

auri research brief

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Self-supporting Urban Regeneration through Public Private Partnership

According to the prediction of the National Statistics Office (2016), the population of Korea will decrease rapidly from a peak of 52,960,000 in 2031, and according to the U.N. Future Report (2009) published by the U.N. Future Forum, Korea is expected to have only a male population of only 20 thousand and female population of 30 thousand in 2305.

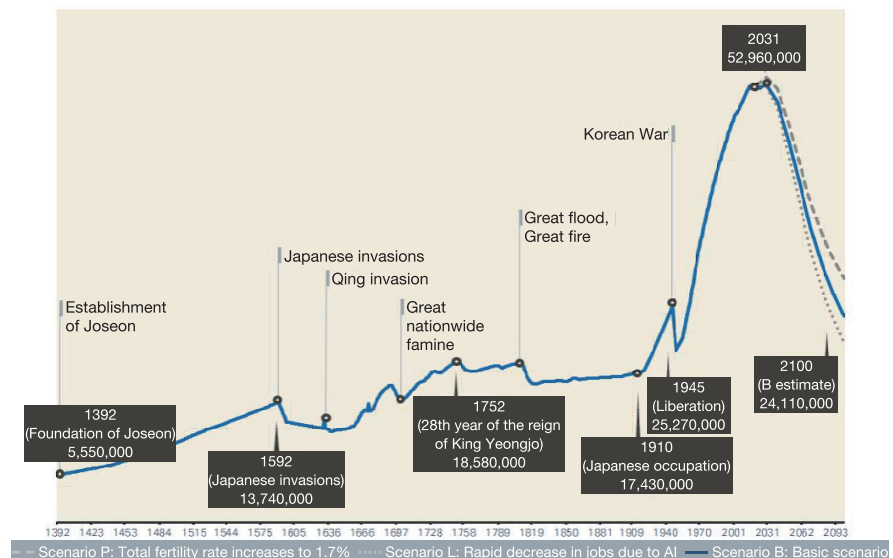


Figure. Population estimates from the Joseon era until 2100

Not only the size of population but also the structure of population is dramatically changing. The working age population, which is the basis of tax revenue, has been decreasing since 2017, but the aging population, which is a major factor of tax expenditures, is rapidly increasing. The high ratio of supporting the elderly exacerbates the tax burden of citizens and worsens the financial integrity of local governments. The worsening of local governments' finances causes shrinking and paralysis of public services, which brings about an outflow of working age population functioning as a mechanism that accelerates the extinction of local communities. The case of Yubari, Hokkaido, Japan, which went into bankruptcy 10 years ago due to the aggravation of financial conditions and decrease in population, directly shows the vicious circle of the decline phase of city “decrease in population → aggravation of financial conditions → paralysis of public services.” The financial aggravation of local governments brings about the paralysis of public services, so the number of schools decreased from 17 to 3, leaving only an elementary, a middle and a high school. The municipal hospital was reduced to a municipal clinic, and such departments as surgery, ophthalmology, gastrointestinal internal medicine and otolaryngology were removed, leaving only 5 doctors and 19 beds from 200. There is increasing necessity of public private partnership that can maximize uses the planning ability, capital strength and operation ability of private entities as an alternative of local governments' financial aggravation and shrinking of public services. Public private partnership urban restoration (PPP Type urban restoration) does not transfer ownership of common property unlike privatization, but transfers the right of using it to a private entity for a certain period of time.

The PPP Type urban restoration in this study is defined as a process where a public administration body and a private subject take responsibility and risk based on contracts and implement result-oriented goals for a self-supporting urban restoration business using the private entity's creativity and capital. The PPP Type urban restoration business establishes non-profit public facilities provided by the administration body as public services and profitable private facilities in the common property, and the personnel expenses and operating expenses of non-profit public facilities are paid by parts of the profitable private facilities' profits. In general PFI Type urban restoration businesses, the administration completed planning tasks, and the main body of operation of the businesses planned by the administration was outsourced to the private entity. However, in PPP Type urban restoration business, the whole process of <plan-investment-design-construction-operation> is done integrally, so that the consistency of business can be enhanced, and business expenses and the business period can be reduced. Unlike PFI Type led by public sectors or conglomerates, PPP Type businesses allow small and medium-sized local businesses to be a main body of business. In addition, unlike PFI

Type which causes government's tax or citizens' use fees for non-profit public facilities, PPP Type businesses do not use either government revenue or citizens' expenditure, but cover operation fees by parts of the profits of profitable private facilities, so they do not aggravate the burden of local governments to provide public services. This research found 45 available idle properties with high feasibility. Pieces of land, roads and rivers by the cooperation of Jeollabuk-do Province are hard to become the objects of PPP Type restoration. The majority includes 13 close-down schools and 9 railway facilities such as stations. Because over 60% are decrepit facilities over 30 years old, there is safety problems or excessive operation expenses. Shiwa Chuo, Iwate Prefecture successfully restored neglected common property land using a PPP Type urban restoration method. Ogar Shiwa Corporation became the ppp agent, which is a representative of Shiwa Chuo, and integrally led the whole business including maintenance of a public facility from planning to design, construction and operation. By the profits from private profitable facilities, the public facilities were maintained without the actual financial burden of the administration. For risk management, tenants of private profitable facilities were designated in advance, so the total rental fees were decided, and the dimensions of the facilities were determined within the scope of the profits. The Ogar project held approximately 90 presentation sessions between 2007 and 2008 to explain the characteristics and merit of the project to the residents fully. The business period of planning tasks was around 2 years, but the operation period of Ogar Plaza was about 30 years, and the lease period was about 32 years, so the private entity could plan and operate business from a long-term perspective. The method of returning the private profits to the public was the rental fees of the common property, and Shiwa Chou receives approximately 3,478,000 yen (total of 110 million yen for 32 years) each year, vesting in the general account.

The business implementation process of PPP Type urban restoration can be classified into the 4 steps of business plan, selection method plan, selection of entrepreneur and implementation of business. An important part of the business implementation process is public private discussion should be official. Currently, many contracting-out businesses contact private subjects through unofficial channels to induce competent private subjects' participation, so there is a lot of controversy over the government's favoring certain businesses and controversy regarding fairness. It is necessary to open information of the administration to the public for as many private subjects as possible to participate and to have constant discussion on methods to improve business value through public private communication channels out of the administration rather than inside of the administration. Because the PPP Type urban restoration is the method where risks and results are shared by public and private entities as partnership, whose operation principles are totally different, it is sometimes compared to 'marriage.' When

private and public entities directly face each other as business partners, misunderstanding and conflict could be acute, so in Japan, there are cases that adopt PPP agents as intermediate organizations that can understand both parties, have low rigidity and pursue public interest. In current urban restoration programs, the main agent of the business plan and the main agent of business operation are not consistent, so often times, excessive business expenses and the size of buildings are estimated, or businesses on which actual demand is not reflected are implemented. The maintenance of buildings costs 4 to 5 times more than the construction of buildings in common property restoration business. If a business without enough demand research is implemented with excessive dimensions and budget without consideration of the above facts, the maintenance costs incurred in the future will become debts of the local government accelerating the paralysis of public services. It is important ①to establish optimized use for business through demand research while the implementation bodies that will operate the actual businesses participate from the beginning of the business by making a planning body and operation body correspond, ②to establish realistic business dimensions and budget with maintenance costs considered, and then ③to establish a business plan based on the above.

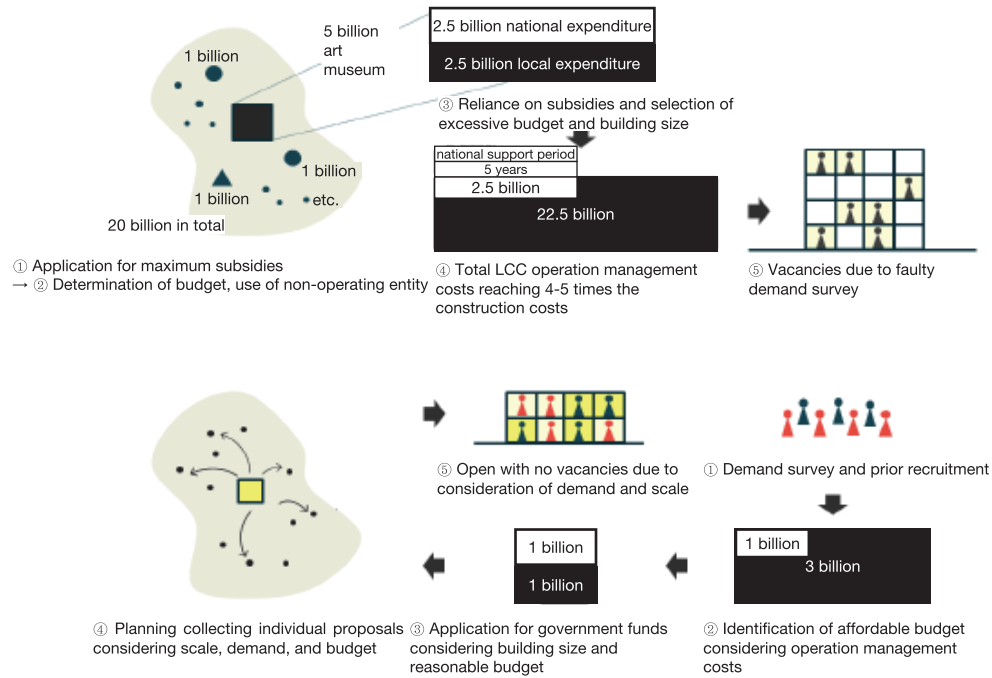


Figure. Example of proposal of urban restoration business structure considering PPP-type restoration of public real estate

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