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Public-Private Partnerships and State and Local Economic Development:
Leveraging Private Investment

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EXECUTIVE SUMMARY

Public-private partnership (hereinafter referred to as "PPP" or "PPPs") is now a standard concept in business and state and local government circles, especially in the economic development realm. Some regard PPPs as "the" answer to many economic growth and development problems facing state and local governments today, while others express varying degrees of skepticism about their attractiveness and effectiveness. Nonetheless, most seem to agree that PPPs will likely remain an important approach to designing and implementing economic development strategies.

PPPs take many different forms for many different purposes. This report is intended to provide economic development practitioners an overview of key findings from the large and varied literature and practice on the use and effectiveness of PPPs as applied to two particular types of economic development efforts: those ongoing activities aimed at improving the "business climate" and marketing of a jurisdiction and those formed to promote and carry to fruition specific private real estate development projects.

We first review the definitions and purposes of PPPs. A common thread in the literature is that PPPs can best be considered approaches or methods rather than ends or objectives in and of themselves, and they are characterized by some type of formal partnership arrangements that delineate partners' roles and responsibilities, risk-sharing, and distribution of financial and nonfinancial benefits. These are important considerations because the fundamental purpose of partnering is to take advantage of the potential for all parties to gain greater benefit than they could on their own. To frame the analysis, we develop an economic theory-based classification for categorizing the many different types of PPPs. Using this framework, we briefly examine the field of state and local economic development, and the ways in which PPPs have been utilized for different types of economic development programs and efforts, especially those dealing with revitalizing cities and urban areas.

We identify and briefly discuss several key issues associated with the use of PPPs in these two specific areas of economic development practice. These include governance issues, partner selection, deal structuring and negotiations, the role of publicly owned real estate, government impediments to expanded use, and accountability and monitoring issues. Our purpose is to highlight these issues and offer some guidance to practitioners engaged in or planning to utilize PPPs for economic development purposes.

We then examine how the literature has addressed a very key question: Are PPPs successful? First, it is difficult to disentangle success of PPPs from success of economic development efforts in general. As economic development practitioners well know, there is a growing debate about the appropriateness (as well as the success) of economic development efforts in general, and this spills over into evaluation of economic development PPP efforts. For example, was a policy, program, or project unsuccessful because it was wrong in concept, or because its implementation was hampered by a PPP approach?

As such, it may be better to restate the question: "Are PPPs effective approaches to particular economic development efforts?" Even that is hard to determine since the literature lacks specific definitions and measures and, for the most part, sufficient data with which to evaluate success. Conceptually, we might think of considering a PPP "successful" if it (a) increases the probability of a good economic development effort being successful and/or (b) it increases the net benefits to one or more of the partners, without decreasing that of any partner. While this still leads to practical measurement and evaluation limitations, we can generalize some findings about the effectiveness of PPPs in economic development. There does seem to be some evidence that PPP approaches can generate efficiency gains for the jurisdictions involved, if for no other reason than they can leverage or combine private-sector capital and talent to direct investment and the location of economic activity. While much of the advocacy literature and practice argues the PPPs are fair and responsible partnerships, some of the more academic literature suggests that the public-sector partners may often bear greater risks and costs relative to the distribution of partnership benefits. Confounding the entire discussion, however, is the difficulty in identifying and valuing the costs and benefits (which require normative value judgments), so there is room for honest disagreement and continuing analysis and debate. Related to this is the fact, that since no two jurisdictions are identical, there is no uniform definition of success. What may seem excessive public participation or risk-assumption in one jurisdiction (and hence an "unsuccessful" PPP) may be very appropriate in another.

Despite the lack of universally accepted or conclusive evidence on effectiveness, in efficiency and equity terms, it does appear obvious that PPPs will continue to grow in importance as approaches or specific tools for conducting various types of state and local economic development programs. They are politically popular, and they are generally viewed positively by the business community as a method for contributing talent and capital, as well as assuring their input into important economic development decisions. In addition, several common characteristics appear to be associated with "successful" PPPs:

- Receptive and supportive public sector to a partnership approach
- Clear objective(s), with well-defined, limited, and measurable objectives
- Clearly delineated (via fair negotiation) roles, responsibilities, and shared risks
- Active and meaningful participation of all partners
- Satisfactory accountability and openness with the public

Are PPPs the answer to all of life's problems? Peters (1998) concludes his study: "Partnerships are an important instrument for government intervention into society. They are neither the answer to all problems of public policy, nor are they a totally symbolic and ineffective mode of action." Our review of the literature and practice leads to a similar conclusion, and we suggest that (1) PPPs can be appropriate as viable, alternative approaches to certain types of state and local economic development efforts and (2) the public-sector officials (especially) should continue to search for new partnership opportunities, while paying careful attention to fundamental partnership issues: purpose, structure, governance, roles, risk-sharing, monitoring, evaluation, and distribution of benefits.

1. INTRODUCTION

Public-private partnership (hereinafter referred to as "PPP" or "PPPs") is now a standard concept in business and state and local government circles, especially in the economic development realm. Some regard PPPs as "the" answer to many economic growth and development problems facing state and local governments today, while others express some degree of skepticism about their "cure-all" capabilities and properties. Nonetheless, most seem to agree that PPPs will likely remain an important approach to designing and implementing economic development strategies. This report is intended to provide economic development practitioners an overview and a summarization of key findings from the large and varied literature and practice on the use and effectiveness of PPPs as part of two particular types of economic development efforts: those concentrating on improving the "business climate" of a jurisdiction on an ongoing basis and those formed to promote or encourage specific private real estate development.

While PPPs are not new to the state and local government economic development scene, professional and academic interest in their use and effectiveness as economic development tools appears to have increased in the past two decades.[1] Over that time period, we may roughly identify two distinct categories, periods or themes concerning the significant interest in the use of PPPs. First, one period of intense examination of PPPs coincided with the urban crises and macroeconomic problems of the 1970s and the onslaught of the new fiscal federalism, or "devolution," set in motion by the Reagan administration in the early 1980s (along with a deep recession). A second wave of PPP interest and analysis followed the real estate and stock market collapses of the late 1980s and the ensuing national recession of the early 1990s. Once again, cities and states (especially older and slower growing) found themselves in dire fiscal straights and searched anew for approaches to maintaining and expanding economic investment and activity within their borders. This wave essentially continues today, tempered by a recently concluded, long economic expansion that did not always translate directly into significant state and local government tax and revenue increases.

Like "sprawl" and "entrepreneurship," the term PPP has entered the public-sector economic development lexicon and generally connotes a positive and innovative approach to strengthening the local economy. However, again like those terms, the definition of PPP is not standard and clear. This is likely due to the many different purposes and objectives of PPPs, the many forms such partnerships can take, and the many ways risks, costs, and benefits can be apportioned in ways not well understood by many practitioners. Further, the current wave of interest includes analyses that can now take into account some historical empirical evidence of PPP performance, and study more deeply the nature of PPPs themselves.

Information about such partnerships is very commonly transmitted via case studies or media accounts, and they may often focus on the idiosyncratic nature of the particular case. More detailed research into the nature and effectiveness of this form of economic development activity exists, although it appears to be somewhat limited. Econsult has reviewed the literature and practice on PPPs in the United States and Canada in various academic and trade journals, books, websites, compendiums of articles, published case studies, and proceedings of seminars and forum discussions on the topic.[2,3] There is immense literature on PPPs in general and focusing on economic development applications in particular.[4] Several excellent sources provided good overviews and syntheses of research and analysis work on particular PPP components, and we avoided "reinventing the wheel" by re-reviewing many of those original sources.

As requested by EDA, this review is geared primarily for economic development practitioners rather than academics.[5] Given the enormity of the literature, the review is not meant to be exhaustive, but rather illustrative of the types of studies and references of key issues involved in PPP approaches and applications. Further, our intention is to synthesize some of the key findings in a fashion helpful to economic development practitioners. The purpose is to assemble the information in an easy-to-understand format to help practitioners sort out the information and to have a relatively handy and useful reference for them. Our focus is also on the more recent literature, and we have paid careful attention to reviews and studies that incorporate earlier and more detailed studies. We have not attempted to cover old ground with regard to our survey of the literature, and, as such, we occasionally utilize indirect references. The bibliography includes specific references we have reviewed, as well as sources assembled by different groups to assist practitioners in identifying particular references (though not directly cited in the study).

Also, this review is not meant to serve as a step-by-step, or "how-to" primer on setting up PPPs. Three sources, however, are very comprehensive and readable in this regard, and are detailed in Section 2. They are strongly recommended to economic development practitioners interested in establishing PPPs.

Organizing such a broad array of sources (including studies, reports, books, websites, and articles) is a necessary primary task. Econsult has developed what we believe to be a useful framework for categorizing various PPP issues, debates, and trends, as well as different types of public processes and subsidy methods. This report is structured around that classification, which is detailed in Section 2.[6]

Section 3 presents the core of the findings from the literature review. Following a sampling of PPP definitions and brief outline of the history of PPPs, we turn to an examination of key issues raised in the literature and then to the evaluation of PPP performance. An interesting key question is: Why do PPPs form? One common business view is that the impetus comes from the private side, where business leaders band together out of civic concern to help the city or public-sector jurisdiction. While this may be an important characteristic of PPPs, it seems to hype the role of private-sector altruism and discount the role of the private sector in recognizing the potential gain from such partnerships. Gifford (1986) noted that

> Experience with many public-private partnerships suggests that they generally involve measures of altruism and self-interest. To deny that both factors are at work seems, on the one hand, unduly cynical, and on the other, unusually naïve.

We note that much of the literature focuses on economic development PPPs in urban settings, rather than suburban or rural or even regional settings, and often seems more about *re*development than new economic development. (Haider, 1986). This seems to reflect a preponderance of PPP approaches in urban settings, but they are by no means limited to urban centers (especially declining ones).

Section 4 summarizes certain implications for economic development practitioners, and Section 5 includes the two appendices: Categories of Economic Activity and PPP Sources.

2. CLASSIFICATIONS AND FRAMEWORK FOR REVIEW

Public-Private Partnerships, like many things, are defined in the eye of the beholder. Still, there should be consistency and compatibility across and among the different viewpoints. Although the framework developed here is based on economic theory, it is readily consistent with the views of other disciplines, including the political science, legal, financial, professional economic development, and sociological perspectives.

There are many different types and applications of PPPs, and just as many ways to categorize them. Linder (1999) carefully examines various meanings of the term. Pierre (1998) suggests three mutually exclusive "general themes" or "analytical contexts" in which PPPs can be viewed and analyzed: First, they represent "*institutionalized* cooperation" between the public and private sectors, and we can examine how they evolve and mature in a "socio-political context." Second, they can be viewed as a(n economic development) *policy instrument* or an arrow in state and local economic development officials' quivers. Third, they can be assessed as an alternative form of urban politic structure and public resource allocation mechanism, during a time when many are observing a change in the traditional role of government, shifting from "rowing to steering" (Osborne and Gaebler, 1992). These are all interesting viewpoints, and all lead to important questions and issues.

Another way to organize the various types of PPP applications is to borrow from standard economic textbook definitions, distinguish among several types of economic activity, and examine how partnerships are applied across those types. This approach to categorization, which is consistent with each of the three viewpoints offered by Pierre, forms the initial framework for our review of the literature. We first look at basic definitions, then how they can apply to all types of public-private cooperative activities, and then specifically to economic development efforts.[7]

Basic Definitions

The typical economic measures of the performance of an economic system are efficiency and equity. We study the allocation of resources and the distribution of outputs resulting from individual or decentralized economic decisions by consumers and producers in a free market economy. We also note that in certain instances, the free market allocation mechanism (the invisible hand) fails, and in such cases, there is a potential role for collective action, typically via a government, for improving the misallocation of resources. Many people consider the public and private sectors completely mutually exclusive realms, but that view is constantly being revised. As noted above, PPPs are now recognized as viable and politically attractive mechanisms for combining the advantages of both private and public sectors.

However, before venturing too far into this analysis, we may ask what exactly are meant by the terms "public" and "private" and "partnership"? A synthesis from many sources suggests the following general definitions:

- By **"public"** we mean resources are allocated through some type of *centralized and collective* decision-making process, typically, but not necessarily, via some level of government. The public resource allocation decision can be broken into two components:

    - *collective or public choice*, whereby the collective allocation decision is made as to what to provide and how to pay for it (often this is via some voting mechanism), and

    - *public-sector provision* of the good or service, which can be accomplished through a variety of production arrangements, including self-production by the public-sector jurisdiction itself.

- By **"private"** we mean the economic decision maker is an *individual* consumer or producer, maximizing utility or profits, respectively, resulting in resource allocation decisions made in a *decentralized* fashion.

- By **"partnership"** we mean a formal or informal arrangement, agreed upon by both parties in advance, calling for some kind of joint action or collaboration to provide (and possibly produce) a product or service; with joint decision making and all known roles, responsibilities, compensation, and risks identified and allocated between and among the partners by this advance agreement. This can be for a specific deal or transaction or institutionalized for joint actions and collaboration on an ongoing basis. Note that partnerships can be formed by private parties alone, or by public parties alone. Our study focuses on partnerships with at least one public partner. This definition alone suggests the primary economic reason for the establishment of a partnership: both (or all) parties stand to gain from such arrangements, beyond the potential gains from other decision-making or production arrangements.

Public-Private Possibilities: A Classification

Economists learn early that in a mixed economy, all economic activity entails some combination of private (decentralized) and public (centralized/collective) action or influence. Purely public or purely private markets never exist in practice, and even though the U.S. economy is the most "private" in the world today, our public sector is huge. To analyze the interactions of private and public sectors, it can be helpful to categorize economic activity (the allocation of resources and the eventual distribution of outputs) in two broad, mutually exclusive approaches:

- ***Current Consumption/Production vs. Investment (for future Consumption/ Production)***. This is often manifested in organizations creating operating and capital budgets, with separate decision making and financing. Clearly the two are linked, as services and funding for investments are made over time via operating budgets. The underlying difference here is the time horizon and the economic tradeoffs involved in the postponement of current consumption for future consumption. And, it is worth noting that investment can be made in either *physical* (tangible) or *human* (intangible) capital.

- ***Private (decentralized) vs. public (centralized) decision making***. As noted above, decentralized, private market (invisible hand) decision making dominates the marketplace in the United States and, to a lesser extent, Canadian economies. Collective decision making, typically via governments, is an important component of the marketplace, and is theoretically appropriate as a means of dealing with cases of "market failure."

Combining these two approaches produces four distinct categories of economic activity.[8] We have well-established theories about how each of these four sectors functions (the underlying behavior of the actors and conditions for efficiency, etc.), and that, at least in theory, they can all exist together and we can achieve "optimality" in terms of intertemporal resource allocation. We also know that the borders between and among these categories are not uncrossable; in fact, when and how these boundaries *are* crossed is the focus of intense study. Given this classification of economic activity, PPPs obviously represent examples of "boundary crossings" *in every one of these categories*, and, for each, it is of special interest to examine how and why they are used and how effective they are in achieving the goals of the partners. Understanding where a particular PPP approach "fits" in this framework can be extremely helpful in any review or examination of PPPs.

While PPPs play important roles in all four of these categories of economic activity, this review does not cover certain types. First, since the review concentrates on state and local economic development activities, we exclude activities in the private-consumption category, as well as most of the public-consumption category. The latter includes the private sector assisting public efforts to provide for or promote the consumption of social services, or providing public services via private contracting, as in the cases of contracting for custodial services for public buildings or of privatizing prison facilities and services.[9] We also largely exclude the public-investment category, where PPPs may be involved in the investment in (or development of) "typically" public infrastructure, including roads, public buildings, and public utilities.[10]

Finally, we also exclude private-production and private-investment activities utilizing standard or customary public-sector economic development incentives, including but not limited to tax abatements, subsidized loan programs, tax-advantaged zones, and employment or investment based grant programs. The key distinction here is whether these programs are available to all (or some groups of) businesses by right, and essentially can be considered part of the natural course of doing business in any jurisdiction.[11]

This leaves "border crossing" areas pertinent to certain types of state and local economic development activity undertaken by or on behalf of the public sector that represent common applications of PPPs:

- In the *public-consumption* category, we have economic development program administration, marketing, operations, outreach, and direct business assistance, including assessment of regional economic strengths and weakness, business retention activities, and targeting industries for attraction.

- In the *private-investment* category, we have private real estate or infrastructure investment and development.[12]

- In the *public-investment* category, we have human capital investment activities, including job-training programs and work force development initiatives.

This report focuses primarily on the first two. The typical objective of the first activity is to improve the business climate of the particular jurisdiction and to help market that information and the jurisdiction as a good place to locate and invest. Throughout the remainder of this report, we'll refer to this category as "*Ongoing ED Function*." The second category essentially represents what are generally referred to as "economic development projects": real estate or other large-scale capital investment projects for which public-sector support is considered because of perceived economic development benefits beyond the anticipated private financial investment returns.[13] We refer to this type of activity as a "*Development Project*."[14]

We have excluded from this review the human capital investment, or work force development, category for several reasons. First, many of those efforts include social service components, which add another dimension to the issue. Second, the private-sector participation typically takes the form of subsidizing training and/or hiring the trainees. Third, work force development programs typically are driven and funded by the federal government, in stark contrast to the state and local nature of traditional economic development activities. Of course this does not mean that this area is not an important component of economic development efforts. In fact, it is arguable that incorporating human capital investment strategies and program into the overall economic development efforts of state and local governments represented a great step forward during the 1990s. A recent Upjohn Institute report (Eberts and Erickcek, 2002) notes the "separate evolution of work force and economic development activities," and finds, based on a review of efforts in the Midwest, that despite some recent changes favoring integration, PPPs in work force development and economic development remain fairly separate.[15]

Economic Development and Public-Private Partnerships: An Overview

Many sources describe the growth and evolution of the practice of economic development in the United States, especially in cities and urban areas.[16] Economic development is sometimes considered a profession without an underlying (academic) theoretical base. While there are a growing number of certification efforts, most notably those sponsored by IEDC, academic "Economic Development" departments, and concentrations, and degrees are uncommon, and few universities even offer courses in the discipline. In a sense, economic development as a practice can only really be examined in the context of competing jurisdictions. The primary objective of all economic development professionals is to *induce* some kind of economic activity to take place in, or somehow benefit the citizens of, some particular location or jurisdiction, that wouldn't otherwise have occurred (at least to such an extent). Obviously, economic activity will take place *somewhere*. As a result, the profit-making opportunities of businesses and ultimately the consumption opportunities (and hence the standard of living) of the citizens in that locale will rise. Of particular concern to some is that this economic activity, or economic growth, is not necessarily efficiently, and clearly not evenly, distributed across the geographic or political terrain. We then have the requisite initial ingredients of PPP approaches to economic development: cases where particular business and public interests in inducing or increasing some type of economic activity are aligned.

Kayden (2002) provides an excellent overview, consistent with our framework:

> Although some development occurs within a context of traditional and distinct roles and responsibilities undertaken by local governments and private developers, an increasingly common pattern reveals blurred boundaries and surprising reallocations as each party participates to a greater extent than before in what the other does. Of course, the record of "public and private development" follows a jagged trajectory, increasing or decreasing according to political shifts, budget realities, and economic performance. Nonetheless, if the rhetoric of the so-called "public-private partnership" exaggerates the reality, much urban development today is highly commingled under public subsidy or regulatory umbrellas.

We have selected two standard state and local economic development functions where PPPs are used and are likely to be used more in the future. While they encompass key types of economic development strategies and programs used by state and local governments to help their jurisdictions compete for investment and economic activity for their specific locations, our primary focus is on their *use of PPPs* in those efforts.[17]

Businesses and politicians tend to hype the benefits—primarily jobs and economic growth—of organized economic development efforts without a great deal of measurement and statistical analysis of the purported link between the efforts and the outcomes. Academics, for their part, have tended to apply more rigorous cost-benefit analyses to particular economic development programs or projects (including those undertaken by PPPs), and perhaps not surprisingly don't always report positive net benefits. These findings may be in part due to their evaluating stand-alone actions, and utilizing rather narrow measures of benefits.[18] If we have learned anything about economic growth, it is certainly that it is the result of many market and collective forces acting simultaneously, which makes measurement of particular components, and hence identification and evaluation of marginal impacts, problematic.

One measure of the acceptance of a concept or approach is the formation and continuing operation of an organization with a mission to advocate and promote it. The National Council on Public-Private Partnerships (NCPPP) is the prime example in this arena, while other economic development organizations, most notably the National Association of State Development Agencies (NASDA) and the International Economic Development Council (IEDC, formerly CUED) have increased their focus on PPPs, undoubtedly due to the interest of their memberships. These sources are cited throughout this review.

What This Review is NOT

This review does not cover all types and applications of public-private approaches to government intervention into the private marketplace, important and interesting as they may be. Also, as mentioned above, this review is not meant to serve as a step-by-step primer for practitioners engaged in or desiring to establish PPPs. Three excellent sources should be very helpful readings for the economic development practitioner engaged in or thinking about PPPs:[19]

The first is John Stainback's *Public/Private Finance and Development: Methodology, Deal Structuring, & Developer Solicitation*, published in 2000. In this book, Mr. Stainback describes in a clear fashion a framework for establishing and undertaking PPP real estate projects, focusing on the various steps, components, and players involved. Drawing on his extensive knowledge and experience in the field, he includes detailed case studies and catalogues specific checklists of steps to take.

The second is a 1999 publication from the British Columbia (Canada) Ministry of Municipal Affairs entitled *Public Private Partnership: A Guide for Local Government.* This very detailed and readable work covers the PPP process from A to Z, including advising the decision-making process by the public entity to partner with the private sector, implementing the partner selection process, negotiating the partnership agreement and pointers on working with the partner on the actual project. Although the legal terms are specific to British Columbian and Canadian laws, the basics of the partnership discussions are also applicable to U.S. economic development practitioners.

The third is a chapter, written by Professor Lynne Sagalyn, entitled "Meshing Public and Private Roles in the Development Process," in the Urban Land Institute's popular economic development tome *Real Estate Development: Principles and Process*, 2nd ed., 1996. This informative work comments on the changes in development practice leading to PPP approaches, and concentrates on the process of PPP formation and the various practical problems associated with implementation.

3. PUBLIC-PRIVATE PARTNERSHIPS AND ECONOMIC DEVELOPMENT: LITERATURE AND PRACTICE REVIEW

The organization of this section follows four fundamental questions that are typically posed concerning PPPs as they are used in the two kinds of economic development efforts selected in this report—Ongoing ED Functions and Development Projects:

1. What are PPPs and why (and how) are they used in these particular state and local economic development efforts?

    - This describes the reasons for their initial and continued use as economic development approaches, as well as the specific definitions applied to them and who represents the public and private "sides."

2. What has been the recent historical experience with PPPs in this arena?

    - This briefly traces some of the recent history in PPP use and examines some trends or themes.

3. What key issues face state and local economic development practitioners (especially public officials) using or considering using PPPs?

    - These include (i) the potential problems associated with private encroachment into public affairs, and is sometimes referred to as the issue of governance, (ii) the key steps in the formation of a partnership: partner selection (including who are the players), establishing the partnership structure, negotiating the roles, responsibilities, risk sharing arrangements and benefit distributions, and (iii) accountability issues and monitoring methods and procedures.

4. Are PPPs successful? Can we identify key ingredients to "success" or those factors associated with "failure"?

    - This deals with concepts and measurement of effectiveness and success, as well as evaluation procedures utilized.

We note that in some instances, there are clear differences between the Ongoing ED Function and the Development Project, while in other ways there are similarities. Where explicit distinctions are warranted, we so note below.

Definitions and Rationale

Because PPPs are essentially mechanisms or arrangements for the provision of certain services, their literature naturally melds into the literature of different disciplines. In this instance, there is considerable overlap between the literature on economic development PPPs and on economic development itself. The connection of interest here is how PPP arrangements are used and whether they are or can be effective tools or approaches for achieving certain economic development objectives. We note that this is separate and distinct from the issue of whether any economic development objectives are in or of themselves legitimate or normatively justified. With this caveat, we examine several definitions of economic development PPPs offered by various sources, in order to highlight the fundamental or underlying purposes of the PPP approach.

Recalling the basic definitions of partnerships described in the previous section, the PPP approach to economic development is also typically thought of as a joint activity, or an arrangement for the provision or production of something, in which there is a mixture of "public" and "private" components. Clearly, any joint action would only be considered or occur if both the private and public parties believe there could be gains to be made vs. action or activity with no such partnering. In our two economic development categories, the potential advantages of partnership include increasing the return from underutilized public assets (including land) and leveraging private capital and experience.

The Michigan Alliance Program, a PPP initiative to increase retail development, offers a good *conceptual* example of this through its description of the program's purpose: "to explore how public/private partnerships can work together to synthesize the needs of the community with the interests of private investment strategy."[20] At the other end of the conceptual spectrum, Bomersheim (2002) drives straight to the operational (and perhaps legal) heart of the matter, defining a PPP as a "contract, pure and simple."

On its website, the IEDC offers two answers to the question "Why do PPPs form?" First, the "need for a broad range of skills, information and finance in many economic development projects" and second, "small public-private partnerships are being created to focus on smaller geographic areas for better access to funding programs, reaching out to public and private stakeholders in the community, and recruiting community volunteers." These reasons are echoed by Kozmont (2001):

> Collectively, both sectors can bring different areas of expertise to the process of planning, programming, designing and constructing cost-effective buildings. Public/private partnership also can have joint financial benefits resulting from the use of local economic development and redevelopment initiatives, helping to improve a community's "quality of life" through the generation of increased tax revenues

As implied in the previous section, virtually every economic activity fits the broad descriptions outlined in our classification. However, a synthesis of the popular understanding of PPP is much narrower. While keeping the central focus of the joint activity, sources typically add the conditions that (a) the public and private actions/participation/roles/responsibilities and (b) the explicit sharing of risks, costs, and financial benefits are specified and agreed upon in some type of formal or quasiformal arrangements at the onset of any project or activity. (Sagalyn, 1996; Peters, 1998; Stainback, 2000; Beauregard, 1998; Davis, 1986; Haider, 1986; Linder, 1999;

Woodward, 1994). If these characteristics appear too static, Stephenson (2000) adds the condition that a PPP "implies a dynamic interactive collaboration between sectors."

The National Association of State Development Agencies' definition of a PPP is consistent with many found in the literature and practice: "a contractual agreement between a public agency (federal, state or local) and a for-profit corporation. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility." www.nasda.org, (2002).

Stephenson (1991, p. 111) and others explicitly delineate between the two uses of PPPs identified in this review: PPPs that are essentially a real estate development deal or transaction specific, and do not continue in any formal fashion after a project has been completed (our "Development Project"), and those that describe ongoing organizational relationships combining both public and private actors engaged in economic development activities (our "Ongoing ED Function"). He notes the Stainback (2000, p.11) defines in more detail the first type of PPP as: "The close collaboration of a public entity(s) and a private entity, or team, to structure, negotiate and implement the finance, design, development construction and operation of building(s)." Of course, both types share the objectives of combining public and private resources to improve the local economy.

Some authors avoid a specific definition altogether. Rather than "provide a definite and stipulative definition of a partnership," Peters (1998) identifies several characteristics deemed essential to the establishment and success of partnership arrangements: (a) two or more partners, with at least one a public entity, (b) each participant is a principal, able to bargain and decide on its own authority, (c) the arrangement is a continuing relationship, (d) each principal brings genuine value to the partnership, transferring real resources (value) to the partnership, and (e) there is shared responsibility for the outcomes of the partnership's actions.[21] This last condition excludes private "advisory" roles to government, where the public sector retains sole decision-making control. Peters goes on to suggest some features distinguishing among different types of partnerships. The first is number of partners involved; another is how formally the partnership arrangement is established, and finally the purpose of the partnership. Similarly, in discussing the findings of a 1994 survey conducted by the International City County Management Association (ICMA), Walzer and York (1998, p. 48) note that any "meaningful discussion of public-private partnerships requires a clear identification of the partners, types of investments made, and the outcomes expected from the ventures." They go on (p. 49) to identify "three basic ingredients" in the PPPs studied: (1) intended to be long-term agreements, (2) established, written procedure for management of the partnership, and (3) agreed-upon economic development outcomes or objectives.

Recent History

Understanding the genesis and growth of PPPs is helpful to understanding how they are viewed by researchers and practitioners alike. We have already noted the economic reasons why partnerships form in general, and a good part of this literature examines why they have become so commonplace in the economic development arena in recent years. However, given the different definitions of PPPs, it's not surprising to see some differences in describing the history of PPPs in the practice of economic development.

While there are ample examples of public-private arrangements and efforts related to economic activity over the course of U.S. history, much of the literature concentrates on the period since the late 1970s. Since that time, we may roughly identify two distinct phases or periods of significant interest in the use of PPPs. The first period of intense discussion and examination of PPPs coincided with the urban crises and macroeconomic problems of the 1970s and the onslaught of the new fiscal federalism, or "devolution," set in motion by the Reagan administration in the early 1980s and spurred by the recession. Economic development interest focused on urban areas at the time, when Fosler and Berger (1982) hypothesized/forecasted that "constraints on federal funding would cause more governmental responsibility to shift to the state and local levels, and that the constraints on government at those levels would implicitly place a greater burden on the private sector in dealing with urban problems." Similarly, GFOA's John Petersen (1985) noted succinctly: "Public/private cooperation is one response, and a celebrated one, to the crunch on public resources." However, recalling the changes in governance from "rowing to steering," Stoker (1998) adds an additional dimension to this view, suggesting that "the increased use of partnership appears to be a part of a broader shift in the process of governing."

Interestingly, this first phase reflects the lingering focus on the role of the federal government in the PPP approaches to state and local economic development. The "fiscal devolution" associated with the Reagan administration hadn't really come into full swing, and federal programs such as UDAG and others heavily influenced PPP discussions and interest. HUD's "Office of Public Private Partnerships" was established in 1979 with a $1 million budget, and axed in 1981, making it rival the dot.bomb craze in duration. (Jamison, 1982; Sagalyn, 1996; Beauregard, 1998)

A second wave of PPP interest and analysis followed the real estate and stock market collapses of the late 1980s and the ensuing 1990–91 national recession. This economic downturn is seen as an important catalyst to increased PPP use by forcing government officials to "reevaluate approaches to simulating and maintaining a vibrant economic environment" (Kolzow, 1994). As in the first phase, most interest in and applications of PPP to economic development centered on urban fiscal and economic crises. Once again, cities and states (especially older and slower growing) found themselves in dire fiscal straits and searched anew for approaches to maintaining and expanding economic investment and activity within their borders. As with the first phase, most interesting and common applications of PPPs to economic development centered on responses to *urban* fiscal and economic crises. However, this time the role of the federal government, or more accurately, its "minor role," was firmly established by this period, and the activity and discussion focus was on state and local efforts.

This second wave essentially continues today, tempered by a long national economic expansion that (1) did not always translate directly into significant state and local government tax and revenue increases and (2) did not truly reverse the declining fortunes of many older central cities. Fiscal constraints at the state and local levels remained throughout the 1990s, and have even become more severe in 2001 and 2002. Thus, the essential ingredient, limited public-sector resources, remains in place, auguring for continued, if not increasing reliance on PPPs as a strategy for economic development.

Finally, in an interesting discussion, Stein (2000) offers a chronological view *with a geographic dimension* to the history of PPPs in economic development over the past quarter century: beginning as emergency measures in the job-hemorrhaging Rust Belt, PPPs moved south and west, utilized more strategically by Oil Patch cities looking to reconfigure their post-oil economies, and then to the West Coast in "response to the 'peace dividend.'" In each case, the impetus for PPPs was a sense of economic urgency, and the realization that the normal powers of the public sector would be insufficient to avoid significant declines in the areas' economies.

Key Issues and Findings

While PPPs enjoy widespread support as approaches to economic development, there are important issues concerning their nature, the process for determining their appropriate use, and, ultimately, their effectiveness. Since economic development practitioners must deal with all of these issues, awareness of past experiences and analyses may be helpful.

Governance: Perhaps the central issue or concern is the appropriateness of mixing private activity with public activity at all.[22] At the core of this concern is whether the private profit motive is fundamentally incompatible with public purpose. The term *governance* has been defined in many ways, and has recently been the subject of significant theoretical study of political economy and political science. Most consider it separate and distinct from *government,* which typically refers to the institutional framework for society's collective decision making.[23] Stoker (1998) blends several definitional themes into a "baseline" definition that emphasizes the *process* of making public decisions:

> …it refers to the action, manner or system of governing in which the boundary between organizations and public and private sectors has become permeable. The essence of governance is the interactive relationship between and within governmental and non-governmental forces.

Some have linked governance to the shift in government's traditional role from "rowing to steering" as suggested in Osborne and Gaebler's 1992 *Reinventing Government.* Consequently, concern about the relative roles and distribution of costs and benefits between the public and private partners—and how the public decision-making process is set up to determine these—is the focus of recent studies on governance of PPPs.

On one side of this issue are people who believe PPPs do fundamentally lead the private sector to encroach on public-sector decision making in an undemocratic way. Under this view, PPPs can not only blur the distinction between what is legitimately private and legitimately public, but also can push or shift public activity "too far," in a normative sense, into private control. (Jezierski, 1990; Sagalyn, 1996; Guldbrandsen, 2002; Pierre, 1998; Peters, 1998; Linder, 1999; Stoker, 1998; Ghere, 1996 and 2001) As a result, key public characteristics of activity, including (a) the democratic process for determining public resource allocation, (b) public accountability and (c) social justice (or redistribution and equity concerns) may take a back seat to private profit motives.[24] Note that this concern is independent of (but often related to) the particular economic development effort itself. At the crux of this legitimate concern is the potential for private interests to use the unmonitored partnership as a vehicle to exercise undo influence over public resource allocation decisions, steering such resources to themselves at the expense of the commonwealth. Clark (1998) describes a particular view of partnerships as "myths."[25] The basic myth is that the public sector is too incompetent to properly coordinate and engage in productive economic development activities. On the other hand, the private sector is efficient, highly skilled, and innovative, but doesn't take into account public costs and benefits. Therefore, the public sector must tap into the private sector if it wants to have successful economic development programs. These myths add up to a partnership that serves as a cover for private, wealthy, and powerful interests to take advantage of the public sector (and hence the less than wealthy and not so powerful).

PPP advocates argue that these concerns are overstated. One cites the "most compelling prima facie evidence (of compatibility) is that governments and those who work closely with governments are the most fervent supporters of public-private partnerships and fully understand their value…" (NCPPP, 2002). While this evidence may hold up to neither statistical hypothesis testing nor theoretical justification, it does seem to hold at least some normative value, in that the public-sector decision makers are ultimately held accountable by their electorates. Still, the fact that public-sector officials like to use PPPs for economic development efforts may not satisfactorily address the concerns delineated above if there is fear that public officials' incentives are not always aligned with the public or that public officials can get "taken to the cleaners" by their private partners during the negotiations or during the implementation of the partnership.

It is likely that the increasing use of PPPs in economic development will provoke more intense review and scrutiny of the balance (among the partners) of benefits and costs accruing from the PPP activity. Several steps may improve the probability of achieving a proper balance. One is the requirement of a "statutory foundation for the implementation of each partnership," that should strengthen the hand of the public partner. (NCPPP Website, 2002). A second is making sure the process is as open and reviewable as possible, from conception to completion. A third is to carefully negotiate and formally establish the terms and conditions of the partnership agreement, as explicitly as possible, to avoid questions of interpretation and other possible problems down the road.

Governance concerns are also invoked when the issue arises of whether PPPs (or rather the proponents of partnerships) should take on advocacy roles. At issue once again is the potential negative influence on public decision making. One particular form of advocacy endeavors to change existing federal, state, and local laws and regulations that are seen as barriers to more effective and widespread use of PPPs for economic development. The National Association of State Development Agencies (NASDA) identifies several federal policies they believe “place significant obstacles to development of public-private partnerships that promote the use of private-sector resources to meet public needs,” and offers some remedial actions:[26]

- Amend the federal tax code to remove PPP project private activity bonds from state volume caps “to allow innovative and more cost-effective projects.”

- Change tax and labor law restrictions to allow public pension fund flexibility/portability—thereby allowing public-sector employees to keep their positions in public employee pension funds if they transfer to a private-sector firm under a partnership and to allow their new private employers to make pension contributions to these funds

- Amend federal grant/loan policies and regulations where appropriate to allow private companies as partners, as long as ownership remains in the public domain.

Partnership Roles, Structuring, and Negotiations: <u>Development Projects</u>. The *potential* benefits for public and private partners from a successful PPP real estate development have been identified and examined by many observers (Stainback, 2000; Morlock, 1993). Economic development officials should be careful to note what steps and trade-offs are actually involved in a PPP real estate development project. Typical projects require a series of actions from conceptualization through to project completion, successful operation, and beyond. Since the objectives of the public and private partners can be different, and mutually exclusive, the negotiation trade-offs aren’t necessarily as clear-cut as between two private parties. In addition to the economic success of the project itself, two related factors influence how each partner views its own success: (1) the contractual allocation of costs, risks, responsibilities and economic, fiscal, and financial returns and (2) the enforcement of these contractual arrangements during the timeline of the project. These are determined as the partnership agreement (and the project itself) is structured and negotiated.[27]

The nature and structure of the PPP agreement itself is particularly important. Morlok (1993) describes eight common-sense “guidelines for choosing a partner and making the relationship work.” These include careful selection of a committed partner, honesty and clarity about goals and objectives, and specific language detailing roles, responsibilities, and decision-making authority. Obviously, the selection of a (or which) private partner is vitally important. Whenever possible, some type of competitive-selection process should be utilized, both for appearance reasons and for obtaining the most aggressive or committed private partner. (Stainback, 2000; Sagalyn, 1996)

Public officials must become familiar with real estate development and finance (or at least have good advisors) in order to negotiate a partnership agreement for a development project. This includes a clear understanding of the nature of the project and the development financial pro forma calculations used to apportion the costs (including risks) and benefits of such projects to both the public and the private sides. As Kayden (2002) notes

> …public actors must understand the financial realities of private real estate development and its deal structures in order to negotiate effective public-private partnerships or impose reasonable regulatory burdens. Private actors must understand a broad spectrum of public goals and develop the navigational skills befitting an environment in which government regulation and public claims on private profit may be expected to continue. Both parties must understand how this new equation reassigns entrepreneurial risk and public interest oversight, and how such reassignments have intended and unintended consequences on the physical development of cities.

But these do not mean that negotiations should mimic a private deal between two private parties. As noted above, there are two fundamental differences between the public and private sectors. First is the nature and types of costs and benefits associated with some action. Since costs and benefits are valued collectively, it is impossible to determine the exact values. It is clear that they are different from the assumed financial profit maximizing behavior of the private agent. Second, satisfactory PPP negotiations also require the determination of an "appropriate" public discount rate, which may very well differ from the discount rate used by the private partner. Applying the different discount rates to the development pro forma may prove helpful in the public decision-making process, as it may help justify the allocation of some costs or benefits sufficient to make the project work, *while appearing to be one-sided in favor of the private partner*. This point is important. As noted above, the objectives of public and private partners are different. If the partnership structure is evaluated based on a private-private model, it will seem unsatisfactory.

In practical terms, there are lots of informational asymmetries that can lead to bargaining advantages for one side or the other, typically to the disadvantage of the public partner. All efforts should be made to establish good-faith negotiations. Philadelphia Commerce Director James Cuorato stated a principal consideration behind the negotiation of a PPP agreement succinctly: "It has to be a real "partnership," and both sides need to realize this. Both sides have to hold up their end of the bargain—as simple as this: private developers can't expect the public to do everything and the public can't expect to push off all responsibility to the (private) developer" (Cuorato, 2002).

Several academic studies suggest public partners often or typically bear greater costs and risks, exercise less control and receive lower returns relative to normatively "fair" allocations. (Guldbrandsen, 2002) This can obviously be true even if different objective functions are taken into account. Blame is often pinned on the public sector's poor ability to negotiate PPP agreements from positions of strength, resulting in the lack of planning and implementation control, oversight capability, and ability to assess costs. As a result, strengthening the public partner's hand in negotiating is of prime concern to some analysts (Stainback, 2000; Sagalyn, 1996; Clark, 1998). This primarily involves paying greater attention to the *pre*-development project steps:

- Careful conceptualization of the project
- Formal private partner selection procedures

- Clear delineation of project costs and benefits
- Clear delineation of partner's roles and responsibilities

Dangers here may include the process becoming too lengthy, public partners lacking necessary competency, and the potential private partners shying away from large upfront expenses.

While sharing some characteristics with project PPPs, ongoing economic development PPPs have their own issues. The nature of such activities is fundamentally different from a real estate development project, and hence they have different benefits and costs. The Upjohn Institute study referred to earlier identifies (a) active business involvement and (b) an atmosphere of cooperation among government, community organizations, and business as two necessary but not sufficient conditions for efficient and effective PPPs.[28] Interestingly, they note that the lack of the federal government's leadership role in state and local economic development may account for "the wide variety of arrangements across states and localities" in PPPs when compared to PPP activity in work force development. They suggest that as state and local economic development becomes less of a zero-sum game, "there is more reason for federal government to reenter the game," for example, in industry modernization programs and regional industry cluster efforts. This could possibly lead to more formalized structures for state and local economic development PPPs. (Eberts & Erickcek, 2002, pp. 36–39).

Role of Public Real Estate: Development Projects: Several sources emphasize the value of publicly owned land and assets to PPPs. (Stainback, 2000; Sagalyn, 1996). Land and buildings can be among the most important public-sector contributions to a PPP project. The public sector, in its various forms, owns or controls significant amounts of unused or underutilized land, buildings, and structures. Fiscal pressures on state and local governments have forced governments to seek greater financial returns form these assets. Increasingly, joint development via PPPs has emerged as an attractive alternative to the outright sale of these assets.

Real Estate PPP projects utilizing public land and buildings can take essentially three forms, when classified by the use of the new development:

1. <u>*Public land and buildings used exclusively for private development*</u>, with some combination of sale proceeds and participation in the development's financial upside as well as indirect benefits accruing to the public: fiscal (tax revenue) and economic (increased economic activity and employment opportunities).
2. <u>*Public land and buildings used for a combination of public and private uses,*</u> including mixed-use developments such as transit-oriented development (TOD).
3. <u>*Public land and buildings used exclusively for government operations,*</u> but is developed, designed, built, operated, and/or managed to some degree by private firms.

These forms of PPP are emerging as attractive alternatives to the outright sale of public assets, allowing the public sector the ability to maintain ownership, some control, and some financial upside to the development. They can positively influence the local real estate market either by making specific areas more attractive to additional private-sector investment or by increasing the overall efficiency of the government.

Various public and quasipublic entities have been established in different cities and states to play the role of the public partner in real estate development projects in the first category. Genesis LA (Los Angeles), the Penns Landing Corporation (Philadelphia), and the National Capital Revitalization Corporation (NCRC, Washington, DC) are illustrative examples.[29] On its website, Genesis LA identifies itself as "a cutting-edge initiative aimed at transforming abandoned and blighted properties throughout Los Angeles' most disadvantaged communities" via "innovative financing vehicles that provide "last resort" gap financing" for real estate development in the inner city. Penns Landing Corporation was established by the City of Philadelphia as a PPP to develop and manage the central Delaware riverfront, providing land, public financing, and associated services to private developers. According to its website, NCRC is "a public-private entity designed to serve as an important manager of major development projects in the District of Columbia," with a mandate to use "a myriad of incentives and other economic development tools . . . to shape development in the District's downtown and neighborhoods."

As an example of the second category, Greater Philadelphia First, a group of executives of large businesses in the Philadelphia metro area, is proposing to establish a "public-private partnership between (sic) the state, counties, sponsoring public transportation agencies and private-sector transit and real estate developers" to present "innovative public-private strategies for funding, developing and managing the Schuylkill Valley MetroRail (MetroRail), a proposed 62 mile regional commuter rail line that will connect Philadelphia to Reading and its western suburbs along the Schuylkill River." (GPF, 2002). An integral component of this project is expected to be capturing some of the private economic value created by the transit project for use in the financing.

Accountability and Monitoring: Of critical concern to the public is the ability to monitor the activities of PPPs. Indeed, *accountability* is one of the hallmarks of resource allocation in the public sector. By its very nature, private decision making is not always open and transparent, and the appropriate use of public resources, and the appropriate distribution of publicly generated benefits are key public considerations. In their analysis of the results of a 1994 ICMA survey of 194 cities, Walzer and York find that "the vast majority (79.8 percent) reported that the partnership agreements are monitored to make sure they are met. The monitoring most often included periodic reports by businesses and annual meetings with business leaders." (Walzer and York, 1998).

The IEDC Web site notes one of the prime advantages of PPPs:

> Both the public and private organizations who form these non-profits contribute either financially or "in kind" support . . . . Public-Private partnerships acting as a strong voice for the interests of local businesses, while also possessing immediate access to the highest levels of local government. These organizations have greater flexibility than the public

> sector to conduct economic development activities since they do not have to answer to such a broad constituency.

But this advantage is exactly what worries some observers when considering the potential divergence between private business interests and public accountability. Peters (1998) highlights the government's trade-off when using PPPs: giving up "some of its autonomy and potentially some of its authority for the cooperation of the private sector."

Some cities have established more formal review and oversight processes. A description of Seattle's new process, along with information for participants includes the following:

> Panelists serve in a volunteer capacity on this official City panel which reviews and comments on certain public-private partnerships between the City of Seattle and private entities, including nonprofit organizations. The panel is part of a new process, called P4, which the City is using to ensure that it critically examines whether a proposed public-private partnership would meet public benefit objectives.[30]

Among the twelve "P4 Panelists' Guiding Principles" are: "they understand that their mission is to help the City examine the public benefit elements of certain proposed public-private partnerships" and "Panelists recognize the cost limitations of proposed projects. Panel recommendations will be as cost effective and efficient as possible." Because public review can be a scary prospect for many in the public sector (not to mention for those in the private sector), Seattle adds a constraining principle: "Panelists recognize that the City has proposed a project that City staff have reviewed and believe is viable and in line with City goals."

Measurement and Performance Evaluation

Are PPPs successful? First, it is difficult to disentangle success of PPPs from success of economic development efforts in general. As economic development practitioners well know, there is a growing debate about the appropriateness (as well as the success) of economic development efforts in general, and this spills over into evaluation of economic development PPP efforts. For example, was a policy, program, or project unsuccessful because it was wrong in concept, or because it's implementation was hampered by a PPP approach?

Therefore, it may be better to restate the question: "Are PPPs effective approaches to particular economic development efforts?" Even that is hard to determine since the literature lacks specific definitions and measures and, for the most part, sufficient data with which to evaluate success. New York City Partnership Executive Director Frank Macchiorola's 1986 observation still rings essentially true today: ". . . the most difficult aspect of partnerships may be determining and measuring success. Few organizations can be used as reference points, and there are few forums for discussing what can be done." (Marcchiorola, 1986). While today we do have more reference points, it's not clear that we have a much better understanding of defining and measuring success.

In order to evaluate the success of PPPs, there has to be some consensus on what exactly is to be measured, whether quantitatively or qualitatively.[31] And obviously, a real estate-based PPP development will have different measures of success than would an ongoing PPP established to help market a region to potential businesses, investors, or workers. In fact, for the latter, the mere establishment and continued existence of a PPP can be seen as success in itself. This does appear to be used as a substitute measure for success, as PPPs in the Ongoing ED function category are harder to quantify, primarily because their outputs are difficult to define and measure.

Conceptually, we might think of considering a PPP "successful" if it (a) increases the probability of a good economic development effort being successful and/or (b) it increases the net benefits to one or more of the partners, without decreasing that of any partner. While this still leads to practical measurement and evaluation limitations, we can generalize some findings about the effectiveness of PPPs in economic development. There does seem to be some evidence that PPP approaches can generate efficiency gains for the jurisdictions involved, if for no other reason that they can leverage or combine private-sector capital and talent to direct investment and the location of economic activity. While much of the advocacy literature and practice argues the PPPs are fair and responsible partnerships, some of the more academic literature suggests that the public-sector partners may often bear greater risks and costs relative to the distribution of partnership benefits. Confounding the entire discussion, however, is the difficulty in identifying and valuing the costs and benefits (which require normative value judgments), so there is room for honest disagreement and continuing analysis and debate. Related to this is the fact that since no two jurisdictions are identical, there is no uniform definition of success. What may seem excessive public participation or risk-assumption in one jurisdiction (and hence an "unsuccessful" PPP), may be very appropriate in another.

In one of the more rigorous evaluations undertaken, Stephenson (1991, p. 113) states the evaluation case succinctly: "Partnerships necessarily combine the relative strengths and weaknesses of each sector . . . . Accordingly, public-private partnerships may or may not result in efficient, effective, or distributionally-equitable outcomes depending on the interplay of local sectorial characteristics and relationships." He defines "dimensions" of PPPs, and asks what are clearly important questions for evaluation: whether (i) they can produce efficient outcomes, (ii) they can be considered politically effective, (iii) the partners can overcome significant differences to create "viable operating entities," and (iv) PPP benefits are distributed equitably to citizens of the public partner's jurisdiction. With regard to the efficiency condition, he concludes that there are significant obstacles, primarily due to informational and incentive asymmetries, to PPPs being efficient capital-market intervention strategies.

Other evaluations were based on varied criteria. Grant and Hall reviewed economic development "public-private partnerships" in 25 U.S. metropolitan areas and concluded that standard definitions made it difficult to evaluate their effectiveness (as well as their very existence, in any bona fide form). They developed three models to form the underlying basis for analysis of partnerships' effectiveness as economic development approaches, finding mixed results (Grant & Hall, 1998). Stein (2000) suggests the more successful PPPs are those "driven and led by the private sector," because private businesses are more results-oriented and are less constrained than most public-sector entities in terms of jurisdictions, activities, time horizons, and financing. For many, private-sector *leadership* is seen as a key role in the success of PPPs. (Rockefeller, 1986; Stainback, 2000; NCCCP, 2002). In a qualitative assessment of performance, based on a survey of 194 cities, Walzer and York (1998) found that "partnerships are taken seriously by local governments" and cities "reported a high degree of satisfaction with the partnerships and that a relatively high percentage of the partnerships are considered successful in that they provided a reasonable return to the city."

Despite the lack of universally accepted or conclusive evidence on effectiveness, in efficiency and equity terms, it does appear obvious that PPPs will continue to grow in importance as approaches or specific tools for conducting various types of state and local economic development programs. They are politically popular, and they are generally viewed positively by the business community as a method for contributing talent and capital, as well as assuring their input into important economic development decisions. In addition, several common characteristics appear to be associated with "successful" PPPs:

- Receptive and supportive public sector to a partnership approach
- Clear objective(s), with well-defined, limited, and measurable objectives
- Clearly delineated (via fair negotiation) roles, responsibilities, and shared risks
- Active and meaningful participation of all partners
- Satisfactory accountability and openness with the public

However, the characteristics that appear to be associated with "successful" PPPs may differ depending upon whether you view them from the private or the public side. In 1986, David Rockefeller identified five key characteristics, from the private-sector viewpoint, that are probably still appropriate today:

- A strong and comprehensive private-sector organization
- Personal participation of the CEOs involved
- A clear mission, with well-defined, limited, and measurable objectives
- Receptive and supportive public sector
- Good communications[32]

From the public side, NCPPP identifies five ingredients of success for PPPs, with an important caveat: "While there is not a set formula or an absolute foolproof technique in crafting a successful PPP, each of these keys is involved in varying degrees." In condensed summary, the five "critical components" are as follows:[33]

- **Political Leadership ("commitment from the top")**
  Senior public officials must be actively involved, show significant support for the use of PPPs, and take strong leadership roles in the PPP. A well-informed political leader can play a critical role in minimizing misperceptions about the value to the public of an effectively developed partnership.

- **Public-sector involvement**
  Public-sector officials must also remain actively involved in the project or program. On-going and frequent monitoring of the performance of the partnership is important in assuring its success, especially to counter any claims of lack of accountability.
- **A well thought-out plan**
  Careful planning (often done with the assistance of an outside expert in this field) will substantially increase the probability of success of the partnership. "This plan most often will take the form of an extensive, detailed contract, clearly describing the responsibilities of both the public and private partners. In addition to attempting to foresee areas of respective responsibilities, a good plan or contract will include a clearly defined method of dispute resolution (because not all contingencies can be foreseen)."
- **Communications with stakeholders**
  Partnership stakeholders, including "affected employees, the portions of the public receiving the service, the press, appropriate labor unions and relevant interest groups will all have opinions and frequently significant misconceptions about a partnership and its value to all the public." Open and candid communication is key.
- **Selecting the right partner**
  "The 'lowest bid' is not always the best choice for selecting a partner. The 'best value' in a partner is critical in a long-term relationship that is central to a successful partnership. A candidate's experience in the specific area of partnership being considered is an important factor in identifying the right partner."

On the other hand, PPPs that appear to *not* exhibit these same characteristics may be associated with less-than-successful or unsuccessful PPPs efforts. But even unsuccessful PPPs can have some positive impact. Haider (1986) judged PPPs to have a mixed performance in Chicago's 1980s economic redevelopment, but noted they were instrumental in dismantling the "older order" of the city's public sector: political machines and all-encompassing bureaucracies. We may or may not consider those fully dismantled, but PPPs may well have spurred a more entrepreneurial behavior by public-sector actors.

4. IMPLICATIONS FOR ECONOMIC DEVELOPMENT PRACTIONERS

Economic development practitioners are faced with an ever-changing economic and demographic landscape with increasingly tougher competition from other jurisdictions for location of business investment and economic activity. And they face this with decreasing financial and nonfinancial resources at their disposal. The lure of potentially leveraging private capital, not to mention soliciting private-sector assistance in general, will in all likelihood grow stronger. If not already, these practitioners will often be faced with the option of approaching some economic development effort via a PPP arrangement. A basic understanding of the experience of their peers can be helpful.

Overall, it appears obvious that PPPs will continue to grow in importance as an approach to the practice of economic development, particularly in the two areas of this study: Ongoing ED Functions and Development Projects. They are generally considered to be effective, in that both the public and private sectors appear to derive benefits from such arrangements. From a diverse literature and practical experiences, we can cull several implications of interest to economic development practitioners.

General Implications

Strengthen public acceptance of PPPs. Economic development officials (indeed all public officials) should educate the public about the potential benefits of partnerships by explaining that partnering with the private sector need not be zero-sum or losing propositions. The mutual advantages of partnerships in general should be noted and discussed. The public should understand that without such partnerships, mutually beneficial opportunities may be passed by, making all parties relatively poorer.

An approach, not the solution. PPPs in and of themselves will never be "the grand solution" to all economic development issues, including those manifest in declining urban areas. Expectations should be tempered and realistic; PPPs should be viewed as tools or approaches or mechanisms for economic development actions, not necessarily appropriate for all efforts, nor for all governments. As Peters (1998) concludes his study, "Partnerships are an important instrument for government intervention into society. They are neither the answer to all problems of public policy, nor are they a totally symbolic and ineffective mode of action." Way back in 1986, as concerns about privatization and devolution crescendoed among many, William Woodside addressed a New York City Partnership, Inc. conference with comments that can easily extend to economic development:

> When we look at the constellation of complex domestic problems this nation must address—poverty , hunger, homelessness, unemployment, and public education—I think we must recognize that public-private partnerships will prove to be an inadequate vehicle on which to depend. These partnerships can help us find some innovative solutions to certain aspects of those

> problems . . . But they cannot, by themselves, solve major social problems, and we must not act as if they can."[34]

As a corollary, economic development practitioners know that all types of economic development activity are subject to increasing scrutiny as appropriate public policy. Cost-benefit justification (as well as the distribution of benefits) for such activity is more and more a part of the public debate. As a result, even stronger justification for PPP approaches may become more important as time goes by, especially for development projects with private-sector developers.

Control against undo private influence over public resource allocation decisions. While some caution that PPPs should not be expected to solve all of society's problems, others express concern that PPPs (1) have been and will be used as excuses to reduce the public sector's role in certain realms of social policy, and (2) will cede too much control of the public agenda (and resources) to certain private interests, leading to efficiency and equity problems.

As a corollary here, practitioners and elected officials should strive to get the public to look beyond the exaggerated dichotomy of public and private sectors, locked in harrowing zero-sum games and recognize that PPPs can offer opportunities to create net gains for both the public and private sectors.

Implications Peculiar to Development Projects

Be accountable and as transparent as possible. A significant downside to using PPPs in economic development efforts is the *appearance* of impropriety, in particular the potential for the private partner to "take advantage" of the public. Lack of openness or opportunity for public review naturally adds to uncertainty about whether the PPP's activities are on the up-and-up.

Negotiate professionally, but remember the nature of public benefits. For projects where there is deemed sufficient public (in terms of all economic development goals) and private financial return to warrant significant levels of investment from both sectors, it is important to negotiate a formal partnership arrangement between the public and private actors, setting forth the roles and responsibilities of each party. The public-sector actors should remember that many of the potential public benefits are not strictly financial, as they are typically for the private partner.

Identify underutilized public assets and leverage those to create value for both private and public partners. The public sector owns or to some degree controls many valuable assets, especially land. To the extent these otherwise underperforming assets can be used, via a PPP arrangement, to create additional economic value (and corresponding tax revenues), fiscally strapped jurisdictions should carefully consider such opportunities.

Implications Peculiar to Ongoing ED Functions

Define and agree up-front on quantifiable measures for evaluating success. In the often intangible and complex world of economic development, it is especially important to identify and define the outcomes as carefully as possible and agree upon what measures will be used to judge progress or failure. Economic development officials do not work in a vacuum; daily economic activity changes virtually every economic variable. In evaluating the success of this kind of PPP, it is important not to mistake the influence of other actions (besides the PPP activities) on the outcomes under consideration.

Be accountable and as transparent as possible. The significant downside noted above, the *appearance* of impropriety, may be more of a hindrance for Ongoing ED Functions because unlike a visible real estate development project, this type of PPP is basically intangible. Here, a lack of openness or opportunity for public review may add even greater uncertainty about whether the PPP's activities are on the up-and-up.

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Are PPPs the answer to all of life's problems? Peters (1998) concludes his study: "Partnerships are an important instrument for government intervention into society. They are neither the answer to all problems of public policy, not are they a totally symbolic and ineffective mode of action." Our review of the literature and practice leads to a similar conclusion, and we suggest that (1) PPPs can be appropriate as viable, alternative approaches to certain types of state and local economic development efforts, and (2) public-sector officials (especially) should continue to search for new partnership opportunities, while paying careful attention to fundamental partnership issues: purpose, structure, governance, roles, risk-sharing, and distribution of benefits.

5. APPENDICES

<u>Categories of Economic Activity: A Classification</u>
Combining the two basic approaches from Section 2 allows us to classify economic activity in four distinct categories, along with some of their characteristics and examples of overlap (referred to as "border-crossing" in the text) or intervention of public into private or private into public. Examples of border-crossing "entries" are highlighted for each category. This classification allows us to "place" all PPPs into appropriate categories:

A. Private production and consumption (private markets)

a. Profit motives for firms, utility maximization for consumers
b. Decentralized, private decision making
c. Production theory and cost minimization

- ***<u>PUBLIC entry: subsidies, taxes, regulations</u>***

B. Public production (or provision) and consumption (public goods and taxation)

a. Public choice theory: collective decision making
b. Public production and bureaucracy: public goods and services
c. Taxation theory and revenue-raising mechanisms
d. Redistribution to accomplish communal equity objectives

- ***<u>PRIVATE entry: joint ventures, contracting out, vouchers, franchising, coordinated production</u>***

C. Private Investment (infrastructure and capacity; private financial markets)

a. Physical capital: plant and equipment (including technology)
b. Human capital (higher education and training)

- ***<u>PUBLIC entry: subsidies, taxes, regulations</u>***

D. Public Investment (public works and infrastructure; financial markets)

a. Physical capital: public infrastructure and public plant and equipment
b. Human capital: (education and training)

- ***<u>PRIVATE entry: joint ventures, contracting out, vouchers, Franchising, coordinated production, financial markets</u>***

PPP Sources

Several organizations actively promote and research PPP approaches, give guidance, and compile case studies of actual public-private partnership entities, deals, and projects. These sources can be extremely helpful to practitioners. In some cases, such information or services are proprietary and available only for a fee or to the organization's membership. The case studies vary somewhat in content, but many include details on the type and nature of the public-private partnerships involved, along with some evaluation methods.

Listed below, in no particular order, are some key organizations with economic development PPP connections:

A. Urban Land Institute

ULI PPP Case Study Database:

- http://www.uli.org

The Urban Land Institute maintains an extensive and informative proprietary electronic database of real estate development project case studies that can be searched with key words including "public/private partnership" and "public/private cooperation." Each project's detailed case study provides varying degrees of information about the nature and role(s) of the PPP in the development. In addition to the detailed case study, a summary is provided for each project, highlighting the important features, including PPP components.

B. National Association of State Development Agencies (NASDA)

National Resource Center on Public-Private Partnerships:

- http://www.nasda.com/

This recently created National Resource Center focuses on compilation, analysis, and promotion of PPP approaches to state economic development efforts. NASDA disseminates information and conducts workshops about PPPs and "has helped develop a chart of economic development partnerships and a history and analysis of successful partnerships." Interestingly, they note that, "as many as half the states have been involved in serious exploration of new organizational options, and at least three states have gone totally private, while many more have opted for hybrid partnerships."

C. International Economic Development Council

Economic Development Reference Guide: Public-Private Partnerships:

- http://www.iedconline.org/hotlinks/Pubprivpart.html

IEDC Best Practice Cases In Public-Private Partnerships:

- Public-Private Partnerships, Roles in Economic Development of 25 Metropolitan Institutions.
  http://www.iedconline.org/commentary_spring98.html#6

Web-based Resources For Public-Private Partnerships:
Select Regional Public-Private Partnerships

- The Bay Area Marketing Partnership
  http://www.bayareafirst.org/about/partners.cfm
- Greater Baltimore Alliance
  http://www.greaterbaltimore.org/
- Greater Houston Partnership
  http://www.houston.org/
- Greater Pheonix Economic Council
  http://www.gpec.org/
- Greater Richmond Partnership
  http://www.grpva.com/index2.html
- Growth Council of Oxford Hills
  http://www.oxfordhills.org/
- Pittsburgh Regional Alliance
  http://www.pittsburghchamber.com/PRA.cfm
- Research Triangle Regional Partnerhsip
  http://www.researchtriangle.org/
- San Diego Regional Economic Development Corp.
  http://www.sandiegobusiness.org/welcome.html
- SmartCities, Kansas City
  http://www.smartkc.com/
- Southern Indiana Economic Development Corp.
  http://www.siedc.org/
- Tampa Bay Partnership
  http://www.tampabay.org

D. The National Council for Public-Private Partnerships

- http://www.ncppp.org/index.asp

The National Council for Public-Private Partnerships is a forum for the brightest ideas and innovators in the partnership arena. Its growing list of public-and private-sector members, with experience in a wide variety of public-private partnership arrangements, and its diverse training and public education programs, represent vital core resources for partnering nationwide.

The mission of The National Council for Public-Private Partnerships is to advocate and facilitate the formation of public-private partnerships at the federal, state, and local levels, where appropriate, and to raise the awareness of governments and businesses of the means by which their cooperation can most effectively provide the public with quality goods, services, and facilities.

E. Economic Research Associates (ERA)

Public-Private Partnerships:

- http://www.econres.com/documents/ppp.html

Although ERA is a for-profit consulting firm, this website provides good case study summaries of their PPP-related projects.

ENDNOTES

[1] For interesting interpretations of the history of public and private joint activity in the U.S., see Foster and Berger (1982, ch.1); Beauregard, in Pierre, ed. (1998, Ch. 4) and Sagalyn, in Miles. et al., (1996, pp 288–89). For an excellent discussion of joint public and private efforts in the provision of public goods and services, see Oakerson (1999).

[2] We limited our review to the United States and Canada because their federalist systems of government, entailing an overlapping hierarchy of political jurisdictions, combined with the predominance of the private sector. This is not to say that PPP isn't important in other countries, but in most other countries the public sector plays a much greater primary role in overall resource allocation. Hence PPP is viewed from a different perspective in most other countries, and experiences may be less transferable or applicable to the United States and Canada.

[3] For example, a PPP panel was one of the most attended in ULI's recent (April 2002) "*The Washington Real Estate Trends Agenda*" conference held in Washington, D.C. Moderated by John B. Slidell, President, Bozzuto Homes, Inc., the panel included real estate experts Richard Zeidman (coordinator), Linowes and Blocher, LLP; The Hon. Douglas Duncan, County Executive, Montgomery County, MD; Bryant F. Foulger, Vice President, Foulger-Pratt Companies; James W. Todd, President, The Peterson Companies, and Thomas S. Bozzuto, President, & CEO Bozzuto Group.

[4] A Google search for "public-private partnerships" resulted in 252,000 citations, while including "economic development" yielded 23,800 sources. A Penn Internet Library search returned hundreds of citations.

[5] This report can also be used for basic graduate level courses in urban economics, public and project finance, state and local government, and public policy, as well as courses in regional economic development and policy.

[6] For example, John Stainback, <u>Public/Private Finance and Development: Methodology, Deal Structuring & Developer Solicitation</u>, uses several classifications to sort out the public/private development process, both chronologically and by players' roles.

[7] "Economic Development" as used in this review refers only to *state and local government levels*, not the federal level, unless specifically noted.

[8] A detailed illustration of these categories is included in Appendix 5.1.

[9] This also includes provision of public housing and the development of subsidized market housing, where housing *services*, as opposed to *investment*, are paramount. For excellent discussions and analyses of all of these types of PPPs, see Savas (2000)—or any of the many contributions of Prof. Savas—and Oakerson (1999).

[10] We do examine PPPs involved in public infrastructure investment if a significant component of the PPP's objective is to encourage or leverage private investment associated with the public project. Public investment projects include: public buildings for government operations, prisons, airports/port/transportation centers, transportation and utility infrastructure, low-income housing, parks, recreation and library facilities, and convention centers.

[11] Exclusion does not indicate that PPPs in these areas are not important, rather we are limiting our review to certain economic development applications only.

[12] Types of *essentially private* investment projects include: Commercial and industrial buildings, Commercial retail, Large-scale retail/entertainment, Telecommunications infrastructure, Housing development, and some Sports facilities/Convention-Assembly Centers. Sports facilities and convention centers are not easily categorized, readily evident, or universally agreed-upon, and we treat them as special cases.

[13] In economic terms, due to either positive externalities (spillovers) or public good nature of the project benefits.

[14] Specifically excluded from this review are large-scale projects that are *predominantly private* in nature, even if they include some type of public subsidy. At the opposite end of the spectrum, we exclude projects that are *essentially public* in nature, such as roadway and bridge construction. Although the distinctions along this private-to-public spectrum are blurring, there are interesting and important examples near each pole.

[15] This paper provides an excellent overview or work force development history and initiatives, and analysis of PPPs in work force development, and is recommended to readers interested in that particular area.

[16] For an excellent overview of this evolution and delineation of specific economic development "tools," see Walzer and York (1998).

[17] PPPs are commonly used approaches to state and local economic development whether in the First, Second or Third "Wave" of economic development strategy as commonly defined today.

[18] In addition to imperfect statistical methodology, this can be due to failing to identify particular benefits, writing off benefits as insignificant, or merely data insufficiency problems.

[19] These works are briefly summarized here, but also cited throughout the report.

[20] ICSC, IEDC, Michigan Downtown Finance Association, and the Michigan Society of Planning sponsor this program.
http://www.icsc.org/srch/mt/descs/2002S03/2002S03.pdf

[21] We discuss "success" in more detail below.

[22] This is an issue whether the impetus for the partnership comes from the public sector or the private sector, referred to as "bottom-up" by Jacob and Walzer (1998).

[23] While political scientists and political economists define governance in many ways, they tend to focus on the institutions and process through which citizens' demands for government services are determined (sometimes referred to in the political economy literature as public choice) and the manner in which these services are actually provided to the citizens. Because funding to pay for the services ultimately comes from the pocketbooks of its citizens, the public sector and the private sector are inextricably intertwined. For excellent discussions of these issues, see the volume edited by Pierre (1998).

[24] Guldbrandsen (2001) provides an insightful discussion of this important issue, along with the results of a case study, in an unpublished paper presented at UNC-Chapel Hill. The paper, available on the Internet, is referenced here only, and specifics are not cited, as he was unable to be contacted for citation permission.

[25] The primary basis for her discussion is based on an article by de Neufville and Barton (1987).

[26] Summarized here; full listing and details can be found at http://www.nasda.org.

[27] In a course syllabus, Kayden (2002) asks an important follow-up question: How can the trade-offs between fiscal or financial benefits and other public interests be best understood by the public?

[28] An example from Loudon County**: "**Loudoun County Seeks Business Leaders for Economic Development Commission. Loudoun County's Economic Development Commission (EDC) wants local business leaders who can contribute time, energy, and effort to promote a continued thriving and sustainable economy in the county." http://www.loudoun.gov/news/edc.htm

[29] But they are by no means the only examples. Several more are noted in the Appendix.

[30] Full details can be found at (http://www.ci.seattle.wa.us/ppp/default.htm).

[31] Economists typically use two concepts in the framework of cost benefit analysis to measure the success or effectiveness of programs or initiatives: Efficiency and Equity. We could find no studies that seriously evaluated the effectiveness and performance of all types and forms of PPPs used for economic development purposes. This is not surprising given the wide variety of PPP approaches and the lack of consensus on single measures of success.

[32] Rockefeller noted: "some of the major pitfalls of public-private partnerships involve language. If we are not careful, the rhetoric surrounding the subject can far exceed the substance." (Rockefeller, 1986).

[33] These are condensed and paraphrased. The complete details can be found at http://www.ncppp.org/howpart/index.html.

[34] Interestingly, his address was entitled "The Future of Public-Private Partnerships" and is published in Davis, (1986).

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