Financing Core Infrastructure

Reinventing Older Communities Conference
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Infrastructure Finance Challenge

- National large scale reinvestment needed
  - Recent study: $225 billion annually for 50 years for transportation alone
  - EPA estimates need of $390 billion over 20 years for wastewater treatment systems
- Pressing need in older communities with older and often outdated infrastructure
- Weaker fiscal capacity to finance infrastructure is older cities
- Declining federal funding
- Political resistance to new taxes
Infrastructure Spending

- $305 billion is state and local governments transportation and utility infrastructure spending in 2004 to 2005
- 13% of total S & L government spending
- $105 billion (34%) for capital outlays
- States focus on capital investment
  - 54% of state transportation & utility spending
- Local governments spend mostly on operations
  - 24% on capital outlays
Basic Finance Issues

- Pay upfront or pay over time
  - Funding over useful life

- Who pays
  - Direct users/beneficiaries or general public
  - Geographic tax or fee base
  - Current vs. future generations
  - Ability to pay

- Price to reflect true costs
  - Peak vs. off-peak pricing
Finance Options

- Appropriations and general tax revenues
- Dedicated taxes (gas taxes for highway funds)
- User and impact fees
- Assessments
- Intergovernmental grants
- Debt sales
- Private sector investment and contributions
- Increasing use of debt and private investment
Congestion and Peak Pricing

- Set fees based on peak cost or congestion impact
  - Used to price electricity
- Application to highways
  - Vary tolls by time of day, vehicle occupancy, location
- Enabled with growth in transponder and GPS technology
Growth in Private Investment

- S & L governments seek to address funding gaps and improve construction and operating efficiency
- State authorized public-private partnership (Pocahontas Parkway)
- Privately owned tolls roads (Chicago Skyway)
- Increased investor interest in infrastructure as an “asset class”
- 40 private infrastructure investment funds established with over $140 billion in capital
Financing “Place-based” Infrastructure

- Infrastructure investment stimulates new development
  - Improvements allow new and/or higher density development
  - Extending infrastructure
  - Site assembly, clean-up and redevelopment
  - Transit-oriented development

- New development provides revenue to finance needed infrastructure
Place-based Finance Tools

- Tax Increment financing
- Assessment districts
- Impact fees
- Developer funding
- Development rights
Tax Increment Financing

- New "incremental" taxes set aside to help finance a project or public improvements.
- “Base year” tax assessments & revenue are frozen at year TIF district is established and continue to flow to taxing jurisdictions.
- New (incremental) taxes after base year are diverted to TIF district and for designated uses.
- Increment generated in 3 ways:
  - Assessment growth
  - Improvement to existing properties
  - New development
Genesee County TIF District

- Address reuse of tax foreclosed & abandoned property in Flint, Michigan
- Reform tax foreclosure process and fund cleanup, assemble and improve abandoned properties
- Three-part financing strategy:
  - Land bank to hold and sell properties with sales proceeds dedicated to reuse properties
  - *Scattered site TIF district* to use tax-increment on improved properties dedicated to fund further property reuse
  - County scope: allows revenue from stronger suburban market to fund projects in Flint
Assessment Financing

- Fee assessed on property owners in an area to financed needed infrastructure or services
- Special district area designed to include the beneficiaries of the infrastructure or services funded.
- District collects the assessment and uses it to directly fund services/infrastructure or repay debt issued to fund infrastructure
- Assessment district may build and maintain its financed infrastructure or be a financing entity
Assessment Financing

- New levy assessed has advantages over tax-increment: new development or tax base growth not required for feasible financing
- Place-based infrastructure & development uses
  - Finance infrastructure needed for new development in an area
  - Finance improvements needed for a specific project (e.g., garage for a downtown development project)
  - Revitalize downtowns with infrastructure & services (Business Improvement District)
Considerations in Choosing Options

- Financial efficiency and cost of funds
  - GO vs. revenue debt
  - Reserves for revenue and TIF debt
- Capacity to expand revenue base
- Tax/fee incidence and fairness
- Cost or time savings under private or authority ownership and construction
- Accountability
- Political support and requirements