Unlocking Urban Public Assets

Dag Detter wrote the book on public commercial assets, literally. In 2017 he and Stefan Fölster published their highly regarded *The Public Wealth of Cities*, which proposes that cities release the wealth in their public assets to the benefit of society as a whole.

A former Swedish investment banker, government director and president of the Swedish government holding company, Detter says cities such as Washington, DC, should map their assets and effectively manage them through an urban wealth fund, a publicly owned holding company run by professionals recruited from the private sector.

Federal City Council's Anthony Williams shared a thoughtful conversation with Detter to discuss his insights on how best to return economic vitality and financial stability to cities by better leveraging their public assets.

AW: We are all familiar with public private partnerships (P3s). How does your approach differ from a P3?

DD: "An urban wealth fund is the opposite of a P3. These are all associated with an undue transfer of public wealth to the private sector. To capture the whole upside for the public of shifting assets, you have to create an urban wealth fund, which has a balance sheet and professional management. This way the institution is aligned with the life cycle of the assets, assets that can last for several decades or more, way beyond the four-year political life cycle of most cities. With a balance sheet and a focus on the net worth of the portfolio, you will also be able to fund the vital maintenance of your assets because maintenance is the bulk of the cost over the lifetime of an asset."

AW: What kind of city makes a good candidate for this approach?

DD: "Political will is the main secret behind this concept. Naturally, the political leaders, whether county officials, governors or mayors, have to fully understand the approach to make this their own and really fight for it and convince the public. Just as it is better to prevent poor health by having a healthy lifestyle and exercising before it is too late, it is better to manage your assets and have them produce a yield to the benefit of society as a whole. But we all know that to actually do that exercise, it takes willpower and discipline."

Anthony Williams

Dag Detter

AW: Why hasn't this been as widely accepted in the United States as it has been in Europe?

DD: "The main reason that this concept has not been more widely used, in general, is the fact that governments do not have balance sheets. So assets are hidden and not part of the toolbox for political leaders as they are in the private sector. In addition, I think the United States has been slower to pick it up because it has a more fragmented local government with federal, state, county and city levels. In the U.S. we also have thousands of special districts all with different purposes and assets. Pittsburgh, as an example, has 3 million people in the county and 136 municipalities and even more special districts. All in all, they have tens of thousands of assets. Consolidating those assets is really difficult without a crisis because it could trigger covenants for bonds or tax breaks."

AW: How should a government entity like the District look at its assets on its balance sheet and categorize those assets?

DD: "The first step is to do the 'treasure map'. The rule of thumb for all local governments also applies to DC. Typically a city owns public commercial assets worth the equivalent of one to two times that of the city's GDP. The city's real estate side of the portfolio represents at least a quarter of the entire market value of a city's real estate market. We believe that what is not measured is not managed. What has a commercial value could have a yield, if professionally managed, that benefits the public."

AW: Can you tell us more about the treasure map? How do you think it's best created?

DD: "It's not very difficult with the help of modern technology. Ideally, you do a list of all public assets within your jurisdiction regardless of the ownership. Comparing this data with comparable assets and transactions in the marketplace, you get an indicative value for each asset. The aggregate value will be a good guideline to see if it is worth continuing this process. You get the valuations in only a couple of weeks. The real trick is doing the legal due diligence to understand the legal restrictions involved in consolidating the assets relevant for more professional management."

AW: Why should we turn over a public asset to private managers?

DD: "We are not turning it over to private actors. This is the opposite of privatization and P3s. This is the opposite of leasing and any other financial approaches commonly tried in the United States. Because governments do not have a balance sheet, they are not able to manage commercial risk. That's why when entering into a P3 agreement with a private partner, the government has to give away commercial risk to the private sector. This means by default you also give away the potential upside. As the project is finished, this undue transfer of public wealth will be justifiably criticized. Instead, my way is suggesting that you have a public holding company that can manage commercial risk and also hire the professional people to run the assets. In this way, you're able to capture all of the upside for the government to the benefit of society as a whole."

AW: What can or should these dollars be used for?

DD: "The yield from this portfolio in the shape of a dividend could be used for any social service in the community including education, preschool, security, pensions, etc. Alternatively, the urban wealth fund could be tasked to use its surplus to build and maintain infrastructure within the fund, including public affordable housing. The real challenge with infrastructure owned by the public sector is maintenance. Seen over its entire lifespan, design and construction is only 20 percent of infrastructure costs. Eighty percent is maintenance. Without an independent balance sheet and holding company, the cost of maintenance is very difficult to motivate in a political environment since it has to come directly from the budget, and, thereby, competing with the more tangible need to fund schools, buses, health care and pensions. That makes it hard for a politician to prioritize a huge amount of money for infrastructure maintenance. Since the best thing that could happen if we do maintenance right is that nothing happens—no breakdowns."

AW: You're then getting the best of both worlds of private sector discipline with public sector stewardship?

DD: "The holding company would be the trustee for the public, safeguarding the benefits for society as a whole. By being a corporate entity, it could borrow all the tools and expertise from the private sector, without any drawbacks from the public sector while maintaining public ownership. It is the integrity and independence of the governance structure that makes it possible to attract the best professionals in the market and serve the public good, almost like a central bank.

AW: One of the things I hear a lot from local government is why do this when I have my tax-exempt debt?

DD: "The benefit of consolidating all these assets into professional management will result not only in a higher yield, making tax exemptions redundant, but it's also capable of supporting a better capital allocation all together, for the economy as a whole as well as a more level playing field between public and private investments. Many people would argue that tax exemptions are not really benefiting society as a whole."

AW: Does it matter what legal form the holding company takes?

DD: "Calling it a 'public or urban wealth fund' is just a way of communicating its purpose—for the benefit of the public and society as a whole. From a legal perspective, however, it is vital that it is a corporate vehicle, in order to enable the use of all the necessary private-sector tools as well as signaling to stakeholders and potential employees that its mission is entirely professional. Although the long-term vision is political and to the benefit of society as a whole, the institution as such is insulated against short-term political influence and aligned with the longer lifespan of the assets. The people recruited to manage the portfolio should be incentivized and confident they're able to do a commercial-level job although owned by the public." ■

This interview has been edited for length. Please visit federalcitycouncil.org for Tony's full conversation with Dag Detter.