The New City

Some practical lessons about policy implementation from city (and county) hall

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Many cities are fighting for survival in a post-recession, still-feels-like-a-recession economy. Against the backdrop of dwindling tax revenues and lean budgets, just keeping the trains running has become a challenge. Long-term planning to address chronic unemployment, improve human services, and reform the education system increasingly has to take a backseat.

That tension between the daily-grind reality of running an American city versus high-minded, future-oriented community development was the focus of a special panel at the Cleveland Fed’s 2012 Policy Summit. Leaders from three major Midwest metro areas—Cleveland, Pittsburgh, and Cincinnati—talked about the difficulty of balancing short-term necessities with long-term planning, and how tough budgets are forcing them to make even tougher calls.

“How to do more with less” has become the motto of many local governments. Before the financial crisis, hundreds of millions of dollars streamed in from both the federal and state governments. Historically, those were localities’ main funding sources for certain projects, “where you have to generate the money to do the big brownfield cleanups, infrastructure improvements,” and other projects to revitalize cities, said Rich Fitzgerald, chief executive of Allegheny County, Pennsylvania.

Likewise, roads, bridges, mass transit, and airports have all traditionally used state and federal dollars that are no longer available. Those dollars have dried up.
Another emerging problem: Some of today’s fastest-growing employers tend not to contribute so much in the way of tax revenue.

Take downtown Pittsburgh. It’s one of the most booming urban areas in the country, according to Fitzgerald, thanks in large part to its two research universities—the University of Pittsburgh and Carnegie Mellon University, along with its medical centers. But these institutions are nonprofits that do not pay property tax. “For most cities,” said moderator Tom Murphy, the former mayor of Pittsburgh now with the Urban Land Institute, “we are forced to try to make something work in a box that is unworkable.”

With less money to work with, cities need to innovate to position themselves to succeed in the future, all the while taking care of today. Cleveland Mayor Frank Jackson summed up the panelists’ strategy this way: You have to plan for good times and for bad times. When the hard times come, he said, it’s too late. Jackson said his administration had already made a lot of hard cuts before the 2008 financial crisis, trimming anything not deemed critical. As a result, he said, Cleveland’s landing was softer because the city had planned for it. It was still hard, Jackson admitted, but because the city wasn’t forced to tap money set aside for investments in the future, it was better positioned to take advantage of improving conditions.

Roxanne Qualls, Cincinnati’s vice mayor, echoed Jackson’s sentiments. In Cincinnati, as in Cleveland, the mantra is to have a structurally balanced budget. But she argued that while budgets have been cut—slashed, even—there seems to be “a lack of will on the revenue side.” The city reduced the workforce by 1,000 people, but Qualls still sees a lack of investment in some of Cincinnati’s neighborhoods.

Cincinnati’s solution is twofold: 1) building a new “priority-driven budget” by working with communities on setting priorities for expenditures, and 2) establishing a tax commission to look at how tax policies grow or inhibit jobs. Results, Qualls said, should be in by the end of the year.

Allegheny County’s Fitzgerald made a novel observation: Tax rates aren’t as important to businesses as they are made out to be. It’s a myth, Fitzgerald said, that if you cut taxes, businesses will come to your community. “Companies rarely say that that is what they want. They want help with training employees. ‘Can you provide better transit for our employees to get to work? We need an off-ramp to get goods and services in and out of this community.’ But day after day we see politicians signing pledges to never raise taxes [on businesses]. It’s shortsighted and goes against good governance.”

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The main issue, as Fitzgerald sees it, is that leaders simply “haven’t restructured for a new city and region.” As the manufacturing sector fades in relative dominance, new industry-government partnerships need to be formed. “We still have manufacturing, but we’ve diversified,” Fitzgerald said. “We have information technology, life sciences. We make movies.” He also pointed to the area’s success at spinning off the research initiatives into companies and into jobs.

Moreover, even during times of belt-tightening, there is room for forward-looking projects. One of Cincinnati’s most promising developments is happening on its riverfront, where a series of public-private investments has created a bustling retail and entertainment district. Elsewhere in the city, partnerships with universities and hospitals in the Uptown neighborhood have produced new efforts to improve human, social, economic, and physical conditions in the area. And a newly created innovation task force is trying to help spin more commercial ventures out of the world-renowned Cincinnati Children’s Hospital Medical Center.

But why encourage these types of institutions to grow when they don’t directly contribute to the region’s tax coffers? Because indirectly, they do.

The key is the “connectivity between the institutions,” Jackson said. “If this happens in the right way, it offsets what they don’t pay in property taxes because you grow an economy. Our hospitals... procure billions of dollars in goods and services each year. The more it can flow into our economy, the more it can support local business, and the more people will stay employed.”