

# Financing Core Infrastructure



Reinventing Older Communities  
Conference

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Karl Seidman

MIT Dept of Urban Studies & Planning

# Infrastructure Finance Challenge

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- 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 waster water 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- Pressing need in older communities with older and often outdated infrastructure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

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- \$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

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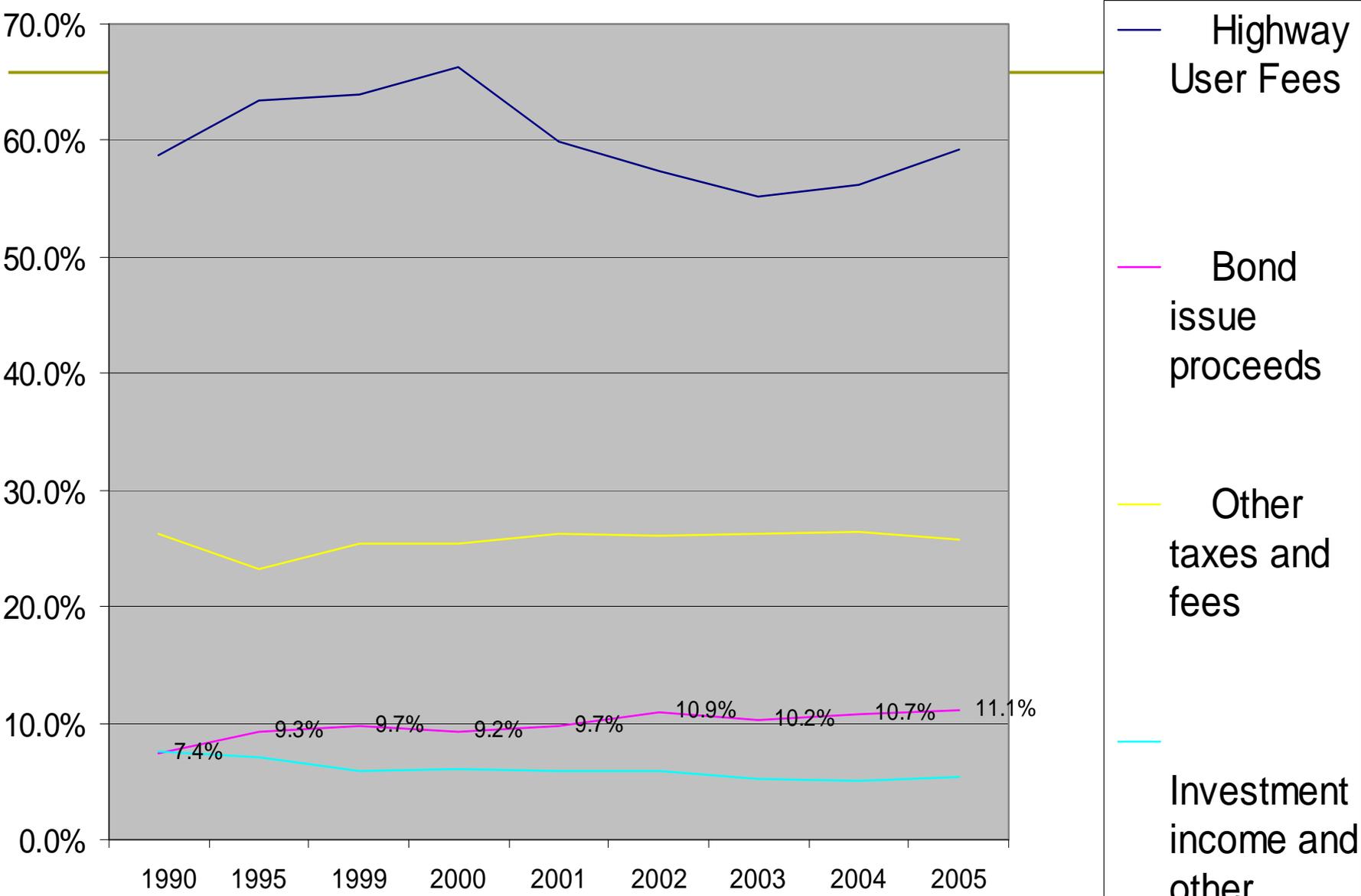
- Pay upfront or pay over time
  - Funding over useful life
- Who pays
  - Direct users/beneficiaries or general public
  - Geographic tax or fee base
  - Current vs. future generations
  - Ability to pay
- Price to reflect true costs
  - Peak vs. off-peak pricing

# Finance Options

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- 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

# Share of Highway Spending by Revenue Source



# Congestion and Peak Pricing

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- ❑ 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

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- ❑ 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

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- 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

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

# Tax Increment Financing

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- ❑ 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

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- ❑ Address reuse of tax foreclosed & abandoned property in Flint, Michigan
- ❑ Reform tax foreclosure process **and** fund clean-up, 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

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- ❑ 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

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- 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

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- 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