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Value Capture:

Capitalizing on the Value Created by Transportation

Presenters

Jill Stark, Office of Planning, FHWA

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Agenda

- What is the EDC-5 Value Capture initiative?
- Why is Value Capture needed?
- Value Capture Overview and Benefits
- FHWA Role
- Case Study
- Q&A/Do you know?



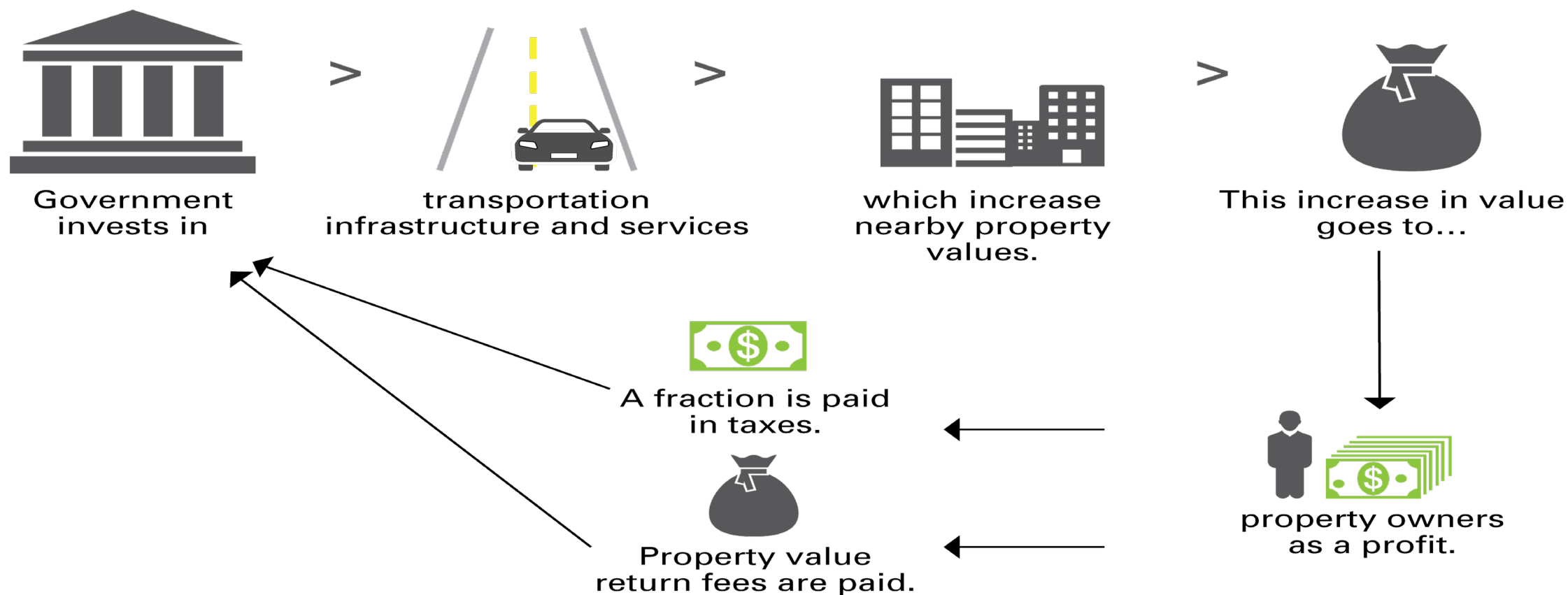
What is the EDC-5 Value Capture initiative?

EDC 5 Value Capture Initiative

Promotes the use of value capture mechanisms as part of a mixed funding and innovative finance strategy to accelerate project delivery and provide equitable funding for sustainable transportation investments



What is Value Capture?



Source: NCHRP Research Report 873

Example: Value Capture Funds Corridor Improvement

Virginia Route 28 Transportation Improvement District

- District formed in 1987 jointly by Loudon and Fairfax Counties
- Maximum tax rate of \$0.20 per \$100 of assessed value
- Raises ~ \$23 million in revenue
- \$138 million, 14 - mile widening from two to six lanes completed in 1991
- District and State share project costs 75/25



https://www.fhwa.dot.gov/ipd/project_profiles/va_route28.aspx

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Why is Value Capture needed?



The Case for Value Capture

- Federal funding availability
- Local project funding
- Untapped revenue source
- Equitable
- Sustainable economic development

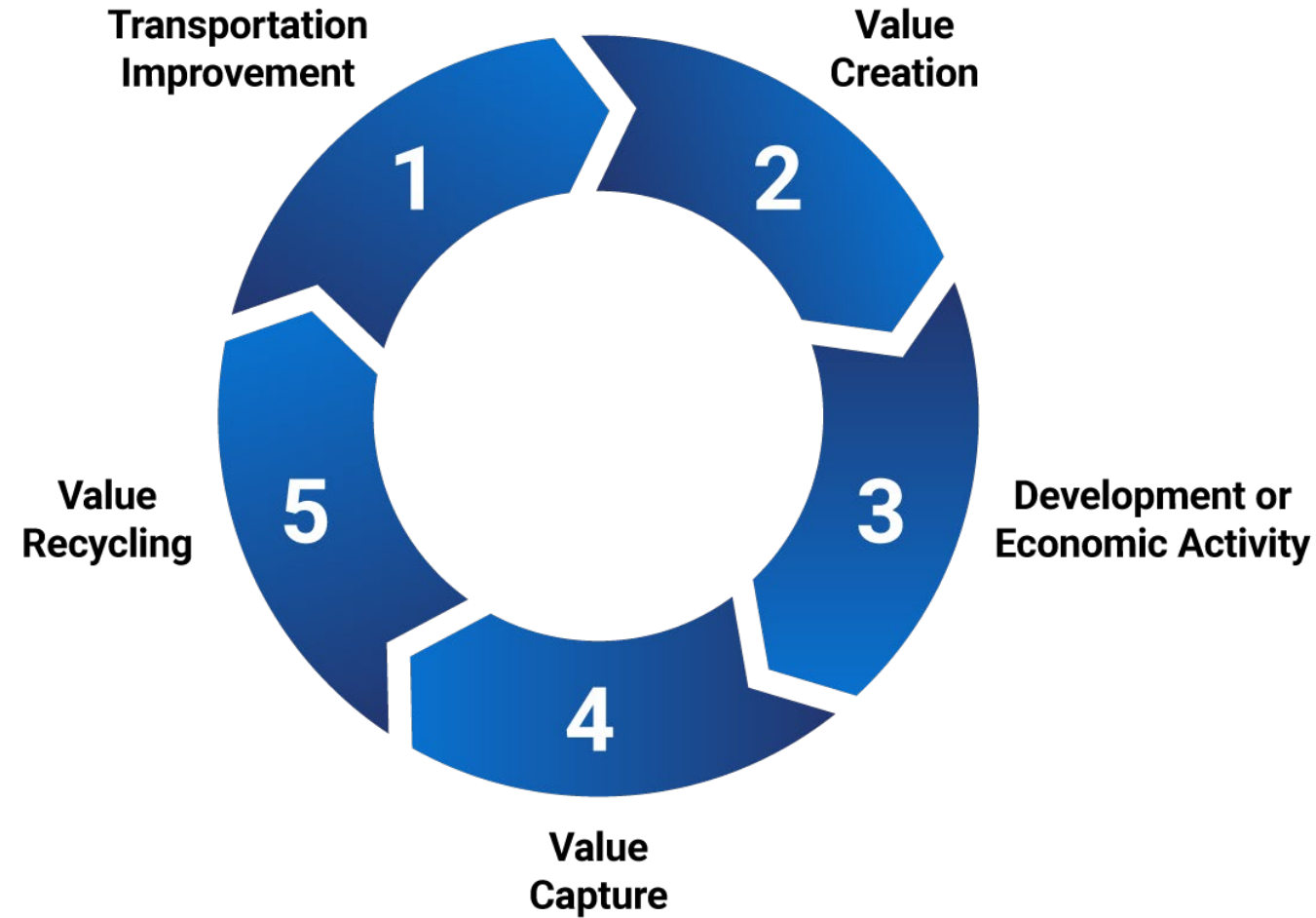
FHWA Roles in Value Capture Tools

- FHWA seeks to improve consideration of **all** revenue and finance options in the project development process
- FHWA seeks **to build capacity for consideration and implementation** of revenue options/value capture tools
- USDOT's Build America Bureau offers **innovative financing** through the TIFIA and RRIF programs that can leverage value capture monies



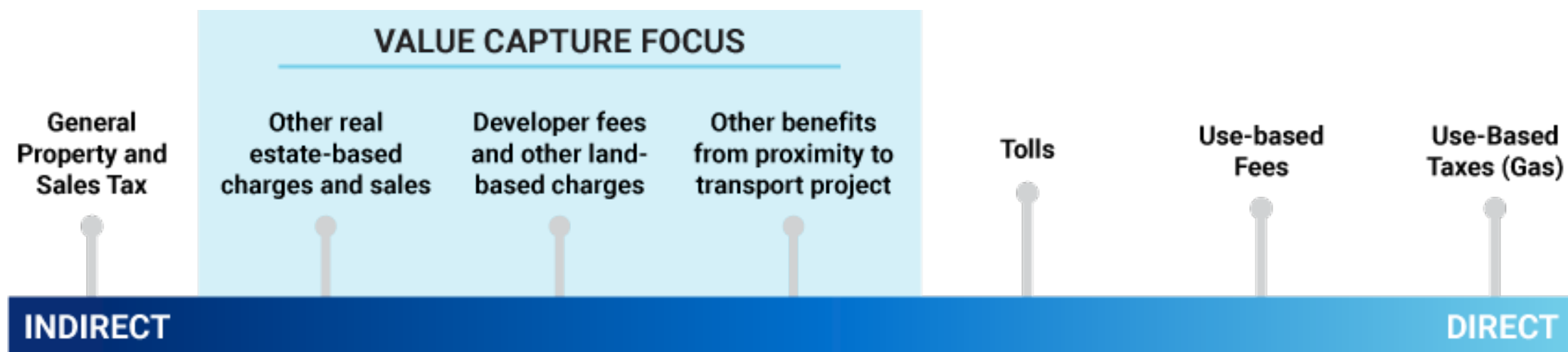
Value Capture Overview & Benefits

What is Value Capture?



Source: NCHRP Research Report 873

Value Capture Beneficiaries

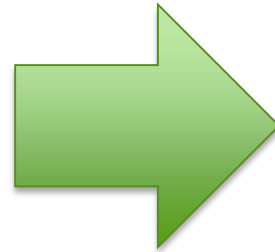


Source: NCHRP Research Report 873

Potential Benefits of Value Capture

Provide **gap funding** sources for highway improvements & infrastructure life cycle costs

**Value Capture
Revenue**



**Innovative
Finance**

Potential Benefits of Value Capture

- Facilitate access to ongoing revenue stream to Local Public Agencies
- Accelerate project delivery & safety Improvements
- Induce private investment

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Value Capture Techniques

How is the Value Captured?

- Developer Contributions
 - ✓ Impact fees
 - ✓ Negotiate Exaction and Ongoing developer contributions
- Transportation Utility Fees (TUFs)
- Special Tax and Fee Approaches
 - ✓ Special assessment district
 - ✓ Sales tax district
 - ✓ Business improvement district
 - ✓ Land value tax

How is the Value Captured? (cont.)

- Incremental Growth Approaches
 - ✓ Tax increment financing (TIF)
 - ✓ Transportation reinvestment zones (TRZ)
- Joint Development
 - ✓ ROW Use Agreements
 - Concessions, leasing
 - Airspace (above or below)
 - Parking
 - Fiber-optic leasing
 - Pipelines or other utilities not addressed by Utility Accommodation Policies or State Law

How is the Value Captured? (cont.)

- Advertising Rights and Sales
 - ✓ Naming rights
- Other
 - ✓ Transportation Corporation (TC)
 - ✓ Section 63-20 Corporation

Challenges

- Every jurisdiction is different
- Must target projects with economic benefits for leveraging
- Stakeholder involvement process can be lengthy, due to:
 - ✓ Coordination between multiple jurisdictions
 - ✓ Discussions with private developers and property owners
 - ✓ Establishing project location and design
 - ✓ Considering legal issues
- Securing political support

Challenges (cont.)

- Perceived as another tax
- Requires accuracy of activity and real estate projections:
 - ✓ If I build it, will they come?
 - ✓ If I build it, will developers build on nearby property?
- Identify the magnitude benefits & boundary of value capture mechanism

Ingredients of a Successful Value Capture Project

- Identified in long-term planning/capital improvement program – primarily local
 - ✓ Incorporated early in the project development process
 - ✓ Right technique selected for the right project
- Integrated funding and finance strategy
- Community support generated through effective outreach

Value Capture Summary

Value Capture is...

- A set of powerful funding tools that can help address funding gaps. (USDOT supports Value Capture)
- Can be part of the mix of funding sources for transportation improvement solutions
- Can accelerate project delivery, save time and money when done properly

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Federal Role

FHWA Roles in Value Capture

- Build capacity among partners
- Assemble VC Implementation Team
- Interact with key stakeholders
- Develop VC Implementation manual
- Develop clearinghouse for VC resources
- Conduct various peer exchanges, training, and technical assistance activities
- Funding

Value Capture Implementation Team

Co-Leads

- Thay Bishop, FHWA Office of Innovative Program Delivery
- Stefan Natzke, FHWA Office of Planning, Environment, and Realty

Members

- Jennifer Ahlin, Virginia Department of Transportation
- Janine Ashe, FHWA District of Columbia Division
- John Duel, FHWA Office of Planning, Environment, and Realty
- Ben Hawkinson, FHWA Transportation Policy Studies
- Kathleen Hulbert, FHWA Infrastructure Office
- Chip Millard, FHWA Freight Management & Operation
- Diane Mobley, FHWA Chief Counsel Office
- Kevin Moody, FHWA Resource Center
- Ben Orsbon, South Dakota Department of Transportation
- Jill Stark, FHWA Office of Planning, Environment, and Realty
- Lindsey Svendsen, FHWA Office of Planning, Environment, and Realty
- Jim Thorne, FHWA Office of Planning, Environment, and Realty
- Marshall Wainright, FHWA Resource Center

VCIT Focus Areas

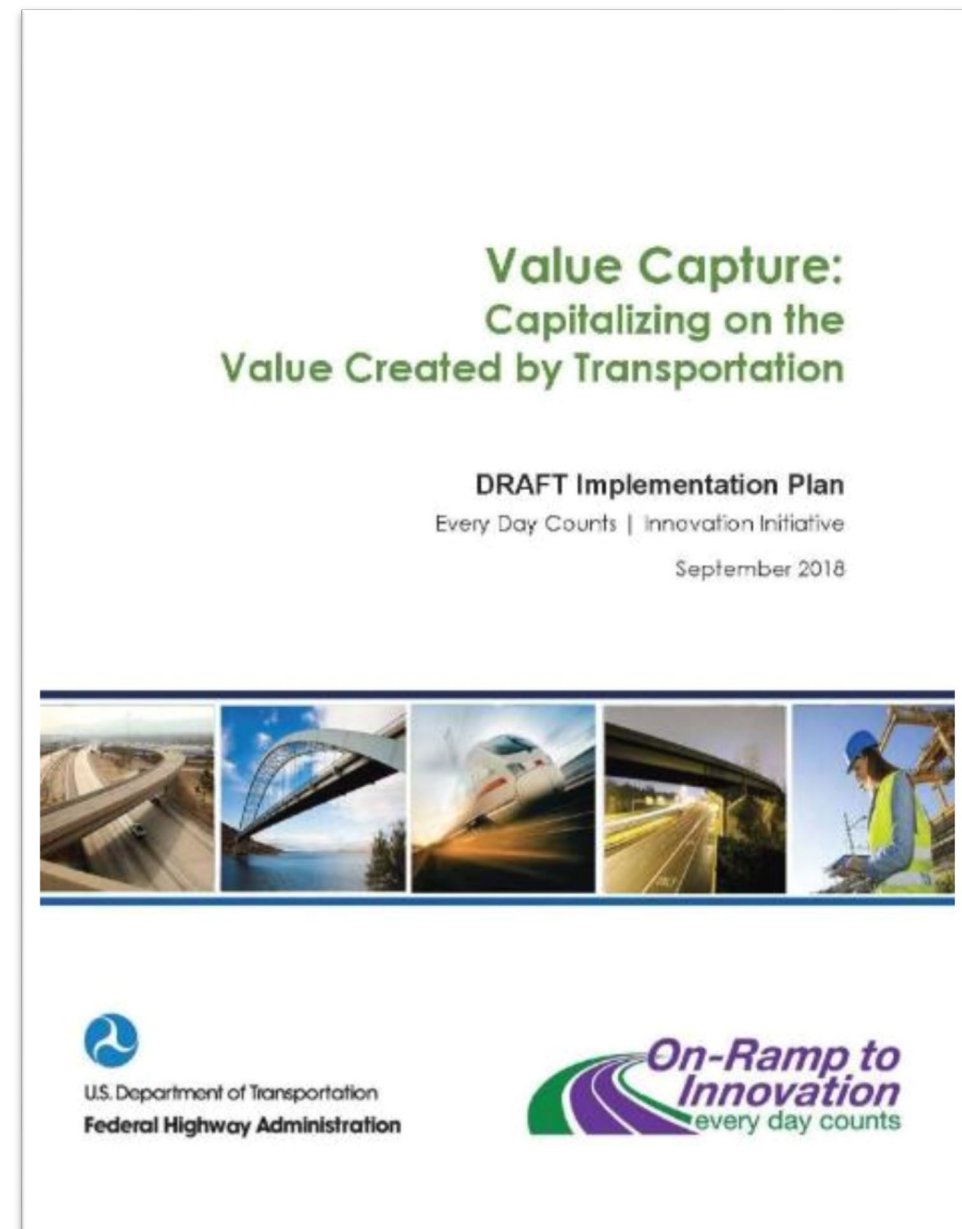
- **Communication** – Developing the tools to help FHWA staff and others promote Value Capture to local public agencies (Value Capture Guidebook)
- **Technical assistance** – Providing technical assistance to local public agencies interested in pursuing Value Capture (Peer Program)
- **Clearing House** ([website](#)) – Identification of best practices and lessons learned and promoting further discussion on innovative funding options for local public agencies, lessons learned from past and current efforts, etc.

Key Stakeholders

- State Department of Transportations
- Federal Agencies (HUD, USDA, FTA)
- Metropolitan Planning Organizations (MPOs, RTPOs)
- Local & Tribal Governments
- Transportation Providers (Transit Operators)
- Business Communities
- Developers
- Community residents

Value Capture Activities

- Webinars
- Workshops
- Peer Exchanges
- Case Studies
- Sponsorships (local, regional, & national events)
- Technical Assistance
- Website (Clearinghouse)



Value Capture Clearinghouse

- Currently under development
- Value Capture Manual “How to” implement value capture under development
- Clearinghouse for best practices/lessons learned
 - ✓ Resources:
https://www.fhwa.dot.gov/ipd/value_capture/resources/value_capture_resources/default.aspx
 - ✓ Project Profiles:
https://www.fhwa.dot.gov/ipd/project_profiles/
 - ✓ Value Capture Mechanism Factsheets:
https://www.fhwa.dot.gov/ipd/fact_sheets/



Case Study – Texas Transportation

Reinvestment Zones – Concepts & Implementation

Rafael Aldrete, Texas A&M Transportation Institute



Texas Transportation Reinvestment Zones – Concepts and implementation

Federal Highway Administration

Every Day Counts Regional Summit

St. Louis, Missouri

October 29-30, 2018



Outline

**Introduction and
Background**

The Texas TRZ

**Evolution of the TRZ
Legal Framework**

**The TRZ
Implementation Process**

**Opportunities and
Limitations**

Active Texas TRZs

Introduction



**Funding
Transportation
Needs**



Creative Thinking

- Doing more with less
- Alternative funding sources



**Texas Legislature SB
1266 (2007) Created
TRZs**



**14 Local TRZs
Since 2007**

Background

Types of Value Capture Mechanisms used in Transportation #1 of 2

Mechanism	Definition	Applicable Purpose	Examples (State)
Impact Fees (IF)	<ul style="list-style-type: none">•One-time charge•Local governments collect from developers to finance new infrastructure and services for new development.	Cost recovery	<ul style="list-style-type: none">•Transportation System Development Charges•In OR used to fund existing and new capacity•Also used in WA and NJ
Special Assessment District (SAD)	<ul style="list-style-type: none">•Additional fee on properties benefiting from proximity to a new facility•District vote is needed•Projects require district vote	Capture of project expansion benefits	<ul style="list-style-type: none">•VA and OH (Downtown Improvement Districts),•IL Special Service Areas
Sales Tax District (STD)	<ul style="list-style-type: none">•Type of SAD requiring project beneficiaries to pay limited sales tax instead of property tax	Capture of project expansion benefits	<ul style="list-style-type: none">•IL Special Service Areas;•MO and KS Transportation DD
Negotiated Exaction (NE)	<ul style="list-style-type: none">•One-time charge similar to IFs but not requiring a formal process•Example: in-kind contributions to local infrastructure (roads, parks, etc.) for development approval	Capturing opportunity for value creation and cost recovery	<ul style="list-style-type: none">•VA proffer

Background

Types of Value Capture Mechanisms used in Transportation #2 of 2

Mechanism	Definition	Applicable Purpose	Examples (State)
Joint Development (JD or P3)	<ul style="list-style-type: none">•Development of a transit facility and adjacent private real estate•Private partner provides facility or makes financial contribution to offset construction costs	Capturing opportunity for value creation and cost sharing and revenue sharing with private sector	Massachusetts Turnpike (MA) and Washington Metropolitan Transit Authority (VA)
Air Rights (AR)	<ul style="list-style-type: none">•Form of JD•Dev. rights above or below infrastructure facility used to generate / capture incremental increase in land value	Capturing opportunity for value creation and cost sharing and revenue sharing with private sector	Massachusetts Turnpike (MA) Interstate 5 (WA)
Land Value Tax (LVT)	<ul style="list-style-type: none">•Tax imposed on land value benefiting from infrastructure	Capture of project expansion benefits	Pennsylvania counties (PA)
Transportation utility fees (TUFs)	<ul style="list-style-type: none">•Utility fees assessed on characteristics more closely related to transportation demand than property taxes	Cost recovery: operating and maintenance costs	Oregon TUF for pavement maintenance (OR)
<u>Tax increment financing (TIF)</u>	<ul style="list-style-type: none">•<u>Mechanism to allocate any increase in total property tax revenues toward public investment within a designated district</u>	<u>Capture of project expansion benefits</u>	<u>TRZs (TX)</u>

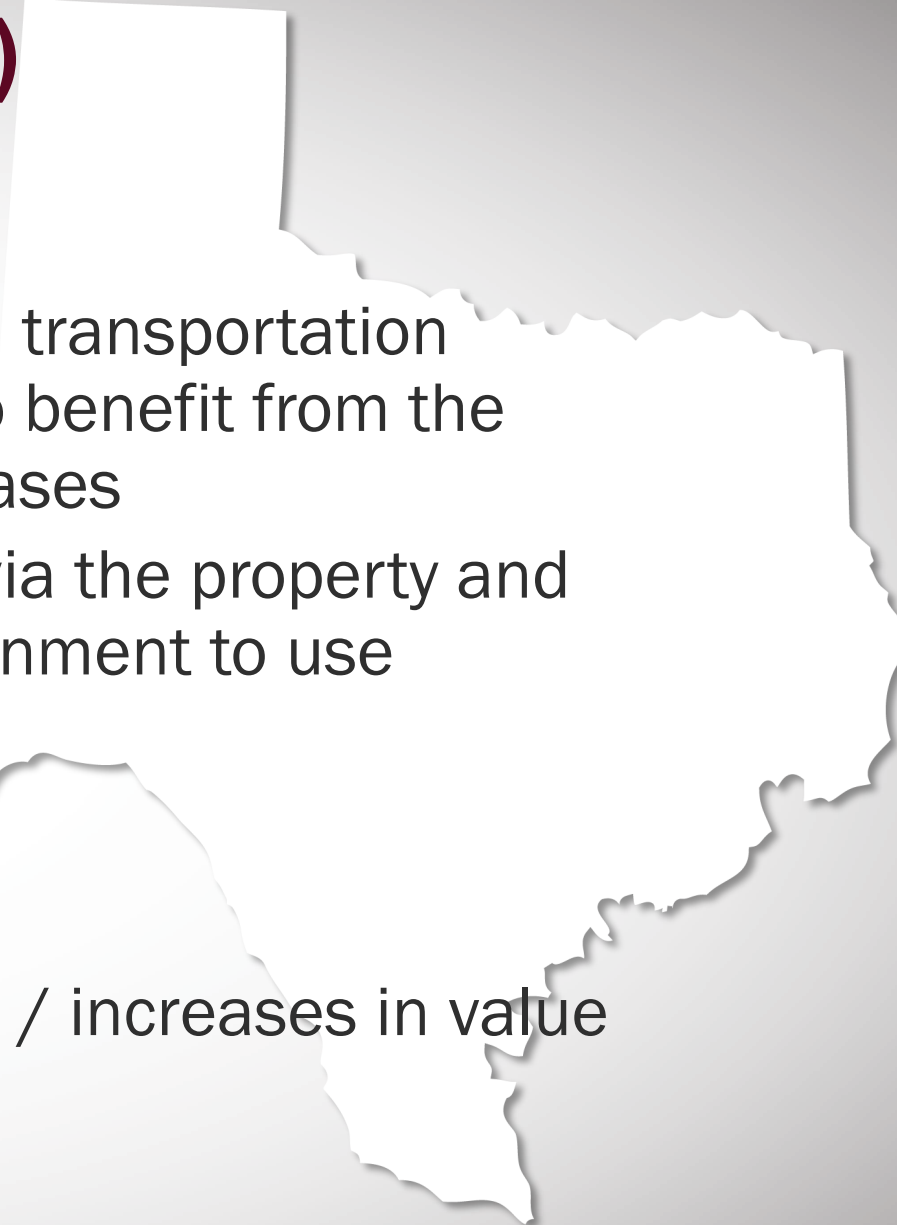
The Texas TRZ – Definition (#1 of 2)

■ Texas TRZs

- Designated contiguous zone around a planned transportation improvement where properties are expected to benefit from the project through land development, value increases
- Legal arrangement to facilitate value capture via the property and sales tax mechanism and allow the local government to use incremental tax revenue as collateral

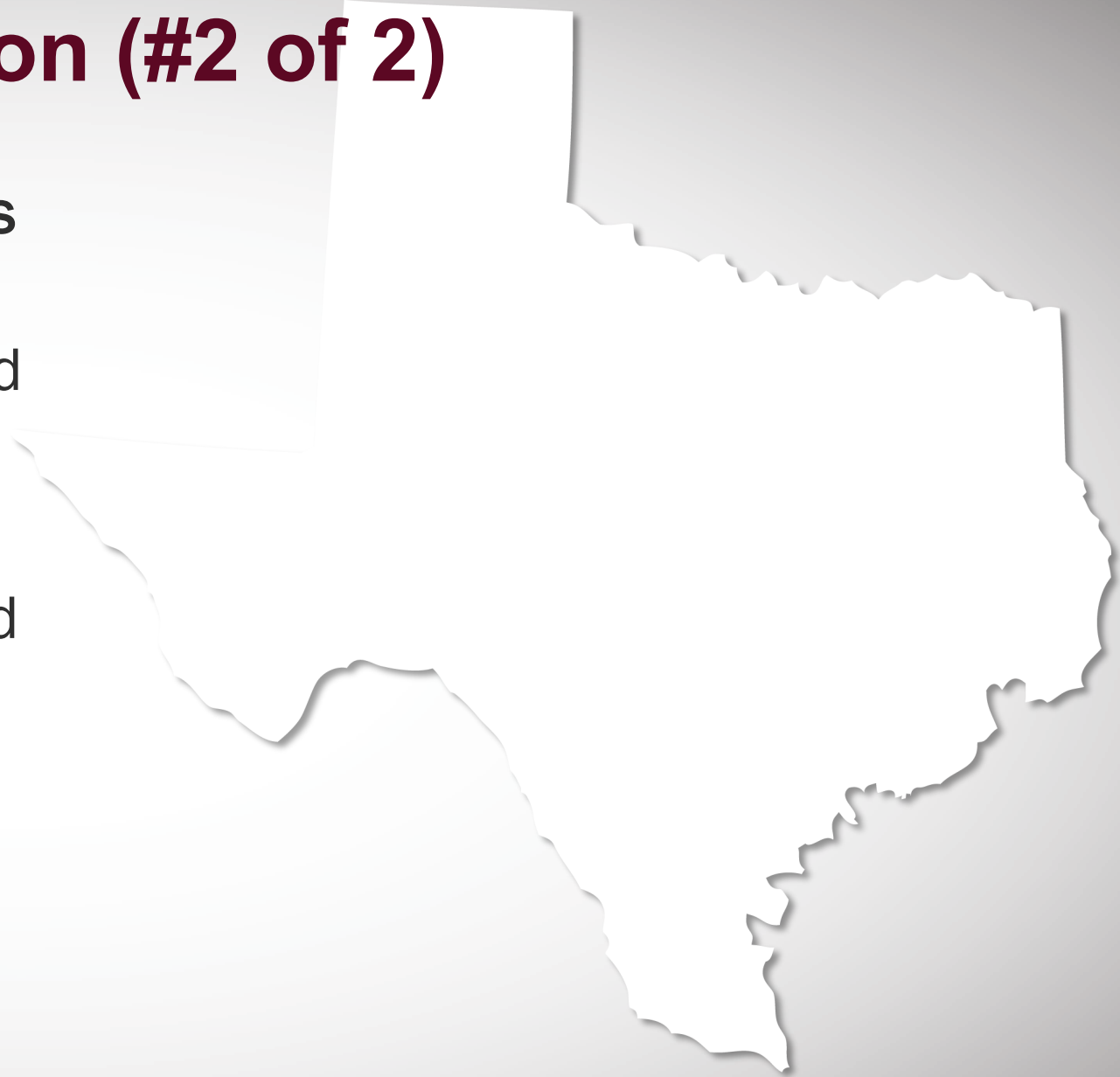
■ Texas TRZs are not a new tax

- Tax rates do not change
- Revenue realized only if real property develops / increases in value

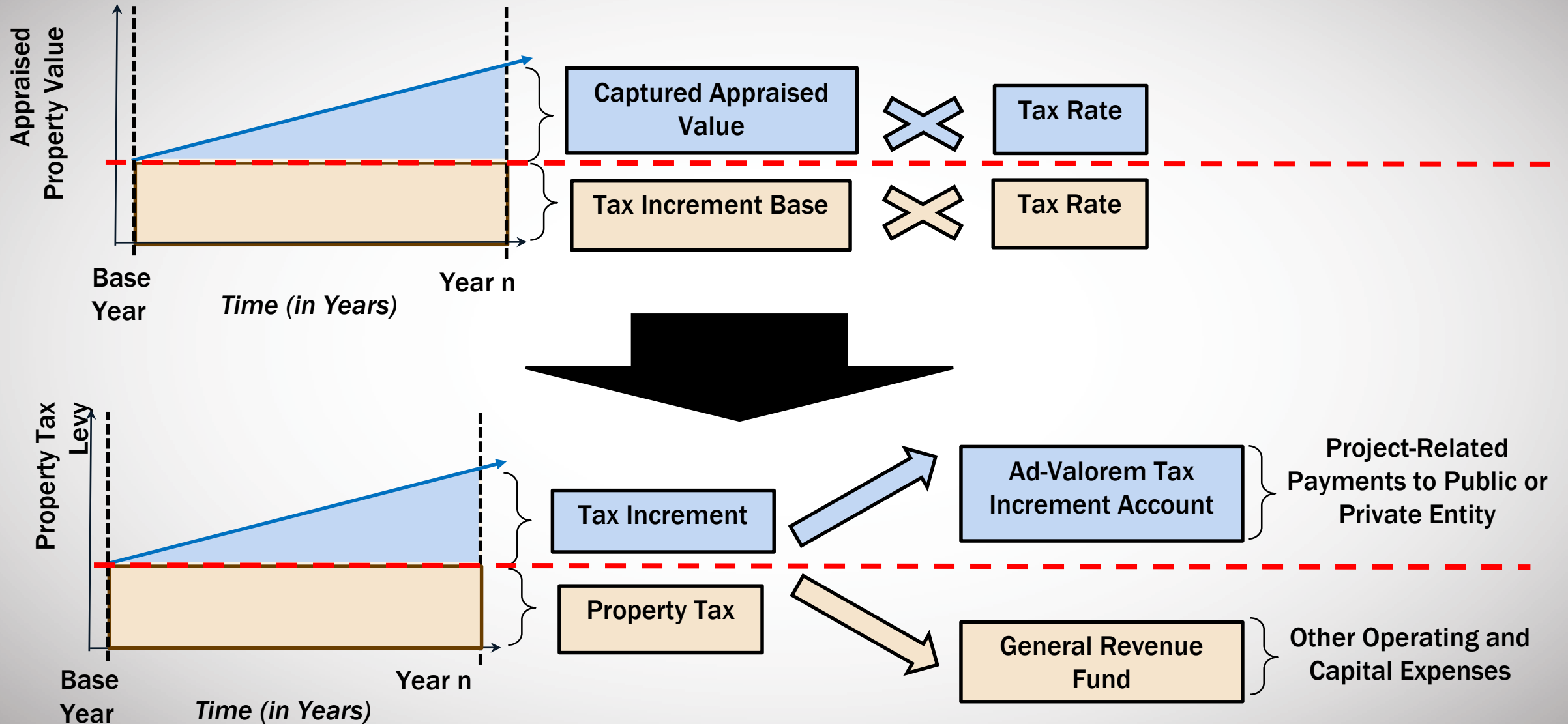


The Texas TRZ – Definition (#2 of 2)

- **TRZs Expedite Transportation Projects**
 - Local match contributions
 - Multiple funding sources leveraged
- **TRZ Legal Framework Has Evolved**
 - Process / requirements clarified
 - Uses / types modified or expanded
- **Three TRZ Types**
 - Municipal
 - County
 - Port Authority



The Texas TRZ – How it Works



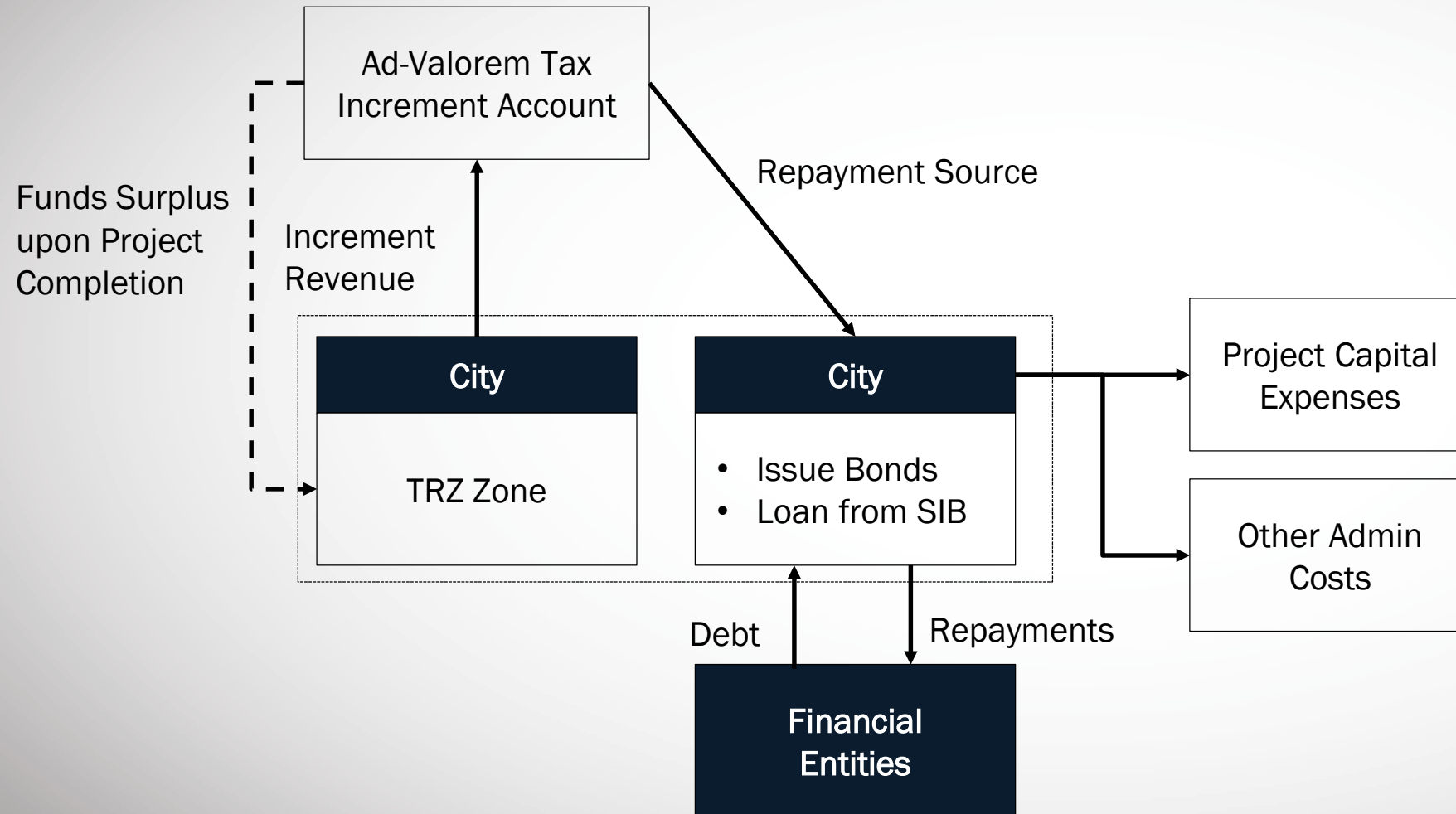
The Texas TRZ – Financing Options

Three Financing Options Available for TRZ Revenue Funds

Type	Form	Advantage	Disadvantage
Pay-as-you-go	<ul style="list-style-type: none">• Expenditure within the budget limit	<ul style="list-style-type: none">• No financial cost	<ul style="list-style-type: none">• Slow/late delivery due to capital constraints
Municipal bond financing	<ul style="list-style-type: none">• Public financing from capital markets	<ul style="list-style-type: none">• Earlier availability of capital• Flexibility to finance different project types	<ul style="list-style-type: none">• Higher transaction, interest costs• Faster than pay-as-you-go
State Infrastructure Bank (SIB)	<ul style="list-style-type: none">• Long-term debt from the state	<ul style="list-style-type: none">• Earlier availability of capital• Lower transaction, interest costs	<ul style="list-style-type: none">• Competition with other jurisdictions• Federalization: added time and cost• Restrictions on financing of projects off the state system

The Texas TRZ – How Funds Flow

Bond and SIB Loan Financing



Start: Public entity borrows money with TRZ revenue as collateral.

Construction: Government starts construction

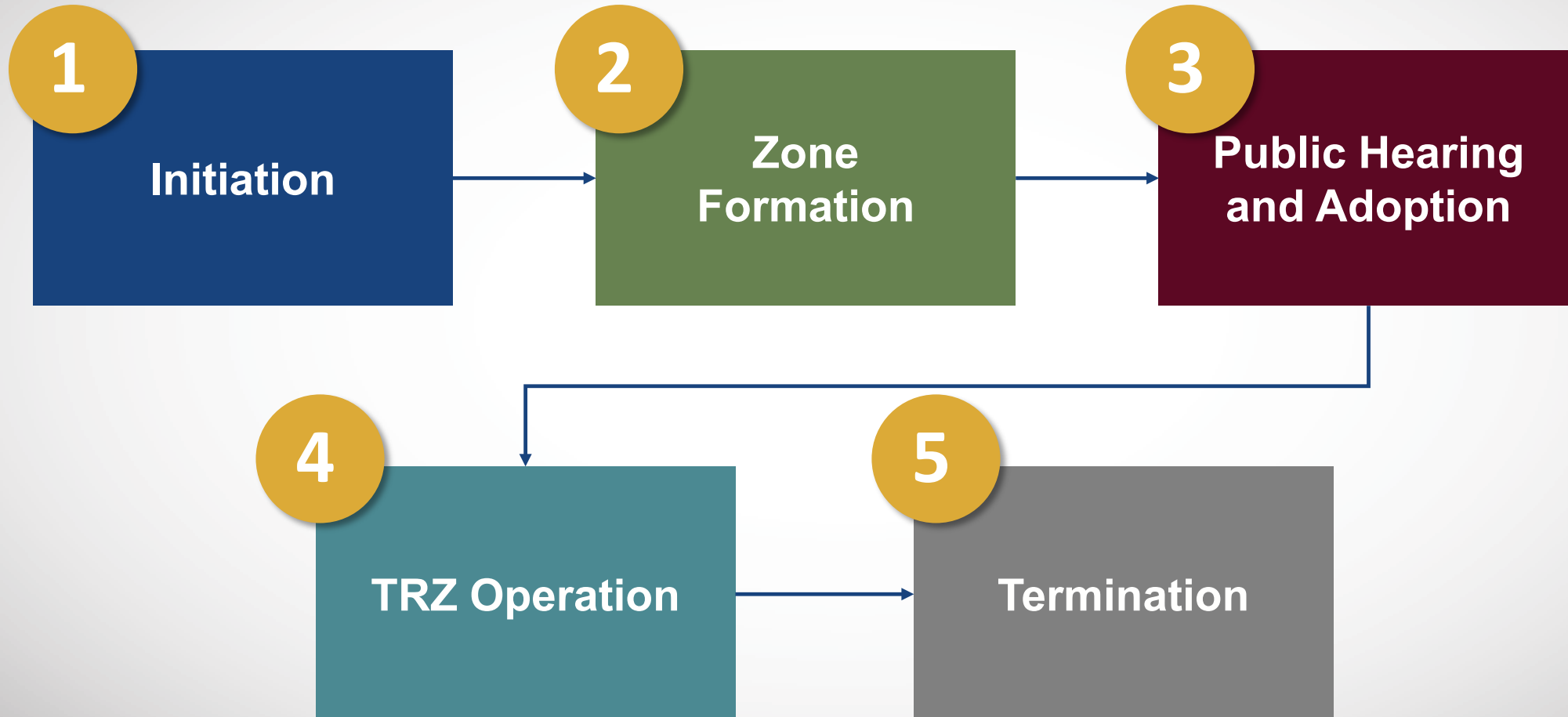
Operation: Government repays debt using tax increment

Evolution of the TRZ Legal Framework

Categories	2007 (SB 1266)	2011 (HB 563)	2013 (SB 1110 HB 2300 & SB 971)	2017 (SB 1305)
Project Type	<ul style="list-style-type: none"> • State Highway (pass-through toll) 	<ul style="list-style-type: none"> • State Highway • Local Roads • Transit 	<ul style="list-style-type: none"> • Port • Multimodal 	
TRZ Type	<ul style="list-style-type: none"> • Municipal • County 		<ul style="list-style-type: none"> • County Energy • Port Authority 	<ul style="list-style-type: none"> • County Energy (Repealed)
TRZ Management	<ul style="list-style-type: none"> • Property Tax TRZ 	<ul style="list-style-type: none"> • Partial allocation of tax increment • 10-year termination if project is not identified • Contracting with public/private entities • Bonding • Real property may be added in future years 	<ul style="list-style-type: none"> • Fund multiple projects • TRZ joint administration • Multiple administration for multiple TRZs 	

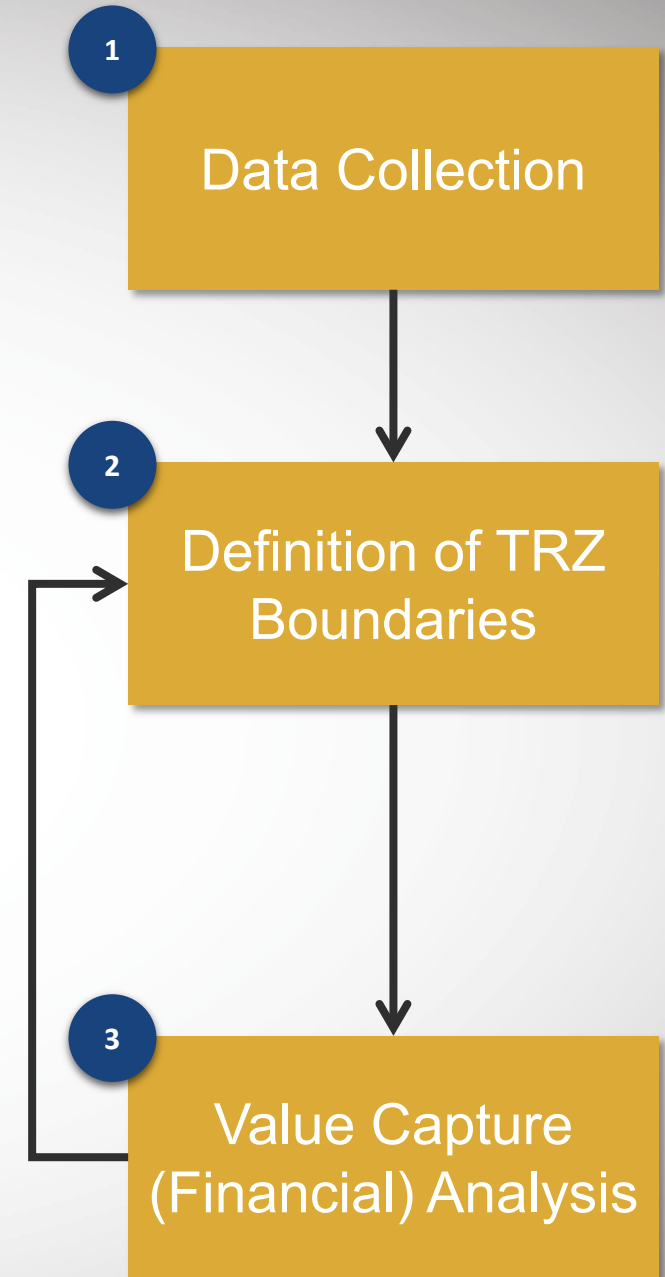
TRZ Implementation Process

Five Steps: Initiation to Termination



1. Initiation

- **Project Identification and Need**
 - Specific development/economic benefits from project(s)
 - Determine area eligibility/preliminary boundaries
 - Conduct preliminary feasibility analysis
- **Developing Stakeholder Relations and Champions**



2. Zone Formation

Refine

Refine Boundaries, Zones, Parcels

- Must be contiguous
- Unproductive/ underdeveloped region
- Practical considerations drive boundaries
- Can establish boundaries without knowing exact project limits

Establish

Establish Benchmark Year for Tax Increment Collection

Provide Notice

Provide 60-day Notice

- Hearing 30 Days Before Expected TRZ Designation

Analyze

Refine Value Capture Revenue Analysis

3. Public Hearing and Adoption

Public Hearing Timing



- Public notice
- What government can do during 30-day period
 - Update expected project costs
 - Consider joint funding agreements
 - Conduct final boundary/parcel review, assess expected revenue impacts
- Finalize parcel list included in TRZ

30 Days after Hearing



- TRZ adopted/designated by order/resolution

4. Operation

Every Year after TRZ Adoption

- Tax increment transferred into account

Monitoring, Evaluation Become Critical

- Not a legal requirement
- Optimizes revenue, payment streams
- Monitoring information valuable
 - E.g., if revenue is below expectations, develop insights to activate contingency plan

5. Termination

Dissolution of TRZ

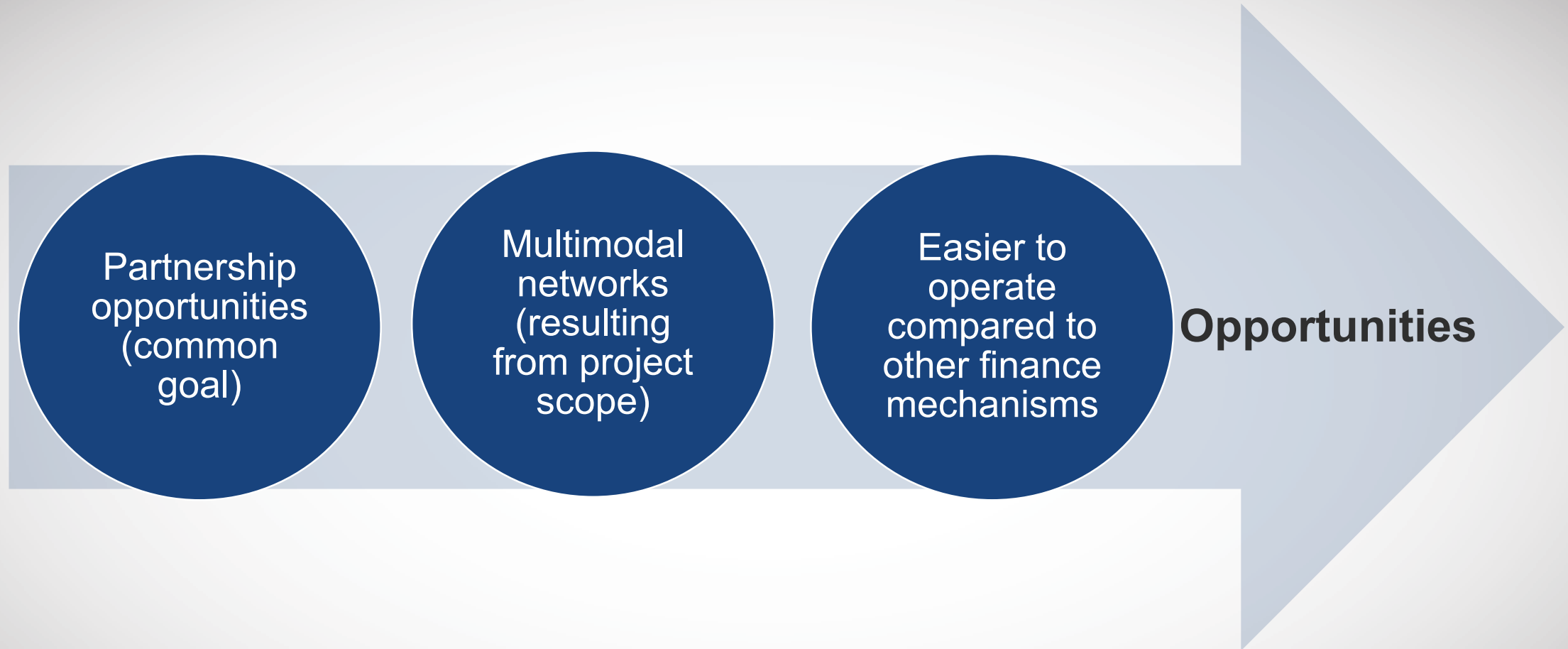
Dec. 31 of
compliance year
with contractual
requirement

OR

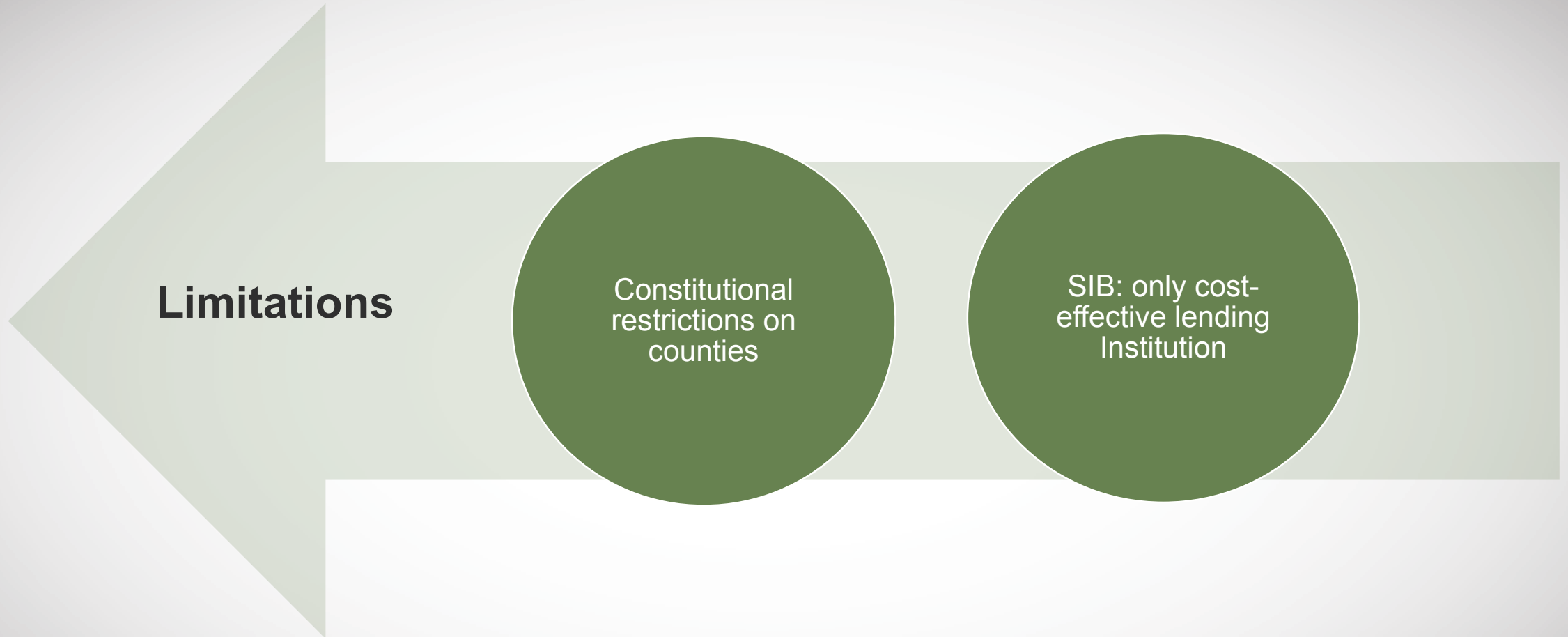
Dissolution of TRZ

Dec. 31 of the
10th year after
establishment if
not used

TRZs: Opportunities



TRZs: Limitations



Active TRZs – 14 in Planning or Operation Phase (2017)

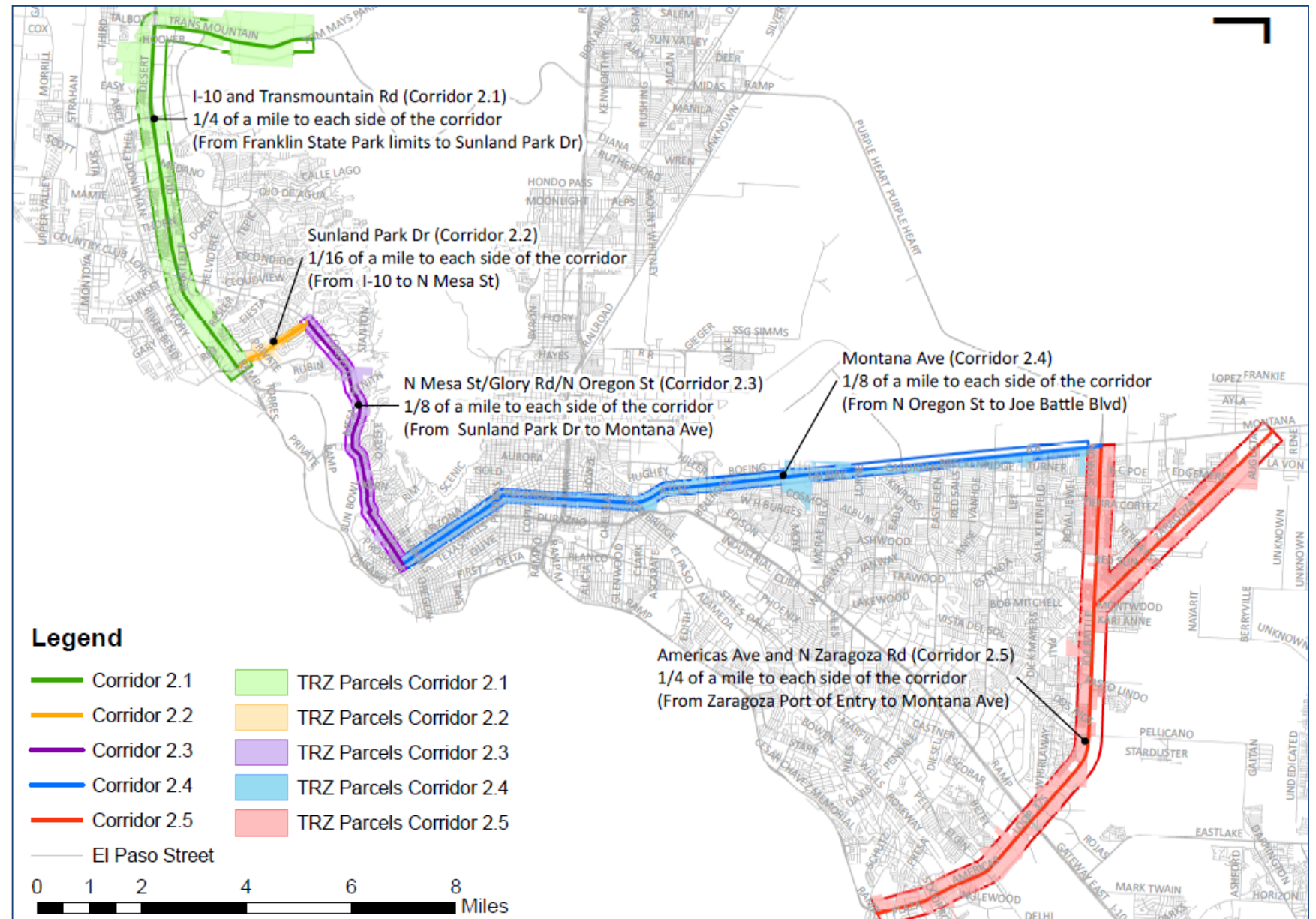
TRZ Name and Location	TRZ Type	Date Established
City of El Paso TRZ No. 2	Municipal	December 2010
City of El Paso TRZ No. 3	Municipal	December 2010
City of El Campo TRZ No. 1	Municipal	December 2012
Town of Horizon City TRZ No. 1	Municipal	November 2012
City of Socorro TRZ No. 1	Municipal	October 2012
City of San Marcos TRZ No. 1	Municipal	December 2013
Cameron County, TRZ No. 6	County	December 2015
Hidalgo County TRZ No. 2	County	December 2011
El Paso County TRZ No. 1	County	December 2012
Hays County TRZ No. 1	County	December 2013
Port of Beaumont TRZ No. 1	Port Authority and Navigation District	December 2013
Port of Arthur TRZ No. 1	Port Authority and Navigation District	December 2013
Sabine-Neches Navigation District TRZ No.1	Port Authority and Navigation District	December 2013
Port of Brownsville TRZ No. 1	Port Authority and Navigation District	December 2013

Active Texas TRZs: City of El Paso TRZ

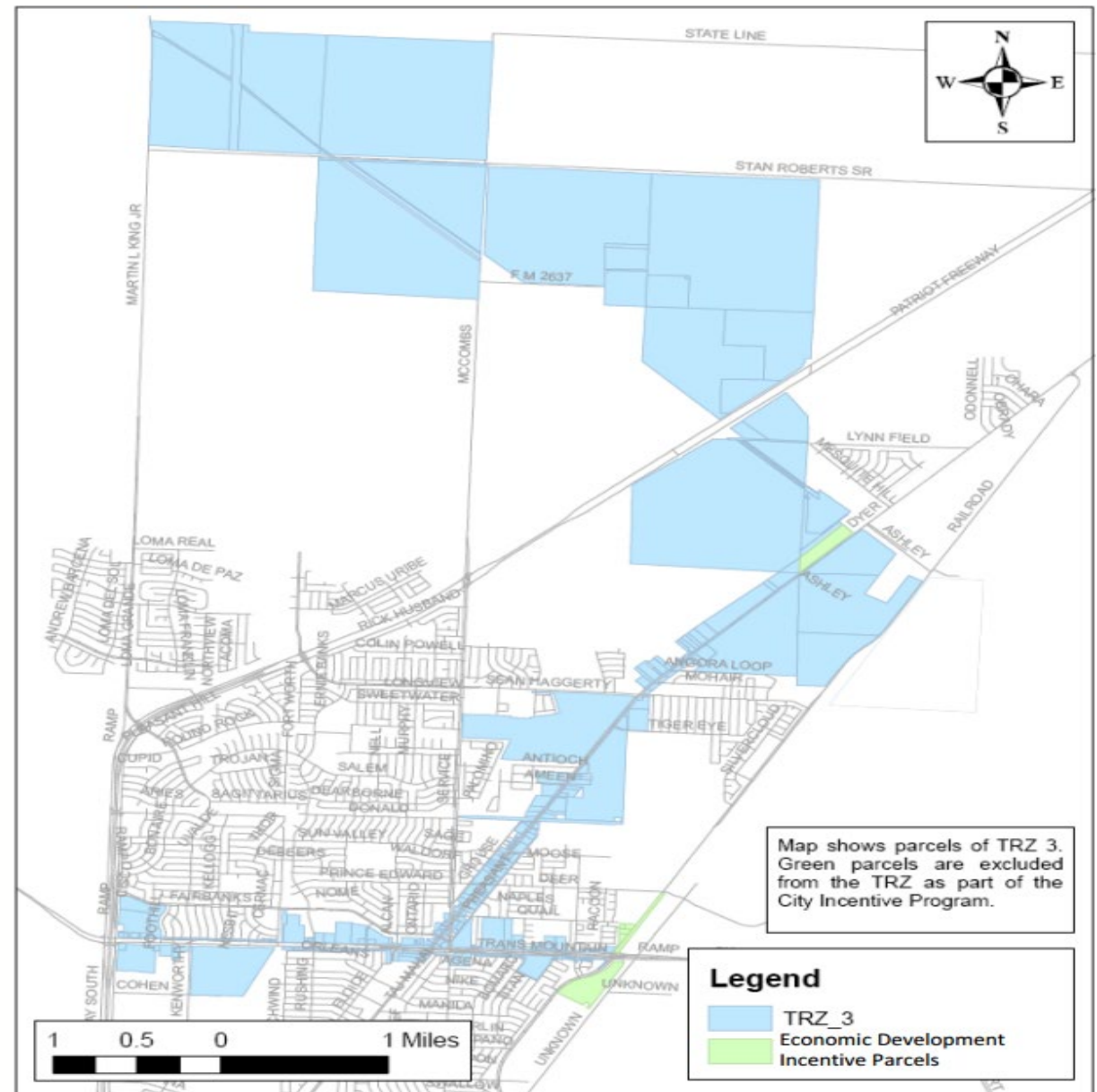
- Comprehensive Mobility Plan 2008 ~ \$1 Billion
- TRZ Contribution: \$70M (7%)
- TRZ Boundaries Designation:
 - 1/16 to 1/4 of a mile, depending on location
 - TRZ No.2: 4,434 Acres
 - TRZ No.3: 5,513 Acres



Transportation Reinvestment Zone No. 2



Transportation Reinvestment Zone No. 3





Questions

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Questions & Answers Session

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Do you know? Value Capture Techniques

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Thank You

Jill Stark & Chip Millard

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Thay Bishop: Thay.Bishop@dot.gov

From the Facebook page of Capitol Crossing

<https://www.facebook.com/search/top/?q=Capitol%20Crossing%20construction>

