Rethinking How to Use Public Finance Tools
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
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.