

CHAPTER 7

A CITY-FOCUSED ECONOMIC DEVELOPMENT AGENDA FOR THE FEDERAL GOVERNMENT AND HUD

Retooling HUD
for a Catalytic Federal Government:
A Report to Secretary Shaun Donovan

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THE CHARGE

“... what our cities need isn’t just a partner. What you need is a partner who knows that the old ways of looking at our cities just won’t do, who knows that our nation and our cities are undergoing a historic transformation.”

President Barack Obama,
Outlining his “Metropolitan Strategy for America’s Future”
to the U.S. Conference of Mayors, June 21, 2008

During a presentation before the nation’s mayors on the campaign trail, President Barack Obama laid down a challenge to the Washington *status quo* when it came to cities: It’s time to rethink how the federal government supports and views American cities. Too long seen as a drain on resources, lacking in hope and opportunity, and bearing all responsibility for their failings, residents of urban America expect change from the new administration.

Candidate Obama rightly held cities up as the primary “building blocks” of the nation: Metropolitan areas account for 80 percent of the nation’s population and produce more than 85 percent of the nation’s wealth. However, the role that their core cities play in those regional economies varies widely.⁴⁷ To remain vital in a world where energy will become much more expensive, where global warming is a reality, and where competition takes place between city-focused regions in global markets, metropolitan economies have to become more than exit-ramp economies, places where the highest-valued economic functions are huddled around highway beltways. The future of oil-based transportation and oil-based regional labor mobility demonstrates how vulnerable “center-less” metropolitan economies will become. At the same time, leaving America’s historic core communities to be sandboxes for the poor and custodians of the nation’s social safety net denies the possibilities of renewing assets of land and people and connecting them to economic opportunity.

President Obama’s pledge to end the neglect of America’s metropolitan regions and his stated belief that the nation must “stop seeing our cities as the problem and start seeing them as the solution” represent a worthy goal and a considerable challenge for the U.S. Department of Housing and Urban Development (HUD). The new president and his administration must be positioned to make good on his promise to “rebuild and renew” the nation’s urban core communities as economically robust places to live and work. America’s core communities can be places of opportunity, value, and vibrancy. However, to achieve that vision of improved economic viability, these communities must also become places of safety, educational opportunity, and efficiency, with competitive costs and amenities. Restoring vitality to America’s beleaguered cities will require HUD, in partnership with other federal agencies, to address a variety of distinct but overlapping issues, from mitigating the effects of foreclosure, strengthening neighborhoods, and housing the homeless to supporting regional cooperation and championing a new urban form. This working group was charged with helping to craft a new urban economic development vision and action plan for HUD.

Real economic development investment for cities—defined here as efforts designed to facilitate the creation of goods and services, to make areas more economically competitive and viable, and to improve the income and job prospects of individuals—has been mostly absent as an explicit departmental policy objective. The purpose of this paper is to advocate restoring the urban development (the “UD”) function to HUD’s core mission.

⁴⁷ Edward W. Hill & John F. Brennan (2005) “America’s central cities and the location of work,” *Journal of the American Planning Association* 71(4):411-432

What is the rationale for federal involvement in economic development? There are two justifications that are broadly accepted, and there is a third practical reason. First, the federal government has an interest in improving the overall efficiency of the U.S. economy. This involves making investments that promote the productivity and wealth of the economy as a whole. The second is an equity consideration. Aiding lagging regions serves to stimulate structurally weak-performing regional labor markets, to better connect isolated places to the global economy, and to improve the earnings capacity of low-income individuals. The third, practical, reason is that the federal government can make large investments and internalize the return. It is a *de facto* source of capital, whereas many distressed cities cannot finance transformative projects.

The Department of Housing and Urban Development should take a primary role in making good on the President's promise of urban revitalization. The President's challenge and his decision to create a Cabinet-level White House Office of Urban and Metropolitan Policy represent an opportunity for greater reach, purpose, and effectiveness. The White House Office can be used as a tool for breaking down funding stovepipes and may provide a way to concentrate resources and efforts on revitalizing degraded assets. In fact, the mortgage and foreclosure crises, which have hit urban areas particularly hard, should themselves be seen as opportunities to reshape the urban landscape, accumulate and revitalize land, and reconnect isolated neighborhoods to broader regional economies. HUD's role in supporting regional economic development is to change the value of degraded land – getting core city locations into play as regional economic development assets.

There is a tension in our recommendations. The economy is regional, but HUD's traditional community development focus and tools should be used to help create selected neighborhoods of choice within the urban core. These neighborhoods can then become the basis for increasing the market share of regional economic activity and enhance the performance of the overall regional economy by providing residential choice and retaining young talent. In other words, HUD can help translate community development investments into economic development activity. This will require HUD to become involved in brownfield cleanup and land acquisition, to stimulate community building that uses anchor institutions and anchor amenities as building blocks of regionally competitive neighborhoods, and intentionally to provide linkages for low-income people to centers of regional employment. The goal of improving the market position of core city locations is to provide a center of jobs that is closer to the residences of modestly skilled workers and to improve the tax-paying and service-providing capacities of the city itself.

Any effort to revamp urban public policies as they relate to economic development must understand and address five challenges:

1. Investing in viable economic purposes for America's core communities.
2. Countering the profoundly negative impact that concentrated poverty has on revitalizing assets. To be blunt: Concentrated poverty deters investment, increases risk, and kills markets.
3. Responding to the need for investing in industries that use density as an asset and are poised for growth, such as new energy and environmental technologies and applications, as well as knowledge-using industries and business functions.
4. Supporting existing "anchoring" institutions, such as universities, hospitals, and major concentrations of skilled employment, and using "anchoring" amenities, such as waterfronts, downtown cores, and main streets to build neighborhoods of choice and diversity for both residents and businesses.
5. Connecting low-income people to regional labor markets and opportunity.

Specifically, there are six areas where HUD can play a pivotal role in supporting the economic redevelopment of the nation's urban core. These opportunities for greatest impact are:

1. Promoting green cities by investing in alternative energy technologies and increased recreational space.
2. Taking advantage of the opportunity that springs from the devastation of the foreclosure crisis to launch land-banking initiatives.
3. Reshaping cities around anchor institutions and anchor amenities.
4. Restructuring the Community Development Block Grant (CDBG) program to support economic development.
5. Providing the capacity for fundamentally restructuring the public finances of failing cities.
6. Working with the Economic Development Administration explicitly to tackle the endemic problem of brownfield cleanup and remediation, prioritizing the economic and transformative return from these projects. The Clean Ohio program can serve as a model.

The new HUD Secretary should create a framework for broadening the focus of the agency to assert itself in regional development issues separate from housing, understanding that there are two paths to an economic development function for HUD—a place-based economic development competition and an expanded block grant program.

OUR POSITION BROADLY

Over the past several decades, America’s urban core has changed in terms of function and specialization. However, urban policy has largely not kept pace with that changing landscape. Economic development policies must better reflect the different land-use and land-market realities and constrictions that challenge cities and put them at a distinct competitive disadvantage in attracting businesses and workers compared to their less-built-out competitors.

In general, there are two views on the importance of having core communities that are economically competitive. One view is that the core serves as an anchor or spark for economic activity that is distributed throughout the region. Regional economies are portfolios, or bundles, of goods and services. As products age, they attract competitors, margins decline, growth in sales slow, and employment and income growth stalls. The trick to having vital regional economies is to add new products and young businesses to the portfolio to counterbalance the negative impact of economic age and sclerotic performance. These new products are increasingly coming out of place-based anchor institutions – educational institutions, hospitals and their ancillary research operations, and private-sector labs. Additionally, site selectors are increasingly discovering that high-value-added portions of businesses are attracted to places that are locally thick in globally scarce talent. A good example of this is the decision made by Bridgestone Firestone to retain its product development and research facility in Akron, Ohio, rather than to move it to Nashville, where its North American headquarters is located. The decision pivoted around the importance of graduates of the University of Akron’s polymer chemistry program as a source of talent and the relationships that exist between the university’s graduates in the tech center and the College of Polymer Science and Engineering.

The other view regarding the importance of economically competitive core communities sees the core city as generating the image and infrastructure that enable regional economic function. Either view points to the need for strong cities at the center of regional economies. President Obama has highlighted this relationship in his call for strong regions, built on strong cities, built on strong neighborhoods.

There are five areas in which the development of metropolitan economies can be hurt by the social and economic decline of their core communities.⁴⁸

1. Core communities serve as hubs for many critical infrastructure systems on which the productive capacity of the entire metropolitan economy depends: air service, broadband and other telecommunication systems, rail and interstate highway freight systems, and, frequently, water and sanitary systems. Deterioration in public capital will increase operating costs across the region.
2. As the federal government has pushed the cost of supporting the poor to states and counties, central counties have been burdened with the increased fiscal cost of health care, education, and social service provision. This has increased the operating costs of firms located in these counties. There is a direct tie between the increase in local tax burden in providing support for the poor and the decreased competitiveness of urban county locations.
3. Increased operating costs will result in firms and people with means moving to avoid these costs. Operating efficiencies may be lost and labor markets may work less efficiently as a result. Additionally, city residents with limited transit access will become increasingly isolated from work opportunities.
4. In metropolitan areas, where local taxes play a large role in supporting public K-12 education (and at times higher education, as well), job sprawl and the resulting loss of fiscal resources will affect the future productivity of the workforce.
5. The physical condition of the core city will affect investment risk perceptions for the entire region and influence the ability of the region to attract talented migrants (both domestic and international) who have locational choice.

⁴⁸ See Edward W. Hill, Harold L. Wolman, & Coit Cook Ford, “Can suburbs survive without their central cities? Examining the suburban dependency hypothesis,” *Urban Affairs Review* 31 (2), November 1995: 147-174.

The “urban core” of far too many regions is either crumbling or under stress. This runs the spectrum from many of the nation’s aging, industrial cities to older urban centers and places dominated by deteriorated greyfields of 1950s and 1960s strip development. Special difficulties are encountered by those cities whose neighborhoods and former industrial sites have a core of concentrated poverty. There is a strong negative relationship between concentrated poverty coupled with abandoned land uses and the prospect of revitalizing land. In short, concentrated poverty drives out investment, wealth, and resources, thus making redevelopment difficult.

Concentrated poverty presents its own, self-reinforcing job-growth challenges. As the global economy has allowed low-skilled manufacturing jobs to move, employment options have dwindled for residents of the urban core, who tend to have lower levels of educational attainment and lack the job skills and readiness to access the high-tech and service-industry jobs of today’s knowledge economy. Additionally, as core cities have lost population—especially people with means—they also have lost population-serving employment. This disproportionately hurts modestly skilled individuals and young people who are attempting to enter the world of work. In too many neighborhoods in formerly industrial cities, the question is not, “Will we have a future of lousy jobs?” It is: “Will there be a future with any jobs?” In many of these areas, social service interventions have outpaced any real economic development investment.

The strategies presented here recommend a renewed and broadened focus for HUD. However, in its efforts to reorganize and reestablish itself as the champion of urban policy, the department should heed the two central messages that then-candidate Obama had for the nation’s mayors:

- The complex, wide-reaching challenges that are weighing down so many of America’s cities necessitate a collaborative effort uniting all levels of government and all appropriate departments.
- The fundamental path for change is bottom-up, not top-down.

HUD’s role in a new administration committed to urban revival should be to oversee and facilitate efforts that are initiated and carried out at the local and regional levels. Additionally, HUD needs to coordinate, leverage, and link resources in other federal agencies—Education, Labor, Transportation, the Economic Development Administration in Commerce, and, in some instances, the economic development resources of the Department of Agriculture. HUD has the ability to envision and espouse new urban forms, to fund and support local organizations that have the skills and knowledge of their particular community needs to enact change, and to provide serious evaluation of the effectiveness of programs. Think of HUD’s new challenge in terms of three Ls: learning, leveraging, and linking.⁴⁹

Over the years, HUD’s mission has devolved from its early emphasis on housing and transformative urban development. Views on the ability of federal government to stimulate economic activity are very different today than when President Johnson saw HUD as a key contributor to the Great Society. In the early 1960s, cities were relegated to service provision; real urban development authority frequently rested with the state through its investments in transportation and infrastructure. Today, cities are the primary champions of redevelopment, identifying needs, pursuing funding, and overseeing implementation. However, these efforts often boil down to structure-building, not community-building, partly because of the inflexibility and lack of coordination of funding programs. Today, more and more city leaders understand the interconnectedness of economic development, job training, education, transportation, and other activities in addressing the challenges of poverty, crime, and unemployment. A HUD charged with reinvigorating beleaguered cities must align programs to this reality and form bonds with other government departments to effect change in an era of tight resources.

ECONOMIC DEVELOPMENT AND HUD: A BIT OF HISTORY

Traditionally, HUD has been a major force in financing and stimulating real-estate-based development in America’s cities. Over the years, HUD’s development focus has shifted from Urban Renewal to Model Cities to CDBG to Urban Development Action Grants (UDAG).

⁴⁹ This is the subtitle that Dick Thornberg used in his article that summarized the National Academy of Public Administration’s review of the Economic Development Administration: “A path to smarter economic development: Learning, leveraging, and linking,” *Economic Development Quarterly* 12 (November 1998): 291-298.

A. Urban Renewal

The controversial Urban Renewal policy dramatically altered the urban landscape from the 1940s through 1970s by razing buildings, relocating residents, and invoking eminent domain in an effort to redevelop central cities. The economic activity sparked by Urban Renewal efforts came at a cost of urban sprawl, destroyed neighborhoods, and poorly utilized land. The controversy and legacy of Urban Renewal efforts should serve as a reminder that economic and community development do not necessarily operate in concert. HUD's mission today must be to develop strategies that revive the economic engine to revitalize communities, not destroy them.

However, we must also keep in mind successes from Urban Renewal, such as Philadelphia's Society Hill development. Society Hill is Edmund Bacon's well-designed transformation of Philadelphia's Dock Street food distribution district and adjacent collection of 18th and 19th century row houses into a vibrant, mixed-use neighborhood that anchors Center City's south side. It is a notable success of the original Urban Renewal program and an early example of the benefits derived from historic preservation. Additionally, Society Hill points to the importance of connecting both anchor institutions and amenities to a neighborhood-building effort to improve the core city's position in the regional economic development market.

B. Model Cities

As one of the weapons in President Lyndon Johnson's War on Poverty, Model Cities was a bold federal aid program to urban areas. Authorized in 1966, partly in response to criticisms of Urban Renewal efforts, the aim of the Model Cities program was to broaden HUD's mission and to better coordinate existing federal efforts to improve cities and to focus intently on low-income individuals and low-income neighborhoods. The program ended in 1974, after retreating from early goals of comprehensive planning and citizen involvement. The Model Cities program was replaced with CDBG program in 1976 under President Gerald Ford. The strength of CDBG is its bottom-up approach to meeting local service and investment demands of cities with low-income populations and was easily contrasted to the top-down approach of Model Cities. Although CDBG kept a strong focus on low- to moderate-income families and the neighborhoods they lived in and required low-income residents to participate in their communities, the role of city administrations came into ascendancy under the program. Although CDBG is the next program chronologically, it is HUD's longest-running program supporting cities with low-income populations. We reserve our comments about CDBG until a later section of this paper in which we discuss possible restructuring of the program.

C. UDAG

In the late 1970s, the HUD Secretary was given authority to distribute UDAGs to cities and urban counties that had demonstrated success in providing access to housing for low- and moderate-income residents, particularly minorities. UDAG was a supplement to CDBG. HUD awarded \$4.6 billion over 12 years (1978 to 1989) to approximately 3,000 development projects in 1,200 cities. Michael Rich concluded that one of the important benefits of the strategic orientation of the program was to transform "local economic development policy from one based primarily on a donor mentality that emphasized tax abatements and infrastructure improvements to a more entrepreneurial approach that emphasized the recapture of public funds."⁵⁰

The UDAG program was very large and did, in fact, allow cities to transform their core. Ultimately, however, UDAG proved to be a flawed model for urban economic development. The UDAG program espoused and funded the notion that the best way for central cities to compete with booming suburbs was by imitating parts of those same suburbs. In other words, it tried to replicate exit-ramp commercial and retail development in the core. What the program ignored was the attractive power of quality residential neighborhoods serving as the backbone of suburban America. UDAG funding resulted in a flurry of construction activity, enabling cities to build large-scale office and retail developments, often in the form of colossal high-rise towers, but these efforts did not transform the economic

⁵⁰ Michael J. Rich (1992) "UDAG, economic development and the death and life of American cities," *Economic Development Quarterly* 6(2): 150-172

environment of cities. The UDAG-supported projects did not have a goal of creating diverse downtown neighborhoods where people could both live and work.

D. Empowerment Zones

In 1994, the Clinton Administration supplemented CDBG with the Empowerment Zone (EZ) program, which allocated development resources to “highly distressed” rural communities, as well as to urban ones. Empowerment Zone designations, along with Renewal Communities and Enterprise Communities, allocated grants, business tax credits, bonding authority, and other benefits to communities of high poverty and high outward migration. The Empowerment Zone program is set to expire December 31, 2009.

Our working group panelists noted that the program’s competitive structure, designating two tiers of “winners,” promised benefits sufficient to hold together a Congressional coalition that supported the program. How successful was this program that largely used tax incentives and was tightly focused on job creation in distressed neighborhoods? The Empowerment Zone program was evaluated in a recent publication and commented on in another.

Busso and Kline compared EZ communities with similar neighborhoods that did not receive EZ designation.⁵¹ They concluded that EZ designation improved local labor market performance and resulted in increased housing values. They wrote that “it appears that the combination of tax credits and grants can be effective in stimulating local labor demand in areas with very low labor force participation rates...;” the impact “does not appear to have been captured by the relatively well off ... even young high school dropouts experienced improved labor market prospects ...; treated communities appear to have avoided large scale gentrification...” (pp. 29-30). The authors cited program costs ranging between \$1 billion and \$3 billion dollars.

In reviewing Busso and Kline’s work in a recent publication, Glaeser and Gottlieb applauded the quality of the work but cautioned against some of the interpretations of results after considering the cost of the EZ program.⁵² In particular, Glaeser and Gottlieb noted the findings that population in the EZs did not increase, that poverty rates fell by 5 percent, and that unemployment rates fell by 4 percent, compared to the control group, but that there was no appreciable increase in earnings. Using the high end of Busso and Kline’s cost estimates, Glaeser and Gottlieb concluded that the cost per job created was \$100,000. However, the public cost per job could not be calculated. Glaeser and Gottlieb concluded that place-based development policies were expensive ways to address poverty.

What is to be learned from the evaluations, including earlier work by Abt Associates and the Government Accountability Office? Business creation was low; firms moved into the zones to take advantage of the incentives. The value of housing increased, benefiting homeowners and costing renters, but gentrification was not a problem. Labor market outcomes were consistent with localized low-skilled markets that experienced an injection of demand. Unemployment rates dropped, young dropouts benefitted, but earnings remained flat. This is consistent with labor markets with weak demand and large supply that experience a demand shock. The caution is that the cost per job created is high, especially when compared to the wage earned.

The EZ program differed from the UDAG program in that the EZ program’s goal was to improve low-income communities as business environments by offsetting negative locational effects with cost subsidies and providing additional incentives to hire low-income neighborhood residents. The EZ program was not designed to change the economic base of the city itself. A major economic development question has not been answered: Can better labor market outcomes be achieved at lower cost by investing in developing higher quality, mixed-income neighborhoods that are connected to anchor institutions, anchor amenities, or anchor nodes of employment? The hypothesis is that these competitive places will generate more work and better labor market outcomes for low-skilled individuals in population-serving and employee-serving occupations. Our review of the evidence to date is that connecting diverse competitive core-city residential neighborhoods to areas that meet HUD’s low- to moderate-income test, rather than

⁵¹ Matias Busso & Partick Kline (2008) “Do local economic development programs work?” Evidence from the federal Empowerment Zone Program, Yale Economics Department Working Paper No. 36. Available: <http://www.econ.yale.edu/ddp/ddp25/ddp0036/pdf>

⁵² Edward L. Glaeser & Joshua D. Gottlieb, “The economics of place-making policies,” *Brookings Papers on Economic Activity*, (Spring, 2008): 47-48. Available: <http://www.brookings.edu/economics/bpea.aspx>

attempting to steer major economic development into low- to moderate-income neighborhoods, may generate more jobs at less public cost and change the competitive position of the core city in the metropolitan economy.

THREE LESSONS LEARNED

The working group assembled for this policy briefing has identified six distinct but intersecting economic development roles HUD could play in achieving President Obama’s goal of restoring the vitality of the nation’s urban core. These opportunities were mentioned earlier in this report. The working group also identified three principles that an urban economic development strategy must embrace.

A. Visible support from the President is required.

If the goal of the new administration is seriously to restore the “Urban Development” aspect of the HUD mission, the department must break out of the narrowly defined focus it now finds itself in. It must reach out to other critical government partners to take a comprehensive, coordinated approach to reviving urban environments.

The Clinton Administration’s model for Empowerment Zones may be particularly instructive as a guide for HUD’s renewed economic development function, especially given President Obama’s stated plan to elevate urban policy to a position in the White House. A lesson taken from the Empowerment Zone program is the need for a high-ranking champion who can unite various government departments and break down the stovepipes. Departments with intersecting roles often wrestle with conflicting mandates. During the Clinton Administration, Vice President Al Gore served as that champion, imparting prestige and presidential authority to the effort.

Similarly, President Obama’s choice to create a White House Office of Urban and Metropolitan Policy telegraphs a level of importance. Exactly how important will be gauged by the authority and weight of the person who holds the position. The Office of Urban and Metropolitan Policy should become the “fulcrum” for leveraging change, breaking down rigid departmental barriers, and demanding that HUD, Commerce, Transportation, Labor, and all other appropriate departments work together toward a new vision for urban America.

B. Doing things differently: Interagency coordination and cooperation is needed.

Other departments of the federal government do perform economic development functions. Unlike HUD’s constrained and watered-down economic development focus, the Economic Development Administration (EDA) in the Department of Commerce is relatively efficient and effective at assessing the potential value of proposed development efforts and distributing the funding necessary to make them happen. The EDA’s economic development mission has not been constrained by the income levels of the neighborhoods targeted for investment.

It may be helpful to explain exactly how we are defining economic development. The purpose of economic development is to create a set of goods or services that can be sold or traded outside of a metropolitan area. The EDA and the Manufacturing Extension Partnership, a program of the National Institute for Standards and Technology, tend to focus on this aspect of economic development. Economic development may also describe efforts to improve the competitive market position of metropolitan areas within regions. The former Urban Development Action Grant program attempted to help communities with this economic development function. Economic development efforts may also be targeted toward improving the income and job prospects of people who are isolated from the labor market. This traditionally has been, and rightly should be, a mission of the Department of Labor. The Secretary should make it HUD’s objective to focus on the second function—improving cities as competitive markets—to help provide demand that stimulates the third function of economic development, improving income levels and job prospects of citizens.

The only way to improve the lives and prospects of low-income workers and families is to restore economic vitality to the communities in which they live. Building better roads and more off-ramps is an element of economic development, but such activity will not achieve President Obama’s stated goal of promoting “strong cities as the

backbone of regional growth.” Constructing off-ramps and roads so that businesses can relocate farther outside the central core does little to improve the lives of low-income workers who lack cars or other transportation options to access jobs outside their neighborhoods.

Investing in job skills and transportation must go hand-in-hand with economic development investments to help beleaguered cities transform themselves into competitive locations that will be attractive to businesses and individuals. This insight points to the fact that, even with a renewed emphasis on economic development, HUD acting alone cannot achieve President Obama’s vision of strengthened cities. HUD must reach out to other government departments pursuing urban strategies in order to bring about lasting change.

There is important work to go around for all departments. Although a HUD with a reinvigorated economic development function would overlap some of EDA’s work and reach, HUD and EDA should not see themselves as competitors, but as valuable partners in helping the nation’s cities overhaul and fine tune their economic engines.

C. All core communities must see relevance.

The brilliance behind CDBG is that all communities have benefited, and large parts of Congress have an interest in its continuance. The lesson drawn from this success is that HUD’s economic development role should not be confined to serving just the needs of the nation’s older, industrial cities. However, there must be acknowledgment and understanding that many cities have lost function, are weighed down by a shrinking or dead industrial base, and will not be able to achieve economic recovery without the tools, guidance, and support necessary to deal with land-use challenges presented by the physical remnants of an industrial past and a damaged fiscal base resulting from declining property values. Therefore, the spectrum of interventions needs to be broad.

The Empowerment Zone program became a reality because the designations allowed many cities to benefit, and a Congressional coalition interested in their success was formed. The funded planning process provided knowledge and strategies for all participating communities and two levels of benefit—from the smaller number of better-financed Empowerment Zone Communities to the more numerous, but less richly funded, Enterprise Zone Communities. Competition allowed for targeting around desired federal outcomes.

RECOMMENDATIONS

Recommendation 1: Building diverse core neighborhoods around anchor institutions and anchor amenities.

HUD’s economic development role must be focused on helping make cities competitive within their own regions. Competitive cities today and in the future will become increasingly attractive when high fuel prices reassert themselves and global-warming concerns have greater influence over where people choose to live, work, and play. However, these cities must be safe and child-friendly to be economically sustainable. Beginning in the 1950s, cities were dramatically shaped by and heavily dependent on highway patterns. Economic opportunities repeatedly sprang up and grew along highway exit ramps. Urban sprawl, fueled by cheap oil and energy, emptied cities of jobs and people and led to communities of lower density. As a result, many central-city neighborhoods were left virtually isolated from opportunity.

In returning to, and expanding on, its urban development mission, HUD must learn from earlier failed experiments at city building. It should set its sights on envisioning a new theory of city building that is both flexible enough to allow urban areas in varying stages of growth and distress to address their specific needs and be focused enough to provide real guidelines for fundamental economic transformation. HUD must use its prominent role and its grant-making authority to discourage cities from throwing money at their weaknesses and, instead, encourage a master plan of urban rebuilding designed around unique strengths.

People tend to locate where they find economic opportunities, see attractive amenities, feel safe, deem the educational services available to their children acceptable, and trust that their housing choices will be rewarded with appreciating value. Those location criteria have not changed. The challenge to HUD, the new Urban Policy Director, and to all other relevant government departments is to envision and create a new urban form that allows cities to compete with

suburbs and exurbs as desirable residential and business options. That new urban form is not the traditional, dense, monolithic city. Focusing on creating many dense, safe, inviting neighborhoods that develop around their individual strengths and personalities will reposition the nation's urban areas to compete and win in a world with much more expensive fuel.

Cities need help to define and assess their anchor institutions and anchor amenities and to understand how economic growth can be built on these foundational assets. Institutions of higher education, hospitals, large corporations, and distinctive recreational experiences are examples of these anchoring elements. HUD's economic development funding should support cities in their efforts to build diverse, dense, and dynamic residential neighborhoods that link to these institutions.

The consequence of failing to truly transform the nation's urban landscape and to build a live-work core city neighborhood is clear: people tend to start businesses where they live. If no one lives downtown, business starts will be few. Businesses also spring up near unique talent pools. Until cities begin to focus more on the kinds of experiences and opportunities that attract these pools of talent, other business attraction efforts will likely fail.

Examples of successful anchored redevelopment include:

- West Philadelphia's "Penntification," which refers to the University of Pennsylvania's lead role in remaking the area once infamous for violent, destructive clashes with police into an inviting home for young professionals and families.
- Wooster, Ohio's involvement in the National Trust's Main Street program. As a result, storefront occupancy rates rose from 40 percent to 95 percent.
- Seattle's combination of small-scale, green, walk-able neighborhoods connected to either work or water.
- Portland, Oregon's dedication to transit-oriented development, with careful attention being paid to urban design.

Members of the working group envision a continuum of development activities targeted toward cities, beginning with linking Main Street programs to housing preservation programs at the low-cost end of the spectrum and extending to activities that link land banks to anchor institutions and amenities to relearn the lessons that Ed Bacon taught in Society Hill.

The role for HUD is to alter its traditional focus on neighborhood and community development so that neighborhood development serves as the springboard for economic development by improving the competitive position of core communities in their regional economies.

How does creating the next Society Hill in Philadelphia or Queen Anne Hill in Seattle change the life chances of low-skilled residents? It does so indirectly, as happens so often with market-based approaches to change. In weak-market central cities, the largest collection of low-skilled and semi-skilled jobs remains in the urban core. In cities with strong cores, such as Chicago, Seattle, and Washington, D.C., the working poor are moving to the edges of the metropolitan area in search of lower cost housing. The best way to expand employment for those with limited skills is to expand the pool of jobs serving higher-density city neighborhoods that combine places to work and live. If these "anchored" neighborhoods are connected to the rest of the city through public transit, spin-off jobs are created. The power is through linkages that exist between the anchored neighborhood and lower-income neighborhoods in the city. The power of place is magnified if housing is made available to lower income families as an intentional attempt to create income diversity in the anchored neighborhood.

Recommendation 2: Restructuring the Community Development Block program.

President Obama's intention of championing an urban policy presents an opportunity to revitalize the urban development arm of HUD. In name, HUD continues to be in the urban development business. However, all appropriated urban development money is currently channeled through Community Development Block Grants. CDBGs are, as the name implies, focused on community- and neighborhood-building activities.

The CDBG program, as one of HUD's longest-running development efforts, provides flexibility in responding to a wide range of development needs. Cities automatically qualify for CDBG funding if they have populations greater than 50,000 under two formulas, one which favors rapidly growing cities with low-income populations and expensive

housing and the other which favors cities with older, deteriorated housing stock and low-income populations. The 1978 reauthorization of the program set aside 30 percent of CDBG funding for states to allocate to rural areas.

During the Reagan Administration, the CDBG program changed its practices. Instead of requiring communities to apply and justify need in order to access funds, the program became one in which communities were guaranteed money, needing simply to account for how it was spent. This procedural change essentially shifted the focus of the program from funding strategic community development to supporting more neighborhood-oriented tactical projects, effectively diminishing HUD's urban development mission.

By law, the CDBG program has three mandates: eliminating slums and blight, meeting the needs of low- and moderate-income people, and responding to urgent community needs. However, one requirement – that funds be spent in low- and moderate-income neighborhoods – seems to trump all others. This may be a worthy policy goal, but it is a mandate that effectively prevents HUD dollars from going toward large-scale development projects that offer the potential of transforming and reinvigorating cities. Such a mandate focuses spending on neighborhood and community development, not on transformative economic development. And it prevents other important challenges from being addressed.

For example, many urban communities in the Northeast and Midwest face issues of environmental justice. They need help in cleaning up brownfields and addressing other challenges from their industrial pasts. Cleaning up environmental contamination where a responsible private-sector investor cannot be found should be considered an eligible CDBG activity under the elimination of slums and blight mandate – even if the low- and moderate-income requirements are not met. The old UDAG program did, in fact, support environmental cleanup and other industrial activities and allowed for land banking.

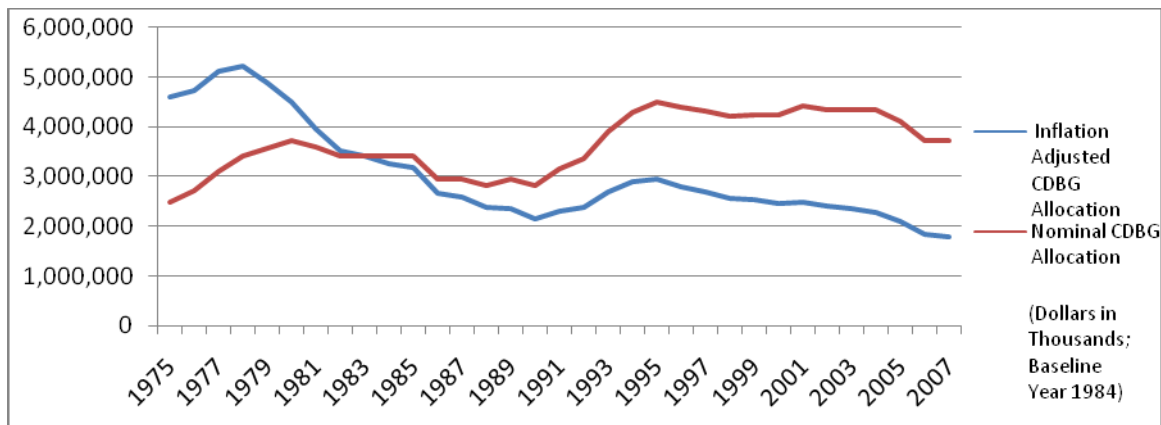
Over the years, CDBGs have devolved due to the lack of funding to the point that they are now less vehicles of urban development than tools of attempted fiscal equalization. Currently, communities allocate CDBG dollars toward job training and other workforce readiness activities. Funds are used in neighborhood development efforts – focusing on housing, storefront renovation, and social service provision. Some cash-strapped cities even put the money toward shoring up deficits in operating budgets, including public safety. CDBGs also provide cities with funds to address social service needs, but, in reality, most provide little investment in the kinds of activities that can improve economic function, dramatically change urban landscapes, and provide a competitive business or residential environment. They do not represent an investment in the capacity of core communities to compete for market share in a regional economy.

We do not recommend changing the way cities currently apply CDBG dollars, nor do we recommend reducing the current CDBG funding levels. Cities rely on that money for vital functions. Instead, the Secretary should recognize that HUD's community development mandate must be viewed as three distinct, yet intersecting, objectives:

- Social service delivery and job training,
- Fiscal equalization, and
- Economic development.

Each deserves its own block grant, and each needs its own formula for funding.

We strongly believe that bolstering HUD's economic development function cannot be at the expense of the other two community development functions. Funding for the kinds of economic development investments that may help cities reinvigorate their economies must be made from additional, or "new," money. That is, an expanded HUD appropriation needs to be specifically targeted toward urban economic development investment. As can be seen by the following chart, appropriations for CDBGs have declined dramatically over the past 30 years when adjusted for inflation.



Given the drop in the inflation-adjusted value of CDBG expenditures, it is easy to see how the pressures of meeting immediate fiscal and service needs have caused American cities with stagnant tax bases to allocate funding toward their operating, social service, and neighborhood stabilization budgets. Additionally, the focus of CDBG on low- and moderate-income residential neighborhoods has limited the opportunity for genuine economic development investments.

Economic development professionals have raised a number of issues about their ability to use CDBG funding for economic development purposes. These professionals consistently cite three problems in using CDBG funding as a tool to improve the competitive position of core cities in the market for business locations: tight targeting of benefits to low- and moderate- income individuals, the perception that the Section 108 loan program does not work, and the view that the Brownfield Economic Development Initiative is dysfunctional. We comment briefly on each concern.

HUD requires that 70 percent of CDBG funds be used to “benefit low- and moderate-income persons, and that the grantee will affirmatively further fair housing.” Additionally, the property acquisition guidelines state that real property can be acquired if it “will be used for an activity the benefits of which are available to all residents in a particular area that is primarily residential, and at least 51 percent of those residents (or fewer if exception criteria apply) are L/M [low or moderate] income persons.”⁵³ The same low- to moderate-income targeting applies to property acquired as an economic development activity: “the property acquired is to be used for an economic development project that will create or retain permanent jobs at least 51 percent of which will benefit L/M income persons.” The complaint among economic developers is that the target that 51 percent of the beneficiaries be low- to moderate-income rules out projects in which numerically more low-income individuals stand to benefit, but low- to moderate-income individuals do not constitute 51 percent of the beneficiaries. The secondary observation is that projects with the highest employment and income benefit potential for low-income workers are more likely to be outside of low-income neighborhoods.

The consensus among economic development professionals is that CDBG is aptly named; it is a community-development program and not an economic-development program.

HUD offers Section 108 loan guarantees to CDBG entitlement communities. HUD states that Section 108 is a source of financing for “economic development, housing rehabilitation, public facilities, and large-scale physical development projects.” HUD claims that Section 108 loan guarantees are among “the most potent and important public investment tools that it offers to local governments.” Economic developers say, “Not so.” Section 108 is a credit enhancement, allowing local governments to borrow funds and guarantee the loans by pledging current and future CDBG allocations as security against loan default. HUD notes that there have been no defaults to date.

The problems raised by economic developers are that the underlying security remains a loan and is not equity or funds that can be used to write down an investment; the location of the investment still must meet the low- to moderate-

⁵³ Community Development Block Grant Entitlement Communities Grants. Available: www.hud.gov/offices/cpd/communitydevelopment/programs/entitlementcommunities
State Community Block Grant Program, Categories of Eligible Activities, Page 2-8. Available: <http://fhadirect.hud.gov/offices/cpd/communitydevelopment/library/stateguide/>

income criteria where there frequently is not a market for the project; and the deal offered to local officials is Hobbesian. In other words, communities can pledge their future CDBG funds to get a development project, but if the project fails, then future social and community development services supported by CDBG allocations will be lost.

One working group member interviewed stated that only 8 percent of CDBG funds are used to support economic development projects and that these are not done by entitlement communities but by state CDBG programs. If there is a market test that demonstrates the utility of CDBG in supporting economic development, CDBG has failed that test.

The third area of dissatisfaction among economic development professionals is the ability to use CDBG to clean up brownfields. HUD offers the Brownfields Economic Development Initiative (BEDI) and suggests that it be used in conjunction with the Section 108 loan guarantee program. BEDI grant funds are designed to assist with the redevelopment of abandoned, idled, and underused industrial and commercial facilities “burdened by *real or potential* environmental contamination.” The program is targeted toward “the redevelopment of brownfield sites in economic development projects and the increase of economic opportunities for low- and moderate-income persons as part of the creation or retention of businesses, jobs and increases in the local tax base.” HUD “does not encourage applications whose scope is limited to only site acquisition (i.e., land banking), where there is no immediately planned redevelopment.” The stated purpose of the program is to “spur the return of brownfields to productive economic use...”⁵⁴

There are several reasons for economic developers’ frustrations with the program. (1) Companies typically do not want to wait the multiyear periods needed to obtain the land, apply for funding, and clear and rehabilitate the site. The end-user requirement is a major hurdle. (2) The low- and moderate-income targeting requirement as currently interpreted is a significant problem. (3) Not all problematic properties pose environmental hazards. Economically obsolete and dangerous properties (also known as greyfields) should be eligible. And, (4) the link to the Section 108 loan guarantee program to get to scale is viewed as a deterrent.

Brownfield remediation is expensive and difficult to accomplish under current HUD rules. Above we mentioned that such remediation should be eligible under CDBG rules. However, we assert that this is a substantial problem, going beyond the scope of one agency, and should be the subject of a joint HUD-EDA grant program modeled after Clean Ohio’s brownfield revitalization and assistance programs, with similar rules for fund allocation.⁵⁵ We suggest that both brown- and greyfields be tackled and that land-banking be encouraged. Economic regeneration can take anywhere from 10 to 20 years, but it cannot begin without a stock of available land.

We understand why requirements against land-banking are in place in an era with scarce resources. We understand that providing incentives to cities to take over failed properties can be the gateway to corruption and pettifogging behavior at worst and overpayment at best. However, in cities that are experiencing population loss and that have a surplus of housing and seriously degraded land uses, land-banking and land remediation are necessary preconditions for recovery and revitalization.

These negative comments are intended as an assessment of CDBG’s utility as an economic development program. They are not intended to denigrate the importance of CDBGs as a source of revenue for core communities and cities with large low-income populations. As one of our working group members wrote: “[CDBG] money is still being used for community development purposes by and large but mostly for a bunch of projects, not much connected to a strategy, and mostly driven by councilmanic pressures. In most cities, if CDBG were to disappear, most all of the things funded would **NOT** be funded with local funds, [which is] the key tip off that these funds aren’t displacing local funds.”

As such, we have a number of recommendations for revamping the CDBG program:

- HUD must undertake a serious review of the rules that have accreted around its programs.

⁵⁴ Brownfields Economic Development Initiative (BEDI) <http://hud.gov/offices/cpd/economicdevelopment/programs/bedi/>

⁵⁵ The rules are on the program’s Web site http://clean.ohio.gov/BrownfieldRevitalization/Documents/CORF_Round6_Final.pdf and http://clean.ohio.gov/BrownfieldRevitalization/Documents/FinalCOAFPolicies_12082008.pdf

- Any economic development block grant requirements should focus on linking low- and moderate-income individuals to work. If current requirements to spend CDBG funds in low-income and moderate-income neighborhoods were applied to an economic development block grant, the funds would be ineffective.
- The Section 108 loan guarantee program does not work. The need is for transformative investment in land. This will involve land-banking, tackling both brownfields and greyfields, and leveraging federal, state, and local funds.
- Planning money is required to make any economic development block grant effective, as are multiyear funding commitments.

Recommendation 3: Fiscal restructuring of failed cities.⁵⁶

Federal, state, and local governments can help reconnect distressed central cities to their regional economies, but only as long as there is sufficient political will to do so. The proposals offered here are so disruptive to the redistributive local politics existing today in cities with failed fiscal systems that initially they will be adopted by cities only in response to a severe municipal crisis.

Hill and Nowak proposed a voluntary three-part mechanism for reconnecting distressed central cities to their regional economies:

- Long-term restructuring and lowering of municipal taxes.
- Careful examining and strengthening of public administration and management.
- Developing procedures and funding for the assembly of land and renewal of infrastructure.

Together, federal, state, and city governments can craft a package of reforms that immediately benefit severely distressed urban municipalities. This reform package would create an economic environment that supports private-sector productivity and, through productivity enhancement, creates jobs. The mechanism for change requires a combination of tax cuts, public-sector managerial reforms, and new financing for land assembly.

Distressed cities cannot undertake these reforms on their own. They need both political and fiscal freedom to change the usual way city business is conducted. Meaningful reform will take place only with the aid of a powerful outside agent, working with a tough operating agreement, that will give local politicians someone else to blame for the necessary, painful restructuring. The federal government’s major role is to make up for revenue shortfalls over a 10-year period, as cities radically reduce their tax rates to create an environment in which they can re-establish the value of their assets and assure a competitive future.

The effort must be led and coordinated by the domestic equivalent of the International Monetary Fund. Wherever it is located, the agency must be able to execute a rigorous operating agreement with the participating city and its state government. The agreement must have clear sanctions, including an end to federal participation in the city’s fiscal reorganization if the city or state does not fulfill its commitments.

Step One: Reforming the Tax Structure

The rescue effort begins with radical municipal tax reform, with the federal and state governments making up for revenue shortfalls for 10 years. That 10-year window gives tax reform a chance to succeed and gives the private sector a chance to grow. It also allows the city to make staffing reforms without having to ask public employees to bear the entire burden of reconnecting the city to its regional economy.

Real estate developers and businesses will not respond immediately to tax reform, even if tax rates are radically lowered. Time is needed to assemble, clear, and retitle an inventory of marketable land. Businesses will need time to understand, and believe, the changes that are taking place, especially in the way cities are administered. The increase in local tax revenue triggered by the full package of reforms is not likely to be evident for three to five years.

⁵⁶ Adapted from Edward W. Hill & Jeremy Nowak, “Nothing left to lose: Only radical strategies can help America’s most distressed cities.” *Brookings Review* (Summer, 2000). Available: http://www.brookings.edu/articles/2000/summer_cities_hill.aspx

Step Two: Reforming Public Administration

A management improvement task force should review city operations to learn which municipal products and services are genuinely necessary. The task force should also compare overall city staffing levels with those of other, similar-sized cities. Not all struggling cities have too many workers. Many cities face the problem that their workforce is too small and, after years of fiscal bloodletting, instability, and penury, is lacking in competent senior-level management. All distressed cities have dispirited, ineffective workforces, reflecting years of neglect in training, capital, and leadership.

After the task force identifies managerial holes in a city's bureaucracy, the state must make a commitment to fill them. Because the environment in the municipal workforce is often too risky to attract any but the most daring public professionals, the state may have to lend executives to the city for an extended period or allow newly hired professionals to move into the state's civil service system.

The task force should also analyze management practices, document the capital equipment required by the work force, and describe the skills and training required to carry out tasks. Employees and their unions should be included in these reviews, for they know more about how their jobs are, and can be, performed than anyone else. Few workers want to come to work and do a terrible job.

Another administrative issue is possible public-sector corruption. Often, what appears to be corruption is in fact incompetence, or the reaction to it, as people try to get around a dysfunctional bureaucracy. But corruption can be real and can result from the breakdown of fiscal controls and inattention to or disruption of day-to-day management. The task force itself should address managerial breakdowns. A vigorous audit of city operations should deal with financial controls and corruption. Prosecutions, if required, should not drag on forever. Petty corruption should be handled administratively to allow city business to resume as quickly as possible.

Step Three: Banking and Assembling Land and Renewing Infrastructure

Distressed cities have collections of abandoned land that are liabilities, while newer suburbs have inventories of vacant land that are assets. To regain their competitiveness with outlying areas, which have only to clear and develop former farmlands, cities need to take title to abandoned urban properties, clear and assemble them into marketable parcels, and do so without lengthy and expensive court procedures.

This proposal is offered as the basis for a voluntary experiment with a new partnership between city, state, and federal governments. Fixing the real competitive disadvantages of distressed cities, outdated tax structures, broken political cultures, uncompetitive staffing levels, vacant and abandoned land, and an inappropriate array of public services will require radical experimentation and state and federal support. Cities cannot address their competitive disadvantages on their own. State and federal governments have to become partners with them in reform. That partnership cannot be based on old entitlement and categorical models of federal and state aid.

For too many cities, there is little left to lose and little time to spare. There is no use for cities with dysfunctional economies, and people will vote with their feet. Neighborhood and community development investments will fail if cities are not fiscally viable. Opportunity cannot take root in places that are disconnected from the world of work.

Too long seen as a drain on resources, lacking in hope and opportunity, and bearing all responsibility for their failings, urban America is right to hope for and expect change from the new administration. The new President and his administration must be positioned to make good on his promise to "rebuild and renew" the nation's urban core as economically robust places to live and work. Restoring vitality to America's cities will require reinvigorating HUD, renewing emphasis on urban development, and restructuring inflexible, isolated programs that fail to meet the complex needs of today's distressed urban areas. The strategies presented here recommend a broadened focus for HUD and a broader understanding of the many roles to play in crafting an effective and transformative economic development vision and action plan for America's cities.