Innovative financing practices and the financialisation of infrastructure and urban development

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Structure

• Introduction: The Rise of Innovative Financing Practices

• Financing infrastructure and urban development: frameworks for analysis

• Case studies:
  o Chicago, IL – Chicago Infrastructure Trust
  o Greater Manchester, UK – Earn-Back Scheme
  o Stockton, CA – Multiple Bond Issues

• Conclusions

• Policy Reflections
Introduction: Rise of Innovative Financing Practices – Context

• Transition towards more entrepreneurial and financialised financing practices:
  o Spatio-temporal factors (e.g. economic and fiscal crisis, state and institutional restructuring)
  o Financing innovations (e.g. securitisation, revolving funds)
  o New actors (e.g. institutional investors, sovereign wealth funds)

• Place-specific financing arrangements informed by broader processes and financing practices:
  o Geographical variation
  o Policy learning, adaptation and mutation
  o Complex landscape of infrastructure finance

• Experimentation and innovation?
  o Infrastructure and urban development
  o Increased wealth generation opportunities
  o Tax base expansion

• Restructuring?
  o Changing governance and institutional arrangements
  o New legislation

• Increased public sector risk?
  o Greater indebtedness
  o Financialisation
  o Fiscal stress and bankruptcy

• Urban fragmentation and systemic competition?
  o Unbundling and splintering of infrastructure
  o Inter-urban and inter-governmental competition
The existing capital finance landscape in the UK

The emergent capital landscape?

**Sources of capital**
- Capital markets
- Grants
- Self financed expenditure
- Assets and investments
- Private capital
- Extra-local institutional investors
- Other

**Means of investment**
- Private partners, developers, financiers
- Consultancy and legal professionals
- Investments

**Spaces of policy innovation**
- Spaces of financialisation
- Spaces of risk

**Outcomes**
- Fiscal and Economic Crisis
- Fragmentation/Restructuring
- Capital accumulation
- Tax base expansion
- Infrastructure provision, development and economic growth
## Innovative Financing Practices

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<td><strong>Taxes and fees</strong></td>
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<td>New market/historic/housing tax credits; Tax credit bonds; Property tax relief; Enterprise Zones.</td>
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<td>Tax increment financing; Special assessment districts; Sales tax financing; Infrastructure financing districts; Community facilities districts; Accelerated development zones.</td>
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<td>Private finance initiative; Build-(own)-operate-(transfer); Build-lease-transfer; Design-build-operate-transfer.</td>
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<td><strong>Revolving infrastructure funds</strong></td>
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Chicago Infrastructure Trust

• A revolving fund:
  o Trust acts as a ‘bank’ for private investment.
    o Citibank, N.A.; Citi Infrastructure Investors; Macquarie Infrastructure and Real Assets Inc.; JP Morgan Asset Management Infrastructure Investment Group; and Ullico.
  o Infrastructure investments generate returns for the Trust and private sector investors.
  o Re-investment in infrastructure (multiple projects over long time period)

• Aims to contribute $1.7 billion in infrastructure investment.


• Strategy:
  o Levering in private investment
  o Financial model determined on a case-by-case basis.
Greater Manchester, UK – Earn-Back Scheme

• **Revolving fund:**
  - Returns from infrastructure projects and any ‘Earn Back’ are used to grow the fund and enable further infrastructure projects.

• **£1.2bn infrastructure investment fund.**
  - The 10 GM authorities put funds into a pool from transport and other spending sources.

• **Projects = Tram, road and bus network.**

• **Manchester could ‘Earn Back’ up to £30m a year in tax:**
  - Depending on levels of economic growth (net GVA increases in Greater Manchester).
  - **Earn Back formula – based on rateable values:**
    - Greater Manchester could receive more of the incremental tax (NDRs) than would otherwise be possible under business rate retention.

• **Any tax that is Earned Back must be used for further infrastructure investment**
  - Funds only released by government after certain value increase.
Stockton, CA: Multiple bond issues

- Municipality became insolvent;
  - “generally not paying its debts as they become due” (U.S. Code, Title 11, Chapter 1, § 101, 32, C, i)

- Bankruptcy filing in June 2012, approved in April 2013.

  - Unsustainable Retiree Benefits
  - Labour Contracts
  - Excessive Debt Burden
  - Economic Collapse
  - Elimination of Redevelopment
  - Bookkeeping Errors
Conclusions

• Compelling pressures driving the rise in innovative financing practices
• Receptive institutions in the context of state austerity, low/uncertain growth and infrastructure development and renewal needs
• Geographical variegation and adaptation
• Potential implications mixed
• New analytical frameworks to interpret the emergent landscape
• Empirical scrutiny and analysis beginning…
Policy reflections

• Planning and managing for the sharp edges of financialised innovations in infrastructure financing
• Assessing and balancing risk and reward
• Policy learning, adaptation and mutation
• Alternatives?
  o Patient, long-term and less financialised (?) private finance
  o A new PFI - ‘Public Finance Initiatives’
  o Civic and community-based asset ownership and stewardship…
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