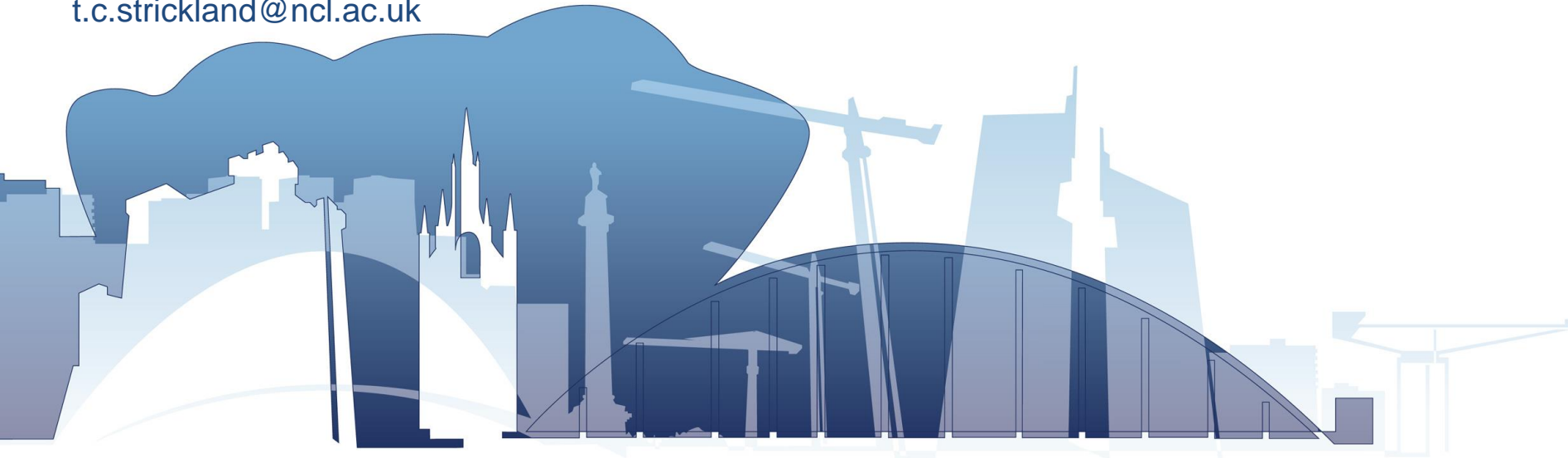


# Innovative financing practices and the financialisation of infrastructure and urban development

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- **Introduction: The Rise of Innovative Financing Practices**
- **Financing infrastructure and urban development: frameworks for analysis**
- **Case studies:**
  - **Chicago, IL – Chicago Infrastructure Trust**
  - **Greater Manchester, UK – Earn-Back Scheme**
  - **Stockton, CA – Multiple Bond Issues**
- **Conclusions**
- **Policy Reflections**

# Introduction: Rise of Innovative Financing Practices – Context

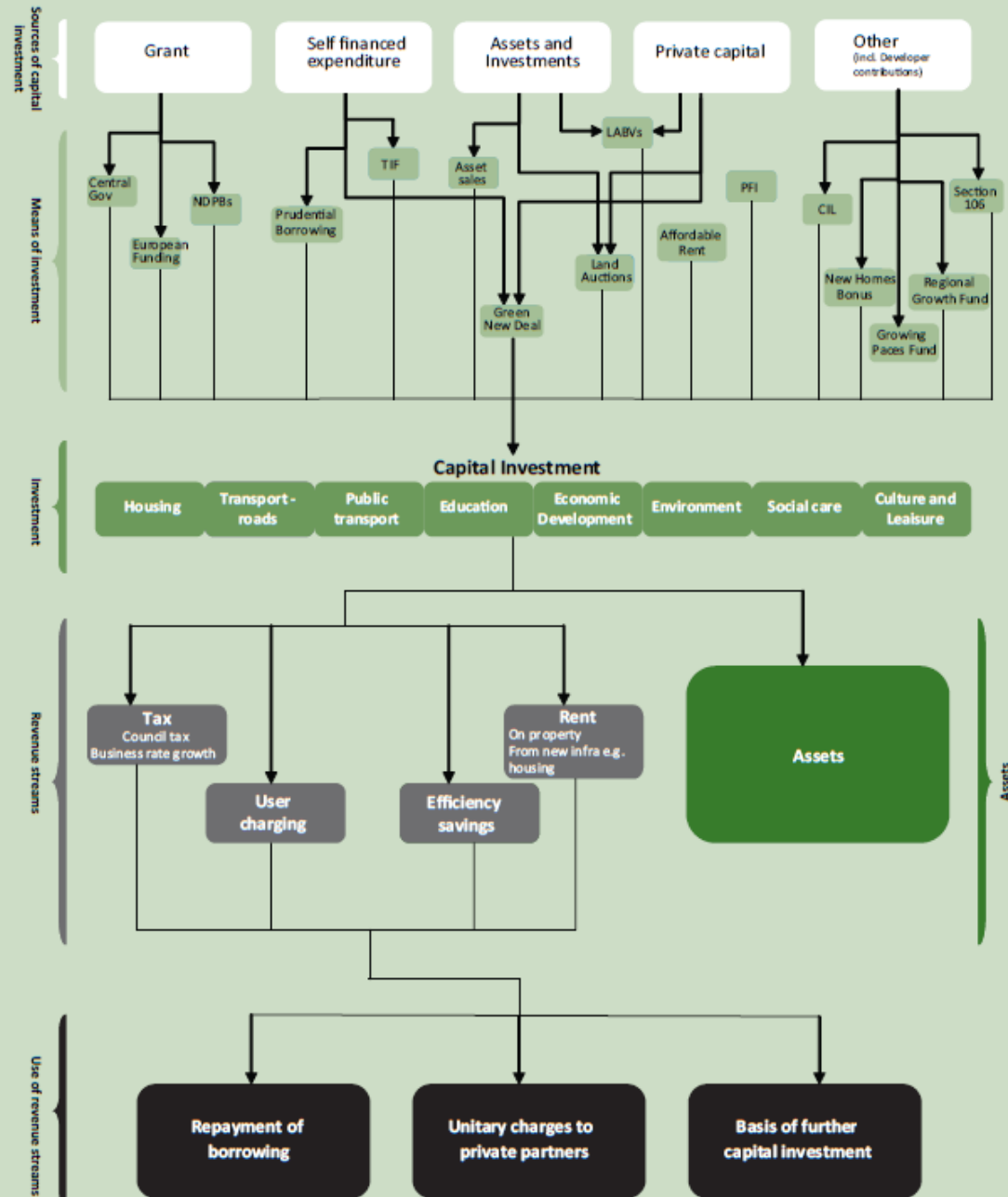
- **Transition towards more entrepreneurial and financialised financing practices:**
  - **Spatio-temporal factors (e.g. economic and fiscal crisis, state and institutional restructuring)**
  - **Financing innovations (e.g. securitisation, revolving funds)**
  - **New actors (e.g. institutional investors, sovereign wealth funds)**
  
- **Place-specific financing arrangements informed by broader processes and financing practices:**
  - **Geographical variation**
  - **Policy learning, adaptation and mutation**
  - **Complex landscape of infrastructure finance**

# Introduction: Rise of Innovative Financing Practices – Potential implications

- **Experimentation and innovation?**
  - **Infrastructure and urban development**
  - **Increased wealth generation opportunities**
  - **Tax base expansion**
  
- **Restructuring?**
  - **Changing governance and institutional arrangements**
  - **New legislation**
  
- **Increased public sector risk?**
  - **Greater indebtedness**
  - **Financialisation**
  - **Fiscal stress and bankruptcy**
  
- **Urban fragmentation and systemic competition?**
  - **Unbundling and splintering of infrastructure**
  - **Inter-urban and inter-governmental competition**

# The existing capital finance landscape in the UK

Figure 8 Capital finance landscape

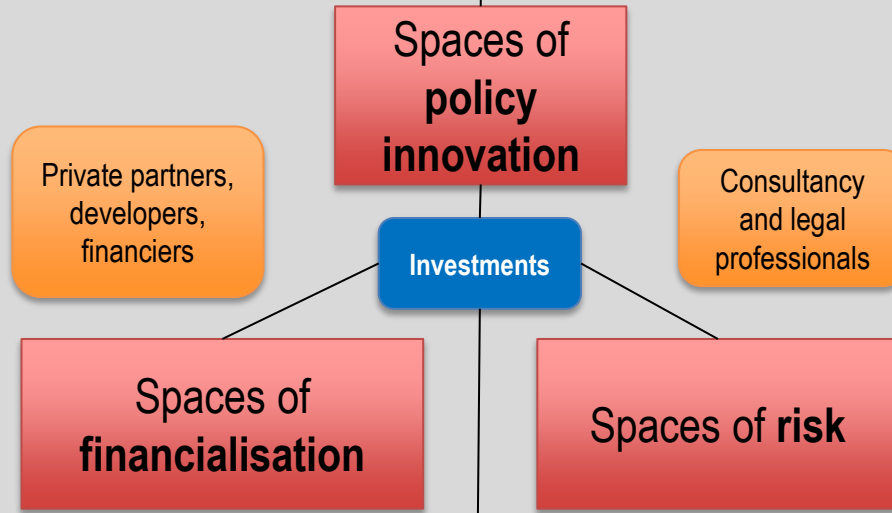


Source: Symons, T. (2011) *Capital Futures, Local Capital Finance Options in an Age of Recovery*, London: New Local Government Network, P. 33.

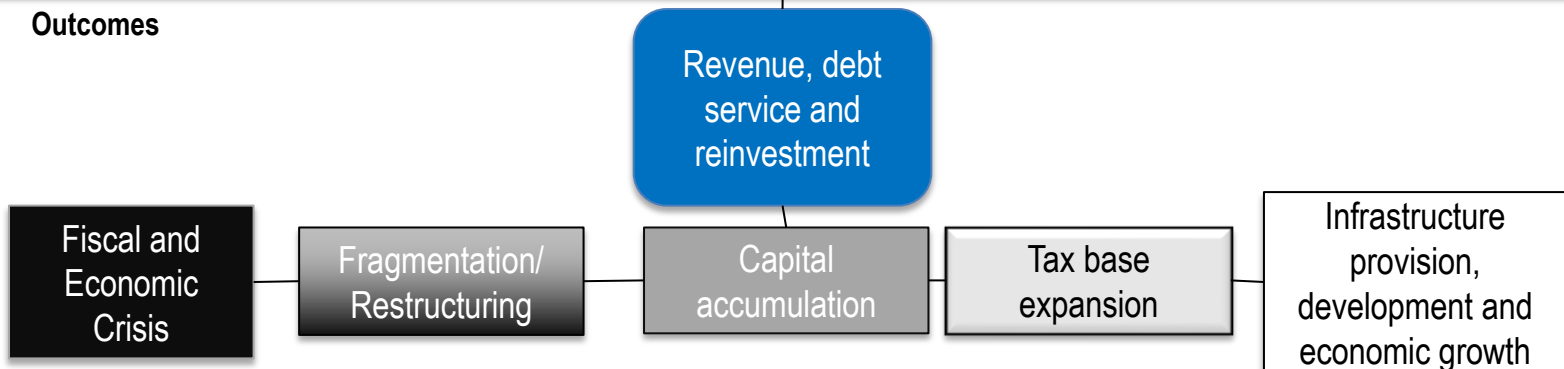
Sources of capital



Means of investment




Outcomes



# The emergent capital landscape?

# Innovative Financing Practices



Temporality	Type of financing	Examples
<p data-bbox="125 307 202 342">'Old'</p>  <p data-bbox="115 1235 212 1270">'New'</p>	Taxes and fees	Special assessments; User fees and tolls; Other taxes.
	Grants	Extensive range of grant programmes at multiple levels.
	Debt finance	General obligation bonds; Revenue bonds; Conduit bonds.
	Tax incentives	New market/historic/housing tax credits; Tax credit bonds; Property tax relief; Enterprise Zones.
	Developer fees	Impact fees; Infrastructure levies.
	Platforms for institutional investors	Pension infrastructure platforms; State infrastructure banks; Regional infrastructure companies; Real estate investment trusts.
	Value capture mechanisms	Tax increment financing; Special assessment districts; Sales tax financing; Infrastructure financing districts; Community facilities districts; Accelerated development zones.
	Public private partnerships	Private finance initiative; Build-(own)-operate-(transfer); Build-lease-transfer; Design-build-operate-transfer.
	Asset leverage and leasing mechanisms	Asset leasing; Institutional lease model; Local asset-backed vehicles.
	Revolving infrastructure funds	Infrastructure trusts; "Earn Back" funds.

# Chicago Infrastructure Trust



- **A revolving fund:**
  - **Trust acts as a ‘bank’ for private investment.**
    - Citibank, N.A.; Citi Infrastructure Investors; Macquarie Infrastructure and Real Assets Inc.; JP Morgan Asset Management Infrastructure Investment Group; and Ullico.
  - **Infrastructure investments generate returns for the Trust and private sector investors.**
  - **Re-investment in infrastructure (multiple projects over long time period)**
- **Aims to contribute \$1.7 billion in infrastructure investment.**
- **“innovative way to leverage private investment for transformative infrastructure projects”** (City of Chicago (2012) “Mayor Rahm Emmanuel Announces Chicago Infrastructure Trust to Invest in Transformative Projects”, City of Chicago Press Release, March 1, 2012)
- **Strategy:**
  - **Levering in private investment**
  - **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.**
  
- **Causes:** (City of Stockton (2012) ‘Proposals for Modifications to Obligations Under AB 506 Process’, May 7, 2012. P. 5-9)
  - **Unsustainable Retiree Benefits**
  - **Labour Contracts**
  - **Excessive Debt Burden**
  - **Economic Collapse**
  - **Elimination of Redevelopment**
  - **Bookkeeping Errors**



Tom Strickland© Stockton, CA

# 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?**
  - **Patient, long-term and less financialised (?) private finance**
  - **A new PFI - 'Public Finance Initiatives'**
  - **Civic and community-based asset ownership and stewardship...**

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