

# 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

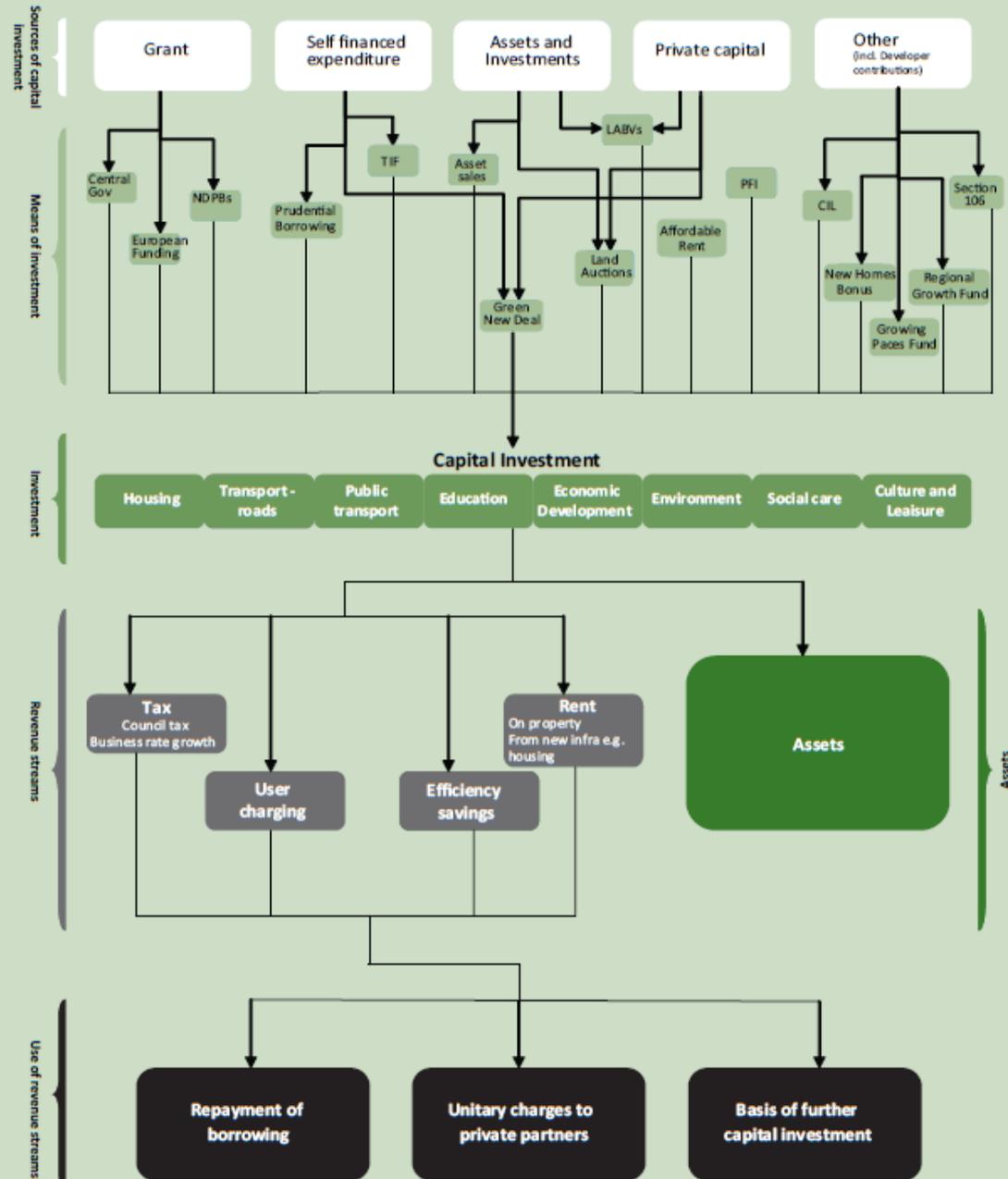
- **Transition towards more entrepreneurial and financialised financing practices:**
  - **Spatio-temporal factors (e.g. economic and fiscal crisis, state and institutional restructuring)**
  - **Financing innovations (e.g. securitisation, revolving funds)**
  - **New actors (e.g. institutional investors,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

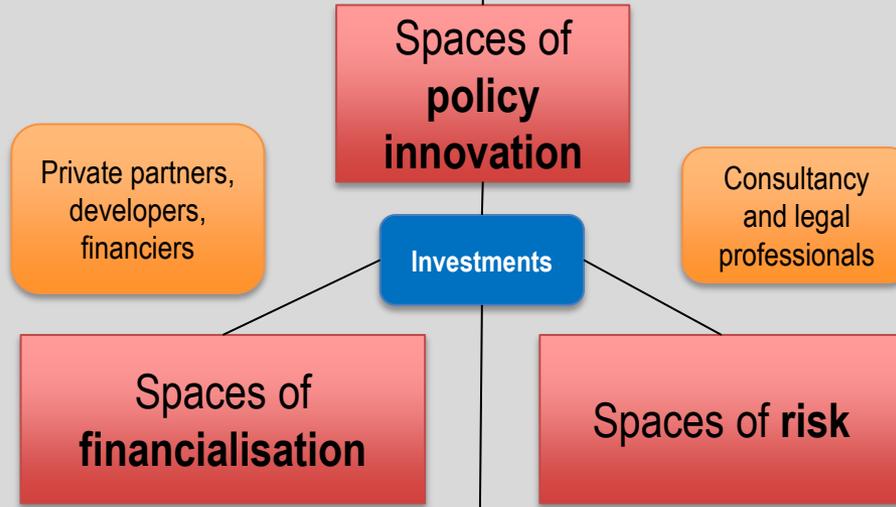


Source: Symons, T. (2011) *Capital Futures, Local Capital Finance Options in an Age of Recovery*, London: *New Local Government Network*, P. 33.

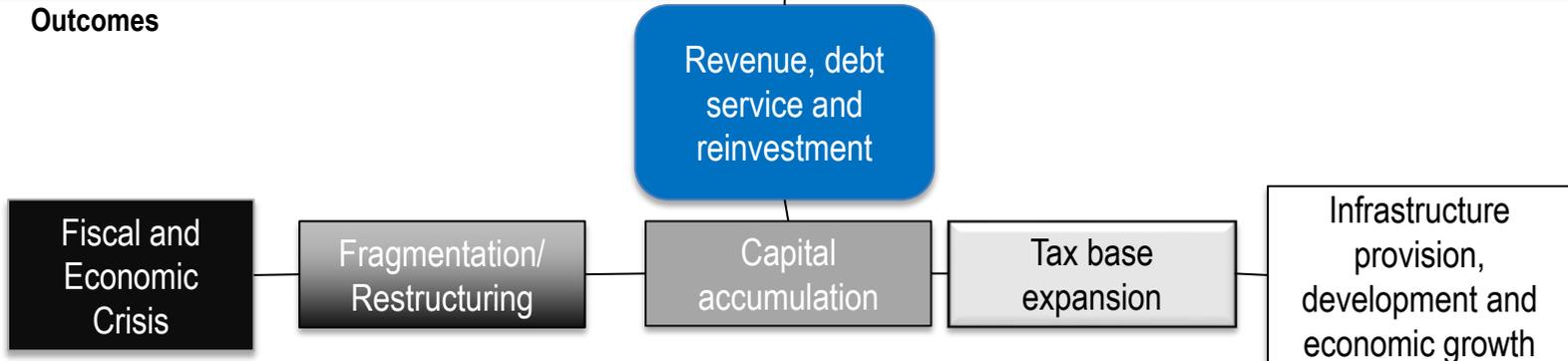
Sources of capital



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...**

# Acknowledgements

This research has been funded by the ESRC PhD Studentship (3000021026) in collaboration with Newcastle City Council and the EPSRC and ESRC i-BUILD research centre [www.ibuild.ac.uk](http://www.ibuild.ac.uk)