



Wealth in Waiting

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Understanding Public Wealth and Urban Wealth Funds

Local governments are sitting on a virtual “gold mine” without realizing it. Just as a private individual or a corporation monetizes its assets (such as machines or buildings), governments can generate income from their assets. UWFs collect commercial assets under unified, professional management and manage them for the betterment of the local community. Better management of these assets reduces reliance on taxes for infrastructure investment while generating revenue to support other vital investment requirements.

What is a UWF?

A UWF has three key features that distinguish it from other methods governments might use to manage assets.

Transparency. All assets are clearly identified and have a defined market value. Many governments don't know all the assets they own, and if they do know, they may not have a clear picture of the assets' value. For example, asset value is recorded at the historical acquisition cost, which

is not a good indicator of current worth. Knowing the market value is important not for selling assets but for understanding their true worth—and making sure they are maintained in an economically sustainable way. A “fair” market value also helps governments understand their income-generating potential (in ways other than sale, such as renting space to others).

Political independence.

Consolidating the commercial portfolio within a proper governance structure will help reduce fiscal risk and delegate financial responsibility and accountability to an independent institution. The “infrastructure crisis” and “revenue crises” that many local governments find themselves in demonstrate that new approaches could be valuable. An independent holding company that’s at arm’s length from short-term political influence would delegate the management of the commercial portfolio to a professional management team, allowing a government to focus on the wider economic issues.

Clear objective of value maximization. A UWF should have a comprehensive business plan that shows the link between the budget and balance sheet—a balance sheet that demonstrates to stakeholders the value of all assets (as well as its liabilities). A focus on net worth (assets minus liabilities) makes it possible to show that every proposal has a positive impact on the net worth. In other words, the decisions we make today will leave the next generation better off, not worse.

UWFs in action

UWFs have been used by many cities globally, but not in the United States. Examples include Copenhagen, Denmark; Hamburg, Germany; and London, England. These cities used UWFs to create enough public resources to redevelop derelict zones



in urban areas, turning them into attractive residential and commercial areas. Hong Kong and Singapore also provide interesting examples.

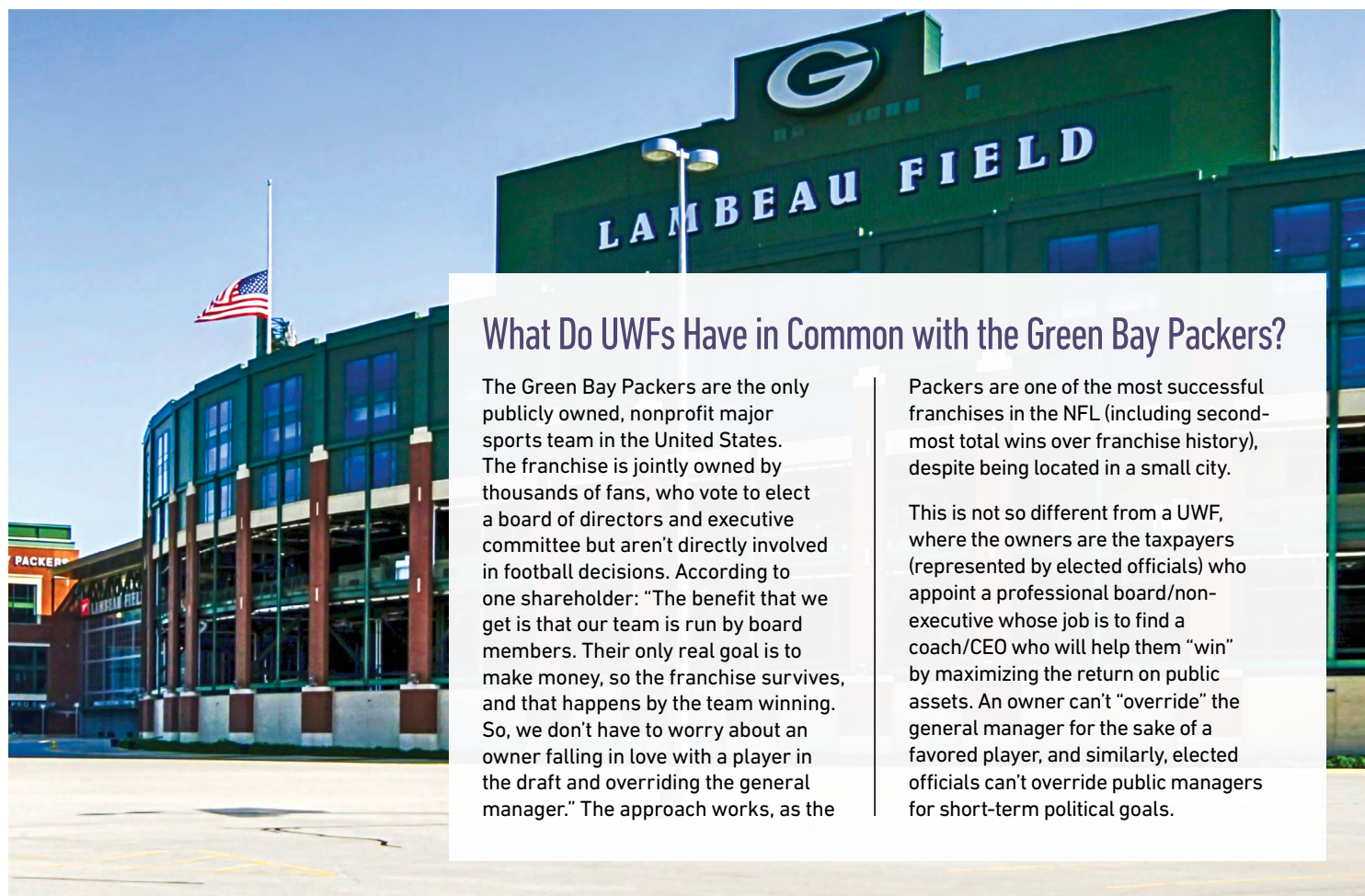
Potential benefits of a UWF

The benefits of a UWF depend on the assets in the fund. U.S. cities contain great potential, as local governments have vast portfolios of assets with commercial possibility. Hong Kong used its UWF to pay for the construction of its subway system, which is equal in daily ridership and length of track to NYC’s MTA (the most expensive subway system in the world)—without using a single tax dollar. The Hong Kong train

Hong Kong used a UWF to fund the construction of its expansive subway system, which carries an average of 5.8 million passengers daily.

system has remarkably affordable fares without any tax subsidy. A big part of the train system’s income is derived from the housing and commercial activities that the UWF has built up around the system’s transportation hubs.

Singapore’s UWF played an essential role in turning the city-state from a developing economy into a highly developed economy in one generation. At the time of its independence in



What Do UWFs Have in Common with the Green Bay Packers?

The Green Bay Packers are the only publicly owned, nonprofit major sports team in the United States. The franchise is jointly owned by thousands of fans, who vote to elect a board of directors and executive committee but aren't directly involved in football decisions. According to one shareholder: "The benefit that we get is that our team is run by board members. Their only real goal is to make money, so the franchise survives, and that happens by the team winning. So, we don't have to worry about an owner falling in love with a player in the draft and overriding the general manager." The approach works, as the

Packers are one of the most successful franchises in the NFL (including second-most total wins over franchise history), despite being located in a small city.

This is not so different from a UWF, where the owners are the taxpayers (represented by elected officials) who appoint a professional board/non-executive whose job is to find a coach/CEO who will help them "win" by maximizing the return on public assets. An owner can't "override" the general manager for the sake of a favored player, and similarly, elected officials can't override public managers for short-term political goals.

1965, Singapore was an undeveloped country with a per-capita GDP of less than \$320. With the money from the UWF, it has not only developed its economy but also supplied public and affordable housing to 85 percent of its population.

The Hamburg UWF is focused on redeveloping the city's harbor district into a new part of the city. Large investments have created 12,000 new residential units and 45,000 workspaces, as well as a state-of-the-art concert hall and 12 new educational facilities, from kindergartens to universities—without using taxes.

Copenhagen developed an even larger area and created some 33,000 new homes and 100,000 new workspaces, as well as a university for some 20,000 students. The city also generated a surplus that helped fund the extension of its subway.

Generating revenue

UWFs generate revenue by employing techniques that are common in the private sector. These include developing real estate assets such as parking lots and other vacant lots, former industrial areas, or any building that could be used for better and higher use. By acting like any private-sector developer, a professional UWF could develop such assets into residential buildings, offices, schools, and mixed-use communities. Through a mix of tenants, the UWF would generate a diversified revenue stream that could be used to invest in maintaining a city's water system or airport, for example.

Such a comprehensive approach would not only improve the quality of services from publicly owned utilities and transportation systems

but also create a more sustainable environment for the benefit of society. A government is not set up to manage commercial risk, but a UWF would be able to use the tools that aren't normally available to local governments and capture the benefit to society instead of giving it to the private sector.

The difference between UWFs and privatization

In a UWF, the ownership of assets isn't transferred to the private sector, as it is in a privatization deal, and the revenue generated by the assets in a UWF is reinvested back into the community. To illustrate, imagine a local government that has excess property. Privatization would mean selling the property to a private interest or agreeing to a long-term lease that transfers control of the asset

and revenue potential to the private sector. Under this arrangement, there have been cases where properties have been sold at prices far below market value because governments don't account for the market value of their properties—and because property sales often take place under desperate circumstances. There are countless examples, such as Chicago's parking meters to toll roads and the outright sale of real estate.

A UWF's professional managers would have the skill to develop the asset to a better use with a higher value and yield.

What about using UWFs to support general operations?

A local government can use a UWF to support general operations, but there are advantages to first using it to invest UWF proceeds in infrastructure. Professionally managed, the wealth of a UWF would grow to the benefit of future generations and help solve the much-publicized local government “infrastructure crisis.” For example, the yield from real estate can be used to pay for the investments needed to upgrade the water system or build affordable housing and a new school.

Why U.S. cities don't use UWFs—yet

There are several reasons why UWFs aren't used in the United States, but none of them poses an insurmountable barrier. Following are some of the most important reasons.

A different perspective. UWFs require a different perspective on government assets from what is usually found in the United States, where public officials have typically considered either a traditional public ownership model or privatization.

A UWF is a different approach, where the assets are owned by the government but with a professional management team in place, using private-sector techniques. It is separated from politics by a “holding company” at an arm's length distance to ensure a comprehensive commercial mindset for all assets within the portfolio.

Fragmented ownership.

Ownership of public assets, such as transportation, utilities, buildings, and land, is often spread across many agencies. A UWF “holding company” that has a common view of all the city's assets (including their true value), along with all the tools that have been developed in the private sector to manage and develop these publicly owned commercial assets, can benefit the whole community.

Accounting rules. Government accounting rules do not allow an asset to be valued at a fair market value, which radically undervalues assets, especially in urban areas where space is at a premium. Most government assets have been acquired for a pittance, decades or even centuries ago. Low values, or, often, no value at all attached to an asset does not create incentives for investments, maintenance, or even professional management. What isn't measured doesn't count, as they say. For example, local governments sometimes operated garages or vehicle yards on valuable waterfront property because the facilities were built when the land was worth much less (when urban cores were unattractive to potential residents). A UWF proper accounting and a professional management team held accountable for developing the assets would recognize this and would develop the waterfront location to be more useful and lucrative, to the benefit of all.

We have looked at cities all over the country. When you do the math, it is easy to see that urban areas all over the United States are sitting on a “gold mine” of resources—their real estate—that is not used as efficiently as it could be. If professionally managed, these assets could be a great supplement to tax revenues. Every city in America has much more value hidden in the real estate portfolio than what is visible on the financial statement. There is not a day when we are not able to surprise the city management with hidden resources they have right in front of their eyes.

VIEW FROM URBAN PLANNING
CONSULTANT JOE MINICOZZI





The main opportunities for U.S. cities

In the United States, the biggest asset segment by far is real estate, the value of which is several times that of all other assets. Excluding public parks and historical heritage sites, these government-owned commercial real estate assets account for more than half the total value of the real estate market in most U.S. cities. But governments often have very little information about these properties, most of which are not visible on government accounts. Independent valuations of several large- and medium-sized U.S. cities by Urban3 showed that the market value of the public assets is many times the value stated in the government financial accounts—the so-called “book value.”

The market value was, in at least one case, as much as 70 times book value, according to an evaluation by Urban3. Each city also maintained that assets comprised a substantial share of the total market value of the entire city’s real estate market (public and private property).

Operational assets, which are critical for our society and our well-being, offer opportunities as well. If they were professionally managed in a UWF, these assets would prosper with proper

maintenance and investments, and they would be used to benefit the community. The big advantage of a UWF over the traditional model of public management is to insulate professional management from short-term political expediencies. Also, the revenues generated from the land portion of the UWF portfolio can be used to pay for capital asset maintenance and replacement for public utilities—the approach taken by the Copenhagen and Hamburg UWFs.

How cities manage UWFs

Cities create a separate “holding company” that isn’t subject to short-term political influence. This is not privatization—it is a separate organization that can apply the proper commercial tools while buffering the whims of short-term politics. This organization can use all the tools available in the private sector to professionally manage commercial assets and apply them to public assets. This approach has its beginning in the United States at the end of the 19th century, but then the U.S. stopped using it while European and Asian countries developed it further and expanded upon it.

A separate holding company, or UWF, for public assets could achieve three goals: increase funding of infrastructure or other investments, put investment decisions on a sounder economic footing, and

UWFs recognize the potential value of government-owned commercial property, which is often much higher than the “book value” stated in government financial accounts.

reduce the government’s politically motivated access to those assets.

Staff is recruited on merit, often from the private sector. This is where the expertise to manage commercial assets is. One can think of it as recruiting for a professional sports team—the point is to hire a winning team; it should be irrelevant that the team happens to have a government owner.

As with any ownership structure, the management is held accountable to the board, and the board is accountable to owners. The owners of any government asset are the taxpayers, and the board is appointed by the local government. However, board members should be appointed to further the goal of maximizing the return on public assets, not based on political considerations. ■

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The Next Step

Get a rough understanding of the value of the assets that the city owns, both operational and real estate. This can be used to evaluate the viability of a UWF and how much it could contribute to the city budget. An example of this type of analysis is available in “Unlocking Public Wealth” in the March 2018 issue of *Finance and Development* magazine.