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Leaders Look to Market-Rate Housing to Foster Wilmington's Revitalization

By Keith L. Rolland, Community Development Advisor

City leaders and devel-
opers are hopeful that
market-rate housing will
revitalize Wilmington,
Delaware's downtown
and riverfront areas,
revive a sluggish retail
sector, and attract young
professionals who work
in the city's expanding
array of office buildings.

Wilmington, a city of
10.8 square miles with
about 73,000 residents,
was settled by Swedish,
Dutch, and British immi-
grants and was incor-
porated in 1739. Located
about 25 miles south of
Philadelphia, Wilmington became a major
shipbuilding center in the Civil War and
had thriving steel foundries and chemical
industries during World War I. During
the past 25 years, the financial services in-
dustry has replaced the DuPont Company
as the major employer.

City officials estimate that about 1,000
market-rate housing units have been built
in Wilmington since 1999 and that private
and public investment in the downtown



Christina Landing opened late last year on Wilmington's Christina River and includes 63 townhouses and a 23-story apartment tower. Delaware state agencies provided infrastructure improvements for roads and sidewalks and remediation of environmentally contaminated land.

and riverfront totals about \$1 billion since
the mid-1990s.

The majority of Wilmington's market-rate
housing has been built by the Buccini/Pollin
Group, a privately held real-estate acqui-
sition, development, and management com-
pany.¹ In 1999, Buccini/Pollin converted the
Nemours building into offices, retail, and 85
extended-stay units for business travelers. In
2002, it created 278 luxury apartments in the
fire-damaged Delaware Trust building, now

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¹ Buccini/Pollin's primary source of construction financing for its housing developments in Wilmington and other cities has been Bank of America, starting with financing the firm obtained for projects in Boston from Fleet Bank (which was acquired by Bank of America).



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Message From the Community Affairs Officer

All around the Third District, we see evidence of cities reinventing themselves. Public officials and private citizens are working together to reverse a downward trend started decades ago. Earlier this summer we visited Scranton, where a new hotel and two parking garages were built downtown and plans to substantially upgrade commercial buildings on a main artery were being finalized. Some non-profit housing developers also noted that their efforts buying, renovating, and selling homes for moderate-income families had spurred the private builders to do the same. In this issue of *Cascade*, we talk about efforts in two other cities – Wilmington, Delaware, and Trenton, New Jersey.

In Wilmington, the revitalization is happening on two fronts, downtown and along the riverfront, and there are other efforts throughout the city. The downtown and riverfront developments include residential and commercial buildings, some newly constructed, some in existing structures. The city-wide efforts include one to reduce the inventory of vacant properties, both land and buildings, and another to provide affordable housing for low-income families.

In Trenton, we have stories about re-development using new market tax credits (NMTCs). Although the program had a slow start, it has picked up steam. We write about projects using Wachovia's and the New Jersey Economic Development Authority's tax credits. While the projects are still new, it looks like both will strengthen Trenton by bringing jobs to the downtown. Early indications suggest that

the NMTCs will be as valuable to community economic development as the low-income tax credits have been to rental housing.

Most urban revitalization still requires subsidy to make a redevelopment project possible, and often one of the sources of funds is the federal Community Development Block Grant (CDBG) program. While most people can see a visual change from community development efforts, we at the Fed are interested in measuring the economic outcome or impact of these efforts. In the long run, we believe we can help community developers everywhere if we help provide techniques and results for measuring impact.

For that reason, Marty Smith has reviewed a study George Galster and co-authors conducted on the impact of the CDBG program in 17 cities around the country. While the authors thought better data were needed, they did show that after a certain threshold, a change in housing values was identified.

Subsequently, the Richmond Fed hired Galster to conduct a similar study in Richmond, where the results, bolstered by better information from the city and the Local Initiatives Support Corporation on public- and private-sector rehabilitation efforts, demonstrated that at a threshold of \$20,100 per block, improvements in several measures, including crime reduction and increased housing values, could be demonstrated. After reading Marty's review, look for the Richmond study, "Neighborhoods in Bloom," at www.richmondfed.org/community_affairs.



New Markets Tax Credits Help Revitalize Trenton

By Erin Mierzwa, Community Development Specialist

Trenton has been struggling with its urban revitalization efforts for the past few decades. The federal new markets tax credit (NMTC) program has proved to be a useful tool in recent efforts to bring back New Jersey's capital.

There are several factors that hinder Trenton's redevelopment, according to Mayor Douglas H. Palmer: "The city is only 7.5 square miles and the state owns one-third of the land. Trenton is not able to obtain the tax revenue that other major cities are able to obtain due to the large volume of tax-exempt property. Highways separate the city from the waterfront area. In addition, surface parking lots account for much of the available space for development downtown."

Despite these obstacles, the city of Trenton has been actively promoting urban revitalization efforts,

which include developing several mixed-use projects, renovating the Trenton train station area, increasing the number of affordable and market-rate housing units, and redeveloping former industrial sites and historical buildings. Mayor Palmer hopes these efforts will bring more private-sector businesses downtown.

In the last two years, NMTCs have been used for the new construction of a building at 32 East Front Street and the rehabilitation of the historic Roebling mansion at 222 West State Street.

32 East Front Street

The 32 East Front Street site was originally a large surface parking lot that was acquired by the Economic Development Corporation of Trenton (EDCT). EDCT partially constructed an office building at

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Wachovia Moves Its Regional Headquarters to Trenton

Susanne Svizeny, regional president of Wachovia Bank's central and southern New Jersey region, recalls that last year when Wachovia's lease for its headquarters in Ewing Township was expiring, the bank began to explore opportunities to relocate to Trenton. After evaluating several options, Wachovia moved its headquarters to 32 East Front Street in downtown Trenton and signed a 10-year lease with the building's owner, Matrix Development Group.

Svizeny explained: "Wachovia selected Trenton because it is an important market for us. Economic factors did not lead to this move, as there were comparable alternatives in suburban areas. Wachovia selected Trenton because it was the right business decision and we wanted to be part of the economic revitalization efforts of the capital city."

In the move, 125 Wachovia employees were relocated to Trenton. Svizeny noted that "Wachovia does not have a cafeteria in this building and the employees are going out to have lunch and support the local businesses." The space that Wachovia is leasing provides the capacity to increase the number of its employees in the building to 160.



Wachovia Bank moved its regional headquarters from Ewing Township, N.J., to the top three floors of this building, owned by Matrix Development Group, at 32 East Front Street in Trenton, N.J. (Photo provided by Jim Gerberich)

Wilmington Encourages Owners to Rehabilitate or Sell Vacant Property

The number of privately owned vacant properties in Wilmington has dropped 22 percent since the city started a vacant property registration program nearly three years ago.

Jeff Starkey, the city's commissioner of licenses and inspections, said: "The whole purpose of the program is to get the properties reoccupied. Left vacant, they are a blight in the community and become havens for negative activities. In addition, these properties don't contribute anything to the city's efforts to revitalize communities."

Starkey said that the program, which applies to all vacant structures, was a major reason for the reduction of privately held vacant properties. Other factors involved in the reduction include the fact that the city was just beginning to develop a database to track the properties when the program was launched, and some city programs that targeted several neighborhoods resulted in a number of rehabilitated properties, he said.

The number of privately owned vacant properties has been reduced from 1,455 in November 2003 to 1,128 at the end of September 2006, according to Starkey. The 1,128 properties, which include 55 Wilmington Housing Authority houses and three HUD-owned houses, represent 4 percent of roughly 28,000 residential and commercial properties in Wilmington.

How the Program Works

An owner of a building that has been vacant for more than 45 days must file a notarized registration statement

with contact information. The city assesses an annual registration fee to each vacant property that has been vacant for at least one year. The fee is based on the number of years the property has been vacant regardless of varying ownership and ranges from \$500 to over \$5,000.

The fee is billed each year in November and owners have until November 30 to provide proof that their property is being rehabilitated, demolished, sold or leased, or request an appeal or waiver. The fee must be paid in full by January 1.

The city can issue a summons for noncompliance and can recommend properties for sheriff's sale, a process that typically takes three to six months, Starkey said.

Permits

In 2003–04, the first year of the increased fee schedule, 950 registration fee notices were mailed to vacant property owners; owners later obtained rehabilitation or construction permits totaling \$9.2 million, according to city records. Also, 36 property owners paid fees totaling \$55,000, and the city issued more than 172 summonses to owners who were noncompliant with program requirements.

In 2004–05, 677 fee statements were mailed to vacant property owners; owners later obtained rehabilitation or construction permits totaling \$6.8 million. In addition, 129 vacant property owners paid fees totaling \$217,000, and the city issued more than 400 summonses to noncompliant owners.

In 2005–06, 650 registration fee notices were mailed to vacant property owners; owners later obtained rehabilitation or construction permits totaling \$15.2 million. Also, 275 vacant property owners paid fees totaling \$535,500, and the city issued more than 220 summonses to noncompliant owners.

The program has withstood a legal challenge in Delaware Supreme Court.

Award

In June, the city of Wilmington received a City Livability Award for outstanding achievement in the vacant property program. The award is jointly sponsored by the U.S. Conference of Mayors and Waste Management Inc.

City-Owned Properties

Meanwhile, the city has reduced its own stock of vacant properties. As of the end of July 2006, the city owned 49 vacant properties, down from 68 in 2003. These numbers include city properties being redeveloped as green space or low-cost housing.

In the past five years, the city has granted or sold 218 properties to private and nonprofit developers to establish new rental and ownership housing or neighborhood parks and gardens. During that time, the city acquired 74 additional vacant properties because owners failed to pay taxes or neglected or abandoned properties.

For information, contact Jeff Starkey at (302) 576-3031 or jstarkey@ci.wilmington.de.us, or Cynthia Ferguson, vacant property administrator, at (302) 576-3096 or cferguson@ci.wilmington.de.us; www.ci.wilmington.de.us.

Leaders Look to Market-Rate Housing to Foster Wilmington's Revitalization

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called The Residences at Rodney Square. According to Buccini/Pollin, apartments in both buildings are about 90 percent leased.

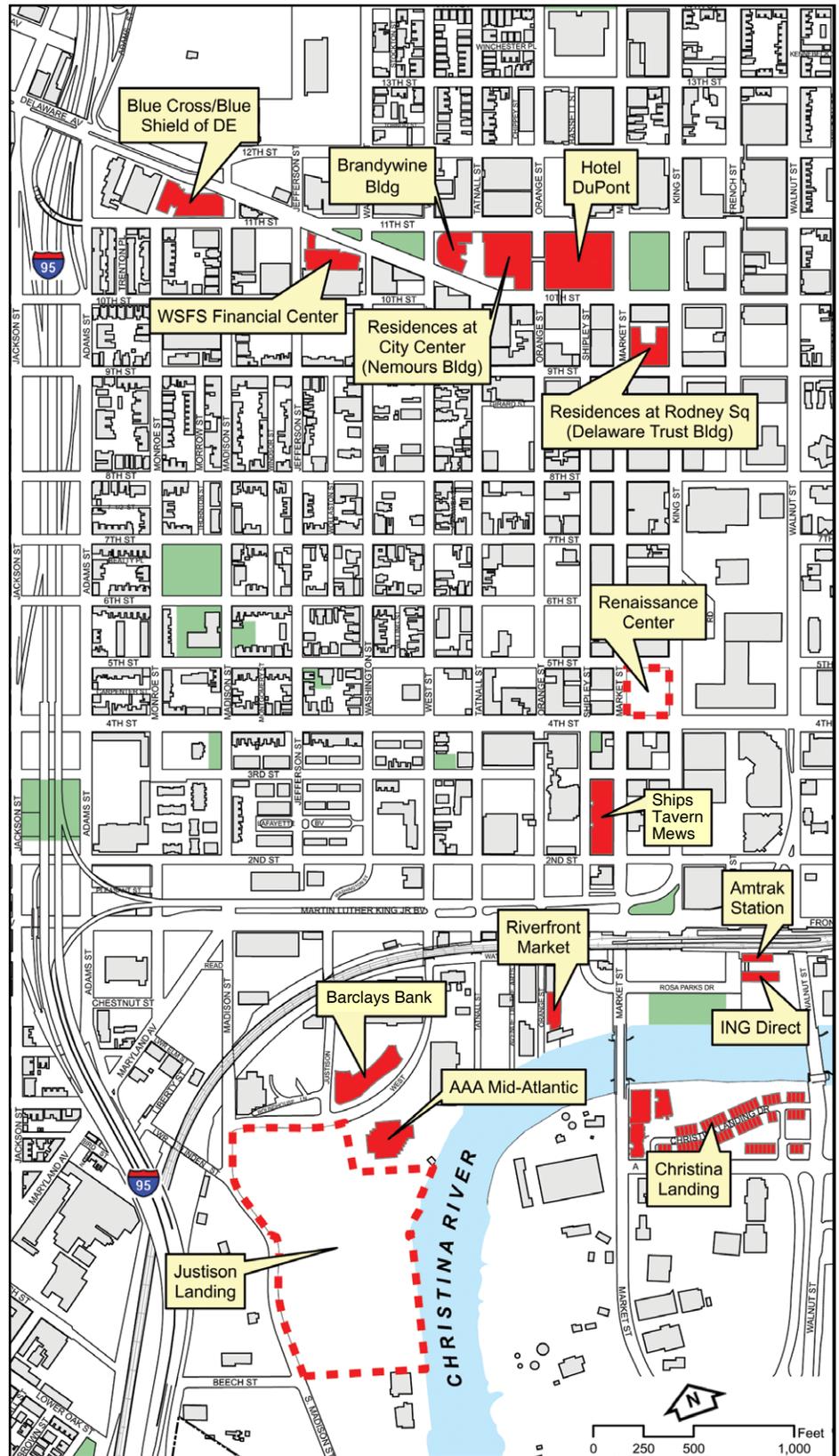
Buccini/Pollin developed Christina Landing, a nine-acre complex on the Christina River that opened late last year with 63 townhouses, 173 apartments in a 23-story tower, a river walk, park, roof-top pool, and parking. A 25-story tower with 180 condominiums is under construction. The development is near Wilmington's Amtrak station and Interstate 95.

The townhouses sold in less than four weeks for \$300,000 to \$450,000 and have since risen in value, surprising even some long-term Wilmingtonians. About 52 percent of the 173 apartments are leased, while 88 percent of the condominium units are sold, Buccini/Pollin said.²

Buccini/Pollin is also developing Justison Landing, a \$500 million 10-acre project on previously industrial and vacant land on the Christina River a half-mile from Christina Landing. In the next five years, Justison Landing is planned to have nearly 700 residential units (including townhouses, condominiums, loft units, and apartments), 55,000 square feet of retail space, 300,000 square feet of commercial space, and several parking garages. Construction started in June 2006 on 316 condominiums with expected sale prices of \$240,000 to \$700,000 and 25 townhouses with expected sale prices of \$450,000 to \$1.5 million.

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² Units that are "sold" have binding contracts with secured escrows pending settlement, according to Buccini/Pollin.



Key Development Sites and Landmarks in Wilmington's Downtown and Riverfront Area. Map provided by P.J. Hernandez of the City of Wilmington, Division of Mapping and Graphics.

How Do Those Involved Assess Wilmington's Redevelopment?

Cascade asked six people who have had a role in Wilmington's revitalization for their responses to three questions. Three other individuals shared their views when they learned about this exercise. Edited comments from the nine individuals appear below.

In what way(s) has Wilmington's downtown revitalization been successful?

Michael Hare, Deputy Director, Riverfront Development Corporation of Delaware (RDC): Public-sector investment of \$200 million on the riverfront leveraged about \$650 million of private investment that's in the ground or committed. More than 350 acres of contaminated land that lay fallow for five decades has been remediated and put into active use.

Douglas Hazelton, Executive Vice President, Bank of America, Wilmington: For a long time, there was a fairly steady level of development by nonprofits that did new construction and rehabilitation. The nonprofits' work, and the strong support by the state and city for the RDC, served as a catalyst that convinced for-profit developers that there was an opportunity for market-rate housing in Wilmington.

Michael Skipper, Vice President, Wilmington Savings Fund Society: Wilmington's downtown has achieved a stronger balance of commercial and residential space through the conversion of upper stories of commercial buildings to residential condominium or rental space. The development of residential space has provided a stabilizing influence as commercial entities have downsized over previous years.

What challenges remain?

Jayne Armstrong, Director, Delaware District Office, U.S. Small Business Administration: It will take several years for the influx of residents to drive the demand for business development throughout the entire downtown area. An analysis of what's missing should be conducted and then businesses that support market-rate housing should be

recruited. A challenge facing our community is nurturing the overall entrepreneurial mindset.

Hon. James Baker, Mayor of Wilmington: One of the challenges is convincing Wilmingtonians that change is possible. People within a community often don't believe in their own success. We also need to improve transportation. We started a trolley on wheels and we'd like to connect the city with trolley service.

Christopher F. Buccini, Managing Partner, The Buccini/Pollin Group: We need a critical mass of people living here. More density will result in more retail, which is our biggest challenge.

Douglas Hazelton: One of the next challenges is acquiring and rehabilitating some very poor housing stock in some distressed parts of Wilmington. This will require government subsidy and the involvement of the public and possibly banking sectors.

Don Meginley, President, Preservation Initiatives: One of the greatest needs is bringing upscale retail back to Market Street. Initial tenants will be local boutique stores or restaurants. Rent levels must be artificially low in some cases to attract a tenant to take the initial risk. Also, development must happen block by block, not building by building.

Michael Skipper: Two of the challenges to continued downtown revitalization are the development of a strong retail sector and the provision of affordable as well as market-rate housing in the downtown and riverfront areas. There has been some retail growth, primarily restaurants, but the downtown area still provides few entertainment options and retail shopping is limited to small specialty items and discount stores.

What are the lessons learned for the benefit of those in other cities pursuing downtown revitalization?

Hon. James Baker: There must be a will to make things happen because rebuilding downtown is very complicated and usually painfully slow. Also, we enabled developers to meet early in the planning process with a group of people from the economic development, public works, and parking departments, the mayor's office, RDC, and Wilmington Renaissance Corporation. Developers meet the people they need to work with. If there's a problem, we learn about it early and find a way to make the project work.

Christopher F. Buccini: It makes sense to build things in stages. If one stage goes wrong, you can stop and fix it.

Michael Hare: The ability to demonstrate progress immediately is key to sustaining a development effort. It's important, too, to have people in power engaged in the process and participating in decisions on projects.*

Douglas Hazelton: In any community undergoing downtown revitalization, it's desirable to have good cooperation on the community development side among banks, which are normally competitors. In Wilmington, there's been a great deal of cooperation, enabling banks to spread the risk and have three or four sets of eyes looking at a deal.

Doris Schneider, President, Delaware Community Investment Corporation: Cities trying to revitalize their downtowns ought to know that a project's initial success cannot be taken for granted. The former Market Street Mall in Wilmington, which started well, is one such example.

Carrie White, Managing Director, Wilmington Renaissance Corporation: A nonprofit intermediary that wants to buy, hold, and sell properties for development needs working capital in order to do so. Also, it's better to make infrastructure and aesthetic streetscape changes in a sizable area all at once because it has greater impact, rather than one block at a time.

* RDC's board includes the governor of Delaware, mayor of Wilmington, New Castle County executive, Wilmington city council president, two co-chairs of the state's capital budget committee, and two co-chairs of the state's joint finance committee.

Rural Census Tracts and Disaster Areas Become CRA-Eligible

By John J. Wackes, Community Affairs Specialist

Financial institutions can now get CRA consideration for community development activities in 35 previously ineligible rural census tracts in Pennsylvania.

Last year, interagency rules applicable to all banks subject to CRA expanded the definition of community development to include activities that revitalize or stabilize distressed and/or underserved rural areas and designated disaster areas. The Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) said in a press release: "By including distressed and/or underserved rural areas, the agencies intend to recognize and encourage community development in more rural areas." On April 12, 2006, the Office of Thrift Supervision (OTS) revised its definition of community development to include distressed, underserved, and designated disaster areas, mirroring the other agencies.

The FRS, FDIC, OCC, and OTS (the agencies) list the distressed or underserved rural areas on the website of the Federal Financial Institutions Examination Council (FFIEC). As of July 27, 2006, the list includes three categories of census tracts in Pennsylvania: 13 distressed tracts in Warren and Montour counties; nine underserved tracts in Fulton, Juniata, and Sullivan counties; and 13 distressed and underserved tracts in Forest and Susquehanna counties.

Most of these tracts were on the agencies' original list posted in 2005. About 185,000 Pennsylvania residents live in the 35 tracts, according to the 2000 census. The latest list of

distressed or underserved tracts does not include any tracts in New Jersey or Delaware.

In rural areas, the population is less dense and poverty is more dispersed than in urban areas. As a result, rural census tracts tend to be middle income, although pockets of low- and moderate-income individuals reside within them.

Distressed Areas

The agencies use the criteria for distress followed by the CDFI Fund: an unemployment rate at least one-and-a-half times greater than the national average; a poverty rate of 20 percent or more; population loss of 10 percent or more between decennial census years; and net migration loss of 5 percent or more over the five-year period prior to the most recent census.

Underserved Areas

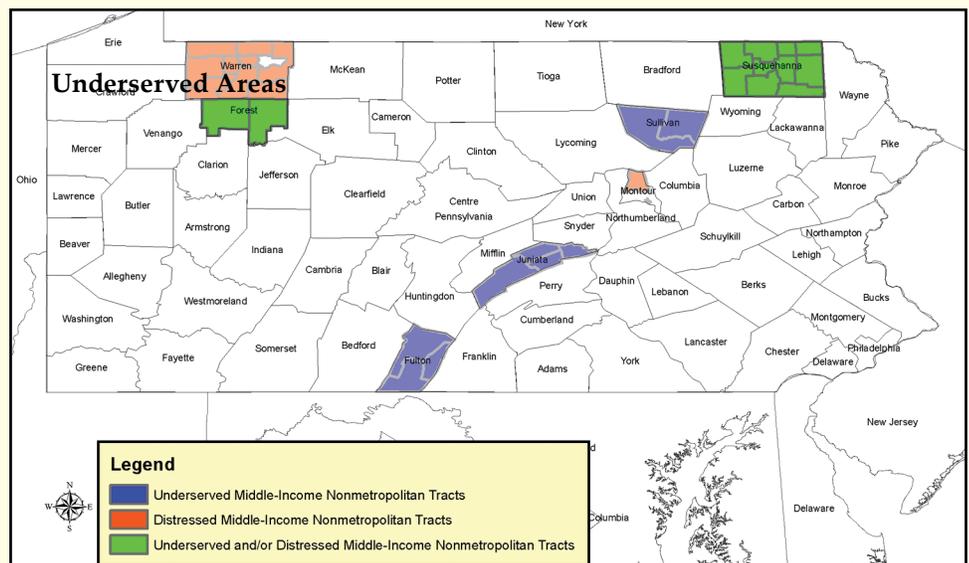
The agencies define underserved areas using data from the United States Department of Agriculture Economic Research Service (ERS).¹ In these areas, the population is so small and distant from a population center that the communities have difficulty financing essential community needs. In many cases, these tracts are removed from basic amenities like hospitals or clinics and require water and sewer, health-care facilities, and other infrastructure.

Distressed and underserved areas are updated and reviewed by the FFIEC on an annual basis. The agencies may consider CRA-related activities in distressed and/or

¹ Underserved geographies have one of four ERS "urban influence codes." More information is available at <http://www.ers.usda.gov/briefing/rurality/urbaninf>.

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Underserved and/or Distressed Middle-Income Nonmetropolitan Geographies in Pennsylvania



Sources: FFIEC and ESRI, Inc. of Redlands, CA.

Note: Information provided is as of July 27, 2006. Information is reviewed and updated annually by the agencies. CRA-related activities may be considered for up to one year after geographies are removed from the list of distressed or underserved tracts.



Measuring the Impact of the Community Development Block Grant Program

For over 30 years, many neighborhoods across the nation have been receiving financial assistance from the federal government to improve housing and other community facilities in the form of grants from the Community Development Block Grant (CDBG) program.

According to George Galster, Christopher Walker, Christopher Hayes, Patrick Boxall, and Jennifer Johnson, much research has been done on “where and how CDBG funds have been spent, which groups have been the prime beneficiaries, how efficient the plans and their implementation have been, and what political forces lie behind these allocations,” but little has been done to measure the program’s impact. Galster and his co-authors have conducted a study that endeavors to fill this void.¹

Origins of the CDBG Program

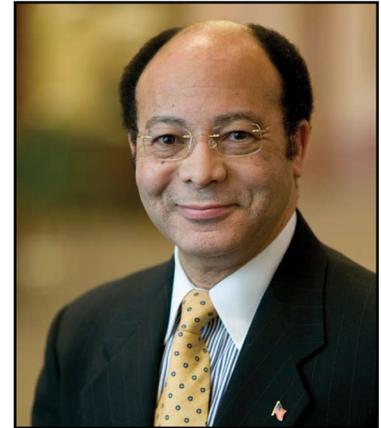
The CDBG program was established by the Community Development Act of 1974. The program provides for federal funds to be allocated to local governments to assist them in accomplishing various goals, including “arresting the deterioration of property and neighborhood and community facilities, removing conditions detrimental to health and safety, conserving the housing stock, improving community services, promoting income integration and neighbor-

hood diversity through spatial deconcentration of assisted housing and revitalization of deteriorating neighborhoods, and stimulating private investments in areas with population outmigration and stagnating tax bases.”²

Policymakers have come to expect that recipients of federal funds demonstrate the effectiveness of their program expenditures. This is true of the CDBG program as well.

Methodology

The authors make several key formulations that shape their assessment of the CDBG program. First, they point out that neighborhood improvements resulting from CDBG investments can be both direct (upgrading the housing stock) and indirect (funding a project that would make the neighborhood attractive to private investors). Next, they note that many community development practitioners and scholars maintain that “a critical mass of improvements is needed to trigger changes in the perception of investment prospects in a distressed neighborhood, but that once this critical mass [or threshold] is achieved, the pace of neighborhood improvements accelerates.” Further, the authors expect that regardless of whether the CDBG investments are above or below the threshold, the



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Community Development
Research Advisor

neighborhood effects of the investments will depend on the general conditions of the city and the pre-existing conditions and growth plans in the targeted neighborhoods.³

The authors devised a statistical model to measure the relationship between the annual CDBG expenditures per poor resident (averaged over the 1994–96 period) in neighborhoods (identified by census tracts) across 17 large cities and subsequent changes in several neighborhood indicators from 1994 to 1999.⁴ The sample cities were chosen to cover all U.S. regions and include the following: Birmingham, Boston, Charlotte, Cleveland, Columbus (Ohio), Denver, Fort Lauderdale, Houston, Indianapolis, Long Beach, Los Angeles, Milwaukee, Oakland, Portland (Ore.), Providence, Tulsa, and Washington.

¹ “Measuring the Impact of Community Development Block Grant Spending on Urban Neighborhoods,” *Housing Policy Debate* 15, 4 (2004), pp. 903–34.

² The authors point out that “the act did not require localities to adopt a specific mix of these activities, but rather allowed them to pick and choose those that, in their view, best met the program’s intent.”

³ The authors include in these two categories the city’s economy, housing market, and social problems as well as the initial inventory of neighborhood assets and liabilities (both current and projected).

⁴ Recognizing that not all of the effects of CDBG spending will occur in the year that the expenditures are made, the authors included a three-year lag structure in their estimating model to account for the cumulative changes in the outcome indicators.

The authors adjusted the CDBG spending for the “poor population in the neighborhood because theoretically the impact of a given amount of spending should differ depending on the depth of local needs and regulatory requirements that such spending primarily benefit low- and moderate-income people.” They also conducted some preliminary analysis to arrive at three indicators that would be reasonable proxies for the range of neighborhood outcomes of most interest to scholars and local policymakers. These indicators included “the home purchase mortgage approval rate, the median amount of the home purchase loans originated, and the number of businesses.” The authors used data from several governmental databases, which they supplement with information from CDBG grantees.⁵

Results

Even after settling on CDBG expenditures per poor resident as the independent variable in their estimating equations, the authors did not find any “statistically significant, positive relationship between spending and changes in [their] neighborhood indicators when [they] analyzed either the full sample of census tracts or only those with non-zero values of CDBG spending.” It wasn’t until the authors focused their analysis on census tracts that had spending above the sample-average CDBG expenditures per census tract that they observed statistically significant results. They computed the annual sample-average CDBG spending to be \$86,737 from 1994 to 1996. Thus, the sample-average CDBG expenditures approximated a threshold that had to be surpassed in order for CDBG investments to yield statistically significant impacts.

While the authors are able to establish that a threshold or critical mass of CDBG expenditures existed, they are not able to identify it with any precision. Therefore, they feel confident only in claiming that “below roughly \$87,000 in annual average expenditure, significant neighborhood payoffs from CDBG are unlikely to be observed, rather than in stating the precise level above this amount at which sizable effects begin to ensue.”

In further analysis, the authors investigate the influence of neighborhood and city conditions on the capacity of CDBG investments to generate impacts. They chose trends in median sales prices of single-family homes as the best measure of the neighborhood’s trajectory before 1994–96. The authors found that “for all three outcome indicators, CDBG investments yielded the highest per-dollar payoffs (as evidenced by the size of the coefficients) in neighborhoods already experiencing a strong upward trajectory of housing prices.”⁶

The authors also addressed the issue of spatial targeting of CDBG spending. During the early years of the CDBG program, spending was widely dispersed by grantees. However, an amendment to the program in 1977 urged communities “to define areas for strategic investment ... where concentration of public resources would produce a demonstrable difference over a ‘reasonable’ period of time.” However, the federal effort at targeting CDBG funds was abandoned in the early 1980s by pressure at the local level in favor of distributing investments more widely across urban neighborhoods. The authors indicated

that their research strongly supports the spatial targeting of CDBG funds so as to reach a critical mass (or threshold) in order to demonstrably improve neighborhood conditions.

Caveats and Future Research

Galster and coauthors point out some caveats to their study and suggest areas for further research. They note that their analysis did not include possible neighborhood improvements that are not visible and thus did not spur additional investment. “For example, investments to the underground infrastructure (water and sewer lines, for example) may be critically important to sustaining urban services to a poor neighborhood, but private investors may not see them.” The authors recommend that future research include more comprehensive neighborhood indicators to capture the positive effects of investments that are not readily seen.

There were also deficiencies in the data. The authors found that information on CDBG expenditures was incomplete or missing for nearly all cities. They caution that the procedures they used to allocate some CDBG spending, while reasonable, might have biased the measured effects toward zero. They suggest that a replication of their analysis with a more complete and accurate database would be instructive.⁷

Finally, the authors urge that future researchers strive to verify the “notion of a threshold and, if possible, to identify more precisely its value and the degree to which it depends on neighborhood and city context.”

⁵ The government data sources included CDBG expenditures from the U.S. Department of Housing and Urban Development, census data, Home Mortgage Disclosure Act data, and data from local administrative records of selected cities.

⁶ But the authors hastened to add that “even in the least hospitable contexts—highly concentrated neighborhood poverty, preexisting declines in home values, weak city job growth—[their] estimates suggest that CDBG spending at above-threshold amounts produces significant improvements (both statistically and in practical terms) in multiple measures of neighborhood conditions.”

⁷ In addition, Galster et al. reveal that data limitations precluded the use of more control variables in their study. The authors indicate that they “had no measures of other public or private investment that contemporaneously could potentially complement CDBG spending in some neighborhoods.” They hope that future studies will develop more control variables to enrich the analysis.

New Office Buildings Are Underway in Wilmington, But Will Demand Match Supply?

A boom in new office buildings in the downtown and riverfront areas of Wilmington is contributing to the climate of revitalization in the city.

In major construction projects underway:

- The Wilmington Savings Fund Society (WSFS) will be the lead tenant and a minority owner in a 371,000-square-foot 16-story glass tower being constructed by the Buccini/Pollin Group.
- Barclays Bank plans to have about 900 jobs in a riverfront building under construction.
- BlueCross BlueShield of Delaware is consolidating its operations and 700-employee workforce from five locations in New Castle County to a 170,000-square-foot downtown building under construction.
- The Commonwealth Group is developing The Renaissance Center, a 150,000-square-foot office building and garage.

About 35,000 people work in office buildings in Wilmington, according to city estimates. Many office jobs are provided in Wilmington by limited-purpose and wholesale banks,* full-service banks, other corporations, and law firms. MBNA's decision in the mid-1990s to relocate 3,000 jobs into downtown Wilmington was an important stimulus at an early stage of the city's revitalization.

However, a report from Moody's Investors Service warns that the supply of office space in the city far exceeds expected demand. Moody's produces quarterly Red-Yellow-Green™ reports that reflect its assessment of the next year's expected demand and supply

for seven property types in about 55 cities. It uses this assessment to rate new commercial mortgage-backed securities and to monitor existing ones.

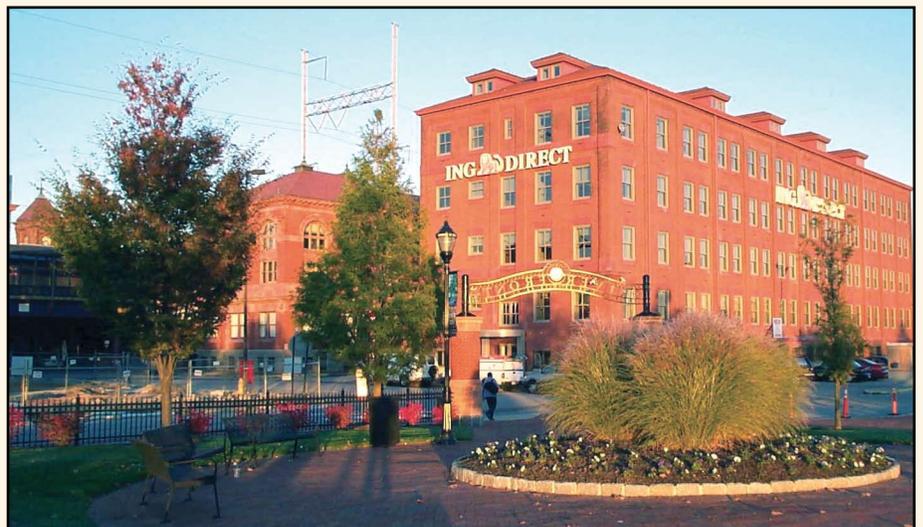
The Red-Yellow-Green reports for the first and second quarters of 2006 listed the office market in Wilmington's central business district (CBD) in its highest-concern red zone, signifying "supply significantly greater than demand or supply growth alone very high." In addition, the first-quarter report listed the Wilmington suburban office market in its highest-concern red zone, while the subsequent report showed some improvement, although still in the red zone.

The second-quarter report noted that Wilmington was one of only three office markets nationwide that had red scores in both its CBD and suburban segments. It said:

"Although construction is expected to slow and absorption to improve in Wilmington compared to last quarter, the degree of the remaining supply-demand imbalance continues to be worrisome."

Sally Gordon, senior vice president of Moody's Investors Service and author of the reports, said that data for Wilmington's CBD indicated a healthy level of demand but also excessive supply. She said that Wilmington's CBD is statistically a small market and therefore the data are relatively "volatile," adding that Wilmington's real estate market score includes "expectations" of job layoffs resulting from Bank of America's acquisition of MBNA.

City officials are optimistic about Wilmington's ability to absorb the additional office space. They note that financial services employers and law firms continue to add jobs.



ING Bank, also known as ING DIRECT, renovated this building, which was built in 1904 and served as the headquarters for the Delaware division of the Pennsylvania Railroad. The building was designed by architect Frank Furness and is listed on the National Register of Historic Places. The bank has 850 employees in four buildings in Wilmington's downtown and riverfront areas.

* Limited-purpose and wholesale banks established operations in Wilmington and other Delaware locations following passage of the Financial Center Development Act of 1981.

Public-Private Partnership Tackles Blighted Housing

Some 2,700 people have purchased homes developed or financed by the Wilmington Housing Partnership (WHP), a public-private partnership that seeks to increase homeownership and improve housing conditions in Wilmington.

WHP, a 501(c)(3) formed in 1989 by the City of Wilmington, acts as a developer or obtains financing and facilitates development by nonprofit and for-profit developers.

Norma Zumsteg, a vice president of community development banking for PNC Bank, Delaware, and a member of WHP's board during the last two years, observed: "WHP changed its direction in the last few years from acquiring properties in very deteriorated neighborhoods to pro-actively targeting selected neighborhoods that were basically healthy but had some deterioration. The targeting was a significant step in the right direction. WHP is having more impact and that in turn is helping WHP obtain more housing development financing."

WHP is targeting five neighborhoods in its residential improvement and stabilization effort (RISE), a five-year program that is now in its third year. Jerry Cain, WHP's executive director, said that it had been very expensive for WHP to acquire and hold a large inventory of properties in past years. "Now we take the tough [properties] with the goal of getting investors and homeowners interested in other properties in the area," Cain said.

WHP has completed 40 new homes and rehabilitated 63 homes on Wilmington's east side, a RISE neighborhood east of the central business district.

WHP primarily assists low- and moderate-income residents, but it also participates in some projects that attract middle- or upper-income buyers as part of a broader goal to promote income diversity. For example, WHP recently bought a vacant warehouse and adjacent deteriorated houses located about a quarter mile from the Justison

Landing development and is remediating the three-acre site and doing predevelopment and design work. The warehouse will be demolished, and WHP will issue a request for proposals (RFP) to for-profit developers to build about 40 new units that will have an expected sales price of \$250,000 to \$275,000.

In January 2006, WHP acquired a convenience store that had long been the site of illegal drug activity and plans to issue an RFP to build 18 homes, which are expected to have a sales price of \$160,000. WHP expects construction of the homes to start this winter. In addition, WHP has provided land to Habitat for Humanity of New Castle County, which is building 17 units.

In 2005–06, 63 WHP-assisted units were sold to buyers and 115 units were in various stages of production.

WHP has three employees and is primarily funded by banks, foundations, and state and city sources. Of the \$25 million raised by WHP, approximately 65 percent has come from banks, Cain said. Six banks are represented on WHP's board of directors.

For information, contact Jerry Cain at (302) 576-3000 or jerry.cain@ci.wilmington.de.us; www.wilmingtonhousingpartnership.com.

This photo shows part of the Kirkwood I Manor project, which consisted of 14 newly constructed units and four rehabilitated units. The average selling price of the units in 2002 was \$90,000.



What Is the New Markets Tax Credit Program?

The new markets tax credit (NMTC) program, established in 2000, is administered by the U.S. Department of the Treasury's Community Development Financial Institution (CDFI) Fund. The program provides individual and corporate taxpayers with a credit against federal income taxes for making qualified investments in community development entities (CDEs).

In order to offer tax credits to its investors, an organization must be certified as a CDE by the CDFI Fund and must be selected to receive an allocation under a competitive allocation round. CDEs that receive allocations can then obtain qualified equity investments from investors who are looking to acquire stock, capital interest in, or make a loan to the CDE in exchange for the tax credits. A CDE must use substantially all of the qualified equity investment proceeds to make investments in low-income communities as defined by the IRS. In addition, a CDE must issue at least 60 percent of its tax credit allocation within the first five years of receiving the award.

When investors provide qualified equity investments to CDEs, they are able to claim a tax credit equal to 39

percent of the original investment. The credit is claimed over a seven-year period. The credit is 5 percent of the initial investment amount in the first to third year and 6 percent of the initial investment amount in the fourth to seventh year.

Investors may not redeem their investment with the CDE prior to the end of the seven-year period. Early redemption triggers a "recapture event" by the IRS, necessitating the investor to repay (with interest and penalties) any benefits received from the credits. Recapture events are also triggered if the CDE fails to invest substantially all of the tax credit proceeds in low-income communities, or if it has its CDE designation revoked by the CDFI Fund.

The CDFI Fund is authorized to allocate \$16 billion in tax credit authority through 2007, which includes \$1 billion to be allocated to CDEs with a significant mission of redevelopment in the Hurricane Katrina Gulf Opportunity Zone. The fund has administered four allocation rounds to date and has made 233 awards totaling \$12.1 billion in tax credit authority. The CDFI Fund will allocate the re-

maining \$3.9 billion of allocation authority in 2007.

The first round of allocations was awarded in March 2003 and, since the program is still relatively new, there is not enough data to measure the impact of completed projects. The CDFI Fund does collect transaction-level data from its allocatees annually. The fund recently released data pertaining to allocatees' fiscal year 2004 reports. According to the CDFI Fund, through the end of the 2004 fiscal year:

- NMTCs totaling \$1.1 billion were invested in 238 projects in 38 states, including the District of Columbia.
- Three projects have been completed in the Third Federal Reserve District (in Reading and in Philadelphia, Pa., and in New Castle, Del.), with \$28.7 million in total NMTC investments.

Since the 2004 fiscal year, several additional projects have been financed using NMTCs in all three states in the Third District, including two projects in Trenton, New Jersey, that are described in an accompanying article.

Information about the NMTC program may be found at www.cdfifund.gov.

Leaders Look to Market-Rate Housing to Foster Wilmington's Revitalization ...continued from page 5

In a critical public-sector role, Delaware state agencies provided infrastructure improvements for roads and sidewalks and remediation of industrial wasteland totaling about \$50 million at Christina Landing and about \$85 million at Justison Landing.

Two key organizations in Wilmington's revitalization are the Riverfront Development Corporation of Delaware (RDC) and the Wilmington Renaissance Corporation (WRC).³ RDC, established with primary funding from the state and some contributions from the city and New Castle

County, has acquired and remediated environmentally contaminated land, made improvements, and sold the land and buildings to developers.

RDC provided site assistance and the city provided financial incentives

³ Development has proceeded without a master plan that specifically covers the central business district and riverfront.

to ING Bank (which has 850 employees in four buildings), Barclays Bank, and AAA Mid-Atlantic Inc. (which relocated 400 jobs from Philadelphia). RDC also facilitated development of a riverfront market, two restaurants, a river walk, and Chase Center on the Riverfront.

WRC, a privately funded nonprofit, has marketed the city's downtown and created a subsidiary to oversee the redevelopment of the six-block lower Market Street area, now known as the Ships Tavern district. The district was envisioned as a neighborhood with retail on the ground floor and housing on the upper floors. Development of the district began six years ago and is being done in stages.

In the first phase, known as Ships Tavern Mews, Struever Bros. Eccles & Rouse Inc. of Baltimore used historic preservation tax credits in a \$25 million project in the 200 block of North Market Street to develop 86 upper-

floor apartments and 30,000 square feet of ground-floor retail space. The apartments are fully occupied and the retail space is one-third to one-half full, according to Carrie E. White, WRC's managing director. The National Trust for Historic Preservation (NTHP) presented a preservation award to the project's leaders in the fall of 2005.

In the district's second phase, Preservation Initiatives of Philadelphia is developing 40 residential units and approximately 15,000 square feet of retail space. Donald Meginley, the company's president, said that CityScape Capital Group LLC, based in El Segundo, California, will use both historic and new markets tax credits to provide a major equity infusion in the project.

The city is working with the NTHP to develop a Main Street program that will try to get vacant retail stores occupied and upgrade the level of retail products and services

offered. The city is also converting part of Market Street from a pedestrian-only thoroughfare to a two-way street. Meanwhile, Joseph G. DiPinto, a Delaware state representative for the past 19 years, recently became director of the Wilmington Office of Economic Development.

The sense of recent interviews and site visits is that Wilmington now needs to recruit retail businesses and create more entertainment venues for people living in the city's market-rate housing while also improving housing conditions and creating job opportunities for the city's low-income residents.⁴

Wilmington has some advantages compared to other cities as it faces these challenges. It is a city of manageable scale, and there is a well-established tradition in which the state, city, and business sectors work together in close partnerships on major development issues.

⁴ Census data show that in 1999 Wilmington's poverty rate was 21.3 percent (compared to 9.2 percent statewide) and median family income was \$35,116 (vs. \$55,257 statewide). Similarly, Wilmington's homeownership rate in 2000 was 50.1 percent (vs. 72.3 percent statewide) while the city's unemployment rate in 2005 was 6.3 percent (vs. 4.2 percent statewide).

New Markets Tax Credits Help Revitalize Trenton ...continued from page 3

the site, formerly known as Liberty Commons, but failed to complete the project. When construction stopped, EDCT requested proposals from developers to complete construction and provide permanent financing.

Matrix Development Group, a private for-profit real-estate development company, successfully bid on this project and acquired the site in the summer of 2005, assuming all debt and outstanding loans from EDCT's partially constructed building. Ma-

trix completed all major construction of the building by the end of 2005.

The \$14.1 million project includes three major funding sources:

- A \$5.3 million, 10-year loan at 3 percent from the New Jersey Economic Development Authority (NJEDA). The first seven years are interest-only and the final three years are amortized based on a 25-year schedule. NJEDA is providing the loan

from an NJEDA loan fund capitalized with NMTCs.¹

- A \$6.7 million, 10-year permanent loan at a market interest rate based on a 25-year amortization schedule from Wachovia Bank. The first year of the loan is interest-only to allow for construction, lease-up, and stable operations, followed by nine years with principal and interest payments.
- \$2.1 million in equity provided by Matrix Development Group.

...continued on page 14

¹ NJEDA was awarded a \$125 million tax credit allocation in the second round and used \$42 million of this allocation to create a loan fund that provides interest-only loans at 3 percent with at least seven-year terms to projects in economically distressed areas. To establish this loan fund, NJEDA sold approximately \$42 million in tax credits to an investor who, in exchange, provided NJEDA with an equity investment of \$11 million. NJEDA contributed an additional \$31 million in equity so that the total loan fund was equal to \$42 million. The investor is claiming \$16.38 million in tax credits over seven years. This project uses \$5.3 million of the \$42 million loan fund.

New Markets Tax Credits Help Revitalize Trenton ...continued from page 13

Donald Epstein, the chief financial officer at Matrix, described the significance of NMTCs to this project: “[They] allowed us to consolidate previous debt on the project in a very tight time frame and make the deal work. We may have been able to use sources of funding other than NMTCs for this project, but we would not have been able to pull together the necessary amount



This drawing illustrates how the historic Roebing Mansion, located on 222 West State Street in Trenton, N.J., will look when construction is completed by the end of 2006. The original building is represented on the left side of the drawing and the new wing is on the right.

of funding from all the different sources we would have needed to use in the time we had available.”

In January 2006, Wachovia relocated its regional headquarters from Ewing Township to Trenton and moved into the top three floors of this five-story building. Matrix is planning to lease the office and retail space on the first two floors to other private-sector companies.

Roebing Mansion

New markets tax credits were also a significant source of funding in the restoration of the Ferdinand W. Roebing mansion. The Roebing family, known for developing wire-rope

cable and designing the Brooklyn Bridge, built several mansions along West State Street during the late 19th and early 20th centuries. Located in Trenton’s State House historic district, this is the only remaining Roebing mansion.

The building was vacant for over 30 years, during which time a local developer attempted to demolish it. The city acquired the building from the developer in 1998 through eminent domain. It remained vacant for seven more years. In 2003, the Trenton Historical Society’s Preservation Committee named the building one of the “10 most endangered buildings” in Trenton.

Mayor Palmer knew this building was an important landmark and wanted to see it rehabilitated. For several years, Bill Dressel, executive director of the New Jersey

State League of Municipalities, had been looking for a larger building in the area and had hoped to move closer to the State House. The league acquired the building from the city of Trenton in June 2005 for \$165,000.

The \$6.2 million project includes four major funding sources:

- A \$3.6 million loan from Wachovia using its NMTC allocation.² The construction period interest floats at market rate. Upon construction completion, lease-up, and stable operations, the permanent loan will have a 73-month term with a 25-year

amortization, and the interest rate will be reduced to 2.5 percent below the market’s forward rate. In addition, Wachovia is providing an 18-month market-rate bridge loan of \$1,350,000.

- A \$1.39 million market-rate loan from NJEDA, which takes out the \$1,350,000 bridge loan from Wachovia and a \$40,000 predevelopment loan from NJEDA. The loan has a 73-month term and is based on a 25-year amortization schedule.
- A \$750,000 capital preservation grant from the New Jersey Historic Trust.
- \$420,000 in equity provided by the New Jersey State League of Municipalities.

Dressel emphasized that in order to make this project work, the league had to simultaneously coordinate all funding sources, including NMTCs. He also described the importance of the partnerships: “In projects like this one, it is extremely important to establish meaningful relationships with lending institutions that are not only knowledgeable of the various financial tools available but also have appreciation for the redevelopment of historical buildings. In this project, the lenders looked beyond the terms of the banking transaction and focused on the significance of this redevelopment effort for the city of Trenton, the state of New Jersey, and the historical community.”

Dressel said that the league will maintain the historical integrity of the building by restoring much of the exterior and first floor, including the library, staircase, foyer, front hallway,

² Wachovia has been awarded a total of \$383 million in tax credit authority in three of the four rounds of NMTC awards. In this project, Wachovia is using \$3.6 million in tax credit authority, which will generate \$1.4 million in tax credits to Wachovia over seven years. The tax credits are used to offset the interest income lost from the below-market interest rate provided to the project, as well as the operational costs of administering the program.

entrance, and a large stained-glass window. A new wing is being added to the side and back of the building to provide additional office space.

The league plans to move its headquarters to the former Roebling mansion when construction is completed and will occupy approximately 7,500 square feet of the 15,000-square-foot building. The remaining space will be leased as offices.

For information, contact Russell Tepper of Matrix Development Group at (732) 521-2900 or rtepper@matrixcompanies.com; Bill Dressell of New Jersey State League of Municipalities at (609) 695-3481, ext. 22 or bdressell@njslom.com; Ed Covington of Wachovia Bank at (215) 670-4344 or ed.covington@wachovia.com; or Preston Pinkett, III, of the New Jersey Economic Development Authority at (609) 777-4898 or customercare@njeda.com.



Many historic aspects of the Roebling Mansion in Trenton, N.J., such as the steel artwork over the front door, will be preserved.

Rural Census Tracts and Disaster Areas Become CRA-Eligible

...continued from page 7

underserved geographies for up to one year after the geographies are removed from the list.

A Community Affairs Department analysis of FDIC-insured financial institutions in Pennsylvania shows that 101 bank branches, or about 2 percent of the total number of bank branches in Pennsylvania, are located in distressed and/or underserved non-metropolitan middle-income tracts. Twenty-four financial institutions operate the 101 branches.

Designated Disaster Areas

The agencies will also consider community development activities that revitalize or stabilize designated disaster areas, which are major disasters designated by the federal government, such as major disaster declarations administered by the Federal Emergency Management Agency (FEMA). The Interagency Community Reinvestment Act (CRA) Questions and Answers Reflecting

2005 Regulation Changes (dated March 2, 2006) provides guidance on CRA-related community development activities in designated disaster areas. Sections .12(g)(4)(ii)-1 and .12(g)(4)(ii)-2 define designated disaster area and explain how revitalization or stabilization activities are considered.²

The FRS, the OCC, the OTS, and the FDIC have separately issued guidance for banks on obtaining CRA consideration in Hurricane Katrina and Hurricane Rita disaster areas. Financial institutions regulated by the FRS, OCC, OTS, and the FDIC located outside the Hurricane Katrina and Hurricane Rita disaster areas will receive consideration for activities that revitalize or stabilize the areas, provided that the banks have otherwise adequately met the needs of their assessment areas. Financial institutions with questions on this issue should check with their regulatory agency for further guidance.

For a complete listing of middle-income nonmetropolitan distressed or underserved geographies, see the FFIEC website at www.ffiec.gov/cra/examinations.htm. To see the Federal Register notice about the CRA amendments, go to www.gpoaccess.gov/fr. Indicate 2005 (vol. 70), p. 44256, 12 CFR Part 25. For the interagency press release on the amendments, go to www.federalreserve.gov and select news and events, all press releases, and the release for July 19, 2005. The Interagency Community Reinvestment Act (CRA) Questions and Answers Reflecting 2005 Regulation Changes may be seen at www.ffiec.gov.

FEMA keeps an online list of all disaster areas at www.fema.gov. For information on CRA consideration in Hurricane Katrina and Hurricane Rita disaster areas, see the FRS Community Affairs Letter No. CA-06-5 available online at www.federalreserve.gov/boarddocs/caletters/2006/0605/caltr0605.htm, or the OTS Memorandum available online at www.ots.treas.gov/docs/2/25232.pdf.

² The Interagency Questions and Answers document said: "The Agencies generally will consider an activity to revitalize or stabilize a designated disaster area if it helps to attract new, or retain existing, businesses or residents and is related to disaster recovery. An activity will be presumed to revitalize or stabilize the area if the activity is consistent with a bona fide government revitalization or stabilization plan or disaster recovery plan. The Agencies generally will consider all activities relating to disaster recovery that revitalize or stabilize a designated disaster area, but will give greater weight to those activities that are most responsive to community needs, including the needs of low- or moderate-income individuals or neighborhoods."

Calendar of Events

Community Development Financing in Rural Pennsylvania

October 26, 2006, in Harrisburg, Pa.; November 14, 2006, in Beaver Falls, Pa.; and November 16, 2006, in DuBois, Pa. These events – designed for banks, nonprofits, developers, and government agencies – include analysis of community and economic development project financing from the perspectives of lenders and borrowers, CRA amendments, and new opportunities for bank and nonprofit involvement in state initiatives.

For information, see www.philadelphiafed.org/ccal/conferences.html or contact Kenyatta Burney at (215) 574-6037 or kenyatta.burney@phil.frb.org.

Financial Education for Trainers from Houses of Worship

Two train-the-trainer events will be held in Philadelphia: from 9 a.m. to 1 p.m. on Saturday, Nov. 4 at Triumph Baptist Church, 1648-52 Hunting Park Avenue near 16th Street; and on Saturday, Nov. 18 at White Rock Baptist Church, 5240 Chestnut Street.

These events are designed for church representatives who will train others in their congregations on personal finance subjects, such as credit, saving, and investment.

For information, see www.philadelphiafed.org/ccal/conferences.html or contact Kenyatta Burney at (215) 574-6037 or kenyatta.burney@phil.frb.org.

Homes Within Reach Conference

November 28–29, 2006, Harrisburg Hilton, Harrisburg, Pa.

This conference is organized by the Housing Alliance of Pennsylvania.

For information, contact info@housingalliancepa.org or (215) 576-7044; www.housingalliancepa.org.

Financing Community Development: Learning from the Past, Looking to the Future 2007 Federal Reserve System Research Conference

March 29–30, 2007, The Capital Hilton, Washington, D.C.

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 the changing financial services environment.

American Planning Association National Conference

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

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

Congress for the New Urbanism XV: New Urbanism and the Old City

This event will be attended by architects, planners, government officials, and developers who are interested in improving the quality of the built environment. Some of the leading architects and planners around the world are expected to attend. May 17–20, 2007, Loews Philadelphia Hotel

For information, contact Sandrine Milanello at sandrinem@cnu.org; www.cnu.org.

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