



## How-To Brief No. 1: HOW TO ADOPT A BUSINESS CASE MINDSET FOR VALUE CAPTURE

*Successful value capture implementation requires an agency to adopt a new decision-making framework with new processes, priorities, and tasks as well as new staff roles and responsibilities. Effective value capture implementation is based on a solid business case for each infrastructure project and funding plan. For many agencies, the business case mindset requires a new way of thinking about transportation infrastructure and a change in organizational culture. This brief introduces this mindset and provides guidance for making the shift.*

### Key Takeaways

- > **Value capture and the beneficiary-pays principle.** Value capture is more fair and can be more consistent with other public policy goals than traditional infrastructure funding methods because it is based on the beneficiary-pays principle. Identifying the beneficiaries of a transportation investment and determining how best to capture a share of benefits accruing to private individuals requires an entrepreneurial approach to infrastructure planning and funding.
- > **The business case for value capture.** The business case for a value capture implementation assesses the economic value of proposed infrastructure project, quantifies the windfall private benefits likely to accrue to individual landowners and businesses, and makes a compelling case to these individuals for funding the infrastructure using a value capture technique. A strong business case is viewed as fair by both public and private sector stakeholders.
- > **Managing Organizational Change.** Adopting a business case approach to transportation planning and funding decisions is a distinct departure from the traditional approach, so managing organizational change is key to successful value capture.

### FHWA Value Capture for Roads and Highways How-to Briefs

This is the first in a series of how-to briefs designed to guide agencies through challenges in implementing value capture techniques for road and highway transportation infrastructure. These techniques, which are familiar in the context of public transit infrastructure, are not widely used to fund roads and highways or active transportation and complete streets infrastructure. This represents a missed opportunity not just to close funding gaps for much-needed infrastructure, but to do so in a way that is more equitable, meets the infrastructure needs of rapidly growing areas, fosters revitalization of distressed areas, provides for maintenance and operations, and promotes a virtuous cycle of infrastructure investment. This brief aims to meet

the needs of a wide range of transportation and planning professionals, from the inexperienced to those with significant experience.

## Introduction

Transportation infrastructure can create economic benefits for the general public throughout a community or region, yet at the same time, they can confer significant benefits to a small, concentrated number of private individuals: property owners, land developers, and/or businesses. Value capture encompasses a diverse range of techniques designed to capture a share of these benefits to help fund the infrastructure itself. These techniques have the potential to close funding gaps for critical highway and roadway infrastructure, but they are not a magic bullet nor one-size-fits-all. When implemented right, these techniques ensure that infrastructure investments reflect the true cost of infrastructure and land development patterns, and that the general public no longer subsidizes windfall gains for a select few private individuals and companies. Identifying which technique or combination of techniques achieves this for a project given market conditions and socioeconomic factors is key to successful value capture implementation.

## The Business Case for Value Capture: What is it?

In the U.S., the traditional approach to transportation infrastructure funding is through general taxes paid by all taxpayers (regardless of how much they use or benefit from that infrastructure), sometimes supplemented by tolls collected from facility users. The infrastructure is typically planned and prioritized on the basis of transportation system considerations (safety, accessibility, connectivity, mobility) and user benefits (vehicle miles traveled/vehicle hours traveled and congestion reduction). These measures acknowledge the direct benefits to road (or transit system) users but fail to acknowledge the windfall gains these public investments create for some individual property owners.

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**Business case**—*The justification for a proposed project or undertaking on the basis of its expected commercial benefit*

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The term “business case” refers to “the justification for a proposed project or undertaking on the basis of its expected commercial benefit.”<sup>1</sup>

The beneficiary-pays principle means that those who benefit from transportation infrastructure should bear responsibility for its costs.<sup>2</sup> As a corollary, the cost principle says that those that impose costs on infrastructure should bear a share of those costs. According to the beneficiary-pays principle, the private landowners should contribute to paying for the infrastructure.

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**Beneficiary-pays principle**—*Those who benefit from the transportation system should bear responsibility for its costs.*

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This is not simply a rhetorical or philosophical principle; it has a very practical role in value capture implementation. The beneficiary-pays

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<sup>1</sup> Oxford University Press, [https://www.lexico.com/definition/business\\_case](https://www.lexico.com/definition/business_case)

<sup>2</sup> NCHRP, Guidebook to Funding Transportation Through Land Value Return and Recycling, Research Report 873, (Washington, DC: The National Academies Press), <https://doi.org/10.17226/25110>

principle means that transportation infrastructure funding decisions should harness an appropriate share of the private benefits created by public investments to help fund the cost of the infrastructure. To do this, transportation infrastructure planners need to:

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*Cost principle—Those who impose costs on infrastructure should bear a share of those costs.*

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- Identify the economic benefits of the infrastructure, specifically who will receive a windfall private benefit from the public infrastructure investment.
- Quantify the magnitude of publicly created windfall benefits to individuals based on local real estate market and socioeconomic factors.
- Determine a practical, equitable, and cost-efficient way to capture the appropriate share of those private benefits while avoiding techniques that distort the local real estate market, diminishing the potential value of the infrastructure (and revenue to be captured), and undermining other public policy goals such as growth management, fiscal responsibility, environmental sustainability, and equity.
- Communicate the value of the infrastructure and the role the value capture technique plays in creating that value to stakeholders, including affected property owners, developers, and businesses.

These are the basic elements of a business case.

## Why is the Business Case Important for Value Capture?

There is a natural tendency to select a value capture technique based on what is allowed under state law, what is most familiar, or what is perceived to collect the most revenue. For example, developer impact fees and tax-increment financing (TIF) are the two most widely used value-capture techniques, and as a result they are familiar to most transportation planners. Yet because they are so familiar, they are often used in ways that undermine the goals of value capture, such as when they act as a property tax subsidy to the same property owners receiving a windfall increase in property values, or when they divert property tax dollars away from other important infrastructure and public service needs.

A technique that works well under one set of real estate market and socioeconomic conditions can have a very different result when applied in a different context. Impact fees, for example, artificially inflate the cost of development. This may be a useful way to help infrastructure funding meet the needs of rapid growth in exurban or rural areas, which tend to have artificially low development costs. When applied to urban areas, they discourage the private investment that value capture is supposed to attract. Not only does this have the short-run effect of limiting the revenue generation potential of the value capture technique, but it undermines other public policy goals by steering growth away from compact urban areas that are relatively well served by existing infrastructure in favor of outlying greenfield areas where development will need costly additional infrastructure and have greater environmental impacts.

The process of articulating a solid business case—understanding the economic benefits of a proposed infrastructure investment, identifying the individuals who will get a windfall private benefit from the public expenditure, determining a practical, “fair”, and cost-effective way to

capture the appropriate share of benefits, and understanding how different techniques may impact the real estate market—is critical for avoiding these mis-steps.

Effective value capture implementation is a win for everyone, but property owners and developers accustomed to enjoying windfall gains without contributing their share (even receiving incentives), may balk at the prospect of having a share of that windfall captured and may argue that the property taxes they pay already represent their fair contribution. Nonetheless, how affected properties are held, sold, and developed creates the value to be captured, and as a result, the support of affected property owners and developers is needed for the implementation to succeed. A solid business case articulates the value of the proposed infrastructure and the benefits of the proposed value capture technique(s) to the private sector, which is important for developing stakeholder buy-in. The business case mindset ensures that a transportation agency understands and has quantified the value of proposed infrastructure, and can communicate the value of the infrastructure and the value of funding it through value capture, to stakeholders who will now be asked to contribute a fair share.

## What is Fair?

Successful value capture is based on a business case that is fair to both public and private sectors. But what is fair?

### Public Perspective

Transportation infrastructure is linked to a wide range of public policy areas, including economic (job creation, labor market access), social (equity, quality of life), and environmental (air pollution, stormwater runoff). **The way transportation infrastructure is funded is not value-neutral**, it impacts the full range of these other public policy areas. Value capture isn't just a revenue source, it is a way to fund transportation infrastructure more fairly, and from the public sector perspective, that means choosing a funding source compatible with other public policy goals. A fair value capture technique from a public agency perspective:

- Advances transportation system goals (e.g. safety, mobility, accessibility, connectivity).
- Complements, or at least avoids undermining, other public policy goals.

Therefore, to determine what is fair from the public sector perspective, the transportation planning agency should establish high-level transportation system goals that are compatible with other regional policy goals. Part of this is engaging both public and private sector stakeholders to develop a shared understanding of high-level goals and priorities supported by specific, achievable objectives, and monitored with quantifiable benchmarks. This allows an open, transparent understanding of what is fair from the public sector point of view.

### Private Sector Perspective

The private sector is motivated and sustained by profit. The value of a transportation facility to the private sector is the extent to which it impacts property values and/or operating costs. Although the specifics of a real estate developer's (or other private company's) bottom line are not open and transparent, many factors that drive the value of a transportation facility can be

evaluated objectively, including socioeconomic and macroeconomic factors and the specific characteristics of properties affected by changes in transportation access.

#### SOCIOECONOMIC AND MACROECONOMIC FACTORS THAT DETERMINE THE VALUE OF TRANSPORTATION INFRASTRUCTURE FOR THE PRIVATE SECTOR

- Demographic trends
- Real estate market trends
- Regional industry/employment trends

#### PROPERTY CHARACTERISTICS DETERMINING PROPERTY VALUE IMPACTS OF TRANSPORTATION

- Does a property abut multiple streets or roads?
- Is a property along a roadway that has direct access to an interchange?
- Does a property have good accessibility for cars?
- Does a property have good accessibility for large trucks?
- How much traffic is on the road(s) abutting the property?
- Is the property located along a divided highway?
- Is a property near a visible pedestrian or bicycle facility? Does a property have easy access to a transit station offering bus, light rail, or commuter rail service?
- Does a property have easy access to a passenger intermodal facility such as an intercity train station, an intercity bus station, and/or a commercial airport?
- Does a property have easy access to a freight intermodal facility, such as an intermodal rail yard, a marine port, and/or a commercial airport?<sup>3</sup>

### How to Adopt a Business Case Mindset for Value Capture

Developing a business case mindset within a transportation planning agency encompasses:

- Fostering a common understanding of value capture and how it supports the agency's mission and goals.
- Identifying (and overcoming) sources of resistance, uncertainty, or reticence.
- Preparing staff to take on new duties, transition away from obsolete duties, and approach their job functions from this new perspective.

After this mindset has been introduced to all levels of the agency, the agency can begin to incorporate evaluation of the business case for each proposed infrastructure project or funding plan into the agency's project planning, prioritization, and funding processes. This will connect the cultural changes taking place to the new operational processes required for value capture.

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<sup>3</sup> FHWA Value Capture Implementation Manual

## Recommended Resources

Topic	Source	Where to Find
Developing a business case	Value Capture: Capitalizing on the Value Created by Transportation (FHWA EDC-5 Implementation Manual),	Chapter 10. Develop Business & Economic Case, pages 105–111
Beneficiary principle and cost principle	NCHRP: Guidebook to Funding Transportation Through Land Value Return and Recycling	Appendix E, pages E-2 through E-3
Assessing agency readiness for value capture	Public Agency Self-Assessment Tool	<link>
Improving agency capacity for value capture	Capability-Maturity Matrix for Value Capture	<link>