



Untapped Wealth of Cities

2018 Chicago Forum on Global Cities Workshop Report

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For many cities, finding innovative ways to fund infrastructure projects, pay off existing public debts, and meet recurring budget shortfalls is a perpetual challenge. Yet city leaders are often unaware of the value of their publicly-owned assets, and how to leverage this value for the common good.

Many cities worldwide are facing the concurrent challenges of deteriorating infrastructure, demands for new development, and requests for expanded services, all within constrained budget parameters. [PwC Megatrends](#) expects, for example, that \$8 trillion in infrastructure spending will be needed in New York, Beijing, Shanghai, and London over the next decade. As cities age and grow, the pressures on both infrastructure and on local governments increase faster than cities can respond.

To support their balance sheets, city leaders are looking for new, creative sources of revenue, independent of tax increases or allowing the whole-scale privatization of public assets, such as airports, harbors, sewerage, and unused real estate. Cities must understand how to unlock the wealth of these public assets to generate future cash flows and manage the governance and accounting processes to ensure long-term stability and returns.

A novel approach to solving public-sector budget shortfalls is untapping the value of their commercial assets through private and professional management. Publicly-owned commercial assets include real estate, such as buildings and land, but also operational assets, which include utilities, such as energy and water. Leveraging public wealth without adding additional taxes, slapping on user fees, or privatizing city assets provides a more politically palatable safety valve as cities continue to see challenged balance sheets. However, this is highly dependent on the “best use” of the asset, and who exactly decides how the asset must be transformed into a more valuable entity. Are there specific assets that should be off-limits? Finally, how can city leaders build the political will in countries where this is yet to be implemented?

Key Recommendations

Cities seeking to pursue such strategies should consider the following important guidelines. They need a systematic way to assess the true value of their public assets, to develop professionally-managed governance systems, and build political will and public trust. They also need to recognize the unique risks and context of every opportunity, for what has worked in one city may not easily translate to another.

1) Assess the true value of a city's assets

Often, cities are simply unable to determine the value of their assets because they lack reliable accounting across departments. This can result from the fragmented ownership of assets across different levels of jurisdiction and management, but also from mixed and competing political interests that prevent alignment.

Some issues may be attributed to the different accounting methods (cash-basis accounting) used in the public sector and in the private sector (accrual accounting). Because assets are not recorded in cash-basis accounting, there is no knowledge of the value or even extent of these publicly-owned assets.

As evidenced in [several studies](#), this valuation could lie somewhere between one to two times the value of a city's gross domestic product, held mainly in real estate. Although there is much disagreement as to the accurate value of these public assets, it would be imprudent not to determine it outright.

The magic bullet, as it were, is to develop an [accurate balance sheet](#), as cities such as Copenhagen, Hamburg, and Singapore have accomplished. Developing an asset portfolio of just what a city does own creates a more thorough understanding of the potential wealth that a city could potentially generate through professional management of its assets.

2) Develop professionally-managed governance systems

For a balance sheet to be useful, however, a critical mass of assets must be organized into a reliable portfolio or holding company for it to operate efficiently. This often requires consolidation of disparate assets into larger jurisdictions to build an accountable and workable management system of the city or region's resources. Yet because of the dispersed and local centers of power within cities and metropolitan regions, this is difficult to accomplish. For example, the greater Pittsburgh area has over 126 different jurisdictions; Los Angeles County, the most populated county in the United States, has [88 separate municipalities](#).

Exacerbating the problem in some countries is that city-level administration is often not as powerful as either rural counties or provincial governments. This not only leads to competition for resources between different levels of government, but also contributes to the obfuscation of public sector assets' true value.

A proper and accountable governance structure must have professional management that is also large enough for returns to scale that are attractive to

investors. It must also guarantee some version of collective financing, and incorporate socially important missions like environmental impact bonds, like those issued by [Rockefeller Foundation](#), to ensure that its governance is transparent and has the public's trust.

There is perhaps more opportunity for creating professionally-managed governance systems in cities within the developing world. Because of the [size and scale of the informal economy](#) in cities in developing countries, and the lack of an entrenched bureaucracy, emerging cities can leapfrog to a professional managed asset portfolio before there are significant public-sector interests to overcome.

3) Build political will and public trust

Although the solution may seem straightforward, and the rationale simple to follow, there must be a catch: Why has this not been implemented in most global cities?

First, it is a major political and legal lift to develop such a system: success requires commitment and effort. The most intransigent opponents are often the vested interests that would stand to lose in such a reorganizing of public assets. Local jurisdictions resent losing their power to a vaguely-defined, amorphous central administration. The assets that they manage (firehouses, sewers, roads) equate to political and social capital.

Second, private delivery of public goods aggravates large trust issues with the general public. Developing a system that overcomes the bias against professional management entities requires the telling of a good story, calling upon examples of success in other contexts.

Often, because of the lack of transparency in many local governments' decision-making process, and its reliance on the political system, it is difficult to gain the trust of the public when a city decides to leverage its public resources. Developing a holding company that operates outside of the political arena— independent of the whims of the political cycle— is one way to ensure an impartial and legitimate system of administration.

Finally, city governments must use technology to make their services and assets run more effectively, efficiently, and transparently. Democratizing information around the value of assets and where those assets are located is key to winning public trust of the wholesale changes in how publicly-owned assets are managed.

Conclusion

With the impending crunch of desperately needed infrastructure repairs in the United States—some have even labeled it an emergency—creative solutions to sustainable management of public assets must be considered. Given the financial constraints that cities face, approaching the funding problem from new perspectives, and in ways adopted in other countries, may help cities unlock their potential and catalyze new economic development.

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