How-To Brief No. 5: HOW TO INTEGRATE VALUE CAPTURE INTO TRANSPORTATION AND LAND USE PLANNING

Formally integrating value capture into the transportation and land use planning process takes advantage of the relationship between land use, transportation infrastructure, and infrastructure funding methods. Changes in land use affect transportation infrastructure funding needs, and new transportation infrastructure affects land use patterns. Both transportation and land use affect a wide range of public policy areas, including economic development, redevelopment and revitalization, affordable housing, fiscal sustainability, and environmental preservation. For these reasons, transportation and land use planning are often coordinated. But infrastructure funding methods themselves affect private sector development decisions, which in turn affect transportation infrastructure needs, land use patterns, and public policy. Integrating value capture into the transportation and land use planning process helps fund needed infrastructure in a way that is consistent with related public policy goals.

KEY TAKEAWAYS

- **Integrating value capture into the transportation and land use planning process takes advantage of the reciprocal relationship between infrastructure and land use policies.** Coordinating value capture with transportation and land use planning allows an appropriate share of value created by changes in land use or new transportation infrastructure (or both together) to be used to help pay for needed transportation infrastructure.
- **The regional planning process can be used as a forum for integrating value capture into transportation and land use planning.** The process brings together the stakeholders needed to determine feasible and fair implementations that are consistent with a wide range of related public policy goals including economic development, redevelopment and revitalization, affordable housing, fiscal sustainability, and environmental preservation.
- **Integrating value capture at the regional level helps coordinate value capture across jurisdictions.** The process brings together the different agencies and levels of government necessary to identify opportunities for multi-jurisdictional and regionwide value capture implementation.
- **Integrating value capture at the agency level and transportation project selection stage helps allocate limited funds more efficiently.** Projects not eligible for federal or state funding may be able to move forward if they can "help pay for themselves." Funds from traditional sources can be directed to projects that meet local share requirements through value capture, and projects for which there is a demonstrated need but would not feasibly generate revenue using value capture.

Introduction

Although value capture can be implemented on an ad hoc basis whenever a clear opportunity presents itself, integrating it more formally into the transportation and land use planning process provides important benefits:

- It takes advantage of the relationships between land use, transportation infrastructure, and value capture techniques.
- It helps coordinate transportation infrastructure funding with public policy goals such as economic development, redevelopment and revitalization, affordable housing, fiscal sustainability, and environmental preservation. (How the funding source itself affects these other policy areas is explained in greater detail below).
- It allows funding to be allocated more efficiently to transportation infrastructure improvements.

The result is improved value capture implementation, in terms of providing a reliable funding source and of avoiding unexpected market responses. This brief outlines a series of steps that can help transportation agencies integrate value capture into the planning process at both the regional and local levels and provides three case studies illustrating how agencies at different levels of government have approached the task.

Relationship Between Transportation Infrastructure, Land Use, and Value Capture

In the presence of demand for development, higher-density land use increases demand for transportation infrastructure, while transportation infrastructure that improves accessibility, reliability, and/or mobility can allow for more intensive land use patterns. As a result, both transportation infrastructure and land use policies can create value by changing the density of development. When coordinated with value capture, these policies allow a share of the value created to be captured as revenue to help pay for transportation infrastructure.

The benefits of coordinating land use and transportation planning are widely acknowledged. Integrating value capture into the transportation and land use planning process ensures that land use changes that increase demand for transportation infrastructure also include a mechanism to fund that infrastructure. When transportation and land use planning are not coordinated with value capture, the infrastructure must be funded through less-equitable sources such as general taxes levied on all taxpayers in a jurisdiction regardless of how much they benefit from it, or user fees that fail to capture benefits that accrue to nonuser beneficiaries such as property owners, developers, and businesses. Because value capture techniques better communicate the true cost of development to the private sector, they support public policy goals in related areas, including economic development and revitalization, affordable housing, fiscal sustainability, and emissions reduction and environmental preservation.

This relationship between transportation infrastructure, land use planning, and value capture applies to planning at the regional level as well as at the municipal or jurisdictional level. In general, there are two approaches to integrating transportation and land use planning:

- Addressing value capture as part of the regional planning process and integrating use of value capture techniques into regional goals, objectives, and priorities.
- Introducing value capture at the municipal or jurisdictional level using local and regional goals, objectives and priorities to guide value capture implementations.

Value Capture Integration into the Regional Transportation and Land Use Planning Process

Many regions and localities already engage in land use and transportation planning that brings together relevant agencies, levels of government, elected leaders, and stakeholder groups. A comprehensive process typically establishes regional goals and a regional vision for the future, as well as specific objectives, priorities, and policies. As discussed in How-To Brief No. 1: Adopting a Business Case Mindset for Value Capture, a successful value capture implementation is one that is accepted as fair by both public sector and private sector stakeholders. The collaborative planning process provides policymakers and implementing agencies with a framework to determine "fair" value capture implementations. Many agencies and other stakeholders are typically involved.

Common Stakeholders for Transportation and Land Use Planning

Stakeholder Agencies

- Regional transportation and land use planning organizations (MPO, COG, RPA)
- Municipal transportation agency
- Municipal finance department
- Municipal housing agency
- School districts in the jurisdiction
- Local and regional economic development agencies

Community and Business Stakeholders

- Citizens and neighborhood groups
- Local elected leaders
- Major employers
- Chamber of commerce, tourism bureau, other industry groups
- Local community colleges, hospitals, and other major institutions
- Commercial real estate brokers
- Real estate developers and landowners

Value capture can be intentionally and actively integrated into the regional transportation and land use planning process. The process provides a forum for introducing the concept of value capture and exploring how individual value capture techniques can be used to fund infrastructure projects that meet local and regional needs. This includes exploring how transportation infrastructure funding options interact with a wide range of public policy areas.

Transportation infrastructure funding decisions are not value-neutral—neither for the projects that are funded, nor for the funding sources. Transportation infrastructure is linked to a wide range of public policy areas, including the economy, the environment, and quality of life, and how infrastructure is funded affects these public policy areas as well. Each revenue source used—whether value capture, traditional, or other innovative technique—affects the total amount of revenue available for transportation infrastructure as well as who bears the cost of the infrastructure.

Infrastructure funding source decisions affect what and where developers build, where businesses locate and expand, and where people choose to live. By considering the merits and impacts of infrastructure funding mechanisms in the context of broader transportation and land use planning, value capture can fund transportation infrastructure in a way that is more compatible with other public policy goals. ("How-to Brief No. 1: How to Adopt a Business Case Mindset" and "How-to Brief No. 2: How to Use Market Analysis for Value Capture" discuss how infrastructure funding methods can affect private sector development decisions).

As the different value capture techniques are considered, planners can consult with their State's attorney general and their municipal government legal counsel to determine which techniques identified as consistent with local and regional needs and priorities are possible under existing legislation and policy, and the techniques that require enabling legislation or local policy change. It is natural to rely on familiar techniques for which enabling legislation already exists, but if the value capture techniques that meet local or regional infrastructure needs, market conditions, and public policy goals are not available, it may be worth pursuing legislative and/or policy changes that enable the needed techniques.

The collaborative planning process also presents the opportunity to collect and share demographic, socioeconomic, and economic trends and conditions relevant to value capture, and to understand how stakeholders value different types of transportation investments. Developers and real estate brokers can contribute knowledge of real estate market conditions that agency stakeholders can use to anticipate private sector responses to different value capture techniques. This information sharing helps planners determine which value capture techniques help meet funding needs and are consistent with established local and regional priorities and underlying economic and real estate market conditions (see "How-To Brief No. 4: Using the Market Analysis for Value Capture").

Value Capture Integration at the Agency Level and Project Selection Stage

Value capture can also be integrated into the transportation and land use planning process at the agency level and project selection stage. Ideally, this is done with the benefit of a regional planning process that integrates value capture, so that implementation of techniques can be coordinated across jurisdictions (See "How-To Brief No. 3: How to Create and Interagency Overlaying Tax District" for additional guidance on multijurisdictional implementation). Nonetheless, value capture techniques can be implemented with or without a regional value capture initiative.

Local land use and transportation plans and policies form a framework that can be used to guide agency-level value capture implementation and transportation investment and project selection. These plans and policies include comprehensive plans, long-range transportation plans, affordable housing plans, and economic development strategies. If these planning documents are due to be updated, the agency may consider integrating value capture directly into the planning process. Otherwise, existing documents can be used as a guiding framework.

The first step is to determine which projects may be suitable for value capture. For value capture in general, not specific to any particular technique, this includes:

- Projects that distribute benefits unevenly throughout a jurisdiction. Capturing a share of this excess benefit will be more equitable than funding the project entirely through general taxes or user fees.
- Projects that confer significant benefits to identifiable nonuser beneficiaries, such as property owners and real estate developers. Beneficiaries such as these would not support the project through user fees.[1]

Projects that meet one or both of these general criteria can then be analyzed for suitability for a specific value capture technique based on:

- Funding considerations such as amount of funds needed (or extent of funding gap created by a shortfall of other funding sources or local share requirement), timing of funds, or duration of need (one-time or on-going).
- Market conditions, including population growth, income and income distribution, job growth and business performance, real estate supply and demand, and rents and property values.[2]

As outlined in How-To Brief No. 4, a general market analysis can determine how the private sector—developers, landowners, businesses, residents, and visitors—will respond to an infrastructure investment-value capture package. In addition to determining value capture revenue potential, the private sector response determines how a given project and funding combination interacts with other public policy areas. Interactions may take the form of a shift in land use patterns, an increase or decrease in the number of affordable housing units, changes to congestion levels, or other impacts. The project and funding combination can be considered alongside the goals, priorities, and policies established for local land use and transportation planning, as well as other local public policy areas. This allows for coordination between land use and transportation planning that facilitates value capture, allows value capture to promote public policy goals, and helps avoid undesired interactions between a transportation investment and other important policy areas.

When an agency first begins to integrate value capture into its project identification and prioritization, it may already have a project list. Other agencies may choose to begin integrating the suitability evaluation into the project identification process during an annual update and then on an ongoing basis as new projects are identified. Suitability for value capture, however, is not an indicator of a transportation infrastructure project's merit, and projects should continue to be

[1] How-To Brief No. 4: How to Use a Market Analysis for Value Capture provides information on how to use a market analysis to make these determinations.

[2] A future brief will focus on how to select the value capture technique that best suits funding needs.

identified and selected on the basis of local and regional needs, rather than potential for value capture. But knowing each project's potential for value capture during the selection process improves the efficiency of funding allocation.

By integrating value capture into the project identification and selection process, important projects that have been held back because they are not eligible for federal or state funding or face a local share requirement shortfall may be able to move forward, while funds from traditional sources can be directed to projects for which there is significant need but would not feasibly generate revenue using value capture.

Case Study Examples

Agencies at different levels of government are integrating value capture into the land use and transportation planning process to provide reliable revenue sources to fund transportation infrastructure and coordinate the funding with related public policy goals. The following are three such case studies:

- The City of Chesapeake's use of negotiated exaction shows how value capture can be strategically integrated with land use planning to help transportation infrastructure keep pace with need while supporting growth management.
- Pasco County's Multimodal Mobility Fee Program, a sophisticated impact fee program, is an example of how value capture can be integrated with transportation and land use planning to fund transportation infrastructure to support economic development and changing transportation needs.
- CMAP provides an example of how value capture can be integrated into the regional planning process.

Proffer and Growth Management, City of Chesapeake, Virginia

The City of Chesapeake's use of negotiated exaction, called proffer under Virginia law, provides an example of how value capture can be integrated with land use planning to help transportation infrastructure keep pace with need while supporting growth management, a key public policy goal.

Proffer is a form of negotiated exaction long practiced in Virginia whereby developers extend an offer of value to a jurisdiction in exchange for approval of a rezoning for development. The term proffer means "to hold out something to someone for acceptance" or "an offer or proposal." Virginia's proffer system is enabled by state-level conditional zoning that allows "reasonable conditions governing the use of such property, such conditions being in addition to, or modification of the regulations provided for a particular zoning district or zone by the overall zoning ordinance." [3]

Proffers can take the form of land, cash, or facility construction (e.g., shoulder improvements, curbs, or roadway restriping), and are commonly extended by developers in applications for

[3] "Virginia's Proffer System and the Proffer Reform Act of 2016", Edward A. Mullen and Michael A. Banzahf, Richmond Public Interest Law Review (Vol. 20:3, Article 3, page 3).

zoning changes in acknowledgement of the infrastructure demands created by proposed development.

Proffers are used to meet a wide range of public needs created by a proposed development, including roadways, new schools and libraries, and even architectural and design standards. Specific to transportation infrastructure, the city's Master Transportation Plan shows the areas where the city wants to acquire right of way for new and expanded roadways to meet future growth. A developer applying for residential rezoning can use the Master Transportation Plan Map to determine parcels suitable for proffer. The city also has established level-of-service standards for the different categories of public infrastructure, including roadways. Developers proposing rezoning that affects level of service can use these standards in conjunction with planning and transportation studies to anticipate proffers that adequately mitigate such impacts.

This coordinated use of value capture with land use planning and zoning regulations plays a dual role in growth management. First, it funds transportation infrastructure in growing greenfield areas at a pace that matches growth and need. Second, it encourages infill development in urbanized areas of the city. Developers who find the cost of proffers to provide the full range of infrastructure needed to support greenfield development too high can instead complete projects on redevelopment sites in more urban areas of Chesapeake that are already well served by infrastructure. In this way, proffer helps communicate to developers the true cost of greenfield development relative to infill redevelopment, encouraging more compact land use patterns and reducing sprawl.

The Case Study of Elbow Road Widening Phases II and III provides complete details about Chesapeake's use of proffer to provide transportation infrastructure and manage growth.

Pasco County Multimodal Mobility Fee Program

Pasco County's Multimodal Mobility Fee Program, a sophisticated impact fee program, shows how value capture can be integrated with transportation and land use planning to fund transportation infrastructure in a way that supports economic development. Responding to high unemployment and a declining tax base dependent on residential property, the county undertook a successful economic development effort that attracted new businesses with high-paying jobs in desirable fields and diversified the tax base with increased commercial properties. The success of this economic development effort resulted in a more vibrant, densely populated community, and the county found that its existing Transportation Impact Fee, which was limited to road infrastructure, was unable to meet these more diverse needs. To continue to support economic development, Pasco County replaced the original program with the Multimodal Mobility Fee Program that allows capital funds to be used for transit, bicycle, and walking infrastructure, as well as roads.

To provide a framework for the Multimodal Mobility Fee Program, Pasco County's Comprehensive Plan was amended to identify geographically tiered growth management districts (i.e., urban, suburban, and rural districts) and mobility strategies. These designated geographic districts play an important role in helping focus growth in certain areas of Pasco County where compact, walkable, transit-ready forms of development are encouraged and where transit exists (or is planned). This framework enables the Mobility Fee Program to

implement a funding mechanism that is consistent with the development densities and mobility strategies for each designated geographic district.

Despite the success of its economic development effort, the county's economy was characterized by uncertainty and pockets of slow growth. In designing the program, the county wanted to fund infrastructure that would encourage development in urban areas and ensure that the program fees would not discourage job-creating and transit-ready land uses. The county accomplishes this by reducing or eliminating mobility fees for land uses that meet certain criteria, depending on the growth management district. For example, office, industrial, and lodging developments are not subject to multimodal impact fees in any district; redevelopment of any land use in the Harbors/West district is not subject to these fees; and urban and rural developments meeting criteria for mixed-use, travel-reducing measures pay only 75 percent of the urban or rural standard fee rates.

Of course, these developments need transportation infrastructure, which must be funded through other sources. To meet this need, the county created a budget line funded by several revenue sources that is used to buy down waived impact fees. Key revenue sources include tax increment financing (TIF) funds, county-controlled gasoline taxes, and the Penny for Pasco sales tax. This range of funding sources helps to ensure the success of the Mobility Fee Program.

"Case Study of Pasco County's Multimodal Mobility Fee" provides complete details about how this program was designed and how it funds transportation infrastructure in a way that supports the county's changing economic development needs.

CMAP GO TO 2040 Financial Plan for Transportation

Chicago Metropolitan Agency for Planning (CMAP), the regional comprehensive planning organization and designated MPO for the seven northeastern Illinois counties that comprise the Chicago metropolitan area, provides an example of how value capture can be integrated into the regional planning process. CMAP has been pursuing the use of value capture to support regional transportation infrastructure for over a decade. In 2010, motivated by declining revenue from federal and state gas taxes, CMAP commissioned a study on the potential for using value capture to fund transit improvements. In 2011, the agency commissioned a follow-on study of value capture in funding a broader range of transportation infrastructure, including roadways.

In the 2014 update of the regional comprehensive plan GO TO 2040, CMAP began to integrate value capture planning into its broader land use and transportation planning process by:

- Encouraging exploration of value capture to help fund capital costs for new or expanded transportation facilities.
- Identifying the need for enabling legislation at the state level to support the creation of a multijurisdictional, long-term value capture districts to fund transportation capital investments.
- Including value capture in the funding plans for two major capital projects, including the Red/Purple Line Modernization project.

Subsequently, the state legislature passed bills allowing for expanded use of value capture (e.g., Public Act 99-0792, enacted August 2016, allows value capture to be used for several major transit improvements in the City of Chicago including the Red/Purple Line Modernization project, Red Line extension, Blue Line modernization, and Union Station redevelopment).

As CMAP completes its update of the 2040 plan, ON TO 2050, CMAP staff has recommended that the new plan retain the policy language on value capture from GO TO 2040 and continue to apply value capture to regionally significant projects where appropriate. Specifically, staff has indicated that ON TO 2050 should integrate identification of value capture potential into the project evaluation process and should include value capture funding estimates in the fiscal constraints of the financial plan for transportation.

Conclusion

Integrating value capture into the transportation and land use planning process takes advantage of the reciprocal relationship between transportation infrastructure and land use policies. As the case studies illustrate, this integrated approach helps fund infrastructure in a way that supports a wide range of other public policy goals and can be implemented at different levels of government.