

# Value Capture Mechanisms for Affordable Housing

## The Rail Park - Policy Research Project

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### **Introduction**

The Friends of the Rail Park (“FRP”) mission is to build bold, transformative, and inclusive public space that connects Philadelphia’s residents and visitors to the city and each other. Through cross sector collaboration between FRP, the City of Philadelphia, Center City District, and philanthropic partners, Phase I of the Rail Park (a quarter mile stretch of elevated viaduct located in Chinatown and Callowhill) opened in 2018. Today, the park is managed by the City of Philadelphia’s Department of Parks and Recreation, FRP functioning as stewards and programmatic partners for Phase I, and advocates driving the vision and execution of future phases of the park.

The Rail Park has a vision to extend further, ultimately running three miles - traversing above and below the streets of ten distinct Philadelphia neighborhoods, connecting Northern Liberties to Brewerytown. This would transform the historic Reading Railway into a linear park and pathway that will enrich the health, culture, and ecology of the city, and create inclusive opportunities for Philadelphians. There are multiple phases that make up the total vision. This project will be of use primarily for Phase II, but will be useful for all future phases which have not yet opened, and to some extent the already opened Phase I.

### **Issue/Problem Statement**

In 2020, Rail Park’s partners, Philadelphia Chinatown Development Corporation (PCDC), Sojourner Consulting and PolicyLink released “Chinatown Future Histories: Public Spaces and Equitable Development in Philadelphia Chinatown.” The report summarizes over a year of community engagement and discussion in Chinatown focused on equitable access to parks and public space and includes a series of recommendations and a list of potential value capture strategies pertinent to Phase One of the Rail Park and the development of future

phases.<sup>1</sup> This report built off of the data collected and analyzed in the “Philadelphia Rail Park Property Value Impacts Study” which was released the same year.<sup>2</sup> The key takeaway from the reports was that the measurable link between property value increases and loss of affordable housing in Chinatown can be tied to the installation of Phase I of the Rail Park. As such, FRP recognized the impact Phase I had on affordable and low income housing around the Rail Park and they are therefore taking that into account in the design of Phase II. This more thoughtful approach is meant to respect and be good stewards to the neighborhood.

FRP is now presenting to City Officials the proposal of Phase II of the project. This phase will stretch across the undeveloped area of the viaduct to the east of the Rail Park, extending from the main branch, across Spring Garden Street, to 9th and Fairmount Ave.

As it readies to implement Phase II, FRP hopes to better understand from a comprehensive community development perspective:

- What it has direct control over (i.e. “How do we build and steward an equitable organization and park?”);
- What it must do in partnership (i.e. “How do we work with partners to contribute to more equitable neighborhoods and communities?” or “How can we mitigate the impacts of development in the neighborhoods and communities the park touches?”); and
- What it can contribute to policy- or systems-level change (i.e. “How can FRP and the Rail Park influence or contribute to a more equitable Philadelphia and region?”)

The FRP Board of Directors, taking into considerations reports released by the PCDC, will seek to utilize one or more Value Capture Mechanisms.

**Value Capture Mechanisms:** The term “value capture” refers to any strategy that “captures” a portion of the increased property values. Traditionally, value capture has been used by public entities to recoup costs of improvements that benefit nearby property owners, often focusing on improvements such as roads, transit, lighting and sidewalks. However, in the case of the Rail Park, the increase in values generated from the Rail Park could be “recaptured” to help minimize the impact on gentrification and displacement.<sup>2</sup>

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<sup>1</sup> Crowder Jr., J., & Yeung, S. (2020). *Chinatown future histories* PolicyLink.

<sup>2</sup> Strategic Economics (2020). *Philadelphia Rail Park Property Value Impact Study* Urban Partners.

## **Deliverables**

The findings have been summarized into three 2-page policy briefs, one for each value capture mechanism. The three mechanisms are: **Transfer of Development Rights** (TDRs), **Tax Increment Financing** (TIF), and **Green Infrastructure Investment**. The briefs will be made available to the Board of Directors of FRP to determine which mechanism(s) to utilize in pursuit of preserving affordable housing in Phase II. The expansive research is included in the Appendix.

Each policy brief contains the following sections:

- **How It Works:** How does the value capture mechanism work?
- **Who Benefits/Pays/Decides:** What are the power/decision making systems behind it? Who benefits and who is at risk of losing out?
- **Case Studies:** Where else has the mechanism been used, and what are the pro/con takeaways?
- **Ideal Scale & Strengths:** At what scale does the mechanism work best?
- **Potential Partnerships:** Who are the necessary stakeholders, partners, or other actors and influencers necessary to advancing these mechanisms? What is the capacity of the aforementioned potential stakeholders to partner with FRP to advance this work?
- **Political Landscape:** What does the current and future political landscape mean for the success of implementing the mechanism?
- **Pitfalls:** What are the risks and areas of potential failure/negative impact that should be understood and mitigated?

## **Methodology**

The methodology behind creating the policy briefs centered around researching, reviewing, and analyzing a vast array of sources related to the value capture mechanisms. The sources included specialty reports (notably, the “Chinatown Future Histories: Public Spaces and Equitable Development in Philadelphia Chinatown” report mentioned above), news articles, case studies, political announcements, Philadelphia City code, City government presentations, conference materials, community change handbooks, and discussions with Rebecca Cordes Chan, Executive Director of FRP.

After compiling large swaths of information, I distilled the information into condensed write-ups that cut through to the main takeaways. The result is a simplified discussion of

each mechanism that is approachable by almost anyone, regardless of their previous knowledge on the subject.

**The following pages include the three policy briefs.**

The policy briefs above covered operations, impacts, strengths and weakness, creating a meaningful tool for the Board to use in the next steps towards making a decision. In making that decisions, there are limitations in the policy research that should be considered. There is also additional future research that could help in deciding on one value capture mechanism (or, multiple), or even help in implementing the mechanism after the decision has been made.

### **Limitations & Recommended Future Research**

Both TIF and Green Infrastructure Investment operate by syphoning funds to set aside for affordable housing initiatives. The policy briefs did not delve into a deep review of organizations in Philadelphia that would put affordable housing solutions into action. Such a review would be required when gearing up to implement the mechanism(s), as well as an analysis of the dollar level of funding that those organizations would need to be able to make an impact.

Included in the policy brief for TDRs is mention of the failed TDRs surrounding Philadelphia.<sup>3</sup> Discussions with those counties and individuals involved should be conducted if the Board decides pursue TDR use. TDRs have been successful in other cities for large-scale projects, so further exploring the obstacles to success that occurred near Philadelphia would provide a high level of risk reduction compared to the level of effort required to interview the parties involved.

The Philadelphia Rail Park Property Value Impact Study, which demonstrated that 16% of the value premium of apartment buildings in the area could be attributable to the Rail Park, was completed right around the beginning of the Covid-19 pandemic.<sup>2</sup> This offers a good snap-shot in time, but the pandemic shifted housing values in the city so immensely that it would be useful to have an update to the report added based on new figures.

Additionally, the political landscape may seismically shift depending on the results of the upcoming Philadelphia mayoral election. This unknown outcome is a limitation in the political landscape analysis section of the briefs.

### **Policy Recommendation**

The policy briefs act as a tool for decision making by the Board, but in the brief development process I have also developed my own sense of the most valuable mechanism to devote strategic focus.

**TDRs** are most effective at directly addressing the negative community impact that occurred in Chinatown during Phase I. However, Phase II stakeholders are a bit more skewed to small businesses, where the concern for preserving low income housing may be less front and center.

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<sup>3</sup> Ives-Dewey, D. (2005). Transfer of Development Rights in the Philadelphia Region – Hope of Hype?. *Middle States Geographer*, 38, 1-7. Retrieved from [http://digitalcommons.wcupa.edu/geog\\_facpub/11](http://digitalcommons.wcupa.edu/geog_facpub/11)

TDRs are a less commonly used tool compared to TIFs since TDRs carry an administrative burden, but they have been enacted in the counties surrounding Philadelphia and in many other cities.

**TIF** use would only indirectly fund affordable housing initiatives. Its use does not focus quite as much on making tangible change at ground level and relies on other organizations to do this work. Its strength is that the potential level of revenue is fairly high and has been used in many other situations in Philadelphia.

**Green Infrastructure Investment** similarly only indirectly makes an impact on affordable housing and relies on other organizations to put the revenues into action. It is a more accessible and less political option compared to the other mechanisms.

As a result of this thorough research, the policy mechanism that is poised to make the biggest impact is a TDR. This is because TDRs directly prevent loss of already established affordable housing, while the other two mechanisms rely on other foundations and institutions to preserve/create affordable housing using the funds that FRP raises to support such endeavors. TDRs would demonstrate most clearly FRP's commitment to the community, and have been successfully implemented in many other cities, even if they haven't been widely publicized.

## **Appendix:**

### **Expanded Research on Value Capture Mechanisms**

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#### **Mechanism One: Transfer of Development Rights**

##### **How It Works**

Development rights have monetary value that's capitalized into a property's overall value, so curtailing (re)development rights reduces a property's value under normal circumstances. Thus, if the city of Philadelphia simply forbids the low-income housing areas around Phase II of the Rail Park (the "sending zone") from redeveloping, there would be massive pushback by the owners since they would lose out on the gains of flipping their low-income housing into luxury housing that can be rented at much higher prices. A TDR program seeks to preserve landowners' asset value by moving the rights to build from the sending zone to a location where development is encouraged (such as non-low-income apartment buildings in Center City that do not currently have rights to build floors higher than a certain level – the "receiving zone").<sup>4</sup>

Logistically, the city would issue new zoning permissions in the sending zone that would allow new (re)development of building to allow more floors. The city would then appraise the increase in value of the sending zone's properties generated by the new zoning permissions. This increase in value is a windfall to the current owners in the receiving zone, so the city is justified in laying claim to this money and turning it over to the people whose development rights have been taken away in the sending zone. The ideal result is that neither the sending zone or receiving zone is worse off than they would have been had the city not intervened in the development rights around Phase II of the Rail Park for low-income housing. Legally the development right would be separated from the current existing buildings in the sending zone, appraised in value, offered for sale in the receiving zone, and the sending zone owner receives the compensation. It's not necessarily an issue that the sending zone owners are not compensated right away, since they probably would not have started developing their property (or sold their property for development) right away.<sup>5</sup>

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<sup>4</sup> What is a transfer of development rights (TDR) program? (2022). <https://njaes.rutgers.edu/highlands/transfer-developmentrights.php#:~:text=A%20TDR%20program%20seeks%20to,location%20where%20development%20is%20encouraged.>

<sup>5</sup> Geeting. (2019). We can have nice things. <https://thephiladelphiacitizen.org/we-can-have-nice-things/>

### Case Studies

The first is the High Line in New York City, which was a conversion of the unused rail tracks above the street level into a greenspace and park, much like that of the Philadelphia Rail Park. Those opposing the use of TDRs presume that property owners in the sending zone community will not be satisfied with the mechanism when compared to being able to develop their own property. Support from the community is key to the success of greenspace projects like this. The city government could take steps to move the project forward without the support of the community, but community members can exercise their rights and lead grassroots movements against the project and eventually vote out the politicians supporting the project. In the case of the High Line, TDRs were used to preserve the historic integrity of the High Line and its surrounding properties in order to make a park possible. The success of the High Line proved that TDRs can in fact satisfy community members, including the property owners, when they are paired with a well-communicated goal that unifies the neighborhood. New York City officials delivered the message to the community from the beginning of the conversation that the goal of the project was to promote and protect public health, safety, general welfare and amenity. With this universally appreciated goal, property owners were much more amenable to the TDRs they were offered.<sup>6</sup>

The second case is in Seattle, Washington, where TDRs were used to specifically preserve low-income housing and bolster retail development in certain areas of the city. The program effectively preserved 372 units of affordable housing. This case postulates an answer to one of the largest criticisms of TDRs by opponents of the mechanism: that there is too large of an administrative burden and complicated logistics that the city must navigate in tracking each development right, its appraised value, and its original owner. Those opposed also fear that the developers in the city would have trouble finding the development rights available for purchase. In the case of Seattle, the lesson learned by city officials was that the success of the TDR program depended on making it easy for developers to purchase TDRs without going through the complicated process of determining the number of development rights for individual sites. The solution was the city's creation of a "TDR bank" where the city served as the sole original purchaser of the TDRs, and then held them for sale in one centralized program. This method contributed to the long term viability of the program as the city amassed millions of dollars of development rights in easy grasp of the development community.<sup>7</sup>

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<sup>6</sup> Brooks, G. (2019). *Reusing and repurposing new york city's infrastructure: Case studies of reused transportation infrastructure*

<sup>7</sup> *Case studies - transfer of development rights*. (2022). <https://www.mass.gov/service-details/case-studies-transfer-of-development-rights-tdr>

TDRs were utilized in Birmingham Township (Chester County, PA) and were repealed due to complexity of administration and tracking. It seems that success rate is increased if there is an established institution with capacity to handle the administration (PIDC has more resources than smaller counties would).<sup>3</sup>

### **Who Benefits/Pays/Decides**

**Benefits:** Low-income and disadvantaged residents surrounding the Park sites retain housing and gain park access. FRP and CCD gain more

**Pays:** Potentially the building owners who wish they could develop their current assets rather than the receiving zone. Potentially the City/taxpayers may have to supplement the work that the PIDC does in managing the TDRs if the costs cannot be recouped through PIDC's normal business activities.

**Decides:** Friends of the Rail Park ("FRP" nonprofit), Center City District ("CCD" quasi-public entity with funding leverage), the City (mayor, city council, school districts)

### **Ideal Scale & Strengths**

TDRs work best when the scale is not too large due to the significant administrative complexity.

Ideally TDRs will accomplish the goal of supporting affordable housing up front rather than generating revenue to invest into other methods to support affordable housing. No middle man. However, only would work in the future Phase areas and would need to be pursued quickly, it's too late to benefit the area around Phase I.

### **Political landscape**

The Philadelphia city government has explored the idea of TDRs in the past when preserving historical sites.<sup>5</sup> However, these TDRs have only been explored as policy to protect culture and economics in the city through historic tourism; they have not been utilized to protect underserved populations.

### **Potential Partnerships**

Core stakeholder group:

- Rep. Mary Isaacson (term ends Dec 2024)
- Councilmember Mark Squilla
- PA State Sentate Nikil Saval (very interested in TDRs) (term ends Dec 2024)
- SEPTA
- Community College of Philadelphia [how do decisions happen here]
- Philadelphia OTIS (Office of Transportation, Infrastructure, and Sustainability)

- Parks and Rec (confusing with the mayoral election). The mayor could decide to prioritize the rail park, or totally ignore it.
- PIDC to manage the administration of TDRs
- Small businesses and community groups surrounding Phase II location:
  - Brewerytown Community Development Corporation (BCDC)
  - Spring Garden Community Development Corporation (SGCDC)
  - Our Brothers Place
  - Callowhill Neighbors Association
  - Philadelphia Chinatown Development Corporation (PCDC)

### **Pitfalls**

Identifying “receiving zones” must be done carefully as they may have political implications. We do not want to unintentionally cause loss of low-income housing in another area while we are prioritizing its preservation around the park. The complex administration of the program must be well-funded.

## **Mechanism 2: Tax Increment Financing**

### **How It Works**

TIF is a flexible and popular tool to fund economic development and provide public infrastructure in targeted and defined geographic areas. It is a method to use future gains in taxes to subsidize current improvements, which are projected to create the conditions for gains above the routine yearly increases which often occur without the improvements. Each state must have enabling legislation to determine how tax incremental revenues are created and how they may be used.<sup>8</sup>

Targeted and defined geographic areas that generate benefit from TIF have various names:

- Tax Allocation Districts (TADs)
- Tax Increment Reinvestment Zones (TIRZs)
- Community Redevelopment Areas (CRA's)
- Tax Revenue Allocation Areas (TRA's)

Challenges: 10 year property tax abatement and city policy barriers around financing TIF bonds. However, Portland, OR used TIF set asides to generate nearly a quarter of a billion dollars for affordable housing without using bonds.

In Philadelphia, there are about a dozen TIF districts already in existence, but the tool is mainly used to incentivize private development, and many have not met their projected

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<sup>8</sup> Collins, R. (2015). *Tales from the TIF urban renewal in the real world.*, 2023.

revenue goals. A large portion of the city's TIF districts was created in the 1990s when Ed Rendell was mayor and Philadelphia was aggressively courting private development after decades of corporate flight. Fewer have been approved during each successive administration, said Sam Rhoads, executive vice president at PIDC. None of the TIF districts created to date in Philadelphia have funded community benefits, according to the 2020 Strategic Economics report.<sup>2</sup>

To accomplish equitable development goals, a Rail Park TIF would need to work differently, PCDC officials say. Rather than simply offset project costs, the TIF they envision would facilitate community-oriented investments that help keep the neighborhood affordable for low-income and immigrant residents — specifically, mixed-use development incorporating affordable housing and retail space.<sup>9</sup>

### Case Studies

#### Political Landscape

General Process in forming a TIF district:<sup>8</sup>

- Research relevant statutes and legislation
- Finding of necessity by the governing body
- Creation of Urban Renewal Agency (May require election on local ballot)
- Adopt a resolution determining the area(s) for the project are eligible for an urban renewal project.
- Preparation of Urban Renewal Plan and ordinance
- Urban Renewal Agency approves the plan
- UR Plan submitted to the Planning and Zoning Commission to ensure the plan
- conforms to City's adopted Comprehensive Plan
- Public Hearing on the plan
- Adoption of the plan
- Record the ordinance and associated documents at the County Recorder's Office or appropriate agency.

#### Potential Partnerships

In Philadelphia, PIDC influences TIF use tremendously. The old Family court building (near vine street, a couple blocks away from part of Phase II) is being managed by PIDC as it is

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<sup>9</sup> Schmidt, S. (2022, Feb 24). 'Who's benefiting?' as chinatown gentrifies, rail park begins equitable development plan. *WHYY*, Retrieved from <https://whyy.org/articles/whos-benefitting-as-chinatown-gentrifies-rail-park-begins-equitable-development-plan/>

transformed into a new African American Museum. It may be beneficial for PIDC to invest in a value capture study.<sup>9</sup>

Strengths if TIF use includes:<sup>9</sup>

- Normal Tax Burden
- TI eventually back on tax rolls
- TIF bonds not typically counted against jurisdiction's debt cap
- Public Funds not required
- TI revenues get reinvested back into the redevelopment areas
- Can stimulate private or spin-off development
- Reliable source of funds as federal & state grants become increasingly sparse

### **Pitfalls**

In areas where property tax rates are low – impact of an increase in an assessment may be marginal, generating little revenue for the agency. They are complex and costly to administer, the project might fail or surrounding property values might not increase, and there are political vulnerabilities woven through them.

## **Mechanism Three: Green Infrastructure Investment**

### **How It Works**

Methods that Philadelphia Dilworth park uses to generate funding:

- Starbucks café leasing
- Advertisements
- private ticketed events

They've used the revenue from all those fundraisers to transform previously unloved parks into great spaces that all Philadelphians can enjoy.

Philadelphia Waterworks has outsourced choice locations to non-profit operators. Since managing a park is expensive, they were given a carte-blanche to close their parks for money-making events. The problem with this model is that the closures occur far too often, and the public has too little say in the decision-making.

### **Ideal Scale & Strengths**

Green infrastructure finance should reduce costs (or increase revenues) for low-emission Investments, thereby offsetting the externality. Financial support should not exceed the amount that is needed to cause investment in the project.

### **Potential Partnerships**

The Philadelphia Water Department (managing stormwater runoff) is one of the most progressive in the country. The park would save costs for storm water management because areas of natural pervious surfaces allow water to soak through and reduce the management needed by the city department. Saved money could be put towards affordable housing initiatives. Alternatively, could the city allow FRP to receive stormwater credits, that FRP could sell to generate that same revenue.<sup>10</sup>

This is a prime example of how FRP can identify existing goals of stakeholders and partners and fit into the existing goals. If Spring Garden is worried about stormwater, the Rail Park can help.

### **Pitfalls**

There has been strong public criticism of privatization/consumerist aspects at work with Starbucks in Dilworth Park and exclusionary operations of Waterworks.<sup>11</sup>

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<sup>10</sup> *Stormwater credits*.<https://water.phila.gov/stormwater/incentives/credits/>

<sup>11</sup> Kulina, L. (2019, Sep 15,). Hot coffee and homogeneity: The danger of starbucks in dilworth park. *Medium*, Retrieved from <https://lydiakulina.medium.com/hot-coffee-and-homogeneity-the-danger-of-starbucks-in-phillys-dilworth-park-27ce88dc7766>