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CDAs, TIFs and TDMs

Lawmakers are overlooking a huge source of revenue to underwrite new transportation projects -- the increase in property values made possible by the transportation improvements themselves.

For clues to the future of transportation funding in the Commonwealth, pay heed to two new real estate developments in Northern Virginia.

In one little-noted project, KSI Inc., a Fairfax County developer, has received permission from the Fairfax County Board of Supervisors to build a mixed-use project at the intersection of Waples Mill Road and Lee Highway. On an 18-acre property originally zoned industrial, the Ridgewood project will consist of 152,400 square feet of offices, 32,100 square feet of retail and 500 residential units.

As part of the deal, KSI will pay for local road improvements: an extension of the four-laned, median-divided Government Center Parkway. The company also will put into place a Transportation Demand Management (TMD) plan to offset the traffic impact of the high-density development. Many of the traffic-reduction features are baked into the project. A mixed-use project, by its very nature, creates an environment where people can conduct some of their routine errands and trips on foot. The company also has promised to participate in a shuttle-bus program. And, because KSI has designed eight percent of the apartments/condos as "workforce" housing, dozens of teachers, police officers, clerks, tradesmen and other blue- and pink-collar workers can live and work locally instead of commuting 50 miles from Stafford or Spotsylvania counties.

In Loudoun County, Greenvest, another Fairfax-based developer, is proposing to build a gargantuan development west of Dulles Airport. According to proposed amendments to the Loudoun County comprehensive plan, Villages at Dulles South would encompass nearly 14,800 residential units and almost 800,000 square feet of commercial space. If approved, it would be the second largest housing development in the East Coast of the United States.

Fully aware that a project of that magnitude would swamp the carrying capacity of the local country roads, Greenvest has proposed setting up a Community Development Authority (CDA) to help pay for $192 million in road improvements. The project remains highly controversial -- foes contend that the improvements will offset only a fraction of the traffic congestion generated by the project. But the fact remains, the project would put an unprecedented sum of transportation money on the table.

Apparently, it is the view of Virginia's governor, members of the General Assembly, the capitol press corps and the newspaper pundits who set the political agenda in Virginia that these developments are matters of purely local interest. A revolution in real estate finance capable of raising billions of dollars for transportation projects may be sweeping Virginia, but it has yet to make the slightest impact on the taxes-for-transportation debate. Developers and boards of supervisors may be collaborating to mitigate transportation demand on a scale once unimaginable in the Old Dominion, but these innovations have yet to seep into the public discourse in Richmond.

The taxes-and-transportation debate cannot ignore what's happening on the ground forever. Mark my words, eventually CDAs, TIFs and TDMs will become a routine part of the political lexicon. That's because they provide the General Assembly a way to have its cake and eat it too: raising money for transportation without taxing or tolling the public.

When the General Assembly reconvenes later this summer to discuss transportation funding, there will be one thought on the mind of every lawmaker: Where can we find more money to build more roads and lay more railroad track?

The dilemma is that the last round of revenue-raising proposals -- insurance premiums, sales taxes on cars, wholesale gas taxes -- proved politically unworkable. The House of Delegates was unwilling to bend on the issue of higher taxes, and, barring a disaster at the polls that convinces them otherwise, is not likely to change.

The only readily available alternative to taxes is tolls. The Kaine administration is already soliciting toll-financed proposals to increase the capacity of the Capital Beltway, Interstate 95 in Northern Virginia and U.S. 460 in Tidewater. Remarkably, a Democratic governor is presiding over the privatization of large chunks of Virginia's primary highway system. But there are limits to the toll—and-privatization strategy: Tolls are practicable only on bridges or limited-access highways. That leaves most projects unfundable.

House Speaker William J. Howell has tried to extend the privatization concept by suggesting that the Commonwealth consider selling off certain transportation assets, such as the Chesapeake-Bay Bridge Tunnel, and redeploying the proceeds to pay for roads projects that the state could not afford otherwise. But that idea has yet to gain traction. Outside of the investment bankers who would make a fortune selling off state assets, most Virginians don't warm to the idea of auctioning off the family heirlooms to pay ongoing expenses. (A good argument can be made for Howell's idea, but that's another time, another column.)

As the KSI and Greenvest projects demonstrate, however, the Commonwealth has an as-yet-unexplored revenue source -- *the increased value of real estate made possible by the transportation improvement itself.*

Major transportation improvements such as Metro stations, light rail stations, highway interchanges and road widenings create windfalls for the landowners lucky or shrewd enough to own property in the right location. Those land owners did nothing to create that value (unless you count lobbying for the public investment). It is not unreasonable, therefore, for the state to tap some of the value created by the public investment.

I see a four-step methodology that could be applied in dozens of projects around the state:

- Create a Community Development Authority (CDA) to issue bonds to pay for public improvements such as roads, light and heavy rail lines, transit stations or even bus shelters.

- Overlay the CDA with a Tax Increment Financing (TIF) district that taxes the landowners who benefit from the public investments. Use the revenue stream to pay off the CDA bonds.

- Sweeten the pot, as necessary, by giving landowners the right to develop their parcels at greater density. The combination of higher density and public improvements would more than compensate landowner/ developers for the expense of the special tax district.

- Require developers to implement Traffic Demand Management (TDM) plans to offset local congestion resulting from denser development. It is critical that these plans be robust, capable of taking large numbers of cars off local streets. They also must be sustainable, capable of standing on their own after developer has completed the project and has ended subsidies to van pools and other ride-sharing programs.

(For a detailed look at how

this methodology would work in at least one instance, I refer readers to my column, "[Rail Rip-off](#)," about the Rail-to-Dulles project.)

Not only would this approach tap a new revenue source -- the increase in property values resulting from the transportation improvements -- it would incentivize developers to design more transportation-efficient projects. We could expect to see more projects that blended residential, retail and office uses, designed more pedestrian-friendly streetscapes and exploited the opportunities presented by mass transit. Adoption of this methodology on a wide scale even could stimulate entrepreneurs to devise entirely novel traffic-demand solutions.

Of course, there are many potential pitfalls, and local government must be ever vigilant. Most critical is for government to manage its risks properly. Big developers and bond underwriters are very sophisticated at analyzing and managing risk; local governments are not.

CDA bonds offer developers the benefit of low, tax-free interest rates backed by the moral authority of the local government. If the financial projections don't pan out and the CDAs default, depending on how the bonds are structured, bond holders may turn to the local government to make them whole. Even if the bonds never default, they still may count against a local government's debt capacity.

A related issue is this: Do the CDA bonds tax the property owners whose property values benefit from the public improvements they finance? Or are they a mechanism for shifting the cost of those improvements to someone else -- businesses that benefit only marginally from the transportation improvements, for instance, or homeowners, who may come to resent paying what amounts to a second tax for amenities that other people enjoy without the tax?

Finally, it is crucial that CDAs and TIFs be used to finance development projects that enhance the evolution of balanced, better integrated communities -- not as a financial gimmick to perpetuate dysfunctional human settlement patterns. Local governments must display discipline; they cannot approve every project that some developer gins up.

If the General Assembly wants to do something constructive in the upcoming transportation session, legislators could take a close look at CDAs, TIFs and TDMs. It would represent a tremendous step forward if the Commonwealth integrated these novel tools into its long-term transportation strategy.

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Read more columns by Jim Bacon at
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