Rethinking How to Use Public Finance Tools

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Creating Layered Financing Strategies

- **Projects that provide public services or benefits often cannot be underwritten with solely private sources**
- **Creates a need to layer financing sources – private debt, public debt, public grants, etc.**
  - Layering is typical in Small Starts projects, revitalization plans
- **Public-private partnerships provide a mechanism to combine and layer private, public funding sources**

Types of Tools, With Varying Potential

- **Leveraging value increase – value capture – has greatest revenue potential, most variability**
- **Revenues via surcharge or agreements – special districts, fees – steadier if smaller revenues**
- **Credit enhancements, access – guarantees, loan funds – benefits in availability, timing, lower costs**
  - Doesn't increase revenue source to cover debt service
- **Reducing costs, risks – reduce amount to be financed**

Public Finance Challenges

- **We have a lot of tools – but limitations of federal, state laws can limit their scale, ease of use**
- **Fiscal challenges at the federal and state level have created proposals to revisit long-standing tools**
  - Challenges of New Markets Tax Credit reauthorization
  - Continued existence of tax-exempt debt
  - Retention of historic preservation tax credits
- **Need for advocacy to highlight the economic benefits from public finance tools**

Public Finance – Value Capture Challenges

- **TIF is the most powerful tool but has it challenges**
  - Only works in strong real estate markets
  - Revenues take time to build, so bridge financing is needed
  - Range of limits on its use, varies state by state
- **Increasing opposition to its use**
  - Use of TIF for redevelopment in California eliminated
  - Infrastructure Finance District alternative challenging to use
- **Failure to pass successor TIF legislation in CA**
  - Sustainable Communities Initiative TIF Funding; IFD Reform

Public Finance – TIF's Future

- **Likely outline for TIF's future in CA:**
  - Requires a vote of property owners or the public
  - Increment limited to what cities collect, will not include county or school districts share – 1/3 or less of previous amount
  - But more flexibility in its use – not tied to "blight" – more direct potential to use it for transit
- **Continuing fiscal pressure on local government means this issue may spread elsewhere**

Public Finance – Assessment Districts

- **Many forms – special assessment, community facilities, local or business improvement districts, etc.**
  - All rely on tax surcharges, are creature of State laws that can limit scope, amount, etc.
  - Typically rely on property owner authorization - challenges of getting a large number of owners to agree
- **Market constraint to the extent to which assessments can be levied without impacting feasibility**

Public Finance – Other Tools & Strategies

- **Accelerated funding – ground leases, America Fast Forward, etc.**
- **Air rights development**
- **Right-of-way leases – fiber, other**
- **Development impact fees**
- **Density bonus as a value capture tool**

More Tools & Strategies

- **Contributions, involvement by institutional partners**
- **Transfer fees on property sales**
- **Advertising and naming rights**
- **Congestion pricing**

Public Private Partnerships

- **Key questions: who controls the revenue flow and growth; costs; and allocation of risk**
  - Risks: market; design; construction cost; interest rates; ridership; operating; maintenance capital costs; political
- **Private parties will seek to shift risk**
- **Need to evaluate on a case-by-case basis**
  - Look at alignment of parties goals, interests, responsibilities
  - Match capabilities and demonstrated experience
  - Agreements have to spell out responsibilities, requirements, oversight, allocation of risk and caps, buy-out/termination

Strategies for Joint Development & TOD

- **Financing is about "sources" and "uses"**
- **Development in unproven markets, or large scale redevelopment, often requires public investment**
- **For individual projects it can be a matter of dealing with feasibility gaps**
- **Larger, multi-phase projects often have substantial up front costs – more than can initially be financed from public or private sources**

Unproven Markets: Addressing Risk

- **It can be difficult to develop in disadvantaged areas because of market risk perceptions**
- **Investment will flow once a market has been proven to exist, and risk perceptions will reset**
- **Catalyst projects, with public financing support, can be an essential tool to demonstrate market potential**
  - Strategy to focus public investment on just initial projects

Dealing With Infrastructure Costs

- **To the greatest extent possible these costs need to be "back-loaded" – shifted to later phases**
  - Developer approach to master planned projects
- **Identify what the market will support now, focus on just the infrastructure needed to support it**
  - Match infrastructure to development by phase
- **As development increases, growth in new tax revenues provides additional revenue sources**

Alternative Approaches to Parking

- **Reducing parking costs a key to enhanced feasibility**
  - Provide less parking and/or generate revenues
- **Shared parking structures / parking districts**
  - Transit agency structures by private uses off-peak periods
- **Reduced parking requirements**
  - Maximums rather than minimums
  - Credit for street parking, parking along internal circulation
- **Need for realistic replacement parking policies**

Summary: Creative Financing Strategies

- **Look at partnerships to maximize access to and use of private and public funding sources**
- **Create layered financing strategies that match funding and costs by phase, solve initial shortfalls**
  - Focus initial investments, shift costs into the future
- **Focus public resources on catalyst projects that shift markets, reduce the need to support future projects**
  - Continuing role to support affordable housing, etc.

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