

Infrastructure Planning and Financing: An Overview

Presentation to the Workshop on Metropolitan Regions in Federal Systems, Brussels, June 20, 2011

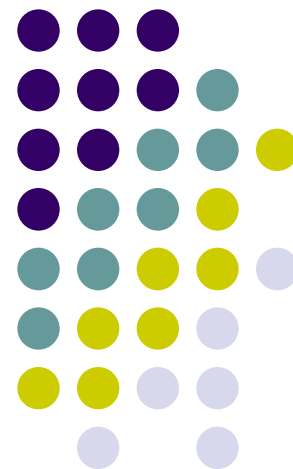
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EUROPEAN UNION



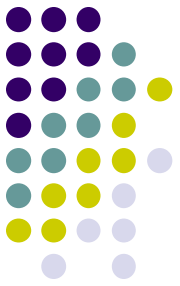
Committee of the Regions



Introduction

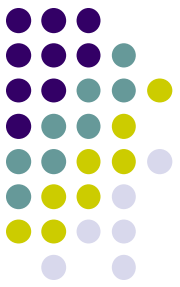


How do you plan and finance infrastructure when there are many different local governments in a metropolitan area?



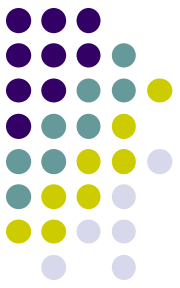
Introduction

- Good infrastructure planning requires:
 - Regional structure addressing cross-boundary issues
 - Wide range of fiscal tools



Regional Planning Models

1. Metropolitan Government
 - ✓ e.g. Cape Town, South Africa
2. Strong Role for Provincial/State government
 - ✓ e.g. Greater Toronto Region, Canada
3. Regional Planning Authorities
 - ✓ Planning Commissions (e.g. South East Queensland, Australia)
 - ✓ Metropolitan Planning Organizations (e.g. United States)
4. Voluntary Models
 - ✓ e.g. Vancouver, Canada



Infrastructure Financing

1. *Traditional*

- Taxes, User Fees, Grants, Borrowing

2. *Non-traditional*

- Public-Private Partnerships (PPPs), Value Capture, Development Charges

Traditional Financing



Taxes

- Taxes (property, income, sales) are a significant revenue source for municipalities around the world
- Mainly used for operating expenditures, appropriately benefiting those who pay current taxes

Traditional Financing



User Fees

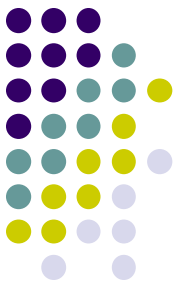
- Best used when beneficiaries of infrastructure can be identified, and non-users can be excluded
- Appropriate for water, sewage, garbage collection, highway improvement (in the form of tolls), public transit, etc.

Traditional Financing



Borrowing

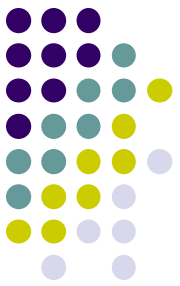
- Borrowing is appropriate for major infrastructure projects that have long-term benefits
- Pooling of municipal debt (by provincial agency) can lower borrowing costs and facilitate cooperation among municipalities
- Borrowing costs may crowd out current expenditures
- Borrowing by municipal consortia in Brazil



Traditional Financing

Federal and State Grants

- Can be unconditional or conditional, and can encourage municipalities to work together on regional planning (MPOs in the US)
- Reflect, in some instances, upper-level government ability to capture taxes in more ways than municipal governments
- Transfers can, however, distort local decision making processes and are often unreliable from year to year



Non-traditional Financing

Public-Private Partnerships (PPPs)

- Private sector role can vary, from development to control and running of the project
- Tap into private sector strategy, expertise, and experience
- Competition can lower municipal costs
- But:
 - Potential loss of control for public sector
 - Private borrowing costs may be greater than public
 - Need realistic allocation of risk between public and private sector
- Example – Partnerships BC (Canada)

Non-traditional Financing

Value Capture



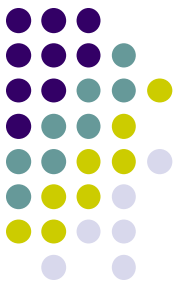
- Increase in land value resulting from public investment is recouped by public sector and used for public sector purposes
- Tax increment financing (TIF) used widely in US jurisdictions, e.g. California, Illinois
- But:
 - Borrowing costs may be higher
 - Impact on other taxing authorities
 - Increment may not be as large as anticipated
 - Lack of transparency in some cases

Non-traditional Financing



Development Charges

- One-time levy on developers to cover the growth-related capital cost associated with new development
- Covers cost of off-site infrastructure (e.g. highways, sewer lines, etc.)
- New growth pays for itself; not a burden on existing taxpayers
- Can differentiate charge by type of property (e.g. houses versus apartments) and by location
- Needs to be levied on a region-wide basis for region-wide infrastructure
- Used widely by municipalities in North America



Final Comments

- Good infrastructure planning means planning encompasses the entire metropolitan area, is undertaken at a regional level, and funding comes from a range of financing options (public and private)
 - Plan infrastructure at a regional level
 - Diversification of funding sources
 - Wherever possible, financing options should encourage cooperation among municipalities