

*RETHINKING
21ST-CENTURY
GOVERNMENT;
PUBLIC-PRIVATE
PARTNERSHIPS AND
THE NATIONAL
INFRASTRUCTURE BANK*

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The Center on Law & Public Finance, based at the SSRC and the Institute for Public Knowledge at New York University, assesses policy programs, financing devices, contractual arrangements, specific projects, and industry trends as they relate to public works.

Authors: Michael Likosky, Josh Ishimatsu, and Joyce Miller

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In an era of severe budgetary constraints, how can the federal government ensure that America is investing in what is needed to promote economic competitiveness, broad-based opportunity, and energy security? Increasingly, public-private partnerships enjoy broad support as the answer to this question, across party lines and political divisions. Partnership-driven projects are pursued today in wide-ranging areas, including education, transportation, technology, oil and gas, clean energy, mineral extraction, and manufacturing. Well-considered partnerships compliment, strengthen, and reinforce those existing meritorious approaches carried out through traditional means. They represent a fundamentally distinct way for government to address complex challenges, with federal agencies playing a catalytic role rather than a directive one. A National Infrastructure Bank can provide the requisite capacity to implement public-private partnerships.

RETHINKING THE FUNCTION OF GOVERNMENT

America is at a standstill. Federal, state, and local governments are facing overburdened public balance sheets while enormous sums sit in limbo in pension funds and in the accounts of what the McKinsey Global Institute has called the new global power brokers: Asian sovereign funds, petrodollar accounts, private equity funds, and hedge funds.¹ It is why President Obama posed this question to his Economic Recovery Advisory Board in 2009:

Obviously we're entering into an era of greater fiscal restraint as we move out of deep recession into a recovery. And the question I've had is people still got a lot of capital on the sidelines there that are looking for a good return. Is there

a way to channel that private capital into partnering with the public sector to get some of this infrastructure built?²

Unless we can shepherd this money into our productive economy, the country will have to forego much-needed projects for lack of financing.

Public-private partnerships involve federal agencies coinvesting alongside state and local governments, private firms, and nonprofits. Having partnerships within a government's toolbox not only brings a sizable new source of capital into the market, it also allows public officials to match assets with the most appropriate and cost-effective means of financing. If a class of existing and new projects can be financed

“Federal, state, and local governments are facing overburdened public balance sheets while enormous sums sit in limbo.”

from private sources, then we can begin to decrease our debt burden while also investing and growing our economy. Scarce public funds are then freed up to be spent on essential services and those projects best financed through traditional means.

Because the success of partnerships depends upon collaborations between government and private firms that may under other circumstances be viewed as raising conflicts of interest, a rethinking of the function of government is essential. In a recent opinion piece in the *Wall Street Journal*, the president announced an executive order, *Improving Regulation and Regulatory Review*,³ which “requires that federal agencies ensure that regulations protect our safety, health and environment while promoting economic growth.”⁴ The piece, entitled “Toward a 21st-Century Regulatory System,”

was accompanied by an evocative drawing of a regulator wielding an oversized pair of scissors busily cutting through a sea of red tape. While widely viewed as an effort to curry favor with American businesses, this presidential outreach can also be read as an indication that the federal government will support—and encourage—divergent groups working together to cut through outmoded, counterproductive, or unnecessarily burdensome regulation.

Public-private partnerships are especially suited to fulfilling the order's directives and can serve as a model for our twenty-first-century federal agencies. If coming together as a team—public and private, Republican and Democrat, progressive and Tea Party—is a precondition not only to winning the future but also to solving today's seemingly intractable problems, then we must take the task at hand seriously. Diverse groups must appreciate the unique and valuable resources and perspectives that those who are their combatants in other contexts bring to the team. Government agencies, more accustomed to acting as referee—setting down basic rules of the game and constraining behavior deemed contrary to the public interest—must find ways of coaching this unruly bunch, not from the sidelines but as a vital player.

GOVERNMENT AS PLAYER-COACH

In a recent appearance at Gamesa Technology Corporation's factory in Fairless Hills, Pennsylvania, President Obama called attention to the political challenge inherent to any large undertaking. This was a fitting locale for a discussion of the federal government's evolving role, as Obama had helped catalyze a deal whereby the Cerro de Hula wind farm in Honduras would purchase turbine exports from the Gamesa factory with support from the Export-Import Bank of the United States and from the Central American Bank for Integration.

A question from the factory floor concerned the proposed US Smart Grid, an ambitious, expensive national project to create a modernized, efficient national electricity grid that would save energy over the long haul by reducing the waste tied to our country's antiquated distribution network. Asked whether the federal government had plans to lay out the substantial sum needed to carry out this endeavor, the president gave an answer that might surprise some, explaining that "the challenge is not so much a money issue." Pointing to the fact that we "could probably get a lot

“Because the success of partnerships depends upon collaborations between government and private firms that may be viewed as raising conflicts of interest, a rethinking of the function of government is essential.”

of private-sector dollars to invest in a smart grid,” he asserted that the challenge was instead a political one, “all these different zoning laws” that arise because “people don’t want transmission lines, et cetera, in their vicinity.” Moreover, “each state and each local government has its own control about siting issues,” so that America behaves like a patchwork of interests rather than as a united nation.⁵

This political challenge is not a light one and requires working together across diverse interests to coalesce as a team. No longer able to use the power of the purse as primary leverage, government must identify its own unique capacities as a problem-solver within a changed landscape, shifting from a directive to a catalytic role in order to identify and amend problematic regulation that stifles innovation and restricts economic growth while strengthening regulation essential

to protect the public. Coaching from the sidelines will no longer ensure a win. Government will only be fully engaged and effective if it has a direct interest in the outcome—federal agencies must act as player-coaches.

A player-coach is a member of the team who simultaneously holds both playing and coaching responsibilities. The challenges and constraints faced by fellow team members can best be appreciated on the field, in the heat of play. The player-coach can then inspire the top individual performance of each player

“Too frequently, we hamstring our ability to work together by tethering our debates to philosophical poles of government and the economy.”

while keeping everyone’s eyes on the ball, lending a hand when his or her particular skills are called for. A player-coach does not embrace a game without rules nor an overly managerial approach because he or she knows first-hand both the value of a game plan and the need to adapt, problem-solve, and innovate on the fly. Genuinely skilled player-coaches are able to move strategically and seamlessly between their roles as coach and player in a way that maximizes the team’s

interests. One of the best, Bill Russell, found just the right balance in his second season as player-coach of the Boston Celtics, when he began making careful targeted use of his time off the sidelines after spending many minutes on the court in his first season.⁶

Most important, a player-coach agency can turn opponents into teammates. Too frequently, we hamstring our ability to work together by tethering our debates over the appropriate role and function of government to philosophical poles of government and the economy—such as a night-watchman state or a Keynesian one. These approaches exist in their pure forms only within textbooks and political discourse. Today’s pressing challenges demand that we eschew the litmus-test politics that result from the lionizing of philosophical puritanism so that we can find common ground—where traditional regulation and business innovation meet— and advance our shared values together in a workable way. For America to win the future, the government must be fully in the game with truly modern entrepreneurial public agencies that promote public values as a growth accelerant.



V&M STAR STEEL FACTORY EXPANSION
2009-2012
Reinvestment Act \$250 m leveraged \$650 m from
V&M | Youngstown, OH

“I hope that we all recognize that when we work together and do things together and check our egos at the door in the best interests of our community, great things happen.”

—US Rep. Tim Ryan

FIVE FACTS

1. Reinvestment Act \$250 m relocates Norfolk Southern Rail
2. V&M invests \$650 m to build mill
3. Manufacture seamless tubes for oil and gas production
4. Supply Marcellus Shale Natural Gas (PA, OH, NY, WV, MD, VA)
5. Spearheaded by US Sen. Brown, US Rep. Ryan, Gov. Strickland, Mayors Youngstown and Girard, Youngstown-Warren Chamber of Commerce, V&M, OH Edison

THE ECONOMIC PHILOSOPHY OF PUBLIC-PRIVATE PARTNERSHIPS

In his last two shareholder letters, Warren Buffet, chairman and chief executive officer of the large holding company Berkshire Hathaway, set out the basic economic philosophy behind public-private partnerships. Berkshire has made investing in these partnerships a new core aspect of its portfolio, both out of a sense of national duty and with the expectation of years of reliable returns.

In his 2009 letter, Buffet groups Berkshire's electricity and railroad investments in the common category of "regulated utility." Arguing that "it is inconceivable that our country will realize anything close to its full economic potential without its possessing first-class electricity and railroad systems," he indicates that Berkshire "will do our part to see that they exist." In return, Buffet expects "this regulated sector to deliver significantly increased earnings over time, albeit at the cost of our investing many tens—yes, tens—of billions of dollars of incremental equity capital." In other words, Berkshire commits to large sums of upfront capital and ongoing investments to help drive the economic growth necessary to generate direct and indirect profits in the future as individuals and governments become less cash-strapped.

Buffet takes the position that the bond holding together the long-term business relationships between Berkshire and "the public" arises from a "social compact." It is a compact based in part on pragmatism: "If either side shirks its obligations, both sides will inevitably suffer." This pragmatism stems from enlightened self-interest: "both parties to the compact should—and we believe will—understand the benefit of behaving in a way that encourages good behavior by the other." Private-sector contributions to public works that benefit all require "wise regulators who will provide certainty about allowable returns so that we can confidently make the huge investments required."⁷

This appeal to a social compact is not a radical idea. Many presidents have turned to partnerships as a way to mobilize the private sector. In 1981, Ronald Reagan formed the Presidential Task Force on Private Sector Initiatives, which brought together "leaders from corporations, foundations, and voluntary and religious organizations" for the purpose of "promot[ing] private sector leadership and responsibility for solving public needs, and to recommend ways of fostering greater public-private partnerships."⁸ Abraham Lincoln's Transcontinental Railroad, Teddy Roosevelt's Panama Canal, and Dwight Eisenhower's National System of Interstate and Defense Highways would all unify the



WARREN BUFFET'S LETTERS
TO SHAREHOLDERS
2009, 2010

“It is inconceivable that our country will realize anything close to its full economic potential without its possessing first-class electricity and railroad systems.”

FIVE FACTS

1. Electricity and railroads grouped as common investment category
2. Berkshire invests large sums to meet production shortfalls
3. Expectation of government partnership ensures appropriate return over time
4. Social compact for mutual advantage
5. Essential for US competitiveness

nation—and support America's growth—for generations as the foundations of a truly national economy.

Public-private partnerships have also been a centerpiece of our foreign commercial affairs across presidencies and parties. In fact, Franklin Delano Roosevelt's Export-Import Bank and Richard Nixon's Overseas Private Investment Corporation are both durable partnership-driven foreign-affairs institutions that together literally wove the World Wide Web with the laying of fiber-optic cables around the globe.

Increasingly, in our own time, we see signs of politicians and diverse stakeholders working together across party lines and political divisions in the spirit of this social compact to address our biggest economic challenges. Even the most antagonistic combatants are beginning to view public-private partnerships as a viable—and necessary—vehicle for responsible regulation and constructive investment in the twenty-first century.

A BIPARTISAN INVESTMENT STRATEGY

As seemingly unlikely alliances become increasingly common, we must move away from viewing them as exotic. Instead, greater attention should be paid to how

public-private partnerships themselves coalesce otherwise divergent interests and how government can act as player-coach to encourage private investment and rethink public regulation. Because specific partnerships

“In a striking example of public values crossing party lines, President Obama and former governor of Alaska Sarah Palin share an approach to partnerships that is at once pragmatic and idealistic.”

may last decades and span changes in political and corporate leadership, their champions must forge the lasting allegiance of governments, major stakeholders, and the public at large.

In a striking example of public values crossing party lines, President Obama and former governor of Alaska Sarah Palin share an approach to partnerships that is at once pragmatic and idealistic. On a pragmatic level, both crusade against economic inefficiencies tied to insider dealing between public officials and private commercial interests. The Obama presidency has marked a dramatic shift away from an earmark-dominated system and toward a proliferation of partnership programs within federal agencies, many involving



**SBA AWARD TO VON BRAUN CENTER
FOR SCIENCE & INNOVATION**

June 2010

SBA Innovation Defense Cluster Pilot
Huntsville, AL

“Showcases our collaboration in defense technology between government, academia, contractor and commercial organization”

—Huntsville Mayor Tommy Battle

FIVE FACTS

1. \$600 k awarded by Small Business Admin.
2. Promotes small high-tech companies
3. Fills gaps in Defense Dept. customer base
4. Mentors, commercializes, does business matchmaking and technology transferring
5. Team members: Huntsville/Madison Chamber of Commerce, UAHuntsville, Alabama A&M Univ., Women's Business Center of North Alabama, Biz Tech, Defense Acquisition Univ., VCSI.

an interagency effort. This shift has been coupled with attention toward merit-based criteria for project selection and unprecedented transparency within government. Similarly, Palin's ascendancy to political prominence in Alaskan politics was hard earned by weeding out insider dealings within the state's oil sector.

Their idealism can be seen in their mutual faith in a social compact. Both are vigilant in judging the success of partnerships based primarily on the ability of projects to benefit the people. For Obama, partnerships are often viewed as ways to leverage the ingenuity of ordinary Americans. Palin's reforms of Alaska's oil sector reinforced the state's belief that its citizens should take home a percentage of the profits produced by public-private projects. A statement released by her governor's office about a partnership project that Palin spearheaded could as easily have come from the White House press secretary: "This project will maximize jobs for Alaskans, provide affordable gas for Alaskans, and maximize revenue for Alaskans for generations."⁹

Support for partnerships goes deep into the benches of both parties. Senator Orrin Hatch (R-UT) has spoken of our country's "belief in public-private partnerships that cost the government little and bring a high return on that investment."¹⁰ The mayor of New York City, Michael Bloomberg, an independent, former

governor Ed Rendell (D-PA), and former governor Arnold Schwarzenegger (R-CA) formed the bipartisan Building America's Future, a coalition of governors and mayors who support infrastructure partnerships. Governor John Hickenlooper (D-CO) advocates public-private partnerships that have "statewide support from stakeholders who understand the increased demand on our transportation system and the financial challenges we face" for moving projects forward.¹¹ Even the conservative Americans for Prosperity is in favor of "implementing more public-private partnerships to build and expand roads."¹² Koch Industries supports a range of partnerships, from road projects,¹³ to biofuels,¹⁴ to oil and gas.¹⁵ Likewise, David Koch's philanthropic investments to combat cancer helped establish the David H. Koch Institute for Integrative Cancer Research at the Massachusetts Institute of Technology, which brings together "biologists, engineers, and others in the physical sciences" to address challenges. This innovative approach to problem-solving aims to influence federal-spending priorities, increasing National Institutes of Health support for convergence-driven approaches in line with emerging federal trends supported by President Obama and his administration more generally.¹⁶ It points to the dynamism of public-private partnerships and how a culture of innovation, financing, and



GOVERNOR SARAH PALIN

2009

Public-Private Partnership Alaska Gasline
Alaska

“The formation of a public/private partnership will maximize jobs for Alaskans, provide affordable gas for Alaskans, and maximize revenue for Alaskans for generations.”

FIVE FACTS

1. Palin is a PPP advocate and reformer
2. Track record of weeding out insider dealings
3. Promotes benefits for citizens through AK tradition of revenue-sharing
4. Partners: Alaska Gas Dev. Authority, ENSTAR Natural Gas Co., State of AK
5. Part of broad energy portfolio including clean projects

entrepreneurship can provide a safe harbor in a toxic political environment.

Thus, in a period of often immobilizing polarization, public-private partnerships offer a pragmatic way forward informed by an economic philosophy that does not fall neatly in line with political divisions or special interests. Government should seize these opportunities to serve as a catalyst for the identification of common goals and productive avenues that can bring all players together as a team and to promote a team spirit that will allow for constructive compromise when interests diverge and provide continuity across political seasons. But to be an effective player-coach for these public-private partnerships, public agencies must know both the rules of the game and how it is played.

PUBLIC-PRIVATE PARTNERSHIPS IN PRACTICE

Although partnerships are a well-established way for politicians, businesspeople, and nonprofits of various stripes to work together, little attention has been paid to defining what public-private partnerships are, how they work in practice, and the distinct roles played by the federal government. At the Center on Law & Public

Finance, we reviewed this approach across sectors, including commercial affairs both at home and abroad, and across historical periods dating back to America's founding, paying particularly close attention to party commonalities and differences. We also did extensive surveys of partnerships involving foreign governments and international organizations.¹⁷

Because partnerships are deployed across agencies and time and under a range of circumstances, most employ a multi-pronged strategy. Our research revealed ten common features of public-private partnerships:

1. **Coinvestment**—The federal government coinvests alongside state and local governments, private firms, and nonprofits.
2. **Cooperation**—Public and private team members work together over the life of a project, from conception to planning, building, operating, and maintaining.
3. **Collaboration**—Cross-sector approaches are used to bust silos.
4. **Maximization**—Programs and projects are designed for high returns on federal investment.
5. **Measurement**—Project selection involves rigorous, analytical, metric-based processes.



COSKATA BIOREFINERY

2011

\$250 m USDA Loan Guarantee for Facility
Construction | Greene Co., AL

“We look forward to working with the USDA and investment partners...to help reduce the country's dependence on foreign oil, and create significant economic growth for the people of Alabama.”

—William Roe, CEO Coskata

FIVE FACTS

1. Dept. of Agriculture 9003 Biorefinery Loan Guarantee Program
2. Largest ever biofuel facility
3. Biggest planned cellulosic ethanol plant in US
4. Est. 300 local construction jobs, 700 regional
5. Support from Greene Co. Commission, Industrial Dev. Auth., Gov. Riley, Senator Sessions, Senator Shelby, former Congressman Davis, Coskata

6. **Competition**—Federal support is awarded based upon competitive processes.
7. **Innovation**—Innovative approaches to research and development, design, and delivery are encouraged and rewarded.
8. **Improvement**—Existing programs are continually improved, and new programs are continually created.
9. **Pragmatism**—Problem-solving methods are applied.
10. **Flexibility**—Programs and projects adapt as circumstances demand, focusing on long-term problems while anticipating short-term results.

Partnerships may incorporate a few or many of these features in different combinations as projects evolve.

The central role of government in public-private partnerships is to identify public needs and facilitate private investment in those areas. By using modest sums as leverage, government—acting as player-coach—can recruit the right players for the team and elicit the best performance from each position. We found that government generally relies on seven financial tools to stimulate and target investment in public-private partnerships:

1. **Matching grants**
2. **Guarantees**

3. **Loans**
4. **Insurance**
5. **Tax credits**
6. **Interest subsidies**
7. **Innovative bond vehicles**

These federal tools are often used in conjunction with state and local instruments.

Government can also provide effective leadership through non-financial tools, much like when a player calls for the ball when there's an open shot or a coach drafts a new player to the team who ups everyone's performance, gives an inspiring halftime locker-room pep talk, or orchestrates a successfully executed game plan. Federal agencies typically support public-private undertakings in six primary ways:

1. **Promotion**—Event planning, international networking, road shows, high-level advocacy, market access, opportunity identification, and video conferencing
2. **Expertise**—Expert advice, policy consultation, and security assistance
3. **Information and analysis**—Commentaries, databases, directories, guides, libraries, market profiles, and publications
4. **Research and development**—Feasibility studies



EXPORTING PA WIND ENERGY
2011
51 Wind Turbines to Honduras
Fairless Hills, PA

“Ex-Im Bank is committed to helping companies such as Gamesa export to more customers in more countries to expand US employment in these industries.”

—Fred Hochberg, Chairman,
Export-Import Bank of the
United States

FIVE FACTS

1. In 2006, Gamesa converts US Steel acreage to manufacture wind turbines
2. Ex-Im Bank backs Gamesa's export of 51 wind turbines to Honduras for 2011
3. \$159 m direct loan from new carbon-policy incentives
4. US Federal funds leveraged with Central American Bank for Integration Coinvestment
5. Exports to the Cerro de Hula Wind Farm

5. **Education and training**—Programs and materials
6. **Legal support**—Legal assistance in ensuring compliance, dispute settlement arenas, and legislative advocacy overseas

Most agencies have at least one substantial public-private partnership program already in place, and a number of standalone entities devote themselves exclusively to this approach, but there is little systematic learning between programs. Honing the federal government's ability to implement partnerships following a standard playbook will increase capacity across agencies to deliver beyond what are now often discrete programs and projects and help repurpose agencies to do more with less resources.

Extractives Partnerships

Both at home and abroad, the federal government uses public-private partnerships within the extractives sector to aid in the pursuit of oil, gas, metals, and minerals. These projects can be ambitious, involving many countries or state governments, as well as networks of private financiers, contractors, and subcontractors, and therefore exacting attention to planning, financing, construction, operation, and maintenance is often critical. Because extractives partnerships can last for decades,

they must be resilient and oriented for the long term through careful contracting, with public agencies playing key roles throughout a project lifecycle, from the identification of an opportunity, to tendering, extraction, and distribution.

In the foreign context, our most active federal entities include the Export-Import Bank of the United States (Ex-Im) and the Overseas Private Investment Corporation (OPIC). Both promote US foreign-commercial policy aims by partnering with American firms on projects overseas. Support provided includes feasibility studies, loans, loan guarantees, insurance, and assistance for small businesses exporting key project components. Through their involvement in projects taking place in other countries, Ex-Im and OPIC by extension partner with foreign government agencies and firms as well. The United States is also involved in the extractives sector through our relationships with international agencies and banks, such as the World Bank Group's International Finance Corporation and Multilateral Investment Guarantee Agency, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank.

Domestically, a range of federal entities are actively engaged in extractives partnerships, including the Department of the Interior, the Department of Energy,



ABIQUIU HYDROPOWER PROJECT
2009-2011
Uses 50/50 public-private funding for low-flow turbine | NM

“By increasing renewable energy output at existing hydropower facilities, we can create clean energy jobs, bolster our nation’s economic competitiveness, and contribute to America’s diverse energy portfolio.”

—Energy Secretary Steven Chu

FIVE FACTS

1. Energy Department Reinvestment Act Hydropower project
2. \$4.5 m grant leveraged \$4.5 m from private sector
3. Low-flow turbine increases facility capacity by 22%
4. Power 1,100 homes, supply Los Alamos, County including DoE lab
5. Spearheaded by Sen. Tom Udall (D-NM)

the Department of Commerce, the Occupational Safety and Health Administration, and the Environmental Protection Agency. Because these projects are often carried out by specific states and can involve distribution through multi-state pipelines, state agencies are key partners along with private firms. This sector carries implications for the global extractives market and can also have a heavy and far-flung impact on the environment, so the federal government is implicitly involved whenever and wherever extraction occurs within our borders, whether the partnership is formalized or not.

Infrastructure and Clean-Energy Partnerships

Public-private partnerships in the infrastructure and clean-energy sectors are a basic feature of our foreign and domestic affairs. Like extractives partnerships, they are often complex, which demands careful contracting and close, coordinated attention through all project stages. The United States has been much more actively involved in infrastructure and clean-energy partnerships abroad than at home, participating through many of the same federal entities and international channels that connect us to the global extractives sector.

Domestically, we pursue infrastructure and clean-energy partnerships largely through federal agencies that operate only in specific areas. This silo approach

does not allow for much cross-agency capacity building and knowledge sharing and limits our ability to leverage private participation to produce the greatest gain. Examples of partnership programs in infrastructure and clean energy include the Department of Transportation's Transportation Infrastructure Finance and Innovation Act program for roads and other transportation projects as well as the Department of Energy's 1603, 1703, 1705, and ATVM (Advanced Technology Vehicles Manufacturing) programs geared to clean-energy production. Likewise, our National Broadband Plan, administered by the Federal Communications Commission, is partnership-driven. Partnerships play a part in biorefineries programs administered by the Department of Agriculture, are utilized by the Department of Commerce in its carrying out of the America COMPETES (Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science) Act, which supports infrastructure investment in science parks, and are involved in the infrastructure aspects of a number of Regional Innovative Cluster initiatives spearheaded by the Small Business Administration, the Department of Defense, the Department of Agriculture, and the Department of Energy.

Some of our infrastructure and clean-energy partnerships are interagency efforts, with perhaps the



AGUA CALIENTE SOLAR PROJECT
Agreed January 2011
US DoE \$967 m loan to construct 290 MW
solar facility | Maricopa, AZ

**“This type of
development can lead
the way for other
industries to consider
Maricopa.”**

—Daniella Casey, City of Maricopa

FIVE FACTS

1. Pacific Gas & Electric Company contracts to purchase output for 25 years
2. DOE loan toward \$967 million of total \$1.719 billion cost
3. 1705 Department of Energy program
4. Create up to 400 construction jobs
5. Avoid 417,700 tons CO₂ annually

most ambitious being the National Export Initiative, which President Obama established with the aims of doubling US exports in the next five years and adding two million American jobs. This initiative involves the Departments of Agriculture, Commerce, Labor, State, and the Treasury. The Office of Management and Budget, the Office of the US Trade Representative, the Assistant to the President for Economic Policy and Director of the National Economic Council, the National Security Advisor, the Council of Economic Advisers, Ex-Im, OPIC, the Small Business Administration, and the US Trade and Development Agency are all actively coordinating in this effort. As with other major partnerships, the National Export Initiative is an attempt to leverage the federal government's ability to work across agencies, with state and local governments, and with the private sector to advance the public interest.

Specialized Partnerships

A number of modest but important interagency initiatives have been established to break down silos and address pressing challenges with modest federal resources. One of the most significant, the Healthy Food Financing Initiative, is spearheaded by First Lady Michelle Obama. Although it is smaller than many partnership programs, this initiative is a model program with

its carefully defined public purpose, high leveraging ratios, cooperative approach, and attention to impact upon beneficiaries. It mobilizes the resources of the Departments of Agriculture and the Treasury and works closely with state and local governments and also the private sector to catalyze investments in grocery stores, small businesses, and communities within economically distressed areas in order to eliminate food “deserts” where there is no fresh produce or healthy affordable food available. Another effort, the Partnership for Sustainable Communities, led by the Housing and Urban Development Agency, the Department of Transportation, and the Environmental Protection Agency, aims to make “development, housing, energy, and transportation policy go hand in hand.”¹⁸ Dr. Jill Biden, the wife of Vice President Joe Biden, is spearheading the Strengthening Our Military Families campaign, a joint effort by the Departments of Agriculture, Defense, Education, Health and Human Services, Labor, and Commerce to promote career opportunities for US veterans and increase childcare options for military families.

Some independent federal entities devote themselves to partnership-driven approaches. For instance, Obama recently brought the Administrative Conference of the United States back from its long



MICHELLE OBAMA'S HEALTHY FOOD INITIATIVE
February 2010
\$400 m available to leverage bringing fresh, affordable food to poor areas

“With a modest initial investment of about \$400 million a year, we’re going to use that money to leverage hundreds of millions more from private and non-profit sectors to bring grocery stores and healthy food retailers to underserved communities all across this country.”

FIVE FACTS

1. Address ‘food deserts’ in economically distressed areas with little fresh produce
2. 23.5 m people (6.5 m children) live far from fresh food
3. Leverage coinvestment to grow healthy options, create jobs
4. Establish market opportunities for farmers and ranchers
5. Partnership with the Depts. of Agriculture, Treasury, and Health and Human Services; State/Local gov.; private sector

hiatus, re-christening it as “a public-private partnership designed to make government work better”¹⁹ by improving administrative processes on a consensus, non-partisan basis drawing from government, the private sector, and academia. Other freestanding initiatives include the Council of Governors, which works with the president to fashion responsive, innovative solutions to challenges faced by states, and the Advisory Council on Faith-Based and Neighborhood Partnerships, which aims to ensure that government and local communities benefit from the resources of faith-based entities.

Within agencies, many partnership initiatives address domestic and international challenges. The Commerce Department aggressively deploys partnerships both domestically and internationally through its Trade Information Center, Manufacturing and Services unit, US Commercial Service, and Buy USA program. The Department of Education’s Race to the Top Fund is a partnership program designed to harness private-sector and nonprofit energy, capacity, and commitment to address seemingly intractable inequalities within the K-12 sector. Structured differently, No Child Left Behind is an education-partnership model put into practice during George W. Bush’s presidency. Within the State Department, which itself has many partnership programs, including the Foreign Military Financing

and Direct Commercial Sales programs, a Global Partnership initiative has been established to bring the skills and expertise of private firms and nonprofits to bear on international development efforts. The Defense Department has also been a central player within partnership approaches, from its participation in the creation of the Internet to the Defense Security Cooperation Agency’s Foreign Military Sales program. Similarly, the Department of Agriculture has its Commodity Credit Corporation and also the Foreign Agricultural Service.

KEY CHALLENGES AND RECOMMENDATIONS

Given the increasing utilization of public-private partnerships to address pressing problems while weathering a long-term budgetary crisis, it is productive to focus attention on making them work better. We see three key recurring challenges for our federal agencies as they implement and refine partnerships:

1. Increase Capacity to Assess, Structure, and Oversee Projects

Because partnership programs engender a shift in the role and function of government and introduce complex



THE AEROSPACE ALLIANCE

2009

501(c)(6) Public-Private Organization
AL, LA, MS

“We will work together to advocate for policies, program and specific aerospace projects on the local, state and national level. The programs we attract will in turn attract suppliers, bringing even more jobs and development.”

—AL. Gov. Riley

FIVE FACTS

1. Unites bus. leaders, economic dev. professionals, govt. officials
2. Southeast as regional world-class aerospace and aviation corridor
3. Advocate policies, programs and aerospace projects at local, state, and national levels
4. Uses common assets/strengths in aerospace to promote region
5. Governors Riley (R-AL), Barbour (R-MS), and Jindal (R-LA)

financial and contractual instruments, public agencies often lack the capacity to assess, structure, and oversee projects. To realize the full benefits of public-private partnerships, this capacity must be put in place across the federal government.

2. Improve Interagency Coordination

Many of our most pressing economic and societal challenges require policy solutions that integrate a range of sectors, including water, transportation, and energy. However, our federal agencies typically operate in sector-based silos, which often leads to uncoordinated sector-specific policies that only aggravate existing problems. To maximize the efficiencies offered by public-private partnerships, there must be increased knowledge sharing and coordination among agencies.

3. Improve Relations Between Federal Agencies and State and Local Governments, Private Firms, and Nonprofits

Projects can stall because a partner cannot withstand criticism or else digs in its heels or because of a lack of adequate funds. For public-private partnerships to be viable over the long term, agencies must act as player-coach to coalesce combatants as a team, recognize the unique contributions of each player, and explore

solutions that leverage non-financial resources to make public budgets stretch further.

To increase the partnerships capacity of public agencies and prepare them for their roles as player-coaches, we make the following institution-building recommendations:

1. Cross-Agency Review and Identification of Best Practices

A survey and assessment of the existing landscape should be performed to identify lessons learned that can serve as a baseline for modeling partnership programs. This review should look not only at domestic programs but also at those overseas.

2. Best Practices Pool

Once a baseline is established, a best practices pool should be created to serve as a repository of knowledge and expertise on partnerships, including candid advice to public officials on financing and contracting and interfacing with state and local governments as well as private firms and nonprofits. This pool must be created in-house to protect the broad player-coach perspective of public agencies from the self-serving viewpoints of individual players.



BOSTON AREA HUBWAY BIKE SHARING PROGRAM
2011
BIXI sells bikes to Alta Bicycle Share, cities allow rack installation | Boston

“Bike share is a key part of my vision to make Boston a sustainable, healthy city.”

—Boston Mayor Thomas Menino

FIVE FACTS

1. \$3 m in federal funding
2. No local tax dollars
3. Maintenance and revenue generation the responsibility of Alta Bicycle Share
4. 4 municipalities involved—each city has unique arrangement with Alta, riders not impacted by differences
5. Bike lanes installed by four cities with public support



AMERICAN INFRASTRUCTURE FINANCE AUTHORITY

March 2011

Leverages private capital to build transportation, energy, water projects. Bipartisan sponsors: Senators Kerry (D-MA), Hutchinson (R-TX), Graham (R-SC), Warner (D-VA).

BIPARTISAN BUILD ACT

“By channeling large pools of new investments from private sources that don’t currently invest in US infrastructure, a bank could help solve our infrastructure deficit without straining our budget. We need to do more with less federal money.”

—Senator John Kerry and
US Chamber CEO Tom Donohue

FIVE FACTS

1. Endorsements from Tom Donohue (CEO, US Chamber of Commerce), Richard Trumka (President, AFL-CIO)
2. \$10 b leverage as much as \$640 b over a decade
3. Moves toward self-sufficiency
4. Loans and loan guarantees
5. On-balance sheet financing

3. Portfolio-Based Approach

To ensure that the partnership tools and practices that agencies choose to implement are appropriate to the task at hand and lead to positive outcomes, the federal government should establish a portfolio-based approach to its public-private partnerships that will allow for assessment of the impact of projects on beneficiaries, both project by project and as a whole. Attention must be paid not only to how partnerships fit with one another but also to how they relate to non-partnership-based initiatives.

NATIONAL INFRASTRUCTURE BANK

The success of public-private partnerships—and we argue, of America’s economic recovery and revitalization—will hinge on the federal government’s ability to leverage sizeable sums of private capital for effective investment in public infrastructure and to meet the key partnership challenges outlined in this report. A National Infrastructure Bank would provide the requisite capacity to finance, contract, and oversee complex, large-scale projects on an individual basis and as part of a broad portfolio.

As an independent entity not sitting under a specific federal agency, a National Infrastructure Bank



PROPOSES A NATIONAL INFRASTRUCTURE REINVESTMENT BANK

February 2008

On the campaign | Janesville, WI

“to reclaim our dream
and restore prosperity”

—Barack Obama

FIVE FACTS

1. Multi-Sector Bank
2. Attract \$500 billion new private dollars over a decade
3. Generate nearly 2 million jobs
4. Merit metric - safety, homeland security, clean environment, strengthen economy
5. Fund the infrastructure platform for attracting businesses and jobs

would be able to make decisions based upon the merits of proposals rather than politics. Its independence would allow the bank to survive transitions in political leadership at the federal, state, and local levels, essential for ensuring that partnership projects, which can run for decades, are durable. To remain attuned to the underlying public needs that drive shifts within leadership, the bank's governance should incorporate the participation of board members recommended by both parties.

Such a bank would be along the lines of the bipartisan American Infrastructure Financing Authority described in the BUILD (Building and Upgrading Infrastructure for Long-Term Development) Act introduced earlier this year by senators John Kerry (D-MA), Kay Bailey Hutchison (R-TX), Lindsey Graham (R-SC), and Mark Warner (D-VA), with the endorsement of the AFL-CIO and the US Chamber of Commerce.²⁰ It also would resemble the proposal made by President Barack Obama on the campaign trail in Janesville, Wisconsin on February 13, 2008 which focused on how a national infrastructure bank could finance an infrastructure platform to attract businesses, jobs, and to broaden economic opportunity.²¹ These proposals are both especially appealing in their focus on leveraging private dollars to finance projects across multiple sectors, as well as an inclusion of distressed and rural areas.

CONCLUSION

Our public life is bombarded by stories of a broken Washington and of greed and “me-firstism” in the private sector, especially within our financial institutions. Too often, we punish efforts to work together as a team, casting it as triangulation, lack of principle, or being in the pocket of one special interest or another. We may be forgiven for this impulse, for a skepticism toward the

idea that public-private partnerships could genuinely advance the public interest, given not only the depth of the financial crisis and its uneven brunt but also the decades-long neglect of the American economy, in particular our country's infrastructure. Still, as this report documents, we do cooperate and can certainly find ways of working together more frequently and effectively.

The restoration of confidence, trust, and business certainty—a precondition to our recovery and reinvestment—depends upon public agencies instilling a team ethos among today's combatants, which cannot be accomplished by calling the shots from the sidelines. For our public officials to work together productively across party lines and alongside members of the private sector and the nonprofit world, our federal agen-

“Whereas politicians across political parties have focused on an ethos of shared sacrifice to support deficit reduction, partnerships tug upon a different public value—the social compact of working together as a team toward a shared victory.”

cies must re-envision themselves as player-coaches, with a clear stake in the outcome of the game and an active position on the team. The government's role cannot be simply providing a subsidy to a private firm. In an era of outcry against government spending, federal agencies must identify and cultivate ways of catalyzing critical projects without relying solely on the power of the public purse.

In many ways, the challenge we face today resembles the one America faced in the latter half of the 1930s, when the country risked a double-dip

depression. Having used public funds to claw our way out of a deep financial crisis, we turned to repairing our public balance sheet. When the economy faltered again, Marriner Eccles, the chairman of the Federal Reserve, worried that our mounting debts and real need for public investment would be hampered by a prevalent sentiment that “unwise spending seems to be spending for the other fellow.”²² To keep the economy moving, Eccles, President Roosevelt, and the secretary of the treasury, Henry Morgenthau Jr., advocated for public-private partnerships, quasi-public agencies, and self-liquidating projects. The Tennessee Valley Authority was one such initiative, which Roosevelt described as a “corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise.”²³

America’s current debt crisis will not disappear overnight. We must find ways to continue to delever our public balance sheet while also making infrastructure investments that will enable and drive economic growth. Public-private partnerships are an opportunity to move our country forward with the least possible outlay of public funds. Whereas politicians across political parties have focused on an ethos of shared sacrifice to support deficit reduction, partnerships tug upon a different public value—the social compact of working together as a team toward a shared victory. Our experience with successful public-private partnerships gives us cause for hope—and a game plan for winning the future.

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ABOUT THE CENTER ON LAW & PUBLIC FINANCE

Cohesive infrastructure and energy policy is essential for ensuring that America invests in what is needed to promote competitiveness, resiliency, and broad-based opportunity. However, decision-making responsibilities are fragmented across the federal government and also the states and localities, often in sector-based silos, and many of our most innovative financing ideas and programs are rarely discussed in a holistic way. This balkanization impedes our ability to engage in the types of coordinated planning essential for sound, forward-looking investment decisions. The Center on Law & Public Finance assesses policy programs, financing devices, contractual arrangements, specific projects, and industry trends. It also provides capacity-building to public officials and other key stakeholders, primarily on innovative financing mechanisms and contractual arrangements. A center of the Social Science Research Council, it is supported by the Ford Foundation and the Rockefeller Foundation.

Together with New York University's Institute for Public Knowledge, the Center on Law & Public Finance convenes the Reinvesting in America Initiative, a public-education initiative bringing together key stakeholders to forge workable solutions to pressing challenges tied to the financing of economic recovery and reinvestment. Participants to date have included representatives of AECOM; BLS Investments; the Brookings Institution; Building America's Future; the California State Treasurer's Office; the State of California Business, Transportation and Housing Agency; the California Infrastructure and Economic Development Bank; the Carlyle Group; the Center for State Innovation; the Citizens Budget Commission; Citi Infrastructure Investors; Columbia University Law School; Ernst & Young; KPMG; Lazard; Meridiam; Moody's; Morgan Stanley; the State of New

Jersey Schools Development Authority; the New York State Commission on State Asset Maximization; the New York State Empire State Development Corporation; Nossaman; the Organisation for Economic Co-operation and Development; Orrick; the Partnership for New York City; the Regional Plan Association; SEIU; Standard & Poor's; the University of Southern California; the US Department of Commerce; the US Department of Defense; the US Congress; the US Department of Transportation; the US Department of the Treasury; the US Public Interest Research Group; and Yale Law School.

ABOUT THE AUTHORS

Michael Likosky is senior fellow at NYU's Institute for Public Knowledge and also directs the Center on Law & Public Finance at the Social Science Research Council. He was previously professor of international economic law at the University of London and has held visiting posts and fellowships at Oxford Law, NYU Law, the University of Bonn, Fordham Law, and University of Wisconsin Law. Mr. Likosky specializes in the areas of foreign direct investment, public-private partnerships, and economic-growth strategies, with international expertise in a number of sectors, including high technology, infrastructure, clean energy, oil and gas, metals and minerals, broadcasting, and manufacturing. He is the lead international legal expert in infrastructure, energy, and extractives partnerships to the United Nations Conference on Trade and Development and its annual *World Investment Report*, also serves as an expert to the OECD and the Académie Internationale de Droit Comparé, and co-directs Governor Jerry Brown's task force to modernize the California Infrastructure and Economic Development Bank.

Mr. Likosky advises members of Congress; the US Treasury; the State of California Business,

Transportation and Housing Agency; the California Infrastructure and Economic Development Bank; the New York State Empire State Development Corporation; leading investment firms, including D. E. Shaw, Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Morgan Stanley, and Prudential; international organizations, including IDLO; major corporations, including ABC, CBS, Deloitte, ESPN, and NBC; nonprofits, including Amnesty International, the Ford Foundation, Transparency International, and CDRF Global; and labor unions, including the Laborers' International Union of North America, the Service Employees International Union, and the Trades Union Conference. His work has been supported by a range of funders, including the Ford Foundation, the Rockefeller Foundation, the Markle Foundation, the Arts and Humanities Research Council, and the Institute for a New Reflection on Governance.

Mr. Likosky has been a featured speaker on international infrastructure, energy, and economic-growth strategies to groups such as the US Chamber of Commerce, Project Finance International, the *Bond Buyer*, the International Project Finance Association, *Infrastructure Investor*, Oxford University, the MacMillan Center at Yale University, World Free Zone Convention, and the American Society of Civil Engineers. He is a blogger at the *Huffington Post*, and his work also appears through outlets such as the *New York Times*, the *Wall Street Journal*, *Marketplace* radio, the *Bond Buyer*, BNA, *American Banker*, the *Guardian* (UK), and the *Los Angeles Times*. He is a regular contributor to the international lecture series the Oxford Amnesty Lectures.

Mr. Likosky's most recent book, *Obama's Bank: Financing a Durable New Deal* (Cambridge University Press, 2010), describes the Obama administration's public-private-partnership-based approach to infrastructure and clean-energy investment and offers lessons for it based on thirty years of international experience with

partnership projects. His previous books include *Law, Infrastructure, and Human Rights* (Cambridge University Press, 2007); *Privatising Development* (Martinus Nijhoff, 2005); *The Silicon Empire* (Ashgate, 2005); and *Transnational Legal Processes* (Cambridge University Press, 2002). He holds a doctorate from the University of Oxford Faculty of Law.

Josh Ishimatsu, senior fellow at the Center on Law & Public Finance, is also principal of mz consulting, a consulting firm specializing in community development. He has over fifteen years experience in nonprofit real estate and community development, including more than eleven years at the Little Tokyo Service Center, a neighborhood-based community development corporation, where, most recently, he served as real estate development director. He has been responsible for over twenty real estate development projects, totaling over \$100 million in successful project fundraising, more than 600 units of affordable housing, and more than 100,000 square feet of nonprofit commercial space.

Mr. Ishimatsu has also worked as an organizer at a fair-housing advocacy organization and as a geohydrologist at an environmental consulting company. He has an MA in urban planning and a JD from the University of California, Los Angeles.

Joyce L. Miller is senior fellow at the Center on Law & Public Finance, a board member of the New York State Empire State Development Corporation, and the founder and CEO of Tier One Public Strategies, a consulting firm that provides in-depth public policy analysis in the areas of infrastructure finance, real estate, and energy policy. A New York native, she is also a trustee of the Citizens Budget Commission and serves on the board of the Community Service Society.

For more than three decades, Ms. Miller has worked in various fields of government, business, and

finance, including the offices of the New York State and New York City comptrollers. While with the city comptroller's office, she served as chief of staff to the first deputy comptroller/chief financial officer, who oversaw the capital markets activities of the comptroller's office, including management of the assets of the New York City Retirement Systems, established the multi-billion-dollar real estate investment program, and served as real estate investment director, investing over \$2.5 billion. Ms. Miller received her BA from City College of New York, her MBA from New York University, and her MPhil from Columbia University.

AN SSRC REPORT

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The Social Science Research Council
One Pierrepont Plaza
Brooklyn, NY 11201
www.ssrc.org