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Asset trust concept would shake up public finance, advocates say

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A cadre of urban planners is pushing for a concept used by some international cities but largely untested in the U.S. – the unlocking of public assets through an asset trust.

They say a holding company run independently from politicians would help fund infrastructure and pension debt, and distressed restructurings.

According to urban planner and author Dag Detter, every U.S. city possesses a multitude of commercial assets including operational holdings such as airports, ports, utilities and real estate holdings that have gone untapped because of underuse and poor management.



"We just need to sell it," said Swedish urban planner Dag Detter.

"This would change the investment banking industry, the rating industry, everything," Detter, co-author with Stefan Fölster of the book "*The Public Wealth of Cities*," said in an interview from Sweden.

A crucial first step, said Detter, is properly understanding a city's balance sheet. Then, he said, politicians, investors and taxpayers can make decisions that increase returns rather than taxes, debt, or austerity.

Achieving a reasonable yield on publicly owned real estate and other commercial assets, said Detter, would free up more resources than most cities' total current investment in infrastructure, including roads, railroads, bridges, water, electricity, and broadband.

Detter has been pitching his ideas to cities such as Boston and Pittsburgh.

"It works to perfection in a restructuring because you have political will," Detter said. "Political will is the secret sauce here. It requires a very strong leader. This is unlike introducing something casual to your city council. You're challenging the status quo.

"Getting transparency on public assets will change capital markets forever. Ideally, all public assets should be on an open register, which would then allow stakeholders including bondholders, and rating [agencies] to form a different picture of public finances.

"More importantly, we would look at public balance sheet not only from the debt side comparing it with a statistical number, such as debt or gross domestic product, but as net worth."

A report by mapping company Tolemi, which works frequently with Detter's and Fölster's Public Wealth Directory organization, said Boston's financial statements underestimate its true value. The city reports total assets worth \$3.8 billion, of which \$1.4 billion is real estate. That is slightly less than its liabilities of \$4.6 billion in 2015.

Tolemi pegged Boston's "indicative value" at \$137 billion, of which \$55 billion is city-owned. Its methods included asset-tracing techniques, or the listing of all real property various government entities hold directly or indirectly; a digitized inventory of government-owned property; and the use of historical data.

"What Dag is doing is cutting edge," said Eric Schaffer, a partner with law firm Reed Smith LLP in Pittsburgh.

Schaffer has represented secured and unsecured creditors in major bankruptcy cases and nonjudicial restructurings.

"He's saying, let's take assets that are relatively underproductive and turn them into productive assets."

More broadly, states and municipalities are looking for creative revenue options. Connecticut's fiscal 2018 budget, passed four months late, called for a commission that would consider using capital assets to backfill the state pension system.

The state's funded ratio stands around 50%, while Pew Charitable Trusts considers 80% an acceptable threshold.

The Connecticut Pension Sustainability Commission would consist of 13 members appointed by various political leaders including the governor and House and Senate leaders, and would submit its findings by Jan. 1, 2019.

It would perform a preliminary inventory of state capital assets to determine "the extent and suitability of those assets for including those assets for inclusion in such a trust"; study their potential for minimizing unfunded liability; and recommend on the appropriateness of such a move and the steps necessary to establish a trust.

Michael Imber, a Connecticut-based consultant with expertise in municipal bankruptcy and distress, sees a parallel between the new panel and Detter's initiatives.

"Dag Detter has the vision to capture the highest and best economic use of public assets for the benefit of the community," said Imber. "Releasing public assets' hidden equity value could be used to satisfy legacy obligations like pensions and [other post-employment benefits] as well as become a tool for creditor recoveries in distressed municipal restructurings."

Transit agencies including the Metropolitan Transportation Authority, which operates subways, buses and commuter rail in the New York City region, have begun tapping so-called value-capture, or revenues from real estate development such as Manhattan's Hudson Yards. They envision the same with public-private partnerships related to the Long Island Rail Road third-track project.

Getting political leaders to surrender power to so-called technocrats, however, is a tall order.

Skeptics say calls for an uber-agency such as Transport for London, however well-intended to counter years of balkanization among New York regional agencies, just wouldn't fly.

Ditto for such moves as converting the Port Authority of New York and New Jersey to an infrastructure bank or creating a subway reconstruction public benefit corporation to overhaul and modernize the subway – both key recommendations of think tank Regional Plan Association's [fourth regional plan](#), released two weeks ago.

Even New York Mayor Bill de Blasio, a loud and frequent critic of the MTA, cringed at the mention of a new subway board.

"I'm scared already," de Blasio told reporters at City Hall. "Be afraid. Be very afraid."

Detter insists his concept would work in the U.S. "We just need to sell it."

Bigness and the entitlement mentality surrounding political entrenchment, he admitted, pose challenges. "All these 136 mayors, five chiefs, whatever. This strikes me as crazy," he said.

"The difference between the U.S. and Sweden or other smaller countries is that the smaller countries don't have a choice. Amtrak, for example, has such a huge monopoly.

"Let's not look at the post office. Let's look at Chicago, Hartford, Pittsburgh or Philadelphia. Pittsburgh lost half its population. They're prepared to be the next Boston, the next Silicon Valley. I talked to Hartford and they were not very interested. Their problem is so fundamental. Theirs is a structural problem."

He suggested small steps for starts, such as merging water companies inside the same county. The Pittsburgh area, he said, would be ripe for such activity.

The concept won over in Sweden in the face of union opposition, said Detter. "We got the unions on board with us. When we funded pensions, we knew they would be secure."

Fergus McCormick, a senior advisor with the Charles and Agnes Kazarian Foundation, said U.S. governments don't even know what's available on a public sector balance sheet.

"It's a very interesting topic and it's not going to go away, especially with the move toward greater transparency," said McCormick. "You see examples of smart government from New Zealand to the City of London. Every city or municipality or any level, state or local, could apply this principle."

"Stepping back for a second, I think the larger point is that it's become clear that we will not return to the growth rates we had before the crisis. Production rates are going to be much slower and tax revenues are going to be lower.

"Meanwhile, our populations are aging. People like Dag are taking the long view."



Paul Burton

Paul Burton is the Northeast Regional Editor for The Bond Buyer and the author of the book "Tales from the Newsrooms." He is a sought-after public speaker and has appeared on radio and TV shows, including former CBS News White House correspondent Sharyl Attkisson's public-affairs program, "Full Measure."



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