



Smart Growth America
Improving lives by improving communities



Expanding the Economic Recovery to All Americans Through Smarter Growth Recommendations for the Incoming Administration



About this guide

This guide contains policy recommendations from Smart Growth America for the incoming presidential administration taking office in January 2017. It includes recommendations from other programs under SGA's umbrella, including Transportation for America, LOCUS: Responsible Real Estate Developers and Investors, and the National Complete Streets Coalition.



National Complete
Streets Coalition

Published November 2016

Smart Growth America is the only national organization dedicated to researching, advocating for and leading coalitions to bring smart growth practices to more communities nationwide. From providing more sidewalks so people can walk to their town center, to ensuring that more homes are built near public transit and that productive farms remain a part of our communities, smart growth builds great neighborhoods across the nation that all Americans can share.

Photo credits

Cover: (clockwise from top left) Family walking, courtesy of the Safe Routes to School National Partnership; Downtown Greenville, Creative Commons photo by TimothyJ, <https://www.flickr.com/photos/tjc/5784742738/>; Indianapolis Cultural Trail, courtesy of <http://indyculturaltrail.org>; Block Party 2010, courtesy of the Pittsburgh Downtown Partnership. <https://www.flickr.com/photos/pghdowntownpartnership/5054507057/>

p.3: Affordable housing Seattle, Creative Commons photo by Kaizer Rangwala. <https://www.flickr.com/photos/49980618@N08/5572817780/>

p.6: Bus stop real-time transit, Creative Commons photo by Paul Krueger. <https://www.flickr.com/photos/pwkrueger/9220398978/>

p.9: BTV 13-06-2010, Creative Commons photo by Alfredo Carrillo. <https://www.flickr.com/photos/alcarrillo/4698677092/>

p.11: Downtown Senoia, Georgia. Photo by Stephen Davis, Transportation for America

Introduction

The number one challenge for the incoming administration is making the economy work for low- and middle-income workers and households. Indicators pointing to an economic recovery do not matter if you still can't get a job, your housing costs are escalating, or the opportunities are drying up where you live. While median household income has risen in recent years, it is still shy of where it was in 2007, adjusted for inflation.¹ And among lower- and middle-income households, it has been slower to rebound. The divisions revealed by the 2016 election cycle highlight the wide disparities between those enjoying economic recovery and those who have been left out.

Though they are vital to our prosperity, the role of housing, transportation, and access to education and job opportunities have been largely missing from any public conversation about boosting wages, expanding the middle class, or providing pathways out of poverty. Housing and transportation costs make up approximately 40 percent of average household costs. But for households with incomes in the bottom 20 percent, housing and transportation costs alone may exceed their average pre-tax income.² If we want to help people lift themselves out of poverty, we should provide more options for getting around to improve and shorten commutes—as commute lengths go up, the chances of upward mobility for low-income families goes down. And children are far more likely to become better educated and increase their income if living in neighborhoods that are economically integrated and well connected to jobs and opportunities through a range of transportation options, according to ongoing work from Harvard researchers.³

We know that smart growth is not a cure-all and that the administration should lean hard on other economic, social and cultural solutions. But given the effects of housing and transportation costs on people's pocketbooks, smart growth strategies—expanding economic prosperity, improving lives by improving the communities that we call home, and creating opportunities for people to have a high quality of life and build wealth—have to be part of the solution. Many of the decisions that determine what kind of communities we build are made at the local level by our neighbors, civic groups, or local elected and appointed leaders. But there are indeed crucial decisions made at the federal level that can help move more Americans into the middle class and create growth that's prosperous, sustainable and equitable. The following policy proposals, organized into five main strategies, are designed to do just that:

- 1. Create more housing choices**
- 2. Connect Americans to opportunity by providing more transportation choices**
- 3. Empower local communities**
- 4. Invest in existing communities**
- 5. Make smarter, more cost-effective investments**

1 2015 median household income increased over 2014 but was down 1.6 percent from 2007, adjusted for inflation. From 2007-2015, income in the poorest households (10th percentile) declined by 4.6 percent. "Income and Poverty in the United States: 2015." U.S. Census Bureau. Issued September 2016. <http://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-256.pdf>

2 "2015 Consumer Expenditure Survey." Bureau of Labor Statistics. <http://www.bls.gov/cex/2015/combined/quintile.pdf>

3 "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates." Chetty, Raj and Hendren, Nathaniel. 2015. Harvard University. http://www.equality-of-opportunity.org/images/nbhds_exec_summary.pdf



Goal one: Create more housing choices

The federal government, through numerous programs including Fannie Mae, Freddie Mac, the Federal Housing Administration, the Home Mortgage Interest Deduction and others, currently exerts tremendous influence on housing.

Smart Growth America's 2013 report "Federal Involvement in Real Estate: A Call for Action" documented federal spending and commitments of roughly \$450 billion directed annually to the real estate market across more than 50 programs (excluding among others Fannie, Freddie, and the General Services Administration).⁴ Despite this federal involvement in the market, home ownership rates are falling and housing prices and rental rates are outpacing gains in income. In many booming markets, long-time residents are forced to flee a rising cost of living, while middle-income households cannot find housing they can afford. Unaffordable housing is one of the greatest barriers to economic prosperity.

Current federal programs miss opportunities to address these problems and, in some cases, exacerbate them. Today's programs effectively penalize those who can't afford or choose not to buy a home. They favor single family housing types despite the market's increasing demand for multi-family formats. Incentives for purchasing second homes box out families still struggling to buy their first, and direct much of the benefits to a relatively small and affluent segment of the population.

The effect of these dynamics is often felt most acutely in the places where low- and middle-income households are experiencing the greatest economic stress: in hot job markets with high housing costs. These markets are often where the widest range of new jobs are being created and where people seeking opportunity would most likely migrate. Historically, people have bettered their conditions by moving to opportunity. Persistently high housing costs prevent that.

4 Smart Growth America, "Federal Involvement in Real Estate: A Call for Action." July 2013. <https://smartgrowthamerica.org/resources/federal-involvement-in-real-estate-a-call-for-action/>

Federal programs that disproportionately benefit high-income households, subsidize second homes, and encourage greater consumption of housing complicate this dynamic. They work against other government programs that support low- and moderate-income housing by driving up costs and reducing the effective value of housing subsidies.

The next administration should consider the steps outlined below to redeploy the resources in existing programs in ways that help lower and middle income households keep this unavoidable cost at reasonable levels, respond to current market trends and are more equitable.

Recommendations:

- 1. Increase affordable housing credits**
- 2. Establish a tax credit for affordable transit-oriented development**
- 3. Support middle-income housing**
- 4. Support homeownership and renters**
- 5. Target real estate tax expenditures to save billions and better serve households and communities.**

Increase affordable housing credits

The Low Income Housing Tax Credit is the principal way the federal government supports the construction and preservation of affordable rental housing. It's crucial that this mechanism be preserved and maintained. The credit helps the private sector add about 100,000 rental units annually. It could become even more effective if the credit's 9 percent fixed minimum credit rate was made permanent, enacting a fixed floor rate for the acquisition credit at no less than 4 percent, and increasing the credit's annual allocation by 50 percent.

Establish a tax credit for affordable transit-oriented development

Demand for walkable neighborhoods, particularly around transit, is at an all-time high. For many reasons, the demand for housing in these places is going unmet, driving up prices and making these neighborhoods unaffordable for those who stand to benefit the most from the opportunities they provide. An affordable TOD tax credit would provide real estate developers and local partners the needed incentives to ensure development near public transportation not only provides a mix of uses, but also limits displacement while providing attainable housing and commercial options for all income levels and businesses.

Support middle-income housing

Establish a middle-income housing tax credit to preserve and enhance the ability for middle-income Americans to afford a home in the communities where they work. Rising housing costs—especially in the walkable, connected neighborhoods in high demand—are pushing home prices out of reach for many, but there are no programs to support middle-income families or individuals, whether teachers, firefighters, or blue- or white-collar workers. This forces many individuals and families to “drive until they qualify,” which can result in long commutes or relocation to areas with poor transportation options, driving up household expenses. This credit would target Americans that earn between 80 and 120 percent of an area's average median income in high-cost areas. Together with other housing credits, this will assist communities and the private sector in creating more inclusive, economically vibrant, mixed-income neighborhoods.

Support homeownership and renters

Establishing individual mortgage and rental savings accounts can help Americans save for a first down payment or monthly rent. These housing saving accounts would direct an individual's pre-tax contributions into a savings account to help save for their first down payment, up to a specified total ceiling, or an annual limit if the funds are used for rental expenses. This change both reduces the de facto penalty we impose on renters and addresses one of the biggest barriers to home ownership: the downpayment.

Target real estate tax expenditures to save billions and better serve households and communities

As Congress begins to consider comprehensive tax reform, all real estate tax programs deserve examination. Smart Growth America recommends limiting the mortgage interest deduction to primary residences and capping the deduction at \$500,000 instead of \$1 million in mortgage value. We also recommend limiting the real estate tax deduction for households earning over \$200,000 per year. In addition, the capital gains exclusion should be reduced by half, from \$250,000 to \$125,000 for individuals and \$500,000 to \$250,000 for households. The ability to claim this exclusion should be limited to once every 10 years to prevent its use for activities such as housing speculation, a risky practice that artificially drives up the cost of housing. We estimate such reforms could save more than \$378 billion over the next 10 years.⁵ Even if these changes were phased in over five years, savings could still be as high as \$197 billion over 10 years.

Taken together, these reforms could save the federal government up to \$33 billion per year, updating aging and ineffective programs to achieve better outcomes for households, communities, taxpayers, and the broader real estate industry.⁶

5 The National Commission on Fiscal Responsibility and Reform: http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf and Urban Institute: <http://www.urban.org/UploadedPDF/412496-MID-reform-options-final.pdf>.

6 Smart Growth America, "Federal Involvement in Real Estate: A Call for Action." July 2013. <https://smartgrowthamerica.org/resources/federal-involvement-in-real-estate-a-call-for-action/>



Goal two: Connect Americans to opportunity by providing more transportation choices

Federal investments in transportation have been a vital source of funding for infrastructure since the 1950s, as we set out to build an interstate system to create valuable new highway connections between cities and towns. Today, by and large, cities and towns aren't looking to these massive interstate projects to solve their economic and mobility challenges. We've learned valuable lessons about how highways have cut some people off from opportunity at the same time they extended it to others. We urgently need a new, more flexible approach to meet the changing demands of our 21st century economy.

There is a compelling rationale for the federal government, and the U.S. Department of Transportation, to continue their robust role in transportation investment in order to promote economic prosperity and competitiveness. But simply spending more on outdated federal transportation programs and formulas is a waste of good money. Our communities and economies need a more flexible, forward-looking federal program that can fund a variety of innovative transportation solutions that produce more value per dollar spent. These solutions should be driven from the bottom up by local mayors, community advocates and business leaders who have on-the-ground knowledge of where best to direct public resources and efforts.

The outgoing administration deserves significant credit for elevating walking and bicycling, and working to make them safer and more convenient options through a variety of new federal initiatives. The next administration should build on this work through the recommendations outlined below to promote an even wider array of transportation options for communities big and small. These investments are increasingly critical to attracting employers and younger talent, and ensuring that transportation connects lower-income Americans to economic opportunity.

Recommendations

- 1. Increase federal funding for expanding transportation options**
- 2. Invest in new technologies that provide smarter travel choices while reducing traffic.**
- 3. Evaluate all federal transportation investments on whether they improve access to jobs and opportunity.**
- 4. Support local implementation of complete streets and active transportation.**
- 5. The White House should provide coordinated leadership over all federal infrastructure programs to improve multimodal planning and development**

Increase federal funding for expanding transportation options

While the federal transportation program has its roots in the construction of the interstate highway program in the mid-20th century, today it must respond to a very different, and a far more diverse, set of consumer and economic demands. Millennials are choosing to live in cities and suburbs that offer more transportation choices.⁷ Businesses are looking to locate in areas with robust public transportation. And an aging population is turning to ridesharing and more walkable communities. It's a challenge for many local communities who look to the federal government as a funding partner to meet this new demand.

Federal investments in a robust array of transportation options are vital to keeping local communities economically competitive, whether it's the transit New Starts or Small Starts programs to help build public transit lines, the Transportation Alternatives program that helps make streets safer for walking and bicycling, or passenger rail funding that helps provide essential service between cities and states. The next administration must take an active role in ensuring that the annual appropriations provided by Congress for these types of transportation options remain robust, while exploring new funding sources that can help further increase the level of federal investment in a more balanced transportation system with more affordable choices for all Americans.

Invest in new technologies that provide smarter travel choices while reducing traffic

The transportation industry is poised to enter one of its most disruptive phases since the beginning of the interstate era thanks to technologies that are allowing for a proliferation of new services that include ridehailing, ridesharing, and carsharing, with the large-scale introduction of driverless vehicles just a few years away. The next administration will have to quickly get in front of this dramatic and seismic shift in technology-enabled transportation in order to develop programs and policies that encourage innovation while discouraging drive- or ride-alone trips and the tremendous traffic that results.

The incoming leadership at USDOT should make the tremendously popular Smart Cities Challenge program an annual competition. USDOT awarded \$40 million to Columbus, Ohio in 2016 to test

⁷ See the TransitCenter publication Who's On Board: <http://transitcenter.org/publications/whos-on-board-2016/>

and deploy innovative mobility solutions.⁸ Continuing and expanding efforts such as this one will help encourage innovation, test new pilot projects to see what works, and expand promising ideas to other cities.

Evaluate all federal transportation investments on whether they improve access to jobs and opportunity

Transportation exists to connect people to opportunity. Yet for far too long, we have judged the success of federal transportation investments on simplistic metrics like how many miles of pavement we pour, rather than the impacts on the people and places they're intended to serve. The next administration should measure whether our transportation investments help improve the ability of people—particularly low-income people—to get to jobs and connect with opportunity. The good news is that over the last five years there has been an explosion of data sources that can now help local communities and public agencies evaluate whether specific transportation projects truly improve access to jobs, opportunity and markets.⁹ The U.S. Department of Transportation is positioned to move the needle significantly, and should fund data-driven studies for states and local communities, and provide technical support and capacity building to help local stakeholders and agencies evaluate transportation investments by how they impact accessibility.

Support local implementation of complete streets and active transportation

There is growing local demand to redesign and build new streets to safely accommodate a variety of users, from drivers to pedestrians, to transit vehicles to wheelchair users. Smart Growth America works with state and local transportation agencies to identify the existing rules and regulations that make it an uphill battle to build safer and more complete streets. But many of the barriers are embedded in federal guidelines, rules and policies. The next administration should conduct a review of all federal rules and processes to identify and remove barriers to building complete streets and consider new approaches to incentivizing them in more cities, towns, and neighborhoods. It's crucial to provide people with safe and convenient infrastructure to support active, healthy living—particularly in low-income areas and rural communities—while at the same time allowing seniors to safely age in place.

The White House should provide coordinated leadership over all federal infrastructure programs to improve multimodal planning and development

Most of our country's transportation challenges are inherently multimodal. Yet federal agencies are still divided by mode or have a narrow view of solutions to these challenges. The White House should seize this opportunity to encourage a holistic approach and take an active role in casting a vision for federal transportation investment, building support for it within Congress, and ensuring that all federal rudders are pointed in the same direction. This is not something that any administration in recent memory has done, Republican or Democrat. Adding and supporting a bona fide transportation policy expert in the White House would provide policy leadership and bring together the many agencies that have jurisdiction over infrastructure, as well as other agencies that are also concerned with the impact that transportation decisions have on public health.

8 <https://www.transportation.gov/briefing-room/us-department-transportation-announces-columbus-winner-unprecedented-40-million-smart>

9 For further detail on accessibility measures, see "Trip-making and accessibility" from the State Smart Transportation Initiative: http://www.ssti.us/wp/wp-content/uploads/2016/02/Tripmaking_accessibility_SSTI-2016Feb.pdf

With more coordination and leadership from within the White House, the next administration could better steer national infrastructure and development policy, help the separate modal agencies take a multimodal approach to solving problems, encourage all agencies to incorporate active transportation (walking and bicycling) in their portfolios, influence the next transportation reauthorization, and provide more robust technical assistance and capacity building for local communities. Technical assistance is particularly important for low-income communities and communities of color that often lack the resources and technical capacity to implement such cross-cutting programs.



Goal three: Empower local communities

Strong local economies are the foundation of a strong national economy and our local transportation networks are how we create places of economic value. Yet our current transportation program was created to address the need for interstate travel and often dismisses local travel as a low priority—or no priority at all. Local communities should be the ones driving the agenda on transportation investment, and they should be able to count on a strong federal partner that will invest in those priorities.

Today's economic reality requires a renewed focus on building new connections within our communities—cities and towns, both big and small. Taxpayers spend the bulk of their time making local trips, and it's time for more of the planning and decision-making about transportation investments to occur at the local level. We also need to invest in building their technical capacity to do the substantial work that is required to plan for infrastructure across sectors, make wise investments, understand disruptive technologies (i.e. shared mobility and autonomous vehicles) and produce the projects that can best compete for state and federal funds.

Recommendations

- 1. Direct more transportation funds to metropolitan regions and local communities.**
- 2. Guarantee funding for the few programs that local communities can access directly.**
- 3. Coordinate land use and transportation planning.**
- 4. Give small or poor communities equal access to federal assistance.**

Direct more transportation funds to metropolitan regions and local communities

The current transportation program directs most funding to state DOTs and some to transit agencies, leaving local communities at the mercy of the priorities of far away agencies and elected leaders. Many local leaders are frustrated by how today's federal program passes over or minimizes their transportation priorities. To address this, a bipartisan coalition from both the House and Senate introduced legislation to reserve a portion of federal transportation dollars for grants to local needs. The Innovation in Surface Transportation Act (H.R. 1393 and S.762 in the last Congress) had bipartisan support from legislators and local leaders from areas large and small, urban and rural, red and blue.¹⁰ While we need to direct more funding and decision-making authority down to the local level, the federal government and the U.S. Department of Transportation should set standards and national goals to measure the performance of our transportation networks. The federal government should aim to invest in the innovative, locally-driven solutions that hold the most promise for meeting those national goals.

Guarantee funding for the few programs that local communities can access directly

Most transportation programs are funded through the Highway Trust Fund and never have their funding threatened by the appropriations process. But funding for TIGER, the preeminent grant program available directly to local communities, can be eliminated at any time by Congress. USDOT's competitive TIGER program is beloved by locals for its flexibility and the chance it offers for direct funding, outside of the slow and often arduous state or regional channels. Locals may also apply to programs like FASTLANE for freight projects, which does not require appropriation, but is largely reserved for highways. Local transportation issues are inherently more multimodal and require far greater flexibility than single-mode programs like FASTLANE can provide.

Coordinate land use and transportation planning

Transportation and land-use planning are intimately linked. New transportation projects should never be planned without considering how they will impact local land use in the communities where they are built. When communities cluster housing in places far away from jobs, they create greater need for travel and travel over longer distances. Often these communities count on state or federal money to solve a problem of local origin.

10 Transportation for America has written at length about the Innovation in Surface Transportation Act. <http://t4america.org/2015/03/18/senators-and-reps-respond-to-locals-pleas-introduce-bill-to-steer-more-money-to-local-transportation-needs/>

Conversely, if the federal government funds the expansion of a new highway at the edge of a region, that can push new growth far from existing job centers, creating new land use challenges for local communities. However, coordination between these two sectors takes effort and may require an updating of local zoning codes—something that HUD was well positioned to support through their Sustainable Communities Planning Grants. However, that program has not been fully funded since FY 2011.¹¹ The next administration should be the lead champion for bringing back this program and involving both HUD and USDOT in its implementation. Further, transportation planning and competitive programs should prioritize and reward this kind of coordination.

Give small or poor communities equal access to federal assistance

Competitive programs like TIGER have been a godsend for local communities, but many municipalities lack the funding or staff required to plan their projects or prepare elaborate applications for federal support. It can be challenging for a city or town that is struggling economically to fund the preparation of a competitive application for TIGER, even if they have a great idea for a worthy project. And without a guarantee of capital funding, many communities can't get support from their states to pay for planning or preparing an application.

The next administration should level the playing field and ensure that more federal support goes to more communities, regardless of their size or economic strength, by providing funding to plan projects (a strategy used in previous TIGER rounds) and by simplifying the often complex application processes that force communities to rack up thousands of dollars in consultant fees or staff time just to apply. USDOT should ensure that these programs are equally accessible to prosperous or struggling communities alike.

Additionally, USDOT should provide more funding and technical assistance to support innovative regional planning as well as the development of data and tools to incorporate the benefits of smarter land use and development decisions, as well as new (often disruptive) changes in the transportation sector, such as shared-use mobility and automated vehicles.

11 Read more about the success of the Sustainable Communities Partnership in this federal report: <https://www.sustainablecommunities.gov/sites/sustainablecommunities.gov/files/docs/partnership-accomplishments-report-2014-reduced-size.pdf>



Goal four: Invest in existing communities

The federal government should support stability in communities where the public and private sectors have already made substantial investments. Americans have witnessed the impacts of both sudden disinvestment, in the real estate crisis of 2008, and long-term disinvestment, in places like Youngstown, OH, or Flint, MI. Precipitous declines in neighborhood population and value cause deep losses in household wealth, business failures, defaults and economic dislocation. The effects typically hit lower- and middle-class Americans harder. The last few years show that they tend to recover more slowly from such setbacks even as the economy rights itself.

Strategic investments in infrastructure, public facilities and other development projects not only provide direct benefits but also support the value of the surrounding area—providing high return-on-investment. Federal programs should protect past public and private investments and invest in existing communities. This would also benefit local governments by increasing tax bases and catalyzing development in areas already covered by local services, rather than forcing the expensive extension of sewer, water and other infrastructure into new areas. The proposed actions below are opportunities for the next administration to help communities prosper and protect lower and middle-income families from losing value in their primary assets and means of building wealth.

Recommendations

1. **Improve the underutilized Federal Rehabilitation Tax Credit to revitalize downtowns and retrofit suburbs.**
2. **Create an innovative financing program for neighborhood infrastructure rehabilitation.**
3. **Allow federal transportation projects to bring greater benefits to local workers.**
4. **Reserve formula dollars exclusively for repair; use competitive funds for adding new capacity.**

Improve the underutilized Federal Rehabilitation Tax Credit to revitalize downtowns and retrofit suburbs

There is pent-up demand for development in existing, walkable, mixed-income communities with a great sense of place. Even though rehabilitating existing buildings and neighborhoods can increase the local tax base and save municipalities money by reusing valuable infrastructure, it can still be cost-prohibitive for developers and thus a barrier to attracting new investment for job creation. The Rehabilitation Tax Credit should be reformed to better align with market realities by converting the 10 percent credit into a scalable credit (up to 20 percent); broadening eligibility to include redevelopment costs beyond those associated with a specific building; making residential buildings eligible for the credit; rewarding projects that include affordable housing; and changing the age criteria so that any building over 50 years old would be eligible for the credit.

To qualify for the 15 percent credit under these new terms, projects must include (1) a non-historic building 50-years or older, and (2) must be within one-half mile from a town center or planned transit facility. To qualify for the 20 percent credit under these new terms, a project must meet (1) the abovementioned eligibility, (2) include affordable and workforce housing, and (3) increase private investment and economic activity (i.e., transportation and net job creation). Overall, the scalable tax credit would be applied to an entire project instead of just an individual building, including adjacent new construction.

Many developers work on the rehabilitation of a number of neighboring buildings at a time. Allowing them to claim the rehabilitation tax credit on a project basis instead of a per-building basis will save time and money, allowing developers to build additional affordable housing units and new retail or office space and create more economic opportunities for the community.

Create an innovative financing program for neighborhood infrastructure rehabilitation

The US faces a tremendous backlog of infrastructure maintenance, and its deterioration is a threat to existing communities and the public and private investments that rely on the health of that infrastructure. Public money is scarce and inadequate to the scale of need. Financing for infrastructure associated with redevelopment can bring private sector money to the table. Modeled after the Transportation Infrastructure Finance and Innovation Act (TIFIA), which generally funds new capital projects, this new program would provide low-interest loans, loan guarantees or other credit for smaller scale projects (i.e., projects under \$100 million) funded through the Department of Treasury. Similar to the TIFIA program, the value created from new development would be a source of loan repayment.

Eligible expenses for such a program would be limited to rehabilitating existing infrastructure to facilitate redevelopment, including: clearing and removing existing structures and obstructions; improving or upgrading public infrastructure including drinking water, wastewater, electric and gas utilities; improving roads, sidewalks, and parks; and other infrastructure rehabilitation activities. Neighborhood infrastructure projects using this financing would include a minimum of 15 percent workforce and affordable housing, as defined by individual states. By encouraging private developers to address infrastructure needs, this program comes with another benefit: relieving the federal government of these repair costs. Smart Growth America recommends an annual authorization of \$500 million for this program.

Allow federal transportation projects to bring greater benefits to local workers

Transportation construction jobs can still provide a stable pathway to middle class careers. But up until 2015, federal statutes prohibited bidders from using any preferences for local workforce hires in the bidding process for federally funded projects.¹² This made it difficult for communities to help people who could benefit most from a job get hired on local projects. Congress provided a pilot waiver to this prohibition in 2015, and the next administration must move quickly to extend the pilot program for an additional five years, while issuing updated guidance for implementation of the pilot, including collection and reporting of key data (i.e. hours worked by under-represented workers on permanent and temporary positions, etc.)

Reserve formula dollars exclusively for repair; use competitive funds for adding new capacity

Though we have a backlog of billions in urgently needed infrastructure repairs and deferred maintenance, we still continue spending a majority of federal funds on building new assets—which are also long-term liabilities when it comes to maintenance and repair. This is akin to building an expensive large addition to a house with a leaky roof. Between 2009 and 2011, states collectively spent \$20.4 billion annually to build new roadways and add lanes to existing roads, and just \$16.5 billion annually to repair and preserve the other 99 percent of the roadway system.¹³ The new administration should prioritize the care of our country’s valuable transportation assets.

For instance, the transportation dollars distributed to states by formula should be reserved exclusively for upkeep of the existing system. Any new capacity projects should instead be subject to a competitive process like those used for the TIGER program or the New Starts transit program, improving the returns on these projects and ensuring that new capacity is necessary and doesn’t come at the expense of essential repairs and rehabilitation.

12 Read “Extension of DOT Contracting Initiative Pilot Program” from the USDOT: <https://www.transportation.gov/regulations/textension-dot-contracting-initiative-pilot-program>

13 “Repair Priorities 2014: Transportation Strategies to Improve Roads and State Fiscal Outlooks.” Smart Growth America. <https://smartgrowthamerica.org/resources/repair-priorities-2014-transportation-strategies-to-improve-road-conditions-and-state-fiscal-outlooks/>

Goal five: Make smarter, more cost-effective investments

The process for our nation's transportation spending has been incredibly slow to respond to taxpayer demand for more transparency and proof that our public investments are truly cost-effective. While federal decision-makers have been slow to make changes, state and local transportation agencies increasingly rely on voter-approved funding measures, and they have started to recognize the importance of advancing innovation and clearly articulating the benefits of transportation investments to the general public. This trend—along with the baby steps required by the 2012 federal transportation law (MAP-21) to implement more data-driven decision-making in transportation—has generated a significant shift towards the use of quantitative performance measures.¹⁴

The next administration must build on these promising developments by further advancing programs and policies that ensure only the most cost-effective infrastructure projects, regardless of size, can win limited federal dollars.

Recommendations

- 1. Fund and expand competitive grant programs to reward innovation and quality.**
- 2. Evaluate and prioritize federal investments using performance measures.**
- 3. Carefully evaluate projects that receive federal innovative financing.**

Fund and expand competitive grant programs to reward innovation and quality

It's time to reward the transportation projects that can bring the greatest benefits instead of simply writing blank checks to states and ignoring the outcomes. Most federal transportation dollars are distributed based on formulas that guarantee state DOTs and transit agencies a given amount of annual funding. While this certainty allows agencies to make multi-year plans to address their needs, formula grants do not encourage greater innovation, rigor, quality, or an assessment of the costs vs. benefits relative to other projects—recipients get the same funding as long as they meet minimum requirements.

In contrast to this approach, Congress has created extremely popular competitive programs that reward only the most innovative, high return-on-investment projects that can bring multiple benefits. Many of these projects would have been unlikely to see the light of day without these programs—projects like the CREATE freight project in Chicago, the conversion of the Inner Loop in Rochester, NY, to an urban boulevard, and a marine highway program between the Ports of Oakland, Stockton and West Sacramento.¹⁵ Programs like TIGER, the Advanced Transportation and Congestion Management Technologies Deployment, New Starts and Small Starts, and a multimodal version of the restrictive, highway-only FASTLANE program should all be funded and expanded to meet the overwhelming demand placed on them.

14 Transportation for America's guide to the FAST Act can be viewed here: <http://t4america.org/maps-tools/fast-act/>

15 Transportation for America's map of all TIGER grants can be viewed here: <http://t4america.org/maps-tools/tigermap/>

Evaluate and prioritize federal investments using performance measures

Taxpayers deserve to know what our billions in transportation dollars are truly buying us, and the next administration should usher in a new era of data-driven performance measurement to assess the success (or failure) of our investments. USDOT is planning to set final rules in January 2017 that will establish performance measures to evaluate the effectiveness of the transportation system, but the first set of measures proposed by the Obama administration were disappointing. The next administration has an opportunity to address these limitations, improve these measures and create others to provide a more holistic picture of the impacts and benefits of our transportation investments. The next administration should take a multimodal approach to assessing reliability by measuring how the roadway system works for everyone that uses it (transit vehicles, pedestrians, bicyclists), and whether the system provides good access to jobs—especially in low-income and communities of color, which have suffered from disinvestment and disconnection. Further, following the lead of states like Virginia and metropolitan planning organizations (MPOs) like the Sacramento Area Council of Governments, performance measures should be used to optimize projects and prioritize them for funding.

Carefully evaluate projects that receive federal innovative financing

During these challenging budgetary times, expanding the low-cost financing options available to state or local projects has provided another tool for building transportation projects. While financing is not a replacement for robust federal funding for states and local communities, the next administration should seek to ensure that these loan programs fund wise investments—not just projects whose sponsors can repay the loan. The bar should be higher as federal agencies consider which projects to finance. With the TIFIA financing program, for example, outside of the ability to repay the loan, projects go through no evaluation to ensure that sponsors can afford long-term maintenance costs or that the projects won't be maintained to the detriment of other important infrastructure. The federal taxpayer should not be supporting such investments.

Conclusion: Smarter growth can stimulate the economy and extend opportunity to all

As these recommendations make clear, this isn't necessarily about spending more money—it's about better utilizing the vast quantities of direct spending, tax credits, loan programs, formula funds, and financing that already exist. Too many programs and policies work at cross-purposes. Some actually exacerbate the divide between the haves and have-nots, working against other programs designed to help people reach the middle class.

As the new administration looks for opportunities to make the economy work better for those who have not enjoyed the benefits of the last 30 years of growth, it's important to remember the large role of housing, land use, and transportation in determining household costs, access to opportunity, and wealth accumulation. The federal government through its existing programs has enormous opportunities to help lower- and middle-income Americans enjoy the economic progress that the top half of wage earners have experienced for some time.