THE BUSINESS IMPROVEMENT DISTRICT: HOW TO FINANCE PUBLIC SERVICES AND INFRASTRUCTURE IN DOWNTOWN KINGSTON, JAMAICA

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While acknowledging our appreciation for their assistance, we want to note that the authors retain full responsibility for the findings and recommendations in the report and the volume of appendixes that accompanies it.

About the Authors

Here is some brief biographical information on the authors of this report:

- David A. Grossman, principal author of the report, has worked as a consultant on urban management and finance in a number of developing countries in Central and Latin America, Africa, Asia, and Eastern Europe. He is an adjunct Professor at Columbia University's School of Public and International Affairs. He was formerly a senior official in the United States Government and in both New York City and New York State.
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- Keith L. Miller is a consultant to the Ministry of Local Government of Jamaica and has worked on a variety of public policy issues for the Ministry and for international consulting firms. He is a former KSAC Town Clerk.
- Data Resource Systems International, Ltd. is a Kingston-based survey and economic consulting firm. Its work on the questionnaire survey of Downtown Kingston firms was supervised by Dr. Huntley Manhertz and directed by Michelle Motta.

PADCO, the USAID contractor for this study, is a consulting firm that specializes in the field of international housing and urban development. PADCO's project manager for this study was Dan Coleman.

Summary of Findings and Recommendations

This summary presents an overview of findings and recommendations from a study of the downtown area of the city of Kingston, Jamaica. The study was designed to devise feasible means to finance essential public services and facilities in a situation where the existing processes and resources of government are not able to do so. The lack of such services and facilities is a common and widespread problem in cities of developing nations and has been experienced in an especially severe form in Kingston.

The study focuses on an area that is the commercial, manufacturing, and services center of Jamaica's capital city. Downtown Kingston has shown considerable economic resilience, despite facing a host of obstacles. Many of its problems are directly traceable to shortcomings in commonly accepted standards of delivery of public services and infrastructure. Unless effective action can be taken to fill the serious gaps in Downtown Kingston's service network, it seems likely that the private forces that are striving to revitalize the downtown economy will fall short.

The primary approach of the study has been for the consultant, working in close cooperation with Jamaican government officials and downtown business leaders, to develop recommendations for action steps that can be taken to upgrade public services and facilities in Downtown Kingston. These recommendations, together with the findings on which they are based, are intended both as a basis for decision making by the downtown business community and as analyses to help guide the supporting efforts of the Ministry of Local Government and USAID.

Overall Scope of the Study

Two principal research issues were addressed in the study: how to finance now-missing public services and how to finance the infrastructure investments needed to upgrade the downtown environment. These two issues are addressed in the two principal parts of this report.

In addition, a separate volume containing supplemental materials and memoranda was also prepared, addressing specific issues of concern to USAID and the Ministry of Local Government. These appendixes add further detail to the text of this report.

Part One: How to Finance Improved Services

The service inadequacies from which Downtown Kingston suffers result primarily from a lack of public sector financial resources. The municipal government, Kingston-St. Andrew's Corporation (KSAC), has very little authority and revenue-raising capacity of its own and little in the way of national resources has been made available to it. In addition, national government agencies designated to address the service needs of the capital city and its downtown area have themselves suffered the consequences of severe fiscal constraints on the national budget. As a result, it is evident that there is a serious lack of delivery capacity by the array of public sector organizations that are supposed to provide services needed by the downtown area.

The strains on both the municipal and national budgets are sufficiently severe that it appears unlikely that either will be able to allocate significant additional resources to Downtown Kingston in the foreseeable future. Therefore, the first part of this study addressed three closely linked questions:

- Does the downtown area itself have the capacity to generate sufficient organizational and financial resources to provide what's needed in the way of essential services?
- What means can best be used to generate such resources?
- What would be the most reliable and acceptable delivery mechanism for the use of additional resources to deliver needed services, especially in light of the present low level of trust expressed by downtown firms and residents in local or central government service agencies?

Exploration of these three questions involved testing the responses of both the business community in Downtown Kingston and government leaders to alternative approaches to financing and delivering service improvements. A variety of research techniques were used, including in-depth interviews with business executives and government officials, group discussions with community and business leaders, and formal survey instruments.

The consultant's principal recommendations arising from the study follow.

- Creation of a Business Improvement District (BID) is the most realistic approach for the downtown business community of Kingston to improve services. The BID would be a public-private sector partnership specifically designed to generate revenue and enhance public service delivery in the downtown area.
- The highest priority for incremental services should be assigned to improving security and sanitation. If possible, these service improvements should be extended to the adjacent downtown residential areas as well as to the business district. A preliminary estimate suggests that a sound program of upgraded security and sanitation services for Downtown Kingston would cost about J$ 15.5 million per year, of which about J$ 5.5 million would have to be raised by the BID through assessments on downtown firms (with the remainder coming from contributions, contracts, or government payments).
- The fairest and most efficient way to pay for the assessment share of the cost of the BID's operations, in the consultant's opinion, would be through a charge added on as a percentage to the property tax, to be collected by the Inland Revenue Department. To pay for the cost of the improved sanitation and security services this way would require an increase of about 46 percent in the relatively low Jamaican property tax. This would represent about J$ 4,700 per year, on average, per parcel of taxable land in the downtown area. However, due to the steeply progressive nature of the property tax, 80 percent of the total increase would be paid by the 14 percent of owners whose properties are valued at J$ 1 million or more.

- It would also be possible to raise revenues by other methods. One alternative would be to charge on the basis of square feet of business floor space. While this approach was favored by several downtown leaders, it would be a difficult type of charge to administer because no current governmental taxes are levied on the basis of square feet of building area. If this problem could be overcome, it would require a charge of about J$ 2 per square foot of occupied floor space per year to pay for the proposed package of security and sanitation services. Another alternative way to pay for the package of improved services would be through a flat charge per square foot of land area; such a charge might be added to and collected with the property tax. Using this approach would cost businesses about J$ 1.38 per square foot of land area per year for the same service package.
- Because of the high level of distrust by the business community in the fiscal probity of government agencies, it is essential that any funds collected by the BID be specifically allocated to the downtown area service program, and not treated as part of general government revenues. A trust fund or similar method should be set up to ensure achievement of this purpose.
- It will take joint action by the downtown business community and government to create and sustain a BID in Downtown Kingston. It will also be important to reach out to and involve both the informal business community (the higglers) and the downtown residential community to achieve full effectiveness.

Part One of this report contains a description of the findings of the research into the potential for a downtown BID, together with the basis for the consultant's recommendations.

Part Two: How to Finance Infrastructure Investments

A second, closely linked task of the study focused on the financing of specific infrastructure improvements needed to support existing or proposed urban development. Examples of the need for such financing abound in Jamaica. In Downtown Kingston itself, there is a pressing need to find the means to finance completion and extension of the critically important Harbour Street interceptor sewer project, as well as other sewer system improvements. Elsewhere in Kingston, there are similar critical infrastructure needs, especially in congested areas, such as the rapidly growing New Kingston office and financial center. Similar needs are apparent as well in the country's economically vital tourist centers, such as Negril, Ochos Rios, and Montego Bay.

A broad range of techniques used for financing infrastructure projects was reviewed during this study. These included such approaches as revenue-backed bonds backed by taxes generated from rising land values, special benefit assessments, the imposition of impact fees, and others. However, few of these approaches have as yet been tried or have succeeded in developing world contexts. In most developing countries, up to now, the primary reliance for infrastructure finance has been placed either on direct governmental appropriations or international loans with repayment guaranteed by the national treasury. Another common approach has been for municipalities to set aside sums for capital investment each year from their recurrent budgets. Unfortunately, all of these approaches further burden already hard-pressed national and local budgets.

One of the major drawbacks to the use of innovative financing techniques in developing countries has been the lack of bonding mechanisms, largely because there are virtually no municipal security markets in such countries. Another problem — one that afflicts Jamaica severely at the present time — is that very high rates of inflation virtually preclude borrowing at realistic interest rates. Another difficulty — in Jamaica as well as elsewhere — has been the widespread absence of viable property tax systems, especially ones with the ability to vary tax rates by local decision, to keep assessments up to date in the face of continuing inflation, and to collect tax bills efficiently.

The consultant's principal recommendations on infrastructure finance arising from the study follow.

- The creation of a BID, as recommended above, could also become the basis for raising revenues to finance infrastructure as well as services. This could be done if the BID were to contract with the National Water Commission (NWC) to provide water and sewer services to Downtown Kingston and also were to be assigned the NWC's power to collect water rates to pay for this service.
- Raising water rates to realistic levels to cover the full cost of service — unlike the current NWC rates — would make it possible to generate additional funds that could then either be used to finance an annual program of small capital investments and maintenance or be utilized in the form of debt service payments to support long-term bonds to finance major capital projects.
- While an approach to infrastructure finance that involves long-term bonds would be desirable, it is the consultant's conclusion that this is not presently a realistic possibility in Jamaica due to the very high rate of inflation.
- However, it would still be possible to improve environmental conditions in Downtown Kingston significantly through a regular annual "pay-as-you-go" program of sewer repairs and upgrading. Such a program, involving expenditures on the order of about J$ 8 million per year, could be mounted at the cost of about a 20 percent increase in current water rates.

Part Two of this report presents the consultant's findings and the basis of the recommendations for approaches to infrastructure investment and upgrading that is believed feasible for Downtown Kingston. These approaches may also be applicable to other locations in Jamaica that contain high value real estate, such as the New Kingston office center, and tourism centers, such as Negril.

Next Steps

This study involved an initial exploration of matters of great potential importance to Downtown Kingston. If, after review and discussion, the recommendations appear sensible to the downtown community and to Jamaican government officials, it will then be appropriate to explore in further detail how to implement them. Among the matters that will have to be explored are such key items as the ability and willingness of the downtown business community to finance improved services and infrastructure and whether the necessary governmental authority — either through the use of existing or new legislation — can be obtained.

Part One

Creating a Business Improvement District to Provide Services in Downtown Kingston

Downtown Kingston, the commercial center of Jamaica's capital city, suffers from serious shortcomings in key public services. These result primarily from a lack of public sector financial resources. The municipal government, Kingston-St. Andrew's Corporation (KSAC), currently has very little authority and revenue-raising capacity of its own and little in the way of national resources has been made available to it. In addition, national government agencies designated to address the service needs of the capital city and its downtown have themselves suffered from the consequences of severe fiscal constraints on the national budget. As a result, there is a serious lack of delivery capacity by the array of public agencies and private organizations that are supposed to provide services needed by the downtown area.

The strains on both the municipal and national budgets are sufficiently serious that it appears unlikely that either will be able to allocate significant additional resources to Downtown Kingston in the foreseeable future. Therefore, this study addressed three closely linked questions:

- Does the downtown area itself have the capacity to generate sufficient organizational and financial resources to provide what's needed in the way of essential services?
- What means can best be used to generate such resources?
- What would be the most reliable and acceptable mechanism to deliver needed services, especially in light of the present low level of trust expressed by downtown firms and residents in local or central government agencies?

Exploration of these three questions involved testing the responses of both the business community in Downtown Kingston and government leaders to alternative approaches to financing and delivering service improvements. A variety of research techniques were used to obtain informed opinions, including in-depth interviews with business executives and government officials, group discussions with community and business leaders, and formal survey instruments.

This part of the report focuses on the service needs of Downtown Kingston and what can be done to meet them more successfully. It concludes with the consultant's recommendation for the creation of a Business Improvement District, a public-private sector partnership specifically designed to generate revenue and enhance public service delivery in the downtown area.

1 Current Concerns of Downtown Kingston

As is readily apparent even to the casual visitor, all is not well in Downtown Kingston. Traffic congestion is common, due to parking problems, street vending, and the poor surface condition of many roads. Rights-of-way and vacant lots are often littered with solid wastes. Because of the incomplete state of the area's major interceptor sewer along Harbour Street, untreated sewage emerges in plain sight along streets leading downhill toward the waterfront. Vacant and partly demolished structures, their interiors strewn with refuse, remain as reminders of the area's difficult recent history.

What is also apparent, however, are the many substantial strengths of Downtown Kingston. The area is a busy commercial center, its streets lined with substantial numbers of retail stores. There is a developing open-air market, designed to provide off-street space for the many informal sector vendors whose operations attract customers and contribute much to the vigorous sense of life in the area. Downtown is the location of the principal national courts and the capital city's largest concentration of law offices. It also contains a concentration of high-rise structures, comprising both government and private offices, many of them located in a major waterfront complex developed by the Urban Development Corporation. In addition, the downtown area is the focus of a less visible but growing manufacturing industry.

Though less apparent to the casual observer, Downtown Kingston also has organizational strengths. Principal among them is the Kingston Restoration Company (KRC), a nonprofit public benefit organization with a demonstrated track record of accomplishment in improving conditions in the downtown area. The KRC has also recently taken the initiative in the formation of the Downtown Kingston Management District to pilot test various approaches to service delivery and finance.

These strengths of Downtown Kingston are measurable. In a 1991 "baseline" report prepared for USAID by the Urban Institute (Peterson, Kingsley, and Telgarsky, 1991), the growth of employment and the increasing financial strength of downtown commerce and industry were demonstrated. A new baseline study by the same contractor is scheduled for completion in mid-1994. It is expected to show a continuation of positive trends. Furthermore, the work of the KRC and the private business community, involving actions ranging from street planting and beautification to recycling of once-abandoned structures into renovated and occupied establishments, has stimulated downtown renewal and investment.

2 The Survey of Downtown Firms

A special survey of a selected sample of 49 downtown firms was conducted by Data Resource Systems International, Ltd. (DRSI), a Kingston-based research organization, as part of this study project. The responses to the survey clearly illustrate some of these strengths and weaknesses in Downtown Kingston.

The 49 firms in the survey, which together comprise a substantial subset of the roughly 1,250 establishments in the downtown area, were selected by the staff of the KRC in an effort to pick a group that ranged from the largest to the smallest firms in the area and also covered a range of different business activities. The sample was not, however, selected as a random statistical sample nor does it cover the array of downtown firms equally. For example, the sample is largely made up of firms involved in distribution (retail and wholesale trade) and in services, with only 4 percent engaged in manufacturing.

A statistical summary of the full findings of this survey of downtown firms is contained in the companion volume to this report (see Appendix A). The full-page table accompanying this section (Table 1) contains a summary of the responses of the 49 firms that were surveyed to some of the most significant questions that were posed in the survey.

Some of the highlights of what the survey revealed are as follows:

- **Security Concerns.** Nearly half of all firms reported at least one break-in during the past two years, with nearly one firm in four reporting two or more such incidents. Half of all firms reported that they employ guards, and half of those that do have armed guards.
- **Sewerage and Sanitation.** One firm in five reported that they have problems with sewerage. This is a very high ratio compared to the norm for such matters. The survey also found that more than half of the firms responding rated their solid waste collection service — a service for which they are mandated to arrange for themselves — to be no better than fair or poor.
- **Water.** In contrast to the high rate of problems with security and sewers, only 6 percent of firms reported problems with their water supply.
- **Prospects for Downtown.** Despite these evident problems, a significant proportion of all respondents (31 percent) see the future prospects for Downtown Kingston as one of "continuing improvement." However, more than half the respondents rated the prospects as "getting worse."
- **Willingness to Contribute.** More than half of the responding firms (51 percent) declared themselves willing to contribute to a private fund to improve the downtown area. Only 14 percent said they were not willing to do so. The remaining 35 percent were not prepared to answer this question at the time of the survey. Similarly, a large number of firms were willing to contribute to a private security service for downtown (39 percent), while only 6 percent were opposed to such a contribution.

Overall, the findings from the questionnaire were highly consistent with the views expressed by the downtown business leaders who were interviewed by the consultants in individual sessions. It seems quite clear both that the downtown business community has a definite series of priority concerns and that a substantial core of the business community is prepared to do something about them, including paying money toward achieving such goals.

Table 1

RESPONSES TO SELECTED QUESTIONS BY 49 ESTABLISHMENTS LOCATED IN DOWNTOWN KINGSTON

	Number of Responses	Percent of All Responses
HOW MANY BREAK-INS HAVE YOU HAD IN THE PAST TWO YEARS?		
ONE	11	22
TWO	3	6
THREE	3	6
FOUR OR MORE	6	12
NONE OR NO ANSWER	26	53
TOTAL	**49**	**100**
DO YOU HAVE PROBLEMS WITH SEWERAGE?		
YES	10	20
NO	36	74
NO ANSWER	32	6
TOTAL	**49**	**100**
DO YOU HAVE PROBLEMS WITH WATER LOCK-OFF?		
YES	3	6
NO	43	88
SOMETIMES	3	6
TOTAL	**49**	**100**
HOW DO YOU SEE THE FUTURE PROSPECTS FOR DOWNTOWN KINGSTON?		
CONTINUING IMPROVEMENT	15	31
STAYING THE SAME	9	18
GETTING WORSE	25	51
TOTAL	**49**	**100**
WOULD YOU BE WILLING TO CONTRIBUTE TO A PRIVATE FUND TO IMPROVE DOWNTOWN KINGSTON?		
YES	25	51
NO	7	14
NO ANSWER	17	35
TOTAL	**49**	**100**

3 Priorities for Service Improvement in the Downtown Area

It is plainly evident from the research done for this study — including the individual interviews, the group meetings, and the questionnaire survey — that the business community in Downtown Kingston is in broad common agreement on specific priorities for what should be done to upgrade the area and enable the private sector to continue to strengthen its economic base. Three priorities stand out as matters of mutual agreement, even though various parties concerned with downtown may differ as to their precise ranking:

- **Security.** This concern includes the need to reduce the high level of crimes against persons and property in the downtown area. In addition, action is needed to change the general perception of both Jamaicans and visitors that downtown is a dangerous place to travel to and shop in.
- **Sanitation.** This concern includes both the need for better street cleaning and upgraded solid waste collection and removal from residential and commercial buildings in the downtown area.
- **Sewerage.** The water-related pollution problem in the downtown area would be considerably abated if the ongoing reconstruction of the Harbour Street interceptor were completed and the line were connected to the lateral sewers that now empty on the surface. Even when this decade-long construction project is finished, however, the need for additional steps with regard to sewage collection and treatment is seen by many observers as a continuing serious concern of the downtown area.

Beyond these most urgent priorities, downtown business and community leaders expressed the need for action to address other issues, including:

- **Upgrading of Vendor Markets.** Because of the incomplete and unsatisfactory state of the off-street market areas specifically set aside for "higglers," the substantial and well-organized vendor community of Downtown Kingston, there is continued conflict between members of this group and merchants operating out of stores.
- **Residential Neighborhoods.** The presence of a low-income residential community in close proximity to the downtown commercial area is seen by the business community as a source of continuing conflict with commercial and industrial firms. A number of the persons interviewed placed the troubled relationship with the residents highest on their priority list of items needing to be addressed by the downtown merchants.
- **Common Support Functions.** Some respondents stressed the view that the need for a stronger joint marketing and promotional effort for the downtown area was another matter that should be addressed. They cited with approval actions already taken by the KRC, but called for an even more extensive program in this regard.

4 Clarifying Governmental and Private Responsibilities

There is little question that the perception of governmentally provided services in the downtown area is very poor, at least as seen through the eyes of the downtown business sector. This perception led many persons interviewed during the study to argue that before they were asked to pay anything more in the way of taxes, downtown merchants were entitled to fair value for what they are already paying.

The way this "base vs. increment" problem was framed by various people was in terms of the assumption that it is the responsibility of government — whether local or central — to provide an acceptable "base" level of public services in return for the taxes paid by residents and businesses. To ask an area such as Downtown Kingston to pay an "increment" just to assure the delivery of needed public services seemed unwarranted and unfair to most who raised this issue. Others recognized the same problem, but then noted that they probably had no choice but to pay more if they wanted the essential public services actually to be provided, rather than just promised.

This is by no means an issue unique to Kingston. In New York City, where dozens of business areas have organized and agreed to tax themselves to provide a higher level of service than the city delivers, the same argument is heard that "the city ought to be providing these services for the taxes we already pay." Whatever the general level of service is in a community, the special needs and concerns of downtown business areas are such that their occupants are likely to want a higher intensity of service. Nevertheless, the "base vs. increment" issue must be addressed in any plan for service improvement in Downtown Kingston. Any fully successful approach to enhancing service delivery to the downtown area should meet the test of calling for increased payment primarily for incremental services, ones that are above and beyond the existing entitlement of residents and businesses in the city of Kingston.

5 The Lack of Fiscal Trust in Government

Throughout the world, business communities tend to be distrustful of government, comparing it unfavorably to what they perceive as their own efficiency and responsiveness. Some of this distrust may well be hyperbole, expressing the businessman's traditional impatience with the legal and regulatory constraints necessary for democratic government. Some is undoubtedly warranted by the actions — or inactions — of government officials and politicians.

This distrust has reached an extremely high level in Jamaica. It came out clearly and forcefully in virtually every one of the interviews with members of the downtown business community. A frequent view expressed was determination that any money paid for incremental services by the business sector must not be commingled with government funds. If this were to happen, the business persons interviewed were certain that the incremental money would never be seen again.

Whether warranted or not, such distrust is a fact that must be taken into account in any plans to improve Downtown Kingston in which either the national or local government will be involved. And given the nature of what must be done to strengthen public services and facilities in the downtown area, it is inevitable that government action will be required.

Methods must be devised that will clearly segregate and maintain the identity of any incremental funds paid by the business community to improve services. Such methods might have to go so far as to include a wholly separate revenue collection process, even if this would result in an inefficient and costly duplication. Establishment of separate trust funds into which any moneys collected through existing mechanisms — such as the property tax system — are deposited may offer a more workable approach through which the efficiencies of integrated revenue collection could be combined with legally separate treatment of the incremental money.

6 The Business Improvement District (BID) Concept

The problems faced by the Downtown Kingston business community are similar to those experienced in downtowns elsewhere. In many cities in the United States and in other advanced industrial countries, as well as in many developing countries, older downtowns face tough competition from newer business centers and suburban shopping malls. To help revitalize their economic bases, these older downtowns must improve the quality of their public services, including enhanced security and cleanliness, as well as upgraded highway access, parking, and mass transit. This can be done. In the most successful programs of downtown revival, such as in the US cities of Boston and Baltimore, renewed downtowns have blossomed forth, even including "festival markets," facilities which are tourist attractions in themselves, as well as being viable competitive business concentrations.

Different techniques have been used to convert downtowns into more potent competitors with suburban shopping facilities. They include merchant cooperation to improve store facades and street appearance through better lighting, tree planting, and sidewalk repairs, as well as other measures. In New York City, where many older neighborhood-serving strip commercial streets face difficult times as their neighborhoods change or lose population, efforts of this type are described as "commercial revitalization." The city provides modest amounts of loan and grant assistance to organized merchant groups and the businesses themselves make voluntary contributions to finance improvements. In many ways, these efforts resemble the recent efforts of the Kingston Restoration Company in its work on key corridors, such as King and Duke Streets in Downtown Kingston and other KRC projects to upgrade the downtown commercial environment.

The next stage in New York came when business organizations — including some focused on the city's highest value areas, such as those around the Grand Central Terminal and Times Square in Manhattan — decided that they needed even more funds to pay for services than they could ever obtain from city government or voluntary contributions from individual public-spirited business and civic leaders. They fought for and won passage by the State Government of legislation that authorized the establishment of official Business Improvement Districts (BIDs).

Under this law, a BID is created by petition to city government by an organized business group that can demonstrate that it speaks for a significant body of the businesses and non-residential property owners in a defined geographic area. Once a BID is officially recognized, it can request that the city levy an annual charge to be added to the property tax on all non-residential properties in the district. (In New York, a substantial property tax is levied against assessed values for both land and buildings, unlike the situation in Kingston where the property tax is applied only to assessed land values.)

The city's Finance Department collects the BID levy at the same time as it collects the city property taxes so that there is little extra cost or difficulty in revenue collection. The amount collected is turned over to the BID for its use for purposes defined in the law, such as improved sanitation, enhanced security through street patrols and other approaches, and district-enhancing marketing and promotion activities.

As long as a BID retains the support of a majority of the business community in its district, it can continue to collect revenues through the city tax system. If, however, a majority of the property owners in a BID service area should so petition the city, the levy could be reduced or even entirely eliminated. To date, the success of New York's BIDs and participant satisfaction with them has been so great that no such negative petition has been received by city government.

The BID concept is viewed in the US as a "special district," one of many variations on the general concept of public enterprise. There are many thousands of special districts in the US, performing an enormously varied range of public services. Special districts provide fire protection, undertake environmental action such as mosquito control, develop parks, preserve historic buildings, and carry out almost any authorized purpose for which collective action is appropriate. They obtain revenue-raising power through legislation, and usually piggyback their tax collection activities together with that of a broader purpose municipal government for efficiency. Special districts use their revenues for operating costs and also pledge them as debt service to finance long-term bonds for construction of buildings or infrastructure. There is a substantial private market for such revenue-backed bonds in the US, in part because many of them have tax-exempt status for their interest payments, making the bonds highly attractive to upper-income investors.

7 Developing a BID for Downtown Kingston

The consultant recommends that the business community in Downtown Kingston move toward creation of a Business Improvement District. If they agree to do so, the following sequence of steps should be undertaken:

1. Decide on the functions to be performed by the BID.

2. Decide on the budget level at which the BID should operate.

3. Decide how the necessary revenues to meet the budget should be raised. Then, decide what mechanism should be adopted to make certain that the funds raised are safeguarded and made available for expenditure only for the purposes and in the manner approved by the BID.

4. Draft an action plan, including the necessary legislation and other official actions. Then sell the plan to the national and municipal governments. Once official status is attained, organize the BID and commence operations, employing a core staff for management purposes and private contractors for service delivery.

The content of each of these steps is discussed in somewhat greater detail below to provide an idea of what would be involved. More precise specification of what is to be done should be undertaken only after the downtown community arrives at a consensus that this is the correct path to follow.

7.1 Deciding on the Range of Functions

In theory, a downtown BID could undertake any type of common service function, but in practice it would be better to start by concentrating on the highest priorities as seen by downtown firms so as to gain maximum support. Based on the interviews in this study, these top priorities are improved security against crime and better sanitation.

7.1.1 Security

At present, the responsibility for security functions in the downtown area, as elsewhere in Jamaica, is divided between the Jamaica Constabulary, the national crime fighting and law enforcement agency, and individual occupants who attempt to safeguard their own premises and persons through such means as private guards and security devices. There would appear to be considerable scope for a security function that operated between these extremes, working to enhance general security in the downtown area and supporting the efforts of both the Constabulary and individual establishments. One person who favored such a function in an interview compared it to the security force in a shopping mall, protecting all the occupants and calling for help from the police only in the event of a serious problem.

A downtown security operation could choose what to do among many different functions and activities, including: advising merchants on good safety practices; purchasing protective devices such as gates, locks, and alarms at wholesale and reselling them at cost; maintaining such security systems; conducting high-visibility patrols by unarmed security personnel; helping to enforce health, safety, sanitation, and parking regulations by reporting violations to the authorities; or providing supplemental equipment to the Constabulary that would help in their work in the downtown area, such as motor scooters, walkie-talkies, laptop or hand-operated computers, etc. Another useful function of a security force would be outreach to the adjacent residential communities to assist them with their own crime prevention concerns.

The operations of such a force would have to be carefully coordinated with the Constabulary. Development of a close working relationship will be an important determinant of the security force's effectiveness. In no way should the downtown security force attempt to supplant or assume the basic law enforcement responsibility of the official police.

7.1.2 Sanitation

Street cleaning in Kingston is currently the responsibility of Metropolitan Parks and Markets (MPM), a central government-sponsored company, although a decision was recently made by the Ministry of Local Government to transfer this responsibility to the KSAC. The BID may be able to arrange with the KSAC to become its subcontractor for street cleaning in the downtown area. Realistically, however, it seems likely that it will be necessary to supplement payments available from the KSAC for this purpose with incremental funds if a fully acceptable level of cleanliness is to be achieved.

Collection and transfer to the city landfill of solid wastes produced by non-residential establishments is presently the legal responsibility of each individual business. One way to ensure consistently high quality service would be for the BID to assume this responsibility for the entire downtown area, with the firms paying for it through an incremental levy. Another option might be to have the BID serve in a back-up capacity, collecting refuse only where a firm does not do an adequate job. A third approach could be for the BID to take on only an enforcement function, reporting offenders to regulatory authorities or charging fines. The consultant recommends the first of these three alternatives as the surest means to accomplish the goal, but recognizes that this is a matter on which other views should also be heard.

Another potential service that the BID might take on, perhaps via a subcontract from the KSAC (or MPM, if it should continue to be responsible for the function), is the collection of solid wastes from the adjacent residential community. The cost of this service, which is a long-accepted governmental responsibility, should be paid by the government (either the KSAC or MPM, as appropriate). If it takes on the sanitation task for the residential community as well, the BID could make sure that the downtown area achieved a consistently high level of cleanliness.

7.1.3 Other Functions and Services

Part Two of this report discusses the possibility of another high-priority function for a downtown BID: the maintenance, operation, and upgrading of water and sewer service. Yet another possible function that a BID might want to consider undertaking would be common marketing and promotion activities on behalf of the entire downtown community. Based on the experience of the BIDs that have been operating for some years in New York City, additional functions will no doubt come up for consideration if a Downtown Kingston BID gets into active operation.

7.2 Deciding on the Budget Level

The decision on its annual budget is an important policy action for a BID, just as it is for a government. At this point, it is not possible to do more than estimate the range of services and costs that would be involved in a Downtown Kingston BID. But even a rough estimate may help give the people who could be affected by the BID some sense of what it might do and what this might cost the average taxpayer in the downtown area.

The first step in preparing an analysis of a BID budget is to establish what services it would seek to deliver and how much they might cost per year. For this purpose, the consultant was assisted by the staff of the Downtown Kingston Management District who advised in the preparation of a possible budget for the delivery of the two service functions seen by downtown firms as having the highest priority — sanitation and security — plus necessary additional costs for program administration. They based their estimates, to the degree feasible, on the costs being currently incurred for such services as street cleaning and refuse collection in the residential portions of the downtown area by MPM, as well as other indicators. The estimated budget, involving total annual costs of J$ 15.5 million, is shown in Table 2.

Table 2

ILLUSTRATIVE ANNUAL BUDGET FOR A DOWNTOWN KINGSTON BUSINESS IMPROVEMENT DISTRICT

	Amount (in J$ million)	Percent of Total
EXPENSES:		
Sanitation	6.70	43%
Security	6.20	40%
Administration	2.60	17%
TOTAL	**15.50**	**100%**
REVENUES:		
Contributions	3.00	19%
Contracts	5.00	32%
Government	2.00	13%
BID Assessments	5.50	36%
TOTAL	**15.50**	**100%**

The financing of this program could come from a variety of sources in addition to assessments on downtown firms. Such sources could include voluntary contributions from individual firms, contracts from national or local government for services, and contributions by government agencies. The staff of the Downtown Kingston Management District estimates that as much as two-thirds of the total budget required could be raised from such sources, leaving about J$ 5.5 million to be raised from levies assessed on downtown firms by the BID. This is the figure that has been used for illustrative purposes in the remainder of this part.

It should be emphasized that these figures are presented for illustrative purposes only. In reality, if a BID were established for Downtown Kingston, one of the most important policy decisions for its board of directors would be to determine the annual budget, as an outgrowth of its decisions on the appropriate functions, service levels, and costs for its service program.

7.3 Deciding How Revenues Should Be Raised and Safeguarded

There are a number of possible options for how a BID should assess downtown firms to raise the revenues needed to cover the cost of its operations (and that it cannot obtain through contributions, contracts, or grants). Generally, as with any tax or governmental fee, the principal factors to consider are equity and efficiency. Charges should be equitable, taking into account both ability to pay and the likely extent of benefit received by each taxpayer. Efficiency is important because if it costs too much to collect a dollar of revenue, it may not matter how fair a charge is seen to be.

In New York City, BID funds are generally collected as a modest add-on to the city's real property tax. Because property value assessments are generally seen as reasonably fair — and because there is an extensive appeal process, ending in the courts, available for use when they are not — this was accepted by most business communities as the best basis for a BID charge. The fact that New York's assessments cover both land and buildings also probably helped achieve agreement. And because the city already mails out a computer-generated tax bill to each property owner each year, the extra cost of collecting an additional charge is very small, compared to what it would cost if the BID charge had to be collected separately.

There appear to be a number of feasible options for levying a BID charge in Downtown Kingston:

- **An Add-On to the Property Tax.** The Jamaican property tax has some shortcomings as the base for an incremental BID charge, although it also it also has some significant merits. One problem is that the property assessments cover only land value, excluding from consideration the value of any buildings or the actual use of the land. Another shortcoming is the fact that the property tax collection rate is low (only about 70 percent in a normal year and an estimated 50-60 percent this year, due to the delays in issuing tax bills after the recent reassessment). In addition, assessments have been recalculated only about once a decade. Thus, they are often out of date and inaccurate, especially in a high-inflation environment, such as that of Jamaica in recent decades. Nevertheless, the property tax has significant advantages, too. Of particular importance is that there is a system in existence to assess, levy, and collect the tax, thus potentially reducing the collection costs of an incremental charge, piggybacked onto the property tax, to a minimum. Also, the property tax is an arguably equitable basis for charging all owners for services to their properties. In the consultant's view, an add-on to the property tax would be the single best combination of equity and efficiency now available to utilize as the basis for a BID charge in Downtown Kingston.

- **GCT.** Another potential tax that might be used as the basis for an add-on BID charge would be the GCT, the relatively new Jamaican value-added tax. Firms collect GCT from their customers and, after subtracting the value they add, pass on the receipts to the Ministry of Finance. GCT receipts are a reasonably good measure of the amount of economic activity a firm engages in. A law mandating that businesses located in a BID district add a percentage to their GCT payments to Finance could be reasonably easy to enforce and might seem reasonably equitable in distributing costs in rough proportion to benefits. Also, because the GCT is levied on a percentage basis, no periodic reassessment would be needed to keep pace with inflation. However, the fact that some firms have operations both downtown and elsewhere and treat their GCT payments in an integrated fashion, plus the fact that there is no simple geographic base for GCT data, argues against using GCT as a basis for a BID charge.
- **Service Fees and User Charges.** Perhaps the fairest basis of all would be to charge firms in terms of the amount of service they receive from the BID, at least in those cases where this can be measured directly. A service charge might be appropriate in the case of solid waste collection service; however, the lack of any existing collection mechanism for such a fee means that it might be costly and difficult to collect the revenue, unless owners continue to contract directly with waste collectors on an individual basis. This difficulty would be considerably eased in the case of water fees, where a collection mechanism already exists in the National Water Commission's rate charging system. While there are substantial defects in this collection mechanism at present, it seems likely that they could be remedied if a better computerized information system were installed. There is also an effective enforcement mechanism in the threat to cut off water service for non-payment. However, there could well be perceived or real inequities in charging firms for security and sanitation services on the basis of their water consumption.
- **Amount of Floor Space.** Several of the business people who were interviewed suggested the use of floor space as the basis for any BID charge. The logic of this approach seems generally sound, at least for occupied space. Many service demands should be roughly proportional to space, although there may be considerable variations among floor space used for retail, office, or manufacturing purposes. The principal drawbacks to using this measure are: first, the need to obtain and maintain accurate data on occupied floor space; and, second, the costly effort needed to apply and collect a charge proportionate to the amount of floor space. No existing tax system in Jamaica uses floor space as a basis of assessment. Therefore, a wholly new collection mechanism would have to be set up.
- **Amount of Land Area.** Another base suggested by some business leaders is land area. One advantage that this measure would have is that it would probably be relatively easy to

link to the property tax collection mechanism, even if it were a flat charge per square foot of land area. A difficulty would be deciding on whether to try to collect from vacant as well as occupied sites. Another problem would be deciding whether to differentiate between land of high and low value. On balance, however, this measure has sufficient positive features that the consultant ranks it in second place, just after a percentage increase in the property tax itself.

- **Other Measures.** The above-listed possibilities by no means exhaust the list of potential bases for a BID charge to allocate service costs among potential beneficiaries. However, they probably include enough options to provide an initial basis for discussion. There is also the possibility of using several measures in combination, or using one (such as the property tax) until a system of collecting on another basis (such as floor space) can be developed.

In addition to the basis for a BID charge, a closely related concern expressed by virtually all business people interviewed was how to safeguard the funds raised and make certain that they were used only for the intended purposes. For some, the danger that government would sequester the funds raised was so great as to suggest that a wholly non-governmental approach might be better, despite its problems. Others were reasonably confident that a secure trust fund arrangement could be devised and maintained. The consultant also believes that this should be possible, although the actual design of such a mechanism is beyond the scope of the current study.

Whatever basis is chosen for a BID charge, it is vitally important that provision be made for annual or biennial review and, as appropriate, revisions in the rate of the charge. In the high-inflation environment that Jamaica is in, without such a procedure the BID charge would rapidly become inadequate to support the desired service program. The lack of such a mechanism is a major current weakness of the property tax system in Jamaica.

7.4 Obtaining the Necessary Governmental Approvals

Legislation and governmental recognition is needed to authorize a BID because there is an element of compulsion involved in making sure that all business establishments in the defined district contribute equitably to the cost of operations. It is also appropriate to have governmental approval of the basic provisions establishing the powers of the BID, such as how its governing board is to be selected and how its decisions are to be made (for example, how much of a charge to levy each year). It may also be considered important to provide an "escape hatch" so that if at any time a majority or even a substantial minority of the businesses in the downtown area want to terminate or restructure the BID, there is a means to do so.

There are two possible routes for Downtown Kingston to travel in obtaining the necessary governmental backing and official recognition. One would be to seek a new piece of legislation to authorize the BID. The other would be to utilize the authority available under existing legislation.

There are existing Jamaican laws that might possibly provide the basic governmental authority to establish a BID. For example, the Land Improvement Tax Act adopted by the Parliament on October 10, 1968, authorizes the Minister of Finance to designate "improvement areas," to classify properties within such areas, and to impose a tax at a uniform or graduated rate on the value of the classified properties. It would take legal research beyond the scope of this study to determine if this act, or any other existing legislation, is indeed adequate to serve as the basis of a BID. However, if the appropriate research indicates that the Land Improvement Tax Act, either alone or in combination with other existing provisions of law, is indeed sufficiently broad to serve, it might be the fastest route for starting a BID. Otherwise, it would be necessary for the Downtown Kingston business community to seek new legislation from the government.

A significant advantage of new legislation would be that it could spell out clearly the powers and limitations of the BID and specify both its right to collect revenue and how the use of that revenue would be safeguarded. Experience with BIDs in the US has generally found it to be preferable to use entirely new legislation, both to clarify the intent of the law and also to obtain the vote of confidence in the idea that the passage of a law signifies. Whichever course of action is selected, it would seem highly appropriate in Jamaica for the matter to be placed before the cabinet for discussion.

Once a determination is made that existing law can be used and the necessary ministerial approvals are obtained, or once new legislation has been adopted, the BID would be ready to begin work. As with any other organization, its initial "shakedown cruise" seems certain to involve a lot of learning, even by people who think they are already familiar with the downtown area and local practices. This is inevitably the case with any truly new activity. For this reason, it is important not to expect miracles in the BID's first year. But once it starts operations, if the experience of other cities where the idea has been tried is any guide, the degree of support for the organization should grow rapidly.

8 Estimated Level of Costs to Business Firms of a Downtown BID

In the preceding section of this part, an estimate was made of what the total annual cost would be if a Downtown Kingston BID were to deliver improved sanitation and security services. The BID share of the proposed services was estimated to total about J$ 5.5 million per year. On the basis of available data, it is also possible to estimate what increase such a program would involve in the property taxes or space costs now being paid by individual downtown business firms. In this section, four estimates are presented: one involves a property tax-linked charge; two others are based respectively on linkages to floor space and land area; and the fourth approach would charge in proportion to water rates. The discussion presents the cost involved, both for an "average" firm and in a form so that each firm can figure its own potential cost.

8.1 A Property Tax-Linked Charge

To calculate the impact of financing a BID at the budgetary levels assumed in this part through an add-on to the property tax, it is first necessary to estimate the amount of property taxes now levied on the downtown area. At present, it is not possible to obtain this data directly from the Inland Revenue Department because of the way their computer program is designed. We were, however, able to obtain a special tabulation of land valuations in Downtown Kingston that makes it possible to estimate the current level of taxation reasonably closely. This data on valuations, kindly provided by the Land Valuation Department of the Ministry of Finance, indicates that there are about 1,700 parcels of land in the downtown area with total 1993/94 valuations of about J$ 990 million, or just under one billion dollars. Assuming that all of these parcels are taxable, the consultant estimates that the total property tax levied on the downtown area in 1993/94 came to J$ 17.4 million. The basis for this estimate is shown in Table 3. The strong effect of the progressive formula of the property tax can clearly be seen in the table: the most highly valued 14 percent of all parcels are assessed fully 80 percent of all property taxes.

Table 3

PROPERTY TAX VALUATIONS AND TAXES LEVIED ON PROPERTIES IN DOWNTOWN KINGSTON, 1993-1994

Valuation Category (J$ 000s)	Number of Properties in Category		Average Tax per Property (J$)	Total 1993/94 Taxes for Category (J$ 000s)	
	Number	Percent		Number	Percent
Under 100	449	26%	80	40	1%
100-999	1,020	60%	3,230	3,300	19%
1,000-1,999	119	7%	18,230	2,170	12%
2,000-4,999	84	3%	64,480	5,420	31%
5,000-9,999	18	1%	140,730	2,530	15%
Over 10,000	10	1%	398,230	3,980	23%
TOTAL	1,700	100%		17,440	100%

If downtown owners paid their taxes at the same rate as did other Jamaican owners, the amount actually paid came to about 70 percent of the official levy. Thus, in order for a downtown BID to actually collect the estimated J$ 5.5 million in assessments that it needs for security and sanitation services, it might be necessary to impose a BID charge of about J$ 8 million, taking anticipated non-payment into account. On the other hand, if the collection rate were higher — for example, because of the positive attitude of downtown firms toward the BID or other reasons — it would be possible to lower this estimate of the total amount of the assessment required. In this example, however, it has been assumed that an initial assessment of J$ 8 million would be required.

For the average downtown property owner, the estimated net effect would be that the BID charge would add about J$ 4,700 or 46 percent to its annual property tax bill as of 1993/94. Because the tax rate structure of the Jamaican property tax is highly progressive — with the rate rising in steps as the valuation increases — the properties with valuations over J$ 1 million would pay about 80 percent of the add-on amount.

8.2 A Floor Space-Linked Charge

A similar calculation can be made on the assumption that the BID's incremental charges were made to businesses on the basis of the amount of floor space they occupy. The Urban Institute's 1991 survey of the downtown area calculated that the total square footage of occupied space used for business purposes was about 4 million square feet. This comes to an average of about 3,200 square feet per firm for the 1,250 firms listed as being located in Downtown Kingston in the survey.

To finance the illustrative annual level of J$ 5.5 million in sanitation and security services through a per square foot charge — but assuming that the total initial assessment would have to be increased to about J$ 8 million to account for the costs of revenue collection and the likelihood of nonpayment by some businesses — would require an assessment of about J$ 2 per square foot of occupied floor area per year.

The total amount paid by the average firm would be about J$ 6,400. This is higher per taxpayer than in the case of the property tax add-on because the charge would be assessed only to parcels with business structures. In addition, because a square foot charge on floor space would not have the same progressive character that is built into the property tax, the net effect of a floor space charge would be much more severe on less valuable properties and on businesses that use their floor space less intensively (such as manufacturing firms or wholesalers).

8.3 A Land Area-Linked Charge

The same Urban Institute study calculated that the downtown area contained 3.6 million square feet of land occupied by commercial buildings to which a charge might be applied. If the BID charge were to be applied to vacant land as well, this would involve another 2.2 million square feet, or a grand total of 5.8 million square feet.

To finance the same level of BID services through a per square foot of land area assessment — and similarly assuming that the initial amount sought would have to be raised to a total of J$ 8 million to account for the costs of collection and the likelihood of nonpayment by some businesses — would require imposing a charge of about J$ 1.38 per square foot of land area per year.

In the case of the land area charge, the average amount to be paid per land parcel cannot be calculated precisely because the assumption has been made that the charge would be levied against vacant commercial land as well as that occupied by firms. If the number of parcels in business were the same as the 1,700 parcels identified by the Land Valuation Department in Downtown Kingston, the average charge per parcel would be the same J$ 4,700 as in the case of the property tax add-on.

It should be noted, however, that a level per square foot charge would have a much less progressive character than would a property tax add-on and would therefore affect the owners of lower-valued property much more heavily. As compared to a building floor space charge, on the other hand, a land area charge would have a less heavy impact on parcels with buildings on them and more heavy on those that are vacant (such as parking lots, idle land, or land held for speculation).

8.4 A Water Rate-Linked Charge

If a Downtown Kingston BID were to enter into an agreement with the NWC to assume responsibility for collection of water rates in the area (see Part Two for more explanation of this possibility), it might also become possible for the BID to use water rates as the basis to bill business establishments for the funds needed to deliver security and sanitation services in the amounts suggested by the illustrative budget presented above (Table 2). At present, based on data received from the NWC and through the questionnaire survey of 49 downtown firms, the consultant estimates that the "average" firm among the 1,250 downtown establishments is currently billed about J$ 30,000 per year for its water service. In order to raise the additional J$ 5.5 million, or an average of about J$ 6,400 per firm, needed for the BID — and assuming that, at least initially, collection efficiency might be only about the same 70 percent assumed in the other examples — it would be necessary to raise water rates on downtown business establishments by about 20 percent to obtain sufficient revenue for the proposed program of services.

Water consumption varies widely among business firms, whether in terms of their number of employees or other factors such as the square footage of space occupied. Thus, it is difficult to make any direct comparisons as to equity between an assessment based on water rates and the other approaches discussed in this section. It seems likely, however, that a water rate-based charge would be much less progressive in its impact than a property tax add-on. It would clearly have less of an impact on vacant parcels than would a land area-based charge.

9 The Consultant's Recommendation

Use of any one of the four alternative approaches discussed above to assess a BID charge would be technically feasible, as would the use of some combination of two or even more approaches. The decision should be made by the people most affected — the Downtown Kingston business community.

In the consultant's view, however, the property tax add-on option is the most immediately feasible approach and also the one that would be fairest to most businesses in the downtown area. The progressive character of the Jamaican property tax means that those firms with the most valuable properties — generally, also those with the greatest income — would pay a higher proportion of the BID assessment, while owners with smaller, less valuable properties would pay significantly less. Also, the fact that a property tax valuation and tax collection systems already exists means that a property tax-based approach would start out with a significant technical advantage.

The idea of a square foot charge — whether on land or building area — is appealing because of its apparent simplicity, but in the case of Downtown Kingston it would be necessary to create a collection mechanism from scratch. Also, the economic effects of such charges on individual firms would be very hard to predict. On balance, the firms with less valuable properties would pay relatively more under either of the per square foot options, as compared to the property tax add-on.

The water rate option has substantial merit, especially because there is already a collection and enforcement mechanism in place. But there is little or no basis for believing that the demand for solid waste collection and security services is necessarily proportional to water consumption. For this reason, the consultant believes that this collection mechanism is better adapted to paying for infrastructure services, as discussed in Part Two below.

10 Next Steps

This report has presented the basis for the consultant's recommendation that the downtown business community move to create a Business Improvement District to upgrade conditions in Downtown Kingston.

The next steps in the process are up to the business community itself. First, it will be necessary to discuss the idea and for each business to consider whether the added value of enhanced sanitation and security would be worth an assessment or charge on the order of magnitude discussed above. If the cost seems worth the value to be received, and the idea still appeals, it should then be discussed by the business community with government officials from agencies concerned with the downtown area, such as the Ministry of Local Government, the UDC, and the KSAC.

After such discussion, the business community should begin the detailed planning process that is necessary as a basis for action to establish a BID for Downtown Kingston. Then, it would be appropriate to discuss the matter formally with the Cabinet and the Ministry of Finance as the basis either for official approval as an improvement area under the Land Improvement Tax Act or other existing laws, or as the basis of specific new legislation.

Part Two

Financing Infrastructure Improvements for Downtown Kingston

This second part of the report addresses the question of how to finance infrastructure investments, especially those involving sewers and waste water treatment systems, under conditions where general government funds are not available.

Given the built-up urban pattern that characterizes Downtown Kingston, and in light of the downtown area's close proximity to the environmentally sensitive and economically important harbor, a full-scale sewer system, complete with effective waste water treatment facilities, is essential. This is a situation that needs remedying elsewhere in Kingston, such as at the New Kingston office center. Similarly, effective sewerage is essential in the important centers of Jamaica's tourist industry, such as Negril, Montego Bay, and Ochos Rios. The question is how to finance the expense of infrastructure installation and the continuing cost of operation and maintenance associated with such systems.

1 How Infrastructure Is Financed Elsewhere

The financing of sewer systems and waste water treatment facilities in densely built-up urban areas is a problem throughout the world, including many industrial countries and virtually every developing country. Many different approaches have been attempted in the effort to overcome the financial and other resource constraints that stand in the way of healthful disposal of human wastes.

Principal among these approaches are the following:

- In advanced industrial societies, where adequate resources are more readily available, a common approach is to finance construction of sewer systems and treatment facilities through a combination of grants from central and state governments to municipal governments or to special local water/sewer districts. Because such grants usually pay for only part of the cost, they are often combined with the issuance by the local governments or special districts of their own long-term bonds. Repayment of such bonds is customarily backed by debt service payments derived from charges for water and sewer services to local area consumers. To make this approach feasible, it is necessary to have consumers wealthy enough to pay the debt service and other costs of the system that are not covered by grants. The existence of a robust private market in which long-term bonds can be sold (called, in US parlance, a "municipal securities" market) is also essential to this approach.
- In a few developing countries, with Colombia being the leading example, a practice generally similar to the special district in the US has developed to pay for infrastructure investments through special assessments on the property owners who benefit from the investment and whose land values can be assumed to increase as a result. This process is called "valorization." For the most part, this benefit assessment practice has worked best to finance neighborhood-serving investments in relatively high-income areas. It has not

generally been used in either low-income neighborhoods or to finance major facilities, such as interceptor sewers or treatment plants which serve broad portions of an urban area.

- In developing countries, major infrastructure investments have generally been financed through loans from international bodies, such as the World Bank or the Inter-American Development Bank, or bilateral assistance agencies such as USAID. A common pattern is for repayment of such loans to become an obligation of the central government of the developing country. This is feasible only in cases where the central government places high enough priority on the planned infrastructure investment to accept the obligation and where it has sufficient unobligated debt-incurring capacity. Since the international debt crisis of the mid-1980s, this has not generally been the case in countries subject to structural adjustment limitations such as Jamaica. Exceptions have been made in unusual high-priority instances, such as that involving the Harbour Street interceptor sewer, but even in that case, it is not presently clear how the central government plans to repay the funds advanced from international and domestic sources.
- A number of other financing techniques have also been used, primarily in industrial countries and in specialized situations. Most commonly, these other approaches involve raw or lightly developed land where considerable increases in value can be expected once water and sewer service is provided. These techniques usually depend on getting the land owners to pay for the cost of infrastructure investments through such means as requiring advance payments (impact fees) or through contributing a portion of their land so that it can be used to generate revenue (land readjustment, excess condemnation, etc.). Service fees and connection fees are other approaches that have been used to generate revenues for this purpose.

A comprehensive review of the applicability of 19 different options for infrastructure finance is contained in a very useful 1991 study prepared by PADCO for the USAID office in Thailand. A substantial excerpt from this PADCO study is included as Appendix 2 to this report to provide those interested with the details on these options. A section has been added to the description of each option, assessing the potential utility of each approach to the situation in Jamaica. Unfortunately, as the reader will clearly see from an examination of this appendix, only a few of the 19 techniques are likely to be at all relevant to the particular situation of Downtown Kingston, although some may prove useful in other parts of Jamaica, such as the tourism centers on the north coast.

The remainder of this report focuses on those approaches that appear most likely to apply to Downtown Kingston.

2 The Lack of Clear Responsibility for Sewerage Infrastructure

Complicating the situation for the business community in Downtown Kingston is the fact that no single governmental entity is clearly responsible for national policy and operations with regard to sewers and waste water treatment facilities. The Ministry of Health has the power to set standards for pollution abatement and the Town Planning Board has approval powers over major developments that require sewers and treatment facilities, but neither exercises a general responsibility in the field so as to bring about sewer installation or maintenance. The NWC has been assigned the responsibility for operation of certain specific existing sewer systems and treatment plants which have been turned over to it by various government agencies. These include "package plants" built by the UDC and other housing agencies to serve new subdivisions and also the Kingston treatment plants and pumping stations constructed by one of the NWC's predecessor agencies. However, to date, the NWC has not seen itself as having any general responsibility for waste water pollution control, nor does it believe that it could obtain the major increase in funding — either through budget appropriations or rate increases — that would be necessary to pay for such a function. As an indication of the limitations on the NWC's role in sewer installation, when the decision was made by the Government of Jamaica to apply for a USAID loan to reconstruct the Harbour Street interceptor sewer in Downtown Kingston, the responsibility was assigned to the UDC, not the NWC.

The situation in Jamaica regarding responsibility for sewers and waste water treatment and disposal is currently undergoing significant policy review. The NWC itself is currently going through a major reexamination of its operations, including giving consideration to whether or not it should privatize part or possibly all of its water supply and distribution responsibilities. The analysis is being done with the assistance of Price Waterhouse, a management consulting firm employed by the NWC with financial assistance from USAID. The NWC is also reexamining its role in the sewer field, as indicated by its recent completion of an internal policy study suggesting that it take on a broader responsibility in this field.

3 A Potential Role for a Downtown BID in Water Infrastructure

During the course of the study leading to this report, the consultant discussed with NWC senior staff the possibility that, if a Downtown Kingston BID were created, the BID might become a subcontractor to the NWC for the delivery of potable water and waste water treatment services to the downtown area. Functions for which the BID might become responsible could include infrastructure construction as well as operation and maintenance of water and sewer systems in the downtown area. To finance its operations, the BID would also have to assume responsibility for setting and collecting water and sewer rates. While making no firm commitment, the NWC staff were receptive to this idea and indicated that they would be willing to consider it if the downtown business community were seriously interested.

At this early stage, the idea must be considered as wholly preliminary. However, if it were to move forward, it might involve the following steps:

- First, a Downtown BID would have to be established on the basis of existing or new national legislation that, among other things, would give it the authority to deliver and collect rates for water and waste water services to the downtown area, subject to an agreement with the NWC allowing it to do so.

- Next, an agreement with the NWC would have to be arrived at, delegating to the BID the ability to purchase water on a wholesale basis from the NWC and to resell it to downtown establishments and residents. For its services to residential structures and occupants, the BID might have to be subject to the same below cost rates that the NWC currently charges, provided that the NWC accepts the responsibility to provide the same subsidy that it allocates to its own residential customers in the KSAC service area. However, with regard to non-residential customers, such as downtown businesses and government offices, the BID would be authorized to charge an economic rate, sufficient to cover the full cost of delivering water and sewer service.
- The BID would then undertake not only to operate the existing water and sewer system as a subcontractor, but also to upgrade and extend it to areas where sewer connections are needed and to do the necessary maintenance to ensure fault-free operation. Its charges would have to be sufficient to cover the cost of operations and the cost of interest and amortization on any bonds it sold or loans it took out to pay for the cost of capital improvements.
- The BID would have to have — and be prepared to use — the power that the NWC now has — but rarely exercises — of cutting off water service from any property whose owner or occupant does not pay the water charge. Without such action, the BID would inevitably find itself in the same fiscal difficulties as the NWC.
- If the BID could develop an assured stream of debt service payments, it might be possible for it to be able to sell bonds or negotiate loans to pay for capital improvements, either on the international market or through negotiation with the major financial institutions and pension funds headquartered in the downtown are. . However, as noted later in this section, the high rates of interest now prevalent in Jamaica appear to preclude this possibility at present.
- An alternative approach for the BID, if it proves infeasible to obtain loans of long-term capital funds, would be to carry out its efforts within annual appropriations sufficient to pay for a program of sewer upgrading and maintenance. While such a limited effort might not resolve the issue of how to finance major facilities on the scale of the Harbour Street interceptor or pumping or treatment plants, nevertheless it could achieve distinct improvement in the immediate environs of the downtown area.

This capsule description only suggests the outlines of the concept. Considerable further analysis and discussion would be needed to determine if it could become a feasible and desirable plan for Downtown Kingston. In light of the NWC's willingness to consider the concept, however, the consultant broached the idea to various other government officials and to private sector leaders in the downtown area. Their preliminary reaction suggests that the concept may well be worthy of further consideration.

4 Estimating the Potential Costs of the BID's Involvement

The remainder of this part contains an examination of the financial feasibility of two possible approaches to investment in sewer infrastructure by a downtown BID. One approach depends on long-term loans or bonds. The other involves paying for infrastructure investment on a current basis.

Both analyses assume cost recovery for infrastructure investment by means of what most authorities on the subject agree is the best method of charging for water and sewer services — through water rates. This is a good approach to cost recovery both because it is equitable and because it is efficient. It is equitable because rates can be adjusted to charge for the amount of potable water consumed and also because water consumption is a sound measure of the use of sanitary sewerage service. It is efficient because there is an existing collection system and a convenient remedy — cutting off the water supply — in the case of non-payment.

It is also possible to charge for water and sewer service through other means, such as through an addition to the property tax or through building-related charges, but these are generally seen as neither as fair nor as efficient a means of cost recovery.

4.1 Using Long-Term Capital Loans for Infrastructure Investment

This section examines the possibility that a Downtown Kingston BID might be able to obtain long-term capital funds by issuing bonds or through loans from private institutions. There are two principal, interrelated considerations that must be taken into account: the term in years of the bonds or loans (which strongly influences the amortization component of debt service) and the interest rate that would have to be paid (which influences the other major component of debt service).

In the US, municipal borrowing for infrastructure or other capital construction is generally limited by law to a "period of probable usefulness" of the improvement. For sewer and waste water systems, this period typically runs between 20 and 40 years. US municipalities generally seek out long-term funds because, if they can be obtained at low interest rates, they tend to reduce the annual debt service payment that must be obtained through taxes.

In Jamaica, however, the present very high interest rates (currently at over 50 percent for even short-term loans) make the obtaining of 20-40 year financing highly unlikely. Even if such financing could be obtained, there would be little benefit from stretching out the period of repayment beyond 10 years. To illustrate this, the consultant has prepared the following calculation of the amount of debt service that would be required for bonds or loans of different durations, figured at various annual interest rates ranging from 8.5 percent to 50 percent (Table 4). The lower rate is the current rate in US dollars for USAID loans; the 50 percent rate is the current rate for Jamaican Treasury notes and is below what long-term money could currently be obtained for in Jamaica. The results are shown in terms of the annual debt service payment that would be required as a percentage of the original amount of principal borrowed:

Table 4

CALCULATION OF THE ANNUAL COST OF BORROWING AT VARIOUS INTEREST RATES FOR DIFFERENT PERIODS OF TIME

Term of Loan (in Years)	Interest Rate Per Year		
	8.5%	25.0%	50.0%
5	25.4	37.3	57.6
10	15.2	28.0	50.9
15	12.0	25.9	50.1
20	10.6	25.3	
25	9.8		
30	9.3		

What this analysis shows is the following:

1. For interest rates in the 25-50 percent range, there is virtually no reduction in the annual debt service payment from longer-term bonds or loans beyond a 10-year period. Thus, it makes little sense to consider financing for terms greater than 10 years. This will be true unless and until the interest rates in Jamaica can be sharply reduced. At some future date, when Jamaican interest rates come down significantly — because inflation has been lowered — it may be appropriate to reconsider the possibility of using long-term financing for infrastructure.

2. While longer-term financing is potentially attractive at the 8.5 percent level of USAID loans, there is another factor that must be taken into consideration. This is the fact that the US loans must be repaid in scarce and expensive foreign exchange. The Appendixes volume accompanying this report contains an analysis of this problem that shows that there is little or no interest rate benefit to Jamaica from loans in US dollars as long as the exchange value of the Jamaican dollar continues to fall rapidly as it has it has in recent years.

The Appendixes volume that accompanies this report also contains a more detailed analysis of the difficult impact of high interest rates on any effort to finance major capital projects through the use of long-term loans, as well as an assessment of the problems in using international loans for the same purpose.

4.2 A "Pay-As-You-Go" Program of Infrastructure Investment

The difficulty facing a Downtown BID in borrowing on a multi-year basis, because of the current very high inflation and interest rates, still leaves open several options for a Downtown Kingston BID to consider for financing infrastructure improvements. First, it may be possible to find lenders willing to provide funds at below-market rates. Second, a BID could turn to the option of paying for infrastructure improvements on a current or "pay-as-you-go" basis. This option makes particular sense when considering small-scale capital projects or ones that can be built in stages.

In addition to needing major infrastructure investment (such as pumping station and treatment plant upgrading and expansion), Downtown Kingston also faces a variety of needs for smaller projects, ranging from replacement and upgrading of feeder lines to maintenance and repair of sewers that the NWC's current financial difficulties and other priorities have neglected. Because such activities involve continuing, year-after-year investment, it is generally considered inappropriate to seek long-term financing to pay for them in any event. Instead, a downtown BID could decide to mount a sewer improvement program modeled more on a recurrent service than a capital program.

Until the engineering groundwork has been done, it is not feasible to estimate the cost of such a sewer improvement program with any degree of accuracy. However, if such a program were mounted at about the same cost level suggested in Part One of this report for the security and sanitation programs — or about J$ 8 million a year — it seems very likely that high priority activities could readily be identified, even pending the carrying out of a comprehensive engineering study.

To put this level of investment into context, it may be useful to review the costs involved in the Harbour Street sewer, the most major recent infrastructure investment in the downtown area. Based on data provided by the UDC, the consultant estimates these costs as follows:

Costs expended to date, including USAID loans at current exchange rate and GOJ contribution	150 million
Additional works to complete the system (including Darling Street up-grade)	62 million
Additional works to extend system to Rae Town	12.9 million
Rae Town pumping station	3.6 million
TOTAL COST (in 1994 J$)	**228.5 million**

Clearly, an $8-million-dollar annual program would be insufficient to construct at the scale of the Harbour Street sewer, although if interest rates come down significantly in the future, it would support a substantial capital investment program. Even without borrowing, however, J$ 8 million per year will finance a considerable amount of upgrading of infrastructure conditions in the downtown area. As noted in the previous Part of this report, to support an annual J$ 8 million investment program would require about a 20 percent increase in current water rates being paid by downtown firms. For the average firm, this would mean an increase of about J$ 6,400 per year or about J$ 500 per month.

5 The Consultant's Recommendation

The consultant believes that the willingness of the NWC to consider entering into an agreement to let a Downtown Kingston BID become its agent for providing water and sewer services in the downtown area is a major opportunity for the business community. Even if it does not prove feasible to generate funds to support long-term loans for infrastructure improvement — because of the current difficult economic environment — it immediately opens up the chance for a BID to carry out improvements on a sound "pay-as-you-go" basis.

The consultant recommends that this opportunity be explored and, if feasible, put into effect. To assist in this process, the downtown business community should seek professional engineering and economic assistance.

6 Next Steps

The preceding analysis of the costs of investing in the sewer infrastructure system of Downtown Kingston was presented as an illustrative example of how a BID might play a useful role in the process. No pretense is made that the figures used are more than approximate — although the consultant believes them to be generally in the "ball park." Detailed engineering investigation and cost estimation would be needed to frame a more precise picture of the costs involved and more intensive analysis of water rates would also be required.

But the initial policy choices for the downtown business community can be addressed even without such detailed cost data. What is important for the business people of Downtown Kingston to consider is whether they believe that establishment of a BID is the right way to move ahead and whether they want to include infrastructure improvement as one of the functions of such an organization. If such a decision is made, it will then be time for the more detailed investigation that should precede any finite commitment as to the particular investment program, cost level, and cost recovery approach the BID should adopt.

APPENDIXES TO THE BID REPORT ON DOWNTOWN KINGSTON, JAMAICA

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Appendix A

Responses to the Questionnaire Survey from a Selected Group of 49 Firms Located in Downtown Kingston

SOLID WASTE COLLECTION

	Number of Responses	Percent of All Responses
1. BY WHOM IS YOUR GARBAGE COLLECTED?		
OUR OWN GARBAGE TRUCK	6	12
PRIVATE FIRM	21	43
PRIVATE INDIVIDUALS	10	20
OTHER	12	24
TOTAL	49	100
2. HOW OFTEN IS YOUR GARBAGE COLLECTED?		
DAILY	29	59
WEEKLY	11	22
BI-WEEKLY	12	6
OTHER	3	3
TOTAL	49	100
3. WHAT IS THE POINT OF DISPOSAL?		
PUBLIC DUMP	34	69
WAY SIDE PROVISION	4	8
OTHER	2	4
NO ANSWER	9	18
TOTAL	49	100
4. HOW WOULD YOU RATE YOUR SOLID WASTE DISPOSAL SERVICE?		
EXCELLENT	6	12
GOOD	18	37
FAIR	13	27
POOR	11	22
NO ANSWER	1	2
TOTAL	49	100
5. HOW MUCH DO YOU PAY PER MONTH FOR GARBAGE SERVICE?		
LOWEST	$1	
AVERAGE	$785	
HIGHEST	$5.000	
STANDARD DEVIATION	$915	

6. DO YOU CONSIDER THE COST REASONABLE?

	Number of Responses	Percent of All Responses
YES	21	43
NO	7	14
NOT SURE	4	8
NO RESPONSE	17	35
TOTAL	49	100

WATER SERVICE

7. DO YOU HAVE PROBLEMS WITH WATER LOCK-OFF?

YES	3	6
NO	43	88
SOMETIMES	3	6
TOTAL	49	100

8. HOW DO YOU RATE THE WATER SERVICE?

EXCELLENT	11	22
GOOD	27	55
FAIR	5	10
POOR	6	12
TOTAL	49	100

9. IS WATER EXPENSE A MAJOR PART OF YOUR OPERATING COSTS?

YES	16	33
NO	29	59
NO ANSWER	4	8
TOTAL	49	100

10. WHAT IS YOUR MONTHLY WATER CHARGE/

LOWEST	$2
AVERAGE	$2,177
HIGHEST	$14,000
STANDARD DEVIATION	$3,099

11. IS THE WATER CHARGE REASONABLE?

	Number of Responses	Percent of All Responses
YES	19	39
NO	19	39
NO ANSWER	11	22
TOTAL	49	100

SEWERAGE SYSTEM

12. DO YOU HAVE PROBLEMS WITH SEWERAGE?

YES	10	20
NO	36	74
NO ANSWER	3	6
TOTAL	49	100

SECURITY

13.HAVE YOU EVER EXPERIENCED A BREAK-IN?

YES	26	53
NO	18	37
NO ANSWER	5	10
TOTAL	49	100

14. HOW MANY BREAK-INS OVER THE PAST TWO YEARS?

ONE	11	22
TWO	3	6
THREE	3	6
FOUR OR MORE	6	12
NONE OR NO ANSWER	26	53
TOTAL	49	100

15. WHAT TYPE OF SECURITY PROVISIONS HAVE YOU MADE?

UNARMED GUARDS	12	29
ARMED GUARDS	13	32
GUARDS WITH DOGS	2	5
ELECTRONIC DEVICES	12	29
CAMERAS	7	17
BUZZER SYSTEMS	13	32
OTHER	8	20
NO ANSWER	14	34

16. HOW EFFECTIVE ARE YOUR SECURITY MEASURES?

EXCELLENT	9	18
GOOD	13	27
FAIR	5	10
POOR	4	8
NO ANSWER	18	37
TOTAL	49	100

17. ARE SECURITY PROBLEMS AFFECTING YOUR BUSINESS?

YES	24	49
NO	10	20
NO ANSWER	15	31
TOTAL	49	100

18. HOW MUCH DID YOU SPEND TO INSTALL YOUR SECURITY SYSTEMS?

LOW	$4
AVERAGE	$80,512
HIGH	$500,000
STANDARD DEVIATION	$123,703
NO ANSWER	32

19. HOW MUCH DO YOU SPEND PER MONTH ON SECURITY?

LOW	$2,400
AVERAGE	$26,385
HIGH	$120,000
STANDARD DEVIATION	$37,867
NO ANSWER	36

20. DO YOU CONSIDER YOUR SECURITY COSTS REASONABLE?

YES	13	27
NO	5	10
NO ANSWER	31	63
TOTAL	49	100

21. DOES THE SECURITY ISSUE MAKE IT HARD TO GET INSURANCE?

YES	12	25
NO	11	22
NO ANSWER	26	53
TOTAL	49	100

22. WOULD YOU BE WILLING TO CONTRIBUTE FINANCIALLY TO A PRIVATESECURITY SERVICE FOR DOWNTOWN?

YES	19	39
NO	3	6
NO ANSWER	27	55
TOTAL	49	100

DEVELOPMENT PROSPECTS FOR DOWNTOWN

23. HOW DO YOU SEE THE FUTURE PROSPECTS FOR DOWNTOWN KINGSTON?

CONTINUING IMPROVEMENT	15	31
STAYING THE SAME	9	18
GETTING WORSE	25	51
TOTAL	49	100

24. DO YOU SEE YOUR FIRM AS PART OF THE DOWNTOWN DEVELOPMENT PROCESS?

YES	37	76
NO	5	10
NO ANSWER	7	14
TOTAL	49	100

25. IF THERE WERE PROPER HOUSING AVAILABLE, WOULD YOU WANT TO LIVE DOWNTOWN?

YES	10	20
NO	36	74
NO ANSWER	3	6
TOTAL	49	100

26. IF IT WERE SAFE AND CLEAN DOWNTOWN, WOULD YOU WANT TO LIVE THERE?

YES	11	22
NO	24	49
NO ANSWER	14	29
TOTAL	49	100

27. WOULD YOU BE WILLING TO CONTRIBUTE TO A PRIVATE FUND TO IMPROVE DOWNTOWN KINGSTON?

YES	25	51
NO	7	14
NO ANSWER	17	35
TOTAL	49	100

28. WHAT PAYMENT APPROACH WOULD YOU PREFER TO SEE USED TO RAISE MONEY TO DEVELOP DOWNTOWN KINGSTON?

DIRECT PAYMENTS TO A FUND	18	37
LINKED TO THE PROPERTY TAX	1	2
LINKED TO FLOOR SPACE	1	2
OTHER APPROACH	2	4
NO ANSWER	27	55
TOTAL	49	100

29. HOW DO YOU RATE THE QUALITY OF THE FOLLOWING ASPECTS OF DOWNTOWN KINGSTON (ON A SCALE OF 1 TO 10, WHERE 10 IS THE BEST AND 1 IS THE WORST)?

	Rating	Valid Responses
RENTAL SPACE	5.6	45
SECURITY	5.9	47
CLEANLINESS	5.8	47
SEWERAGE	5.7	46
SOLID WASTE DISPOSAL	5.5	47
HUMAN RESOURCES	4.8	47
AVAILABILITY OF CUSTOMERS	5.3	47
VENDOR ISSUES	5.9	47
PARKING	5.2	47
PUBLIC TRANSPORT	6.2	46

BUSINESS CHARACTERISTICS

30. WHAT IS THE NATURE OF YOUR BUSINESS?

MANUFACTURING	2	4
DISTRIBUTION	24	49
SERVICES	22	45
OTHER	1	2
TOTAL	49	100

31. ARE YOU OPEN ON SATURDAYS?

YES	40	82
NO	7	14
NO ANSWER	2	4
TOTAL	49	100

32. ARE YOU OPEN ON SUNDAYS?

YES	2	4
NO	44	90
NO ANSWER	3	6
TOTAL	49	100

33. WOULD YOU EXTEND YOUR BUSINESS HOURS IF CONDITIONS IN DOWNTOWN KINGSTON WERE IMPROVED?

YES	28	57
NO	6	12
NO ANSWER	15	30
TOTAL	49	100

34. HOW MANY PERMANENT EMPLOYEES DO YOU HAVE?

LOW	1
AVERAGE	45
HIGH	1000
STANDARD DEVIATION	155
NO ANSWER	6 CASES

34. HOW MANY TEMPORARY EMPLOYEES DO YOU HAVE?

LOW	0
AVERAGE	1
HIGH	20
STANDARD DEVIATION	4
NO ANSWER	25 CASES

35. HOW WOULD YOU DESCRIBE THE FINANCIAL PERFORMANCE OF YOUR COMPANY?

EXCELLENT	1	2
GOOD	16	33
FAIR	8	16
POOR	10	20
NO ANSWER	14	29
TOTAL	49	100

36. IS YOUR DOWNTOWN KINGSTON OPERATION PROFITABLE?

YES	20	41
NO	9	18
NO ANSWER	20	41
TOTAL	49	100

37. WOULD YOUR FIRM BE INTERESTED IN PARTICIPATING IN A PROMOTIONAL CAMPAIGN FOR DOWNTOWN?

YES	24	49
NO	6	12
NO ANSWER	19	39
TOTAL	49	100

38. WOULD YOUR FIRM CONTRIBUTE FINANCIALLY TO A JOINT PUBLIC RELATIONS CAMPAIGN FOR DOWNTOWN?

YES	17	35
NO	7	14
NO ANSWER	25	51
TOTAL	49	100

Appendix B

Infrastructure Financing Tools: An Inventory

This Appendix identifies and describes a variety of methods for financing the capital costs of infrastructure. Each of the options for infrastructure financing is presented in the same format — a standard, single-sheet description as follows:

- Financing Tool
- Character
- Definition/Description
- Purpose
- Requirements
- Applicability to Jamaica and Downtown Kingston

The 19 options are presented in terms of the timing of their financing. All current financing options (Options 1-8) are followed by those dependent on debt (Options 9-15). Finally, those in which an equity ownership position is used as the basis for financing (Options 16-19) are listed.

Acknowledgment:

The material in this Appendix, except for the sections headed "Applicability to Jamaica and Downtown Kingston," is drawn from a report prepared by PADCO for USAID, entitled "Infrastructure Financing and Cost Recovery Options: International Experience Applicable to Thailand." The authors of the PADCO report were John C. Dalton and David E. Dowall.

Option No. 1
Financing Tool: Taxes
Character: Public; Current Expense
Definition/Description:

Tax revenues are the typical means of financing public infrastructure. The primary sources of local tax revenue are property taxes, business taxes, and excise taxes. The annual collections may be used to a) finance the total cost of the infrastructure ("pay as you go"); b) make annual debt service payments on outstanding bonds or loans ("pay as you use"); or c) contribute to a reserve account for future investment.

Purpose:

Public financing of infrastructure through tax revenues is used whenever the facility is assumed to benefit the entire community.

In some cases, such as with "Tax Increment Financing," tax revenues are dedicated to retire debt incurred on behalf of a specific geographic area. Over the past several years, some business taxes at local levels in the United States have been allocated to commercial revitalization.

Requirements:

For taxes to be used as a primary source of infrastructure financing, an effective system of tax administration (mapping, valuation, record keeping, billing, and collection) is essential. Tax revenues must be sufficient to cover both operating and development expenses. Past trends and future projections of tax yield must be sufficient to retire any debt incurred for infrastructure financing purposes.

Applicability to Jamaica:

Significant changes in the statutory authority and methods of local tax administration would be needed for taxes to be used as one of the primary sources of basic infrastructure financing. The current situation where the property tax applies only to land, not to structures, and the property assessments and tax rates are subject to change only once or twice a decade means that, without substantial change, it would be difficult to rely on this tax, as the individuals have not been required to pay for local infrastructure, previously the main source of infrastructure financing. In addition, the fact is that most make it politically unacceptable to rely upon property taxes as a source of future financing.

Option No. 2
Financing Tool: User Charges
Character: Public; Current Expense
Definition/Description:

User charges are fees paid by consumers for infrastructure-related services, typically for utility operations such as water, sewerage, and electricity. The user charge consists of the following four cost elements:

a. operating expenses
b. maintenance
c. depreciation
d. debt service

The debt service portion of the annual user charge is allocated to cover the long-term cost of infrastructure.

Purpose:

User charge financing is a "private sector"/commercial approach to cost recovery. The total cost of service is passed through to the consumers as part of a monthly or quarterly bill for services issued by the local government or local enterprise in accord with the approved rate. The operating cost portion of the rate is generally based on use, with higher levels of consumption reflected in higher charges. The debt service portion may be allocated on the basis of use or apportioned equally among all consumers, each of which pays an equal share. The latter approach assures the availability of sufficient capital to retire outstanding debt, since it is not affected by fluctuations in consumption.

Requirements:

User charges for utility operations operate most effectively when combined with a cost accounting system to identify and allocate expenses. Without such a system, it is difficult to determine the factors that contribute to operating or capital cost increases. User charges to recover costs of debt service assume the authority to incur long-term obligations (e.g., bonds or loans). Accordingly, local governments without this authority do not often employ user charges to pay for debt service, but rather to cover operating and maintenance expenses only. As a result, physical deficits may increase in service areas that do not provide user charge financing for regular replacement of infrastructure through user charges.

Applicability to Jamaica:

User charges are very difficult to implement over wide geographic areas and/or in communities with low-income consumers. "Free" or very low payment rate service — typically for water — undermines the financial integrity of the overall operation, with the maintenance and/or replacement of infrastructure often sacrificed. The large number of low-income families in Kingston and other urban areas could make it difficult to implement a community-wide user charge system based on commercial cost recovery principles.

However, user charges could become a sound basis for financing infrastructure in locations where the rate-paying capacity is higher, as in Downtown Kingston and New Kingston and in the tourist areas of Negril, Montego Bay, and Ochos Rios.

Option No. 3
Financing Tool: Betterment Levies
Character: Public; Current Expense
Definition/Description:

Betterments are public charges to recover the capital cost of infrastructure. They are levied directly upon the immediate beneficiaries based upon either a "frontage" or land area basis and may be used in conjunction with other financing techniques (such as assessment districts) to directly link the beneficiaries to the costs. Betterments are frequently used for secondary and tertiary roads, as well as for water and sewer extensions. Betterments are assessed, levied, and, usually, paid in advance of infrastructure construction.

Purpose:

Betterments are a means of forcing property owners, who will benefit from the provision of public infrastructure, to bear the burden of its cost. In most cases, the portion borne by individual property owners is based on an engineering cost estimate of the cost of installation, not either the long-term running costs of the infrastructure or its cost implications on the total system (compare to impact fees). The betterment principle can be applied to either existing or planned developments; levies may be made against individual owners or to a single developer of an approved subdivision.

Requirements:

Capital cost recovery under a betterment principle requires accurate estimates of infrastructure construction costs so that the beneficiaries can be properly assessed. In addition, it usually depends upon "consensus" among all those being assessed. Private dedication of property (rather than expropriation) to achieve the public purpose may often be required. Delays in the payment of betterments can affect the capital cost estimate, forcing the public sector to assume a larger-than-anticipated share of the capital cost.

Applicability to Jamaica:

A variation on the betterment approach is used frequently in Jamaica, but by the private developer rather than the public sector. On-site infrastructure costs are apportioned to future home buyers in many subdivisions. The developer is under no obligation to document either the basis for the original cost or the methodology for its distribution to individuals, unlike the public betterment approach in which these factors are determined by regulation.

Betterments are easier to implement where the benefitted property belongs to the same land use classification and/or the economic purpose of the land is similar. In areas with mixed uses, benefits are often more difficult to calculate. Accordingly, betterments usually need to be implemented in conjunction with other financing and cost recovery tools.

Option No. 4
Financing Tool: Bonds
Character: Public; Debt
Definition/Description:

Governments use bonds to borrow money to finance the capital cost of infrastructure construction. Bonds are a form of enforceable contract since the issuer pledges to repay the debt on an agreed schedule from identified revenue sources. The linkage of the debt to a specific revenue source determines whether the bond is a general obligation bond, which is guaranteed by tax collections and other general revenues, or a revenue bond usually secured by a single non-tax source of revenue (compare to the revenue bonds for tax increment financing, which use tax sources as security). A revenue bond may be secured only by the revenue stream of the facility financed by the bond. Revenue bonds have a higher degree of risk and, therefore, a higher interest rate/investment yield than general obligation bonds.

Purpose:

The primary purpose of general obligation bonds is to allocate the cost of infrastructure over a time period equal to its useful life. By linking debt retirement to a broad-based local tax source (property taxes), both current and future users pay for the capital cost of the facility. As a community's aggregate assessed value increases, the actual portion borne by any individual property owner decreases. Revenue bonds are used with great effect by public enterprises (see the section on Special Districts) and to finance private commercial developments such as malls and markets. In the latter case, the flow of funds may be insured by an insurance company (e.g., Lloyd's of London) to reduce the risk to the public issuer as well as to the private investor.

Requirements:

The most fundamental requirement is a capital market to buy and sell bonds. Local governments and public enterprises need a steady and predictable revenue stream and a history of successful debt management to attract competitive interest rates. The ability to issue tax-exempt bonds (under authority granted by the national government) is also a major advantage, since it will reduce the interest costs and debt service requirements associated with borrowing.

Applicability to Jamaica:

Local governments in Jamaica are not authorized to borrow funds through the issuance of bonds, nor are they "creditworthy" in public finance terms due to their dependence on national grants for much of their income. However, it might be possible for the national government to establish a bond bank or development lending facility to enable local governments to obtain long-term credit for infrastructure financing.

Option No. 5
Financing Tool: Loans
Character: Public; Debt
Definition/Description:

Infrastructure may be financed through borrowing by a local government or public enterprise. Loans differ from bonds in several ways: shorter term, higher interest charges, lending arrangements, and enforceability. Local governments or public enterprises may borrow on commercial terms from banks or other private lenders or on official terms from 1) national facilities established for that purpose or 2) international creditors. Most public sector loans are short-term, usually for annual cash management purposes.

Purpose:

If bonded debt is not an authorized option, local governments and public enterprises may borrow funds for infrastructure financing. Generally, loans are more expensive than bonds, but do provide the advantage of multi-year repayment period, usually 3-8 years. The combined impact of local infrastructure deficits and absence of credit has encouraged many developing countries (Jordan, Kenya, Philippines, Indonesia, Colombia) to establish a national financing institution that makes concessional loans to local governments and enterprises for development projects.

Requirements:

Local governments and enterprises often are constrained by restrictive debt limits, making it difficult to borrow funds to finance infrastructure. Therefore, for loans to be a viable source of capital, enabling laws must be passed to provide the authority and flexibility needed to incur long-term debt. Most national lending facilities lend funds only for revenue-earning projects, making it impossible for many local governments to satisfy the demand for basic infrastructure. Allowing local governments to obtain financing for community development projects would enable more basic infrastructure to be financed on a long-term basis.

Applicability to Jamaica:

In the absence of institutions — public or private — willing to lend to local governments, it will be difficult to use loans to finance infrastructure generally in Jamaica. However, in special circumstances, such as a Downtown Kingston BID would make possible, the opportunity for using loans would increase. There would still, however, be issues of the interest rate that would have to be charged in light of the rate of inflation.

Option No. 6
Financing Tool: Tax Increments
Character: Public; Debt
Definition/Description:

Tax increments — from increases in the value of land attributable to public investment — can be used to retire debt incurred to improve a designated development area. Tax increment financing (TIF) is one of several relatively new infrastructure financing techniques used by urban areas in the United States. It is an approach that combines debt and taxes. TIF is a redevelopment tool that works best in situations where land values are static or declining. Anticipated increases in market value and higher property tax collections are the basis for incurring long-term debt to finance infrastructure. All annual tax collections above the current baseline are dedicated to debt service.

Purpose:

TIF is a financing tool for public infrastructure provided as part of an areawide redevelopment strategy. Within a designated area, public investment in infrastructure and related private sector improvements are assumed to contribute to significant increases in the market value of property. In a sense, therefore, the "slum" area finances its own redevelopment over the life of the bond used to finance infrastructure. All taxing authorities, except as may be authorized by local law, pledge their future tax increments to retire the debt. This agreement to forgo taxes is fundamental to a TIF agreement.

Requirements:

TIF requires a fairly sophisticated approach to debt management and tax administration. While it might be possible to devise a debt repayment approach that did not depend on *ad valorem* taxes, increases in property values are the most common method of securing the bond and improving its marketability to private investors. It may be necessary to issue bond anticipation notes (BANs) to finance some of the start-up costs associated with redevelopment. The local government or public enterprise may also use its own resources.

Applicability to Jamaica:

This sophisticated approach does not seem likely to be applicable to Jamaica in the foreseeable future, especially given the non-local character of the property tax.

Option No. 7
Financing Tool: Special Districts
Character: Public; Debt
Definition/Description:

Special Districts are single, limited-purpose local governments, generally independent of any general purpose local government but subject to supervision by some higher (perhaps national) authority. These Special Districts are authorized to incur debt in their own name and to collect revenue from user charges or other designated fees to pay for operating and capital expenses. In some cases, Special Districts may apply for debt guarantees from higher-level authorities in order to reduce the interest cost of new debt. The consumers of Special District services may be authorized to elect a governing board although, in some cases, the higher-level authority may discharge this responsibility.

Purpose:

Special Districts were used originally to provide specialized technical services, especially utilities, to local consumers. Removing these services from political interference and introducing merit principles to personnel decisions were key considerations. However, as local government costs increased (and/or as a result of property tax limitations), the incorporation of independent Special Districts became an economic necessity. A Special District provides a service to consumers (compare to special assessment districts) including the provision of infrastructure necessary to its delivery. The debt service costs of the Special District are reflected in approved user charges.

Requirements:

Special Districts must be authorized by a law that defines its responsibility, geographic area, management structure, financing powers, and other factors critical to the independent viability of the entity. Authority to construct physical facilities is usually limited by a requirement that the general purpose government must approve the sitting of all Special District infrastructure. Access to long-term debt (bonds or loans) is essential to the formation and operation of a Special District. Once Special Districts are established, new coordination mechanisms need to be established.

Applicability to Jamaica:

The most compelling reason for the creation of Special Districts is access to revenues to finance specialized operating programs and to long-term capital financing. If this authority can be granted to Special Districts, along with the authority to establish user charges to cover all operating and capital expenses, Special Districts could be a means of providing infrastructure and recovering costs.

In the case of Downtown Kingston, a BID would be a form of Special District.

Option No. 8
Financing Tool: Development Impact Fees
Character: Private; Current Expense
Definition/Description:

Development impact fees are paid by a developer to the local government or Special District to compensate these institutions for the financial burden of the new development on existing, off-site infrastructure (e.g., sewage treatment plants, transport systems, reservoirs). Development impact fees are distinguished from development exactions that cover the cost of on-site infrastructure. The impact fees are assessed usually when the building permits are issued by the local government, although some jurisdictions have made them a condition of occupancy.

Purpose:

Development impact fees are intended to recover the imputed cost of new development on the current/planned physical infrastructure of a community. Typically, the charges are assessed for each individual component of the total system based on either plat size, density of development, or size and type of building construction. Multiple bedrooms in detached dwellings are assumed to place higher demands on schools, for example, than one-bedroom condominiums. Residences with garage space for two automobiles will have a greater impact on transportation systems than other forms of housing. Each impact is isolated and monetized so that the beneficiaries bear the cost burden of development.

Requirements:

Development impact fees are authorized by regulation, but the actual charges are calculated when a specific development is approved. To arrive at a fair allocation of the anticipated capital and operating costs, the local government must establish a mathematical model that can be regularly updated to reflect replacement costs of physical infrastructure while also calculating the effects of depreciation on the unit value of each facility that the new development will impact. The development impact fees are deposited to a special account reserved for future expansion or replacement of existing facilities. Where existing excess capacity is being allocated to the new development, the fees are used to retire existing debt.

Applicability to Jamaica:

Impact fees raise the question of what level of government should be compensated and the purpose for which impact fees may be used. The need to develop and rigorously maintain a cost allocation model may argue against this financing tool in all but the most sophisticated local governments.

This tool could possibly prove useful in situations involving high-income suburban housing in the environs of Kingston. However, it is unlikely to have much relevance elsewhere in Jamaica.

Option No. 9
Financing Tool: Connection Fees from Consumers
Character: Private; Current Expense
Definition/Description:

Local governments and public enterprises (i.e., Special Districts) may establish connection fees for individual consumers, based on the demand that each "connection" will place on existing infrastructure. Broadly-defined, connections may include access to water, sewers, electricity, and telephones, as well as "curb cuts" that permit access to roadways. Strong regulation and enforcement authority is needed to make this approach operate effectively. The connection fees must be non-confiscatory, but may not need to conform to strict limitations on fees that apply to many administrative and civil services. The connection fees can be used to restrict access to overloaded facilities, however, and can be priced accordingly.

Purpose:

Connection fees are used to capture the cost impact of even individual consumers on the existing network of local infrastructure. The authority to establish economic prices for connections must be approved by the local government, public enterprise, or, perhaps, a higher supervisory authority. The actual amount of the connection fee can vary within the jurisdiction depending on demand factors and/or age and condition of the facilities upon which the connection will impact. Collection of the fee is a precondition to connection and, therefore, an efficient, up-front mechanism for cost recovery.

Requirements:

Authority to establish connection fees must be granted to the local government or public enterprise. Since many "connections" may be required for each new unit added to the system, coordination among the various local service providers is important. The pricing and operational accounting standards associated with connection fees may require modifications in existing procedures. Connection fees may be treated as current revenue for the purpose of covering ordinary expenses, including interest payments, or they may be placed in a special fund for financing future development.

Applicability to Jamaica:

It may be possible to use connection fees to generate funds for future construction of infrastructure in Jamaica, but only on a limited basis. Funds for infrastructure maintenance, however, could be obtained from connection fees.

Option No. 10
Financing Tool: Capacity Allocations
Character: Private; Current Expense
Definition/Description:

Where development pressure warrants, it may be possible to obtain either a) up-front capital contributions to pay for the cost of new construction or b) payments for the market value of existing excess capacity, from developers or potential developers. In the former case, the local government or private enterprise indicates that it is planning to construct a new facility (say, a sewage treatment plant), access to which will be restricted to current developments plus those future developments that have reserved future capacity for their use. In the latter case, the government rations the supply and, thereby, escalates the price of service. This may be both a land management and financing tool.

Purpose:

Capacity allocation is a means of capitalizing on demand for development by regulating the price of service to certain classes of users. Capacity allocations may raise legal questions, since the existence of a public monopoly, rather than economic principles, causes an imbalance in the supply-demand equation. There may be environmental justification for competitive pricing, however, depending on, for example, the water quality objectives to be served. It seems reasonable to suggest that a clearly public purpose might withstand a legal challenge while an economic one might not. A form of capacity allocation has been in effect for waste water treatment plants since 1972 in the US. Industrial cost recovery (ICR) requires certain industrial users to pay for the cost of special infrastructure components that are necessary to process their waste discharges.

Requirements:

Establishing a methodology to allocate capacity in an existing infrastructure network involves close coordination among technical, financial, and administrative sections of the local government or public enterprise. In addition, a growth management regulation is needed to create demand for a limited resource — in this instance, the capacity of infrastructure.

Applicability to Jamaica:

Capacity allocations are most easily implemented with respect to sewage treatment and disposal facilities. Since there is very little supply of this capacity in Jamaica at present, it is doubtful that this financing tool will work very well. However, as environmental concerns become more prevalent and as facilities are upgraded, some form of capacity allocation may be possible.

Option No. 11
Financing Tool: Development Exactions
Character: Private; Debt
Definition/Description:

Development exactions are regulations imposed on a developer to provide on-site infrastructure as a pre-condition to development approval. There are no construction costs incurred by the public sector but, on the negative side, there may be below-minimum standard construction methods utilized by the developer unless the approving authority monitors work in process. The costs are passed through to homebuyers who, some suggest, bear a disproportionate share of the cost of public infrastructure. Even without development exactions, developers provide most on-site infrastructure in the FMA. It is not known whether this condition prevails throughout the country Since local governments have little capacity to finance infrastructure, the provision of facilities by the private sector may be an accepted cost of development.

Purpose:

Development exactions (in contrast to development impact fees) are based on a negotiated agreement between the developer and the agency that approves local development. On-site infrastructure such as roads and drains, water and sewerage pipes, and lighting and open space for passive recreation are common exactions. Some large subdivisions in the US have been required to provide school buildings and covered recreation facilities. Anything beyond basic infrastructure will depend on the ability of the local government to regulate development.

Requirements:

Development exactions for on-site infrastructure require legal authority to negotiate with developers about tradeoffs — site approvals for infrastructure provision. Since each development will have different cost and profit margins, the negotiators will need to understand the economics of development. Enforcement of construction standards will also be required.

Applicability to Jamaica:

The developer's cost of compliance with exactions is passed through to homebuyers and indirectly financed by the private banking system. Exactions should be considered in the same context as development impact fees and linkages, all of which attempt to allocate the cost of infrastructure to the private developer in exchange for approval of land use. Some form of zoning or land management standard will also need to be employed as a guide to public sector decision-makers. It is not clear that this would have any applicability to Downtown Kingston.

Option No. 12
Financing Tool: Assessment Districts
Character: Private; Equity
Definition/Description:

Special assessment districts (SADs) apply to any special geographic section within an urban area that has been established to promote, isolate, and "tax" economic and development activities. This broad definition allows the term to cover export processing zones, enterprise zones, neighborhood associations, and housing cooperatives, as well as conventional SADs that are created to allocate specific infrastructure costs to property owners within the district. The motivation for the establishment and boundaries of a SAD may come from the residents or from the local government. The financing options for infrastructure within the SAD consists of special fees or levies to recover a portion of the cost. The ownership of many SAD facilities rests with the property owners in the district.

Purpose:

Special assessment districts isolate the costs and benefits of community-level infrastructure. Typically, property owners are assessed the capital cost of infrastructure which may be paid up-front or financed over time, especially if the district has some incorporated status. When the boundaries are determined by the local government, financing of infrastructure is typically based on a one-time charge. Because SAD boundaries are designed to capture benefits within the defined geographic area, the type of infrastructure selected for financing should have no spillover or community-wide benefit.

Requirements:

The designation of SADs for community-level infrastructure financing requires a fairly comprehensive database of local development and economic conditions down to the district/sub-district level. Computerized geographic information systems may be used to target areas with high potential for designation. A SAD is usually a developed area with a relatively homogenous character, although not necessarily the same land use pattern. A mixed-use SAD could have the advantage of cross-subsidization. The assessment and collection of fees to cover the capital cost of infrastructure will require separate administrative procedures. If the local government elects to finance the capital cost and assess an annual fee, a procedure will be needed to apply a lien against property transfers.

Applicability to Jamaica:

Special Assessment Districts could be used effectively in a number of locations in Jamaica. However, they will not probably not conform to existing district and sub-district boundaries, nor to areas used for cadastral mapping or property assessment.

The proposed Downtown Kingston BID is an example of a Special Assessment District.

Option No. 13
Financing Tool: Land Readjustment
Character: Public-Private; Current Expense
Definition/Description:

Land readjustment is a method of financing infrastructure within a defined, typically undeveloped area by redrawing parcel boundaries, aligning on-site infrastructure, donating certain valuable parcels for public sale, and using the proceeds thereof to finance the up-front costs of infrastructure construction. The value added to each remaining parcel as a result of the placement of infrastructure compensates existing landowners for loss of land area. Increased value for reduced size is the essential motivation for land readjustment. Land readjustment has been used successfully in Taiwan, Japan, and Korea. In those countries, the maximization of open land for housing purposes justified the involvement of the public sector in a basically private, economic transaction. Land readjustment negotiations can be time-consuming.

Purpose:

The purpose of land readjustment is to motivate the rational development of open land and provide serviced plots for housing development. In theory, land readjustment could be used for commercial development but there are no descriptions of that approach in current development literature. Financing infrastructure through the sale of land parcels donated to the government is a creative approach to financing, but one which could be managed entirely by the private sector with little, if any, public involvement required.

Requirements:

Land readjustment that might involve local government would require strategic planning and management skills to a) identify areas susceptible to readjustment; b) negotiate with landowners and arrive at a consensus agreement; c) "re-parcel" the area (including the placement and costing of infrastructure) so that landowners will accept the overall approach and agree to the dedication of valuable land for sale; and d) facilitate and/or supervise the sale of land the installation of infrastructure.

Applicability to Jamaica:

Land readjustment could be used in selected areas within Jamaica where relatively large land holdings exist and could be used for housing development. However, it does not seem likely to be of relevance in built-up areas such as Downtown Kingston.

Option No. 14
Financing Tool: Valorization
Character: Public-Private; Current Expense
Definition/Description:

Valorization is a method of financing infrastructure that relies on increased land values (compare to tax increment financing, betterments, and land readjustment) to obtain the up-front financing of infrastructure. It has been used in developed areas in Latin America, especially to serve poor neighborhoods, and is a form of "self-help" financing among more affluent property owners in Western Europe. Public-private approaches in Latin America are initiated by the public sector and have experienced some difficulty, due to underestimation of the actual cost of infrastructure and nonpayment of costs by some of the beneficiaries.

Purpose:

Valorization relies on the incentive of increased property value to secure the approval of property owners to underwrite the cost of infrastructure. The costs are usually apportioned on the basis of front footage, plot size, or "benefit," usually based on ease of access. Where market value of land and/or net worth are important considerations, valorization should work effectively. Under annual rental income approaches to property taxation, the benefits of valorization may be less obvious to property owners. One other potential purpose for valorization could be slum upgrading.

Requirements:

Encouraging the private sector beneficiaries to pay for infrastructure by demonstrating to them the added value that will follow investment requires a very detailed understanding of neighborhood values, infrastructure needs, and patterns of private land ownership. Valorization requires a local commitment to community development and, probably, would work most effectively when applied in concert with other development strategies. Valorization also requires a means of documenting increased values attributable to infrastructure.

Applicability to Jamaica:

Valorization could be a useful method of increasing the level of private investment in infrastructure in underserved districts and sub-districts of Jamaican municipalities. Some method of tax exclusion may be necessary to promote relatively high-capital contributions from middle-income residents. Allocating savings to infrastructure may produce short-term gains but contribute to social and financial problems in the longer term.

This tool is likely to prove of more value in the tourism areas on the north coast than within Kingston. Also, it is more applicable to provision of local water and sewer lines than to provision of costly interceptors or trunk facilities.

Option No. 15
Financing Tool: Excess Condemnation
Character: Public-Private; Debt
Definition/Description:

Excess condemnation is an indirect infrastructure financing method that involves the taking of land for infrastructure purposes (e.g., roads, railways, sewer lines, water lines), as well as an excess margin, which will be conveyed to a private developer for private, typically commercial, development. The developer agrees to install the required infrastructure as a condition of the acquisition of development rights to the excess land obtained by public authority. The land taking satisfies the public purpose criterion while providing a means for the provision of infrastructure at no cost to the public.

Purpose:

Excess condemnation has been used as a redevelopment tool, primarily for slum upgrading. The conveyance of development rights as a capital financing vehicle for infrastructure has been used for more than a century, especially for North America's railroads. There has been a subtle shift in the basic purpose in recent years with the private development objective serving as the primary motivation for the public taking, in many instances.

Requirements:

Excess condemnation requires clear statutory authority to use public powers for private purposes. Some laws limit the exercise of eminent domain/condemnation/expropriation to specific public purposes, while many US jurisdictions have very broad powers to take land for development purposes. In addition, it is essential that the management and operational systems which are associated with land management and finance are well designed so that the risk of financial loss is controlled. The financial condition of the private developer must be well documented and adequate performance bonds should be obtained.

Applicability to Jamaica:

The use of excess condemnation needs to be limited to high priority public projects that would not succeed without joint public-private investment. In addition, current statutes would probably need to be rewritten to provide clear authority.

If this were done, excess condemnation could be used effectively in open land situations, such as Negril. It does not appear relevant to the situation of Downtown Kingston.

Option No. 16
Financing Tool: Linkage
Character: Public-Private; Debt
Definition/Description:

Linkage is a term used to explain a *quid pro quo* approach to development approval (compare to development impact fees) by which a developer is required to undertake or finance through a "linkage fee" — a parallel activity in a less desirable location in exchange for approval to develop a desirable area, usually for commercial purposes. The parallel development must be a "public" purpose. This has included housing development, land for future growth management purposes, public facilities including those in the approved development area (compare to development exactions), and parks and recreation.

Purpose:

The primary objective of linkage is to use high demand for downtown commercial development to achieve development in low-demand areas. Many developers have objected to this use of the approval process, but no definitive court decisions have determined the absolute legality of this practice. The underlying philosophy of linkage is that outlying areas experience negative impacts from downtown development for which they should be compensated through a parallel development in which they are the intended beneficiaries. This social engineering has been praised and criticized equally.

Requirements:

The development approval regulations must authorize some form of indirect compensation for negative impacts of development projects. Determining an equitable amount of compensation will require an experienced land valuer familiar with the economic conditions of both the primary and parallel development sites. Monitoring compliance with the contractual terms of the approval will require staff time of the development agency. The actual means of enforcing the obligation are unclear, given the limited experience with linked approvals.

Applicability to Jamaica:

It is unlikely that a linkage philosophy could be approved in Jamaica in the near future. The social objectives may be worthwhile (i.e., development of underserved districts) but the concept of compensation and reallocation of resources would need more study. Strengthening the subdivision control regulations to authorize linkage (and exactions) might provide a useful tool for infrastructure financing.

However, this tool does not appear relevant to the situation in Downtown Kingston.

Option No. 17
Financing Tool: Concessions
Character: Public-Private; Equity
Definition/Description:

A concession (or franchise) is a right conferred by government to the private sector to build and/or operate a public facility or deliver a public service using public resources or authority. A concession may be considered a management contract, although that term is usually applied to a site-specific contract such as for arena management. The concessionaire may acquire the right on an annual or long-term basis, according to local procurement standards. Part of the concession agreement may be the construction of infrastructure, as has been proposed for "private" toll roads in the US. In developing countries, concessions are often granted to water vendors, although this has led to many abuses.

Purpose:

A concession is a means of securing the participation of the private sector in infrastructure financing or service delivery under the regulatory control of government. If the concession agreement confers a monopoly, there may be a requirement for the concessionaire to construct infrastructure as part of the agreement. This has occurred with waste disposal where vehicles and disposal facilities have been acquired by the concessionaire for ultimate transfer to the government.

Requirements:

A concession is a form of contract. Accordingly, it requires legal expertise to assure that the public is protected and also that the private concessionaire is able to realize sufficient profit to carry out the terms of the contract. As a means of financing infrastructure, it requires the same type of supervision as would be required for development exactions.

Applicability to Jamaica:

Concessions could be an effective way of delivering some local services (e.g., garbage collection, waste disposal, bus transportation), but the approach appears to have limited applicability as an infrastructure financing tool.

It also does not appear to be as directly relevant to the situation in Downtown Kingston as do other tools.

Option No. 18
Financing Tool: Joint Use Agreements
Character: Public-Private; Equity
Definition/Description:

Joint use agreements are used to finance infrastructure through a combination of private investment and public regulation/control (compare to linkage and development exactions). The joint use may apply to a land parcel (with public buildings built by the private developer in exchange for density, height, or other variances) or to a single building with a portion of the development dedicated to public purposes (e.g., fire station, school buildings). The public use of the development is typically negotiated with the private developer as a bonus provision of development authorization.

Purpose:

Joint use agreements are designed usually to take advantage of a public use within a private development. The financing of the associated infrastructure is restricted to the development site and usually does not involve the provision of additional infrastructure for purely public purposes. When public purposes are provided in a single building, the private developer may be granted a franchise to operate and/or maintain the facility. It is not necessary for the public use portion of the development to be owned by the public sector. A lease-back arrangement may be part of the negotiated agreement.

Requirements:

Joint use requires legal and regulatory authority to negotiate an incentive agreement with a private developer. The grant of authority may give wide discretion to the approving agency or, alternatively, require legislative approval of the contractual terms prior to project initiation. Joint use agreements must define clearly the respective roles of the private and public sectors over an extended time period. Maintenance of the respective facilities should also be defined.

Applicability to Jamaica:

This is an approach most applicable to high density environments where intensive use of building sites is required to make projects financially feasible. The relatively low density of Downtown Kingston, where there are still many vacant sites, suggests that the complex arrangements required for joint public-private use of a single site, and the provision of intensive on-site infrastructure, will not be necessary.

Option No. 19
Financing Tool: Tax Credits
Character: Public-Private; Equity
Definition/Description:

Tax credits, conferred on the private investor by public law, have been used to encourage investment in "public" infrastructure, especially for environmental purposes. The State of California in the US has capitalized on tax credits to encourage private sector participation/ compliance with public programs and purposes. The environmental tax credit in California is unique in that it is classified as a negotiable instrument that may be bought and sold on a regulated market. Pollution control (water, air, noise) investments are eligible for treatment as tax credits.

Purpose:

Because private capital investment in pollution control facilities represents a major expense that could affect the survival and competitiveness of businesses, it was necessary to develop a financial "offset" that would achieve the public objective without putting a damper on economic development. For jurisdictions lacking the resources to implement a loan/grant program, tax credits may achieve the same purpose without putting pressure on the public treasury.

Requirements:

Instituting tax credits for infrastructure development usually requires major changes in the statutes and regulations related to business accounting and taxation. The motivation for investment must be pressure to comply with other regulations and/or to avoid financial penalties. There is no need to allow tax credits to be freely negotiated for this financing approach to work effectively.

Applicability to Jamaica:

Tax credits could be used as one aspect of a national policy to achieve certain environmental objectives such as flood control, sewage disposal, water distribution, etc. However, it would be very difficult for a local government to "target" the investment or to achieve specific benefits at a defined time. Nevertheless, if the private financing of infrastructure is a goal, tax credits could be a useful tool to its attainment. This tool may be worthy of further exploration in the case of Downtown Kingston, but it is likely to involve much more complexity than is the case for other tools.

Appendix C

The Macroeconomic Impact of a Business Improvement District in Downtown Kingston

That Jamaica has serious economic problems is evident in its high unemployment rate, continuing inflation, and the deterioration of the exchange value of the Jamaican dollar. Under such circumstances, taxation at an estimated 30% of Gross Domestic Product (GDP) is high compared to most other developing countries and is a matter of concern. The Government of Jamaica has agreed, as a condition of assistance, to an economic stabilization policy required by the International Monetary Fund. Any proposal for increases in taxation or borrowing is, consequently, subject to scrutiny.

It should be noted, on the positive side, that the Government of Jamaica has achieved a balanced budget in most of the last several years. In addition, statistical data tend to overstate the tax drain on GDP, since GDP estimates do not fully reflect the large and reputedly still-growing informal sector of the Jamaican economy. This suggests, however, that the tax burden on the tax-paying formal sector may be much higher.

Real property taxes in Jamaica are very low in relationship to both property values and incomes and generate only a minute proportion (under 2%) of total tax revenues. No realistically conceivable, islandwide increase in real property tax levies is likely to have a very significant or even a very visible impact upon the Jamaican economy. The impact of taxation by the Business Improvement District recommended for Downtown Kingston in this report and even the possible application of the approach to other business areas would have less effect, since BID levies would be likely to apply, at most, to a only a few square miles of the island. Even if these were relatively high value areas, doubling or tripling the property tax in these areas would not increase the islandwide levy to more than 3% of total revenues at the maximum.

BIDs: An Economic Perspective

Public services (such as police and fire protection), facilities (streets, highways, and public transportation), and utilities (water supply, sewerage, and, sometimes, electricity) can be regarded as inputs to business operations, often as essential as the workers employed and the goods and services purchased from private suppliers. The level and quality of the services and facilities provided is determined by jurisdiction-wide financial and political considerations and may be less than most businesses in areas with high business concentrations want and would be willing to pay for. The problem is not unique to Jamaica, but is common in the United States and many other countries.

The Business Improvement District is an instrument designed as a solution to the problem by permitting property owners in business districts to tax themselves at higher rates to finance enhanced services and facilities that property owners in other parts of the jurisdiction do not want or do not need or are unwilling to pay for. BIDs are organized as public agencies with taxing authority because there is no other means of assuring that charges will be assessed on all of the businesses in the district.

Businesspeople favoring the establishment of BIDs do so because they believe the improved services and infrastructure will yield economic benefits to their businesses greater than the increase in taxes and/or user charges needed to fund the improvements. The potential benefits include higher revenues, reduced costs, increased land and property values, or all three of these. For these businesses, BID levies, although nominally a tax, have an economic justification. They are fundamentally much like expenditures for the purchase of privately supplied goods and services to achieve similar objectives.

In the case of Downtown Kingston, the difference in rents in that area and those of comparable properties in New Kingston can be seen as a measure of the problem and an indication of the attractiveness of a BID. The differential is attributable primarily to the physical deterioration and the higher rates of crime in the downtown area. This suggests a potential for increased rental values to the extent the adverse conditions can be ameliorated by BID-sponsored improvements in infrastructure and services. If rental values can be increased by more than the cost of those improvements, the BID will have proved economically advantageous to downtown property owners.

The argument is complicated by the fact that the higher taxes and/or user charges are also imposed on some businesses that do not regard the benefits as worth the payments required to obtain them. This does not mean that, in the actual event, this judgment will prove to be correct. It is likely, in any event, that the BID will prove more advantageous to some businesses or some types of business than to others. However, the arrangement would presumably be maintained only to the extent its benefits were sufficiently widespread to command the support of a majority of the businesses in the district.

The Business Improvement District, as a potential remedy for deficiencies in infrastructure and services, has very limited applicability. Such districts will be approved only in areas where a majority of property owners perceive them as a means of increasing the profitability of their businesses or the value of their properties. They may be difficult to introduce into areas that include a substantial number of residential properties as well as businesses, although a similar arrangement, the Special Improvement District widely used in some American states, might be attractive to some middle- and upper-class residential areas. Since both types of districts depend upon the ability and willingness to pay on the part of resident businesses or households, they offer little prospect for financing improvements in low-income neighborhoods.

Impact on Stabilization Policy

A BID levy imposed to finance an increase in expenditures for current services would have no impact on economic stabilization policy. It would produce no change in the consolidated public sector budget surplus or deficit or in the net public borrowing authority. The revenues raised would not be fungible and could not be applied to financing expenditures or debt reduction outside the BID. If the revenues could not be used for BID purposes, they obviously would not be raised. The overall impact upon the economy would be essentially the same as that of a comparable increase in business expenditures in the private economy. There are also possible favorable effects if the service improvement produces an expansion of business activity and revenue.

The same diagnosis would apply, with qualifications, to a BID issuance of bonds for infrastructure financing. This would, other things being equal, increase the public sector borrowing requirement and would add fiscal stimulus to the economy, both, however, in very minor amounts relative to the size of the economy or the government budget. Moreover, the borrowing would come with a commitment to provide the cash flow to cover the debt service through BID tax levies or user charges and, as an investment in durable improvements, would produce a future stream of utilities with a potential favorable effect on business activity and profitability.

Impact on the Competitive Position of Jamaica Business

The additional taxes or charges imposed by a BID would increase costs for any business operating within the district. Those increases may be offset by savings in fire insurance premiums and reduced losses from thievery, pilferage, and vandalism, by increased sales, and, for property owners, increased rental and capital values.

The costs may exceed the benefits for some businesses, especially manufacturers and wholesalers, because they do not generally depend upon the attraction of customers to Downtown Kingston. They can in such instances solve the problem simply by relocating outside the BID where the additional taxes and charges are not imposed. They would incur the one-time costs of relocation but, if they are property owners, they may possibly realize a gain on the sale of their property reflecting its higher value with the BID improvements for use by other businesses that are more attracted by BID-generated services.

Businesses dependent upon attracting domestic customers and especially foreign tourists have suffered from the high rates of crime, poor facilities, and physical decay in the downtown area, as well as from the widespread perception among travel agencies and tourists of the situation. If BID-sponsored improvements in services and infrastructure succeeded in changing both the reality and the perception, it would represent a big plus for the tourist industry, Jamaica's largest source of foreign exchange.

Appendix D

Review of the Administration of the Real Property Tax in Jamaica

During the course of this study, the consultants reviewed the administration of the property tax in Jamaica. As part of this review, we interviewed officials responsible for the land valuation process, for setting the property tax rate, for billing taxpayers, and for collecting the property tax. We also reviewed the extensive research literature on the property tax in Jamaica. The principal purpose of this property tax review was to assess the potential usefulness of the property tax as a basis for generating revenues for the provision of services to Downtown Kingston and as the backing for infrastructure finance.

The real property tax in Jamaica was examined as part of a major review of the Jamaica tax system during the 1980s by a research group organized by the Maxwell School at Syracuse University. The authors of that intensive and detailed study identified two principal problems in the administration of real property taxes in Jamaica: the lack of a system for the timely updating of assessments and the large fraction of taxes levied that were not collected. Interview responses by various government officials suggest that the situation today is, at best, only marginally better than that of a decade ago. Because of the in-depth nature of the Maxwell study, and the fact that most of what it found still seems highly relevant today, this discussion begins with a look at that study.

Reassessment Practices and Problems

The Maxwell study recommendations on property assessment are detailed in a July 1987 staff paper by Charles Cook and Arlo Woolery. We are in full agreement with their principal recommendations for keeping property assessments up-to-date. These would include:

- the development of a Computer Assisted Mass Appraisal (CAMA) system, a statistical model for updating assessments;
- the use of generic rather than custom-designed software and the installation of the assessment system on a more flexible and adaptable personal computer rather than the mainframe on which the property assessment data base is now maintained; and
- the exclusion from CAMA of the large number of low-assessment properties and simplified application to properties in the low-middle stratum in terms of assessments.

We also endorse the training program recommended by the authors, largely on the basis of Woolery's experience at the Lincoln Institute, a renowned international center for tax policy research and training. The training program would be intended to develop local capacity to manage CAMA. This is clearly the best long-term approach. It is also, however, possible to rely, as do many American local governments, on the periodic use of consultants to do this — if effective arrangements are made for the continuing collection of the data needed for the assessment model.

The database problems associated with CAMA are formidable. CAMA depends, first, upon the addition to the file of each covered property of data on each of perhaps 8-15 value-related characteristics of the property. Cook and Woolery would reduce the workload by eliminating low-value properties which comprise about 60% of all 550,000 properties islandwide and by simplifying treatment of properties in the next highest value stratum. Data entry alone will be a sizable endeavor and, in addition, some significant effort will be required for data collection and verification.

CAMA models are driven by data on property sales prices derived from recent transactions. Transactions must be reviewed to screen out the typically sizable number of transfers not negotiated through arms-length market transactions. Often, there is a statistically inadequate number of legitimate sales, making it necessary to supplement sales data with assessments of a sample of properties not transferred.

There are, in addition, some special problems in Jamaica. Some substantial proportion of real property transfers are never reported and sales prices in reported transactions are often understated in order to reduce transfer taxes. Furthermore, only data from the sale of unimproved land can be used directly. The prices commanded by improved properties are usable only with a methodology for inferring the value of the land component in the total price. All of this suggests both that there may be too few usable transfers and that it takes a substantial amount of work to identify and review them.

The work is not, under the best of circumstances, likely to be done very quickly; in Jamaica, reassessments have taken place only about once a decade. In the meantime, the rate of inflation rapidly makes assessments obsolete. Property tax officials in many American jurisdictions lived fairly comfortably with similar situations in the 20-25 years after World War II simply by continuing to increase tax rates on what had become absurdly low property assessments. The low assessments obscured serious inequities among property owners but the rising tax rates produced the governmentally needed increases in revenue. This is scarcely satisfactory but it might be a means of muddling through, save that it runs counter to the established practice in Jamaica of holding property tax rates constant between major revaluations. Routine increasing of assessments by the change in the consumer price index could, however, achieve the same result.

Tax Collection Practices and Problems

St. Clair Risden estimated in his 1977 report for the Land Valuation Office that only 61% of the property tax levied was actually collected. The Maxwell School research team was unable to obtain data needed to update the Risden estimates but concluded that the evidence available in 1985 indicated that the situation had not improved since the Risden report. In a postscript to the original study, the researchers cited the sharp increase in collections in 1986-87 as possibly indicating a significant improvement in collection effectiveness; however, interviews by the consultants with the Inland Revenue department indicate that, rather than improving, the situation has apparently worsened since 1987.

A number of measures to facilitate collections have been implemented including 1) provisions requiring mortgagors to collect and pay the tax; 2) a requirement that objectors pay 75% of the tax under disputed assessments; and 3) mandating evidence of tax payment as a condition for registering property transfers. Unfortunately, these measures do not seem to have improved the collection rate and property tax delinquency remains substantial. The Inland Revenue Department estimates its collections at about 50% of the levy in 1993-94.

Collecting property taxes, in contrast to the complex matter of property assessment, should be a relatively simple matter. With the tax secured by an unmovable asset, there is no real possibility of tax evasion. A property owner may delay payment but, with systematic administration and rigorous enforcement, property owners must ultimately either pay the tax or forfeit the property. Effective enforcement requires the maintenance of accurate and current taxpayer records and accounts and standard procedures for billing and follow-up that are routine aspects of accounts receivable management in private business as well as government. At the time of the Maxwell study, taxpayer accounts were not kept current and were often not accurate; only one collectorate office then had computerized accounting and many of the tapes at that office were subsequently destroyed in a fire. As a result, tax bills did not include arrears from prior year taxes.

The Maxwell team found that prior year tax arrears were very substantial in relation to the current year levy. Nonpayment is encouraged by a seven-year statute of limitations even though the courts have ruled that the statute does not apply where the government files a case within the seven-year period. The Maxwell report recommended that any tax payments be credited first toward the oldest delinquent tax rather than to the current levy.

Even with serious shortcomings in property tax administration, a much higher proportion of property taxes could be collected if the government did not eschew the use of its authority to impose tax liens on the properties of delinquent owners and, where payment was still not forthcoming, to acquire the properties in *in rem* proceedings. This is a matter of established and, seemingly, difficult-to-change Jamaican practice.

The Current Situation

During the course of the current study, the consultants interviewed officials of the principal government departments that are responsible for various aspects of the property tax. As indicated in the report on those interviews presented below, there has apparently not been substantial improvement in property tax administration practices since the Maxwell report, although the Ministry of Finance did undertake a major effort to update assessments and increase the tax rate for fiscal year 1993-94. The capacity recommended in the Maxwell School study to update the assessments more frequently, to revise the tax rate annually, and to collect a more substantial fraction of the tax levy has not yet been put in place.

Land Valuation Department

The Land Valuation Department is part of the Ministry of Finance. Land Valuation (LV) is responsible for the assessment of land for the property tax. They do not set rates nor are they involved in tax billing and revenue collection.

Jamaica's property tax is a national tax on unimproved site value only (structures or other improvements are not taxed). At one time, the revenues from the tax were allocated to the local parishes within whose jurisdiction they were collected. For at least the past decade, however, this has not been so, although the current government's policy is to return the revenue from this tax to the localities.

By law, Jamaica should reassess every five years, but in fact they have done so only in 1974, 1986, and 1993. The most recent time it took about two years to complete the process and heavily stressed LV staff and consultants. The assessments are based, as much as possible, on comparable sales information, although there seems to be a fair amount of art as well as science in the process, because many sales are never formally registered. Only about half of all of the 600,000 parcels in the country are registered and officially recognized, although tax receipts do constitute an informal sort of recognition. LV prefers to look at vacant land sales only since this avoids the problem of deciding how much any improvements are worth in the total price.

The valuation database is computerized (on a mainframe computer in the Fiscal Services Department), but it is difficult to obtain data from it on a geographic area basis because of the inflexible nature of the software.

Inland Revenue Department

The Inland Revenue Department (IR) is the unit of the Ministry of Finance responsible for collecting the property tax and 17 other taxes and fees.

The property tax is imposed on "the party in possession." This can be the owner or a tenant who has been there for at least four months. In some cases it can even be a squatter. Some people without registered titles like to pay the tax, according to LV, because it becomes evidence of their ownership (or at least possession). Also, the Commissioner of Inland Revenue has some discretion in deciding who must pay the tax on a particular property.

The IR database for information on property tax collections is very limited: they can only summarize collections at the parish level and know nothing at all from their database about the use of the land on which tax is (or should be) paid.

Collection practices, as noted in the Maxwell report, remain ineffective, resulting in about a 60 percent collection rate of the levy plus back taxes of about 10 percent in a normal year. But fiscal 1993-94, ending March 31, 1994, was anything but a normal year. As a result of a major government effort, assessments were increased about 1,100 percent — after many years of no change — and the tax rate was raised about 500 percent. However, the change process was completed very late in the fiscal year so that, in many cases, assessment notices and bills went out after payment was due. As a result, IR anticipates collecting only about 50 percent, or even less, of the entire levy.

Jamaica has adopted few remedies for nonpayment, and those that exist are not enforced very rigorously. IR can issue a "levy warrant" but this has to be served to the liable party in person by a bailiff; usually people aren't home when the bailiff arrives, and the bailiff can't force entry. The other process is a summons to court, which is published in the newspaper;

most people don't respond. In theory, the "Quit Rents" concept, dating back to Colonial days, allows seizure of property for nonpayment, but this is never used. Banks don't always require evidence of tax payment before issuing a mortgage, nor do all lawyers call for it in cases of property transfer.

Responsibility for property tax collection is decentralized to parish-level "collectorates," but these are offices of IR, not of local government. According to IR, property tax collection is more trouble and engenders more negative response than does any other tax collected by IR. Despite this, total receipts from the property tax are quite modest in the scheme of national revenues; even after the 1993-94 increases, the tax still accounts for less than 2% of total national revenues.

It is extremely difficult to obtain data and analyze property tax collections due to computer system limitations. Use of the limited IR computer system is made even more limited by the fact that it cannot link electronically to the assessment data in the LV computer system. This makes the obtaining of analytic data on the property tax in Jamaica extremely difficult and costly.

Another problem that obstructs analysis is the complex, stepped structure of the property tax rate. This makes it difficult to calculate what the impact would be of a change in the tax rate on a group of properties, such as the commercial buildings in Downtown Kingston. The tax due on each individual plot of land must be calculated separately.

The Revenue Board

The Revenue Board is a policy-level body that advises the Jamaican government. Revenue Board officials advised us that the idea of an incremental levy to finance downtown services and capital investments was not disturbing to them, nor did it conflict with government policy. There is precedent, they noted, in the "special rates" that used to be utilized by local governments in Jamaica.

- Conceptually, the Revenue Board sees no problem in extending the property tax to structures and other improvements as well as land, as is the case in most property tax systems elsewhere in the world. The difficulties, in the view of the Revenue Board, are all practical — assessing values, identifying owners, etc.
- They agree that property tax collections should — and could — be improved. They are fully aware of steps that could be taken to achieve this objective.

Summing Up Our Findings on the Property Tax

Both the Maxwell study and the consultant's own examination of the administration of the property tax in Jamaica come to very similar conclusions:

- First, as it stands, the tax is seriously troubled by difficulties in the valuation and collection processes, as well as in other respects. Without major reform, it is unlikely to become a major revenue source for government at the central level.

- The current discussions about transferring the property tax to the local level apparently involve only the revenues from the tax, not its troubled administration. Thus, such a transfer would do little to remedy the structural problems with the tax.
- It would be possible — at least in principal — to use the property tax as the basis for a local services incremental charge. However, due to the imperfections in the data processing systems of LV and IR, doing so will require a significant effort.

Appendix E

Using Long-Term Debt for Financing Infrastructure Investment in Downtown Kingston

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The proposed Business Improvement District for Downtown Kingston would be, in effect, a special kind of municipal corporation authorized to perform specified functions within its jurisdiction and to impose specified taxes and/or user charges to fund the costs of those functions. If it were also authorized to incur long-term debt, any bonds and notes subsequently issued under that authority would apparently be the first municipal securities of any kind offered in Jamaica's financial markets. We do not know at this stage whether BID bonds would prove to be marketable or the conditions and terms that might be required to make them marketable. A financing plan designed to best meet the needs of the borrowers might well have to be modified significantly to meet requirements imposed by lenders.

Municipal borrowing for capital improvements in the United States has been limited by law or practice to terms no greater than the probable useful life of the improvement. Financing for a sewer system might, under this criterion, be spread over a period of, say 20 to 30 years, and, rarely, 40 years. Capital budget planners have, however, tended in recent years to develop capital financing plans focused not so much on individual projects as on the longer term requirements of a continuing investment program. This has encouraged efforts to shorten average debt maturities and to increase the proportion of capital expenditures financed from current revenues and, thereby, to reduce interest expense.

Jamaica's very high interest rates (currently 50% on short term Government of Jamaica bills) makes the cost of 20 or 30-year financing of an infrastructure investment all but prohibitive. The rates are high because of the large inflation premium added to the real interest rate. For a business investor, high interest rates may be more than offset by the expected favorable effects of inflation on revenues and profits and on the market value of the buildings and equipment financed from the borrowing. Governments, on the other hand, are apt to meet strong resistance from taxpayers to increases in taxes and charges needed to stay apace with inflation.

One alternative that has been advanced to overcome the impact of inflation on the potential for long term borrowing in Jamaica -- either by government or a BID -- is reliance on hard currency loans, such as those that can be made available by USAID. The following sections of this appendix analyze this possibility in some depth.

The Effects of Inflation and Foreign Exchange Differentials On Long Term Borrowing in Jamaica

Hard currency borrowing, when available, carries much lower interest rates but, at the same time, is subject to the uncertainty and often appreciable costs associated with the continuing depreciation of the exchange value of the Jamaican dollar.

For many years, USAID has provided financing on preferential terms to agencies and parastatals of the Government of Jamaica for housing and infrastructure development. The recipient agencies have deposited the loan proceeds in US dollars with the Bank of Jamaica which has then credited the depositing agency with the equivalent amount of Jamaican dollars at current exchange rates. Since the loan is repaid in US dollars, the borrowing agency must purchase US dollars in the requisite amount with local currency as each debt service payment becomes due.

These transactions have been strongly impacted by continuing severe inflation. The Jamaica consumer price index in the summer of 1992 was over 85 times its average 1961 level. Interest rates on Jamaica Treasury bills varied in the range 3.41%-4.65% per annum between 1961 and 1972. By 1983, however, the average rate has risen to 12.38%, by the summer of 1992 to 32.16%, and, at the present time, to 50% or more.

With Jamaican inflation between 1961 and 1992 over 18 times the US inflation rate, the Jamaican dollar depreciated sharply against the US dollar. The US dollar was worth only 71 cents in Jamaican currency in 1961. By mid-1992, one US dollar was worth J$22.18 and, by the spring of 1994, approximately J$33.00. The appreciation of the US dollar through mid-1992 exceeded by roughly half the adjustment needed to compensate for the difference in inflation rates. The exchange value of the Jamaican dollar has, hence, dropped sharply in real inflation-adjusted as well as nominal terms.

Continuing inflation, high interest rates and currency depreciation have raised issues with respect to the continuation of infrastructure financing policies that may have been appropriate during a period of more stable prices, interest rates and exchange values. These issues fall into two broad categories:

- The great increase in financing costs resulting from high domestic interest rates and a depreciating Jamaica dollar raises questions as to the extent to which infrastructure investments should be financed from loans (whether in local or hard currency).
- USAID loans, even at below market interest rates, have become more costly than comparable domestic borrowing as local currency requirements for debt service have been driven progressively and steeply upward with the continuing devaluation of the Jamaican dollar. This has created the need to identify and evaluate alternative practices in the conversion of loan proceeds to local currency and in the management of hard currency obligations that might reduce costs and risks.

These policy issues are discussed in sequence in the two sections below.

Impact of High Interest Rates on Amortization Costs

With moderate interest rates and relatively stable exchange rates, a significant proportion of government investment in infrastructure would typically be funded from borrowing repaid in installments over a period approaching the useful life of the facility financed. Under current conditions in Jamaica, however, extremely high interest rates on local currency debt and the effect of exchange rate depreciation on hard currency debt service have made borrowing very expensive.

The accompanying table shows the annual level debt service requirement, expressed as a percentage of the principal amount of the loan, for loans at alternative interest rates and repayment periods.

The level debt service functions are asymptotic so that the amount by which the annual payment is reduced declines progressively with each extension of the repayment period. The higher the interest rate, the earlier the point where there is little to be gained from further extensions of the term. For example, the annual payment required to repay a loan with a 50% annual interest rate over 15 years is less than one-tenth of one percent of the principal more than the annual payment needed to pay it off over 1,000 years!

Term	----**Interest Rate Per Annum**----			
(Years)	**5.0%**	**8.5%**	**25.0%**	**50.0%**
5	23.1%	25.4%	37.3%	57.6%
10	13.0%	15.2%	28.0%	50.9%
15	9.6%	12.0%	25.9%	50.1%
20	8.0%	10.6%	25.3%	
25	7.1%	9.8%		
30	6.5%	9.3%		

The cumulative interest expense on a 5-year loan at 50% interest is equal to about 188% of the loan amount, more than that required on a 30-year 8.5% loan. For a 10-year loan at 50% interest, the cumulative interest expense would be 409%, more than double that on a 5-year loan at the same interest rate. On a 25% interest loan, aggregate interest expense would increase from 86% of the principal at 5 years to 180% at 10 years to 288% at 15 years. At such rates, the borrower pays a very high cost for quite modest reductions in annual debt service. The longer maturities also increase the size of the exposure to the risk of adverse future interest rate and exchange rate developments.

This strongly suggests the desirability of policies to reduce average debt maturities and to finance a higher proportion of infrastructure on a pay-as-you-go basis. Such policies have, in fact, often been advocated by administrators of capital budget programs in American states and municipalities even without the spur of high interest rates. Many infrastructure projects, notably water distribution and sewage collection systems and street and highway construction, can be divided into stages fundable from current revenues and short-term debt.

There is, however, another aspect to the problem. Inflationary conditions underlying the punitively high cost of money might also increase the revenues of the borrowing government and, thereby, its fiscal capacity to meet inflated debt service requirements. We have not analyzed in detail the extent to which Jamaican government revenues have been responsive to inflation. Revenues from sales and value-added taxes usually rise roughly in pace with inflation, while those from personal and corporate income taxes tend to outrun price and income increases. On the other hand, real property taxes, user charges, license and franchise fees, and many other revenue sources do not respond automatically to inflation but must be adjusted (through revaluation in the case of property taxes) to new price levels; such adjustments in Jamaica seem typically to come only after long delays.

Inflation also increases the replacement costs of the financed facility. If, for example, the amount needed to construct a specified project is 25% greater today than it would have been in the prior year, a 35% per annum interest rate is not an inordinate price for the borrowing that would have permitted earlier construction. In fact, real inflation-adjusted interest rates in Jamaica over the past several decades have, more often than not, been negative. The Jamaica Treasury Bill rate was below the inflation rate in every year from 1971 through 1981 as well as in 1984, 1985, 1991 and 1992. In the other years, the bill rate was more than 5% over the inflation rate only in 1987 (11.5%) and 1988 (10.3%).

Even where borrowing may be theoretically advantageous, the burden of debt service and related exchange rate losses will seem especially onerous if the costs must be covered from general government revenues. This might not, however, be the case for any infrastructure investment generating inflation-responsive revenues adequate to cover or even to substantially defray debt service as well as operation and maintenance costs. This might be the case for investments such as those in water and sewer systems, if user charges were set at levels sufficient to recover costs and adjusted annually for price inflation and if the charges imposed were actually collected. So long as a significant number of service recipients are able to pay the charges, it makes sense to set fees at a full cost recovery level and, if necessary, to provide relief for those unable to pay.

Other improvements cannot be financed from user charges but add to property values in the area served; these investments might be wholly or partially recovered from increased tax revenues if frequent reassessments capture the higher values. Even without frequent reassessments, the property tax might provide effective support for more infrastructure improvements if bills were adjusted annually for price inflation. This is also true of many user charges and other fees.

One special case is government financing of mortgages at subsidized interest rates. A mortgage payment initially set at an amount consistent with the mortgagee's ability to pay is likely, given the history of inflation in Jamaica, to decline over the life of the mortgage to a tiny fraction of the income of the representative borrower. Much, if not all, of the financing for low-interest mortgages could be recovered if mortgagee payments were scheduled to rise with inflation or average earnings. The Swedish government began to do something of this kind 25 years ago.

Jamaica needs a far greater level of infrastructure investment than it can currently afford. Projects that can be financed from the revenues they generate represent an addition to the investment the government can budget from general budgetary revenues. It seems clear that more of the existing government infrastructure investment could be made self-supporting and that additional opportunities for revenue-generating investments could be found. The Business Improvement District concept is a means of encouraging one kind of self-supporting infrastructure investment. More self-supporting projects would increase the total level of investment in infrastructure and housing above the levels otherwise feasible.

The Negative Effects of Exchange Rate Changes

The Government of Jamaica has found the repayment of USAID loans to be increasingly costly as deteriorating terms of trade have multiplied the amount required in local currency to meet debt service. Part of the problem has apparently been hesitation to recognize and to reflect in debt service schedules the fact that the expected rate of currency depreciation must be added to the USAID interest rate in pricing loan costs in local currency. Our analysis shows, however, that over most of the past 25 years, debt service measured in local currency would have been greater, often substantially greater, on a US-dollar USAID loan than on a comparable local currency loan. This may or may not be the case in the future; it will depend upon the extent to which the interest rate differential between USAID and local loans covers the change in exchange rates.

The conversion of a US-dollar loan to a local currency obligation would substitute a risk of a related but different kind. Long-term financing at a fixed interest rate, such as that provided by USAID, cannot be obtained in an economy as inflationary as Jamaica's. Financing can be extended over a similar long-term only by issuing and repeatedly refunding very short-term obligations, often at progressively higher interest rates (or by issuing long-term adjustable interest rate obligations). In comparing hard and local currency obligations, one must clearly take into account the prospect of interest rates changes on the latter as well as exchange rate changes on the former.

USAID loans have, in the past, carried interest rates as low as 4.25%. An annuity covering debt service on a 5% loan, if calculated at an assumed market rate of 8%, could be purchased for 13%-21% less than the face amount of the loan, depending upon its terms. This would cover the US-dollar obligation and, at the same time, provide a grant equivalent in the specified amounts to back-up or reduce the principal of a comparable local currency loan. However, with USAID loans now carrying an interest rate 75 basis points over the yield on 30-year US Treasury bonds, the potential gain would be much less and, possibly, nonexistent. This cannot be determined without further exploration.

What the historic data on exchange rates, inflation, and interest rates for Jamaica show (see the accompanying table) is that borrowing in hard currency with repayment extended over 10 years or more would have been more costly than comparable local currency financing, even at below market interest rates, at virtually any time over the past 25 years.

EXCHANGE RATES, INTEREST RATES AND PRICES IN JAMAICA

	J$ Per US Dollar	Jamaica T Bills	Jamaica CPI	Inflation Rate
1961	$0.7122	4.41%	6.0	
1966	0.7168	4.65%	6.6	1.5%
1970	0.8355	4.03%	8.8	14.3%
1971	0.7835	3.81%	9.3	5.7%
1972	0.8518	4.32%	9.8	5.4%
1973	0.9091	5.54%	11.5	17.3%
1974	0.9091	7.19%	14.6	27.0%
1975	0.9091	6.94%	17.2	17.8%
1976	0.9091	7.23%	18.8	9.3%
1977	0.9091	7.21%	21.0	11.7%
1978	1.6950	8.26%	28.3	34.8%
1979	1.7814	9.25%	36.5	29.0%
1980	1.7814	9.97%	46.4	27.1%
1981	1.7814	9.83%	52.4	12.9%
1982	1.7814	8.61%	55.8	6.5%
1983	3.2778	12.38%	62.3	11.6%
1984	4.9300	13.29%	79.6	27.8%
1985	5.4800	19.03%	100.0	25.6%
1986	5.4800	20.88%	115.1	15.1%
1987	5.5000	18.16%	122.8	6.7%
1988	5.4800	18.50%	132.9	8.2%
1989	6.4800	19.10%	152.0	14.4%
1990	8.0376	26.21%	185.3	21.9%
1991	21.493	25.56%	280.0	51.1%
1992-July	22.168	31.73%	514.6	83.8%

Source: *International Financial Statistics Yearbook 1991, 1993.* International Monetary Fund.

Local currency financing beginning in the 1980s would have presumably involved the issuance of short-term bills or notes with the unrepaid balance rolled over at progressively higher interest rates. Jamaica treasury bill rates rose from less than 10% per annum to over 30% by mid-1992. A typical borrowing amortized over 10 years would have required aggregate debt service equal to about 250% of the principal amount, or 50% more than that on a loan with a stable 10% interest rate. But even with these added inflation-related interest expenses, total outlay would have been appreciably less than that on hard currency borrowing.

Between 1961 and 1977, the US dollar rose from J$0.71 to J$0.91 or only 28.2%, less than the differential between US and Jamaican inflation. It jumped 86.8% in 1978 to J$1.70, drifted upward to J$1.78 by 1982 and then took three more jumps (84.3% in 1983, another 50.3% in 1984, and 11.2% in 1985) to reach J$5.48 in the latter year. The exchange rate stayed in that general vicinity through 1988 but then increased to J$6.48 in 1989 and J$8.04 in 1990. In 1991, when exchange controls were reduced, the rate went up by another 167.4% to J$21.50, twelve times the J$1.78 rate of 1979-1982. The current rate of about J$33 reflects further US dollar appreciation of roughly 50%

The cumulative effect on debt service in Jamaican dollars was devastating, both because of the magnitude of the percentage appreciation in the US dollar and also because the percentage increases applied to both interest and principal repayment. On a level debt service, 10-year 5% USAID loan negotiated in 1981, the final payment in 1991 would require Jamaican dollars equal to more than 150% of the **initial** amount of the loan.

Worse, the future course of exchange rates over a period as long as 10 or even 5 years is not predictable. No one in 1981 anticipated a 12-fold depreciation of the Jamaican dollar over the subsequent decade. With a downward trend in the value of the Jamaican dollar that has continued with few interruptions ever since 1971, there would appear to be little realistic chance over the near and intermediate term of any significant appreciation of the Jamaican dollar. A hard currency obligation hence carries large downside risks with little, if any, possibility of upside gain.

If the appreciation of the US dollar against the Jamaica dollar between 1961 and 1992 had been limited just to the amount necessary to adjust for the much higher rate of inflation in Jamaica, the US dollar would have been worth J$13.29 in September 1992 rather than its actual value at that time of J$22.18.

Real interest rates (after allowance for price inflation) for Jamaican government borrowing have been negative, both on average and for most individual years over the past 25 years. Consumer price inflation averaged 19% per annum in the 1971-1981 period and 18.5% between 1981 and 1991. Yet, average rates on Jamaican Treasury bills were still under 10% as late as 1982 and didn't reach 20% until 1986 or 25% until 1990. This has made borrowing in local currency favorable and has also meant that the interest rate difference between local and USAID loans has been too small to cover the currency depreciation risk inherent in the latter.

Possible Solutions to the Inflation/Foreign Exchange Problem

It is possible that the conversion and management of USAID loans could be handled in ways more advantageous to the Government of Jamaica than the present approach. The possibilities can be determined only through discussions and negotiations with representatives of the large commercial banks, investment banks, or other financial houses with headquarters in major money market centers but with a significant presence in Jamaica that provide services and instruments of the requisite kind.

The most attractive option would be a package deal under which the financial intermediary would accept the US dollar proceeds from the USAID loan, assume the obligation for repayment of the USAID loan, and provide the equivalent local currency loan on terms reflecting the value of the preferential USAID interest rate. Some of the benefits of USAID loans would be lost unless there were an understanding that the financial intermediary would make the US dollars available for loans to or investments in Jamaica businesses.

There are numerous other possible options, some of which would involve the reduction or hedging of risks of adverse future changes in interest expense or exchange rates. The relatively small economic area served by the Jamaican dollar and the character of past changes in prices, interest rates, and exchange value are, however, likely to put a high price tag on measures to reduce future risks.

Illustrative Example: The Harbour Street Sewer

The consultant was requested to show the theoretical impact if the Harbour Street sewer project were to be financed by means of a water rate charge imposed through a BID or other special district on the business community of Downtown Kingston. This section provides such an analysis.

Based on data provided by UDC, the consultant estimates the overall cost of the Harbour Street sewer and related infrastructure investments as follows:

Costs expended on the sewer project to date, including USAID loans (at current exchange rate) and GOJ contribution	**J$ 150 million**
Additional works to complete the system (including the Darling Street upgrade)	**62 million**
Additional works to extend system to Rae Town	12.9 million
Rae Town pumping station	3.6 million
TOTAL COST (in 1994 J$)	**J$ 228.5 million**

In order to estimate the impact of financing a project of this magnitude on water rates in the downtown area, it is also necessary to assume 1) an interest rate, 2) a time period over which the debt incurred for the investment would be repaid, and 3) what fraction of the total cost of the investment should be allocated to downtown establishments, since the sewer and related investments would also serve a wider area. For the purposes of this illustrative example, the following assumptions were made in this regard:

- An interest rate of 25% was assumed. This would be considered a very high rate in most countries, but for Jamaica at the present time it is only about half the rate being paid by the government on Treasury notes.
- A debt maturity (or amortization) period of 10 years was assumed, because at interest levels this high there is little to be gained by extending the amortization period beyond 10 years. Also, level annual debt service was assumed; thus, the total of interest and

amortization payments each year would remain the same although earlier in the decade the payments would be mostly composed of interest and later in the decade almost all would be repayment of principal.

- It was assumed that the downtown area would be required to repay half the total investment on the assumption that the area would receive only about half of the total benefits.

At a 25% interest rate and with a repayment term of 10 years, the annual debt service payment would amount to 28% of the principal amount. Assuming this principal amount at the current estimated cost of J$ 228.5 million, the annual debt service required would come to J$ 64 million. If this amount is increased to account for a 30% non-payment rate (the current property tax experience in Jamaica), then a total annual assessment of J$ 91 million would be required. Halving this to account for benefits that flow to areas other than downtown area results in an assessment requirement of J$ 45.5 million.

If this amount were to be levied on the 1,250 firms in Downtown Kingston, the average firm would be required to pay J$ 36,400 per year, over and above its current water rates. Since it is estimated that the average firm in Downtown Kingston currently pays annual water rates of about J$ 30,000, the cost of repaying the investment in the Harbour Street project would more than double current annual water charges — under the assumptions set forth above.

This illustration is offered solely as a hypothetical example. It is not the consultant's recommendation that this approach be used to repay the funds expended in construction on Harbour Street.

Appendix F

The Reform of Local Government in Jamaica and the Bid Concept

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For the past decade, local government in Jamaica has operated at a very low level of authority and capability. Virtually all of its prior responsibilities for service delivery and representation of the concerns of residents, together with most of its revenues and revenue-raising capacity, were shifted to national ministries or assigned to parastatal companies set up and financed by the central government. The resulting weakness in municipal service delivery capability is a major reason why the consultant has recommended the creation of a Business Improvement District (BID) for Downtown Kingston.

The current Cabinet has taken a policy decision to reform this condition and to strengthen local government. This is an important step and one that could have very positive consequences for Downtown Kingston as well as for the Kingston-St. Andrews Corporation and other parish governments.

Among the many policy questions which must be answered as the Government of Jamaica and its agency most directly concerned with the parishes, the Ministry of Local Government, decide on their future course of action are two of particular relevance to the current study:

- What functional responsibilities should be assigned to local government and what resource mobilization capacities should be assigned to enable local parishes to support these service delivery responsibilities?
- How will plans to strengthen local government affect the proposed Business Improvement District for Downtown Kingston and how, in turn, will the proposed BID affect the operations of a strengthened KSAC?

The remainder of this memorandum seeks to offer some answers to these important questions.

Appropriate Functions for Local Government

In most countries around the world, there is general agreement on a common or basic set of functions that are most appropriate for local government. These functions are the ones that the consultant recommends be considered as the minimum array of services and activities for urban parishes such as KSAC. They are:

- Street and road maintenance, at least for local streets; in many places, arterial highways are a national or state responsibility.
- Other street-related functions, including street lighting, street cleaning, sidewalk construction, repair and maintenance, and street-related storm drainage.
- Other public works functions, including engineering design and supervision of municipal works and maintenance of municipal properties.
- Solid waste collection and disposal, at least for residential buildings and other noncommercial establishments. In Jamaica, the custom has been that the solid waste

responsibility for commercial establishments be that of the business itself; this is a common, though not universal, practice in other countries.

- Operation and maintenance of local parks and recreation facilities.
- Providing security for municipal properties, including buildings, parks, etc., is a commonly accepted function of local government. (Less common is the general police responsibility, which is municipal in the US but not most other countries.)
- Adoption and enforcement of local laws and regulations affecting land use, the environment, on-street parking, and a host of other essentially local concerns.

There are other functions which are municipal in some countries, national or state in others, and shared or privatized in yet others. Jamaica may want to wait on assigning some or all of these functions to its parishes until they have developed the capacity to finance and administer the common municipal functions listed above. Where the activities listed below are already local functions, however, it would make sense to continue.

- Libraries are often a municipal function.
- Public health, including both environmental health and health assistance for the poor, is commonly a shared function between municipalities and higher levels of government.
- Firefighting is often a municipal responsibility (as it used to be in Jamaica). In many countries, however, it is a state or regional responsibility, while in others it is a private function of volunteer groups.
- Economic development functions, such as public markets, slaughterhouses, etc., have traditionally been a municipal function in developing countries, although there appears to be a general trend for them to become privatized now.
- Water supply and distribution is often carried out at the municipal level, but when this is the case it is often the responsibility of a quasi-independent public enterprise, such as a municipal water company. In other places, such as Great Britain, water supply and distribution has been largely privatized.
- The responsibility for sewerage systems and waste water treatment is often municipal, and is also frequently assigned to a public water enterprise.

There are yet other functions that are municipal in some countries, but national in most. Among these functions — which the consultant does not recommend for decentralization in Jamaica at this time — are public education (including elementary, secondary, and higher education) and the police. Generally, other aspects of the criminal justice system, such as the courts, prosecutors, and prison systems, are also non-municipal. The general health and welfare functions, including operation of social security and public pension systems, public hospitals, and related health activities, are generally considered to be too costly and complex to be administered at the municipal level.

Paying for Municipal Operations

The capacity to generate sufficient revenue to pay for municipal operations is critical to the success of local government. In the consultant's view, KSAC should be afforded the opportunity to obtain reasonable amounts of revenue from three principal sources:

- Intergovernmental transfers will be essential and should be in a form that enables the municipality to count on both a secure revenue base and growth roughly in line with inflation and the receipts of the national revenue system. The best approach to achieving this goal would be to allocate some percentage of national revenues to municipal government, based on a formula that takes into account factors such as population, local wealth (or poverty), and local tax effort. An approach to be avoided, in the consultant's opinion, is one under which the national government gives each municipality specific grants each year, based on central government review of local budgets; this inevitably destroys local incentive and the capacity to do responsible budgeting.
- Local taxing capacity is also essential. There is general agreement among experienced observers of municipal finance in developing countries that the best tax bases for municipalities are 1) real property, 2) motor vehicles, and 3) local business activities. In Jamaica, for the first of these sources to become a truly local revenue would imply transfer of the locally generated receipts from the property tax to KSAC, plus the ability to change the tax rate in response to local budget needs. Without that ability, the transfer would only result in a revenue source without the ability to grow in pace with municipal costs. Allowing KSAC (and other parishes) to tax the value of motor vehicles would provide another progressive tax base, derived from an activity whose costs are directly felt by the municipality in the form of congestion, street wear, and pollution. A third revenue base that could readily be tapped would be allowing KSAC to increase the GCT (the value-added tax) on sales in Kingston. Of these three possibilities, the consultant suspects that only the first is presently a realistic possibility.
- The ability to recover the cost of municipal expenses through charging fees is the third major potential revenue source. In the case of Jamaica, where it seems unlikely that the water and sewer function will be transferred to localities, this primarily means the ability to levy parking fines and other fines for transgressions of municipal codes and laws, plus charging for any direct municipal service at a level that at least covers its full cost plus overhead.

Enhancing Municipal Administrative Capabilities

Simply increasing the array of service responsibilities of KSAC, even if accompanied by a commensurate increase in resource mobilization authority, will not be sufficient to reform local government in Kingston. It will also be necessary to strengthen significantly the management capacity of city government. Two management systems will be especially critical in this regard:

- The financial management system, including the key components of budgeting, accounting auditing, and data processing, will have to be brought up to modern standards. In addition, the city should move toward installation of a performance measurement system to monitor and control its service delivery units.
- Reform of the personnel management system will be equally critical. It will be essential to design a competent organizational structure, to introduce acceptable personnel standards, and to establish pay levels sufficient to attract trained professionals to key positions. Staff training will be an important adjunct to any expansion of responsibilities.

It will also be important to examine the relationship between the elected Council and the top municipal staff officials to make certain that Kingston can achieve a professionalism up to the best standards observable in the British Town Clerk and US City Manager systems.

Impact of Reform on the BID and Vice Versa

The strengthening of local government should have the effect of increasing the ability of KSAC to increase the range and intensity of municipal services. If an upgraded, more powerful, and more competent KSAC were already in being, it might lessen the need to establish a BID in Downtown Kingston, although it would be unlikely to eliminate it entirely. Even in US cities with generally high public service levels such as New York, merchants have pressed for the creation of BIDs because they wanted more of specific services than the municipality was willing or able to provide.

What a stronger KSAC could do would be to support the BID, especially by providing (or contracting with the BID to provide) better municipal services in the residential areas in and around downtown. It could also help ensure that services in fields other than those the BID chose to try to provide were brought up to acceptable levels. It is difficult to see any way in which a reform of KSAC's responsibilities and revenue-raising capacity could be other than positive for the BID and the downtown area — except in the unlikely event that the municipality chose to provide none of the benefits of its enhanced abilities to the downtown area.

Similarly, the BID should be able to assist the municipality. It could do so by pioneering methods to improve sanitation and security services that the municipality could then adapt to other neighborhoods. It could also offer to become the chosen contractor for KSAC to pilot test the privatization of additional public services — for example, in parks maintenance or on-street parking regulation enforcement.

On balance, there appears to be every reason for both reforming local government and establishing a BID for Downtown Kingston.