

PAYING FOR GROWTH

Alternative Infrastructure Finance Mechanisms

A report prepared for the National Association of Home Builders, the National Housing Endowment, the National Council of the Housing Industry and the National Association of Realtors®

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EXECUTIVE SUMMARY

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SETTING THE STAGE

Growth and the challenges associated with it have become prominent issues in thousands of cities, towns and counties across the United States. Central to the debate is the question of how best to provide and pay for infrastructure and services needed by growing communities while at the same time maintaining the quality of life for existing residents. As state and local governments experience severe budget shortfalls, this debate grows in intensity.

Many local governments are finding it increasingly difficult to bridge the gap between the demands of growth and faltering streams of public revenue. With tax increases considered taboo in many communities, the challenge of maintaining and expanding needed infrastructure becomes more difficult. Driven by crisis, many local governments are looking for alternatives to traditional infrastructure financing and service-delivery mechanisms.

This study presents some of those alternatives, explains how and under what conditions they can and have been used, and explores potential financing structures that may warrant further examination.

Innovative alternatives do exist. It is the responsibility of government officials, builders and developers, the financial services industry and other stakeholders to apply those alternatives in ways that help communities maintain and expand much needed infrastructure.

A GROWING CHALLENGE

Unlike most developed nations, the United States continues to experience strong population growth. Based on U.S. Census Bureau projections, the authors of this study estimate that the nation will add 77 million new residents between 2000 and 2030. This new growth will require 32 million new housing units. If recent urban development

patterns continue, most of these new homes will be built on the suburban edge of major metropolitan areas.

Population growth is fueled primarily by organic growth (births exceeding deaths) and immigration. Growth in the demand for housing units is a function of growth in household formations. It is important to note that there is a significant difference between the growth in population and the growth in households. The greater increase in household formation is occurring because household size is decreasing. From 1950 to 2000, the number of households rose 64 percent more than the increase in population. In other words, more households are being formed than population alone would suggest.

This growth in household formation is the major driver in the growth of land used for development. A natural relationship exists: The greater the number of households, the greater the demand for housing units. This is significant because it is often noted that in many metropolitan areas, the amount of developed land is growing more rapidly than the population. But a comparison of developed land and household formation shows a very different relationship. Since 1960, the number of household formations and the growth in urban land have expanded at virtually the same rate. Most of the expansion of urban land since 1960 is accounted for by the increase in the number of households.

HOUSING AND THE AMERICAN EXPERIENCE

Housing is one of the distinguishing characteristics of American life. Whether it's a downtown apartment or a detached home in the suburbs, the home is an important aspect of cultural, social and economic well-being for most families. No major industrialized nation can come close to matching The United States' homeownership rate of almost 70 percent.

Homeownership offers significant benefits to families and communities. It is associated with higher incomes and greater social cohesion. Home equity is a principal source of both wealth and economic growth. It accounts for approximately 40 percent of household net worth in the United States, and an even higher percentage of the net worth of lower income households. Home equity also provides an important source of capital for other economic activities, such as new business startups, home improvements and financing of higher education.

Homeownership and its advantages are not enjoyed equally by all Americans. African-American and Hispanic homeownership rates, while rising, remain below 50 percent. This disparity in homeownership rates is significant because it further widens the wealth gap between these groups and whites. With housing price serving as a major barrier to homeownership, many minority families are unable to accrue the home equity that provides financial security for millions of American families.

New residential construction also carries with it strong economic benefits for communities. The National Association of Home Builders' department of housing policy estimates that on average, construction of 100 single-family homes generates \$11.6

million in new income to local businesses and workers in the first year of construction, and \$2.8 million every year thereafter. It also creates 250 jobs in the local community during the first year of construction, and 65 jobs every year thereafter. In terms of contribution to public revenue, these 100 new homes bring \$1.4 million in additional local taxes and fees in the first year of construction, and \$498,000 every year thereafter, for a total of \$5.9 million over 10 years. The rewards to communities are significant and ongoing.

Growing communities almost always enjoy better fiscal health than communities that are not growing.

INFRASTRUCTURE SPENDING

Local governments are the principal providers of public services and public infrastructure that supports new and existing housing. In the second half of the Twentieth Century, local government spending on infrastructure, as a portion of local government expenditures, declined significantly in relation to total spending. Between 1950 and 2000, the share of local government expenditures for capital (including infrastructure) declined by one-third.

While conventional wisdom suggests that current challenges are greater than at any point in the past, the reality is that the early decades of the post-war housing boom provided even greater financial challenges to local governments. Population growth, urban land development, public school enrollments and roadway use expanded more in real terms in the 1950s than in other recent decades. Previous local governments handled this extraordinary demand on their fiscal resources with much lower real per capita expenditures than do present-day governments. They did this in part with funding from other levels of government.

Regardless, local governments today face tough challenges. School enrollments are increasing and there is a renewed financial commitment to education. Growth requires new infrastructure, such as roads, wastewater systems and water systems, and the costs of providing needed infrastructure are rising.

As citizens demand more services from their local governments, and as the costs of maintaining and expanding infrastructure rise, local governments are looking for ways to satisfy competing demands. Some are seeking to use their resources more effectively. Others are choosing to limit growth.

RELYING ON REGULATION

Many local governments are finding it increasingly difficult to maintain quality of life for existing residents while providing for the growth needed to accommodate new residents. Unable to raise the revenues needed to meet the growing demand for public goods and services, many local governments have sought instead to “manage” growth with regulatory and pricing policies.

One school of thought goes that if paying for growth is a problem, then stopping growth should be a viable option. This regulatory approach to growth has led to the development of a number of restrictive growth-management strategies, such as impact fees, downzoning, growth caps and land rationing, especially urban growth boundaries.

Some studies have sought to demonstrate that providing infrastructure and public services is considerably less expensive in dense, compact urban environments than in lower density communities. But research conducted in preparing this report found that higher density communities had generally *higher* local government expenditures per capita than medium density communities. Further, this study found that in general, actual spending per capita was lower in newer, more suburban communities. In short, the savings that many growth management advocates ascribe to high-density development are overstated.

A thorough review of local government spending patterns indicates that jurisdictions with higher densities tend to spend more, not less, than their lower-density counterparts. Thus, in the matter of public finance, there is no clear justification for restrictive growth management policies. Indeed, broad implementation of such policies could lead to lower levels of home ownership, lower national wealth and lower levels of national economic growth.

A growing body of evidence indicates that regulatory manipulation simply does not produce the intended results, and instead creates housing supply and affordability problems. The regulatory approach ignores statistics regarding increases in population and the number of households, and has been proven to increase the cost of housing. Minority families, who comprise a disproportionate share of potential buyers for entry-level homes, are most affected by diminished homeownership opportunities resulting from these restrictive policies.

Many Americans look to Europe as the model for compact urban growth. But the reality is that European cities are experiencing growth patterns similar to those found in American cities. Many European central cities, like their American counterparts, have lost population, while suburban areas have grown. In Amsterdam and Copenhagen, for example, substantial exurban growth has occurred even as overall metropolitan area population has fallen.

In the United States, as in Europe, exurban growth occurs because consumers, making choices about where they will live, work and shop, demand it. Efforts to manage growth don't change the market. They manipulate it so that consumers must either go elsewhere, wait to find what they want, or accept choices that do not satisfy their wants and needs.

FINDING A BALANCE

As local policy makers debate how to spend their communities' finite resources, they must also consider how best to balance the expectations of current residents against the aspirations of future citizens.

Government regulatory and pricing policies designed to restrict development have not succeeded by any objective measure. They have failed to deliver the promised efficiencies to local jurisdictions. They have also failed to safeguard for future residents the opportunities for homeownership and its attendant benefits. As public demands grow, so too do the costs of providing public goods and services. Forced to make choices amidst scarcity, too many jurisdictions are sacrificing the choices and opportunities that will be available to future residents.

Advocates of restrictive growth management policies promised that such policies would yield tremendous cost savings while at the same time preserving choices for future residents. They were wrong. A more realistic, disciplined appraisal of where we are and what we are trying to accomplish leads us to conclude that more resources are needed. We must find innovative ways to better leverage community resources so that state and local governments can meet current and future infrastructure needs.

Local governments are finding it increasingly difficult to fund infrastructure maintenance and expansion because citizens are demanding a broader range of services while resisting the higher contributions required to pay for these additional services.

This imbalance between demand for services and willingness to pay is exacerbated by the fact that innovation has not kept up with demand in the world of municipal finance. The vast majority of local governments finance infrastructure using the same tools and assumptions they used three decades ago. Given the budget problems facing so many state and local governments, it seems clear that it is time to update the municipal finance system.

The purpose of this study is to identify and delineate the range of financing tools that governments can use to better maintain the balance between current and future needs.

This report consists of an inventory of innovative financing strategies that have been used in at least one state or local jurisdiction. Also included is a brief exploration into uncharted territory – a discussion of potential financing mechanisms that have not yet been tried at the local level.

The utility of these alternative financing mechanisms depends on a range of factors, including the size and needs of the community, its fiscal health, and state and local laws and regulations, among others. Not all of these ideas will work for every community. But for enterprising jurisdictions, successful application of the right financing strategy can yield significant benefits for local governments and their citizens.

This study is intended to provide the stakeholders at the state and local level with a range of options that they can apply to their unique circumstances.

INNOVATIVE FINANCE

Municipal bonds are the most important and traditional way state and local governments finance capital investments. The tax-exempt market provides jurisdictions with a cost-effective, efficient source of funds for large, capital-intensive projects. Bonds are a unique and attractive financing mechanism because they generate large sums of up-front cash that jurisdictions can use to acquire or construct needed infrastructure assets now, and pay for them over time.

There are, however, fiscal and legal constraints on how much debt a jurisdiction can issue. A jurisdiction must be fiscally healthy, and it must have sufficient revenues available to make future debt service payments without jeopardizing essential public services. In addition, the issuance of bonds generally requires legislative and or voter approval. Many states also have laws or constitutional provisions placing a ceiling on the amount of debt a jurisdiction can incur.

There are also political constraints. Jurisdictions generally rely upon revenues from property, income, use and sales taxes to pay debt service on their bonds. Issuing additional bonds may require an increase in tax rates or an expansion of the tax base, which many local public officials are reluctant to champion.

For these reasons, a growing number of jurisdictions are using various alternative, innovative financing mechanisms to pay for their growth-related infrastructure needs. Financing innovations may involve new tax and other revenue sources, new financing structures and mechanisms that attract new sources of capital, alternative facility ownership arrangements, or some combination of these features.

The particular innovative financing options available to any particular jurisdiction will depend upon its financial history, the size and nature of the infrastructure to be financed, as well as state law, credit rating agency, investor and bond insurer requirements. The most common forms of innovative financing include municipal leasing, certificates of participation (“COPs”), tax increment financing (“TIFs”), bond banks, and special districts.

By using these approaches, jurisdictions can still benefit from low-cost tax-exempt financing, without incurring conventional debt. Except in the case of special districts, jurisdictions can use one of these approaches without having to obtain voter or legislative approval. In addition, unlike traditional municipal bond offerings, which can only be issued by and for the direct benefit of a public entity, many of these approaches are available for use by private builders or developers through a public-private partnership with a local government partner.

In order to obtain cost-effective financing, the credit rating agencies, investors and bond insurers will require that the project be economically feasible. Not all states permit innovative financing techniques. Before embarking upon an innovative financing approach, public and private decision makers must carefully review state and local law

requirements. Initially, there may be challenges associated with these finance mechanisms until they gain more widespread application. Finally, it may be politically difficult for public officials to identify, champion and execute innovative financing approaches on their own. Jurisdictions may lack the expertise and experience these transactions demand. Private partners can help fill this gap by working with jurisdictions to increase their awareness and understanding of the costs and benefits of innovative solutions to their infrastructure needs.

TOOLS FOR MUNICIPALITIES AND SCHOOL DISTRICTS

The most promising strategies for municipalities involve service delivery reforms that would make it possible to accommodate growth without increasing public expenditures (Table ES-1).

- ***Competitive contracting:*** Competitive contracting offers the opportunity to obtain infrastructure operation from the private sector through a competitive bidding process. A number of communities have competitively contracted their water and wastewater systems, with cost savings from 10 percent to more than 30 percent. Savings of this magnitude would be more than sufficient to comfortably accommodate the additional housing units that most growing communities require.
- ***Design/Build/Operate:*** Through design/build/operate, communities obtain a competitive provider that designs, builds and operates infrastructure facilities for a period of time, after which ownership passes to the local government. This approach makes it unnecessary for the local community to issue debt for infrastructure expansion, while saving money. Water and wastewater design/build projects have also saved from 10 percent to more than 30 percent, which again would facilitate affordable accommodation of population growth for local communities.
- ***Asset Sales:*** In other developed nations, the private sector directly owns and operates water and wastewater systems to a much greater extent than in the United States. Here, with some exceptions, private wastewater and water systems tend to serve smaller communities. But in the United Kingdom, 90 percent of such facilities are privately owned; while in France the share is 75 percent. Local communities could examine the possibility of selling their water and wastewater systems to the private sector, and with it the perceived political burden of providing such infrastructure for growth. Private water and wastewater companies would accommodate growth as other private infrastructure companies do today in the telecommunications, natural gas, electricity, water and wastewater fields, using fees that reflect the true cost of new development.
- ***Partnership Schools:*** Under new federal legislation, a public school system can negotiate with a developer to build a public school facility, in accordance with designs and standards set by the community or state, and lease the facilities to the

school system under a long-term arrangement at a pre-determined rent. Whereas the developer/investor would be responsible for the physical structure of the public school, the school system would still operate the school with its own teachers and administrators, curricula, educational guidelines and standards, and other such requirements pertaining to the educational process. The new law also requires that the lease term must coincide with the term of the tax-exempt bonds issued to finance the facility, and that at the end of the lease term the physical structure must automatically become the property of the public school system. This arrangement allows for government to take advantage of the lower costs and quicker site development processes of the private sector, while retaining full policy control. Cost savings are also achieved because the interim private owner can make the facility available for other uses when it is not needed for educational purposes. This demonstration program is limited to \$3 billion in new school construction per year.

- ***Bond Banks:*** Bond banks are state-sponsored entities that make local infrastructure projects feasible by providing access to the municipal bond market and direct and indirect financial subsidies to local jurisdictions. Bond banks work by issuing their own debt securities, typically enhanced by some form of state credit support. Bond banks act as conduits, re-lending bond proceeds to local jurisdictions to finance water and sewer, school, transportation, solid waste and economic development projects. By pooling a number of smaller issues and backing them with the state's credit, bond banks reduce the cost of borrowing for local jurisdictions. Smaller issuers often are not rated or have lower credit ratings than other issuers in the municipal bond markets. Small issuers often use bond banks because they provide such jurisdictions with a lower cost of capital, in terms of both interest rates and costs of issuance. Bond banks also provide smaller issuers with better market access. They are of particular benefit to jurisdictions with projects that are too small to be sold publicly; the fixed issuance costs would be too great to make it cost effective to go to market alone. Bond banks provide local jurisdictions with technical and administrative expertise with respect to the complexities of debt issuance. Municipal finance authorities in states that do not have bond banks should push for state laws that allow for their creation.
- ***Special Districts:*** A special district is a form of local government that delivers specific public services within defined boundaries. Special districts deliver highly diverse services such as water, fire protection, police protection, and flood control. Most special districts serve just a single purpose, such as sewage treatment, but there are some multi-function districts that provide two or more services. Service district areas vary in size, ranging from a single city block to vast districts that cut across city and county lines. Although they enjoy many of the same governing powers as cities and counties, special districts remain legally separate, autonomous government entities. Depending on state law, special districts can be established by a local community or by voter initiative. The governance and authority of special districts vary depending upon the type of district and state law requirements. Independent districts are generally governed

by a separate board of directors elected by the district's own voters. A dependent district is usually governed by an existing legislative body, such as a city council or a county commission.

TOOLS FOR MUNICIPALITIES, BUILDERS AND DEVELOPERS

A number of innovations in infrastructure finance can be initiated by homebuilders and developers.

- ***Community Development Authorities:*** Community Development Authorities (CDA) are special taxing districts that allow developers to issue tax-exempt debt to fund infrastructure improvements. In turn, property owners within the district pay an amount in addition to the property tax to service the debt. In effect, the developer-created district performs a quasi-governmental function in co-operation with local government. The CDA concept offers lower cost tax-exempt borrowing, and obviates the need to add infrastructure costs and/or impact fees into the price of the house. CDAs are permitted in more than 30 states and, depending on state law, can be approved by municipal or county governments.

In one notable case, a large residential development in central Florida that encompasses seven community development districts recently used the CDA concept, in addition to the usual infrastructure services, to take over fire protection and first responder rescue service from the municipality.

In Virginia, a CDA can issue its own tax-exempt debt, subject to state statute and levy a charge on property owners to service the debt. The debt is not an obligation of the authorizing municipality.

Maryland created a similar mechanism to allow developers to use tax-exempt debt to finance a development's infrastructure, by way of an offering by the municipality in which the CDA is located. This debt is serviced by a tax levied on property owners within the district. Within the last few years nearly a dozen of these have been formed in Maryland and several more are in the planning stage.

- ***Small Scale Water and Wastewater Systems:*** Recent technological changes in water supply and treatment are allowing residential development, including projects with as few as 100 houses, to go forward independent of existing public treatment services.

Several private water companies can provide and operate cost effective water treatment facilities for developments of between 100 and 1,000 housing units. The developer/builder finances the construction of the small-scale facility, and sells the investment incrementally to the utility provider as new housing units are connected to the system. Costs are kept competitive through innovative strategies such as remote operating and monitoring that save on labor costs.

These systems are EPA approved and now operate in at least a dozen states. Many are wholly private and are financed by taxable debt.

- ***Special Purpose Corporations:*** A not for profit entity (NFP) can be established for any lawful purpose other than for pecuniary profit. NFPs are regulated by state tax authorities with respect to their state tax exemption, and by the Internal Revenue Service (“IRS”) with respect to their federal income tax exemption and their issuance of tax-exempt debt. An NFP may qualify to issue tax-exempt debt if it meets certain IRS requirements.

A special purpose NFP can be an important funding source under which a private developer builds and operates a project for a specified period of time, after which ownership reverts back to the governmental unit. The corporation can issue tax-exempt bonds backed by revenue sources such as tolls, regular lease payments from the governmental unit, tax revenues, or a combination of sources.

- ***Tax Increment Financing:*** Tax Increment Financing (TIF) allows a jurisdiction to recapture increased taxes attributable to redevelopment. The tax revenues yielded, which exceed the taxes collected prior to redevelopment, constitute the “tax increment,” and the TIF captures that gain to reinvest in and support the redeveloped area. Since its origin, TIF has been associated with urban redevelopment projects. Over time, however, many states now allow the use of TIF for most development projects. As TIF has grown in popularity, so has the list of eligible public and private uses of tax increment financing. Some states have expanded the uses of TIF to include a broader range of projects, including public improvements such as golf courses and parks and private projects such as hotels and skywalks. The proceeds collected from a TIF district can be used for a broad range of public purposes, such as infrastructure, property acquisition, demolition, rehabilitation and related services. TIF is an equitable financing technique because the costs and benefits of the improvements to the district are borne by all property owners in the TIF. An additional benefit of TIF is that it generates tax revenues without increasing tax rates or imposing any new taxes or special assessments on the project area. As a tax base expansion technique, it allows a jurisdiction to capture, temporarily, the tax revenues generated by the enhanced valuation of properties resulting from the various improvement projects.

EQUITABLE IMPACT FEE LEGISLATION

Impact fees often appear to be higher than appropriate and impose financing burdens on both developers/builders and homebuyers. Legislative and administrative strategies can help ameliorate these difficulties.

Impact fees have become increasingly common and can be as high as \$60,000 per new house. Impact fees are ostensibly imposed to recoup the additional public sector costs that a new house and household impose on the community. Most studies have generally found

such costs to be relatively modest and substantially less than the dollar amount of the typical impact fee.

Among the chief reasons for this disparity is the absence of any quantitative standards guiding calculation. As a result, many communities overestimate the costs through flawed calculation methodologies. To impose a measure of integrity on the calculation of such fees, several states have enacted procedures to ensure that impact fees are no higher than necessary.

Pennsylvania has enacted detailed guidelines on how impact fees are to be determined for transportation, water supply and treatment, and parks and recreation. In each case, the municipality is required, among other things, to conduct a detailed audit of the actual net new cost of every public service provided to a new housing unit. As a consequence, Pennsylvania impact fees are significantly smaller than those charged elsewhere. In fact, many Pennsylvania communities have found that the cost of conducting the state-required audit is more costly than the modest fees it would ultimately yield.

Similar legislation elsewhere would ensure that impact fees are directly related to the actual, attributable cost of new infrastructure, while minimizing the impact on home prices and encouraging higher levels of home ownership.

- ***Financing impact fees:*** Pasco County, Florida is working with builders to develop a mechanism for making impact fees more affordable. Normally, impact fees are charged, up-front, to developers or homebuilders, who add the fees to the price of the house. This creates a financing burden for the homebuilder or developer and reduces the number of households with creditworthiness sufficient to afford the higher priced house.

The Pasco County agreement would finance the net new infrastructure that a new development will require through a Capacity Unit Assessment (CUA) program. With a CUA, the municipality finances the pro rata share of the infrastructure associated with each new housing unit, and imposes an annual surtax on the new owner to service the associated debt. Instead of charging an impact fee to the builder, which in turn would be passed on the new buyer in the form of higher housing prices, under a CUA the new housing unit instead carries with it a liability for its share of the infrastructure, and the new owner of the new unit extinguishes this liability over time through the annual tax surcharge. Because the CUAs are administered by the municipality and do not require costly organizational fees, they can be cost effective even for relatively small developments once qualification requirements are standardized for all builders wishing to use the process.

LONGER TERM STRATEGIES

Over the longer term, opportunities could arise from further efforts on the part of the development community, the financial services industry or the policy community. Below

are two examples of relatively new concepts, not yet tried by any jurisdiction in the United States.

- There may be options for more efficiently pooling low denomination municipal debt for development-related infrastructure. This could include expansion of the bond bank concept to all states, additional capital for bond banks. The development community may wish to seek these objectives and offer alternatives to permit builders/developers access to these debt markets for growth related infrastructure.
- The principal revenue source for road building, the gasoline tax, is not a sustainable long term source of funding. Virtually all planning agencies project traffic increases at least consistent with the nation's strong population growth and new financing options will be required. A promising alternative is road pricing, which is already being used in Singapore and some central cities in Europe. Efficient implementation would require a revenue neutral transition, with future roadway expansion financed by tolls charged electronically (no toll booths). It is conceivable that entire municipalities or sections of municipalities could franchise maintenance and expansion of their roadways systems to the growing international private road industry. This would largely remove roadway provision as a government financing burden.

POTENTIAL FOR CHANGE

The list above of financing innovations is not exhaustive, but it does provide a broad range of some of the most viable alternatives to existing finance mechanisms. How and whether these innovations are used is up to the stakeholders in each community. Each jurisdiction must determine if any of these alternative are suitable to their needs and are allowed under state and local laws.

It is important to build the knowledge base among state and local government officials, builders and developers, the financial services industry and other stakeholders. They need to understand that these alternative finance mechanisms have been tried, they have been successful and they have provided a competitive return on investment. And stakeholders should advocate for state and local policies that encourage innovation in government financing.

Adoption of alternatives may be slow in coming. But in the long run, these innovations have the potential to revolutionize the way state and local governments finance infrastructure. If applied well, these ideas will enable communities to better leverage their limited resources.

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Table ES-1 PRIORITY TOOLS FOR GROWTH: MATRIX		
COMPETITIVE CONTRACTING PUBLIC PROCUREMENTS		
PROS		<ul style="list-style-type: none"> • Lower rates and rate increases
CONS		<ul style="list-style-type: none"> • Internal political opposition
TIME HORIZON		<ul style="list-style-type: none"> • Short term
AVAILABLE TO HOME BUILDERS		<ul style="list-style-type: none"> • No
AREAS OF USE		<ul style="list-style-type: none"> • Urban, Suburban and Rural
DESIGN/BUILD/OPERATE PUBLIC PROCUREMENTS		
PROS		<ul style="list-style-type: none"> • Facility development time savings • Lower rates and rate increases
CONS		<ul style="list-style-type: none"> • Internal political opposition • Can be difficult for government to develop
TIME HORIZON		<ul style="list-style-type: none"> • Longer term
AVAILABLE TO HOME BUILDERS		<ul style="list-style-type: none"> • No
AREAS OF USE		<ul style="list-style-type: none"> • Urban, Suburban and Rural
ASSET SALE: PUBLIC INFRASTRUCTURE SYSTEMS		
PROS		<ul style="list-style-type: none"> • Removes infrastructure burden from government • Cost savings • Cash infusion to government
CONS		<ul style="list-style-type: none"> • Internal political opposition • Environmental group opposition
TIME HORIZON		<ul style="list-style-type: none"> • Longer term
AVAILABLE TO HOME BUILDERS		<ul style="list-style-type: none"> • No
AREAS OF USE		<ul style="list-style-type: none"> • Urban, Suburban and Rural
COMMUNITY DEVELOPMENT AUTHORITIES (CDA CONCEPT)		
PROS		<ul style="list-style-type: none"> • Makes tax exempt financing available to builders/developers • Leads to lower home prices
CONS		<ul style="list-style-type: none"> • Costly to establish • Limited to larger builder/developers
TIME HORIZON		<ul style="list-style-type: none"> • Medium term
AVAILABLE TO HOME BUILDERS		<ul style="list-style-type: none"> • Yes
AREAS OF USE		<ul style="list-style-type: none"> • Suburban
PARTNERSHIP SCHOOLS		
PROS		<ul style="list-style-type: none"> • Faster & less expensive to build • Lower operating costs • Broader benefits to the community • Quality enhancements beyond resources of school system
CONS		<ul style="list-style-type: none"> • Requires large development • May be interpreted as undermining public schools.
TIME HORIZON		<ul style="list-style-type: none"> • Medium term
AVAILABLE TO HOME BUILDERS		<ul style="list-style-type: none"> • Yes
AREAS OF USE		<ul style="list-style-type: none"> • Urban and Suburban

Table ES-1 (Continued)
PRIORITY TOOLS FOR GROWTH: MATRIX

SMALL SCALE WATER AND WASTEWATER SYSTEMS		
PROS	<ul style="list-style-type: none"> • An alternative to government owned systems • Shorter time to build • Overcomes building limits based on sewer moratoria • Overcomes limits based on real capacity constraints • Avoids high impact fees 	
CONS	<ul style="list-style-type: none"> • More costly for smaller developments • Have been some problems with abandoned systems 	
TIME HORIZON	<ul style="list-style-type: none"> • Medium term 	
AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes 	
AREAS OF USE	<ul style="list-style-type: none"> • Suburban 	
SPECIAL PURPOSE CORPORATIONS (IRS 63-20)		
PROS	<ul style="list-style-type: none"> • Facility can be financed without incurring government debt • Not subject to voter approval • Cost effective alternative financing option • Effective alternative ownership structure for public private partnerships 	
CONS	<ul style="list-style-type: none"> • Repayment subject to appropriation risk • Time and resources needed to establish not for profit entity • Ongoing tax filings and administrative formalities <ul style="list-style-type: none"> • Facility must serve an essential public purpose and be suitable as collateral • No full faith and credit backing by government • More expensive than general obligation bonds 	
TIME HORIZON	<ul style="list-style-type: none"> • Medium term 	
AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes 	
AREAS OF USE	<ul style="list-style-type: none"> • Urban and Suburban 	
BOND BANKS		
PROS	<ul style="list-style-type: none"> • Effective conduit – facilitate market access • No voter approval required • Source of technical and administrative expertise • Flexible- can be used for a broad range of public purposes • Cost-effective alternative financing option, especially for small issuers 	
CONS	<ul style="list-style-type: none"> • Fixed and inflexible financing schedules • Inflexible borrowing terms • May not be advantageous for larger or higher quality credits 	
TIME HORIZON	<ul style="list-style-type: none"> • Short to medium-term – depending on the size and Complexity of the deal and the jurisdiction's prior experience with bond banks 	
AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • No – but in states where they exist, bond banks are an attractive option to raise with local officials 	

Table ES-1 (Continued)		
PRIORITY TOOLS FOR GROWTH: MATRIX		
	AREAS OF USE	<ul style="list-style-type: none"> • Urban, Suburban and Rural
COMMUNITY DEVELOPMENT AUTHORITIES (CDA CONCEPT)		
	PROS	<ul style="list-style-type: none"> • Makes tax exempt financing available to builders/developers • Leads to lower home prices
	CONS	<ul style="list-style-type: none"> • Costly to establish • Limited to larger builder/developers
	TIME HORIZON	<ul style="list-style-type: none"> • Medium term
	AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes
	AREAS OF USE	<ul style="list-style-type: none"> • Suburban
TAX INCREMENT FINANCING		
	PROS	<ul style="list-style-type: none"> • Voter approval is generally not required • Self-financing • Equitable –costs and benefits of improvements are borne by all property owners in the TIF • No new taxes or increases in tax rates • Flexible- can be used for a broad range of public purposes • Well-established economic development tool
	CONS	<ul style="list-style-type: none"> • Revenues can drop when economy slows or if property values fail to appreciate • Revenues are dependent upon success of the TIF • Traditionally used for economic development in blighted areas • Possibly adverse tax consequences for overlapping jurisdictions • May increase the demand for, and costs of, local public services in the TIF
	TIME HORIZON	<ul style="list-style-type: none"> • Medium-term
	AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes- depending on permissible TIF purposes under state law
	AREAS OF USE	<ul style="list-style-type: none"> • Typically urban
SPECIAL DISTRICTS		
	PROS	<ul style="list-style-type: none"> • Users of the asset pay for its acquisition and management • Efficient and equitable way to supplement local public services • Accountability in public spending • Self-financing • Predictable revenue stream • District residents have a sense of ownership and responsibility
	CONS	<ul style="list-style-type: none"> • Possibly time consuming to implement • Must be approved by a majority of district residents • Taxpayer concerns about high tax rates and overall tax burden • Can be inequitable- not an option for poorer neighborhoods
	TIME HORIZON	<ul style="list-style-type: none"> • Short to medium-term - depending on state law requirements and level of use in a particular community/state

Table ES-1 (Continued)
PRIORITY TOOLS FOR GROWTH: MATRIX

	AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes
	AREAS OF USE	<ul style="list-style-type: none"> • Typically urban and suburban
FINANCING IMPACT FEES (CAPACITY UNIT ASSESSMENTS)		
	PROS	<ul style="list-style-type: none"> • Municipality finances impact fee and adds it to annual tax • Less of a financing burden for developer/builder • Leads to lower home prices • Avoids cost and process of establishing a community development authority. • Applicable to small and large developments
	CONS	<ul style="list-style-type: none"> • Government determination of impact fees, which might be more than justified.
	TIME HORIZON	<ul style="list-style-type: none"> • Short to medium term
	AVAILABLE TO HOME BUILDERS	<ul style="list-style-type: none"> • Yes
	AREAS OF USE	<ul style="list-style-type: none"> • Urban and suburban