



Smart Cities Finance & Funding

David Rosen, PhD
Principal DRA

Cities Leadership Institute
December 6, 2017



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS



Overview

- Permanent Revenue Sources & Strategies for Community Benefit & Affordable Housing
- Land Value Capture Strategies for Community Benefit
- Tax Increment Financing
- Key Lessons from the U.S. Experience



Revenue Sources for Affordable Housing Trust Funds & Other Community Capital Purposes



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS



Commit Permanent, Annually Renewable Sources of Revenue for Affordable Housing & Community Benefit



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS



Revenue Sources

- **Tax Subsidies**
- Credits: Production, Rehabilitation, Home Purchase, Historic Preservation
- Deductions: Depreciation, Mortgage Interest, Property Taxes, Interest Rate Subsidy
- Property Tax, Capital Gains & Stamp Tax Abatements for Affordable Housing Properties
- Sales Tax Exemptions for Affordable Housing Construction Materials



Revenue Sources

Appropriations (Annual Budget Action)

- General Fund Revenues
- Pledged Revenues (e.g., Sales Tax, Increment, Hotel Bed Tax, Others)
- Development Impact Fees
- Publicly Owned Land and Air Rights
- Pledgeable Public Assets
(e.g., Subordinated Housing Loan Payments)





Revenue Sources



Bonds

- General Obligation
- Revenue
- Special Assessment Districts
- Tax Increment
- Social Impact Bonds (Pay for Performance)



Revenue Sources

Private Sector

- Private Sector Lending (Banks, Institutional Lenders, Investors)
- Superannuation Funds, Insurance Companies
- Foundations:
Grants, Program-Related Investments,
“New Philanthropy”
- Employer Assisted Housing



New Revenue: Housing Trust Funds

Annually renewable revenue sources permanently dedicated to the production and preservation of affordable housing.



Housing Trust Fund Revenue Sources



- Title transfer taxes
- Incremental property taxes
- Sales taxes
- Hotel/bed taxes
- Rental car surcharges
- Utility taxes
- Utility franchise fees
- Business license taxes
- Development impact fees
(both commercial & residential)
- Inclusionary housing in lieu fees
- Documentary stamp taxes
- Tideland oil revenues
- Carbon cap & trade credits
- Unclaimed property funds
- Interest on escrow accounts
- Public purpose charges
- Special assessment district taxes
- Infrastructure district taxes



Land Value Capture Strategies

- Inclusionary Zoning
- Density Bonus (FAR)
- Design Code Incentives (e.g., Parking Reduction for Transit-Oriented Development)
- Air Rights
- Transfer of Development Rights (TDR)/
Transfer of FAR (TFAR)



Redevelopment Tax Increment Financing



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS



What is Redevelopment?

- Tool to Remediate Blight
- Economic Development and Affordable Housing
- Ability to Enter into Public Private Partnerships
- Agencies Are Separate from Cities
- Agency Debt Has No Pledge of City Funds
- Financing Flexibility

Source: Orrick, De La Rosa & Co.



What is Tax Increment?

- Tax Increment is “the increase in the property taxes within the redevelopment project area that results from increases in assessed value over the base year assessed value”
- Tax Increment is a Redistribution of Property Tax from Other Taxing Agencies
- No New Taxes
- Primary Funding Source Used by Redevelopment Agencies is Tax Increment

Source: Orrick, De La Rosa & Co.



Growth in Tax Increment

Tax Increments Come Only from Increase in Assessed Value:

- New Construction
- Major Rehabilitation
- Infill Construction
- Reassessment Upon Sale of Property
- Other Conventional Reassessment

Source: Orrick, De La Rosa & Co.



Tax Increment Financing

- Predictable
- Long Term
- Support Dependably Secure, Prudent Debt

Source: Piper Jaffrey & Co.; Kenton Futures



No Agency Direct Control to Increase Revenues



- No Ability to Change Tax Rates
- No Ability to Reallocate Resources as in General Fund Debt
- No Ability to Raise Taxes or Revenues

Source: Orrick, De La Rosa & Co.



Key Financial Factors for Project Area Credit

- Diversity of Land Uses
- Diversity of Property Ownership
- Diversity of Overall Assessed Value
- Size of Project Area
- Historic Assessed Value Trends
- Revenue Sharing Agreements (Pass Throughs)

Source: Orrick, De La Rosa & Co.



Overview of Tax Increment Bonds

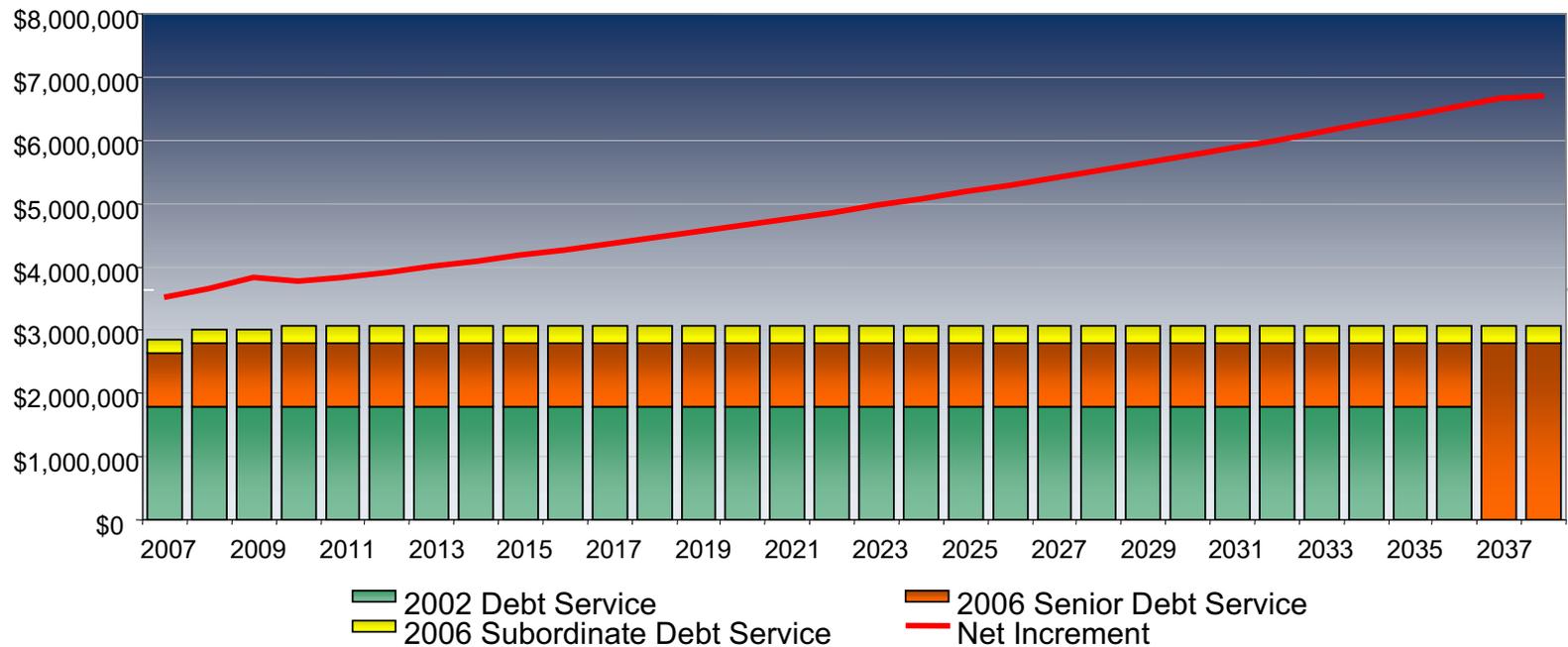


-
- A Long-Term Debt Secured Solely by Tax Increment Revenues
 - Major Advantage is the Ability to Pledge Future Tax Increment
 - Bond Proceeds Are Used to Revitalize Blighted Areas, Promote Affordable Housing and Economic Growth
 - City's General Fund Not Liable for Repayment

Source: Piper Jaffrey & Co.; Kenton Futures



Tax Increment Bond Capacity/Structure Illustrated



Source: Orrick, Stone & Youngberg



Key Lessons from the U.S. Experience



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS



Key Lessons from the U.S. Experience



1. Create a national consensus on defining affordable housing
2. Create permanent, annually renewable revenue sources for affordable housing
3. Create durable public-private partnerships for financing, developing and managing affordable housing & capital market strategies to finance community infrastructure



Key Lessons from the U.S. Experience



4. Implement state-of-the-art land value capture policies
5. Treat affordable rental housing as key community infrastructure
6. Create an industry supply chain to develop, preserve and manage affordable rental housing



Thank you!

David Rosen, PhD

Principal, DRA

david@draconsultants.com

www.draconsultants.com

1 + 510-451-2552