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CASCADE

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What Makes Cities Resilient?*

By Keith L. Rolland, Community Development Advisor

How older industrial cities can become resilient cities was the focus of the Federal Reserve Bank of Philadelphia's fifth biennial Reinventing Older Communities conference, which was attended by over 430 community development leaders from nonprofits, banks, foundations, government agencies, and businesses from 24 states, the District of Columbia, Puerto Rico, and Canada.

The conference, held May 9 to 11, 2012, in Philadelphia, was co-sponsored by the William Penn Foundation, the Penn Institute for Urban Research, the Ford Foundation, HUD's Office of Policy Development and Research, the Federal Home Loan Bank of Pittsburgh, and the Federal Reserve Banks of Boston, Chicago, Cleveland, New York, Richmond, and St. Louis.

Conference attendees heard from some of the nation's leading practitioners and researchers in 24 plenary and concurrent sessions and toured workforce development sites in Philadelphia's Kensington neighborhood, economic revitalization projects in Chester, PA, and waterfront development along the Delaware River.

Opening speakers probed why some cities, rather than others, are resilient. Charles I. Plosser, president and CEO of the Federal Reserve Bank of Philadelphia, said that one definition of community resilience is "the individual and collective capacity to respond to adversity and change. It is a community that takes intentional action to enhance the personal and collective capacity of its citizens and institutions to respond to and influence the course of social and economic change."¹

Plosser said that people are the ultimate source of opportunity and growth and asked, "How do we improve education and equip them for a more knowledge-based economy? And how can we unleash the creative and entrepreneurial spirit of all our citizens?"²

...continued on page 17

* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ See U.S. Department of Health and Human Services, available at http://www.samhsa.gov/dtac/dbhis/dbhis_stress/resilience.htm.

² See <http://www.philadelphiafed.org/publications/speeches/plosser/>.

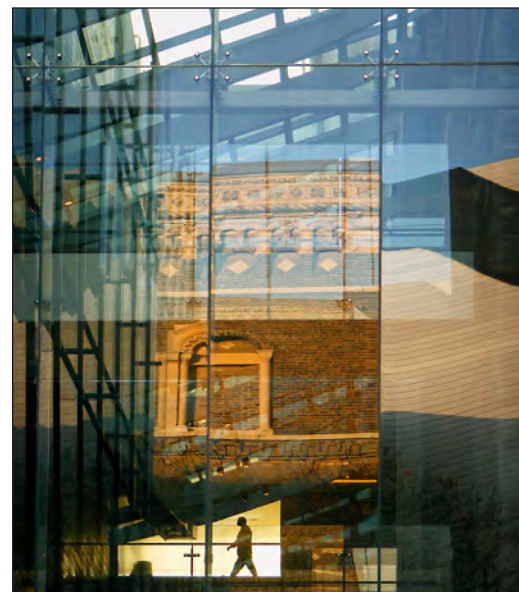


Photo Credit: Jeff Stewart Photos



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**COMMUNITY DEVELOPMENT STUDIES
AND EDUCATION DEPARTMENT**

Kenyatta Burney
Senior Staff Assistant
215-574-6037
kenyatta.burney@phil.frb.org

Jeri Cohen-Bauman
Lead Administrative Assistant
215-574-6458
jeri.cohen-bauman@phil.frb.org

Andrew T. Hill, Ph.D.
Economic Education Advisor and Team Leader
215-574-4392
andrew.hill@phil.frb.org

Dan Hochberg
Community Development Senior Research Assistant
215-574-3492
daniel.hochberg@phil.frb.org

Thomas Hylands
Community Development Research Analyst
215-574-6461
thomas.hylands@phil.frb.org

Amy B. Lempert
Community Development Advisor and Outreach Coordinator
215-574-6570
amy.lempert@phil.frb.org

Erin Mierzwa
Manager, Administration and Research
215-574-6641
erin.mierzwa@phil.frb.org

Keith L. Rolland
Community Development Advisor
215-574-6569
keith.rolland@phil.frb.org

Theresa Y. Singleton, Ph.D.
Vice President and Community Affairs Officer
215-574-6482
theresa.singleton@phil.frb.org

Marvin M. Smith, Ph.D.
Community Development Economic Advisor
215-574-6393
marty.smith@phil.frb.org

Keith Wardrip
Community Development Research Specialist
215-574-3810
keith.wardrip@phil.frb.org

Todd Zartman
Economic Education Specialist
215-574-6457
todd.zartman@phil.frb.org

REINVENTING OLDER COMMUNITIES: BUILDING RESILIENT CITIES

Message from the Community Affairs Officer

A good conference enables us to hear from experts on a range of topics, increase our knowledge, and network with old and new colleagues. A great conference achieves these things and inspires us to envision and plant the seeds of new ways to address the challenges in our communities.

Our goal in hosting the 2012 Reinventing Older Communities conference was to produce a great conference. More than 430 community developers, government and foundation leaders, researchers, policymakers, bankers, planners, and others interested in the future of cities joined us from 24 states, the District of Columbia, Puerto Rico, and Canada. There was a lot of enthusiasm and excitement at the conference, and I think that the conference theme of Building Resilient Cities resonated with the participants. For me, the term resiliency suggests hopefulness and strength in the face of struggle. I think that everyone at the conference shared a desire to create vibrant, economically viable cities.

This issue of *Cascade* shares a few highlights from the conference, including summaries from sessions on keys to success for small industrial cities, ways in which anchor institutions can revitalize neighborhoods and downtowns, the economic development potential

of arts and culture, successful urban education models, and the fiscal crisis confronting many local governments. To get the full scope of the conference, visit <http://www.philadelphiafed.org/community-development/events/> for plenary and concurrent session recordings and presentations.

We've used the time since the Reinventing conference to reflect on what we've learned and identify opportunities for follow-up. In light of the positive feedback received in regard to the conference and the report "In Philadelphia's Shadow: Small Cities in the Third Federal Reserve District," we will be building on the theme of building resilient cities with a focus on the needs of smaller industrial cities in our District. Our staff will be organizing a series of meetings in 2012 and 2013, including one on anchor institutions.

As always, we are interested in hearing from you. We are especially interested in your suggestions about issues and subjects that you would like us to address at the next Reinventing conference in 2014. Please send your suggestions and comments to us at info.communitydevelopment@phil.frb.org.





Keys to Success for Small Industrial Cities*

By Keith Wardrip, Community Development Research Specialist

Three panelists discussed successful strategies for putting small, post-industrial American cities on the road to revitalization, the central theme of the 2012 Reinventing conference.

The panelists were:

- Yolanda Kodrzycki, vice president and director of the New England Public Policy Center at the Federal Reserve Bank of Boston, which is engaged in an initiative to support revitalization in Springfield, MA.¹ Her research compares 25 mid-size formerly industrial cities, primarily located in the Northeast and Midwest.
- Alan Mallach, senior fellow, Center for Community Progress, and visiting scholar in the Philadelphia Fed's Community Development Studies and Education Department. Mallach's recent report² explores 13 small formerly industrial cities that, at their peak, were quite similar but have had varying levels of success following wide-scale deindustrialization and suburbanization.
- Hunter Morrison, former planning director in Cleveland and program director for the Northeast Ohio Sustainable Communities Consortium, which is tasked with developing a regional plan for Northeast Ohio.³

Erika Poethig, acting assistant secretary for HUD's Office of Policy Development and Research, moderated the session.

While the panelists would readily admit that there is no one-size-fits-all approach, their firsthand experiences and research have identified a number of themes associated with successful revitalization.

Ingredients for Success

All cities have assets. Some have a riverfront ripe for development. Others have an active and engaged college or hospital with a civic consciousness. Still others have a durable housing stock and walkable streets or serve as a regional or national tourist destination. However, not all cities cultivate their assets in ways that lead to revitalization, and additional research is needed to determine what leads to successful revitalization in some cases but not in others.

Panelists identified leadership and long-range planning as two themes that appear to be particularly critical to the success of revitalization efforts. Leaders can come from any sector, but they must form broad-based coalitions that include the government, business, and nonprofit sectors. Leadership and collaboration are important in the development of a long-range plan that guides a city's growth and provides a measure of

continuity in the face of changing administrations, CEOs, and executive directors.

The importance of the region, rather than the city, as the appropriate scale for strategic planning and forging partnerships also emerged in the presentations. Developing a strategic plan that includes partners throughout the region is considered critical. Morrison's organization is engaged in this very process in Northeast Ohio with the financial support of a federal Sustainable Community Regional Planning Grant.

The impact of a city's economy — both its size and makeup — on the well-being of its residents was less clear. Kodrzycki's research on 25 formerly industrial cities concluded that while all rely less on manufacturing than they once did, there is no discernible relationship between today's reliance on manufacturing and the likelihood of being resurgent. Similarly, Mallach's research suggests that there is little correlation between a city's employment base and the quality of life enjoyed by its residents. Instead, the presenters emphasized the importance of connecting a city's labor force to its broader regional job market. Where necessary, workforce development and job training efforts can help ensure that a city's residents can take advantage of local and regional opportunities.

* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ To learn more about Toward a More Prosperous Springfield, see <http://www.bostonfed.org/commdev/springfield/>.

² "In Philadelphia's Shadow: Small Cities in the Third Federal Reserve District" is available at <http://www.philadelphiafed.org/community-development/publications/special-reports/small-cities-in-third-federal-reserve-district.pdf>.

³ Information on the consortium can be found at <http://neoscc.org/>.

Morrison and Kodrzycki also discussed the importance of forming relationships with peer cities in order to learn how others facing similar obstacles to redevelopment have worked together to overcome their challenges. This cross-pollination of best practices is a goal of the City to City for Greater Springfield initiative,⁴ through which Springfield's leaders visit their counterparts in resurgent cities.

Measuring Success

Success must be defined before municipal revitalization efforts are, or are not, considered successful. Both Kodrzycki and Mallach measured success in relative terms by forming "peer groups" of cities with similar peak populations and histories of manufacturing employment. By

standard metrics such as household income or educational attainment, few formerly industrial cities would appear to be successful today when measured against national averages or cities with qualitatively different pasts. However, by focusing on those that have experienced the traumatic disruption of deindustrialization and in many cases significant population loss, it is clear that some cities can be considered to be "rebounding," to use Mallach's term, or "resurgent," according to Kodrzycki's research.

Successful revitalization can be measured among peer cities in a variety of ways, but the panelists focused primarily on the quality of life and social well-being of city residents as measured by household income, poverty levels, and educational

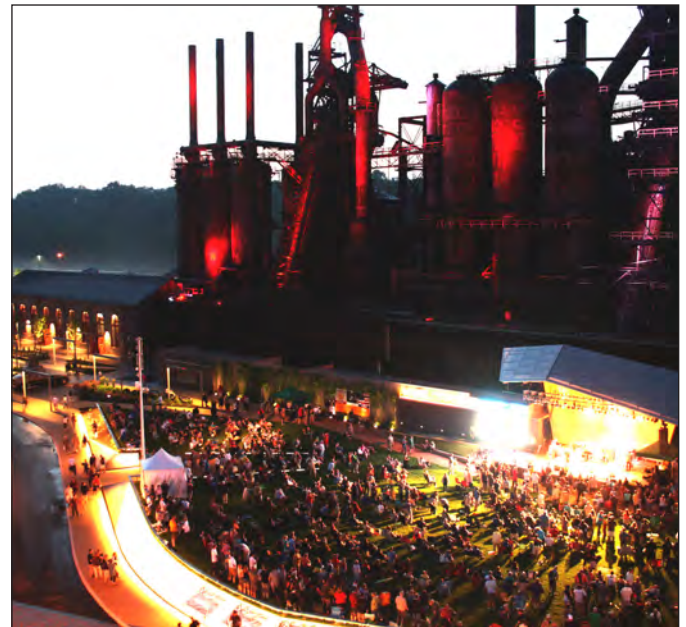
attainment. As Mallach said, "It doesn't matter how many waterfront attractions you have if 40 percent of your population lives below the poverty line." Kodrzycki also considered whether the city's population had stabilized after decades of loss, while Mallach emphasized healthy neighborhoods and housing markets as well as economic activity.

In closing, Kodrzycki noted that the rising tide of even the most successful revitalization efforts may not lift all boats. Separate initiatives focusing specifically on low-income households and neighborhoods may be required to ensure that a city's renewal is complete and inclusive.

Keith Wardrip can be contacted at 215-574-3810 or keith.wardrip@phil.frb.org.



The Bethlehem Steel blast furnaces are shown from the Lehigh River prior to the SteelStacks renovations.



Concertgoers gather for a show at the base of the Bethlehem Steel blast furnaces in the heart of the new SteelStacks arts and cultural center in Bethlehem, PA.

⁴ See the City to City for Greater Springfield blog at <http://www.city2cityspringfield.org/>.

Anchors Aweigh: Why Do Anchor Institutions Matter?

By Prabal Chakrabarti, Vice President, Federal Reserve Bank of Boston

In many cities, the expectation of civic leadership from a few large corporations headquartered downtown has ebbed. Instead, cities are looking to nonprofit anchor institutions, such as universities, hospitals, and museums, to support economic development and other goals. As Eugenie Birch, co-director of the Penn Institute for Urban Research and one of the panelists at a Reinventing Older Communities session on anchor institutions, put it, “Universities are the factories of the 21st century.”

However, there are sometimes stark juxtapositions between anchor institutions and their surrounding communities as well as in their capacities and functions. Many anchor institutions are located in residential neighborhoods of mixed income. City colleges and public hospitals are funded by the government to serve low- to moderate-income residents. Private institutions often serve middle- and upper-income populations and may also provide targeted support services to lower-income groups. Both types of institutions provide education and conduct research that serve the city broadly but in different ways.

The three panelists offered these observations on civic involvement by anchor institutions:

- An anchor institution can transform a neighborhood or downtown area through employment, affordable housing, or real estate investment.

- Successful initiatives connect the core mission of the anchor institution to the goals of the city and make collaboration a hallmark. Educational institutions can improve a city’s future potential through their core mission of education.
- Educational and health institutions face rising cost pressures, while cities face their own pressures to raise revenues in an era of fiscal crisis.

Making a Big Impact

Teresa Lynch, senior vice president and director of research for the

Initiative for a Competitive

Inner City (ICIC), said

that in some cities anchor

institutions employ 15

to 20 percent of all work-

ers, “cor-

responding to hundreds

of billions

of dollars

of purchasing power.”

Anchor

institutions are the largest

real estate

developer in many cities

and develop the workforce

through inter-

nal training programs. They start or lead economic development clusters, such as the Cleveland Clinic in medicine, MIT/Harvard in biotechnology, and Stanford University in scientific and technological innovations. Anchor institutions may play a catalytic role to transform a city, create a 24/7 downtown area, nurture community development corporations, or undertake a specific project. The figure below shows the many ways in which anchor institutions can have a positive impact in their communities.

Anchor institutions comprise a particularly large job center in the

Figure
Anchor Institutions and Community Vitality:
Strategic Framework



Source: ICIC

* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia, the Federal Reserve Bank of Boston, or the Federal Reserve System.

northeastern United States, as Birch explained. Research universities and medical centers together employ 294,000 people in the northeastern states. Much of the economic activity is dependent upon revenue from tuition, but government funding also plays a role. Over \$18 billion in federal research grants go to the northeastern corridor (out of \$52 billion nationally).¹

There are well-known examples of university–community partnerships. The University of Pennsylvania and Temple University have revitalized Philadelphia neighborhoods through major real estate developments while enabling faculty and students to help meet community needs through service and research projects.

David Angel, president of Clark University, explained what can be accomplished in a smaller city with limited financial resources. Clark University, which is located in the inner city of Worcester, MA, has had a singular impact as a small liberal arts university. After debating in the 1980s about ways to improve town–gown relations, Clark instead launched a partnership to help revitalize the community. Its flagship effort seized on public education as the means to do so.

Clark and the Worcester public schools created University Park Campus School,² a new public neighborhood high school for resi-



Students attend a class at the University Park Campus School, which was established by Clark University and the Worcester public schools and serves grades 7–12 in the poorest section of Worcester, MA. Over 95 percent of its graduates have attended college; nearly all are first-generation college attendees.

dents in Clark’s ethnically diverse but economically poor neighborhood. Some 82 percent of the students qualify for free or subsidized lunch. Over the past five years, it has been the highest-performing urban high school in Massachusetts, according to state test data, and performs in the top quartile of all high schools statewide.

Clark University believed that public education provided the biggest bang for its buck and offered a bold prize: Any student who is a resident of the surrounding neighborhood and who is admitted to the university receives four years of free college tuition, room, and board. This is a \$200,000 award at


a private school like Clark, and nearly 50 students have taken advantage of it.

Students become acclimated to college while “on campus” at high school. Clark faculty and students teach mini-seminars. Students have access to college facilities, and in their junior and senior years, they can even take college classes. Their sense of participation in a college environment helps them see college as a goal, and 98 percent of University Park students go on to a two- or four-year college.

Getting this right can be a powerful experience. At a Clark board meeting, a news segment was aired on

¹ Calculated by Eugenie Birch using the Integrated Postsecondary Education Data System, available at <http://nces.ed.gov/ipeds/>.

² For more information, see <http://www.clarku.edu/departments/education/upcs/program.cfm>.



the school's accomplishments. Angel recalled, "The meeting was filled with high-powered businessmen and hedge fund investors and other members of your typical board, and at the end of the segment, some had tears in their eyes." More broadly, the experience has changed how Clark views itself and its mission as a liberal arts school and has become part of the university's core mission and marketing.

Connecting and Collaborating to Accomplish a Core Mission

Having an impact doesn't mean going it alone. Although the high school is Clark's unique contribution, the university is also working in the Worcester region with a group of about 10 other colleges on issues such as housing and economic development. This formal partnership achieved significant results through collaboration, and each institution leads a different activity.³ Similar formal partnership agreements exist in places such as the Longwood medical area in Boston and University Circle in Cleveland. These agreements can serve as a kind of business-improvement district.

In addition, anchor institutions can have an important impact by jointly purchasing goods and services. A collaborative joint-purchasing effort in Detroit's Midtown corridor encompasses the Henry Ford Health System, the Detroit Medical Center, and Wayne State University. A Na-

tional Anchor Institution Task Force is designed to foster such partnerships.⁴

Cities must recognize that an anchor institution has a core mission that is not the same as the city's mission; therefore, cities must create opportunities in which the institution can use its strengths. Universities that offer programs in the areas of education, planning, public health, medicine, business, or engineering can contribute in ways linked to their research and teaching efforts.

Economic development is not the core mission of an anchor institution. A research university trains budding scientists or scholars. Teaching hospitals treat their patients, train doctors, and perform medical research. Anchor institutions likewise must be engaged in their core mission if they are to increase their community involvement.

Facing a Challenging Future

In the current economic climate, educational and health-care institutions will have slower job growth, and federal research grants will likely be reduced. Meanwhile, cities need revenues to balance budgets; however, much of their commercial real estate is owned by nonprofit anchor institutions that are exempt from paying property taxes by state law (although some make payments in lieu of taxes, these amounts are often ad hoc determinations).

Cities may also be contending with foreclosures and vacant properties, both of which are an issue in Worcester. Therefore, cities must determine if anchor institutions are growing or hurting, and then they can align expectations with what is feasible.

Conclusion

The speakers offered the following suggestions for anchor institutions that want to start initiatives in their communities:

- Make contracting rules transparent and adopt best practices. Lynch found that one institution improved local contracting from 4 percent to 15 percent by teaching local firms how to bid and by doing a better job of soliciting requests for proposals.
- Locate some programs and facilities downtown. For example, universities can move theaters, back-office operations, and urban-related programs downtown.
- Talk to local community organizations about area needs and set up a meeting with these organizations.
- Examine your institution's current efforts, talk to other institutions, and look for ways to work together to avoid redundancy. Anchor institutions don't have to be large or wealthy to have a positive impact.

Pabral Chakrabarti can be contacted at 617-973-3959 or prabal.chakrabarti@bos.frb.org.

³ For more information on the Worcester, MA, university partnership, see the Federal Reserve Bank of Boston's Community Development Discussion Paper "University-Community Partnerships: 2006 Worcester Speaker Series," 2006, available at <http://www.bostonfed.org/commdev/pcadp/2007/pcadp0702.pdf>.

⁴ For information, see <http://pennur.upenn.edu/research>.

Moments Captured from the Conference and the Chester, PA, Tour



► Jeremy Nowak, President, William Penn Foundation, and Chairman, Board of Directors, Federal Reserve Bank of Philadelphia

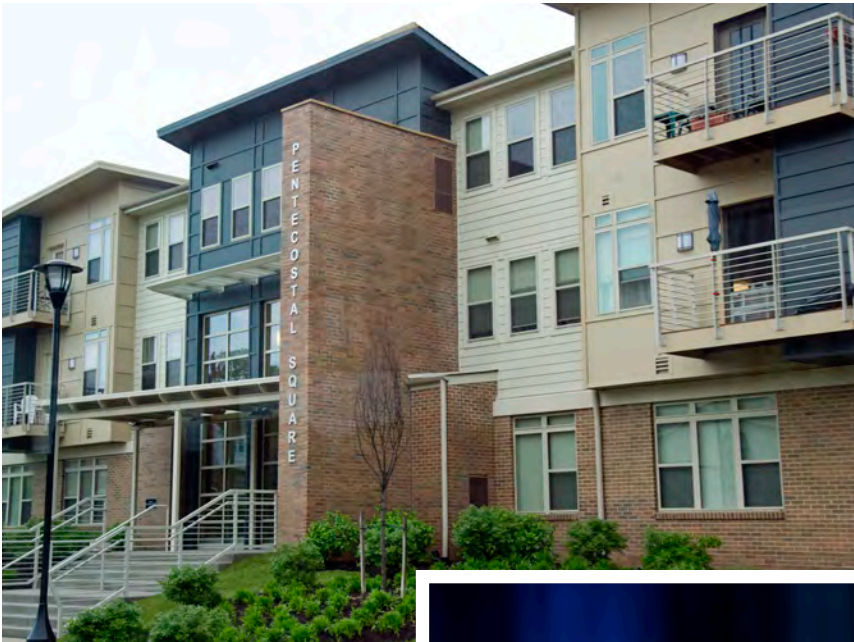
Theresa Singleton, Vice President and Community Affairs Officer, Federal Reserve Bank of Philadelphia ◀



▼ Shaun Donovan, Secretary of the U.S. Department of Housing and Urban Development



► New ramp from the Commodore Barry Bridge to Chester, PA, including PPL Park, home of the Philadelphia Union professional soccer team



► Pentecostal Square, a 70-unit senior rental community in Chester, PA, developed by MBI Development, Inc. and Pentecostal Square Community Development Corporation

Charles Plosser, President and CEO, Federal Reserve Bank of Philadelphia; at left is Jeremy Nowak, President, William Penn Foundation, and Chairman, Board of Directors, Federal Reserve Bank of Philadelphia



► Left to right: Michael A. Nutter, Mayor, Philadelphia, PA; J. Richard Gray, Mayor, Lancaster, PA; and Scott W. Lang, 37th Mayor, New Bedford, MA

The Creative Economy Spurs Economic Development*

By Amy B. Lempert, Community Development Advisor and Outreach Coordinator

The past decade has seen an increased interest in employing the arts as a community and economic development strategy. But this is not a new idea, Mark Stern, a social policy professor at the University of Pennsylvania, reminded participants at a Reinventing conference session on the arts and culture. This strategy dates back to the days of urban renewal in the 1960s when older industrial buildings and housing were replaced with symphony halls and cultural spaces. Today, however, there is interest in “moving beyond larger, more mainstream investment in the arts to focus on more immediate, participatory strategies for engaging a wider urban community in the art world,” noted Stern, who moderated the session.

Collaboration among different sectors can be the linchpin in effective revitalization efforts, and projects involving the arts and culture seem to attract collaborative efforts. In fact, the three panelists each recognized the important role that collaboration played in the success of their projects. They also attributed the artists’ successful efforts in revitalizing their small towns to the artists’ willingness to take risks:

- Bill Renzulli, one of more than 70 artists who moved to Paducah, KY, in response to an advertisement for the city’s Artist Relocation Program, discussed how the artists helped to revitalize that city’s blighted but historic Lower Town neighborhood.
 - Catherine Creamer,** executive director of ArtPrize, described how a large art competition that is available and accessible to the public has been a successful vehicle for democratizing art and engaging the public.
- Barbara Ciampini, planning director of the city of Greensburg, PA, spoke about how her city, the county seat of Westmoreland County, collaborated with a university and others to attract investment in Greensburg’s downtown.

Think Big

Beside Ciampini’s desk in city hall in Greensburg, PA, is a quote by Chicago architect Daniel Burnham (1846–1912): “Make no little plans ... think big.” This quote is one of Ciampini’s mantras. Ciampini and the city of Greensburg, a western Pennsylvania town with about 15,000 residents, have won multiple awards for comprehensive, far-reaching “big” plans. Ciampini said that three factors have been critical to Greensburg’s successful redevelopment: (1) planning, (2) proactive thinking, and (3) partnerships.



In 2009, Seton Hill University expanded its campus by establishing a performing arts center, classrooms, and offices in downtown Greensburg, PA, catalyzing downtown development and stimulating private investment.

* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

** Creamer has since left ArtPrize to accept a position with another organization.

“Focus on the assets you have” is another of Ciampini’s mantras. Greensburg had some relatively untapped assets: Seton Hill University, which sits on a bucolic hill above the center of the city, and the Westmoreland Cultural Trust, an advocate of the arts that develops and enhances the cultural life and economic well-being of the region. Together, the city, county, and state, along with the trust and other partners, were able to provide the incentives necessary for the university to build a new performing arts center on a blighted site in Greensburg’s downtown. A \$23 million investment in the construction of a theater and concert hall, along with classrooms and offices, served as a catalyst for further downtown development. Ciampini pointed out that private investment follows the arts. Between 1997 and 2010, more than \$71 million was invested in new restaurants, cultural and entertainment facilities, and both public and private improvements to the city’s infrastructure.

Take Risks

Risk-taking can occur on a personal level. According to Renzulli, risk-taking and a willingness to push personal boundaries are some of the immeasurable assets that are typical of artists, particularly those who relocated to Paducah, KY. Other traits include a “deep trust in intuition and imagination and an openness and willingness to pursue new ideas and follow inspirations.” The city of Paducah, which has a population of 25,000, is the hub of a 15-county region in western Kentucky and southern Illinois that has a total population of over a quarter of a million people.

The first and foremost goal of Paducah’s Artist Relocation Program, the brainchild of a local artist, is



Photo Credit: Liddia Stevens

Artist Liddia Stevens used rich colors to create this vibrant oil painting on canvas. The portrait, titled “Topsy Turvy: Megan Is Amiss,” was featured in ArtPrize 2012.

to revitalize the blighted historic residential neighborhood known as Lower Town. The city advertises in national artists’ journals for artists to relocate to Paducah. The incentives are the opportunity to buy a severely deteriorated house for \$1 and receive a cash award of \$2,500. Paducah Bank provides loans to the artists for 100 percent of the rehabilitation costs, which are typically well above the appraised value.

“When artists are around, good things happen,” said Renzulli. “Artists get together, they get out and about, sit on boards, and can envision what doesn’t exist and how to make it.” According to studies produced for the city, the relocated artists invested an average of \$345,000 in their properties, which were typically redeveloped as first floor studios and galleries with living quarters on the upper floors. The city estimates that its investment in the purchase and stabilization of proper-

ties, infrastructure improvements, and advertising leveraged \$11 for every dollar it invested. In addition, the artists’ investments spurred new businesses, construction jobs, tax revenues, and a new tourism industry in Paducah.

Collaborate

ArtPrize is an international art competition that “catalyzes creative expression and risk-taking in Grand Rapids, MI,” according to Creamer. The competition netted nearly half a million dollars and attracted more than 322,000 visitors to the city over a 19-day period in the fall of 2011, the third year the event was held. A study conducted for ArtPrize found that the event generated \$50.4 million in economic impact and created 200 jobs. “We like to think of ourselves as the Super Bowl of Grand Rapids,” Creamer said. ArtPrize has successfully used Internet technology to organize a grand civic project that promotes civic engagement and

stimulating conversation in a city that was not previously known for its vibrancy. According to Creamer, in a single day during the event last year, 229,000 people discussed ArtPrize on Facebook.

ArtPrize provides a very large catalyst in the form of a first place prize of \$200,000, and the rules of this competition are very simple. According to Creamer, “Anyone can be an artist, any space can be a venue, and everyone has a voice.” The artists can work in any medium, but they can only participate by connecting with a public venue that will show their art. Bars, coffee shops, an auto mechanic’s shop, or more traditional venues, such as museums, churches, and universities, can sign up to work

with and host artists. The event is organized with an online platform where artists and those with venues can connect, basically an online matching service, and where people can vote for their favorite exhibit. Unlike conventional art exhibits, the majority of the awards are determined by public votes. In order to vote, a person must visit the festival and obtain a number. The purpose of the competition is to stimulate ideas, debate, and action.

The event generates collaboration among the artists, the providers of the venues, and the visitors, and the success depends on the city; public, private, and philanthropic organizations; and corporate sponsors. According to Creamer, ArtPrize has transformed

Grand Rapids, the region, and the state of Michigan, and she is eager to share her ideas with other communities that want to create opportunities for civic engagement through art.

Summary

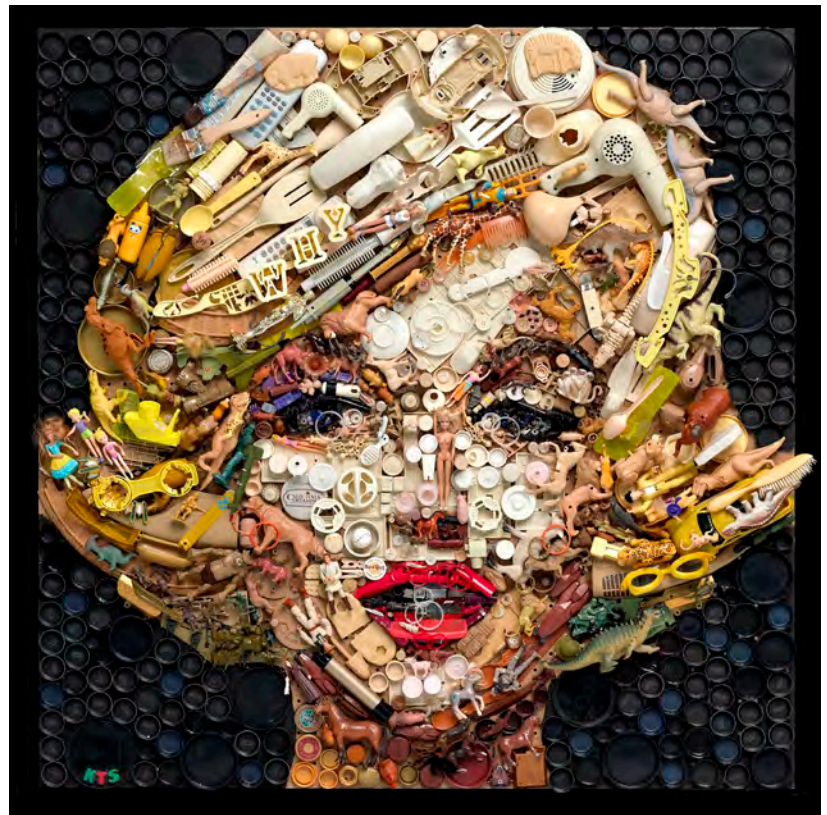
All three speakers noted that artists typically have an innate ability to envision something that does not exist and the constitution to take the risks involved in making that vision a reality. These strengths can make artists a potent stimulus for economic development.

Amy Lempert can be contacted at 215-574-6570 or amy.lempert@phil.frb.org.

Photo Credit: Robin Protz (www.robinlou.com)



Artist Robin Protz used more than 40,000 golden buttons and beads suspended on over 4,000 fluorocarbon lines to create “The Dragon,” which is suspended from an 18-foot × 12-foot × 8-foot frame. The kinetic sculpture was an ArtPrize 2012 entry.



Artist Kirkland Smith used everyday household items to create this carefully crafted image of Marilyn Monroe. Smith’s assemblage of post-consumer materials, titled “Marilyn,” was an ArtPrize 2012 entry.

Photo Credit: Kirkland Smith (www.KirklandSmith.com)

How Can Local Governments Cope with the Fiscal Juggernaut?*

By Keith L. Rolland, Community Development Advisor

A professor who has followed the fiscal crisis, a manager of a bankrupt city, and a former mayor shared insights with a Reinventing Older Communities audience on how cities can best cope with financial problems that have worsened during the recession. Their overall recommendations were to:

- set realistic expectations;
- build trust with unions, businesses, and the public;
- create balanced multiyear budgets; and
- look for opportunities to make needed reforms.

Operate with Balanced Budgets

Robert Inman, professor of finance at the University of Pennsylvania and author of *Making Cities Work: Prospects and Policies for Urban America*, pointed out that some cities manage to do well in recessionary times. These cities tend to have a diversified private-sector economy, an educated and flexible workforce, and a rainy day cash fund with at least 5 percent of city expenditures. They also have the ability to reduce or contract-out staff and services and to refuse demands for services that don't benefit all residents of the city.

Inman recommended that in difficult fiscal times cities ought to:

- tax businesses and homeowners where they are located, rather than impose nonresident sales and wage taxes.
- provide high-quality services and pay for value, not votes, basing wage increases on productivity gains rather than on an expectation of political support.
- “run balanced budgets, not deficits.” Watchdogs such as the Pennsylvania Intergovernmental Cooperation Authority (PICA) provide valuable oversight of city finances.^{1,2}
- give businesses and homeowners choices, such as business and neighborhood improvement districts and school vouchers.
- provide services for low-income residents, but finance these services at the regional, state, or federal levels.

From 2008 to 2011, state and local governments' expenditures exceeded revenues by a cumulative deficit of \$334 billion, said Inman.³ During these years, the states and cities underfunded pension liabilities and relied excessively on investment returns. These returns, Inman said, dropped from \$532 billion in 2007 to \$26 billion in 2010.

Credibility and Integrity

Phil Batchelor, a consultant who was

hired as the city manager to lead Vallejo, CA, after it filed for bankruptcy protection in 2008, recalled that Vallejo's expenditures exceeded revenues by more than \$11 million in the three-year period prior to bankruptcy (see the figure). According to Batchelor, Vallejo's labor contracts were marked by costly minimum staffing levels, unsustainable defined benefit pensions, and lifetime retiree medical coverage.

Following bankruptcy, Vallejo laid off 47 percent of the staff in the city's police department and 42 percent of the staff in the fire department and eliminated all discretionary programs in the city, including funding for the library, a recreational district, and a wide range of community-based organizations.

In this difficult situation, Batchelor said the city met with the public employee unions and tried to keep a professional tone “in an environment of credibility and integrity.” As the city manager, he worked to create “a new culture” in the city employee workforce, met with and trained all city employees, and communicated regularly with employees on city decisions.

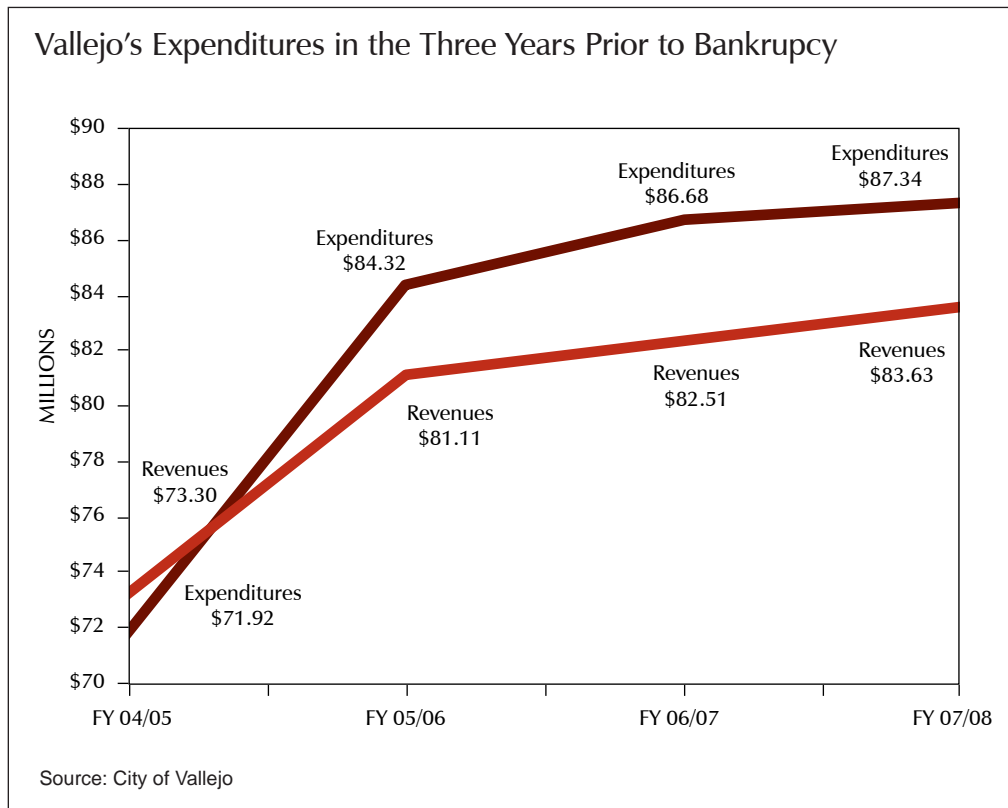
Batchelor explained that bankruptcy is “no easy answer” and is

* The views expressed here are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ PICA has approved 19 financial plans for Philadelphia, including a plan for fiscal years 2011–2015. See <http://www.picapa.org/>.

² Inman said that he is working with Federal Reserve researchers on applying the PICA experience to develop a model for financial oversight of state and local governments.

³ The data source is the National Income and Product Accounts, Table 3.3, as revised on July 27, 2012. This measure of the state and local deficit includes federal grants-in-aid as revenue to state and local governments.



a “last-ditch alternative.” Entering into bankruptcy didn’t relieve Vallejo from its obligations to balance its budget, settle with claimants, reduce unfunded liabilities, and get its financial house in order.⁴ Bankruptcy-related legal fees were significant, totaling \$12.5 million, he pointed out. According to Batchelor, many other cities are positioned to meet the same fate as Vallejo if they do not get their financial houses in order.

It may be difficult for cities to make reforms even in the face of fiscal problems. Although bankruptcy is generally to be avoided, it can be a political tool to advance reform, Inman pointed out.

Build Trust

Anthony Williams, who served as mayor of Washington, D.C., from 1999 to 2007, said that in difficult financial circumstances, it’s imperative that a mayor build trust with businesses, unions, and the public. Currently a senior strategic advisor and independent consultant with McKenna Long & Aldridge LLP, Williams said that the best thing a mayor can do is set realistic expectations for the city. The best mayors are good public managers and are respected, he added.

Williams advocated that cities maintain multiyear, transparent balanced budgets and said that a city’s chief financial officer ought to be an inde-

pendent person who can carry the burden of making tough decisions. If an unpopular decision such as layoffs must be made, do it quickly, he recommended.

Cities can find opportunity in crisis, Williams said, and they can become a laboratory of experimentation and restructuring as they address financial problems. In a later discussion, Inman reiterated the importance of a climate of trust among the city, unions, and other sectors. “The real tough problems are solved by trust, not contracts,” he said.

Keith L. Rolland can be contacted at 215-574-6569 or keith.rolland@phil.frb.org.

⁴ Vallejo’s bankruptcy plan provided for significant reductions in interest rates, maturity dates extended by 10 years, no interest accruals for four years, no payments for three years, and general fund savings that created a pool for unsecured general creditors, according to Batchelor.



Urban Education: Models That Work*

By Marvin M. Smith, Ph.D., Community Development Economic Advisor

A good education is a prerequisite for many employment opportunities today. In a weak economy when relatively few new jobs become available, the need for educational preparation becomes even more paramount. In low-income communities where the quality of many schools is dubious, the employment prospects of the attendees are grim. There is an ongoing debate about how to improve schools in these communities in order to enhance education levels and improve job readiness. While the merits of charter schools and the role of vocational–technical schools are being debated, there are some school models that have achieved some success. Three such models were discussed in presentations at the Reinventing Older Communities conference.

Why Some Schools Are Effective

Will Dobbie, Ph.D. candidate in public policy at Harvard University, focused on “getting beneath the veil of effective schools” by drawing on evidence from charter schools in New York City. His discussion was based on a joint study with Roland Fryer, Jr., professor of economics at Harvard University.¹ Dobbie pointed to three factors that motivated them to focus on charter schools in their study. First, when they looked at national math and reading test scores in traditional public schools as well as similar data from 17 cities

and one county (Jefferson County, Kentucky), they found substantial differences between blacks and whites (see the figure). Second, in none of the cities studied did a high percentage of blacks score at grade level. Third, they considered the typical solutions, such as decreasing class size, increasing the number of teachers with advanced degrees, and increasing spending per student, that were thought to resolve the problem. Dobbie observed that the use of all these measures has increased dramatically over the past 20 years with little significant improvement in test scores. Thus, the notion of changes in human and monetary resources as the answer has not worked.

Dobbie noted that while charter schools in general perform no better than traditional public schools, there are some charter schools that are performing exceptionally well. He pointed out that these high-achieving schools are closing the black/white achievement gap in three to four years. The task was to explore what factors contributed to their success. Dobbie and his colleague collected data from 35 charter schools in New York City through interviews with principals, teachers, and students as well as lesson plans and classroom video recordings. They designed a statistical approach to estimate experimentally the correlation of the value added by various inputs

with the school’s effectiveness. They observed that when charter schools used traditional inputs, they did worse than other schools.² Next, they used some variables suggested from years of qualitative research: teacher feedback; data-driven instruction;³ tutoring; instructional time; and high expectations (schools’ educational priorities).⁴ Dobbie and Fryer found these variables to be instrumental in explaining the effectiveness of the charter schools. After further testing, they arrived at five inputs suggested by previous researchers that are highly correlated with a school’s success: more teacher feedback; data-driven instruction; students spending more time in school; small group tutoring; and culture and expectations.

As a next step, Fryer tested these inputs experimentally in 20 low-achieving traditional schools in Houston, TX. After one year, the results in test score gains in the experimental schools are much larger than in average charter schools and in line with the top charter schools.

Vocational–Technical Schools

Massachusetts has a vocational–technical high school model that is proving to be quite successful. Alison Fraser, curriculum and instructional resource development specialist at Blackstone Valley Regional Vocational–Technical High School, offered some background on the

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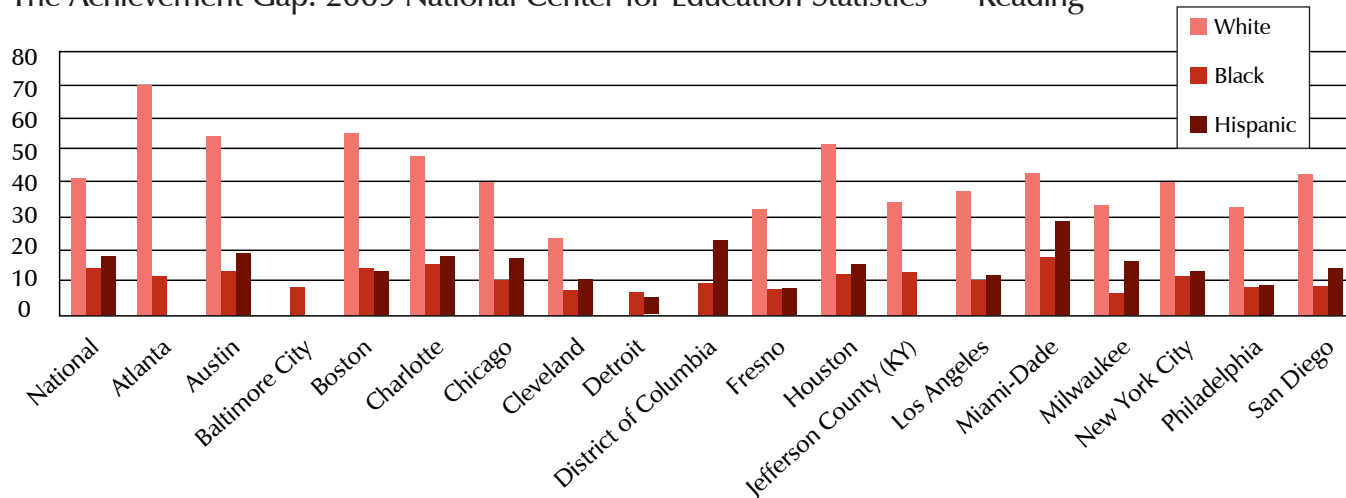
¹ Will Dobbie and Roland Fryer, Jr., “Getting Beneath the Veil of Effective Schools: Evidence from New York City,” NBER Working Paper 17632, December 2011, available at <http://www.nber.org/papers/w17632>.

² Traditional inputs include class size, per pupil expenditures, and teachers with advanced degrees.

³ This involves using test results of whether students learned the objective of a lesson to determine whether to repeat the lesson or move on to another lesson.

⁴ These variables are explained in Dobbie and Fryer’s working paper.

The Achievement Gap: 2009 National Center for Education Statistics — Reading*



*Some groups are excluded from the graph if there are too few students of that type in a city.

tenets of the model, its value to the business community, and its potential as a prototype to aid schools in turning around the performance of underserved student populations. Fraser noted that Massachusetts was a pioneer in providing publicly funded industrial education. The educational effort later evolved with the creation of 26 regional vocational-technical high schools and three regional agricultural schools. Fraser pointed out that a key component of the vocational education approach is its school-based management: Each school has its own school committee, superintendent, budget, curricula, and instructional policies (within state guidelines).

Due to the popularity of regional vocational schools, they have long waiting lists. The waiting lists necessitated the establishment of entrance criteria, which include the following: the successful completion of math and English in the most recent grade; a limited number of unexcused absences; an acceptable discipline record; and recommendations and/or interviews. Fraser stressed that these

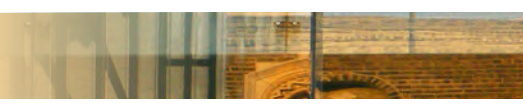
schools, like other state schools, expect students to graduate with career or college-ready skills. The regional vocational schools offer a variety of programs such as graphic communications, cosmetology, carpentry, culinary arts, electronics, and automotive technology.

Fraser revealed that vocational schools are now placing greater emphasis on integrating academics with the craft being taught. She mentioned that this was motivated by the statewide comprehensive assessment testing. Initially, there was an objection to vocational school students being required to compete with regular students on statewide tests. However, once committed to the challenge, vocational-technical students continue to outperform the statewide average in both math and English. The faculties at vocational schools have embraced this integration, since some knowledge of both subjects is required for most trade careers. For example, trade manuals are typically written at up to the grade 14 reading level, and while math is relied on in robotics and sci-

ence, it is also used in mixing dyes in cosmetology. Fraser also reported that the vocational-technical schools are faring quite well vis-à-vis the state average in terms of drop-out rates and graduation rates of special needs students. Moreover, according to Fraser, the business community sings the praises of the vocational-technical graduates as generally more job-ready than graduates from other state schools. Given the special organizational and instructional approach in vocational-technical schools, Fraser, among others, recommends that these schools be used as models for turning around the performance of underserved student populations and low-performing schools.

Mastery Charter Schools

Scott Gordon, CEO of the Mastery Charter Schools in Philadelphia, discussed the approach used by Mastery. Mastery is a nonprofit network of charter schools that currently operates 10 schools in Philadelphia. Mastery is recognized by the U.S. Department of Education as a national leader in “school turn-



arounds” — taking low-performing schools and transforming them into high-performing ones. Gordon pointed out that there are around 20,000 kindergarteners in the Philadelphia school system in 2012, but only about 2,000 will graduate from college — a failure rate of 90 percent. He further noted that 17-year-old minority youths are reading at the same levels as white 13 year olds. Thus, we are producing a generation of young people who are not prepared to participate successfully in the economy.

Mastery’s turnaround approach involves working with the lowest performing schools and keeping the same students, catchment areas (and enrollment rules), special education students and programs, and buildings. However, the only things that Mastery changes are the

teachers and management. Gordon reported that the results in three middle schools over three years was a 40- to 50-point gain in math and reading proficiency, with the Mastery students performing above the state average. He indicated that noticeable gains were achieved in three elementary schools in one year. Gordon stressed that a key to turnaround success is providing a safe environment. Mastery demonstrated this by drastically decreasing violence in its schools while reducing the student dropout rate. He further noted that the percent of Mastery graduates who go directly to college and the percent who graduate from college in six years exceed the comparable percents in both Philadelphia and the nation.

Gordon discussed several features underlying Mastery’s success. They include developing a culture of education that values students and doesn’t treat them as widgets; establishing goals with accompanying curricula and measuring students’ progress; relying on data-driven instruction; and investing in teachers and rewarding them with pay for performance.

Summary

The task of educating students in low-income communities and preparing them for the world of work remains a challenge for educators. Fortunately, the three educational approaches discussed above provide some insight as to how this might be accomplished.

Marvin Smith can be contacted at 215-574-6393 or marty.smith@phil.frb.org.

What Makes Cities Resilient? ...continued from page 1

He also noted that “government regulations on small and emerging companies can have a stifling effect on economic growth and, despite our best intentions, the law of unintended consequences can loom large in any effort to direct or control economic activity.”

Plosser explained that the Philadelphia Fed’s Research Department has begun a research project to measure urban resilience. He said, “Resilience is based on the response of local economic activity to an economic shock — whether it be a temporary shock (related to the business cycle or some other temporary factor) or a persistent shock (related to long-run trends in technology, productivity, or preferences).

“Our researchers are examining two working definitions of resilience that are grounded in economic theory. According to the first measure, an area is considered more resilient to the extent that it experiences milder fluctuations in employment over the business cycle. According to the second measure, resilient areas are those that experience faster employment growth than could be expected based on national growth rates given their industrial structure. The aim of the research project is to combine these two measures into an index that we will then be able to track over time.”

Plosser said that the project, thus far, looks “promising” and that the next step “is to examine how the indexes

change over time and see whether there are certain metropolitan area characteristics that are correlated with resilience.”

Jeremy Nowak, president of the William Penn Foundation and chairman of the board of directors of the Philadelphia Fed, said that resilience in its Latin roots means to jump back or snap back to a prior state of being. He invited the audience to think about people and communities through a “resilience lens” that looks for strengths, rather than a liability or pathology lens that is self-limiting.

Drawing on the research literature in psychology and ecology, Nowak found that resilience has themes of internal capacity, enabling social

connections, diversification, self-organization, and disruptive change. An urban policy or development practice that followed these themes would build on authentic strength, allow for social connections across barriers, and invest in ways that favor diversification and self-organization, he said.

In another plenary address, HUD Secretary Shaun Donovan said that some smaller cities have emerged as resilient communities by diversifying their economies, coordinating their approach to workforce development, leveraging private-sector investment, and engaging new partners and anchor institutions.

The lessons learned about cities during the past century, Donovan said, are one size doesn't fit all; good part-

ner diverse communities, including Chester, PA. A team of federal officials work full-time on-site to help these cities navigate existing federal programs and build local government capacity.

Donovan observed:

- Poverty grew almost five times faster in the nation's suburbs than in cities during the past decade, and there are 1.5 million more poor people living in suburbs than in cities;
- "When it comes to the way cities manage transportation, building and land use, it isn't always federal barriers that get in the way, but often that every community in a region has a different set of rules and codes."

Following Donovan's remarks, Bethlehem, PA, Mayor John Callahan; Tamar Shapiro, senior director of the German Marshall Fund; and Susan Wachter, co-director of the Penn

Institute for Urban Research, explored how cities are using planning and strategic investment policies to ensure their resilience over time.

Edward L. Glaeser, professor of economics at Harvard University, said that cities tend to reverse decline by adopting one of four main strategies:

make physical capital improvements; provide tax incentives; attract and train talented workers; or shrink the physical footprint and reduce the costs of city services.

The core basics of successful cities are good schooling, safe streets, and quick commutes, Glaeser said. He added that human capital is the bedrock of a city's success and that "education is close to urban destiny."

Other plenary sessions were on the changing role of philanthropy, with the presidents and CEOs of the Annie E. Casey Foundation, the Skillman Foundation, and the William Penn Foundation, and the perspectives of Philadelphia Mayor Michael A. Nutter; Lancaster, PA, Mayor J. Richard Gray; and former New Bedford, MA, Mayor Scott W. Lang.

"In Philadelphia's Shadow: Small Cities in the Third Federal Reserve District," a special report released at the conference, describes the history and trajectory of 13 small formerly industrial cities in the District. It was written by Alan Mallach, a visiting scholar at the Philadelphia Fed.

A book on major conference themes, to be published in 2013, is being co-edited by Susan Wachter, co-director of the Penn Institute for Urban Research, and Kimberly Zeuli, vice president and community development officer at the Federal Reserve Bank of Richmond.

Audio and video recordings of plenary sessions, audio recordings of concurrent sessions, and some speakers' presentations are available at <http://www.philadelphiafed.org/community-development/events/>.

The lessons learned about cities during the past century, Shaun Donovan said, are one size doesn't fit all; good partners recognize opportunities as well as problems; and no city can succeed without strong local leadership and institutional capacity.

ners recognize opportunities as well as problems; and no city can succeed without strong local leadership and institutional capacity.

Last year, the Obama administration started a Strong Cities Strong Communities pilot program to bring together 14 federal agencies in six



Tomorrow's Leaders: Attracting Young Professionals*

Jeremiah Boyle, Managing Director of Economic Development, Federal Reserve Bank of Chicago

When searching for the silver bullet for economic development, cities have traditionally engaged in the “fad” of attracting young professionals. Gilles Duranton, professor of economics at the University of Toronto, expressed his skepticism regarding the enthusiasm generated by cities, especially those in decline, to attract young talent as a prescription for their economic woes. He told a Reinventing audience that “big infrastructure,” downtown revitalization, industrial “cluster” development, and the attraction of young talent all represent a succession of economic development “fads.”

Urban decline is very difficult to overcome because cities that have more educated populations tend to become more educated, while cities that have less educated populations tend to become relatively less educated. The persistence of urban decline makes older industrial cities much more vulnerable to negative economic shocks.

The underlying philosophy of talent attraction policies seems to be that if a city can attract talented people, jobs will follow and multiply. “That’s not an easy proposition,” Duranton said. “In the data, there is a correlation between higher human capital and growth.” The direction of causality is not clear. “When a city is doing well, more people show up, and those who show up tend to be younger and more educated.”

The panel noted that attracting young talent is only one of many drivers of urban growth. Duranton

emphasized that successful cities combine talent attraction with strategies that build on a city’s strengths, such as roads, weather and amenities, entrepreneurship, and existing sectors or clusters.

Allison Lamey, director of community development in Lowell, MA, described attraction and retention of young professionals as a catalyst for her city’s redevelopment efforts. Lowell took a deliberate approach to the question, How do we get young people to want to stay in or relocate to Lowell? She said that the answer is to make Lowell a “lifetime city” and added, “Lowell should be a place where people can live in all stages of their lives and at a variety of income levels — not focusing on just ‘young professionals,’ but also keeping in mind that eventually they are going to be older professionals and retirees.”

The lifetime city approach was incorporated into Lowell’s 2003 comprehensive master plan and the There’s a Lot to Like About Lowell marketing campaign. Lamey emphasized that community engagement and network building were critical to Lowell’s revitalization. “Be authentic,” she said. “Capitalize on what makes your community unique, and know what you’re not.”

Abby Wilson, co-founder of the Great Lakes Urban Exchange (GLUE), reiterated the need for authenticity in how cities approach young professionals. “I’m less interested in conversations about attraction and retention and more

interested in conversations about providing opportunities for people in this elusive demographic to meaningfully connect with the communities where they live,” she said.

GLUE is a network of young leaders who share an interest in revitalizing “rust belt” cities in the Great Lakes region. Its guiding principles include urbanism, regionalism, storytelling, and network building. “The key to building the kind of demographic diversity that all these cities want,” Wilson concluded, “is to focus on places and their deliberate efforts to change. The way people talk about young professionals is really mostly about their disposable income. These conversations need to be more explicitly about diversity of thought, experience, and perspective.”

Duranton offered some “not very glamorous” alternative policies. He said these policies might include federal policies that help residents who cannot relocate, efforts to attract “unglamorous” assembly plants and call centers (as opposed to high-tech, bio-tech, and pharmaceuticals), or perhaps figuring out how to manage decline.

The panelists generally agreed that attracting young talent is a necessary and valuable part of a much more complex understanding of how to reinvent older communities and build more resilient cities.

Jeremiah Boyle can be reached at 312-322-6023 or jeremiah.p.boyle@chi.frb.org.

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