

# CENTER FOR THE STUDY OF ECONOMICS

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Testimony in support of **House Bill 6347**, February 23, 2015

The Joint Committee on Transportation, Connecticut General Assembly

AN ACT CONCERNING A STUDY OF LAND VALUE CAPTURE TRANSPORTATION FOR INFRASTRUCTURE PURPOSES

**To the Honorable Members of the Joint Committee on Transportation:** Good morning. My name is Joshua Vincent. The Center for the Study of Economics is a not-for-profit educational research foundation that explores alternative revenue sources for communities and government which do not hinder economic growth nor require the use of expensive subsidies and abatements.

Since 1926, the Center has researched and helped implement the collection of what is called “economic rent” in the form of a land value tax. In its most basic form, land value tax is a revenue source that is generated by government and community investment that result in increased site values. Like most economists, we believe that taxpayer generated value ought to be recaptured by government. It ought to be the primary source of government revenue to the greatest degree possible, in place of corrosive and destructive taxation of commerce, wages and investment.

**HB 6347** calls for a study commissioned by the Connecticut General Assembly to study the feasibility and outcomes of using the “land value capture method” of financing and maintaining transportation capital improvement projects and ongoing maintenance.

This plan makes sense for the long often neglected corridors that connect municipalities throughout Connecticut. Nearly 50 years of post-industrial disinvestment coupled with local and state tax policy repellent to investment have taken their toll. A responsible transportation strategy would make it possible to revitalize each stop along a proposed route, and provide an environment for private market investment, as well as funding and maintaining these critical transportation corridors.

The recent calamitous performance of Metro-North, as well as the grueling efforts to travel from the New York border to New Haven point to a long history of deferred maintenance and unstable funding sources since at least the early 1960s; even then New Haven Railroad was an object of local angst and national humor. (See attached illustration from the “New Yorker” in 1963)

No one denies that Connecticut’s transportation network does not meet the needs of a modern industrial region that has the benefits of relative density and proximity to interstate and intrastate markets. Yet funding streams have been unreliable and lacking for decades.

Likewise, no one denies that investment in any transportation network has an immediate impact on proximate land parcels: investment increases the value of the land. Currently, it is taken as a given, if considered at all, that public investment meant to benefit the public will accrue to private parties.

#### Examples Abound

As an example, recently New Jersey Transit studied the effect of the 1996 extension of the Midtown Direct Service on the Morris & Essex Line Manhattan. Over a nine-year period, homes within a 2 mile radius of each stop appreciated in value, with homes within walking distance increasing in value by 7.5%<sup>1</sup>. Again, although all New Jersey (and New York) taxpayers paid for this improvement, the benefit accrued to a very small number of parties. The benefit accrued could be returned to the taxpayers, and lesson direct cost nonusers and non-beneficiaries (i.e. increased taxes or interest on bonds); this is the principle behind value capture.

#### **Likely Return on Public Investment on Infrastructure: Project Support and Project Maintenance Revenues**

There is no longer any question investment in transportation provides an increase in property values around transit nodes.<sup>2</sup> In point of fact, these increases are not in “property” per se, but rather in land values. It is for this critical distinction that we now turn.

No matter how worthy, how does government pay for such a project in a time of deficit and cutbacks from the federal and state levels? **HB 6347** would propose studying not only financing for the initial project, such as would not be covered by the federal government in grants, but would also propose to study maintenance of the rail line, or transit home once established.

We suggest that value capture (in a manner deemed most beneficial by the study) become the primary funding source for the project. Noted economists such as Joseph Stiglitz<sup>3</sup>, have noted that land values or “economic rents” are more than sufficient to pay for the maintenance of a healthy municipality or indeed a healthy transportation project. Increased land values around a transportation node would be the result purely of government investment.

It is an obsolete and destructive concept that property owners immediately adjacent to the areas of public benefit be allowed to collect privately that which is created publicly. Increased values are created by the community, therefore they should be collected by the community.

The Center supports the full ranging review that would be commissioned by HB 6347 to determine if the concept is sound – and we believe that it is – and to further explore innovative and new sources of funding, rather than revenue from the general fund, expensive and irresponsible over bonding, or from a dedicated revenue source (i.e. sales tax) that is detached from source (revenue) to purpose.

Connecticut needs help, but cannot easily provide revenue for these essential improvements and upgrades to the transportation network. This project can provide substantial, long-term market generated help. The decline of federal and state aid will not be reversed in the foreseeable future. Worthy projects must be self-funded and self-

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<sup>1</sup> <http://www.rpa.org/pdf/RPA-The-ARC-Effect.pdf>

<sup>2</sup> [http://www.oregon.gov/ODOT/RAIL/docs/rail\\_study/appendix\\_k\\_rail\\_access\\_and\\_land\\_use\\_considerations.pdf](http://www.oregon.gov/ODOT/RAIL/docs/rail_study/appendix_k_rail_access_and_land_use_considerations.pdf)  
[http://lonestarrail.com/images/uploads/ASA Econ Impli of Reg Rail 200412.pdf](http://lonestarrail.com/images/uploads/ASA_Econ_Impli_of_Reg_Rail_200412.pdf)  
<http://www.uctc.net/papers/769.pdf>

<sup>3</sup> <http://academiccommons.columbia.edu/catalog/ac%3A148879>

maintained. **HB 6347** will commission a study joining many other US states and Canadian provinces to see how this can be accomplished in the current and future fiscal climate (bibliography attached).

Thank you very much.

Joshua Vincent, Executive Director

Appendix 1

Recent government or nonprofit commissioned studies on the subject of value capture, land value capture, in the United States and Canada, and internationally.

1. <http://www.cts.umn.edu/research/featured/value-capture>



2. <http://www.metroplanning.org/news/article/6311>

# Metropolitan Planning Council

3. <http://www.worldtransitresearch.info/research/5333/>

4. [http://www.its.ucdavis.edu/wp-content/themes/ucdavis/pubs/download\\_pdf.php?id=1786](http://www.its.ucdavis.edu/wp-content/themes/ucdavis/pubs/download_pdf.php?id=1786)



5. [http://grattan.edu.au/wp-content/uploads/2014/04/180\\_mares\\_urban\\_rail\\_essay\\_cities.pdf](http://grattan.edu.au/wp-content/uploads/2014/04/180_mares_urban_rail_essay_cities.pdf)



6. <http://www.vtpi.org/smith.pdf>



7. <http://library.rpa.org/pdf/TLS-2014-Research-Paper-Value-Capture.pdf>



8. <http://www.dot.state.mn.us/research/TS/2014/201403.pdf>



9. <http://www.brookings.edu/research/papers/2011/04/28-transportation-funding-levinson-istrate>

**BROOKINGS**

10. [http://www.massdot.state.ma.us/Portals/0/docs/infoCenter/boards\\_committees/value\\_capture/Zegras\\_111814.pdf](http://www.massdot.state.ma.us/Portals/0/docs/infoCenter/boards_committees/value_capture/Zegras_111814.pdf)



Appendix 2

From the New Haven Railroad to Metro-North: history repeats itself

"Great Scott! Now what's happened?"

New Yorker Magazine 1963



"Great Scott! Now what's happened?"

Peter  
Arno  
GNT  
COLLECTION