Government Property Assets in the Wake of the Dual Crisis in Public Finance and Real Estate: An Opportunity to Do Better Going Forward?

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INTRODUCTION

It is well established that governments of all levels, including state and local governments in the United States and European Union countries, control large and diverse portfolios of real estate, infrastructure, movable property, and business interests. Unfortunately, any systematic data on the size and composition of government property and business holdings is still lacking or not disclosed to the public in most countries, and the holdings can be strikingly large. Occasional data assembled over the past decade confirms that government property assets constitute a very substantial share of public wealth in most countries, and in former centrally planned economies, these assets often make up the lion's share of public wealth (for illustrative examples of typical cases see Table I).

Table I

Examples of Capital Assets Value on the Balance Sheet of Local Governments

Asset Type	Los Angeles County (U.S.)	Warsaw (Poland)
Total assets (financial and capital)	100%	100%
Capital assets, total	67%	94%
Including:		
Land and easements	28%	80%
Building, improvements	15%	8%
Infrastructure	20%	
Equipment	2%	Not available

Source: County of L.A. Comprehensive Annual Financial Report, 2009; Prospectus, City of Warsaw, March 2009; Report Municipal Assets of City of Warsaw, 2009.

It is also clear that government land and property assets can be very important for many public management objectives, including spatial development of cities, infrastructure finance, local economic development, local housing policies, and efforts to curb corruption. Moreover, recent research identified multiple risks associated with a lack of proper asset management, along with the negative implications of these risks—from substantial financial losses to public budgets to non-sustainable housing policies.[1] In practice, many municipal and regional governments are moving to better management of property assets, in particular, by consolidating this function within a specialized department or assigning some functions to a specialized corporate-type subsidiary.[2]

About the Author

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However, in many governments, there is still a persisting and substantial discrepancy between the multiple benefits that good asset management can generate and the insufficient attention it receives. One of the acute problems, even in developed countries, is that asset managers, being under constant pressure to cater to immediate needs of their governments (reaching revenue targets for a city annual budget), cannot focus on introducing a strategic, long-term approach. Even in the United Kingdom, where systematic nationwide efforts to improve asset management in local governments have been made since the early 2000s, including incentives for developing strategic asset management plans, the Audit Commission found in 2009 that *only one in 14 councils is an exemplary manager of its assets.*[3] This article focuses on property of sub-national governments, though most problems are similar for central (federal) governments as well.

WHERE ARE GOVERNMENT ASSETS WITHIN THE PUBLIC MANAGEMENT LANDSCAPE?

Invisible Treasure, Unknown Liability

Governments own property and infrastructure for performing their functions (such as delivering public and social services or being guardians of property that is preserved for future generations), and for a whole host of other reasons. For example, governments can hold properties accumulated historically "by default" (tax foreclosed properties), as symbols of power and prestige, or for income generation. The latter often implies holding not only real estate, but business interests as well (liquor wholesale and retail in several states in the U.S., lotteries, real estate companies owned by cities in Eastern Europe, etc.).

Paradoxically for public management as a whole, property assets, despite being the major part of public wealth, often are the least visible and recognizable in government systems. Indeed, not all governments, even in developed countries, have reasonably accurate, complete and available (for decision-making) information on the amount and value of real estate they control and on transactions with these properties. For instance, in the U.S., *nearly half of the states and Washington, D.C. do not have the basic property and asset data*.[4] Moreover, transparency in this area is often lacking; the public does not have access to such information even when it exists. This is quite different from, for example, budgetary information, which is easily available in developed countries.

Lack of transparency is a symptom of a deeper problem: management of government property assets is often associated with lack of explicit policies and with insufficient regulatory frameworks, which opens the gate for short-sighted and often unqualified, if not corrupt, government practices. This lack of basic good governance also leads to encumbrances on assets and government liabilities that are neither recorded nor disclosed properly. The fact that governments are much less regulated in what they may do with property assets than in their borrowing activities can be illustrated by the following comparison: practically all developed countries have debt ceilings for sub-national (i.e., state and local in the U.S. context) borrowing prescribed by law, while restrictions on "excessive" sales of government property assets usually do not exist (except in some European countries).

Further, recognition of economic value[5] of government property remains a conflicted issue. On the accounting side, only a few countries such as New Zealand, Australia and the U.K. have moved consistently towards recognizing the market (or similar) values of government assets within accrual accounting. Sub-national governments in most countries, including Canada and the U.S., continue recording land at historic costs, which often leads to a major underestimation of what governments own. Furthermore, even in transactions (sales, transfer to subsidiaries), land can be transferred without acknowledgement of its economic value, especially in transactions with other public entities or public/private partnerships (PPPs). At the same time, the economic value of property assets is often utilized in complex off-balance sheet transactions such as sale-leaseback. Finally, in many countries (most of Eastern Europe), government business interests in companies are accounted for by the companies' capital and shown at this value on the government balance sheets as long-term investments, while land and property holdings by these companies are not presented in government financial reporting at all.

Moreover, not only economic value but liabilities as well cannot be fully recognized or quantified. For example, in Canada, government-owned land sites are often contaminated and, if so, they usually cannot be disposed of without spending on cleanup. Meanwhile, the amount of this liability for each particular government cannot be exactly known.

How deeply the ignorance of government assets is ingrained in financial systems is illustrated by the fact that creditworthiness ratings of governments issued by credit agencies usually do not depend on assets owned by the government.

On the policy side, governments in many countries have been giving land for private uses for free or with discounts, for fulfilling various government strategies, policies or informal ambitions. This translates into explicit or hidden public subsidies for such projects. It would be a mistake to claim that this happens only in emerging markets and just because of a lack of recognition of property values. There are many examples that clearly illustrate that this can be a result of conscious public policy. For instance: contribution of government-owned land for building stadiums for private sport teams in the U.S.; multi-criteria performance management at governmental land corporations in Canada, which combines profit and social goals or contribution of municipal land to some land development corporations at historic cost; and land price discounts given to certain types of buyers of municipal land in South Africa.

A legitimate concern about such policies is that their full costs to taxpayers often remain unknown. For example, municipal land sites can be contributed to a municipal land corporation tasked with redeveloping derelict urban areas, including new transportation infrastructure and affordable housing. This land is transferred to the corporation at its historic cost and should be later repaid to the city at this cost. In such a case, the recognized costs of this redevelopment project and the repayment to the city (i.e., to general taxpayers) omit and forgo the economic value of the land.

Fiscal Implications

Government property assets are directly linked to public finance in many ways, some of them obvious. For example, an acquisition of a property asset implies, on the public finance side, such elements as capital investment planning, capital financing and capital budgeting. Despite this, traditional public sector financial and budgeting systems are not well suited to reflect these links.[6] Moreover, there are documented cases (examples follow later in this article) illustrating that the existing budgeting systems and related regulations sometimes prevent implementation of rational financial solutions related to government real estate.

For financial decision making, governmental assets should be considered from two viewpoints. First, there are potential budgetary gains that can be obtained through better asset management. The four-quadrant scheme presented in Table II shows sources of some revenues and savings that public budgets often forgo.

Table II

A Budgetary Viewpoint: Main Revenue and Saving Opportunities Related to Property Assets

Sources of Forgone Revenues	Potential Savings on Expenses
Operating ■ Hidden price subsidies to private lessees / users of municipal property (land tenants, retail tenants, non-governmental organizations) ■ Rent collection below the private sector benchmarks	**Operating** ■ Maintenance and operation of municipal real estate and infrastructure is one of the main expense items of municipal operating expenses (in Germany, it's second only to salaries; in Warsaw, it's about 12-20% of city's total operating expenses). Optimization of management can save 10-15% of this cost (or 1-2% of the operating budget, without even reducing the property holdings or outsourcing maintenance and operations to the private sector) ■ Further savings through rationalizing property portfolios ■ Moving to own buildings instead of leasing space at private properties can be justified, in the long term, in some cases
Capital ■ Losses due to land / property sales at the bottom of the real estate market ■ Undisposed surplus properties	**Capital** ■ Higher efficiency of capital project implementation and replacement of public expenses by private investment and finance, through PPPs *Example: A public garage delivered by a private developer in exchange for the right to use a government land site for mixed-use development*

Besides potential budgetary gains such as illustrated in Table II, it is critical to point out that national and sub-national capital assets often suffer, on a grand scale, from chronic budget underspending. This happens through deferred maintenance and, more broadly, deferred investment—just because these expenses have been sacrificed regularly, as a response to pressures on public budgets. Aggregate data for municipal- and state-deferred investment in the U.S. was not found, but the authoritative Canadian report on the subject, symptomatically entitled "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure,"[7] estimates the deferred investment in the *municipal* infrastructure alone (i.e., water / wastewater, local transportation, transit systems, and local government, cultural, social and recreational facilities only) as $123 billion by 2007, and constantly increasing. The report indicates that conditions and age of infrastructure are similar across all of North America. Reports regarding state-level infrastructure in New York and California convey similar concerns.[8]

In addition to budgetary considerations, the second viewpoint from which government property should be considered is that of the balance sheet. In particular, rebalancing the asset portfolio—for example, through disposing of surplus land and reinvesting in public infrastructure—can be a prudent and often overlooked way of funding infrastructure, replacing, at least partly, borrowed funds.[9] Further, property assets can be directly related to government liabilities. Thus, in many countries—from Norway and Denmark to Poland and China—government property is used as collateral for municipal borrowing. Less explicit government liabilities associated with properties are often linked with some other forms of public borrowing, in particular in the U.S. For instance, certificates of participation (COPs) are a type of financial scheme based on complex leasing agreements used for issuing off-balance sheet revenue bonds.[10] However, COPs usually establish governments' long-term lease payment obligations, similar to sale-leaseback deals, and early termination could result in a government's large financial loss. Neither a number nor value of government properties tied into such borrowing schemes is usually known to policymakers or the public. Further, the economic value of some other, also unknown, portion of government buildings and facilities is already utilized through sale-leaseback deals or simply long-term leases to private lessees, both for one-time, upfront payments. Obviously, in exchange for generating these one-time revenues, the properties are encumbered by contractual (i.e., binding) long-term payment obligations for government agencies involved.

Intrinsic Uncertainties

Usually, there are no hard rules or legally binding requirements for the quantities of many governmental services or public goods that require property. Therefore, the composition, size and quality of property holdings that governments have depend, to a very large extent, on traditions and values of the society and sheer historic accidents. Moreover, these services and related property portfolios obviously depend on fiscal conditions in a particular jurisdiction, as discussed below. Hence, the services and portfolios can change. Indeed, how many parks, playgrounds, libraries, golf courses, etc.—and which ones—should a local government have and maintain?

THE CURRENT INTERNATIONAL CRISIS OF PUBLIC FINANCE: ITS IMPACT ON GOVERNMENT CAPITAL ASSETS

Key Features of the Fiscal Crisis at Sub-national Governments

Typical, often interrelated, elements of the crisis are as follows:

Deficit of current (operating) budgets. The deficit is caused by a decline of tax-based revenues (due to either the economic downturn or the reduction of real estate values underlying the property tax, or both), on one hand, and increased demand for certain social programs (unemployment benefits) on the other. For instance, in the U.S., the estimated deficit of state and local operating budgets is about $39 billion in 2010, and $124 billion in 2011.[11] Obviously, the situation varies across jurisdictions.

Loss of investment capital. Sub-national governments that can invest in financial instruments lost capital in the financial market crash in 2008–2009. In the U.S., even the most prudent investments lost, by late 2009, from 20–25 percent of their value. In the U.K., the estimated loss of local governments is about 1 billion euro.[12]

Breakdown of the U.S. and European systems of sub-national lending and borrowing. Simple systems of fixed-rate long-term municipal bonds (U.S.) or loans (Europe) gave way to complex financial instruments such as financial derivatives known as municipal interest-rate swaps, which promised—and delivered for awhile—a lower cost of borrowing compared with the traditional fixed-rate instruments.[13] Governments were not qualified

to estimate risks of using these potentially "toxic" instruments, and as a result of the global financial crisis, sub-national governments in the U.S., France, Germany, Belgium, Poland and Italy face accelerated payment schedules associated with their debt or contingent liabilities they never expected to materialize. In Italy alone, approximately 500 cities and towns face losses of nearly $1.4 billion on derivative contracts, outstripping gains by 11 times.[14] In the U.S., it is expected that the number of defaults on municipal bonds will increase,[15] but in the meantime, hundreds of government and non-profit borrowers have bought themselves out of their swap deals since 2008, at the total cost of more than $4 billion of taxpayers' and clients' money paid to lenders for swap termination.[16] The cost of borrowing for sub-national governments increased in most countries.

Long before the crisis: overstretched spending and borrowing (U.S.). Like many citizens, many sub-national governments in the U.S. have been spending beyond their means for a long time. Here is how the U.S. Government Accountability Office describes the situation:[17]

> *State and local government total general expenditures (capital and current) grew slightly faster than total general revenues—both own-source and federal grant revenues—in most states during the period from 1977 to 2007. In addition, state and local government current expenditures grew faster than own-source revenues in almost all states between 1977 and 2007. The state and local sector as a whole generally avoided operating deficits despite current spending growing faster than own-source revenues in part because the growth in federal grants for the purpose of funding current spending somewhat exceeded the growth in current spending. In addition, from 1995 to 2007, the sector increasingly financed capital purchases by issuing debt, rather than with revenues, which left more revenues available to pay for current expenditures.*

In particular, the outstanding debt of state and local governments, after being relatively stable during the 1990s, rose from $1.19 trillion in 2000 to $1.85 trillion in 2005, and $2.31 trillion in 2009. Roughly about 40 percent of this debt is in general obligation bonds that are usually subject to legal ceilings and require public approval. The other 60 percent are in revenue bonds, which are not subject to these restrictions and often constitute off-balance-sheet liabilities.[18] Besides, many states have unfunded obligations for the future, such as pensions of governmental retirees.

All the above, combined, put substantial fiscal pressure on many sub-national governments and limit their ability for continuing "business as usual," including the pre-crisis pace of borrowing for capital investment. In addition, in several countries including the U.S., uncertainty regarding the dynamics of future central (federal) government transfers to sub-national governments makes the sub-national public finance even more daunting.

The Impact on Capital Assets: Now and in the Future

Government capital and intangible assets (companies) are getting pulled into attempts to address fiscal problems that many national and sub-national governments experience. Sales of property assets and business interests for paying off government debts have been used in the past. Similarly, they should be a part of the solution this time as well, given how much wealth is concentrated in them. However, the issue of concern is whether these assets will be tapped strategically and prudently—or wasted.

The unfolding impact of the crisis on government real estate, infrastructure and services associated with assets has two sides. On one hand, the fiscal crisis on all levels of government amplifies the risks to which the assets are subject even in better times, and converts some of the risks from possibilities into grim realities, as illustrated below. On the other hand, the crisis opens dormant opportunities, in particular, for capital assets to become better integrated in public financial management. Outcomes will depend on many factors and can potentially range from devastation of public wealth to healthier, in the long term, sub-national finance. Without doubt, the outcomes will vary from country to country and even among sub-national governments inside one country, including the U.S. They also will have an impact on the competitiveness of countries, regions and localities, and on the quality of life. In particular, on the public services side, it is likely that the crisis will accelerate reduction of some services—the process that has been quietly brewing even before this crisis.

A positive development is that the crisis sparked interest in government assets among organizations that can help promote good practices. For example, in 2010, the California Association for Local Economic Development developed and offered to its members—local governmental agencies—a workshop on asset management issues.

Here are the key elements and implications of the crisis' impact on government assets:

A decline of planned land sale proceeds. Those governments and agencies that perform regular planned land sales suffered from the combined effects of the financial and real estate crisis. For example, the Arizona State Land Department land sale revenues have been sharply declining after peaking in FY 2007, so that in FY 2010 they are expected at about eight percent of the 2007 amount.[19] Similarly, sales on municipal land auctions in 2009 in Warsaw, Poland, crashed compared with 2007, including both sales volume and prices.

Spotlight on a mismatch between public budgetary systems and good asset management. The crisis certainly shed more light on this structural problem within public management: public budgetary systems (more precisely, the regulations and practices) often do not support—or sometimes even directly obstruct—strategic and efficient asset management and lead to systematically unhealthy practices. For example, in March 2010, the General Service Administration (GSA) testified to the U.S. House of Representatives Committee about the accelerating non-sustainability of GSA's funding system.[20] The core problem is that the budgetary rules, coupled with chronic underfunding by congressional appropriations, force GSA into the use of long-term operating leases, while a more economically viable option would be lease-purchase. Since 2008, the size of space leased by GSA for governmental operations has exceeded the size of the space owned. This continuing decrease of the share of the owned space further erodes the ability of the Federal Building Fund, which accumulates payments of governmental tenants for space and is supposed to fund GSA capital investment, to fulfill its function. Resulting underinvestment in maintenance and repair makes GSA buildings unattractive to government tenants, and they move to leasing space on the private market. This, in turn, increases vacancies at GSA properties and further diminishes revenues of the Federal Building Fund, transforming the whole process into a vicious circle. The GSA testimony practically conveyed a message that GSA was approaching the breaking point of being not able to deliver on its mandate.

Another example, from Poland: municipal land managers in Warsaw have been under pressure to sell land in order to reach annual budget targets for land sale revenues, despite an obvious real estate market crash.

It may be useful to note that when land is managed by a specialized entity that has some degree of separation from government, this provides a certain level of protection for land assets from being disposed of without long-term planning, or at a wrong time.[21]

Fire sales. Under pressures of the fiscal crisis, governments attempt to generate some revenues by disposing of a wide range of assets, despite obviously bad timing for the disposition of most properties, given the real estate crisis. Assets slotted for sale vary from income-generating businesses to infrastructure to real estate, including sale-leaseback of government-occupied buildings. The process seems to be especially large-scale and visible in Europe. For example:[22]

- *Ireland*. In July 2010, the minister of finance appointed a commission tasked to examine and recommend by the end of the year possibilities for the disposal of: (1) 28 commercial companies fully or partly owned by government; and (2) intangible assets such as the radio spectrum allocated for broadcasting and telecommunications, carbon emissions permits, and mineral, hydrocarbon and other licenses issued by the state. The companies in question range from the country's transportation infrastructure (ports, airports, bus and rail) to energy infrastructure to horse breeding and greyhound racing.
- *The U.K*. The government indicates intentions to sell, over the next 10 years, a broad mix of assets including infrastructure and student housing.
- *France*. The budget minister has announced a plan to sell six percent of the government's total building stock over the next three years, or 1,700 of the government's 28,000 property assets. This includes 750 buildings from local and decentralized services.
- *Germany.* A specialized unit responsible for the disposal of state-owned properties intends to sell about half of its 6.8 billion euro portfolio within the next five to six years. The rest of the portfolio is considered generally less marketable According to CB Richard Ellis, the agency has had a notable presence on the real estate market in Europe during the past four years, making up from two percent to 2.5 percent of all European public sales, with its share of sales rising to four percent in 2010.

Obviously, attempts to sell quickly at the bottom of the real estate market lead to diminished revenues, as in the example with Warsaw land sales. Further, given their massive offers, governments quite realistically start to compete with one another and with the private sector.

Many transactions are becoming very politicized and subject to pre-election demagoguery, be this an intention to privatize the liquor wholesale and retail business in Virginia (currently the state monopoly) or sale-leaseback deals with government buildings in Arizona and California.[23] However, politicking aside, sale-leaseback deals may have an important public finance aspect that deserves an open and honest discussion. In many cases, these deals would lead to gaining cash now at the cost of losing on net present value in the long term. Consider the case of the "Golden State Portfolio" offered by California for a bid in spring of 2010. The portfolio had 11 state-owned and government-occupied buildings in Los Angeles, Sacramento and San Francisco, with 7.3 million square feet of office space. From information available, it appears that the deal, as the government offered it, would supply the state with up-front cash to pay off some construction bonds and invest in capital projects, but would cost more over the 20-year contract period compared with the option of continuing governmental ownership. Such situations with sale-leaseback deals are not always the case,[24] but when they emerge and if they become known to the public, they often stir up public controversy, despite the fact that in terms of long-term impact on taxpayers, these deals can be no worse than the alternative of continuing to own the buildings but also continuing standard municipal borrowing.

Further, some current sales indicate desperation. For example, the Italian town Recanati, caught in the unexpected pay-now liability resulting from its derivatives deals, rezoned for development and sold off park land and a public kindergarten—transactions it hardly would perform in normal circumstances and which normally would be considered asset-stripping.[25]

Furthermore, the sale rush increases the risk of governments' entering badly structured deals, especially in such complex cases as sale-leaseback for real estate, or PPPs for infrastructure and utility companies. For preparing a reasonable deal and good-quality procurement, about six to 12 months are needed along with specialized expertise representing government's interests. Attempts to move faster or cut costs will, most probably, lead to losses for taxpayers.

Last but not least, properties disposed of in fire sales are often (if not as a rule) selected haphazardly, without strategic planning and sufficient professional considerations. This unavoidably will lead to negative implications in the future, including the future public costs.

How will sale proceeds be spent? One of the biggest asset-related risks of this crisis is that the land and income-generating assets will be converted to a one-time cash injection without improving the long-term financial standing of government and without other assets (infrastructure) created. In practice, main uses of sale proceeds include: patching operating budget deficit; paying contingent liabilities; paying-as-you-go for capital investment projects; and paying off long-term debt. The first of these options would be *the worst* public outcome imaginable; worse, in general, than uncontrolled borrowing for capital investment. Public assets that should be passed on to the next generation are exchanged for current consumption. The second option seems to be not much better. However, in the current fiscal crisis, both options will be proposed and implemented in some jurisdictions (see the example with the town of Recanati above).

Spending sale proceeds for paying off long-term debt or for capital projects on the pay-as-you-go basis are the options that can and should be a part of a prudent fiscal policy. This assumes, of course, that paying off the long-term debt is a part of a broader fiscal and austerity policy that prevents government from falling into over-borrowing again.

Reduction of operating, maintenance and recapitalization budgets associated with property and infrastructure assets. There are countless examples of this crisis-induced process, from libraries and even schools operating on part-time schedules, to reduced or suspended maintenance and repair of public facilities—in addition to the chronic deferred maintenance discussed above. Obviously, this accelerates a decline of the aging facilities, which implies that more funding would be needed for their rehabilitation in the future.

On the positive side, the crisis forces governments to think creatively, and some constructive solutions are surfacing as a result. These include consolidation of services geographically and administratively, new ways to reduce operating expenses (use of inmates for cleaning public facilities), etc.

In the longer term, the current crisis may lead to certain redistribution of responsibilities for service provision between local governments and localized (sub-municipal) initiatives. This would imply further proliferation of instruments of sub-municipal services, through the mechanisms that are already used quite broadly, at least in the U.S: business improvement districts (BIDs), tax increment financing (TIF) districts, homeowners associations (HOAs) and community facility districts (CFDs).[26]

Reduction of government property holdings in the longer term. In some instances, the crisis and a grim outlook for public spending on property operation and maintenance in the foreseeable future will force politicians and decision-makers to recognize the fact that many government asset managers have been signaling for a long time: a chronic shortage of funding for operation, maintenance and recapitalization of some portfolios cannot be sustained any longer. The only available solution is a reduction of the portfolios through a combination of disposal of (sale or lease) and mothballing some properties in these portfolios.

Establishing targeted sectors/portfolios for these measures is a big issue for policy decisions, and one can expect that answers will vary among countries and sub-national governments. In general, this is the area where reduction of norms, formal and informal, regarding provision of public goods and services, along with governments' use of properties for their operations, can be expected. This, in turn, would lead to redefining what the core assets are and what should be declared surplus in each property class or under each managing agency. In the best case, such a shift of the norms for government property consumption, if needed, would be based on evidence-based careful strategic considerations of costs and benefits, after *unified, cross-agency* (and *cross-portfolio*) analysis. However, given how institutionally fragmented government asset management is, it would be overly optimistic generally to expect such a whole-of-government approach. Moreover, there is a risk that government bureaucracies would make some effort to shield the properties they use themselves from application of austerity and downsizing measures, while pushing the burden on public-use and fiduciary properties. In North America, one can suspect that after easy targets—like vacant school buildings in neighborhoods with changed demographics—are gone; government-owned parks and historic properties might be among the first portfolios to experience direct downsizing.

Where the whole-of-government optimization of the portfolios is not feasible, the next best option would be making rational decisions within each agency. Not all agencies are prepared to make such decisions. This makes dissemination of good methodologies for prioritizing properties in large portfolios developed by some agencies (e.g., by the U.S. National Park Service and Parks Canada) critical for preventing expensive or irreversible mistakes.

Reduction of public capital investment in the short and middle terms. Similar to reduction of property-related operating expenses, new capital investment has been postponed or canceled in countless instances, often through 2014 or so. It remains to be seen for how long this decline will persist.

WHAT WOULD BE A PRUDENT ASSET MANAGEMENT POLICY IN THE WAKE OF THE CRISIS?

For exiting the current public sector fiscal crisis and once it is over, government capital assets should be incorporated in overall policy and solutions in a more systematic and substantial way than they have been in most countries so far. In particular, the governmental financial practices and regulations that conflict with good asset management must be modernized. However, no prudent decisions can be made if governments do not know what they own: "What cannot be measured cannot be managed." Therefore, starting from the basics is critical.

Furthermore, for stabilizing the public finance in the long term, governments need policies addressing the fundamentals that deal with sustainably balancing taxation, spending and borrowing, all of which is well beyond management of government property assets per se.

Nevertheless, there are some policy, regulatory and technical actions associated with assets that are reasonably realistic to implement and can contribute to exiting the crisis:

1. Review outdated laws and regulations and modernize them in a way that would allow for more effective and efficient management of government assets, including removal of obstacles for private sector participation. This need for modernization exists in most countries, including the U.S.
2. Introduce binding policy requirements/regulations that would limit bad practices at governments and would increase chances that the economic value of government assets is recognized and used properly. Many of these rules can be introduced by sub-national

legislators for their respective levels of government and for subordinated lower-level governments. In particular:

- Establish incentives (for example, through conditions attached to inter-government transfers from a higher level of government) for sub-national governments to inventory their assets and asset-related liabilities within some unified format and develop a strategic asset management plan.
- Make it obligatory to estimate the economic value of government land/property before *any* transaction with this land/property can be approved, even if the transaction is between two government agencies or the government and its subsidiary. This should be required for management purposes, even if accounting practices do not require market valuation of assets. Any disposition decisions should take the economic value of the asset into consideration, to better reflect the full cost of projects or activities in which government land/property is involved.
- For transactions that impose long-term obligations on a governmental partner (sale-leaseback deals), require preparation and presentation of a net present value or another form of cost-benefit analysis before the transaction is approved.
- Make mandatory the transparency of any deals with government-owned property assets, including complex transactions like sale-leaseback and borrowing schemes (e.g. OP), regardless of on-off-balance-sheet status. As an instrument of such transparency, establish centralized depositories of data—at the municipal or regional (state) level—on transactions with government property.
- Introduce the requirement that net revenues from disposing of capital and intangible assets (companies) be earmarked for capital expenses or paying off long-term debt.[27] Exclusions can be made, if needed, for a pre-defined period of exiting the crisis. Establish a "time-to-market" approach to disposition of government property. In particular, give asset managers flexibility to postpone or reduce sales when the real estate market (or any other relevant sector of the market) is down. Furthermore, for protecting the government capital budgets from these fluctuations, establish a special budgetary infrastructure fund, which will accumulate the earmarked disposition revenues on a multi-year basis and release them to the capital budget evenly, thus serving as a buffer between the market and the budget.

3. Require that property dispositions be planned and conducted within approved strategic asset management plans that take into consideration all capital and intangible assets of the particular sub-national government.
4. Modernize and deepen approaches to financial planning at governments. In particular, in the U.S., the Government Financial Officers Association promotes long-term financial planning, which "*combines financial forecasting with financial strategizing to identify future challenges and opportunities, causes of fiscal imbalances, and strategies to secure financial sustainability.*"[28] The strategies considered within this approach should incorporate deployment of government land assets (and other possible land financing instruments), in addition to traditional borrowing or instead of it.
5. As a subset of the previous item, it would be useful to expand existing models that simulate various scenarios of public revenues, expenses and borrowing by adding an explicit component related to capital assets.
6. Provide governments with more guidance on property asset management. In particular, exchange of knowledge and good practices needs to be facilitated and intensified substantially: internationally, regionally, across and within agencies.

CONCLUSION

Government-owned property assets can be a part of long-term solutions for exiting the current fiscal crisis. Furthermore, the current crisis may stimulate better integration of government property assets with public financial management in the future. Absent the necessary improvement to asset management practices, one would foresee a loss for taxpayers of a substantial part of the public wealth accumulated in government property or, worse, creation of new liabilities for the future.

Good management of government property assets is a highly technical area and requires professional real estate expertise, along with knowledge of specific tools such as

PPPs. Given how large and complex government property portfolios are, it is impossible to overestimate a role that "elites" of the real estate profession could play in various countries. In the U.S., it would be worthy for The Counselors of Real Estate® (CRE®) and members of the Royal Institute of Chartered Surveyors (RICS)-Americas to consider what these and other professional organizations can do to help all three levels of government in the country—and colleagues working in governments—make the best use of government assets. The experiences of RICS in these matters in the U.K. can provide useful insights. One of the obvious elements would be facilitating professionalization and de-politicization of the public debate on this subject. Another domain of huge untapped potential is international knowledge exchange on the subject. Here, the cooperation of CRE and RICS with academic organizations such as the American Real Estate Society, its international offspring and international donor organizations could, perhaps, be productive. ■

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ENDNOTES

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27. Notice that the idea of limiting how one-time revenues can be spent is in the law in some countries. In the U.S., the Government Finance Officers Association promotes the idea of adopting a special policy on use of one-time revenues, but it seems not many governments followed this advice.

28. *http://www.gfoa.org/index.php?option=com_content&task=view&id=65&Itemid=191.*