



# Smart Cities Finance & Funding

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DEVELOPMENT, FINANCE AND POLICY ADVISORS



# Overview

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- 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



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



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# Revenue Sources

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- **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

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## **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

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## **Bonds**

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



# Revenue Sources

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## 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

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



# Housing Trust Fund Revenue Sources

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- 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

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- 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



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# What is Redevelopment?

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- 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?

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- 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

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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

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

Source: Piper Jaffrey & Co.; Kenton Futures



# No Agency Direct Control to Increase Revenues

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- 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

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- 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

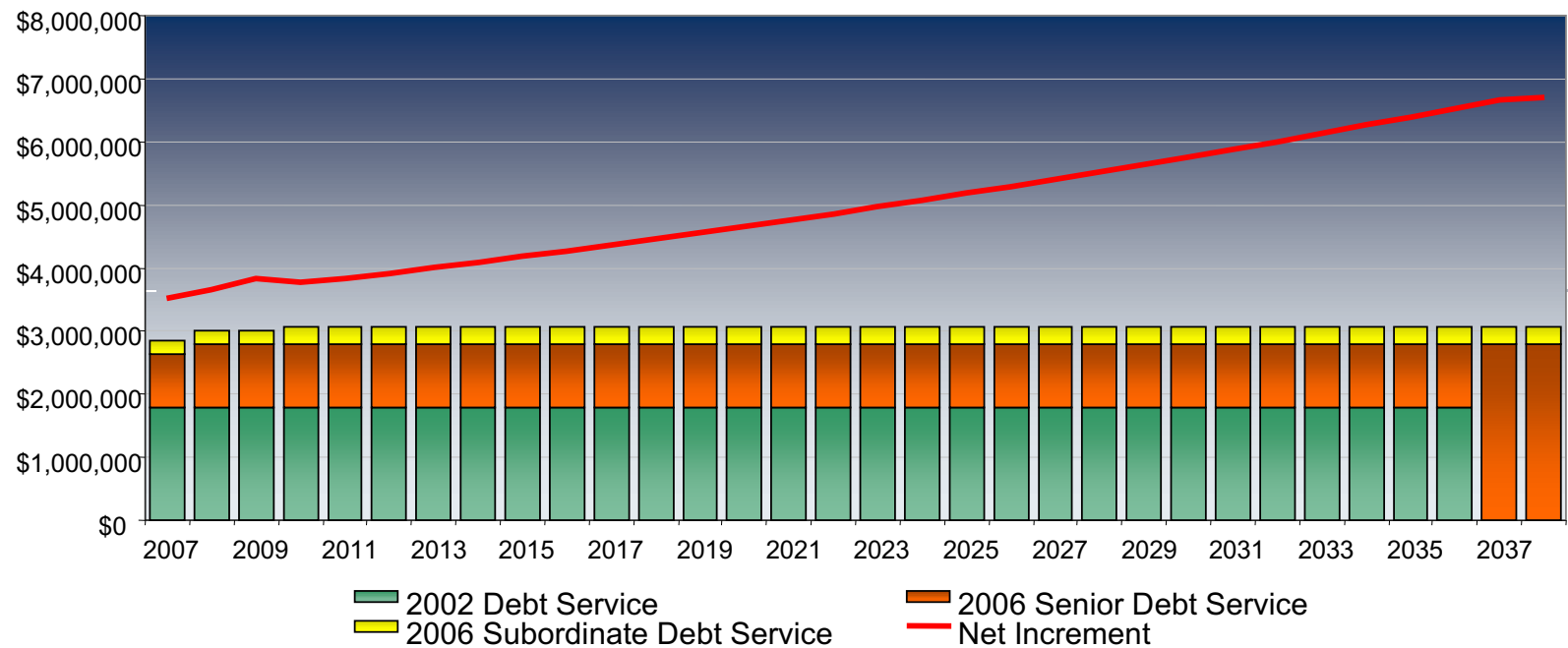


- A Long-Term Debt Secured Solely by Tax Increment Revenues
- Major Advantage is the Ability to Pledge Future Tax Increment
- Bond Proceeds Are Used to Revitalize Blighted Areas, Promote Affordable Housing and Economic Growth
- City's General Fund Not Liable for Repayment

Source: Piper Jaffrey & Co.; Kenton Futures



# Tax Increment Bond Capacity/Structure Illustrated



Source: Orrick, Stone & Youngberg

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# Key Lessons from the U.S. Experience



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# Key Lessons from the U.S. Experience

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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

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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!

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