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ISSUE FOCUS:

FINDING A COMPETITIVE EDGE

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this issue:

Finding a Competitive Edge

This issue of *Communities & Banking* focuses on competition – but not the winner-take-all variety. Instead, it describes methods companies and communities can employ to make themselves, and their neighbors, stronger.

The "Inner City's Competitive Edge," by John Galligan, explores the advantages for-profit companies realize when they move into the inner city. Catalysts of community development, these companies find that the inner city is a competitive marketplace with available land, labor, and a nearby transportation infrastructure. New London, Connecticut, is one city from which Galligan chooses an example; it is also one of Connecticut's larger cities having trouble attracting residents. It shares many similarities with the cities described in the following article by William Jenkins.

"The Shrinking of Connecticut's Big Cities" shows how Bridgeport, Hartford, New Haven, and Waterbury are in need of becoming better competitors for residents. Responding to population growth rates that plummeted during the past 10 years, state government is striving to make its big cities more competitive by encouraging the growth of private businesses.

Regionalism is one way municipalities are discovering they can make themselves more competitive for residents and businesses. By coordinating with neighboring communities, cities and towns can market themselves with more power for better results. In one of Kathleen Gill's examples, Hartford joins with western Massachusetts cities and towns to work as a region.

The final article summarizes how a technological tool has worked to make poorer communities more competitive with their richer neighbors. As the article describes, credit scoring has allowed poorer communities to compete with their more affluent neighbors for small business loans. This article gives positive evidence for small business credit scoring's impact on low- and moderate-income communities. But as the ongoing credit scoring article series in *Communities & Banking* shows, credit scoring is a topic that stirs immense debate about its benefits and drawbacks.

Retiring Advocate Championed Homeowner Rights

Norma F. Moseley's edge is her persistence and care. A homeowner advocate at the Ecumenical Social Action Committee in Jamaica Plain, Moseley is retiring after 37 years spent defending the rights of her community. Referring to the tough cases she has argued, Moseley believes it has been her use of "persuasion and rationale" that has enabled "various institutions to be brought on board to do the right thing."

Tenderly described as a "little fireball" by colleagues on the Massachusetts Community & Banking Council, the 70-year-old Moseley is credited as the impetus for the organization's Don't Borrow Trouble anti-predatory lending campaign. She has argued in court to protect elderly homeowners from foreclosure, fought lending discrimination, and has initiated numerous programs to help clients maintain their homes. She worked assiduously with other partners, including the National Consumer Law Center, to get Freddie Mac's Foreclosure Prevention Program brought to Boston.

Moseley's retirement reception on October 6 also celebrated the creation of an endowment in her honor. The Norma F. Moseley Endowment Fund will continue her legacy of advocating for affordability and sustaining homeownership.

Underappreciated Value

The Inner City's Competitive Edge

by John Galligan

What do boarded-up, economically distressed, and even contaminated inner-city land sites have in common? You might say crime, unemployment, and abandonment. Take another look. Remarkably, they are the new destinations for businesses seeking bottom-line results and, while they are at it, making their mark to improve the neighborhood.

What forces are driving large and small businesses to discover that locating business operations in central cities can be profitable? The real-estate maxim "location, location, location" oversimplifies the reasons, but it is at the heart of what is transforming the most unlikely parcels of land into corporate profits and community development.

Two companies, one a small community bank and one a world-renowned pharmaceutical company, illustrate an approach to doing business that counters this nation's half-century trend of businesses moving out of central cities. Here are their stories, providing tangible reasons to follow in their path and also reminding us of the complex fabric of urban living, which can be confounding even for pioneers.

Moving In Successfully

Bob Klamp is a banker with a vision. For the past nine years, Klamp has been focused on the task of creating a customer base for his three branches of International Bank of Chicago (IBC), located in working-class Hispanic and Asian neighborhoods of inner-city Chicago. His asset base is $86 million and growing. His bank neighborhoods have the feel of the hard-working immigrant communities of Hartford, Providence, and Worcester.

Klamp understands what makes the neighborhoods tick and you can feel it as you walk down the street with him. He knows a secret that most businesspeople haven't figured out yet — that people with low incomes can be great money managers. His goal is to tap his customers' basic level of financial expertise to help them create personal wealth by saving money, buying homes, or opening small businesses. While doing this, Klamp wants his bank to make enough profit to allow for product and service expansion.

His idea was to partner with a large financial institution so that he could support the institution's check processing services.

And then he got his big break.

Klamp purposefully brought his vision to places with significant obstacles because, he says, "That is where the greatest needs exist." His determination and intuition have proven the naysayers wrong. Driving through the neighborhood, Klamp can proudly point to properties and describe their profiles before and after his bank branches arrived in the neighborhood. "See that place — it used to be boarded-up, now it's a thriving small business. We gave them a business loan. . . . See that place — it was known in the neighborhood as a magnet for illegal activity; we had it torn down, now it's going to be a community center." By bringing financial services to people who have not had access to them, Klamp restores dignity to a neighborhood while making a profit.

A year ago, Klamp's vision became more expansive. His idea was to establish a partnership with a large financial institution so that he could support the institution's check processing services. By securing such a partnership he could create an employment hub in the center of a low-income neighborhood where he wanted to expand his bank's financial services. He planned to hire neighborhood residents to work in the check processing center. The business idea had a lot of community development potential. And then he got his big break.

Klamp met with an official from Bank One to describe his small bank's capabilities and to seek out partnership opportunities. He chose Bank One because it had recently merged with the city's signature bank, First Chicago. In dreaming big dreams, Bob's desire was to partner with the new First Chicago – Bank One. A number of meetings later, International Bank of Chicago formed a partnership with Bank One to share responsibility for a brand-new check and data processing project. Goliath partnered with David.

As the prime contractor, Bank One has oversight responsibility for performance of the processing work. It assumed management oversight expenses and funds settlement expenses, with hiring and capital expenses handled by IBC on a reimbursable basis, thus relieving Bank One of the day-to-day operations. In addition, Bank One qualifies for Community Reinvestment Act credit by investing in an underserved neighborhood through its partnership with IBC. Bank One also demonstrates its commitment to the Federal Minority Bank Deposit Program, a program dedicated to strengthening minority banks through the infusion of business.

For most business owners, the thought of securing facilities, retrofitting them to specifications, and hiring dozens of employees — all within a two-month period — would be overwhelming at best. Although it was an incredible challenge, Klamp knew that his formula for success in opening three branches in the prior nine years would be applicable to this endeavor. Before embarking on the business venture, Klamp reviewed the seven principles he has relied on when creating and funding businesses in the inner city. He believes that these principles will work in Chicago, New England, or anywhere in America and can be instructive for variously sized companies figuring out how to do business in the inner city.

Bob Klamp's Principles for Locating in the Inner City

#1: Use available building stock and don't tear anything down. The inner cities have plenty of outstanding buildings waiting to be given a second chance. Look carefully during site selection and you'll find what you need.

#2: Fit yourself into the community and don't force relocation of any people or overwhelm the neighborhood with your presence. Inner-city communities have strong family and neighborhood bonds, so be respectful of these ties. The character of a neighborhood has been fashioned over decades, so become a part of it instead of trying to redefine it all at once.

#3: Hire every potentially employable person from the neighborhood before looking elsewhere. Spreading the wealth around you strengthens your business and makes it a place that the community wants to embrace and protect.

#4: Don't rely on government incentives to make the numbers work. Though tax abatement and other location-specific incentives can make the numbers look attractive, don't make those your only criteria. By taking a chance on an area you may become the catalyst that leads to tax abatement incentives, so don't be afraid to be first.

#5: Make security a top priority in everything that you do. Technology exists to make your site secure regardless of the apparently unsafe aspects of the property. Spend the money on this.

#6: Make transportation as convenient as possible. In the competitive urban employment world, ease of transportation tops many people's job requirements list. Locate close to subway and bus lines.

#7: Establish and maintain relationships with neighborhood associations and local politicians, which will keep all lines of communication open. Candid communication is a prerequisite to success.

Principles in Action

With the above principles in mind, Klamp hit the streets to get working on the project. To find the right location, he scouted a neighborhood in Chicago called Pilsen, seven miles south of the world-famous "Chicago Loop" where rents range up to $70 per square foot. There he found an abandoned yet structurally sound building in the midst of a struggling community with the feel of Boston's Roxbury neighborhood. He worked closely with community leaders to assure their support for moving into the neighborhood. Though he is hopeful that tax incentives for locating in this neighborhood will be forthcoming, they are not currently available for the type of business Klamp opened. Klamp, however, didn't make that a show-stopper and he closed the deal.

When retrofitting the building, Klamp hired tradesmen from the immediate vicinity to renovate the interior and exterior of the structure. With high unemployment, Klamp knew that construction employment opportunities would be embraced with open arms by the community, and he was right. The building was retrofitted within two months' time — a phenomenal accomplishment given the detailed specifications. For Klamp, deciding on a building management team meant looking past the big names in the building management industry and choosing to contract exclusively with city-certified minority businesses from the neighborhood. (The city of Chicago requires that 25 percent of all subcontractors on approved construction jobs within the city be minority-owned.) The janitorial service too is a local operation with an outstanding community reputation that hires employees from the neighborhood.

When it becomes fully operational later this year, the check and data processing site will require three shifts of 80 employees each, or 240 jobs in all. The bank engaged local employment offices, social services offices, and Hispanic radio stations to hire every possible employee from the surrounding area. In Klamp's opinion, the notion that the urban labor pool is not matched to the demands of the urban business community is completely erroneous. "Seek out potentially qualified employees from the community and you will find them," Klamp says. As proof that his theory can yield results, Klamp hired nearly one-half of his new employees from the neighborhood, and the remainder are from other inner-city neighborhoods. Not a single employee commutes in from the suburbs. None of this is surprising to Klamp, especially given the fact that Census Bureau demographics show that 80 percent of workforce growth over the next decade will be among minority employees, a majority of whom are inner-city residents.

To make transportation convenient, Klamp chose a processing site located near subway and bus stations. This is advantageous for the 70 percent of his employees who commute via public transportation. For the 30 percent who arrive by car, the bank acquired an abandoned parking lot in the neighborhood, secured it, and provides escorts to and from the lot when requested by employees. Because some gang activity makes crime a concern, Klamp hired a local security company employing several off-duty police officers to secure the processing center's premises. Additionally, he included a security system with 40 cameras monitoring the inside and outside of the building as part of the renovation. Klamp wants to ensure that his employees feel safe.

Thanks to the bank's relentless attention to detail and Klamp's networking efforts with neighborhood associations, especially the small business community, the neighborhood has warmly welcomed the new processing site. Workers are buying lunch from the local merchants, shopping for household needs at the corner markets, and acquiring health care services from the local clinic. The opening of the processing site has had a tremendous impact on the community, but it would not have happened without International Bank of Chicago's attention to social responsibility.

Once the new processing site is fully operational with three eight-hour shifts later this year, Klamp hopes to open another bank branch in the neighborhood. After that, he plans to begin offering financial counseling to the wider neighborhood, complete with home-buyer seminars to encourage homeownership within the neighborhood. At the same time, he will turn his attention to gang intervention techniques, which include financial literacy and a focus on building hope for gang members' future.

Pharmaceutical Giant Locates on Detoxified Brownfield

While International Bank was opening its processing center in a previously abandoned building in inner-city Chicago, 800 miles to the east in New London, Connecticut, Pfizer Global Research and Development was opening its new headquarters on a previously contaminated land mass. The opening of Pfizer's facility in June 2001 marked the historic reopening of a 22-acre brownfield that was used for various industrial purposes in the past century and then abandoned. The fact that such a large parcel of undeveloped land existed in an urban setting reflects the widespread devastation that occurred throughout urban America after World War II when the middle class and the businesses serving them fled to the suburbs. In many cities, New London included, the devastation was so pervasive that a critical mass of unoccupied land and structures is in disrepair.

Although Pfizer could have easily built a suburban campus, it chose to locate on a brownfield. Its decision was not made easily. According to Dan O'Shea, Vice President for Public Affairs at Pfizer Global Research and Development, a total of 150 potential sites throughout New England were considered with the following criteria in mind:

- The municipality has to be desirous of Pfizer's presence, versus feeling ambiguous or negative toward its relocation within the community.
- The site should have a nearby infrastructure in place for employees, including basic services, restaurants, entertainment, transportation, and health care.
- The site should make good financial sense.
- If the site is located in a brownfield, extensive (multi-year) work to make the site viable must be already under way.

After weighing these factors, the decision to locate in New London was more a decision of the heart than the mind, says O'Shea. Other sites ranked higher on the "pros and cons" list, but the opportunity to be a catalyst for revitalization or "the anchor store" for New London swayed the decision.

Although Pfizer's decision to move to New London's inner city reflected its goal of urban revitalization, it was also based on the bottom line. The location is near transportation networks such as highways and airports and is only a ferry ride away from Pfizer's Groton, Connecticut, laboratories. Cost savings for the land were also significant. Tax relief came from the state in the form of $12.5 million in business tax credits over 10 years, and more than $30 million in property tax relief came from the city, in exchange for Pfizer's economic impact via payroll for nearly 3,000 new jobs and construction capital spending of $300 million.

Pfizer's facilities are estimated to yield $12 million annually in tax revenue for New London and more than $25 million annually for the State of Connecticut. Pfizer's new headquarters can provide work for up to 2,100 highly skilled employees; 500 support staff employees are expected to be hired from the surrounding communities. Together this represents 10 percent of the city's total population, estimated at 26,000 people.

Although Pfizer could have easily built a suburban campus, it chose to locate on a brownfield.

Its decision was not made easily.

Locating on a brownfield brought a special set of issues to manage. Says O'Shea, "We knew that the site had a long and checkered history, including several fires, long periods of abandonment, and lots of speculative interest over the years. . . ." But being familiar with the site's history worked in Pfizer's favor, because the company knew that the state had begun remediation work years earlier and had watched the work unfold from across the Thames River at its Groton, Connecticut, laboratories.

The city and state were also familiar with other assessments conducted by once-interested developers. Through coordination with the City of New London and Connecticut's Environmental Protection Agency and Department of Transportation, Pfizer was able to identify all regulatory approvals necessary to develop the site in a timely manner. Despite other assessments having been conducted, locating on the former New London Mills site required Pfizer to conduct a thorough investigation to ensure that there were no major environmental or economic issues that would hinder development.

O'Shea is proud that within four months of opening, 220 headquarters employees also live in the city and numerous employees mentor students at local schools. Pfizer is also proud to have its corporate name be part of the urban landscape. Branding in urban areas is highly sought-after, as evidenced by corporations across urban America paying millions of dollars to acquire naming rights for urban sports arenas. In New England the examples include Dunkin' Doughnuts in Providence and Fleet Bank in Boston.

The primary factor influencing a company's reputation among consumers is the social responsibility it displays.

Supporting the idea that social responsibility is a key ingredient in a company's success are the results of The Millennium Poll, sponsored in 1999 by the Conference Board and the Prince of Wales Business Leaders Forum of the United Kingdom. This poll found that the primary factor influencing a company's reputation among consumers is the social responsibility displayed by the firm. Six in 10 respondents to the poll listed social responsibility, including labor practices, business ethics, or environmental impacts, as the top trait influencing a company's reputation. The percentage was even higher among opinion leaders. Respondents listed brand quality and industry standing as the second most influential factor in the perception of a company. The poll shows that a company's brand image can be enhanced when it is identified with issues that strongly appeal to customers and employees.

International Bank of Chicago and Pfizer, by examining previously overlooked sites, were able to enhance profitability and act as catalysts for community development. They have confronted similar economic and social issues in their decision-making processes. What is clear from these examples is that development does not happen in a vacuum and can sometimes cause conflict if local communities are not made a part of the process. But as potential movers can learn from Pfizer's and IBC's experiences, moving to the inner city with sensitivity can be rewarding for all involved.

Complexities of Redevelopment

As a result of Pfizer's move to New London, the New London Development Corporation, a private nonprofit entity acting as the city's developer, made plans to redevelop an area to the east of Pfizer's headquarters known as Fort Trumbull. However, a number of private homes and small businesses are located within the Fort Trumbull area. Ultimately, these properties were to be seized through the controversial process of "eminent domain," in which the government condemns and destroys property for public development or infrastructure projects such as new highways. A handful of Fort Trumbull residents, represented by the Washington, DC-based Institute for Justice, are currently suing the City of New London and the New London Development Corporation for what they consider to be improper use of eminent domain.

A famous case of eminent domain involved the razing of 550 acres of inner-city property in Washington, DC, in the 1950s for the construction of new offices, apartments, and highways. Thousands of homes and businesses were bulldozed. Although New London's Fort Trumbull neighborhood represents only a fraction of the land involved in the landmark Washington case, it represents a life-altering event for the working-class section of New London that was a magnet for Italian immigrants during much of the twentieth century until its fortunes declined. This lawsuit, like similar ones in Baltimore, Maryland, and Pittsburgh, Pennsylvania, calls into question a government's transfer of eminent domain power to a private organization for economic development.

For Additional Information

To help companies enhance their competitive position and the economic health of America's communities, the following local resources are available:

The Center for Corporate Citizenship at Boston College is a corporate membership organization, affiliated with the Wallace E. Carroll School of Management, that provides executive training, research, tools, and information to support the successful design and implementation of corporate-community involvement strategies. Phone (617) 552-4545. Contact: Steven A. Rochlin www.bc.edu/cccr

Initiative for a Competitive Inner City is a leading source of vital business data and economic analysis, demonstrating the market potential in America's inner cities. Phone: (617) 292-2363. Contact: Anne Habiby www.icic.org

Jobs for the Future (JFF) can provide businesses with human resource solutions such as effective models and strategies that employers can implement to build a highly skilled workforce. JFF links employers to networks of local educational institutions and organizations that provide training, skill-development, and support programs. Phone (617) 728-4446. Contact: Lisa Hicks www.jff.org

About the Author

John Galligan is the Director of Cash Management Policy and Planning with the U.S. Treasury, Financial Management Service. His responsibilities include directorship over the Federal Minority Bank Deposit Program, dedicated to enhancing the vitality of America's minority banks. He is a recent graduate of the U.S. Treasury's Senior Executive Service Candidacy Development Program and is currently a member of Leadership Washington's Class of 2002.

The views expressed in this article are not necessarily those of the U.S. Treasury.

The Shrinking of Connecticut's Big Cities

by William Jenkins

How do you keep a city alive when people don't want to live there? With year 2000 U.S. Census data as confirmation, four of Connecticut's five largest cities are facing this dilemma. Bridgeport, Hartford, New Haven, and Waterbury are all losing population. The only

The perception of crime influences location choice more than actual crime.

Connecticut city with population over 100,000 that is not losing population is Stamford, which has grown in size because of its proximity and economic ties to New York City. Although most U.S. cities are growing, the average New England city is not, and the average Connecticut city is losing population.[1] Except for Stamford, the largest Connecticut cities have shrunk by over 28,000 people during the past ten years. In addition to creating a city/suburb divide, the decline in city populations is having a direct impact on the state. Connecticut's population growth from 1990 to 2000 ranked 47th in the nation, and will cause the state to lose one of its congressional seats.

Who is leaving? From 1980 to 2000, the white population decreased dramatically in all of these cities.[2] Connecticut's capital city, Hartford, is a prime example. Its white population dropped by over 64 percent during this time. Bridgeport lost approximately one-half of its white population.

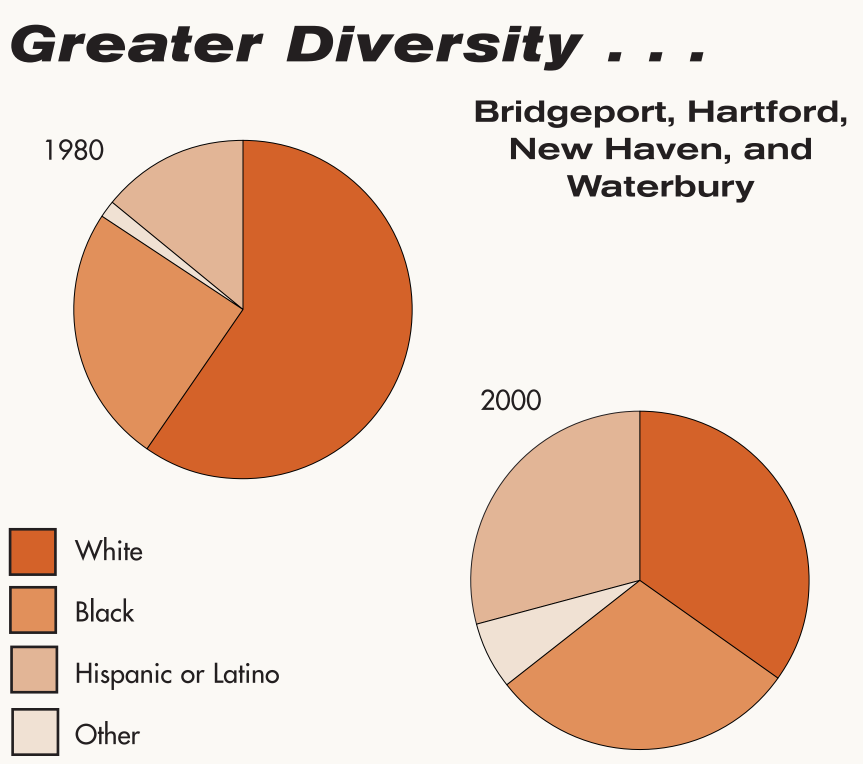
Connecticut's cities are also having trouble retaining the crucial age group of 18 to 24 years, which is the basis of continued growth in the labor force. During the past 20 years, the total number of people in this age group in the four cities (Bridgeport, Hartford, New Haven, and Waterbury) fell by over 20 percent. Between 1980 and 2000, the 18 to 24 age group declined even in New Haven, home of Yale University. Future growth and development will be difficult if the cities cannot attract young people.

But not everyone is leaving. Ethnic minorities are increasing in population in the cities. According to 2000 Census figures, the "Hispanic or Latino" population is increasing in record numbers. In Waterbury alone, it increased by more than 237 percent from 1980 to 2000, ballooning from 6,912 to 23,354. Coupled with the decrease in white population, the Hispanic population has become the largest population group in Hartford. Over the past two decades, the Hispanic population has more than doubled in these four cities. The Hispanic population increase, however, has not been enough to offset the city exodus.

There are several hypotheses as to why city populations are in decline. "I think the forces that drive people out of New Haven or other cities with similar characteristics are quality-of-life issues, most particularly the quality of the education system and crime and drug activity in the neighborhoods," says Carla Weil, Executive Director of the Greater New Haven Community Loan Fund. "Living just outside the city boundary, they still have access to the vibrancy and activities available in the city but perceive that they are avoiding some of the problems."

According to surveys conducted for the Connecticut Inner City Business Strategy report, one of the disadvantages to the inner city is a perception of high crime. Believing a place to be unsafe, people would rather live elsewhere. As a result, businesses, especially those in retail sales, are less likely to locate in the inner city. The report documents how the perception of crime influences location choice more than actual crime. According to the study, 65 percent of inner-city businesses felt that the perception of crime was a drawback, whereas 36 percent felt that actual crime was a disadvantage to being in the inner city.

Avoiding inner-city problems by living in the suburbs is a method employed by those who can afford it – and the housing market plays a vital role in determining who is able



to do this. Economists Edwin Mills and Luan Lubuele write in "Inner Cities" that a crucial reason why the working poor have not left the inner city for the suburbs is hostility in suburban housing and employment.[3] They explain, "Communities cannot legally zone out low-income or minority people, but they can and do zone out the only housing such groups can afford."

As a consequence of financial and social barriers to movement, substantial income gaps have developed between Connecticut's suburbs and cities. With the middle class leaving the cities, the difference between the median income within the city and median income outside of the city has increased. The median household incomes in the four cities losing population are far below the statewide median. In Hartford, the median household income is approximately one-half the state's.[4]

Racial gaps have also developed. Bridgeport, for instance, has one of America's highest concentrations of minorities living in the central city portion of its metro area as compared to whites living in the central city. Bridgeport's city-suburb dissimilarity ranks eleventh in a group of 102 metro areas in America with populations over 500,000.[5]

Says Trinity College Economics Chair Andrew Gold, "What you are seeing is part of a very long process of people moving out, leaving behind a poorer population that it does not want to be near." Gold says the process is "fueled by long-term trends such as reductions in the cost of travel, making near-in locations less valuable, and movement of manufacturing and service industries to the outer ring, pulling population out with them." Many also believe that Connecticut's lack of a major public transportation system exacerbates the problem.

. . . But Less Growth

City	Population Growth Rates 1980 – 1990	Population Growth Rates 1990 – 2000
Bridgeport	-0.6 %	-1.5 %
Hartford	2.5	-13.0
New Haven	3.5	-5.3
Stamford	5.5	8.4
Waterbury	5.5	-1.6

For a long time, the plight of the cities went unaided. Connecticut's income gap between suburban and city dwellers grew and tendencies towards segregation continued. However, Connecticut has shown signs of a new attitude toward its cities, which constitute nearly 18 percent of its total population. In June 1999, the state government launched the Connecticut Inner City Business Strategy Initiative, designed to revitalize its cities. The initiative is focused on developing private, for-profit businesses within Connecticut's cities. The state hopes that by developing competitive businesses in the cities, population growth will follow. Citing increased housing opportunities, greater security, and small business development in New Haven as positive changes to date, Carla Weil believes that local school reform is needed to attract people to the cities. But with the majority of Connecticut's tax base residing in the suburbs, getting the political will to fund necessary improvements may be a difficult task.

Endnotes

1. Of American cities with 1990 population over 100,000, 142 out of 195 gained population during the past 10 years. The average New England city, however, had a growth rate of -0.21 percent and the average Connecticut city growth rate was -3.25 percent. Without Stamford, the average droped to -5.35 percent. Data from Glaeser, Edward L. and Jesse Shapiro, "City Growth and the 2000 Census: Which Places Grew, and Why," *The Brookings Institution*, *Survey Series*, *Census 2000*, May 2001.

2. For 2000 Census data, "White, Non-Hispanic" and "Black, Non-Hispanic" include only persons identifying themselves as "White alone" and "Black or African American alone" respectively.

3. Mills, Edwin S., and Luan Sende Lubuele, "Inner Cities," *Journal of Economic Literature*, Vol. 35, No. 2, June 1997.

4. U.S. Census income data will not be available until mid 2002. The numbers cited are 1990 U.S. Census data. The median household income in Connecticut was $41,721. The median household incomes for the four cities were as follows: Bridgeport, $28,704; Hartford, $22,140; New Haven, $25,811; and Waterbury, $30,533. For comparison, the Census 2000 Supplementary Survey gives Connecticut's 2000 median household income as $53,108.

5. Frey, William H, "Melting Pot Suburbs: A Census 2000 Study of Suburban Diversity," *The Brookings Institution, Center on Urban & Metropolitan Policy*, June 2001.

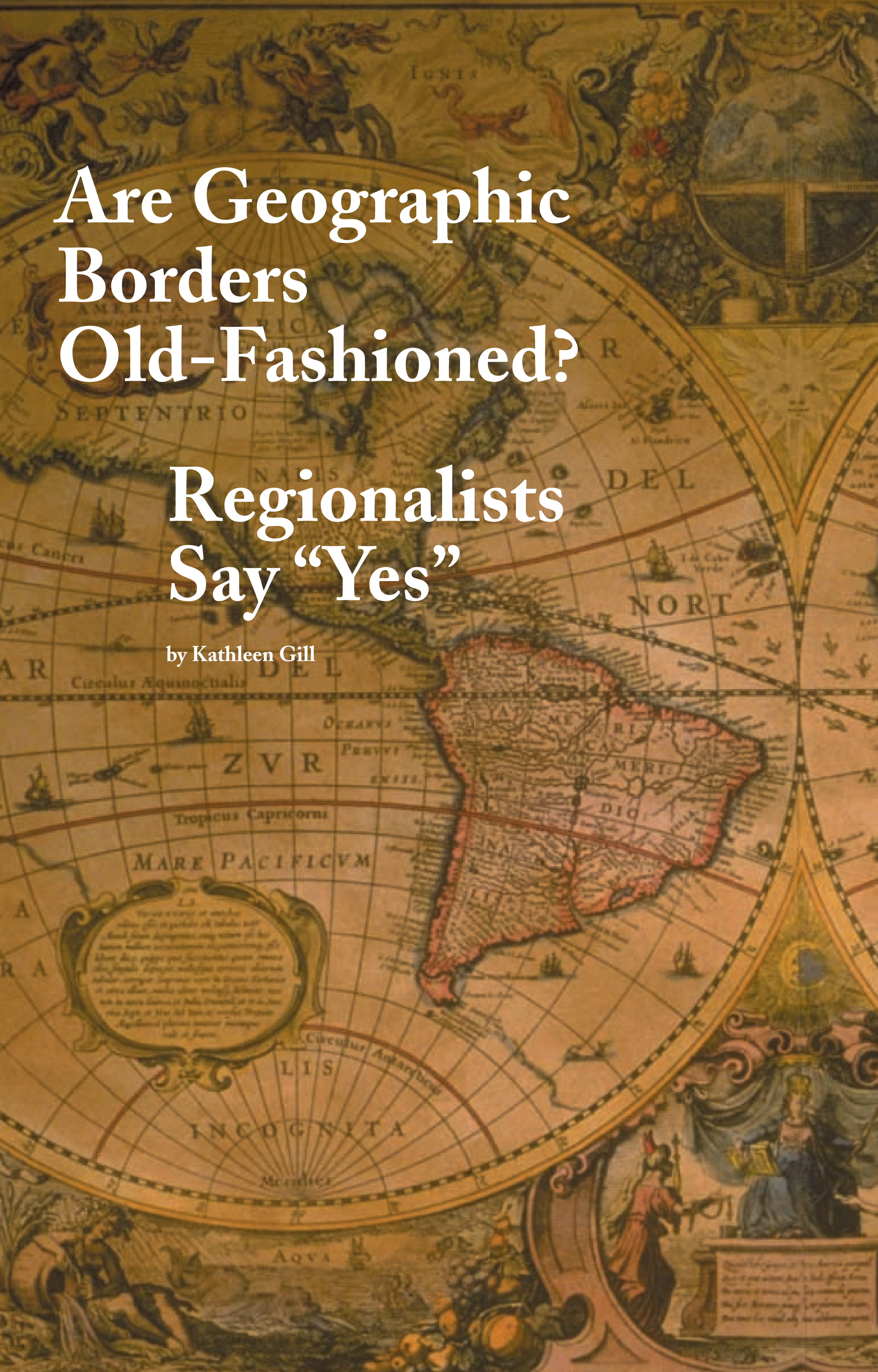
About the Author

William Jenkins is studying economics at Trinity College in Hartford, Connecticut.

Are Geographic Borders Old-Fashioned?

Regionalists Say “Yes”

by Kathleen Gill



On a recent afternoon in the mayoral office in Malden, Massachusetts, three members of a three-city alliance discussed forming the compact for TeleCom City. "If we had each tried to develop our projects separately, we would probably still be spinning our wheels," said Steven Washarsky, Director of the Malden Redevelopment Authority. Instead, the three communities of Malden, Medford, and Everett have combined their adjoining lands to create a 200-acre project area that they hope will yield thousands of new jobs and become an industrial engine for the three communities. Despite a September *Boston Globe* article that indicated the project was stalled, project planners and developers are committed to moving forward. The three communities are also working on a common school curriculum to prepare students to take advantage of the new job opportunities. TeleCom City is a graphic example of how communities are acting cooperatively to enhance their capabilities.

The project is part of a growing trend in New England known as regionalism. Simply put, regionalism means the pooling of resources among jurisdictions to create critical economic mass. The "pool" can be around service-sharing, economic development, or marketing; resources include land, tax revenue, and less tangible items such as regional identity. Jurisdictions may include cities, towns, and counties; they may cross state lines or even national borders.

Unlike the western United States, which has towns that can expand their borders to accommodate growth, New England is almost entirely incorporated. For example, if Boston wants to annex land, it would have to get approval from the town it wants to acquire. This means that when a regional decision needs to be made, it is up to the local communities to cooperate for mutual benefit.

When communities combine with their neighbors into larger units, they gain capacity for marketing to potential businesses and residents. The combined structure allows small towns to compete with larger job markets. For instance, the Knowledge Corridor, an alliance between the metro areas of Springfield, Massachusetts, and Hartford, Connecticut, is a project to market the area as a single region.

Alan Blair, president of the Western Massachusetts Economic Development Council, believes that major businesses look for a population of at least one million people and a workforce of at least 500,000 when scouting for new locations. In full agreement with this assessment is Karl Krapek, president of United Technologies Corporation, a $26 billion provider of high-technology products to aerospace and building systems. In a December 2000 *CT Business Magazine* article, Krapek observes, "Regions, not cities and towns, are what businesses consider when they decide where to locate a headquarters or open a factory. Regions, not cities or towns, are what young professionals and skilled workers consider when they decide where to launch careers and raise families. Regions are the only things that even show up on radar screens in a global economy."

"Regions are the only things that even show up on radar screens in a global economy."

According to the Wharton Regionalization Project, regionalism is characterized by redistribution of resources, optimization of size, and external benefits. Redistribution involves extending economic prosperity across a region. For example, when the Commonwealth of Massachusetts redistributes income tax money to supplement property tax revenue for expenses such as secondary education, it can be seen as engaging in a type of regionalism. Optimizing size means that when service areas are expanded, economies of scale occur. Some small towns, for instance, practice regionalism by combining with other towns to reduce administrative and equipment costs of services such as fire protection. Another attribute of regionalism is that external benefits accrue to an area larger than the region providing the services. For example, many citizens from areas beyond the actual MBTA region use the service to commute to work.

The following are two profiles of regionalism projects under way in New England.

TeleCom City

TeleCom City — the entity created on land from Everett, Malden, and Medford — has won support and

TeleCom City Focuses on Malden River

recognition from both state and federal agencies for its partnership approach. TeleCom City is a regional technology project sponsored by the three towns and located on a 200-acre brownfield that flanks the Malden River. On October 11, 2000, the U.S. Environmental Protection Agency awarded TeleCom City a National Showcase Community designation. The designation, which comes with a grant, acknowledges TeleCom City's innovative approach to reusing an industrial site. In addition to new offices that are expected to locate on the land, a riverfront park is also designed for the community.

The three communities share a similar history and demographics. In the early twentieth century each had thriving manufacturing facilities employing many of the blue-collar residents. With the departure of these anchoring institutions, the communities struggled to find other industries to provide employment for town residents. In recent years, large banks have located their back-office businesses in the community. Additional economic activity, however, is needed to bring local economies back to their once vibrant condition.

While no one is quite sure who first thought of TeleCom City, it began to take shape about five years ago. In the middle of the Boston business boom, Everett, Malden, and Medford saw that their communities were not achieving the level of business investment their neighbors were enjoying. The river site was a likely candidate for development because it was underutilized and because the total acreage made large-scale development possible. The telecommunications industry, at the time one of the fastest-growing industries in the country with large representation in Greater Boston, appeared to be an ideal industry to attract. The communities chose this industry as their development focus.

Since the recent economic downturn, questions about whether selecting a single-industry focus was a good idea have surfaced. A September *Boston Globe* article, "TeleCom City: A Dream Punctured by Reality," raised several concerns, including whether concentrating on a single industry has made the project more vulnerable to economic variability. Although choosing the TeleCom City model was a risk for the communities, the decision has been rewarded with funding and special considerations by state government. In 1996 the state created the Mystic Valley Development Corporation to oversee the project. This entity represents the interests of the three towns, but none of the towns actually relinquished control of their geographic lands.

The Mystic Valley Development Corporation has a seven-member commission that includes the mayors of each of the three cities – Everett Mayor David Ragucci, Malden Mayor Richard C. Howard, and Medford Mayor Michael McGlynn – along with a designee from each of the three communities and a designee of Governor Jane Swift. The community designees include a Medford bank president, the Everett planning board chair, and a Malden city councilor. Governor Jane Swift's designee is Jack Troast, the Commonwealth's Director of Policy for the Department of Economic Development.

Through its designated project manager, the Malden Redevelopment Authority, the Mystic Valley Development Corporation has created a master plan to develop the site. In addition, a streamlined permitting process reduces the administrative burden of the project's development. To involve the community in the project, meetings of the commission are open to the public; the dates and times are posted at each of the respective city halls and on a web site. Additionally, a Citizens Advisory Board consisting of 15 residents (five from each community) meets regularly to provide input into the development plans. By pulling as much of the community into the development process as possible, the towns are optimistic about community endorsement.

TeleCom City officials have also involved local colleges and universities in development. Recently the Mystic Valley Development Corporation signed a memorandum of understanding with several nearby research universities to create the TeleCom City University Consortium. The mission of the Consortium is to encourage surrounding colleges and universities to participate in TeleCom City by using the facilities as an off-campus resource for the development of prototypes, development of new products, and work-

High-Tech Prep

In addition to providing training opportunities for potential employees of TeleCom City at a lifelong learning center, the three cities plan to make sure that the children of their towns are prepared for high-tech jobs when they graduate. The Mystic Valley Development Corporation and the three school superintendents formed a partnership and hired an executive director to develop a standard "technology-infused" secondary school curriculum and manage the project. Known as the Tri-City Technology Education Collaborative (TRITEC), the project includes upgrading both school facilities and teacher skills. All three communities are replacing their existing school facilities with new buildings; Malden opened five schools in September. By 2005, a total of 15 new schools will be in place. Each classroom in the new schools will have at least five computers. All teachers will have a computer.

Some of the features of TRITEC are a standard set of core competencies with benchmarks tied into the Massachusetts Comprehensive Assessment System. Electronically based lesson-planning templates are being developed to help teachers develop interdisciplinary lessons using technology. In a partnership with Tufts University, the teacher preparation program is training new teachers to use technology based curricula. The student teachers are then paired with mentor teachers from the three cities' schools to create project-based lesson plans that teach both traditional content and technological competence. Students from kindergarten through high school will be prepared for job opportunities in the high-tech industry.

force education and training. To date, over a dozen colleges and universities have signed the memorandum including Northeastern University, Boston University, and the University of Massachusetts. The goal of the group is to develop a critical mass in Massachusetts to attract federal funds for telecommunications in the same way the Longwood Medical Area attracts funds for medicine.

The Knowledge Corridor extends from the Vermont border to just below Hartford. Each red circle represents a college or university.

Another important collaborator has been the state government. Initially, the state provided a grant for a project feasibility study. Then, the state issued $9.6 million in grant money to acquire and clear the TeleCom City site. It provided a total of $12.6 million to create the internal roadway structure for the site. A $54 million grant will upgrade the regional roadway network linking TeleCom City to the interstate highway, and an additional $26 million will be used to connect existing roads and public transportation lines to the site.

The state's active interest in the plan can be attributed to a number of factors. Primarily, the project meshes with the state's strategic plan to enhance economic growth via encouragement of knowledge-based clusters. The state wants to support the creation of specialized research centers, especially considering the site's proximity to other technology centers in Greater Boston. It recognizes that TeleCom City is a massive brownfield project that could come to fruition only as a public-private partnership.

Another factor eliciting state support is the state's overall effort to improve the roads surrounding Boston. In addition, the project is viewed as an innovative use of space that minimizes sprawl. Instead of using a greenfield, a site that has never had any development, the Mystic Valley Development Corporation is clearing and reusing an industrial site. This fills in the urban landscape rather than expanding urban development. Finally, until the current year, office space vacancy rates were as low as one percent in the Boston area, and the need for additional office space made the development vital.

With the market's change, however, office vacancy rates have surged. In Cambridge's Kendall Square area, for instance, the vacancy rate for quarter ending June 2001 was at 12 percent, raising doubt about whether the planned 1.8 million square feet of office space is needed. Responding to some negative press TeleCom City has received, Governor Swift's Mystic Valley Development Corporation board designee Jack Troast says he believes the telecommunications industry still has a great deal of potential and that the state will benefit from having a long-term vision. He notes that the developer is committed to moving ahead and that most approvals are in place.

In October of 1999, Preotle, Lane & Associates was named as Master Developer of TeleCom City. The firm is charged with creating 1.2 million square feet of office space at a cost of almost $750 million (an additional 0.6 million may be developed later). To date, the developer has begun clearing the site; construction is scheduled to begin later this fall.

As noted, the road to development has not been without its bumps. In addition to the stress caused by the downturn in the economy, and in the telecommunications industry in particular, community objections have blocked several pieces of development, including some housing that neighbors believed was too "upscale" to blend into the community. Retail outlets and restaurants were also excluded from the development because local business owners were concerned about competition.

The Knowledge Corridor

As Malden, Medford, and Everett collaborate to create an educated workforce, to the west the Connecticut Valley is engaged in a regional effort to capitalize on its already highly educated workforce. The Knowledge Corridor is a collaboration among the western Massachusetts counties of Hampden and Hampshire and the Connecticut counties of Hartford and Tolland.

The name Knowledge Corridor was chosen because of the high concentration and quality of colleges and universities in the area. There are 27 two- and four-year institutions within 2,300 square miles. This is about 10 times the national average. Over 100,000 students annually attend these institutions.

The number of Ph.D. scientists and engineers per 1,000 workers puts the region in the top 5 or 10 percent nationally in New Economy data indicators such as patents per capita and percentage of workers holding college degrees. These factors combine to create tremendous opportunities for businesses looking for an educated workforce in an area with a relatively low cost of living as measured by factors such as housing price.

The partnerships began in 1996 in western Massachusetts when a group of business leaders came together to try to improve the economic climate in Hampden and Hampshire counties. The area had lagged significantly behind the state average in job creation and other economic indicators, and the cities and towns in the area competed against each other for any business that was considering locating in the area. Fortunately, business leaders recognized that while a town benefited economically when a business located in the town, the surrounding area benefited as well.

In 1995, business leaders from across western Massachusetts came together to conduct a series of interviews and analyze what were the best practices for attracting businesses to the region. “Parts of the country we were competing with were cooperating regionally, sometimes across state lines,” states Allan Blair, president of the Western Massachusetts Economic Development Council. After analyzing what other parts of the country were doing well, western Massachusetts adopted a hybrid approach from these best practices.

The Western Massachusetts Economic Development Council was formed by most of the major businesses in the area and privately funded by them. Another important group includes the mayors of all the major towns in western Massachusetts, including Northampton and Springfield. “Without getting the cooperation of municipalities, you get petty competition for the same businesses,” says Blair. He believes that the Council’s regular meetings “create a cooperative atmosphere that attracts businesses.”

For three years, the council worked on marketing itself to prospective businesses as a great location for expansion and starting a business. The size of the region, at about 500,000 people, was large enough to attract some attention; however, a population of about one million was seen as a significantly better size for marketing purposes. In 1999, Northeast Utilities convened a meeting between the western Massachusetts leaders and the Connecticut Capital Regional Growth Committee. Communities in both states began to see how much they had in common and how much could be gained by working together. Since both groups had goals of attracting and retaining good-paying jobs, they thought that marketing their areas as a single region would be mutually beneficial.

Together the two groups formed the Hartford – Springfield Economic Partnership to raise the business community’s awareness of the region’s assets. Combined, the region has a population of 1.5 million people; it supports 800,000 workers and 40,000 businesses. A major asset of the region is Bradley International Airport, one of the fastest growing airports in the country and a destination recently chosen by Southwest Airlines. Currently, the partnership leaders are in the process of developing a marketing plan. A university association is analyzing the demographic trends and needs of the region.

One concrete result of the cooperative relationship is funding by the Commonwealth for a new convention center in Springfield and funding for renovations of the existing civic center. Massachusetts funded the project after receiving a letter of request signed by the eight mayors of the region. While the City of Springfield had requested the funding in the past, the added weight of the other mayors of the region may have been a deciding factor.

The partnership is also pursuing tourism promotion for the region. Tourism groups in Connecticut and Massachusetts are putting together a single map and a coordinated brochure. In another joint effort, college presidents from most of the 27 area schools met recently to discuss the Knowledge Corridor and assess opportunities for cooperative effort. Plans are under way to combine advertisements for a cultural activities calendar.

“Without cooperation of municipalities, you get petty competition for the same businesses.”

Common Challenges

The long-term viability of the Knowledge Corridor partnership is unknown. Presently, monetary contributions are voluntary. However, if the partnership succeeds in attracting a business to one of the states, the revenue and tax benefits will benefit only that state. Whether this will dissolve the partnership is unknown.

Some of the same challenges face TeleCom City. While the three cities have established a revenue-sharing plan that divides all additional tax revenue among the three cities in proportion to their fraction of the development, stresses on the alliance remain. Recently, a candy manufacturer that wished to develop the Everett piece of TeleCom City approached Everett. Although the mayor refused the proposal, the tension between self-interest and a regional approach only grows under the economic pressure of a shrinking economy.

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Small Business Lending in Low- and Moderate-Income Areas:

The Effect of Credit Scoring

By W. Scott Frame, Michael S. Padhi, and Lynn Woosley

Access to credit is vital for economic opportunity. In traditionally under-served areas, small business owners have had difficulty obtaining financing, often because they lacked relationships with lenders. In today's financial marketplace, lending decisions are relying less on personal relationships and more on automated technology. Will this help or hinder small businesses in low- and moderate-income communities?

A recent Federal Reserve Bank of Atlanta working paper provides insight into this question. "The Effect of Credit Scoring on Small Business Lending in Low- and Moderate-Income Areas," by W. Scott Frame, Michael Padhi, and Lynn Woosley (Federal Reserve Bank of Atlanta Working Paper 2001-6), describes research into how the use of credit scoring by large commercial banking organizations influences the availability of credit to small businesses located in low- and moderate-income areas. Credit scoring is a technology that assigns a probability of default to a loan applicant based primarily on the applicant's credit history. Widely used for mortgage and consumer loans for many years, credit scoring has only more recently become routinely applied to small business loans.

Frame, Padhi, and Woosley conclude that large banking organizations using small business credit scoring lend, on average, $16.4 million more to small businesses located in low- and moderate-income (LMI) census tracts than non-scorers in those same areas. They also find that large banking organizations using small business credit scoring are more likely to lend in an LMI area than non-scoring institutions. The effect of credit scoring in LMI areas is also greater than in higher-income areas.

Accessibility Issue Raised by Credit Scoring

Small business lending traditionally has been relationship-based, that is, lenders and small business borrowers maintain a long-term business relationship in order to share information about the borrower's financial state. This sharing of information helps overcome the problem of an information gap between the small business loan applicant's estimation of his ability to repay a loan and the estimation made by the potential lender. Without a relationship with the small business borrower, the lender may be less willing to lend.

Credit scoring, however, is not a relationship-based procedure. Rather, small business credit scores are determined primarily by credit bureau information on the business owner and on the business itself. The credit score represents the probability that the applicant will default, based on the repayment histories of a large sample of previous borrowers. No prior interactions or visits from a loan officer may be necessary. For very small or new businesses, the score relies almost exclusively on personal credit histories. This could be problematic for people with poor or limited credit records.

Some fair lending advocates raise the concern that credit scoring, by replacing the opportunity for a small business to establish a relationship with a bank, removes the flexibility of a bank to make case-by-case judgments. This discretion is necessary, they argue, because borrowers in LMI areas may not be adequately represented in the samples upon which scoring models are based.

On the other hand, credit scoring may improve the availability of credit to LMI areas for two reasons. First, if banks historically have been hesitant to lend to businesses in LMI areas because of a relative lack of information about those areas, then credit scoring could increase LMI lending by reducing the information gap problem. Second, the objectivity of a computer-generated score reduces the likelihood of overt or subconscious discrimination by a loan officer.

The Net Effect on Credit Availability

The Federal Reserve Bank of Atlanta researchers investigate the overall impact of credit scoring on lending by large commercial banking organizations in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. Though the study covers only these Southeastern states, the authors have no reason to believe that their results could not be generalized nationwide. The authors use results of a telephone survey about small business credit scoring that was conducted in 1998 by the Federal Reserve Bank of Atlanta. Data from this survey are also the basis for another paper on the effects of credit scoring on overall small business lending, "The Effect of Credit Scoring on Small Business Lending" by W. Scott Frame, Aruna Srinivasan, and Lynn Woosley (*Journal of Money, Credit, and Banking*, August 2001), which found a positive relationship between credit scoring and the portfolio share of small business loans for large banking organizations.

In their study of credit scoring's impact on LMI areas specifically, the Atlanta Fed researchers combine the results of the survey of 99 of the largest U.S. banks with demographic data for each census tract, small business lending information for each census tract, and bank data at both the census tract and institutional levels. Census tracts are used to define areas. Using this information, the study's authors test the relationship between the amount of small business lending by each of the survey respondents in a census tract in 1997 with whether or not a bank used small business credit scoring during the same year. The relationship is tested along with several control variables: total banking assets, the institution's overall ratio of small business loans to total assets, bank capitalization, level of urbanization of the census tract, total small business revenues generated in the census tract, the racial make-up of the census tract, and whether or not the banking organization has a branch in the census tract or the larger geographic banking market (metropolitan area or rural county).

The sample consists of 99 observations (one from each bank) for each census tract in the six Southeastern states. However, in most tracts, no loans were reported by any of the banks in the survey. Therefore, Frame, Padhi, and Woosley analyze not only the average dollar amount of loans made by a large banking organization in a census tract, but also the probability that one will make a loan at all in the same tract.

In low- and moderate-income areas, large banking organizations that use credit scoring lent $16.4 million more to small businesses than did non-scoring institutions. In middle- and high-income (MHI) areas, large banking organizations using small business credit scoring lent $6.8 million more. The use of credit scoring also appears to increase the probability that a large banking organization makes a loan in a community, especially in LMI areas. Large banking organizations' probability of making at least one small business loan in an LMI area is 3.2 percentage points greater if the bank uses credit scoring. In middle- and high-income areas, this probability is 1.7 percentage points greater.

Also of interest are the relationships of the control variables to small business lending. Other characteristics of banking organizations are positively and statistically significantly related to the dollar amount of loans made in an area: total assets, level of capitalization, ratio of small business loans to total assets, and the proximity of a branch to a census tract. The effect of size and small business loan ratio on lending are roughly the same across LMI and MHI census tracts. However, higher equity-to-asset ratios appear to be more important for lending in low- and moderate-income areas — perhaps because of risk considerations.

Large banking organizations that have branches in LMI census tracts lent $360 million more than institutions that did not. In middle- and high-income areas, banks with branches lent $292 million more. The positive relationship between the local presence of a branch and lending reflects the strong local connections that exist between banks and their small business borrowers. Neighborhood race characteristics do not appear to be significant, either statistically or economically, in determining small business lending.

Interpretation of Results

Frame, Padhi, and Woosley interpret their findings as indicating that credit scoring increases small business lending by reducing information gaps between borrowers and lenders. This effect appears to be particularly pronounced and important for LMI areas, which historically have had difficulty attracting capital. They estimate that credit scoring increases small business lending in LMI census tracts by $16.4 million per institution per census tract in which they underwrite loans. This effect is about 2.5 times larger than that estimated for higher-income census tracts. The use of credit scoring also increases the probability that a large banking organization will make loans in a census tract. For LMI areas, the probability increases by 3.8 percent and for MHI areas 1.7 percent. Overall, these results suggest that low-income areas do benefit from technological enhancements — and that sometimes these benefits are greater than those experienced in high-income areas.

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