Utilities and Telecommunications

Professional Services

Real Estate Development

Municipal Enterprise

A Strategy for Job Creation and Stabilization

The Democracy Collaborative
at the University of Maryland

The National Center
for Economic and
Security Alternatives

Retail

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Waste Recovery

Bottled Water

Financial

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Transit-Oriented Development

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EXECUTIVE SUMMARY

- America's towns, cities, and rural areas are confronted with the ongoing need to stabilize jobs, enhance fiscal health, and bolster opportunities for low-income citizens. Even during the growth years of the late 1990s, a number of places were "left behind" by the expansion. Today, localities continue to experience high unemployment and concentrated poverty, exacerbated by declining tax revenue and cuts in federal funding. Moreover, the increased mobility of private firms makes it increasingly difficult for cities and older suburbs to establish and maintain an adequate job base. Traditional economic development strategies, such as courting corporations, too often fail to produce equitable development outcomes. America's localities need alternative economic development strategies to generate jobs and revenue and enhance opportunities for residents.
- It is only rarely recognized that municipalities and states can and do play a direct role in bolstering local economies through public and municipal enterprise. By selling goods and services, and investing in assets for profit, states and municipalities generate jobs, revenue, and much more.
- This report is a preliminary effort to assess the scope and scale of municipal and public enterprise in the United States and its effects on local economies. There is an extraordinary amount of activity in this area, which has, to our knowledge, never been catalogued, surveyed, or assessed.
- Many of the efforts we examined appear to benefit working people and their communities through jobs, public goods, economic development, and by generating revenue that governments may re-deploy for needed services.
- Some of the most innovative public ownership efforts we found paired public enterprise with the efforts of community-based organizations, economic development organizations, and/or foundations. These government-nonprofit collaborations direct jobs and public goods to low-income residents.
- Given the wealth of enterprise activity uncovered by this preliminary examination, and the benefits public enterprise generates for working people and their communities, our conclusion is that a major national survey ought to be a priority. We recommend that a survey be conducted with particular focus on the job-creation and economic-development effects of municipal enterprise.
- Municipal and public enterprise should be seen as an integral part of broader job-stabilizing development strategies involving city and state support for community development corporations, worker-owned firms, job training, and public-private partnerships. Municipal enterprise has an important role to play in a comprehensive local development strategy. It is a powerful tool for community development that should not go overlooked by cities and states. Its possibilities as a means to create jobs, direct development to public needs, spur private-sector development, and generate public and environmental benefits, should be better recognized.

1 *Introduction*

The National Center for Economic & Security Alternatives (NCESA) has conducted a preliminary census of municipal and public enterprise in the United States. Drawing on academic studies, annual reports, press coverage, web searches, and interviews, the Center catalogued dozens of public enterprise efforts and assessed their effects on jobs and local economies. This research was undertaken as a first-stage assessment.

We discovered that municipal and public ownership is far more pervasive than is commonly understood. Public ownership is already an integral means to stabilize jobs and strengthen American communities. In every region of the country, and in a wide range of town sizes and economic sectors, municipal and public enterprise goes well beyond the familiar public utility. State and local governments now own and operate businesses engaged in real estate, venture-capital provision, banking and insurance, retail and product merchandising, training and consulting, bottling tap water for sale, and auto-towing. And despite opposition from private industry, numerous municipalities have entered the telecommunications field.

Support for public ownership is, for the most part, non-ideological. With the exception of the rare local political struggle over privatization, public ownership has by and large proven politically acceptable to both Democrats and Republicans. In fact, these enterprises are commonly associated with the popular notions of "public entrepreneurialism" and "Reinventing Government."[1]

Locally-scaled public enterprise is a logical, direct way to strengthen local economies in the current era. Rather than relying wholly on the private sector for jobs and solely on taxes for public revenue, local governments bolster their budgets with revenue produced by entrepreneurial projects. Beyond its fiscal benefits, public enterprise enables municipalities and states to direct economic activity to meet public needs to a degree not often possible when courting the private sector. It is an effective way to direct investments, goods, and services to areas and populations overlooked by for-profit companies.

The fiscal benefits alone are substantial. Local governments now garner almost half of their total self-generated revenue from government-owned enterprises and fees, the remainder coming primarily from property and sales taxes.[2] With tax revenues in decline and federal cuts producing budget crises in states and localities, profit-making public enterprise can be an important means to supplement the support of basic public services.

While some publicly-owned businesses strictly aim to produce revenue for city and state coffers, many more pursue public goods in addition to rate of return.

Although the evidence at this stage is anecdotal, an unmistakable pattern emerges across cases. Many public enterprise projects in every sector exhibit some or all of the following features:

- Responsiveness to public input;
- Generation of good jobs for under-served members of the labor force;
- Training and apprenticeship programs;
- Directing development to public needs;
- Broadened access to resources and opportunities;
- Provision of public goods.

Such practices and effects, however, are not inevitable outcomes of municipal ownership arrangements; a good number of public enterprise efforts exist simply to produce revenue. But the pervasiveness of these beneficial community effects in municipal and public enterprise projects suggests that municipal and public enterprise should be seen as a powerful component of cities' economic development toolkits.

Wim Wiewel, Michael Teitz, and Robert Giloth describe the primary types of "neighborhood economic development strategies" as: business retention, commercial revitalization, business ventures, entrepreneurship, neighborhood capital accumulation, education and training, labor-based development, and community organizing/planning. They maintain that the experiences of those few historical successes "where community economic development has been brought to the forefront of policy" have implications for future policy:

> That experience suggests that the central role of community economic development action is to employ political means to achieve broadly redistributive goals through economic growth focused on particular populations and communities. The essential purpose is communitarian, but the method is to employ market mechanisms, reinforced by political efforts to generate the necessary resources for investment and to establish rules that are consistent with the larger market environment, yet supportive of community goals.[3]

Several existing municipal enterprises are pursuing economic development in a manner consistent with community economic development. A number of the initiatives we examined have proven so creative and successful in addressing community needs that their widespread replication would transfer sizable benefits to working people and their communities.

This report provides a summary of our research to date. We describe twelve of the best cases in Part 2. They are some of the most innovative community-oriented public enterprise efforts we uncovered. All provide measurable positive direct and indirect effects on jobs, families, and communities. They were selected because they illustrate the potential of municipal ownership for use as a public goods- and revenue-generating economic development instrument. In addition to these primary case studies, we uncovered a wealth of other innovations. We describe a potpourri of highlights in the conclusion of the section (see "New Experimentation," page 20).

In Part 3 we discuss the lessons gleaned from experiences in municipal ownership and make recommendations.

The Directory, Part 4, provides many additional cases of public enterprise. More work must be done to document its prevalence, practices, and its effects upon the community, with particular focus on its potential for job creation and economic stabilization. The case studies and Directory indicate there is reason to think that municipal and public ownership show real job-creation promise, and that public enterprise can serve as a constructive job-centered development tool.

A note on definition: By state and municipal enterprise we refer to the ownership of economic enterprises, that is, businesses and other profit-making economic assets, by sub-national governments. Public enterprise earns money by providing goods or services to the public not normally considered a free government provision, or stewards the public's assets, in such forms as land development or venture capital funds, to provide jobs and generate a revenue stream, while preserving or enhancing the asset.

2 *Case Studies*

PUBLIC POWER

Publicly-owned utilities (POUs) are the most established type of public enterprise in the United States. They were created over 100 years ago to electrify regions (typically rural) passed over by investor-owned utilities (IOUs). Municipalities first began to form their own publicly-owned, not-for-profit electricity companies in the 1880s. By 1900, more than 800 communities had established power companies, mostly in small rural towns that were shunned by private companies, which preferred to locate in areas with larger, denser populations.

Today, the country's 2,000 publicly-owned electric utilities serve over 40 million people, or about 15 percent of the nation's electricity consumers. Investor-owned utilities serve about 73 percent of consumers; the federal government and power cooperatives provide power to the rest. Roughly 12 percent of the country's total installed generating capacity is produced by public utilities.[4] Public power systems exist in every state except Hawaii. About one-third produce electricity; the remaining two-thirds distribute electricity produced elsewhere.

Public power employs over 80,000 people directly.[5] Three-fourths of all public power utilities are in cities of less than 10,000 residents, but public utilities are also found in such large urban areas as Los Angeles, Sacramento, San Antonio, Nashville, Jacksonville and Memphis, and, as of 1998, Long Island. Analysts point out that during the California energy crunch of 2001, cities served by public utilities with their own generating capacity were better able to avoid the effects of the statewide crisis. (See discussion below.)

Public power utilities are typically governed by locally elected or appointed officials, e.g. city councils or local utility boards. Less often, state utility commissions regulate public power systems. In a 2001 survey conducted by the American Public Power Association (APPA) trade group, 59 percent of publicly-owned electric utilities reported being governed by a city council.[6] Whatever the particulars, the governance structures of public power utilities are more accountable to consumer-owners than for-profit investor-owners. The relationship between customer and public energy provider is organized not around reaping profit, but around offering services at a fair cost and providing public goods.

In general, these utilities are able to offer rates substantially lower than private for-profit providers. POUs' residential customers in 1999 paid average electricity rates that were about 18 percent lower than those paid by IOUs' residential customers. The rate savings in 1999 was lower than the historic average, due in part to the installation of a new public power system on Long Island, which took over from a high-cost private company. Most of the public power price advantage is directly related to public ownership. Locally controlled public utilities can be especially responsible to customers' needs, and do not pay dividends to private shareholders. It is estimated that only about one-fifth of the public power price advantage is due to access to tax-exempt financing and federal preferences for hydropower. Moreover, the taxes paid by private and public utilities to localities are virtually identical.[7] And while only one-third of these POUs actually produce electricity, the amount of energy POUs generate is disproportionately high for their size.

Many public utilities provide not only lower rates and efficiency, but also economic and environmental benefits for communities—so-called public goods. As will be seen below, two of the nation's largest municipally-owned utilities have strong track records of environmental innovation, ecological education for local businesses, and employee training, in addition to providing a large number of stable jobs, as well as multiplier effects, to regional economies.

SACRAMENTO MUNICIPAL UTILITY DISTRICT

Sacramento Municipal Utility District
SMUD Headquarters Building
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Sacramento, CA 95817-1818
916-732-5100
http://www.smud.org

The Sacramento Municipal Utility District (SMUD) is the sixth largest publicly-owned utility in the nation. Established in December of 1946, the utility provides electricity and energy services to the 1.2 million residents of Sacramento County, and to a portion of neighboring Placer County.

SMUD's commitment to cleaner energy and environmental responsibility, low rates, and service to the community make it one of the nation's most successful and innovative electric utilities. In addition, SMUD is a major contributor to gaining and maintaining jobs in the region. For all of these reasons, SMUD is an excellent example of public enterprise.

It employs 2,130 full-time workers. More significantly, in a recent five-year period SMUD's business recruiting, expansion, and retention programs helped bring 19,000 jobs to the Sacramento area. SMUD also spent $25 million in 2000 on public-goods programs such as energy efficiency and discounts for low-income customers. Finally, SMUD operates the world's largest photovoltaic (solar power) system.

Its board of directors meets every two weeks. The meetings are open to the public and televised locally; citizens can make statements of up to three minutes at the meetings.[8]

Economic Development

SMUD's conservation efforts translate into economic development for the Sacramento area. According to a report by the California State University at Sacramento's Real Estate & Land Use Institute, SMUD's energy-efficiency programs spur regional growth. The report, titled, "Economic Impact of SMUD Energy Efficiency Program," shows how $129 million in energy savings over four years were directly spent by households and businesses on additional goods and services, business expansion, etc. This spending in turn resulted in further direct and indirect economic effects. Furthermore, the report concludes that energy-bill savings resulting from SMUD's energy-efficiency programs during 1997-2001 will have the following effects over the next 30-35 years:

- Total local economic activity will increase by $185 million;
- Total value of goods and services produced within the local economy will increase by $107 million;
- Personal income will increase by $62 million;
- Employee compensation will increase by $51 million;
- Jobs will increase by as much as 175 employee-years each year, totaling nearly 3,000 employee-years over the entire period.

SMUD is unquestionably a source of economic stability in the region—an accomplishment that the IOU giants of California have not been able to match. The largest IOU in California, Pacific Gas & Electric, declared bankruptcy and is undergoing a massive restructuring. The second-largest IOU, Southern California Edison, was rescued from the brink of bankruptcy by a massive state bailout. Meanwhile, SMUD has weathered the storm, although it was forced to raise rates once. While every California utility was affected by the volatile energy supply of 2000 and 2001, SMUD fared far better than most of the investor-owned giants. In general, cities with publicly-owned power companies experienced fewer blackouts and severe price increases than those owned by IOUs.[9]

Public Goods

Among SMUD's many public goods and environmental programs are:[10]

- In cooperation with the Sacramento Tree Foundation, SMUD provided 22,959 free shade trees to homes, schools and public areas in 2001.
- SMUD's New Renewable Energy Resources Program develops solar photovoltaics. Customer-owned photovoltaic systems are now on the rise in Sacramento as a direct result of this program.
- SMUD's Electric Transportation (ET) Program is a national leader in the development of electric driving technologies. Through its investment in electric technology research, SMUD is advancing an industry that could have dramatic effects on transportation, air quality, and, possibly, climate change.
- Recently, SMUD developed three demonstration electric school buses. Comparison of the three bus system designs will provide valuable data for future bus development.
- Through its "Greenergy" program, SMUD offers consumers the choice to pay a premium of $3 or $6 per month in order to purchase energy from renewable sources (like landfill gas created by waste decomposition), rather than conventional fossil fuels. The Greenergy program also invests in new power plants fueled by renewable resources, such as sunshine and wind.

- SMUD's Energy and Technology Center works with the Sacramento County Business Environmental Resource Center (BERC) to offer classes and workshops in energy conservation to area businesses.
- SMUD co-sponsors annual Pollution Prevention Awards to recognize local businesses that demonstrate environmental excellence, leadership, and proactive pollution prevention (www.smud.org). Mike Weedall, manager of SMUD's energy services, says, "We can help show business people how to use less energy, reduce waste, and improve the environment in their workplace and in the community."[11]

Rates

SMUD provides customers with rates lower than California investor-owned utilities, and far below those of Pacific Gas & Electric (PG&E) and Southern California Edison (SCE), which together cover 8.7 million customers.

Monthly annualized rate comparison for 750 kWh (figures current as of May 3, 2002)[12]

SMUD	$69.99
Roseville Electric	$67.08
L.A. Dept. of Water & Power	$78.11
San Diego Gas & Electric	$114.17
PG&E	$114.38
Southern California Edison	$122.62

The recent energy crisis in California left no utility unscathed. Having managed to avoid raising rates between 1990 and 2000, industry-wide factors such as high market prices for natural gas and electricity forced SMUD to implement a 22% rate increase in May 2001. PG&E and SCE customers by contrast saw rate increases of 37%-50% in 2001, and those increases may be just the first in a series of rate hikes.

To educate consumers about the rate increase, SMUD conducted rate workshops in nine communities in 2001 to inform customers of the market conditions it faces, gather feedback, and teach consumers how to reduce consumption and improve conservation so that price spikes on the wholesale energy market are not felt as sharply in Sacramento homes.

SMUD's conservation efforts, economic development effects, and community orientation would not be possible were SMUD a private company. The utility is able to invest in research, development, and conservation with little short-term profit potential. Its participatory governance structure and accountability to local consumer-owners give it a mandate to meet the needs of the community and its ecological future to a degree inconceivable among private investor-owned power companies.

SEATTLE CITY LIGHT

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http://www.cityofseattle.net/light

Seattle City Light (SCL) is another West Coast public utility with a strong track record in promoting jobs and public goods. Created by the citizens of Seattle in 1902, SCL is now the nation's seventh largest public utility, serving 345,000 customers in a 131.3 square-mile area encompassing Seattle and its seven adjacent municipalities. It provides full-time employment for about 1,700 people. In 1999, the utility's annual operating revenues were in excess of $372 million. According to SCL Media Manager Sharon Bennett, "Seattle City Light offers the lowest-cost utilities of any of the U.S.' 60 largest urban centers." SCL has also been recognized throughout the U.S. for its strong commitment to environmental stewardship.[13]

But perhaps SCL's greatest accomplishment has been in developing a nationally-recognized apprentice program, which, according to SCL, has done more than any utility in the nation to recruit and hire women and minorities in the electrical trades, thus diversifying and strengthening the utility's work force. SCL's apprenticeship program is highly competitive: a recent six-month pre-apprenticeship program began with a recruitment pool of 1,200 and ended with the hiring of seven individuals—three females, three minorities and one white male. Since 1987, 123 apprentices, 37 percent of whom were women and 35 percent minorities, have completed SCL's program.

Those accepted into the apprenticeship program receive four years of on-the-job training and at least 576 hours of academic training. Apprentices earn a living wage, starting at between $16 and $17 per hour, plus medical, vision and dental insurance, and a retirement pension. After four years of apprenticeship and qualification, apprentices reach the 'journey' level where pay is around $25 per hour. Cost of living adjustments change the rate yearly and overtime pay for an apprentice or journey-level worker is double the regular rate.

SCL recently built a $1.15 million, 8,000-square-foot Apprentice Training Center. To assist pre-apprentices in honing their physical skills at the Training Center, SCL has an exercise physiologist on staff to work with them two to three times weekly.

On the environmental front:

- Seattle City Light recently initiated the Seattle Green Power program, whereby customers can make voluntary payments that will go toward building and acquiring a wider range of new renewable energy sources.
- The City of Seattle's Earth Day 2000 Resolution commits Seattle City Light to the long-term goal of meeting all of Seattle's electricity needs with no net release of greenhouse gas emissions. City Light has committed to meeting growth in electricity demand without increasing greenhouse gasses.
- Seattle City Light has voluntarily reported its progress in reducing greenhouse gas emissions annually since 1995.

Seattle City Light's rates continue to be among the lowest in the nation because the utility sets rates just high enough to recover the cost of providing power and remain financially stable.

CURRENT TRENDS IN PUBLIC POWER

From 1980 to 2000, 45 new municipal power systems were formed; 23 of them replaced investor-owned utilities. Eleven new municipal utilities have emerged since the early 1990s. However, public power's share of the country's electric customers has remained fairly constant.[14] According to Madalyn Cafruny, Communications Director for the American Public Power Association (APPA), a Washington-based trade association, "even though communities may desire publicly-owned utilities, established private suppliers are able to bring great resources to bear in order to block new creation of public utilities that compete with their own. For this reason, the number of public utilities has remained static at about 2,008."[15] Part of the problem is that investor-owned companies are often free to campaign against public power ballot initiatives, while public agencies are often barred from involvement in politics, and thus are unable to counter claims from the private sector in the period leading up to election day.[16]

Nevertheless, reports suggest that interest in public utilities is building, in reaction to high electricity rates and the power sector's recent West Coast troubles. APPA has received inquiries from over 100 state and local governments in the past year, requesting technical assistance and advice about acquiring investor-owned utilities.[17]

Several examples of this trend are:

- A 2002, non-binding ballot initiative in Las Vegas asked voters whether they wanted a public agency to provide electricity. It is viewed as a referendum on the public Southern Nevada Water Authority's proposed take-over of the private Nevada Power Company. The ballot measure passed, 57 percent to 43 percent, although Nevada Power spent more than $1.6 million dollars to defeat the measure. It is now up to the state legislature to let a law that bars local governments from hostile takeovers of investor-owned utilities expire this summer that would make possible the water authority takeover.[18]
- In Iowa City, Iowa, the grassroots group, Citizens for Public Power, is lobbying the city to take over local power.
- Portland, Oregon has hired consultants to help it prepare a bid to buy Portland General Electric Company.[19]
- Corona, California plans to take over Southern California Edison's electric distribution system (poles, lines and substations) within the city limits. The utility plans to block the move in court.[20]

Clearly, public power confers substantial benefits to communities, and communities seem to recognize its advantages. Additional work must be done to determine the development and community-stabilizing effects of public power nation-wide, in comparison to private utilities.
(Directory: Partial list of city-owned electrical utilities, nation-wide.)

REAL ESTATE AND DEVELOPMENT

Real estate development is another widespread area of public enterprise activity. Many local governments limit their involvement in this area to managing the properties they own through their real estate or asset departments, often simply preparing properties for disposal on the market. But some cities have chosen more innovative paths, leveraging their ownership of public land to direct development toward public needs, often in collaboration with community organizations: creating jobs, building affordable housing, and providing space for needed services. Other cities have gone a more entrepreneurial route, engaging in for-profit public enterprise by either leasing publicly-owned land for private development, or by taking partial ownership (equity) in private land development projects in return for public investment.

Too often, when cities form partnerships with the private sector to develop real estate, they are of a highly unequal nature, with the public sector bearing most of the risk and the private sector garnering most of the reward.[21] However, when entrepreneurial cities and authorities engage in public enterprise by retaining land ownership or obtaining an equity stake in development projects that bring jobs and other residuals, the prospects for a more equitable arrangement are enhanced.[22]

Entrepreneurial participating lease arrangements for the use of publicly-owned property are used by cities to generate revenue around the country. In such arrangements, employed by cities including New York, San Diego, Los Angeles, and Washington, D.C., a developer pays the public landlord a yearly base rent as well as an additional amount pegged to project performance, e.g. private profits or gross income. As in many private shopping center developments, the principle at work is straightforward: "The more money the developer makes, the higher the rent." Boston's Faneuil Hall Marketplace is a prime example of this approach. (For more details on Faneuil Hall Marketplace, see the Directory.)

A related form of municipal ownership involves capitalizing on public investment in transit. When a municipality or other public entity invests in mass transit, land values near transit exits often rise. Traditionally, municipalities have relied on after-the-fact taxation of developers and others who build shops and other developments around transit sites. In certain instances, however, public agencies have retained ownership of the land undergirding new development projects. For a promising example of this type of transit-oriented development, see the Fruitvale Transit Village case study below.

There are, however, many risks and examples of failure in municipal real estate. Some cities have had trouble developing properties they own, and some projects have lost money. Other joint real estate deals have proven profitable for developers, but provided too few public benefits. Further, too many development projects have dislocated poor people whose neighborhoods were "revitalized" to the point where they could no longer afford to live there. Critics rightly charge that cities too often fail to ensure an equitable arrangement between an entrepreneurial city, a developer, and the communities to be reached. A recent example is the development of the new Columbia Heights Metro stop in Washington, D.C. Although the Washington Metropolitan Area Transit Authority and the developer worked with a local community development corporation to plan and develop the land surrounding the Metro stop, the process was contentious. Critics charge that the ensuing gentrification displaced many low-income individuals.

And yet the entrepreneurial real estate projects described below suggest that innovative cities can encourage economic revitalization that both generates public goods and mitigates the ills of gentrification. The three cases of municipal and public development that follow are to varying degrees guided by public input, production of public goods, and direct development to public needs. In the Pike Place Market and Fruitvale Transit Village examples, planners took specific steps to protect low-income community members from displacement.

HARTFORD TOWN SQUARE

Capital City Economic Development Authority
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http://www.cceda.state.ct.us/civiccenter/civic_concept.htm

The City of Hartford's Town Square project is an example of a public-private real estate development collaboration. Hartford is leveraging its ownership of downtown land to develop its depressed urban core. In the process, the city has been able to generate new jobs for its unemployed and low-income residents, while directing development where this deindustrialized city needs it most.

Hartford's Capital City Economic Development Authority (CCEDA), together with Northland Investment Corporation (a private developer), Aetna Insurance, and the State of Connecticut, are working to rejuvenate the Hartford Civic Center Mall complex in downtown Hartford. The project aims to transform the old facility attached to the Civic Center Coliseum into a new residential, retail, and entertainment center. Town Square will replace the aging Civic Center Mall with a mixed-use neighborhood with 250 residences, retail and office space, and a sports and fitness center. Northland will invest $6 million, and Aetna, $8 million, into the redevelopment effort.

CCEDA is a quasi-public authority formed in 1998 by the state legislature and charged with revitalizing metro-Hartford by directing economic development in the Hartford area. It is now coordinating the so-called "Six Pillars" of economic development. In addition to the Hartford Civic Center project, the "Six Pillars" include the Downtown Higher Education Center, downtown parking, riverfront development, the Connecticut Convention Center, and Adriaen's Landing, a waterfront meeting, entertainment, and retail space. The state is also constructing a 40,000-seat stadium in East Hartford. The stadium will be home to the University of Connecticut's football team, and is expected to produce 20 full-time permanent jobs, 500 to 600 event-day jobs, and attract needed foot traffic to the surrounding area.

CCEDA requires long-term financial commitment from its financial partners. One way it secures tenant stake-holding is by asking its private financial partners to invest high levels of equity commitment in exchange for lower rent. For example, the city restructured tenants' leases on the four acres below the planned Town Square development, lowering the annual rent to $1, but locking in the tenant as an equity partner in the redevelopment project. "The city could have just negotiated a lease-severance penalty of, say, $1 million," says Matt Fleury of Capital City Economic Development Authority (CCEDA), "but instead it got $8 million in private reinvestment from the leaseholder into the redevelopment of the Town Square/Civic Center."[23] To offset the loss of rent revenue, the City is banking on increasing residuals from rising property values on the improved land.

Hundreds of construction jobs for low-income residents are a key part of the public goods package for Town Square. The Hartford Construction Jobs Initiative Program, or Jobs Funnel, a collaborative initiative headed jointly by community organizations and public officials, prepares city residents for jobs and careers in construction. The program was initiated in 1999 to build a skilled Hartford-based workforce to fill the planned construction jobs generated by the "Six Pillars." Participants receive assessment, case management, employability preparation, job placement, and job retention services, as well as training in construction work. Participants are matched with construction jobs, apprenticeships, or remedial work. The program, which is funded by the state, the city of Hartford, and foundations, won a national award from the National Association of Counties in 2002.[24]

As of October 2002, Jobs Funnel had trained and placed over 375 Hartford residents in paid jobs in Hartford and around the state. Project sites include Adriaen's Landing, the Bushnell Memorial Theater expansion, the Mohegan Sun Casino, Hartford Public Library expansion, and Hartford Hospital. The program expects to train and place 750 additional Hartford residents in paid jobs over the next three years.

The mechanics of Jobs Funnel are overseen by a steering committee. The Capital City Economic Development Authority connects Jobs Funnel to developers of city-related projects, matching prospective local workers to local opportunities.

PIKE PLACE MARKET

Pike Place Market Preservation
& Development Authority
85 Pike Street, Room 500
Seattle, WA 98101
206-682-7453
http://www.pikeplacemarket.org/

Seattle's Pike Place Market was established in 1907 as a place to buy and sell produce. Over time, arcades and buildings were built within the nine-acre site, many of which were privately-owned at one time. Then, in 1971, the public voted for public ownership. As a result, some building owners were required to sell their property to the city. The public vote also established a quasi-public institution, the Pike Place Market Preservation & Development Authority (PDA), to manage the institution. The public vote also mandated that the Market:

- support local farmers;
- incubate small, owner-operated businesses;
- provide housing and services for low-income residents.

To this day Pike Place Market houses local farmers' stalls, crafts stands, fish sellers, and various retail shops. Many of the small stalls and retail spaces are used by small immigrant-owned and -operated businesses.

Nine million people visit the market each year. More than 100 farmers, 150 craftspeople, nearly 300 commercial businesspeople and 50 performers earn their livelihood there. Dozens of businesses lining the streets around the market are sustained by its foot traffic as well.

The market provides affordable housing and hosts services for the needy, including a medical clinic that serves the homeless, a senior center, and a day care center. Most of its seven affordable residential buildings offer federally-subsidized elderly and/or disabled housing for low-income individuals. The market also offers some single resident occupancy apartments for the non-elderly, giving preference to applications by low-income workers, and a small number of market rate units. Altogether, five hundred people live in Pike Place market-owned residences.

The Pike Place Market Preservation and Development Authority (PDA) continues to manage the property. A 12-member historical commission, appointed by the mayor, preserves and maintains its historical character. The commission includes market residents, property and business owners, and community members. They ensure that businesses housed in the market are locally owned, and they bar corporate chains from turning the market into a shopping mall, despite the increasing gentrification of the surrounding area. A public membership organization, the Pike Place Market Constituency, provides a forum for additional public participation. Membership is open to anyone ages 16 and over; dues are a dollar per year. Four members of the Constituency are elected by the membership to the PDA. Constituency general membership meets each month.[25]

FRUITVALE TRANSIT VILLAGE

Fruitvale Transit Village
The Unity Council
1900 Fruitvale Avenue, Suite 2A
Oakland, CA 94601
510-535-6900
http://www.unitycouncil.org/html/ftv.html

Maureen Kennedy and Paul Leonard of the Brookings Institution define equitable development as "the creation and maintenance of economically and socially diverse communities that are stable over the long term, through means that generate a minimum of transition costs that fall unfairly on lower income residents."[26] Oakland's Fruitvale Transit Village (FTV) can be viewed as an innovative example of equitable development facilitated by a municipal enterprise.

The goal of the development is to revitalize and stabilize the Fruitvale community in Oakland by building on land surrounding a mass transit stop. The land is owned by Bay Area Rapid Transit (BART). While many transit authorities that pursue joint-development projects have gentrified neighborhoods and displaced low-income individuals, FTV did things differently.

When BART came to the Fruitvale neighborhood in 1991 with a proposal for an expanded parking structure at the transit stop, citizens, led by the Unity Council community development corporation, rejected the proposal. "We opposed it," says Arabella Martinez, the council's executive director, "because it would have further separated the BART station from the neighborhood."[27] They insisted on developing a comprehensive neighborhood plan.

From that point on, community-based organizations and local government institutions took and retained control over the development process. Beginning in 1995, the Unity Council conducted planning meetings at which participants identified the most important features of a Transit Village and reached a consensus on a site plan. In 1996, the Unity Council established the Fruitvale Development Corporation (FDC), a nonprofit corporation, to conduct the development of the Transit Village. Its board of directors includes residents and experts in development and transportation.

Built on 10 acres, FTV will include affordable family and senior housing, a senior center, a child development/daycare center, a community resource center, a health clinic, a library, office space, retail shopping and parking for Metro riders. In addition, the Metro stop-cum-planned community will try to attract a retail mix of coffee houses, authentic ethnic restaurants, delis, mercados, bakeries/panaderias, newsstands, flower shops and ethnic specialty shops and services, and will showcase ethnic art and commissioned murals. But the majority of its non-residential space will be allocated for non-profit agencies and services for the community. Project goals and principles include the following:

- Preserve and enhance existing community institutions;
- Provide a stable source of jobs and income for the community;
- Increase the variety of retail goods and services available in Fruitvale;
- Beautify a blighted area;
- Increase real and perceived safety;
- Provide high-quality affordable housing;
- Encourage and leverage public and private investment;
- Increase BART ridership and reduce traffic and pollution.

The Transit Village will create jobs in the short term through new construction. The Unity Council will ensure that as many of these jobs as possible will be filled by local residents. Fruitvale youth employed by the East Bay Conservation Corps will work on facade improvement. Beyond the construction jobs and part-time jobs for youth, it is estimated that FTV will produce more than 700 new office and retail jobs and attract new private investment as well. This is significant because presently more than 90 percent of workers in Fruitvale work outside the neighborhood.

From a planning perspective, what is noteworthy about Fruitvale Transit Village is the amount and intensity of community input. Their participatory process took 10 years, and at every level of development, community meetings conducted by the Unity Council and other civic groups have helped shape the village.

The role of municipal enterprise, in this case, BART's land ownership, was key. BART entered into an exclusive joint development agreement with the Unity Council, agreed to sell and lease a portion of the land it owns surrounding the station for development, and has assisted in much of the planning process.

BART and Fruitvale Development Corporation agreed to a creative lease whereby FDC receives a rent credit of $7.5 million and 75 years in exchange for their building a parking structure for BART. FDC is using grant money to build the structure. As part of its agreement with FDC, BART will also receive participation revenue: ten percent of net proceeds from the operation of FTV and 20 percent of net proceeds of sale or refinancing of any property. But BART is not expecting residuals from this agreement anytime soon, despite the fact that land adjacent to the development has risen sharply in value.

Unlike many area development projects, Fruitvale Transit Village relies not only on retail, but on nonprofit services as well. According to the FTV web site, the nonprofit sector will "provide a stable source of economic activity regardless of the success of the retail stores at the Transit Village. The presence of community services provides an opportunity for the Transit Village to capture a critical mass of activity and to generate significant pedestrian traffic, thereby increasing the likelihood of success of the retail portion of the project, as well as supporting the other retail shops in the area."[28] The hope is that, in time, large numbers of users of services and BART riders will circulate through Fruitvale Transit Village every day. For example, the Latin American Library expects 150 visitors each day, and 140 parents will drop off and pick up their children at the childcare center.

Still, according to Patti Cohen Hirota of BART, "social service offices and mixed-income residential tenants do not create the climate for us to reap significant monetary profits in the short term. But we do receive a lot of other public goods that we can pass on to the public as a whole."[29] This is in sharp contrast with other transit developments in San Francisco and around the country where the trend has been to bring in high-dollar tenants, keep out low-income residents, and maximize short-term returns.

Perhaps that is why FTV is so compelling a case. It turns traditional development on its ear. Instead of building upper-income housing, office and retail, and forcing lower-income individuals into pockets of affordable housing on the fringes of the development, FTV is at the heart of a working-class neighborhood, offering good access to public transportation, stable property values, and community services. As a result of the FTV development, adjacent property values are rising in step with other parts of San Francisco and Oakland, while FTV housing, office and retail properties have remained affordable.

BART does not directly subsidize FTV or its affordable housing, clinic, or services. It does, however, provide valuable support by sanctioning FTV's existence and supporting the Unity Council's equitable development goals.[30] And even more important, the infrastructure investment at the transit stop gives FTV a foundation, both literally and figuratively, on which it can build.

Were it not for municipal enterprise, it might not have been possible to develop the FTV over a long time period, or place ample affordable housing, nonprofit services, and other public amenities at its core. And it is unlikely that a private landholder would have been willing to receive public goods in lieu of short-term monetary residuals, as BART did in its land-use arrangement with the FDC.

(Directory: Summaries of other real estate projects.)

THEMES IN MUNICIPAL INVOLVEMENT IN REAL ESTATE AND DEVELOPMENT

The previous examples illustrate the diversity of philosophies that surrounds municipal land development. However, some common themes and trends are emerging, including the potential for cities or transit authorities to leverage their positions to provide jobs, opportunities, housing, and services to individuals and their communities. Hartford and Oakland are in touch, to varying degrees, with the current trends of harnessing the positive power of rising land values to create equitable development in communities.

Equity participation in land development projects clearly sets an important precedent in the further development of state and local public enterprise. It establishes the public sector as a legitimate owner of, and profit-taker from, productive assets. The establishment of this principle may open the door for expanding public enterprise into other sectors of the local economy.

FINANCIAL INSTITUTIONS AND VENTURE CAPITAL

A crucial element in the formula for enhancing community economic stability is the provision of a degree of democratic control over credit and investment capital. Such control allows economic resources to be directed in ways that help communities maintain sufficient jobs and economic activity to support the needs of citizens and governments. Experimentation in this area is found at both state and city levels. The case studies below describe a mixture of state and municipal initiatives.

- Publicly-owned banks and insurance companies are one approach toward the democratization of credit and capital. The leading precedents in this arena are found at the state level.
- Several state and quasi-state agencies have initiated venture capital programs for technology start-ups and other new businesses. They make equity investments, using public funds, in local businesses in exchange for stock. A 1987 survey of 322 cities found that 32 (9.9 percent) had used venture capital as an economic development tool in 1986, and over a quarter planned to in the future.[31] Other programs grant loans, loan guaranties, and lines of credit to in-state manufacturing businesses in order to generate and preserve jobs.
- Some municipalities are pursuing investment programs similar to state-level precedents. A 1996 survey found that one-third of responding city governments had used venture capital to help create jobs.[32]
- Public pension-fund investment management is a related enterprise that holds promise. In recent years, pension funds have begun to target investments to help achieve state economic goals and strengthen public oversight of corporate practices. There are currently more than 2,200 public-employee retirement systems boards operating at the municipal, state, and federal levels in the U.S. Taken together, they manage about $3 trillion in assets. These funds demonstrate the feasibility of public-investment management in general. Some are experimenting with economically-targeted investments (ETIs), which seek collateral social benefits in addition to a competitive rate of return.

BANK OF NORTH DAKOTA

Bank of North Dakota
P.O. Box 5509
Bismarck, ND 58506
800-472-2166
http://www.banknd.com

With earnings in the year 2000 of over $32 million, total assets of more than $1.8 billion, bank capital of over $153 million, and loans totaling $1.16 billion, the Bank of North Dakota (BND) stands as an impressive example of state-level public enterprise.[33] Its mission statement is "promote commerce and industry in North Dakota." This state development bank injected more than $200 million into North Dakota's economy in 1998 alone. Its lending programs offer borrowers lower interest rates and long-term fixed rates, and often take greater risks in order to achieve socially desirable development goals. "The results [of these programs] are to provide greater access to credit on more favorable terms for North Dakota citizens," a recent Bank annual report concludes.[34]

The BND directs its development lending to four major categories: business, agriculture, student loans, and residential lending. Working in partnership with private institutions, the bank helped finance over 2,000 business and industrial projects in the state in 1999 and 2000. The bank also hosts a One Stop Capital Center to aid business start-ups and expansions. The center is operated in collaboration with a variety of state and federal agencies, including the Small Business Association. In agriculture alone, the BND provided or participated in $156 million in loans in 1998, including $30 million to help struggling farmers and ranchers restructure debt. To enhance educational access in the state, the BND guaranteed over 31,000 student loans made by other banks in the state. Finally, the BND funded over $100 million in new home loans in 1998, mostly by providing an aggressive secondary market for VA and FHA federally-guaranteed loans, helping "to make home mortgage funding more readily available for smaller towns and rural areas."[35]

Perhaps most remarkably, the BND's track record of profitable operation allows it to transfer significant monies back to the state to fund other public programs. These surpluses, amounting to $50 million for the 1999-2001 biennium, represent the fifth largest source of money for the state General Fund.[36]

The "Bank of North Dakota's greatest strength is that our loan programs enable us to invest in our citizens," says former BND president, and now governor, John Hoeven. "We are starting to see a significant growth in the development and diversification of small business throughout the state that will help substantially to stabilize our population through job creation. This clearly is becoming our future, and the Bank of North Dakota's role in that is providing the essential financing required to make it happen."[37]

On the municipal level, several governments have flirted with establishing publicly-owned financial institutions. There have been serious proposals to open city-owned banks in Detroit and Minot, North Dakota, and to establish a municipal auto insurance company in Baltimore.[38] The City of Oakland's Redevelopment Agency is an investor in the Community Bank of the Bay, a commercial bank and a registered community development financial institution (CDFI); in Detroit, a proposal to create a city-owned bank was part of a comprehensive plan to reindustrialize the local economy following waves of corporate disinvestment; in Baltimore, the proposed creation of a city-run insurance firm was seen as a pragmatic response to private insurers' practice of charging city residents exorbitant auto insurance rates, a practice that also helps fuel residential flight to the suburbs.[39]

ECONOMIC STABILIZATION TRUST

Commonwealth Corporation
The Schrafft Center
529 Main Street, Suite 110
Boston, MA 02129
617-727-8158
http://www.commcorp.org/BES/Trust/default.htm

The Economic Stabilization Trust provides financial consulting, working capital, loans, lines of credit, and guarantees to Massachusetts manufacturing firms. A Dukakis-era Massachusetts institution, the trust was formed in response to the threat of deindustrialization, and to help the manufacturing sector adjust to changes in the economy. It now provides financing to a range of manufacturing sectors including high value-added firms. Much like a bank, the trust offers a variety of types of financing: working capital, term loans, lines of credit for inventory, bank guaranties on lines of credit, and assistance in employee stock-ownership plan funding.

The loan fund has a capital base of about $13 million, a combination of appropriations from the Commonwealth and grants from the Economic Development Administration of the U.S. Department of Commerce.

Between 1997 and 2002, 135 companies received trust assistance, amounting to tens of millions of dollars in loans and guaranties. From this financing, more than a hundred million dollars in additional funds were leveraged to help stabilize and expand manufacturing firms employing several thousand employees.

MARYLAND'S ENTERPRISE INVESTMENT FUND

Maryland Department of Business
and Economic Development
217 East Redwood Street
Baltimore, MD 21202-3316
800-541-8549
http://www.choosemaryland.org/business/financing/investment.asp

Maryland's Enterprise Investment Fund makes equity investments (in other words, buys stock) in early-stage technology and biotechnology firms. Since 1994 the program has invested nearly $20 million in technology firms throughout the state. Program officials base the decision to invest in any particular company on several criteria, including: projected return, expected economic development effects, and the number of jobs that will be created. The fund, which is run by a state agency, has already invested in 52 Maryland companies, creating hundreds of jobs.

The fund provides promising high-tech start-up firms up to $500,000 in capital in exchange for equity shares and a guarantee from the firms that they will operate in the state for at least five years. The total market value of these investments as of June 30, 2002 was $64 million, including $48 million in proceeds from stock sales when firms have gone public, representing an annual internal rate of return of 32% through June 30, 2002.[40]

Of the recipient firms, four have gone public, including Gene Logic and Visual Networks, five were bought by public corporations, and one has liquidated. Forty-two companies remain in the fund portfolio.

As a division of the Department of Business and Economic Development, the Maryland Enterprise Investment Fund faces challenges connected to operating under the auspices of the State. "We are capped in our yearly appropriations by the legislature and, because of that, incentivizing employees is more difficult," says Dan Healey, Director of Investor Finance. "However, that is balanced by the credibility and stability we offer investors and start-ups because we are the State of Maryland." Healey noted, too, that start-up corporations are choosing to locate in Maryland because the state has a financial stake in their success, thereby sealing the commitment between the two entities to work towards success.[41]

CalPERS AND CalSTRS

California Public Employee Retirement System (CalPERS)
Lincoln Plaza / 400 P Street
Sacramento, CA 95814
916-326-3000
http://www.calpers.ca.gov

California State Teachers' Retirement System (CalSTRS)
P.O. Box 15275
Sacramento, CA 95851
800-228-5453
http://www.strs.ca.gov

The California Public Employee Retirement System (CalPERS), now in operation for 70 years, manages more than $132 billion in pension funds for 1.3 million current and former state employees and family survivors. CalPERS employs almost 1,500 employees directly. More significant from the standpoint of equitable development, CalPERS has been a leader among pension funds in its use of economically-targeted investments (ETIs). It directs a significant portion of its portfolio—about $20 billion as of May 2001—to investments that provide collateral social benefits.

Another California fund, the California State Teachers' Retirement System (CalSTRS), with assets approaching the $100 billion dollar mark, also has been an active ETI investor. Both funds have invested substantially in California housing construction and mortgages, and venture capital pools for small and expanding California firms. In addition, CalPERS has made individual ETIs of substantial scale, including the

financing of a $55 million office building in the state capital. It also has demonstrated an important precedent for how pension fund resources can be effectively targeted geographically to stabilize communities. In the wake of uprisings sparked by the Rodney King case, the fund initiated some $75 million in direct investments in riot-torn South Central Los Angeles. Similarly, when the state faced economic woes in the early and mid-1990s and traditional sources withdrew from financing housing construction, CalPERS stepped in to fill the capital gap by committing hundreds of millions of dollars, single-handedly financing about 4 percent of the state's single-family housing market. Most recently, in an effort to help boost economic development statewide, in 2001 the fund announced investments of $475 million in private firms within the state working in under-served markets. In addition, CalPERS established a contractor policy for its real estate investment portfolio that requires contractors in the construction and maintenance sectors to pay decent wages and benefits to employees.[42]
(Directory: Other financial institutions.)

TELECOMMUNICATIONS

The recent collapse of telecommunications giants WorldCom and Global Crossing notwithstanding, the telecom industry has seen astounding growth over the past ten years. The spread of the Internet and other telecom services has been so pervasive that it is sometimes forgotten that many people—particularly residents of rural regions and inner cities—have been passed over by the new technologies.[43]

Those without Internet access are especially likely to live in rural areas, where capital infrastructure costs are higher than in more densely settled regions, and inner-city communities, where high concentrations of low-income households are perceived by private investors to mean lower financial returns.[44]

Echoing the country's experience with electrification in the early 20th century, private telecommunications companies are focused on making profits in lucrative urban markets while neglecting smaller or rural communities. Such "electronic redlining" exacerbates the inequalities between regions and populations because a strong technological infrastructure is vital for individuals seeking to compete for jobs in the new economy and for communities wishing to attract businesses.

Private industry has been up front about its reluctance to invest in regions perceived to be unprofitable. In recent testimony before the Federal Communications Commission (FCC), industry representatives were direct. GTE stated,

> It is to be expected that service providers are deploying advanced telecommunications capability solely or predominantly in urban areas. It can be expensive to invest in the infrastructure needed to provide such service. Accordingly, it is rational to build the infrastructures first in areas where demand is likely to be greatest and unit losses are likely to decline most quickly.

SBC Communications stated, "Even where advanced telecommunications capability is available, that could technically and operationally be deployed, the expected demand and associated costs may make the deployment uneconomical, particularly in rural areas." And the National Telecommunications Cooperative Association (NTCA) argued, with regard to rural areas, "There will always be areas where cost of providing services outweighs the profit potential."[45]

This digital divide is no small problem, given that computer and Internet access has become crucial to survival in the new economy. Wendy Lazarus and Francisco Mora of the The Children's Partnership, a national research and advocacy organization, point out that the "Internet is transforming the two traditional paths for self-improvement for young people in this country: getting a good education and learning marketable job skills. People who cannot access or benefit from the Internet are falling further behind."[46]

A high-income household in an urban area is more than twenty times as likely as a rural, low-income household to have Internet access, according to the Department of Commerce report "Falling Through the Net." In fact, despite impressive overall gains in Internet access (nationwide, access has increased by 58 percent, rising from 26.2 percent in December 1998 to 41.5 percent in August 2000), the digital divide has widened significantly during that same period. Over 46 percent of white households now have Internet access, compared to 11.2 percent of African-American households.[47] Rural African-American households are the least connected group in terms of both PC ownership (17.6%) and Internet access (7.1%).

Research on the digital divide has found, simply, that "access equals usage." Those without access are not using the Internet. And even though African-American children are much more likely to use community telecommunication centers than white children, their home access and usage is far lower than white Americans. Furthermore, the quality of access varies, and this inequality can have profound, long-term effects. The difference between simple Internet access through normal telephone lines and high-speed connection via state-of-the-art technology is huge in terms of the user's qualitative and quantitative experience. Most inner cities and rural outposts have had slow (dial-up) Internet access for as long as they have had telephone line infrastructure. But high-quality connections are provided by the private sector only in areas where customers can afford it or where population densities justify infrastructure investment in the technology. So, the statement "access equals usage" must be qualified and modified to mean "high-quality access equals high-quality usage"—the kind of usage that can foster skills and job preparedness.

In response to these trends, municipal governments—most often the municipal electric utilities—are stepping in to fill the telecommunications void by building high speed Internet and intranet access, cable television and telephony through their publicly-owned utilities.[48] According to statistics kept by the American Public Power Association, the number of municipally-owned utilities that have chosen to enter the telecommunications field has grown from about 65 at the beginning of 1997 to over 220 at the beginning of 2000.[49] Over 267 municipal electric utilities now provide or are planning to provide Internet high-speed data service, broadband resale, dark fiber leasing, or cable television.[50]

Municipal utilities see Internet, cable television, fiber-optic networks, telephone service, and other telecommunications provision as a way to survive in a competitive deregulated electricity market. Industry experts believe small utilities must offer more than just electricity to survive and thrive.[51]

The telecommunications field opens an opportunity to both rural and urban communities to take greater control over their economic fate. By launching their own telecommunication infrastructure and services, municipalities not only can ensure that all residents have access to high quality technologies at affordable rates; they also can strengthen their localities' economic bases by attracting more jobs, capital, and resources to their communities.

"Wiring" communities with sophisticated broadband networks is an effective way to address the digital divide head-on. By creating a sophisticated network infrastructure, many achieve high quality near-universal access. These communities also find that jobs are created by their investment in infrastructure, as having an ultra-fast broadband network puts economic development organizations in a position to attract corporations to regions where they might not otherwise find it cost effective to operate. "When I tell prospective businesses that we have a T1-speed local area network (LAN) that they can plug into tomorrow, that they won't have to lay their own fiber and build a network, it gets their attention. It gives us a leg up on the competition," says Ernie Myers, Director of the Glasgow-Barren County Industrial Development Economic Authority.

And this is not just a rural phenomenon. Local governments around the nation have either already built or have begun a feasibility study to build their own publicly-owned telecommunications network (or public/private joint venture), including: Gainesville, Florida; Rockville, Maryland; Lincoln, Nebraska; Austin, Texas; San Diego, San Francisco, Anaheim and Milpitas, California; Abingdon, Virginia; Marrietta, Georgia; Frankfort, Kentucky; and Chattanooga, Tennessee. A study conducted in the late 1990s found that, of the 270 utilities surveyed, 24 percent "planned to compete in the telecommunications industry in the next 5 years."[52]

The success and potential of public telecommunications systems have not gone unnoticed. Private providers have organized campaigns in a number of states to get state legislatures to bar municipalities from constructing such systems. Measures to prohibit or limit municipal telecom have passed in ten states so far. For example, Missouri prohibits governments from selling or leasing telecommunications services to the public; Nevada bans cities from offering telecommunications service. Texas disallows cities from direct or indirect provision of telecommunications services, as does Virginia. There is no persuasive economic argument for banning municipal entry into this market. In most cases, municipalities are either challenging local private monopolists and introducing competition, or introducing service in areas which private firms will not enter unless prodded.

At the heart of the ongoing political struggle is the important question of whether access to the "information superhighway," via television or the Internet—two industries which themselves are largely public creations—is to be seen as a public good or a purely private commodity. An even broader question is whether the private sector should be spared competition from public entities. We believe ideological prejudice against public-sector activity distorts the discussion. Public enterprise can be an expression of collective self-governance, and it can be a bulwark for community economic stability—which in turn enhances democracy and reduces dependence on private economic actors. On the other hand, efficiency considerations are also important. Unless evaluated with regard to whether or not public-sector initiatives improve the economic base and improve access for underserved segments of the community, the debate about public telecommunications will become nothing more than a political struggle between the community-minded public-sector and self-interested private economic actors. The result could be forfeiting the opportunity to use public power in creative ways to enhance local economies.

GLASGOW ELECTRIC PLANT BOARD INFORMATION HIGHWAY PROJECT

Glasgow Electric Plant Board
P.O. Box 1809
Glasgow, KY 42142-1809
270-651-8341
http://www.glasgow-ky.com/epb

The most spectacular example to date of a city of modest means owning its own telecommunications service can be found in the rural community of Glasgow, Kentucky.[53] In 1988 Glasgow's municipally-owned electric utility began construction of a high-speed city-wide communications network, which eventually included cable television service, computer networking and high speed Internet access. The "information highway" that resulted connects schools, city agencies, utilities, homes and businesses. It has had positive effects on the local economy, attracting new employers and strengthening existing businesses; and it has provided the local workforce, who otherwise would not have had access to the technology, affordable, high quality access.

By 1998 the town's 14,000 residents had Internet access 100 times faster than a telephone modem, but were paying only $12.95 a month for unlimited use and access to an Intranet, linking local government, businesses, libraries, schools and neighbors. Glasgow also offered a cable television package of 53 cable channels for under $15 per month. By comparison, a private provider, before facing the city's competition, charged $40 per month for standard service. In 2001, the utility bought the competing Comcast system, a move that will double the number of cable customers and nearly quadruple the service area.[54] Even more unusual, Glasgow residents can choose to get local phone service through the utility rather than the local private provider.

Lower cable rates alone have saved Glasgow residents an estimated $14 million since 1989. This is money that continues to circulate in the community, helping local businesses and the families they support. The utility itself employs some fifty people and has helped attract (and retain) major industries to the area—R. R. Donnelley & Sons, Johnson Controls, Akebomo Brake, International Paper, SKF Tapered Bearings, and other companies have expanded their operations or constructed new facilities in Glasgow. The cable television division of the utility has broken even financially every year since fiscal 1997-98, as has the city's Internet division.[55]

Over 350 other cities and 30 private companies have gone to Glasgow to study its city-owned telecommunications infrastructure, a system that has created and retained jobs, bolstered the local economy, and generated opportunities in a small Kentucky town.

CLICK!

Tacoma Public Utilities Administration Building
Main Lobby
3628 South 35th Street
Tacoma, WA 98409
http://www.click-network.com

Tacoma, Washington has a long history of municipal enterprise. The city of nearly 200,000 people, located southwest of Seattle, established its own water utility in the late 19th century to supply safe drinking water to its growing population. Soon thereafter, the city established its own power utility and railroad beltline. Today, Tacoma Power, through its telecommunications division, Click!, runs a municipally-owned and -controlled telecommunications network as well.

Click!'s initial business plan assumed that if 25 percent of Tacoma's cable customers subscribed, the system could pay for itself. Now, four years after initiating service, Click! has 30 percent of the local market—more than 16,000 customers. Within two years of constructing the network, Click! hired 109 employees. One third of Click! employees work as service technicians and customer service representatives. "Most of our customer service reps come from vocational technical schools and the right-to-work program and are the best-trained in the industry," said community relations manager Diane Lachel.[56] Thanks to the Click! Network, Tacoma "went from being a 'tier-3' city in terms of information infrastructure to a 'tier-1' city. Tacoma was ignored by new and relocating corporations in the late 1990s." Click! was a key part of the redevelopment of Tacoma, which attracted over a hundred high-tech firms shortly after Click! was built. Click! is also working with local telecommunications companies to develop broadband products such as a DSL service.

Other benefits to the citizens of Tacoma are produced by increased competition in the cable market. The competition has driven down prices and generally raised service levels. Previously Tacomans had only one choice in cable television: TCI. TCI has upgraded its system in response to the competition from Click!, increasing the number of channels it offers from 37 to 170. Click! continues to offer monthly rates $2 cheaper than AT&T Broadband, which has taken over the TCI system.[57] Tacoma consumers now have access to six choices for high-speed Internet access.[58]

Click! bolsters revenue for the public utility. In 2001, just three years after starting operation, Click! generated about $400,000 in revenue. Revenues began exceeding expenses in June 2001.[59]

Finally, Click! has helped to bridge the digital divide in Tacoma by bringing high-speed Internet access to low-income areas. Currently, it is part of a pilot project with Washington State University and Tacoma Housing Authority to deliver service and training to a newly redeveloped affordable housing complex.

(Directory: See list of other city-owned telecom providers.)

NEW EXPERIMENTATION

In addition to the examples we have canvassed, we discovered an enormous range of experimentation in public and municipal enterprise underway across the country. These developments suggest an expanding, innovative municipal- and public-enterprise movement. Below are some highlights. (For more detail, see the Directory.)

- More than 40 states have launched formal biotech initiatives. Sixteen are funding their efforts with tobacco-industry settlement cash. Others have invested a small percentage of state pension funds into biotech companies.[60] Pennsylvania's new Philadelphia-area fund, called BioAdvance, began taking applications for investments in December 2002.
- At least 75 municipalities across the nation are currently involved in revenue-generating methane-recovery operations.
- Roughly 1,400 American cities and counties now operate composting systems, some of which generate revenue for localities.
- Portland, Oregon markets Geographic Information Systems (GIS) products to public consumers. Sales of the software generate a sizable revenue stream.
- ANCHOR, a program of New York's Department of Housing Preservation and Development, is creating over 300,000 square feet of new commercial retail space and over 1,000 units of housing on vacant New York City-owned land.
- The city of San Diego boasts multiple forms of municipal ownership, including a real estate management department, a business services consulting organization, and a retail store. Its Real Estate Assets Department holds more than 400 leases and generates over $43 million in annual lease revenues from a $7.2 million annual departmental budget.
- The city of Boston collects millions of dollars in revenue each year from the Faneuil Hall marketplace. In addition, Faneuil Hall hosts some 1,800 jobs in the retail sector and another 680 jobs in its office space.

Discussion and Recommendations 3

While many municipalities have privatized some city services in recent years, many others have established city-owned and operated profit-making ventures in an effort to generate additional revenues.

Cities small and large, liberal and conservative, recognize that there can be significant benefits linked with these profitable endeavors, including:

1. increased responsiveness to community needs and interests;
2. anchoring public assets within the community;
3. local job creation;
4. local dollars re-circulated within the community;
5. enhanced community participation and involvement; and
6. revenue generation for local governments.

RESEARCH PROPOSAL

Despite the pervasiveness and apparent positive effects of public enterprise, the phenomenon has received scant attention from academics and journalists. Our initial research findings indicate the need for a much more thorough assessment of municipal public enterprise and its job-creating potential. We suggest a two-pronged research strategy for generating both quantitative and qualitative data about municipal enterprise in the United States.

The first research track would consist of a detailed survey of municipal enterprises, to be sent to the roughly 1,100 American towns and cities with populations greater than 25,000. In this survey, city managers or other appropriate officials would be asked to identify all revenue-generating enterprises operated by the municipal government, the number of employees involved in these enterprises, the date the enterprises were established, and to describe the financial performance of these enterprises. Recent budget documents and any other relevant literature would be requested from the contacted cities. To increase the likely yield from our survey, the written requests would be followed by telephone and electronic communication. The aim of the survey would be to generate the most accurate possible gauge of the scale and prevalence of municipal enterprise in the United States.

In phase two of the research, we suggest identifying 50 to 75 cities of varying size for more in-depth examination. While most of these cities would be those with active track records in municipal enterprise, some cities with only modest or non-existent revenue-generating efforts should be included as well, in order to understand why they may have been reluctant to embark on this strategy to date. In these selected cities, in-depth profiles of each city's efforts in municipal enterprise should be developed, based on government documents, interviews with government officials, both in the enterprises themselves and in the city administration proper, and on-site visits. The aim of such profiles is to generate not only descriptive statistics about the prevalence and extent of municipal enterprise, but also information bearing on these substantive questions:

- What motivates city officials to establish municipal enterprise?
- How do city officials mobilize expertise in establishing such enterprises?
- What political debates have municipal enterprises stimulated in local communities? Which constituencies tend to support such enterprises, and which tend to oppose them?
- How are municipal enterprises related to other economic development strategies?
- How are municipal enterprises related to anti-poverty strategies and social service delivery efforts?
- How do municipal enterprises direct jobs and training to underserved populations?
- Which sectors are particularly amenable to municipal enterprise development, and which are less so?
- How do cities evaluate the performance of municipal enterprise? Are standards such as profit-making, employment, quality of services delivered, and other social goals, included in the evaluations?

- What are the skills and education backgrounds of managers of municipal enterprises, and how are they recruited?
- How do managers of municipal enterprises compare their experience to working in the private sector? What are the particular advantages and disadvantages of the two types of enterprise?
- What potential for expansion of municipal enterprise do city leaders see? What do they see as the major obstacles?
- What have been the effects of municipal enterprises on local businesses, the job base, community members, and government finances?

We believe that a study focused on such questions as these would provide ample information for a full-length study of municipal enterprise in the United States, as well as additional reports and articles focusing on particular findings and policy recommendations.

We already know enough about municipal enterprise in the United States to establish that it should be taken seriously. An additional study of the scale proposed above would allow us to move beyond this general claim, to evaluate public enterprises' future potential in a thorough, detailed, and realistic manner.

For many Americans the very idea of public enterprise calls to mind stereotypes of bumbling government bureaucrats wasting resources. That view is flatly contradicted by our preliminary research, and by one of the few existing detailed assessments of municipal enterprise done by political scientist Gary Paul of Florida A&M University. Paul studied the use of public enterprise in 216 Florida localities, and concluded that:

> Most cities offer enterprise services that (1) have a long tradition of user-fee application and (2) a proven record of profitability. Cities seem less inclined to offer a broad range of unproven services. For example, the user-fee concept has long been attached to the provision and financing of water and sewer services. The vast majority of ventures either run a surplus or are at least self-supporting. This study finds that a significant 72 percent of all water and sewer funds produced a positive return on investment as did 82 percent of the electric utilities, and 85 percent of the parking. Cities tend to shy away from functions like trailer parks, hospitals, and nursing homes though some were profitable.
>
> Most public enterprise ventures were able to run a profit or at least reach a break-even point. On the whole, the broad array of functions, though varied, were more profitable than first assumed.[61]

Such findings give pause to traditional stereotypes about public enterprise. Any effort to expand public enterprise must meet baseline efficiency criteria. We are not interested here in "lemon socialism," where the public owns and operates a host of inefficient and unprofitable enterprises that are a drag on local economic performance and damage long-term community stability. On the other hand, in judging whether a specific enterprise satisfies efficiency criteria, the proper metric for evaluation is the "public balance sheet" concept.[62] Some public enterprises appear unprofitable from the perspective of a private balance sheet, but show a different bottom line once public and social costs and benefits are considered. Taking note of the public balance sheet provides a more accurate assessment of public enterprise, allowing policymakers to better identify ventures that are real community assets.

POLICY RECOMMENDATIONS

Further research is needed to inform a detailed policy agenda. However, it is already clear that several policy measures should be taken. For example, utilities should be permitted to offer telecommunications services and Internet infrastructure, particularly where municipal entrance into telecommunications would bring services to underserved urban or rural communities or promote job creation. Case studies on best practices should be collected and made available to local and state governments. Certain municipal and public enterprise projects should be required to generate public goods (much as California requires of its public utilities). Public real estate and development efforts should be encouraged to collaborate with community organizations and solicit residents' input. Policies that privilege private sector-led enterprise and development should be eliminated to establish a level playing field between public and private enterprise.

PUBLIC ENTERPRISE IN PERSPECTIVE

The findings of this report merely scratch the surface of municipal ownership. An expansive study of the broad range of municipal ownership patterns and an understanding of how and why such patterns are successful or unsuccessful would make an important contribution to creating policies to ensure community employment. To date, there has been no such far-reaching study.[63] A substantive review of national, regional, and local patterns of public ownership and the policy environments that support these enterprises is long past due. With a tremendous number of communities in the United States struggling under multiple burdens in an effort to simply survive, a serious look at alternative patterns of ownership is warranted.

The political, economic, and institutional feasibility of this approach is evident in the wide range of precedents operating in local economies all across America today. While it is clear that no single public enterprise can single-handedly stabilize a local economy, the examples we cite demonstrate that public enterprise can be an effective economic development tool. Clearly, its possibilities extend far beyond such labels as "lemon socialism" and other pejoratives commonly associated with public enterprise, especially if evaluated according to the public balance sheet accounting system. The fact that cities have already succeeded in numerous high-tech areas—from Glasgow's telecommunications system, to Sacramento's ecological initiatives, to Maryland's venture capital fund—demonstrates the dynamic potential for developing public enterprises on the cutting edge of the new economy. (Also note Portland Metro's Data Resource Center, described in the Directory.)

A word of caution is in order here. Some activities that go under the label of "public entrepreneurship" or "entrepreneurial government" consist not of government providing a marketable product, but rather of selling off various parts of the public sphere for a profit. Cities regularly sell naming rights to sports stadiums, lease advertising space on city buses, grant corporations licensing rights to use the city's logo, name, and the like. In other cases, fees are charged for services that were previously free for city residents. Some such revenue enhancement schemes are harmless; however, other forms of "entrepreneurial government" compromise the integrity of public spaces and the public sphere. The entrepreneurial government rubric can also be used to justify what are in essence regressive taxes on the delivery of city services. Such forms of revenue enhancement should not be considered municipal enterprise, any more than one would call a governor who simply sold a state's forest lands a businessman.

Municipal enterprise consists not in the selling off of assets or in charging new user fees, but in earning money by providing goods or services to the public not normally considered a free government provision, in ways that provide jobs and generate a revenue stream.

We believe that municipal enterprise should play a substantial role in comprehensive economic development strategy, both in its job creation and its revenue enhancement roles. The commonly-held myths that public enterprise is inherently inefficient or that it is ideologically impossible within the context of the United States simply cannot be sustained in light of the rich array of successful public enterprises now operating here. Many forms of municipal enterprise discussed in this report have enjoyed local-level political support from across the political spectrum. It is time for municipal enterprise to be recognized as a legitimate and effective way for 21st century communities to pursue economic development, jobs, and public goods.

4 *Municipal Enterprise Directory*

UTILITIES AND TELECOMMUNICATIONS

ALAMEDA, CALIFORNIA PUBLIC UTILITIES BOARD

Alameda City Hall
2263 Santa Clara Avenue, Room 360
Alameda, CA 94501
www.ci.alameda.ca.us/home/index.html

The Alameda, California Public Utilities Board contracted with Indiana-based Vectren Communications Services to design, build, and operate a hybrid fiber-optic/coaxial telecomm system. The city is paying for the $16 million system in order to speed up the installation of needed telecommunications services.[64]

BRAINTREE ELECTRIC LIGHT DEPARTMENT

Braintree, MA 02184
www.beld.net

The town of Braintree, Massachusetts owns its own Internet service provider (ISP).

BURBANK WATER AND POWER

Burbank City Hall
275 East Olive Avenue
Burbank, CA 91510
818-238-5850
www.burbank-utilities.com/index.htm

Burbank Water and Power (BWP) is Burbank's water and power utility. Established in 1913, it now covers about 45,000 households, 6,000 businesses, and the Burbank Unified School District. Through its Speakers' Bureau, BWP educates students and community members about water and electrical use and safety. In 1996 BWP funded a citywide fiber-optic system for use by the community and school district, to enhance Burbank's attractiveness to communication-dependent businesses.

CEDAR FALLS

220 Clay Street
Cedar Falls, IA 50613
319-273-8658

In the midst of a national recession, economic growth in Cedar Falls, Iowa is strong. New construction valuation is on the rise and set a record for the region in 2002, exceeding $101 million. The city's municipally-owned telecommunications network is a major asset in attracting new companies to the community.[65]

LAFAYETTE UTILITIES SYSTEM

Lafayette City-Parish Council
Lafayette, LA
337-291-8800
www.lus.org

This customer-owned and operated utility provides electricity, water, and wastewater services to Lafayette, Louisiana. It employs over 400 people and offers very low rates. Lafayette Utilities System (LUS) also built a fiber-optic telecommunications system. The utility's earnings reduce the tax burden for residents and businesses—LUS revenues generate $17.2 million of "payments in-lieu-of tax" revenues transferred to the general fund each year to support police, fire, parks, and community development. LUS posts its meeting agenda on the web for public access.

LAGRANGE CITY COMMUNITY AND ECONOMIC DEVELOPMENT

P.O. Box 430
LaGrange, GA 30241
706-883-2050
www.lagrange.net/utilities

The small rural city of LaGrange, Georgia has undertaken several initiatives. It generates revenue by delivering water, sewer, electrical, and telecommunications services to residents. The city of 26,000 has constructed broadband networks, and extended service to businesses, schools and residents located outside the city limits. Few cities of its size can offer such a strong technological infrastructure. The city offers residents free high-speed Internet access via cable television. All profits generated by the city-owned utility remain in the community to fund traditional city services and offset property taxes. Rates are set at the local level rather than in a state commission, allowing for responsiveness to local needs.

NASHVILLE ELECTRIC SERVICE
1214 Church Street
Nashville, TN 37246
615-736-6900
www.nespower.com

Public Nashville Electric Service uses its infrastructure to provide telecommunications to its Middle Tennessee customers, according to Matthew Cordaro, chief executive officer of the city's 300,000-customer service. The utility has allowed communication access providers to attach fiber-optic cables to its electrical distribution poles. "We can participate in a percentage of their profits and get free fiber for our own use. This is an example of how we capitalize on our existing assets to minimize the pressure for increasing rates," he explains.[66]

NORTH ATTLEBORO ELECTRIC DEPARTMENT
275 Landry Avenue
North Attleborough, MA 02760
800-394-2662
www.naelectric.com

North Attleboro, Massachusetts has a smaller-scale example of city-owned telecommunications. Its electric department is investing $2 million to install a fiber-optic network to provide telecom and Internet service for its customer-owners.

OCALA ELECTRIC UTILITY FIBER NETWORK
2100 NE 30th Avenue
Ocala, FL 34470
352-351-6625
www.ocalaelectric.com

Ocala Electric Utility (OEU), the city-owned electric utility of Ocala, Florida, created a new fiber-optic citywide network to connect the city's fire and police departments, airport, government offices, the utility, and other entities. It integrates voice, video, and data services into one common network. The network creates a supplemental source of revenue for the city by offering customers high-speed twenty-four hour Internet connectivity and access to the city's network.

PALO ALTO FIBER BACKBONE
CITY OF PALO ALTO UTILITIES
1007 Elwell Court
Palo Alto, CA 94303
650-566-4548
www.cpau.com/fiberservices

The city of Palo Alto Utilities invested in a citywide fiber-optic network.

SALT RIVER PROJECT
1521 N. Project Drive
Tempe, AZ 85281-1298

Salt River Project (SRP) consists of both the Salt River Project Agricultural Improvement and Power District, an agency of the state of Arizona, and the Salt River Valley Water Users' Association, a private corporation. It provides water and power to Arizona. SRP employs 4,222 people.

SCOTTSBORO ELECTRIC POWER BOARD
404 East Willow Street
Scottsboro, AL 35768
www.scottsboropower.com

The Scottsboro Electric Power Board now offers cable Internet access, fiber-optic Ethernet access for commercial entities that require a large amount of bandwidth, and cable television, in addition to electric power.

LARGE PUBLIC POWER COUNCIL
www.lppc.org

The Large Public Power Council (LPPC) is an organization of the nation's largest locally owned and controlled power systems, including the public power systems listed in the table below.[67]

	Direct Customers	Revenue $ (million)
Salt River Project	605,027	1,209
Sacramento Municipal Utility District	480,303	648
Memphis Light, Gas and Water Division	381,729	702
Seattle City Light	336,212	330
Jacksonville Electric Authority	324,272	615
Austin Electric Utility Department	298,809	514
Omaha Public Power District	267,664	412
Snohomish County Public Utilities District #1	230,378	265
Knoxville Utilities Board	160,569	276
Orlando Utilities Commission	145,000	302
Tacoma Public Utilities: Light Division	138,312	203
Nebraska Public Power District	110,019	451
Santee Cooper	103,857	640
Chelan County Public Utility District #1	38,103	38
Lower Colorado River Authority	–	378
Municipal Electric Authority of Georgia	–	497
New York Power Authority	–	1,413

REAL ESTATE AND DEVELOPMENT

REAL ESTATE ASSETS DEPARTMENT
REAL ESTATE SERVICES DIVISION

1200 Third Avenue, Suite 1700
San Diego, CA 92101
619-236-6020
www.sannet.gov/real-estate-assets

San Diego's Real Estate Assets Department manages the city's real estate, providing centralized property services and assistance to all city departments, including inspections, rent determination, valuation, and lease negotiation. The Department holds more than 400 leases, including Mission Bay Park, Sea World, and other retail, agricultural, and commercial sites. According to Department representative Susan Taylor, the city has been acquiring property continuously since the 1800s and seldom makes moves to sell land, preferring the benefits of leasing.[68] The department generates over $43 million in annual lease revenues from a $7.2 million annual departmental budget. The Real Estate Assets Department supports 71 positions, assigned to four divisions: Airports, Asset Management & Marketing, Acquisition and Valuation, and Support Services.

ALLIANCE FOR NEIGHBORHOOD COMMERCE, HOMEOWNERSHIP, AND REVITALIZATION (ANCHOR)

NYC Dept. of Housing Preservation and Development
100 Gold Street
New York, NY 10038
212-863-6091
www.nyc.gov/html/hpd/html/neighborhood-redev/anchor.html

ANCHOR, a neighborhood revitalization program in New York City, is developing over 300,000 square feet of commercial retail space and over 1,000 units of housing on vacant New York City-owned land. ANCHOR uses a combination of federal, state, city, and private funds from commercial banks, developers, and community-based organizations to finance new construction of retail space in targeted commercial corridors. ANCHOR aims to generate new private economic activity in distressed neighborhoods.

Operating within the Department of Housing Preservation and Development, ANCHOR sells vacant city-owned land to attract local and national businesses, aiming to create new jobs in economically-depressed areas. Because public subsidies underwrite the cost of new construction, the resulting rents are affordable for local retailers and attractive to national and regional businesses as well. The ANCHOR program focuses on several specific commercial corridors in Harlem, including West 116th Street, West 135th Street, and West 145th Street. Several ANCHOR projects are currently in construction.

OFFICE OF THE MAYOR

121 N. LaSalle, Room 507
Chicago, IL 60602
www.ci.chi.il.us/PlanAndDevelop/PressReleases/63rdunion.html

Chicago sells vacant city-owned land to promote local economic development and jobs. In 2002, the Chicago city council approved a plan to build a new commercial center on a vacant city-owned tract in the Englewood neighborhood. It will be the first retail development in the area in over 15 years.

Under the plan, the City will sell ten vacant lots on a prominent corner of the neighborhood to a developer. The 70,000-square-foot commercial center will be anchored by a Walgreen's Drug Store and a McDonald's restaurant. The developer, 63rd & Halsted Inc., already owns much of the development site. The retail center is expected to create up to 17 full-time and 30 part-time jobs.

SACRAMENTO ECONOMIC DEVELOPMENT DEPARTMENT

1030 15th Street, 2nd floor
Sacramento, CA 95814
www.cityofsacramento.org/econdev/city/2213_city.html

The City of Sacramento is negotiating with a private developer to develop a mixed-use project on a city-owned block of land downtown. The development will include approximately 350,000 square feet of office space and up to 150,000 square feet of retail space. The development of the site is considered important to maintaining the downtown as a primary base of employment.

PORT OF LOS ANGELES

425 S. Palos Verdes Street
San Pedro, CA 90731
310-SEA-PORT
www.portoflosangeles.org/

The Port of Los Angeles controls several retail properties, including Ports O'Call Village, a large retail shopping and dining complex that generates between $650,000 and $1.5 million annually, and another retail/restaurant complex, the West Channel development, which is expected to bring in $1.2 million in leases as well as a healthy percentage of gross receipts. In fiscal year 2001, the Port generated $273.5 million in total operating revenue, and a net income of $97.7 million.

PORT OF SEATTLE
P.O. Box 1209
Seattle, WA 98111
206-728-3000
www.portseattle.org

The Port of Seattle operates a cruise pier and container ship-loading facilities, and the Seattle-Tacoma International Airport. It also leases commercial space. In 2002, the Port's operating revenues were expected to exceed $314 million.

FANEUIL HALL MARKETPLACE
4 South Market Building, 5th Floor
Boston, Massachusetts 02109
Phone: 617-523-1300
Fax: 617-523-1779
www.faneuilhallmarketplace.com
info@faneuilhallmarketplace.com

In the 1970s, the city of Boston embarked on a joint venture in a rundown area with the Rouse Company to develop the Faneuil Hall Marketplace, a downtown retail complex which had the potential to bring jobs to the area and become a centerpiece for downtown development. Boston not only kept the property under public ownership, it also negotiated a lease agreement through which the city secured a portion of the development's profits in lieu of property taxes. The strategy of giving up taxes made sense at the time because, according to the Boston Redevelopment Authority's John Avault, the city property taxes were poorly administered and this arrangement guaranteed a positive return for the city.

By the mid-1980s Boston was collecting some $2.5 million per year from the marketplace. According to one estimate, "Boston has taken in 40 percent more revenue than it would have collected through conventional property tax channels...If Boston had taken the dollars it invested in the marketplace and put them instead into long-term U.S. Treasury bonds, the return over forty years, after inflation, would have been less than half what the city can expect from Fanueil Hall."[69]

In addition, Faneuil Hall hosts some 1,800 jobs in the retail sector and another 680 in its office space. "Not only is it a neat place to work," according to Avault, "for the city it has created a focal point for employment, created a tourist entry point on the Freedom Trail, and become a bridge linking the downtown area to the waterfront." The residual public ownership has allowed the city to stay involved and receive benefits—both in the form of rents and less tangible public goods—while directing jobs, stability and potential growth where the city needed it most, rather than where the market determined it was appropriate.

In contrast to the Pike Place Market and Fruitvale Transit Village, Faneuil Hall Marketplace houses many corporate chains including upscale retail stores, and does not provide affordable housing or social services. The meeting room at Faneuil Hall still serves as a public meeting place, however, and the third floor of the Hall contains a museum. Faneiul Hall Marketplace has generated tremendous revenue and a good number of jobs for the city. Boston's Faneuil Hall Marketplace shows how cities that enter into innovative joint development projects can—even 25 years after initiating the agreement—continue to reap residuals in rent, job generation, tax revenues, and tourism.

ALHAMBRA CITY HALL
111 South First Street
Alhambra, CA 91801
626-570-5007
www.cityofalhambra.org

Alhambra, California created 260 jobs in at-risk areas of the city and increased tax revenues. It also earns about $1.2 million a year in rent revenues and profits from a six-acre parcel it leases to commercial tenants, and requires the tenant businesses to reserve a majority of jobs for low and moderate income community residents.[70]

PORTLAND CITY HALL
389 Congress Street
Portland, ME 04101
207-874-8300
www.ci.portland.me.us/city.htm

Portland, Maine leases waterfront land and other city properties to private companies. It operates a twelve-acre naval shipyard, an inter-island ferry system, and a pier. In 2001 the city's eight enterprise funds had operating income of nearly $1.5 million.

FAIRFIELD CITY HALL
1000 Webster Street
Fairfield, CA 94533
707-428-7400
www.ci.fairfield.ca.us

CINCINNATI CITY HALL
801 Plum Street
Cincinnati, OH 45202
513-352-3000
www.rcc.org

SAN ANTONIO ECONOMIC DEVELOPMENT DEPARTMENT
P.O. Box 839966
San Antonio, TX 78283
210-207-8080
www.ci.sat.tx.us

Fairfield, California, Cincinnati, Ohio, and San Antonio, Texas have been involved in joint ownership of development projects such as shopping malls and hotels.

CITY OF LOUISVILLE
601 West Jefferson Street
Louisville, KY 40202
502-574-3333
www.louky.org/default.htm

Louisville receives income from a project that includes an office building and a hotel. The city is currently negotiating an additional project using a similar formula.

TRANSIT-ORIENTED DEVELOPMENT

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY METRO TRANSIT-ORIENTED DEVELOPMENT PROGRAM
600 Fifth Street, NW
Washington, DC 20001
202 637-7000
www.wmata.com

The Washington Metropolitan Area Transit Authority (WMATA)'s 25 revenue-generating joint development projects earn between $7 and $8 million in revenue each year for the agency, making it the Authority's largest non-fare box revenue source. Since the Transit-Oriented Development Program began in 1976, Metro has conducted 56 revenue-producing joint development projects, resulting in more than $129 million in revenue.[71]

Through WMATA's public/private Joint Development Program, it seeks partners to develop WMATA-owned property and facilities consistent with the following goals:

- Promoting smart growth development principles such as those that: reduce automobile dependency; increase pedestrian/bicycle originated transit trips; foster safe station areas; enhance surrounding area connections to transit stations, including bus access; provide mixed use development, including housing and retail development.
- Providing residents with the opportunity to obtain valuable goods and services near transit stations and offer active public spaces;
- Attracting new riders to the transit system;
- Creating a source of revenue for the Authority to operate and maintain the transit system; and
- Assisting the WMATA local jurisdictions by expanding the local property tax base.

The joint development projects bring economic development to the communities where they are located, creating office space, residential units, and retail, restaurant, and entertainment spaces. According to Robert T. Dunphy, Senior Resident Fellow for Transportation at the Urban Land Institute, "Metro's success in using transit to build community, not just a subway, makes Metro stand out among other new transit systems."[72] WMATA also encourages minorities and women to compete for and participate on WMATA contracts and subcontracts through its Disadvantaged Business Enterprise (DBE) program.

MIAMI-DADE TRANSIT
3300 NW 32 Avenue
Miami, FL 33142
305-770-3131
www.co.miami-dade.fl.us/transit

In December 1982, Miami-Dade Transit (MDT) entered into its first Joint Development Lease at the Dadeland South Metrorail Station. The project developed three office buildings, a hotel, and a parking garage for Metrorail riders.

During the late 1990s, Miami-Dade Transit issued requests for proposals for joint development of nine Metrorail stations. Developers submitted 10 proposals for five stations, ranging from residential to mixed-use projects including retail, hotels, office space, and affordable housing. MDT awarded leases to private developers for three of the stations. In addition, county commissioners awarded leases to a community development corporation and the Water and Sewer Department for development projects at two other stations.

Miami-Dade County has established processes and policies to increase participation of small businesses and black-, women-, and Hispanic-owned business on County contracts. The department also has a Community Small Business Enterprise (CSBE) program, which reaches out to companies interested in doing business with the County. In order to participate in Miami-Dade County's Minority Small Business and CSBE programs, a company must complete the certification process.

METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY (MARTA)
2424 Piedmont Road N.E.
Atlanta, GA 30324-3311
404-848-5000
www.itsmarta.com/index1.asp

MARTA pursues joint development of public land surrounding transit sites in greater Atlanta.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT (BART)

P.O. Box 12688
Oakland CA 94606-2688
415-989-2278
www.bart.gov

BART pursues joint development of public land surrounding transit sites in the greater San Francisco/ Oakland area.

ARLINGTON, VIRGINIA

Arlington County Department of Management and Finance
2100 Courthouse Plaza, Suite 501
Arlington, VA 22201
703-228-3415
www.co.arlington.va.us

For local civic authorities, tax revenues associated with transit-based commercial and residential development can be impressive. For example, in Arlington County, Virginia, though it accounts for only ten percent of the land area, properties located adjacent to public transit hubs generate about 50 percent of the county's total tax revenue. Transit-oriented development also makes the use of public transportation in Arlington County far more attractive.

FINANCIAL

BIOADVANCE

3701 Market Street
Philadelphia, PA 19104
215-966-6214
www.bioadvance.com

A new Philadelphia-based seed fund for southern Pennsylvania biotechnology firms uses tobacco settlement money as venture capital. The fund, called BioAdvance, began processing applications for investments in December 2002. It is part of a $2 billion initiative of former Pennsylvania Governor Tom Ridge which includes $1.5 billion for universities for research. At a time when private seed money has all but dried up, BioAdvance, along with two other Pennsylvania seed funds, called "greenhouses," will hold $100 million. The funds will invest up to $500,000 into start-up firms and research that is commercialization-ready in different regions of the state. Pennsylvania will invest another $60 million into three venture firms to fund more mature companies. BioAdvance received 80 requests as of early December, according to the director.[73]

More than 40 states have launched formal biotech initiatives. Sixteen are funding their efforts with tobacco industry settlement cash. Other states have invested a small percentage of the state pension fund into biotech companies.[74]

CAMBRIDGE COMMUNITY DEVELOPMENT DEPARTMENT

238 Broadway
Cambridge, MA 02139
617-349-4637
www.ci.cambridge.ma.us

To finance local economic growth, the City of Cambridge, Massachusetts makes $5 million of its pension funds available for investments through two privately managed venture-capital funds.

In addition, the city and five Cambridge-based banks have developed a $4 million loan pool for small businesses in Cambridge, to encourage small-business-led job creation. Loan applicants must be for-profit small businesses located within the city of Cambridge; retail, wholesale, manufacturing, professional, and service firms are eligible. Loans range from a minimum of $25,000 to a maximum of $150,000 and can be put to a wide range of uses. On the date a loan is approved, the interest rate is fixed at 2.25% above the Wall Street Journal Prime Rate.

STATE OF WISCONSIN INVESTMENT BOARD

State Life Insurance Fund
P.O. Box 7842
Madison, WI 53707-7842
800-562-5558
www.swib.state.wi.us

The Wisconsin Investment Board has dedicated $50 million in pension funds to life science investments and plans to capture the commercial income produced by a $317 million research initiative.

The Wisconsin State Life Insurance Fund is a good example of a state-owned financial institution. Created in 1911 at the height of the progressive movement in Wisconsin, the publicly-owned and -operated enterprise was started "to give the people of the state the benefit of the best old-line insurance on a mutual plan at the lowest possible cost."[75] Today the fund manages about $70 million in net assets.[76] The insurance program covers Wisconsin residents only. It does not advertise or use commissioned agents, so overhead costs are low. Because of its low overhead and because it does not need to make a profit, the State Life Insurance Fund has been able to offer life insurance premiums estimated to be between 10 and 40 percent cheaper than private insurance coverage.[77]

NORTHWEST REGIONAL PLANNING COMMISSION

1400 South River Street
Spooner, WI 54801
715-635-2197
www.nwrpc.com

Northwest Wisconsin Business Development Corporation (NWBDC) was formed to manage NWRPC's loan fund programs, which provide a source of long-term low-interest financing for businesses that are creating employment within the region.

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION

110 William Street
New York, NY 10038
888-NYC-0100
www.newyorkbiz.com

The New York City Economic Development Corporation (EDC) encourages economic growth in the five boroughs of New York City by strengthening the city's competitive position and facilitating investments that build capacity.

Through its bond program, businesses may finance the acquisition, renovation, construction and equipping of plants with low-interest, tax-exempt bonds issued by the Industrial Development Agency (IDA). The EDC also helped establish a major venture capital fund focused in the 1990s to help establish "Silicon Alley."

PUBLIC PENSIONS

THE RETIREMENT SYSTEMS OF ALABAMA

135 South Union Street
Montgomery, AL 36104
334-832-4140
www.rsa.state.al.us

Retirement Systems of Alabama (RSA), which manages the pension investments of state employees and teachers in the state, has been in operation for more than sixty years. Under the direction of CEO David Bronner, RSA has aggressively invested in a wide range of local Alabama industries, and has even used its assets to help create worker-owned firms. Investments range from aerospace to tourism development and, among others, include: $100 million in the Alabama Pine Pulp Company; $60 million in a statewide golf course network; the Robert Trent Jones Golf Trail (maintaining a 33 percent ownership stake); and $250 million in Ginnie Mae mortgages.

RSA also has invested in major office buildings in cities like Montgomery, and has helped form two media conglomerates, which are probably the most innovative RSA investments. The fund financed the formation of Community Newspaper Holdings Inc. (involving over 330 local newspapers) and RayCom Media (which holds thirty-four television stations and a number of radio stations). RSA estimates these media holdings provide Alabama with some $40 million a year in free advertising for the state. RSA formed these companies, established their headquarters in Alabama, and set the companies up as joint public- and employee-owned corporations.

The RSA has a total of $25 billion under management.

NEW YORK CITY EMPLOYEES RETIREMENT SYSTEMS

335 Adams Street, Suite 2300
Brooklyn, NY 11201
877-669-2377
www.nyc.gov/html/nycers/home.html

Among municipal employee pension funds, the New York City Employees Retirement Systems (NYCERS) has been a leader in ETIs since 1981. NYCERS provides another important precedent for how pension money can be used for community investment, filling "niches where capital is not flowing effectively." By working with a financial intermediary, the Community Preservation Corporation (CPC), NYCERS invested more than $400 million to finance the rehabilitation and construction of more than 10,000 affordable housing units (mostly apartments) over a ten-year period. Even more importantly, they have worked closely with Ginnie Mae to finance home loans for areas of the city redlined by traditional finance institutions. This program has provided thousands of mortgages in minority and mixed-race neighborhoods in the South Jamaica, Queens and Bronx sections of the city. NYCERS also invested $100 million for a non-conforming mortgage program that gave low and moderate income New Yorkers the opportunity to buy homes with as little as five percent down. NYCERS' targeted investments yielded a 7.6% return between 1993 and 2000. Taken together, New York City's public pension funds have helped finance over 30,000 housing units and invested over $700 million in the city to date.[78]

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

1300 Logan Street
Denver, CO 80217
800 759-7372

The Colorado Public Employees' Retirement Association's (PERA) investment policy gives explicit preference to in-state investments, "all other things being equal," and permits such investments to be up to 20 percent of its aggregate portfolio. As of 2000, PERA targeted over $1.28 billion toward in-state investments, of which $700 million consisted of venture-capital investments. As of the early 1990s, PERA had invested about $50 million through an intermediary state development agency, the Colorado Housing and Finance Agency (CHFA), buying CHFA bonds that finance long-term, fixed-rate small business loans. These have gone to a host of in-state small businesses, ranging from a pharmaceutical manufacturer to a Dairy Queen. PERA also has invested over $40 million in several aggressive venture-capital partnerships based in the Denver area. These investments led, by the mid-1990s, to the creation of over 4,600 Colorado jobs, mainly in the technology, manufacturing, and communications sectors. PERA has also made a $33 million loan to finance the construction of a gas-powered cogeneration plant, which serves as an energy efficient source of electric power and steam.

PROFESSIONAL SERVICES

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

World Trade Center San Diego
1250 Sixth Avenue, Suite 150
San Diego, CA 92101
619-685-1340
www.thecentre.cc

San Diego's CENTRE for Organization Effectiveness offers management development, organizational development, and specialized training programs to municipalities, municipal agencies, special districts, nonprofit and private organizations. Created by the city in the early 1980s to develop and implement training programs for its own departments, in 1993 CENTRE began to offer its management training and education to a broader range of organizations. The success of the initiative allowed CENTRE to pay back its start-up loan of $90,000 ahead of schedule and begin funneling profits back into San Diego's general fund. By 1998, CENTRE's revenues had grown to a projected $1 million a year, with $60,000 earmarked for San Diego's general fund.

METRO'S DATA RESOURCE CENTER

600 N.E. Grand Avenue
Portland, OR 97232-2736
503-797-1700
www.metro-region.org

The Portland, Oregon regional government, METRO, developed a desktop version of its Geographic Information Systems (GIS) data and began marketing the product to the public in 1997. This software provides users—such as real estate brokers, transportation engineers, cable and other utility operators, banks, and title companies—with more than 50 map layers of the Portland region displaying demographic, economic, and geographical data. In fiscal year 1997-98, Metro's sales of the software generated $302,000 for the Data Resource Center, providing 20 percent of the Data Resource Center's operating support.[79]

RETAIL

SAN DIEGO CITY ADMINISTRATION BUILDING

202 C Street
San Diego, CA 92101
www.sannet.gov

The San Diego's City Store is a public/private venture between the city and a local private contractor charged with managing and operating the enterprise. The first two shops opened in December 1991; City Store now has four permanent locations—two of which are in major shopping malls; a fifth site is open only during the holiday season. Through its sales of San Diego souvenirs such as T-shirts, caps, mugs, post cards, as well as salvaged city equipment such as street signs, old parking meters, traffic signals, and fire hydrants, City Store grossed over $750,000 in fiscal 2001, with an operating profit just under $50,000.[80]

SKELETONS IN THE CLOSET

1104 N. Mission Road
Los Angeles, CA 90033
323-343-0760
lacstores.co.la.ca.us/coroner

A particularly popular store, both locally and through its mail order catalog, is run by the Los Angeles County Coroner's Office. The store sells a wide-range of items including ID toe-tags (used as key chains), beach towels designed with police-chalk body outlines, and mugs with skeletons. The store generates about $20,000 per month in profits for the department—which in turn helps fund a drunk-driving prevention program.

LOS ANGELES COUNTY

500 W. Temple Street
Los Angeles, CA 90012
lacounty.info

Journalist Michael Silverstein has described Los Angeles County's innovations in product-marketing and retail, noting that by the mid-1990s each of Los Angeles County's 34 departments engaged in some form of product-marketing. For example, its District Attorney Office sells crime-prevention tapes and court-record data to private companies, and its Public Social Services Department sells food stamp-control software it developed to other localities.[81]

WASTE RECOVERY

GLENDALE PUBLIC WORKS

Management Services, Room 200
613 E. Broadway
Glendale, CA 91206-4391
818-548-4844
www.ci.glendale.ca.us

Glendale, California recaptures landfill gas through methane recovery. It not only prevents harmful methane gas emissions and turns it into an energy source, but it also saves the city money. The City of Glendale will receive tens of millions of dollars in benefits from its methane recovery operation through lower fuel costs and royalties. It pipes methane gas from a landfill 5.5 miles away to generate enough electricity for 30,000 homes.[82] At least 75 municipalities across the nation are currently involved in revenue-generating methane recovery operations. Glendale's program is expected to lead to total savings and added revenues of $2 million per year over a 20-year period.

CITY OF RIVERVIEW

14100 Civic Park Drive
Riverview MI 48192-7600
734-281-4200
www.cityofriverview.com

A methane-recovery system at a landfill owned by Riverview, Michigan produces electricity that is sold to Detroit Edison; royalties covered initial costs in the first two years and now add to Riverview's cash flow. It generates enough power to meet the energy needs of over 3,700 homes. This landfill gas recovery project is the largest combustion turbine project run on landfill gas in the state of Michigan. The project has reduced greenhouse gases equivalent to removing 36,000 cars from the road.[83]

SONOMA COUNTY, CALIFORNIA COMPOSTING SYSTEMS

www.sonoma-county.org

Roughly 1,400 American cities and counties now operate composting systems. One of the most successful is in Sonoma County, California.

CITY OF AUSTIN

P.O. Box 1088
Austin, TX 78767
512-974-2000
www.ci.austin.tx.us

Austin, Texas owns a facility for wastewater bio-solid reuse. The Austin city utility pumps sludge from wastewater treatment plants and composts it into "Dillo Dirt," an organic compost product. The product is sold to the public and used by the Parks and Recreation Department. Austin's bio-solid reuse facility saves about $500,000 a year in landfill costs. "Dillo Dirt" sales earn the city $120,000 per year.

MILWAUKEE METROPOLITAN SEWERAGE DISTRICT

260 West Seeboth Street
Milwaukee, WI 53204

Two sewage treatment plants owned by Milwaukee transform 50,000 tons of sludge a year into a fertilizer marketed by the city, yielding about $6 million in annual revenues. Other municipalities that have established sludge-to-fertilizer recycling facilities include Boston and Philadelphia.[84]

U.S. ENVIRONMENTAL PROTECTION AGENCY LANDFILL METHANE OUTREACH PROGRAM CLIMATE PROTECTION DIVISION

401 M Street, SW (6202J)
Washington, DC 20460-0001
888-782-7937

EPA officials estimate 700 landfills across the country could install economically viable landfill gas energy recovery systems, yet only about 200 energy recovery facilities are in place.[85]

BOTTLED WATER

KANSAS CITY WATER DEPARTMENT

414 E. 12th Street
Kansas City, MO 64106
816-513-1400

The Kansas City Water Services Department sells bottled tap water at municipal events and facilities, including city offices, golf courses, the airport, and the Kansas City Zoo.

CITY OF HOUSTON

900 Bagby
Houston, TX 77002
713-837-0311
www.cityofhouston.gov

The Houston, Texas municipal water utility is bottling Houston's tap water and calling it Houston Superior.[86]

PUBLIC GOLF COURSES

BETHPAGE STATE PARK

Farmingdale, NY 11735
516-249-0700

Many states and localities own and operate golf courses. According to the National Golf Foundation, there are more than 2,500 publicly-owned courses in the U.S., representing nearly 16 percent of all courses in the country. Several publicly-owned courses are considered to be among the best in the nation. These include Bethpage Black, which ranks as one of the top 100 in the U.S., and is one of just five courses at New York's Bethpage State Park, itself one of the top golf facilities in the country. Golf courses can be a lucrative venture for state and local governments. According to the National Golf Foundation, the median municipally-owned 18-hole course generated nearly $160,000 in net operating income in 1998.[87]

MISCELLANEOUS

TOWING MAIN OFFICE

3111 E. Willow Street
Long Beach, CA 90806
562-570-2828
www.ci.long-beach.ca.us/towing/towhome.htm

The City of Long Beach owns and operates its own towing company. It tows vehicles for the Police Department and other law enforcement agencies within the city.

NORTH CAROLINA DEPARTMENT OF TRANSPORTATION RAIL DIVISION

1553 Mail Service Center
Raleigh, NC 27699-1553
www.bytrain.org

Since 1990, the state of North Carolina has operated passenger service from Charlotte to Rocky Mount, and in 1995, it added service to Charlotte and Raleigh. Amtrak staff operates both lines. The state is considering eventually expanding passenger service from Raleigh to Wilmington. In 1998, the state spent $71 million to buy the 317-mile North Carolina Railroad (built in the 19th century) from private owners, and then offered a 15-year lease to Norfolk Southern for continued used of the track for freight service, a deal which will yield the state $11 million a year. It leases the passenger line to the Great Smoky Mountains Railroad, Inc., a group of shippers and investors.[88]

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Utilities and Telecommunications

Real Estate Development

Professional Services

Retail

Bottled Water

Financial

Waste Recovery

Recreation Facilities

Public Pensions

Transit-Oriented Development