

Economic regeneration – funding issues

We spent the last couple of days of our trip in Chicago, where the GFOA is based. The main theme for this part of the trip was economic regeneration and, in particular, the ways in which regeneration can be promoted and led by local authorities. We heard about funding sources which are available and made three site visits to contrasting regeneration programmes.

As with the general position on funding systems, the USA has a wider range of local discretion and flexibility for generating regeneration funding than the UK, and a less significant programme of direct federal or state intervention. The issuing of bonds to finance capital expenditure is a major factor – in the first quarter of 2006 around \$70 billion of bonds were issued. Bonds can be either ‘general obligation bonds’ secured against overall local taxation, or ‘revenue bonds’ which are secured against the revenue stream of the specific project being financed. Local authorities are credit-rated for bond issuance and the market is well developed.

In some respects, the ability to borrow via bond issues is similar to the opportunities for prudential borrowing now open to UK authorities. Where the two systems differ significantly however, is in the range of funding streams which are available to pay the money back. There is significant local discretion around business and residential property taxes and income taxes, and sales taxes are well-established as a local funding stream. This enables investment in regeneration to be linked to improvements in local prosperity which directly translate into higher tax yields. This basic principle is supported by the enhanced local discretion which is available to so-called ‘home rule’ states, and by ‘tax increment financing’ (TIF) which enables a direct linkage between investment and the higher tax yields which are generated.

Our first site visit was to the Millennium Park in central Chicago. This is a park built on railway land, underneath which is an underground car park. The park was a public/private partnership designed to celebrate the millennium and contains landscaped gardens, a Frank Gehry designed auditorium and bridge, and major works of public art. In conventional terms, the park was a disaster being four years late and over \$100 million overspent! It is now, however, a much-loved feature and studies have concluded that the economic boost to the city more than outweighs the level of public investment. The project director took great delight in making comparisons to the Dome which he perceived to be somewhat less successful!

Our second visit was to the suburb of Evanston to the north of the city. This was a previously run-down area which has been revitalised through an interventionist local authority. Major public investment in commercial infrastructure has enabled a thriving business area (downtown) to be created, with strong partnerships with business and the locally-based university. The local flexibility to finance investment has been fully utilised and the concerns of local residents accommodated.

Our final visit was further north to the former naval air base at the Glen. The base covers approximately 1,000 acres and became surplus to military

requirements in the early 1990's. The local authority negotiated the transfer of the land at nil cost and promoted a major mixed-use regeneration scheme comprising retail, office, warehouse, light industrial, leisure and residential development. The local authority acted as developer, utilising home rule status and bond issues financed by a TIF, together with the proceeds of land sales to end-users.

In conclusion, we found that greater local financial flexibility had enabled major regeneration programmes to be delivered without direct federal or state support. It was the case, however, that our site visits were to relatively affluent areas which had the economic capacity or critical mass to deliver such schemes. It was less clear to us that such schemes could be delivered in less affluent areas. We also found one universal factor: that successful schemes require strong leadership. All three visits revealed very strong local leaders (at both political and official level) with the drive and staying power to make regeneration happen.

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