# A CASE STUDY REVIEW OF PUBLIC-PRIVATE PARTNERSHIPS FOR DEVELOPMENT IN THE LANSING REGION

By

Kevin McKenna

## A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

URBAN AND REGIONAL PLANNING - MASTER IN URBAN AND REGIONAL PLANNING

2014

#### **ABSTRACT**

# A CASE STUDY REVIEW OF PUBLIC-PRIVATE PARTNERSHIPS FOR DEVELOPMENT IN THE LANSING REGION

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Public-Private Partnerships for development have served as a means of pursuing development for a number of years. In light of the recent economic downturn there has been an increasing number of concerns in terms of creating new development and likewise encouraging economic development. This thesis consists of three case studies of development projects in the Lansing region.

The researcher conducted six qualitative interviews with public and private officials, from each project, who were involved in the process. The purpose of the qualitative interviews was to further gain better insight as to how public-private Partnerships operate in the Lansing region with special focus on the financing mechanisms utilized.

The research was limited by the fact that this work only focused on three projects and only consisted of one representative from the public sector and private sector within each project. To further expand upon this work further research should involve a larger sample of officials and occur over a longer period of time. To better understand the best practices of public-private partnerships researchers should examine the best practices and influence of feasibility studies as well as the engagement of different partners in the processes.

## **ACKNOWLEDGEMENTS**

The author is deeply indebted to the interview participants in this research. The research would not have been possible without the encouragement and assistance of Dr. Zenia Kotval. The researcher would also like to thank all interviewees.

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#### Introduction

Public-Private Partnerships are seen today as a means to stimulate and concentrate investment in areas that are in need. Over time the form of Public-Private Partnerships has shifted from housing issues to job creation, infrastructure, economic development and commercial development. This evolution has, in turn, increasingly required the cooperation and engagement of both Public sector agencies and Private sector investors and companies. This study assesses the ways that these Partnerships function and how those involved perceive and understand their involvement.

## Why Public-Private Partnerships?

The ability of local governments and private corporations to work together is especially important in a time of tight budgets and necessary infrastructure improvements, job creation, and commercial development needs. This has been increasingly evident in major cities such as Chicago where Mayor Rahm Emanuel recently set-up the Chicago Infrastructure Trust. The Trust was created to "...assist the people of the City of Chicago, the City government, and its sister agencies in providing alternative financing and project delivery options for transformative infrastructure needs" (shapechicago.org). These partnerships are not just necessary in major cities but have implications for mid-size cities as well, such as the Greater Lansing area.

One of the key areas that require understanding is how cooperative partnerships are formed between the public and private sectors. Grossman (2012, 598) notes that there is a fundamental difference between private and public management:

Private management is based on a rationalist perspective, whereas public management must grapple with social and transrational objectives. Management, however, is fundamentally about producing useful results, and both sectors share that objective. At the least, management in both sectors is measured by the results produced.

This difference forces the two entities to examine how partnerships are formed and maintained and helps to determine what is deemed successful by both sectors. This understanding highlights the fact that both groups are result oriented, however the public sector is also concerned with "...social and transactional objectives" whereas private interests are focused on "...a rationalistic perspective" (Grossman, 2012, 598).

## Why Studying Public-Private Partnerships is Important

The expected outcome, from the data collected, will be a report on the best strategies associated with Public-Private Partnerships in the Lansing area. This data will provide a framework through which Public and Private officials can better understand and come to terms with Private involvement in the Public sector.

#### **Problem Statement**

The recent financial crisis has highlighted many of the areas that towns and cities are currently lacking. Specifically there have been issues in regards to funding for the necessary infrastructure and development improvements that need to occur. Public-Private Partnerships provide one means of generating the capital and talent to ensure that development continues to occur. This research strives to fill in the gap between what is practiced and preached and what reality is in the Lansing region for development projects. The disconnect between Private interests and Public interests has slowly been changing as like interests are realized and sustained through Public-Private Partnerships. One of the foundational reasons for engaging and entering in a Public-Private Partnership has been due to a lack of capital in the public sector and an increasing understanding by the private sector that public projects can generate and bring in revenue.

The Role of Budgetary Constraints in the Formation of Public-Private Partnerships
Budgetary constraints at the state and local level have necessitated that cities seek
innovative means of financing development and redevelopment projects. These constraints
have led to issues for the partners that are involved and are willing to engage in PublicPrivate Partnerships. Specifically the limitations at the public level to finance projects have
caused cities to engage private investors in order to secure funding. These investors,
however, have been hesitant to enter into a Public-Private Partnership without an
advantageous agreement that will ensure that the project will generate the monies to pay
back the private investment. This element has both constrained the Public sector's
willingness to engage private parties and has also served to limit the projects that the
Private sector is willing to invest money and talent into.

## The Role of Financing Mechanisms on Partners

There have been a number of innovative financing mechanisms that have been used to ensure that Private monies can be invested smartly into Public projects. Likewise there have been increased efforts to ensure that Public monies are being used effectively and that the benefits received are positive. Some of these strategies have differed and been combined across many projects. They have included Design-Build Partnerships, Public Incentives as Investment Encouragement, Density Bonuses, Mixed-use Development, Open Space Requirements, and Land Banking. There are still issues in regards to how the private investor will be paid back.

#### Methods

The case study method provides the opportunity to collect detailed information on three different projects in the Lansing region that are based around a Public-Private Partnership. Partnerships will be examined through qualitative interviews with public officials, both elected and appointed, and private developers. These interviews will provide specific insight into the processes and ways in which Partnerships work. The interviews will focus on understanding why the Partnership was desired and what roles the different partners filled. Questions will be designed to obtain insight on what has and hasn't worked and how those involved believe that Partnerships can work better in the future. This will provide the framework for what type of Partnership was formed, e.g. leader/follower, buyer/seller. The interviews will also provide a foundation on what methods and tools have provided greater levels of feasibility, presented challenges, and the best financing mechanism and tools which have and have not worked in the Lansing area. Specific attention will be paid to the role of financing mechanisms and how these strategies influence both public and private sector partners.

These case studies provide the background for an understanding of what makes a successful Partnership in Mid-Michigan. Specifically the case studies examine the framework through which Partnerships are entered, negotiated and decided upon.

Particular attention was paid to understanding what the roles of the Public vs. Private sector are and how the partners ensure public accountability and public benefit.

To provide insight into how and why Public-Private Partnerships have been utilized over time an extensive literature review was conducted. Much of this research centered on

how and why localities and private organizations seek out and form successful Public-Private Partnerships. Particular attention was paid to the role of financing mechanisms and how these strategies have impacted those that are willing to enter into a Partnership. This is specifically understood through the type of Partnership that has been formed and the roles that each partner engages in. A successful Partnerships is often one in which the Public and Private clearly understand the role which they are to perform.

In order to triangulate the findings from the literature review, interview data and case studies with what actually occurred throughout the development process the researcher looked at past meeting minutes for the Eastwood DDA and Lansing Economic Area Partnership (LEAP). This provided an understanding of what gaps exist between the literature, practice and what participants have experienced.

## **Research Questions**

Based off an extensive literature review this research focuses on the funding strategies used in the Lansing Region. Specifically there are two questions that need to be answered and understood in order to provide a framework for how Public-Private Partnerships are utilized in the area.

- 1) What has the role of budgetary constraints played in the formation of PPPs in the Lansing Region and how have these constraints influenced the role of partners (specifically financially related) that are engaged and invested in the process?
- 2) What have been the financing mechanisms that have been the most effective in the Lansing region? Have these mechanisms influenced the players that are interested in engaging in a partnership?

## **Background**

Public-Private Partnerships have provided the foundation for a growing number of projects across the United States. The need for these partnerships for infrastructure development has been increasingly essential as localities must recognize their budgetary constraints which have "...led governments to seek partnerships with private firms in the development of such projects" (Almassi et. al., 2013, 196) The difficulties that many of these projects have had to manage are concerned with the willingness of the partners to cooperate and work together to accomplish goals that will be beneficial across multiple jurisdictions. While the goals of the partners may differ--- as the private realm seeks profits and the public sector desires the public good, it is the negotiated middle that makes these projects unique.

## Foundations of Public-Private Partnerships

One of the major initial drivers towards Public-Private Partnerships has been the bank system's disinterest in lending to lower-income families or high-risk businesses due to a perceived risk (Hamlin and Lyon, 1996, 27). This produced a gap in which localities and businesses sought innovative ways to address areas of concern. As a result Public-Private Partnerships formed out of the necessity of a "...shared dedication to achieve some kind of joint outcome" (Brinkerhoff & Brinkerhoff, 2011, 3). This resulted in many different types of Partnerships being created for development purposes which included areas such as infrastructure investment and economic development.

These Partnerships have necessitated that a level of trust be formed between partners. Trust implies that "...an integration of ideas, communication, and action" (Grossman, 2012, 596) is agreed upon by those involved in the process. This element of sharing and shaping ideas forms the ways in which we view performance and understand

policy management. Trust also begets the fact that there is certain level of risk that must be taken on by the public sector and private sector. The important factor to consider is that if those who are investing perceive a greater risk than reward funding will often be withheld. The partners are required to negotiate in order to reach an agreement in which they guarantee cost effectiveness in order to diminish the risk that private companies may confront (Almassi et. al., 2013, 196). By understanding and stipulating roles and risks, partners are allowed to create and shape their partnerships in the ways that each stakeholder desires.

## Elements of Successful Public-Private Partnerships

#### 1) The Public Accountability Question

In a partnership opportunity, a major element to consider is the ability of the public sector to ensure that investments by private partners will receive a gain on profits (Koppenjen and Enserink, 2009, 287). This element determines which projects should and shouldn't be invested in by private companies. However as partnerships have become increasingly popular among localities, due to questions of fiscal capabilities, it is necessary to consider who will benefit from a development.

In the Lansing region, projects have increasingly been used to encourage economic activity and increase the levels of talent concentration in the area. This has served to benefit both the public and private sectors and is seen as one means in which cooperation can be encouraged. However, there is always the question of how to hold private investors and developers accountable to the public who is supposed to be benefitting from such development. Accountability has been one of the greatest concerns for those entering into an agreement as there is a "fear of the society that once the provision of public services is transferred over to the private sector, the latter will provide public services of a lower

quality" (Meiduté & Paliulis, 258, 2011). Quality standards have been one of the most difficult components for partnerships to address and have resulted in a wide variety of means to shape partnerships to ensure that the private sector will remain accountable to the public.

Changing patterns in development has resulted in the need for better understanding of the terms and conditions of the private sectors' involvement in public projects (Forrer, John; Newcomer; & Boyer, 477, 2010). This understanding is especially important in regards to laying out a framework to consider the roles that each partner is to take and what the outcome of a project will be. Defining roles will help the public sector to protect the interests and the values of the people who live in their locality. By creating a cooperative atmosphere and relationship, both the public and private sectors will be aware of expectations and the direction that a project is to unfold.

## 2) Managing Risk and Public Accountability

Another important element that has been increasingly examined is how to address issues of transparency and accountability. The willingness of private partners to remain accountable to the public sector has been a concern among those involved in Public-Private Partnerships because this often relies upon "...joint decision-making and coproduction throughout the process" (Landow & Ebdon, 2012, 728).

The differences and roles for partners typically fall in line in terms of "... roles related to construction, financing, operation and management or ownership" (Bloomfield & Ahern, 2011). While the partners must work to navigate these roles it is also necessary to understand that a successful project is one in which the government is able to capture the benefits. There are a number of risks associated with Public-Private Partnerships that are related to their long-term nature. Often these long-term agreements include variable such

as uncontrollable circumstances and unfavorable contracting conditions as well as ineffective planning and implementation (Bloomfield & Ahern, 2011, 51-52). The success of these Partnerships often involves a competitive environment in which firms must compete for contracts and as a result of this competition perform well in order to continue receiving contracts with the Public sector.

The basis for Partnerships is not meant as an independent venture but is meant to serve as a "...mutual dependence and entails the respective rights and responsibilities of each actor vis-à-vis the others" (Brinkerhoff and Brinkerhoff, 2011, 4). In this sense the best form of partnership is one that serves to bridge the public and private partner together and encourages them to pursue a similar, if not the same, goal. This will allow them to desire and strive towards a similar outcome that has been negotiated between each and is beneficial to both. To understand this collaboration Brinkerhoff and Brinkerhoff (2011, 4) identify key elements that are part of a successful partnership:

- Jointly determined goals.
- Collaborative and consensus-based decision making.
- Non-hierarchical and horizontal structures and processes.
- Trust-based and informal as well as formalized relationships.
- Synergistic interactions among partners.
- Shared accountability for outcomes and results.

These elements highlight the fact that a partnership is not just beneficial to one over the other but is a negotiated agreement between both the private and public sectors.

#### Structuring Public-Private Partnerships

The current economic conditions have served to raise apprehension regarding the state of Public-Private Partnerships. Private financing may be feasible in some locations but in others it can be seen as an area of significant concern due to the "…availability and cost of credit, lower growth, and unforeseen exchange rate movements" (Burger et. al., 2009, 3).

This is a major area that must be addressed when agreeing upon the type of partnership. By determining responsibility, whether shared proportionally or un-proportionally, there is then created a means of accountability within a project. Another important factor to consider is the willingness of different partners to cooperate and the extent to which there can be cooperation. This has placed new requirements on both the public sector and private companies. One element that these new requirements include is the necessitation and understanding of how a project or development is expected to take place over time with every detail accounted for.

## Types of Partnerships and Financing

Public-Private Partnerships are created through the cooperation of communities, investors, specialists, and decision makers in order to achieve a common goal (Belniak, 2008, 140-141). Within this framework there are different types of partner relationships that can be entered: leader-follower and buyer-seller, joint ventures, and full partnerships (Becker and Patterson, 129, 2005). The type of partnership entered is indicative of the relationships formed between participants, as each partnership is notably different from one another. The type of agreement is essential to know in order to establish how relationships are defined and who is likely to take on various roles in a project. By being in communication with localities a partnership may be able to quantify the different assets of a community by contacting local business leaders and entrepreneurs (Reilly, 2001, 36). Through these efforts, investment becomes much more personal and a development will become more of a central factor in a communities life. This involvement of the community and local businesses through the decisions to pursue a new development is left at the local level instead of with the state (Hamlin, 2002, 9). Involving partners in a locality ensures the project is more centralized to an area.

## 1) Leader-Follower and Buyer-Seller Relationships

Leader-follower and buyer-seller relationships are defined partnerships in which one partner is more dominant than the other. These relationships are often favored in instances in which there is government authority or government oversight. Hamlin & Lyons refer to these projects as being: "...one or more of the legal individuals act as a general partner while the remaining participants act as a special (limited) partners" (1996, 31). The nature of these partnerships is for a designated period of time. This is vital because it serves to create the atmosphere in which they must achieve their goal within a known deadline, per their contract, in order for the limited partner to receive payment for their work.

The most evident function of leader-follower and buyer-seller relationships is present in the creation of an environment in which there is a clear direction. This is accomplished by distinctly "...clarifying responsibilities in relationships" (Willems and Van Dooren, 518, 2011). The benefits of this clear direction are demonstrated in the efficiency and ways in which partners relate to each other throughout a project.

## 2) Joint Ventures/Mixed Partnerships

Joint ventures or mixed partnerships are agreements between qualified participants who willing agree to cooperate and work together to achieve a goal. In mixed partnerships/joint ventures it is understood by all parties that "...there shall be a proportional sharing of the profits and losses between them" (Black, 1968, 1277). In this regard mixed partnerships are meant as an agreement to share equal responsibility in a project in order to efficiently move development forward. The focus is often centered around meeting a goal of which one participant is more invested in, or to meet a common goal that will benefit both parties. It is important to note that in the definition of

partnerships; "a voluntary contract between two or more competent persons to pace their money, effects, labor, and skill, or some of all of them, in lawful commerce or business" that the idea of persons includes legal organizations (Hamlin and Lyons, 1996, 31). This indicates that partners can serve both private, and public, interests in an effort to better a community.

## 3) Public Sector Leadership

Public sector leadership is utilized where the locality takes on the role of a developer. Often this form of development is seen as "...policies that result in broad benefits for residents and businesses in the region, especially benefits that will continue to have a positive impact even if specific businesses close or move" (Kane, 2004, ii). Kane (2004,ii-iii) identifies a number of ways that the Public sector can pursue economic development effectively:

- Make sensible investments in the public infrastructure as a way to spur regional economic development and growth.
- Focus economic development on industries, occupations, and businesses that provide high-quality, good-paying jobs. Exceptions may make sense when the goal is to open up employment opportunities for low-skilled residents
- Strive for a strong return on investment from any public-sector economic development initiative, program, or action.
- Improve the quality of life in regions in order to keep and attract people.

#### Types of Financing

## 1) The "Availability Payment" Model

Availability payment contracts have increasingly become common practice for infrastructure development. In this form of Partnerships a governmental body "...makes fixed payments to a private contractor that is responsible for the design, construction, long-term maintenance and financing of the project" (Mayer Brown LLP et. al., 1, 2011). This form of partnerships places more responsibility and trust on the private sector's expertise.

Within this arrangement it is important to note that the private sectors is typically only interested in investing in revenue-generating projects (Mayer Brown LLP et. al., 2, 2011).

## 2) Financing Using Municipal Bonds

To help ensure that the capital necessary for projects is available many municipalities issue bonds to pay for projects (U.S. DOT FHWA, 2013). These bonds are typically tax-exempt which allows for lower interest rates (U.S. DOT FHWA, 17, 2013). The bonds can allow the government to move forward without reliance upon private equity. However, municipalities may be constrained in terms of "...the amount of bonds they can issue for various legal, political, and financial reasons" (U.S. DOT FHWA, Financial Structuring, 8, 2013). The use of debt financing can be an especially useful tool in "...acquiring or constructing long-term assets, because it frees a project's delivery schedule from the constraint of currently available revenues" (U.S. DOT FHWA, 8, 2013). Bonds take on many different forms when issued from the Public sector these can include: revenue bonds and general obligation bonds.

### 3) Public Sector Financing

Bonds are one tool that can be used for public financed projects. Specifically
Build America Bonds & Recovery Zone Economic Development Bonds have been utilized by
municipalities and local governments to finance public infrastructure costs.

#### Roles of Private Partners

In the private realm there are multiple roles that can be taken on by investors. A few of these are discussed below.

#### 1) Equity Investors

Equity investors are typically the partner that assumes the greatest level of risk among partners. However for this risk they also will likely receive the highest reward upon a successful project (U.S. DOT FHWA, 19, 2013). These investors can include

subcontractors, financial institutions and public agencies. They hold an expectation of being paid back through dividends and end of the year profits. Equity investors run the risk of losing their investment if a project is not as successful as predicted. However the rate upon return, if a project is successful, is expected to be much higher for equity investors than for those receiving a return on debt (U.S. DOT FHWA, 19, 2013).

### 2) Private Developers

The role of private developers can be see in in many public led projects. Typically in public-led partnerships the private sector plays the role of developer and utility management (Hamel, 2007, 27). This form of partnership is understood to be risky for the public sector as they are typically the landowner and are contracting work out to the private sector. However, the private sector can bring certain qualities such as expertise and efficiency to a project while also bringing negatives such as delays associated to lawyers. Delays are an especially important issue as time is money and for every day that there is a delay there is associated costs that the public sector is incurring.

#### 3) Private Lenders

The role of Private lenders, in terms of providing financing, to help a project is led by "...commercial lenders through bank loans or by the capital markets through bonds" (U.S. DOT FHWA, 19, 2013). These lenders typically require extensive legwork done by the developer before investing capital. Private lenders contribute to a project using two methods: bank loans and taxable bonds.

## Tools Used in Successful Development Projects

The following tools have proven to be an effective means of approaching development projects in both Public-Private Partnerships and other structured agreements. They offer insight into some of the ways that Public-Private Partnerships can be approached.

#### **Design-Build Partnerships**

This method of partnership serves to outline the steps to be taken during the development process. Specifically the public sector looks to competing firms to bid on projects and provide an outline of the costs and timeframe that the project is to be completed in. Within every partnership there is the need to account for every cost that will occur in a development. This portion of the project provides an accounting for "…numerous elements familiar to planners, such as eminent domain, public participation, environmental review, and cost overrun" (Whittington, 2012, 271). These elements require that both the public and private sector be held accountable in order to answer for differences in costs and why potential differences may be occurring (Whittington, 2012, 272).

The basic principal of the bid-build process is that the public sector or private sector comes up with a design. The public sector then has the ability to bid out contracts to the private firm with the lowest bid/best plan to implement the design. This provides the framework for which costs and partner roles are understood. While public officials choose these projects it is important to note that some design-build partnerships lead to privatization of public goods.

#### Public Incentives as Investment Encouragement

Through incentives, municipalities and local governments can encourage the likelihood of land being developed according to their desires. There are a number of ways in which land can be incentivized including: density bonuses, mixed-use development support policies, and open space requirements. These methods create an atmosphere in which the public can promote a typical style of land-use that is desired for a specific area. By incentivizing land, it is believed that the public sector can influence the private sector

into utilizing a particular style or pattern of development in order to have access to land to gain capital.

Another means of incentivizing development in a location is through economic development encouragement. Through this process the public sector can offer money, tax breaks, etc. to private corporations or developers to focus development in a certain location. This pattern of development is very effective in helping to concentrate businesses that share interests close together.

#### **Density Bonuses**

There have been many efforts and calls for more affordable housing policies in the United States of America. One means of promoting this type of development is through density bonuses that act as an incentive by increasing the amount of developable floor space allowed in a project in exchange for a specified amount of affordable housing development. This type of encouragement generally occurs in central downtown areas that will not be adversely affected by increased density. Density bonuses also can serve to lower the price of land by placing a greater number of people on the land thus spreading out the cost that is incurred by an individual. Density bonuses have been especially important in terms of providing an incentive for urban-infill development.

## Issues of Capital for Public-Private Partnerships

The effects of the financial crisis is most likely to be felt by Public-Private Projects in the "... operational and pipeline phases" (Burger et. al., 7, 2009). This will present a major challenge for the continuation of many projects, as partnerships will be confronted with restrictions on the amount of cash that is available for projects once they get off the ground. This is mainly a question of how attractive a development is to consumers who hold the power to create the profitability of it. In light of this it is necessary for the capital to be

available to developers. Availability of capital can come from numerous locations including public sector, private sector and a joint investment of both the public and private sector.

## Methods for Repaying Private Investors

Despite the worry over the availability of capital, localities are becoming creative in terms of financing and funding development through Public-Private Partnerships. Often this requires an agreement on how to best repay a private investor for their financial contributions to a project. Some of these strategies have included: user fees, and government support (Turley and Semple, 2013, 6-7).

#### 1) User Fees

User fees can be one of the surest and safest means of guaranteeing that a private investor is properly compensated for their work on a project. These fees can be generated from tolls on highways or on a parking garage, among other means. They should be reasonable in order to ensure that people will continue to use the infrastructure that the revenue is being procured from.

## 2) Government Support

A common means of backing a private lender is through subsidization. Turley and Semple note that subsidizing can occur in a number of different ways including "...debt or equity finance, grants, cash subsidies, revenue guarantees, output-based aid, access to capital, in-kind grants, land acquisitions and tax exemptions" (7, 2013). The ability of private companies to have this level of negotiation can serve to make a project more attractive which in turn can make a project more feasible. This form of agreement is only truly possible if it is lower than the cost of the government building and operating the service on their own (Turley & Semple, 7, 2013).

## 3) Tax-Increment Financing (TIF) Financing

TIF financing is a mechanism through which the revenue generated by a project is paid back to the financer. Typically an agreement is reached between the public and private sector on a number of years that the repayments can be collected for. Repayment in terms of TIF requires that a project be successful in order to earn back the initial investment.

## Challenges of Financing and Profits in Public-Private Partnerships

The challenge that will confront many Public-Private Partnerships will be the ability to "...securing their economic benefits while at the same time containing fiscal risks" (Burger et. al., 2009, 3). Public-Private Projects set their goal for public projects to be taken on by private developers for fair payment either through a government payment or through other financing methods (user fees, taxes, tax-increment financing, etc.). The fact that this form of partnership is essentially a public project results in public monies having to be raised to cover payments. In major economic hubs with a large population this is not an issue, however in areas without the tax-base necessary for funding projects this can prove difficult. Localities have gotten creative in terms of financing development. Practices have included new tax strategies, user fees, and projects that are paid off using the proceeds generated after the project has been completed.

The ability of Public-Private Partnerships to move forward lies in the willingness of partners to create a balance in their working relationship. This balance can be achieved through an agreement as how to best manage the goals of a project or investment. Issues arise as partners must decide how to divvy up risk between those involved. Assigning different levels of involvement allows partnerships to appeal to a diverse array of private investors, companies and developers and may then broaden the range of those who will choose to invest in a project.

This form of partnerships is notably different from partnerships in which the government often defines a problem and the expected results of a project (Forrer et. al., 2010, 477). Whereas past projects often centered on the public sector taking the lead the need for private investment has required a reliance on private monies and skills.

Contracting involves the private company doing the work with the knowledge of what they are being paid to do, whereas the public sector often remains involved in Public-Private Partnerships. While both parties have entered into a partnership, it is typically understood that government ultimately retains responsibility for a project and is responsible for seeing a successful conclusion. However, there are cases in which private partners can hold greater levels of responsibility; this is often a decision made on a project-to-project basis.

No matter what form of partnership is formed, there is always going to be a risk taken on by one or both of the entities involved. There have been numerous successes as well as failures. Winston (2010) discusses one example of success in which the privatization of public facilities such as airports and highways can lead to decreased costs for the public sector. However due to the long-term nature of contracts there are also increased levels of risk present for both the private and public sector (Bloomfield and Ahern, 2011). Negotiating roles and creating a agreement that is beneficial to all parties is essential.

## Direction of Public-Private Partnerships

Apprehension is on the rise regarding the state of Public-Private Partnerships.

Private financing may be feasible in some locations but in others it can be seen as an area of significant concern due to the "…availability and cost of credit, lower growth, and unforeseen exchange rate movements" (Burger, 2009, 3). This is a major area that must be planned for when agreeing upon the type of partnership. By determining responsibility

whether shared proportionally or un-proportionally, between partners, there is created a means of accountability within a project.

This highlights an area of concern in terms of what role and influence the private sector has on a project and what the shared outcomes will be. In order for community issues to play a role in Public-Private Partnerships it is important to guarantee "...residents and other relevant members of the community including neighborhood associations are included in the process of redevelopment" (Fernandes, 2011, 9). By involving residents, the partnership may be able to avoid some of the public criticism for deals that are cut but are not transparent. After all a city/locality is often "...trading current costs against future returns" (Sagalyn, 1990, 435). This allows for projects to be completed in a timely manner without worry of the need to always build something that will be immediately profitable while allowing for greater investment by community members in an area. As Fernandes (2011, 9) cites there will be significant gains through accumulating the knowledge and experience of current residents whom know what has and what hasn't been successful as:

Including these voices in the redevelopment process is beneficial to both private parties (private developers) and government (public entities) because of valuable insights that might help to avoid obvious pitfalls of former housing construction.

Some of the issues confronted by Public-Private Partnerships are nonfinancial relationships (Hamlin, 8, 2002). These partnerships often are centered on the enforcement of land-use control and governmental assistance in accessing, acquiring and reassigning land. Issues that arise that are not financially based are confronted with questions regarding oversight and the requirements that are mandated by federal regulations or state regulations. Public-Private Partnerships may also be financially based. These partnerships are created through government offers of incentives for specific types of development to be

completed by private firms (Hamlin, 9, 2002). The funding partner or partners frequently attach requirements or stipulations that must be met by the non-funding partner in order to receive payment. As in all forms of partnerships there must be a perceived gain that will be obtained by agreeing to meet certain terms or public goals (Hamlin, 9, 2002). This is accomplished by both parties as the funding partner or partners will likely receive benefits from having met the requirements they have set and the secondary partner or partners will receive payment for their work.

In order for a partnership to be perceived as being truly successful there must also be the involvement of local individuals outside of the government and private interests.

This citizen participation and awareness will create the atmosphere in which projects can flourish and succeed to their best capacity. The investment of local individuals and groups in development is likely to lead to greater local interest and assets being used. Hamlin (9, 2002) best explains this need for local investment as he describes the benefits of small business and local investment:

Partly because of the risk/reward imbalance in inner cities for major investors, development grown from within the community, rather than attraction of investment from outside of the community, is a necessary foundation for the development process.

By ensuring financing from within a community, development projects can serve to provide jobs and capital into an area that may otherwise not receive a great deal of support or outside interest (Hamlin, 2002, 10). Through this investment, jobs are created that can directly benefit a local community instead of a corporation that is not personally invested in the area in which development is occurring. This is important especially in light of the recent downturn that the world has been confronted with. Through communication with localities a partnership may be able to quantify the different assets of a community by

contacting local business leaders and entrepreneurs (Reilly, 2001, 36). These efforts result in investments which become much more personal and a development that will become a central factor in a community's life. Involvement of the community and local businesses through the decisions to pursue a new development is left at the local level instead of with the state (Hamlin, 2002, 9). By engaging partners in a locality the project is more centralized to an area.

In spite of the involvement of private interests it is important to note that Public-Private Partnerships are significantly different than contracting. The key variable lies in the component of contracting out that calls for a relationship where:

The government agency (the purchaser) defines what it needs, specifies the desired product or service and then issues a request-for-proposal to allow those in the private (or nonprofit) sector (vendors) to bid on the good or service being sought. The vendors are invited to offer proposals for providing the good or service being bought (Forrer et. al., 2010, 476).

This is notably different from Public-Private Partnerships in which the government often defines a problem and the expected results of a project. Contracting involves the private company doing the work with the knowledge of what they are being paid to do.

While technically both parties have entered into a partnership, it is typically understood that government ultimately retains responsibility for a project (Forrer et. al., 2010, 477). However, there are cases in which private partners can hold greater levels of responsibility; this is often a decision made on a project-to-project basis.

The effects of the recent economic downturn are likely to be felt by Public-Private Projects in the "... operational and pipeline phases" (Burger et. al., 7, 2009). This will present a major challenge for the continuation of many projects, as partnerships will be confronted with restrictions on the amount of cash that is available for projects from the

public sector. This is mainly a question of how attractive a development is to the private investors who hold the power to create the profitability of a place. The inability of localities to secure debt and equity finance has led to great levels of consequence in Michigan as the private sector's eagerness to engage in Public-Private Partnerships has greatly decreased and affected "...the compensation the government is willing to provide in exchange for the risk borne by the private company" (Turley & Semple, 8, 2013).

## What Makes a Successful Partnership?

The processes that our localities need to participate in, in order to generate the funding for public infrastructure and economic development purposes have become increasingly important. Strategies such as the design-build method are essential for the future of U.S. development. However, it is important to consider what makes a good partnership. More often than not a successful partnership is understood to have "...been built on time, to budget, had no teething troubles (either technically or revenue generation wise) during its early years of operation and continues to roll on into the sunset" (Baldock et. al., 2012, 15). These expectations have placed greater stress on all parties involved to communicate about any needs and challenges that are likely to occur throughout the process.

Another important factor has been the willingness and ability of the Public & Private sectors' to work together. There are many different means through which this can be accomplished and depending on the structure of the partnership different expectations can be defined. Through education of the public a project can serve to be more transparent in terms of allowing the public to be aware of costs, risks and benefits of such an arrangement. To further ensure that a partnership is effective clear expectations and a timeline should be agreed upon in order that both partners know what the deadlines are.

#### Introduction to Case Studies

This thesis examines three projects in the Greater Lansing Area that utilize different forms of partnerships for development and economic growth. Specifically the projects used are the Stadium District, Eastwood Towne Center & The Hatch. Within each project the common desire has been to help grow the Lansing region in terms of providing a desirable place for young professionals, attracting new business and encouraging economic growth in the area. These three projects provide key insights on what it is that public and private officials desire for the Lansing region in order to become, an economically rich area with a concentration of entrepreneurship and the Creative Class.

## Why these project were chosen

The three projects provide a glimpse into different forms of Partnerships and Partnership tools that have been utilized in the Lansing area. More importantly the projects are indicative of the ways in which East Lansing, Lansing Township and the City of Lansing aspire to see the region grow.

#### **Methods**

To better understand how these projects have grown and functioned the researcher spoke to six participants, three from the public sector and three from the private sector, who were involved in the development processes. These interviews were structured in a manner in which the researcher obtained insight into the ways that Partnerships functioned. To further gather information, data was obtained through public meeting minutes and newspaper articles that are pertinent to the projects.

#### **Eastwood Towne Center**

## **Background and Context**

According to the Tri-County Regional Growth Plan (2003), Lansing Charter Township is viewed as a "...part of Lansing's Metropolitan urban core" and serves as a means to attract and retain young professionals and entrepreneurs from both Lansing and East Lansing. The site on which the proposed Eastwood Towne Center expansion is to occur is owned by the Lansing Charter Township Downtown Development Authority (DDA) and was "...underdeveloped and underutilized land that is either already served with water and sewer service, or where these services are available nearby" (Vandewalle & Associates, 2004, 4). The site also includes, at the far northern end, a Granger Landfill site—which was reclaimed and incorporated into the new development. The Tri-County Regional Growth Plan envisions development occurring in Lansing Township as being built at urban densities in order to, "...absorb a portion of the metropolitan growth that would otherwise locate farther out" (Vandewalle & Associates, 2004, 3).

#### Previous Uses of Eastwood Towne Center

Prior to the development of the retail portion of Eastwood Towne Center the land was largely unoccupied with scattered development occurring along Lake Lansing Road. As of 2004, Eastwood Towne Center functioned as a stand-alone retail development (Vandewalle & Associates, 2004, 16). In 2009 land use practices changed dramatically with "Commercial Office land uses alone consuming nearly 83 acres (3.15% of total developable land) with an additional 313 acres of land (11.87% of total developable land) devoted to retail and service land uses" (Charter Township of Lansing Master Plan, 2009, 67). Of this developable land 335,000 sq. ft. has been used in the development of Eastwood Towne Center. This reclassification set the stage for the expansion and evolution of Eastwood.

Eastwood Towne Center's success as one of the top shopping centers in the country has inspired the vision for expansion of The Heights in order to become a central hub in the region. (Eastwood DDA, 2005). This has been encouraged by the increasing amount of new development that is occurring in the Northern Tier of East Lansing (Eastwood DDA, 2005, 4). The planned expansion for The Heights at Eastwood consists of a mixed-use parking deck; standalone and inline retail, restaurant and entertainment space; and 124 luxury apartments; and a 124 key Hyatt Place hotel (Eastwood DDA, 2013). The expansion will be connected through a "50 ft. wide, landscaped promenade" (Eastwood DDA, 2013). The public space will be big enough to hold outdoor events and offer a place for pop-up business in order to encourage pedestrian usage (Eastwood DDA, 2013).

The development is meant to serve as a means of creating an environment that is a one-stop destination for residents of the Lansing region and as a means of attracting professionals, tourists and current residents. Through this integrated built environment accessibility to entertainment, retail, offices and restaurants creates a seamless transition from the professional to social world.

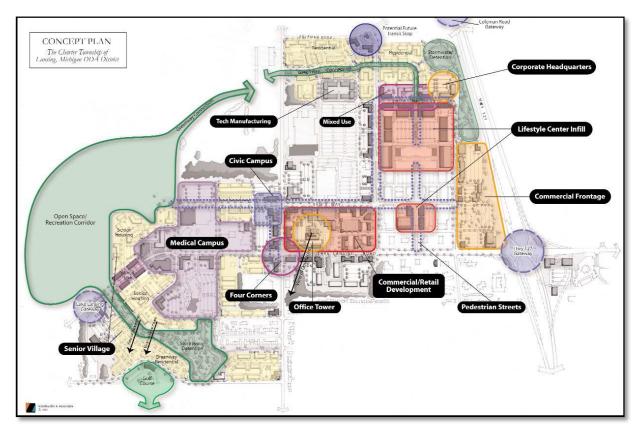
#### Key Players in the Development of Eastwood Towne Center

Lansing Charter Townships DDA has played a significant role in the direction of development that has taken place in Eastwood Towne Center. Their vision has benefitted from the goals of Tri-County Regional Growth Plan (2003) which has highlighted the I-69 as a primary corridor running through Mid-Michigan.

## The Vision & Plan for Eastwood Towne Center Key Players in the Development of Eastwood Towne Center

The Lansing Charter Township DDA has laid out the vision and plan for Eastwood Towne Center with the assistance of local developers and national chains (Vandewalle & Associates, 2005). The Township of Lansing and Tri-County Planning Commission have

been influential in the development of Eastwood Towne Center from a standalone shopping center to a central hub of commercial activity in the Lansing Region.



**Figure 1:** *Eastwood DDA Concept Plan* Source: Vandewalle & Associates, 2005.

## Vision for Eastwood Towne Center Land Assembly

According to William Joseph Costello CPA, CA (2014) development began on the concept of what Eastwood Towne Center was to become in the 1970s when the owner began purchasing land. Costello (2014) notes that:

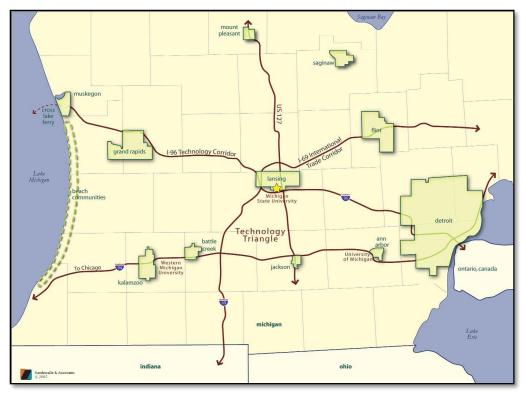
Lansing Township, which is a small township, desired to have a larger, denser, tax-base. It also desired to have a central spot that would allow for community housing, retail and office space.

Through the acquirement of land the Township—using a long-term 99-year land lease— and more specifically the DDA, was able to push development in the way they

desired. This is especially noteworthy as the Eastwood Towne Center opened in 2002, as a lifestyle center, in Lansing Township, which is located in the center of the Tri-County Region of Lansing, MI. The Lansing-East Lansing region is home to a population of 465,000 as of 2011 (U.S. Census Bureau, 2011). According to the Downtown Development Authority (DDA) Eastwood Towne Center, by one estimate, lies within 90 miles from 90% of Michigan's 10,000,000 residents (Vandewalle & Associates, 2004, 2). With a prime location, within Michigan, as both the state government and a major research institution are present, Lansing provides a key area for the attraction and retention of young talent (Vandewalle & Associates, 2004, 2). With encouragement from the State of Michigan there has been a push for an increased identity as a technology player along the I-96 Corridor—as a result of the research institutes that are present in East Lansing, Grand Rapids and Detroit (Vandewalle & Associates, 2004, 2). In an effort to attract the population that Lansing Township desires the DDA recognized that there must be an "...emphasis on centrality, convenience, a sense of community, and a variety of housing alternatives geared towards young professionals and active seniors" (Vandewalle & Associates, 2004, 2). This form of development is the vision for Eastwood Towne Center.

This shift from a lifestyle center to a lifestyle community is further inline with Eastwood DDA's vision. The plan advocates for "...the transformation of Eastwood, the retail center, from a stand alone destination shopping area into a nucleus of a real village center that includes housing, employment, and civic uses" (Eastwood DDA, 2005, 4).

Lansing Township's DDA emphasizes the need for Eastwood "...to look and function like a traditional shopping district and community focal point rather than a suburban mall" (Eastwood DDA, 2005, 4).



**Figure 2:** *Technology Corridor Along I-96* Source: Vandewalle & Associates, 2005

# Plan for Eastwood Towne Center

The goal of this development is to attract the young talent and empty nesters that desire to be centrally located and wish to be in close proximity to live, work, and play options. Eastwood DDA is specifically looking to increase residential development to the north of the shopping district will include "townhouses, condominiums, apartments that provide workforce housing for nearby retail, office, and research related production" (Eastwood DDA, 2005, 4). The plan laid out for Eastwood Towne Center calls for:

Higher density development that gives stronger physical definition to the internal street system and accentuated corners and street edges that allow Eastwood to look and function like a traditional shopping district and community focal point rather than a suburban mall (Eastwood DDA, 2005, 4).

Steve Hayward, Director of Planning + Development for Lansing Township and the Executive Director of Eastwood DDA, further emphasized the need for increased density as

a development incentive for private partners who were interested in Eastwood Towne Center. Hayward highlights the fact that by allowing for increased densities the DDA was able to request that the developers create a planned unit development (PUD) that allowed for an environment of varied and compatible land uses such as housing, green space, retail and a hotel. In this manner the Eastwood DDA served as the primary developer for the Towne Center.

To initiate this vision Eastwood DDA saw the need to "...influence market dynamics that will push redevelopment to take to correct decades of piecemeal development" (Eastwood DDA, 2005, 5). To successfully pursue this vision the DDA saw the need to step-in as a developer in order to help assemble land, relocate businesses and residents, rezone, and develop new partnerships with local partners (Eastwood DDA, 2005, 5). Specifically the DDA has sought to pursue development in three key areas (Eastwood DDA, 2005, 5):

- 1. Extension of Coleman Road to provide traffic relief.
- 2. Construction of a new parking structure to encourage expansion of existing businesses and to help build out of the area north of the movie theater.
- 3. Streetscape improvements along Lake Lansing Rd.

#### Market Assessment

A market study conducted by the International Council of Shopping Centers (Vandewalle & Associates, 2004, 16) indicates that frequenters of lifestyle centers often are those that have a higher income than typical mall visitors. Vandewalle & Associates note that the presence of Eastwood could serve to retain money spent by affluent families while also possible serving to attract more money to the region.

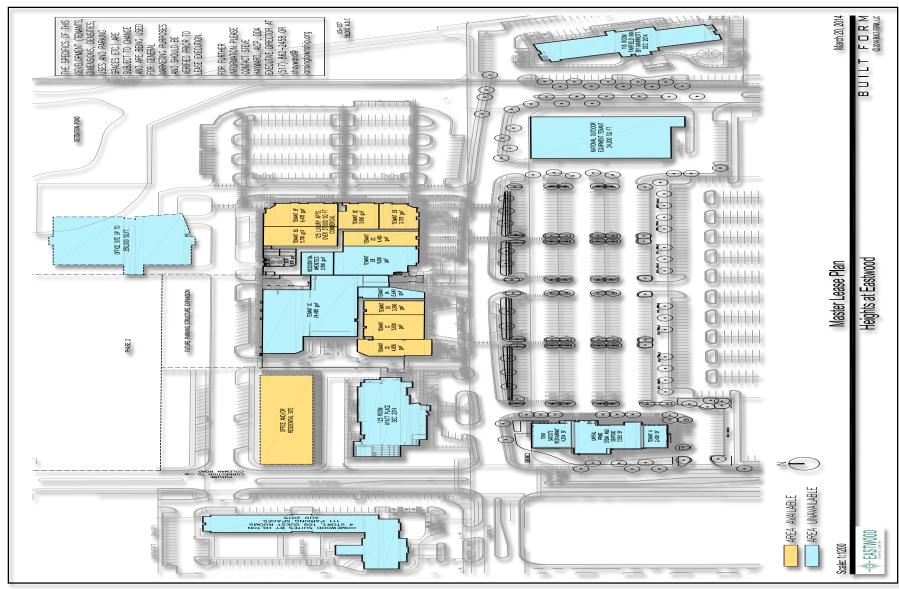


Figure 3: The Heights at Eastwood Master Lease Plan

Source: Hayward (2014).

# Public-Private Partnership for Eastwood Towne Center Key Players in Eastwood Towne Center's Development

Key players in the development of Eastwood Towne Center from the Public Sector include Lansing Township, Eastwood DDA. The major Private Sector partners consist of Hyatt Place and DTN Management.

# Forming the Partnership

According to Steve Hayward the true Partnership began in 1999 when the municipality, Lansing Township, began work with the Private developer, and property owner, to collaboratively pursue a beneficial relationship. To demonstrate the power of working together, the Township began by increasing the parking ratios within Eastwood to allow for greater levels of density. In return the Township requested that the developers create a planned unit development (PUD) that allowed for an environment of varied and compatible land uses such as housing, green space, retail and a hotel. In this manner the Township was able to help shape the way that development occurred in Eastwood Towne Center because they had the power to direct (Hayward, 2014):

...architectural oversight and not just pure: if it's a building it's a building. We (the Township) had the ability to craft how elements interacted. That's how the collaboration started. As the project went on we saw a need for the person who owned the majority of the property—who wasn't functioning as a developer—to allow the municipality to step into that role of developer.

By stepping into the role of developer the Township has been more active in terms of recruitment of tenants, development partners, and for people who were willing to purchase the properties as they became available. The willingness of Lansing Township to step into the role of developer and take on the risk associated with it has been greatly influenced by their relationship with the property owner. This relationship has allowed the Township to pursue development with the knowledge that that there is strong support that

can be relied upon if the project gets into real trouble in terms of being unable to pay off the bonds that were taken out to finance the project.

The Private Sector, as the primary property owner, has been engaged throughout the process as the key decision makers along with Eastwood DDA. This has resulted in a highly collaborative process as every decision that is made affects the value of the private property. Costello (2014) notes:

Everything that has been done on those 11 acres affects the value of the property, for the Private Sector. So, if you suddenly just let someone go in and put-in a big-box, nothing specifically wrong with them, but if you just put in a Home Depot, then that would actually deflate the value of the property. So there was a huge collaboration on a Master Plan and that particular property is controlled by what's called easements, restrictions and covenants. There were probably a couple years of planning that had to go in.

Costello (2014) emphasizes the fact that working with Lansing Township has been a very easy process for the Private Sector because the Township has willingly taken the initiative in terms of building the parking ramp that has allowed for the density to form around it.

Eastwood is 97% full; it survived the recession extremely well. It's the busiest theater in the State of Michigan. There was no way you could build something that was going to fail. So, the expectation from everybody was go build the ramp and everyone's going to go to work and make sure that it's successful because it has to be.

#### Financing the Eastwood Towne Center Development

Towards the beginning of the recent economic downturn Eastwood DDA saw an opportunity to become more involved in the growth and direction of Eastwood by taking on the role of developer (Hayward, 2014):

Ultimately, with the economic downturn—the great recession— we were identifying ways that we could participate with the private sector on different ideas and it came about that we could get more aggressive than we ever anticipated being because the Federal government allowed the use of Build America Bonds for Recovery Zone Economic Development.

The opportunity presented by the downturn allowed the Township to become more aggressive in terms of creating a development that attracted both businesses and promoted growth in Lansing Township. The Township took on a more significant role in directing and providing architectural oversight that in turn allowed them to steer the pattern of growth so that the new development interacted as one seamless unit instead of being just a series of standalone buildings. Hayward (2014) notes that by taking on the role of the developer Eastwood DDA has taken all the risk and, in turn, all of the rewards that come with a successful or unsuccessful project.

## Build America Bonds for Recovery Zone Economic Development

Through Build America Bonds, specifically allocated for Recovery Zone Economic Development, Lansing Township was able to move forward with the development. The usage of Build America Bonds required that the Township demonstrate that there was significant opportunity for economic development. Specifically Build America Bonds can be used for capital expenditures for property in a recovery zone or public infrastructures or facilities that promote economic activity (DCA, 2009). According to Hayward (2014), this bonding process allowed the DDA to:

...step into the role of developer because typically municipal bonds, to be tax exempt, have to limit the private involvement to less than 10%. That limit was stripped from the project so we could get into creating developments for tenants with 30 year fixed finance rates.

#### Financing Risks & Feasibility in the Development Process

Presently the project has been confronted with numerous delays as lawyers have been arguing about how to proceed with development and other issues for more than a year and a half. These delays have centered on a number of different issues including a tax appeal and sewer easements, as noted in Downtown Development Authority's meeting

minutes from June 5, 2013. Another point of contention has been the parking in Eastwood, which due to the heavy traffic was considered to be too little. With the assistance of the Federal Bonds, the Eastwood DDA began building the parking garage which Costello (2014) notes allowed for higher densities to be introduced to Eastwood.

If anything else had been built it would have required more parking and therefore reduced the density. The play on the whole thing was that Eastwood DDA and Lansing Township would invest the money in parking, which would be available initially free of charge to all the shoppers and anyone who was building around it. The bet was that folks would surround it, bring density, bring property taxes and therefore bring revenue.

What the Township was able to accomplish as a result of having constructed the parking ramp is to put in a new heart (Costello, 2014) that has encouraged greater levels of development to occur around it. The garage made it possible for the development of housing, being built by DTN, at one end of the garage while at the other end the Hyatt Place Hotel is being developed.

The relationships formed between the Public and Private Sector is constantly evolving according to Costello. This became especially important as the Township took on the risk of building the parking structure. With the Public Sector showing this level of commitment to the Towne Center the Private sector has recognized that there is a gap to be filled.

As time went on everyone realized that now that we have the big players rolling in—the hotel—we have to get that first floor rented of the parking garage. There's a tremendous amount of focus on everyone making sure that that those spaces gets leased. So, the roles have evolved—again, it has been a real rarity to see.

### Challenges to the Development

One of the key elements of this project is the fact that all of the development that has occurred has been happening at market-based prices. This has been a major challenge as Hayward (2014) notes:

...developers have gotten addicted, brownfields, TIF reimbursement, etc. is like developer crack. Once they get it they really have trouble giving it up again.

It is this market-based rate that has been such a challenge for many of the developers, especially in light of the recession. However, Hayward (2014) and the DDA board felt that:

'Eastwood is strong enough; we don't have to give things away. And we didn't have to.' The only thing limiting us is the two hotels that aren't coming out of the ground but that's just time and will be cured shortly.

The original plan was to have the Hyatt Place built and open by 2013 however, due to lawyers, the hotel is expected to open in the spring of 2015. This has caused significant concern on the Public sector side as the revenue that is supposed to be generated is not coming in and bond payments have not been made. Hayward notes that some of the delays that occurred have resulted in Orion and Kent Construction companies incurring overrun costs (Eastwood DDA Meeting Minutes, 2014).

Delays have also led to the Township tapping into reserves. However, as the reserves dwindled the Township was confronted with a serious question as to how to best finance the development. The Township was able to pursue a replenishment of funds and was strong enough to borrow some money through loans that will continue to finance the project through 2014. This has eased some of the concern however there is still a question as to the financing for 2015 and 2016. As delays with the hotel continue to be an issue there has been reluctance for businesses to sign leases:

All the retail that is interested in renting the space underneath the parking structure are saying, "When we see the hotel actually being built". There's \$1.2million under the ground that they've already spent but then their financial partner walked away two days before closing. Our biggest risk is the hotel not moving forward. They've replaced their equity investor with a big company out of Minnesota—they have billions of dollars in projects in hotels—so it's moving again (Hayward, 2014).

#### **Current Environment**

Eastwood thrived through the most recent economic downturn whereas the Lansing Mall dipped to 70% occupancy rate, Eastwood never fell below 95% occupancy. Hayward notes that the recession helped Eastwood Towne Center to succeed at a better rate than ever before which he attributes to more families choosing to spend their money locally.

#### Lessons Learned

Hayward emphasizes that one of the most important lessons learned throughout this process has been that when a developer promises something it is not enough to get a verbal commitment.

...people lie and that you try to take people at their word but document in a contract. If someone is willing to give you their word for it but not willing to write it in a contract—they're lying. At the end of the day at least there is traffic here and we're making rent revenue.

Costello acknowledges that the feasibility study conducted by the Township went far in assuring and attracting private tenants and monies to the Towne Center.

The feasibility study wasn't cheap. But it felt a lot better going in when you agree with everything; it was sure nice to know what it said. Then we had these studies done for the hotels—produced numbers—and again it helped to just kind of give a little more confidence. So, I think they did a good job of helping on the feasibility study.

Both Public and Private sector cite that there is little that they would have done differently in terms of the project beyond the Township requiring contracts instead of verbal agreements. Hayward (2014) recognizes that for the project to continue to be a success all that must truly occur is for "the bonds to be paid off because our \$26 million"

investment is already going strong".

## The Hatch

## **Background & Context**

The Hatch, in East Lansing, MI is designed as a means of providing workspace for creative and innovative entrepreneurs (About The Hatch, 2014). It is located on the third floor of 325 E. Grand River Avenue within the Lansing Regional SmartZone. The Hatch is strategically located in the heart of Downtown East Lansing in close proximity to Michigan State University and serves as a convenient location for the primary users of the space.



**Figure 4:** *The Hatch Work Space* Source: City of East Lansing.

#### Partners/Key Players in the Development of The Hatch

To further advance the goals and mission, The Hatch has partnered closely with Michigan State University, Spartan Innovations, Lansing Economic Area Partnership (LEAP), Michigan State University Credit Union, and the City of East Lansing.

#### **Public Sector Partners**

The public sector interests in The Hatch include the City of East Lansing, Michigan State University (MSU), Lansing Economic Area Partners (LEAP) and Michigan Economic Development Corporation (MEDC).

#### Private Sector Partners

The private sector partners include Michigan State University Credit Union, the users of The Hatch and Spartan Innovations.

## The Vision for The Hatch

The Hatch program takes advantage of access to the East Lansing Technology and Innovation Center, which provides access to capital, office meeting space, and office tools—as well as business development support—to help create and generate successful businesses (About The Hatch, 2014). The Hatch's mission statement is "to generate and advance the culture of entrepreneurship in the community and to expand the knowledge-based economy in the market, focusing on student entrepreneurs" (ideahatch.org/about).

## Plan for The Hatch

The City of East Lansing and LEAP knew that a significant private investment in terms of rent, investment, and sponsorship was necessary. This private investment helped to provide the support necessary for the idea to takeoff. As the Public sector continued to work through the first stages it became immediately evident that there were interested and engaged organizations and institutions.



Figure 5: The Hatch/Technology Center Building

Source: Gibbons, Julielyn.

# Public-Private Partnership for The Hatch City of East Lansing

According to Jeff Smith, of LEAP, The Hatch began as an endeavor of the City of East Lansing as a means of generating a "much more steady, professional, workforce in the Downtown and they felt that having some sort of hub for creative companies or technology companies would be able to do that" (Smith, 2014).

# Lansing Economic Area Partnership (LEAP)

Quickly the development came under the guidance of Lansing Economic Area Partnership (LEAP). LEAP viewed the desire for a more permanent workforce as being a means of bringing greater levels of activity to the City and the generation of a culture that supported the companies and entrepreneurship.

## Spartan Innovations

Spartan Innovations has specifically been involved in the "...educational and financial support to turn MSU technologies into successful Michigan businesses—and spur entrepreneurship in Michigan" (About Spartan Innovations, 2014). Specifically "Spartan Innovations began getting involved with The Hatch a little over a year ago took over the lease payments on The Hatch in January" (Jacques, 2014).

## East Lansing DDA

The East Lansing Downtown Development Authority (DDA) assisted with the development of The Hatch specifically through supporting the cost of build-out. The DDA helped to obtain bonds for the development of The Hatch. However, for every reward that this project offered there was also a risk related to investment as Jeff Smith (2014) of LEAP notes:

The benefits were that we could actually leverage the funds to make it work. The negative side was making sure that this thing was successful enough to cover the cost of the bond payments every month.

## Michigan State University (MSU)

MSU has played a significant role in stimulating funding at The Hatch. According to Paul Jacques of Spartan Innovations (2014) two endowments, the Forest Ackers Trust and Gerstracker Entrepreneurial Grants, have gone far in funding 15 students who work closely with the entrepreneurs.

## Why a Public-Private Partnership was necessary for The Hatch

The Hatch began as an endeavor of the City of East Lansing as a means of generating a "much more steady, professional, workforce in the Downtown and they felt that having some sort of hub for creative companies or technology companies would be able to do that" (Smith, 2014). Quickly the development came under the guidance of Lansing Economic Area Partnership (LEAP). This desire for a more permanent workforce was seen as a way of bringing greater levels of activity to the City and the generation of a culture that supported the companies and entrepreneurship. To accomplish this the City and LEAP knew that a significant private investment in terms of rent, funding, and sponsorship was necessary. This private engagement helped to provide the support necessary for the idea to takeoff. As the Public sector continued to work through the first stages it became immediately evident that there were interested and engaged organizations and institutions.

As the plan unfolded and more and more private sided individuals and companies started working with us the more that the program changed to accommodate and to be much more flexible. The Private Sector really changed the way that we structured the program (Smith, 2014).

#### How the Partnership was Formed for The Hatch

According to Jeff Smith (2014), The primary roles of the Partnership was for the Private sector to provide some financing assistance as well as to be the tenants who utilized the space provided by The Hatch program. The Private sector was also necessary in order to help make the program a success. The Public sector was the lead—they were the

ones to get the ball rolling in terms of financing, investment in the space, and building out of the program.

The Technology & Innovation Center (TIC) and The Hatch was really just a hub of activity for entrepreneurship. The Private sector really served, as the investors who made it stay open (Smith, 2014).

## Tools Used to encourage Participation in The Hatch

Since taking over the lease payments Spartan Innovations has been invested heavily in marketing The Hatch. Jacques (2014) notes that since the takeover took place funding has been allocated towards "...anything from print material, to speaking in classes to social media". Now that The Hatch is filled to capacity Spartan Innovations along with LEAP have been making efforts to ensure that the tools necessary for the users of The Hatch to succeed are available to them.

## Financing the Development and Projects at The Hatch

The front-end costs of The Hatch were financed through tax-increment financing (TIF). The TIF was a very big component in moving the project forward as the financing came through both the East Lansing Downtown Development Authority (DDA) and Local Development Financing Act (LDFA).

# Local Development Financing Act (LDFA) & East Lansing Downtown Development Authority (DDA)

The LDFA serves as a tool "...designed to promote economic growth and job creation" (MEDC, 2013). The Lansing-East Lansing Region received approval to establish a LDFA zone in 2006, as a part of this process, the Cities as well as their partners were required to establish the Lansing Regional SmartZone. The goal of this SmartZone is to:

...foster the creation and attraction of technology based businesses and jobs within the Lansing Regional SmartZone. The SmartZone partners are doing this by encouraging technology based entrepreneurial activities (City of Lansing, City of East Lansing, County of Ingham, & State of Michigan, 2).

The SmartZone encourages technology based entrepreneurial activities and by

doing this are "...providing value to technology based businesses and stakeholders, and focusing on wealth generation including jobs, income and investment" (City of Lansing et. al., 2). This helps to foster the creation and development of technology based businesses and jobs.

The Hatch lies within this SmartZone and serves as a business incubator and partners with the Technology Innovation Center (TIC) to provide marketing, financing, legal and accounting services. It is through the LDFA that tax-increment financing (TIF) has been occurring.

## Financing Projects that Come into The Hatch

Funding and financing the entrepreneurial efforts that come through The Hatch has occurred in a number of different ways. Most notably through two grants, available courtesy of MSU for undergraduates, geared towards technology and entrepreneurial activities funding has been available to the users of The Hatch.

#### Gerstacker Entrepreneurial Grants

The Gerstacker Entrepreneurial Grants are available through a program geared towards cultivating an "...entrepreneurial understanding while providing an avenue for students to practice and implement innovative critical thinking and analysis" (MSU URCA, 2010).

#### Forest Ackers Trust

The Forest Ackers Trust "...established a \$1,000,000 endowment to foster the entrepreneurial ideas of undergraduates at MSU" (Corporate & Foundation Resources, 2011). The money is allocated to support The Hatch's activities in order to concentrate more start-up companies in the region.

# Current Environment Success Rate

According to Smith (2014) The Hatch has been a very successful endeavor so far, with more than 50 companies having graduated from the space and moved into new locations. At the same time there have been more than 150 companies that have passed through the SmartZone (Smith, 2014). There's a constant reminder all over the community of how the impact of the Technology Innovation Center has affected the region. The efforts of LEAP has led to private office space being constructed to accommodate this transfer and the graduation of these companies (Smith, 2014). The best advertisement and promotion that The Hatch has generated has been through the success of the businesses that come through the program (Smith, 2014).

#### Return on Investment

The biggest return that both Spartan Innovations and LEAP have come to recognize is the growing level of entrepreneurial talent that is concentrating in the region. Jacques (2014) emphasizes that the partnership with LEAP has been essential as The Hatch looks to expand into a second incubator or office space available downtown. Not only has The Hatch met the goals of the initial investors but also it has exceeded them (Jacques, 2014).

# The Stadium District: Lansing, MI

# Background and Context Site Info

The Stadium District in Lansing, MI was newly created in 2006 with \$100,000 contribution from a Cool Cities Grant awarded by the State of Michigan (Lambert, 2006). The District was created in an effort to bring greater levels of activity to Downtown Lansing. Stadium District is anchored by a four-story, \$12.3 million, 100,000 sq. ft., mixed-use development by The Gillespie Group (Stadium District, Lansing Economic Development). The District lies is an 11-block area of Downtown Lansing defined by the Grand River, Pennsylvania Avenue, Kalamazoo Street and Oakland Avenue. Within the District there lies the Lansing Lugnuts Stadium, Lansing City Market, Lansing Center and Prudden Place (The Stadium District-Creating a District, 2014).



**Figure 6:** *The Stadium District* Source: Google Maps.

source: Google Maps.

#### Previous Uses

Stadium District was completed at the beginning of the global financial crisis and was a very risky project for the time and for the Downtown Lansing location. Stadium District building was previously a parking lot—owned by the City. The lot, prior to the new development, generated no tax revenue. According to Trezise (2014), like many of the surface lots in Downtown Lansing, the Stadium District lot was only 1/3 - 1/2 filled with cars. Gillespie's proposal presented a significant development for Downtown Lansing that was otherwise lacking. This development was especially attractive to the City as it "...was located directly across the street from a really beautiful stadium in Downtown Lansing" (Trezise, 2014).

## **Key Players**

The development occurred as a result of the efforts of the City of Lansing, Lansing Economic Area Partnership (LEAP) and Pat Gillespie (Gillespie Group).

#### **Public Sector Partners**

The Public Sector partners included the City of Lansing, Lansing Economic Area Partnership (LEAP), State of Michigan, Michigan Economic Development Corporation (MEDC) and the Federal Government.

## Private Sector Partners

The Private Sector interests consisted of Pat Gillespie and Gillespie Group.

#### Vision and Plan for The Stadium District

The partnership of LEAP and Gillespie Group functioned as the key players in the development of Stadium District.

#### Role of Gillespie Group

According to Pat Gillespie (2014) the role of the Private Sector was to bring market expertise to the project. This was accomplished through the identification of a need and the

ability to develop and construct the project (Gillespie, 2014): "A big role was our ability to finance—and being able to pull the project off."

Gillespie (2014) notes that the Private Sector took the lead as far as dictating what the market could handle and what was needed in Downtown Lansing.

# Role of the City of Lansing

On the other hand the City's role, was to sell the land and accommodate a rezoning request and a signage variance request from a parking lot to "All 'G-1' Business". Furthermore, LEAP, put together the Brownfield Tax Increment Financing (TIF) District and made a pitch to Michigan Economic Development Corporation (MEDC) for the Brownfield Credits (Trezise, 2014). It is through these mechanisms that the City filled in the gaps in Gillespie's finance and helped to ensure that the project moved forward.

### Vision for Stadium District

Gillespie looked at the potential for the Stadium District development and it became increasingly evident that this was very risky because a project of this scope had not occurred in Downtown Lansing (Trezise, 2014). Despite the risk Gillespie developed and presented a project to the City that filled a significant gap, for urban housing options, that was missing in the Downtown District.

As a means of alleviating part of the risk Gillespie asked for the Public Sector to assist in the development. The City of Lansing assessed the proposal and agreed to enter into an agreement with Gillespie. This Partnership was centered on filling the gaps that were present in Gillespie's financing. Specifically, the Public Sector helped in the development of the Brownfield monies that were available through the State of Michigan and Michigan Economic Development Corporation (MEDC).



**Figure 7: Construction of Stadium District** Source: http://www.thestadiumdistrict.com

## Plan for Stadium District

The vision for Stadium District, proposed by Gillespie, was for a mixed-use development that would front on E. Michigan Ave. directly across from the baseball stadium (Lansing Planning Board Minutes, 2005). The development would include retail and office uses on the first and upper floors as well as 21 condominiums and 68 apartments (Lansing Planning Board Minutes, 2005).

The plan for the sale of the parking lot for the Stadium District, mixed-use development, to Gillespie Group came with a number of stipulations from the City of Lansing. The conditions on which the City agreed to sell the property to Gillespie Group included the following (Lansing Planning Board Minutes, 2005):

- 1. The location, character and extent of the proposal are consistent with the "General Commerce" land use and design recommendations in the *Central Lansing Comprehensive Plan*;
- 2. Efficient use of the current City parking lots (15 and 15-A) will accommodate the development and its parking needs;

- 3. There is sufficient public parking within a reasonable distance to satisfy the added parking demand during stadium events;
- 4. Legal issues (including easements and the use of Lots 15 and 15-A for stadium parking) would need to be resolved; and
- 5. A portion of the property was donated to the City for the betterment of Ranney Park, and although this portion is not dedicated parkland, satisfying the intent of this donation would need to be resolved.

# Public-Private Partnerships for Stadium District Parties Involved

The Partnership formed between Gillespie Group, the City of Lansing and LEAP was influential in carrying the project out.

## Gillespie Group

The Gillespie Group was founded in 1994 when Patrick K. Gillespie established Gillespie Development (The Stadium District-Creating a District, 2014). Gillespie Group has specialized on multi-family development and currently "operates more than 1,300 luxury rental hones, and more than 125,000 square feet of retail/office space" (About Developer, 2014).

## Lasing Economic Area Partnership (LEAP)

LEAP is a "coalition of area leaders committed to building a prosperous and vibrant region where businesses can thrive" (LEAP, 2014). To accomplish this goal, LEAP partners with entrepreneurs to help the region grow through business expansion and attraction.

LEAP served, alongside the City of Lansing throughout the entire project.

#### Why a Public-Private Partnership?

The Stadium District development came together as an urban development project in Downtown Lansing. Specifically Gillespie brought a vision for Stadium District to the City. The Partnership was necessary for development due to a rezoning being required in order to move forward. The Department of Planning & Neighborhood Development proposed the rezoning on January 18, 2005 at the Lansing Planning Board Meeting (Lansing Planning Board Minutes, 2005).

Another important element of the Partnerships pertained to the tight budgets, constrained public spending, and the gap the project filled in Downtown Lansing. The Public-Private Partnership has served to combat the problems of location that face many of the cities in the Midwest. Bob Trezise (2014), of LEAP, notes that Public-Private Partnerships are critical primarily for urban development projects:

Specifically here, in Lansing, but I think it's true for every city across America and in the Middle West, because most of the sites in the city are contaminated; have aged infrastructure or deteriorating infrastructure problems; have blight on them or abandoned buildings (Trezise, 2014).

# Role of the Public-Private Partnership

The primary role of the Partnership that Gillespie Group and the City of Lansing entered into was to help fill the gap in Gillespie's finances for the Brownfield Redevelopment.

For this particular project the Brownfield was routine and the taxes captured from new revenue generated on the site to repay the Gillespie for his public infrastructure cost. The infrastructure costs include upgrading the parking, sewer and water contamination cleanup. Gillespie also got Brownfield credits from the Michigan Economic Development Corporation (MEDC) (Trezise, 2014).

#### Implementation of Stadium District

The proposal for Stadium District was entirely Private Sector led. Trezise (2014) notes that prior to Stadium District there had been little private investment in Downtown Lansing:

A criticism could be made that "Why didn't the stadium generate more private development in the downtown?" That should say something but it didn't. The private sector did not seize upon that stadium, beyond the Nuthouse. Besides that there was not an explosion or really even barely a trickle of private development around the stadium.

In order for Gillespie's proposal to proceed the City of Lansing had to become involved because a rezoning was necessary. Without the rezoning the project would not

have moved forward. Initially the property was zoned 'H' for Light Industrial District prior to the approval for a rezoning by the Lansing Planning Board to 'G-1' Business District for the purpose of developing the property for mixed uses (Lansing Planning Board Minutes, 2005). Lansing's Future Land Use Map (1999) designated the property for "General Commerce" which specifically allow for development to "...strengthen the linkage between the entertainment related businesses along Michigan Ave. to the east with those to the west along Michigan and Washington Avenues" (Lansing Planning Board Minutes, 2005).

## Financing Development

As the developer looked at the potential for the Stadium District, it became evident that this was a very risky project. Gillespie Group developed and presented a plan to the City that filled a significant gap that was missing in the Downtown but as a means of alleviating part of the risk they asked for the Public Sector to assist and help reduce some of the risk. The City of Lansing assessed the proposal and decided to enter into an agreement with Gillespie Group. To facilitate and encourage the development the City of Lansing was willing to sell the parking lot to Gillespie at a very fair price (Trezise, 2014). LEAP then assisted in creating a Brownfield TIF.

These public infrastructure improvements included upgrading the parking, sewer and water contamination cleanup. Gillespie Group also applied for and received Brownfield credits from the Michigan Economic Development Corporation (MEDC), which LEAP helped to obtain. Both the Brownfield TIF and Brownfield credits, from MEDC, served to fill a gap in Gillespie's finances. Trezise (2014) notes that Gillespie's financing came from a bank—meaning that the City did not finance the project. Instead the City looked at Gillespie's private financing and identified financial gaps and bridged them with incentives—a Brownfield TIF & Brownfield Credits.

# Challenges and Opportunities of The Stadium District Challenges

One of the biggest challenges to the project was that the City Council wanted to demand that Gillespie use 100% Union Trade labor on the project. Some members of the council viewed the agreement as "Gillespie taking incentives from the City and not appropriately giving back" (Trezise, 2014). Both Trezise (2014) and Gillespie (2014) acknowledge that from a cost perspective using 100% Union Trade labor was not financially feasible for the project and that Union labor was used as it was reasonable. While the Mayor of Lansing, Virg Bernero, came out in support of Gillespie praising the development (Trezise, 2014) the contention that Gillespie didn't do enough for the City of Lansing still follows Gillespie (Trezise, 2014).

## **Opportunities**

Despite the removal of Brownfield Credits and Incentives there is still development occurring in Downtown Lansing that has been encouraged through the example set by Stadium District. These projects include:

Market Place project that is a very similar project. The City of Lansing built a new City Market that was related to the Market Place. We did Ottawa Power Station, which became the national headquarters for Accident Fund, and Mutual Building and, now, the Knapps Building rehabilitation.

The ability and willingness of Gillespie Group to work with the City of Lansing has also been a major success after the completion of Stadium District. Gillespie (2014) notes that: "We (Gillespie Group) had a gut feeling it would work but we had no idea the residential would be this explosive. If I knew now what I did then I would have added another floor or two to the building".

#### Return on Investment

The TIF financing is significant to for this project as the global recession hit

Michigan especially hard. Trezise (2014) notes that property values did drop in Lansing

which resulted in a lesser return for Gillespie, on the initial investment. Despite this fact the City has drawn a hardline in terms of renegotiating with developers on Brownfield TIFs.

This has been especially important, as some developers have approached the City seeking a renegotiation of their contract despite the fact that the Brownfield TIF program does not guarantee that money is owed to anyone.

TIFs are based on the revenue projections and we will continue to reimburse within a certain timeframe—which we have all agreed to. But we are not going to extend the number of years that we will pay someone back (Trezise, 2014).

Gillespie (2014) emphasizes that without a good performance on their end, and without a successful project, they were out of a significant investment. This element has meant that Gillespie needed to create a development that attracted the tax base necessary to pay back their investment over the TIF timeframe (Gillespie, 2014).

## Lessons Learned from Stadium District Development

Trezise (2014) acknowledges that there have been complaints from some people that the City of Lansing has been unfairly directing development at Gillespie Group. Despite this fact the City continues to work with Gillespie because (Trezise, 2014):

We don't create a project—the private sector does—it's Gillespie Group that keeps coming back with their energy level and deep understanding of these projects and their business model who come and pitch projects to us. We will reward someone taking initiative—why wouldn't we?

## There is a Market for Development in Lansing

The relationship that has been formed as a result of these projects has led to further investment and development in the City of Lansing. Gillespie is currently working with the City on the Market Place project that is very similar to Stadium District in that the project is about bringing greater levels of activity to the Downtown.



**Figure 8: Partners for Stadium District Project at Groundbreaking** Source: http://www.thestadiumdistrict.com

The City of Lansing has also found that there is vast public approval for urban development in Downtown. Stadium District has served as a catalyst for a number of other projects in the Downtown region (Trezise, 2014). Not only did Stadium District create a successful environment but also it helped to educate the City Council on what goes into making a project work (Trezise, 2014):

...it showed the City after decades of very few new buildings that a new building could be built in the City and I think that restored some confidence in the City. This restored confidence allowed us an opportunity to portray and educate the City Council about the use of incentives in an urban environment.

### Moving Forward Post Stadium District

As the City has continued to work with Gillespie on projects Trezise (2014) emphasizes the fact that the City was capable of filling a financial gap in a budget. This has been rewarded by mutual respect between the partners. Trezise (2014) further emphasizes the importance of the respect between partners:

I think he is a remarkable developer and an honest person. I think he really does believe in the City of Lansing and urban development. He has been fair and honest with us every single time.



**Figure 9: Stadium District**Source: http://www.thestadiumdistrict.com

Gillespie (2014) notes that the development serves to bring people to Downtown

Lansing and creates a hub for activity in the City. The developer acknowledges that as a
whole the activity benefits him as the taxes generated were used to finance the TIF,
however he also discusses the importance of creating a better perception and vision for
Downtown Lansing. As he notes that Stadium District adds a lot of life to the area because
there are people in the Downtown District after 5 o'clock and on the weekends. Gillespie
also believe that the development adds a sense of safety and security to Downtown because
there are more people on the street after hours and more awareness of what's going on.
The Stadium District development has also inspired greater levels of development in
Downtown. Gillespie currently has two projects in the works: Market Place (Map 5) and
Ball Park North.



Figure 10: Market Place Development

Source: Lansing City Pulse

# Current Environment Success Rate

Both Pat Gillespie (2014) and Bob Trezise (2014) acknowledge that the Stadium District project was a major achievement and paved the way for development that is occurring in Downtown Lansing now. Gillespie posits that the development has served to increase the perception of Downtown Lansing, as a location that people desire to live in, and has helped to increase property values.

## Occupancy Rate

With the building being nearly 100,000 sq. ft., Gillespie (2014) notes that the occupancy rate has achieved expectations with both the apartments and condos doing extremely well. Currently there is a 42,000 sq. ft. space left to lease but a tenant is already speaking for the spot.

# Lessons Learned

The Stadium District has encouraged more development in the Downtown Lansing region. The project also provides a gateway into Downtown because of its location on the

main Corridor leading to the Capitol building. The City of Lansing has also grown very comfortable in terms of working with Pat Gillespie and has collaborated with Gillespie Group on a number of projects in the Downtown region, including the new Market Place development that is currently in the process of being built.

# Recommendations, Next Steps and Lessons Learned from Public-Private Partnerships in the Greater Lansing Area

## Findings on Public-Private Partnerships in the Lansing Region

The changing political reality in Michigan has meant that resources available in Public-Private Partnerships have shifted since the Global Recession. This has presented a number of challenges in terms of partnerships. Chief among these has been a diminishing ability, of the public sector, to fund projects and, specifically, fill financial gaps in private developer budgets. Despite this fact, partnership opportunities are still available and may require new innovative structures and financing.

Each of the projects presented: Stadium District, Eastwood Towne Center, and The Hatch display an attempt by local government to better the Greater Lansing region. The projects share a goal of concentrating a younger, professional, population in the region.

# Positive Findings from Case Studies Stadium District

The Stadium District development was a successful project primarily due to the fact that the City of Lansing was willing to work with Gillespie Group to help fill a gap in Gillespie's finances. Specifically, the cooperation of the City in terms of selling the land at a fair price, assistance in obtaining Brownfield monies, as well as the creation of a taxincrement financing (TIF) district, further created a financial environment in which the project became feasible. This element, the willingness of the City to work with Gillespie, provided one of the primary means through which the successful project was developed. Furthermore, Gillespie's interest in, and passion for, bettering Downtown Lansing provided a platform through which the partners were able to create a vision and project that was attractive and benefitted both.

A major finding from Stadium District has been that the City of Lansing is more inclined to work with developers who show and maintain an interest in working and furthering development in the City. The ability and willingness of Gillespie to work with the City has provided key insight into the way that trust is incorporated and utilized throughout the development process: from proposal to implementation.

### **Eastwood Towne Center**

Eastwood DDA's expansion of The Heights presents a project that is the riskiest and has the potential for the greatest reward of the three. The ability of Lansing Township to finance and leverage public monies that were available during the recent recession, presents a project that is entirely reliant on the ability of the Township to work with the private interests to ensure that development is successful. The strengths of this project have been seen in the ability of Eastwood DDA to shape the district in the way that they desire and pursue an ambitious plan. Eastwood has also learned that contracts are necessary between partners. This is a key element as contract's are one way in which the DDA can ensure that a trust is present between partners.

#### The Hatch

The Hatch is a programmatic attempt to expand and grow the economies in the Lansing Region. The goal of this program is to help grow the tax-base in the area by providing a forum for the growth of local businesses and ideas of students at Michigan State University. The Hatch has produced a number of companies that have concentrated in the Lansing region. It is these companies, that have been successful, that have generated the greatest interest and shaped the direction that The Hatch has progressed.

# Negative Findings from Case Studies Stadium District

One of the main criticisms that both the public and private sector had of the Stadium District project is that the City Council must be educated on what incentive financing mechanisms are and how they operate. The biggest challenge to this project was the contention that Gillespie should have been using all Union workers, which would have made the project infeasible from a pure cost perspective. This belief stemmed from the fact that the Council viewed the creation of the TIF District and Brownfield monies as being given to Gillespie, without recuperation, instead of filling a budgetary gap through the taxes generated by the property. Educating public officials on how incentives are utilized would provide a means through which these elements are better understood.

#### **Eastwood Towne Center**

While this project is unique, in the fact that it is led by the public sector, the challenges that is has faced pertain to delays in the private sector. These delays have included issues with agreements on which sector should be paying for utility improvements and access, to water and sewage. Another major area of concern has been leasing the spaces underneath the parking garage that Lansing Township financed. The ability to successfully move forward depends on the willingness of the Township to work with the private developers in order to see the hotel development begin. The delays have significantly affected the public sector, as the ability to finance the project, by the public sector, has been stretched thin due to lawyers and the delays that have occurred.

#### The Hatch

One of the concerns in regards to The Hatch has been the type of companies and projects that have been coming through the program. The Hatch was initially set-up with the intention of expanding and growing the entrepreneurial technology sector in the area

by leveraging its proximity to Michigan State University. However, the companies that have been coming through have been much more diverse than what was originally intended of the program.

## Lansing Compared Across Literature on Public-Private Partnerships

The goals expressed across the Public-Private Partnerships that were studied, as a part of this work, demonstrates the production of useful results that benefit both the public and private sectors involved in the process. In these terms it is necessary to note that from the outset both sectors had a shared vision for what the program could become and strove for beneficial results that can be felt across different jurisdictions and by different parties. This is consistent across all three projects highlighted as a part of this work.

The ability of the public sector to hold the private sector accountable across the three projects has been one area that has been of concern. In Eastwood Towne Center the Eastwood DDA has been faced with the challenges associated with delays, in the development of the Hyatt Place Hotel. Specifically the Township has been confronted with an issue of lawyers costing the Township a significant amount of money and lost revenue. This challenge has considerably impacted the Township as funds have diminished which has raised concerns in regards to the Township continuing as developer of Eastwood Towne Center.

## Types of Partnerships Practice vs. Theory

Both The Hatch and Eastwood Towne Center are examples of public sector leadership as the locality has taken on the risk of being a developer. These two projects rely on the private sector in terms of being the client. In Eastwood the sensible investment was the financing for the parking structure, which increased the density, which has served to attract DTN Management and Hyatt Place to the Towne Center.

On the other hand, The Hatch's initial investment came from the City of East Lansing before being taken on by Lansing Economic Area Partnership (LEAP). The initial investment established The Hatch program and helped to locate it in the Technology Innovation Center (TIC), which has served as a support mechanism for the companies that have passed through the program. Furthermore the involvement of Michigan State University (MSU) has also created an opportunity for the growth and evolution of the program as a whole by providing a network through which businesses are recruited and interns are supplied.

In both instances the reliance has been on the private sector as tenants and users of the facilities provided. In terms of Eastwood Towne Center Hyatt Place and DTN Management are being utilized to help encourage the build out of the remaining spaces for lease on the ground floor of the parking structure. The relationship, the private investment in public owned structures has been both a point of contention and will be a significant reward upon completion.

Stadium District has been a leader-follower structured project. In this regard Gillespie Group presented an idea for development and moved forward with the primary financing. To help fill gaps in Gillespie's budget the City of Lansing created a tax-increment financing (TIF) district that allowed taxes to be captured, from the development, for the cleanup of the Brownfield site. This project has also been along the typical literature expectations of these arrangements with the private sector acted as the general partner and the City of Lansing served as the limited partner.

# Conclusions Based on Theory vs. Practice of Public-Private Partnerships in Lansing

# **Necessity of Contracts**

To achieve the overarching vision that the three projects share for the Lansing region, as a hub for technology and creative industry jobs, it is necessary for coordinated efforts be made to further a regional vision. In order for Public-Private Partnerships to continue to be successful there must be a reliance on innovation to ensure that partnership opportunities are appropriate for each unique project. The use of public incentives has been a very successful means of encouraging development in the Lansing region.

Through these incentives, private investment has been occurring in Eastwood

Towne Center and The Hatch. Whereas Stadium District was privately financed the

appropriate use of brownfield credits and the creation of a TIF District has served to fill a

gap in the private developers financing. The financing mechanisms that have been used

have been useful as a means of encouraging growth and entrepreneurship in the Greater

Lansing Region.

However, public incentives should not be abused. One means of preventing delays and ensuring that a project is completed on time is to require that private sector developers sign a contract with the public sector that details the expectations and timetable for a project. This was especially evident in the Eastwood Towne Center project. By defining and putting expectations on a contract the public sector can ensure that a project is complete to standard and timeframe. A contract creates the flexibility through which the public sector can also penalize if necessary.

#### Importance of Trust Between Partners

While the role of both private and public partners is constantly evolving it is important that efforts be made to identify partnership opportunities that are mutually

beneficial. With constrained public budgets it is increasingly important that public sector organizations create a feasibility study to show how and where funding for the projects is to come from. Feasibility studies can also serve to further attract private investors and companies as it is thusly evident what growth is advisable and what market is available.

## **Use of Appropriate Tools & Incentives**

These studies and contracts will further provide detail to what the expected outcomes of each project will be. While tax-increment financing and public financing were two of the tools used to create development opportunities another tool that may be pertinent to the Lansing region includes user fees for infrastructure development. Also important is the further involvement of the general public. The engagement of the general public throughout the process can serve to shape a project in a way that is more accessible to a greater percentage of the residents.

## **Conclusions on Public-Private Partnerships**

As the literature has emphasized the direction of Public-Private Partnerships relies on the willingness of both public and private entities to enter into a mutual agreement. To lessen the potential of risk different levels of involvement can be shared between partners and can serve to provide a foundation through which relationship expectations are crafted. Partners that have worked cooperatively together should be sought out to work together again. This will create an atmosphere of trust, as the parties are already familiar with one another.

# Limitations of this Work

The limitations of this work primarily have to do with the fact that only three projects were focused on by the researcher. Through an expansion of the number of officials spoken to, from the public and private sector, a more comprehensive vision of how Partnership opportunities arise and are operated would be presented Likewise; an in-

depth look at other projects would provide a strong basis for further study and understanding of how Public-Private Partnerships operate in the Lansing region.

# Future Areas of Study

To further expand upon this research more can be done to understand what role delays have upon development opportunities. Further areas of study should examine the best practices in Public-Private Partnerships with special attention paid to the role of feasibility studies and partner engagement.

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