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Developer's Viewpoint: Urban Markets Strengthen, But Standard Real Estate Products Are Not Suited for Mixed-Use Urban Development

Christopher B. Leinberger is a visiting fellow at The Brookings Institution's Metropolitan Policy Program, professor and director of the University of Michigan's graduate real estate program, and a founding partner of Arcadia Land Company, which is based in Wayne, Pennsylvania. Arcadia has developments underway in Chester, Berks, and Montgomery counties, Pennsylvania; Albuquerque, New Mexico; and Independence, Missouri. He grew up in Drexel Hill, Pennsylvania, attended Upper Darby High School, and received a bachelor's degree from Swarthmore College and an MBA from Harvard University.

Leinberger has worked as a consultant, author, teacher, and developer. From 1979 to 2000, he was the managing director and owner of Robert Charles Lesser & Co., the largest independent real estate consulting firm in the country. He consulted on corporate strategic planning for real estate companies, metropolitan development trends, and downtown strategic planning.

He played a leading role in the redevelopment of downtown Albuquerque from 1998 until early 2005 as CEO of the Historic District Improvement Company (an Arcadia-affiliated company) and recently led the process to develop an updated strategic plan for the city's downtown.



Christopher B. Leinberger

Keith Rolland interviewed Leinberger at The Brookings Institution.

Development during the past 50 years has often followed a pattern of "sprawl" from cities into a succession of more and more distant suburbs. What are the causes of sprawl? What are its consequences?

Understanding sprawl starts with how we as a country have defined the American dream and how we have chosen to invest our wealth as a society. There's no conspiracy here. Since the Second World War, sprawl is what we wanted as a people.

For 5,500 years of human urban development, the transportation system a society selects has always driven development. We as a society have been subsidizing and building predominantly car-only transportation and development for three generations. We moved out to the metropolitan fringe in ever-lower densities driven by this one-dimensional transportation system, based exclusively on the car and truck. It is important to note that there are only two types of development possible in our country: car-only low-density suburban development and walkable

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Message from the Community Affairs Officer

Several years ago, the Philadelphia Fed hosted its first conference on reinventing older cities and towns across the country. We were delighted by the number of folks who shared our interest. More than 400 people joined us from 26 states to discuss a wide range of issues that are important to making cities vibrant again.

We realized when we hosted the 2004 conference that we had tapped an important vein – many people and professions are interested in the subject, the number of issues and obstacles are extensive, and the number of solutions is growing. So the Philadelphia Fed will host a biennial conference on this subject to keep the dialogue going. *Reinventing Older Communities: People, Places, Markets* will be held April 5–7, 2006, in Philadelphia.

To complement the conference agenda, this issue of *Cascade* is devoted to articles about reinventing older communities. For example, Chris Leinberger, an experienced land-use strategist and developer, outlines the real estate and financing issues that make it difficult to develop in urban areas. He also gives compelling reasons why revitalizing cities and older towns makes more and more sense in our society.

Another interesting perspective is found in Marty Smith's column, in which researchers question whether the urban "success stories" are based on perception or reality. You'll also learn about: a Berks County, Pennsylvania, community foundation's

joint effort with business leaders to develop an economic development plan; how older cities are modernizing zoning and land-use tools to encourage new development; the experience of three Bucks County, Pennsylvania, townships that took the farsighted step of working together through cooperative land-use planning and zoning; Smart Growth America's recent work to help communities deal with vacant properties; and a new focus of Fannie Mae's American Communities Fund.®

The April 2006 conference will feature leaders who will present different strategies for reinventing communities and turning around downtowns, and related subjects, such as waterfront development, community organizing, eminent domain, health in low-income communities, greening strategies, challenges in rural communities, reclaiming vacant property and brownfields, and lessons for older communities from the planned rebuilding of New Orleans and the Gulf Coast.

You'll hear from leading philanthropists, mayors, and governors. The latest information on the conference is on our website (www.philadelphiafed.org/cca/conferences.html). Or you may contact Jeri Cohen at jeri.cohen@phil.frb.org.

We invite you to join us.



Community Foundation Sounds Call to Action

By Heidi Williamson, Director of Communications, Berks County Community Foundation, Reading, Pennsylvania

Reading, Pennsylvania, long known for outlet stores and the Reading Railroad on the Monopoly board, rolled the dice on a new idea two years ago and came up with a plan to bring more jobs to the area and breathe new life into its downtown.

Greater Reading: A Call to Action, published in September 2005 by the Initiative for a Competitive Greater Reading (ICGR), is an economic development plan that goes beyond job creation and reaches into the soul of the community to change the way it sees itself. The plan defines what the greater Reading area should strive for over the next 20 years.

The ICGR began in late 2003, when the Berks County Community Foundation (BCCF) and several local business leaders decided to bring higher-level thinking to economic development for the region. The group concluded that to attract new jobs, the community had to make decisions based on hard data, rather than speculation.

At the outset, BCCF established a fund to collect corporate donations for the initiative. However, it quickly became clear that BCCF would need to take a lead role in its execution. BCCF's president, Kevin Murphy, and several board members began structuring a strategy board that would oversee the project and manage communication about the initiative.

"It's probably a little unusual for a community foundation to get so heavily involved in economic development planning," Murphy said, "but we felt it was the right time and

we were the right organization. We felt that helping our region get its thinking and planning on job creation together was the most significant thing we could do to improve the quality of life here, which is our mission."

The ICGR was chaired by BCCF board members Jerry Johnson and John Dever, and more than 130 volunteers participated in the process. BCCF contracted with the Initiative for a Competitive Inner City, a research group led by Harvard Business School professor Michael Porter, which provided reams of demographic and business data for the strategy board to base its decisions on. The foundation also looked for unique ways to broaden the community's view of economic development.

One of the most significant things BCCF did, which in retrospect proved to be a turning point in the ICGR process, was to bring Richard Florida, author of the *Rise of the Creative Class*, to speak at its annual meeting half-way through the process. Florida articulated what the ICGR teams wanted the region to be—vibrant, energetic, upbeat—in essence, a cool place to live that would attract new econo-



A vacant factory in downtown Reading, PA, has recently been converted into a community arts center for adults and young people. The factory produced safety goggles for more than 130 years. Now called goggleWorks Center for the Arts, it contains a main gallery shown here, 34 artist studios, a glass-blowing facility, woodshop, ceramics studio, jewelry workshop, gallery shop, arts supply store, galleries featuring exhibitions of local, regional, and national artists, and a theater for foreign and art films. Classes are provided in the visual arts, music, literacy arts, theater, and dance.

my workers and businesses.

More than 600 people heard Florida's message, which helped set the stage for the ICGR process to take hold. They heard Florida describe the new class of knowledge workers who were looking for things other than the traditional manufacturing workers of greater Reading's past.

In addition to looking at ways to attract new economy workers, the teams looked for ways to leverage community assets, which include a concentration of food-processing companies, a complete fiber-optic network connecting greater Reading to Manhattan, and an East Coast location with proximity to the New York, Philadelphia, and Washington markets.

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American Communities Fund® Adds Focus on Intermediaries

Fannie Mae's American Communities Fund® (ACF), which was established in 1996, provides loans and equity to for-sale and rental housing developments to increase the supply of affordable housing and to revitalize communities. ACF works with nonprofit and for-profit developers, local lenders, public entities, and community development intermediaries to achieve its mission. To maximize the impact it has on communities, ACF concentrates resources in targeted neighborhoods with established revitalization plans.

ACF and Fannie Mae's local community business centers (CBCs) are part of the newly formed American Communities Group. Diane Laughlin, community development business manager with Fannie Mae in Philadelphia, said that CBC specialists are

“our eyes and ears on the ground in the community,” and they identify different ways that Fannie Mae can be of assistance to targeted communities. The CBCs work with business managers assigned to their specific geographies to structure deals, which are underwritten in Fannie Mae regional offices. CBCs are located throughout the country, including Wilkes-Barre, Pennsylvania; Wilmington, Delaware; and New Brunswick, New Jersey.

ACF loans are typically provided at variable interest rates, Laughlin said. In 2004, ACF invested \$6.3 billion in bonds in conjunction with housing finance and public housing authorities, \$482 million in loans, and \$238 million of equity in multi-family and single-family housing developments.

ACF is increasing its financing to qualified intermediaries, which will in turn provide financing to borrowers with qualifying projects. The intermediaries underwrite according to agreed-upon criteria, and loans are made on a full recourse basis to the intermediary, Laughlin said. In one of its first such loans in this region, ACF closed a \$15 million loan in September 2005 to The Reinvestment Fund.

As part of the plan to target selected geographic areas, ACF expects to work with neighborhood development partners, including nonprofit housing providers and local lenders, to assist in project-based financing that contributes to the project's overall feasibility. ACF financing will include both debt and equity products provided directly or through its lender and equity fund partners.

ACF also participates in loans of large construction lenders. The participations help offset risk for the lenders and expand their lending capacity, Laughlin said.

ACF assistance in the Third Federal Reserve District has included an early-stage loan for Ships Tavern, a major housing-retail development in Wilmington, Delaware; a \$2 million loan to the City of Wilmington for a program to stabilize three neighborhoods; and two lines of credit to the Delaware State Housing Authority for construction and rehabilitation of 476 low- and moderate-income units.

Elsewhere in the country, one notable example of how ACF's assistance can play a major role in a community revitalization effort is in New York City, where ACF participated in a

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Fannie Mae's American Communities Fund® (ACF) was an early-stage investor in Ships Tavern Mews, a \$20 million rehabilitation of a full city block in downtown Wilmington, DE, into 86 apartments and 33,000 square feet of street-level retail space. Sixty percent of the apartments are market-rate and 40 percent are affordable units. The equity investor in the project (for low-income housing tax credits, federal historic tax credits, and state historic tax credits) is Delaware Community Investment Corporation.

Bringing Back Hope: The National Vacant Properties Campaign

By Don Chen, Campaign Chairman and CEO, Smart Growth America

As her neighbors pull up stakes, Julia DiFranco of Collinwood, Ohio, wonders if she'll be next. "Our neighborhood's gone to pot," she laments. "I had never seen a boarded-up house until about five years ago. Now it seems like they're all over the place ... I like my neighborhood and I like my house, but sometimes I think it's just a matter of time before everybody leaves. I wish something could be done."

Fortunately, there is a lot that can be done. In 2003, a team of smart-growth, community development, and environmental groups launched the National Vacant Properties Campaign to help communities deal with the plague of property abandonment. The campaign is staffed by Smart Growth America (SGA), Virginia Tech's Metropolitan Institute, and the Local Initiatives Support Corporation and is advised by a small network of experts and practitioners. This leadership group contends that derelict properties have crippled communities by becoming eyesores, safety and fire hazards, drags on property values and local investment, and magnets for crime, arson, vermin, and dumping.

Our vision is to help cities eliminate blight, restore economic opportunities, and develop systems to prevent abandonment, better manage vacant properties, and prepare them for re-use. Goals include creating a network of practitioners, policymakers, business leaders, and researchers who will provide technical assistance to communities, and serving as a clearinghouse for the latest research, policy innovations, and best practices.

Our work has taken us to many places like Ms. DiFranco's neighborhood. In the past year, we have assisted the cities of New Orleans, Las Vegas, Buffalo, Savannah, Cleveland and Dayton, Ohio, and Waterloo, Iowa. In each case, campaign personnel have conducted workshops and assessments and offered pragmatic recommendations.

Our recent report, *Cleveland at the Crossroads: Turning Abandonment into Opportunity* (sponsored by Neighborhood Progress Inc.), yielded immediate results. As the *Cleveland Plain Dealer* reported, "Less than three hours [after the report's release], [Mayor Jane]

Campbell publicly embraced the study and made it the foundation for a new Zero Blight Initiative." The editorial board also weighed in, observing that "*Cleveland at the Crossroads* tells how this city, like many others across the nation, can make a dent in the problem."

One of our most important lessons learned is that many communities face common challenges. For example, most smaller jurisdictions do not have the capacity to accurately track their abandoned buildings. Fortunately, several initiatives have created inventory and tracking systems that use databases and GIS technology to monitor property conditions. Such tools, exemplified by projects like Neighborhood Knowledge Los Angeles and Chicago's Neighborhood Early

Warning System, have helped city officials gain control over what used to be frustrating guesswork.

Our role has been to disseminate these success stories and tools to practitioners through our website, newsletter, dozens of speeches and panel presentations, and several conferences that we have sponsored. For example, we organized national forums in Washington, D.C., to launch the campaign in 2003 and

Most smaller jurisdictions do not have the capacity to accurately track their abandoned buildings. Fortunately, several initiatives have created inventory and tracking systems that use databases and GIS to monitor property conditions.

to develop our research and policy agenda in 2004. Both attracted nearly 100 practitioners, elected officials, policy experts, scholars, and community leaders and generated media coverage and momentum for our efforts. In April 2005, we held a national conference on land-bank authorities in Flint, Michigan, that attracted about 130 participants. In October 2005, we worked with a range of local partners to sponsor the first statewide conference in Columbus, Ohio, on vacant property reclamation.

Other innovations have occurred in the legislative realm. In the past few years, states such as Michigan and New Jersey have enacted dramatic reforms in their tax-foreclosure procedures – ones that favor the prevention, reclamation, and respon-

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From Conflict to Working Agreement: The Saga of Three Bucks County Townships

By Michael Frank, Director of Community Planning for Heritage Conservancy, Doylestown, Pennsylvania, and Adjunct Associate Professor, Community and Regional Planning Program, Temple University, Ambler Campus

Editor's Note: Michael Frank served as planning consultant for the Newtown Area Joint Municipal Planning Program and for the three townships that participate in the program. He provided expert-witness testimony in a legal challenge to the validity of a joint zoning ordinance developed through the program.

After a rocky start in the 1970s, three townships in Bucks County, Pennsylvania, have achieved local goals and efficiencies through cooperative land-use planning and zoning.

The Newtown Area Joint Municipal Planning program includes the adjoining townships of Newtown, Upper Makefield, and Wrightstown. About 30 years ago, Upper Makefield Township was looking for the least conspicuous place for a mobile home park zoning district to comply with court directives. The proposed location was on the boundary of adjoining Newtown Township. At this location, future residents of the mobile home park would have traveled into neighboring Newtown for shopping, schools, employment, and access to regional highways. The officials of Newtown, the neighboring township that would get the added traffic, were outraged. Heated letters were fired back and forth on the local newspaper's editorial pages.

After an initial period of anger, officials in the municipalities concluded that cooperation was likely to resolve the conflict. They discovered that the municipalities could jointly share their planning and zoning responsibilities and thereby achieve a more rational and efficient growth pattern. That meant that each community did

not need to provide for all intensive land uses and costly municipal services on its own.

In 1983, they adopted a joint comprehensive plan, a joint zoning ordinance, and a "marriage agreement" that facilitates cooperative planning and zoning. (The participating communities do not share other municipal services, such as schools, police, and garbage collection.) Their land-use plan protects and fosters business and employment growth in Newtown, the core community. Because the two outlying townships do not woo business away from Newtown, Upper Makefield and Wrightstown have been able to maintain their rural, agricultural character. Farmland and natural resources are better protected. Cooperation has accommodated growth in the most suitable locations and helped manage the costs of community services.

This arrangement has not been without problems. It takes time to usher ideas and ordinance amendments through three planning commissions, three elected bodies, several solicitors, a regional planning commission, and a council of elected officials. Opinions often differ. Newly elected or appointed officials need to gain understanding of the background and rationale for the cooperative planning policies. Time, tempers, and training seem to be the greatest problems. Regular ongoing communication helps overcome these problems. In spite of difficulties, these townships continue to plan and zone together more than two decades later.

In 1998, Governor Tom Ridge gave the Newtown area municipal officials a Governor's Award for Environmental Excellence. Through cooperative planning, these municipalities have guided development into Newtown Township and avoided sprawl in the two other townships. This smart-growth approach has avoided the need for \$34.8 million in road and storm sewer capital costs in the outlying communities, according to Thomas J. Harwood, Jr., director of public works and code enforcement for Newtown Township. Lower levels of automobile traffic and emissions have resulted.

Three substantive challenges to the joint zoning ordinance have been successfully defeated. The most significant was *In Re: Petition of Dolington Land Group and Toll Bros. Inc.*, from the *Decision of the Zoning Hearing Board of Upper Makefield Township* (839 A.2d 1021, Supreme Court of Pennsylvania, 2003). In this petition, which was filed on February 15, 1996, the applicants charged that the joint zoning ordinance failed to make adequate provision for apartments, townhouses, and other types of attached housing development and that the zoning provisions unreasonably restricted the property owners' right to develop their land.

The applicants wanted to build about 1,200 homes on their 312 acres in the zoning district intended for rural residential and agricultural uses. In upholding the zoning, the court stated that these communities regularly reviewed the need to provide adequate land to accommodate regional

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If We Fix It, They Will Come

By Karen L. Black, President, May 8 Consulting, Media, Pennsylvania

After decades of disinvestment, many older cities must modernize and streamline zoning and land-use tools to facilitate new construction and development. Philadelphia is one city that has begun to take these steps in order to encourage and manage a new wave of urban development.

The release in October 2004 of a report by the Building Industry Association of Philadelphia (BIA), entitled *If We Fix It, They Will Come*, proved to be a turning point in this effort. This report, which was endorsed by government and civic leadership, provided recommendations to modernize the city's 40-year-old zoning code – a code founded on inaccurate projections of continuing growth that favored low-density suburban-like building patterns while making the classic Philadelphia rowhome illegal as a “nonconforming use.”

The report also proposed that Philadelphia streamline its antiquated development review process – a convoluted system requiring each developer to negotiate with up to 14 different city departments, agencies, and boards to construct or rehabilitate a single house.

The argument for improving and modernizing government practices is compelling. In recent years, older cities across the nation – Baltimore, Boston, Chicago, Milwaukee, Pittsburgh, and others – have rewritten their zoning codes, remapped their neighborhoods, automated their

permit systems, and transformed the culture of their development review agencies. As a direct result, they have: (1) lowered their cost of regulating construction by up to 60 percent; (2) supported increases in private investment of up to 400 percent; (3) dramatically increased tax revenue by up to \$150 million by bringing abandoned properties back on the tax rolls; and (4) created up to 40,000 new jobs and 250,000 new residents.

In the last year, Philadelphia has made significant progress. Large-scale developers who used to wait for hours in multiple agency lines can now meet with all relevant agencies at once and seek approval for their development project. The city's zoning restrictions, which have been available only on ancient maps in a back room, will be put online and will

The city's zoning restrictions, which have been available only on ancient maps in a back room, will be put online and will include each of the hundreds of amendments and overlays added to the code by City Council over the decades.

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Municipal leaders in cities such as Milwaukee and Chicago suggest that rewriting a zoning code to reflect modern market realities can be done in two years if there is a strong mayoral commitment. The mapping of each individual neigh-

borhood may take up to a decade, however. It is my hope that the next Philadelphia mayor will make a modern zoning code a top priority of his or her administration, but in the interim, the city's planning commission, licenses and inspections department, mayor, and City Council are taking early steps to amend the code to remove a few of the most costly and arbitrary provisions.

For instance, in the spring of 2005 City Council increased the maximum fence height for residential buildings from 3.5 feet to 4 feet so that for the first time in decades Philadelphia homeowners could buy a standardized retail fence at their local hardware store. A requirement adopted in the early 1900s to respond to tenement overcrowding had the unintended effect of prohibiting modern design features. The requirement was eliminated.

Of course, Philadelphia still has a long way to go. It remains one of the only cities in the nation where City Council can pass specific amendments to the code so that R10 zoning in one councilperson's district differs from R10 in another. Three agencies with three different standards share responsibility for stormwater management and virtually all market-sensitive building designs require a variance in order to be built – the mark of an unhealthy zoning system.

Philadelphia is not the only city in the country that after a half century of decline is unprepared to welcome or predictably regulate



Urban Revitalization: Reputation Versus Reality

Across the nation, planners, city officials, developers, and community activists are hard at work trying to revitalize urban cities that once flourished. To accomplish this, they draw on many resources, including the experiences of cities generally thought to have made the transition successfully. But how much confidence should be placed in the identification of cities deemed successful? This concern was the subject of a paper by Harold Wolman and Kimberly Furdell of George Washington University, and Edward W. Hill of Cleveland State University.¹ More specifically, they focused on the following two questions: Do the reputations of central cities that have reportedly been revitalized match reality, and can reputation alone be used to select best practices in urban public policy? This inquiry was a follow-up to a previous study that investigated the same issue for an earlier period.

Previous Study

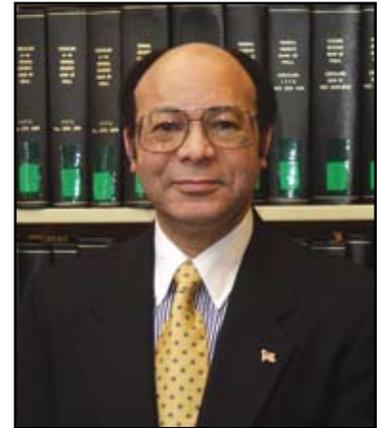
In the earlier study, a group of experts on urban public policy and economic development were surveyed and asked to identify those central cities that were distressed in 1980 but had been revitalized between 1980 and 1990.² To provide a basis on which “to compare the perceptions of the experts with actual changes in economic well-being of the residents of those cities over the decade” the researchers constructed an index using census data. They chose as the counterfactual the

central cities that were deemed to be equally distressed in 1980 but were not thought by experts to have been successfully revitalized. The authors found that cities judged to be distressed but perceived as “urban success stories” were not, in fact, successful as measured by the improvement in the economic well-being of their residents, since their performance did not differ from – and in some cases was inferior to – that of other cities that were distressed in 1980; but the difference was not statistically significant.

This led the authors to suggest that “policymakers be cautious in drawing lessons or deriving inferences from cities widely perceived to have experienced successful revitalization, since ‘perceived’ success might not agree with reality.” However, they offered three caveats. The authors hypothesized that it was conceivable that the 10-year period was not long enough for the revitalization to have taken place. They also speculated that the experts may have been applying different definitions of revitalization or that the perceptions of the panel of experts simply just didn’t mirror reality.

Current Study

In this paper, the authors replicated the previous study but convened a new panel of experts and used census data covering the decade 1990 to 2000. For this inquiry, the authors focused on 145 cities that had



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populations of 125,000 or more in 1990. They used several descriptive features of the cities – 1990 values of the poverty rate, 1990 unemployment rate, 1990 median household income, and percent change in population from 1980 to 1990 – to construct a composite index to indicate the level of a city’s distress. The cities were then ranked according to their municipal distress index score, with the 48 cities in the bottom third of the distribution designated as distressed central cities for purposes of the study.

The authors selected their panel of experts from members of the editorial boards of some well-known publications in the fields of economic development, housing, and urban affairs as well as members of the International Economic Development Council and the Urban Land Institute. The panel of experts was

¹ “Evaluating the Success of Urban Success Stories: Is Reputation a Guide to Best Practices?” *Housing Policy Debate* 15, 4 (2004), pp. 965–97.

² Harold Wolman, Coit Ford III, and Edward Hill, “Evaluating the Success of Urban Success Stories,” *Urban Studies* 31, 6 (June 1994), pp. 835–50.

sent the list of the 48 distressed cities along with an explanation that the study's purpose was "to identify those cities that are perceived to have experienced the greatest economic 'turnaround' or revitalization over the course of the past decade." The panel was further instructed to "identify up to 10 cities that had experienced the greatest degree of revitalization between 1990 and 2000."³ Based on the responses of the panel, the authors assigned the 48 cities to one of three categories as follows:⁴

Most successful: eight cities designated as revitalized by more than 33 percent of the respondents

Next most successful: eight cities designated as revitalized by 20 percent or more (and below 33 percent) of the respondents

Unsuccessful: 32 cities designated as revitalized by less than 20 percent of the respondents

A comparison of the cities perceived to have engaged in successful revitalization in both the previous and current studies yields some noteworthy features. Several cities, namely Atlanta, Baltimore, Chicago, Cleveland, Miami, and Pittsburgh, appear on both lists of cities. One city, Boston, was considered distressed in 1980 and perceived to have been revitalized successfully during the 1980s but was no longer distressed as measured by the 1990 index. On the other hand, Birmingham, Buffalo, Cincinnati, Louisville, and Norfolk were characterized as distressed in 1980 but were thought to have engaged in successful revitalization in the 1980s; however, they continued to be distressed and were not perceived by the experts to have

undergone successful revitalization during the 1990s.

In order to gauge how distressed cities *actually* performed between 1990 and 2000, the authors developed a "composite index." As in the previous study, the composite index measured revitalization in terms of an improvement in the economic well-being of city residents. The following five variables were combined to form the index:⁵ percent change in per capita income; percent change in median household income; percentage point change in the poverty rate; percentage point change in the unemployment rate; and the percentage point change in the rate of labor force participation. The index allowed the authors to answer the following questions: Did a particular city do better or worse than the mean of the entire group of 48 distressed central cities and, if so, by how much? And did the cities perceived as successful, in fact, perform better on the index of economic well-being than those not perceived to be successful?

In contrast to the previous study, the current study revealed that the perceptions of the experts with regard to the economic well-being of residents of distressed cities were more in line with actual improvements in those cities – but the results were not statistically significant when the cities were considered to be a sample of all possible distressed cities. Moreover, "the rank order correlation coefficient between perceived success and the

index of improvement in resident economic well-being was only 0.15."⁶

The authors then constructed a more comprehensive performance index by incorporating variables that are indicators of *income and education, demographics, poverty and unemployment, and crime*. The perceptions of the experts were even more credible when applying this index than the more limited original index in that both the most successful and next most successful cities outperformed the unsuccessful cities in the former index, while only the most successful cities outperformed the unsuccessful cities in the latter index.⁷

A Concluding Note of Caution

Although the authors found that the perceptions of experts about which cities were successfully revitalized and their actual performance were somewhat in sync, the low level of correlation leaves room for pause. Short of formal evaluations or experiments involving policy innovations, the authors are hesitant to fully embrace the reliance on "best practices" as a guide for cities seeking revitalization, since perceptions generally serve as the basis for identifying cities to emulate. They question whether adopting best practices is really falling for the best pitch or story supported by the best advertising. The authors caution that "the danger is that falling for perception rather than reality can lead cities or states to adopt policies that might not work or to look for ways policies have been implemented where the implementation failed."

³ The authors received an overall response rate of 38 percent (115 responses).

⁴ The authors used a t-test to test the difference of means of the 1990 municipal distress index for each pair of groups and found that there was no statistical difference between the groups in the level of their economic distress.

⁵ Using data from the 48 cities that were found to be distressed in 1990, the authors standardized each of the distributions of these variables using z-scores and then combined the standardized scores for the variables for each city to make up the composite index.

⁶ The authors also report the results of a further examination of the factors contributing to a city's classification as *most successful, next most successful, and unsuccessful* and an inquiry into the primary benefits from an economic revitalization that might accrue to cities considered "successful" as well as a discussion of whether successful cities were simply lucky or a product of their actions.

⁷ However, as with the original index, the correlation between reputation and reality associated with the more comprehensive index was low.

Christopher Leinberger ...continued from page 1

high-density urban development based on a multiple-transportation system. Walking distance historically has been understood to be 1500 feet, or 0.28 of a mile.

About 33 percent to 40 percent of the wealth in this country goes into the metropolitan built environment (land and buildings), according to Bureau of Economic Analysis data. Over the past few decades, we've been putting relatively more of our assets and wealth as a people into a depreciating asset, our cars. The typical household in this country invests 20 percent of its household budget in cars, compared with 7 percent in Europe.

One of the most frustrating observations is that our great-grandfathers built beautiful apartment, office, and retail buildings with great architectural design and high-quality construction in the early decades of the 20th century. We rarely build this level of construction quality today in spite of the fact that we're three times wealthier on a per capita inflation-adjusted basis.

Investments were made in those buildings with a long-term (at least 40 years) perspective. Most times today, we build disposable buildings. We don't want to invest in our buildings for more than seven to 10 years because we don't believe that demand for that product will be there longer than that, partly since sprawl continually takes the edge of suburban communities further outward.

Our suburban-oriented development pattern has been based on cheap oil. We're importing two-thirds of our oil right now. There's a body of research, controversial at this point

in time, that says that this decade will be the peak of worldwide oil production, just as it peaked in the U.S. and Venezuela in 1970, Kuwait in 1974, and the North Sea in 1999, and that world demand may soon exceed the ability of producers to produce. This would mean the end of cheap oil on which we have built our metropolitan areas.

We've allowed the infrastructure in our central cities to deteriorate and have been sinking those investments in fringe places that may not have an economic function, or will have a much reduced function, in the future. Infrastructure doesn't change on a dime. It's literally and figuratively "sunk" investment.

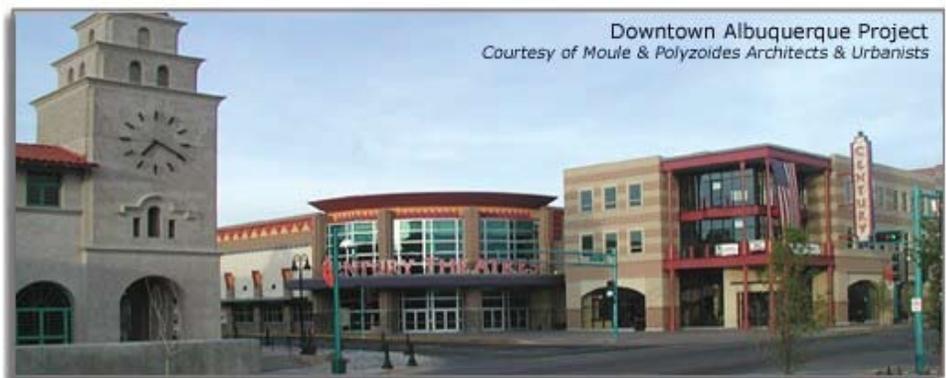
We must move quickly to invest in

dence on foreign oil suppliers. It also helps the environment because the pollution from our car-based transportation system contributes significantly to global climate change. Our development patterns have health consequences, too, because our present reliance on cars, rather than walking, has now been shown by recent research to significantly contribute to obesity.

On a personal note, after I took the position at Brookings this summer, my wife and I looked for and found a residence within five blocks of Brookings, and we happily sold one of our two cars.

Are urban markets changing?

Yes. There's a very impressive turn-



Christopher B. Leinberger was CEO of the Historic District Improvement Company when this 110,000-square-foot mixed-use project, covering an entire city block at the gateway into downtown Albuquerque, New Mexico, was developed. The project, which opened in 2001, is an example of "burying the box" urban design; a 14-screen, 50,000-square-foot theater in the middle of the block was surrounded by seven individually designed structures on all four sides, with restaurants and retail on the ground floor and offices above. It achieved the highest retail lease rates in downtown Albuquerque and the highest office lease rates in the city. It was the first private-sector building constructed in over 15 years.

a variety of less oil-intensive modes of transportation, such as railroads, light rail, and subways, as well as build walkable places that allow for significantly fewer vehicle trips each day. Smart growth should be our domestic policy and that is possibly the best means to reduce our depen-

around in most urban and many suburban downtowns. A subjective survey I did of 61 American downtowns found that five times as many are vital or coming back today compared to 20 years ago. This is an unprecedented turnaround.

There are two reasons that urban markets are getting stronger. One is that many of the baby boomers who became empty-nesters starting in the 1990s want to live downtown and not deal with a large single-family house and a lawn. The other is that Gen Xers are more drawn to living in an urban rather than suburban environment; just look at most television programs of the past 15 years aimed at Gen Xers, starting with “Seinfeld” and continuing through “Sex and the City,” “Friends,” and “ER.”

Another is that each project in an urban core benefits from an upward spiral of property-value increase. More townhouses, apartments, and retail and office space result in an increase of people on the street and in higher rents and property valuations. In downtown areas, more is better. In suburban areas, more is less, since more development results in more traffic congestion, pollution, and less open space. When suburban development encroaches, the market moves on to the next fringe frontier.

Consumer research studies that my former company (Robert Charles Lesser & Co.) and others have conducted seem to indicate that some 25 percent to 40 percent of metropolitan-area households prefer to live in a community where they can walk to most of the services they require. There is strong demand, but limited supply, for such communities.

It is important to note that most of this market demand to live in an urban environment will be satisfied in suburban town centers, such as Silver Spring and Bethesda in Maryland and Reston, Virginia, since the traditional downtowns have a physical limit to how much supply they can provide. This supply limitation is why many former down-and-out downtowns have become the most expensive places to live and do busi-

Who Lives Downtown?

A recent analysis of downtown population, household, and income trends in 44 cities has found that the number of downtown households increased 8 percent to 13 percent in the 1990s alone.

The analysis, entitled *Who Lives Downtown?*, was written by Eugenie L. Birch, professor and chairperson in the University of Pennsylvania’s Department of City and Regional Planning and co-director of the Penn Institute for Urban Research. It was published by The Brookings Institution’s Metropolitan Policy Program.

Birch found that the growth in households reflected the proliferation of smaller households of singles, unrelated individuals living together, and childless married couples.

Downtowns, she reported, have a higher percentage of young adults and college-educated residents than the nation’s cities and suburbs and are home to the most and least affluent households in their regions.

The study may be seen at www.brookings.edu/metro/pubs/20051115_birch.htm.

ness in just the last decade.

What are the inherent challenges in building and financing properties in urban areas?

Construction in urban areas costs more – good urban architecture costs upward of 50 percent more than typical suburban buildings. In urban areas, residents and businesses demand a higher quality of building, since you are walking past them, not driving by at 45 miles an hour with the buildings set back 150 feet.

One of the biggest challenges is that there are what I refer to as 19 standard real estate product types that can readily obtain financing and virtually all of them are geared to suburban development. These include grocery-anchored retail centers, walk-up apartments, starter homes, and office parks. Nearly all of these products must

be built in a low-density, suburban, sprawling fashion. Yet these are the only products most banks and publicly traded real estate investment trusts (REITs) can build, finance, trade, and own, according to the real estate industry’s new “gatekeepers” on Wall Street.

After the real estate overbuilding bust in the 1980s led to the demise of many S&Ls, banks, and other financial institutions, Wall Street became a major source of real estate finance starting in the early 1990s. Three multi-hundred-billion-dollar types of Wall Street real estate financing are REITs, the commercial mortgage-backed security market, and the residential-mortgage secondary market. Nineteen real estate product types have become the standard as part of Wall Street’s dominance in real estate finance.

Conventional development for

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income-producing retail, office, and rental properties is based on building according to formulas that provide stand-alone, single uses with access by car. However today, much of the market wants mixed-use projects with retail on the ground floor and housing or office buildings above, but they don't easily fit any of the 19 standard product types.

In another challenge, for four decades discounted cash flow (DCF) has been the customary way of evaluating the cash flow of income-producing apartment, office, retail, and industrial developments, but this methodology blinds us, since it does not fully value the cash flows in the mid to long term. Suburban projects have a stronger short-term cash flow because they're less expensive to build and yield higher discounted cash flows. The short-term cash flow of walkable urban projects tends to be not as strong as that of conventional development – but the medium- and long-term returns are significantly better. Wall Street's focus on short-term cash flow and DCF's inability to value mid- and long-term cash flow means we have turned this 40-year asset into a seven- to 10-year asset class – hence the cheaper and disposable built environment of the last few generations.

Long-term money is needed to finance walkable urban development, which as I've said is more expensive than suburban development. There's a need for patient equity that could be provided in the future by insurance companies, pension funds, and other long-term investors, but it also comes from land owners, developers who forgo development fees, individuals who have a longer term

investment horizon, and municipalities. Long-term investment will make possible constructing buildings with higher construction quality, longevity, and character.

How can gentrification be avoided or minimized as urban values escalate?

You cannot and should not avoid gentrification; it is the market at work. However, one of the lessons learned over the past 15 years as our downtowns have been reviving is that when done right, our downtowns become the highest priced place to live and do business in the metropolitan area. Ten years ago, the suburban office rents in Washington, D.C., were 40 percent above downtown rents; today it is reversed. The most expensive housing in the San Diego, Denver, and Seattle metropolitan areas today on a price-per-square-foot basis is in their downtowns, something that you would not even have guessed would be the case just 10 years ago. As a result, reviving downtowns need to start an affordable housing and commercial space plan early in the redevelopment process. It should not put a burden on the early cash flows of market-rate projects, but there are methods that can be introduced to have the rising values of downtown real estate pay for the affordable-space plan.

What message do you want to share with lenders?

They should be looking at downtown and suburban town centers. The market has shifted and there is pent-up demand for downtown and suburban town center development. Banks should also encour-

age their developer clients to bring more equity into the deal, including some patient equity. If a deal has increased equity, it will improve a project's debt-coverage ratio. Banks might then forgo or ease the personal guarantees from the developer as an incentive.

In the Philadelphia area, lenders should also look at development possibilities in older downtowns along the Main Line of Philadelphia, such as Wayne, Bryn Mawr, and Villanova, as well as in West Chester, Swarthmore, and the 69th Street area.

Which are exemplary downtowns that have been or are being revitalized? Why are they exemplary?

Chattanooga, Tennessee, is one of my favorites. The turnaround of this downtown shows what great private and public leadership can do in the face of an average-to-poor economy. Starting with a new vision and a river-focused strategy, Chattanooga now has a downtown entertainment district, an aquarium, expanded visual and performing arts venues, a 10-mile river walk, lots of new housing, new hotels, restaurants and stadiums, and a nonprofit-driven affordable housing effort that produces 500 units a year without displacement. It also has one of the best examples of a nonprofit catalytic development company in the country, River Valley Company.

I'm excited about what's happening in Philadelphia's downtown. There's a large increase in the number of residents who live downtown. I'm also struck that a Center City District survey found that 99 percent of residents of recently

completed condominium buildings had college degrees, compared with 25 percent in the metropolitan area, while two-thirds had advanced degrees. These people represent the heart of the so-called “creative class” and a tremendous sign of hope for the future of the city’s economy and tax base.

Other cities that were dead in the water 15 years ago and that today are vibrant communities are Baltimore, Washington, Nashville, Memphis, Oklahoma City, Denver, San Diego, Seattle, Portland, Oregon, and Portland, Maine, and Boise, Idaho. In many of these cities, the most ex-

pensive housing in the metropolitan area is now located downtown.

What are your plans for the next year or two?

I want to expand the University of Michigan’s real estate program from a certificate program to a master’s and executive education program. I’m also developing a national downtown assessment system similar to the LEED system for green buildings. I’m also doing downtown strategies for two very distressed cities, and I’m working on a book about downtowns and on a proposed PBS series on the subject.

Leinberger is the author of Turning Around Downtown: Twelve Steps to Revitalization, published by The Brookings Institution in March 2005. To see the publication, go to www.brookings.edu/metro/pubs/20050307_12steps.htm.

Articles and book chapters he has written may be seen at www.cleinberger.com. He received the Apgar Award for the best Urban Land article of the year in 1995 and 2003. For information, contact Christopher B. Leinberger at cleinberger@brookings.edu.

Community Foundation Sounds Call to Action ...continued from page 3

The teams also looked at examples from other communities. A group of local business and political leaders traveled to Greenville, South Carolina, a community that was worse off than Reading when it started its own turnaround and is now a bustling, thriving city.

The ICGR’s most significant outcome is the community’s commitment to seeing the plan to fruition. Johnson, who co-chaired the ICGR, agreed to stay on as a volunteer for another year to ensure that implementation stayed on track.

Several initiatives recommended in the plan are already underway. For example, one of the major findings of the report was that greater Reading needed to market itself like any other product. To accomplish this, the local tourism agency hired a top-notch community branding firm to develop a brand for the region. That

new brand will be made public in early 2006.

In some ways, the new brand will reflect what people outside the community already know but those inside are only beginning to understand.

“While we’ve been worried about manufacturing job losses and changes in the community we used to know, people from the New York and Philadelphia metropolitan areas have been eyeing the idyllic landscapes and the ‘really neat’ urban core that make greater Reading what one national expert called ‘the hidden jewel of the Northeast,’” Murphy said.

The ICGR process and its subsequent implementation, as overseen by Johnson and the Berks Economic Partnership, were possible because of corporate and government sup-

port. Local banks and businesses stepped up early with large commitments to help fund the \$700,000 initiative. State and local government supplied much-needed grant money to start the projects recommended in the report.

While some locals say the “stars were aligned” around the ICGR, it was really the people who were aligned. By including public, private, and philanthropic leaders in the process, the ICGR received the necessary buy-in to become a process that will create lasting change for greater Reading.

To see the economic development plan and learn about the initiative, see www.greaterreading.com. For information, contact Heidi Williamson at (610) 685-2223 or heidiv@bccf.org.

American Communities Fund® Adds Focus on Intermediaries

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\$12.8 million construction loan with Fleet Bank (now Bank of America) for the construction of a 129-unit condominium building in Harlem with 30,000 square feet of commercial space on the ground floor.

For information, contact Diane Laughlin at (215) 575-1760 or diane_laughlin@fanniemae.com; www.fanniemae.com. For information on CBCs, contact the respective offices. In Wilkes-Barre, PA, contact Joseph Terrana at (570) 830-4360 or joseph_terrana@fanniemae.com.

com. In Wilmington, DE, contact Dawn Poczynek-Holdridge at (302) 429-2900 or dawn_l_poczynek-holdridge@fanniemae.com. In New Brunswick, NJ, contact Merylyn Rovira at (732) 447-1884 or merylyn_rovira@fanniemae.com.

Bringing Back Hope: The National Vacant Properties Campaign

...continued from page 5

sible redevelopment of abandoned and vacant properties. Others have adopted historic preservation tax credits and rehabilitation codes that allow older buildings to be renovated safely but in a less costly manner. Many of our campaign advisors were instrumental in developing and enacting these reforms, and we are all actively bringing these innovations to legislators, state and local officials, and other decision makers in other states and localities.

In 2006, we will be working in an additional seven cities (Indianapolis, Baltimore, Richmond, Tucson, Memphis, Bridgeport, and Spartanburg, South Carolina) and the state of Pennsylvania, and we are working

with the U.S. Conference of Mayors to expand our audience and expertise. We plan to help officials in New Orleans and Baton Rouge determine how vacant properties can be redeveloped to house families that have been left homeless after Hurricane Katrina.

SGA is also recruiting high-level advisors to help incorporate our campaign into a broader redevelopment agenda – one that focuses on the need and opportunity for rebuilding in a fair, environmentally sound, and economically robust fashion. Leaders of this effort include former governors Christie Todd Whitman and Parris Glendening; former HUD secre-

tary Henry Cisneros; and several mayors and CEOs. The results of these efforts will be major features of the campaign's national conference in the spring of 2007.

Communities or individuals seeking technical assistance or more information about how to better prevent, manage, and successfully rehabilitate vacant properties may contact Jennifer Leonard, the campaign director, at jleonard@smartgrowthamerica.org or (202) 207-3355, ext. 23. For the latest news, research reports, policy ideas, PowerPoint presentations, and case studies about vacant property reclamation, interested parties can also visit the campaign's website, www.vacantproperties.org, and SGA's website, www.smartgrowthamerica.org.

If We Fix It, They Will Come ...continued from page 7

growth. Nor is it the only city that lacks a zoning code that reflects a vision of the types of investment it wishes to see in each neighborhood. Like many old industrial cities, Philadelphia has inherited a bureaucracy and code that fail to meet

modern realities. By increasing the predictability and transparency of practices that affect rehabilitation of older structures and new construction, Philadelphia is making a commitment to reinvent itself as a modern city that can welcome and

accommodate new investment and growth.

If We Fix It, They Will Come is available at www.may8consulting.com. For information, contact Karen L. Black at (610) 891-8260 or kblack@may8consulting.com.

Working Agreement: Three Bucks County Townships ...continued from page 6

housing growth and have expanded their high-density zoning, in the most suitable locations, to meet the need. Further, the court noted the growing national and statewide awareness of the true costs of sprawl and the need to implement different land-use policies.

Planning and zoning in a single municipality is not easy. Working with neighboring municipalities increases difficulties geometrically. Originally, the Borough of Newtown was a partner but withdrew because

of concerns related to costs, potential litigation, and time involved in working with the other municipalities. But officials in the three Bucks County townships report that, after 22 years, they can't imagine planning and zoning independently. Cooperation is not without stress and compromise, but municipalities and the region will be much better off for the effort.

As of 2004, over 160 multimunicipal planning efforts were underway in Pennsylvania, according to the

Pennsylvania Department of Community and Economic Development. When older communities participate with surrounding townships, the impact of sprawl may be reduced and the need for revitalization replaced by enhancement. Cooperation is an effective way to share community land-use decisions and foster smarter growth.

For information, contact Michael Frank at (215) 345-7020, ext. 118 or mfrank@heritageconservancy.org.

Video on Lending Abuses and Discussion Papers

Community Affairs recently produced a video and two discussion papers.

- *Buried by Debt: The Dangers of Borrowing.* This is a 14-minute video designed to raise awareness about lending abuses. The video was developed by Marvin M. Smith, others at the Philadelphia Fed, and consumers. It is available in English and with Spanish subtitles in DVD and VHS versions.

- *The Impact of Housing Rehabilitation on Local Neighborhoods: The Case of St. Joseph's Carpenter Society.* St. Joseph's

Carpenter Society is a nonprofit in Camden, NJ. The report, by Marvin M. Smith and Christy Chung Hevener, concludes: "While we cannot establish causality and attribute all the positive effects entirely to SJCS, our analysis indicates patterns of positive association of certain neighborhood variables and home prices with SJCS's work."

- *Financial Resources for the Environment: The Unsuccessful Attempt to Create a Private Financing Intermediary for Brownfield Redevelopment*

Projects. This is a report prepared by Keith Welks, who served as chief counsel in the Pennsylvania Department of Environmental Resources from 1987 to 1994 and who participated in the planning process of the intermediary.

These products are available at no charge. To order the video, go to www.philadelphiafed.org. The discussion papers can be seen at www.philadelphiafed.org/ccca/pubs.html#discussion. For a printed copy of either discussion paper, contact Jeri Cohen at jeri.cohen@phil.frb.org.

PolicyLink Report Proposes Action for Equitable Opportunity

A new report from PolicyLink entitled *Shared Prosperity, Stronger Regions: An Agenda for Rebuilding America's Older Core Cities* explores how older core cities can become economically competitive and socially inclusive places.

PolicyLink prepared the report at the request of the Community Development Partners' Network and community development organizations in Philadelphia, Pittsburgh,

Baltimore, Cleveland, and Detroit. The organizations include the Philadelphia Neighborhood Development Collaborative.

The report recommends strategies, including promoting economic development and equitable transportation, reclaiming vacant properties, increasing affordable housing, expanding opportunities for low-income residents, and leveraging neighborhood institutions such as

universities and hospitals.

Working groups, which are being formed by the Greater Philadelphia Urban Affairs Coalition, will examine metropolitan growth and equitable development issues in the Philadelphia region. For information on the working groups, contact Don Kelly at (215) 851-1738 or dkelly@gpuac.org. For information on the report, contact Radhika Fox at (510) 663-2333 or radhika@policylink.org; www.policylink.org.

CALENDAR OF EVENTS

Reinventing Older Communities

Join us for a national conference on the latest thinking, strategies, and successes in creating vibrant communities. Community developers, planners, government leaders, bankers, researchers, and funders will examine key issues involving schools, the arts, parks, brownfields, displacement, foreclosures, community organizing, eminent domain, waterfront development, and other subjects.

April 5–7, 2006, Hyatt Regency at Penn's Landing, Philadelphia

See www.philadelphiafed.org/cca/conferences.html for updates and more information.

For information, contact Jeri Cohen at (215) 574-6058 or jeri.cohen@phil.frb.org.

Financing Community Development: Learning from the Past, Looking to the Future

2007 Federal Reserve System Research Conference

The Community Affairs officers of the Federal Reserve System are jointly sponsoring their fifth biennial research conference to encourage objective research into the factors governing the availability of credit and capital to individuals and businesses within this changing financial-services environment.

March 29–30, 2007, The Capital Hilton, Washington, DC

For the call to papers, go to www.philadelphiafed.org.

American Planning Association National Conference

April 14–18, 2007, Pennsylvania Convention Center, Philadelphia

For information, contact Conference@planning.org or call (312) 786-6397.

Financial Education Network of Southeastern Pennsylvania's Annual Meeting

Presentations on important financial education and credit issues, with working sessions, are highlights of this annual event for nonprofit, bank, and government representatives who provide personal financial education or have a strong interest in doing so. Registration required. Includes lunch.

April 20, 2006, 9 a.m. to 3 p.m. Federal Reserve Bank of Philadelphia, Pennsylvania Room

For information, contact Jeri Cohen at (215) 574-6458 or jeri.cohen@phil.frb.org.

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