

CITY DEAL MAKING

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PUBLIC PROFIT SHARING: SYMBOL OR SUBSTANCE?

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This article explores the profit-sharing aspects of codevelopment agreements and focuses specifically on the nature of the city's financial involvement. Cities are increasingly using a vast array of financial mechanisms, including loan paybacks, participatory leases, and equity participations, to give them a more direct financial stake in projects. Sagalyn examines the financial structures of several codevelopment projects throughout the country. Next, she discusses three supporting myths about municipal entrepreneurship, which she then proceeds to debunk: one, as coinvestors in public/private projects, cities act like developers and seek to maximize profits from deals; two, in public/private negotiations, developers get all they want; and three, deal making generates big financial payoffs for cities.

Sagalyn, like Frieden, concludes that these prevailing myths and their implications for potential conflicts of interest are more troublesome in theory than in practice. Because their chief concerns in negotiating public/private projects are political rather than financial, city officials try to maximize the total package of public benefits—for instance, design amenities, jobs for local residents, and affirmative action programs—in addition to financial

return. Equity interest, however, is just one of many bargaining chips.

Sagalyn is more concerned about the policy issues raised by the use of "off-budget" financing techniques, including below-market interest rates, deferred paybacks, loan guarantees, tax abatements, and in-kind expenses, which typically are excluded from the expense side of the ledger, and which bypass voter approvals or capital budgeting processes. With so much of their funding coming from these sources, codevelopment projects thus avoid competitive reviews against other public investments. As a result, warns Sagalyn, the easy politics of off-budget financing may lead public officials to provide their private partners with more assistance than is needed.

Profit-sharing arrangements between cities and private developers are the hallmarks of public deal making. Typically the result of complicated development negotiations, these arrangements give cities new, direct financial stakes in private projects. Regardless of their actual ability to produce sizable revenue streams, such stakes—loan paybacks, participatory leases, and equity participations—symbolize the changing role of cities in the development process. They signify growing sophistication and business acumen in the way cities manage the disposition of publicly owned land. And they reflect the need of cities to make productive use of scarce public funds.

When a city has a financial stake in a private project it also has a vested interest in promoting its development. As discussed in other papers in this collection, a city's financial stake in a project raises the possibility of a conflict of interest—namely, that being a coinvestor may compromise a city's ability to function as a regulator and to investigate project impacts with the same objectivity that it applies to projects in which it is not involved. Yet, while the potential for this conflict is real, in practice it is seldom realized. Critics who warn of conflict seem to base their predictions less on the actual behavior of cities and more on their own anticipation of cities maximizing profits in accordance with assumptions about entrepreneurial behavior—"entrepreneurship" being the metaphor so often used to describe city deal making. The reality, however, is different and more complex. The emphasis on equity interests is, I believe, misplaced. Financial deal making does indeed raise important questions of public policy, but these questions have more to do with how cities price a deal and with the off-budget strategies they use to finance the public assistance package.

This paper examines the practice of deal making by cities and focuses on the profit-sharing aspects of the agreements. It draws from research on public/private development carried out by Bernard Frieden and myself as part of a larger study of downtown redevelopment.¹ The first section reviews the nature of cities' financial interests, and is followed by a discussion of three myths about city entrepreneurship that feed the conflict-of-interest issue. In a concluding section, I argue that those who wish to understand the intricacies of codevelopment should pay more attention to policy issues accompanying off-budget financing.

CHANGING STAKES

During the wave of city rebuilding in the 1970s and 1980s that was supported by large amounts of public money, cities changed the terms of their assistance. No longer content to be one-time donors as under the urban renewal program,² cities began to attach financial strings to city aid packages: loans in place of grants and land leases in place of fee interests.

By the early 1980s, profit sharing by which cities received a specified percent of a project's cash flow—additional revenues beyond loan paybacks, lease base rents, and property tax revenues—was a trend gathering momentum. A sample of 41 downtown retail and mixed-use projects for which we have information on public/private finances revealed that only three of 17 projects undertaken between 1971 and 1980 had profit-sharing arrangements. Of 24 projects begun after 1980, 13 had some form of profit sharing.³

The economic logic inspiring cities' pursuit of financial returns has several components. To begin with, a lot of public money is involved in downtown redevelopment projects. In order to attract the kind of development they wanted downtown, city officials made far-reaching financial commitments. In addition to subsidizing the traditional redevelopment costs of land acquisition and clearance and infrastructure improvements, they agreed to provide, or share the costs for, garages, skyways, and even department stores, open spaces, and building shells for retail malls. In our sample, the public contribution ranged from as little as 3 percent to as much as 83 percent of the total development cost. In more than half the projects, the public share fell in a range between 20 and 50 percent, with the median at 31 percent.⁴ Primarily retail centers or large mixed-use projects with a major retail component, the projects in our sample were expensive, with the median development cost at \$70 million.

Operating under tighter fiscal constraints since the reductions in federal aid and the local taxpayer revolts of the 1980s, cities have strong incentives to recapture some of these public funds. Consider, for instance, loans. In making a loan, cities typically subsidize a project by charging interest at below the market rate and/or by deferring the payback for several years (city loans are usually second and third mortgages). However substantial the subsidy, when repaid, loan funds can be recycled for future economic development. How much money this amounts to for any one city is difficult to determine, but according to our data and assuming no default, recapture would certainly make a major difference in a final accounting of public investment for individual projects. For the 12 projects in our sample that received loans, by the end of the loan term the payback would reduce the median public share from 28 to 14 percent.

Although generally considered to be a local entrepreneurial strategy, the payback idea originated in Washington during the Carter presidency as an administrative criterion for the urban development action grant (UDAG) program. At first, uncertainty surrounded the question of whether these loan repayments "belonged" to the cities that had received the original UDAG or to the source of the grant, the U.S. Department of Housing and Urban Development (HUD). The Reagan administration made continual efforts to recover the funds for the federal treasury. Notwithstanding this early ambiguity, cities were quick to adopt payback terms. In an analysis of the 373 projects funded in the first four years (1978 to 1981) of the UDAG program

in cities with populations greater than 100,000, researchers found that during the first two years of the program 48 percent of the projects used UDAG funds as a grant. In the next two years, this figure declined to 12 percent while the proportion of projects with loans increased from 38 percent to 78 percent. As of 1984, 90 percent of the projects used a payback mechanism.⁵

Leasing presents a different story. Here, the stimulus came from the cities, and, in particular, from the local needs of specific projects. For example, in order to make new downtown retail centers feasible for private developers, Philadelphia (Gallery at Market East), Milwaukee (Grand Avenue), and Cincinnati (Hyatt-Saks) retained ownership of sites on which they had installed infrastructure and constructed buildings. By leasing parcels to developers, these cities financed capital costs in much the same way as if they had made direct grants or loans to private developers. However, unlike providing grants or loans, by leasing parcels the cities maintained long-term control; and for cities that had key waterfront sites (Baltimore's Harborplace at Inner Harbor) or historic structures (Boston's Faneuil Hall Marketplace) that they wanted to protect in perpetuity, long-term control was their paramount concern.

In switching to loans and lease arrangements, cities adopted a logic city planners had advanced in the 1940s when they tried unsuccessfully to fashion urban renewal legislation. Seeing large-scale redevelopment as a means to exert greater public sector control over land use, planners backed proposed legislation for a lease-only policy for land disposition to private developers and federal financing in the form of low-interest loans supported by annual contributions that would amortize a redevelopment agency's debt. These proposals were defeated by legislators who shared developers' distrust of public control. Developers lobbied successfully for land disposition through sales and large, one-time federal capital grants to local redevelopment agencies. From the developers' perspective, the government's role was to subsidize the effort, then withdraw and let them finish the job.⁶

Today's lease arrangements between cities and developers represent complex relationships that have broken new ground in public finance. In their negotiations with developers, big cities are increasingly designing sophisticated deal structures to tie planning objectives, which are targeted on long-term site control and public amenities, to financial stakes. Lease terms on major public commercial projects such as Los Angeles's California Plaza in the Bunker Hill redevelopment area, Washington, D.C.'s National Place, or New York's Battery Park City include, in addition to annual base rents, escalation features and percentage rents pegged to some measure of performance as a way to capture future benefits in project value brought about by redevelopment and to protect lease revenues against inflationary devaluation.

The early profit-sharing agreements were simpler and did not demand quid pro quos leveraged on the strength of downtown markets. Rather,

they were risk-compensating trades negotiated under great uncertainty when downtown markets were weak. They grew out of elaborate aid packages that cities put together to assist downtown projects. Cities saw themselves as bringing value to the negotiating table, and they wanted something in return. In exchange for sharing the costs and risks as coinvestors, they demanded a share of the upside gain.⁷ This demand was most insistently and frequently made when the deal was structured as a lease of land, buildings, or parking structures (as was the case in 14 of the 16 profit-sharing projects in our sample).

As a fiscal incentive, profit sharing is not *qualitatively* different from cities' long-standing focus on property tax revenues. During the urban renewal era, officials favored new, high-density investments as a means of rebuilding a city's declining fiscal base. Today, when tax-increment financing is the main source of local redevelopment finance, the same high-density bias exists because such projects generate the most increment per dollar of assistance. The fiscal incentive works in reverse, too. In the case of incentive zoning, cities trade density to secure specific public amenities or to make special-purpose projects, such as cultural facilities, feasible. These density bonuses are a form of noncash subsidy used, in effect, to finance certain public objectives that cities might otherwise pay for directly. Fiscal issues, as Joe Coomes noted at the 1988 ULI forum, have always been an underlying motivation of city planning, at least at the level of city manager.

Today's loan paybacks and equity interests, however, are *quantitatively* different from the fiscal dividend of rising property tax assessments: they specify the rate and timing of the return on public investment. This investment return can mean different things, depending not so much upon specific payback rates or profit-sharing percentages but on the overall structure of the deal. For example, negotiating a small share of gross revenues can give a city more than just a larger share of net cash flow, particularly because, in the case of most participation agreements, the city's share is calculated after all operating expenses, debt service, and, not infrequently, a preferred return for the developer have been deducted. Under such arrangements, potential profit-sharing dollars represent soft returns. Nevertheless, as part of the formal contract stipulating the giving and spending in public/private projects, these equity interests define new forms of financial accountability for public funds. And they give cities a right to share major decisions throughout the development process, not just during the preliminary approvals stage.

SUPPORTING MYTHS

If cities have financial stakes in a deal, as coinvestors will they act like private developers? And if cities act as entrepreneurs, will profit be their

predominant consideration and will deals be struck on the basis of determinations of highest-and-best use? These are some of the questions provoked by the conflict-of-interest issue, questions that address the consequences of the new role played by cities as not merely regulators but also managers of development through deal making.

Instances like the disposition of the old Coliseum site in which the city of New York structured the bidding and developer selection process to get top-dollar for the land represent obvious examples of city policy run amok. Others are far less clear. From a study of downtown retail centers for our book *Downtown Inc.*, Bernard Frieden and I concluded that public/private deal making is more troublesome in theory than in practice. Our research indicated that cities have done a good job of promoting the public interest and negotiating among different interests. Unfettered by the stringent rules of the urban renewal program, cities custom-tailored deals to fit projects and took political as well as financial risks to make changes downtown. Operating in an entrepreneurial style, they jumped hurdles that had deadlocked so many earlier projects. The new approach produced retail centers that were completed faster and that displayed a greater awareness of what would appeal to the public. In a number of cities, having a seat at the bargaining table also enlarged city control over project design and development well beyond what conventional land use and building regulations allowed.

When cities are described as being entrepreneurial, the description carries with it certain expectations about deal making. In terms of decision making, for instance, entrepreneurship is widely understood to mean taking risks and focusing on profits. In our society, attitudes toward entrepreneurship are generally positive, and use of the term helps to inspire support among, and to communicate ideas to, a broad audience. In other words, endowing new policies with familiar meaning assists the acceptance and introduction of those policies.⁸ In city development practice, the entrepreneurial description—or metaphor—provides a rationale for city risk taking, particularly in times of fiscal constraint. Also, it helps recast the image of bureaucratic rigidity by better describing the flexible style and technical skills necessary in city management of public/private projects. Yet, apt as the metaphor is in many instances, when used to define the conflict-of-interest issue, it can be misleading. Let me explain by briefly discussing three assumptions or myths associated with the metaphor.

Myth 1: As coinvestors in public/private projects, cities act like developers and seek to maximize profits from deals. The nature of public/private deal making is to blur distinctions between public and private responsibilities. In the course of initiating a project and shepherding it through the development process, cities do adopt business-like practices and undertake roles normally played by private developers. To line up political support and secure the necessary approvals for projects, city deal makers act as

brokers, negotiating with other city agencies, pushing through red tape, and troubleshooting unexpected crises. To work through the new technical requirements, they either hire staff experienced in real estate development or rely on specialized consultants to supply them with the financial data needed for negotiations. To keep projects moving forward, they take risks by operating on the basis of incomplete deals, advancing funds for land assembly, for example, when developers still have ways to withdraw from a project. And because of the importance of using funds efficiently, city deal makers bargain hard for cost-sharing arrangements, paybacks, and profit-sharing arrangements.

With so much of their time, energy, and money invested in a project, cities inevitably become strong advocates for their projects. Cities do not, however, refrain from criticism either of their projects or of their private developers. Plaza Pasadena, an \$81 million project that was one of the earliest downtown malls to be planned in the 1970s, is a case in point. (The city's share totaled \$40 million for land acquisition, relocation, and clearance, infrastructure and utilities, and parking garages.) City officials wanted a shopping center for downtown not only to reverse the loss of business and tax dollars but also to symbolize the economic recovery of Pasadena. Executives at The Hahn Company, the developer selected by the city, believed that the downtown market could tap something like a typical suburban market; with this in mind, they intended to follow the industry prototype by building an enclosed two-story, air-conditioned mall anchored at each end by a well-known department store. City officials, however, thought differently.

When Hahn overlaid its plans on the three-block site chosen by city officials, the prototype layout split the heart of downtown and walled off a main axis that linked the civic auditorium and library. Dissatisfied, the city of Pasadena indicated that it would withdraw from the deal unless Hahn adjusted its prototype. City officials also insisted that where the mall structure faced Colorado Boulevard it should be lined with small stores instead of being left as dead space.

Making these adjustments proved troublesome. Street-facing stores at first seemed unfeasible; their rental value would be low and, if their doorways led into the mall, night-time security would be a problem. Preserving the visual axis was even more problematic. Community groups wanted to keep this area open as a pedestrian street running through the project, but the developer and anchors objected strongly. Whatever the architectural solution, the city wanted the corridor kept clear of obstructions and open to the public even when the mall was closed. This last demand was hard to reconcile with the normal operations of a private shopping center. To Hahn's mortgage lenders, turning part of the structure into a semi-public section meant a loss of financial security.

After years of debate, public forums, and plan revisions, Hahn's architects found a solution to the design problem that suited the merchandising

dictates of the mall prototype. They pierced the mall facade with monumental triple arches and a glass-enclosed opening that runs through the retail center over the Garfield Pedestrian Mall. Plaza Pasadena was distinctive enough to win an award from *Progressive Architecture*. In this case, the city's pressure to solve problems generated an innovative solution that improved the project.

When a city and a developer sit down at the negotiating table to hammer out the terms of a development agreement, a mutuality of interests forms the basis for making decisions—both sides want to find ways to get the project built—but that mutuality does not determine the negotiating agenda, as evident from the Pasadena example. Public sector objectives cover a broad range of benefits—design amenities, jobs for local residents, affirmative-action hiring targets, training and support for minority businesses, as well as financial paybacks and profit-sharing arrangements. In negotiations, subsidies are levers for obtaining public objectives as well as incentives for making private projects feasible. As both sides hammer out terms for allocating responsibilities, sharing costs, establishing performance schedules, and pricing the development opportunity, a lot of bargaining chips are stacked on the table. Equity interests may capture a big share of public attention, but they are only a small part of the equation. Cities have a bottom line, but it is political, not financial. To win support for their projects, city officials must negotiate deals that are defensible politically as well as financially. As a result, they typically seek to maximize the total package of public benefits from a project rather than its financial revenues. Making use of their position as coinvestors, the cities of Oakland, Boston, and San Diego, for example, influenced private decisions on jobs and contracts, opening the agenda to new items that were politically important issues.

Myth 2: In public/private negotiations, developers get all they want. Many public/private projects are born out of city initiatives to attract a certain type of development downtown—a retail center, for instance, or a hotel or a mixed-use project with a special public purpose. By itself, this situation places the developer in a strong bargaining position, the developer possessing the expertise, experience, and a product that a city wants. Add to that the weak market conditions that prevail in most downtowns (and which stimulate city initiatives in the first place), and cities appear to be in a weak position to bargain for a square deal, not to mention anything extra in the way of equity interests. Our data showing the wide range of public cost-sharing, from 3 percent to 83 percent of total costs, suggest that some cities may have given away too much, or, at best, have heavily subsidized very marginal projects.

Rarely, however, are there simple giveaways. The obstacles to building downtown, the complexity of the projects, and the need to justify actions to third parties (city council members, boards of directors, or lender joint-venture partners) lead to hard bargaining on all sides. For example, when

the St. Paul Port Authority took responsibility for building a garage under Town Square, a \$95 million retail-hotel-office project in which the city was investing more than \$20 million, its staff had to negotiate air rights agreements with two developers, determine how and where to build supports for structures above the garage, establish a formula for sharing the cost of these supports with the developers, and work out the logistics of coordinating multiple contractors. At one point, negotiations went on for 32 uninterrupted days, and occupied 11 lawyers. An agreement to split the bill was later reviewed by state tax officials who examined the Port Authority's books to determine if the developer had maneuvered around the sales tax on construction materials by shifting costs to the city.

However costly or risky a project, acceding to all the demands of a developer is politically untenable for any city government. For whatever a city gives away, there must always be a trade. These trades may not always be equal, but both sides make less-than-equal trades. San Diego's Horton Plaza, for example, faced a life-threatening financial crisis in the late 1970s, four years after the city and the developer, The Hahn Company, had signed a disposition and development agreement for the then \$73.5 million retail project. (Total development costs reached \$180.5 million by the time the plaza opened in 1985.) The original deal committed San Diego to assemble the land, rebuild streets and utilities, expand the park in front of the site, and construct a 2,000-car parking garage. Passage of California's Proposition 13 cut the city's property tax rate and crippled its ability to finance its commitments out of tax increments collected in the district around Horton Plaza. To keep the project alive, Hahn offered to make annual payments in lieu of taxes equal to what it would have paid before Proposition 13 and to make an interest-free advance toward the purchase price it would later pay for the site. In addition, Hahn proposed to build more of the parking itself instead of holding the city to its obligation, thereby reducing the city's costs for land acquisition since now parking could be accommodated on one instead of two blocks. Gerald Trimble, executive director of San Diego's Centre City Development Corporation (CCDC), gave up a half-block site he had planned to lease to Hahn in exchange for what CCDC wanted all along: a share of retail rents from the mall stores.

The project was threatened once again as construction costs escalated and interest rates hit record levels during the next two years. In 1981, Trimble and Hahn reworked the deal, and this time Hahn agreed to build all the parking, including more than 3,000 spaces for Horton Plaza and 450 to honor a promise the city had made to the developer of an adjacent office building. By taking full responsibility for the garages, Hahn had saved the city more than \$20 million, and Trimble was willing to cut the price the city would charge for the land. Hahn's negotiators argued strongly that because of the many concessions the company had made, it should pay nothing at all for the site. But each deal had to pass political tests, and Trimble felt that giv-

ing Hahn the land would endanger city council support. With a municipal election approaching, he was already explaining why Hahn was going to pay only \$1 million for a site that had cost the city \$18 million. Three special provisions helped Trimble sell the deal politically: Hahn's earlier profit-sharing agreement on rental income from mall tenants; a new agreement for Hahn to pay the city a percentage of parking revenues; and a commitment to share the new cash flow from office space planned for a second phase of construction.

Myth 3: Deal making generates big financial payoffs for cities.

When news of the first profit-sharing agreements between cities and developers reached the public at large, the reports told of a small California city's quick profits on the sale of publicly owned land, its expected cash flow stream from the project (which runs with the land), and its plans to market more public land. Other news items and UDAG reports of the increasing frequency of equity interests helped promote the notion that real estate deals might help fill city treasuries.⁹ With cities hard pressed to find ways to maintain services without increasing taxes, the potential for making public money work holds great appeal.

How much revenue loan paybacks and profit-sharing arrangements will generate is uncertain, however. The early returns from profit-sharing projects suggest that the returns will be small.

Profit-sharing revenues from downtown projects are typically net, net revenues, with the city last in line to receive any cash flow. Furthermore, the subsidies needed for retail projects have been large, thereby diminishing the likelihood of a sizable return on public investment. The economic logic of the subsidy structure is heavily against a big return. The early upfront money that a city injects into a project to get it going, and the deferred (or gradually increasingly) financial paybacks a city accepts so as not to burden the project before it reaches an economically viable operating position, mean that the cost-revenue account will be negative for many years.

Only in a few cases, notably Faneuil Hall Marketplace, which has enjoyed considerable success and which furnishes the city of Boston with its share before debt service, have codevelopment deals yielded significant financial returns for the public partner.¹⁰ In a follow-up survey of 15 profit-sharing projects, Faneuil Hall Marketplace was one of only three generating cash for the city. Eight were more or less "on schedule," that is, revenues were not yet flowing but city officials had expected no revenues for at least five years, the time needed for projects to attract stable tenants and achieve strong retail sales. The remaining four, though, are unlikely to produce returns in the near future because they have encountered significant business problems.

Although current evidence indicates that profit-sharing returns have thus far been limited, it does not mean that city deal makers were misled. Most officials to whom we spoke said that at the time agreements were ne-

gotiated, they did not expect big returns, at least not in the immediate future. The subsidies given by cities were intended to make projects viable; if the projects were successful and generated profits for developers, then cities too would eventually receive profits. Perception plays an important role in negotiations. If city deal makers do not perceive profit sharing as a significant source of revenue, then they are far less likely to bargain away design objectives, employment goals, or other public benefits.

Sharing the profits also generates nonfinancial benefits. Large public subsidies are always potentially controversial. Without federal subsidies to pick up the tab, paybacks and profit-sharing agreements, in effect, provide a political solution to the buy-high/sell-low problem of writing down the cost of redeveloping downtown land, as evident in the Horton Plaza deal. Profit-sharing agreements offer political protection to city officials vulnerable to charges of giving away too much. Even if the anticipated revenues are small or expected far in the future, a financial agreement to share returns is a sign that the city is acting responsibly and effectively.

FUTURE ACCOUNTABILITY

Although concern over municipal profit maximization is exaggerated, it should serve to signal caution in future public deal making.

The basic strategy of codevelopment evidently works; what is needed now is an analysis of the codevelopment process that will show how that process could be made more open and accountable and the deals made more efficient. With cities negotiating for a package of public benefits, how that package gets defined and by whom is important if the outcome is to be credible to city officials and acceptable to neighborhood interests. Where within the essentially closed process of negotiating development agreements are there opportunities for public input and accountability? What criteria guide the trade-offs city deal makers make continually? Are cities pricing deals correctly and exacting the highest possible value for the resources they bring to the bargaining table? And, if loan paybacks and equity interests do eventually yield returns, who will control these revenue streams and decide how they are used?

The trade-offs involved in public/private dealing run counter to traditional notions of city planning. Funding individual projects in return for a set package of public goods ties public benefits to a particular location that may not reflect citywide planning priorities. Rather than acting on the basis of neighborhood-service needs or infrastructure-replacement demands, cities may, in effect, set capital-spending priorities by the timing and location of commercial projects. Public resources are stretched creatively to yield public amenities, transit improvements, roads, sidewalks, and even schools, but they may not go where they are most needed.

The technical tasks of determining if financial incentives are necessary, how to price a deal, and how to value the benefits demand a high level of financial skill and real estate experience. These attributes are not traditionally expected of city planners, and, as a result, the majority of cities may be poorly equipped to structure deals. Even those cities that possess the requisite expertise may find themselves hard pressed to strike good deals. Design amenities, bricks-and-mortar improvements, and financial subsidies can be valued by reference to market equivalents, but other benefits, such as employment targets and environmental mitigation measures, have no obvious market price.

Striking a good deal depends not only on accurate pricing but also on financial accountability, and currently such accountability is troublingly weak. Cities tally benefits on the revenue side of the ledger, recording property taxes, paybacks, and profit-sharing returns. On the expense side, however, recorded costs typically include only direct cash outlays and exclude the opportunity costs tied to below-market interest rates, deferred paybacks, loan guarantees, tax abatements, and in-kind expenses. The accounts are not in balance. With so much funding for codevelopment projects coming from off-budget sources of financing that bypass voter approvals or capital budgeting processes, these projects also avoid competitive reviews against other public investments. As a result, the easy politics of off-budget financing may lead officials to give their private partners more help than necessary.

The low level of financial scrutiny is not entirely deliberate. With many different public agencies involved in negotiations and sharing costs, tracking all the costs is difficult. In addition, a single public accounting statement that consolidates the city's financial commitments is rarely prepared or issued. Improvements to present accountability should include, at a minimum, executive oversight and requirements for full public disclosure.

CONCLUSION

The shift to public/private deal making occurred when conditions were ripe for change, and its effectiveness has made it a legitimate strategy for managing city growth, whether downtown or elsewhere. Cities have several incentives to continue deal making in the future. In their continued search for funds to substitute for federal aid, cities are likely to look at the revenue potential of publicly owned lands. A traditional planning preference for long-term land control, allied to municipal fiscal pressures, is also likely to foster greater interest in city leasing policies, especially among redevelopment agencies holding inventories of cleared land. Further, as investment grows and markets strengthen downtown, cities that once had to buy developer interest by subsidizing land disposition are now able to sell development rights.

If public/private development is to remain a viable strategy for achieving future city development objectives, officials will need to address the policy issues it raises. In particular, they will need to focus more on the process and procedures for making codevelopment agreements fair and accountable.

Notes

1. See Bernard J. Frieden and Lynne B. Sagalyn, *Downtown Inc.: How America Rebuilds Cities* (Cambridge, Massachusetts: MIT Press, 1989), which contains full documentation.

2. Under federal urban renewal, cities delivered financial aid to private developers according to a formula: disposition by sale with a one-time capital grant to cover the cost of selling land at fair market value, typically a price substantially below what local redevelopment agencies spent to acquire and clear the site. The formula was simple to understand and easy to administer because once the parcel was sold, the price set, and the money received, the city's job was done. Thereafter, it was the private developer's job to implement the redevelopment scheme and get the project built. In exchange for the capital grant, the city's fiscal return took the form of higher tax revenues—those produced directly by the project (typically after a period of tax abatement) and, more importantly, those produced indirectly from its impact on neighboring property values.

3. The 16 profit-sharing projects, listed in order of their opening dates, are: (1971 to 1980) Civic Center Mall (Hartford), Faneuil Hall Marketplace (Boston), and Harborplace (Baltimore); (1981 to 1985) Grand Avenue (Milwaukee), Rainbow Center (Niagara Falls), Windmill Place (Flint, Michigan), Pavilion/Old Post Office (Washington, D.C.), Wausau Center (Wausau, Wisconsin), Waterside (Norfolk), Gallery II (Philadelphia), South Street Seaport (New York), Shops at National Place (Washington, D.C.), Portside (Toledo), Hyatt-Saks (Cincinnati), Horton Plaza (San Diego), and Marketplace (Boston).

4. This level of cost-sharing added up to more public money in the deal than most local officials acknowledged. In personal interviews, when we asked mayors and top city administrators how much they had put into their new retail centers, typical answers were "nothing at all" or "very little." Further questioning revealed that most did not consider federal aid to be money the cities spent, nor did they count off-budget outlays as actual spending, and when project appropriations were spread out over several years, they lost track of what was spent in the past. To calculate what cities actually spent, we counted all their expenses for studies, plans, and administration, land, relocation, and construction, regardless of whether the money came from higher levels of government, bond issues, or local appropriations. The public share figures are for 39 projects; for two, Shops at National Place and Marketplace, data on direct project expenditures are not available.

5. Susan E. Clark and Michael J. Rich, "Making Money Work: The New Urban Policy Arena," in *Research in Urban Policy*, vol. 1 (Greenwich, Connecticut: JAI Press, 1985), pp. 101–115. Data for 1984 from Susan E. Clarke, "The Local State and Alternative Economic Development Strategies: Gaining Public Benefits from Private Investment," Discussion Paper no. 16, Center for Public Policy Research, University of Colorado at Boulder, October 1984, p. 17.

6. Marc A. Weiss, "The Origins and Legacy of Urban Renewal," in *Federal Housing Policy and Programs: Past and Present*, J. Paul Mitchell, ed. (New Brunswick, New Jersey: Rutgers Center for Urban Policy Research, 1985), pp. 153–276, p. 260.

7. Participation also served as a way to resolve differences of opinion over proposed disposition terms, since cities generally anticipated significant changes in property value between the signing of a disposition agreement and opening day. Establishing a fixed base rent or price with an upside provision served as a compromise solution.

8. See Judith I. DeNeuville and Stephen E. Barton, "Myths and the Definition of Policy Problems," *Policy Sciences*, vol. 20, 1987, pp. 181–206.

9. See Robert Guenther, "Cities Getting Part of Profits for Giving Aid to Developers," *Wall Street Journal*, September 29, 1982, p. 35; Lawrence M. Fisher, "Cities Turn into Entrepreneurs," *New York Times*, April 4, 1987, p. 33; also, Neil A. Stone, "Using Real Estate Deals to Fill City Treasury," *Urban Land*, vol. 45, January 1986, pp. 27-28.
10. See Lynne B. Sagalyn, "Measuring Financial Returns when the City Acts as an Investor: Boston and Faneuil Hall Marketplace," *Real Estate Issues*, vol. 14, Fall/Winter 1989, pp. 7-15.