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How Does It Work?

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Downtown Shopping Malls and the New Public-Private Strategy¹

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The rebuilding of American cities since World War II has been a mixed public-private enterprise. Government agencies have taken the lead in planning and starting renewal projects, while development companies have been responsible for building and managing them. Beginning in 1949, the federal urban renewal program separated the public and private sectors in a way that minimized opportunities for city favoritism or for collusion at the expense of the federal government. This separation also reflected a sense of the relative strengths of each party. City governments, using their power of eminent domain, were far better equipped to assemble land for redevelopment than were private firms; and through their access to federal loans and grants the cities were better able to raise the necessary start-up funds. Developers, for their part, were better equipped than the cities to assess the demand for new buildings and to design their projects accordingly, to attract long-term investors, market the newly built space, and handle the entrepreneurial risks of the entire process.

Despite this underlying logic, relations between cities and developers were troublesome. Operating under federal rules that excluded developers from the early stages of planning, cities had to figure out in advance what projects would be feasible for the private sector to build. After the land was assembled and cleared, many renewal agencies were unable to find a developer willing to buy it, or willing to build the type of project they had planned for it. After years of costly and complicated planning, followed by politically controversial land acquisition and relocation of the prior occupants, these cities had nothing to show for their efforts but fields of rubble.

The large number of sites that remained vacant were an embarrassment to mayors and federal officials alike. In addition to the rubble problem, many cities simply abandoned their projects before they ever reached the clearance stage, while others had to change their plans once they discovered what developers were prepared to build (Kaplan 1966, 247; Abrams 1965, 99). By 1968, a White House commission

asked to review the urban renewal program identified as its prime weakness "the unconscionable amount of time consumed in the process" (US NCUR 1968, 165).

The Implementation Problem

The delays and frustrations of urban renewal were characteristic of a broader group of community development programs undertaken in the 1960s and early 1970s. Even though federal aid flowed freely at that time, the cities had enormous problems trying to complete the projects they started.

One program, "New Towns In-Town," offered surplus federal land at low prices, plus other federal assistance, for large developments that would include some housing for the poor. The land was not only cheap, but it came in large tracts and it was unoccupied, so that cities could bypass the usual delays, costs, and protests of relocation and clearance. Even so, four years after the program began, three of the seven participating cities had abandoned their projects and the others were stalled indefinitely as a result of local controversies or development problems (Derthick 1972).

In late 1965, top officials of the federal Economic Development Administration began to put together an ambitious public works program to create jobs for unemployed workers in Oakland, California. Their program included construction of an airport hangar, marine terminal, industrial park, and access roads; and they expected to attract private businesses that would provide work for more than 2,000 of the hard-core unemployed, most of them members of minority groups.

The fanfare surrounding this effort attracted the attention of Jeffrey Pressman and Aaron Wildavsky at the University of California in Berkeley, who decided to study the results. They found widespread support for the program among Oakland's decision makers, particularly at the outset. Nevertheless, the obstacles were numerous and progress turned out to be painfully slow. Five years later, the aircraft hangar, which was supposed to provide more than half the promised jobs, was still not built, and the industrial park had created only 30 jobs instead of an anticipated 420.

Pressman and Wildavsky attributed Oakland's problems mostly to the extreme complexity of decision making and to use of the wrong incentives with the private sector. Their pioneering book established implementation as an important field of study and stimulated other investigations of how well government programs worked once they went into operation (1973). At the same time, the federal government became increasingly aware of managerial difficulties at the local level and tried several different ways of improving the capacity of cities to handle complicated programs. Yet implementation problems continued to blunt federal initiatives in community development. In the model cities program—a large-scale effort to improve living conditions in low-income neighborhoods—even after five years of operations the cities were able to spend only 54 percent of the funds the Department of Housing and Urban Development made available to them (Frieden and Kaplan 1977, 229).

Since the early 1970s, the federal government has terminated the urban renewal program and cut back the flow of federal aid to local governments. Still, many cities have succeeded in breaking the development deadlock and resolving some of the main problems of implementation, particularly those resulting from poor public-private relationships. The most striking demonstration of city progress in managing complicated public-private projects is the wave of new retail centers built in downtown areas across the country.

The new retail projects are important to the cities for several reasons. First, most of them are big, typically providing space for more than one hundred stores with the potential to generate substantial sales and property tax revenues. The successful ones are focal points of downtown activity, drawing crowds of ten to twenty million visitors a year—as do regional shopping malls in the suburbs. Further, they mark a break with the long-term movement of retailing away from downtown. During the suburban boom that began in the late 1940s, retail trade was one of the early central-city functions that began to shrink. Department stores as well as other retailers followed their middle-class customers to the new shopping malls. City retail sales at first declined relative to the suburbs, and then began to decline in real dollars.

Many cities tried to reverse the trend by converting downtown shopping streets into landscaped pedestrian malls, but only a few of these were notable successes. The 1960s produced a handful of new retail projects in the cities, such as Rochester's Midtown Plaza and San Francisco's Ghirardelli Square, but most analysts of urban affairs continued to anticipate a bleak future for central cities in general and especially for downtown shopping.

Yet the development of more than one hundred downtown retail centers since 1970 suggests that a growing number of cities are finding ways to compete effectively against the suburbs for a share of retail sales. By 1983, one of every four new shopping centers in the United States was a downtown project (ULI 1983, B-1 to B-3; WSJ 1983). The downtown centers follow several different retailing strategies. Some, such as Plaza Pasadena, are regional shopping malls offering a wide variety of goods aimed at the middle of the market. Others, such as Boston's Faneuil Hall Marketplace, are specialty malls that draw people by offering unusual foods and a festive atmosphere. Still others, such as Town Square in St. Paul, are mixed-use projects that combine stores with hotels, offices, convention centers, or other activities. Some are intended to appeal especially to tourists, conventioners, and business visitors, while others have a shopping mix geared to nearby residents and in-town workers.

The earlier decline of downtown retailing was rooted in a major shift of population and jobs from the cities to the suburbs. These underlying trends have not changed: in fact, the central cities lost people and jobs at an accelerated rate during the 1970s. Nor has there been a reversal of the long-term trend in retail sales. While sales continued to expand strongly in the suburbs, the central business districts of

major cities recorded even greater losses in real dollars in the 1970s than they had in the 1960s (US HUD 1980a, chaps. 1 and 3).

What has changed is that for the first time in thirty years, central cities have found ways to gain a competitive edge on their surrounding suburbs for certain kinds of development. This turnaround resulted in part from limited changes in the central-city economy and in the make-up of city neighborhoods. But it resulted much more from changes in public policy than it did from changes in real estate markets.

Federal urban policy played a two-fold part, by pressing the cities to take greater responsibility for managing their own economic development while also offering them some help to do it. Suburban governments tightened their control of growth and enacted regulations that were both cumbersome and costly. But while the suburbs were having their "quiet revolution in land use control" (Bosselman and Callies 1972) a series of central cities were staging a quiet revolution in development management. Public officials decided that they wanted downtown shopping malls and took steps to find developers willing to build them. The steps they took moved away from the usual adversary relationship between the city as regulator and the developer as a business firm applying for permits, and from the carefully circumscribed public-private relationships that had been mandated in the urban renewal program.

The result of these efforts was a new style of joint action for cities and developers that worked effectively for downtown retail centers. Because we believe the new relationships are an important advance in the management of city-building, we have studied the development of six retail projects in detail and have analyzed many others on the basis of available data and brief interviews². This chapter focuses on why and how the retail centers were built, how the new public-private relations differ—for better or worse—from earlier approaches, and what effects this recent experience is likely to have on cities in the future.

Motivating the Cities: Pressures and Opportunities

Among the leading contributors to the new approach were federal actions during the 1970s, which gave the cities good reasons to take more responsibility for their own economic future, at a time when downtown development opportunities were beginning to improve.

The basic pressure motivating mayors to search for new strategies was a growing reluctance in Washington to continue funding annual increases in federal aid to cities. Public and media attention to urban problems reached a peak in the late 1960s. Soon afterward, the environmental crisis and then the energy crisis pushed urban problems out of the limelight. Yet the fiscal problems of the older cities grew worse in the 1970s. Hard pressed to keep costs down, raise additional taxes, or increase bonded debt, several cities reached the brink of default and bankruptcy, most notably New York, Boston, Cleveland, and Philadelphia. Many cities cut

municipal services but continued to bear high tax burdens (US HUD 1980a, 6-8 to 6-9, 6-17).

Despite this ominous turn, the political alignment that had supported earlier federal aid programs lost much of its strength and both the news media and the Congress grew increasingly indifferent to the pleas of the mayors. By 1978, *Harper's*, *Newsweek*, and the *New York Times Magazine* were declaring an end to the urban crisis (Allman 1978; Fleetwood 1979; Newsweek 1979). A restless public and elected officials trying to bring the federal budget under control were inclined to agree for different reasons. The federal-aid budget for states and local governments peaked in real dollars in 1978, midway in the Carter Administration, and declined further in the Reagan Administration (US ACIR 1983, 66-67). The message to cities was clear: with less outside aid, they would have to do more to help themselves.

Federal Urban Policy

The federal government made it easier for cities to commit funds for downtown development by relaxing its earlier controls on the uses of federal aid. Of nine major community development programs in 1970, only urban renewal and historic preservation grants could be tapped easily for downtown revitalization. Several other programs were intended for residential areas, and the one that received greatest attention—the model cities program—had to be used to improve low-income and minority neighborhoods. In 1974 Congress merged these nine separate programs into a single community development block grant that cities could use flexibly to meet their own priorities, with a minimum of federal review and supervision. The cities lost no time in changing their pattern of spending on development projects.

Under the earlier system, eighteen percent of the Department of Housing and Urban Development's community development aid budget went into poverty neighborhoods through the model cities program. In just the first year of block grants, cities cut their spending in low-income areas by more than one-third. The bulk of expenditures under the model cities program was for such public services as education, health, and job training. The block grant program set limits on local spending for service activities and required cities to use most of their aid for construction projects. Under the new arrangements, hardware expenditures, public works, and downtown development were soon back in fashion; and poor people and minorities were soon out of fashion (Frieden and Kaplan 1977, chap. 11).

Further, in 1977 Congress enacted the urban development action grant program ("UDAG") to fund local construction projects that stimulate private investment to create jobs and improve the tax base. By the second year of operations, three-fourths of the federal funds went for central city projects, and close to sixty percent of the central-city funds were for commercial developments (US HUD 1980b).

Other federal actions also had the effect of promoting downtown revitalization. Historically, federal tax laws greatly favored investment in new structures over investment in preservation and improvement of old ones. As of 1970, accelerated

depreciation was available to firms and individuals that invested in new commercial and industrial buildings, but not to those that bought or rehabilitated existing buildings. Beginning in the mid-1970s, a series of revisions introduced special tax incentives for investors who improved older and historic buildings and in 1981 equalized the depreciation benefits for new and existing buildings (Peterson 1980; Gensheimer 1982).

New federal measures also made home financing more readily available in city neighborhoods. Regulations and laws of the mid-1970s directed against "redlining" required fuller disclosure of mortgage finance patterns and broadened the lending powers of thrift institutions in urban areas, thus helping homeowners to renovate older houses. The Department of Housing and Urban Development and the Federal Home Loan Bank Board set up an urban reinvestment task force in 1974 to fund neighborhood housing service programs offering below-market loans and help with home renovation. These programs, later administered by the Neighborhood Reinvestment Corporation, helped stabilize and improve many old neighborhoods and in so doing provided a middle-income market for downtown shopping malls.

Gentrification

An important but misunderstood change of the 1970s was the movement of relatively well-off people into old houses in what had been low-income city neighborhoods. This trend resulted in part from the continued departure of earlier residents who left behind many interesting older houses at prices that compared favorably with rapidly inflating suburban housing costs. Couples who liked in-town conveniences discovered that by pooling two incomes and having few children or none at all, they could afford to renovate brownstones and still have money left for a suitable lifestyle. At the same time, an expansion of downtown office districts created some fresh demand for walk-to-work housing. Changes in the national economy generated increases in office and professional service jobs in many cities in the 1970s. Denver more than doubled its office space in the 1970s, while Atlanta, Detroit, Newark, Pittsburgh, and Seattle were among the cities that had increases of more than 50 percent (Black 1980).

For a series of loosely related reasons, enough newcomers invested in the older houses to make a visible difference in selected neighborhoods. These changes caught the eye of journalists and other trend-watchers who concluded that the urban crisis was on the way out.

Yet this new commitment to in-town living remained a very limited movement—limited by the number of city-loving families able to put together an income package of \$50,000 or more, by the number of neighborhoods with the right combination of charm and access, and by the fact that house prices in popular locations soon climbed out of reach of all but a few people. In a survey of the thirty largest cities, Phillip Clay found some upgrading in almost all of them, but he also found that declining neighborhoods greatly outnumbered those

enjoying a revival. And contrary to popular impression, he and other researchers found no sign of the long-awaited back-to-the-city movement from suburbia: most of the renovators turned out to be families moving from one city residence to another (1979; James 1980).

Still, the gentrification trend was a positive one for the cities. Housing renovation dovetailed with both retail growth and with the expansion of downtown office districts. It raised the prospect that all three activities might be mutually supportive in encouraging people who worked in the expanding service and professional occupations to live and to shop in the central city.

Taken together, these and other changes in the central cities created the basis for fresh attempts to reinvigorate downtown areas. The need for stimulating economic development was clearer than ever, and the prospects for success seemed to be improving. For the first time in many years, the cities actually had a competitive edge over the suburbs in some ways. An unexpected shift in public taste was partly responsible for this turn of events. The 1970s were a time when many Americans rediscovered the past and found they enjoyed it. Nostalgia was in and it was marketable. (A scrap dealer who handled salvage from the New York City transit system advertised old subway handstraps mounted on wood with the slogan, "Hang on to a piece of the past.") If the latest fashion called for renovating a Victorian townhouse rather than living in a contemporary deck model, the central cities had a corner on that market. And if tourism and convention visits were emerging as important economic activities, then the old buildings of central cities had acquired new value as charming reminders of bygone days.

Options for Developers

City initiatives triggered recent retail construction downtown, but city actions alone do not explain why developers were responsive. A combination of circumstances made downtown sites more attractive in the 1970s than they had been earlier. First, changes in family life were creating new marketing opportunities. The same changes that encouraged young people to live in the city—late marriage, shared incomes, few children—enabled them to indulge their taste for entertainment, restaurants, boutiques, and specialty retail items for the home.

Second, the increasing number of workers in central-city offices were potential customers who would shop for clothes, fashion accessories, books, and other small items in stores near their jobs. As a result, retailers considering a new or expanded downtown location were not totally dependent on bringing the suburbanites back to the city. In addition, the growing public interest in old buildings and historic places also prompted developers to recognize the special value of sites in port and warehouse districts and other long-neglected settings.

Meanwhile, retail development opportunities in the suburbs were no longer as promising as they had been. A network of regional shopping centers was already well established in the suburbs of most major cities, and finding good sites for more

malls was getting harder all the time (Sternlieb and Hughes 1981, 3). Compounding the search for sites was a rapid buildup of suburban growth regulations during the early 1970s. Prompted in part by the environmental movement and in part by local opposition to further growth, suburbs across the country were putting into place a network of new and demanding review and permit requirements for proposed developments of all kinds (Frieden 1979, chap. 11). These had the effect of stretching out the development process and making it more costly, while also giving opponents of shopping centers easy and repeated chances to block them. Further, the mood of local citizens and their representatives was turning increasingly hostile to development, particularly in areas that had experienced high growth in the recent past.

On top of local regulatory snags, the newly created federal Environmental Protection Agency posed an even more direct threat to suburban mall development. In an effort to prevent automobile emissions from lowering air quality in places that already met pollution standards, it drew up plans to restrict the construction of major new parking facilities in the outer suburbs.

A further consideration in the suburbs was the high cost of building the infrastructure necessary for regional shopping centers—water mains, sewer connectors, and road improvements. In the past, suburban governments had been willing to pay for some of these costs or to use local bond issues to finance them. By the early 1970s, the suburbs were increasingly transferring these costs to the developer (Frieden 1980). City sites, in contrast, were more likely to have the infrastructure in place and, to the extent they did not, the cities were more willing to use tax-exempt financing to pay for it. Developers looking at mounting construction costs and rising interest rates began to think carefully about the benefits of tax-exempt municipal bond financing not only for streets and utilities but also for the parking garages they would need.

Department stores, considered the indispensable “anchor tenants” that would draw customers to large shopping malls, were generally committed to suburbia for their new branches. But as retail trade had become increasingly competitive, some department store chains recognized that specialization to serve a particular segment of the market could be an effective strategy. A few department store executives, at least, were willing to consider locating a new store downtown as a way of capturing a share of the market that the outlying malls had bypassed (Bluestone et al. 1981, 32-34).

New Development Policies

In the 1970s the cities began moving away from the social agenda of the 1960s and returning to earlier concerns with revitalizing the central business district. The earlier political upheavals around urban renewal efforts had taught them to avoid clearance projects that pushed out large numbers of people, and they looked for smaller-scale projects, new public financing tools, new funding sources, and negotiated risk-sharing relationships with private developers. As

these development initiatives progressed, several features of earlier city development practice began to reassert themselves: an involvement of downtown business interests in setting the redevelopment agenda; a preference for construction projects rather than public services; a predominance of commercial, governmental, and industrial projects over housing; an emphasis on projects that interested the broad middle class rather than the poor; a search for projects likely to stimulate additional development; and a strategy of creating conditions to attract private enterprise into ventures that served the city's purposes.

These redevelopment efforts built on several legacies of the urban renewal experience, literally as well as programmatically. First, many recent downtown projects filled in long-vacant parcels cleared through urban renewal; others made use of buildings that were rehabilitated with renewal funds. Both types of projects commonly benefited from outlays for site acquisition and preparation that were financed earlier at lower rates and by large federal subsidies. Second, city officials had inherited both tested procedures and experienced staff from the urban renewal program.

The earlier urban renewal strategy focused on removing two key obstacles blocking private redevelopment: the difficulty of assembling construction sites out of parcels held by many separate owners, and the high cost of urban land. The more recent strategy expanded the public role well beyond site assembly and land subsidy, to include risk sharing and help with financing some of the private components of the project.

The new approach gave high priority to establishing market acceptance of a project as early as possible and nailing down commitments from developers and investors before the city made major outlays of its own. By the mid-1970s, the federal government also shifted its stance. Federal regulations for the new urban development action grants (UDAGs) called for legally binding commitments from private participants in advance. Program rules gave local governments discretion over how to use federal funds to attract private investment, but the private dollars had to be "live," ready to commit; hence the term "action grant."

As in urban renewal, public sector money continued to be an important ingredient in recent downtown retail projects. Boston's Faneuil Hall Marketplace, for example, involved public outlays of \$12 million and private development costs of \$32 million. In others, government paid for half or more of total development costs, spending some \$35 million for Milwaukee's Grand Avenue project and \$52 million for Seattle's Pike Place Market. In a sample of 32 projects for which information was available, the public share ranged from as little as three percent to as much as 81 percent, with a median of 30 percent. In the early projects, such as Faneuil Hall and Pike Place, federal grants supplied most of the public funds, but in more recent ones local financing either complemented or substituted for federal sources.

City Roles

City governments have been heavily involved in numerous ways, innovative and often entrepreneurial, to bring major retail activity back downtown. Some limited their activities to traditional roles of planning, grantsmanship, site assembly with a write-down of land costs, and provision of supporting utility and street improvements, sometimes adding public financing of parking structures to the package. Others did more to increase the financial feasibility for private development by leasing the land and buildings, making loan commitments, and sharing operating as well as capital costs. Many helped work out regulatory problems, improved the administration of city functions, or created a special public development organization to assist the project. A few even became developers and owners of retail property.

The strategies and incentives used by individual cities reflected differences in a wide range of local circumstances: prevailing beliefs about the role of government in private development, traditions among business elites, community activism and attitudes toward growth, physical and economic constraints affecting redevelopment opportunities downtown, local resources for investment and public financing, and the commitment of political leadership to rebuilding downtown.

Political Protection

One way city officials helped these projects was by insulating them from political pressures. Local governments almost always face pressure to spread available funds throughout the community and not to concentrate them on a few large projects. In many cities, strong mayoral leadership and commitment were necessary to safeguard downtown retail projects against other claims on local and federal resources. Mayors Kevin White in Boston, Pete Wilson in San Diego, George Latimer in St. Paul, and Wes Uhlman in Seattle were all closely identified with the rebuilding of downtown areas and made use of their considerable political leverage to get projects built.

Regardless of the strength and commitment of the mayor, city officials who wanted to promote downtown development had to search for politically feasible ways to justify concentrating funds in a single project. One strategy was to make use of a defined project area as the only place eligible for the funds in question. Applying for federal UDAG assistance, for example, tied the city to spending the funds on a specified project and allowed no diversion to other places. Similarly, setting up a carefully drawn tax district as a redevelopment area limited the possible spread of project funds.

Even where there is solid public support for starting a major downtown project, the political climate may change while the project is in midstream. Developing a large retail center is a complex process subject to many unanticipated events that may jeopardize the initial deal. One way to buffer the project is to negotiate a detailed formal agreement that can serve as a long-term commitment. In California, a standardized disposition and development agreement outlines: specific provisions

for disposition of the site; developer conditions for going ahead with the project; construction obligations of the redevelopment agency and developer; and a schedule for developer and public agency performance.

San Diego's experience with the Horton Plaza retail center illustrates the flow of events that can threaten a project. Development planning for Horton Plaza went through three mayoral elections, three economic recessions, nine design plans, four changes in anchor tenants, two lawsuits, enactment of the tax-cutting Proposition 13, and a change in ownership of the development company. Despite the problems created by unforeseen events, the disposition and development agreement—renegotiated several times—committed all the participants to actions and interrelated obligations that were difficult for political interest groups to upset.

In recent projects, public officials usually coped with the political objections while private developers stayed in the background. A clear example of this coping behavior took place in Pasadena. The Pasadena Redevelopment Authority planned to finance public parking garages for the Plaza Pasadena shopping mall through lease revenue bonds. In California, a bond issue of this type can be blocked by a referendum. Within three weeks after opponents collected enough signatures on petitions to get a referendum on the ballot, city officials repealed the ordinance authorizing the lease agreement between the city and the redevelopment authority, and the authority switched its financing to tax allocation bonds which were not subject to referendum.

Cities also assisted retail projects by limiting or restricting competition for a few years until the new shopping development was well established. In California, public revenue bond finance legislation required cities to avoid sponsoring competitive projects (Horler 1982, 31). Elsewhere, cities acted without a legal requirement in order to protect their own interest in a new shopping mall. In St. Paul, city officials used their influence with the metropolitan planning agency for the Minneapolis-St. Paul area to block a suburban shopping mall that threatened to compete with their Town Square project.

Financial Incentives

Cities commonly provided supporting facilities for new shopping malls: utility relocations and replacements, street improvements, connecting walkways above street level ("skywalks"), and parking facilities. Some built parks or other public open spaces to increase the attractiveness of a project. For Town Square in St. Paul, the concept of a public space evolved from urban landscape improvements in a covered "galleria" over an existing street to a more elaborate interior park on the top level of the mall structure. In the final form, the park and the walkways leading to it—which also served as paths between the storefronts in the mall—cost the city \$8.5 million or nearly forty percent more than the original plan.

Cities used their skill to write persuasive proposals and their political contacts to get outside grants. They found federal aid in many places, particularly in the urban

renewal, UDAG, urban mass transportation, economic development, and historic preservation programs. And they were creative in the ways they used it. In Philadelphia, for example, an urban mass transportation grant financed direct access between a renovated subway station and the first anchor department store, meeting one of the store's basic conditions for participating in the mall. City staff also brokered contributions from business interests, historic preservation groups, and private foundations. In St. Paul, downtown businesses contributed \$400,000 or nearly a quarter of the city's direct costs for project planning and management; and in Milwaukee forty-six business firms formed a limited-profit redevelopment corporation that invested \$16 million, which was more than one-fifth of the total development cost of the Grand Avenue project.

Another way some cities helped with project financing was by assuming a long-term share of project risks through lease agreements with the developer. Leasing the land, building, or garage structure offers the developer certain advantages over ownership. It lowers the required front-end investment, reduces the costs to be financed privately, and can increase the equity return after federal taxes. Leasing potentially offers the city two main advantages: the ability to control the site through continual ownership, and a share in future profits through rental income and appreciation of the property value. Leasing may also be the only way to develop the property when the city is actively searching for buyers but no firm bidders come around, or when the developer is unwilling to take on the risks of a complex development.

Philadelphia is a case in point. In 1973, when the city found a developer for The Gallery, the center was to be one of the first contemporary malls in an older, deteriorating downtown area. In this high-risk environment, the city's plan called for a complex mall design offering several points of access into adjacent department stores, public transit stations, and parking garages, plus provision for truck service and coordination of the construction with substantial street and transit improvements. Moreover, the decision-making process involved three public authorities, two anchor stores, two federal agencies, local lenders, and the developer. To secure the developer's commitment to operate the mall, the city agreed to an unconventional solution in which it would act as developer, general contractor, and owner of the mall shell. It would then lease the shell, with improvements to be completed by the developer, for 99 years at a fixed rental.

Cities have increasingly financed development by using their tax-exempt borrowing powers to issue tax increment or lease revenue bonds. Cities with statutory powers to form tax increment districts have had a distinct advantage. Tax increment financing allocates to the city or redevelopment agency all property taxes resulting from increased assessments generated within a project area, including tax increases that would otherwise go to county government and school districts. Targeting a revenue stream, whether pledged to service debt or as agency revenues to be used for further development activities, gives cities a way to finance development projects

outside of annual budgetary appropriations, and makes it possible for a project to “pay for itself.” Used extensively in California, even after Proposition 13 limited the property tax rate to one percent of assessed valuation, tax increment financing substituted public investment for private funds that would otherwise cover certain development costs.

When cities shared the risks of developing retail centers, sometimes they acted like investors and shared future profits as well. Profit sharing by cities took different forms—participation in a share of gross revenues, net cash flows, or rents collected from retail tenants—but it was distinct from arrangements in which project revenues were pledged to repay tax-exempt bonds, or loans from UDAG or community development block grant funds. As an investor in the project, a city earned a return in addition to what it would receive in its role as tax collector or public lender. In San Diego, for example, the redevelopment agency was to receive 31 percent of all parking revenue from a garage owned and financed by the developer, and ten percent of rents paid by Horton Plaza mall tenants in excess of their minimum base rents. In Philadelphia, the city receives ten percent of the Rouse Company’s share of the annual net cash flow from Gallery II. City profit sharing in retail developments is very new, appearing mainly in projects completed in the 1980s. But as the cities have become increasingly entrepreneurial a growing number have found ways of getting their investments back through income as well as through tax collections.

Creating New Development Organizations

Cities also established new organizations to manage redevelopment activities. In Seattle, an unusual mandate to preserve a farmers’ produce market led to the creation of two new agencies. A voter initiative set up the Historical Commission as a regulatory and policy-making body to oversee the preservation of the Pike Place market. This commission interpreted its mandate to include holding rents below market levels, giving preference in tenant selection to merchants who sold their own produce and to small untried businesses rather than national chain stores, and following design guidelines intended to maintain the colorful but somewhat battered character of a well-used public market. As the commission’s director put it, “We want graffiti—we want vagrants.” Acting on the reasonable assumption that no profit-seeking developer would be able to live with these restrictions, the city established a public Preservation and Development Authority to renovate the buildings and manage the market, subject to the policies and review procedures of the Historical Commission.

In San Diego, the city created a public, nonprofit corporation, the Centre City Development Corporation (CCDC), to plan, implement, and manage the redevelopment of 300 acres in the downtown core. Separate from city government and its redevelopment agency, CCDC has acted as a broker under contract in negotiations with property owners, businesses, and developers. For Horton Plaza, CCDC acquired the property, relocated tenants, cleared the land, and contracted for public improve-

ments and facilities. In its role of streamlining the redevelopment process, CCDC arranged for public financing, conducted urban design reviews, and served as liaison between city government and interest groups in the community.

There is thus a tremendous contrast between the recent development policies of central cities and of suburbs. Suburban governments have increasingly required developers to build infrastructure improvements and to pay a series of fees and charges, and have entangled their projects in layers of reviews and permit requirements. A few cities—most notably San Francisco—have also followed this pattern, but many more have been sharing the costs and risks of downtown retail projects, protecting them from political pressures, and easing them through administrative and regulatory requirements instead of regulating growth in an adversary style.

The Public-Private Relationship

In addition to providing many forms of aid for the downtown projects, the cities have also changed their way of dealing with the developers. In the urban renewal program, cities following federal rules maintained an arm's length relationship with developers. City officials would define the project and carry out several years of operations to acquire the land, relocate the people and business firms from the area, and clear the site for redevelopment. They would invite proposals or organize a competition to select a developer. Then city staff would negotiate an agreement with the developer specifying what was to be built, how the responsibilities were to be divided between the city and the developer, how the costs were to be shared, and what the schedule was to be for performance and payments. The city would then transfer the property to the developer and monitor the results. If the developer was unable to carry out the project on schedule, the city could—and sometimes did—take back the land and offer it to another company. Once the parties reached an agreement, their relationship was essentially a contractual one.

From Contractual Relations to Shared Decisions

With the termination of the urban renewal program, cities were able to work out their own ways of managing redevelopment. Most continued to make use of urban renewal precedents, while changing those procedures that were unnecessarily troublesome or time consuming. Soon several cities that had downtown retail projects found new ways of working cooperatively with the developers. First, they broke down the former barrier between public planning and private implementation by involving developers in the early stages of project planning. These cities then negotiated agreements with the developers covering the same points as the earlier urban renewal agreements. But once an initial agreement was made, the relationship changed from what it had been under urban renewal. As new problems emerged, the developer and the city consulted on what to do, and from time to time they renegotiated their earlier agreement to fit changed circumstances. Both sides operated with an understanding that when major issues had to be resolved the decisions would be made jointly.

Large retail projects are vulnerable to changes in interest rates, consumer demand, construction costs, department store expansion plans, and many other factors that are likely to shift several times during the typical development period of five to eight years. When these changes threatened the viability of a project, the city and the developer usually found some solution by reconsidering the division of public and private responsibilities, the cost-sharing arrangement, or the schedule.

A year-long renegotiation was necessary in San Diego to rescue the Horton Plaza project from a crisis that emerged when plans were already well advanced. In 1980, a combination of rising interest rates and the tax-rate limitation mandated by California's Proposition 13 made it impossible for the city to keep its commitment to finance the parking garage through the sale of lease revenue bonds. The city and the developer eventually resolved the problem by making three significant changes in their earlier agreement. First, the developer agreed to take responsibility for financing and building the garage, thereby cutting the public share of project costs by 40 percent, or \$22.3 million. In turn, the city reduced the sale price of the land, and the developer then agreed to give the city additional benefits from the project's future cash flow.

Joint Development

In some cities, the relationship went beyond a sharing of decisions to include joint public-private development. In these cases, the city developed key elements of the project, such as interior public spaces or the mall shell itself. For these elements, the city's role varied from responsibility for design and financing to actual ownership and ongoing management. In St. Paul's Town Square project, the city designed, owns, and manages a public park on the third floor and contributes to management costs for pedestrian ways throughout the entire retail area.

Academic analysts of implementation problems in the early 1970s pointed to complexity of decision making as the main reason for delays and failure, and urged simpler projects as the solution. Downtown retail projects did not get simpler, however. Some must be among the most complex ever done. Milwaukee's Grand Avenue, for example, consists of six historic buildings connected by a series of skywalks and shopping arcades and served by two new and two old parking garages. The maze of property interests and legal agreements is so intricate that a large insurance company spent more than two years working on the title insurance for the center. According to the underwriter in charge, "I have been involved in the business 35 years and I have never seen a title this involved and probably never will again" (*The Guarantor* 1982, 4).

These projects did not survive the problems of implementation because of their simplicity. They survived because:

- 1) cities and developers worked together to establish project feasibility in the early stages;

2) both parties were willing to consult and revise agreements when circumstances changed;

3) both became increasingly committed to having a project as they got in deeper and deeper; and

4) both showed great flexibility and ingenuity in coming up with solutions to unexpected problems.

One of the effects of this sustained interaction was that each side became more knowledgeable about the other and made decisions that reflected this new awareness. City negotiators had to learn about development economics and finance, and they tempered their regulatory policies in the light of what they learned. Developers, on the other hand, learned to operate in the fishbowl of local politics, and they adjusted their plans and their negotiating positions to cope with political realities.

Assessing the Results

The spread of downtown shopping malls is evidence that city governments are capable of generating major new development when economic circumstances provide even a limited and uncertain opening. If the cities had sat back to wait for development firms to recognize the investment opportunity and come forward with construction plans, they would still be waiting. Public action was required, but it had to be something more than the traditional approach. If city officials had organized typical urban renewal projects, they would now be trying to explain to angry voters why, after much trouble and expense, they had not yet found a developer for the rubble-filled site they were holding downtown.

The cities have found a better way than either relying on the invisible hand of the real estate market to revitalize downtown or planning an urban renewal project to do the job. What they have done is to restructure traditional relationships between the public and private sectors to make development more of a joint venture than ever before. The results are not all in, but the record so far is promising. The time needed to complete a project is shorter than it was under earlier arrangements. A few, such as Detroit's Renaissance Center and Atlanta's Omni Center, have failed economically, but most of the projects are attracting large numbers of people downtown and returning tax revenues to the cities.

Whether the downtown retail projects live up to all the cities' expectations for them will not be known for some time. Cities have promoted retail malls for several different reasons. Most often, local officials talk in terms of economic development when they describe the ripple effects they expect the retail centers to generate. Yet many also regard them as public amenities, much like an attractive park or zoo. Still others see them as necessary components of a campaign to create a new image for their city, as symbols of a healthy downtown and a well-managed community. To others, they are a way of restoring some of the traditions that make city life enjoyable and interesting: street activity both day and night, shopping, food markets, and open air celebrations. These traditional elements take on special importance as the cities

are trying to replace their traditional functions of manufacturing and shipping with new functions of service and entertainment.

Regardless of the mix of purposes behind the construction of these projects, several cities can supply evidence of their economic ripple effects. Even before the new retail centers were completed in St. Paul and Pasadena, city officials made use of the project commitments to persuade other firms to develop office buildings nearby. In the case of Pasadena, both downtown office development and the commercial renovation of historic buildings accelerated greatly after the opening of Plaza Pasadena. In San Diego, housing and hotel developments have been linked directly to the plans for the Horton Plaza retail center. Even in Seattle, where Pike Place Market was renovated not for economic development reasons but because the voters wanted to save a popular farmers' market, the success of this project has attracted a ring of apartment, office, and commercial complexes around it, representing new investment on the order of \$230 million. Further, the shopping malls themselves typically generate one thousand or more permanent retail and service jobs.

Yet the retail projects are too new for their effects to be demonstrated convincingly—particularly those effects that result from their value as symbols of investor confidence and community well-being. While there is evidence of ripple effects in a number of cities, it is hard to judge how many of the ripples were created by the retail centers and how many by other downtown projects built at about the same time. As for the direct employment in the retail stores, there is a question of how many of the jobs are net additions to the local economy and how many are substitutes for other retail jobs that are being lost.

In short, the early evidence suggests that downtown retail centers are helpful for economic development; but it is not yet clear how helpful they are, or how the benefits compare with the substantial public costs. At the same time, it is clear that they do not have the negative impacts of many earlier urban renewal projects. City governments have learned to avoid projects that threaten residential neighborhoods, and most of the current ones are either in downtown business districts, in port and warehouse areas, in areas specializing in pornography and "adult entertainment," or in similarly marginal locations. As a result, these developments have been built without significant damage to low-income neighborhoods or the supply of housing.

The Development Process

While the effects of the downtown retail centers will emerge only slowly, the unusual development process that gave rise to them can be assessed on the basis of experience so far. Many of the strengths of this process have already been suggested, and more will be noted later in this paper. But there are also problems to report.

For the city, learning to work with private developers in close, ongoing relationships is not trouble-free. The work of hammering out a complex development agreement that can run as long as 150 pages takes place behind closed doors. Since

the city is sharing cost and risks, the final terms of the agreement become public information. But the details that are needed to understand the issues seldom come to light, and even with the best will in the world it is hard to imagine a way of keeping the public informed of the choices that must be made. Usually the issues are too complicated to lend themselves to a vote or a referendum; but once the agreement has been negotiated, elected officials are in the position of either rubber-stamping it or looking like enemies of progress.

City officials could become vulnerable to accusations that the public-private relationship is little more than a giveaway of public funds. The substantial transfers of city money that characterize these projects serve mainly to narrow the gap between development costs downtown and those in comparable suburban malls. Yet there are legitimate grounds for concern about giveaways. The risks of downtown projects are great enough to make developers ask for plenty of financial help, and city officials unfamiliar with development may indeed agree to give excessive aid for projects they are anxious to have.

So far the cities have gone only part way toward creating staffs that are capable of analyzing the economics and finances of large private developments. The most typical safeguard has been city use of expert consultants who know enough about real estate to probe the claims of developers critically and to come up with their own estimates of what is needed. In the long run, a more reliable safeguard would be to have specialized city staff capable of keeping an eye on the proceedings and advising elected officials on the major issues that arise.

The problems of these joint relationships are not all one-sided. Developers are also put in roles that are new, involve additional risks, and require practical accommodation to the political situation. On major decisions, they have a public partner who has to be consulted, which means that they are not free to decide and act alone. They have to share information that they used to consider confidential. They may get locked into a public sector schedule and lose the freedom to time their moves, including even the ability to arrange their long-term financing whenever they consider interest rates most favorable.

From the point of view of public agencies involved in regulating city development, the new relationships with the private sector are potentially troublesome in other ways. They break with the long-established tradition that calls for uniform rules and procedures for everyone who does business with a city. The new style is one of negotiating special arrangements to suit each project and each developer. Administrators have more discretion than before, but they are losing the protection of established rules. Because the city is increasingly both a financial partner and a regulator of development projects, administrators may come under great political pressure to compromise their regulatory standards for the sake of financial returns to the city. Or, when they agree to special arrangements for a project, they may become vulnerable to charges of favoritism. In short, the new relationships are likely to politicize decisions that used to be easier to handle in an equitable way.

The first response of many administrators, however, has been to welcome the opportunity to operate in a more free-wheeling style. Those administrators who negotiate development projects appear to attract many professional rewards, including recognition, high prestige, and high salary. Even the bureaucracies value entrepreneurial skills. Meanwhile, some of the nation's leading professional associations for city officials, including the International City Management Association, have been praising the new entrepreneurship in city government and helping to spread knowledge of how the entrepreneurs go about their work (Moore 1983).

Balancing Public and Private Control

The new public-private relationships do not remove conflicts between cities and developers, but they do provide reasonable ways to resolve them—ways that often improve the quality of the development projects. Cities and developers share common interests in getting projects done, but at times each bargains hard for advantages at the expense of the other. Yet cities need the developers to put together the projects and make them work; and developers need the cities because of their legal authority and their many forms of assistance. City governments face a special problem in maintaining enough control to satisfy important public purposes while leaving the developer enough control to make the project a commercial success.

An ongoing relationship tends to prevent arbitrary action by either side. When the cities managed urban renewal projects in a more contractual style, the requirements they set were often arbitrary because they kept a great distance from the developers and understood very little of their perspective. City staffs then were strong on design, physical planning, and administration, but they were weak on real estate analysis. In the newer relationship, the cities are less likely to act in ignorance or to try imposing unrealistic regulations. At the same time, developers have learned to come up with proposals that meet both their economic needs and the city's political needs. In this setting, conflicts are usually resolved through negotiation rather than through threats or one-sided decisions.

By having a seat at the bargaining table, cities are able to advocate their own interests in a project, and these interests often challenge developers to depart from conventional solutions. In Pasadena, the city insisted on several design features that complicated life for the developer but in the end made striking improvements in the Plaza Pasadena shopping mall. The Pasadena Redevelopment Authority made a special point of requiring some stores to face the street, in contrast to the usual suburban layout where all stores face an interior mall and the street frontage consists of blank walls and parking lots. The authority also insisted on having a public passageway through the mall structure to link the public library and city hall on one side with the civic auditorium on the other. Both requirements were troublesome. The public space requirement put the development company in conflict with one of its department store tenants over the location of an entrance to underground parking,

and required special security arrangements for hours when the passageway was open after the mall shops were closed.

Yet the street-front stores enhanced the exterior appearance of the building, and the requirement for a public space passing through the mall led to a widely acclaimed design solution in which a series of monumental arches and huge glass panels enclosed the passageway, and panoramic murals decorated the arches. Taken together, these special city requirements made Plaza Pasadena into a structure that differed from suburban shopping centers in ways that helped integrate it successfully with its surrounding downtown. As in other cases, the city was able to shape the project according to its conception of public needs without forcing the developer into an untenable position.

Will the Public-Private Strategy Spread?

A question that remains is whether the new public-private relationship was simply a temporary expedient brought on by the special circumstances of the 1970s, or part of a learning process likely to continue in the future. With the threat of municipal defaults and bankruptcy in the air during the early 1970s, the cities were understandably willing to experiment with new ways of managing development despite the political and financial risks involved. Many cities still have serious fiscal problems, but with the mood of desperation gone, city administrators may want to return to more traditional ways of handling development.

Our interviews indicate that city officials (as well as developers) who have made use of the new public-private management style see many advantages to it, and they are unlikely to give it up without compelling reasons—such as the emergence of scandals from these relationships. City staff members who have had personal experience with public-private developments are still a very small minority of their profession, and the details of the process are still not well known. Yet there is widespread interest in the entrepreneurial style of public administration, and by now similar methods have been applied to a number of other developments besides the downtown retail centers.

One type of project that combines public and private elements is the mixed-income housing development in which public funds are used to provide some apartments at below-market rents. Local examples have been numerous, and federal housing legislation in 1984 includes a new program for mixed-income housing linking city governments with developers (Kurtz 1983).

A joint development strategy has also been proposed for public parks that contain commercial facilities. Recently announced plans for Bryant Park in New York, for example, involve a public-private combination in which the private sector will provide a restaurant, food kiosks, and security force (Carmody 1983).

In Pittsburgh, a development group including the U.S. Steel Corporation, the city, and two public authorities, is building an office tower and shopping center combined with the main downtown subway terminal. In Toledo, the city has worked

with two large corporations to build an office complex together with a new riverfront park, parking garage, boulevard and downtown street improvements (USHUD 1982, 63). And in Los Angeles, Washington, D.C., and several other cities, transportation agencies have made extensive use of joint development methods to promote the construction of private buildings on public land next to transit stations (Padron 1984).

There are also development situations where the public-private combination is either unnecessary or inappropriate. Many types of development—such as downtown office buildings—can be done privately with no special need for public assistance. Using public resources to share costs or risks for development of this kind would be wasteful. At the other extreme are projects that are unlikely to offer attractive profit opportunities without a level of public assistance that would be politically unacceptable. This category would include many facilities serving primarily low-income populations.

But between these extremes are many situations where a mix of public and private elements is appropriate to serve a public purpose. The notion of public-private partnerships has become very fashionable, so much so that the partnership image has taken on a suspiciously promotional ring. Because the idea is politically attractive, and because the shortage of public funds makes it practical to bring in private resources, city officials are likely to keep searching for ways to apply it.

The public-private process for downtown retail projects has four key elements that are broadly applicable to other settings:

- 1) assembling a mix of local and private resources to complement available federal funds;
- 2) establishing political and economic feasibility during early stages of project planning;
- 3) utilizing ongoing negotiations rather than arm's length regulation of the private sector, with a continuing role for the city in decisions throughout the development process; and
- 4) trading public sector sharing of front-end risks for participation in future benefits.

Downtown retailing has been a good proving ground for these strategies, but many cities are likely to turn their attention next to other types of projects in other parts of the community. When they want to develop job centers outside downtown, their recent strategies for dealing with the private sector should provide useful precedents. When they want to rebuild residential neighborhoods, some of the same methods may prove applicable to small commercial centers, recreational facilities, and housing renovation. Conceivably the same negotiation style that worked well with commercial firms will work with neighborhood organizations that want a role in local development. If public-private developments continue to spread as they have in the past few years, and if the cities can make their new managerial methods work for a broader development agenda, then the process that built the downtown shopping malls could turn out to be even more important than the mall themselves.

Footnotes

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2. The six projects studied in detail through interviews and reviews of city and developer files are: Faneuil Hall Marketplace, Boston; Plaza Pasadena, Pasadena; Town Square, St. Paul; Horton Plaza, San Diego; University Town Centre, San Diego; and Pike Place Market, Seattle. Our research assistants who prepared the case studies were Christi Baxter (Town Square and University Town Centre), Nancy Fox (Pike Place Market), and Jacques Gordon (Faneuil Hall Marketplace and Horton Plaza).

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