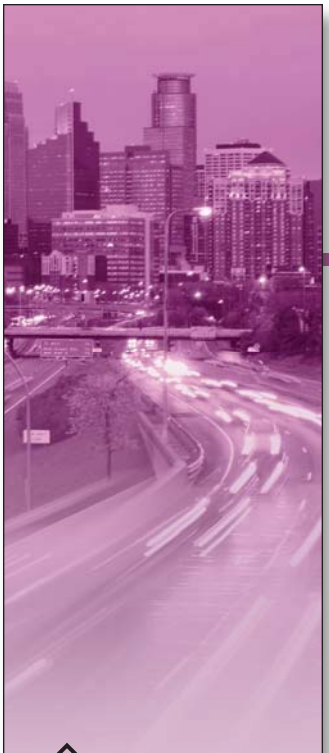

Transportation Revenue Innovations: An Introduction

Innovative Program Delivery

REVENUE INNOVATIONS

Quick Facts

- "Tolling" refers to charging a fee for facility use.
- "Pricing" means altering the charge based on demand/traffic levels.
- Value capture techniques use the increase in land value created by new transportation facilities to repay the cost of the facilities.

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U.S. Department of Transportation
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STATE AND local governments are turning to new revenue sources to supplement fuel taxes and other traditional sources for surface transportation projects. Options that have been used by communities range from tolling, to developer contributions, to hotel and tourism taxes, to advertising revenues.

In addition to providing funds, some of these innovative revenue sources can reduce costs and congestion, enable development of more livable communities, and reduce vehicle emissions. In this way, innovative revenue options have the potential to bring more than their dollar value to a project, in some cases improving the quality of the transportation service provided to the public.

The Federal Highway Administration's (FHWA's) Office of Innovative Program Delivery (IPD) provides background research and objective information to assist State and local agencies in exploring nontraditional revenue sources. IPD provides information about revenue-raising strategies that States and local governments have used to address transportation shortfalls. Finally, IPD coordinates the provision of tolling authority for Federal-aid highway facilities through various legislatively authorized programs and ensures that revenues that are generated by or used for Federal-aid projects follow any applicable Federal requirements.

The ReTRAC project used several innovative revenue sources, including revenue from a special downtown assessment district, to repay financing.

Road Pricing Innovations

Congestion pricing is one example of an innovative revenue-generation strategy. Whereas tolling involves the collection of a flat fee from motorists for their use of a highway facility, the term "pricing," as applied to road usage, entails fees or tolls that vary by level of vehicle demand on the facility. By varying the toll, free flow can be maintained while generating revenue that can support either construction of the additional tolled capacity or transit and highway services.

Case Study: High-Occupancy Toll (HOT) Lanes on I-15 in San Diego, CA

Since 1998, single-occupant vehicles pay a per-trip fee each time they use the I-15 HOT lanes. Tolls vary "dynamically" with the level of traffic demand on the lanes. Fees vary in 25-cent increments as often as every 6 minutes to help maintain free-flow traffic conditions on the high-occupancy-vehicle lanes. The project has recently been extended with construction of new lanes to the north. The project originally generated $2 million in revenue annually, about one-half of which was used to support transit service in the corridor.

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The I-15 HOT lane extension in the San Diego area will use variably priced tolls as a revenue source.

Case Study: State Route 91 Express Lanes in Orange County, CA

The four variably priced express lanes in the median of the State Route 91 Freeway opened in December 1995. The toll schedule is adjusted every 3 months based on traffic observed over the prior 3-month period. Speeds are 60–65 mph on the express lanes, whereas congestion on the free lanes has reduced average peak-hour speeds to no more than 15–20 mph. Toll revenues have been adequate to pay for construction and operating costs; surplus revenues will be used to extend the express lanes into Riverside County.

Value Capture Innovations

"Value capture" refers to financing techniques in which the increase in private land value created by new transportation facilities is "captured" to repay the cost of the public investment. In contrast to user charges, value capture asks land owners who benefit from access to the new infrastructure to provide the revenue source to help repay the investment. Examples of value capture innovations include the following.

Tax Increment Financing (TIF)

TIF utilizes the prospect of increased property taxes to secure bonds issued to fund the transportation improvement. When property values rise because of a new public transportation investment, the resultant tax revenue increase becomes the "tax increment," all or a portion of which can be dedicated to repay the debt incurred to build the facility. Such TIF districts created to issue bonds are found in cities throughout the United States.

Transportation Special Districts

When property owners form a transportation special district or local improvement district (LID), they agree to share in the cost of public infrastructure improvements that promise to increase the value of their holdings. Rather than paying via future property tax increases, however, the LID members agree to pay directly for the cost of the improvement. The project scope and assessment methodology can vary.

Case Study: Reno Transportation Rail Access Corridor (ReTRAC) Project

The City of Reno, NV, successfully used a variety of revenue sources, including assessments from a transportation special district, to fund a portion of the cost of the $280-million ReTRAC Project. The project removed 11 rail/highway grade crossings in the heart of downtown Reno. The crossings had caused significant congestion and created safety hazards, which included numerous collisions.

The project involved the construction of a 2-mile-long, 54-foot-wide, and 33-foot-deep trench. According to the city of Reno, "Traffic flow is greatly improved, emergency vehicle access is enhanced, property values of buildings adjacent to the trench have significantly increased, and there are even various environmental benefits. Thanks to ReTRAC, there are now 120 acres of new real estate (valued at more than $11.5 million dollars) available for development or open space in downtown Reno." ■

The FHWA Office of Innovative Program Delivery helps State and local transportation officials consider innovation in revenue sources, financial tools, and procurement.

For more information, see the Web site:
www.fhwa.dot.gov/ipd

PROGRAM AREAS OF THE OFFICE OF INNOVATIVE PROGRAM DELIVERY

IPD provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help build the capacity of transportation professionals to deliver innovation.

PROJECT DELIVERY

IPD's project delivery team covers cost estimate reviews, financial planning, and project management and assists FHWA Divisions with statutory requirements for major projects (e.g., cost estimate reviews, financial plans, and project management plans).

PROJECT FINANCE

IPD's project finance program focuses on alternative financing, including State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicles (GARVEEs), and Build America Bonds (BABs).

PUBLIC–PRIVATE PARTNERSHIPS

IPD's P3 program covers alternative procurement and payment models (e.g., toll and availability payments), which can reduce cost, improve project quality, and provide additional financing options.

REVENUE

IPD's revenue program focuses on how governments can use innovation to generate revenue from transportation projects (e.g., value capture, developer mitigation fees, air rights, and road pricing).

TIFIA

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides credit assistance for significant projects. Many surface transportation projects—highway, transit, railroad, intermodal freight, and port access—are eligible to apply for assistance.

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