

Maximizing Value Capture by Leveraging Infrastructure Banks

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- T. Alex Beres, Assistant Director Franklin County (OH) Economic Development & Planning, aberes@franklincountyohio.gov and Joshua Roth, Senior Program Coordinator at Franklin County Economic Development & Planning, jroth@franklincountyohio.gov
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Leveraging Infrastructure Banks to Finance Value Capture

Maximizing Value Capture by Leveraging Infrastructure Banks Peer Exchange



Infrastructure Banks (IBs) at Federal, State, and local levels can help finance value capture-supported projects

- Federal innovative finance programs
- State infrastructure banks – Donnie Hamilton (FHWA), Dallas Teston (Texas)
- Issues that local IBs may address – Alex Beres and Josh Roth (Franklin County)



USDOT's TIFIA/RRIF programs are quasi-IBs, providing Federal finance support, including for value capture

- TIFIA program (Transportation Investment Finance and Innovation Act),¹ operated by USDOT's Build America Bureau (BAB) provides below-market loans for eligible projects, including:
 - Roads, transit, and surface-transportation elements of ports
 - Transit-oriented development and rural infrastructure projects
- Also operated by BAB, RRIF (Railroad Rehabilitation and Improvement Financing)² program provides financing for freight and passenger rail

¹ See: <https://www.transportation.gov/buildamerica/financing/tifia/program-overview>

² <https://www.transportation.gov/buildamerica/financing/rrif/railroad-rehabilitation-improvement-financing-rrif>



Denver Union Station is good example of USDOT TIFIA/RRIF value capture financing

- Over 1/5th of almost \$481M project funded solely by value capture monies from:
 - Property sales
 - Tax increment finance
 - Special assessments
- Rest of project funded with sales taxes and grants
- These techniques can be used for road and highway value capture-supported financings as well



<https://blaineharrington.photoshelter.com/gallery-image/USA-Colorado-Denver-Union-Station-Exterior/G0000WVFB.el3CIY/I0000vxS9ecW6iOY/C0000SwZrZz7em70>

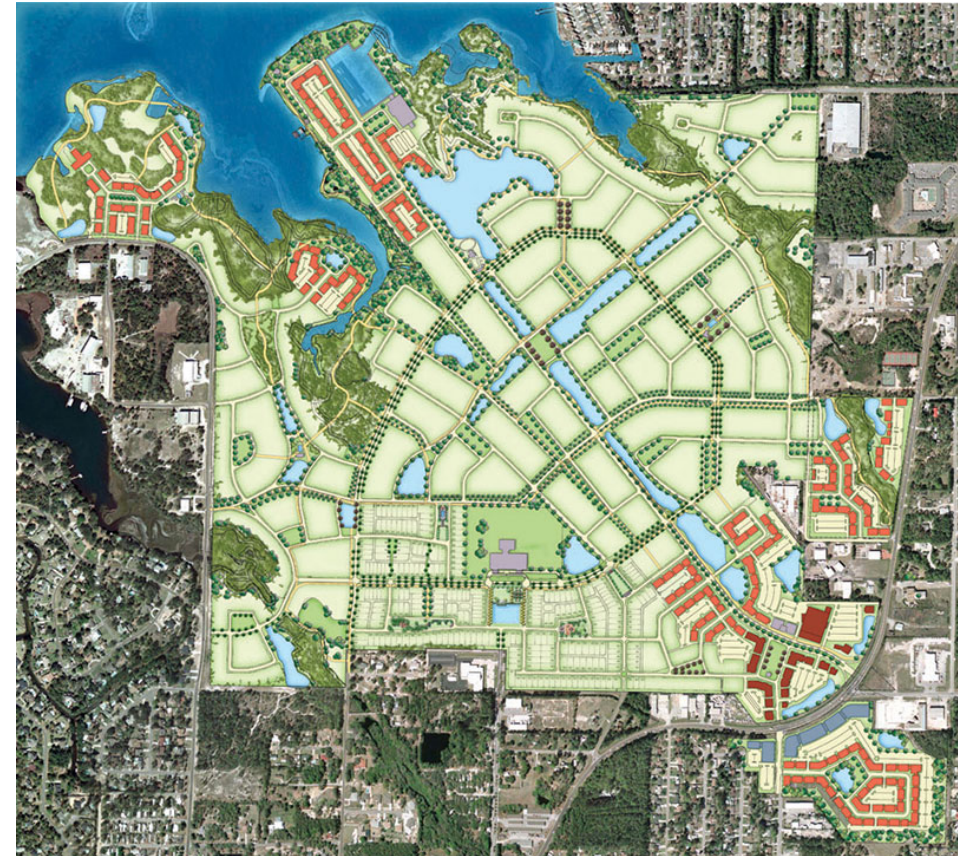
Majority of States have established “Federal” State IBs (SIBs) and some “State” ones, too

- ▶ Authorized initially in 1995 as pilot and then codified in 2005, 33 states capitalized SIBs with Federal-aid surface transportation funds and matching State funds to finance transportation projects, as Donnie Hamilton will discuss in detail
- ▶ Some states capitalized SIBs that may not follow Federal eligibility rules, model for local IBs
- ▶ Typical SIB terms:
 - ▶ Below-market interest rates, repayment conditions, capitalized interest provisions
 - ▶ Some accept projects that are not rated or are rated below investment-grade



Florida DOT SIB helped finance new Panama City, FL airport, secured by old airport land

- Property of old airport site sold to developer to help pay for 1/5 of \$300M new airport, financing of which was secured by FL DOT SIB
- Illustration on right shows plans to redevelop site into a walkable mixed-use community
- VA Transportation Infrastructure Bank (VTIB) will loan Potomac Yard subway station secured in part by special assessments
- Dallas Teston will provide highway value SIB examples in Texas



Source: <https://www.850businessmagazine.com/old-bay-county-airport-transforms-into-new-development/>

Successful IBs address credit quality, loan terms/subsidy, eligibility, and processing period

Topic	Considerations
Credit quality	<ul style="list-style-type: none">➤ TIFIA senior debt must be investment grade (i.e., BBB- or higher on Standard & Poor's scale), but not junior debt, including subordinated TIFIA loan➤ Some SIBs may have as less strict policy➤ Relevant for value capture-funded projects, which may not be able to obtain investment-grade rating
Loan terms/level of subsidy	<ul style="list-style-type: none">➤ Interest rates➤ Loan repayment period➤ Backloading
Eligibility	<ul style="list-style-type: none">➤ For TIFIA and "Federal" SIBs, generally projects that are eligible under Title 23 and 49 of U.S. Code➤ "State" SIBs vary, with some, like Florida, financing airport and port projects
Processing Period	<ul style="list-style-type: none">➤ Varies by project➤ How much certainty can IB lender provide?

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EDC-5 Value Capture Implementation Team



**Value Capture:
Capitalizing on the Value Created by Transportation**

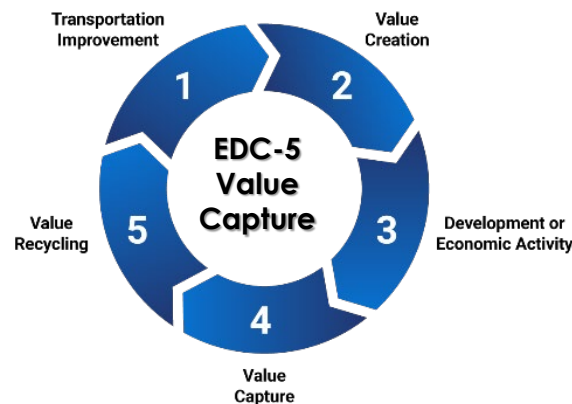
Presentation Outline

- What is Every Day Counts?
- Why is Value Capture Needed?
- Value Capture Overview & Benefits
- Federal Infrastructure Bank
- Q&A



What is “*Every Day Counts*”(EDC)?

- State-based model to identify and rapidly deploy proven but underutilized innovations to:
 - Shorten the project delivery process
 - Enhance roadway safety
 - Reduce congestion
 - Improve environmental sustainability
- 5th Round (2019-2020) - 10 innovations



Value Capture: Capitalizing on the Value Created by Transportation

EDC-5 Value Capture Implementation Team



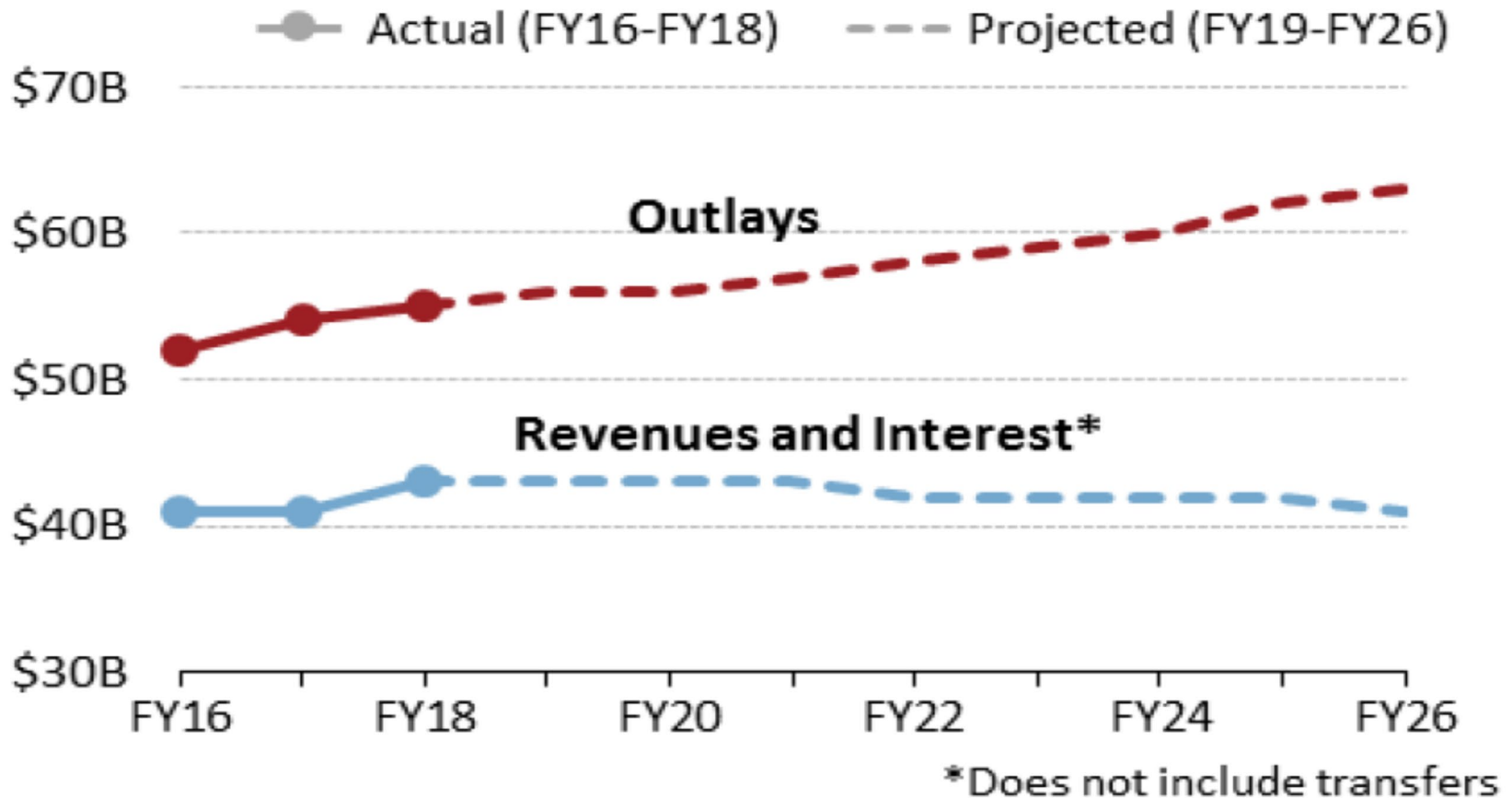
Why is Value Capture Needed?

Capacity, Conditions, & Safety

- 2 out of every 5 miles of America's urban interstates are congested
 - \$160 billion in wasted time and fuel
- 1 out of every 5 miles of highway pavement is in poor condition
 - \$836 billion backlog of highway and bridge capital needs
- 36,560 highway fatalities (2018)
- 6,283 pedestrian deaths (2018)



Highway Trust Fund is Unsustainable



Source: CBO, Highway Trust Fund Accounts – January 2019 Baseline.



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

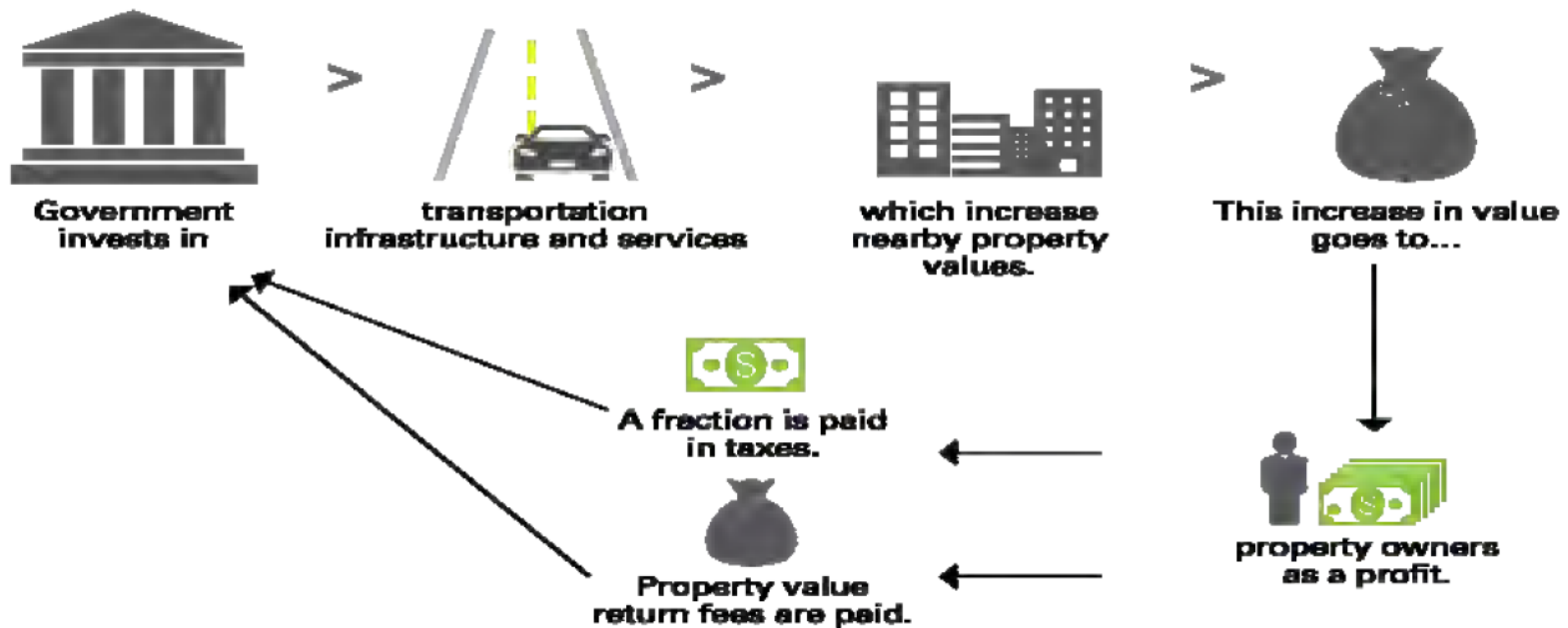
EDC-5 Value Capture Implementation Team



Value Capture Overview

What is Value Capture?

“Value capture” refers to a toolbox of strategies used by public agencies to share a portion of the increased property value created as a result of public infrastructure investment.



Source: NCHRP Research Report 873

Importance of Value Capture

- Provide alternatives to supplement traditional sources
 - Fund 3.2 million miles of non-Federal-aid public Improvements
- Achieve Value Capture of transportation benefits
 - Beneficiaries of transportation infrastructure contribute to its cost
- Local matching share to State & Federal Grants
- Access to Federal low-interest rate loan programs
 - TIFIA/RRIF, TIFIA-SIBs (rural), Sec.129 Loans, State Infrastructure Banks, Private Activity Bonds
- Attract private capital
- Enhance and speed-up project delivery

Types of Improvements that Create Value

- Roads and bridges
- Transit improvements and expansion
- Complete Street improvements
- Bicycle and pedestrian connections
- Street trees and landscaping

Value Capture

TECHNIQUES SUMMARY



DEVELOPER CONTRIBUTIONS

One-time charges collected by local governments from developers to offset the cost of infrastructure and services necessitated by new development.



SPECIAL ASSESSMENTS

An additional fee or tax assessment on businesses or residents in specified geographic areas benefitting proximity to a highway or other transportation facility or corridor.



FEES

Similar to a utility fee, transportation fees are assessed based on how individual businesses and households use transportation facilities.



INCREMENTAL GROWTH

A mechanism allocating back to infrastructure from some specified portion of increased property tax revenues fostered by new infrastructure - often for a specified period of time.



JOINT DEVELOPMENT

Sale or lease of land or air rights on or adjacent to transportation facilities. This can include donations of land or other in-kind resources from the private sector in ongoing commercial operations.



CONCESSIONS

Sale or lease of government-owned assets - such as toll roads or bridges to private-sector investors/operators.



ADVERTISING AND NAMING RIGHTS

Sale of advertising space or naming rights on a transportation facility. Note - Commercial uses within interstate highway system right of way, including rest areas, is prohibited by law; however, they may be allowed on toll facilities and in transit stations.

Beneficiaries of Infrastructure Projects

- Developers
- Property Owners (residential, commercial, retail, industrial)
- Employers
- Businesses
- Investors
- Land Owners
- Road Users
- Transportation Operators/Users

Value Capture Summary

Value Capture...

- Set of powerful funding tools that can help address funding gaps
- Part of the mix of funding sources for transportation improvement solutions
- Techniques used to accelerate project delivery, enhance safety, and save time and money when done properly

*****USDOT supports Value Capture*****

EDC-5 Value Capture Implementation Team



Maximizing Value Capture by Leveraging Infrastructure Banks

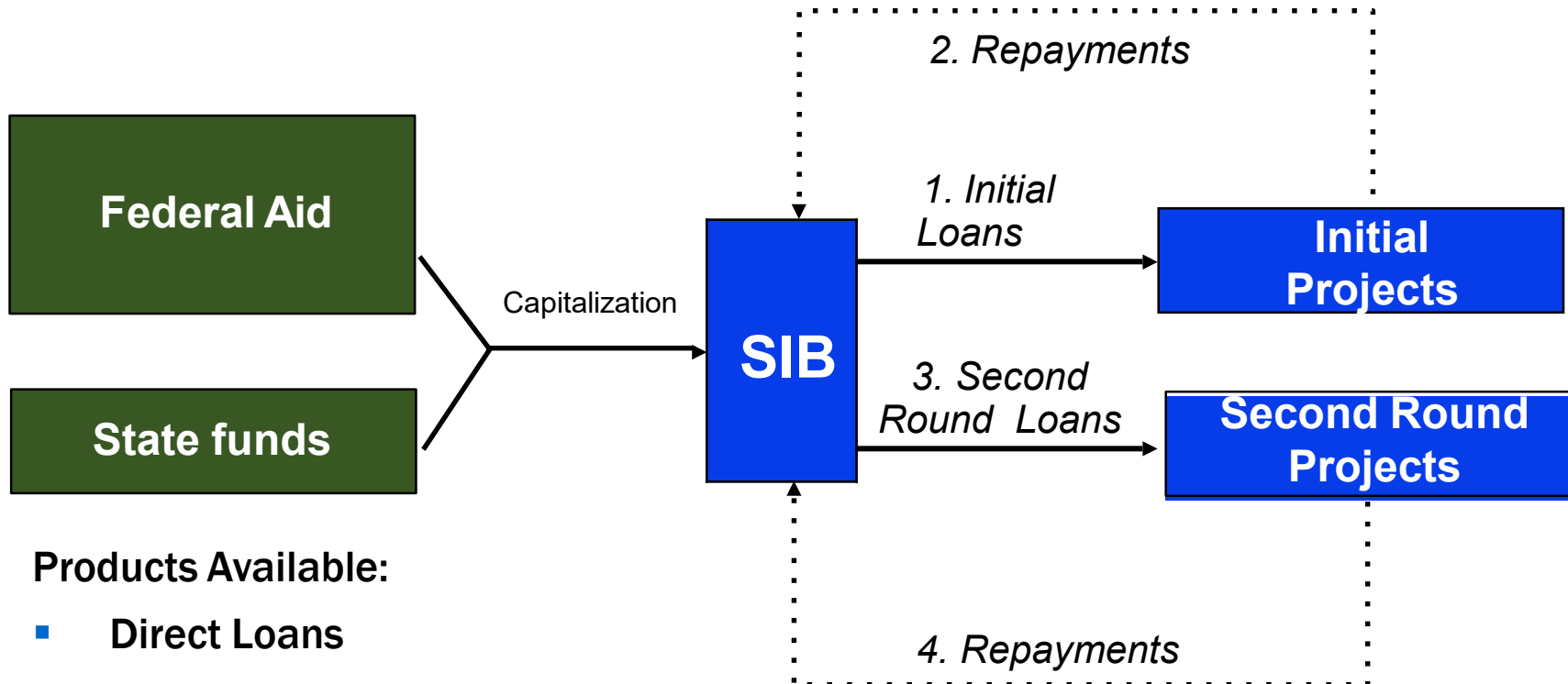
SIBs Enable Value Capture Strategies

- Revolving loan and credit enhancement program
- Provides financing options to address local transportation improvements
 - Low interest rate
 - Low financing cost
- Supports projects with direct link between mobility and economic growth (i.e. *job creation, private investment*)
- Federal, State, & County SIBs

Project Eligibility

- Only Title 23 and Title 49 projects are eligible
- Can be used to provide loans or credit assistance for ANY Title 23 project, giving State greatly enhanced flexibility
- 1st round SIB projects must go through a Federal review process and meet Federal requirements (e.g., NEPA, Davis- Bacon, DBE, Buy America, etc.)
 - For 2nd and subsequent rounds of lending, more complex rules (depending on Act used to establish SIB); all Federal requirements apply to any SIB assisted by FAST Act
- Determined by consultation between FHWA Division & Program Offices and State DOTs

Federal SIB Structure



Products Available:

- Direct Loans
- Loan Guarantees
- Lines of Credit
- Interest Rate Buy-downs
- Other

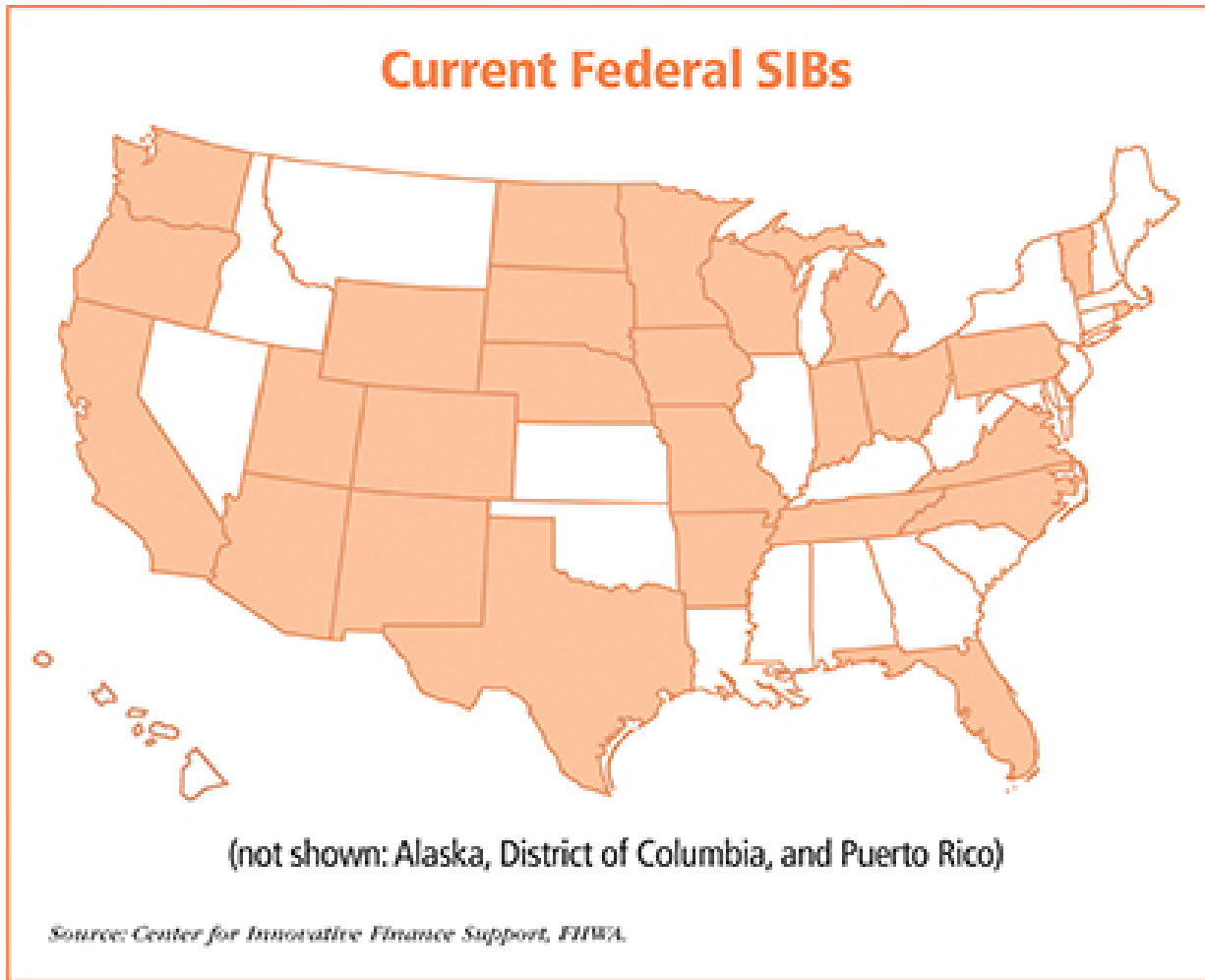
SIBs in Federal Legislation

- Four different reauthorization acts allowed creation of SIBs:
 - The NHS Act of 1995 (pilot program)
 - TEA-21 in 1998 (pilot program)
 - SAFETEA-LU in 2005 (permanent Title 23 program)
 - FAST Act (permanent program)
- The NHS Designation Act of 1995 authorized 10 pilot SIB states, with additional states included in the pilot by the FY 1996 DOT Appropriations Act.
- Each Act has slightly different rules
 - A SIB operates under rules of its authorizing Act and uses funds from that authorization.

SIBs in Federal Legislation

- Any new SIB created today would follow the provisions of 23 USC 610 and the FAST Act, and would be considered a Permanent SIB
- In addition, when States with existing SIBs utilize FAST Act apportionments to (re)capitalize their SIB, they are converting their 'Pilot' SIB to a 'Permanent' SIB
- Permanent SIBs are subject to all Federal requirements for new second and subsequent generation lending

SIBs Nationwide



- **SIBs established in 33 States**
- **Only a handful are active**
- **Lent almost 4x the amount of Federal assistance used to capitalize banks**
- **Collectively hold more than \$750M in idle loan funds for Title 23 eligible projects**

Federal Role in SIBs

- Federal government provides for initial set-up and oversight, but State manages SIBs on a day-to-day basis
- Federal role:
 - Execute “Cooperative Agreement” with State
 - Perform general oversight, monitoring and reporting on:
 - ❖ Eligibility of projects
 - ❖ Eligibility of funds used to capitalize SIB
 - Obtain and review annual reports
 - Review periodically to ensure legislative requirements met

State Role in SIBs

- Establish State legislation allowing SIBs
- Execute Cooperative Agreement with FHWA
- Submit request for funds needed for deposit capital
- Request funds to be obligated
- Submit payment request to capitalize SIB
- Provide matching funds prior to deposit of Federal funds into SIB
- Set policy, write operating rules and procedures
- Establish application evaluation criteria and review process
- Review and approve loan applications

Questions



EDC-5 Value Capture Implementation Team



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Texas State Infrastructure Bank

May 7, 2020



Background



- Capitalized with both federal and state funds
- Loans for roadway projects only
- Revolving fund - All repayments go back into the SIB

120 Loans – Since inception (1997)

\$617 Million – In loans

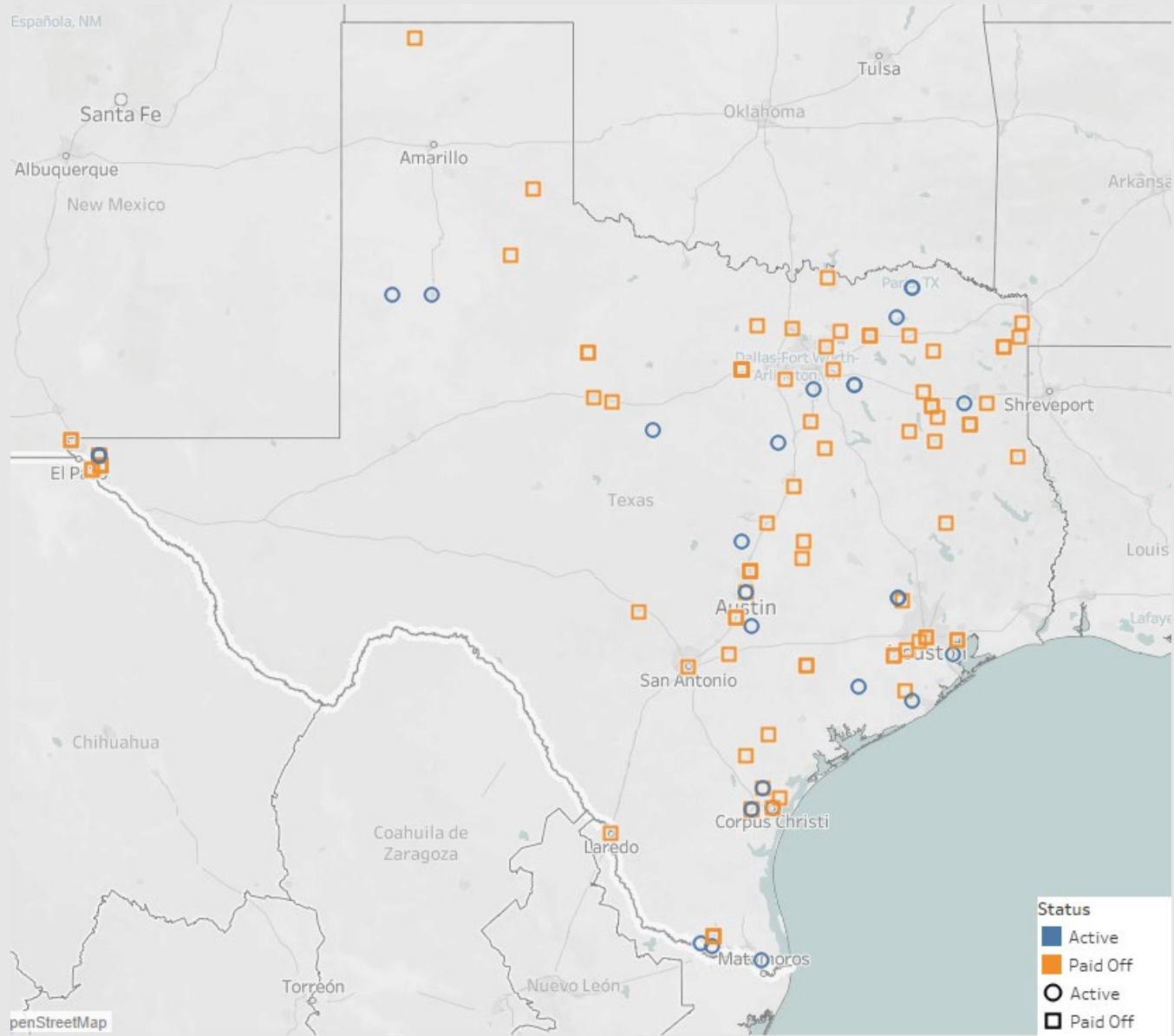
\$416 Million – Repaid

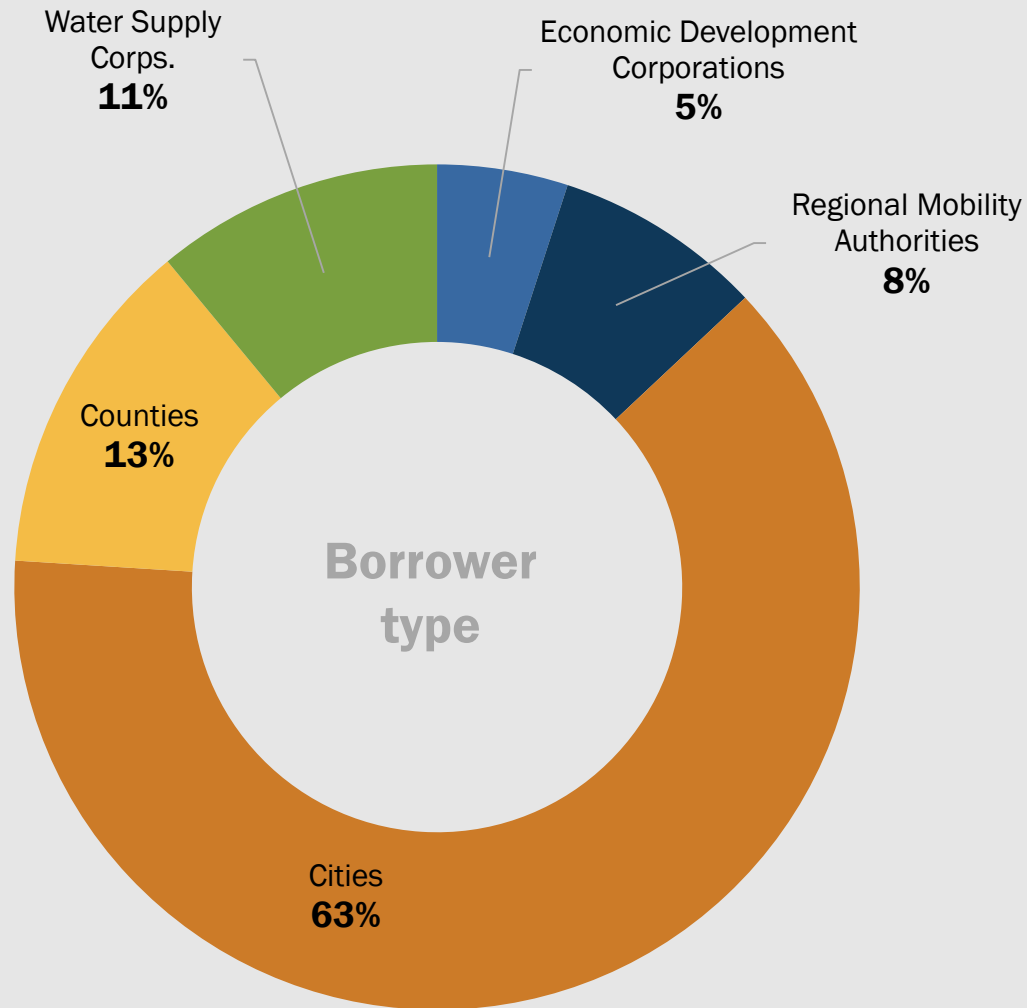
\$6.0 Billion – In Texas transportation projects

SIB Loans



SIB Loans Around the State

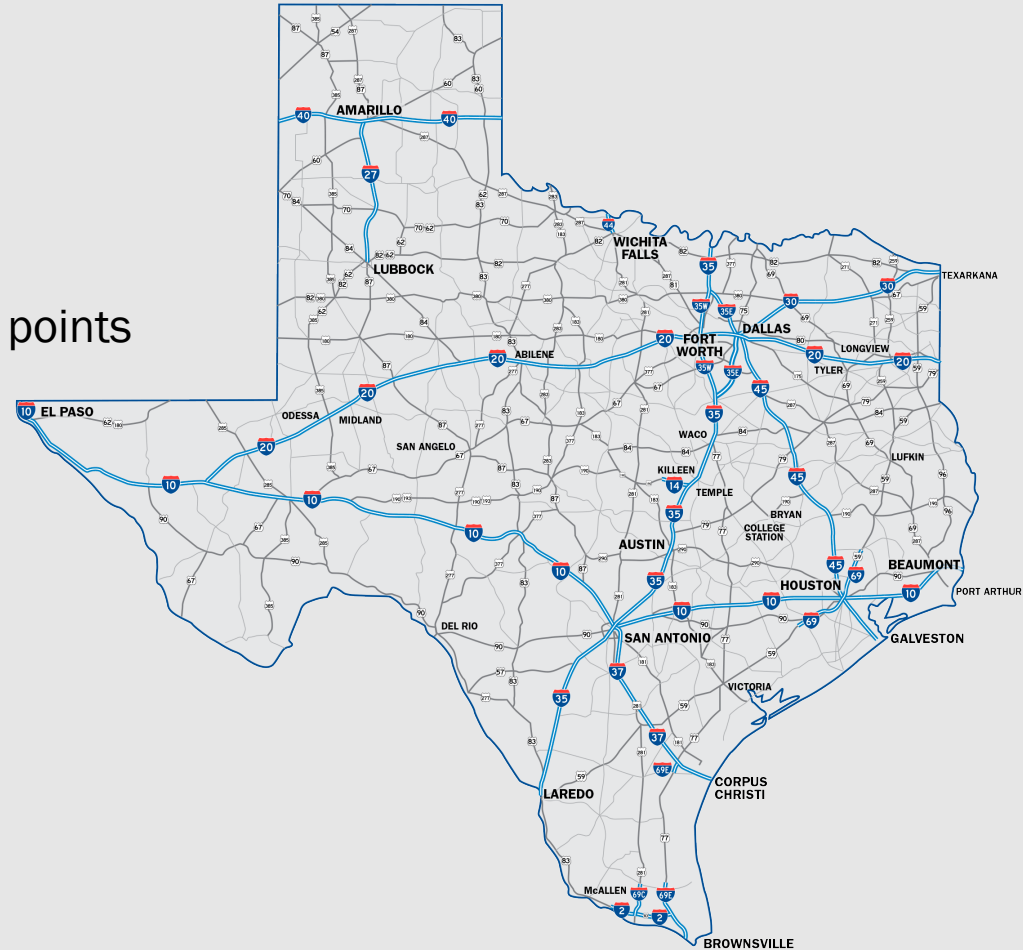




Advantages of borrowing from the Texas SIB



- **Prepayments** can be made at **any time**
- **No fees** for loan application
- **No** loan handling **charges**
- Rate set at the time of application
- Some flexibility for debt service pinch points
- **At or Below Market Interest Rates**





Value Capture



- Transportation Reinvestment Zones were created as a **value capture method for transportation projects** where VC revenues are set aside to finance a project.
- **In 2011**, the Texas Legislature introduced significant changes that increased implementation flexibility. Previously tied to Pass Through projects, but they have steadily gained interest since the tool became more flexible.
- What exactly is a TRZ:
 - **A TRZ is a specific contiguous zone around a planned transportation project that is established as a method to facilitate capture of the property tax increment arising from the planned project.**
- **TRZs are a local value capture tool:**
 - Currently, there are three taxing entities that can create a TRZ in Texas: **County, Municipality, and Port Authority/Navigation Districts.**



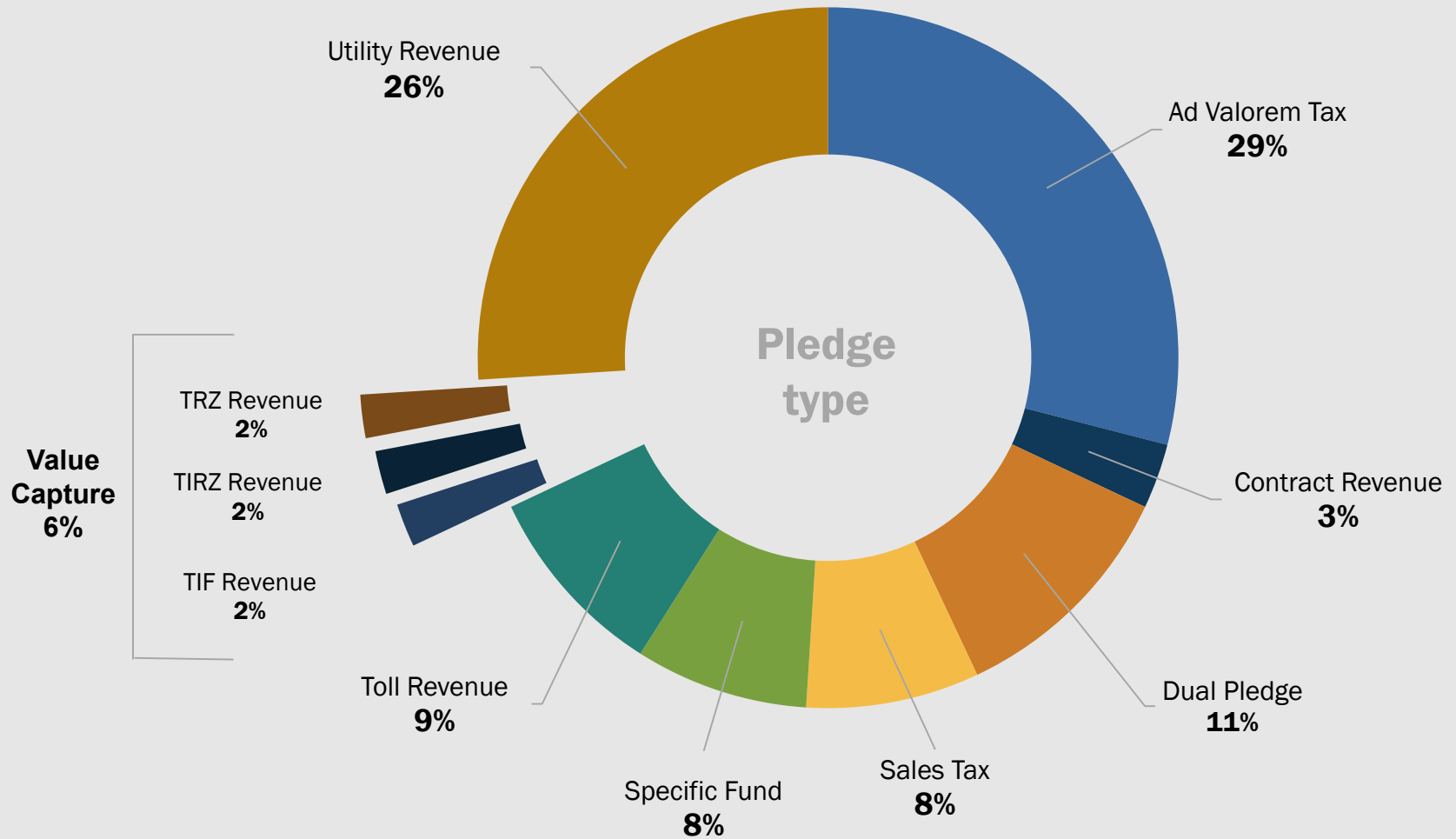
- Why use a TRZ?
 - It allows a community to capture **both existing economic growth as well as expected growth** generated from the transportation project.
 - A TRZ can be used in conjunction with other financing mechanisms to fund a transportation project.
 - It can be used as a funding gap filler to get a project off the ground.
- Why haven't they been used more?
 - Often it isn't sufficient as sole source of funding.
 - Communities are familiar with TIRZ/TIF.

- 7 loans have used a value capture method:
 - 3 TRZ
 - 2 TIRZ
 - 2 TIF
- \$77 million in loans

Example:

A city wanted to accelerate a project for frontage roads along a major highway.

The city created a TRZ and borrowed against the future TRZ revenue with a backstop from the city to provide a local contribution to accelerate the project.





Contact information

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<https://www.txdot.gov/government/programs/sib.html>

- General program information
 - Permissible uses for the SIB
 - Information brochure
 - Current lending limits
 - Applications for First-Come, First-Served and Program Call
- Executive Director Guidelines for the program



The Franklin County Infrastructure Bank: Economic Development and Value Capture



Franklin County
Board of Commissioners

**ECONOMIC DEVELOPMENT
& PLANNING**

Franklin County, OHIO (Columbus)

FRANKLIN COUNTY, OH

Largest County in Ohio – 1.3 million

- Columbus – State Capital
- Younger Population – Younger City
- Not the Rust Belt
- Bastion of Growth in Ohio



Franklin County, OHIO (Columbus)

FRANKLIN COUNTY, OH

New York Times – 52 Places to Visit
“An Awakening in Columbus”



Presenters

FRANKLIN COUNTY, OH

T. Alex Beres, Assistant Director, Franklin County EDP

Mr. Beres directs Franklin County's economic development, affordable housing, and public infrastructure investments portfolio. In his first stint at Franklin County, Mr. Beres created and was the first administrator of the Franklin County Infrastructure Bank. Most recently, Mr. Beres was the author and coordinated Franklin County's Affordable Housing Framework, a new \$65 million dollar investment in affordable housing. Mr. Beres has also worked for a multi-state private civil engineering firm as its Director of Public Infrastructure Finance.

Mr. Beres was a founding member and serves as Secretary/Treasurer of the Franklin County Transportation Improvement District – a separate Ohio political subdivision tasked with funding and financing collaborative multi-jurisdictional infrastructure projects. Mr. Beres holds an MA in Government from Johns Hopkins University, where he received honors distinction for his thesis on Public Infrastructure Financing (likely this is the only forum anyone would care...), as well as a BA from Ashland University.

Josh Roth, FCIB Administrator, Franklin County EDP

Mr. Roth administers the Franklin County Infrastructure Bank program as well as leading credit, tax incentive, and value capture underwriting for the Department.

Mr. Roth serves as Franklin County's representative on the Central Ohio Energy Special Improvement District. Mr. Roth holds a Master degrees in Economics and Public Administration from The Ohio State University and BS from Ohio University.



Economic Development & Planning

FRANKLIN COUNTY, OH

Department Divisions

- Economic Development
 - Incentive Programs, Value Capture, Infrastructure Bank, New Affordable Housing Framework
- Community Development
 - HUD Programs
- Planning and Zoning
 - 10 of 17 Townships
- Building Services
 - Residential Building Code (1-3 Units)
 - 17 Townships and 6 Villages



Economic Development & Value Capture

FRANKLIN COUNTY, OH

Economic development should *create* value; some of that value should be *captured* to make investment sustainable and justified.

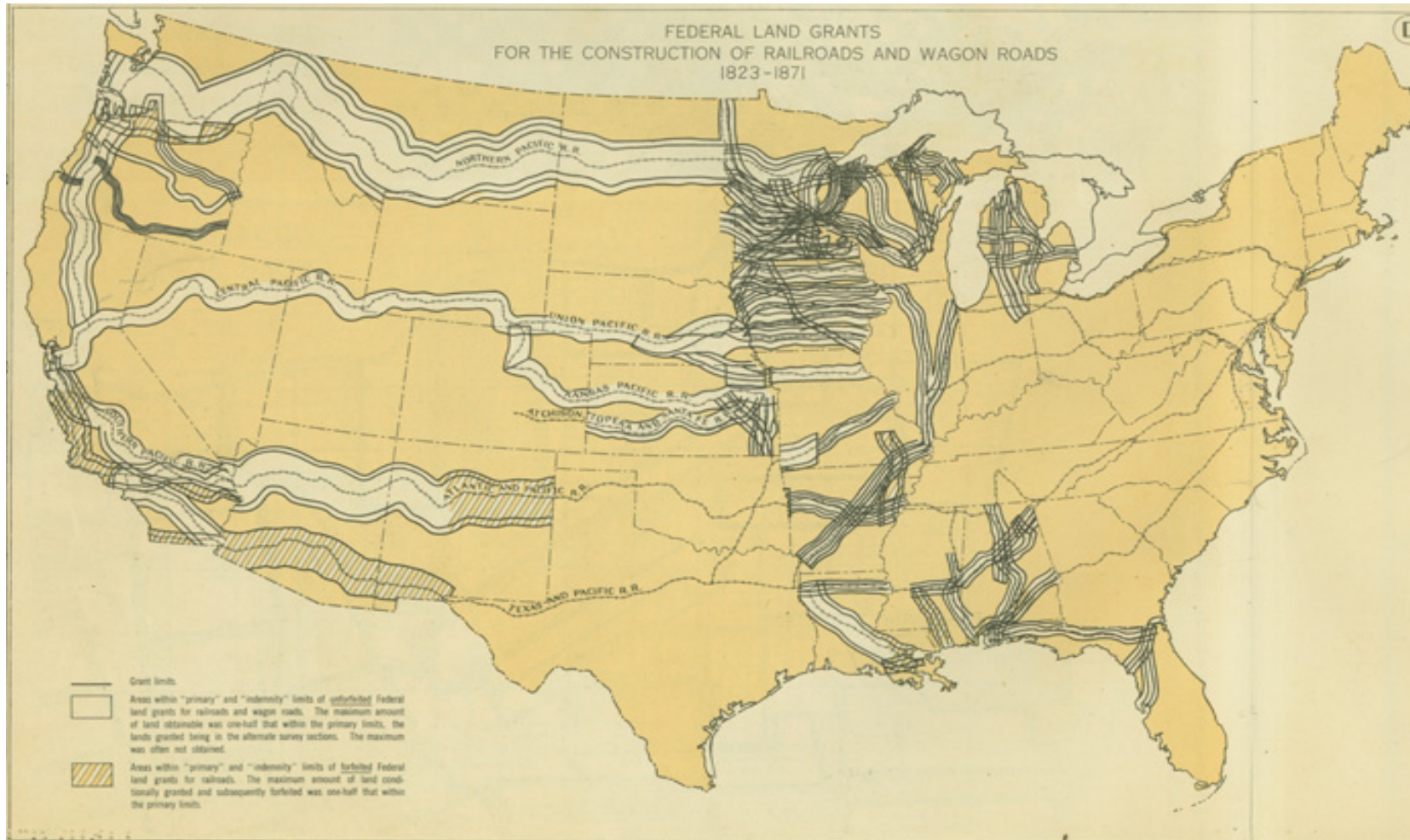
Value Capture – Nothing New

FRANKLIN COUNTY, OH



Value Capture – Nothing New

FRANKLIN COUNTY, OH



PRODUCTS WILL PAY FOR LAND AND IMPROVEMENTS!

MILLIONS OF ACRES

View on the Big Blue, between Camden and Crete, representing Valley and Rolling Prairie Land in Nebraska.

IOWA AND NEBRASKA LANDS

FOR SALE ON 10 YEARS CREDIT
BY THE
Burlington & Missouri River R.R. Co.

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Only One-Seventh of Principal Due Annually, beginning Four Years after purchase.
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Value Capture – Nothing New

FRANKLIN COUNTY, OH



Why a County-level Infrastructure Bank?

FRANKLIN COUNTY, OH

2013 Commissioners voted for Sales Tax Hike – New Jail, New Morgue, New Economic Development Programming

- 5 year limit of hike – so look for revolving funds to keep programming sustainable
 - Franklin County Infrastructure Bank
 - Energy Efficiency Financing for Building Retrofits
- Good examples in the State but limits on *capacity* and *use*
 - Ohio State Infrastructure Bank
 - Ohio Public Works Commission
- Focus on Different Kinds of Economic Development Incentives
 - Create value; Capture value
 - Target niches that can be exploited for unseen outcomes

Thinking Through SCALE

FRANKLIN COUNTY, OH

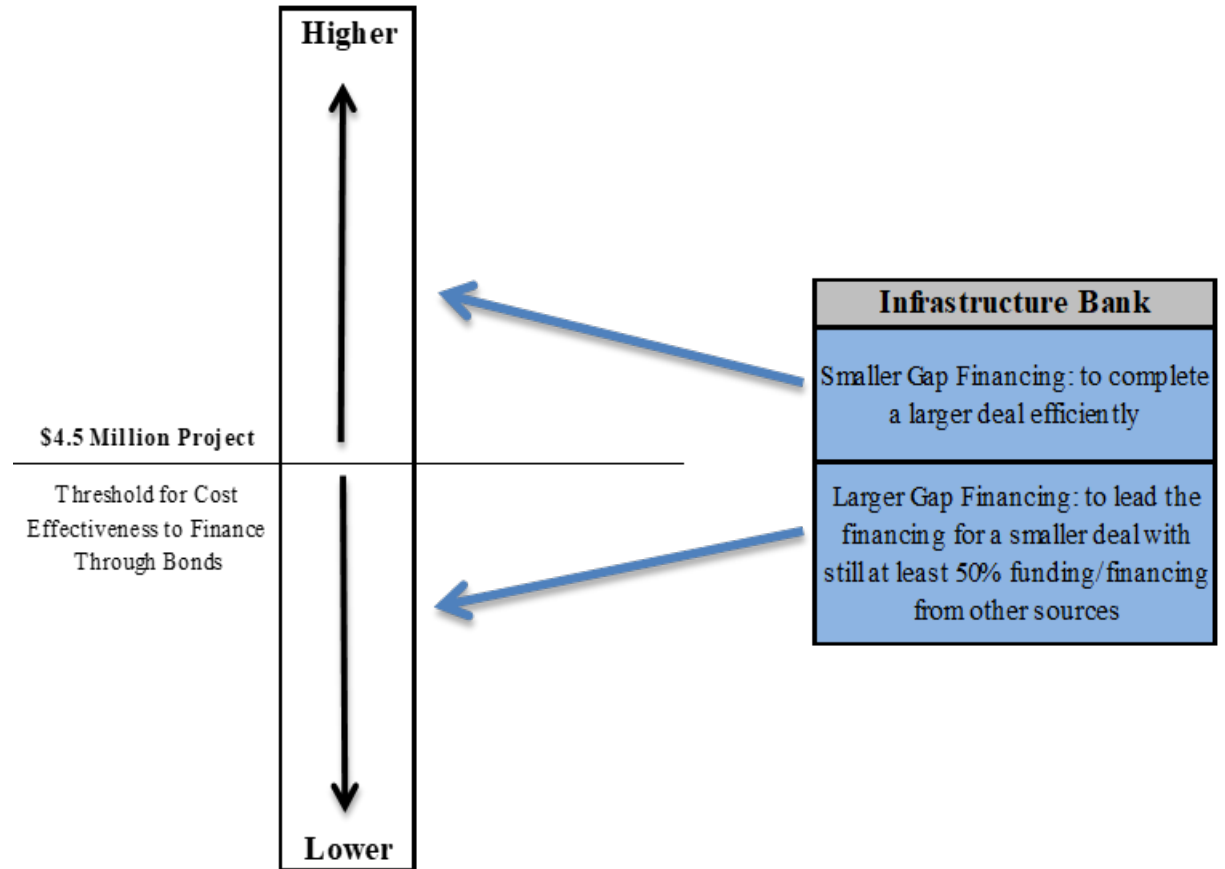
“Act at the scale that maximizes your own capacities.”

– Jamer Hunt

Book: *Not to Scale*

https://www.amazon.com/s?k=jamer+hunt+not+to+scale&crd=1G9DKMAHMF0ZX&srefix=jamer+hunt%2Caps%2C153&ref=nb_sb_ss_i_1_10

Economic Development Related Infrastructure Projects



Franklin County Infrastructure Bank

Program Parameters

- Borrowers: Political Subdivisions within Franklin County
- Projects: Economic Development project associated with the infrastructure must facilitate the creation of new private sector jobs and capital investment
- Infrastructure: Wide range of Public Infrastructure. The use of General Fund allows for flexibility and creativity
- Loan Terms: 1 to 10 years, below market rate interest rate, capped at 50% TPC and available funds

Franklin County Infrastructure Bank

Municipal Fiber Networks

- Three municipalities have utilized the FCIB to establish their own networks
 - Upper Arlington (2015) – \$1,000,000 borrowed; 30 miles; 300 Jobs
 - Grove City (2017) – \$2,000,000 borrowed; 84 miles; 100 Jobs
 - Hilliard (to close in 2019) - \$1,250,000 borrowed; 25 miles; 90 Jobs
- Initially pursued to facilitate specific economic development projects, each municipality took advantage of those opportunities to invest in their community.
 - Internet cost savings to Cities and Schools help pay the debt service
 - Preparing for Smart Cities Technology
 - Additional Economic Development Incentive
 - Carrier neutrality increases competition among Internet Service providers

Franklin County Infrastructure Bank

Other Examples of Value Capture

- City of Whitehall - \$550,000
 - Infrastructure improvements to the northwest gateway to the city including roadway improvements, streetscaping, and rail bridge beautification
 - Because the FCIB is capitalized from the County's General Fund, the program can fill a wide variety of project gaps that other funding sources would not.
- City of Grandview Heights – \$1,000,000;
 - Part of a phased redevelopment of the Goodale Boulevard corridor; Financed from an adjacent TIF District and the Grandview Yard development, home to Nationwide Insurance
 - The City leveraged recent private investment to catalyse the continued redevelopment of the Goodale Boulevard corridor and to improve ingress and egress at the Grandview Yard

Franklin County Infrastructure Bank

Other Examples of Value Capture

- City of Grove City - \$1,000,000
 - Multiple roadway, water, sanitary, and storm sewer improvements were made to Stringtown Rd on the east side of the City to facilitate the development of a new medical facility including 24 emergency room beds.
 - The FCIB portion was financed from a pledge of non-tax revenues; the remaining portion was paid for by the property owner, to be reimbursed through TIF proceeds.
- City of Reynoldsburg – \$750,000
 - Part of a phased redevelopment of East Main St corridor
 - The FCIB portion of the project was precipitated by the development of a new Kroger Marketplace and the need for emergency financing of a new traffic light.
 - The scope of the project was increased and the City advanced multiple infrastructure improvement projects along East Main Street as a result; all to be financed primarily from TIF proceeds from the new Grocery.

Value Capture's Influence on other Policy

FRANKLIN COUNTY, OH



Value Capture's Influence

- Land ownership underneath new housing held by Land Trust
- Tax Increment Financing vs. Abatement
 - Value Capture to pay it forward
 - vs-
 - Short termism

Value Capture's Influence on other Policy

FRANKLIN COUNTY, OH



Excess Right of Way

- Ohio Revised Code allows for the creation of special infrastructure financing vehicles called “Transportation Improvement Districts (TID)”
- Franklin County TID formed in 2019
 - Using a provision in the Code for TIDs that allows for excess Right of Way purchasing to purchase devalued corner lot in excess of right of way needs to hold for value creation and capture with eventual infrastructure construction

Contact

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Strategies for agencies to recover a portion of public transportation investments that result in increased land values.

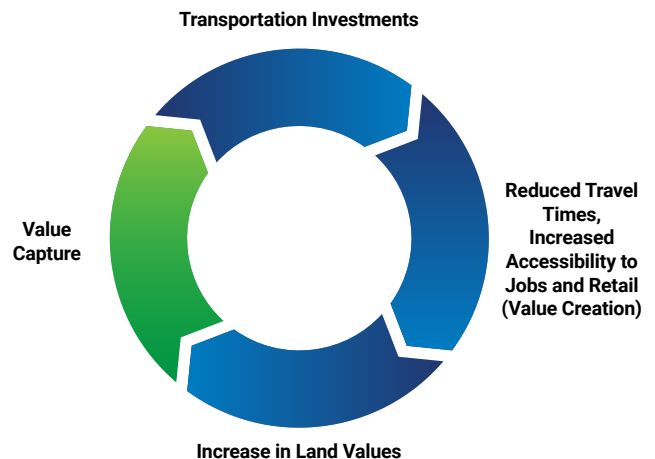
Public investment in transportation assets that improve access benefits owners of adjacent properties through greater land value and other economic impacts. Many techniques are available to the public sector to share in a portion of this increased land value to build, maintain, or reinvest in the transportation system.

Value capture begins with the assessment created by the access transportation provides. Value is then enhanced through private sector investment and economic development enabled by the public investment. A portion of that appraisal created by the infrastructure can be “captured” by the public sector to reinvest in, operate, or maintain transportation infrastructure. These principles can be applied to most development scenarios, whether new infrastructure for new land development or rebuilt or enhanced existing infrastructure.

Both the planning and implementation for value capture rely primarily on local government initiatives. For these local public agencies, value capture provides the opportunity to raise matching funds for Federal-Aid Highway Program projects and others.



Government investment in infrastructure improves the transportation system and raises nearby land values.



Value capture returns a portion of land value created by transportation to be used for future investments.

BENEFITS

- ▶ **Continuous Improvement.** Value capture strategies can provide a sustained revenue source that can support operations and maintenance or, in some cases, the financing of the transportation improvements.
- ▶ **Financial Equity.** Value capture promotes equity by reinforcing the “beneficiary pays” principle of economics. When private landowners benefit from a public investment, value capture provides a way for a portion of the gain to directly support the public investment that enabled their benefit.
- ▶ **Environmental Resiliency.** When value is captured from land but not the improvements (e.g., buildings) made to it, it supports denser development near highways. Landowners would pay the same land tax regardless of land use, so they are incentivized to develop or sell the land close to transportation. This can help limit sprawl.

STATE OF THE PRACTICE

States such as California, Colorado, Florida, Georgia, Massachusetts, Missouri, Ohio, Oregon, Pennsylvania, Texas, and Virginia, as well as the District of Columbia, are using value capture options successfully. The following are examples of different value capture



Value Capture: Capitalizing on the Value Created by Transportation



A new or improved highway that connects to economic activity will benefit adjacent parcels. Similar parcels without those connections do not increase in value.

applications supporting highway improvements across the United States:

- ▶ Several small towns in Oregon have instituted transportation utility fees through monthly utility bills that fund programs paying for local road maintenance and safety projects.
- ▶ The Cap at Union Station project over I-670 in Columbus, OH, is an example of joint development and right-of-way use agreements to improve traffic operations and transform the void caused by I-670 into an urban streetscape with retail shops and restaurants.
- ▶ California's Orange County Transportation Corridor Agencies (TCA) are using development impact fees to generate funds that have provided seed capital for transportation facilities and continue to be an integral feature of TCA's debt management strategy.
- ▶ In Texas, the Fort Worth City Council established transportation impact fees in July 2008 on new development projects to help fund transportation improvements. In April 2013, the council approved a transportation impact fee increase from \$2,000 to \$3,000 on new, single-family homes.

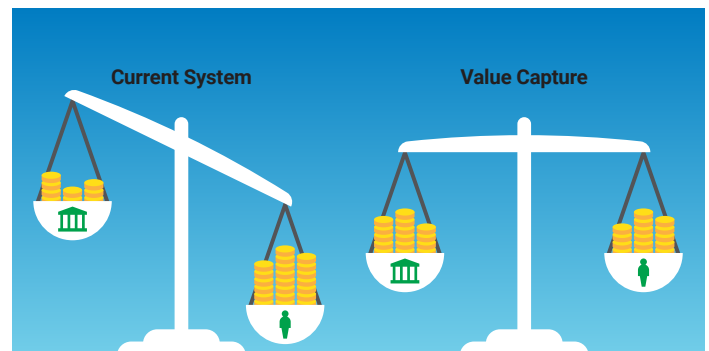
- ▶ In Illinois, the city of Chicago used tax increment financing districts to fund a variety of projects, including street improvements, transit stations, and neighborhood redevelopment.
- ▶ In Missouri, residents of four counties approved the creation of a Transportation Development District that levied a dedicated sales tax millage in their district to generate half the funding for expansion of a 52-mile upgrade to U.S. Highway 36, widening it from two to four lanes.
- ▶ Salina, KS, with a population of less than 50,000, is combining the value capture strategy of a tax incremental finance property tax with a community improvement sales tax and private funding for its \$154 million downtown redevelopment project.

RESOURCES

FHWA EDC-5 Value Capture: Capitalizing on the Value Created by Transportation

https://www.fhwa.dot.gov/innovation/everydaycounts/edc_5/value_capture.cfm

FHWA Center for Innovative Finance Support – Value Capture https://www.fhwa.dot.gov/ipd/value_capture



Value capture recovers a portion of increased land values from landowners who benefit directly, resulting in a more equitable distribution of the monetary benefits of well-performing transportation facilities.



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Federal Highway Administration

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