



U.S. Department of Transportation  
**Federal Highway Administration**



# Value Capture: Michigan DOT I-375 Improvement Project Workshop Report

December 15, 2020

Detroit, Michigan

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## Executive Summary

This report highlights noteworthy Value Capture techniques identified in the Every Day Counts Round 5 (EDC-5) workshop held December 15, 2020. The purpose of the workshop was to connect the Michigan Department of Transportation (MDOT) to experts from neighboring States and/or agencies who have worked on projects similar to the I-375 Improvement Project to exchange best practices about value capture as a means to transfer knowledge and build capacity.

### About EDC-5

The EDC Program identifies and deploys proven-yet-underutilized innovations to shorten the project delivery process, enhance roadway safety, reduce traffic congestion, and integrate automation. Proven innovations promoted through EDC facilitate greater efficiency at the State and local levels, saving time, money and resources.

The Federal Highway Administration (FHWA) works with State departments of transportation (DOT), local governments, Tribes, private industry, and other stakeholders to identify a new collection of EDC innovations to champion every two years. EDC facilitates regional summits for transportation leaders to discuss and identify opportunities to implement the innovations that best fit their needs. Following the summits, States finalize their selection of innovations, establish performance goals for the level of implementation and adoption over the upcoming two-year cycle, and begin to implement the innovations with the support and assistance of FHWA technical teams. Value capture was identified by FHWA and stakeholders as one of the ten EDC-5 innovation techniques for the 2019-2020 cycle.

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 property owners, benefitting property 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. While value capture techniques are used more commonly with public transportation, they are also underutilized in highway improvements. Value capture strategies include: air rights, impact fees, joint development, land value tax, negotiated exactions, sales tax districts, special assessments, tax increment finance, and transportation utility fees.

### About the Michigan Value Capture Workshop

The Michigan workshop was organized at the request of MDOT to provide an overview of value capture strategies and mechanisms that have been used for infrastructure improvements similar to the I-375 Improvement Project. Specifically, MDOT sought to learn about projects that have also provided an opportunity to redevelop excess land in a right of way in an urban setting. The intention was to gain a better understanding of the economic development opportunities that can be applied to the I-375 Improvement Project.

### Selecting the Experts

Prior to the workshop, representatives from FHWA's Center for Innovative Finance Support, Office of Planning, Environment, and Realty (HEP), and the Volpe Center worked with MDOT to identify experts experienced with the relevant projects to share their experiences, lessons learned, and key takeaways for using value capture techniques to finance transportation infrastructure projects. The experts invited to the workshop were:

- **Doug Lynott**, Director, Economic Development Integration, U.S. EDA
- **Samuel B. Buchalter**, JD/LLM, Special Assistant for Program Development, Michigan State Housing Development Authority (MSHDA)
- **Julie Kim**, Senior Fellow Emeritus, Stanford Global Projects Center, Stanford University
- **Stefan Natzke**, National Systems and Economic Development Team Lead, FHWA
- **Thay Bishop**, Senior Program Advisor, Center Innovative Finance Support
- **Angela Brady**, Deputy Director, Office of Waterfront and Civic Projects, City of Seattle
- **Peter J. Park**, Peter J. Park, LLC & University of Colorado at Denver and former Milwaukee Planning Director
- **Eric Frisch**, Manager of Special Projects, City of Rochester
- **Anne DaSilva Tella**, Manager of Project Development, City of Rochester

### Format of the Event

The workshop session (3.5 hours) was held virtually on December 15, 2020. Participants included the eight presenters, a facilitator from the Volpe Center, and representatives from the following organizations (in alphabetical order):

- City of Rochester
- City of Seattle
- U.S. Economic Development Administration (EDA)
- FHWA, Department of Labor and Economic Opportunity (LEO)
- MDOT, Michigan State Housing Development Authority (MSHDA)
- Peter J. Park, LLC
- Stanford University
- The University of Colorado at Denver

Approximately 55 attendees from various agencies participated in the workshop. A full list of attendees is available in Appendix B of this report.

The workshop began with a brief introduction and remarks from FHWA's Michigan Division and MDOT on their goals for the exchange. The first session provided an overview and background on the I-375 Improvement project, including a discussion on the project goals and guiding principles. The second session included an overview of economic development tools from the Federal and State perspective, followed by a presentation called Making the Business and Economic Case. The final session began with an overview of the Interstate withdrawal process, followed by presentations on three successful value capture projects in Seattle, WA, Milwaukee, WI, and Rochester, NY. The workshop closed with a conversation that focused on key takeaways and next steps for the implementation of value capture techniques in Michigan. An agenda for the program is included in Appendix C of this report.

## Value Capture Techniques and Key Examples

Value capture refers to a set of mechanisms that allow local agencies to recover a portion of public transportation investments that result in increased property values and economic activities to help fund current or future improvements. Value capture promotes equity by reinforcing the “beneficiary pays” principle of economics.

Over the course of the workshop, the experts shared their professional experiences and engaged in discussion about value capture strategies and mechanisms that have been implemented and which have allowed for the redevelopment of excess land in the right of way in an urban setting. Example techniques and projects are shared below.

### I-375 Improvements Overview and Background

After more than 50 years of use, I-375, including the I-75/I-375 Interchange and bridges, is nearing the end of its useful service life and requires modernization. MDOT is considering extensive changes to the 1.1-mile stretch of freeway, including transitioning from an Interstate to a boulevard, and is interested in learning about value capture techniques and similar successful value capture projects. A brief overview and background of the project provided attendees with context, along with a clear understanding of MDOT’s goals and guiding principles.

**Jon Loree**, Senior Project Manager, MDOT, presented on the study area and MDOT’s goals for the I-375 Improvement Project. The primary drivers for the project include updating the freeway’s aging infrastructure and redesigning it in a way that aligns with the surrounding communities’ land use planning goals, while promoting economic development in the project corridor. Withdrawing this portion of I-375 from the Interstate System would be a critical element of this project.

At its current state, the 1.1-mile portion of I-375 is a limited-access, depressed, urban freeway with three lanes in each direction, from Jefferson Avenue to the I-75 interchange. There are seven bridges along the project corridor that connect surface streets. The construction of the freeway was followed by a larger urban renewal project, which cut through neighborhoods and destroyed the historically black communities of Paradise

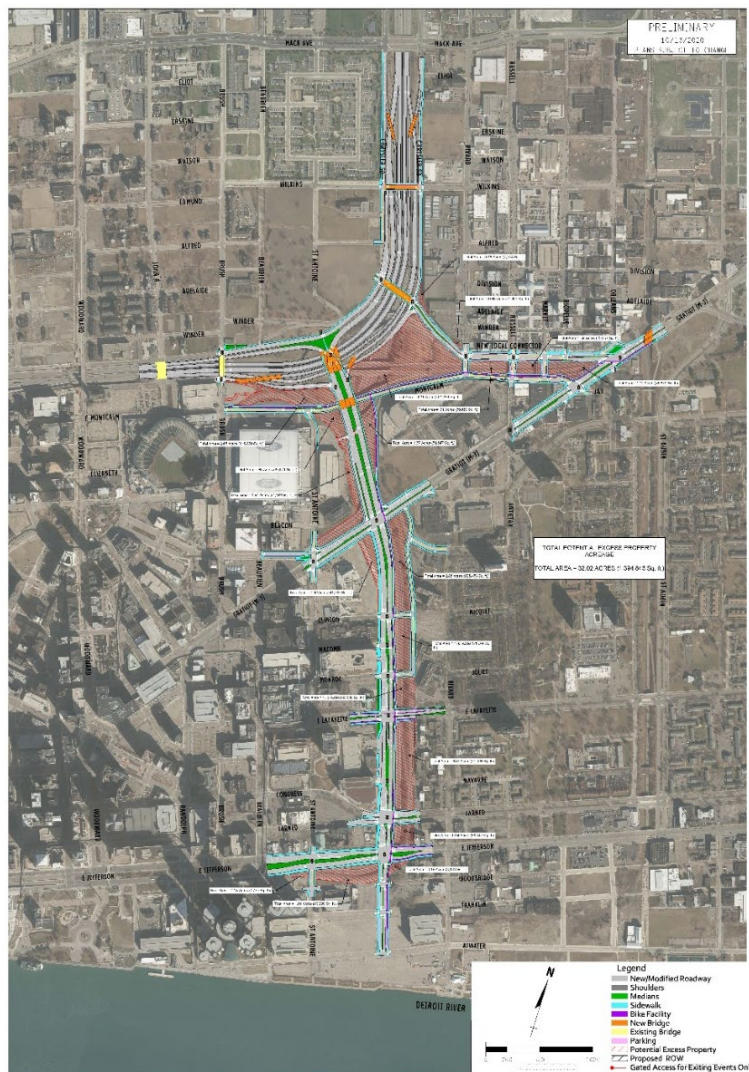


Figure 1: Map of I-375 Improvement Project (Preferred Alternative)

Valley and Black Bottom, home to many black-owned businesses and a rich jazz scene. The Interstate’s vehicle capacity far exceeds demand; given Detroit’s shrinking population, demand is not likely to require the current level of service of the freeway for the foreseeable future.

I-375 is surrounded by Detroit’s Central Business District, stadiums, an entertainment district and casino, major business employers, residential neighborhoods, and riverfront access to the south. Land uses surrounding the project corridor include business, residential, and urban open space. Major investments and development projects in the vicinity include:

- Development along the waterfront to activate public use and increase walkability
- Detroit Center for Innovation
- Lafayette Park housing development
- Brewster-Douglas housing development
- Eastern Market
- Rivertown Market grocery store

The freeway was originally studied for removal in 2014 with a Planning and Environmental Linkage (PEL) study which looked at six options with variations on keeping the depressed freeway or raising it to an at-grade boulevard. No preferred alternative was selected. In 2017, an Environmental Assessment (EA) began, which included extensive traffic modeling and stakeholder engagement. The preferred alternative is an at-grade boulevard along the west side of the right-of-way that includes wide sidewalks and a two-way cycle track. It is anticipated that the EA will be complete in May with a Finding of No Significant Impact (FONSI).

This project seeks to reestablish connections between districts and neighborhoods. Changing to an at-grade boulevard will accommodate more users, as it will allow for non-motorized mobility. Opening the grid to cyclists and pedestrians by installing a two-way cycle track along the boulevard with a median will improve the overall connectivity of the City. Likewise, providing more crossings near the southern portion of the boulevard will help to connect neighborhoods

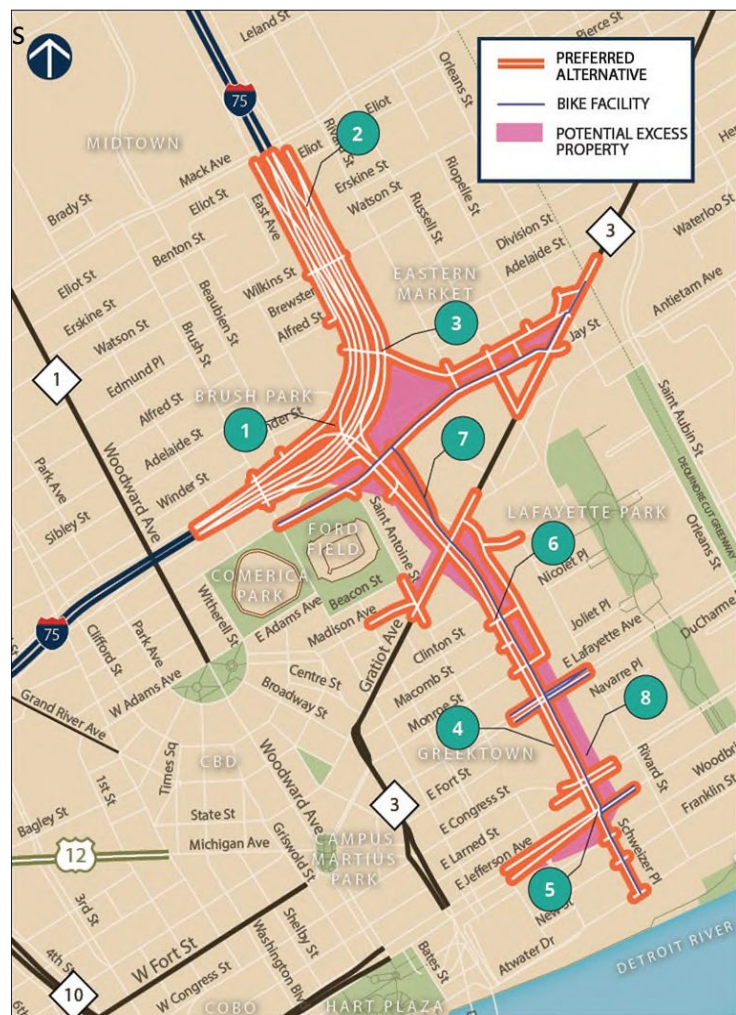


Figure 2: I-375 Improvement Project Preferred Alternative: Potential Excess Property, Cycle Track, and Additional Crossings

to the riverfront. Once complete, this project is forecast to free up about 31 acres of potential excess property that may be suitable for sale or other use. Any land determined to be excess property will be handled in accordance with FHWA and MDOT standard practices. In the interim, the potential excess property is anticipated to be an open green space. These projects align with local planning initiatives from both the *Your! Detroit East Riverfront Study* and the *Eastern Market Neighborhood Framework Plan*.

MDOT is interested in learning about value capture strategies used by experts in other cities that have successfully delivered similar projects.

**Tony Kratofil**, I-375 Senior Project Manager & Chief Operating Officer, Michigan DOT, followed Jon's presentation by briefly adding that the I-375 project provides an opportunity to reactivate surrounding neighborhoods in a more inclusive and equitable way that honors and recreates its history. Not only does this workshop provide an opportunity to learn how to finance the project, but it can provide insight on how to influence decision makers and how to handle land use and development more comprehensively.

**Ted Burch**, Michigan Office Deputy Division Administrator, FHWA, reinforced the goal of the I-375 Improvement Project to reconnect communities and make them more usable for residents. It will improve safety along the corridor and at the interchange for all users, not just motorists. The extensive outreach performed during the PEL study and EA has resulted in a public expectation that the project will be realized, so learning how to capitalize the value created by infrastructure investments to help finance the project is key. FHWA will help MDOT move this project forward in a way that meets requirements and regulations and maximizes flexibility.

### [Economic Development Tools](#)

A variety of economic development tools and resources are available to support the completion of projects like the I-375 Improvement Project. Economic development tools like Opportunity Zones and value capture strategies help to make projects financially feasible by providing innovative financing solutions, and resources offered by the U.S. Economic Development Administration (EDA) help to expand project management capacity and streamline processes. The following presentations provide an overview of economic development tools from the Federal, State, and City perspective, as well as value capture strategies that can be applied to the I-375 project.

**Doug Lynott**, Director, Economic Development Integration, U.S. EDA, presented on the ways EDA supports economic development in states across the country. EDA crafts their support to the specific situations of the communities they serve, so the types of support can vary from assisting a local organization in developing a strategic plan to providing capital assistance to implement critical economic development projects. The types of assistance that would be particularly helpful for the I-375 Improvement Project include programs that support planning efforts (for example, developing a Comprehensive Economic Development Strategy [CEDS] document or smaller scale plans), economic adjustment assistance (for example, finding the most flexible resources that can be used for a variety of projects), technical assistance (like feasibility studies), and municipal capital investments (public investments that will support economic growth and development).

EDA recognizes how overwhelming and confusing navigating federal resources and their processes can be, so they established the Economic Development Integration (EDI) Program. This program works with local and regional applicants to identify federal and nonfederal resources, facilitates enhanced collaboration to streamline processes with federal, nonfederal, public, and private agencies, and reduces

the administrative burden on applicants. Essentially, by crowdsourcing expertise to help agencies address critical needs and meet their visions of community-based economic growth, EDI maximizes impact while minimizing time and effort exerted. This program’s services can be compared to a hotel concierge service as it helps the user gain access to resources by leveraging their established network and provide technical knowledge on implementation that helps to diversity economies and create vibrant communities.

Two of EDA’s programs – Federal Interagency Resource Exchanges (FIRE) and Regional Economic Diversification Summits (REDS) – were highlighted. FIREs are typically in-person gatherings (now facilitated virtually during the pandemic) that brings local, State, and federal agencies together to share information and build interpersonal working relationships. This program is primarily intended for agencies with low capacity and a lack of knowledge of effective ways to access resources. Communities and regions that have not established a strategic plan or project priorities and therefore do not have a pipeline of projects benefit more from the FIRE process.

Conversely, the REDS program is specifically designed to catalyze project implementation by working with partners to find resources for primary community projects. It provides an opportunity for optimal resource alignment of intergovernmental projects and cross sector partners by defining roles and responsibilities. EDA leverages their convening role so that agencies can work together to identify challenges, agree on solutions, and work together to identify next steps for each implementation plan.

**Samuel B. Buchalter**, JD/LLM, Special Assistant for Program Development, Michigan State Housing Development Authority (MSHDA), discussed Michigan Opportunity Zones from the State perspective. Opportunity Zones, a Federal initiative, was added to the tax code by the Tax Cuts and Jobs Act in 2017. They were conceived as an innovative approach to spurring long-term private sector investments in low-income communities across the country. The project corridor is within an Opportunity Zone.

Opportunity Zones is an economic tool that incentivizes investment in distressed neighborhoods. The way in which they work is that capital gains from tax payers are channeled into Qualified Opportunity Funds (QOFs), and money from these funds is invested in a qualified business or property that is located within a certain geographical footprint known as an Opportunity Zone. QOFs are self-certified so they do not require pre-approval.

Investors who use this tool are granted preferential tax treatment like tax deferrals, tax liability forgiveness, and forgiveness on the underlying investment on future capital gains. 90 percent of fund assets must be invested in Opportunity Zones to maximize the tax incentive. Capital gain tax deferral ends either by early sale or by December 31, 2026. Investments held for five years will be granted a 10 percent



Figure 3: Function of Opportunity Zones



tax reduction and those held for seven years will be granted an additional 5 percent reduction. The most valuable tax incentive is for investments held for ten years; their basis is equal to fair market value with tax forgiveness of gains on the appreciation of the investment. Investors must invest equity in the property; real estate investments require substantial rehabilitation within 30 months. Investment in certain businesses types is not eligible.

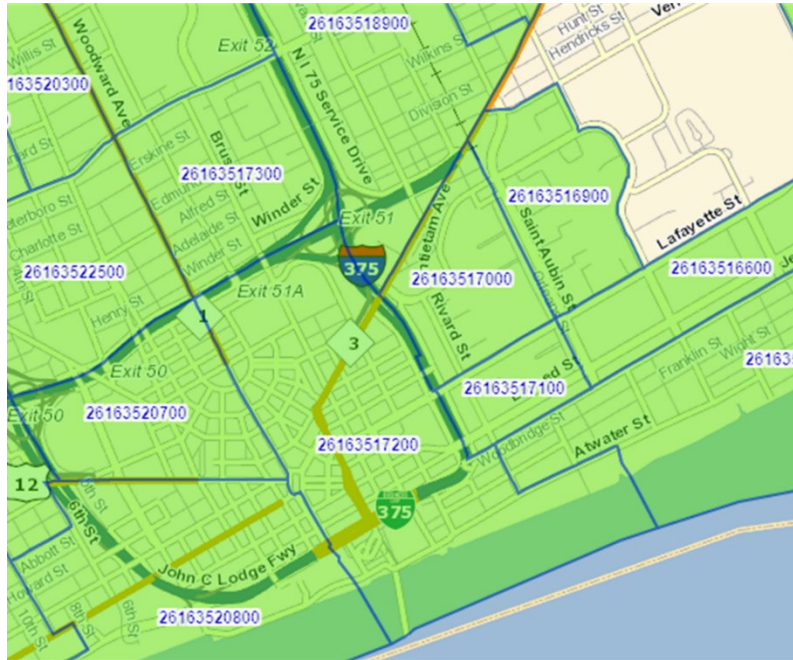


Figure 4: I-375 improvement Project within Michigan Opportunity Zone

Since the I-375 Improvement Project is located within an Opportunity Zone, the potential use of this tool is feasible, but the value of the reclaimed/surplus property is unknown. To maximize the benefit to investors, it was suggested that the reclaimed/surplus property be transferred to a QOF quickly.

A final suggestion was to research whether the project is eligible for resources offered in the Port Authority Act, considering I-375's vicinity to the riverfront.

**Julie Kim**, Stanford University, discussed the benefits of using value capture techniques and outlined the business and economic opportunities that could be applicable to the I-375 Improvement Project. An overview of these and other value capture categories, mechanisms, and definitions are in Appendix D of this document.

Value capture is a way in which to monetize the increased property values that result from infrastructure improvement projects. Converting a freeway to a boulevard would change the functionality of the thoroughfare, therefore changing value capture opportunities. The conversion to a boulevard may gain in-vicinity value capture opportunities with a narrower footprint; conversely, it may lose value capture opportunities made possible due to the freeway's larger nodal connectivity.

When considering value capture strategies, a major factor is the magnitude and stability of the revenue stream and where and how it can be used. Issues of equity, transparency, and efficiency should be kept

in mind. Regulatory requirements via State legislation and local ordinances can help to ensure that the value capture approach is consistent with political goals like affordable housing.

The I-375 Improvement Project value capture target is \$270 million (in 2027 dollars). The four value capture mechanisms best suited for the project are: Tax Increment Financing (TIF); Special Assessment District (SAD); Development Impact Fees (DIF); and Development Agreement (DA). Categories and definitions for each are listed in *Table 1*. TIFs and SADs permit up front debt, so 30-year tax-exempt bonds can be used. MDOT’s main challenge when using TIF will be gaining buy-in from Detroit and Wayne County; a main challenge when using SAD is proving the direct connection of project improvements to the future. *Figures 5 and 6* provide additional context and potential implementation steps.

*Table 1: Project Value Capture Techniques for consideration by MDOT for I-375*

Category	Technique	Definition
<b>Developer Contributions</b>	Impact Fees	Fees imposed on developers to help fund additional public services, infrastructure, or transportation facilities required due to the new development.
	Negotiated Exactions	Negotiated charges imposed on developers to mitigate the cost of public services or infrastructure required as a result of the new development.
<b>Special Taxes and Fees</b>	Special Assessment Districts	Fees charged on property owners within a designated district whose properties are the primary beneficiaries of an infrastructure improvement.
<b>Tax Increment Financing</b>	Tax Increment Financing	Charges that capture incremental property tax value increases from an investment in a designated district to fund or finance the investment.



## POTENTIAL VC TOOLS FOR I-375 PROJECT

- **Tax Increment Financing (TIF)**
  - ✓ Existing *ad valorem* tax base, City/County commitment (value based)
- **Special Assessment District (SAD)**
  - ✓ New tax surcharge, voter approval, “unique, direct, measurable” specificity (mostly cost based)
- **Development Impact Fees (DIF)**
  - ✓ One-time fee by use (no. trips), “nexus/proportionality” tests, inclusion in local Comprehensive Plan/CIP (cost based)
- **Development Agreement (DA)**
  - ✓ Integrative tool, negotiated & less litigious

**I-375 VC target:  
project cost  
(\$270M in 2027\$)**

**Can issue upfront  
debt for SAD/TIF:**

- 30-year tax-exempt bonds
- Leverage VC lifecycle cash flow

CIP—capital improvement plan

4



Figure 5: Potential Value Capture Techniques for I-375 Improvement Project



## Potential VC Implementation Steps

- Engage with developers/City/County to gage their interests and work towards commitment
- Assess VC feasibility → VC implementation roadmap
- Develop Specific Plan (SP) and CIP for VC opportunity areas (OAs)
- Conduct SP-based nexus study for coding DIF fee schedule into City Ordinance
- Set up QOZ investment fund(s) dedicated to VC OAs
- Start SAD/TIF district formation process as early as possible

Federal Grant?

**START EARLY, THINK LONG TERM!**

1



Figure 6: Potential Value Capture Implementation Steps for I-375 Improvement Project

## Freeway to Boulevard Projects

Projects that convert Freeways into boulevards require FHWA approval. In order to withdrawal or de-designate a segment of the Interstate Highway System, the State transportation agency in which the highway is located requests Interstate withdrawal through its FHWA Division Office. The following presentations provide an overview of the Interstate withdrawal process, as well as three examples of successful value capture projects in Seattle, WA, Milwaukee, WI, and Rochester, NY. None of these examples, however, required the Interstate withdrawal process.

**Stefan Natzke**, National Systems and Economic Development Team Lead, FHWA, provided a high-level overview of the Interstate withdrawal or de-designate process. The Interstate Highway System was developed and planned in the 1930s and 1940s, and was later incorporated in the National Highway System (NHS), established in the 1990s. While the NHS is designed to provide a more flexible network of highways, modification to the Interstate System, such as withdrawals, are more complex and detailed. The Interstate Highway System is the highest standard and priority for roadways because of its integral connection to economic development and the larger economy.

In an effort to protect the high investments in Interstates, any change of Interstate must be approved by FHWA. The request to change needs to come from the State which must provide a list of requirements including proposed revisions, assessments, documentation of compliance with National Environmental Policy Act (NEPA), and documentation of coordination with affected MPOs and local entities. The purpose of this process is to assess the impact of the Interstate removal to the national effort. Even if the portion of I-375 is approved to be withdrawn from the Interstate system, it will remain on the NHS.

Links to resources detailing the FHWA process for removing segments from the Interstate Highway System and FHWA guidance on the withdrawal or de-designation of segments of the Interstate Highway System can be found at the bottom of the agenda in Appendix C of this report. Any additional questions can be directed to [Stefan Natzke](#) or [Jeff Price](#).

**Angela Brady**, Deputy Director, City of Seattle, Office of Waterfront and Civic Projects, presented on the Waterfront Seattle Program which used creative funding to revitalize Seattle's historic waterfront as part of replacing an elevated section of State Route 99 (SR99) with a tunnel, multimodal surface transportation improvements, parks, and public open spaces.

Discussions of demolishing the Alaskan Way Viaduct began in the 1990s and in 2001, when an earthquake compromised the foundation of the viaduct, Washington State Department of Transportation (WSDOT) prioritized the project as a safety concern. WSDOT, the City of Seattle, and other instrumental partners like the Friends of Waterfront Seattle, worked together to fund a larger redevelopment project that would open up Seattle's waterfront and allow for a more pedestrian-oriented feel that matched the neighborhoods by which it was surrounded.

After much planning, public input, and political discussions, it was decided that the viaduct, which carried about one-third of North-South traffic through downtown Seattle, would be replaced with a two-mile bored tunnel. WSDOT built the tunnel and destroyed the viaduct, and the City and their partners invested in new surface streets, bike and pedestrian facilities, and a new seawall with a promenade and walking path. *Figure 7* lists the budget and funding sources for these projects. It is helpful to develop a business case prior to determining which value capture technique to implement.

Demolition of the viaduct unveiled water views for many properties and connected the downtown core of Seattle and Elliot Bay. Zoning changes helped to facilitate the desired pedestrian-oriented feel and included the removal of floor area ratio restrictions, as well as a ban on parking lots fronting the new surface boulevard. The City focused these amenities as much as they did the transportation aspects of the project because they had massive public support (91 percent of voters approved of local funding for the project) and are considered to be the driving factors of the surrounding properties' increased values.

As a way to capture some of this increased property value, the City developed a Local Improvement District (LID) from which they sourced about \$160 million of the \$737 million total Waterfront Seattle budget. This LID required a special benefits study which used a proximate principle to estimate the increased values of properties closest to the improvement project area; 75 percent of the benefit is sourced from properties within 500 feet of the improvement area, and the remaining 25 percent is from properties between 500 and 2000 feet of the area. As a way to encourage buy-in, the City determined that landowners would only pay 38 percent of the LID assessment. Additionally, the City addressed concerns about how the newly developed public space would be maintained by creating an operations and maintenance plan which leans upon their partnership with Friends of Waterfront Seattle. The LID was adopted as an ordinance in 2019 and all LID proceeds are reserved for waterfront projects.

Overall, the success of this project was attributed to strong political leadership, cooperative partnerships, and a multi-department leadership team, including the transportation, planning and development, and parks and recreation departments. Developing a strategic plan with guiding principles helped to obtain political leadership and stakeholder endorsement. Soliciting meaningful community input helped to generate excitement around the project, which drew investors. Finally, developing a design framework and continuing public outreach as design and construction progresses helped to keep the public informed and engaged.

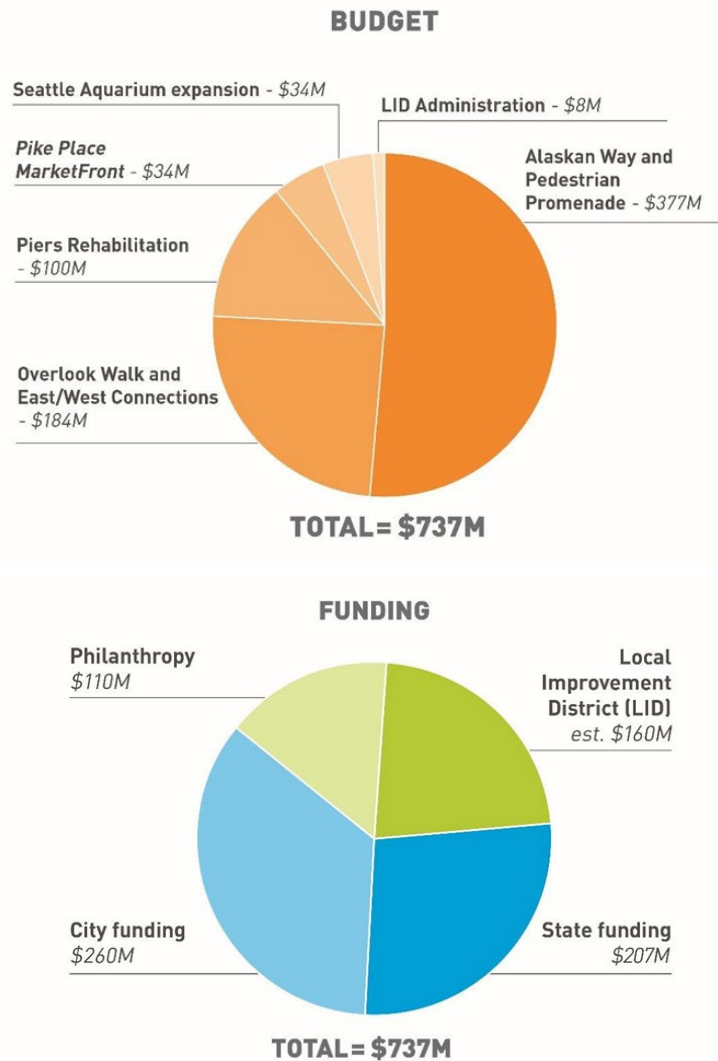


Figure 7: Waterfront Seattle Budget and Funding (Does not include additional Seawall project cost of \$400 M)

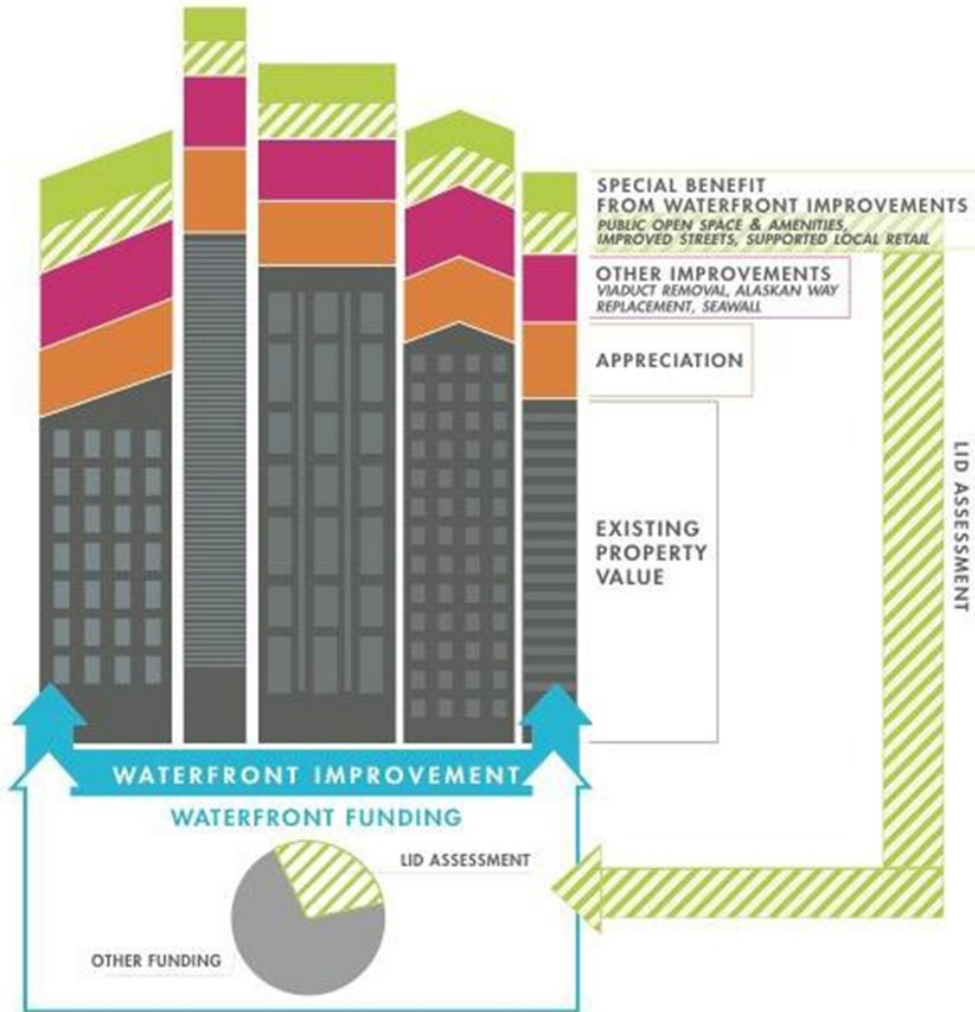


Figure 8: LID Assessment Special Benefit from Waterfront Improvements

**Peter Park**, Peter J. Park, LLC, Associate Professor at the University of Colorado at Denver and former Milwaukee Planning Director, presented on the Park East Freeway removal project, which replaced a 0.8-mile section of elevated highway with an urban street grid in Downtown Milwaukee. Demolition of the freeway began in 2002 and resulted in 64 acres of land that had the potential to be redeveloped. The presentation began with a high-level explanation of the context within which the project was conceptualized and went on to describe the project, how it was operationalized, and what made it successful.

The presentation opened with a discussion about choice and how to define the word improvement. Cities make choices that affect the public, so it is important to recognize that improvement projects are not always considered “improvements” by all residents. Building on this idea, the work in Milwaukee, including the freeway removal project, was based on four guiding principles:

- *Opportunity*: public infrastructure is aging and people are returning to cities, which creates opportunity for change
- *Design Flaw*: focus on the design benefits of fine-grain networks; they have the same number of lanes but more intersections, which improves performance

- *Capacity*: increase capacity for *modes* rather than vehicles alone; add multimodal choices and placemaking elements instead of focusing solely on reducing vehicle congestion
- *Return on Investment*: prioritize return on investments for the local community and create predictable environments for economic development

The removal of the Park East Freeway was first conceived of in Milwaukee’s 1999 Downtown Plan. It was an element of a larger urban vision which pictured a public market and the opportunity for downtown growth. The Plan caught the attention of motorcycle manufacturer Harley-Davidson, which was looking for a place to build their new headquarters. The prospect of attracting this facility garnered the support of the Governor, who approved the freeway removal and transferred the land in the footprint of the freeway to the county. Ideally, the City would have acquired the land since, in Milwaukee, planning, permitting, and housing are located in one department which would have allowed for faster development. Peter Park recommended agencies consider the underlying land rights while determining which value capture mechanism to implement.

To help inform redevelopment, the City established a renewal plan that focused on writing clear and predictable zoning code that prioritized pedestrians and walkability. The form-based codes established requirements for building heights, setbacks, and streetscapes, which helped to provide clarity to developers about the types of developments the City was seeking. The City also established a 28-acre TIF district to help fund public infrastructure projects like a new surface road and sidewalks.

According to FHWA’s website highlighting project case studies for right sizing, since the removal of the Park East Freeway, approximately \$1 billion in new real estate development has been constructed or is planned. The Fiserv Forum, the Milwaukee Bucks’ new arena, is the largest development project, costing approximately \$500 million. The arena opened in 2018 and future development includes mixed-use buildings and outdoor space for pre- and post-game entertainment. Another significant development is The North End which offers 650 residential units, 45,000 square feet of ground-floor retail (including a grocery store), 1,300 feet of Riverwalk, and public access to the river and Riverwalk. Smaller developments include a variety of housing, entertainment, and commercial developments like the smaller Moderne and Avenir apartment buildings, the Milwaukee School of Engineering’s dormitory and soccer stadium, and the 110,000 square-foot office space for a marketing firm.

The presentation ended with a list of fundamentals for a project’s success:

1. Strong community support with extraordinary leadership and political will
2. An urban vision for the city which is not dominated by the automobile and prioritizes the short trip rather than the long trip
3. Decision processes driven by long-term community investment versus spending federal allocations on projects within given timeframes
4. A return on investment that prioritizes the local community
5. Local regulatory and land control
6. Keep it as simple as possible

**Eric Frisch**, City of Rochester, Manager of Special Projects, and **Anne DaSilva Tella**, City of Rochester, Manager of Project Development, presented on the Inner Loop East Transformation Project. This project

eliminated 0.5 miles of the Inner Loop Expressway located in downtown Rochester and provided an opportunity to develop six acres of recaptured land.

The idea for the Inner Loop Expressway was first established in a 1929 plan as a way to move high volume traffic through the downtown area. Construction ended in 1965 but by the early 2000s, it was clear that the capacity of the expressway exceeded the needs of the City. Structural issues and safety concerns led to discussions about filling in the below-grade highway and reconnecting neighborhoods that were subsequently cut off from the downtown area after highway construction. Redevelopment of the Inner Loop East became a feature of every planning document since The Vision 2000 plan and in 2014, Phase I of the transformation project began. The project filled in over a half-mile of the below-grade highway and generated six acres of City- and State-owned land that was available for development.

The estimated \$23.6 million project aimed to reconnect neighborhoods with Center City, create mixed-use infill development sites, enhance the bicycle and pedestrian environments, promote livability, remedy the mistakes of the Urban Renewal era, and right-size overbuilt infrastructure. New design features include wide sidewalks, a two-way cycle track, on-street parking, generous tree canopy, three to four surface level travel lanes, two-way traffic operations, and reconnected city streets.

In an attempt to guide development in a way that aligns with these project goals, the City divided the newly developable land into seven sections and presented the designs to the public. They highlighted community benefits like affordable housing units in market-rate projects, publicly accessible green/open space, income diversity in housing buildings, and Minority and Women-owned Business Enterprise (MWBE) goals.

New York State Department of Transportation (NYSDOT) considered the Inner Loop East Transformation Project to be a community development project rather than a transportation project, so the City requested \$17.7 million in Transportation Investment Generating Economic Recovery (TIGER) funds from the USDOT. The first two applications were denied, but the third included a robust cost-benefit analysis which is thought to have been the deciding factor of approval. Highlights from the analysis can be seen in *Figure 9*.



## Benefit - Cost



- Lifecycle Maintenance & Repair Savings
  - \$34.5 million in undiscounted benefits
- Improved Safety Due to Lower Travel Speeds
  - \$13.5 million in undiscounted benefits
- Increased Productivity of Existing Land
  - \$16.7 million in undiscounted benefits
- Productivity of Land Created for Revelopment
  - \$8 million in undiscounted benefits
- **Benefit-Cost Analysis Results**
  - **1.9 (7% Discount Rate) – 2.2 (3% Discount Rate) Ratio**

*Figure 9: TIGER Application Cost-Benefit Analysis*

Before development could begin, however, Rochester needed to acquire any underlying State-owned land. They discovered paperwork that documented the sale of those parcels at 50 percent of their value to the State in the 1950s when the Inner Loop Expressway project was under development. The City argued for the same rate and was able to purchase the land back from the State at 50 percent of its surplus value (surplus land holds lower values). Ultimately, the City paid \$300,000 for the parcels and sold them using highest and best use values (mixed-use), producing a significant profit.

To prepare the recaptured land for sale and encourage quick development, a State Environmental Quality Review was done for all of the property and the City offered low interest loans (one percent for 15 years). Likewise, Shelter Rent and other Payment in Lieu of Tax (PILOT) incentive programs encouraged affordable housing and mixed-use market-rate developments. The Inner Loop East Transformation Project was also located within an Opportunity Zone, of which one developer leveraged. The overall value summary of the project can be seen in *Figure 10*.

## Overall Value Summary

- \$22 million public investment in a transportation project
- Creating approximately six (6) acres of development-ready parcels on seven (7) sites
- Resulting in:
  - ❑ \$200 million in private investment
  - ❑ 152,000 square feet of commercial space
  - ❑ 530 housing units
  - ❑ 170 permanent jobs (FTE)
  - ❑ 2,489 construction jobs



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Figure 10: Inner Loop East Overall Value Summary

Since completion of Phase I, this redeveloped portion of the Inner Loop has seen a significant increase in pedestrian and bicycle traffic; between 2014 and 2019, there was a 48.9 percent increase in pedestrians and 67.1 percent increase in bicyclists. Phase II intends to: (1) build upon this success and extend the highway removal to the North and West portions of the Inner Loop; (2) create a better link between the Public Market and Center City; (3) reconnect additional streets; and (4) invest in more mixed-use development and open spaces.

### Concluding Thoughts & Next Steps

This section highlights thoughts from the presenters that were discussed at the workshop for MDOT to consider when approaching the I-375 Improvement Project.

**Four value capture techniques are thought to be best suited for the I-375 Improvement Project:** TIF; SAD; DIF; and DA. The Seattle project created a LID to capture some of the increased property values of the closest properties and fund waterfront improvement projects. The Milwaukee project found success in establishing a 28-acre TIF district to help fund public infrastructure projects like a new surface road and sidewalks.

**Converting a freeway to a boulevard would change the functionality of the thoroughfare, therefore changing value capture opportunities.** The conversion to a boulevard may gain in-vicinity value capture opportunities with a narrower footprint; conversely, it may lose value capture opportunities made possible due to the freeway's larger nodal connectivity.

**When considering value capture techniques, a major factor is the magnitude and stability of the revenue stream and where and how it can be used.** Issues of equity, transparency, and efficiency should

be kept in mind. Regulatory requirements via State legislation and local ordinances can help to ensure that the value capture approach is consistent with political goals like affordable housing.

**EDA programs support economic development projects in a variety of ways.** The I-375 Improvement Project could benefit specifically from programs that support planning efforts, economic adjustment assistance, technical assistance, and public works.

**Opportunity Zones is an economic tool used to spur long-term private sector investments in low-income communities across the country.** The I-375 Improvement Project is located within an Opportunity Zone and may be able to leverage this tool as a way to incentivize investment in potential land that is recaptured for development.

**The Port Authority Act empowers port authorities to invest in projects that increase commerce and recreation within their territory.** Given the I-375 Improvement Project's close vicinity to the riverfront, MDOT may be able to leverage funding resources offered by this Act.

**Other USDOT funding sources may be available.** Funding sources like the TIGER grant may help to fund projects considered to be community development projects rather than transportation projects; a robust cost-benefit analysis is thought to influence approval.

**Reconnecting streets and prioritizing pedestrians and walkability help to drive long-term community investment.** Developing an urban renewal plan and writing clear and predictable zoning code can help to prioritize the local community and right-size overbuilt infrastructure.

**Strong political leadership, cooperative partnerships, and a multi-department leadership team improves the chances of a project's success.** Developing a strategic plan with guiding principles may help to garner political leadership and stakeholder endorsement.

**Engaging the public and soliciting meaningful community input may help to generate excitement around the project and draw financial investors.** Developing a framework from which all design is based, and continuing public outreach as design and construction progresses can help to keep the public informed and engaged.

**Recaptured land may be more quickly developed if certain steps are taken.** Transferring ownership of recaptured federal- or State-owned land to cities (local land control), performing State Environmental Quality Reviews prior to the sale of the recaptured land, and providing low interest rates and/or other incentive programs may encourage quicker development.

### Next Steps

This section contains potential next steps to be considered by the MDOT as it continues work on the proposed I-375 Improvement Project.

- MDOT could continue their partnership with FHWA Office of Project Development & Environmental Review to identify the next steps for removing the section of I-375 from the Interstate Highway System.
  - The FHWA process for removing segments from the Interstate Highway System can be found here:  
[https://www.fhwa.dot.gov/planning/national\\_highway\\_system/interstate\\_highway\\_system/stepbystep.cfm](https://www.fhwa.dot.gov/planning/national_highway_system/interstate_highway_system/stepbystep.cfm).

- FHWA guidance on the withdrawal or de-designation of segments of the Interstate Highway System can be found here: [https://www.fhwa.dot.gov/planning/national\\_highway\\_system/interstate\\_highway\\_system/withdrawalqa.cfm](https://www.fhwa.dot.gov/planning/national_highway_system/interstate_highway_system/withdrawalqa.cfm).
- MDOT may take advantage of offering from U.S. EDA to determine if federal assistance programs, including Opportunity Zone investments, could help fund the project. Information regarding Michigan Opportunity Zones can be found here: <https://miopportunityzones.com/>. EDA may also be able to assist MDOT with administrative burdens and identifying potential public and private sector collaborations. Relevant EDA contacts include:
  - Susan Brehm, U.S. EDA Chicago Regional Director
  - Lee Shirey, U.S. EDA Economic Development Representative (EDR), Michigan
  - Carlann Unger, U.S. EDA Regional Economic Development Integrator (REDI)
- MDOT could partner with the City of Detroit to further explore value capture mechanisms and identify which are most appropriate to support the I-375 project. FHWA's value capture website can be found here: [https://www.fhwa.dot.gov/ipd/value\\_capture/](https://www.fhwa.dot.gov/ipd/value_capture/). Techniques suggested as best suited for this project include: Tax Increment Financing (TIF); Special Assessment District (SAD); Development Impact Fees (DIF); and Development Agreement (DA). Categories and definitions for each are listed in *Table 1* of this report.
- MDOT should involve the City of Detroit in their continuing efforts to develop a finance plan for the project with the City of Detroit. This may include identifying value capture opportunities, innovative contracting opportunities, and the potential highest and best uses of the 31 acres of excess land that will become available after the freeway is removed.
- MDOT could consider working with the City of Detroit to determine whether the use of potential value capture mechanisms could yield enough funds to help accelerate the programming of the project before the current 2027 proposed timeline.
- MDOT and the City of Detroit could initiate outreach to Detroit's Riverfront Conservancy introducing a collaborative opportunity similar to the City of Seattle's partnership with the Friends of Seattle Waterfront.
- MDOT and the City of Detroit could initiate outreach to the Detroit/Wayne County Port Authority to inquire about potential funding available under the Port Authority Act.

## Appendices

### Appendix A: Key Contacts

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## Appendix B: Event Participants

<b>Name</b>	<b>Agency</b>
Anne DaSilva Tella	City of Rochester
Eric Frisch	City of Rochester
Angela Brady	City of Seattle
Carlann Unger	Federal
Andrea Kirk	FHWA
Brandy Solak	FHWA
Brenda Hernacki	FHWA
Donny Hamilton	FHWA
Eric Purkiss	FHWA
Jeff Price	FHWA
John Duel	FHWA
Mark Dionise	FHWA
Mark Lewis	FHWA
Mark Sullivan	FHWA
Mike Ivey	FHWA
Peter Krumm	FHWA
Russell Jorgenson	FHWA
Ruth Hepfer	FHWA
Stefan Natzke	FHWA
Thay Bishop	FHWA
Theodore Burch	FHWA
Brad Wieferich	MDOT
Colin Forbes	MDOT
Elaine A. Poole	MDOT
Janie Gallimore	MDOT
Jessica Hughes	MDOT
Jonathan Loree	MDOT

Judy Hinkle	MDOT
Kimberly Webb	MDOT
Kristin Schuster	MDOT
Larry Doyle	MDOT
Laura Mester	MDOT
Olukayode Adefeso	MDOT
Patrick McCarthy	MDOT
Paul Ajegba	MDOT
Rebecca Zemko	MDOT
Roxanne Ranger	MDOT
Ryan Mitchell	MDOT
Shirleen Buck	MDOT
Teresa Vanis	MDOT
Tony Kratofil	MDOT
Vera Lake	MDOT
Judd Herzer	MI Department of Labor
Samuel Buchalter	MSHDA
Julie Kim	Stanford University
Matthew Schnackenberg	PFM Financial Advisors
Jessica Cameron Mitchell	PFM Financial Advisors
Mary Francoeur	PFM Financial Advisors
Doug Lynnott	U.S. EDA
Lee Shirey	U.S. EDA
Peter Park	UC Denver/Peter Park Planning
Ashley Mang	U.S. DOT Volpe Center
Henry Schoenhoff	U.S. DOT Volpe Center
Terry Regan	U.S. DOT Volpe Center
Brian Nielsen	WSDOT



## ***FHWA EDC5: Value Capture***

### **Agenda for I-375 Improvement Project Workshop**

**Dates:** December 15, 2020 – 12:30 pm to 4:00 pm (Eastern)

**Workshop Location:** Teams meeting: [Click here to join the meeting](#)

**Exchange Host:** Federal Highway Administration

**Length of Workshop:** 3.5 hours

**Workshop Purpose:** To discuss Value Capture key economic development tools with potential for the I-375 Improvement Project, including the presentation of three successful projects.

**Tuesday, December 15, 2020**

<b>Time</b>	<b>Topic</b>
<b>12:30 pm</b>	<p><b>Welcome and Overview</b></p> <p>Welcome of attendees, review of the agenda, and provision of an overview of the FHWA EDC-5 Value Capture Initiative.</p> <p>Speakers:</p> <ul style="list-style-type: none"> <li>○ Stefan Natzke, FHWA EDC-5 Value Capture Implementation Team Co-lead</li> <li>○ Russ Jorgenson, FHWA Michigan Division Administrator</li> <li>○ Paul C. Ajegba, Director, Michigan Department of Transportation (MDOT)</li> </ul>
<b>12:45 pm</b>	<p><b>I-375 Improvements Overview and Background</b></p> <p>MDOT and FHWA Michigan Division Office will provide an overview and background on the project including discussing the project goals and guiding principles.</p> <p>Speakers:</p> <ul style="list-style-type: none"> <li>○ Michigan DOT- Jon Loree, MDOT Senior Project Manager and Tony Kratofil, I-375 Senior Project Manager &amp; MDOT Chief Operating Officer</li> <li>○ FHWA Michigan Division Office- Ted Burch, FHWA Michigan Office Deputy Division Administrator</li> </ul>
<b>1:00 p.m.</b>	<p><b>Economic Development Tools (1:00 pm to 1:40 pm)</b></p> <p>Speakers will provide an overview of economic development assistance, opportunity zones, and the business and economic case.</p> <p>Federal Funding and Economic Development Assistance including Opportunity Zones: (1:00 pm to 1:15 pm)</p> <ul style="list-style-type: none"> <li>• Speaker: <ul style="list-style-type: none"> <li>○ Doug Lynott, Director, Economic Development Integration, U.S. EDA</li> </ul> </li> </ul> <p>Michigan Opportunity Zones: (1:15 pm to 1:40 pm)</p>



Time	Topic
	<ul style="list-style-type: none"> <li>Speakers: <ul style="list-style-type: none"> <li>Samuel B. Buchalter, JD/LLM, Special Assistant for Program Development, Michigan State Housing Development Authority (MSHDA)</li> </ul> </li> </ul> <p><b>Making the Business and Economic Case (1:40 pm to 2:00 pm.)</b>  Discussion of the business and economic opportunities for a project.(1:40 pm to 2:00 pm)  Speaker: Julie Kim, Stanford University</p>
<b>2:00 p.m.</b>	<b>Break (5 minutes)</b>
<b>2:05 p.m.</b>	<p><b>Freeway to Boulevard Projects</b></p> <ul style="list-style-type: none"> <li>Interstate Withdrawal process (2:05 pm to 2:15 pm)  Speaker: <ul style="list-style-type: none"> <li>Stefan Natzke, FHWA, National Systems and Economic Development Team Lead</li> </ul> </li> <li>Alaskan Way Viaduct Replacement Program, Seattle, Washington: The use of creative funding strategies (Local Improvement District, philanthropy, etc.) to revitalize Seattle’s historic waterfront as part of replacing an elevated section of SR99 with a tunnel, multimodal surface transportation improvements, parks and public open spaces. (2:15 pm to 2:45 pm)  Speaker: <ul style="list-style-type: none"> <li>Angela Brady, City of Seattle, Office of Waterfront and Civic Projects, Deputy Director</li> </ul> </li> <li>Park East Freeway, Milwaukee, Wisconsin (removal of a .8-mile section of elevated highway and reestablishment of an urban street grid). (2:45 pm to 3:15 pm)  Speaker: <ul style="list-style-type: none"> <li>Peter Park, Peter J. Park, LLC &amp; University of Colorado at Denver, and former Milwaukee Planning Director</li> </ul> </li> <li>Inner Loop Expressway, Rochester, New York (elimination of a .5 miles Expressway and reconstruction of Union Street). (3:15 pm to 3:45 pm)  Speakers: <ul style="list-style-type: none"> <li>Erik Frisch, City of Rochester, Manager of Special Projects</li> <li>Anne DaSilva Tella, City of Rochester, Manager of Project Development</li> </ul> </li> </ul>
<b>3:45 p.m.</b>	<b>Wrap Up and Next Steps</b>
<b>4:00 p.m.</b>	<b>End of Meeting</b>

**Resources:**

*FHWA Resources:*

FHWA Value Capture website: [https://www.fhwa.dot.gov/ipd/value\\_capture/](https://www.fhwa.dot.gov/ipd/value_capture/)

FHWA process for removing segments from the Interstate Highway System:  
[https://www.fhwa.dot.gov/planning/national\\_highway\\_system/interstate\\_highway\\_system/stepbystep.cfm](https://www.fhwa.dot.gov/planning/national_highway_system/interstate_highway_system/stepbystep.cfm)

FHWA Guidance on the withdrawal or de-designation of segments of the Interstate Highway System:  
[https://www.fhwa.dot.gov/planning/national\\_highway\\_system/interstate\\_highway\\_system/withdrawalqa.cfm](https://www.fhwa.dot.gov/planning/national_highway_system/interstate_highway_system/withdrawalqa.cfm)

*Project Case Studies for Right Sizing:*

Alaskan Way Viaduct, Seattle, WA:

[https://www.fhwa.dot.gov/planning/economic\\_development/right\\_sizing/case\\_studies/alaskan\\_way.cfm](https://www.fhwa.dot.gov/planning/economic_development/right_sizing/case_studies/alaskan_way.cfm)

Inner Loop Expressway, Rochester, NY:

[https://www.fhwa.dot.gov/planning/economic\\_development/right\\_sizing/case\\_studies/inner\\_loop.cfm](https://www.fhwa.dot.gov/planning/economic_development/right_sizing/case_studies/inner_loop.cfm)

Park East Freeway, Milwaukee, WI:

[https://www.fhwa.dot.gov/planning/economic\\_development/right\\_sizing/case\\_studies/park\\_east.cfm](https://www.fhwa.dot.gov/planning/economic_development/right_sizing/case_studies/park_east.cfm)

*Michigan Opportunity Zones:*

<https://miopportunityzones.com/>

## Appendix D: Workshop Materials

Provided by Julie Kim, SME.

### Overview of Value Capture Categories, Techniques, and Definitions

Category	Technique	Definition
<b>Developer Contributions</b>	Impact Fees	Fees imposed on developers to help fund additional public services, infrastructure, or transportation facilities required due to the new development.
	Negotiated Exactions	Negotiated charges imposed on developers to mitigate the cost of public services or infrastructure required as a result of the new development.
<b>Transportation Utility Fees</b>	Transportation Utility Fees	Fees paid by property owners or building occupants to a municipality based on estimated use of the transportation system.
<b>Special Taxes and Fees</b>	Special Assessment Districts	Fees charged on property owners within a designated district whose properties are the primary beneficiaries of an infrastructure improvement.
	Business Improvement Districts	Fees or levies charged on businesses within a designated district to fund or finance projects or services within the district's boundaries.
	Land Value Taxes	Split tax rates, where a higher tax rate is imposed on land than on buildings.
	Sales Tax Districts	Additional sales taxes levied on all transactions or purchases in a designated area that benefits from an infrastructure improvement.
<b>Tax Increment Financing</b>	Tax Increment Financing	Charges that capture incremental property tax value increases from an investment in a designated district to fund or finance the investment.
<b>Joint Development</b>	At-grade Joint Development	Projects that occur within the existing development rights of a transportation project.
	Above-grade Joint Development	Projects that involve the transfer of air rights, which are development rights above or below transportation infrastructure.
	Utility Joint Development	Projects that take advantage of the synergies of broadband and other utilities with highway right-of-way.
<b>Naming Rights</b>	Naming Rights	A transaction that involves an agency selling the rights to name infrastructure to a private company.

## Appendix E: Acronyms

DA	Development Agreement
DIF	Development Impact Fees
DOT	Department of Transportation
EA	Environmental Assessment
EDA	U.S. Economic Development Administration
EDC	Every Day Counts
EDI	Economic Development Integration
EDR	Economic Development Representative
FHWA	Federal Highway Administration
FIRE	Federal Interagency Resource Exchanges
FONSI	Finding of No Significant Impact
HEP	Office of Planning, Environment, and Realty
LEO	Department of Labor and Economic Opportunity
LID	Local Improvement District
MDOT	Michigan Department of Transportation
MSHDA	Michigan State Housing Development Authority
MWBE	Minority and Women-owned Business Enterprise
NEPA	National Environmental Policy Act
NHS	National Highway System
NYSDOT	New York State Department of Transportation
PEL	Planning and Environmental Linkage
PILOT	Payment in Lieu of Tax
QOF	Qualified Opportunity Funds
REDI	Regional Economic Development Integrator
REDS	Regional Economic Diversification Summit
SAD	Special Assessment District
SED	Social and economic development strategies
SR99	State Route 99
TIF	Tax Increment Financing
TIGER	Transportation Investment Generating Economic Recovery
WSDOT	Washington State Department of Transportation