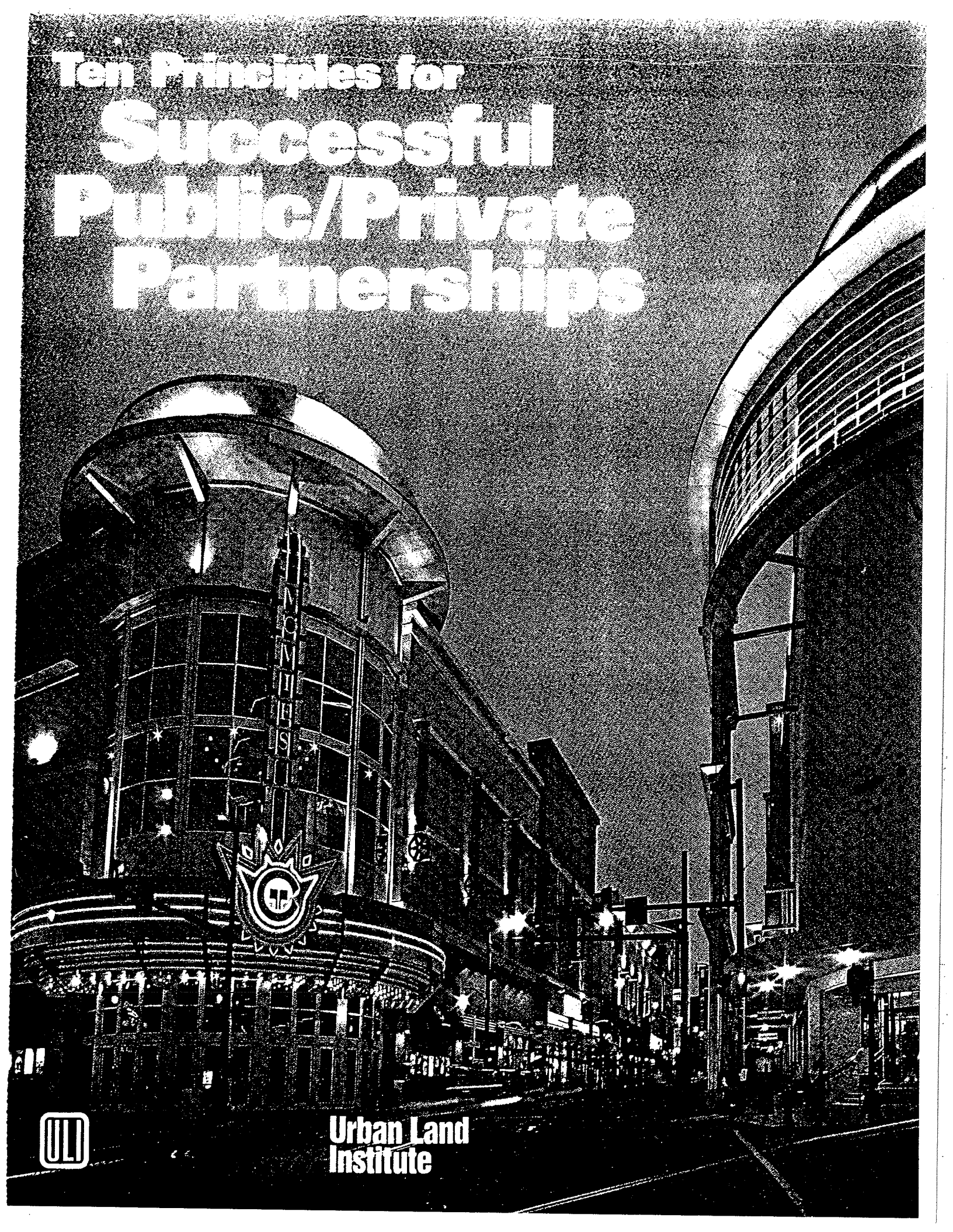


Ten Principles for Successful Public/Private Partnerships



Urban Land
Institute

Ten Principles for Successful Public/Private Partnerships

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About ULI—the Urban Land Institute

ULI—the Urban Land Institute is a non-profit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors education programs and forums to encourage an open international exchange of ideas and sharing of experiences; initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development. Established in 1936, the Institute today has more than 26,000 members from more than 80 countries representing the entire spectrum of the land use and development disciplines.

Richard M. Rosan
President

Recommended bibliographic listing:

Corrigan, Mary Beth, et al. *Ten Principles for Successful Public/Private Partnerships*. Washington, D.C.: ULI—the Urban Land Institute, 2005.

ULI Catalog Number: T26

International Standard Book Number:
978-0-87420-947-1

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1025 Thomas Jefferson Street, N.W.
Suite 500 West
Washington, D.C. 20007-5201

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Cover photograph: Downtown Silver Spring, Maryland—an example of a successful public/private partnership. See page 25. (Carol M. Highsmith Photography, Inc.)

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This report was conceived by the Public/Private Partnership Council (Blue Flight) with input from the Public/Private Partnership Council (Gold Flight). These principles are the result of their early work and input on the draft report.

Foreword

The use of public/private partnerships (PPPs), as this publication clearly illustrates, is a growing trend throughout the United States. But this practice is far from novel or even new.

The use of PPPs to meet a wide variety of public needs dates back centuries in the United States. One of the first examples was the Lancaster Turnpike, a toll road built by the private sector with public sector oversight and rights-of-way. It was opened in 1793, connecting Pennsylvania farmers with the Philadelphia market and drastically reducing the travel times. The Erie Canal, completed in 1825, and the first Transcontinental Railroad, finished in 1869, are two other early examples of PPPs.

Today, partnerships are used not only in transportation projects but also for water and wastewater systems, delivery of social services, building schools, and a wide range of other applications. By far the fastest-growing arena for the use of PPPs is urban economic development, which is why *Ten Principles for Successful Public/Private Partnerships* is such a valuable guide.

Cities and counties are rapidly applying the experiences with PPPs learned over the last few decades—experiences on how to most effectively combine the strengths and resources of both the public and private sectors. Significant refinements in the PPP process resulted from these experiences. Although PPPs can be more difficult to execute than other types of procurement, the reward can be worth the extra effort. As the case studies included here indicate, in many instances PPPs make possible the completion of projects that would be impossible using more traditional methods of economic development.

Many of the important lessons learned are included in *Ten Principles*. The importance of continued public sector leadership, as well as the public sector's ongoing monitoring and nurturing of the partnership, is clearly illustrated. Equally important is the clear and open process necessary for the selection of the private partner. Most important of all is that the private and public sectors build a collaborative relationship—one that requires “give and take” on both sides of the table to make the project a success.

This publication by the Urban Land Institute is a valuable step forward in disseminating that information.

Richard Norment, *Executive Director*
National Council for Public-Private Partnerships
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Introduction

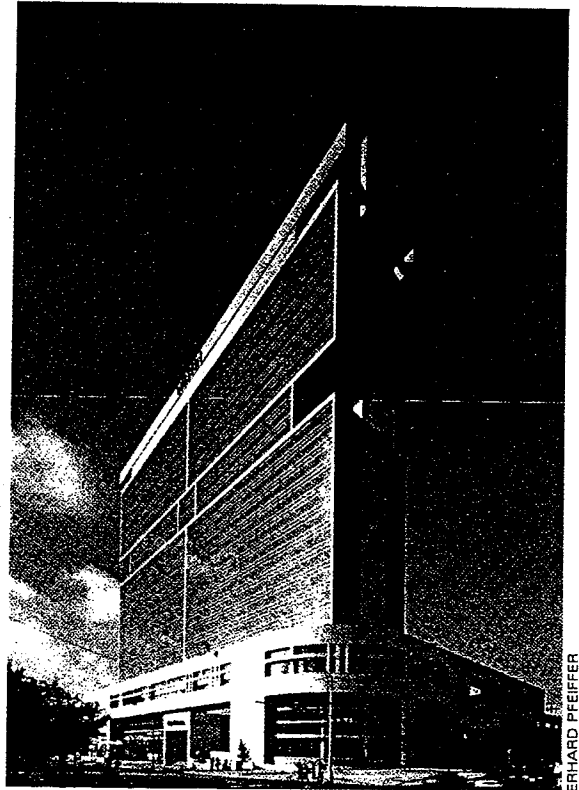
Building and rebuilding cities and new communities is a complex and challenging endeavor under the best of circumstances.

Among other things, it requires merging public and private interests and resources. However, the traditional process of urban and suburban development can be inherently confrontational—an arm-wrestling contest between the local government and the developer to see which will win distinctly different prizes.

The need to rebuild and revitalize older portions of our urban areas and the public need to monetize underused assets have dramatically changed the rules of this game. No longer can private capital be relied on to pay the high price of assembling and preparing appropriate sites for redevelopment. No longer can local governments bear the full burden of paying the costs of requisite public infrastructure and facilities. Planning and zoning controls are often either inadequate or too inflexible to ensure either appropriate control or enablement of desired private outcomes. True partnerships replace potential confrontation with collaboration and cooperation to achieve shared goals and objectives. This process requires applying far more effort and skill to weighing, and then balancing, public and private interests and minimizing conflicts.

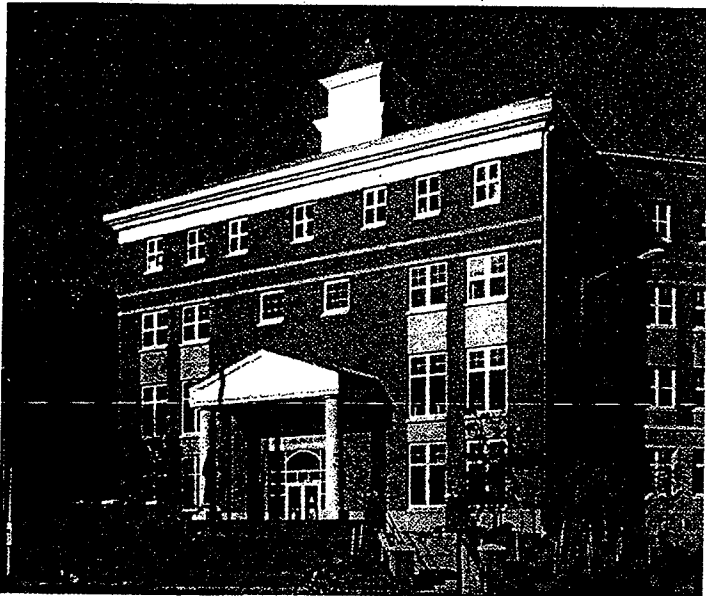
Today, public/private partnerships are considered “creative alliances” formed between a government entity and private developers to achieve a common purpose. Other actors have joined such partnerships—including nongovernmental institutions, such as health care providers and educational institutions; nonprofit associations, such as community-based organizations; and intermediary groups, such as business improvement districts. Citizens and neighborhood groups also have a stake in the process. Partnerships around the country have successfully implemented a range of pursuits from single projects to long-term plans for land use and economic growth. Partnerships have completed real estate projects such as mixed-use developments, urban renewal through land and property assembly, public facilities such as convention centers and airports, and public services such as affordable and military housing.

Although each public/private partnership project is unique in its local implementation, most share common stages within a development process bounded by legal and political parameters. In the first phase—conceptualization and initiation—stakeholders’ opinions of the vision are surveyed and partners are selected through a competitive bid process. In the second phase, entities document the partnership and begin to define project elements, roles and responsibilities, risks and rewards, and the decision and implementation process. Partners



To fulfill objectives for increased convention business, the city of Charlotte, North Carolina, and private developer Portman Holdings partnered to fund and develop the Westin Charlotte, a 700-room convention center hotel.

ERHARD PFEIFFER



Contributing major benefits to the citizens of Washington, D.C., the James F. Oyster School/Henry Adams House, a public elementary school and 211-unit residential apartment complex, was constructed as a result of a partnership among the District of Columbia Public Schools, the community, and the developer LCOR Incorporated.

also negotiate the “deal” and reach agreement on all relevant terms. In the third phase, the partnership attempts to obtain support from all stakeholders, including civic groups, local government (through entitlements), and project team members. Project financing begins and tenant commitments are secured. Finally, in the fourth phase, the partnership begins construction, leasing and occupancy, and property and asset management. However, the process is repetitious and can continue beyond the final phase when partners manage properties or initiate new projects.

A partnership is a process not a product. Successful navigation through the process results in net benefits for all parties. Public sector entities can leverage and maximize public assets, increase their control over the development process, and create a vibrant built environment. Private sector entities are given greater access to land and infill sites and receive more support throughout the development process. Many developers earn a market niche as a reliable partner with the public sector and are presented with an opportunity to create public goods.

With declining levels of public resources to fulfill social and physical needs and pressures for more accountability in financial investments, partnerships between public and private entities will become increasingly permanent and comprehensive in nature. In 2004, \$75 billion was spent by public/private partnerships on economic development and urban renewal projects, indicating that the market and the public sector increasingly support this investment approach.

Thus, this publication presents principles to guide community leaders and public officials together with private investors and developers through the development process and highlights best practices from partnerships around the country. The principles endeavor to ensure the most efficient use of public and private resources in the pursuit of mutual gains through public/private partnerships.

Joint efforts by the city of Albuquerque and developer Paradigm and Company to reuse the Old Albuquerque High School Campus and adjacent site have resulted in the development of new residential, commercial, and civic spaces in the downtown.



Ten Principles for Successful Public/Private Partnerships

Prepare Properly for Public/Private Partnerships

Create a Shared Vision

Understand Your Partners and Key Players

Be Clear on the Risks and Rewards for All Parties

Establish a Clear and Rational Decision-Making Process

Make Sure All Parties Do Their Homework

Secure Consistent and Coordinated Leadership

Communicate Early and Often

Negotiate a Fair Deal Structure

Build Trust as a Core Value

Prepare Properly for Public/Private Partnerships

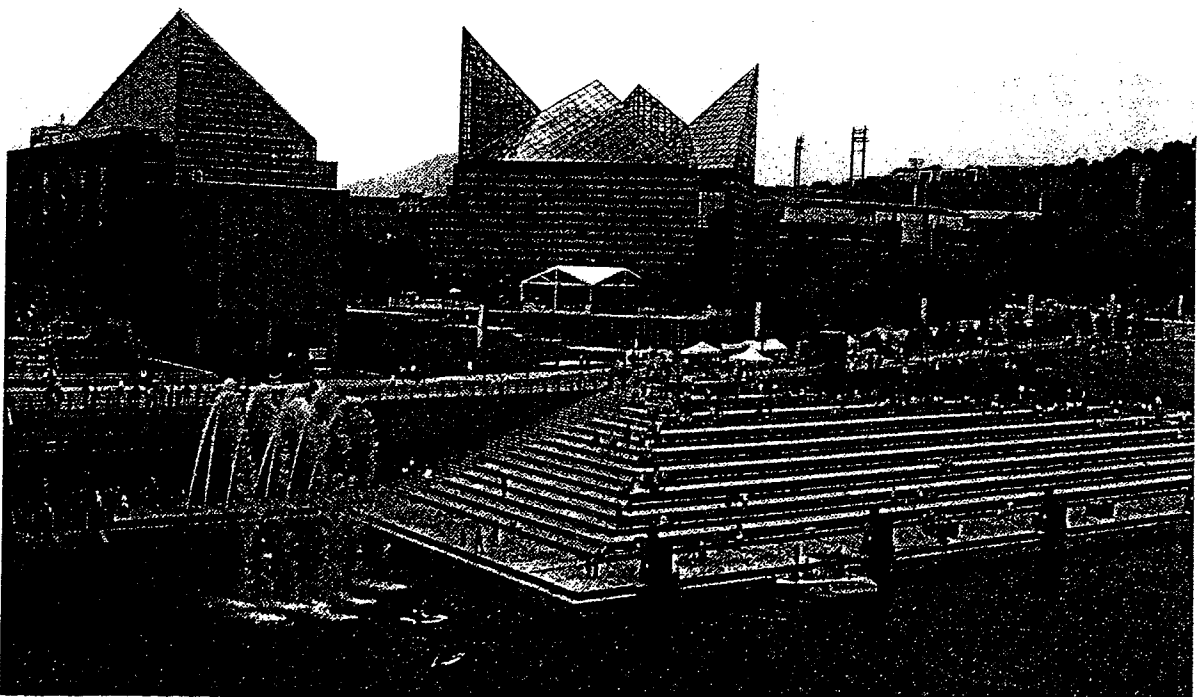
Early and comprehensive preparation by both the public and private sectors is the key to successful public/private partnerships. The tasks of the public and private partners described here should not be perceived as sequential; all are necessary for a successful partnership.

Public Partner Responsibilities

Preparation entails creating and constantly updating a plan for development showing specific sites for private investment opportunities. In addition, the public partner must identify development goals and resources, including commitments for inducements and incentives for prioritized projects in the plan. This specificity will enable developers to understand the true scope of the development opportunities in the community.

Assess Your Capabilities. In the early stages of the process, the public sector should assess its institutional capacity to act as a partner. Creating an entity to handle the partnerships, such as a redevelopment authority or a quasi-governmental agency, may be necessary if such an agency does not exist. The public partner needs to make sure it has the expertise to negotiate with the sophisticated private party and the authority to retain the use of one or more consultants to assist in developing the partnership. Ask whether the staff of the

A major campaign to coordinate public and private redevelopment investments has made the city of Chattanooga a destination for locals, tourists, and convention attendees.



DAVID ANDREWS

Set the groundwork for successful joint ventures through careful planning and consensus building

Public Participation Spectrum

Developed by the International Association for Public Participation

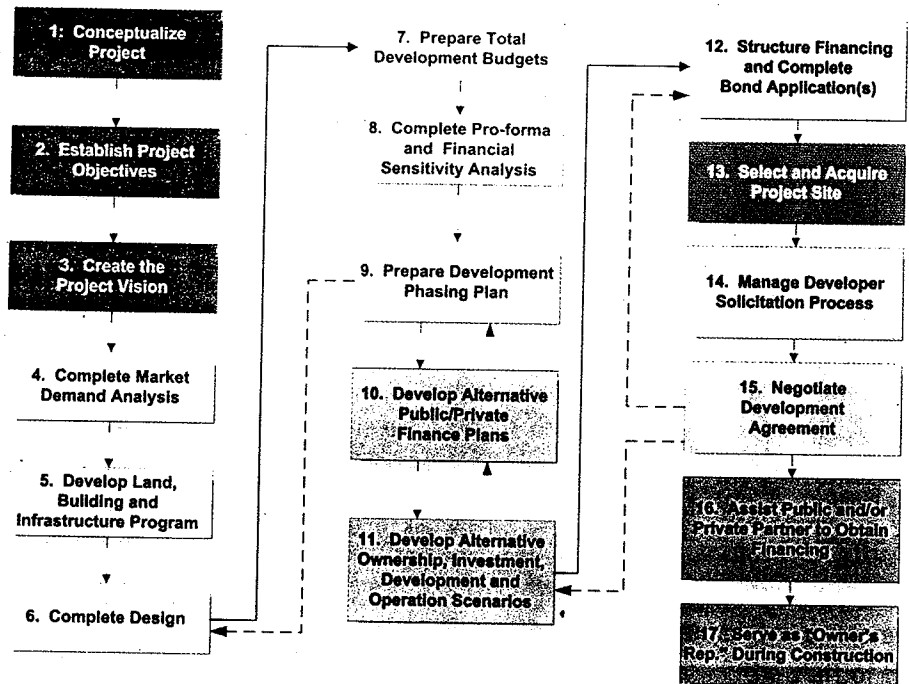
To design a development plan in accordance with the needs of the community, the partnership can use various tools to involve the public in its visioning and implementation process.

INCREASING LEVEL OF PUBLIC IMPACT				
INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
<p>Public Participation Goal:</p> <p>To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.</p>	<p>Public Participation Goal:</p> <p>To obtain public feedback on analysis, alternatives and/or decisions.</p>	<p>Public Participation Goal:</p> <p>To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.</p>	<p>Public Participation Goal:</p> <p>To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.</p>	<p>Public Participation Goal:</p> <p>To place final decision-making in the hands of the public.</p>
<p>Promise to the Public:</p> <p>We will keep you informed.</p>	<p>Promise to the Public:</p> <p>We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.</p>	<p>Promise to the Public:</p> <p>We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.</p>	<p>Promise to the Public:</p> <p>We will look to you for direct advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.</p>	<p>Promise to the Public:</p> <p>We will implement what you decide.</p>
<p>Example Techniques to Consider:</p> <ul style="list-style-type: none"> ● Fact sheets ● Web sites ● Open houses 	<p>Example Techniques to Consider:</p> <ul style="list-style-type: none"> ● Public comment ● Focus groups ● Surveys ● Public meetings 	<p>Example Techniques to Consider:</p> <ul style="list-style-type: none"> ● Workshops ● Deliberate polling 	<p>Example Techniques to Consider:</p> <ul style="list-style-type: none"> ● Citizen Advisory Committees ● Consensus-building ● Participatory decision-making 	<p>Example Techniques to Consider:</p> <ul style="list-style-type: none"> ● Citizen juries ● Ballots ● Delegated decisions

©2005 INTERNATIONAL ASSOCIATION FOR PUBLIC PARTICIPATION

jurisdiction can satisfactorily represent the public interests. Look at housing agencies or urban renewal authorities—such as economic development corporations, public authorities, and special purpose development corporations—as potential implementation entities and project managers. Of course, state authorizing legislation should be reviewed to make sure that the public partner has the authority to create the entity. Last, does the public agency have the capital to invest in the project to ensure its economic viability? Funding for government-imposed requirements, environmental cleanup, and the like are required at times to make the project work.

SPPRE's Proven Pre-Development Process



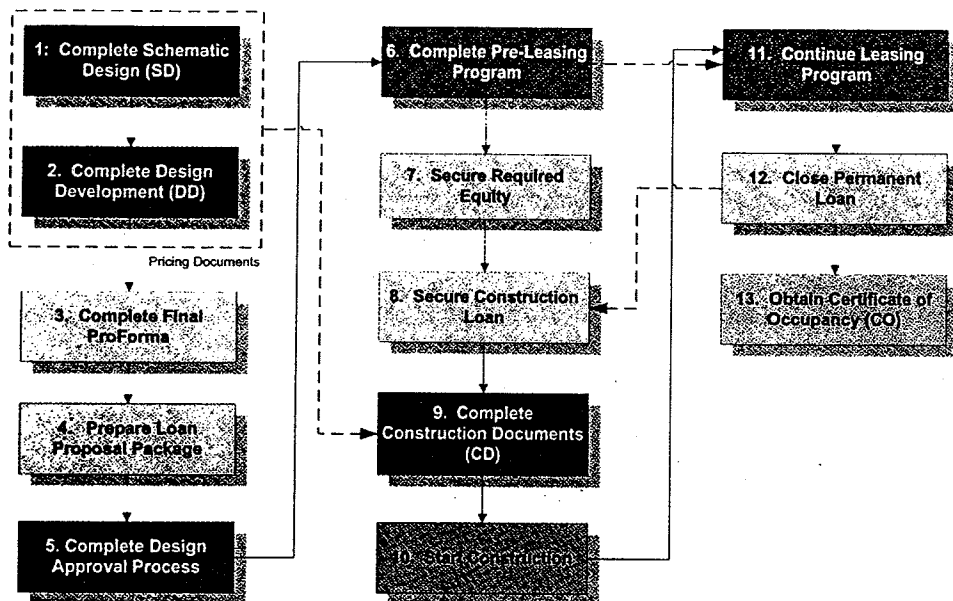
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Create a Public Vision. The vision for the program should be the result of a consensus-building process that identifies the opportunities, objectives, and ultimate goals for the community. The local government must consider and establish its long-range public interest goals and resolve any conflicts that it might have for the specific project in question. It is essential that the overall development strategy is described both verbally and graphically to ensure that both the public and the real estate community understand the program.

The predevelopment process establishes how the vision can be realized and indicates the public partner's level of preparedness to structure and implement the proposed project. The public partner must complete the following stages before issuing a developer solicitation: land assemblage and ownership, environmental analysis of the site, market demand and financial feasibility studies, as well as completion of alternative ownership, investment, development, and facility operational scenarios. Consultants can guide public entities through this process.

Be Legislatively Prepared. Make sure that building codes and regulations support the vision established for the development, including the potential for

SPPRE's Development Process



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Public and private sector partners should be involved in the design of public/private partnerships' physical and financial plans, as shown in this model of the development process.

streamlining building codes and regulations to remove potential obstacles to effective partnerships. Jurisdictions that have created one-stop permitting have been quite successful in attracting private investment by eliminating lengthy approval processes and overlapping regulations. Regulatory delays and loss of the right to develop pose the greatest risks to developers. Eliminating such risks makes a successful public/private partnership much more likely. The public sector must resolve the dilemma of the dual role of partner and land regulator.

Be Resourceful with Funding. With the increasing scarcity of public sector funds, the complexity of the financial package will necessarily increase. It is, therefore, essential to be imaginative and forward thinking to capitalize on all and any funds that might work. Identify public and nonprofit sector funding mechanisms, such as community development block grants, tax increment financing tools (where available), transportation funds, and local revolving loan funds.

Have the Land Ready. The public partner should examine its ability to assemble the necessary land. Evaluate the capacity for the right of eminent domain. Consider the potential for land banking to avoid any land assembly issues if the opportunity makes itself available.

Chattanooga's Comprehensive Approach to Redevelopment

The comprehensive approach to revitalization undertaken by the city and region of Chattanooga, Tennessee, demonstrates how the public/private partnership process can support a long-term strategy for livability and sustainability. With significant air pollution problems and deindustrialization and decentralization patterns hollowing out the city and inner core of the region, the Chattanooga community implemented a master-planning process in the 1980s in an attempt to harness public and private sector resources to promote the redevelopment of the city and to improve regional growth patterns.

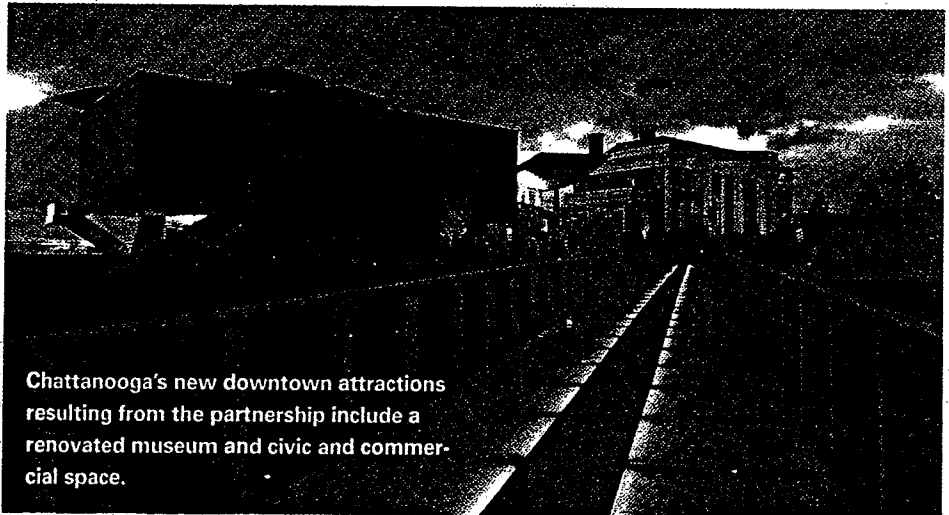
"The Tennessee Riverpark Master Plan," published in 1985, emerged from the "Vision 2000" community planning process, which aimed at determining how to attract and maintain high-quality growth in the region. The plan calls for a comprehensive strategy for redevelopment efforts, focused on spurring development downtown, particularly along a 22-mile corridor of the Tennessee River. Using the public and private sectors in creating, funding, and implementing the redevelopment strategy, the plan established a 20-year time frame and specific steps for implementation.

Chattanooga public authorities have supported redevelopment with new regula-

tions, financing mechanisms, and public/private institutions. Land use regulations, such as the redesignation of land to spur reinvestment and the inclusion of community members in the planning process, have catalyzed new development. Furthermore, the creation of new revenue sources, including a hotel/motel tax and the establishment of the 21st Century Waterfront Trust, which has received more than \$120 million from public and private sector funding, has resulted in the construction or enhancement of projects along the waterfront. Finally, new organizations have been established to assist in coordinating redevelopment efforts, particularly the River City Company, a private nonprofit organization managing redevelopment projects; the

Chattanooga Downtown Partnership, supporting local city businesses; and the Chattanooga Neighborhood Enterprise, which has created affordable housing opportunities in the city.

Many indicators confirm Chattanooga's successful approach to redevelopment, including its current designation as one of the most livable communities in the country, downtown investment exceeding \$1 billion within the decade, and the fulfillment of a majority of the original Vision 2000 goals just ten years after the original visioning process. Thus, by comprehensively coordinating revitalization efforts, Chattanooga has set in motion a cycle promoting reinvestment in the community.



Chattanooga's new downtown attractions resulting from the partnership include a renovated museum and civic and commercial space.

DAVID ANDREWS

Manage Expectations. During this stage of the process, establish a schedule that clarifies the expectations of the public decision makers. It is a good idea to craft a public awareness program to inform stakeholders of the goals of the development strategy and the specific projects that are identified.

Private Partner Responsibilities

First and foremost, the private partner needs to be prepared for a transparent process. Although parts of the process exist in which certain information is not disclosed, particularly during the competition over project bids, the developer must be prepared to make its numbers, its name, and itself open to public

scrutiny. The recognition and acceptance of this basic tenet should precede all other steps that the developer will take. If such transparency is not acceptable, the developer should walk away from the project.

Establish Feasibility. While the public partner is establishing clear-cut goals and projects, the private partner can be preparing by meeting with investors to explain the nature of the public/private partnership. As in all development processes, the developer must underwrite the market and determine interest. The public partner should have provided substantial background information during its preparatory phase. The developer must also identify and assess the opportunity for the project and assess whether it is feasible. Increasingly, with the help of legislative authority the private partner submits unsolicited proposals conceptualizing and designing the use of a public/private partnership, which then is implemented with public approval.

The developer needs to make an internal assessment of the resources that are required to accomplish the project, including such items as potential staff, assessment of risk, potential deal structures (whether they will work for a fee or be partners in the venture), potential investors, and political and community leadership and working relationships with leaders.

Know Your Partners. This getting-to-know-you stage will ease the subsequent stages in the development process. During the preparatory, or due diligence, stage the developer should familiarize itself with the jurisdiction's plans, approval processes, and length of permitting processes. The developer should assess the public partner's ability to deliver and to commit its resources up front.

Get the Right Team. If the developer decides to continue with the partnership, the developer should assemble a team who brings insight and experience with the public partner. If the developer is new to the community, it would be valuable to find local expertise to assist in the process. The developer needs to be prepared to be an explorer and adapt to what may be discovered.

Create a Shared Vision

All successful projects start with a vision. Without a vision, the project will most likely fail. The vision is the framework for project goals and serves as the benchmark to ensure the realization of joint objectives.

Creating a vision: Creating a vision is not always easy, and it is crucial that the vision is shared. Ideally, property owners, residents, and area anchors such as churches, colleges, hospitals, homeowners associations, and other stakeholders will have “buy-in” because they have a stake in the outcome. Creating a vision involves building consensus and including all the stakeholders, even those who may be naysayers. By casting a wide net and giving all the stakeholders—including potential partners—an opportunity to help craft the vision, less possibility exists for opposition to a project. Public hearings, charrettes, visioning exercises, and other tools for involving stakeholders in the visioning process should be used to ensure the broadest outreach. Involving the media is another key factor for two reasons. First, it helps get the message out about the visioning process, and second, it helps form an alliance with the media, which will be crucial in articulating and publicizing the vision once it is created.

The Durham partnership formalized a plan to fulfill the community's collective economic, physical, and social needs within the city's historic urban framework.



CHUCK YOUNG

Sustaining the vision: A vision is not just pretty pictures depicting the ultimate outcome. It involves a strategy for implementation, which includes funding mechanisms (public and private), potential partners (and their responsibilities), and an agenda or time frame for achieving the vision (making the project a reality). These components are all critical for realizing the vision and ensuring that it gets off the boards and onto the ground.

Partners should make a practical analysis of market conditions and demographics to ensure that the vision is neither too grand nor too small. An important component of the vision is specifying the scale of the project or projects that provides people with an understanding of what is going to happen. If the

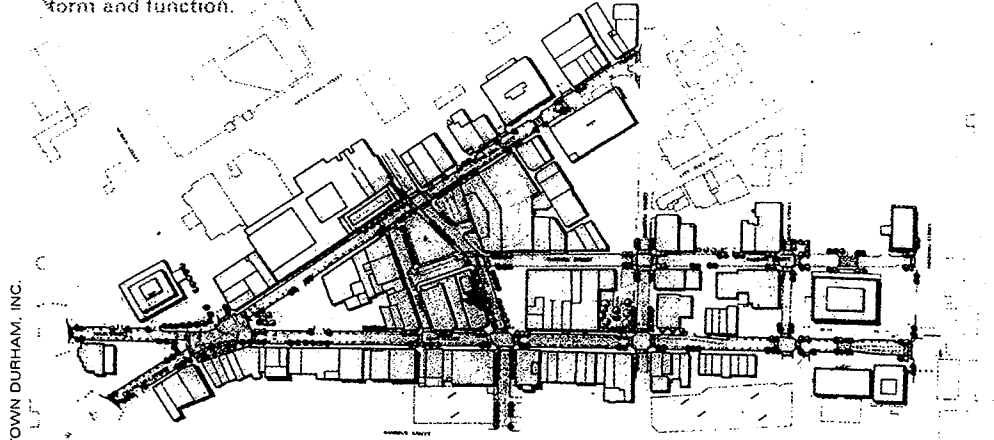
Facilitate a vision and establish strategies for its implementation

Durham, North Carolina

Seeking measures to attract people and development to the community, public and private leaders in Durham, North Carolina, formed a partnership to initiate a community master-planning process in the 1990s. The partners established a process enabling the community to collectively envision and then implement a desirable new future within a region affected by dynamic local and external economic and social conditions.

To organize revitalization efforts in the community, Downtown Durham, Inc. (DDI), a public/private development organization, directed the formation of the new city master plan and implementation process, a 20-year, \$1 billion revitalization effort. To ensure wide support and buy-in for the initiative, Durham stakeholders were invited to identify and formalize their vision of the city's future through meetings, interviews, and focus-group discussions. Stakeholders and public and private partners identified the downtown as the pivotal activity center within which vibrant communities could be established and suggested measures for improving the city's livability—such as creating and maintaining more pedestrian-friendly streets, enduring neighborhoods, attractive spaces, public services, and social outlets.

Durham's downtown master plan integrates physical designs with programmatic redevelopment efforts, such as events planning, to enhance the community's form and function.



In addition to a shared visioning process, the plan identified mechanisms to include both public and private partners and non-stakeholders in the implementation of the plan. DDI with the assistance of the city's Office of Economic and Employment Development, has acted as the "engine" to implement the master plan and as the "accountability mechanism" to ensure that the community continues to move ahead with

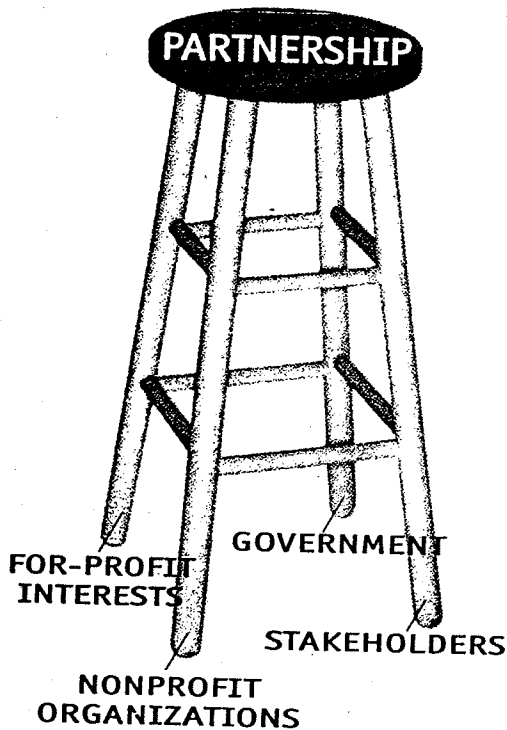
the recommendations of the plan. Furthermore, a five-year joint DDI and city-funded review of the downtown master plan identified accomplishments and deficiencies and developed a list of priorities for the next five years. By designing a shared vision and implementation process, the community is facilitating the creation of a "downtown that sees the future and understands how to take advantage of it."

vision calls for building new housing, for example, it is important to talk about the density of the residential portion of the vision. Some may think the new development will be ten units to the acre when the vision is really intended to accommodate 40 units to the acre.

Moreover, involving the stakeholders will help bring reality to the plans by establishing a collective vision and creating community buy-in for the project. The most important component of a vision is ensuring that it can endure the test of time. Most development or redevelopment projects are long term and may span several political administrations. Thus, the vision that is created is not just the whim of the current administration, but represents key community and stakeholder buy-in that will help it endure. A shared vision that is created and embraced by key stakeholders will stand the test of time and will persevere through implementation.

Understand Your Partners and Key Players

Each partner supports the efforts of the partnership and its long-term objectives.



The beginning point of any successful partnership is for all prospective partners to invest the time and effort necessary to gain a full appreciation of, and respect for, their counterparts in a deal—their background, reputation, experience, needs, financial strength, motivations, expectations, and goals. Choose wisely, because you want partners who will work with you, not against you. Everyone is not in the deal for the same reasons, and without such understanding, trust will never be built, and distrust may cause the deal to unravel.

Public/private partnerships are a four-legged stool. They involve government, nonprofit organizations, for-profit interests, and stakeholders. Each sector plays a different role. Government should understand, for example, that the private partner needs a positive bottom line, while the private partner should understand that government does not move fast, is not necessarily profit driven, and has broader constituencies to deal with. Any deal has to answer two fundamental questions: (1) Is it financially feasible? and (2) Will it be approved?

Public partner: Government often sets the table. Typically, a government agency must validate a project's public purpose before that agency can even consider participation. However, once this validation is affirmed, a government can acquire land, write down its cost, prepare the site, grant permits, expedite processing, build public facilities, and undertake necessary infrastructure improvements (sewers, roads, bridges). It has tools—such as tax abatement, tax increment financing (TIF), fee waivers, zoning, and even eminent domain—that it can bring to the table to incentivize the private sector and help make sure the project is financially feasible to the capital markets. Local governments can make grants, access pools of money and resources at the state and federal levels, float bonds, and raise long-term (patient) capital. And, of course, government has to approve a deal through zoning boards, commissions, city councils, mayors, and county officials, to say nothing of state and federal officials. This development approval process often comes down to political will and standing by and behind a negotiated deal in spite of public opposition. It also requires flexibility. If the public sector cannot make necessary compromises with its partners, the deal may be lost. Consultants and lawyers can help facilitate the decision-making process during negotiations.

Private partner: The for-profit part of the private sector can put together a development, layer in the financing, bring design and marketing expertise, construct a project, and operate it. Local banks can finance loans and work with credit. Developers can access short-term capital, but being in business to make money, they generally need a quicker and significantly higher return on their investment than government, for whom time is not money. However, the public partner may be limited to debt ceilings and the annual appropriation process, restricting its ability to access large, long-term financing. The private partner, if it can see a

Identify the actors in the process along with their needs and perspectives to ensure effective collaboration

The Williamsburg Neighborhood in Brooklyn, New York

"We've learned that the job is too big to tackle alone; we couldn't have achieved what we did without strong partners—community organizations, government agencies, and other companies." The speaker was Hank McKinnell, current CEO of the Pfizer pharmaceutical company, addressing the White House Business Roundtable on June 5, 1998. He was describing a revitalization project in the Williamsburg neighborhood of Brooklyn, New York, where Pfizer was founded 150 years ago.

When Pfizer moved its headquarters to Manhattan in 1960, it retained a manufacturing facility at the original site, although the neighborhood had lost its industrial base and was becoming blighted. In the 1980s, Pfizer convened partners to develop a comprehensive community reinvestment plan. Pfizer committed extensive private resources to the project (almost \$25 million), which resulted in a new public charter school in a renovated Pfizer building, about 300 new homes (all

doubles), 400 apartment renovations in neglected buildings, improved public safety, new light industrial space, and, of course, more jobs.

Pfizer was the leader, but Pfizer had partners. The company spent long hours meeting with community stakeholders represented by the St. Nicholas Neighborhood Preservation Corporation and the Los Sures Community Development Corp. as well as the local community boards. The Beginning with Children Foundation created the new school in cooperation with the city's Department of Education. Three intermediaries (the New York City Housing Partnership, LISC, and The Enterprise Foundation) assisted with low-income housing rehabilitation and new construction. The federal government's Urban Development Action Grant and Low-Income Housing Tax Credit programs provided part of the financial package. City agencies, including the Public Development Corporation, the Department of City Planning, and the Department of Housing Preservation and Development, participated in order to designate the urban renewal zone,



In Brooklyn's deteriorating Williamsburg neighborhood, Pfizer and partners rehabilitated the company's original business headquarters building, adding housing units and a public school.

demolish vacant buildings, and clean up and fence in lots, and the Police Department and Metropolitan Transit Authority worked with Pfizer's private security staff to implement public safety strategies. Two utility companies (Brooklyn Union Gas and Consolidated Edison) coordinated renovations and alterations and arranged low-interest loans for low- and moderate-income housing through their Cinderella Project and Renaissance Program, respectively.

return on its investment over a protracted period, can often be interested in financing that covers a longer term (up to 99 years in one recent case).

Nonprofits: Nonprofit organizations, such as neighborhood organizations, community development corporations, faith-based institutions, task forces and advisory boards, intermediaries such as the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation, and philanthropic foundations, can act as brokers between public and private for-profit interests. They can help private investors find opportunities to participate in community development projects and often assist with closing the gaps in a financing package. They can also access sources of funding that might not otherwise be available to a project.

Stakeholders: Stakeholders have a right to be heard. They want to know that their voice counts and that their views are considered; however, they also need to understand that all possible objections to a project cannot be removed. Citizens must feel they can influence the course of a project, which means being made aware of plans for a project at the front end of the process and being given a chance for input throughout, through private meetings, public hearings, or both.

When each partner understands the others and cooperates with them in a respectful, productive manner, the outcome will be win-win-win-win for everyone.

Be Clear on the Risks and Rewards

"Nothing ventured, nothing gained." This old proverb captures the essence of the risk/reward relationship inherent in public/private partnerships. Key to having such a partnership produce tangible, positive results is for each partner to understand and appreciate the nature and scope of the opposite party's potential risks and rewards, as well as its own, so that mutual success is achieved.

Preparing for Mutual Success

A public/private partnership is more than just a real estate deal. The responsibilities of the principal parties in the basic scenario of a real estate deal can be complex, time consuming, risky, and ultimately rewarding, and the public approval

process can be controversial and difficult. Significant obstacles must be overcome and challenges met through joint efforts because the resources and responsibility are distributed differently between the sectors, particularly during project implementation. What distinguishes a public/private partnership is the mutuality of effort and investment required to accomplish an outcome that is unattainable without such collaboration.

Stakeholders and nonprofits

similarly share in the risks and rewards created by these projects. In the public/private partnership process, they may be affected by changes to quality of life and revenue or tax streams. The table summarizes the nature of the risks and rewards likely to be encountered by the public and private parties to a public/private partnership.

Using the "balance sheet" of factors specific to the project and its participants, as outlined in the table, is an effective way of understanding risks and rewards across the public/private divide. Where feasible, values should be quantified. Otherwise, just stating the expectations regarding relative gains or losses will suffice.

Public and private partners are collaborating to share the risks and rewards for the development of the Columbus Center housing/hotel complex.



CBT/CHILD'S BERTMAN TSECKARES; NEOSCAPE

Determine the risks and rewards faced by all parties

Dealing with Conflicts and Uncertainty

The process of stepping beyond rigorous standard procurement and developer selection procedures is fraught with the danger of creating real or perceived conflicts of interest for public officials. Often, it is absolutely necessary that state-mandated procedures be followed in selecting the developer for a particular project before a real public/private partnership can be formed. In other instances, the local government will have broad discretion. Beyond a concern for conflicts of interest, the public partner faces an array of rich opportunities for public controversy and bad publicity associated with property acquisition or charges of misuse of public funds and other resources. The ultimate concern of the public partner is that the developer partner might fail—just drop the project, lose its financing, or even go bankrupt—and leave the community “holding the bag” for substantial additional costs and performance commitments. However, if the selection process for the private partner is conducted properly and appropriate bonding is included in the contract, this outcome will be avoided. Most successful economic development public/private partnerships are the result of a selection process that includes verification of the technical and financial capability of the private partner.

The private partner also has its partners, stockholders, equity investors, and lenders to satisfy. They must believe that their resources are being deployed effectively. Although many of the developer’s risks are the same as in a straight private deal—sufficient effective market demand, attracting necessary debt and

FRAMEWORK FOR A RISKS AND REWARDS BALANCE SHEET

Risks		Rewards	
Public	Private	Public	Private
Conflicts of interest, perceived or real	Excessive costs of development, unprofitable	Greater community wealth, tax base, public infrastructure	Resources to sustain organization
Use/misuse of public funds, resources, perceived or real	Time-consuming process required; time is money	Increased taxes, other revenue	Profitability
Controversial impacts on those directly affected:	Failure to create long-term value	Promote, advance city image	Value, wealth creation
• Land use conflicts with adjacent property owners	Accusation of being unfairly enriched at public expense	Job creation	Enhanced reputation, experience to get next project
• Dislocation by condemnation	Change in key public, political, or staff leadership that derails partnership	Community betterment, enhanced quality of life	Market niche
• Relocation costs and procedures	Market shortfall, failure	Reelection (elected officials)	Community betterment, enhanced quality of life
• Disagreements on fair market value	Loss of invested equity	Job retention, advancement (staff)	
Developer fails to perform or goes out of business	Untimely public airing of critical project details, especially financing		
Public opposition, NIMBYism	Liability impacts		
Liability impacts			

equity financing, and so on—certain risks are unique to a public/private partnership. The counterpoint to the public partner's concerns regarding potential conflicts of interest is the developer's fear of charges based on ignorance of business terms and conditions that are harmful to its reputation and ability to do future deals, for example, that it is taking unfair advantage and "profiting at public expense." Perhaps most risky to the private party is the danger of the process taking far longer than anticipated and becoming a "black hole" for unanticipated costs. The fact that "time is money" for the developer is aggravated by the reality that a key public partner can quickly change its position or be voted out of office as a result of bad publicity, leaving the project without a necessary champion before it is fully entitled by public action.

Various types of risk are potentially encountered in public/private partnership projects:

- Market risk: Will the projected demand for space actually be realized?
- Construction risks: Will the project meet the budget and schedule?
- Ownership risks: Will all the risks of owning and operating a development, such as tenant leasing, be overcome?
- Interest-rate risk: Will the interest rate increase?
- Performance risk: Will the project achieve the public purpose for which government justified its participation?

To minimize risk, consultants have created tools for public partners to develop financial and development safeguards that are negotiated and can be included in the development agreement between the public partner and the selected developer.

Public/Private Partnership Rewards

On the reward side, strong, compelling reasons exist for both public and private partners to take the necessary risks and soldier on to build the partnership and implement the project. Most obvious for the public are the net economic and fiscal benefits—jobs, infrastructure, community wealth and tax base, taxes, fees—that can be produced by joint action to overcome obstacles. Less tangible is the message that the city is on the move—it is progressive in advancing the welfare of its residents. Public officials, who are only human, also seek ego gratification and recognition for their good works.

The benefits to the private developer are perhaps the most obvious and readily measured: the deal must be profitable after paying all associated costs of investment of time and resources. However, developers have a reputation to protect

