in fixed-route public transit (i.e. train tracks and busways) leads to an increase in property values around stations as a result of greater accessibility to jobs, homes, services, and recreation. In our region, research by Regional Plan Association on housing located near New Jersey Transit demonstrates that the magnitude of potential property value enhancements by transit is significant (see [www.rpa.org/2010/07/arc-to-raise-home-values-by-18-billion.html](http://www.rpa.org/2010/07/arc-to-raise-home-values-by-18-billion.html)). Accordingly, expanded transit service along the New Haven–Hartford–Springfield rail corridor and the New Britain–Hartford Busway are expected to have a positive impact on property values, with the greatest increases anticipated within a half-mile of the station. Value capture mechanisms such as tax increment financing (TIF) districts and special taxing districts can be used to harness the value created through property appreciation.

### Potential Structure for a Connecticut Transit Value Capture Program

Regional Plan Association proposes a potential value capture program wherein the state would provide planning grants and offer bonding capacity to municipal governments and, to achieve access to these programs, municipalities would create additional value around their station areas through rezoning and regulatory policies supportive of transit-oriented development. A portion of any new revenue would be directed into a new Transit Hub Development Bank used to leverage public and private funds to be reinvested in station area infrastructure and development across the state.



*Photo credit: www.dart.org*

#### **Mockingbird Station – Dallas, TX**

The Mockingbird Station is located within Dallas' Transit-Oriented Development TIF district and allocates 40% of its associated revenues to station area economic development, 20% to support new transit capital costs, and 20% to affordable housing within the city.

## **Proposed State Actions:**

### 1) Planning Grants

- The state will offer planning grants to municipalities of up to \$500,000 to assess development potential, revise development regulations, determine infrastructure needs, and analyze value capture opportunities around station areas.
- Each grant must be used to designate a Transit Development District within which public investments and development incentives will be focused, and to develop a Station Access Plan that addresses parking, pedestrian, and commuter services.
- A joint committee that includes representatives from the Department of Transportation, the Office of Policy and Management, the Department of Economic and Community Development, and the Department of Energy and Environmental Protection will review the grant applications.

### 2) Transit Hub Development Bank

- The state will create a Transit Hub Development Bank as the mechanism for leveraging new revenues from value capture into bonds or other financial vehicle.
- The state will offer up to \$25M annually from the Transit Hub Development Bank to fund station area improvements (roads, pedestrian and bicycling infrastructure, structured parking, etc.) for qualifying municipalities.
- Municipalities will apply for a portion each year's allotment based upon the needs identified from their individual planning studies and funds will be allocated based on need and the likelihood of economic development or other public policy return.

### 3) Joint Development Initiative

- The state will formulate Joint Development guidelines to direct RFP procedures and project evaluation criteria (projects may include joint development on public property, air rights development above public assets, or land leases of public property for private development).

## **Proposed Municipal Actions:**

### 1) Zoning and Regulatory Changes

- Zoning within the Transit Development District will be modified to permit transit-supportive densities, mixed uses, and parking flexibility in keeping with neighborhood context.
- These zoning changes will create new development opportunities, promote increased ridership, generate higher property tax revenues, and encourage developer contributions to transit.
- Additional density in the form of bonuses could be offered in exchange for developer contributions to a station area improvement fund, generating additional revenue for the station area while providing developer flexibility.
- Municipal plan review/permitting will be expedited for transit-oriented development projects in the district.

### 2) Tax Increment Financing District

- A TIF district will be established that has boundaries coterminous with the Transit Development District formulated during the planning process funded by the state grant.

- The exact boundaries of the TIF district/Transit Development District will be determined at the town's discretion but is expected to include properties within approximately one half-mile of the station. A special act of the legislature will not be needed to establish the TIF district.
- The current total property assessment within the TIF district at the time it is created will form a baseline against which future increases in property tax revenues will be measured.
- Subsequent increases in property tax revenues above the baseline would be shared:
  - o 40% of the increment will be retained by the municipality for the general fund
  - o 30% of the increment will be retained by the municipality for reinvestment in the Transit Development District based on municipal priorities
  - o 30% of the increment will be directed to the statewide Transit Hub Development Bank.
- The municipality will have the option to use the TIF revenues reserved for reinvestment within the district for a variety of purposes, including:
  - o Local street or streetscape improvements
  - o Affordable housing support
  - o Local transit or commuter shuttle operating expense subsidies
  - o Parkland or greenways
  - o Structured parking facilities
- A Transit Development District and corresponding TIF district may cross town borders. In such cases, each town will calculate its own initial baseline and incremental revenues will be shared between the towns based on the proportion of the increase realized in each town.



*Photo credit: Urbanneighborhood.com*

**Bethesda Metro Center**

This joint development in downtown Bethesda, Maryland generates \$1.6 million per year in ground rents and air rights for the Washington Metropolitan Area Transit Authority.

3) Joint Development

- The municipality will explore joint development opportunities on publicly owned land near transit stations with private developers and cooperate with the state for any state-initiated joint development efforts.
- The municipality will actively seek to assemble parcels within the Transit Development District for development or sale to private sector partners.

4) Station Access Plan

- The municipality will put the Station Access Plan developed with the planning grant into effect, with special focus paid to reducing automobile dependence and balancing parking demand with local transit and pedestrian connectivity.
- Strategies will be employed to reduce the need for station area parking supply including shared parking agreements between parking facilities with varied peak demand times.

5) Special Taxing District

- The municipality should promote the creation of a station-area business improvement district to support business-enhancing improvements, services, and activities.

# Glossary of Value Capture Mechanisms

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## Taxing Mechanisms

**Special Taxing Districts** are created through majority consent of the landowners within each proposed district, and require affected property owners to pay an additional assessment in order to fund public infrastructure or services, such as transit or transit-related improvements. Special taxing districts have been used widely across the country to finance transit investment as property owners have recognized the significant value added by transit. In Connecticut, special taxing districts could be formed around station areas to contribute to place-making street improvements.

**Tax Increment Financing (TIF)** is a public financing method in which future tax revenue streams created by a development or infrastructure investment are dedicated to service debt that was issued to fund the project's initial capital costs. TIF bonds have been used extensively in the U.S. to finance public improvements associated with new development and are now being used in some cities, such as Washington, D.C., Dallas, TX, and Atlanta, GA, to finance transportation. In Connecticut, TIF districts could be established to fund station-area public improvements that would facilitate transit-oriented development and economic development around train stations.

## Public-Private Agreements

A **Joint Development** can take any number of forms, but at its most basic level it involves a cost sharing or revenue sharing agreement between a private developer and a government entity (transit agency, municipal government, etc.), generally for a development on government-owned land adjacent to a transit facility. Maryland, New York City and Washington D.C. have made substantial use of joint development agreements, aided by the expertise of in-house real estate divisions within their respective transit agencies. Even without in-house real estate departments, Connecticut municipalities may find it feasible and advantageous to engage in joint developments with straightforward deal structures.

**Developer Contributions** are similar to development impact fees (which are not permitted in Connecticut) in that they constitute payments from developers to the municipal government, but they differ in that they are negotiated on an ad hoc project-by-project basis, rather than being formally calculated. In the development approvals process, agreements are frequently reached between developers and local governments in which the developer makes a contribution to the locality for a specified purpose as a condition for plan approvals. However, the contribution is not intended to be a direct representation of the development's impact on public services, but is rather one element of the overall negotiation between a municipality and a developer for development approvals.

**Air Rights Sales** are the sale of development rights above existing properties, such as transportation facilities. Air rights sales serve as a value capture strategy in cases where transit agencies or municipal governments are able to sell development rights above (or below) government-owned transit facilities to private developers. Air rights sales are more common in densely-built areas where land is relatively scarce or expensive, justifying the added cost of building above existing structures. In Connecticut, air rights sales may be feasible around the more-developed station areas.



## **Regional Plan Association**

Regional Plan Association (RPA) is an independent regional planning organization that improves the quality of life and the economic competitiveness of the New York-New Jersey-Connecticut region through research, planning, and advocacy. Since 1922, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the region's civic, business, and government sectors to take action.

RPA's current work is aimed largely at implementing the ideas put forth in the Third Regional Plan, with efforts focused in five project areas: community design, open space, transportation, workforce and the economy, and housing.

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