

City of Philadelphia: The New Urban Agenda

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Introduction

Cities are the hallmark of a society, the hub of its enterprise, the repository of its cultural treasures, and the home of much of its history. From the beginning of time, cities have served as a place to gather, a place for commerce, and a place where the diversity of cultures and opportunities converge.

At their best, America's cities are unmatched centers of economic, cultural, and recreational activity. They are places where people from all walks of life draw on the energy that is the driving force of all cities—a shared enthusiasm for the future and an inspiring sense of confidence that, working together, we can build a better tomorrow for ourselves and our children.

But today, America's cities are in desperate trouble. Cities are being swamped by a flood of social problems—including crack cocaine addiction (and a corresponding dramatic increase in crime), AIDS, homelessness, and child abuse—which accompany the grinding poverty that is a fact of life for too many residents of America's major urban centers. Over the last decade, cities have been required to shoulder more and more of the burden of addressing these and a myriad of other social problems. At the

same time, they have been forced to cope with a staggering loss of jobs, especially blue-collar jobs, and a tax-base erosion so severe that it threatens the very existence of many cities. For example, Philadelphia alone has lost 263,000 jobs in the past twenty-five years. Not surprisingly, nearly 30 percent of its tax base has disappeared as well. In the last seven years alone, over 110,000 jobs have been lost.

But these cold statistics do not tell the real story about Philadelphia and other American cities. The real story can be understood by examining the plight of hundreds of thousands of each city's residents who are very much at risk and very much trapped in an existence they had no part in creating—people who are trapped in a state from which they have absolutely no expectation of escaping without doing something illegal, like selling drugs or robbing stores. Far too many share an almost identical profile. They were born to a single parent, a parent who often was incapable of providing any guidance or motivation, perhaps because she was addicted to crack cocaine.

Many of our children start school without any support and far too often come to school beaten, battered, sick, or hungry. As a result, they fall behind educationally at an alarming pace. By sixth grade they are so far behind that for all

intents and purposes, they have no chance of getting a decent education. By the ninth or tenth grade, they drop out.

Twenty years ago, this might not have been an automatically tragic series of events because American cities had plenty of manufacturing, distribution, and processing jobs that residents could obtain and use to build a decent life for themselves. But today in American cities, those jobs are gone—they are gone to foreign shores, they are gone to the Sun Belt, they are gone to the technologically advanced, and they are gone because of extraordinarily high city tax burdens that have ensured their export to the suburbs.

The people who are trapped in this situation may be high school dropouts, but they are bright enough to realize the hopelessness of their situation. That realization produces frustration, anger, and a feeling that their lives, because they have no future, therefore have no value. It is a situation that America can no longer tolerate.

For too long, America has turned its back on the cities, even though we as a nation are coming to the bitter realization that the problems of the cities are shared by all Americans, but those in the cities simply suffer first and longest.

As a result, cities have begun relying on themselves to solve the crushing problems they face. Cities all over America have led the way in driving down the cost of government, eliminating waste, and finding innovative ways to provide essential services to their citizens. Because of these initiatives, and despite the gravity of the urban crisis, America's cities are increasingly becoming a beacon of hope for those who recognize the need to make

government more responsive, and less expensive, to the people it serves.

While the problems of inner city neighborhoods are widely known, what grass roots community groups are doing to fight back has been much less visible. These genuinely local efforts are not the product of some formal government program, so they receive relatively little money or attention from policy-makers. But they can be very important. Government, or for that matter the private sector, cannot solve every problem plaguing the inner cities. Indeed, often only the residents of a neighborhood can reweave the social fabric of a community by coming together and reinforcing pro-social behavior.

Despite the remarkable progress that many cities and their people are making in the effort to help themselves out of trouble, there is no question that without the help of the federal government, America's cities are in imminent danger of being overwhelmed by the economic and social problems they face.

But the help that we seek is not the conventional call for more dollars from Washington. One look at the staggering federal deficit is enough to realize that even with the support of the Clinton administration, which has demonstrated a strong commitment to help cities, the federal government simply cannot bail out the cities with massive outlays of federal aid. Nor are we asking Washington to direct more aid to local governments.

Instead, we ask the federal government to support a New Urban Agenda of ideas designed to help cities help themselves. Recognizing the severity of the federal government's own budget crisis, as well as the need for cities to continue

getting their own houses in order, the New Urban Agenda does not ask for major federal funding. Rather, it asks the federal government to change the way it conducts public business by emphasizing the need to help cities—or at the very least, stop hurting them—in the federal government’s decision-making process.

The New Urban Agenda asks the federal government to become a partner in the effort to help America’s cities compete for public and private sector business and jobs. What cities need more than federal dollars is a change in federal policy. If the government can tip the playing field in favor of cities by making decisions that improve the ability of cities to compete economically, then America’s urban centers will become more attractive sites for business development. That means jobs for city residents, which in turn provide cities with increased tax revenues to address their own social problems. In effect, the New Urban Agenda is a program that makes sense for cities, while ultimately saving dollars for the federal government by reducing the need for federal “safety net” expenditures.

The assistance of the federal government is essential if cities are to survive and flourish. Cities can once again be the center of America’s commerce and culture, the nation’s marketplace of business and ideas. Cities will lead the way in helping themselves, but we need the support of the federal government in implementing the following initiatives that comprise the New Urban Agenda.

Further Promote Urban Economic Development through Empowerment and Enterprise Zones

The federal government should maximize the leverage of urban empowerment and enterprise zones by

1. requiring federal and foreign aid purchases to be made from businesses operating within the urban zones,
2. securing the federal government’s commitment to purchase recycled products from businesses located inside the urban zones, and
3. locating federal Manufacturing Technology Outreach Centers in the urban zones.

The Clinton administration has provided critically needed leadership in the fight to save America’s cities, particularly through its successful effort to create the new federal empowerment and enterprise zones, which for the first time in more than a decade offer tremendous promise for hard-hit urban areas. The New Urban Agenda seeks to maximize the impact of these zones through implementing three initiatives that could dramatically expand the opportunities created by the zones.

The federal government, the nation’s largest purchaser of goods and services, makes literally tens of billions of dollars of purchases each year. As such, it is ideally positioned to affect the success of zone businesses. Accordingly, the New Urban Agenda would require the federal government to purchase a percentage of

the goods it buys from businesses located in the urban empowerment or enterprise zones. For example, the federal government might require that 15 percent of all federal procurement be made from businesses that operate in urban zones. Directing procurement in this manner would spark greater economic activity, thereby enabling our poorest communities to prosper. Combined with existing programs, such as the Wage Tax Credit for employing local residents, this initiative will trigger the creation of jobs for those most in need. Despite initial start-up costs, competition in and between zones could be expected to drive procurement costs down to market levels, thereby assuring the absence of any material impact on the federal budget.

Similarly, the New Urban Agenda asks the federal government to require that a specified percentage of foreign aid be distributed on a credit system, redeemable only through the purchase of products manufactured in the urban empowerment and enterprise zones. Foreign aid accounts for approximately \$14.6 billion of fiscal year 1995's budget.

Traditionally, the United States has attached relatively few stipulations to foreign aid. By contrast, other countries providing foreign aid—particularly Japan—require that a substantial portion of the aid be used to purchase native products. Similar conditions are often tied to aid given by Italy and France, among other countries. If Washington were to adopt a similar initiative, even if only limited to a modest percentage of all foreign aid, the federal government would make the urban zones magnets for foreign purchases—all without the need for any additional federal funding for cit-

ies. In doing so, the government would spur the creation of desperately needed jobs in cities, develop worldwide markets for U.S. products, and stimulate increased demand for products related to the aid purchases.

Another approach to maximizing the impact of the zones would be for the federal government to purchase goods made from recycled materials and manufactured in the urban zones, including goods such as paper products and certain types of highway materials. In addition to being environmentally sound, this policy would stimulate new business opportunities in zone cities, where the trash that serves as feedstock for recycled products is in abundant supply and where a large labor pool is available to be trained and put to work in these businesses.

Finally, the Clinton administration already has proposed the development of Manufacturing Technology Outreach Centers. The mission of these centers is to foster the creation and expansion of high-tech businesses throughout the United States. The federal government can further support business opportunities in cities by locating these powerful economic stimulus centers in urban zones.

Create a Preference for Locating or Relocating Federal Facilities in Distressed Urban Areas

The federal government should create a powerful presumption in favor of distressed urban areas to be applied in all decisions regarding the location or relocation of all types of federal facilities by doing the following:

1. issuing a new executive order setting forth this policy for all federal-facility location and relocation decisions,

2. requiring all federal agencies to prepare and submit to the White House an Urban Impact Statement showing the impact that relocation or downsizing would have on the city in question and providing detailed justification for any recommendation to override the powerful presumption in favor of distressed urban areas, and

3. requiring all decisions to override the presumption in favor of distressed areas to be approved by the president.

In 1978, President Jimmy Carter issued an executive order requiring the federal government to give preference to cities whenever it considered relocating federal agencies or facilities. President Clinton has made similar strong statements, emphasizing his view that cities should be favored in federal-facility location or relocation decisions. Unfortunately, in the years since 1978, federal agencies have routinely circumvented well-meaning attempts at the presidential level to keep federal agencies in cities. In the case of the Carter executive order, for example, agencies relied on a wide loophole in the order, one that allowed a contrary determination based on a vague "best interests of the agency" test.

As a result, in order to ameliorate the impact of more than a decade of federal neglect of cities, there is a need for a renewed, and more powerful, effort to encourage federal agencies to relocate *into* cities and to limit continued federal-agency flight from them. The need is particularly acute as Washington faces the difficult questions involved in downsizing or closing defense installations and other

agencies whose missions may be redefined in the course of government restructuring.

The New Urban Agenda calls for the promulgation of a new policy and procedure to protect distressed urban areas in all federal location and relocation decisions. The policy and procedure should be enacted in a new executive order that would provide for the following:

The federal government would enact a powerful presumption in favor of distressed urban areas¹ that would be applied in all decisions regarding the location or relocation of new or existing federal facilities, including defense facilities. What this presumption would mean is that any new federal facility or any existing federal facility that is a candidate for relocation or consolidation automatically would be sited or consolidated in a distressed urban area, unless the applicable agency could make a *compelling* case in favor of another location decision. In order to rebut the weight of the powerful presumption in favor of distressed urban areas, the burden would be on the applicable federal agency to overcome the presumption, and the president's approval would be necessary.

As part of the location or relocation decision, the applicable federal agency would be required to prepare an Urban Impact Statement that describes and quantifies the financial basis for the location or relocation decision *and* the impact that the siting decision would have on direct and indirect urban employment opportunities of the city in question. Prepared in the same manner as an Environmental Impact Statement (with similar opportunities for public comment by interested stakeholders), the Urban Impact

Statement would provide a complete cost/benefit analysis for the agency's proposed decision, as well as a detailed justification for any recommended departure from the federal presumption in favor of distressed urban areas.

Even beyond the normal presumption in favor of distressed urban areas, a new federal policy should be created to grant an additional preference to any distressed urban area that has lost at least 500 defense jobs in the past five years or that is slated to lose more than 500 defense jobs over the next five years.

The creation of this new, powerful pro-city policy is eminently reasonable. It does not represent a position in opposition to restructuring or downsizing the federal government (as when the federal government elected to close the defense clothing factory in Philadelphia last year which the city did not contest) nor does it call for forced relocations of previously sited federal facilities. All it provides is that when a federal agency is going to open a new facility, relocate an existing facility, or consolidate existing facilities, the playing field should be sharply tilted toward cities.

It simply makes no sense to do what the federal government did last year in Baltimore, choosing to locate a new office for the Health Care Financing Agency half a mile outside the city limits. The new facility meant 4,500 new jobs, 3,500 of which are entry level and require only a high school diploma—just the kind of jobs that residents of downtown Baltimore need. As long as the federal government continues to spend billions of dollars on welfare, education, job training, and other social programs for cities, it is foolish to allow federal agencies to

ignore the consequences of abandoning cities. Such actions only drive up the size of the federal bill for cities—all because the right hand of the federal government too often fails to consider the impact of its decision on the left hand of the government.

The policies of the New Urban Agenda—particularly the requirement for an Urban Impact Statement—can help bring together the right and left hands of the federal government. As a result, this process may well result in substantial savings to the federal government, while helping distressed urban areas.

Consider this Philadelphia example: In June 1993, the Base Closure and Realignment Commission (BRAC) reviewed a Department of Defense proposal to move 8,400 jobs at three facilities in Philadelphia to rural New Cumberland, Pennsylvania. The impact on Philadelphia, which was the only city in America to have been targeted for closings in every round of the BRAC proceedings (including the loss of 12,000 jobs with the scheduled closing of the Philadelphia Naval Shipyard), would have been devastating. Testimony indicated that the city would stand to lose \$24.5 million annually in wage tax revenues alone from the loss of the 8,400 jobs. But the city fought back, primarily by demonstrating the impact of the transfer on the city, as well as the cost to the federal government. The Pennsylvania Economy League was able to demonstrate that consolidation of the three facilities in Philadelphia could save the federal government \$98 million over 20 years, compared to savings of only \$57 million through the move to New Cumberland. BRAC elected to combine the operations in Philadelphia,

achieving 70 percent more savings for the federal government.

The Urban Impact Statement is necessary to ensure that the type of information that kept defense jobs in Philadelphia last summer is available every time a federal agency proposes to move jobs out of cities. The need is tremendous. In Philadelphia alone, six major federal facilities were relocated to the suburbs from 1988 to 1993, totaling new suburban leases of 187,208 square feet. Most recently, the Internal Revenue Service announced the closure of its Philadelphia regional processing office, which means the city will lose another 3,200 jobs. Actions like these underscore the critical need for the federal government to make location or relocation decisions that benefit distressed urban areas.

This Philadelphia story has been played out in cities all across the country, where the federal government has relocated agencies and facilities without concern for the tremendous impact its decisions have on the economies of the cities left behind. The New Urban Agenda asks for affirmative assistance from the federal government in a variety of areas, but the Urban Impact Statement is not one of them. Instead, the Urban Impact Statement simply asks Washington to consider: If you cannot help us, at least stop hurting us.

Revive and Expand Federal Tax Incentives to Stimulate Urban Economic Development

1. The federal government can spur the creation of jobs and housing by restoring the Historic Rehabilitation Tax Credit.

2. The federal government can foster greater private investment by supporting existing legislation in Congress that permits the issuance of commercial industrial development bonds in communities.

3. A minor change in the federal tax code related to arbitrage rebates on municipal bond interest earnings could free additional capital for infrastructure and economic development in cities.

Tax incentives are powerful federal tools for shaping local economic decisions. In the Tax Reform Act of 1986, key incentives were eliminated that effectively tilted the playing field further away from distressed cities. For example, drastic limitations placed on the use of the Historic Rehabilitation Tax Credit brought revitalization projects in the downtown areas of cities to a grinding halt. Similarly, the expiration of the authorization for commercial industrial development bonds has chilled private investment in urban America. And an obscure arbitrage rebate requirement has led to more paperwork at the expense of less infrastructure investment. The New Urban Agenda calls for changes in federal tax policy to reflect a new federal commitment to give our ailing cities a much-needed, low-cost, market-driven economic boost.

1. Historic Rehabilitation Tax Credit

Before the enactment of the Tax Reform Act of 1986, which dramatically reduced the pool of private investment capital available for rehabilitation projects, the federal Historic Rehabilitation Tax Credit was one of the most successful downtown revitalization tools of the

1980s. The National Park Service (NPS) estimates that during the sixteen years before the 1986 Act, the credit stimulated \$16 billion in private investment for the rehabilitation of 24,656 buildings. In the process, a total of 125,306 homes were created, including 23,377 low- and moderate-income housing units.

What's more, the historic rehabilitation tax credit meant good jobs for the people involved in the revitalization projects. In Philadelphia, there were 356 projects from 1978 to 1985, and that meant 8,640 construction jobs. In Chicago, 302 projects prior to 1985 generated \$524 million in investment and created 20,695 jobs. In St. Louis, 849 projects generated \$653 million in investment and created 27,735 jobs.

Under the old (pre-1986) system, individuals and corporations were eligible for a 20 percent tax credit for rehabilitating historic income-producing structures. The tax credit was preserved under the 1986 Act, but the new law reduced the annual allowable credit for individuals to \$7,000 and limited the availability of the credit to those with annual incomes under \$200,000. These changes severely reduced the availability of private investment capital and effectively eliminated the tax credit as a means of revitalizing the downtown areas of many cities. After 1986, historic tax credit projects dropped by 80 percent from the 1985 levels. In Philadelphia, projects dropped from 356 to 11 by 1988. Investments dropped 46 percent in Illinois during the same period and 92 percent in St. Louis.

The New Urban Agenda seeks federal support for current legislative efforts, including the Community Revitalization

Tax Act of 1993 (H.R. 1406) to raise the individual limits on the tax credit to \$20,000 annually and to eliminate the \$200,000 income ceiling. In doing so, the federal government would provide a powerful incentive to invest in cities. Commerce department studies indicate that a \$1 billion investment in rehabilitation credits would produce 175,000 jobs. Moreover, restoring the tax credit would reduce the threat to the future of the many historic buildings that give American cities their character.

And the cost? While a \$1 million rehabilitation expenditure would cost the Treasury \$200,000 in lost tax revenues, it would at the same time generate an estimated \$779,478 in wages. Taxed at 28 percent, the investment would produce \$218,254 in federal tax revenue. Corporate income, capital gains, and real estate taxes would further complement gains in household income tax. Thus, while the Congressional Joint Committee on Taxation estimates that restoration of the credit would result in a loss of \$1.4 billion in federal revenue from 1993 to 1998, these offsetting factors make the Historic Rehabilitation Tax Credit a largely self-funding program. Best of all, it would provide cities with much-needed private investment capital for redevelopment and housing.

2. Authorization for Commercial Industrial Development Bonds; Increase the Small Issue Exemption for Private Activity Bonds

The best urban aid program is a job. Unemployment has taken a devastating toll on America's major cities. In Philadelphia, New York, Chicago, Boston, and

Baltimore, research shows nearly one in five residents lives below the poverty line. In Detroit, Cleveland, Hartford, and Atlanta, the number is even higher. No one expects the federal government to ride to the rescue. We understand that Washington, faced with a staggering national deficit, cannot provide a major new infusion of federal jobs money for the cities. But there are steps that the federal government *can* take to stimulate economic development in the cities. Creation and support of the federal empowerment zones is a terrific start.

Another tool, particularly applicable to areas outside the zones, is to expand authorization for commercial industrial development bonds. An industrial development or private activity bond spurs private investment by providing, under certain conditions, tax-exempt status (and the ability to reduce financing costs) for projects where more than 10 percent of the bond proceeds are used for private business purposes. Since the passage of the Tax Reform Act of 1986, when authorization for commercial industrial development bonds was allowed to expire, private investment in many cities has suffered. From 1986 (the last year commercial development bonds were permitted) to 1987, the total number of city-supported projects in Philadelphia was reduced by more than half.

Tax-exempt commercial industrial development bonds could benefit urban America, particularly those cities in transition from manufacturing to service-based economies, by encouraging private investment in sports facilities, convention and trade show facilities, and free-standing parking facilities owned and operated by the private sector; air and water

pollution facilities owned and operated by the private sector; and industrial parks.

In addition to expanding the types of private activity bonds that may be issued, the New Urban Agenda calls on the federal government to raise the limit on the small issue exemption—which permits the issuance of tax-exempt private bonds—from \$10 million to \$50 million. By increasing the small issue exemption, the federal government can support the critical need for private investment in the redevelopment of urban America.

The impact of these modifications on the federal treasury admittedly would not be revenue neutral. The federal treasury would forego additional tax revenue both through the authorization of commercial industrial development bonds and by expanding the small issue exemption. But these losses would be substantially offset by the increased economic activity and resulting tax revenue that would be generated. Moreover, many communities would receive an economic boost through infusion of desperately needed private investment capital.

3. Arbitrage Interest Rebate Waiver

The aging condition of the infrastructure of American cities—their buildings, roads, and transportation networks—is one of the greatest impediments to the re-establishment of cities' economic competitiveness. The Clinton administration has fought hard for infrastructure investment, yet has been hamstrung by its legitimate concern for the deficit. In the long run, greater investment in the future of cities still makes sense, and so do innovative approaches such as a federal

capital budget and the creation of a National Infrastructure Corporation to pool infrastructure financing and ensure it remains of vital importance.

In the interim, however, minor tax code modifications could improve the pace of urban infrastructure development. For example, since the adoption of the Tax Reform Act of 1986, most local governments are required to rebate to the federal government any arbitrage earned as a consequence of issuing tax exempt municipal bonds (federal regulations define arbitrage as the interest earned in excess of the interest paid on the debt). As a result, many local governments can no longer engage in *net funding* of these projects; that is, borrowing less money, because it is assumed that all earnings made on the invested funds can be reinvested in the projects and not rebated to the federal government. What's more, compliance has cost far more than it is worth, creating a whole new taxpayer-funded consultant industry to perform complicated rebate calculations just to recapture money that would otherwise be put to productive use.

In Philadelphia, the city pays a consultant for the sole purpose of calculating its arbitrage payments due to the federal government—rather than spending the money on desperately needed infrastructure. As noted by Catherine Spain of the Government Finance Officers Association, the actual rebate payments “are only a fraction of the costs” of the rebate requirements. State and local issuers also must spend millions of dollars to track bond proceeds, make rebate calculations, and meet other compliance requirements. For all these efforts, the federal government received only \$2 million

from Philadelphia in 1993 and only \$305 million nationwide.

By contrast, if the rebate and compliance requirements were waived just in cases where a municipality certifies that 85 percent of the proceeds of tax-exempt financing will be expended on an infrastructure project within three years, Washington would create an incentive for municipalities to speed project completion. During debate on the Clinton administration's proposed economic stimulus program, Congress expressed strong doubts about whether infrastructure projects could be quickly completed. Implementation of the arbitrage interest waiver would help to achieve this key policy goal.

Better still, waiving the rebate requirement would trigger greater infrastructure development by making more capital available. Furthermore, the ability to net fund infrastructure projects would support the federal government's preference for reducing the amount of tax-exempt bonds issued to complete such projects, while at the same time promoting the critical need to help cities rebuild themselves.

Eliminate Unfunded Mandates

The federal government should ease the unfair burden cities must bear to pay for federal mandates by supporting existing legislation that would make compliance voluntary until the federal government provides money to fund them.

At a time when cities are struggling to cope with the economic and social problems they face, the need to subsidize federal mandates places an enormous burden on scarce city resources. There is no question that many federal

mandates have laudable goals. But with the absence of federal funding to achieve them, it is unfair to require cities to shoulder the burden of paying for them.

To pay for unfunded federal mandates, cities must frequently slash spending for essential services like police and fire protection, recreation programs and facilities, and libraries. At a time when cities are leading the way in restoring efficiency and value to government, the continued imposition of unfunded federal mandates sends a message that Washington does not care about either the cities or their efforts to make government more efficient and responsive to the citizens they serve.

For example, under the Americans with Disabilities Act (ADA), designed to ensure fair and equal access for the disabled, the federal government mandates that curb cuts and ramps must be installed in city intersections by 1995. Compliance would cost Philadelphia taxpayers approximately \$140,000,000—over three times the entire amount budgeted for street resurfacing and reconstruction in fiscal year 1994. No one disputes the worthiness of the ADA. But in situations where compliance overwhelms a city's capacity to pay, the federal government must provide funding for its mandates.

According to the President's Advisory Commission on Intergovernmental Relations, the number of federal mandates grew from two in 1960 to sixty-six this year—an increase of 3,000 percent. Last fall, the U.S. Conference of Mayors released a survey of 314 cities that tabulated the costs of complying with just ten unfunded federal mandates, including the Clean Water Act, the Safe Drinking

Water Act, the Resource Conservation and Recovery Act, the Endangered Species Act, and the Fair Labor Standards Act. The total cost was an estimated \$54 billion over the next four years. The surveyed cities reported that compliance consumes an average of 11.7 percent of locally generated revenues.

Passage of S.B. 993 (sponsored by Senator Kempthorne) and H.R. 140 (sponsored by Representative Condit) would ensure that the federal government stops levying new mandates on cities without providing the funds to pay for them. The U.S. Conference of Mayors, the National League of Cities, and the National Association of Counties support the passage of this legislation.

Create Incentives for Regional Cooperation

The federal government should adjust its funding mechanisms and formulas to create new incentives for regional approaches to meeting regional problems.

In the emerging global economy, those regions that are anchored by healthy core cities will serve as the engines for national economic growth. If our cities grow stronger as capitals of commerce and culture, they will effectively lead their regional economies into new competition with regions from Germany's Ruhrgebiete to Osaka, Japan, to the Lyon region of France. Yet if America's core cities collapse, and the surrounding suburbs are forced to spend their own resources on the growing poverty and crime left behind, more than just the cities will suffer. Recent research published by the Federal Reserve Bank of Philadelphia suggests that, even today, suburbs surrounding

healthier core cities grow faster and experience higher property values than suburbs surrounding cities in decline. The future of our cities and our suburbs are inextricably linked.

Consequently, as a matter of national economic and social policy, it is important for the federal government to create incentives that will foster greater regional cooperation in solving regional problems. It is all the more critical because historical prejudices between cities and suburbs, left over from a passing era, continue to inhibit reasonable cooperation.

For example, it took active federal regulatory intervention to bring about the agreements under which the Philadelphia Water Department now provides sewer service to ten townships and utility authorities outside the city's boundaries. As a result of these accords, economies of scale have been captured that have dramatically reduced costs for the suburbs, increased revenues for the city, and cut the number of facilities that the federal government must regulate. But this was only made possible because the federal government linked funding to a broader policy of cooperation.

The Intermodal Surface Transportation Efficiency Act (ISTEA), passed in 1991, is another example of how the federal government can successfully encourage regional solutions at state and local levels. Yet it is also an example of a federal program that could be amended to further assist distressed urban areas.

Prior to ISTEA, local governments had limited flexibility in the use of federal highway and transit funding. Local transportation planning essentially was limited to the creation of project lists,

ranked in order of preference, within each of the federally-defined program allocations.

Under ISTEA, regional transportation planning for urban areas with populations greater than 200,000 is now conducted by designated Metropolitan Planning Organizations (MPOs). MPOs are regional councils of local governments that share common policy concerns, including transportation planning, and that are empowered under ISTEA to allocate lump-sum federal transportation dollars for road, bridge, and transit projects.

While ISTEA requires that new MPOs reflect the local transportation characteristics and needs of their regions, ISTEA does not mandate redesignation of pre-existing MPOs. As a result, many do not accurately reflect the characteristics of their regions or the goals of ISTEA. For example, the largest public transportation authority in the Philadelphia region—the Southeastern Pennsylvania Transportation Authority (SEPTA)—does not have a voting seat on the nine-county regional MPO, known as the Delaware Valley Regional Planning Commission (DVRPC), despite the fact that approximately 80 percent of the 250,000 people who work in downtown Philadelphia use public transportation to commute to work. In fact, Philadelphia itself—with 32.6 percent of the region's population—has only one of eighteen votes on the MPO.

The federal government could greatly assist urban areas, especially distressed urban areas, by requiring that pre-existing MPOs be redesignated akin to new MPOs to ensure that cities are adequately represented.

Another approach to fostering more effective regional partnerships—one that

could be adopted for many types of federal programs—would be to adjust federal funding formulas to create new incentives for cooperation. For example, state and local resources for job training programs could be pooled to ensure that disadvantaged urban residents are properly trained for jobs wherever these jobs may be in a regional economy. Federal Job Training Partnership funds should support this regional approach to labor force development by giving preference to regions that plan together on competitive applications. Similarly, to foster regional investment in the arts, a higher percentage of National Endowment for the Arts and National Endowment for the Humanities grants could be directed to regions with dedicated arts and culture funds. The same formula could be used to give incentives to regions with dedicated taxes supporting mass transit.

Through this approach, limited federal resources could serve far more than just their direct purpose. Indirectly, federal programs could also serve as levers to promote new regional cooperation that will ultimately serve the interests of both urban and suburban communities.

Lift Key Federal Restrictions on Community-Based Housing Development

The federal government can support community-based housing development by waiving such restrictions as

1. federal work rule and wage requirements for federally-supported Community Development Corporation (CDC) projects of twenty-five units or less and

2. the limitation that only 15 percent of Section 8 rent subsidies may be allocated to specific affordable housing developments.

As the Clinton administration has recognized, CDCs are tremendous tools for developing decent, affordable housing and community-based businesses in cities. Increasingly, CDCs are becoming the vehicle of choice for getting results from federal community development dollars.

CDCs are nonprofit, community-based organizations, generally located in the most disadvantaged neighborhoods of our cities. As a result of their local roots, CDCs most often work on a modest scale with local contractors, many of whom are minorities. In fact, the strategy of the CDCs—building a community, not just its housing stock—often results in the hiring of neighborhood residents who may be less experienced or skilled. When applied to such community-based organizations, many otherwise laudable federal construction restrictions work at cross purposes to the overall needs of cities.

Under the Davis-Bacon Act and related legislation, developers of more than eight contiguous units of CDBG-funded housing (and projects of more than twelve units using HOME funds) must pay prevailing wages and observe union work rules. Consequently, the use of government funds significantly increases the cost of construction of CDCs and decreases the production of affordable housing. In addition, many minority-owned construction companies are effectively excluded from participating in community-driven projects because they are not union shops or do not pay prevailing wages.

When CDCs develop fifteen to twenty units at a time in an attempt to achieve economies of scale, their budgets are undermined by the Davis-Bacon mandates. Research by the Philadelphia Development Partnerships indicates that single family units cost significantly less when the developer uses its own construction crew. Of fifteen projects surveyed, the two that were exempted from Davis-Bacon (because they fell under mandated thresholds) had the lowest development costs per square foot. Overall, Davis-Bacon requirements are estimated to add 10 to 30 percent to the cost of a project.

We do not seek to eliminate the worthwhile intent of the Davis-Bacon requirements overall. Instead, this initiative simply calls for raising the Davis-Bacon ceiling on CDC development to twenty-five units or less. Modifying the Davis-Bacon requirements for CDC projects would create more community-driven affordable housing development, more jobs in the neighborhoods they serve, and, most importantly, more stable communities—at no cost to the federal government.

Similarly, a simple change in the regulations for the Section 8 rental assistance program would enable cities to deliver more results with the same federal dollars.

There are two categories of Section 8 certificates: those for single family units, known as *scattered-site* certificates, and those for larger housing developments, called *project-based* certificates. Currently, local housing agencies may only use up to 15 percent of their federal rent subsidies on project-based certificates, which subsidize the rent of any low-income tenants residing in a specific af-

fordable housing development. If the tenants move, the subsidy remains attached to the apartment and available to future low-income residents. On the other hand, the remaining 85 percent of subsidies are scattered-site certificates that travel with the tenant and may be used for any apartment in the private rental market.

While both forms of subsidy are legitimate, the advantage of greater flexibility to use more project-based certificates are twofold. First, many new affordable housing developments—often constructed and managed by CDCs and other community-based groups—are now being planned to include complementary social services. While not needed by every low-income tenant, there is nonetheless a great need to support more developments using this holistic approach.

Second, the inclusion of project-based certificates in an affordable housing development package provides a guaranteed income stream that will generally enable the project to finance itself through a private first mortgage. As a result, the project needs less (or no) federal CDBG subsidy, so that current levels of CDBG money can be used to stimulate more new housing and community development. In short, the federal government—and the most distressed of our urban neighborhoods—can use existing Section 8 subsidies to leverage a greater return on the nation's investment.

Address Urban Environmental Challenges

The federal government should stimulate the environmental clean-up of land in cities by doing the following:

1. instituting a governmental exception under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), promoting cities' ability to redevelop contaminated industrial sites, and

2. implementing a streamlined remediation policy that promotes redevelopment of abandoned urban industrial "brownfields."

Although clearly well-intentioned and unquestionably vital weapons in the effort to clean up hazardous waste sites, federal environmental statutes have inadvertently exacerbated the problems of cities by encouraging businesses to abandon urban industrial sites in favor of the "greenfields" of the suburbs. Of particular concern is CERCLA, known commonly as Superfund, which strongly discourages companies from buying used industrial facilities and cities from gaining site control over such facilities.

First, it is imperative that the upcoming Superfund reauthorization process take into account the pressing need to clean up and redevelop urban industrial sites. To that end, the New Urban Agenda calls for the creation of a governmental exception to permit cities to acquire abandoned industrial sites without fear of incurring liability as potentially responsible parties (PRPs) under CERCLA. Implementation of this initiative would encourage cities to be more aggressive in reclaiming the sites as potential candidates for redevelopment, thereby restoring the properties for productive business use that would mean jobs and the expansion of the local tax base.

Second, the New Urban Agenda joins the growing nationwide movement favoring the implementation of a streamlined


remediation policy that places a premium on reclaiming urban brownfields. As part of this effort, the New Urban Agenda seeks to eliminate unnecessarily burdensome clean-up requirements that produce little practical environmental benefit—for example, remediating even trace amounts of chemicals that pose little or no scientifically measurable threat—while serving as major impediments to economic development.²

Conclusion

The New Urban Agenda asks the federal government to become a partner in the battle to save America's cities. It does not ask Washington for a handout in the form of revenue sharing or massive amounts of federal aid to city governments. The primary focus of the New Urban Agenda is to change federal *policy*, by winning federal support for ideas and programs that help cities compete for businesses and jobs. America's cities, home to the problems of the poor that nobody wants, are in desperate need of help. Without a change, without a realization that decisions in Washington have had a devastating impact on urban America, the cities as we know them will cease to exist. And if that happens, the problems of those who live there ultimately will have to be borne by the federal government anyway, at a far greater cost.

But by forging an effective partnership, the federal government can reward the cities' efforts to manage their own problems, by fostering economic development that will bring jobs—and hope—to millions of Americans who live in urban areas. That is why the New Urban Agenda looks to Washington for leader-

ship to stimulate urban economies, for support of innovative mechanisms to trigger private investment in cities, for incentives that promote regional cooperation between cities and their suburbs, and for relief from the financial burden of unfunded mandates and senseless bureaucratic restrictions.

This new partnership can and must succeed in revitalizing American cities. The result of success will be that American cities and their residents can take their rightful place next to their sister cities around the world as centers of commerce and industry; as hubs of education, technology, and research; and as magnets that lure thousands and thousands of visitors with their dynamism and vibrancy. The costs of failure are almost unthinkable. Failure will leave millions of Americans awash in despair and trapped in inescapable anger, frustration, and hopelessness. We—all of us—simply cannot allow that to happen. 

Notes

¹ The executive order should contain a definition of *distressed urban area*, which could be based on the following objective criteria: unemployment rate (a high and/or increasing rate), poverty rate (a high and/or increasing rate), growing dispersion of blight and abandonment, early school failure and youth adjudication rate (a high and/or increasing rate), and illiteracy rate.

² Several pieces of legislation currently before Congress would significantly expedite the effort to reclaim urban brownfields. These bills include S.B. 299, the Abandoned Land Reuse Act, that

provides federal assistance to demonstrate the benefits of reusing urban sites that are contaminated; H.R. 2340, the Environmental Remediation Tax Credit Act, that creates a five-year pilot program to clean up and redevelop contaminated industrial properties in cities; and H.R. 3800, that would ease the disproportionate burden cities have had to shoulder in Superfund litigation when they have been found to have disposed of non-hazardous materials in landfills. Despite the merits of these bills, they are not included in the New Urban Agenda because of their potential impact on the federal budget. Nevertheless, cities and the federal government would benefit from expenditure of federal funds for the creation of a matching fund to promote settlement of environmental litigation and clean-up of contaminated sites.

Edward G. Rendell, the 121st mayor of the City of Philadelphia, has brought dramatic change to the way government works and is restoring fiscal stability to a municipal government that was near bankruptcy. Mr. Rendell graduated from the University of Pennsylvania in 1965 and Villanova Law School in 1968. Upon graduation, he became an assistant district attorney. During his later tenure as district attorney, Rendell was credited with turning the justice system around through forceful leadership and innovative ideas. He has been active in many charitable and non-profit endeavors, including the Community Home Health Service of Philadelphia which provides visiting nurses for indigent Philadelphians. Other community interests include the White-Williams Foundation, which provides scholarship money for poverty-level high school students who maintain a B average; the Soviet Jewry Council; the Jewish Community Relations Council; the Jewish National Fund; and "Philly Kids Play It Safe," an organization that fights sexual abuse of elementary school children.