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Is the public-private sector the place to be at this time?

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Public-private projects may not be for everyone, but they do deserve perusal. Given the current condition of the housing/construction industry, it is not surprising to find more developers eager to explore public-private sector development and revitalization opportunities.

At www.envirobidnet.com we have seen more interest from developers in the past six months than in our entire 15 years of existence. To some, the public-private sector is a mystery to avoid, while others have held it as lynchpins of their business through all business cycles. These projects range in size from small housing developments to entirely new downtown areas, which include housing, retail, and commercial uses. They vary from historic theater revitalization to huge sport complexes, projects that fit virtually any size and developer discipline. Request for proposals (RFPs) are often merely outlines of what the agency wishes to accomplish.

Public RFPs come in two basic formats: a municipality has a concept, such as revitalization of a blighted area or development of a new enterprise zone, and an RFP is offered to developers for their innovative use; or the municipality needs to revitalize a specific site, such as a vacant downtown building for retail/living space, and requests cost proposals from developers for detailed plans contained in the RFP.

There are many advantages to such projects. Much of the initial expense of demographics, surveying, research, marketing, sales, and other front-end expenditures are often minimized. As a partner rather than proponent, the developer is able to maneuver through the costly and arduous tasks of board approvals and permitting with relative ease. Funding and tax relief may be part of proposal packages, and profits are frequently built in, virtually eliminating risk in many cases. Being engaged in the project, if managed well, should bring a positive cachet to the developer, affording the opportunity to propose future private projects to the agency and have them well received.

Due diligence must be done to assure each proposal is in the best interest of not only the public entity, but also the developer. Often an RFP is poorly written by the public agency, calling for many revisions or outright refusal of any submitted proposals. Too often the agency does not allow enough time from the RFP notice to closing for a comprehensive proposal to be written. Of course, the profitability of a proposal would also be a major factor. The public oversight can be onerous if not handled well, and time constraints can prove troublesome. Some public officials seek notoriety by constant, irrational questioning on each phase of the project. Other developers may feel these proposals stifle their entrepreneurial spirit. However, with diplomacy and openness these issues rarely cause problems. Most important is a clear understanding of the goals and objectives of each project.

If the developer makes the effort to create confidence in the major public players, each step of the process becomes fluid. The alliances become valuable for future projects the developer may

want to propose. For example, the developer of a public housing project in Florida found the need to increase the prices quoted in his initial proposal. Because of the good will previously established, a city official backed the needed funds, explaining the increase in the developers cost of goods relative to the time of signing of the agreement. He said the developer deserved to make a fair profit, and could not because of these factors. The city quickly approved the price increase. Contracts work only when both parties benefit.

Part of dealing with a public agency is the understanding of not only its goals, but how it derives revenue. A study by Michael Pagano, University of Chicago, titled *City Fiscal Structure and Land Development, brought forth some interesting facts. Surprisingly, it showed that cities today on average garner less than 50 percent of their total revenues from real estate taxes. Other areas, such as income tax, sales tax, bed tax, and usage and fees, account for the remainder. Understanding the fiscal structure will greatly enhance the chance of approval for a private project or winning a public-private RFP. A municipality that can collect sales taxes would be more amenable to a retail mall development, while one that garners income tax would be more eager to accept labor-intense proposals such as an industrial park.

A case in point: Port Charlotte, Fla.—a town that grew virtually by accident—decided several years ago there was a need to develop a "town center" comprising shopping, housing, and government. For that effort it purchased \$95 million worth of properties and posted an RFP for developers to offer plans to construct a town center. In the middle of the process, the market fell and developers became reluctant to pay \$95 million for property that is now worth less. Proposals came in offering 70 percent or 80 percent of the purchase price and included add-ons such as offering Port Charlotte a small percentage of each home sale, and others offered less.

The town has a problem. A developer that understands Port Charlotte's fiscal structure could make an appealing proposal, allowing the town to save face and turn a loser into a win-win proposition. For example, a developer could include in its proposal a parking structure that would allow the town to earn fees; or, since there is a need for more hotel rooms in the area, it could include a hotel, allowing the town to earn "bed tax" income; or even mentioning additional sales taxes from new retail establishments would benefit the town. All or any of these elements could have been included in the proposals and would have ameliorated the poor public perception of the project. A developer that "comes to the rescue" in this instance will earn respect, gratitude, and a handsome profit.

Although the future does not look as bright as it did two years ago, no one can be certain where the economy is heading. These projects can in many instances take the guesswork out of the picture.

*** City Fiscal Structures and Land Development**

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