Public and Private Value Capture

Improving the nation's infrastructure continues to remain a top priority for the public sector, but the resources available to pay for the construction and maintenance of facilities are limited. In response to this reality, several creative financing strategies were developed, including Value Capture.

Features of Value Capture

The traditional means of financing infrastructure are borne by the various levels of government; i.e., public financing. When publicly funded, the infrastructure may be funded by a government budget line-item, through public bonding, or through the award of federal or state grants. As noted, with pressure on sources and uses of public resources increasing, more attention is being given to private participation in infrastructure finance. Private funding of infrastructure can involve bonds, private loans, or other private investment. In some cases, an infrastructure investment may be financed as a public-private partnership. In any case, the focus is on the concept of Value Capture.

Value capture strategies typically involve a combination of private and public funding. Value capture uses the expected increases in property tax and property value, caused by a proposed transportation improvement, to assist in paying for the capital and operating costs of the transportation improvement itself. These mechanisms may help accelerate the implementation of infrastructure improvements. Among value capture options are tax increment financing (TIF), joint development agreements, impact fees, limited partnerships, and unique to Pennsylvania, the Transit Revitalization Investment District.

Benefits of Value Capture

Public Tax Increment Financing: Tax increment financing (TIF) is a public financing technique used by local entities to encourage economic development. It captures the future tax benefits stemming from an infrastructure investment to pay for the present cost of those improvements. Typically, a public-sector agency issue bonds to finance the infrastructure necessary to support new development. Then the incremental increase in property value within a formally designated TIF district is used to fund repayment of the bonds for the development-related costs, including the improvements. When applied to transportation projects, TIF districts can be expanded beyond the exact site of a transportation improvement to encompass an area where an incremental property value increase is anticipated. Because there is a perception that projects "pay their own way," TIF districts are often relatively well-received by the public. Generally, TIF is used to help finance the capital costs of large infrastructure projects rather than for longer-term on-going operational support. A TIF district created to support the development of Portland's Central City Streetcar generated approximately $7.5 million in TIF funds.

Private Special Assessment Districts: Special assessment districts allow property owners to designate an area in which new taxes or fees are assessed on properties that are expected to receive a benefit from their geographic proximity to an improvement. The idea is that certain properties will benefit directly from a particular investment and, as a result, these property owners should pay an allocable shareof the investment cost. Assessment districts may be delineated based on distance from an improved facility, property frontage adjacent to an improved facility, square footage and/or property acreage. The revenue collected from the special assessment district is used to help pay for the improvement. The property owner's payment is above and beyond the real property taxes. The City of Seattle's South Lake Union streetcar capital costs were funded in part through a special assessment district. Portland, Oregon, also funded portions of its four-mile streetcar line using special assessment districts, combined with tax increment financing. Tampa's TECO Line Streetcar System generates revenue from three primary sources including a special assessment district.

Joint Development: In joint development, public and private partners can share project costs, revenues, or financial risk depending on the structure of the agreement. Joint development arrangements are often well-received by the public because they are location-specific, and the affected parties are relatively few. Two potential limitations can be that the amount of revenue generated is relatively small or they tend to entail a higher degree of administrative complexity. The permanency of stations along fixed-guideway systems such as a streetcars, however, make station areas on these systems more attractive for joint development than station areas along bus lines or other non-fixed-guideway systems.

Development Impact Fees: Development Impact Fees are one-time charges collected by local governments from developers. These fees help to defray the cost of new or expanded infrastructure and services associated with new development, including capacity-increasing transportation investments. Impact fees are not a primary source of revenue for transportation in most jurisdictions, but they can help finance the share of transportation budgets attributable to new development. Generally, development impact fees are considered politically and administratively feasible. They may not be appropriate for some transit projects, however, because they may discourage investment in the geographic area in which the fee is imposed.

Limited Partnership Arrangements: The sponsoring agency is granted an ownership percentage of each affected property along the line. The arrangement is structured so that any cash flow (recapitalization, sale or annual cash flow) would only come from the increased value achieved by each property that exceeds current cash flows and appraised value. The individual property would enter into a joint value with the sponsoring agency at the current appraised value as of the date of approval of the concept by the property owners. The risk of the property value actually increasing is borne by the public sector, even though it is paid by the private sector, since bonds have to be serviced every month.

Transit Revitalization Investment District (TRID): Pennsylvania legislation enables the use of a TRID, which is a district-based tax increment financing mechanism to capture increases in property values to pay for needed improvements. It is distinct from tax-increment financing (TIF) because, unlike TIF, it does not require that there be a finding of "blight" in the area where it is used. It also differs in that it explicitly emphasizes transit and transit-oriented development (TOD) and the comprehensive, community-based planning required for successful TODs.