

Innovations in Public Finance



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A changing landscape

- State and local governments are scrambling
- Property tax under fire: assessment limits, “relief,” “reform,” elimination – Florida, Pennsylvania, New Hampshire
- Meals tax, lodging tax, sales tax on new items (i.e. alcohol), a local income tax, additional user fees

CFDs & COPs

- **Community Facility Districts (CFDs)** (also known as "dirt bonds"): issue debt for funding infrastructure for new development financed by a special tax on households and businesses in these districts
- **Certificates of Participation (COPs)**: local governments with non-profit entities issue tax-exempt bonds to finance facilities, then lease back

Tax Credit Bonds & QZABs

- **Tax Credit Bonds**, feds pay interest in the form of credits against income tax liabilities; used in the American Recovery and Reinvestment Act for school construction, clean energy projects, recovery zone economic development bonds
- **Build America Bonds** -- origins are in the Qualified Zone Academy Bond or QZAB circa 1990s.

BIDs & TIFs

- **Business improvement districts (BIDs):** currently about 700 in 46 states, either complement or increase public expenditures
- **Tax increment financing (TIFs):** now widely used—789 in Wisconsin; concern over increase in volatility of local property tax bases and revenues; few urban design guidelines -- supporting sprawl

A private landscape

- **Homeowner associations:** providing services to 50 million Americans, road and sidewalk maintenance, street lighting, trash collection, and recreation facilities -- about half the residences constructed in the U.S. in the past two decades

Pay as you go

- **Impact fees:** widely used to fund capital investments – but little evidence they correspond to actual community expenditures; theory suggests they can lower property taxes; empirical support is scarce

Pay as you go II

- **Vehicle miles traveled (VMT) tax:** GPS device in cars = charge of 1.2 cents per mile, as the equivalent of a 24 cents per gallon gas tax
- **Tolling** strategies for highways: after privatization and leasing deals in Chicago, Indiana, Pennsylvania; more sophisticated pricing structures take into account time of day or allow solo drivers to use high-occupancy toll lanes ("HOT" lanes)
- **Congestion pricing:** London, Stockholm, Singapore, New York (proposed)

Capturing gains

- **Value capture:** revenue based on incremental increases in land value associated with public intervention/government action (infrastructure, transit, zoning)
- In US: the High Line (New York), Rose Kennedy Greenway (Boston)

Value capture

- **CEPACs** (Certificates of Additional Building Rights Potential): instrument of value capture used since 2004 in Sao Paulo, Brazil -- rights purchased from city government by developers that allow construction of larger buildings.

Value capture & transit

- Bogota & Curitiba/BRT: Documented increase in property values near stations
- Portland, Oregon
- Washington DC Metro
- St.Louis MetroLink
- Los Angeles
- Copenhagen
- Hong Kong

New territory

- Transparency: voters unaware, no opportunity to approve
- Legal challenge: property rights
- Changing dynamics in the public-private partnership

Resource/further reading



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2009 Land Policy Conference
The Changing Landscape of Local Public Revenues

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