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Redevelopment, San Diego Style: The Limits of Public–Private Partnerships

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Abstract

Fiscally strapped local governments have increasingly turned to public–private partnerships (P3s) for redevelopment assistance, empowering private actors to exercise functions typically performed by the public sector. While P3s can enhance project funding and completion, they create the possibility of agency loss, that is, public means—tax dollars, public powers, and other resources—being diverted toward private purposes. Using a principal–agent approach, the authors examine an ambitious and widely heralded P3 in San Diego to build a downtown ballpark and encourage private investment in surrounding neighborhoods. The authors identify a set of political, institutional, and partnership conditions exacerbating agency loss and thwarting redevelopment's public mission.

Keywords

agency theory, San Diego, public–private partnerships, redevelopment, sports stadiums, urban politics

Given the disappearance of federal funding for urban programs and growing fiscal scarcity over the past few decades (Conlan 1988; Eisinger 1998), the

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success of local governments in cobbling together financing for large-scale redevelopment projects has been impressive. Cities have, of necessity, become more entrepreneurial (Clarke and Gaile 1998), using business improvement districts, tax increment funds, revenue bonds, and sin and hotel taxes to finance redevelopment initiatives. Many cities have also turned to partnerships with the private sector to obtain additional resources for redevelopment objectives (Frieden and Sagalyn 1989).

Public–private partnerships (P3s) purportedly improve the efficiency and effectiveness of redevelopment programs by harnessing market forces and tapping private capital for public projects. In doing so, however, they create the possibility that public resources—for example, tax revenues, land-use authority—will be made to serve private objectives. To address this concern, some have advised cities to expand redevelopment P3s by conditioning public financial support for projects desired by private-sector actors on ancillary development to accomplish public objectives. This form of "strategic investment," proponents argue, will generate public benefits that exceed those provided by stand-alone projects, such as sports stadiums, typically advocated by downtown business interests (Rosentraub 2010).

While expanding the scope of redevelopment P3s can increase a project's upside, it can also enhance the risks that resources will fall prey to private capture. To encourage private investment in ancillary development, cities are forced to invest greater public resources and authority in private-sector actors. In this study, we identify three ways in which P3s, particularly those featuring ancillary development, can fall prey to private capture: (1) information asymmetries and poor contract design during the *formation* of P3s, (2) flawed *implementation* of partnership agreements or their ex post renegotiation, and (3) the failure of public officials to adequately *monitor* the performance of private partners.

We illustrate these arguments by examining redevelopment relationships in San Diego, focusing on a P3 linking construction of a downtown ballpark, Petco Park, to ancillary development in surrounding neighborhoods. This P3, one of the largest redevelopment projects in North America in recent years, has encouraged more than $1 billion in private investment over the past decade. San Diego's P3 has been held up as an example of the "entrepreneurial approach to downtown redevelopment" in which cities are "as focused upon the return on investment from the project as the private sector" (Chapin 2002, 565–66). In contrast, we find that politics, not economics, was the driving force behind the Petco Park project and that private-sector actors have been the main beneficiaries. In particular, we argue that San Diego's redevelopment structure and electoral institutions allowed its private partner to exploit a poorly written P3 to turn substantial public resources into private gain.

This article is organized as follows. The next section defines P3s and examines how and why they have been used by local governments. We briefly review existing work on P3s, noting the disparity between optimistic theoretical expectations and actual performance. In the third section, we offer an explanation for this disparity that builds on theories from economics and political science—in particular, the concept of agency loss—to illuminate the incentives of public- and private-sector actors. The fourth section describes San Diego's redevelopment regime. Under this structure, P3s form part of a long chain of delegation relationships intended to link redevelopment activity to the public interest. The fifth section offers a detailed case study, informed by public records, interviews with key participants, and statistical analyses of the P3 used to construct San Diego's Petco Park and encourage private-sector investment in the surrounding neighborhoods. The final section provides broader lessons from the San Diego case that may help bridge the theoretical–performance gap in the P3 literature.

Redevelopment and P3s

The use of P3s as a mechanism for local redevelopment has attracted substantial interest from urban scholars (Fosler and Berger 1982; Davis 1986; Rosenau 2000). Previous theoretical discussions of redevelopment P3s have emphasized their transformative potential while raising troubling equity concerns (Stephenson 1991; Rosenau 1999). Empirical studies have found that redevelopment P3s are difficult to implement, limit opportunities for public participation, and often fail to deliver citywide benefits (Sagalyn 2007). Nonetheless, local governments' enthusiasm for these partnerships has increased in recent years. As such, P3s are likely to form a major component of redevelopment programs in the near future.

P3s refer to a wide array of relationships between government entities and nonpublic actors (e.g., firms, nonprofit organizations). P3s involve collaboration between at least one government entity and one or more nonpublic actors for the pursuit of public objectives. This excludes everyday client–supplier relationships, including contracting where governments pay other actors for products or services. It also excludes privatization arrangements in which government contributes neither to the provision nor the financing of services, such as education, traditionally provided by the public sector. Redevelopment P3s were first tried in the 1970s as local public officials searched for ways to advance redevelopment agendas in the context of declining federal revenues, double-digit inflation, and growing antitax sentiment (Frieden and Sagalyn 1989; Sagalyn 2007). In the past two decades, the use of P3s has spread to other local government functions, policies, and services.

P3s are distinguished primarily by the pooling of public and private resources and their ostensibly public objectives. The extent, character, and purpose of public involvement in P3s can vary substantially. In the area of redevelopment policy, P3s have been used to develop discrete parcels such as the Ferry Building Marketplace in San Francisco. They have also been used for more ambitious redevelopment projects, such as the California Plaza in Los Angeles, that encompass large swaths of downtown real estate.[1] Some P3s include limited public involvement—for example, government provides the infrastructure or financing needed to make private projects possible. Other P3s feature more sustained interaction, with government and the private sector collaborating on an ongoing basis on jointly owned projects or ventures.

Redevelopment initiatives of the latter kind have become commonplace in recent years as local officials' familiarity with and citizens' acceptance of P3s have increased. Such P3s often involve delegation—whereby a government entity empowers one or more nonpublic actors to perform tasks or functions assigned to it by law. For example, local governments have awarded development rights to private-sector actors that allow them to reshape land-use patterns, evict existing residents or businesses, and undertake comprehensive planning in sections of downtown areas. In these cases, the P3s set up principal–agent relationships whereby private-sector actors undertake redevelopment activities on behalf of local government entities and the residents they represent. Even without formal delegation, close collaboration between local governments and private-sector actors on redevelopment initiatives can blur the line between public and private.

The increasing reliance on redevelopment P3s has been celebrated by researchers and practitioners alike (Pierre 2000; Rosenau 2000; National Council for Public-Private Partnerships 2002; Corrigan et al. 2005). Urban scholars, however, have worried about the consequences of overreliance on private-sector initiative and resources. Some argue that P3s undermine democracy by allowing private-sector actors to assume public responsibilities and make public decisions (Jezierski 1990; Sagalyn 1996; Pierre 1998). They cite the imbalances contained in many P3s, with government entities generally bearing greater risks, paying higher costs, and receiving lower returns (Mullin 2002).

Empirical research has attended to the causes and consequences of P3s and other contracting arrangements. Most studies of the causes utilize a transaction costs framework in which P3s and other contracts are modeled as decisions by local governments to produce services in house or purchase them from private-sector providers (Brown and Potoski 2003; Levin and Tadelis, forthcoming). These "make-or-buy" models are then estimated using cross-sectional survey data that relate variation in contracting activity to differences in service characteristics and local economic, political, and geographic settings.

The findings of these studies support the expectations of the economics literature on transaction costs (Coase 1937; Williamson 1988). Brown and Potoski (2003), for example, find that local governments factor in “hold-up” costs—the potential for ex post renegotiation or expropriation—when deciding which services to contract out. Levin and Tadelis (forthcoming) similarly show that in-house provision is more likely for services for which performance contracts are harder to administer. Fernandez, Ryu, and Brudney (2008) find that variation in contracting is shaped by residents’ demands for smaller government and opposition by public employees.

Though the transaction costs framework has obvious theoretical appeal, the large-*N* survey approach is of limited use for making causal inferences with respect to redevelopment. As one-time snapshots, such studies are unable to establish temporal precedence, that is, that cause precedes effect. In addition, the surveys commonly used by the literature contain little information on redevelopment; indeed, redevelopment is often not even included as a service category (Levin and Tadelis, forthcoming). More important, these studies treat contracting decisions that vary substantially in the amount of public resources involved and the characteristics of both public-sector and private-sector partners as identical observations.

Supplementing the large-*N* studies is a small but growing literature of single and comparative case studies of local governments’ experiences with redevelopment P3s. The most detailed empirical studies have been compiled by planning scholars (Frieden and Sagalyn 1989; Gordon 1997a, 1997b). These and other studies attempt to identify the features of successful P3s and lessons learned. In synthesizing the main findings of these studies, Sagalyn (2007) observes that redevelopment P3s are often difficult to implement financially and politically. They typically require local governments to assume much of the up-front costs and financial risks of projects and often experience setbacks on the path to completion.

These findings are echoed by studies of redevelopment P3s by social scientists. Stoker (1987) and Fainstein (1994) portray developers as profit-maximizing actors that exploit local government weaknesses to exclude the public from land-use decision making and steer public resources toward private gain. More recent studies show how public perception can shape redevelopment projects ex ante. Crowley (2006), for example, describes how grassroots organizations prevented construction of a downtown entertainment district in Pittsburgh. Similarly, Altshuler and Luberoff (2003) find that economic, environmental, and political constraints have led local officials to adopt more risk-averse redevelopment strategies. These include efforts to mitigate the worst impacts of redevelopment and a shift to less disruptive projects such as stadiums, convention centers, airport terminals, and light rail facilities. These projects, however, yield fewer benefits to the cities that build them.

Taken as a whole, the empirical literature on P3s poses a theoretical conundrum. On one hand, scholars have found that P3s are more likely to be undertaken by local governments that have adequate capacity to manage them. Moreover, P3s are typically used to provide services for which performance contracts are easy to write and administer. This suggests that P3s are undertaken under mostly auspicious conditions and, as such, are likely to work successfully. On the other hand, research on P3 performance, especially redevelopment P3s, offers a more pessimistic outlook. Redevelopment P3s are difficult to finance, implement, and manage. Local governments must absorb a large share of project risks and devise creative means of financing and selling projects to voters. In recent years, P3s have been used to build stadiums, convention centers, and similar projects with questionable economic impacts. Nonetheless, local public officials continue to use redevelopment P3s and hail their successes (Walzer and York 1998).

Redevelopment and Principal–Agent Problems

This theoretical conundrum—increasing reliance on redevelopment P3s despite weak evidence of their success—can be resolved by paying closer attention to the incentives of public officials and their private-sector partners. More so than other P3s, redevelopment partnerships involve delegation—the use of public authority by private-sector actors to accomplish public objectives. Such P3s set up a classic principal–agent relationship whereby a local government entity (the principal) delegates resources and authority to one or more nonpublic organizations (agents). The essential features of these relationships include (1) principal initiative (the principal chooses whether to delegate based on its preferences and anticipation of an agent's response), (2) agent capacity (the agent has the ability to take action that affects the welfare of the principal), (3) information asymmetry (the principal often cannot observe the agent's actions but can observe the outcome of interest), and (4) interest (mis)alignment (the agent's and principal's preferences are not identical). Because of information asymmetry and diverging preferences, these relationships risk *agency loss*—the extent to which the agent's activities depart from the principal's objectives (Miller 2005).

Scholars have long recognized that successful delegation requires that agents possess both the capacity and incentive to undertake action favorable to the principal. Kiewiet and McCubbins (1991) identify four mechanisms for reducing agency loss: (1) contract design (in structuring agent activity, a principal can condition payment on observable outcomes that are consistent with its objectives), (2) screening and selection mechanisms (open application and rigorous review processes can prevent selection of poor agents), (3) monitoring and reporting requirements (problems of hidden information can be alleviated by requiring agents to reveal information on an ongoing basis; regular hearings and investigations, reporting requirements, and public participation can uncover mismanagement and malfeasance), and (4) institutional checks (the ability to alter an agent's budget, veto its decisions, and change the parameters of its authority can prevent an agent from deliberately injuring the principal's interests).

Delegation to private-sector agents poses particular challenges that arise from incentive incompatibility and the reduced effectiveness of these four mechanisms. In delegating to another government entity (e.g., a redevelopment agency), public officials invest resources in an agent whose interests are structured by constitutions, charters, or statutes. While these do not fully protect against agency loss, they create expectations of public-regarding behavior and provide redress when these are not met. In contrast, private-sector actors are profit maximizers (Levitt and Kirlin 1985). With such agents, it is difficult to design P3 agreements that fully account for the contingencies that affect redevelopment projects. When initial conditions change, public officials cannot unilaterally reopen negotiations. In screening private-sector actors, public officials often have limited past interaction and cannot compel them to reveal relevant information ex ante. The absence of sunshine laws that cover private actors similarly makes it difficult to access proprietary information ex post. Finally, public officials cannot cancel a contract, change agents, or contest their decisions if the agent is observing the letter of the law.

A second set of problems stems from the structure of local government. Through a variety of state incorporation laws, citizens delegate control of local government to a small number of elected officials. The effectiveness of this accountability link is mediated by electoral institutions—for example, separate election of executives and legislators, term limits, nonpartisanship. In many cities, elected officials delegate redevelopment functions to a bureaucratic agency. Redevelopment P3s constitute an additional layer of delegation. If the accountability link is compromised at any point in this chain, redevelopment outcomes can deviate from the interests of local residents. Stone (1989) argues, for example, that in cities that impose term limits, elected officials are likely to have short time horizons. Here, heightened pressures exist for redevelopment programs to serve the "edifice complex" of lawmakers, providing visible achievements that allow officials to claim credit for projects promising growth.

Finally, a third set of problems with P3s lies in the constraints they impose on redevelopment programs because of the voluntary character of contracting relationships. Local governments must attract private-sector participation with redevelopment proposals that serve the interests of private-sector partners. The kinds of projects that appeal to private-sector actors differ from the housing or office complexes and infrastructure projects favored by traditional redevelopment programs. So while P3s ensure private-sector support for redevelopment agendas, they can restrict the range of acceptable public projects.

Delegation problems under P3s can emerge ex ante, when public officials negotiate agreements that define each party's risks and rewards and, ex post, when these agreements must be monitored and enforced. In negotiating an initial contract, cities are at a disadvantage, lacking information about what the market will bear and the capacities of private-sector partners. Dependent on economic growth to expand the local tax base (Peterson 1981; Kantor 1988) and governed by elected officials with short time horizons, cities often accept suboptimal terms. During implementation, private-sector partners can take advantage of incomplete contracts or use their bargaining power to renegotiate agreements. Fearing voter backlash for failed redevelopment projects, public officials are usually reluctant to exercise oversight of private-sector agents and are too willing to accede to escalating demands.

Redevelopment P3s constitute some of the most complex principal–agent relationships encountered. They involve agreements between actors with markedly different preferences. They are nested within intricate delegation chains, where the agent's actions are well removed from those who ultimately enjoy the benefits or suffer the consequences of redevelopment. Traditional mechanisms for ensuring interest alignment are typically ineffective for disciplining private-sector actors. The combination of interest (mis)alignment and ineffective oversight dictates that redevelopment P3s are especially prone to agency loss. In this respect, they can prove to be the worst of all worlds, providing neither the efficiencies of private markets nor the mission of public bureaucracies.

Redevelopment P3s are typically executed over long periods of time. Indeed, those initially responsible for involving cities in redevelopment P3s are seldom around when the bill comes due. Term limits for local executive and legislative offices invite public officials to privilege short-term credit-claiming opportunities over long-term financial stability. Thus even though the probability of successful execution is low, there are ample political reasons for public officials to enter into high-profile redevelopment partnerships and few incentives to monitor them to ensure that private-sector agents live up to their obligations. In the sections that follow, we illustrate these difficulties using a detailed empirical example.

Nested Delegation: San Diego's "Shadow Government"

Redevelopment policy in San Diego is structured by three sets of delegation arrangements: (1) electoral—between voters and elected officials, (2) institutional—between elected officials and redevelopment agencies, and (3) partnerships—among elected officials, redevelopment agencies, and nonpublic organizations. In all three areas, San Diego departs from the governing arrangements used by big cities in California and elsewhere to pursue redevelopment policies. Until recently, San Diego was one of a limited number of big cities in the country to use the council–manager form of government.[2] Unlike other California cities, San Diego delegates redevelopment authority to quasi-public nonprofit corporations (Donohue 2008). Finally, San Diego has used redevelopment P3s more frequently and, with Petco Park, on a larger scale than is typical in most urban areas (Rosentraub 2010, 111, 124, 125).

Electoral Delegation

The city charter adopted in 1931 provided for a council–manager system of government that San Diego would keep until 2005. Under the original council–manager plan, San Diego was governed by a nine-member city council composed of a mayor and eight council members elected at large. The mayor presided over the council but had few formal powers. An appointed city manager was responsible for drafting the budget and managing day-to-day operations. Nonetheless, beginning with Pete Wilson (1971–1982), mayors assumed substantial informal authority. In 1988, a voting rights lawsuit succeeded in overturning at-large council elections. Term limits for the mayor and council were adopted in 1990, limiting tenure to two consecutive four-year terms. In 2004, voters passed Proposition F, creating a mayor–council system with the mayor assuming responsibility for the budget and executive oversight.[3]

In addition to these institutional variables, the relationship between San Diego voters and elected officials has been shaped by statewide propositions constraining local revenues and residents' historical aversion to taxes and government authority. In 1978, California voters approved Proposition 13, capping property taxes at 1% of assessed valuation, requiring a two-thirds vote of both houses of the state legislature to raise state taxes, and requiring a two-thirds vote of the people to raise city, county, or school district special taxes (including general obligation bonds). Local officials have since rejected proposals for utility, trash collection, and other taxes routinely used by cities to pay for essential services. As a result, San Diego collects less revenue per capita than most large California cities (Baxamusa 2005; Kousser 2005)—leading one former city manager to label San Diego "America's Cheapest City."

Institutional Delegation

Redevelopment policy in California is structured by the California Community Redevelopment Act of 1945, which gives cities and counties authority to establish redevelopment agencies to address urban decay and apply for federal funding. In 1958, the city council established the Redevelopment Agency of the City of San Diego to reduce blight in certain areas. The Redevelopment Agency is essentially a legal fiction. The city council serves as the board of directors. Initially, the city manager served as the agency's executive director. In 2005, the mayor assumed these duties. The Redevelopment Agency has no staff of its own but contracts with the City of San Diego for accounting, purchasing, and legal services. It also contracts with the city for redevelopment staff needed to manage 11 project areas and provide oversight for 6 others managed by two nonprofit development corporations.[4]

In 1975, the city council created the Centre City Development Corporation (CCDC) to eliminate blight and revitalize the downtown area.[5] Initially, CCDC was assigned to manage Horton Plaza, a massive redevelopment project designed to establish a retail hub downtown (Frieden and Sagalyn 1989). CCDC's jurisdiction was expanded in 1976 (Columbia and Marina project areas), 1982 (Gaslamp Quarter), and most recently 1992 (Little Italy, Cortez Hill, and East Village). Figure 1 shows the location of the different project areas managed by CCDC. In 1981, the city chartered the Southeastern Economic Development Corporation (SEDC) to implement economic and redevelopment projects in southeast San Diego. Both entities are governed by boards of directors appointed by the mayor and city council.[6]

CCDC and SEDC were created to circumvent civil service procedures that govern the hiring of outside consultants and project management staff. Both corporations are able to bypass the public contracting procedures adopted by the city. Indeed, CCDC was created precisely because local public officials

Figure 1. Project areas of the Centre City Development Corporation
Source: Centre City Development Corporation.

believed these rules to be time-consuming and cumbersome. The boards of these agencies are staffed by insiders—developers, consultants, and activists—who have a vested (and, too often, financial) interest in the projects they manage.[7]

San Diego's redevelopment agencies are funded by a mix of tax increment funds, federal Community Development Block Grants, bond proceeds, and city loans. The tax increment forms by far the largest revenue source. For each project area, a base year assessed valuation for purposes of taxing property is established. Tax increment revenue refers to the taxes collected annually because of any increase in the tax value of the property above the base year assessment.[8] Rather than flow into the city's general fund and other local governments, the tax increment is kept by the Redevelopment Agency. These funds are carried over from year to year and used to fund new projects.

Partnership Delegation

More than most cities, San Diego has embraced redevelopment P3s as an integral downtown revitalization strategy. Indeed, CCDC was created to facilitate a redevelopment P3 between the City of San Diego and developer Ernest Hahn to build a retail center in the heart of the city's historic, but dilapidated, downtown. CCDC fulfilled its role, limiting public involvement and helping clear the area to make space for the mammoth project. Horton Plaza, an outdoor mall based on an Italian hill design, was completed in 1985, at a cost of $140 million, including $40 million in public funds and a timely loan from the state. In addition to designing the shopping center, Hahn pushed local officials to build new housing and a convention center nearby and improve downtown public transit.

The convention center desired by Mayor Wilson and Hahn took longer to complete. In 1983, voters approved a ballot issue for a convention center to be sited on 11 acres of waterfront land owned by the Port District of San Diego. The city council created another quasi-public corporation, the San Diego Convention Center Corporation, to operate the facility. Located at the foot of the city's historic Gaslamp Quarter (see Figure 1), the $164 million convention center provided a second anchor project to drive downtown real estate investment.[9] In 1996, the convention center hosted the Republican National Convention. In 1998, voters approved a $260 million plan to nearly double the size of the facility. Completed in 2001, the revamped facility set the stage for San Diego's next redevelopment phase.

Delegation or Abdication?

Figure 2 maps the complex system of nested delegations used to undertake San Diego's massive downtown redevelopment program up to 2005. At each link in the chain, there is risk of agency loss—that is, shirking by public

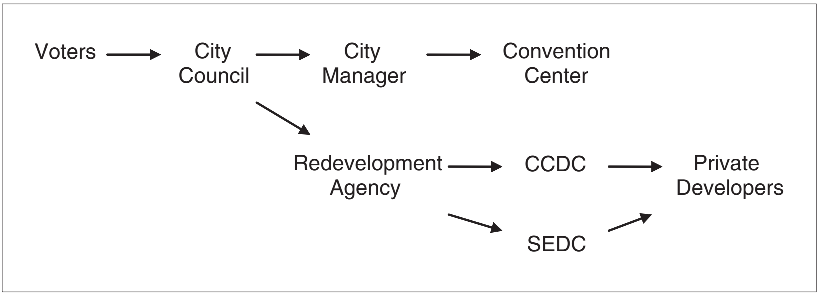

Figure 2. Nested structure of San Diego redevelopment relationships, 1990–2005

officials and/or private developers. Successful delegation from voters to the city council, for example, requires that voters have some ability to detect and punish shirking by elected officials. Regular council elections offer the possibility of disciplining poor behavior; however, this mechanism has been weakened by term limits and district elections. These changes also affected the relationship between the city council and city manager. Under the old at-large system, all council members and, by implication, the city manager shared a citywide focus. After 1990, successive city managers viewed their task as persuading a council majority to go along with what the manager perceived to be the city interest. Reflecting on these changes, one former city manager commented,

> I think that, since district elections, members of the council are not as concerned about the city overall as they used to be. There is more of a neighborhood focus. This creates a greater need for a good mayor. The other thing that hurt was term limits. It takes about two years for a new council member to figure out what is going on. (Jack McGrory, personal communication, 2007)

The link between the council and redevelopment agency has been fraught with legal ambiguity and institutional incapacity. Though the city council acts as the board of the redevelopment agency, it has delegated management and oversight responsibilities first to the city manager and later the mayor. Although city-appointed boards are supposed to manage the two development corporations on behalf of the city, a series of public controversies and recent audits has exposed deep problems within. Board members are supposed to serve fixed terms, though many routinely stay on years after their commissions expire (Donohue 2006). In addition, CCDC and SEDC administrators regularly award bonuses and pay increases to themselves and other staff and sign no-bid contracts without the knowledge of their boards. Thus there has been little oversight of the Redevelopment Agency, CCDC, or SEDC, let alone private-sector partners. The city manager had little incentive to scrutinize their activities since criticism of them would inevitably implicate the city council. As a result, no independent reviews of the Redevelopment Agency, CCDC, or SEDC were conducted until recently.

In 2008, the San Diego County Grand Jury, a public watchdog group set up to investigate the operations of public agencies, concluded that the Redevelopment Agency had failed to exercise effective oversight over CCDC (San Diego County Grand Jury 2008). In 2009, a follow-up report cited a wholesale lack of financial and operational accountability in the relationship between the Redevelopment Agency and its quasi-public agents. The report also found that redevelopment activities carried out by San Diego's various agencies and partners were marked by confusion in the lines of authority (San Diego County Grand Jury 2009).

Field of Schemes? Petco Park Reconsidered

Over the past 10 years, downtown San Diego has been transformed by new construction supported by more than $1 billion in private investment activity.[10] A cornerstone of this latest redevelopment phase is Petco Park—a new $454 million stadium for the San Diego Padres. Most of the stadium's costs were borne by the public sector under a redevelopment P3 among the City of San Diego, the Port District, CCDC, and JMI Realty, the real estate arm of the Padres. The structure of this P3 agreement—up-front public stadium financing in exchange for ancillary private development—cast both public- and private-sector actors in unfamiliar roles. Most peculiar were provisions that invested JMI Realty with expansive rights and authority to reshape land-use patterns within a 26-block area of downtown known as East Village. Under the 1998 agreement, JMI became responsible for developing new office parks, retail centers, public open space, and affordable housing on behalf of San Diego residents.

San Diego's ballpark project has been cited by scholars and practitioners as a new redevelopment paradigm, an exception to the conventional wisdom that new sports facilities produce few economic benefits.[11] Chapin (2002), for example, portrays San Diego as the archetypal entrepreneurial city. According to this view, local government officials assumed the lead role in cobbling together resources, marshalling public support, and parlaying up-front financing into back-end profits. Proponents of this view cite the tremendous uptick in private investment activity in the East Village following completion of the new stadium as evidence of San Diego's successful experiment with "municipal capitalism."

This salutary account distorts the basic facts of the ballpark episode. Overall, San Diego's ambitious redevelopment P3 is a story of failed delegation, not municipal leadership. This section offers an alternative account, detailing troubling aspects of the process leading to approval of the 1998 agreement and problems with implementation. Four years into the partnership, this "innovative" P3 was on life support, necessitating an overhaul of initial plans that increased public-sector costs while allowing the Padres to renegotiate the terms of the P3 to enhance private benefits. Ten years out, there is strong evidence that the bulk of the benefits from East Village revitalization have been captured by private developers, while many of the costs have been borne by San Diego residents. These problems are rooted in shortcomings in the P3 agreement and institutional structures that gave rise to it.

The project's apparent strength—a contractual link between the City of San Diego's contribution to stadium construction and the team's commitment to invest significant capital in nearby neighborhoods—created perverse incentives for local elected officials. In bundling together the ballpark and much of the city's downtown redevelopment program, the arrangement gave the team substantial bargaining advantages. These were used by the Padres to renegotiate more favorable terms after work on the ballpark had begun. Initially, the project allowed elected officials to claim credit for retaining a popular sports franchise (the Padres) and achieving growth at little cost to taxpayers. Unfortunately, these officials had little motivation to protect San Diegans from the project's financial risks or to compel JMI to live up to its promises, especially if doing so threatened to grind downtown redevelopment to a halt.

San Diego's Sports Misadventures

The impetus for San Diego's downtown ballpark came in the form of a 1996 agreement between the city and its professional football franchise, the San Diego Chargers, to renovate Jack Murphy Stadium. Both the Chargers and Padres paid rent to the city to use the stadium for home games. The city's position entering the 1996 negotiations was decidedly weak. The Chargers were coming off their most successful season, having made the Super Bowl for the first time. Local officials had previously acknowledged that the stadium's current size (61,000 seats) and state of disrepair would require upgrades to keep it a competitive Super Bowl site. In the final agreement, San Diego contributed \$60 million for stadium improvements and offered the Chargers a ticket guarantee of 60,000 for all home games. If attendance were to fall below that figure, the city would reduce the team's rent to make up the shortfall.

The 1996 agreement was a fiscal and political disaster. Renovation costs ballooned to $78 million because of the poor quality of the soil and efforts to make the facility earthquake proof.[12] The ticket guarantee ended up costing far more than anticipated ($36 million between 1997 and 2004). Prior to signing the agreement, local officials never checked previous attendance records, which would have revealed that a 60,000 threshold was wildly optimistic.[13]

The Chargers deal provided ammunition for Padres' owner John Moores' campaign for a new baseball-only stadium. Citing annual operating losses, he claimed that the team would be unable to compete with baseball franchises playing in more modern venues. Facing the prospect of losing the Padres, Mayor Susan Golding appointed a task force to study the stadium issue. In response to the task force's recommendation that a new facility be constructed, the city entered into negotiations with the Padres. In 1997, a second ballpark task force was created to identify a site for the new stadium and explore alternative financing arrangements.

Bypassing City Hall

To build support for a new ballpark using public resources, city officials opted to convene a special task force rather than work through city government. The Task Force on Ballpark Planning, composed of 17 private citizens mostly drawn from the business community, was appointed in June 1997. The task force alternative offered several advantages. First, those appointed to the task force felt that local elected officials were attempting to avoid blame should the project fail (Patrick C. Shea, personal communication, 2007). Second, the task force route helped the mayor, who hoped to use a high-profile deal to build her credentials for higher office, to shape the final ballpark proposal by appointing only those sympathetic to the project to the task force. While this made sense as a political strategy, the task force largely bypassed professional planners and other staff with direct redevelopment experience and expertise.[14]

Members of the task force worked to craft a deal that would justify the massive public investment needed to build the new stadium. Downtown was appealing as it would enable the city to tap a variety of redevelopment funds. The East Village, located near the Gaslamp Quarter and convention center, was identified as an area that might support the hotel, retail, and office projects envisioned by local public officials. With the city formulating plans to expand the convention center, the long-ignored neighborhoods in the East Village were emerging as San Diego's most desirable real estate investment opportunity.

The task force's final report agreed with the Padres that the team could not remain financially viable at the now-renamed Qualcomm Stadium and recommended that the city pursue an agreement on a new stadium in the East Village (Task Force on Ballpark Planning 1998). The task force also urged the city to link public financing for a new stadium to a massive East Village redevelopment project that would create new hotels and businesses. Such ancillary development would yield new revenues that the city would need to pay off its stadium bond obligations. Linking the ballpark to private-sector investment also provided a political solution for how to sell the expensive project to local voters. The slogan offered by ballpark supporters in the campaign for voter approval for the public subsidy would be "more than a ballpark."

A Memorandum of (Mis)understanding?

Once the task force had blessed the downtown site, Mayor Golding and the Padres negotiated a memorandum of understanding (MOU) that specified the division of labor and financial obligations of all parties. In addition to the City of San Diego and the Padres, the 1998 MOU involved CCDC and, later, the Port District. The basic structure of the deal was financing for a new stadium in exchange for ancillary development within a 75-acre (26 blocks) district in the East Village. The city agreed to shoulder the up-front costs of building the stadium. In return, the Padres assumed responsibility for revitalizing the area around the stadium. The estimated cost of the ballpark project was set at \$411 million, with \$267.5 million for the stadium and \$143.5 million in infrastructure improvements and land acquisition.

The City of San Diego assumed primary responsibility for land acquisition in the East Village and the needed up-front financing for stadium construction. The city's initial commitment to the ballpark totaled \$186.5 million. It was also on the hook for \$38.5 million in land acquisition. Together, these obligations totaled \$215 million. With the city already facing a budget crunch and local officials unwilling to raise taxes, the bulk of this funding would come from bonds backed by future transient-occupancy tax (TOT) revenue. The city contributed another \$50 million in land acquisition through CCDC, which controlled the tax increment revenue harvested from project areas downtown. The Port District stepped in at the last minute to fill a \$21 million shortfall. Port District funds were slated for infrastructure upgrades such as pedestrian bridges, wider streets, and intersections.

The Padres were asked to put up $115 million for the project, $81 million to help build the stadium and $34 million for land acquisition and infrastructure. The $115 million figure, however, is misleading. The 1998 MOU allowed the team to pay for its share of the stadium via a variety of credits, including concession revenues and naming rights to the stadium. In 2003, retail giant Petco secured the naming rights for $60 million. The city, which retained a 70% interest in the stadium, received none of this money. Thus the money from concessions and the stadium marquee that went to pay for the Padres' share was essentially another subsidy given to the team.[15]

The most significant project delegation involved not resources but authority. In addition to supplying $215 million in public money, the city gave JMI a nearly free hand to redevelop a 26-block area of downtown. The mix of ancillary development was to include hotels, office buildings, retail space, a park beyond the outfield walls of the stadium, and residential development, including affordable housing. The city and the team agreed on a flexible schedule for the ancillary development that would, it was hoped, result in substantial new TOT revenues that the city could tap to repay its stadium bonds. The 1998 MOU, however, gave the Padres the authority to change the precise mix of ancillary development—as long as the changes did not reduce the value of the development or the amount of TOT revenue it would deliver:

> The Developer will have the right to fine-tune its mix of hotel, office, retail, residential and other development space within the District at any time prior to the completion of Phase 1 . . . in order for the development program to respond to market conditions. . . . The Padres/Developer shall have the right to transfer all or part of these rights and obligations to an entity reasonably acceptable to the City and [Redevelopment] Agency, and the parties recognize that market demand shall be the critical determinant in the ability of the Padres/Developer to commit by April 1, 1999 to the high level of Phase 1 development contemplated.[16]

This and other clauses gave the Padres substantial flexibility in determining the mix of ancillary development and, by implication, the extent of the ballpark project's public benefits.

From a business perspective, the 1998 MOU looked like a great deal for San Diego. It would bring a massive infusion of private investment to a blighted area. From a policy perspective, however, the problems with the MOU were legion. First, the primary beneficiary of the ballpark deal, the Padres, was a private organization whose operations had little impact on the local economy. Compared to the benefits it received, the team was asked to contribute few of its own resources. Second, the city was responsible for most of the up-front costs of land acquisition and stadium financing. These costs were fixed and immediate. The obligations of the Padres were vague and on the back end. Thus the city, not the team, was assuming most of the up-front risk associated with the project.

Third, the language of the MOU made the interests of the Padres paramount. By allowing the team to "fine-tune" the ancillary development, local officials ceded control over what was built in the East Village. In effect, the MOU shaping San Diego's redevelopment P3 assumed that the team's goals would coincide with the public interest. As a result, the MOU contained minimal institutional checks and left the door open to renegotiation. Primary oversight for the project was delegated to CCDC, whose direct interest was to maximize the amount of new tax increment funds that could be generated from the project, all of which would be used for further downtown development. The schedule envisioned by Mayor Golding and the Padres suggested that several hotel projects would be completed before the stadium opened, providing new TOT revenues to repay the city's bonds, even though the largest of the planned hotels would be constructed outside of the project area under the aegis of the Port District.

Securing Voter Approval

Concerned that the ballpark project would be viewed as a "backroom deal" in the mold of the Chargers agreement, local officials agreed to place the MOU on the November 1998 ballot. The mayor and the Padres left few stones unturned in soliciting support for Proposition C, the ballpark project initiative. Proballpark organizations spent $2.5 million, including funds for daily public-opinion tracking polls, versus roughly $25,000 by the opposition. The Padres marshaled support from local business groups and plied elected officials with gifts and campaign contributions. In at least one case, these gifts were improper. In 2001, Councilwoman Valerie Stallings pleaded guilty to accepting an insider stock deal from Moores, allegedly a payoff for efforts to secure approval of the ballpark agreement. Mayor Golding and the Padres also put pressure on the San Diego County Taxpayers Association (SDCTA), which had warned of the ballpark project's adverse impact on the city's finances.[17]

As the mayor and the Padres were whipping up enthusiasm for the ballpark project, others began finding fault with the MOU's structure. In June 1998, the San Diego County Grand Jury began looking into the ballpark deal. The grand jury issued a report in November that accused ballpark proponents, including local officials, of withholding information and failing to evaluate the project's fiscal impact. Most damaging was the finding that the project's ultimate cost, approximately $800 million over the 30-year bond debt service life, could not be paid for if assumptions about TOT revenues turned out to be inaccurate or the economy faltered (San Diego County Grand Jury 1998). City staff told the grand jury they agreed that the projections were optimistic but that "the given instructions were to use and show" these estimates "and none lower than that." The report's findings were prophetic. Little of the hotel tax money materialized by the time Petco Park opened. Moreover, the TOT estimates used to sell the ballot measure to voters proved to be wildly optimistic within months of the vote (Scott Barnett, personal communication, 2007).

Unfortunately for Proposition C's opponents, the report was not released until the day voters went to the polls to decide the fate of the project. Its findings had been kept under wraps by the mayor and city attorney, under the pretext of allowing CCDC and the Port District time to respond. The ballot measure passed with 59.5% of the vote, a decisive victory for stadium proponents and an apparent mandate for transforming downtown. The MOU placed hundreds of millions of dollars in public financing and unprecedented legal authority in the hands of a single private-sector actor—the Padres. The fate of the project now rested on the wistful hopes of local public officials and residents that the team's interests would coincide with their own.

"Sufficient Assurances"?

The same concerns that led to the appointment of a task force to handle ballpark planning were apparent as the city prepared to implement the largest redevelopment project in its history. Convinced that the task would be too complicated, technically and politically, for regular city staff, the city council hired Mike Madigan, vice president of a large development company, to serve as San Diego's "ballpark czar." With a salary of $200,000 a year, Madigan became the most highly paid public official in San Diego. While Madigan's credentials were impeccable, outsourcing oversight and management responsibilities to a paid consultant further limited the mayor's and council's ability to shape the project. Madigan would eventually resign over conflict-of-interest concerns because of his own investment in East Village real estate.

Under this peculiar arrangement, the city allowed JMI Realty, the John Moores–owned real estate firm responsible for carrying out the ancillary development, to significantly underdeliver on the promises the team made in the MOU. For example, though architectural renderings circulated with the ballot measure promised a three- to four-acre public park, the "Park at the Park" shrank to less than two acres in the plans the team ultimately submitted to the city. The MOU did not specify the park's dimensions, and the Padres argued that the models seen by voters were simply artistic and, thus, not binding. Similarly, though the renderings depicted a park surrounded by small 6-floor buildings, the team's final plan included three high-rises, two of which exceeded 20 stories.[18]

The MOU structuring the redevelopment P3 did allow local officials to sign off on the final terms of construction. Just as the team could "fine-tune" its plans, the city council was required to twice certify that the Padres had made "sufficient assurances" that the team's obligations would be met when the ballpark opened. If such assurances were not forthcoming, the city could cancel the ballpark project, though this would entail an end to the team's redevelopment activities. Not surprisingly, local officials were reluctant to use this leverage to secure concessions, worried about shouldering the political blame for killing a popular project and wreaking havoc downtown. As April 1, 1999—the date of the first certification—approached, the team had made scant progress. JMI had spent $24 million on land for the ballpark but had secured no commitments from lenders and found no tenants for its proposed office building. Its latest plans included nearly 100 fewer hotel rooms than promised, though the team said they would generate the same amount of hotel tax revenue as the 850 rooms it originally agreed to (Weisberg 1999).

Privately, local officials complained that the team had not spent enough "risk capital"—money that would be lost if the project fell apart. Even developer-friendly CCDC refused to vote that "sufficient assurances" had been made that the project would generate the tax revenue needed to pay for ballpark. Former ballpark proponents urged the city council to hold off until the team could produce more results. SDCTA warned that the city would put itself out on a limb if it moved ahead when the future of the hotel projects needed to pay for the bonds remained uncertain. Despite these concerns, the city council gave into the Padres, which argued that the public bonds were needed to make headway on the financing front. After JMI agreed to build all the 850 hotel rooms provided in the initial agreement and bid for another hotel project if needed, the council gave the redevelopment plan a green light.

Although the city council had certified that the team was meeting its commitments, the city failed to sell its stadium bonds by early 2000 as planned. Uncertainty over hotel tax revenues—which the city needed to pay for its bond obligation—and a series of lawsuits initiated by former councilman Bruce Henderson, a ballpark opponent, stood in the way. With the legal challenges and hotel fiascos threatening to raise the interest rate on the bonds, increasing the city's expected annual costs by more than $2 million, the bond sale ran into growing opposition on the city council (LaVelle 2000).

The City of San Diego had lent more than $20 million to pay for construction until bond money became available, though the funds were fully spent by 2001, when public officials had to make their second "sufficient assurances" finding. JMI, which had cleared the project area of existing buildings, shut down construction, leaving East Village an empty lot with steel ballpark beams. Not a single major hotel included in the initial agreement had begun construction. The team argued that it was not to blame for the delays. Though the agreement with the Padres was designed to insulate the city from risk, Golding's successor, Mayor Dick Murphy (2000–2005), warned that San Diego could not live with a hole in East Village. Abandoning the project and standing up to the team was simply not a credible option.

Instead, Mayor Murphy devised an alternative financial plan that departed from the deal voters approved in 1998. Murphy's plan no longer included a hotel site long mired in litigation. Nor did it require the Padres' hotels to be completed by 2003, when the ballpark was originally slated to open. Though the team had secured financing for hotels, the agreements were set to expire. There was no assurance that new loans would be obtained. Rather than rely on new hotel construction, Murphy proposed that the city raid its other hotel tax revenues, earmarked for civic and cultural purposes. With several lawsuits challenging the project still on appeal, the plan would require San Diego to pay higher interest rates than initially anticipated. The city council approved the Murphy plan in November 2001 (Office of the City Manager 2001).

Four years into San Diego's "innovative" redevelopment P3, its costs and benefits to local taxpayers had altered considerably. Sold to voters as a downtown cure-all with huge upside and no cost to local taxpayers, the ballpark project had suddenly become a drain on local revenues. JMI Realty had used its discretionary authority to eliminate aspects of the ancillary development—office parks, retail centers, open space—that were most attractive from the city's standpoint because they promised to provide public facilities and new sales tax revenue that would flow into the city's coffers. With none of the promised hotel projects materializing, the city would have to finance the project from its other already strained revenue sources.

Revisiting Public Benefits

Approval of Murphy's funding plan did not end the team's attempts to reshape the project to maximize profits. In 2005, JMI unveiled plans for Ballpark Village, a $1.4 billion, 7.1-acre project central to the ancillary development. Though the city council had hoped to rely on CCDC and local interest groups as effective "fire alarms" (McCubbins and Schwartz 1984) that could signal to the council if the terms of the MOU were violated, the Ballpark Village project exemplified how the team was able to escape effective oversight by pitting these groups against one another. The development promised to create more than 1,300 condos and apartments, office and retail space, and an additional hotel. The team's plans for the project, heralded as San Diego's Rockefeller Center, faced opposition from the Port District, which feared that new residential development would push maritime and industrial jobs out of one of the few downtown areas still zoned for industrial uses (Stolz 2005a).

The Padres launched an extensive lobbying campaign to convince CCDC to approve Ballpark Village. As part of the campaign, the Padres emphasized that the project would create 100 new affordable housing units for moderate-income residents, making it the first downtown project to actually build affordable housing. (Developers typically opt to pay in-lieu fees to the city rather than build the inclusionary units mandated by law.) Based on these assurances, CCDC signed off on the project.

Having received CCDC's blessing, JMI made a surprise announcement the day before the project was to be considered by the city council. Under a "community benefits agreement" negotiated in secret with a coalition of labor, housing, and environmental groups, JMI would convert all of its affordable housing units into market-rate units. In exchange, the team promised to pay higher wages, use green building standards, and provide \$18 million to build affordable housing off site. CCDC blasted the secret deal, accusing the team of last-minute deception. CCDC officials called the pitting of the city's housing policy against affordable housing advocates both "unfortunate and unwarranted" (Stolz 2005b). Despite the public's outrage over the secret deal, the city council approved the Ballpark Village project after JMI agreed to build one-third of the affordable units it had originally promised.[19]

Benchmarking Petco Park

Evaluating the success of redevelopment P3s is a difficult empirical exercise. Most redevelopment P3s are customized to fit the requirements of particular parcels as well as the capacities of public- and private-sector actors. Thus comparative analyses of large-scale projects, such as Petco Park, can be difficult and, in some cases, uninformative. Vining, Boardman, and Poschmann (2005) suggest assessing the efficiency of P3s by comparing the actual cost to what a local government would have spent had it constructed the project in house. For redevelopment P3s, however, this counterfactual is of little help. Most large-scale projects cannot be undertaken with local government resources alone. The involvement of private-sector actors, moreover, alters the ultimate character of land use and development in affected areas.

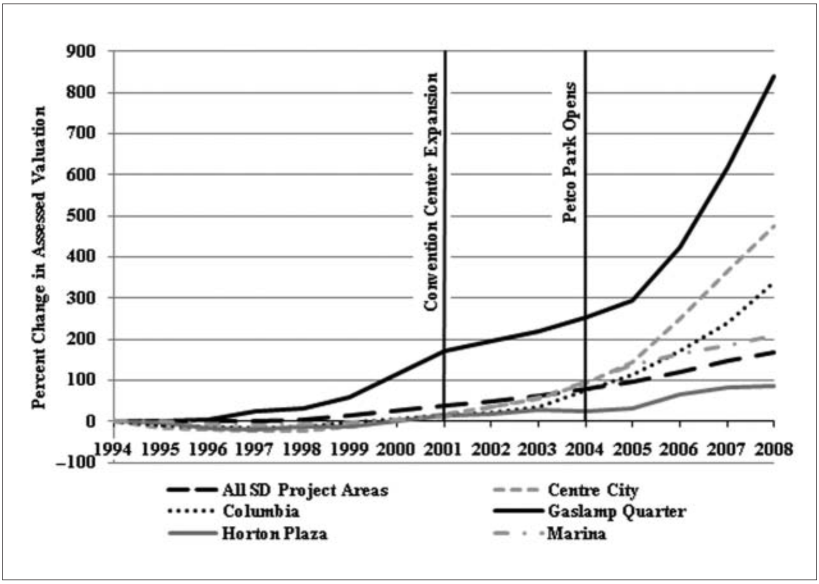

Figure 3. Growth in assessed valuations, 1994–2008
Source: Office of Auditor and Controller, County of San Diego, "Property Valuations, Tax Rates, Useful Information for Taxpayers" (various years).

In evaluating the success of redevelopment P3s, researchers must assess the various impacts of a project, including its economic costs and benefits and its contribution to the built environment and social character of downtown. It is also important to measure the relative contributions of both public- and private-sector actors and compare these against the public benefits produced by redevelopment. Finally, researchers must consider the project's opportunity costs, that is, the foregone benefits of using the land, capital, and other public resources consumed by a P3 on the next best alternative.

Given the extensive public resources that San Diego provided, it is no surprise that the Petco Park project has generated substantial economic impacts that have dramatically transformed parts of downtown. Indeed, the $1 billion of private capital invested in the East Village has exceeded the expectations of its most ardent supporters. The ancillary development has been a boon for CCDC, which has seen its property tax increment funds rise by more than $10 million a year. Figure 3 reports changes in the assessed valuation of property in CCDC project areas since 1994. Property values began to increase after the convention center expansion, especially in the

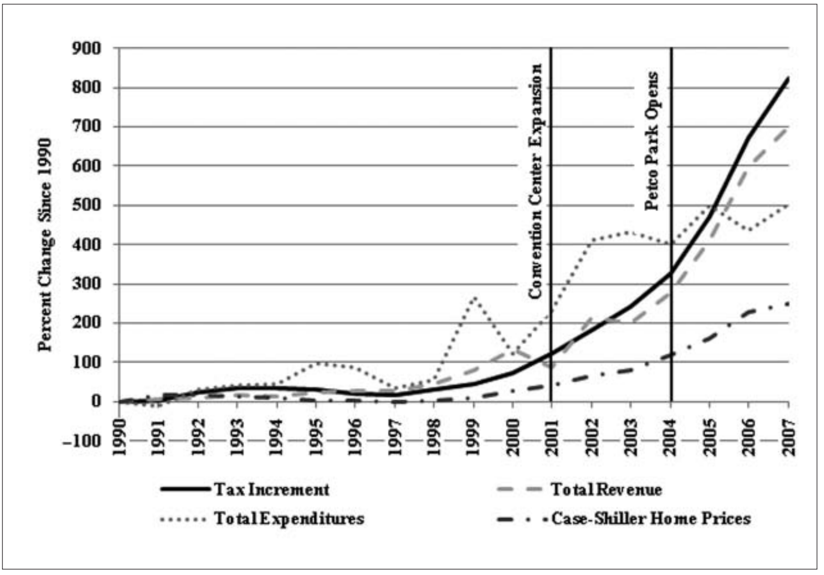

Figure 4. San Diego redevelopment expenditures and tax increment funds, 1990–2007
Source: California State Controller, "Community Redevelopment Agencies Annual Report" (various years).

Gaslamp Quarter. Following construction of Petco Park, property values—and thus the tax increment—increased further, with the Gaslamp and Centre City (which includes East Village) outpacing gains elsewhere.

Unfortunately, the rising property values downtown had little effect on San Diego's bottom line because all of the new tax increment has, by law, flowed into CCDC-controlled redevelopment accounts rather than the city's general fund, from which it has had to make bond payments. All of this new revenue must be spent on other downtown brick-and-mortar projects, including those spearheaded by JMI. Figure 4 tracks redevelopment revenues, expenditures, and tax increment funds between 1990 and 2007. Between 2001 and 2007, revenue collected annually by the Redevelopment Agency increased by nearly $150 million. Most of this growth was driven by increases in the tax increment. Interestingly, over much of this period, redevelopment expenditures were rising faster than revenues. Only in 2007 did the city receive more in tax increment funds than it put in. This figure does not include the hundreds of millions of dollars the city (i.e., non-CCDC funds) spent on Petco Park and other projects.

Table 1. Major League Baseball Stadium Construction Costs, 1990–2003

Stadium	% Contributed		$ Contributed (in millions)	
	Public	Private	Public	Private
Petco Park	67.5	32.5	303.3	146.1[a]
MLB stadium average	70.9	29.1	242.7	102.3

Source: Office of Governor, Minnesota, "Stadium Screening Committee Report" (December 9, 2003).
Note: Costs adjusted to 2003 dollars using Urban Consumer Price Index 10-Year Average.
a. Includes $60 million from sale of naming rights.

Though these redevelopment efforts have generated tremendous private wealth downtown, the millions invested by CCDC have yielded few public benefits. The Park at the Park was the only major new open space constructed in this part of downtown over the past decade. Long-delayed efforts to open the first public school in the area or rebuild an aging city hall and central library have shown little progress. In addition, there is little evidence that the money invested by the Redevelopment Agency has improved the affordability of downtown housing, one of the agency's primary mandates under state law. In 2005, a study published by the Center on Policy Initiatives found that while the number of new housing units downtown nearly tripled between 1999 and 2005, the number of affordable housing units increased by just 65%, falling from 34% to 19% of the new housing stock (Karjanen 2005). By June 2008, affordable housing had fallen to 17% of downtown units (Office of the City Auditor 2009), barely above the minimum threshold established by state law.

By 2007, three years after the ballpark opened, ancillary development had resulted in 747 completed hotel rooms—100 fewer than promised in the MOU (CCDC 2007). Though TOT revenue from these rooms went to the city, it covered just a fraction of city's annual $11.3 million in payments due on the ballpark bonds and $4.1 million in operating costs for the stadium shouldered by the city (Steele 2009).[20] In all, the ballpark project has been a net drain on the city's—though a boon for the Redevelopment Agency's—finances.

While the exact economic impacts of the ballpark are difficult to assess, the relative contributions of public- and private-sector actors are easy to measure. Table 1 reports the amount and share of funding provided by public actors and the Padres and compares these to other baseball stadiums built between 1990 and 2003. San Diego's 67.5% share of ballpark costs is slightly below the average public share, though its $303 million contribution exceeds the average public cost by 25%. By these measures, the P3 looks no better than stadium projects pursued by other cities. Of course, the city had to come up with its share before the Padres did. Thus the city, not the team, shouldered much of the project's financial risk.

JMI Realty, a private company, is exempt from laws requiring disclosure of project revenues. It is, therefore, impossible to quantify the profits Moores has received from exclusive development rights in the East Village. The new downtown ballpark has also increased the financial value of the team. In 2007, Forbes estimated that the franchise was worth \$385 million. Having squeezed as much money out of the local public sector as possible, Padres owner John Moores was ready to cash out in early 2009. In March, the Padres announced the sale of the team to a group led by Arizona Diamondbacks executive Jeff Moorad. The deal, which requires approval by Major League Baseball, reportedly values the team at \$500 million.

In all, San Diego's partnership with the Padres has mostly benefitted two groups of actors. Padres' owner John Moores took advantage of public subsidies and East Village development rights to emerge as a powerful real estate mogul. Elected officials, primarily concerned with scoring points with voters, claimed credit for keeping the Padres and revitalizing downtown without raising taxes. The fruits of these efforts were realized on Opening Day 2004, when Mayor Susan Golding threw out the ceremonial first pitch to her successor, Mayor Dick Murphy. Because most of East Village planning took place in JMI boardrooms and CCDC board meetings, few voters were aware of how much the final product strayed from the original MOU or how few public amenities the city received for its immense investment.

San Diego taxpayers, the intended beneficiaries of the P3, have been left to absorb the fiscal fallout. Facing a severe fiscal crisis, the city has struggled to maintain its basic infrastructure—deferred maintenance has grown to nearly \$1 billion (City of San Diego 2009, 20). Local residents watched helplessly as a woefully underequipped fire department battled wildfires that threatened to destroy local neighborhoods in 2003. The ballpark project did not cause these misfortunes, but by draining the city's already strained fiscal resources, it has inhibited the ability of public officials to address mounting service and infrastructure challenges.

Conclusion

Several scholars (Chapin 2002; Rosentraub 2010) have suggested that connecting public subsidies for sports stadiums to private investment in ancillary development will increase the returns to local governments. Our assessment of San Diego's redevelopment P3, cited as a leading example of such "strategic investment," is more pessimistic. While linking public financing for new stadium construction to ancillary development undertaken by nonpublic actors increases a project's upside, it also exposes cities to greater risk of agency loss. Particularly worrisome is the possibility of opportunistic behavior by nonpublic actors, whose preferences can diverge sharply from those of local residents. These risks were exacerbated in San Diego by a system of nested delegation that provided little direct monitoring of redevelopment actors and few institutional checks on their activities.

The expansive 1998 agreement between the City of San Diego and the Padres, while holding exceptional promise, made the project "too big to fail." Indeed, the scope of the ballpark project, covering 26 blocks of East Village real estate, is more reminiscent of federal urban renewal than the scaled-down redevelopment projects more typical today (Frieden and Sagalyn 1989). The enormity and visibility of such projects can alter the calculations of elected officials, reducing their ability to resist renegotiations that increase the payoffs to private-sector partners.

San Diego's experience with redevelopment P3s does not imply that every partnership will fall victim to agency problems. Not all P3s are alike. The Petco Park project does, however, illustrate the dangers of excessive delegation of public authority to private-sector actors that concerned early critics of P3s (Stephenson 1991; Fainstein 1994; Sagalyn 1996) and highlights aspects of the local electoral, institutional, and partnership settings that make private capture more likely. In designing P3 agreements, public officials must be mindful of the risks of agency loss. These risks appear ex ante, when the benefits and responsibilities of partners are negotiated, and ex post, when agreements must be monitored and enforced.

To be successful, redevelopment P3s must ensure that nonpublic actors have both the *capacity* and *incentive* to pursue and achieve public objectives. Too often, P3s fail to ensure that public- and private-sector interests are properly aligned. Based on San Diego's experience, we suggest three ways to improve P3 performance. First, the contracts structuring P3s must anticipate contingencies (e.g., legal challenges) and specify how their risks will be shared. Basing P3s on best-case scenarios stacks the deck against success. Second, P3s must provide for direct monitoring by entities that cultivate the full range of interested stakeholders (e.g., neighborhood groups). Finally, P3s carried out over extended periods must provide mechanisms to enforce the original terms of agreements, even when doing so imposes costs on elected officials and private partners.

Across the country, cities are facing difficult fiscal challenges, the result of increasingly restrictive local tax and expenditure limits, escalating costs for public employee pension and health care benefits, and sharp declines in government revenue linked to the global economic downturn. Like San Diego, many cities are increasingly relying on private-sector actors to obtain the project financing and expertise that they lack. But while the current economic climate makes P3s more attractive to local public officials, it does not auger well for their success. Contrary to past research, we find that cities do not enter P3s only when they have adequate capacity to manage them. Delegation can also occur as a fiscal last resort, that is, when cities have few resources of their own to pursue redevelopment, let alone monitor complex agreements. Thus many redevelopment P3s are undertaken, as in San Diego, where they are least likely to succeed. Until local officials address and remedy the basic deficiencies in P3 agreements, the gap between expectations and performance is likely to continue.

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Notes

1. The Ferry Building Marketplace, completed in 2003, was a public–private partnership (P3) between the Port of San Francisco and several private firms. The California Plaza, completed in 1992, was an 11-acre, $10.2 billion P3 between the Los Angeles Redevelopment Agency and Bunker Hill Associates.
2. As of 1996 only 5 of the country's 24 largest cities (over 500,000 population) featured the council–manager form of government (McCarthy, Erie, and Reichardt 1998, 87).
3. The council was left with eight members, with a ninth to be added after the 2010 census.
4. Currently, redevelopment staff consists of approximately 28 employees of the Redevelopment Division of the Department of Community Planning and Investment. The division's budget for the 2007–2008 fiscal year was $86.9 million—funded by the Redevelopment Agency (San Diego County Grand Jury 2008).
5. Centre City Development Corporation's (CCDC) redevelopment function encompasses many activities, including projects to bring tourists, shoppers, and

convention-goers to downtown, enhancing real estate values and historical preservation (Saito 2009).

6. Southeastern Economic Development Corporation (SEDC) is staffed by approximately 15 individuals who are not city employees. SEDC's budget for the 2007–2008 fiscal year was $32.5 million—funded by the Redevelopment Agency. CCDC currently has a staff of 55 individuals who are not city employees. CCDC's budget for the 2007–2008 fiscal year was $217.5 million—also funded by the Redevelopment Agency (San Diego County Grand Jury 2008).
7. Indeed, the bylaws of these agencies require that board members include those with a background in business, finance, real estate development, architecture, or law. Board members and top administrators frequently have outside business relationships with developers whose projects their agencies review. One example of such tight-knit connections was revealed in 2008, when CCDC president Nancy Graham was forced to resign after reporters uncovered that she had a preexisting business partnership with the developer of the Ballpark Village project. Graham had not disclosed the partnership in her conflict-of-interest filings, as required by state and local laws.
8. The workings of tax increment financing can be illustrated using a simple example:

   > The Gaslamp Quarter was established as a project area in 1982, which also was established as the base year for assessed values of all parcels in that area. For example, a parcel was assessed at $100,000 in 1982. Its property tax would be approximately 1% or $1,000 of which 17.7% or about $177 would accrue to the general fund of the City of San Diego. After the same parcel was redeveloped in 2002, it might be reassessed at a value of $1 million, an increase of $900,000. The gross tax increment of 1% or $9,000 would accrue to the Redevelopment Agency while the City's general fund would still be allocated the tax on the parcel's 1982 value, adjusted for inflation at no more than 2% annually. The Redevelopment Agency could continue to collect the tax increment for the balance of the fifty-year period dating from the inception of the project area. (San Diego County Grand Jury 2008, 5)

9. The project, completed in 1989 and located in state tidelands, was financed not by CCDC but by the Port District.
10. The $1 billion estimate comes from the City of San Diego (Steele 2009). In 2007, CCDC estimated that private investment in the area totaled $3.99 billion, though it is unclear how much of the funds can be directly attributed to the ballpark project (CCDC 2007).

11. The limited capacity of stadium projects as economic catalysts has been amply demonstrated by Baade and Dye (1990), Noll and Zimbalist (1997), Cagan and deMause (1999), and Chapin (2004), among others.
12. The city made up the difference by selling the naming rights of the stadium to local telecom giant Qualcomm.
13. The city council adopted the agreement 10 minutes after it was presented based on assurances from city manager Jack McGrory that the guarantee was worth no more than $10 million. When attendance dropped in the late 1990s, the ticket guarantee began to eat up much of the rent the city received (Braun 2005; Bruce Henderson, personal communication, 2007).
14. The task force model also preempted consideration of alternative proposals for accomplishing downtown revitalization and the resources the City of San Diego and CCDC would ultimately commit to the ballpark project.
15. Such naming rights agreements are not uncommon among recent stadium projects; however, as Table 1 indicates, the City of San Diego was already contributing far more in absolute dollars than other cities. Thus allowing the Padres to keep all revenue from the sale of the naming rights added to an already large public subsidy.
16. "Memorandum of Understanding Between the City of San Diego, the Redevelopment Agency of the City of San Diego, the Centre City Development Corporation, and Padres L.P. Concerning a Ballpark District, Construction of a Baseball Park, and a Redevelopment Project."
17. In 1999, these and other accusations were the subject of a grand jury investigation. The final report accused the mayor of colluding with other city officials to influence the vote outcome (LaVelle 1999).
18. The city eventually forced the team to abandon one of the three high-rises and ultimately paid the team $4 million to expand the park to cover two acres.
19. In 2007, JMI Realty attempted to renege on the project labor agreement it signed with affordable housing, labor, and community organizations downtown. After promising to build some affordable units alongside condominiums and retail space on the site, the team circulated plans for a mammoth convention hotel instead. The project was abandoned in 2008, a casualty of turbulence in the financial markets and a conflict-of-interest scandal at CCDC.
20. Since the ballpark opened, the terms of the memorandum of understanding have ensured that the city's share of the operating expenses have risen every year while the team's have fallen.

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