PART 3

Read the text below and answer questions 27–40.

FINANCING THE FUTURE: POLICY AND URBAN RENEWAL

Urban renewal is often framed as a design challenge—stronger bridges, safer streets, greener drainage, and more reliable transit—but the decisive constraint is frequently financial. Cities inherit aging assets alongside limited tax bases, and the benefits of renewal are spread over decades while political costs arrive immediately. Voters notice disruptions, fee increases, and construction inconvenience now, whereas avoided failures and long-run resilience are counterfactual and difficult to celebrate. This timing mismatch encourages short-termism: maintenance is deferred, repairs become emergencies, and capital programs chase visible projects over invisible reliability.

A common response is to create dedicated revenue streams for maintenance and renewal. Fuel taxes, congestion charges, utility fees, and road pricing can provide predictable funding and reduce reliance on annual political bargaining. Yet these tools raise distributional questions. Many such charges are regressive rather than progressive taxation: lower-income households often spend a larger share of their income on transport and basic services, so flat fees can impose a heavier burden relative to ability to pay. Policymakers can soften the effect with rebates or exemptions, but these measures reduce total revenue and require administrative capacity to target support accurately. There is also a credibility challenge: residents may accept fees only if they believe the revenue will be protected for its stated purpose and not diverted in future budget cycles.

Municipal borrowing is another core instrument because it allows cities to spread costs across the lifecycle of long-lived assets, aligning payment with benefits. Municipal bond markets make this possible, but the terms depend on bond ratings, legal debt limits, and macroeconomic conditions. When interest rates rise, borrowing becomes more expensive, and projects that once appeared affordable can become politically toxic. A well-rated city can finance renewal at relatively low cost, whereas a poorer municipality may face higher yields because investors perceive greater risk. This can create a financing trap: weak infrastructure reduces economic performance and tax capacity, which can depress ratings and raise borrowing costs, making renewal even harder. Borrowing is therefore not a simple technical fix; it is shaped by inequality across municipalities and by the credibility of long-term governance.

Public-private partnerships (PPPs) are frequently promoted as a way to mobilise capital and expertise, and in some cases they can accelerate delivery. In practice, however, PPPs are not “free money”. They shift some risks to private firms, but they also introduce

complex contracts that can lock cities into long payment schedules for decades. If assumptions about traffic demand, maintenance costs, or future regulation are wrong, cities may pay more than they would under public delivery, especially when renegotiation occurs from a weak bargaining position. The legitimacy of PPPs depends heavily on transparency: residents must be able to see the logic of risk allocation, performance standards, and long-term liabilities. Yet contract terms are often technical, and confidentiality clauses can limit public scrutiny, creating suspicion even when projects perform adequately.

A less visible but powerful lever is land value. When new transit, parks, streetscapes, or flood protection improve an area, nearby property values often rise, generating private gains that are partly created by public investment. Value capture mechanisms attempt to recover part of this uplift to finance the project that produced it. These tools include development charges, special assessments, and tax-increment financing (TIF), which earmarks a portion of future increases in property tax revenue within a district. Used carefully, value capture can align beneficiaries with payers, reducing pressure on general budgets. However, critics argue that it can accelerate gentrification if protections for existing residents are weak, because rising values can translate into higher rents and displacement. In that sense, value capture is not only a financing technique but also a housing and equity policy question.

National policy and fiscal federalism also shape what cities can do. In many countries, responsibilities are split between local and national governments: cities operate assets, but higher levels of government control major tax instruments or provide large grants. Matching funds can reward preventive maintenance and discourage crisis-driven spending, while long-term capital allocations can help cities plan systematically rather than chasing short-lived programs. Conversely, short-term grants with narrow eligibility rules can distort priorities, encouraging cities to design projects that fit funding criteria rather than projects that address long-term needs. When funding responsibilities are unclear, projects can stall as governments argue over which level should pay, turning technical renewal into intergovernmental negotiation.

The climate transition adds further demands. Cities must upgrade drainage, cooling strategies, and coastal defenses while also modernising energy and transport systems. Green bonds and climate funds are often presented as solutions, and they can broaden the pool of investors willing to finance adaptation and decarbonisation. But these instruments still depend on robust pipelines of credible projects and measurable outcomes. Without reliable data on performance, cities face accusations of greenwashing, which can undermine trust and increase political resistance to future financing proposals.

The challenge is therefore not simply to label spending as “green”, but to build transparent metrics that link finance to real outcomes.

Ultimately, financing is inseparable from governance. Residents will pay—through taxes, fees, prices, or rents—so legitimacy depends on fairness and transparency as well as engineering competence. Cities that publish asset inventories, explain trade-offs, and report performance tend to build more durable support for long-term renewal. Urban renewal succeeds, in other words, when financial design is treated as part of public design: a system of incentives and institutions that makes long-horizon investment politically credible and socially acceptable.

Questions 27–31

Choose **TRUE** if the statement agrees with the information given in the text, choose **FALSE** if the statement contradicts the information, or choose **NOT GIVEN** if there is no information on this.

27 The passage suggests that renewal is often discouraged because political costs appear immediately while benefits unfold over decades.

28 The passage indicates that rebates or exemptions can reduce regressivity but may lower revenue and require administrative capacity.

29 Poorer municipalities receive national guarantees when issuing bonds.

30 The passage argues that PPP contracts are simple for residents to scrutinise because confidentiality clauses are rarely used.

31 The passage suggests that value capture can accelerate gentrification if protections for existing residents are weak.

Questions 32–35

Select the correct answer.

32 Why does the passage raise equity concerns about fuel taxes and user fees?

A They are designed to apply mainly to wealthier residents in premium districts.
B They can be regressive because lower-income households spend a larger income share on transport and utilities.
C They are used only for new expansion rather than maintenance and renewal.
D Their revenue automatically falls whenever property prices rise.

33 What is the “financing trap” described for poorer municipalities?

A They must repay borrowing within a single budget year by law.
B Their bond ratings always rise when infrastructure deteriorates.
C Weak infrastructure can depress capacity and ratings, raising borrowing costs and tightening constraints.
D They are prohibited from issuing bonds for long-lived assets.

34 What concern does the passage highlight about public-private partnerships (PPPs)?

A Wrong assumptions can lock cities into higher long-term payments than public delivery would require.
B Once a PPP is signed, cities cannot monitor performance at all.
C PPPs eliminate the need for public scrutiny because risks are fully transferred.
D Private firms refuse to enter long contracts and therefore cannot be partners.

35 What is the main purpose of value capture mechanisms such as tax-increment financing (TIF)?

A To replace user fees with a single uniform tax across the whole city.
B To compensate residents for temporary construction disruption through cash payments.
C To reduce municipal credit risk by transferring borrowing to national government.
D To recover part of the increase in nearby property values created by public improvements.

Questions 36–40

Complete the summary below. Choose **ONE WORD ONLY** from the text for each answer.

Challenges in financing urban renewal

The timing mismatch between immediate political costs and long-term benefits encourages **36** ..... . Equity concerns can be eased through rebates or **37** ....., though these may reduce revenue. To retain public confidence, PPP arrangements must provide **38 .....** about how risks and long-term obligations are shared. Critics see value capture as a potential driver of **39 .....**, with higher rents and displacement among its possible effects. Without reliable metrics, climate finance can invite accusations of **40** ..... .

Answer Key

27. TRUE

28. TRUE

29. NOT GIVEN

30. FALSE
31. TRUE
32. B
33. C
34. A
35. D
36. short-termism
37. exemptions
38. transparency
39. gentrification
40. greenwashing