INFASTRUCTURE FINANCE

User Fees for the Invisible User

For New Ideas, Look to the Past

- In the 1800s, the District's streets were mostly unpaved.
- In wet weather, mud made roads difficult to navigate. In dry weather, they were dusty.
- Paving streets and sidewalks was a tremendous advance. It made properties more accessible and the air cleaner.
- Everyone would benefit.

- Although everyone would benefit, people whose property fronted a paved street benefited more than everyone else.
  - No longer would folks track dust, mud and MANURE into their homes & businesses!

- In 1894, Congress enacted a law requiring adjacent property owners to contribute 50% of the cost of first-time paving of streets, gutters, curbs and sidewalks through a special assessment.

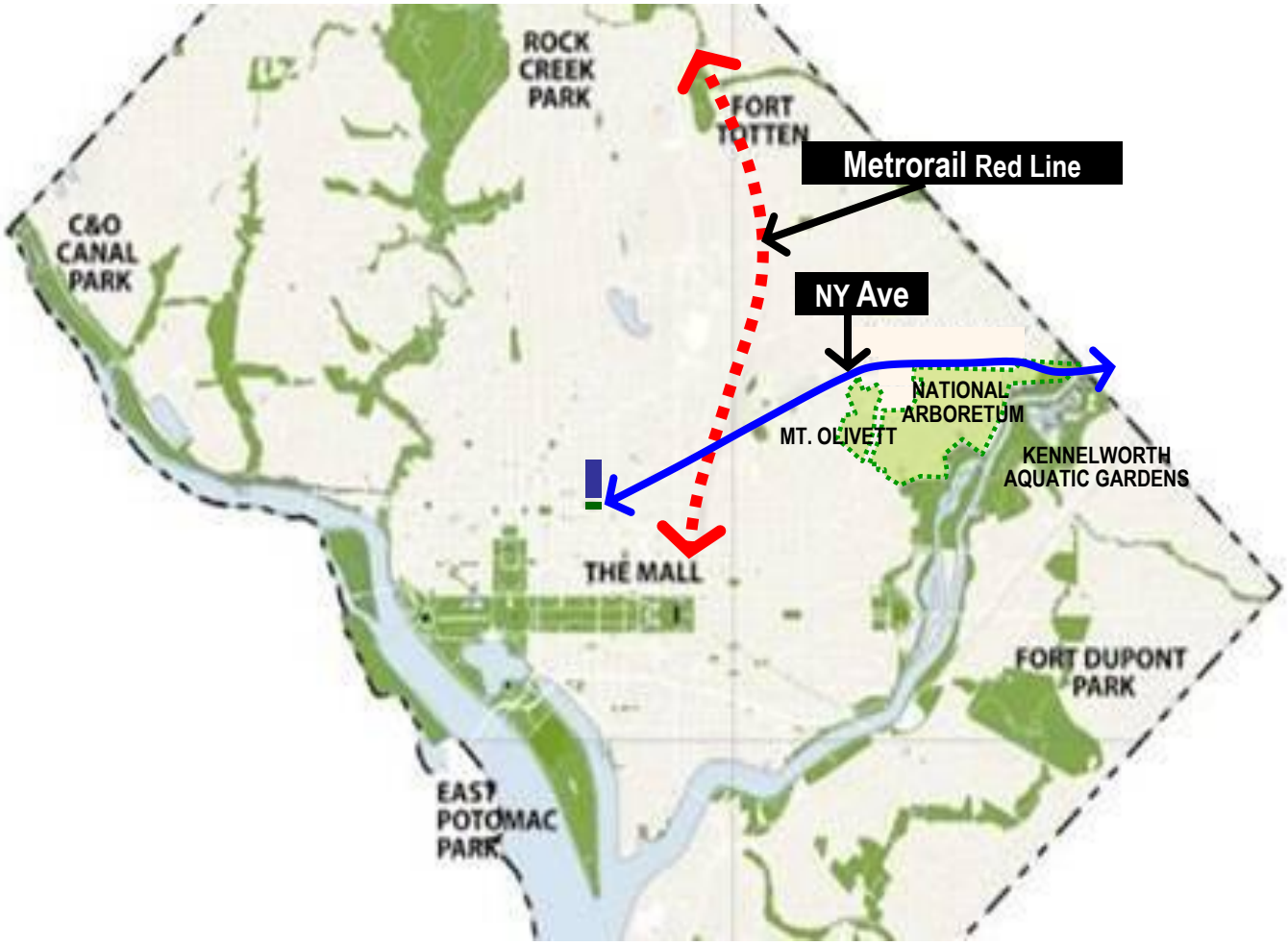
Applying the Past to the Present

- In recent times, the crush of traffic along New York Avenue & North Capitol Streets inhibited residential and commercial activities there.

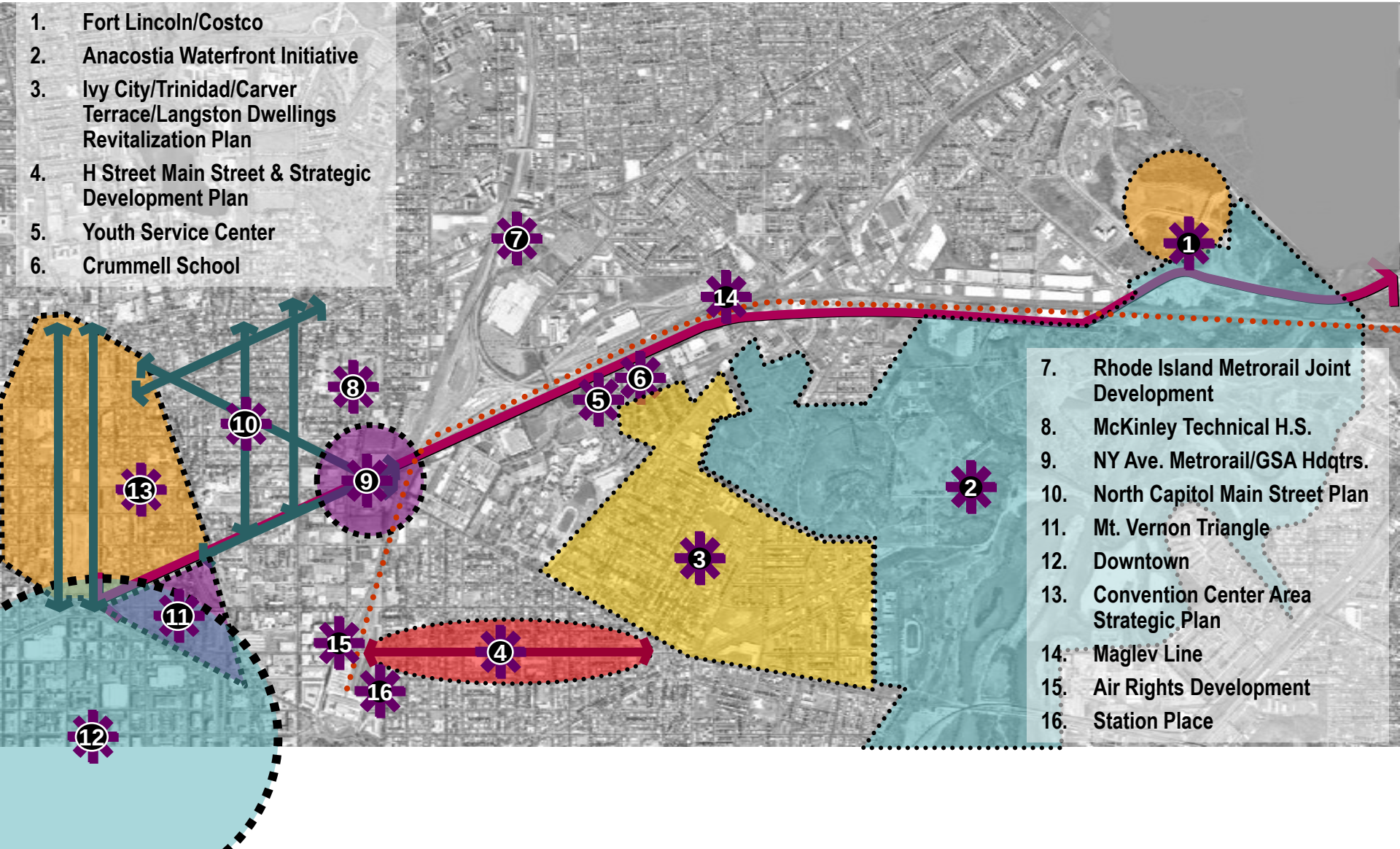
- The District Government supported creating a Metrorail station in the vicinity of the intersection of New York and Florida Avenues to alleviate congestion & promote development.

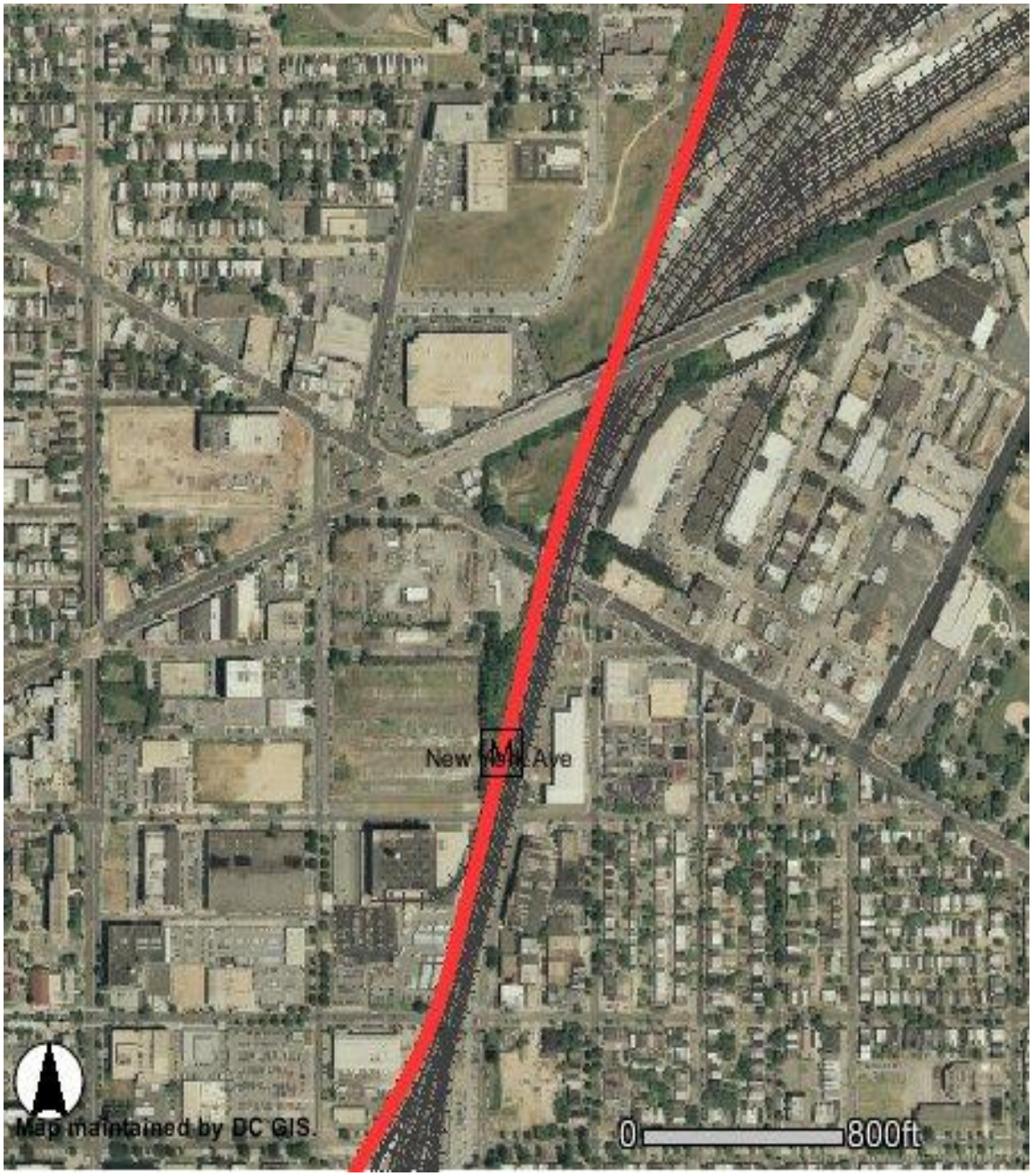
- But the District lacked the funds required to complete such a project.

New York Avenue Intersection with Metrorail Red Line

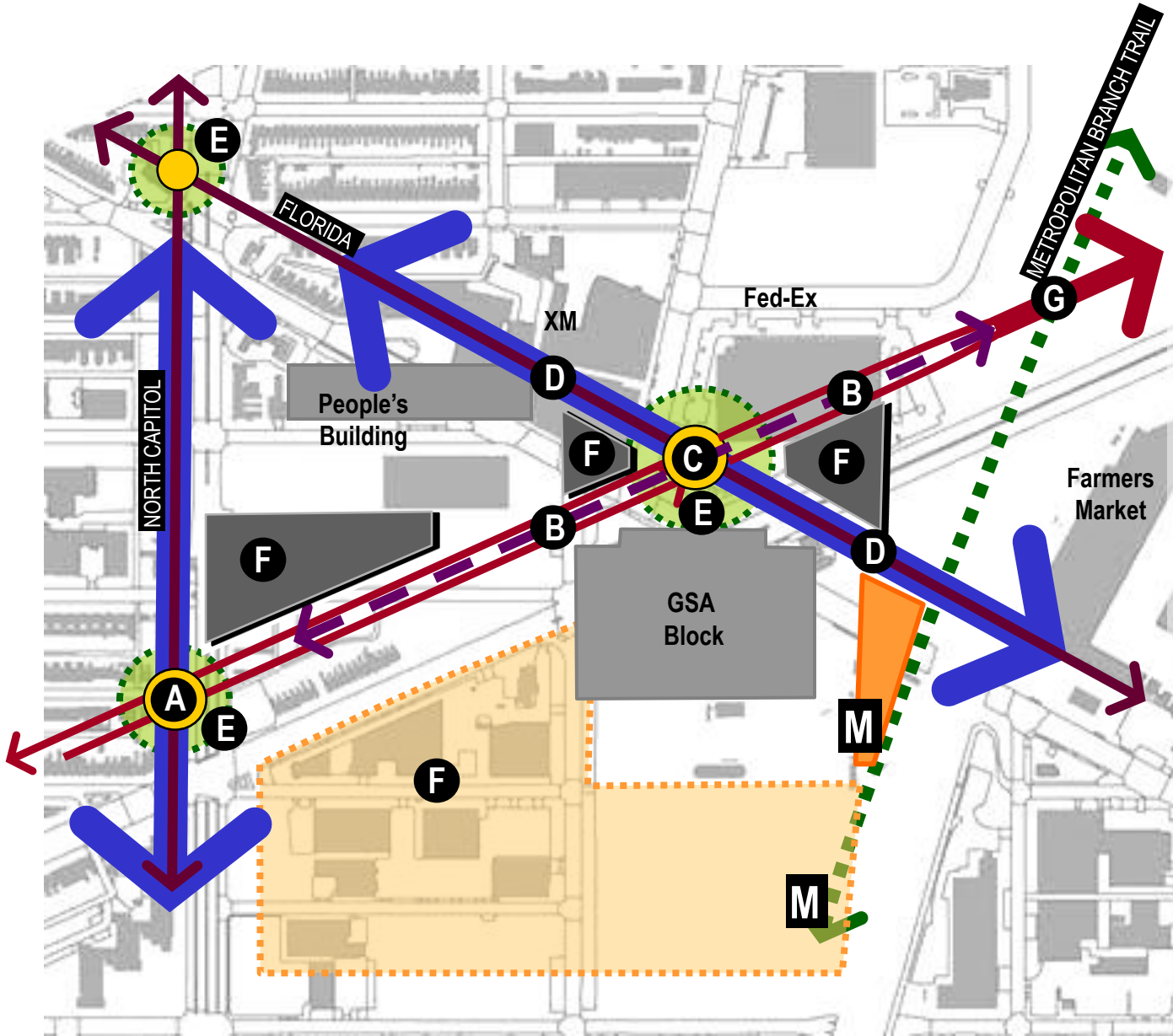


Union Station (16) to Rhode Island Ave Station (7)




New York Ave
Map maintained by DC GIS.
0
800ft

Zone 4: Framework Plan Recommendations



A. Existing North Capitol tunnel under New York Avenue is removed and an at-grade intersection is constructed

B. Regional traffic (I-395) comes to the surface between North Capitol Street and First Street, NE. It connects over or through Florida Avenue and then merges with local traffic on top of the bridge over the railroad tracks.

C. Florida Avenue intersection is improved to meet local and regional traffic needs and provide additional turning movements

D. Pedestrian connections on Florida and North Capitol are enhanced to better serve neighborhoods, Metro, and Florida Avenue development

E. Special "identity focal points" create active pedestrian spaces and help to tie Florida, North Capitol and New York Avenue together

F. Use new buildings and design guidelines to define spaces and street edges, and to encourage pedestrian activity

G. Create a connection between bike and pedestrian facilities along New York Avenue with the Metropolitan Branch Trail

- Just as the original paving of streets enhanced adjacent land values, Metrorail also increases the land values of properties that are near station entrances.

- Thus, landowners who would benefit financially from a new Metrorail station at this location could and should make a special contribution to help create it.

- When the landowners were informed that no station would be built without their assistance, they offered $25 million.

- Congress was impressed by the private sector's willingness to contribute financially to the creation of public infrastructure. (They did not remember what their predecessors had insisted upon in the 1890s.)

- Congress appropriated $25 million toward the station's construction, conditioned upon the collection of the private sector contribution.
- The landowner contribution was structured by selling a $25 million bond that would be paid off by a special assessment levied against nearby landowners over 30 years.
- Landowners successfully lobbied the DC Council to enact a benefit assessment district and Congress fulfilled its promise.

- In addition to the $25 million bond, two adjacent landowners donated property that, if condemned, would have cost the public an additional $6 million.

- Total Cost of the project was between $100 and $110 million.

- Landowner contribution = 30%

What is the Potential for Private Sector Participation?

- In the mid 1990s, there was an old railroad yard just south of National Airport, across the river from Washington, DC.
- The pension fund that owned it proposed to develop it for mixed-use office, retail & residential.
- Local government officials rejected that proposal because the access road, Route 1, was already over capacity during rush hour

- BUT, the officials noted that a Metrorail line ran through the middle of the rail yard. “If you put a Metrorail station there, we could let you build a relatively dense, mixed-use TOD project.”

- The pension fund did the math and offered to pay **100% of the cost of designing & building a Metrorail station at this location**.

- What was unique about this situation? A single landowner could internalize most of the externalities associated with a new transit station.

- Most of the time, there are many owners.

- Multiple ownership does not negate the value created by public infrastructure – It only makes it more difficult to collect.

Can Infrastructure Be Financially Self-Sustaining?

- Most often, infrastructure generates higher land rents that are windfalls to landowners who did not create the infrastructure.
- Landowner are simply lucky enough or shrewd enough to appropriate the value that the infrastructure created.
- Capturing infrastructure-created value for the entity that created it, can help make infrastructure financially self-sustaining.

Value Capture Benefits

- Financial Viability
  - An often overlooked revenue stream
- Equitable & Comprehensible
  - Beneficiaries pay in proportion to the benefit they receive
- Beneficial Land Use Incentives
  - Recapturing Land Value Motivates Development Near Infrastructure

HOW TO PROCEED

- What kind of Infrastructure Project?
  - Are the benefits general or localized?
    - Project might create both types of benefits.
  - If localized and direct user fees are subsidized, the surplus benefits will probably be capitalized into land values.
- Are landowners willing to pay for the benefit they will receive or can they be compelled to do so?

Don’t Use Jargon to Explain:
Tell a Story

- “The beneficial and adverse externalities associated with transportation projects are often capitalized into land values.”

- Economists may think that they understand this, but everyone else will think that you’re talking gibberish.

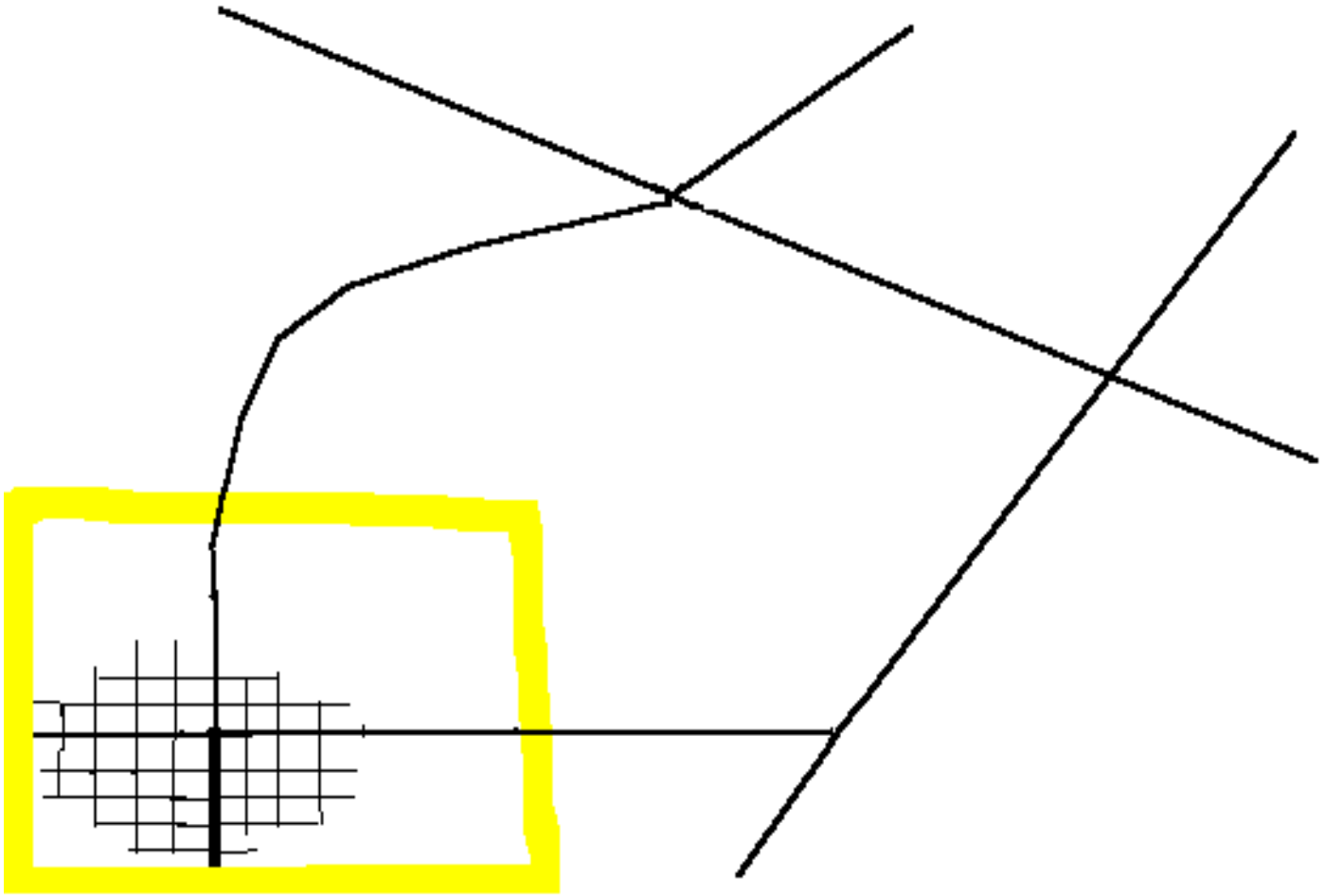
- Tell folks how much you love tomatoes!

How many times do you pay for infrastructure?

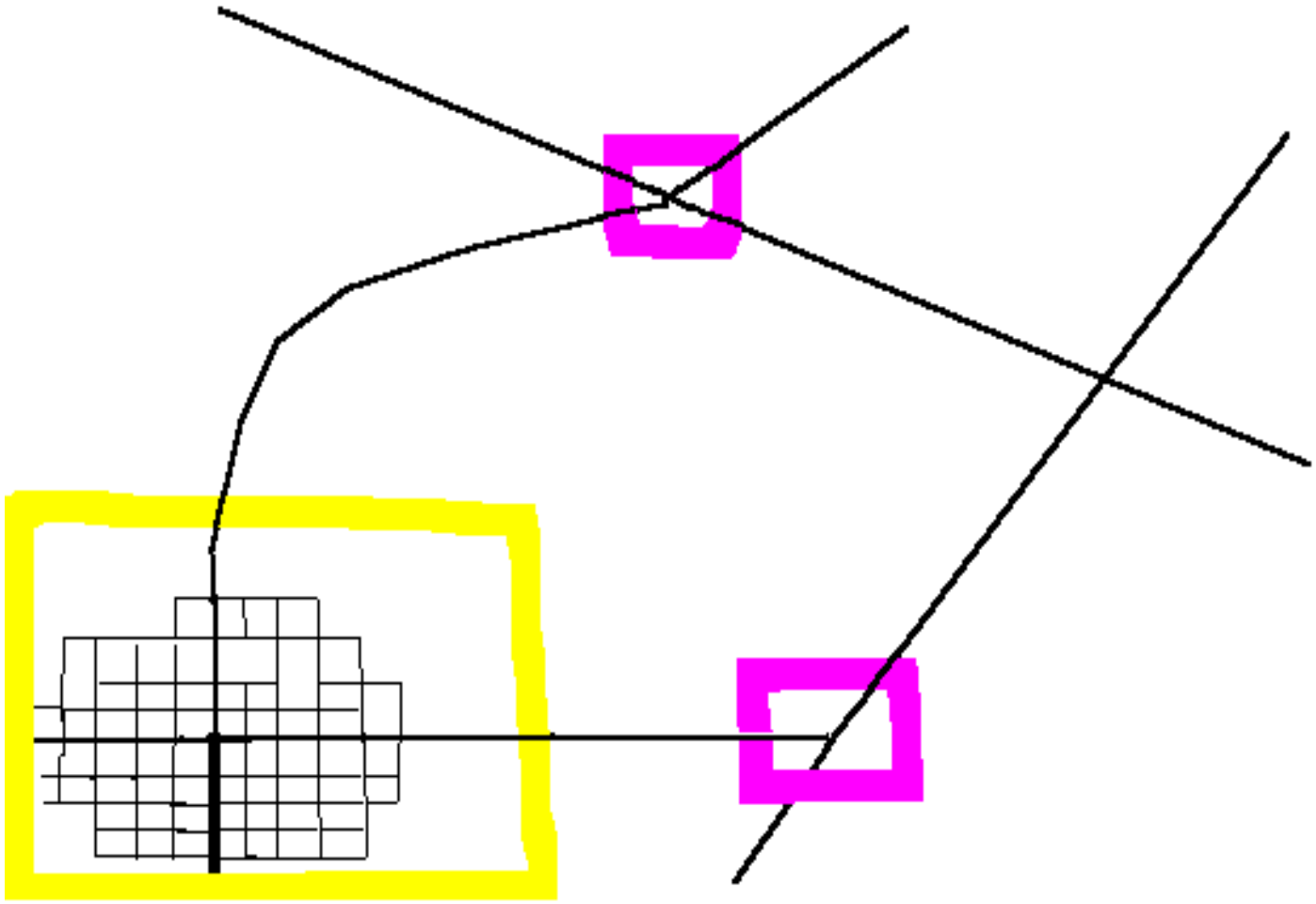
- The first time, by paying taxes
- A second time, by direct user fees
  - Tolls or fares
- A third time, in higher rent, to establish a home or a business in a location that benefits from infrastructure investment

Failure to Capture Value Is NOT
A Benevolent Act of Generosity
Nor Is It a Benign Oversight

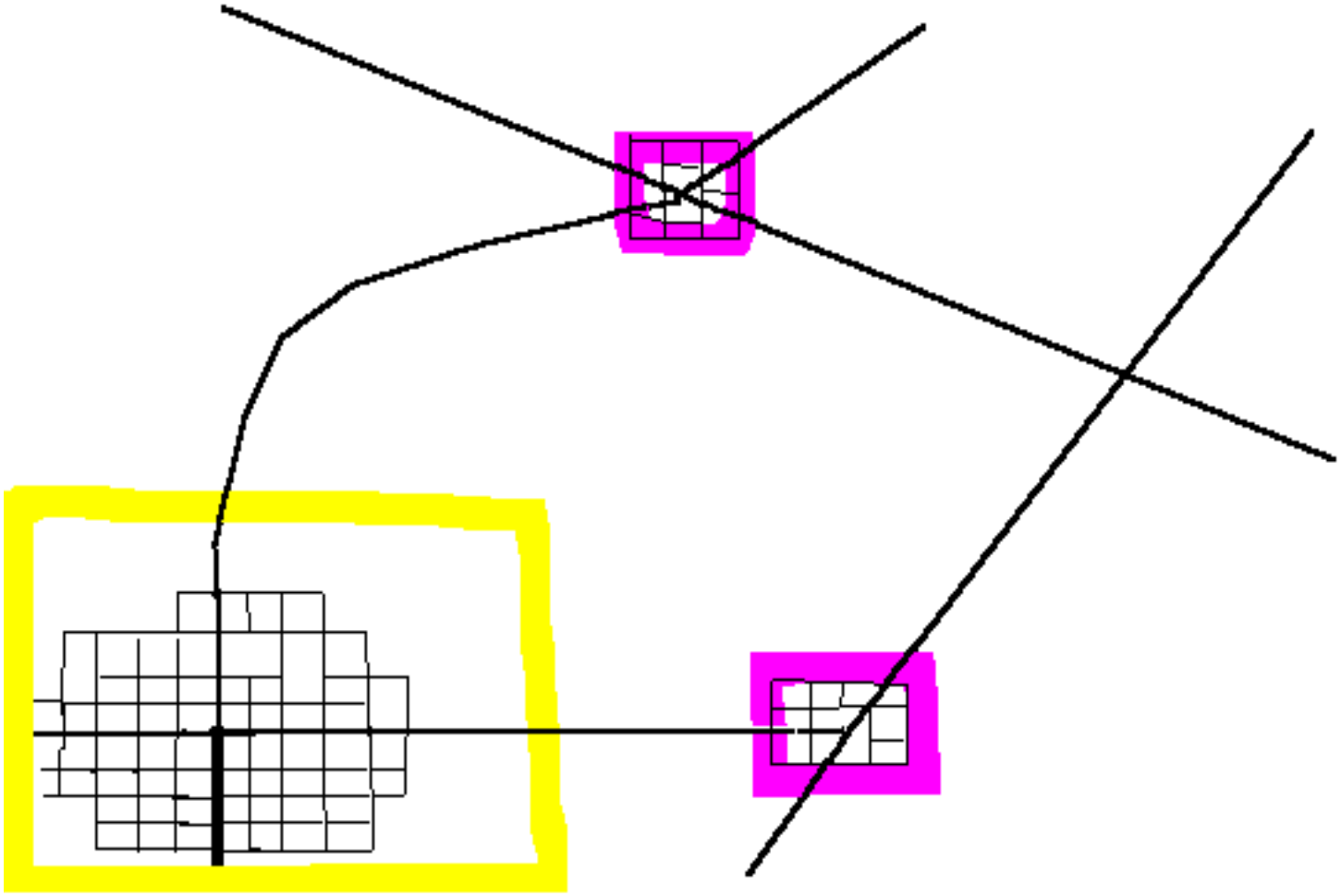
- Failure to capture publicly-created land values encourages land speculation.
- Land speculation inflates land prices and encourages sprawl.
- Sprawl undermines the potential benefits of infrastructure.
- Sprawl necessitates the duplication of infrastructure, at tremendous cost to the environment and the taxpayer.



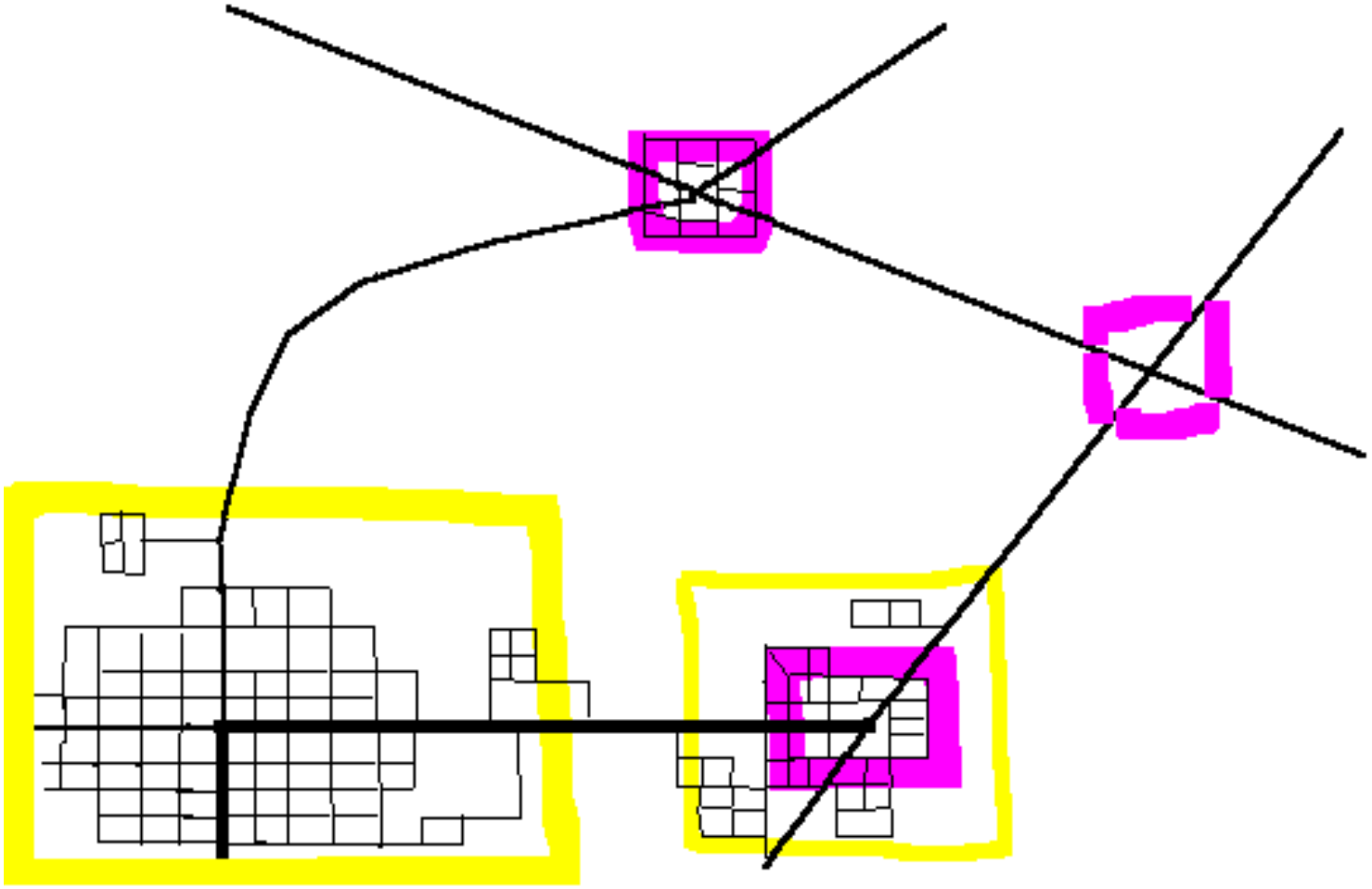
Transp. Facility = Growth Opport.



Rising Land Costs Impede Growth



Growth Diverted to Cheap Sites



Cycle Begins Again