Value Capture Revenue Tools: An Introduction

Transportation networks and urban land values are closely linked. Transportation improvements increase accessibility and thereby make surrounding locations more desirable. Transportation improvements often increase the value of nearby land, benefitting land owners and developers. Value capture techniques harness a portion of the increased property values in order to pay for the improvement or for future transportation investment. There are several different forms of value capture used in the United States. The most common include: special assessments, tax increment financing, development impact fees, and developer contributions. These techniques may vary in their application and they may also be known by additional terms. Generic descriptions of these different value capture techniques are provided below. For additional information, view the FHWA IPD Value Capture page.

VALUE CAPTURE TECHNIQUES

SPECIAL ASSESSMENTS

Special assessments are incremental property taxes assessed on land receiving a direct benefit as a result of a transportation improvement. Authorized by law in nearly all 50 States, tax increment financing is a value capture revenue tool that uses future gains in real estate taxes to pay for new infrastructure improvements. Development impact fees are one-time charges levied on new development in order to provide new or expanded infrastructure needed to serve the development. Developer contributions are voluntary payments made to local governments by private businesses and developers to support the cost of implementing transportation improvements.

TAX INCREMENT FINANCING

Tax Increment Financing (TIF) is a value capture revenue tool that uses future gains in real estate taxes to pay for new infrastructure improvements. TIFs are authorized by State law in nearly all 50 States and begin with the designation of a geographic area as a TIF district. Plans for specific improvements within the TIF district are developed. The TIF creates funding for public or private projects by borrowing against the future increase in these property-tax revenues. The intent is for the improvement to enhance the value of existing properties and encourage new development in the district. TIF districts are usually established for a period of 20 to 25 years, during which time all incremental real estate tax revenues above the base rate at the time the district is established flow into the TIF. The proceeds from the TIF can be used to repay bonds issued to cover up-front project development costs. Alternatively, they can be used on a pay-as-you-go basis to fund individual projects. In some States, private developers may self-finance infrastructure improvements, with the municipality reimbursing them from the tax increment as tax proceeds are received. In many States, areas must be blighted in order for TIF districts to be established. The intent is for the TIF to be used to channel funding toward improvements in distressed, underdeveloped, or underutilized areas where development might otherwise not occur. Thousands of TIF districts have been established around the U.S. in smaller and mid-sized cities. The strategy is commonly used by local governments to promote housing, economic development, and redevelopment in established neighborhoods. Although TIF has not been used extensively to fund transportation infrastructure, some State laws specifically authorize the use of TIF for transport purposes.
DEVELOPMENT IMPACT FEES
Development impact fees (DIFs) are one-time charges levied on new development in order to provide new or expanded infrastructure needed to serve the development. The fees are typically paid prior to the completion of construction, with the amount based on the cost of the facility and the nature and size of the development. Impact Fees differ from other forms of value capture in that they can be used to fund off-site improvements such as local roads, schools, or parks. Development impact fees are typically determined through a formulaic process, rather than through negotiations as done for developer contributions. Local governments throughout the country are increasingly using impact fees to shift more of the costs of financing public facilities from the general taxpayer to the beneficiaries of those new facilities. Impact fees can be an effective tool in ensuring that infrastructure systems are able to accommodate growth where and when it is anticipated. Many States require that municipalities demonstrate a “rational nexus” between the fee and the needs created by the expanded development, as well as the benefit the infrastructure improvements provide to the new development. Transport-related DIFs are used by numerous public entities throughout the United States. Roughly half of all U.S. States have enacted enabling legislation for impact fees. Some also have additional language governing how development impact fee programs are implemented.

DEVELOPER CONTRIBUTIONS
Developer contributions are voluntary payments made by to local governments by private businesses and developers to support the cost of implementing transportation improvements. Under the right conditions, the benefits of public improvements can be used to attract private contributions to transportation improvement projects. Also known as proffers, developer contributions involve a private firm or individual benefiting from the project, giving money, land, or other services to the project sponsor to help expedite project implementation. Developer contributions often involve improvements to highway entrance and exit ramps that provide improved access to facilities or land owned by the donors, or possibly the extension or expansion of an existing road.

Developer contributions may change the anticipated schedule for advancing transportation improvements into construction. If an agency receives an offer of money or other contribution in-kind for a project, it must weigh the benefits of receiving the private contribution and accelerating the implementation of the project in question against the possible delays in implementing other improvements it had intended to advance instead. This is an issue of project programming and prioritization, and it is up to the project sponsor and regional planning officials to weigh the pros and cons introduced by the proffer and decide whether or not it is in the region’s best interest to accept the offer.

1 23 CFR 710.505 addresses the requirements for Real property donations.