

# A Transit Assessment District for WMATA

A Report

By

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For

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## *Background*

Based on analysis of a decade of WMATA's annual financial reports and other documents, this report shows that:

- (a) while WMATA's immediate financial condition is strong and has more than sufficient ability to pay for improvements in pay & benefits of ATU 689 represented employees,
- (b) nonetheless, the Authority's dependence on legislatively appropriated rather than statutorily mandated funding ensures WMATA regularly experiences 'deficits by design,'
- (c) as participating jurisdictions boom-bust revenues struggle to keep up with constituents' demand for public services & facilities including transit, especially in economic downturns, and
- (d) proposes putting WMATA's funding on a more stable, reliable and equitable basis with a transit assessment district apportioning transit costs among property owners based on how much their respective property's value is enhanced by transit service.



## *'Deficits by Design'*

WMATA's and others' studies, for decades, all agree that WMATA's funding, finances and service need a more secure foundation. At June 12, 2014's Board meeting, staff were charged with exploring revenue options including public-private partnerships, real estate value capture taxes, infrastructure bank, station adoption, regional sales tax and/or enhanced debt instruments and to report back by December 2014.

In my view, however, the range of alternative funding options that staff were directed to consider are too narrow in scope (targeted for capital or construction-only uses) and/or regressive, putting a disproportionate burden on lower-income households.

## *How a TAD Works*

Transit assessment districts would determine:

- (1) the cost of providing transit service,
- (2) additional resources to be raised by assessing property owners in the district,
- (3) property owners' assessments proportionate to the property's transit-enhanced value, no matter if the owner is tax-exempt or not,
- (4) assessments, unlike taxes, are only paid by owners directly benefiting)



## *TAD Advantages*

- (1) links transit funding to ongoing costs of providing transit services & facilities,
- (2) reduces transit funding's dependency on fares, passes, contract services, sales taxes and government subsidies, all vulnerable in economic downturns
- (3) shifts the burden of transit funding from lower-income households - who pay a larger share of fares, sales, income, gas, license fees etc. - to wealthier property owners whose properties' values are enhanced by transit service that delivers customers, employees, clients, patients, students and others to their doors.

## *Winning Allies*

As cost-driven TAD revenues increase, local transit subsidies and sales taxes can be reduced or redirected to general funds to earn backing for a TAD from:

- local governments (states, cities, counties, schools)
- state & local government employee unions,
- building trade unions & contractors, and,
- health & human services providers dependent on government funds.

By making TAD assessments dollar-for-dollar tax deductible on state & federal income taxes, resistance to a TAD by tax-paying property owners can be diminished



## *Conclusions (Or Beginnings?)*

- *TAD's let transit properties to be service-, not profit-oriented, inevitable in privatization,*
- *TAD's are cost-driven, both operating & capital, not revenue-constrained*
- *TAD's are less volatile funding sources than current transit revenue sources,*
- *TAD's broaden revenue sources including tax-exempt property owners,*
- *TAD's shift transit costs to owners of properties whose value are increased by transit,*
- *TAD's reduce conflict among transit stakeholders,*
- *TAD's establish a 'public option' with eligibility criteria & performance standards for would-be privatization*

### *Preliminary Case Study: The District of Columbia*

According to the District's 2015-16 *Comprehensive Annual Financial Report*, the total value of District real properties, at the end of 2014-2015 (the last fiscal year available,) was approximately \$280.5 billion. The total taxable portion's value, that fiscal year, was \$189.1 billion.

The value of all tax-exempt real properties, including those federally owned, was \$91.4 billion, equivalent to 32.6% of total property value. The value of U.S. owned tax-exempt real properties, at 2015-16's end, was \$81.3 billion or 29% of District total real property value.



Property tax rates vary: residential (Class I,) commercial-industrial (Class II,) vacant (Class III) or blighted (Class IV.) For this analysis, U.S. tax-exempt real properties are assessed as commercial-industrial (Class II) with a tax rate of \$1.85 per \$100 of property value.

*At \$1.85 per \$100 rate, the total value of property taxes foregone by the District on \$81.3 billion U.S. owned tax-exempt real properties would be approximately \$1.5 billion each year.*

Alternately, the District calculates a total direct tax rate, a weighted rate of all taxable real property, obtained by multiplying the weighted rate by the percentage of the total value of real property for each class.

*At a total direct tax rate of \$1.32 per \$100, the total value of property taxes foregone annually by the District on \$81.3 billion of federally owned tax-exempt real properties would be approximately \$1 billion.*

*From \$1 billion (total direct tax rate) to \$1.5 billion (commercial-industrial) is lost on tax-exempt U.S. owned District real properties.*



Compare the annual \$1-\$1.5 billion real property tax loss with:

- (a) U.S. contributions to DC, in 2014-2015, of \$521 million including \$460 million for retirement contributions but only \$60.9 million for other federally imposed costs,
- (b) The District's \$2.5 billion of estimated property tax receipts,
- (c) The District's \$490 million annual contribution to WMATA, or,
- (d) Applying the same rates to the value of other, not federally owned, tax-exempt properties, the District loses \$133.3 million (total direct tax rate) to \$186.8 million (commercial-industrial) annually.

*Tax-exemption costs DC \$1.2 billion to \$1.7 billion in property taxes.*