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CASCADE

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OMB Statistical Definitions: Their Impact on CRA and HMDA Reporting

By Christy Chung, Community Affairs Analyst, and John Wackes, Community Affairs Specialist

The federal Office of Management and Budget (OMB) has issued new statistical definitions and revised existing ones, with important implications for bank reporting of data pertinent to the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA), and for CRA programs generally. As a result, there are changes in the designation of some tracts as low, moderate, middle, or upper income.

The OMB issued new definitions on June 6, 2003, as part of its once-a-decade comprehensive review of statistical area standards and definitions, which take commuting patterns into account. The OMB then released its December 2003 updates on February 18, 2004. According to the updates, there are 49 new metropolitan statistical areas (MSAs) and a new group of classifications—578 micropolitan statistical areas, 29 metropolitan divisions (MetroDivs), and 123 combined statistical areas (CSAs). Definitions of these terms are provided on page 5.

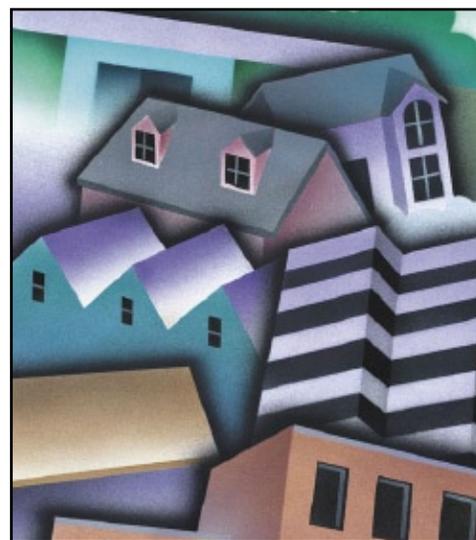
Third District Impact

Noteworthy changes in the Third Federal Reserve District include the following:

- There are now 17 MSAs and part of another MSA, in the Third District (see Map 2).
- Two new MSAs—Lebanon, PA MSA; and Ocean City, NJ

MSA—have been created.

- There are MetroDivs in two MSAs that have counties in the Third District.
 - The Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA includes the Philadelphia, PA MetroDiv, the Camden, NJ MetroDiv, and the Wilmington, DE-MD-NJ MetroDiv (see Map 3).
 - The New York-Northern New Jersey-Long Island, NY-NJ-PA MSA includes two MetroDivs that have counties in the Third District: the Edison, NJ MetroDiv includes Ocean County, NJ and the Newark-Union, NJ-PA MetroDiv includes Pike County, PA.
- Some MSAs have revised boundaries and may include counties that were not previously part of an MSA or were part of another MSA. ...continued on page 3



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Message from the Community Affairs Officer

In some respects, it already seems like a lifetime since we held our conference, *Reinventing America's Older Communities*, with the Brookings Institution and other partners, but in other ways it is still very fresh in our minds. It was our biggest undertaking since I joined the Fed, and it would not have been possible without the support of the Fed's senior management and help from my staff. In particular, Vera Bowders, manager and community development advisor, orchestrated all the details of inviting 55 speakers, including nine present and former governors and mayors, arranging room space and meals, and registering 423 attendees—no small feat. I am pleased she is part of our team.

Of all the good speakers at the conference, I was particularly struck by Richard D. Baron's comments that very few community development organizations sit down and meet with the school districts in their cities. What a shame that one party does not know what the other is planning. We all understand how significant a school system is when families choose a place to live.

Several of you have already contacted us about keeping the issue of smart growth alive. In this issue of *Cascade*, we have several stories that continue the themes of smart growth and reinventing older communities. We have a story about the University of Pennsylvania's proactive efforts as developer and investor, along with its community initiatives, to strengthen its adjacent neighborhood. We have also included an article about a transit-oriented development in New Jersey planned by Moorestown Ecumenical Neighborhood Development Inc. along the new light-rail line from

Trenton to Camden. We would like to hear from government agencies, nonprofits, and banks that have implemented plans to renew downtown commercial and residential areas. We want to know what works and what doesn't, because we may want to share that experience with our readers.

Another story in this issue that may pique your interest (from a CRA compliance perspective) is the effect of changes by the Office of Management and Budget (OMB) to census-tract boundaries and metropolitan statistical areas. In some cases, OMB's changes will result in different income classifications for census tracts. For more information, please be certain to read our article.

And, finally, I would also like to introduce a new feature in *Cascade*. Starting with this issue, there will be a new section, *Spotlight on Research*, devoted to presenting the results of recent studies on key issues that confront this region and beyond. It is my hope that this section, a summary of selected current empirical research, will expose our readers to information they might not ordinarily receive.

Spotlight on Research will be written by Dr. Marvin M. (Marty) Smith, who recently joined the Community Affairs staff as an economic education specialist. Dr. Smith, who received his M.A. and Ph.D. degrees in economics from Cornell University, was previously employed by the Congressional Budget Office and the Brookings Institution. I trust that you will find Marty's articles both instructive and thought-provoking.



OMB Statistical Definitions: Their Impact on CRA and HMDA Reporting ...continued from page 1

- Sixteen new micropolitan statistical areas—15 in Pennsylvania and one in Delaware—have been created (see Map 2).

Effective January 1, 2004, HMDA and CRA reporters must use the new geographic designations when collecting data for reporting in March 2005. Under HMDA and CRA, the new definitions will be viewed as metropolitan areas (MSAs and MetroDivs) or non-metropolitan areas (micropolitan statistical areas and unclassified counties). When reporting loan applications in a metropolitan area, one must now identify a property's metropolitan statistical area/

metropolitan division (MSA/MD), rather than the metropolitan area (MA) that was required in 2003. Lenders will report the MetroDiv when properties are located in an MSA that has been subdivided into MetroDivs. Lenders will report the MSA when properties are located in an MSA that has not been subdivided into MetroDivs.

Implications of New Definitions and Boundary Changes

The use of MSA/MDs and the changes to metropolitan area boundaries could result in a change of income-level designations for some tracts. Income-level

designations are obtained by dividing the median family income (MFI) of the census tract by the MFI of the metropolitan area. In 2003, the value of the ratio was represented as the "tract to MSA median family income percentage," which was calculated by dividing the census tract MFI by the MSA or primary metropolitan statistical area (PMSA) MFI. In 2004, the ratio is represented as the "MSA/MD median family income percentage," which is calculated by dividing the census tract MFI by the MSA MFI or the MetroDiv MFI for the MSAs that are subdivided into MetroDivs.

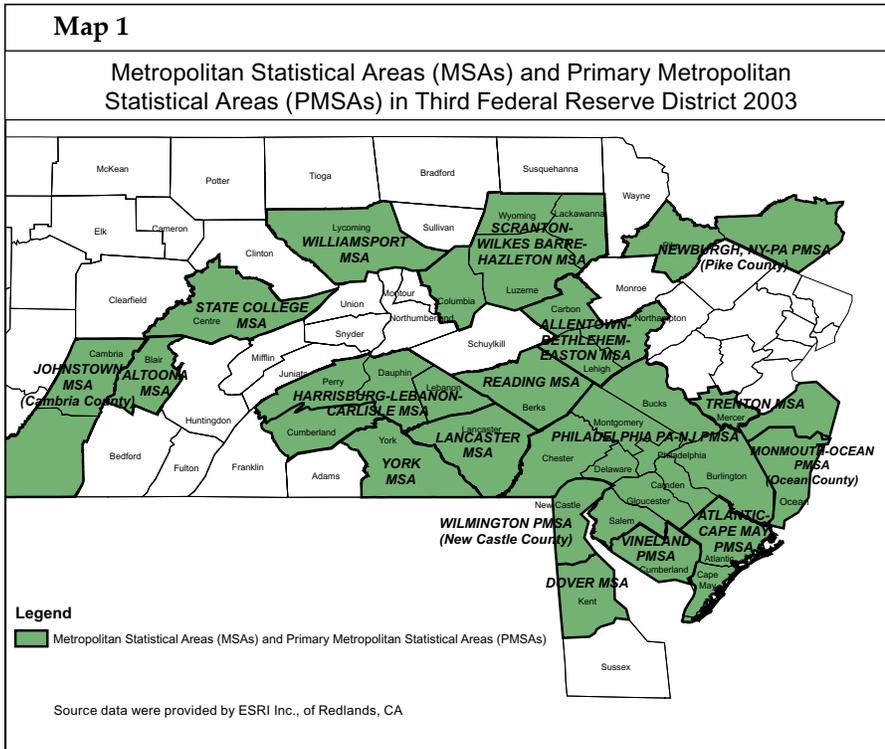
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Table 1

2003 Geographic Definitions	Median Family Income	2004 Geographic Definitions	Median Family Income
Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD, Consolidated Metropolitan Statistical Area	\$57,868	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	\$58,739
Atlantic-Cape May, NJ, PMSA	\$51,622	Philadelphia, PA, Metropolitan Division	\$56,993
Atlantic County, NJ		Bucks County, PA	
Cape May County, NJ		Chester County, PA	
Philadelphia, PA-NJ, PMSA	\$58,395	Delaware County, PA	
Bucks County, PA		Montgomery County, PA	
Chester County, PA		Philadelphia County, PA	
Delaware County, PA		Census Tract 45	\$46,524
Montgomery County, PA		Camden, NJ, Metropolitan Division	\$62,032
Philadelphia County, PA		Burlington County, NJ	
Census Tract 45	\$46,524	Camden County, NJ	
Burlington County, NJ		Gloucester County, NJ	
Camden County, NJ		Wilmington, DE-MD-NJ, Metropolitan Division	\$60,622
Gloucester County, NJ		New Castle County, DE	
Salem County, NJ		Cecil County, MD	
Vineland-Millville-Bridgeton, NJ, PMSA	\$45,403	Salem County, NJ	
Cumberland County, NJ			
Wilmington-Newark, DE-MD, PMSA	\$61,246		
New Castle County, DE			
Cecil County, MD			

Sources: Median family income for 2003 geographies was obtained from Census 2000; median family income for metropolitan divisions was obtained from the 2004 Preliminary Federal Financial Institutions Examination Council (FFIEC) Census File; geographic definitions were taken from OMB Bulletin No. 03-4 and Census 2000.

OMB Statistical Definitions: Their Impact on CRA and HMDA Reporting ...continued from page 3

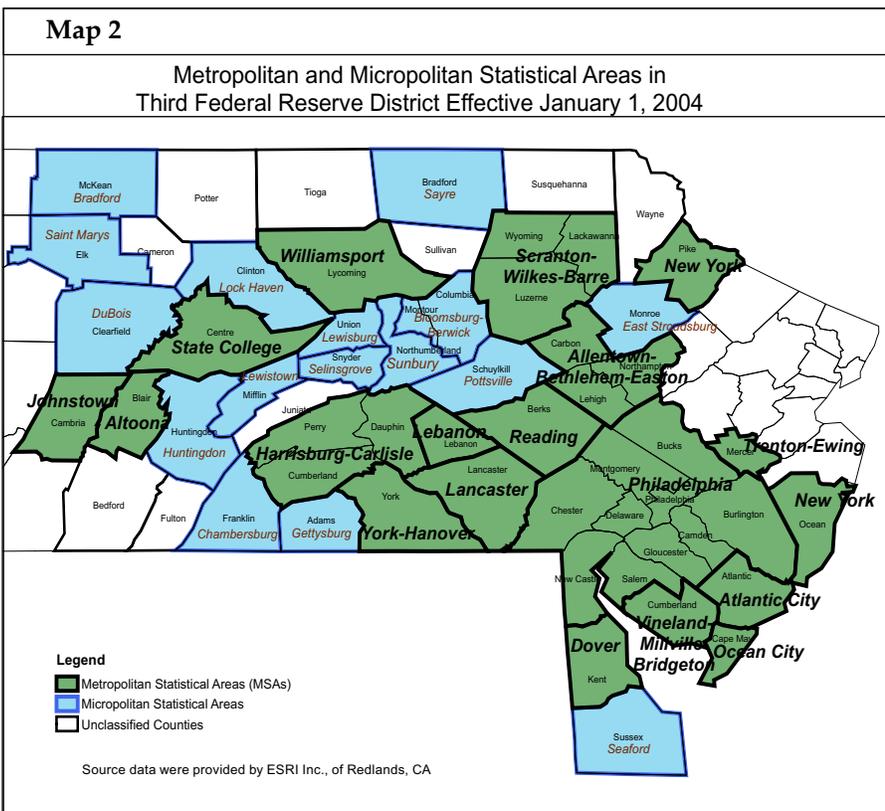


For example, in 2003, the “tract to MSA median family income percentage” for census tract 45 in Philadelphia County was 79.7 percent ($\$46,524 \div \$58,395$), which meets the definition of a moderate-income census tract (see Table 1). However, in 2004, the “MSA/MD median family income percentage” for the same tract is 81.6 percent ($\$46,524 \div \$56,993$), which meets the definition of a middle-income census tract.

The extent of tract-level income changes for the three states in the Third Federal Reserve District can be seen in Table 2. As a result of the OMB definitions in June 2003, 285 tracts in Pennsylvania, New Jersey, and Delaware (5.4 percent of census tracts in the three states) were in a higher-income category, and 160 tracts (3.0 percent of census tracts in the three states) were in a lower-income category. More specifically, 86 tracts that were previously considered moderate income are now considered middle income under the new definitions; 70 tracts that were previously considered middle income are now considered moderate income.

Maps showing the census tract changes in the Third Federal Reserve District will be provided soon on the web page of the Philadelphia Fed’s Community Affairs Department (www.phil.frb.org/cca).

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Financial institutions will want to be proactive in determining the impact of the new OMB definitions on their CRA assessment areas. Institu-

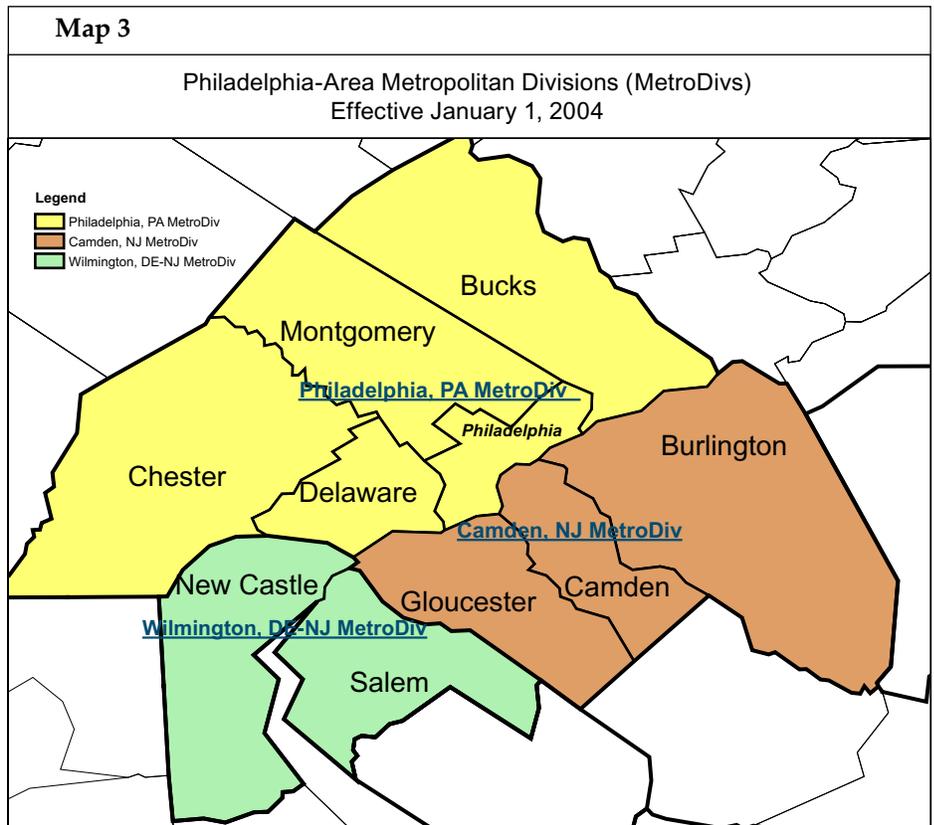
tions may also want to contact their regulatory agencies for information on the latest reporting requirements.

For information sources on revised OMB statistical definitions, turn to page 13.

Table 2		
Census Tract Reclassification 2003 to 2004 - PA, NJ, and DE		
Higher-Income Categories		
Low to Moderate	32	0.6%
Moderate to Middle	86	1.6%
Middle to Upper	167	3.2%
Total Increased	285	5.4%
Total Unchanged	4838	91.6%
Total Tracts	5283	100%
Lower-Income Categories		
Moderate to Low	7	0.1%
Middle to Moderate	70	1.3%
Upper to Middle	83	1.6%
Total Decreased	160	3.0%
Total Unchanged	4838	91.6%
Total Tracts	5283	100%

(Above) Source: 2004 Preliminary FFIEC Census File.

(Below) Source: OMB Bulletin No. 03-4 and accompanying attachment



Source data were provided by ESRI Inc., of Redlands, CA

2004 Revised OMB Metropolitan-Area Definitions	
MSAs	Metropolitan statistical areas have at least one urbanized area of 50,000 or more in population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.
Micropolitan Statistical Area	Micropolitan statistical areas have at least one urban cluster of at least 10,000 but less than 50,000 in population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.
MetroDivs	Metropolitan divisions: If the specified criteria are met, a metropolitan statistical area containing a single core with a population of 2.5 million or more may be subdivided to form smaller groupings of counties referred to as metropolitan divisions.
CSAs	Combined Statistical Areas: If specified criteria are met, adjacent metropolitan and micropolitan statistical areas, in various combinations, may become the components of a new set of areas called combined statistical areas. For instance, a combined statistical area may comprise two or more metropolitan statistical areas, a metropolitan statistical area and a micropolitan statistical area, two or more micropolitan statistical areas, or multiple metropolitan and micropolitan statistical areas.

MEND Pursues Transit-Oriented Housing Development Strategy

By Matthew A. Reilly, President and CEO, Moorestown Ecumencial Neighborhood Development Inc. (MEND)

Prior to joining MEND in November 2001, Matthew A. Reilly was senior vice president of community development finance at First Union National Bank (now Wachovia Bank). Before entering banking in 1986, he served as director of real estate development for New Community Corporation in Newark, NJ.

MEND, an experienced nonprofit housing developer in Burlington County, NJ, since 1969, has started to develop housing near stations on the light-rail line that runs from Trenton to Camden.

MEND has developed 320 rental units and five for-sale units for low- and moderate-income residents of Burlington County since it was launched by several Moorestown, NJ, churches. Today it manages 251 rental units. MEND has a staff of 10 in project development, property management, maintenance, and finance, and a 2004 budget of \$2.3 million. Five of MEND's 15 board members are residents of MEND-owned apartments.

For 35 years, MEND pursued an "in-fill" housing-development strategy. (In-fill refers to development on small, underutilized land parcels in developed neighborhoods.) Its apartment developments average nine units and often involve the adaptive re-use of existing structures, such as a public grammar school, a firehouse, or a police station. MEND wants its housing to be sensibly located and appropriately scaled; in other words, the housing should blend in, architecturally and functionally, with the surrounding community.

In the summer of 2002, a student intern provided through the New Jersey Department of Community Affairs' housing scholars program (funded by Wachovia Bank) began research on potential affordable-

MEND wants its housing to be sensibly located and appropriately scaled; in other words, the housing should blend in, architecturally and functionally, with the surrounding community.

housing development opportunities along the new light-rail line. Transit-oriented development seemed to make a lot of sense for MEND's clients. Some of the older New Jersey towns along the Delaware River appeared to present excellent opportunities for new housing in the vicinity of the light-rail stations, and organizations such as the Delaware Valley Regional Planning Commission were promoting transit-oriented, high-density, mixed-use development around the stations. MEND thought these opportunities would mesh very well with its in-fill approach to affordable-housing development. As a result of its research, MEND identified the towns of Delanco and Riverside as good candidates for housing development.

In January 2003, MEND acquired 10 units of affordable rental housing in Delanco on Burlington Avenue, the town's main thoroughfare. The development is a combination of new construction and the adaptive re-use of a former mixed-use commercial building. The site is located within half a mile of new light-rail stations in both Delanco and Riverside. The apartments have been 100 percent occupied since the day MEND took title to the property. Financing for the \$1 million project was provided by a local developer in connection with Delanco's affordable housing obligations under New Jersey's Council on Affordable Housing (COAH). Other financing sources were Burlington County and Commerce Bank, N.A.

MEND will break ground in the spring of 2004 for five new for-sale units, also in Delanco. One of these houses will be across the street from the rental-housing development that

...continued on page 7



MEND renovated the Colonial Building in Delanco, NJ, into seven apartments and commercial space. It also developed three housing units near the building.

MEND acquired in January 2003. The other four units are being built along Rancocas Creek, which separates Delanco and Riverside. These houses will be a short walk—just one-third of a mile—from the Riverside light-rail station. These new houses will have three bedrooms and a basement. Estimated sale prices will range from \$72,000 to \$98,000 and the houses will be affordable to

families earning between 45 percent and 60 percent of area median income. Project financing and sale price write-downs will be provided by COAH-related contributions from a large national developer and Burlington County. A local bank is also expected to provide some interim construction financing for the project, which will have a total cost of approximately \$750,000.

MEND firmly believes that transit-oriented affordable-housing development is the smart way to go. There will be many opportunities for this kind of development in Burlington County in the years to come.

For information, contact Matt Reilly at (856) 722-7070, ext. 12, or mreilly_mend@hotmail.com; www.mendinc.org.

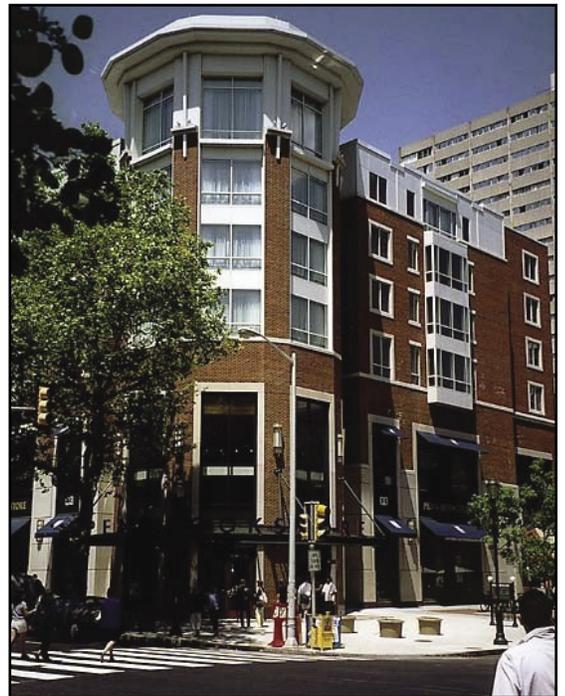
Penn Succeeds as Investor and Developer

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

The University of Pennsylvania's success as developer and investor in two retail development projects has triggered private-sector investments that are changing the face of its University City neighborhood. Penn, mean-

Penn next invested about \$50 million in a 35,000-square-foot fresh foods supermarket, 750-car parking garage, and 45,000-square-foot cinema at a desolate intersection at 40th and Walnut streets. Penn owned the land and put together the project, hiring contractors and architects, and providing long-term leases to the tenants. The 24-hour supermarket—which residents had asked for—now draws 35,000 customers weekly. The supermarket opened in 2001 and the cinema in 2002.

Then, in the first major market-rate housing built in University City since World War II, Penn collaborated with developer Carl Dranoff in a \$58 million conversion of a vacant 700,000-square-foot seven-story building into 282 up-scale apartment lofts, 258 parking spaces, 100,000 square feet of office space, and 22,000 square feet of retail space. This block-long building, known as The Left Bank, is a former warehouse built by the Pennsylvania Railroad in 1929 and is one of the largest properties on the National Register of Historic Places to be converted to residential use. Penn leases the



This Barnes & Noble campus bookstore was part of the \$90 million University Square project developed by the University of Pennsylvania. Penn has been developer and investor in several projects designed to stimulate retail and housing development in West Philadelphia. (Photo credit: Barry Halkin)

Penn's plan was to stimulate retail development, thereby capturing buying power that was leaking out of the neighborhood and creating a street presence that deterred crime.

while, is poised to acquire a 33-acre site and develop it into a new eastern section of its campus.

Penn's plan was to stimulate retail development, thereby capturing buying power that was leaking out of the neighborhood and creating a street presence that deterred crime. To achieve this Penn initiated and developed an ambitious project called University Square. It consisted of a hotel, the Inn at Penn, with 228 rooms and 18,000 square feet of meeting space, a Barnes & Noble campus bookstore, one of the largest in the nation, and several restaurants and retail stores. The \$90 million project, completed in 1999, was the largest commercial investment ever made in West Philadelphia.

land to Dranoff and uses a portion of the building for its real-estate staff. Two years after completion, the loft units are almost fully occupied. Now Dranoff is converting an abandoned 43,000-square-foot building on campus into offices and a 350-seat live-music center.

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Penn Succeeds as Investor and Developer

...continued from page 7

Penn is reaping some rewards from its investments that will assist future development. "It's been a continuum," Omar Blaik, senior vice president of facilities and real estate services at Penn, observed. "We had to take most of the development and operating risk with University Square. We stayed the course and we took less risk in the next project. In the last project [The Left Bank] we took very little risk."

The University Square, supermarket-cinema, and Left Bank projects included about 15 retail stores, and the resulting upsurge of economic activity in the area has encouraged another 15 retailers to set up shop. The 30 stores that have opened in

the last three-and-a-half years have created 400 jobs—more than half of which are held by West Philadelphia residents.

In an example of how a university can change market perceptions,

Penn took a drab parking lot adjacent to The Left Bank and added green space and a picnic area—thereby encouraging a developer

to convert a vacant 125,000-square-foot building into a \$55 million research facility, Blaik said. Leroy D. Nunery II, vice president of business services at Penn, explained that Penn has become community-rather than university-focused in planning retail development projects. Arts and culture are key

to revitalizing Penn's commercial corridor, he said, and new projects seek to capture "a share of mind and share of wallet" from people all over the region.

In its most ambitious development venture yet, Penn is negotiating the acquisition of a 33-acre site from the U.S. Post Office and has drafted plans to redevelop it into office space, apartments, retail shopping, and open space. This development would create a new eastern section of Penn, extending the campus to the Schuylkill River and linking the university to Philadelphia's center city.

For information on Penn's real-estate development strategy, contact Omar Blaik at (215) 898-7241 or oblaik@pobox.upenn.edu.

Penn has become community-rather than university-focused in planning retail development projects. Arts and culture are key to revitalizing Penn's commercial corridor.

Penn Creates Model Public School, Fights Crime, Increases Homeownership, and Boosts Minority Purchasing

The University of Pennsylvania has been highly successful during the past decade in its efforts to create an excellent community public school, make area streets safer and cleaner, increase homeownership, and boost purchases from West Philadelphia businesses.

Penn's 269-acre campus is adjacent to University City, a diverse 2.2-square-mile neighborhood of about 50,000 residents within West Philadelphia. Penn and its health system employ nearly 23,000 people, making it the largest private employer in Philadel-

phia and the fourth largest in Pennsylvania.

Soon after Judith Rodin became Penn's president in 1994, Penn began to take an active role in tackling neighborhood problems and cultivated closer links to city and business leaders and its surrounding community—as well as among its 12 different schools.

The shining achievement of the Rodin administration may well be the creation of a model K-8 public school. The Sadie Tanner Mossell

Alexander-University of Pennsylvania Partnership School—the result of an unprecedented collaboration between the university, the School District of Philadelphia, and the Philadelphia Federation of Teachers—is named for the first African-American woman in the nation to earn a doctorate in economics and the first African-American woman to join Pennsylvania's bar association.

Penn donated the land for the school and provided oversight for its design and construction. It also

The new partnership school is named for the first African-American woman in the nation to earn a doctorate in economics and the first African-American woman to join Pennsylvania's bar association.

contributes a 10-year subsidy of \$1,000 per child above school district funding in order to facilitate smaller class size. Penn's Graduate School of Education works closely with the school and helped develop the curriculum, select teachers, and provide for their professional development. The availability of an excellent public school has encouraged couples with children to buy houses in University City.

In one of its first initiatives, Penn and neighboring institutions founded the University City District (UCD), a special services district consisting of 40 uniformed unarmed officers who patrol University City streets and a 25-member team of uniformed cleaning personnel. Penn has also provided trees and created public gardens

in a separate beautification program.

Meanwhile, Penn, which started a program in 1966 to guarantee mortgages of Penn employees who bought houses in West Philadelphia, enhanced the program in 1998 for University City buyers. The university increased

the percentage of its mortgage guarantees, offering a \$15,000 forgivable loan for down payments, closing costs, or home improvements, and provided existing Penn-affiliated homeowners with matching grants of \$7,500 for exterior home improvements. Penn has guaranteed mortgages for over 500 households since 1966, including, says a Penn official, more than 400 employees who have used the enhanced program.

Penn has also increased its purchasing of goods and services from West Philadelphia vendors. Its purchases have totaled more than \$307 million since 1997, including \$66 million last year. Penn has spent \$520 million on construction since 1998 and 25 percent of that business has gone

to West Philadelphia firms owned by African Americans and women.

In addition, Penn faculty and students provide tangible service as part of teaching and research in West Philadelphia through Penn's academically based community service program. Penn has more than 140 courses with a strong service component and works closely with six public schools in West Philadelphia. "The schools identify the problems," says Ira Harkavy, Ph.D., associate vice president and director of Penn's Center for Community Partnerships, "and we connect the faculty and students and try to learn together."

Judith Rodin has announced that she will leave Penn in June 2004, and Princeton University provost Amy Gutmann has been named as Penn's next president.

For information on Penn's West Philadelphia initiatives, contact Lucy Kerman at (215) 898-0413 or kerman@pobox.upenn.edu; www.upenn.edu.

-Keith L. Rolland

Calendar of Events

2004 Community Development Policy Summit: The Recapitalization of Communities

Trends in community development legislation and public policy

Sponsored by the Federal Reserve Bank of Cleveland in partnership with the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Local Initiatives Support Corporation.

May 14, 2004, Columbus, OH

For information, contact Jeff Gatica at (513) 455-4281 or jeffrey.a.gatica@clev.frb.org.

Building Blocks for Inclusive Communities

A national conference on creating racially and ethnically diverse, economically thriving communities, sponsored by the Fund for an Open Society (OPEN)

October 21-23, 2004, Cherry Hill Hilton, Cherry Hill, NJ

For information, visit www.opensoc.org or call (215) 546-0511.

National Conference on Reinventing America's Older Communities Attracts Overflow Crowd

Many of the nation's leading "smart-growth" advocates addressed a national conference in Philadelphia in January, attended by 423 representatives of government agencies, nonprofits, banks, foundations, and universities, as well as developers, planners, and architects.

The conference, held January 14–16, 2004, at the Hyatt Regency at Penn's Landing, was organized by the Federal Reserve Bank of Philadelphia's Community Affairs Department in cooperation with the Brookings Institution Center on Urban and Metropolitan Policy, the William Penn Foundation, Fannie Mae, Funders' Network for Smart Growth and Livable Communities, Local Initiatives Support Corporation, Delaware Valley Regional Planning Commission, Smart Growth America, and The Reinvestment Fund.

The conference focused on smart-growth issues such as increasing regional planning, encouraging development in cities rather than in undeveloped areas, strategies to as-



Bruce Katz, director of the Brookings Institution Center on Urban and Metropolitan Policy

sist declining older suburbs, and land-use controls.

On the conference's opening day, Bruce Katz, director of the Brookings Institution Center on Urban and Metropolitan Policy, discussed findings from the center's recent report titled *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*.¹ The report recommends that Pennsylvania's state government improve its planning capacity, target its infrastructure and economic development planning on older communities, increase its investments in education and workforce training, encourage land reclamation and redevelopment, and promote regional collaboration.

Richard D. Baron, chairman and CEO of McCormack Baron Salazar Inc., based in St. Louis, was a keynote speaker on the conference's second day. McCormack Baron Salazar focused on neighborhood public schools as it developed large-scale communities with a mix of for-sale and rental housing in distressed areas.

Public schools have a direct impact on their neighborhoods and affect housing values, the ability to market newly developed housing, and corporate investment and location decisions, Baron said.

McCormack Baron Salazar's developments include Crawford Square in Pittsburgh, a 350-unit, mixed-income development in which half of the units were financed



Bob Inman, professor of finance at the University of Pennsylvania's Wharton School

by low-income housing tax credits and the other half were market-rate units. In Murphy Park in St. Louis, McCormack Baron Salazar formed a 501(c)(3) nonprofit that has received grants from corporations and foundations for human-capital programs and supported a strong community arts program.

Baron said that successful redevelopment requires unified planning at the neighborhood level by leaders of such separate areas as housing, schools, and parks.

Meanwhile, Governor Edward G. Rendell of Pennsylvania and Gover-

Governor Rendell said that providing government incentives to encourage developers to build on city sites is likely to be more effective than trying to block suburban sprawl with regulations.

¹ The report may be seen at www.brookings.edu/es/urban/publications/pa.htm.

nor Ruth Ann Minner of Delaware discussed smart-growth initiatives and issues in their respective states. Parris N. Glendening, former governor of Maryland and president of Smart Growth America's leadership institute, moderated the discussion.

Governor Rendell said that providing government incentives to encourage developers to build on city sites is likely to be more effective than trying to block suburban sprawl with regulations. He suggested that developers can be attracted to redevelop contaminated city sites through public incentives for clean-up and infrastructure improvements.

Governor Minner said that Delaware's three counties and most of its municipalities have developed comprehensive plans. Such plans are required by the state, which provides grants and technical assistance. She mentioned that when a Delaware town annexed land not in its plan, an annexation opposed by two counties, the state withheld infrastructure funding from the town. Governor Minner is to receive the American Planning Association's distinguished leadership award for an elected official.

Meanwhile, a panel consisting of mayors William Johnson of Rochester, NY, Thomas Menino of Boston, John Street of Philadelphia, Anthony Williams of Washington, DC, and former mayor John Norquist of Milwaukee discussed some of their successes, as well as obstacles they



Crawford Square in Pittsburgh, a project developed by McCormack Baron Salazar Inc.

have encountered, in pursuing smart growth and urban revitalization agendas.

Mayor Johnson has been an outspoken advocate of smart-growth policies and a critic of urban sprawl. Sprawl, he said, has caused division by race and income in cities and suburbs and has resulted in a high concentration of African Americans in cities such as Rochester.²

In a luncheon address, Mayor John Hickenlooper, of Denver, described his work with several downtown renovation projects for which he received a national preservation award from the National Trust for Historic Preservation. A former geologist, he is a small-business owner who runs seven Denver restaurants.

On the conference's final day, Bob Inman, professor of finance at the University of Pennsylvania's Wharton School, led discussion on the topic "Should Suburbs Help Their Central City?" While most attendees agreed with Inman that suburbs should help central cities, Inman noted that many suburban residents do not agree with that conclusion. Inman's article on this subject was summarized in the Winter 2003 issue of *Cascade*.

*Presentations and other conference information may be found at www.phil.frb.org/cc/reinventing_agenda.html. In addition, articles contributed by conference sponsors may be found in the Winter 2003 issue of *Cascade*.*

-Keith L. Rolland

² An earlier presentation by Mayor Johnson, "Beyond Civil Rights Law," may be found at: www.cityofrochester.gov.

PNC Integrates Community Development Banking in Its Delaware Valley Branches

By Vicki Cervino-Henn, Senior Vice President, Community Development Banking, PNC Bank, N.A.

Building on the experience of its development bank, PNC has integrated community development banking throughout its branches in southeastern Pennsylvania and New Jersey.

In 2000 PNC established the first of 26 development bank branches as an initiative of its Retail Community Bank. Shirlyn Swann, PNC Bank vice president and community consultant, recalled: "It started with a basic philosophy. Low- to moderate-income consumers are not a burden. They are a viable customer segment, and we want to provide services that benefit them—and our bottom line."

The development bank had a two-tiered strategy. First, dedicated branches located in the heart of low- to moderate-income neighborhoods would offer specialized products and services such as affordable mortgages, low-rate Philadelphia home-improvement loans, and budget checking. Second, PNC community consultants would work with individuals, nonprofits, and small businesses to meet their needs in non-traditional ways, including hands-on financial literacy programs.

One of PNC's first development bank branches was at Broad and Fairmount Streets in Philadelphia. It was started in partnership with People for People Inc., the community outreach offshoot of Greater Exodus Baptist Church. Rev. Herbert H. Lusk II, the church's pastor and founder of People for People, had approached PNC about working together.



PNC Bank, N.A., has had a close partnership with People for People Inc. and opened a PNC Development Bank branch on the same floor as the People for People Community Development Credit Union office in Philadelphia. Shown here are Deborah Ware (left), branch manager of the credit union, and Sandra Moore-Griffin, manager of the bank branch.

PNC donated one of its former bank branch buildings to People for People, funded its renovation, and helped the nonprofit start its own credit union. PNC also rented space from the nonprofit to open a development bank branch directly across the hall from the People for People Community Development Credit Union and placed a \$100,000 deposit in the credit union. In the branch's first year, PNC developed more than 1,000 new banking accounts with customers who had never done business with a traditional bank.

From 2000 to 2002, the development bank branches increased their lending penetration 10.5 percent and increased the number of consumer and business accounts approximately 5 percent.

Beyond Bricks and Mortar

PNC community consultants played a critical role in conducting free seminars on budgeting, credit, and homeownership at nonprofits, schools, and churches. They also looked for opportunities to lead region-wide educational programs and took a leading role in the Philadelphia Saves campaign.

PNC's community consultants logged weekend hours during the tax season to offer free workshops

PNC believes in building a customer base for the future even if the results won't be seen for years.

at volunteer income tax assistance sites throughout the region. Swann added: "We believe that when we reach out to put people on the road to economic self-sufficiency, they'll contribute in more meaningful ways to society, and be potential customers, too."

The bank believes in building a customer base for the future even if results won't be seen for years. PNC recently partnered with Operation HOPE to introduce "Banking on Our Future," a financial literacy program for Pennsylvania school children led by instructors from the banking sector. PNC's commitment to the program includes offering office space to an Operation HOPE employee who will coordinate the program in the greater Philadelphia region.

...continued on page 13

The development bank also used PNC grants to assist nonprofits and businesses in low- to moderate-income areas. In many instances, the grants are part of a larger program of support. For example, Project H.O.M.E., a 2000 Partner Grant recipient, received PNC funding for its Rowan Homes development in North Philadelphia, and in October 2003, PNC provided \$8 million in financing and public relations assistance for Project H.O.M.E.'s Kate's Place, one of the first affordable-housing initiatives in Center City Philadelphia.

Lesson Learned: Reach Low- to Moderate-Income Customers Wherever They Are

After two years of experience, PNC business managers decided to ap-

ply the development bank concept to all PNC branches. Carl Lisman, executive vice president for PNC Bank's greater Philadelphia region, explained: "We were missing an opportunity to reach low- to moderate-income residents living and working in the suburbs or in Center City Philadelphia, for example. At the same time, we realized that the development bank branches had become isolated from the rest of the retail system."

Last year, PNC instituted a comprehensive community development banking business segment. Today, all PNC territory managers are responsible for meeting community development goals and ensuring that retail employees are knowledgeable about the program.

"Getting the development bank's message out in our branches is probably our greatest opportunity," Lisman explained. "We know that delivering on that opportunity will require ongoing training on our community development products and services. We have a great opportunity to have a positive impact on low-income people and communities."

For information, contact Vicki Cervino-Henn at (732) 220-3106 or vicki.cervino-henn@pncbank.com, or Shirlyn Swann at (215) 276-7109 or shirlyn.swann@pncbank.com.

Information Sources on Revised OMB Statistical Definitions

OMB Bulletin No. 04-03, "Update of Statistical Area Definitions and Additional Guidance on Their Uses" (February 18, 2004), www.whitehouse.gov/omb/bulletins/fy04/b04-03.html

OMB Bulletin No. 03-04, "Revised Definitions of Metropolitan Statistical Areas, New Definitions of Micropolitan Statistical Areas and Combined Statistical Areas, and Guidance on Uses of the Statistical Definitions of These Areas" (June 6, 2003), www.whitehouse.gov/omb/bulletins/b03-04.html

Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act, "Census Data," [preliminary MSA/MetroDiv median family income values based on OMB updates issued February 18, 2004], www.ffiec.gov/hmda/products_filespecs.htm#Census

"2004 HMDA Edits," www.ffiec.gov/hmda/pdf/edit2004.pdf

"2004 CRA File Specifications," www.ffiec.gov/cra/pdf/2004specs.pdf

"Implications of OMB Definitions on 2004 HMDA Reporting," www.phil.frb.org/src/srcinsights/srcinsights/q3_03_cc2.cfm

"Census Data Impacts CRA and HMDA Reporting," *ABA Bank Compliance*, January/February 2004 issue

Source: OMB Bulletin No. 03-4 and accompanying attachment.



Are Economic Development Incentives a Failure?

This column is the first of a regular series that will highlight research of interest to Cascade's readers. Since research sometimes influences policy in both the public and the private sectors, knowledge of current thinking on key issues allows interested parties to keep pace with the debate. This column will report on studies that provide a window through which current topics might be viewed, with an eye toward stimulating further discussion.¹ On occasion, the column might include the positions of individuals who have opposing views on a subject. Their points of view will be presented without independent comments by the author of this column. Readers can expect uncensored access to information that will increase their knowledge about pressing issues of the day.

Although economic development policy continues to play a key role in local planning decisions, business incentives, the most expensive aspect of this policy, have generated a great deal of criticism.² The question at the center of the controversy is whether the incentives are a cost-effective means of achieving economic growth. According to Alan Peters and Peter Fisher, of the University of Iowa, total state and local expenditures on economic development incentives in the U.S. are around \$50 billion annually and are likely to increase. Given this magnitude, concerns about business incentives warrant attention. Peters and

Fisher addressed the central question about incentives in a recent article.³ A summary of that article follows.

The rationale for employing economic development incentives is two-fold. First, supporters say incentives lead to business investment and thus new jobs, which produce an increase in the demand for goods and services and give rise to further economic growth. Second, the resulting economic growth increases public revenues, which allow governments to improve public services or lower tax rates.

In their work, Peters and Fisher focused on three related aspects. Do business incentives cause states or localities to grow more rapidly than they would have otherwise? If so, is the growth targeted to provide net gains to poorer communities or poorer people, or is it merely a zero-sum game? How costly to government is the provision of these incentives compared with alternative policies?

Peters and Fisher answered these questions after taking into account decades of policy experimentation and reviewing hundreds of scholarly studies, including some of their own.



Marvin M. Smith, Ph.D.
Economic Education Specialist
Community Affairs Department

“Does Economic Development Induce Jobs or Investment?”

This question is the most important of all. Although much research has focused on the question, the authors found that the insight the studies offer varies over time. Until the late 1980s, the prevailing wisdom among most academics and many practitioners was that economic development (tax) incentives had only a marginal impact on firms' location decisions and net job generation in local areas. The primary reason was that taxes make up a small percentage of a firm's operating costs. Thus, even a small variation in resource prices or transportation costs between localities could offset a large variation in taxes and other incentives. Moreover, firms pay taxes on incentives,

¹ However, the views expressed here are those of the author(s) whose work is being summarized and not those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

² Business incentives may include various tax instruments—property tax abatements, tax increment financing, sales tax exemptions, and credits for investment or jobs—and some nontax incentives such as business grants, loans, and loan guarantees.

³ “The Failures of Economic Development Incentives,” *Journal of the American Planning Association* 70, 1 (Winter 2004). Alan Peters is an associate professor and Peter Fisher is a professor in the graduate program in urban and regional planning, University of Iowa.

which further neutralize the incentives' effects.

However, in the late 1990s, a new consensus emerged: Lower taxes or more incentives are likely to result in greater growth. To reconcile such differences in positions, the authors point to improvements in econometric or statistical methods that have helped researchers better model the relationship between taxes and growth.

Another possible contributing factor is an increase in the tax and incentive differentials across states and cities and their increased competition with one another using incentives. Nonetheless, some researchers have questioned the new consensus by pointing to the seriously flawed data used in some of the studies and the inability to replicate the results over time and across geographic regions.

Another sticking point is that even if studies find a statistically significant relationship between incentives and economic growth, does it translate into practical significance? Peters and Fisher are not convinced. Thus, on the basis of the research to date, they concluded that while there are reasons to believe that incentives are not very effective, there is no definitive answer at this time.

“Who Takes the Jobs Created by Economic Development?”

Peters and Fisher broke this question down into three corollary questions: Do poorer states or localities pursue economic development more vigorously than others? Do states target incentives at more needy places or populations? Do poor people living in targeted areas benefit from

targeted policies? Unfortunately, there is a dearth of empirical studies that deal with these questions. On the first question, the evidence seems mixed, and more recent studies find little or no relationship. This might be due to poorer places having less money to finance incentives, believing they will be outbid by wealthier places for new investment, or the tendency for incentives to increase long after growth has been achieved.

Many states make every effort to target state and local incentives to poorer localities or poorer populations by offering state incentives only to firms in targeted areas (or to firms that hire targeted populations) or local tax incentives within distressed areas. Enterprise zones in most states reflect this targeting philosophy. However, the evidence suggests that while incentives may well be targeted to designated areas, they are not effectively aimed at depressed populations.

When enterprise zones and analogous programs are successful in making use of incentives to generate job growth, who gets the jobs? Ideally, the firms attracted to the area will employ workers from the local labor market, particularly inner-city residents and those unemployed. This would underscore the rationale for a policy of targeted incentives, namely, to rectify the mismatch between the supply and demand for jobs and earning differentials between areas. But Peters and Fisher found that firms in enterprise zones tend to draw workers from metropolitan labor markets, not local ones. This has resulted in the majority of job gains in targeted areas going to residents

outside the zone, essentially subsidizing mobility.

“Are Business Incentives Fiscally Beneficial?”

Even if state incentives induce new jobs but fail to target them to the poor, they might still provide fiscal benefits to local communities, provided the revenues from the new jobs exceed the cost of the incentive program. However, while incentives are likely to yield net revenues at the local level, they generally fail to produce the same for the state, possibly because the fiscal benefits that accrue to cities from firms' relocation result from beggar thy neighbor, with the state paying the costs. Moreover, states might incur fiscal losses if they give tax incentives to firms that were planning to relocate within their borders anyway or if firms leave the state after the incentives expire. The literature on the fiscal benefits of incentives is very sparse; nonetheless, what research there is suggests that incentives might be a costly proposition.

Recommended Alternative

Peters and Fisher proposed an alternative to traditional economic development policy that relies heavily on incentives. Their approach is for policymakers to avoid micro-managing economic growth and instead provide a nurturing economic environment through sound fiscal practices, quality public infrastructure, and good education systems—and let market forces operate. Within this context, a place would still exist for programs designed to improve the employability of workers as well as their occupational and geographic mobility.

DISTRICT NEWS



Jerry Brant

Jerry Brant, president of the Northern Cambria Community Development Corporation of Northern Cambria, PA, was one of six recipients of a James A. Johnson Fellowship from the Fannie Mae Foundation in 2003. The fellowship provides a \$70,000 grant, as well as a stipend of up to \$20,000 for travel and educational expenses, in recognition of past accomplishments and as stimulus to further professional development in

the fields of affordable housing and community development....**Joan Brodhead**, previously a consultant and vice president at Meridian Bank, has joined Community First Fund in Lancaster, PA, as a senior director. She oversees a new SBA-funded Pennsylvania Women's Business Center that serves a 10-county central Pennsylvania region....**Karen Kollias**, formerly with the Neighborhood Reinvestment Corporation and Bank of America, has joined NCALL Inc. in Dover, DE, as asset manager overseeing multifamily development by nonprofits in the Delaware Rural Housing Consortium....**Caroline Glackin**, previously executive director of the First State Community Loan Fund, has become director of Delaware State University's Entrepreneurship Center....The historic **RCA "Nipper" Building in Camden, NJ**, is being redeveloped into 341 loft apartments and retail stores by Dranoff Properties. The Community Preservation Corpora-

tion closed \$5 million in permanent financing in participation with FleetBoston Financial's real estate finance group; other participants included United Bank of Philadelphia and Wilmington Trust of Pennsylvania....Articles on revitalization strategies of five **Philadelphia CDCs** have appeared in the *Philadelphia City Paper*. For information on the ongoing series, contact Sue Sierra of the Philadelphia Association of Community Development Corporations at ssierra@pacdc.org....**The Reinvestment Fund** has issued *Choices in Pennsylvania*, calling for a comprehensive state housing strategy in Pennsylvania, while the **Housing Alliance of Pennsylvania** has produced a report on the strengths and weaknesses of the state's housing market. The reports may be found, respectively, at www.trfund.com/about/publications.htm and www.housingalliancepa.org....**Project H.O.M.E.** in Philadelphia received a Ford Foundation Leadership for a Changing World Award.

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