Infrastructure Financing Models
A US Perspective

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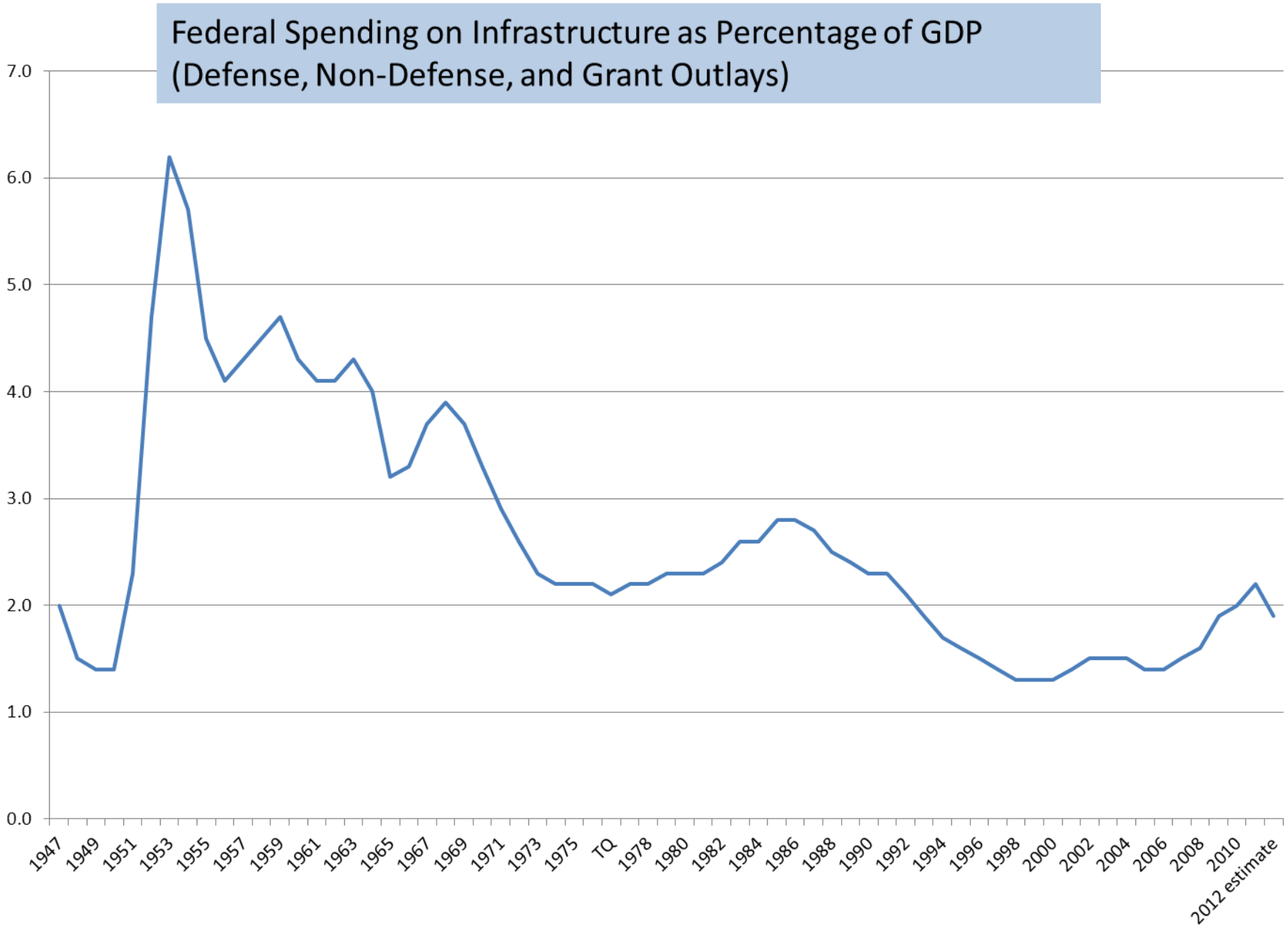
Outline

- Background
- General Observations on Municipal Financing
- Integration of Design and Financing
- Value Capture Model—Tax Increment Financing
- Concluding Remarks

Background

Rapidly changing fiscal and political context in which municipalities operate

- Steep federal government spending cuts for redevelopment activities
- Restrictions on tax-exempt bonds
- Devolution of urban policy to more local levels of government
- Tax-payer “revolts” leading to limits on property tax collections
- Heightened awareness of “corporate welfare”, leading to increased scrutiny of corporate tax breaks



Source: Office of Management and Budget

Spatialization and Revenue Structures

Why promote development or a certain type of development at a particular location?

Given a choice, parcels will be identified for development that maximize revenues or minimize costs. The ‘mini-max incentive’ embedded within the context of a city’s revenue structure manifests itself spatially in the design, land-use designations and development patterns of the city, or the spatialization of revenue structure.

General Observations on Municipal Financing*

STRATEGIC BEHAVIOR OF PROPERTY-TAX CITIES

Property-tax cities think strategically about development based on the market value of the development and on the possibility of shifting service-delivery costs to other jurisdictions (fiscal externalities).

Characteristics:

- Concentric urban structure
- Clear physical and historic identity
- High-end residences close to center
- High-end office and retail in center

Examples: Most large US cities (e.g. Chicago)

*Adapted from Ann O'M. Bowman and Michael A. Pagano***, *Terra Incognita: Vacant Land and Urban Strategies*** (Washington, DC: Georgetown University Press, 2004).

STRATEGIC BEHAVIOR OF SALES-TAX CITIES

Sales-tax cities think strategically about development based on their mental constructs of "shopping sheds" and on which market transactions are taxable.

Characteristics:

- Development pressure at urban edge
- Tax dollars drawn across city borders
- Development formulaic
- Urban center languishes

Examples:

Cities where the cost of municipal services is greater than property tax levies
often in southern and southwestern US

Many suburban municipalities adjacent to large cities

STRATEGIC BEHAVIOR OF INCOME-TAX CITIES

Income-tax cities think strategically about development based on their assessment of the income growth potential of the individual or firm.

Characteristics:

- Development less formulaic
- Development locations idiosyncratic
- Results depend on from whom the tax is collected
  - Income tax—seeks employed, high income residents
  - Commuter tax—targets public development projects and pushes private job creation

Examples: Income tax--Most cities in Ohio
Commuter tax—Cities in Kentucky, Detroit, Philadelphia

Integration of Design with Financing*

Multi-functionality and multi-benefit designs *allow financing from multiple sources*

- e.g. "Complete streets": transportation , walkability, stormwater control
- Transit-oriented development: public transit, mixed use residential/commercial
- Sustainable designs: social equity, economic viability, environmental quality
- Environmental justice: local employment, local expertise and firms, affordable housing, public art, "living walls"/green roofs

Enhance upstream financing

- Infrastructure trusts, TIFs, Grants

Peel off downstream costs

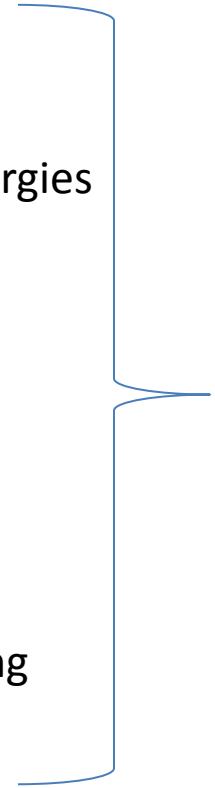
- Invest in efficiencies and integrate synergies
- LEED certification
- Conserve embodied energy
- Life cycle costing

Tax advantages

- Solar, geothermal, wind credits
- Accelerated depreciation

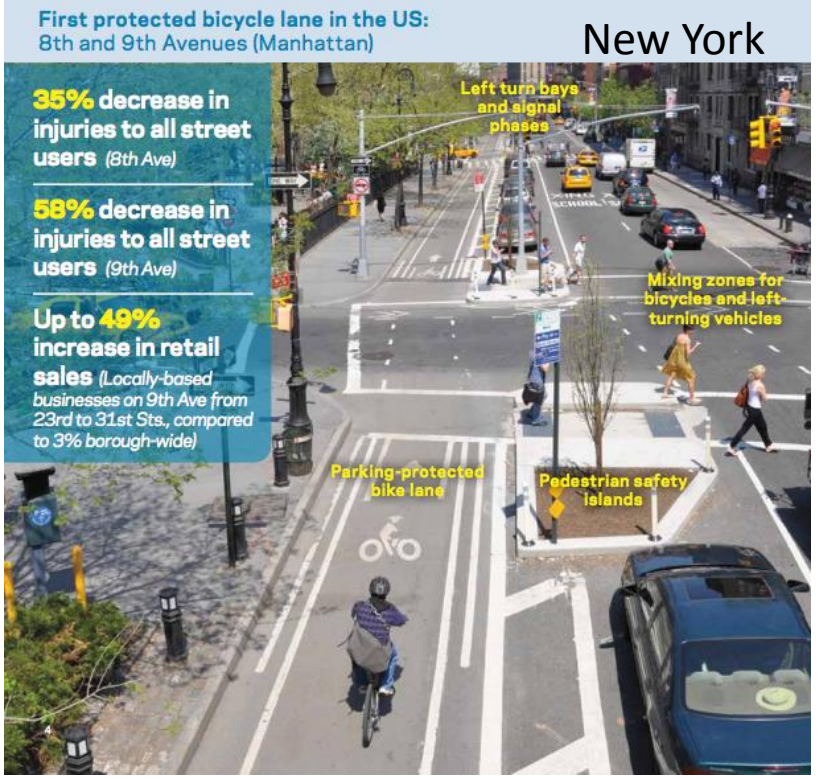
Innovative design-build contracting/benchmarking

- Guarantee energy savings
- Sourcing local/green materials

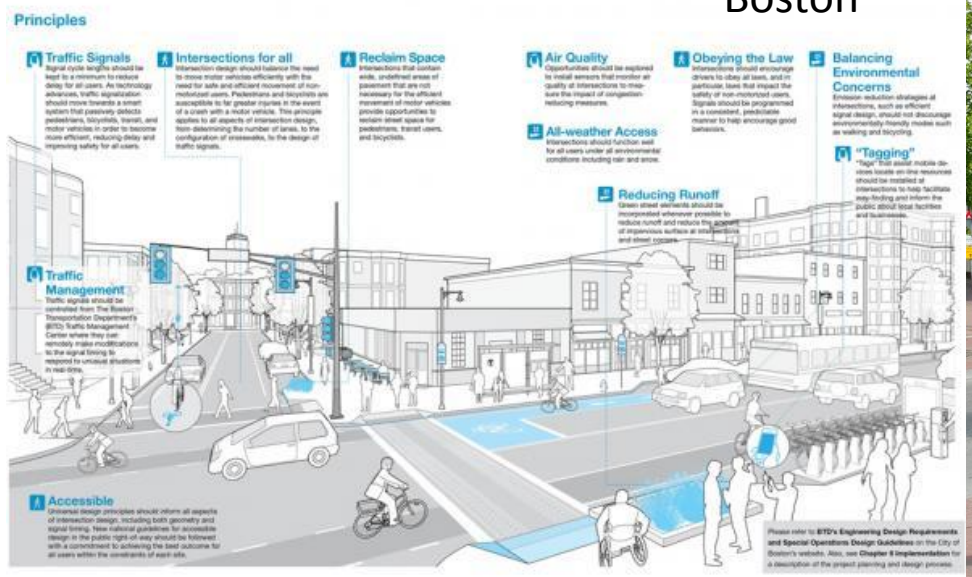


Free up long term capital

*From Michael Krause, Kandiyo Consulting, LLC, Minneapolis MN



Boston



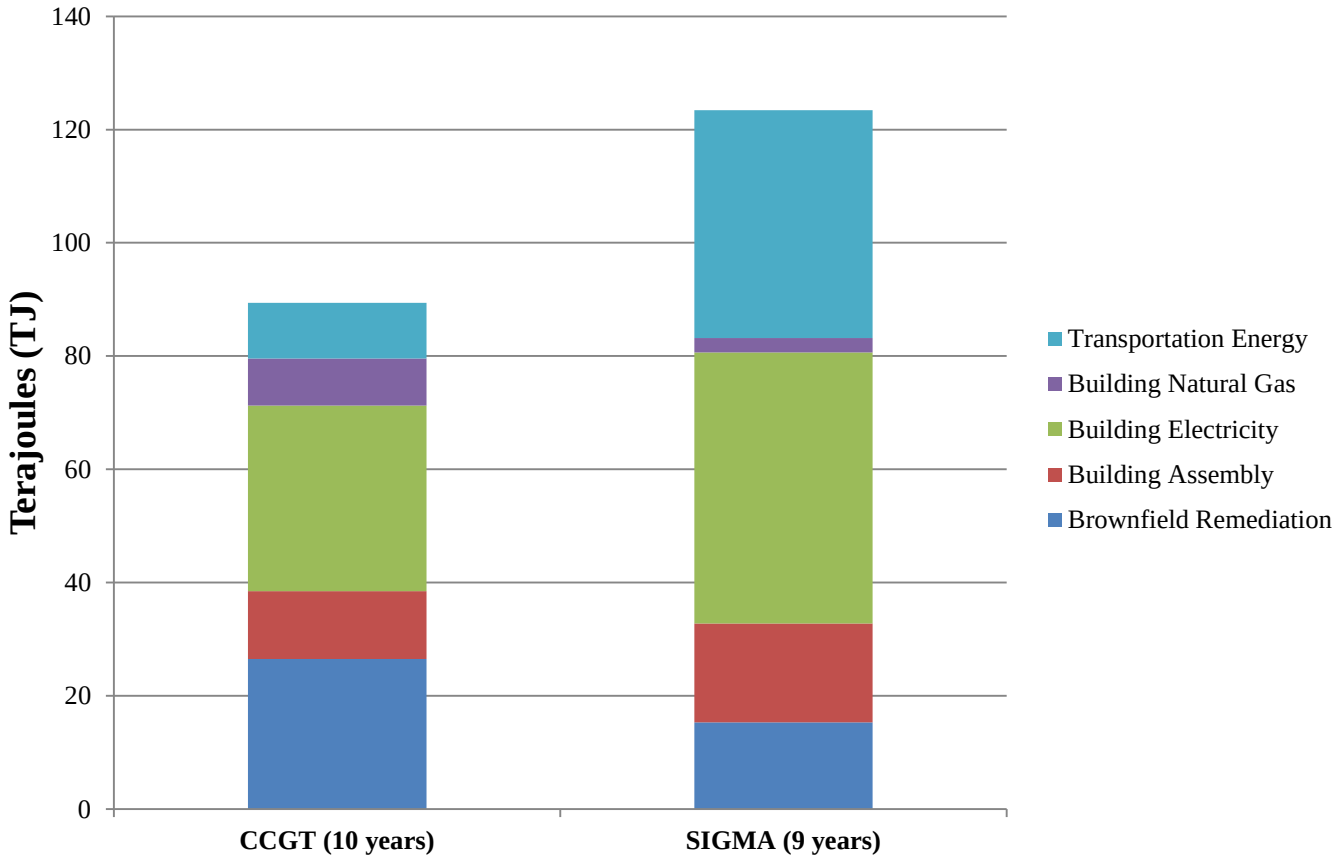
San Francisco

Life Cycle Energy Expenditures—the Value of Transit-Oriented Development

Chicago Center for Green Technology (CCGT)

Sigma Consulting—Milwaukee WI

Lifetime Embodied Energy Comparison



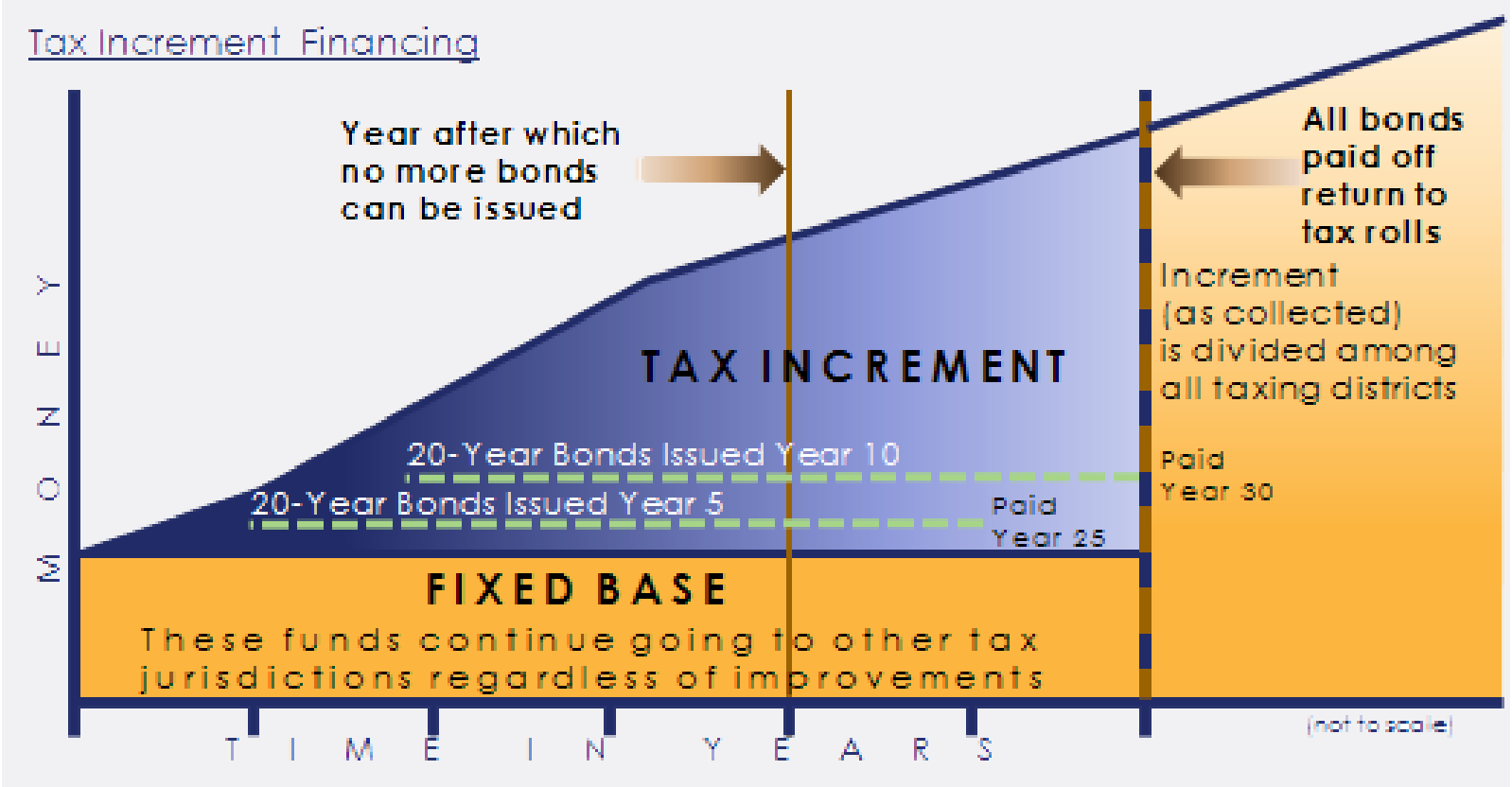
Tax Increment Financing (TIF)*

- TIF districts are designated by local authorities (under State-enabled legislation and according to local redevelopment plans) as "blighted", i.e. normal development and occupancy are undesirable or impossible due to cessation of growth, deterioration of infrastructure, age or obsolescence of the area, character of occupancy, or presence of substandard buildings

- Reallocation of property tax revenues within a TIF district for approved project or projects

- Earmark future growth in *ad valorem* property tax revenues to pay for initial and ongoing development

*Adapted from: Weber, R. "Tax Incremental Financing in Theory and Practice" pp. 53-69 in *Financing Economic Development in the 21st Century*, *2nd edition,* S. White, and Z. Kotval editors, ME Sharp (New York, 2013).


Tax Increment Financing
Year after which no more bonds can be issued
All bonds paid off return to tax rolls
Increment (as collected) is divided among all taxing districts
TAX INCREMENT
20-Year Bonds Issued Year 10
Paid Year 30
20-Year Bonds Issued Year 5
Paid Year 25
FIXED BASE
These funds continue going to other tax jurisdictions regardless of improvements
MONEY
TIME IN YEARS
(not to scale)

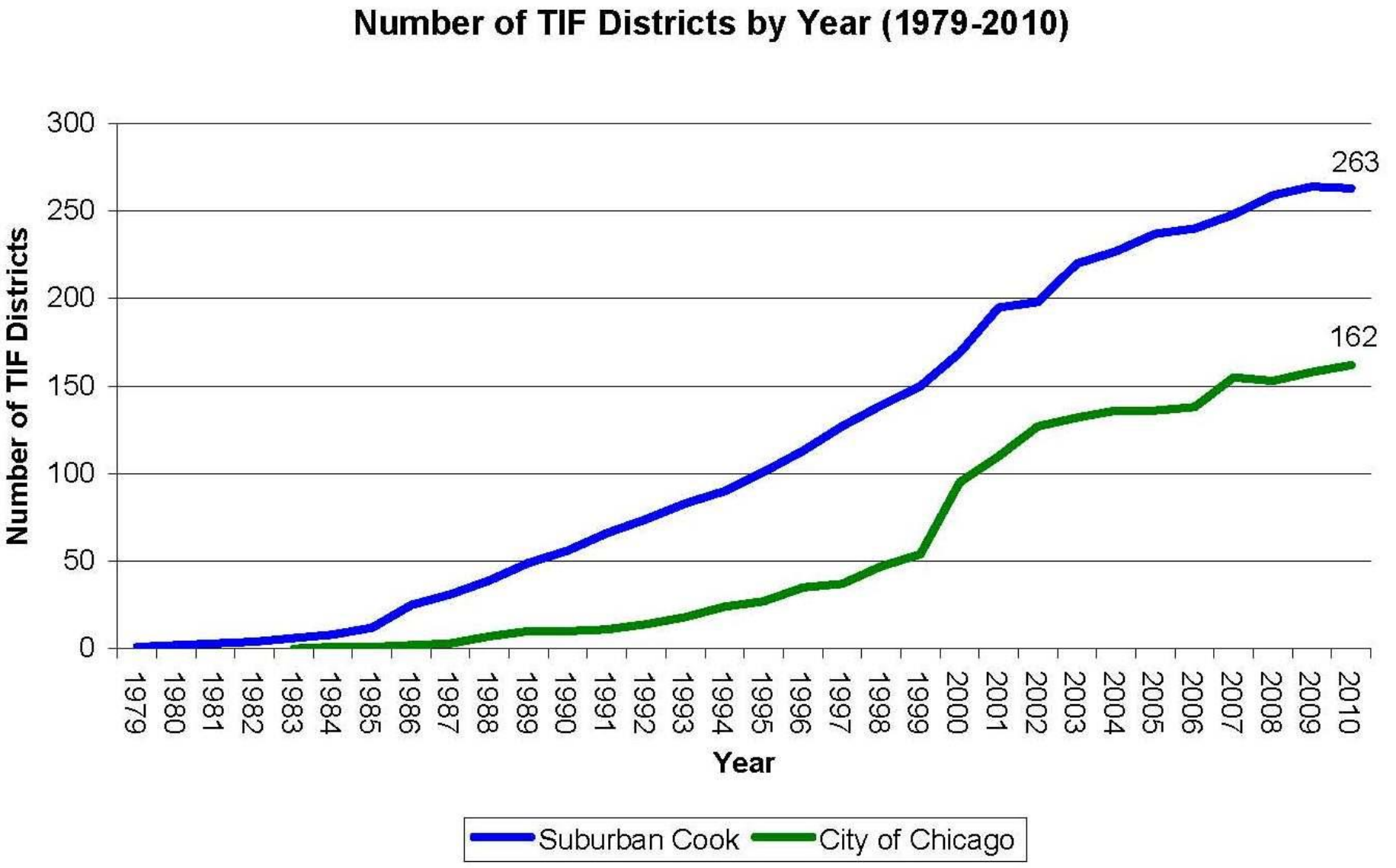
Mechanics of TIF

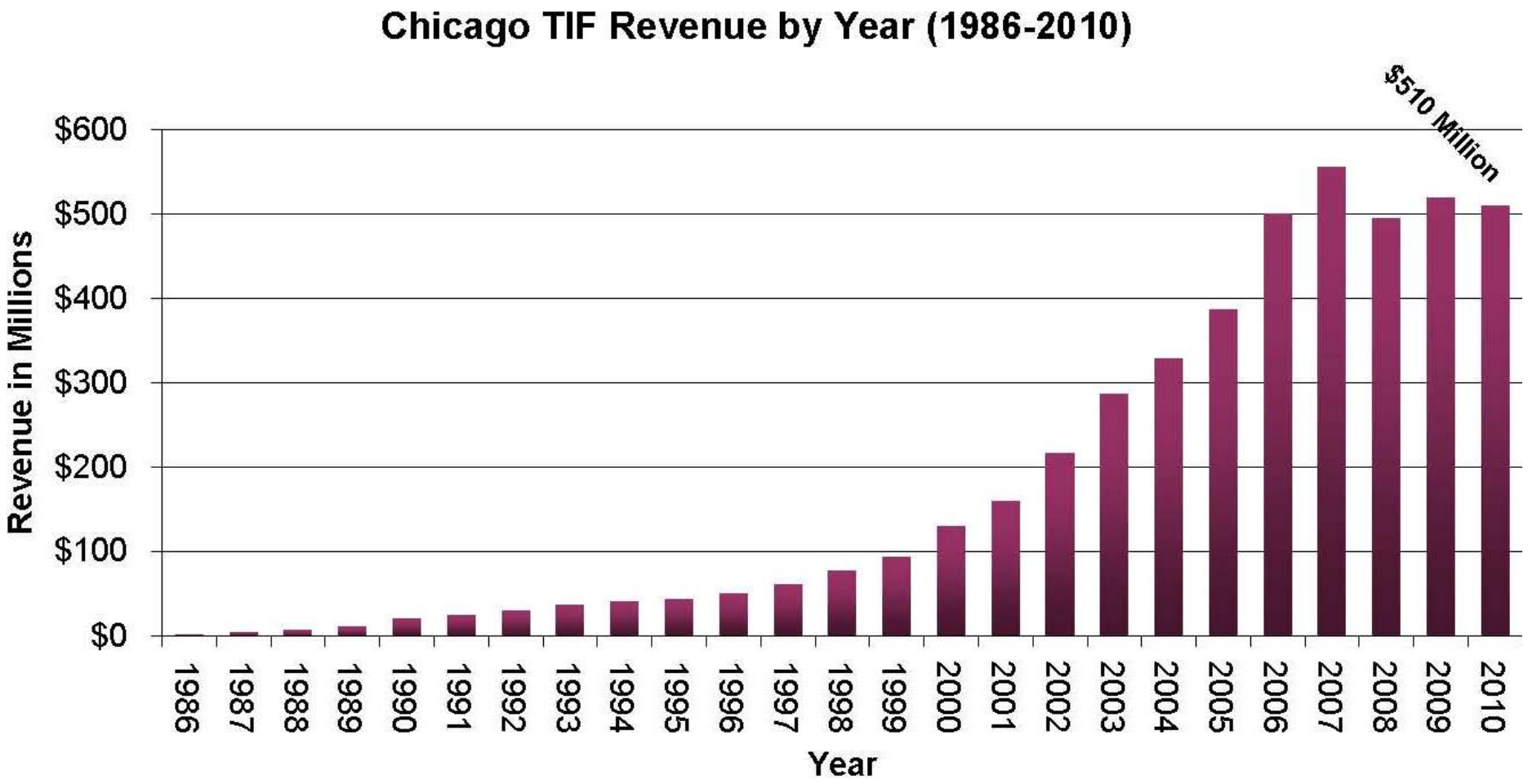
- Once designated, the initial assessed property valuation in the district is held constant (or nearly so) for a specific period of time (~20-25 years). This is the “base”.
- Municipal authority makes improvements in the area to attract private investors, (who may also receive TIF “incentives”—hence public-private partnerships).
- With private investment, assessed valuations are expected to rise, creating a “tax increment” which trickles in over time.
- This means that TIF increments are committed *in advance* of being generated, since most development costs accrue up front .
- Two major ways of financing TIF debt:
  - Revenue bonds issued by the redevelopment corporation, or in some instances general obligation bonds issued by the municipality
  - Developer financing (through lending institutions)

Popularity of TIF

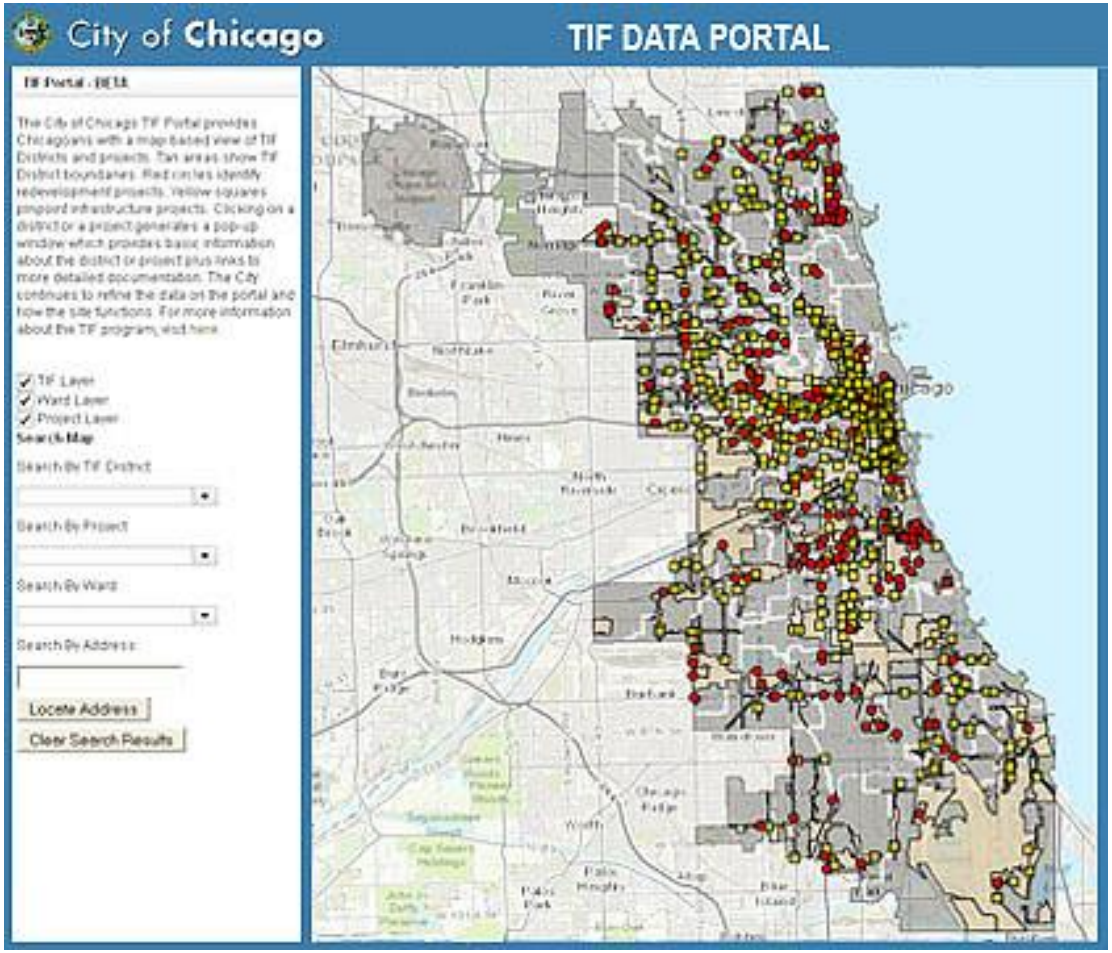
In response local funding strategies have evolved that rely less on federal funds, circumvent state or locally imposed revenue and spending limits, and at least superficially do not resemble “give aways”. For “property tax-type” municipalities, TIF is a major element of these strategies:

- It is a locally derived, “self-financing” system
- Doesn’t count against state-imposed debt limits
- Particularly useful for large redevelopment projects
- Perceived as less of a drain on public resources
- Flexible tool (relative ease of initiating, can be used for a variety of development including human resource-focused)


Number of TIF Districts by Year (1979-2010)
Number of TIF Districts
300
250
200
150
100
50
0
263
162
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year
Suburban Cook
City of Chicago


Chicago TIF Revenue by Year (1986-2010)
$510 Million
Revenue in Millions
$600
$500
$400
$300
$200
$100
$0
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Year

~ 30% of Chicago is now TIF-designated



http://www.cityofchicago.org/city/en/depts/dcd/provdrs/tif.html

Former US Steel South Works—Phase 1: $97M TIF, $300M private

But…there are disadvantages and problems

- Lower tax revenues for ongoing services and non-TIF projects (schools, parks, transportation, maintenance, housing, human resource programs)
- Possibility of lower growth of tax revenues in non-TIF regions
- Gentrification and the subsequent affordability of the area for existing residents
- Lack of oversight--arguable instances of excessive favorability to developers
- Other issues
  - Questionable degrees of “blightedness”
  - Overly rosy projections of tax increments
  - Poaching of retail from adjacent non-TIF areas
  - 20-25 year frozen tax base is excessive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STUDENTS
All Children
deserve a
Class education


TIF
MONEY