How-To Brief No. 9: HOW TO INCORPORATE VALUE CAPTURE INTO CAPITAL IMPROVEMENT PLANS OR PROGRAMS

Transportation decisionmakers face increasing challenges to access Federal funding to finance important infrastructure projects that help to maintain and expand transportation systems, improve accessibility, safety, and reliability, and further related public policy goals. Formally incorporating value capture techniques into the capital improvement program can help to fill financing gaps not covered by Federal funds, speeding up project timelines and enabling project development that would not otherwise happen.

Key Takeaways

- **Federal funding often does not cover all costs for a project.** Apportionments **of Federal funds to States are based on formulas. If Federal funds are used for a project, the funding programs often require the State or a municipality to match a portion of the Federal funding. Many roads in the United States, particularly those classified as local roads, are ineligible to receive Federal funding.**
- **Value capture can help projects finish sooner. Project prioritization and needs from year to year can shift project mixes, causing project delays, reshuffling for later funding, or projects being removed entirely from capital programs. Value capture can provide supplemental funding to allow for a broader mix of projects to be funded and others to be completed sooner.**

Introduction

State, local, and Tribal governments navigate many challenges to use Federal funding for infrastructure projects needed to maintain and improve transportation networks. Securing sufficient funding is one of the most common challenges that an infrastructure project faces, even though it may have progressed smoothly through initial planning stages. Funding challenges may include insufficient State or local revenue to cover the project cost, non-Federal share, or cost increases resulting from delays that prevent the use of additional State funds. In addition to this, approximately three-quarters of public roads are ineligible for Federal funds, leaving State and local governments to rely on alternative funding sources for important infrastructure maintenance and capital projects.

Formally incorporating value capture into a municipality or State's capital improvement program can help fill financing gaps not covered by State or Federal funding. Value capture can help a

locality meet their funding match for Federal funds, solve chronic funding shortfalls, and finance transportation infrastructure projects that do not meet the eligibility for Federal or State funding.

Transportation Planning Processes

Because Federal funds for transportation projects are limited, metropolitan planning organizations (MPOs) and State Departments of Transportation (State DOTs), in collaboration with Tribal governments and regional transportation planning organizations (RTPOs), must plan their investments carefully. Federal transportation planning regulations require these organizations to develop several key transportation planning products throughout the process. These products are summarized in Table 1 and further discussed in the paragraphs following.

Table 1. Summary of Key Transportation Planning Products

Product*	Who Develops?	Who Approves?	Time Horizon	Content	Update Requirements
Unified planning work program	MPO	MPO, FHWA, FTA	1 or 2 years	Planning studies and tasks	At least once every 2 years
SPR Work Program	State DOT	FHWA	1 or 2 years	Planning studies and tasks	At least once every 2 years
MTP	MPO	MPO	20 years	Future goals, strategies, projects	Every 5 years
LRSTP	State DOT	State DOT	20 years	Future goals, strategies, projects	Not specified
TIP	MPO	MPO	4 years	Transportation investments	Every 4 years
STIP	State DOT	FHWA, FTA	4 years	Transportation investments	Every 4 years
Public participation plan	MPO	MPO	Not specified	Public engagement strategies and goals, incorporating input, responding to comments	Periodic review and update
PIP	State DOT	State DOT	Not specified	Public engagement strategies and goals, incorporating input, responding to comments	Periodic review and update

Source: Federal Highway Administration, The Transportation Planning Process Briefing Book, https://www.fhwa.dot.gov/planning/publications/briefing_book/index.cfm
**Programs described in following "Planning Work Programs" section*

Planning Work Programs

Federal regulations first require that organizations outline their planning studies and tasks in unified planning work programs (UPWP) for MPOs and State planning and research (SPR) work programs for State DOTs. The UPWP plans the transportation planning studies and tasks that will support the metropolitan transportation planning process, while the SPR work program details the planning studies and actions that inform the Statewide and nonmetropolitan transportation planning processes.[1] The products of the UPWPs and SPR work programs directly inform the long-range transportation plans (LRTP) and transportation improvement programs (TIP).

[1] Federal Highway Administration, The Transportation Planning Process Briefing Book, https://www.fhwa.dot.gov/planning/publications/briefing_book/index.cfm

Federal requirements specify that MPOs must prepare public participation plans, while States compile official public involvement processes (PIPs). Public participation plans and PIPs outline strategies and goals for involving the public, detailed procedures for doing so, and describe how the MPO or State DOT intends to incorporate public feedback in the planning process. Public participation plans and PIPs are an opportunity for MPOs and State DOTs to outline how they will involve the public when planning for the use of value capture techniques.

Long-Range Transportation Plan

MPOs and State DOTs must develop LRTPs in which the planning organizations detail their plans to improve and expand transportation systems over a 20-year time horizon, including both long-range and short-range goals, actions, and strategies for capital improvement. The LRTP is an opportunity for an MPO or State DOT to identify value capture techniques as potential sources of local funding for high-priority transportation projects.

MPOs develop metropolitan transportation plans (MTPs) to detail intended transportation investments and actions for their metropolitan areas. MTPs are developed in collaboration with the community, stakeholders, the State, public transit operators, and Tribal governments if present in the MPO region. The MTP is fiscally constrained and must outline key performance measures and targets, such as improving safety and security for users of the transportation system; and environmental and quality-of-life considerations; improving the resilience, reliability, and efficiency of the transportation system; improving accessibility, mobility, and connectivity for users of the transportation system and economic development considerations.[2]

The long-range Statewide transportation plan (LRSTP) covers Statewide and nonmetropolitan long-range transportation plans and goals. State DOTs collaborate with MPOs, transit operators, RTPOs, Tribal governments, and other nonmetropolitan officials to develop the plan. The LRSTP is designed with performance metrics in mind, including Federally required performance measures to advance national transportation goals and State-level performance indicators. All LRSTPs must outline future planning goals and strategies.[3]

Transportation Improvement Program

MPOs and State DOTs develop capital improvement programs, consisting of immediate-priority projects, based on the long-term goals, strategies, and priorities established in the LRTP. MPOs develop these plans in transportation improvement programs (TIP), while State DOTs develop Statewide transportation improvement programs (STIP).

MPOs collaborate with communities, elected officials, and other stakeholders to develop the short-range TIP. The TIP's investment plan must reflect and support the investment priorities and performance measures outlined in the MTP. The TIP represents all projects for which an MPO seeks Federal funds and is fiscally constrained. MPOs may include only projects for which they can reasonably expect full funding within the project's expected timeframe.[4] This presents an opportunity for MPOs to outline the use of a value capture technique to meet the local

[2] Ibid.
[3] Ibid.
[4] Ibid.

funding match for a specific project. For some projects, the use of a value capture technique to meet the local match may be the only way to demonstrate secure, full funding.

The STIP is a fiscally constrained, Statewide capital improvement program for short-range priority projects. A STIP combines all TIPs and Statewide programs and is assembled by the State DOT with MPOs, public transit providers, Tribal governments, and RTPOs. Projects included in the STIP must progress or meet the performance targets of the LRSTP.

All projects included in the TIP and STIP must be eligible for Federal funding. Eligibility is based on factors such as highway functional classification and project type. Local roads, which provide access to businesses, residential areas, and other local areas, are ineligible for Federal funding, except for certain rural roads with significant safety risks classified as High Risk Rural Roads.[5] Project types that may be eligible for Federal funding include safety improvement, maintenance, and congestion-relief projects. Value capture can fit well into the funding programs for these types of projects because there are many different value capture techniques that could generate big or small, long-term or short-term funding and tailor it to the needs of the project(s).

The use of Federal-aid Highway Program and Federal transit funds is dictated by Titles 23 and 49 of the U.S. Code of Federal Regulations. Regulations in Title 23 establish the requirements for the planning, programming, and expenditure of Federal funds. These requirements vary by program (such as the National Highway Performance Program and the Surface Transportation Block Grant program), such as where the funds can be spent, what projects are eligible, and what the non-Federal share requirements are.

Opportunities for Value Capture

The TIP and STIP processes, though important and effective, are limited and leave gaps in the financing of infrastructure projects. The largest gap is for projects that are ineligible for Federal funding in the first place. Most roads in the United States are classified as local roads, meaning that they are ineligible for Federal funding. As a result, only about one-quarter of public roads are eligible to receive Federal-aid Highway Program funding. With an estimated 43% of roads in the U.S. in poor or mediocre condition,[6] there is a wide and urgent need for innovative funding strategies. Even if a project is eligible to receive Federal funds, a municipality or State may face challenges in meeting the non-Federal share requirement, typically 20% of project cost. The funding shortfall can be chronic and could result in delayed projects and increased project costs.

Fortunately, value capture techniques give States, Tribal governments, and municipalities the opportunity to capture the increased value of land created by new or improved infrastructure, generating revenue that can close funding gaps. Using value capture mechanisms to supplement or replace Federal funding can speed up project timelines, solve difficulties in meeting required local matches, stretch Federal dollars further, and provide financing for important capital improvement projects not included in the TIP or STIP.

[5] Federal Highway Administration, High Risk Rural Roads (HRRR), https://safety.fhwa.dot.gov/hsip/hrrr/
[6] American Society of Civil Engineers, 2021 Report Card for America's Infrastructure, https://infrastructurereportcard.org/

Depending on the source or program providing Federal funding for a project on the STIP, a local or State match of up to 20% of project costs may be required. If a State or locality cannot meet the local match in a given fiscal year, the Federal funding authorization for the project expires. The following Federal aid matching strategies can assist localities in meeting the local match:[7]

- Flexible match or soft match, which may use private donations or in-kind contributions of assets to meet the local match.
- Tapered match, which provides a tapered payment schedule that allows for a smaller share of the match to be paid in earlier project years and a larger share in later years.
- Toll credits, allowing a State that has an independent tolling authority to use expenditures on other public highway facilities to meet the local match for a highway project.

Though helpful, several of these strategies just defer the payment of the match—the funding gap still exists. Value capture techniques can generate revenue to cover the local match, without the need to defer payments. A municipality or State may consider incorporating value capture into a project's financing program when they estimate total project costs before the project receives TIP or STIP approval.

If an infrastructure improvement or expansion project is ineligible for Federal funding or if the project is eligible but there is not room to include it in the TIP or STIP, it will need other sources of funding to be constructed. Though these projects may not be included on the TIP or STIP, such projects may be included in a municipality or State's capital improvement program. A State or jurisdiction can use value capture techniques in a local funding program to generate revenue for projects that are ineligible for, or are left off, the TIP or STIP, allowing projects to move forward more quickly. Value capture programs thus empower communities to harness funding for projects they want but sometimes cannot pay for, including complete streets, active transportation, and projects that improve access to business districts.

Gathering local funding may be a chronic problem for a municipality or State. The required local match for Federally funded projects can be a recurring problem. Many communities with chronic funding shortfalls cannot meet local matching requirements. These communities may have great infrastructure improvement needs that, if resolved, can encourage economic development. These communities may have districts in need of revitalization and major infrastructure investment. Value capture techniques can be an effective strategy to solve this issue of equity. A jurisdiction or State can incorporate value capture mechanisms directly into their capital improvement program to generate funds designated specifically to meet the local match or raise additional local funds for economic development projects.

Case Studies

The following examples demonstrate how municipalities and States used value capture techniques in the absence of or in addition to Federal funding to further transportation priorities and goals established in the region or State's LRTP.

[7] Federal Highway Administration, Value Capture: Capitalizing on the Value Created by Transportation, https://www.fhwa.dot.gov/ipd/pdfs/value_capture/value_capture_implementation_manual_2019.pdf

Napa Junction Rail Industrial Park TIF, Yankton County, South Dakota

The Napa Junction use of tax increment financing (TIF) provides an example of how value capture can be used to finance an important roadway improvement project not eligible for Federal funds. Though not eligible to be included in the STIP, the project supports the South Dakota DOT's goals established in the LRSTP by supporting economic growth and development in rural Yankton County.[8]

In Yankton County, a private developer purchased property to build a rail-served industrial park with specialized grain-handling facilities. This supported regional economic development goals, but the site lacked the necessary highway access. The property is located 3.3 miles from South Dakota Highway 50, and the roadway between the State highway and the project site was gravel and unable to accommodate heavy truck traffic. The developer and the county planned to upgrade the gravel road to a concrete industrial access road to bring highway access to the site of the new industrial park. However, since the gravel roadway needing improvement was not a State roadway and not a part of the Federal-aid highway system, the project was ineligible for Federal funding. To finance the project, Yankton County was able to receive a $6 million, low-interest State Infrastructure Bank Loan to build the access road. Yankton County then established a TIF district for $7.25 million and used the tax increment to make debt service payments. The developer agreed to pay any shortfall in years if the increment was insufficient to cover debt service to mitigate risk.

This innovative use of value capture allowed for rural Yankton County to achieve important economic development goals. The completion of the industrial service road and related infrastructure allowed the plans for the development of the industrial park to be implemented, attracting investment and businesses and creating new jobs in the rural county. Economic development impacts of the industrial park include the development of a $40 million high-speed grain-receiving facility that employs 10 employees with above-average wages and an annual payroll over $1 million. Two other businesses, with expectations of employing a combined 13 employees, have purchased parcels in the industrial park.

N Street Protected Bikeway, Lincoln, Nebraska

The N Street Protected Bikeway in Lincoln, Nebraska, and its use of TIF districts is an example of how value capture can be used to finance a “nice to have” project not included in the STIP for Federal funding. Though not included in the STIP, the project furthers priorities established in the Lincoln MPO’s LRTP[9] and reaffirmed in the city’s Downtown Master Plan to support all modes of mobility and to strengthen the downtown’s vitality to support economic growth.[10]

Downtown Lincoln has experienced significant growth over the past decade, including significant higher-density residential development, which has supported new retail, dining, and entertainment offerings. The city has an extensive 128-mile bicycle trail network that connects to

[8] South Dakota Department of Transportation, “Long Range Transportation Plan”, https://dot.sd.gov/media/documents/FinalSDLRTP.pdf

[9] Lincoln MPO, “2040 Long Range Transportation Plan”, https://www.lincoln.ne.gov/files/sharedassets/public/planning/mpo/lrtp.pdf

[10] City of Lincoln, “Lincoln Downtown Master Plan Update”, https://app.lincoln.ne.gov/city/plan/reports/subarea/dmp/dmpupdate.pdf

the larger Lancaster County trail system, but downtown Lincoln suffered from a last-mile problem that left it disconnected. The City of Lincoln's N Street Protected Bikeway project was designed to connect the citywide bicycle trail system to and through its downtown.

The final design consisted of a two-way bike path, a raised concrete median separating the bicycle facility from vehicle facilities, two lanes for vehicular traffic, and an angled parking lane. The final project cost amounted to nearly $3.7 million. Financing for this project required the use of funds from four TIF districts—because it benefits several development projects along a corridor rather than one district location—as a major share of a larger package drawing funds from 20 distinct sources. TIFs were an integral part of the funding package providing nearly half (46%) of the total funding—thus crucial to enabling the project.

Completion of the project has contributed to downtown growth and economic development. As a complement to other downtown revitalization efforts including the Pinnacle Bank Arena and three new hotels in the West Haymarket district, the bikeway has encouraged downtown residential development and prompted further active transportation infrastructure throughout the downtown area. More than $165 million in private development has occurred in downtown Lincoln since the project's completion in 2016, including 300 new residential units built along a two-block segment of the bikeway, and another 200 units under construction at the other end of the bikeway.

Loop 202 South Mountain Freeway, Maricopa County, Arizona

Maricopa County's sales tax district is an example of how value capture can be used to supplement Federal funding for transportation infrastructure. This sales tax district is also a source of local funding that can be used for transportation projects in the regional transportation plan in Maricopa County.

The Loop 202 South Mountain Freeway project, the largest single transportation project in the history of the State of Arizona, provides important connections and alleviates traffic congestion in downtown Phoenix. This project was a high-priority project in Arizona's STIPs from when it began in the early 1980s. The benefits of the project align with the strategies and priorities of the State's current and former LRSTPs in which Arizona DOT's investment decisions prioritize the preservation, modernization, and expansion of the Statewide transportation system.[11] From the beginning of the project, regional transportation planners knew that the extensive expansion project would require an additional revenue source to supplement State and Federal transportation funding.

In 1985, voters in Maricopa County passed Proposition 300, a ballot initiative to impose a half-cent sales tax on all retail activities countywide. Revenue from this sales tax is collected into the Regional Area Road Fund (RARF) and administered by the Arizona DOT. The sales tax was slated to run for 20 years and fund mostly freeway expansion projects. With the half-cent sales tax set to expire in late 2005, Maricopa County voters were asked in 2004 to reauthorize this value capture program to continue to fund transportation projects, with an additional focus on

[11] Arizona Department of Transportation, "What Moves You Arizona 2040", February 2018, https://azdot.gov/sites/default/files/2019/08/adot-lrtp-final.pdf

arterial roads and transit projects. Proposition 400 passed in November 2004, setting up another 20 years of expanded transportation funding for the county, from 2006 to 2026.

The construction of the 22-mile portion of an 8-lane freeway concluded in 2020. Considering the size of the project and project cost of $1.8 billion, a consistent and reliable transportation funding source was necessary to raise local funding for the project to be used in conjunction with Federal and State contributions; the half-cent county sales tax was crucial. The RARF sales tax revenue and bonds made up 62 percent of the funding for the South Mountain Freeway Project, with Federal and State funds as supplements.

The sales tax district not only played a crucial role in closing the funding gap for the South Mountain Freeway project, but it also generates a substantial source of funding for other transportation projects.

Conclusion

States and jurisdictions can harness value capture mechanisms to fill funding shortfalls for important transportation improvement projects. State, Tribal, and local governments can use value capture to supplement Federal funds by developing a long-term programmatic approach to generating value capture revenues to meet the local match on STIP and TIP projects. Alternatively, jurisdictions can use value capture techniques to fund projects that are ineligible for Federal funds or that are otherwise not included in the STIP or TIP. Funds from value capture can also be used for large local projects that require many local resources, thus speeding up project timelines. Value capture techniques can support important infrastructure development for States and jurisdictions that would otherwise be delayed or not happen at all.