

10 February 2016

Inquiry: Capturing the value of transport infrastructure

The Standing Committee on Infrastructure, Transport and Cities has launched an inquiry into increased transport connectivity and economic activity, with a particular focus on value-capture as a funding mechanism for infrastructure development.

This is an important inquiry. I welcome the opportunity to make this submission.

Value Capture has historically been identified as Betterment – the increase in land values that occurs when a public authority makes decisions affecting that land. Rezoning land is a prime example of Betterment, where a change in zoning, say from agricultural to residential, makes the land considerably more valuable. The windfall gain that accrues to the landholder would, under Betterment, be captured by the community.

Value Capture is a sub-set of Betterment, and works at the individual project level. Where new infrastructure is commissioned, whether it be a road, bridge, railway line or the NBN, extra value is created for the beneficiaries of the new service. Beneficiaries include the users of the new infrastructure, and the user-pays concept attempts to ensure that this group pays its way; but there is another group of people who benefit from the extra value created. That group constitutes the owners of land within reach of the new infrastructure. The extra value created will increase land values in adjoining areas. I do not intend to try to prove this point. The literature is substantial, and the case proved (I will provide references)¹². The problem, it seems to me, is to convince people of the truth of the research, and, really, to just open their eyes to see the obvious result of developments that surround them on a daily basis.

I will address the Terms of Reference:

Identifying the likely impact on property values and property-related tax revenues as a result of transport connectivity;

- 1. examining options for the application of value-capture mechanisms to sustainably fund transport infrastructure;*

The question always arises: “Who should pay for the infrastructure - users, beneficiaries, or everyone through consolidated revenue”? I suggest the 'consolidated revenue' proposal is a cop-out by decision-makers. It is unfair to expect people to pay when they will receive no benefit at all. Of the remaining two options, it seems obvious that all beneficiaries (users, landowners, nearby commercial establishments) should pay, but setting the charge in proportion to the benefit received

1 Financing Transit Systems through Value Capture, Jeffrey J Smith & Thomas A Gehring (Analyses over 100 case studies)
2 Value Capture Mechanisms to fund transport Infrastructure, Feb 2013; A Kemp & V Mollard, NERA Economic Consulting, Sydney (NZ Transport Agency Research Report 511)

can be difficult.

User-pays is relatively easy to apply. People are used to paying fares on public transport, and even paying for road use. They expect to pay for services they receive.

Beneficiary-pays is more difficult to assess. Land values might increase immediately on any announcement of (say) a new rail line. That increase is then paid for by new entrants to the area. Any attempt to levy them with an additional charge after the rail line is built will be resisted. For the purposes of value-capture, the only way to ensure that value capture will work is to assess the land value as soon as the project is mooted. That is unlikely to happen, and speculators will always be quicker than any bureaucracy, so the idea is flawed from the outset.

The only way to overcome the influence of speculators is to establish a land value taxation regime, that would automatically capture increases in land value from the initial idea through to the final product.

2. considering means, including legislative and administrative actions, by which government and the private sector can best utilise value-capture funding mechanisms;

Whether development charges, tax increment financing, or some type of negotiated contribution is employed, the problem of the well-informed land speculator will always exist. They will take the cream off the project, usually before construction takes place, and therefore they are relatively invisible to the general public observer.

The only time that I can see a successful negotiated outcome is where a project has been abandoned, yet local interests can still see its benefit to them. In such a case, they may well be open to the idea that the project could go ahead if financed by increases in land value over time. It would make sense for landowners to give up some of their windfall gains to finance the project, and to achieve even higher land values as a result. Some windfall gain is better than none at all.

3. considering the appropriate roles of each of the three levels of government in establishment sustainable value-capture funding mechanisms for planning and infrastructure construction;

I have spent 3 years (2011-14) as an elected Councillor on Hobart City Council. I promoted Land Value Capture regularly (ad nauseum, perhaps). My colleagues were unmoved. They expect other levels of government to pay for everything. They regard land values as sacrosanct to each landowner, as if they actually earned that value. In effect, they expect the greater public purse (consolidated revenue) to subsidise their whims and wishes, and to leave the cash benefits in the hands of a few lucky landowners. Such is the power of the landholders in our democracy. No amount of arguing in favour of renters, and other non-beneficiaries, could sway their opinion. They made no argument for their case, mind you, they just ignored any case contrary to their prejudices.

Local government is already well-equipped to collect increases in land value through its rates system. But, since most major infrastructure is paid for by State or Commonwealth governments, they are likely to want to benefit from capturing increased land values. A deal could be struck that allows local government to collect the levy on behalf of the other tiers of government, but leaves some of the gain with local government

4. examining any international experiences of the delivery of high speed rail projects by value-

capture methods and the impact of high speed rail on city and regional development;

The likelihood of high speed rail coming to Tasmania is so slim that I think I can safely bypass this criteria. Suffice to say that any major infrastructure project will create uplifts in land values along the route, particularly around terminal stations, and to a lesser extent, intermediate stations. Value Capture could collect some of the windfall gains, but only a Land Value Tax will collect all of it.

5. examining methods of implementing value-capture in both greenfield and brownfield developments;

There is no particular difference between greenfield and brownfield sites in relation to land value capture. In both cases, the landowner stands to benefit from the new infrastructure. The land values will increase. The decision is simply whether to allow that increase to be captured by the landowner or by the community. What is done with the site, or how, is not relevant to that basic decision on funding it.

6. examining ways to capture future value opportunity when reserving transport corridors.

It would be nice to think that a land value capture mechanism could be implemented that would 'beat the speculators'. But, alas, they are far too nimble. Land speculators have stayed well ahead of the game, despite changes to the rules from time to time. Land Value Capture is destined to suffer the same fate. While I support the idea of value capture, because it is better than nothing, only a fully implemented Land Value Tax will capture all of the uplift of all of the land, whether the uplift is caused by large infrastructure projects, a new park, or even a 'local clean-up day'. What the community creates belongs to the community, so despite land value capture making progress in the right direction, it is a poor substitute for a properly implemented Land Value Tax.

Closing comments:

Thank you for the opportunity to make this submission. For me, as an advocate of Land Value Capture, it is pleasing to see the topic being addressed seriously. But, from lessons learned along the way, I know that Land Value Capture is just one step, albeit in the right direction. Only a properly implemented Land Value Tax will achieve the aims sought by the Terms of Reference. There are no short cuts, far less a magic pudding.

Yours Faithfully

Leo Foley B.Ec

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