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Highlights

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

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PUBLIC TRANSPORTATION

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

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.
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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.