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INSIDE:

2 — Message from the
Community Affairs Officer

3 — William Penn Founda-
tion Backs Innovative Regional
Strategies

6 — 10,000 Friends of PA Spot-
lights Design and Development
Excellence

7 — The Reinvestment Fund
Pursues Smart-Growth Agenda

8 — Smart Growth America
Highlights Partnerships of
Urban and Environmental
Interests

11 — Wharton Professor Asks:
Should Philadelphia's Suburbs
Help Their Central City?

13 — Delaware Valley Regional
Planning Commission Analyzes
Challenges in Older Suburbs

14 — Allegheny West Founda-
tion Is Catalyst for Brownfields
Redevelopment

Cities and Suburbs Need to Forge Alliances in Light of New Metropolitan Reality

By Bruce Katz, Director, The Brookings Institution Center on Urban and Metropolitan Policy

The release of the census results for 2000 created an almost euphoric mood among many long-time observers of American cities. Cities left for dead not long ago — Denver, Atlanta, Chicago — registered population gains. With visible signs of prosperity in refurbished downtowns and immigrants spurring neighborhood revitalization, many cities are enjoying a hard-won optimism. Yet a closer look at the census shows that the decentralization of economic and residential life, not the renewal of core cities, remains the dominant growth pattern in the United States and creates a "new metropolitan reality." This is particularly true in Pennsylvania.

Across the country, rapidly developing new suburbs — those built since the 1970s on the outer fringes of metropolitan areas — are capturing the lion's share of employment and population growth. During the 1990s, the suburbs of the 100 largest metropolitan areas grew 17.5 percent, more than twice as fast as their central cities. This pattern of decentralization is particularly apparent in slow-growth states such as Pennsylvania. Philadelphia, for example, lost 68,000 people in the 1990s, though its metropolitan area grew by 179,000. Harrisburg, the state capital, declined by 3,400 people, though its surrounding suburbs grew by nearly 45,000.

The rapid rate at which land has been developed in Pennsylvania is also indicative of the trend toward decentralization. Though the population of the Pittsburgh metropolitan area declined 8 percent between 1982 and 1997, urbanized land (areas with population of 1,000 per square mile) increased 42.6 percent during the same period. Similarly, in the Erie, PA, metropolitan area, a nearly 50 percent increase in total urbanized land occurred between 1982

...continued on page 5

Across the country, rapidly developing new suburbs are capturing the lion's share of employment and population growth.



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Message from the Community Affairs Officer

About three years ago, The Reinvestment Fund assembled a small group of people before the Metropolitan Philadelphia Policy Center released *Fight or Flight?* Jeremy Nowak made a pitch to each of us that we support the idea of smart growth and thinking regionally instead of the city versus the suburbs. In theory, I knew that smart growth made sense, but I also thought of all the personal decisions I had made over the last 30 years that were counter to principles of smart growth. To a certain extent, I was concerned that supporting smart growth was asking others to have less than I have.

Since that meeting, I have given a great deal of thought to smart growth and realized that controlling sprawl is possible only if cities or existing older communities can compete with the suburban areas. So on January 14, 15, and 16, 2004, the Community Affairs Department will host a two-and-a-half day conference that highlights how other cities are finding ways to com-

pete. We have great co-sponsors: the Brookings Institution, William Penn Foundation, Fannie Mae, Smart Growth America, Local Initiatives Support Corporation, Delaware Valley Regional Planning Commission, The Reinvestment Fund, and Funders' Network for Smart Growth and Livable Communities. We have also invited governors from the states in this Federal Reserve District and mayors from around the country to talk about regional growth and reinventing cities.

While we hope you will join us at the conference, we have dedicated this issue of *Cascade* to smart growth and reinventing older communities. We hope that it will pique your interest and that you will come to Philadelphia in January for a deeper discussion of the issues.



For conference details, see www.phil.frb.org/cca/conferences.html



The PNC Financial Services Group, Inc., built the \$120 million five-story 650,000-square-foot PNC Firstside Center on an abandoned railroad yard in Pittsburgh's central business district. About 1,500 employees work in this bank processing and technology hub for PNC's national operations. Opened in 2000, PNC Firstside Center is the largest building in the country to earn the U.S. Green Building Council's silver-level certification for leadership in energy and environmental design. (Photo credit: PNC Financial Services Group)

Foundation Backs Innovative Regional Revitalization Strategies

By Geraldine Wang, Director, Environment and Communities, and Andrew Johnson, Program Officer, William Penn Foundation

The William Penn Foundation (WPF) has increasingly focused on a single, albeit ambitious, outcome — improving the economic competitiveness and livability of the metropolitan Philadelphia region — a region in which decades of population loss and disinvestment have weakened the political, human, and physical systems of its older cities.

WPF's environment and communities program strives to protect and restore watersheds and related ecosystems, stabilize and revitalize communities while building on existing public-transit systems and other infrastructure, and promote smart growth and livable communities within the region. WPF defines smart growth as development that strengthens a region's assets and comparative advantage to create more robust, equitable, and sustainable communities.

WPF's approach recognizes the need to work across traditional disciplines and political and geographic boundaries to establish a balance between resource protection and development. Key to WPF's goal to "promote vital communities within a healthy regional ecosystem" is the belief that older cities have distinct assets that need to be connected to the regional economy. And the region functions



The Left Bank, the \$58 million conversion of a vacant 700,000-square-foot seven-story building into 282 upscale apartment lofts in Philadelphia, earned a bronze award from 10,000 Friends of Pennsylvania. Originally a warehouse built by the Pennsylvania Railroad in 1929, the building is one of the largest properties on the National Register of Historic Places to be converted to residential use. A collaboration between developer Carl Dranoff and the University of Pennsylvania, the conversion includes offices for Penn's real estate staff. The AFL-CIO Building Trust Fund provided construction and permanent financing. (Photo credit: Barry Halkin)

ment, public- and private-sector leaders in the region must work together at a much higher level of sophistication and collaboration.

"Smart growth" may be part of today's vernacular, but it takes the

WPF defines smart growth as development that strengthens a region's assets and comparative advantage to create more robust, equitable, and sustainable communities.

within an increasingly complex and interconnected global economy. To compete effectively in this environ-

combined and coordinated efforts of lenders, developers, community organizers, policymakers, and grant

makers to make it a reality. While WPF is a long-time supporter of environmental protection and community revitalization, it combined these two previously separate funding areas as part of its 2001 strategic plan to underscore its integrated approach to supporting smart growth. As one of the region's largest philanthropies, WPF expects to make approximately \$20 million in grants in 2003 under this program.

An example of its integrated approach is WPF's land-acquisition

...continued on page 4

Foundation Backs Innovative Regional Revitalization Strategies

...continued from page 3

funding, which is intended to support watershed-protection objectives as well as smart-growth policy efforts. A recent WPF award of \$1.9 million to four New Jersey land trusts will help preserve natural resources in the Pine Barrens and Delaware watersheds in coordination with New Jersey's Development and Redevelopment Plan, which encourages growth in areas already served by existing infrastructure. Applicants that do not support environmentally sound land-use policies in the context of their land-protection efforts are unlikely to receive support for acquisition projects.

Likewise, WPF's revitalization efforts in the core cities of Philadelphia and Camden recognize the important role the environment

WPF's revitalization efforts in the core cities of Philadelphia and Camden recognize the important role the environment plays in building healthy communities in which people can live and work.

plays in building healthy communities in which people can live and work. WPF has been supporting a number of collaborative efforts in Philadelphia, including the Pennsylvania Horticultural Society's programs to reclaim the city's 21,000 vacant lots and revitalize its parks and commercial corridors; Fairmount Park Conservancy's work to improve and restore the city's more than 9,000-acre network of watershed parks, one of the city's great regional assets; and the planning and civic-design initiatives of the Central Philadelphia Development Corporation (CPDC) to enhance the city's downtown public open spaces

and corridors along the Benjamin Franklin Parkway and Vine Street Expressway.

Recent data indicate that the Philadelphia region has continued to lose population because it has not been able to attract new residents, suggesting that more aggressive efforts are needed to attract and market the region's assets. A grant to CPDC provided seed funding for a pilot neighborhood marketing effort to showcase the assets of six middle-income communities. The planning process involved several financial intermediaries, real estate brokers, government agencies, and nonprofits, with several newspapers donating advertising space.

In New Jersey, WPF supports a broad-based consortium of organizations through a grant to Isles, Inc., a Trenton-based community development corporation that from its inception has successfully integrated environment and development programs into its agenda. The consortium encompasses a diverse group, including smart-growth and other policy-oriented, faith-based, community-development, labor, and environmental organizations. This grant seeks to encourage efforts across the state to address the underlying causes of environmental and

Recent data indicate that the Philadelphia region has continued to lose population because it has not been able to attract new residents, suggesting that more aggressive efforts are needed to attract and market the region's assets.

urban decline that have exacerbated regional inequities.

WPF's support of an emerging alliance in Pennsylvania and the Philadelphia region is helping to forge strategic collaborations among unlikely partners, including advocates of housing, environmental protection, labor, and economic development. WPF's key partners in building these alliances are 10,000 Friends of Pennsylvania, the Pennsylvania Economy League, Pennsylvania Environmental Council, Citizens for Pennsylvania's Future, Housing Alliance of Pennsylvania, and The Reinvestment Fund.

A \$2 million grant to the Philadelphia Neighborhood Development Collaborative (PNDC), a funders' group composed of financial institutions, development intermediaries, and private philanthropy, is playing a key role in helping to manage change at a time of diminishing resources, where impact and outcomes are the main currency. "Building a New Framework for Community Development in Weak-Market Cities," a study produced earlier this year in conjunction with the Community Development Partnership Network, highlights the need for more targeted and coordinated regional-investment strategies that consider market dynamics and changes in systems.

WPF has also been working to more directly encourage networking and collaboration among both practitioners and funders. Beyond grant making, funders can add value by convening and participating in policy discussions. Funders' collaboratives such as PNDC can provide an effective vehicle to collectively advocate

for common objectives, pool and leverage resources, share information on best practices, and coordinate strategies.

In the end, community revitalization can succeed only if efforts connect to the "outside" game, where external forces affect the ability of both public

and private agencies to achieve real neighborhood change. Without regional collaborations, we risk investing in a zero-sum game.

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Cities and Suburbs Need to Forge Alliances in Light of New Metropolitan Reality ...continued from page 1

and 1997, although the population of the area remained virtually stagnant.

As people go, so do jobs. Suburbs are no longer just bedroom communities for workers commuting to traditional downtowns. Rather, many are now strong employment centers serving a variety of economic functions in their regions. Across the 100 largest metropolitan areas, on average, only 22 percent of people work within three miles of the city center. The Philadelphia metropolitan area, in particular, has become an "exit ramp economy," with only 16 percent of employment located within a three-mile radius of the city center.

Against this backdrop of social change and decentralizing oppor-

the 1990s. Some 48.7 percent of the state's welfare recipients reside in Philadelphia, although only 12.1 percent of Pennsylvania's population lives in the city.

What is behind these trends? Sprawl is a simple term but a complex phenomenon. Consumer preferences and market restructuring play critical roles. So do the varying quality of schools in a metropolitan area, the location of affordable housing, and the stratification of housing markets by race, class, and ethnicity.

Major federal and state spending programs, tax expenditures, and regulatory and administrative policies have also fundamentally

Federal and state transportation policies generally support the expansion of road capacity at the fringe of metropolitan areas and beyond, enabling people and businesses to live miles from urban centers but still benefit from metropolitan life. Tax and regulatory policies give added impetus to

Excessive governmental fragmentation gives local jurisdictions every incentive to compete against each other for new housing and economic activity.

people's choices to move farther and farther from urban centers. Excessive governmental fragmentation gives local jurisdictions every incentive to compete against each other for new housing and economic activity, a competition that clearly favors wealthy suburban areas with fewer fiscal and social burdens. Furthermore, major environmental policies make the redevelopment of urban land prohibitively expensive and cumbersome, increasing the at-

...continued on page 6

Urban poverty rates, while falling nationwide, remain twice as high as suburban poverty rates.

tunity, cities remain home to the nation's very poor, although cities are generally improving. Urban poverty rates, while falling nationwide, remain twice as high as suburban poverty rates. Philadelphia's poverty rate increased 2.6 percent during

shaped growth patterns in metropolitan areas. Federal and state policies, taken together, set "rules of the development game" that tend to facilitate the decentralization of the economy and the concentration of urban poverty.

Cities and Suburbs Need to Forge Alliances in Light of New Metropolitan Reality

...continued from page 5

tractiveness of suburban land. Other federal policies — on housing in particular — still tend to result in a concentration of poverty rather than enhanced access to opportunity.

It is clear that the decentralization of economic and residential life exacts significant fiscal and competitive costs. Older suburbs in Pennsylvania are now experiencing the same challenges that cities have struggled with for decades: failing schools, persistent crime, and the loss of jobs and businesses to other suburbs farther away. Rapidly developing suburban areas in every part of the country are finding that sudden growth has come with the heavy, unanticipated price of traffic congestion, overcrowded schools, disap-

pearing open space, and diminished quality of life.

In recent years, there has been a call for change in the "rules of the development game" to better address these problems. Ironically, many suburbs are leading the call for such reform, since they best understand that sprawling development patterns sap the strength of their communities. Many others — employers, environmentalists, conservationists, political leaders, and regular citizens — have become advocates for reform as well. These constituencies have led the call for "smart growth," a term that refers to a series of strategies intended to comprehensively manage urban and suburban growth and

alter the allocation and impact of government investments. The term smart growth also occasionally encompasses the removal of

barriers to the reclamation of urban land.

If urban revitalization is to be real and sustained, cities must be part of larger efforts to slow and promote urban reinvestment. They need to understand that sprawl has left in its wake the potential for common ground between cities and suburbs on a variety of issues. They need to reach out and forge new alliances with some or all of their surrounding suburbs — on infrastructure spending, regional governance, reinvestment, and affordable housing.

In short, urban policy cannot just be about cities or suburbs. It must be about the metropolitan reality that defines our economy and society and the larger government rules that help shape that reality. The time has come for cities to look beyond their own borders and forge new alliances with suburban communities.

For information, contact Bruce Katz at (202) 797-6277 or bkatz@brookings.edu; www.brookings.edu.

Rapidly developing suburban areas in every part of the country are finding that sudden growth has come with the heavy, unanticipated price of traffic congestion, overcrowded schools, disappearing open space, and diminished quality of life.

10,000 Friends of PA Honors Excellence In Design and Development

10,000 Friends of Pennsylvania, a nonprofit that promotes responsible land-use policies, recently announced its first Commonwealth Design awards to recognize "design excellence and responsible development in Pennsylvania."

Kathleen A. McGinty, secretary of the Pennsylvania Department of Environmental Protection, was

among officials who presented the awards at a ceremony in Harrisburg in October. A 10-member jury evaluated submissions according to such criteria as project location, site planning, building and landscape design, environmental impact, and innovative policies or financing.

Janet Milkman, president and CEO of 10,000 Friends, explained, "At the

same time that we work to protect farmland and open space, we also need to encourage sound development and put the 'growth' back in smart growth."

10,000 Friends gave a Commonwealth Award to the PNC Firstside Center in Pittsburgh (see photo on page 2), noting that the center "represents an

...continued on page 8

The Reinvestment Fund Pursues Smart-Growth Agenda

By Jeremy Nowak, President and Chief Executive Officer, The Reinvestment Fund

The Reinvestment Fund (TRF) is one of America's largest and most productive community development financial organizations. It is distinguished both by its investment productivity and its policy innovations.

Last year, TRF made more than \$57 million in new loans and investments in the metropolitan Philadelphia area. Those loans built more than 1,000 units of housing, provided 650 slots of child care, 2,200 new charter-school seats, and created more than 500,000 square feet of commercial real estate.

TRF has always approached its work within a regional-development framework. Along with being the principal source of development finance in many inner-city neighborhoods, TRF is also involved in identifying suburban affordable housing opportunities, linking urban workers to job opportunities throughout

the regional market, and supporting policies that encourage environmental sustainability.

For TRF, smart growth means three things: public and private investment policies and initiatives that recover distressed, usually older, physical, and community assets; mixed-income residential opportunities in both urban and suburban environments to break down the ghettoization of income and race; and an accessible regional labor market aided by concentrations of opportunity, quality transportation, and effective flows of information and support services.

TRF's commitment to smart growth can be seen throughout its regional marketplace — in major projects and new policy analyses. Here are a few examples:

- TRF worked with the Pennsylvania Economy League and

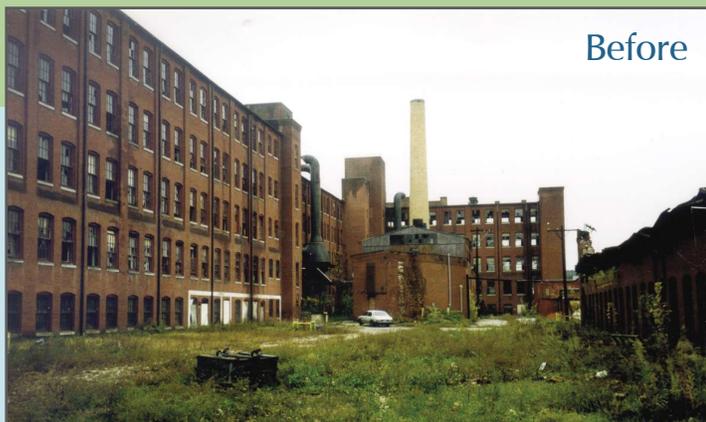
10,000 Friends of Pennsylvania to publish *Fight or Flight?*, the nationally award-winning analysis of metropolitan Philadelphia's predicament of decline and sprawl.

- TRF published *Choices*, an analysis of the regional housing market that demonstrated the need for both suburban affordable housing and market-rate residential developments in Philadelphia.

- TRF's real estate analysis for Philadelphia Mayor John Street contributed to the development of the Neighborhood Transformation Initiative, a major anti-blight program that seeks to make thousands of vacant parcels of Philadelphia into valuable assets.

- A similar analysis of Camden, NJ, real estate markets for the state of New Jersey and the Ford Foundation is contributing to Camden's recovery strategy.

...continued on page 8



Before



After

Conversion of a vacant Hanover Shoe Factory in Hanover, PA, into a mixed-use housing-commercial development received a bronze award from 10,000 Friends of Pennsylvania. Pennrose Properties, using federal historic tax credits, converted the 142,000-square-foot building, located on a 2.4-acre site two blocks from the town's center, into 70 apartments for older people and families, commercial space, the Hanover library, and a borough fire museum.

(Photo credit: (before) Stuart & Associates Architects, Inc., Lancaster, PA; (after) Pennrose Properties, Philadelphia)

The Reinvestment Fund Pursues Smart-Growth Agenda ...continued from page 7

These policy initiatives have been backed by real dollars placed at risk by TRF to catalyze market change in older cities in our region. TRF is the major lender behind some of the most dramatic examples of urban market change — in South Philadelphia, in East Camden, and in

the Brewerytown section of North Philadelphia.

Smart growth for TRF is about ideas and dollars — the risk of a new vision and the risk of loans and equity investments. It is a winning combination.

For information contact Jeremy Nowak at (215) 925-1130 or contactus@trfund.com; www.trfund.com

10,000 Friends of PA Honors Excellence In Design and Development ...continued from page 6

extraordinary example of integrating urban revitalization principles with strong public transportation conduits, existing infrastructure, site amenities, strong architectural design, materials and energy conservation.”

The nonprofit gave silver awards to the Avenue of the Arts project in Philadelphia and the Susquehanna Commerce Center in York. The urban design plan for the Avenue of the Arts project supports mixed-use development, adaptive re-use, and redevelopment of South Broad Street and illustrates how a community can

build on its assets. In York, the redevelopment of a historic building and brownfield site uses existing infrastructure and public transit, retains employment in the city, and helps revitalize the downtown.

Bronze awards went to the following: Canal Basin Park and Reiser House Visitor Center in Hollisdaysburg; Marshall Square Park Residences in West Chester; Millcreek in Lancaster; Mooncrest Neighborhood Revitalization Plan in Allegheny County; Southeastern Pennsylvania Transportation Authority’s rehabilitation of historic

stations; SouthSide Works in Pittsburgh; The Left Bank in Philadelphia; and The Residences at Hanover Shoe in Hanover.

10,000 Friends of Pennsylvania is a statewide alliance of organizations and individuals engaged in education, policy research, and advocacy to promote the revitalization of cities and towns and preservation of rural areas and natural resources in the Commonwealth.

For information, contact Janet Milkman at (215) 568-2225 or info@10000friends.org; www.10000friends.org.

Urban-Environmental Smart-Growth Partnerships Focus on Quality of Life

By Don Chen, Executive Director, Smart Growth America

On September 30, 2003, proponents of the San Diego metropolitan area’s rural lands initiative gained a powerful ally: the 120,000-member San Diego-Imperial Counties Labor Council. For many local observers, this endorsement came as a big surprise. For critics of haphazard sprawl and advocates of smart

growth, however, this was just the latest in a growing number of alliances between environmental and urban interests across the nation. The rationale for supporting the land-conservation measure was explained by the labor council’s secretary-treasurer: “If we keep expanding outward faster than population growth, our cities will

never get the resources we need to invest in decaying infrastructure in our urban neighborhoods, or to meet our families’ needs for affordable housing.”

So what is smart growth? And how does it engender such unlikely partnerships? Its origins lie in decades-old efforts to curb fis-

cally and environmentally harmful sprawl development, mostly through land-conservation and growth-management measures. But years ago, leaders began to realize that such efforts — while highly important — would not succeed without an equal push for the revitalization of older established neighborhoods, community economic development,

Smart-growth advocates partner with community development corporations or civic groups to encourage the efficient use of land in already built-up areas.

and affordable-housing production. This recognition is at the heart of all smart-growth strategies.

In practice, smart-growth advocates frequently partner with community development corporations or civic groups to encourage the efficient use of land in already built-up areas, such as old industrial sites (brownfields), vacant lots, abandoned buildings, and empty commercial spaces. At the federal level, brownfields redevelopment has enjoyed strong support from community development corporations, developers, realtors, and environmentalists alike. This broad support was largely responsible for the enactment of the Small Business Liability Relief and Brownfields Revitalization Act of 2002, which shields innocent

Interest in reclaiming abandoned buildings and vacant lots is rising.

landowners from potential liability associated with contaminated land and provides \$1.3 billion to states for assessments and cleanups.

Interest in reclaiming abandoned buildings and vacant lots is also rising. In July 2003, Smart Growth America and several partners launched the national vacant properties campaign with funding from the Fannie Mae Foundation, the Ford Foundation, and the U.S. Environmental Protection Agency. The goal of the campaign is to help localities rehabilitate properties that have been deserted and neglected, especially ones that pose public

health and safety threats, lower property values, and have the potential to provide badly needed housing. Already, a wide range of groups — from bankers and business leaders to fire chiefs and urban-park proponents — has signed on to the campaign. In the coming year, an expanding network of experts, practitioners, community activists, and other leaders will help communities tackle thorny issues such as title clearance, land assembly, establishing land-bank authorities and overcoming other rehabilitation barriers. For more information and to sign up with the campaign, visit www.vacantproperties.org.

Another major common interest between urban advocates and environmental groups is the current debate over the federal transportation law, which transfers funds from the federal gas tax to states and localities for infrastructure, planning, environmental, and safety programs. The bill, which is expected

to exceed a quarter-trillion dollars over six years, will support urban reinvestment in road and bridge maintenance, public-transportation systems, the redevelopment of downtowns and commercial corridors, bike paths and sidewalks, and other programs that will boost the quality of life in older communities. Excessive highway development and associated sprawl represent a major drain of resources — both public and private dollars — on older cities and suburbs. Therefore, how this money gets distributed is absolutely a critical issue for all parties.

Some cities and metropolitan regions are arguing for funds to be “sub-allocated” directly to them, rather than to the states, which typically control the purse strings. Similarly, proponents of community reinvestment and alternative modes of transportation — transit, walking, and cycling — have an enormous stake in ensuring that programs that benefit urban and older suburban areas are both protected and fully

Another major common interest between urban advocates and environmental groups is the current debate over the federal transportation law.

funded. These include the transportation enhancements program (mainly bicycling, walking, and environmental projects), the transit new starts program (for new transit systems), the congestion-mitigation and air-quality improvement program, the job-access and reverse-commute program, and numerous others.

If recent collaboration and accom-

...continued on page 10

Smart-Growth Partnerships Focus on Quality of Life

...continued from page 9

plishments are any indication, partnerships between urban and environmental advocates will continue to increase around smart-growth opportunities. Ultimately, smart-growth proponents regard these efforts as a way to increase choices in transportation, housing, and other vital needs. Whether pushing for more affordable homes in hot urban housing markets or protecting farmland from sprawl development, advocates for smarter growth are seeking to ensure that overall community quality of life is improved for all residents. Working together, we can achieve this goal.

For information, contact Don Chen at (202) 207-3356 or dchen@smartgrowthamerica.org; www.smartgrowthamerica.org.



The Susquehanna Commerce Center, located in the downtown business district of York, PA, earned a silver award from 10,000 Friends of Pennsylvania. The seven-acre, \$30 million development on a remediated brownfield site consists of two six-story office buildings with about 600 employees as well as retail stores, a parking garage, and a public plaza. The development included the renovation of a coal gasification plant into headquarters for an engineering firm, using federal historic tax credits. The site had been designated a Keystone Opportunity Zone. M&T Bank, N.A., provided construction and permanent financing. (Photo credit: Susquehanna Real Estate)

LISC Report Examines Common Ground Between Community Development and Smart Growth

The Local Initiatives Support Corporation (LISC), which has played a prominent role in the smart-growth field, has helped develop a report on common ground between the community-development and smart-growth sectors.

The report, entitled "Community Development and Smart Growth: Stopping Sprawl at Its Source," was jointly commissioned by LISC and the Funders' Network for Smart Growth and Livable Communities. The report, written by Tony Proscio, describes community-development projects that have been launched in collaboration with regional authorities and planners. One such project has been undertaken by the Allegheny West Foundation in Philadelphia.

The report may be found in the resources section of LISC's web site at www.liscnet.org. For information on the Funders' Network for Smart Growth and Livable Communities, see www.fundersnetwork.org.

Should Philadelphia's Suburbs Help Their Central City?

Summary by Marvin M. Smith, Economic Education Specialist, Community Affairs Department

Should the residents of Philadelphia's Pennsylvania suburbs — Bucks, Chester, Delaware, and Montgomery counties — help finance the services provided to city residents and businesses?*

Bob Inman, the Mellon Professor of Finance at the Wharton School, University of Pennsylvania, believes the answer is yes. Presented here is a summary of his article of the same name that appeared in the Federal Reserve Bank of Philadelphia's *Business Review*, Second Quarter 2003. The complete article can be found at www.phil.frb.org/files/br/brq203ri.pdf.

The United States is unique in its commitment to local government as the primary provider of essential public services and in its use of local tax revenues to finance them. The Philadelphia metropolitan area is characteristic of the U.S. pattern. Moreover, the city of Philadelphia, like other central cities, has a symbiotic relationship with its surrounding suburbs. Suburban residents benefit from the income earned from employment in the central city and from the ability of city firms to provide goods and services at prices lower than what might be available from firms in the suburbs or firms outside the metropolitan area.

The central city's economic advantage in producing these goods and services can arise from either of two sources: the city's proximity to an important production input such as power or raw materials (e.g., Pittsburgh's history as a steel-production

center), or the concentrated location of firms, retail stores, or cultural activities within usually small geographic areas within the city. The latter is likely the source of any economic advantage for U.S. cities today. In Philadelphia, examples include the Avenue of the Arts, South Street, the Penn and Drexel research complex, shopping along Chestnut and Pine streets, and the concentration of commercial and legal service firms in and around Center City. This "agglomeration" of economic activities is an economic advantage for any U.S. city but, importantly, also for residents of the city's surrounding suburbs.

While the city of Philadelphia is arguably the region's economic,

cultural, and entertainment center, unfortunately, it is also emblematic of older central cities and the problems they face. For example, Philadelphia has a greater proportion of the region's poor and elderly households and a higher crime rate. These higher service burdens usually result in higher city tax rates for both city residents and firms relative to their suburban counterparts. Such is the case for the city of Philadelphia. But these burdens become self-defeating when tax hikes drive people and businesses away. Population and income grow more slowly or decline and house values fall in both the city and suburbs. In the end, the region as a whole, not just the central city, loses.

...continued on page 12

TWO VIEWS OF A CITY: PHILADELPHIA

Strong Points

- Home to eight Fortune 500 corporate headquarters
- Home offices of four of the nation's 100 largest law firms
- Four major medical schools
- Universities: 46 percent of the region's college and graduate school enrollees
- World-recognized orchestra, Curtis Institute of Music, art museum, Franklin Institute, and zoo
- Home of area's four major-league sports franchises
- 13 professional theaters, two professional dance companies, and nine music venues with artists from major record labels
- 220 of the region's 318 restaurants rated excellent by the 2002 Zagat's Guide

Weak Points

- Most of the region's poor and elderly households
- Significantly higher rate of crime than suburbs
- Higher tax burden for typical household than in the suburbs
- Higher tax burden for typical firm than in the suburbs

* The New Jersey counties of the Philadelphia MSA are not included in Inman's analysis for two reasons. First, New Jersey now rebates the Philadelphia commuter tax for New Jersey suburban residents. This different treatment of an important city tax requires separate analyses for the Pennsylvania and New Jersey suburbs of Philadelphia. Second, Inman believes that the Pennsylvania suburban counties are the most politically realistic group that would be part of reforms of city and suburban financing of city services.

Should Philadelphia's Suburbs Help Their Central City? ...continued from page 11

The solution for the city of Philadelphia is to strengthen its finances and then provide tax relief. There are three possible strategies to reduce the city's relative tax burden on mobile middle-class households and city firms. First, find productivity improvements to allow the city to provide its current level of services at lower costs. Second, work with the city's public employee unions to hold compensation packages to increases no greater than the local rate of inflation. Third, reduce the city's fiscal obligation for services to lower-income households. On its own, Philadelphia has already made significant progress on the first two of these fronts.

However, Philadelphia has not yet been able to address the continuing high budgetary obligation for support of its poor population. As a consequence, city taxes remain high and mobile firms and households continue to leave the city. How might relief be provided to the city's budget so that it shoulders its fair share of the region's poverty burden? Inman proposes a targeted program of suburban assistance to Philadelphia for the city's poverty obligation, and in return, suburban residents will receive a direct, dollar-for-dollar reduction in the commuter wage tax. Such assistance can be achieved with no new state programs. All that's needed is for the state to adjust current poverty-assistance payments more fairly across the region's county govern-

Regional Financing for Regional Poverty			
POLICY REFORMS	City Average House Value (% Change from Status Quo) (1)	Suburban Average House Value (% Change from Status Quo) (2)	Regional Total House Value (% Change from Status Quo) (3)
NO REFORM: STATUS QUO	\$59,700 (-)	\$157,836 (-)	\$111.76 billion (-)
REFORM POLICY 1: "NO STRINGS ATTACHED"	\$59,855 (0.26%)	\$157,741 (-0.06%)	\$111.99 billion (0.03%)
REFORM POLICY 2: UNIFORM WAGE TAX CUT	\$60,787 (1.82%)	\$157,773 (-0.04%)	\$112.21 billion (0.50%)
REFORM POLICY 3: NONRESIDENT WAGE TAX CUT	\$60,960 (2.11%)	\$160,614 (1.76%)	\$113.74 billion (1.87%)

Because all the required data for census year 2000 are not yet available, the estimates of the post-REFORM POLICY house values reported above were computed from the simulation model of the Philadelphia economy calibrated for the census year 1990. For the suburban counties as a whole, the required equalizing transfer of \$191 million equals 0.29 percent of current suburban income; Inman scaled the required suburban contribution to 0.29 percent of the 1990 suburban incomes for all policy simulations. The percentage changes in city and suburban house values are computed using this scaled transfer. The estimated percentage changes in regional house values from the 1990 simulated economy (reported in parentheses above) are then multiplied by the actual 2000 census house values (reported here under NO REFORM: STATUS QUO) to give estimates of the new, post-REFORM POLICY house values.

ments. The proposed change would effectively regionalize the responsibility for the region's poor households, much as now exists for Pittsburgh and the suburbs of Allegheny County. If done correctly, suburban fiscal assistance to Philadelphia can be a high-return investment in suburban jobs, growth, and house values.

The table contains estimates of changes in the values of typical city and suburban houses and in the total house values region-wide when the reform transfer is made under each of three scenarios: the city is free to allocate the poverty-relief funds any way it wishes, or "no strings attached"; the relief funds are allocated to a uniform percentage reduction in the city's wage tax rates for residents and nonresidents; and all of the city poverty relief is allocated to reducing the

incomes for all policy simulations. The percentage changes in city and suburban house values are computed using this scaled transfer. The estimated percentage changes in regional house values from the 1990 simulated economy (reported in parentheses above) are then multiplied by the actual 2000 census house values (reported here under NO REFORM: STATUS QUO) to give estimates of the new, post-REFORM POLICY house values.

wage-tax rate for nonresidents. For purposes of comparison, the table also reports census year 2000 house values for the current "no reform: status quo" policy. As can be seen in the table, the various reform policies result in an increase in average house value in the city or the suburbs or both. Clearly, if the third reform policy is undertaken, Inman's proposed regional fiscal reform can create a true win-win situation. The resulting stronger city finances coupled with commuter tax relief enhance house values in the city and suburbs alike.

Our region's decentralized system of public finance has many virtues. However, when there are important economic interdependencies across local jurisdictions, fiscal cooperation, not fiscal competition is required. In the case of Philadelphia, what will be required is a commitment on the part of the city and the four suburban

counties to work together. If the city and counties can agree to share city poverty relief in exchange for lower wage-tax rates for nonresidents, city

and suburban residents will both gain, perhaps by as much as an additional \$2 billion in regional house values, or \$2250 per household.

With city and suburban cooperation for regional financing of poverty spending, we all win.

Older Suburbs: Our Past, Our Future

By Barry Seymour, Assistant Executive Director, Delaware Valley Regional Planning Commission

The suburbs of the Philadelphia metropolitan area – as in most large regions – represent a complex mosaic, ranging from rural agricultural communities to growing suburban communities and older, fully developed areas. While these older communities are part of suburban counties, in many cases, they are now experiencing the same symptoms of physical, social, and fiscal distress that in an earlier generation were considered exclusively urban problems.

To better understand the patterns of prosperity and decline in the Philadelphia metropolitan area, the Delaware Valley Regional Planning Commission (DVRPC) developed a statistical profile of the 352 cities, townships, and boroughs in the nine-county region.* Documenting and mapping changing demographics, development trends, fiscal condition, school-district characteristics, and transportation conditions delineates a clear disparity between the most troubled and most affluent communities. This suggests that a number of suburban municipalities now share more in common with the core cities of the region than with their prosperous suburban neighbors.

Challenges of the Older Suburbs

Since the 1970s, both the core cities and the older suburbs have lost residents, workers, and jobs to the outer-ring suburbs. As companies and families move in pursuit of greener areas and lower taxes, many of the older suburbs are facing shrinking tax bases coupled with an increasing demand for services from the remaining seniors and the racial and ethnic minorities that now find these communities affordable. These new residents place increasing demands on school districts for additional language programs or remedial education at a time of decreasing revenues. Rather than increasing services to meet demands, these school districts and communities must decrease services while raising resident property taxes to make up for the loss of commercial uses.

An “Inside Game – Outside Game” for the Older Suburbs

The challenges faced by older suburbs are complex and multi-dimensional. As such, there is no single strategy or solution and a range of policy responses that should be pursued. A combination of these approaches will be neces-

sary to fully address the problems of the older suburbs and create a more efficient and effective region.

Tax-base sharing and tax reform constitute perhaps the most potentially effective, yet most politically challenging, strategy. If fiscal disparities are the root causes of the problems that separate the struggling older suburbs from their more affluent counterparts, tax-base sharing and other tax-reform measures are a means to level the fiscal playing field. Sharing property-tax or school-district funding at some level across the region will provide additional resources for distressed communities, reduce disparities in local tax rates, lessen development pressures in outlying areas, and promote greater economic stability throughout the region.

Regional planning approaches can provide a more equitable distribution of infrastructure investment and serve to influence growth patterns within the region through strategic decisions about where to build roads and highways, lay water and sewer lines, and expand utility capacity. Although older suburbs generally have sufficient, if not excess, infrastructure capacity, many of these

...continued on page 14

* Delaware Valley Regional Planning Commission, *The Future of First Generation Suburbs in the Delaware Valley Region*, Philadelphia, PA (December, 1998)

Older Suburbs: Our Past, Our Future

...continued from page 13

communities are now struggling to maintain aging systems. Policies that direct infrastructure investment to already developed areas can help address these maintenance issues. Moreover, by limiting the expansion of the region's capital investment into undeveloped portions of the region, strategic investment can reduce sprawl by creating economic incentives to channel growth back to the older suburbs and urban areas.

Local initiatives include the wide variety of steps that individual older suburbs can take to address their own problems. Although less far-reaching than regional planning or tax-base sharing initiatives, a number of existing economic-development, transportation and community-partnership programs can be

replicated at the local level without requiring further intervention by state or regional entities.

Local strategies that take advantage of communities' unique advantages and assets while linking them to larger regional coalitions and networks will likely prove the most effective and immediate strategy for the realization of larger regional and structural goals. Collaboration among municipal, state, and regional agencies; political representatives; foundations and institutions; civic associations; and other stakeholders is critical for the success of any of these initiatives.

Build on Existing Strengths

Older suburban communities now provide the sense of community,

neighborhood character, demographic diversity, and affordable-housing opportunities that newer suburbs lack. In addition, older suburbs act as both a buffer and an extension to the core cities, with the best transportation systems and access to the amenities and employment opportunities of the cities and the outer suburbs.

Leaders of these communities must recognize their common interests with both their adjoining suburban neighbors and central cities and build coalitions to address common challenges. The degree to which older suburbs can remain vibrant, viable, and attractive communities will ultimately determine the future direction of the entire region.

CDC Committee Is Catalyst for Brownfields Redevelopment

By Keith L. Rolland, Community Development Advisor, Community Affairs Department

Faced with the daunting task of how it could serve as a catalyst for the remediation and re-use of 15 large industrial vacant or underused properties in North Philadelphia, the Allegheny West Foundation (AWF) came up with a practical solution — bring together the agencies and people who are critical to solving the problem.

About two years ago, AWF convened a hands-on committee of city and state agencies in economic development and environmental cleanup; representatives of elected officials, both city and state, from AWF's service area; several business associations and business owners; the Pennsylvania Environmental Coun-

AWF has primarily focused on housing development since its inception in 1968, but the critical community issues have become re-use of vacant industrial buildings. AWF has shifted its strategy to make sites available for new kinds of business opportunities.

cil (PEC); Local Initiatives Support Corporation; the Philadelphia Industrial Development Corporation's Urban Industry Initiative; and residents.

Ronald Hinton, AWF's president, said that "the task was easier to manage because we had ties with the city and others who were advocates for development. Having the right people around you

is important." The AWF committee has facilitated environmental assessments for 12 of the 15 sites, identified new uses and some tenants for three sites, and facilitated the sale of two properties to new owners.

AWF, which has an eight-member staff and \$2 million budget, focuses on a 1.6-mile, 21,000-resident quadrant composed of census tracts 170 through 173. AWF has primarily fo-

cused on housing development since its inception in 1968, but the critical community issues have become re-use of vacant industrial buildings. AWF has shifted its strategy to making sites available for new kinds of business opportunities.

“We realized we didn’t have the capacity to clean up and re-develop such large properties,” Hinton said, so AWF formed an economic-development committee. The elected city and state officials on the committee “helped navigate” the process of acquisition, demolition, and environmental assessment and remediation. They also helped secure three economic-development incentives: a state Keystone Opportunity Zone designation and eligibility for federal renewal community tax credits and enterprise zone tax credits.

Speculation threw an unexpected wrench into AWF’s plans. When

AWF had one large site ready for re-use, a nearby contaminated property that had been untouched for years was bought for back taxes. If left dormant, it would have delayed AWF’s plans in the area, but the city induced the owner to remediate the property and a developer has proposed to build a small shopping center on the site.

“We learned that we needed to have the perspective of developers, since we want to re-create economic opportunities,” Hinton explained. As a result, the committee has added a sub-committee of developers.

AWF is developing a strategic neighborhood plan with a collaborative group of 20 civic, church, business, school, and other stakeholders. The plan is funded by the Wachovia Regional Foundation.

Tasty Baking Company started an Allegheny West community development project in 1968 to stop deterioration near its Hunting Park Avenue plant. Charles P. Pizzi, the current president and CEO of the company, chairs AWF’s board. Tasty Baking Company has provided AWF with grants and in turn received state tax credits under Pennsylvania’s neighborhood assistance program and the state’s comprehensive services program.

For information, contact Ronald Hinton at (215) 225-1019 or rehintonjr@hotmail.com.

Fannie Mae Assists Those Who Buy Houses Near Public Transit

Fannie Mae has introduced a Smart Commute™ initiative for buyers who purchase houses near public transit.

Buyers who purchase houses near public transit and use bus or rail service to commute to work can save money on travel expenses and car maintenance. Participating lenders add a portion of the savings to buyers’ qualifying income.

Increased reliance on public transit reduces traffic congestion and air pollution. Eligible buyers must select a house within one-half mile of a rail station or within one-quarter mile of a bus stop.

The program is available in targeted areas of the country. In the Third Federal Reserve District, these areas include the state of Delaware, Philadelphia, and State College, PA. Citizens Bank affiliates are participating in all three locations. Omega Financial Corporation is participating in State College, PA.

For information, contact Michelle Desiderio at (202) 752-4041 or michelle_desiderio@fanniemae.com; www.fanniemae.com.

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