

LONG-TERM INFRASTRUCTURE:

FUNDING FOR GROWTH SUSTAINABILITY & EQUITY

DC TAX REVISION COMMISSION

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Why Are We Here?

1. Fairness in Apportioning Taxes
2. Broaden the Tax Base
3. Make DC Tax Policy More Competitive with Surrounding Jurisdictions
4. Encourage Business & Job Growth
5. Modernize, Simplify & Increase Transparency in the District's Tax Code.

General Taxes v Fees

- ▣ General taxes can leave consumers oblivious to the consequences of some of their actions.
- ▣ User fees and access fees can inform consumers about the impacts of their behavior and motivate behavior that takes those impacts into account.
- ▣ User fees and access fees can mimic market transactions, generating revenue while internalizing externalities to encourage more responsible and efficient use of resources.

SOLUTIONS FOR MORE SUSTAINABLE COMMUNITIES

- ▣ To the extent possible, transform taxes into fees.
- ▣ To the extent possible, use fees to internalize economic externalities
- ▣ Match Fees with Infrastructure Beneficiaries and Those Who Impose Costs on the Public.
 - E.g., Water & Sewer User Fee Per Gallon
 - Water & Sewer Access Fee = Value Capture
 - Impervious Surface Fee –
 - ▣ Property Owners by Area of Impervious Surfaces
 - ▣ Drivers by Distance (streets = 25% of DC surface area)

SOLUTIONS FOR SUSTAINABLE COMMUNITIES

- ▣ Transform Property Tax into a Public Services Access Fee
- 1. Reduce Property Tax Rate on Building Values
 - a) Buildings More Affordable for Residents & Businesses
 - i. Lowers cost of energy-saving investments & repairs.
 - ii. Creates jobs in construction and other businesses.
- 2. Raise Property Tax Rate on Land Values
 - a) Returns Publicly-Created Values to the Public
 - b) Makes Land More Affordable
 - c) Induces Development Near Transit & Other Urban Infrastructure.

Summary

Reforms to the District's Tax System can:

- ▣ More Fairly Apportion Taxes Among All Beneficiaries of DC Infrastructure
- ▣ Enhance Economic Competitiveness
 - Make Real Estate More Affordable for Residents and Businesses
 - Create Economic Incentives for Job Creation
 - Reduce Traffic Congestion
 - Motivate Conservation & Sustainability
- ▣ Make DC Infrastructure Financially Self-Sustaining to a Greater Degree

For New Ideas, Look Back In History

- ▣ In the 1800s, the streets of Washington, DC were mostly unpaved.
- ▣ In wet weather, mud made travel very difficult and unpleasant.
- ▣ Paving streets and sidewalks was a tremendous advance. It made properties more accessible and the air cleaner.
- ▣ Everyone would benefit so why not have everyone pay from the general fund?

CONGRESS IDENTIFIED INVISIBLE BENEFICIARIES

- ▣ People whose property fronted a paved street would receive an additional benefit.
 - No longer would folks track dust, mud and manure into those homes & businesses!
- ▣ Even if they never walked on the new streets, adjacent landowners would benefit financially because their properties' access to paved streets makes the properties more valuable.

INVISIBLE BENEFICIARIES CHARGED

- ▣ In 1894, Congress enacted law requiring adjacent property owners to contribute 50% of the cost of first-time paving of streets and sidewalks through a special assessment.
- ▣ Even if a landowner never actually uses nearby public goods or services, mere access to them creates value. Thus public service access fees can obtain payments from those who benefit from public services in proportion to the benefits received.

What is the Potential for Public Service Access Fees?

- ▣ In the 1800s, Congress required private landowners to pay for 50% of the cost of new transportation infrastructure.
- ▣ In the 1990s, the District Government obtained a 30% contribution from nearby landowners for a new Metrorail transit station at New York and Florida Avenues, NE.
- ▣ Can we do better?

Connecticut Ave Streetcar

- ▣ In the early 1890s, the Chevy Chase Land Company acquired over 1700 acres along Connecticut Avenue in northwest Washington, DC and out into Maryland.
- ▣ The land was cheap because it was not very accessible to downtown jobs & stores.
- ▣ Chevy Chase Land Company built and operated a private streetcar line along Connecticut Avenue.
- ▣ They did not recoup capital costs through the fare.
- ▣ **NOT ALTRUISM.** They recouped capital costs through higher prices for their land sales.

Potomac Yards: A More Modern Example

- ▣ In the mid 1990s, there was an obsolete railroad yard just south of National Airport, across the river from Washington, DC.
- ▣ The pension fund that owned it wanted to develop several hundred acres for mixed-use.
- ▣ Government officials said that development was not permissible because the only access was from Route 1, already too crowded with cars during rush hours.

HOWEVER . . .

- ▣ Officials noted that Metro transit tracks run through the middle of this property.
- ▣ IF a transit station was created there, then denser, mixed-use development could be allowed without relying solely on Route 1.
- ▣ Landowner did the math: It was cost-effective to pay the entire cost of a new transit station to get development rights!

Passenger



APTA

Transport

The Weekly Newspaper
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Private Developer To Build \$20 Million Va. Metro Station

Public-Private Partnership Is Lauded

By Joe Dougherty
Senior Editor

ALEXANDRIA, VA.—In what officials cite as a classic example of a transit public-private partnership, the Washington Metropolitan Area Transit Authority and the RF&P Corporation on Nov. 16 agreed on a plan in which the commercial real estate company will design and build a new \$20 million station along WMATA's Metrorail line.

The agreement, signed on the Potomac Yard property where the new station will be built, marks the first time ever that a private corporation has underwritten the design and construction of a transit rail station. It is also the first time a station has been added to an existing transit system between currently operating stations, officials said.

"This is a historic day for WMATA and for transportation in the United States," said WMATA General Manager Lawrence Reuter, who joined members of the Arlington, Alexandria, and Fairfax, Va., Washington, and Virginia governments at the signing. "This is where good business and good public policy benefits everyone."

Virginia Lieutenant Gov. Donald Beyer, speaking above the rumble of a passing Metrorail train, applauded the agreement, saying, "It will have a ripple effect. The station will serve families and companies, and it will lead to more growth."

The new station will be built between the National Airport and Braddock Road stations along Metrorail's Blue and Yellow lines on the grounds of Potomac Yard, formerly one of the nation's largest railway freight yards. Railway operations ceased there in 1994. Under the contract, RF&P will pay for the station design and construction costs, estimated at \$20 million, and WMATA will operate and maintain it.

Richmond-based RF&P, which owns the 342-acre site that spans Arlington County and the city of Alexandria, plans to build a 16 million-square-foot mixed-use development that will include more than 5,000 housing units along with office and retail uses.

The new station will serve as one of northern Virginia's biggest transportation hubs, as Metrorail's Yellow and Blue lines will join with Amtrak, Virginia Railway Express commuter rail, Metrobus, taxi, and pedestrian and bicycle paths. Nearly 15,000 commuters are expected to use the station each day when it is fully operational.

WMATA is expected to see increases in off-peak direction ridership and off-peak hour, weekend, and holiday ridership as commuters use the station to go to neighboring Crystal City and downtown Washington.

"The Potomac Yard Metro Station will benefit our nearby neighbors, the larger surrounding communities, the environment, the Metro authority, and RF&P," said Denton Kent, RF&P's president and chief executive officer.

"The station allows the integration of mass transit in the development in a rational and efficient fashion."

U.S. Deputy Transportation Secretary Mort Downey said the Metrorail system has been a critical element in shaping the Washington region. "This is the latest step in the process,"

he said. "It's a destination that will be served by a variety of efficient and environmentally friendly transportation alternatives. It sets a new benchmark for transportation."

Reuter said that, in today's budget environment, transit general managers realize funding is tight, but that ridership is nonetheless expected to grow. "Partnerships like this one today accomplish both those goals."

Alexandria Mayor Patricia Ticer said the "public sector, private sector, and the community will benefit" from the new agreement. "This project, in the shadow of the nation's capital, is the best example of the ability of the public and private interests to cooperate for the benefit of the public good."

Plans call for the project to advance in three phases, with Phase I providing for environmental assessments and general plan development, beginning in January 1996. Phase II, which is scheduled to begin in January 1997, includes design work, while Phase III will include construction. Officials said the station is scheduled to open in March 2000.

UNFORTUNATELY . . .

- ▣ Nearby residents thought that the development was too dense & would bring too much new traffic.
- ▣ They pleaded for Down-Zoning.
- ▣ Politicians Listened to Their Constituents.
- ▣ Down-zoned parcel no longer supported enough development to justify a new station.

- ▣ If down-zoning had not occurred, could this private funding of infrastructure have been replicated or was it unique?
- ▣ At Potomac Yards, a single landowner internalized most of the positive externalities associated with a new transit station.
- ▣ Most of the time, there are many owners.
- ▣ Multiple ownership does not negate the fact that the value created by public transit can exceed the cost of transit facilities. It only makes it more difficult to collect.

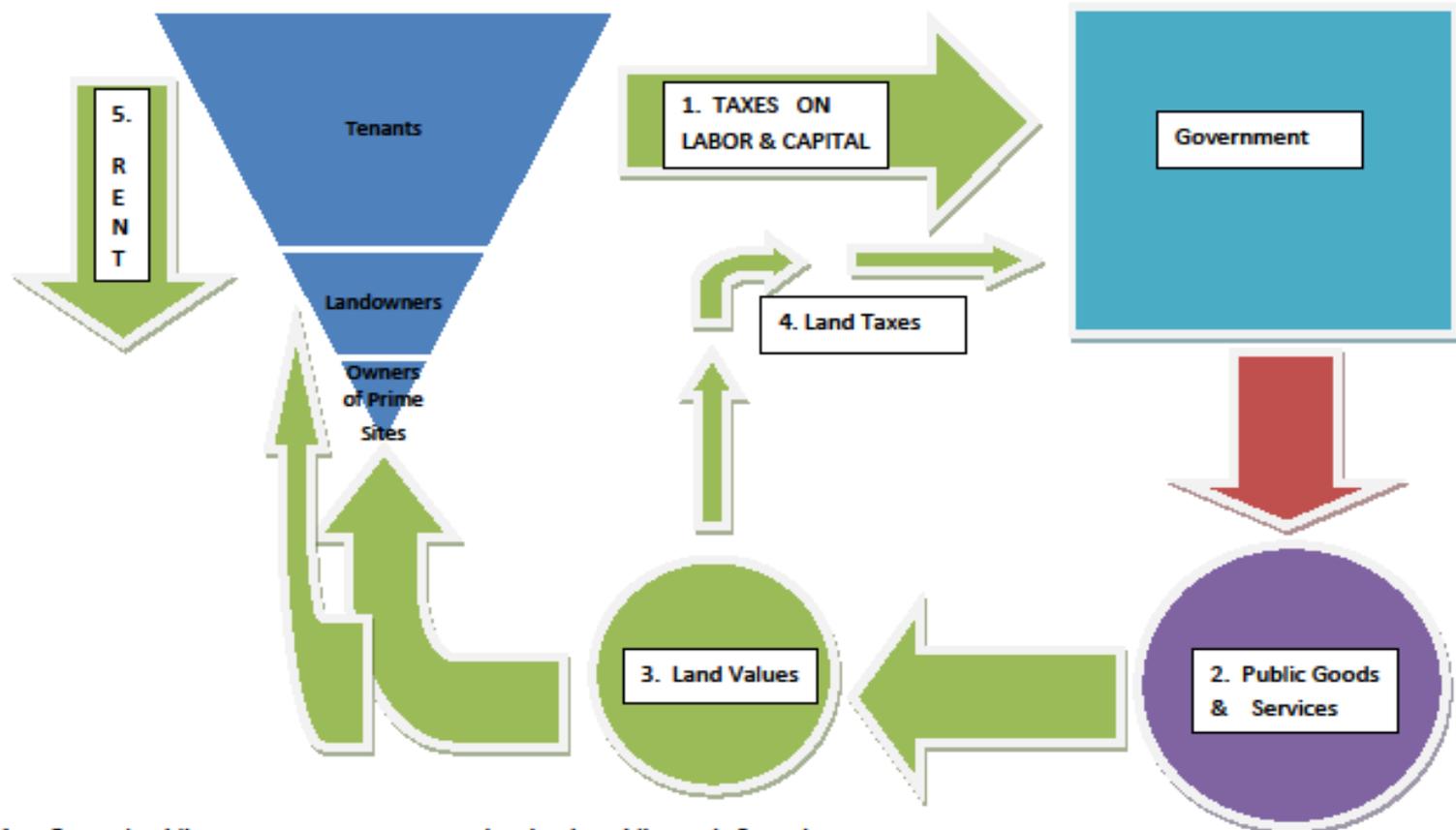
Invisible Beneficiaries

- ▣ Landowners might never drive on a road, or ride a transit vehicle, but they use this and other infrastructure to extract windfall profits from taxpayers. (“Location, location, location.”)
- ▣ Thus, landowners are often invisible beneficiaries of public facilities and services.
- ▣ A Public Service Access Fee is like a user fee that recaptures publicly-created land values in proportion to the benefit received and returns this value to the public that created it.

Self-Sustaining Infrastructure

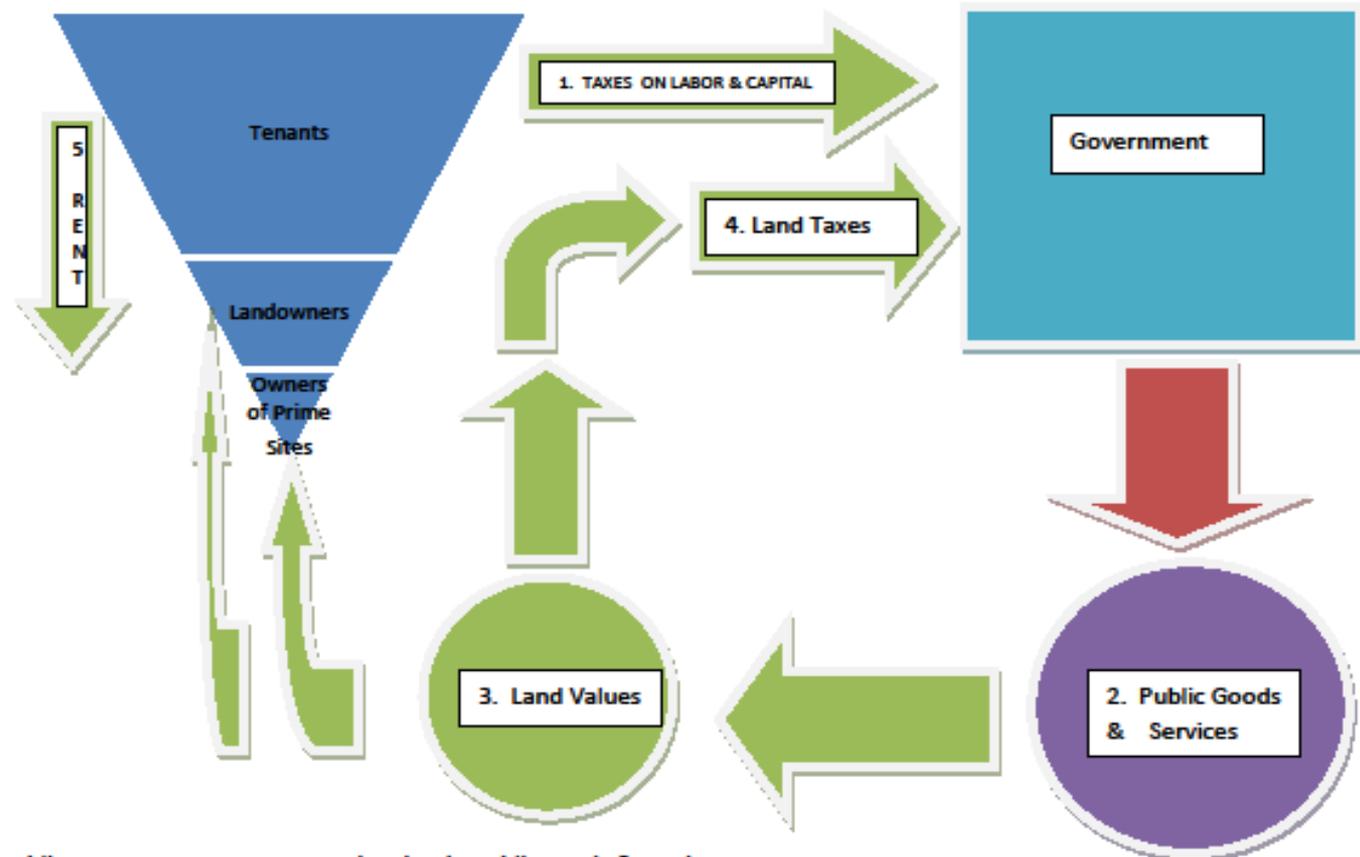
- ▣ Metrorail cost about \$10 Billion to Construct
- ▣ Conservative estimates of Metro-created land values near the stations, excluding general land-price inflation, show that Metrorail has created more than \$10 Billion in land values.
- ▣ If Metrorail had been able to capture the land values that it created, it could be financially self-sustaining.

LAND VALUE CREATION & CONSEQUENCES



1. General public pays taxes to generate and maintain public goods & services.
 - a. Owners of prime sites contribute less than others because most of their taxes are passed through to tenants and customers.
2. Governments use taxes to produce public goods & services
3. Benefits of many public goods & services are capitalized into higher land values ("Location, location, location!")
4. Typical property taxes return only 1% or 2% of publicly-created land value.
5. Most land values created by government are windfalls to owners of prime sites who charge premium rents to tenants for the right to access these public goods and services. NOTE: Tenants pay twice for government services. Once in taxes & again in land rent.

RECYCLING LAND VALUES FOR SUSTAINABILITY & EQUITY



1. General public pays taxes to generate and maintain public goods & services.
 - a. Owners of prime sites contribute less than others because most of their taxes are passed through to tenants and customers.
 - b. Taxes on labor and capital can be reduced as a result of recycling publicly-created land values. (See step 4)
2. Governments use taxes to produce public goods & services
3. Benefits of many public goods & services are capitalized into higher land values ("Location, location, location!")
4. Publicly-created land values are returned to the public by reducing taxes on buildings & increasing taxes on land values.
5. Reduced windfalls to private landowners reduce land prices and reduce land rents from tenants to landowners. Reduced taxes on buildings make buildings more affordable, so tenants get more value for the building rents that they pay.

Q & A