ACCELERATING CITIES:

WHY STATES ARE THE MOST IMPORTANT PARTNERS FOR ECONOMICALLY CHALLENGED CITIES

NATIONAL RESOURCE NETWORK

NEW SOLUTIONS FOR CITIES

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CREDITS

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INTRODUCTION

Over the last decade, many scholars and policymakers have adopted a view that cities and metropolitan areas generally are the growth engines of the national economy.[i] While true, the focus on major metropolitan areas as the centers of growth and innovation belied a far more complicated story. Indeed, big and midsize cities across the nation—and their surrounding metropolitan areas—have increasingly been the source of economic growth as measured by income and jobs. But the reality is that there are still many areas that have struggled: this is particularly true for smaller and midsize cities that have lost the economic rationale for becoming cities in the first place.

Millions of people live in hundreds of cities[ii] small and large across the nation that are faced with high poverty rates, limited opportunities for employment and—in some cases—continued population decline. These demographic and economic conditions can also contribute to other factors—underperforming schools, high crime rates and a declining tax base—that often make it seem impossible to abate a spiral of decline. In some cities, decline has occurred over decades. And the absence of progress or economic promise can leave residents and businesses in what can only be described as despair.

There is no "one-size-fits-all" approach when it comes to addressing a locale's economic challenges and opportunities. Even when similar in size and geography, different cities often face different challenges and require tailored and individual solutions. Whether it is a minor league stadium, a waterfront development or an innovation district, no one program or policy is a "silver bullet" for every city.

But the absence of a straightforward answer to a complicated problem does not make that problem go away, nor does it alleviate the need for action.

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While there is no one single approach, this report attempts to begin a conversation about what steps policymakers can take to strengthen economically challenged cities. It builds on the work of the National Resource Network (The Network), an initiative funded by the federal government and supported by private foundations to provide cross-cutting technical assistance to 50 economically challenged cities nationally.

One of the most important lessons of the work of the Network in the last four years is the vital importance of state governments in supporting the work of economic turnaround and transforming economically challenged cities.

Far more than the federal government, state governments have the ability to provide the partnership and support to help local leaders rebuild and revitalize their cities. States have the ability to provide financial support, of course, but far more than that, they can encourage smarter fiscal planning, provide needed operational capacity and encourage new economic opportunities.

While state governments can be crucial in efforts at supporting the turnaround of economically challenged cities, they tend to be an afterthought in many political and policy discussions. Demands for mayoral or federal action supersede calls for more mundane-sounding state partnership. Yet, that is precisely what is needed. With so many locales in extremis, needed state level 'first responders' are not being drafted for duty. And, the majority of states have a sporadic history of playing this role.

This is beginning to change.

As more and more cities face deep economic and fiscal challenges—Detroit being only the most visible example—more governors and legislatures are taking proactive steps.

The Network is helping lead the way and forming strong state partnerships. In 2016, the Network launched a pilot initiative with the Commonwealth of Massachusetts to replicate its federally funded model at the state level. And, just last month, the Network announced that—with funding from the Laura and John Arnold Foundation—it is creating a state resource network with California and will seed funding for at least three more state resource networks in 2018. While the need for state action exists in different ways for all 50 states, this report focuses on the two states that are in the midst of governmental transition: New Jersey and Virginia. Both are important states to the overall national economy. New Jersey and Virginia are ranked 8th and 12th respectively in state GDP and 10th and 19th in GDP per capita. Moreover, both states are going through important transitions as term-limited governors are being replaced by governors elected this past November.

As an outgrowth of the National Resource Network's efforts a new initiative has been established to foster state-city partnerships that address core economic, fiscal and related challenges

Our analysis shows that state intervention—and ideally partnership—is well worth the effort. The fact is even the most economically challenged cities are regional and state economic drivers. In each state, cities are home to thousands of jobs and significant economic activity, but they also need statehouse collaborators. This report provides a closer examination of these dynamics and what can be done.

A NEW ECONOMIC ORDER AND WHAT TO DO ABOUT IT

There is a very new economic landscape in America. It is one that urban studies theorist Richard Florida aptly defines as the rise of winner-take-all-urbanism in which just a small handful of cities have captured the vast majority of innovation, wealth and job creation.[iii] A recent OECD report found that between 1990 and 2000, the rate of economic convergence across states in the U.S. slowed to less than half what it had been in the century between 1880 and 1980. And since then, it has dropped to nearly zero.[iv] The translation: Where once economic growth was evenly distributed across the country, there is now just a small sliver of locales where most all growth occurs. Mark Muro at the Metropolitan Policy Program at Brookings has conducted some of the most extensive analysis of this phenomenon and found in one analysis of large and small metros between 2009 and 2015 that private employment expanded nearly twice as fast and income increased 50 percent faster in larger urban areas.[v]

A national economy where growth is centered in a handful of metropolitan areas is simply not sustainable. A "shrugged shoulders" approach to the issue also ignores the economic potential and vitality that exists in economically challenged cities

While many regions have seen an employment uptick, the vast majority have experienced little economic bounce since the Great Recession receded. To better understand why so many locales are still in the economic doldrums despite broader economic recovery, the bipartisan Economic Innovation Group, coined the term economic 'dynamism.' Dynamism is a measure of business creation and new employment and it is essential for any region to truly prosper. Dynamism from 1980 to 2008 was fairly robust in 80 percent of the nation's 366 metro areas. But now just five areas can claim the dynamic mantle: Houston, Dallas, New York, Miami and Los Angeles. Those metros created more net new businesses than the rest of the country combined.[vi]

While growth has been concentrated in larger metropolitan areas, we also know that smaller and midsized cities—even those facing significant economic challenges—still often play an important role in regional and state economies. When the Network looked at 77 economically challenged cities in California we found that they were major economic drivers: producing well over a trillion dollars in annual economic output and supporting more jobs than 42 individual states.[vii] Moreover, many of these small and midsize cities are home to important higher education and medical institutions that both serve large regions and offer untapped potential for growth.[viii]

Thus, while it is important to understand the obstacles that smaller and mid-size cities and metropolitan areas may face, it is perhaps even more important to recognize that those obstacles need to be overcome to ensure long-term prosperity nationally. A national economy where growth is centered in a handful of metropolitan areas is simply not sustainable. A “shrugged shoulders” approach to the issue also ignores the economic potential and vitality that exists in economically challenged cities.

The reality is that many of these places need to rebuild and reinvent their local economies to turnaround successfully. That often starts with basics—such as improving local government fiscal and operational capacity and better coordination at a regional level—that are often not thought of as the core of an economic revitalization strategy. This approach is certainly not as interesting, dramatic, or simple to understand as a broad-brush approach; it also requires nuance on a city-by-city level. But every turnaround must have a beginning.

UNDERSTANDING THE ROLE OF STATES IN CITIES

Successful city turnarounds have greater chances at success and shorter distances to travel when supported by a sturdy state partnership. However, state partnerships and policies toward economically challenged cities vary drastically from state to state. These relationships—or lack thereof in some instances—are important to understand: States—far more than the federal government—have ultimate authority over city finances, policy and local reform efforts. As a result, states can either help lift up economically challenged cities or act as impediments to success.

There is a romantic notion of local government that is nestled deep in the American psyche. The picture is one usually of town meetings in New England in which locals gather to determine budget and policy decisions. That image is based on reality; once upon a time the model permeated the colonies and early America. The Puritans who believed in Congregationalist church governance spread this democratic ethos throughout New England and in a number of Western territories as well.

The fondness for local government persists. A 2016 Gallup poll found over 70 percent of Americans trust their local government; noticeably greater than higher levels of government.[ix] And the town meeting paradigm has given rise to the great modern-day campaign vehicle—town hall meetings in which candidates field voter questions in front of a televised audience.

Regardless of popular sentiment—or sentimentality—most vestiges of true local autonomy below the state level have been revoked. In 1868, a renowned ruling by the Iowa State Supreme Court Chief Justice John Forrest Dillon famously referred to as Dillon's Rule granted complete control of city governance to their home states. Dillon was clear that municipal governments have only the powers expressly granted to them by the state and any ambiguities in power must be resolved against the municipality so that its powers are narrowly construed. The U.S. Supreme Court soon echoed this interpretation, in Hunter v. Pittsburgh, 207 U.S. 161, (1907), "Municipal corporations owe their origin to, and derive their powers and rights wholly from, the legislature. It breathes into them the breath of life, without which it cannot exist." And, Harvard legal scholars Gerald Frug and David Barron in their book City Bound note, federalism in the U.S. is essentially about state's power to structure "local governments in whatever way they choose."[x]

Indeed, there are some home-rule states that write local autonomy into the state constitution. And, in many areas such as policing and land use, states are more than happy to stay out of local affairs. But fundamentally, cities are subjects of their states. And, despite popular opinion or romantic notions of local government, this has been the case for nearly a century and a half. There is no reason this dynamic can't work well, but as this section makes clear, it is critically important to understand this fundamental dynamic of intergovernmental relations.

Local Government: Perceptions and Realities

PERCEPTION	REALITY
The American spirit of town meetings and local governance continues today	States have near total authority over local affairs
The federal government shares equal power with states over local governance	Beyond funding and mandates, the federal government tends not to play a direct role in local affairs

STATE ACTION HAS BEEN MIXED

The big question is what do states do with the tremendous authority over local government?

The Pew Charitable Trusts has spent the past decade examining all 50 states and the degree to which states track local economic and fiscal conditions. Its focus is specifically on fiscal health. A 2016 Pew study found just 22 states have a process for reviewing budget books and of those, just eight states have laws defining when a city is officially in need of assistance.[xi] Pew concluded that most states take a fairly hands-off approach to local government fiscal conditions: while states are responsible if the local government fails, "many states have done historically little to track the budgetary well-being of local governments. As many states have learned, this can lead to costly surprises."

There have been a number of famous surprises over the years. Albany had to step in to 'save' New York City after President Ford famously refused help in 1975.[xii] The role of accidental savior has grown in recent years as Michigan Governor Rick Snyder went from initial resistance to a more hands-on approach to help Detroit turn around.

But these are all instances of action that came only in response to extreme fiscal distress. Getting a more comprehensive handle on how states partner with cities is difficult as there is virtually no national tracking or analysis of intergovernmental policy and programs. This was not always the case. In 1960, Congress created a bipartisan agency—the Advisory Commission on Intergovernmental Relations (ACIR)—that produced a robust set of reports and assessments of state/local government relations, policies, outcomes and recommendations before being defunded during the Reagan Administration. With the demise of ACIR, the country lost both an accounting of local government affairs and a sense of what made for good policy. There has also been a somewhat related decline in scholarly output. Where federalism—the study of various levels of government—was once a mighty subfield of political science, there are very few authors writing about such issues now.

There are two important and recent exceptions. Michael Pagano, Dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago, has documented just how consequential state involvement is in local government finance. Pagano and his research team devised a fascinating measure called Fiscal Policy Space which is essentially the flexibility a city has to control its destiny. The measure includes the degree to which states impose limits on local tax authority and how well-matched a city's economic base is to its revenue authority. Assessing a diverse sample of 100 cities, Pagano found that those locales with more "space" or flexibility were far better positioned to curb spending, balance budgets and create jobs than those with more constrained "space."[xiii] In a separate interview for this report, Pagano noted, "our research shows that state decisions matter. The more you allow localities to control their destiny the better they do. Often cities need some breathing room."

Allan Mallach, Senior Fellow at the Center for Community Progress, recently issued a study that came to similar conclusions, but his focus was on policy, not fiscal structure. His 2017 report developed a broad framework for urban revitalization that suggests disaggregated areas of state transportation, housing, economic development, health and tax policy be coordinated to accelerate local growth.[xiv] Mallach details how dozens of individual programs have proven to boost local development. But in an interview for this report, Mallach made clear "there is no one state that puts it all together; no one is truly strategic. What you see is bits and pieces."

These two reports taken together provide real evidence that state action has significant and positive impact on local government. There is also proof that greater flexibility leads directly to greater local prosperity. Perhaps most important is the conclusion that strategic help—a plan—is the most valuable approach. Mallach notes that local turnaround "is not a thing; it is a process."[xv] In other words, fiscal relief or economic development assistance are crucial and necessary, but not sufficient. What is needed is a strategic approach to state and local economic and fiscal health and long-term growth.

A TALE OF TWO STATES: NEW JERSEY AND VIRGINIA

Many commentators have been reading the tea leaves for clues about the mid-term elections and the current political landscape based on election results from New Jersey and Virginia. As previously noted, these states are both vitally important to the overall national economy. They also have their share of economically challenged cities—from former industrial centers to inner ring suburbs to cities that are more at the center of otherwise rural areas. Because new administrations are frequently a time of transition and change, they also present the opportunity to apply a new framework to the state-city relationship, particularly as it relates to these economically challenged cities.

To establish a new state-city framework, we first need to understand the cities we are talking about. How prevalent are economically challenges cities? What are the core issues they face? What economic impact do they have? And what, if any, relationship do they have with state government? The following section begins to answer these questions with a just-the-facts approach that articulates a few critical data points about challenged cities in both states.

Economically Challenged Cities in New Jersey and Virginia[xvi]

For the purposes of this report, we define economically challenged cities as those cities with a population of 30,000 or more that meet one of the following criteria:

- ✓ Unemployment rate greater than or equal to 6.5% in 2016
- ✓ Growth in unemployment rate by 4 percentage points or more between 2010 – 2016
- ✓ Poverty rate (excluding college & university students) greater than or equal to 20% between 2010 – 2015
- ✓ Growth in poverty rate of 4 percentage points or more from 2010 – 2015
- ✓ Population decline of 2% or more between 2010 and 2015

In New Jersey, nearly 1.3 million residents (or nearly 15 percent of the state's population) live in the 15 cities that meet these criteria:

Table I[1]
New Jersey Economically Challenged Cities

City	Population	Poverty	Unemployment	Population Change
Atlantic City	39,547	35.4%	10.1%	0.0%
Camden	76,131	37.1%	10.1%	-1.6%
East Orange	64,962	19.6%	7.7%	1.1%
Elizabeth	129,012	21.9%	6.2%	3.2%
Garfield	31,265	15.4%	6.7%	2.6%
New Brunswick	56,338	25.0%	4.4%	2.1%
Newark	281,913	27.6%	7.9%	1.7%
Passaic	71,082	31.9%	7.2%	1.9%
Paterson	147,757	29.5%	9.2%	1.1%
Perth Amboy	52,179	22.1%	7.8%	2.7%
Plainfield	50,678	22.2%	6.7%	1.7%
Trenton	84,231	25.8%	7.2%	-0.8%
Union City	69,149	24.3%	5.6%	4.1%
Vineland	60,987	16.3%	7.2%	0.4%
West New York	51,860	21.2%	4.7%	4.3%

[1] The data analyzed in Table I and II leverage publicly available information from the 2010 U.S Census, the 2015 American Community Survey, and 2016 Bureau of Labor Statistics.

In Virginia, nearly 400,000 residents (or five percent of the state's population) live in the 4 cities that meet these criteria:

Table II[2]
Virginia Economically Challenged Cities

City	Population	Poverty	Unemployment	Population Change
Danville	42,450	21.5%	6.0%	-1.4%
Petersburg	32,123	26.5%	7.6%	-0.9%
Richmond	213,735	21.6%	4.6%	7.9%
Roanoke	98,736	20.5%	4.3%	3.0%

These are just the cities in two states. Across the country there are about 1,000 cities of this size and nearly a third of them qualify as economically challenged. In these states, there are also cities and municipalities with fewer than 30,000 residents that would meet the criteria related to economic challenge. Moreover, not all of these cities face fiscal distress. But in all of these cities, economic challenges have a real impact on tax base and service delivery, not to mention the quality of life of its residents.

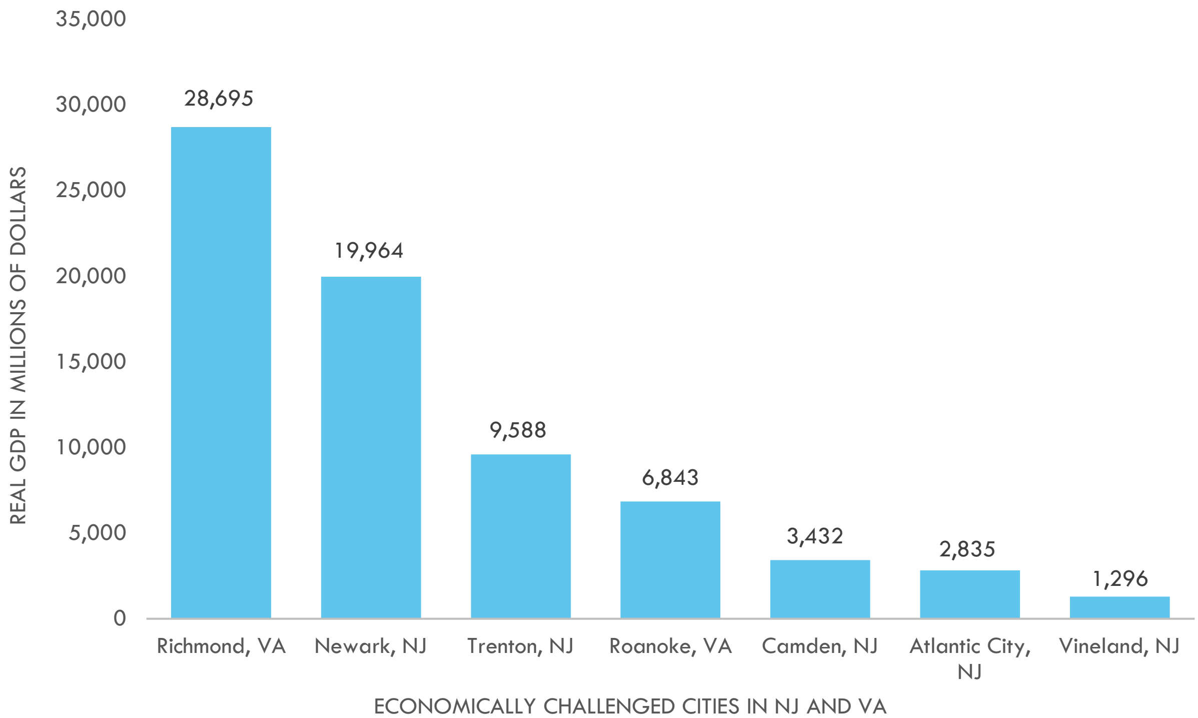
In our close analysis of economically challenged cities and other cities in New Jersey and Virginia a number of findings become clear. In the two states, challenged cities generate significant economic output and jobs. Moreover, these cities still serve as regional job centers, providing significant employment for non-residents. Labor force participation rates in economically challenged cities are comparable to rates in other cities. The principal difference is in earning power; one reason that these cities often face challenges related to local government revenue.

[2] The data analyzed in Tables I and II leverage publicly available information from the 2010 U.S Census, the 2015 American Community Survey, and 2016 Bureau of Labor Statistics.

Table III

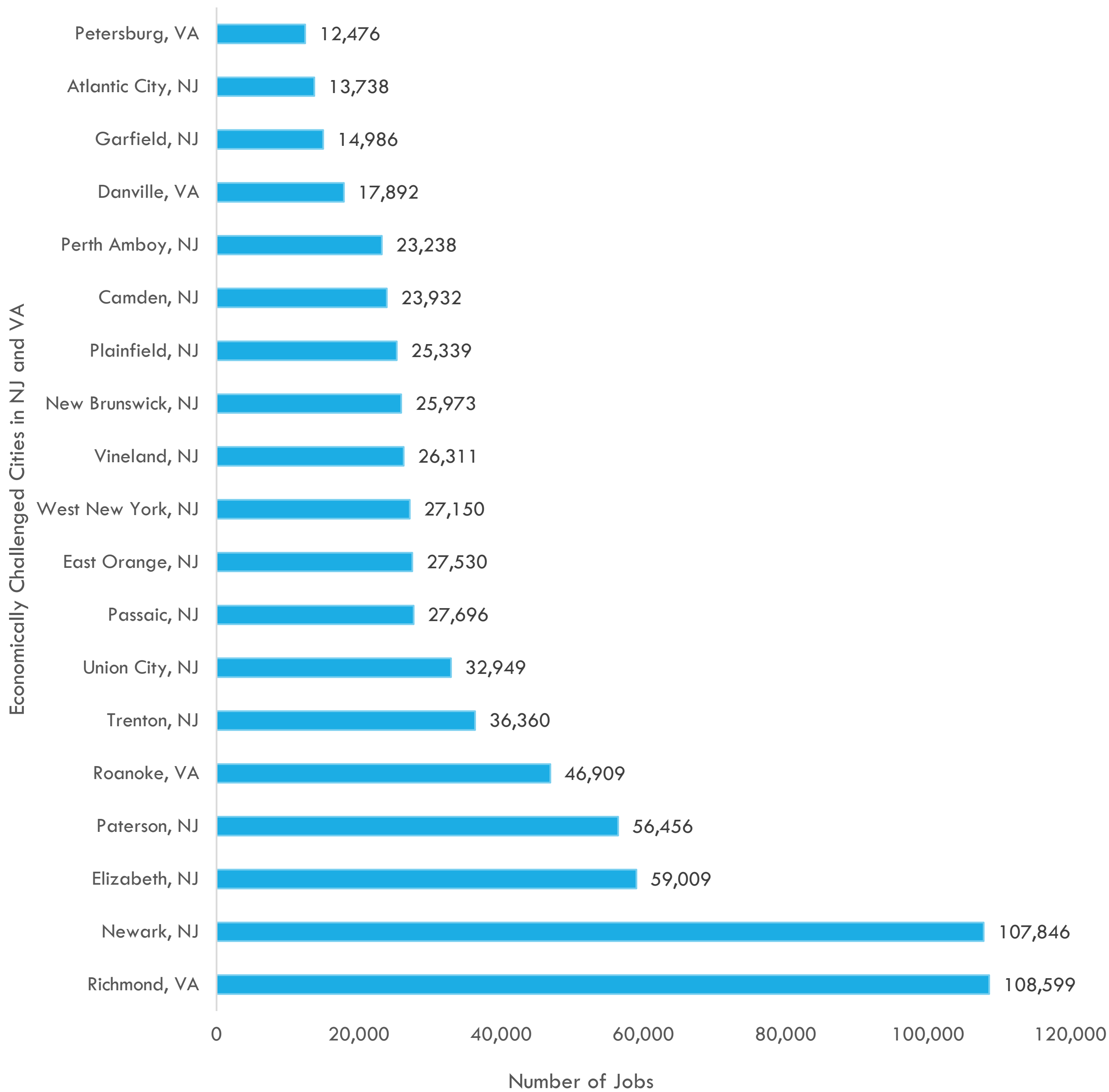
Real GDP in Select Economically Challenged Cities[xvii]

Source: BEA Gross Domestic Product by Metropolitan Area, 2016



As the preceding table highlights, economically challenged cities generate significant economic output. And, the table only calculates some of the cities GDP as we could only calculate the measure for cities that fell within an officially designated MSA. Taken together, Virginia challenged cities (Richmond and Roanoke) generate over $35.5 billion in GDP. And challenged cities' economic output in Virginia is fully 7 percent of statewide GDP ($492 billion). New Jersey's economically challenged cities account for $37 billion in economic output which is a sizeable 6.4 percent of statewide GDP.

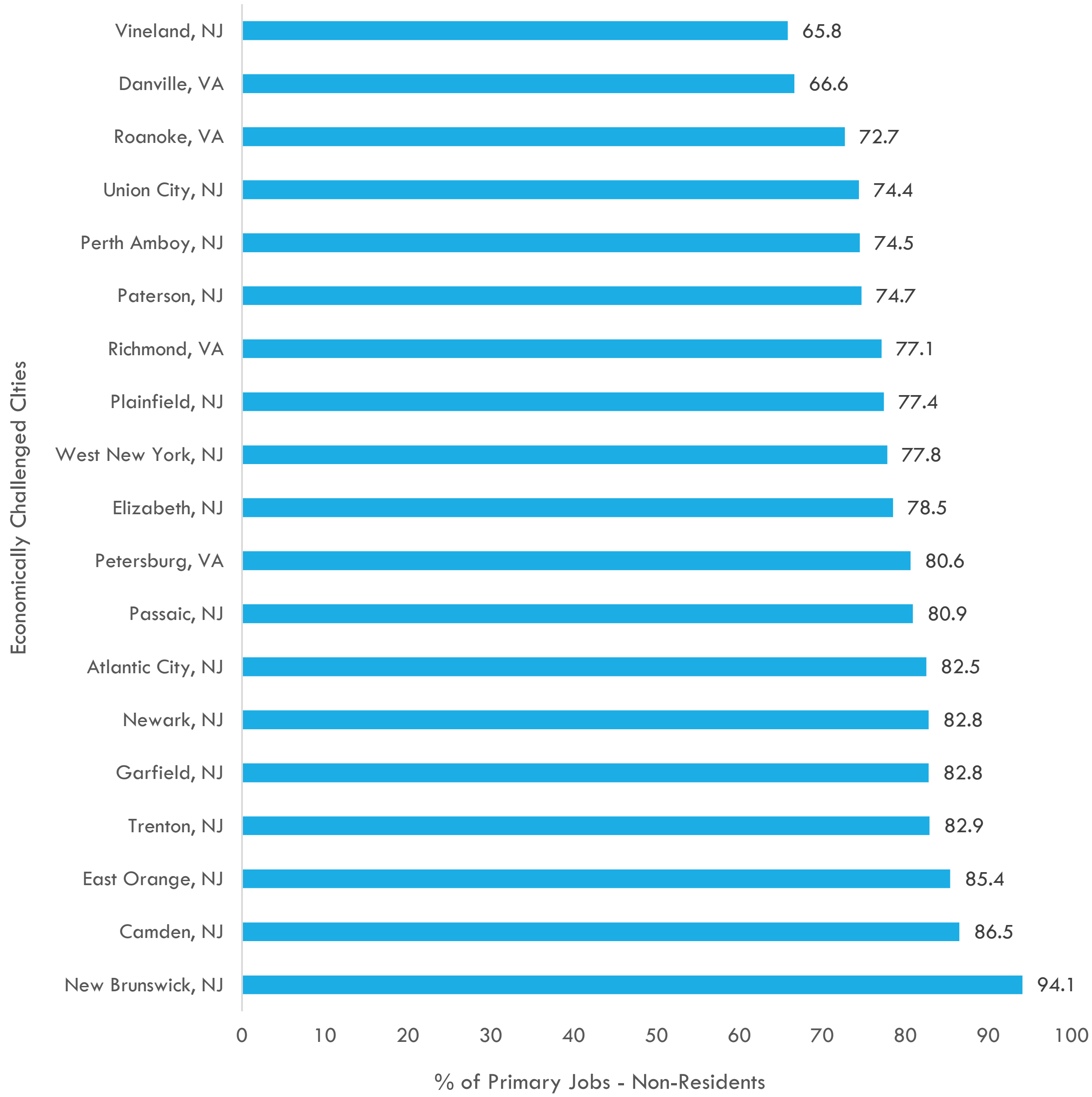
Table IV
Economically Challenged Cities as Employment Centers
Source: Bureau of Labor Statistics 2016 annual averages



New Jersey's economically challenged cities are home to nearly 530,000 jobs or 13 percent of overall employment in the state. Virginia's cities accounted for over 185,000 or approximately 5 percent of overall employment in the Commonwealth.

Table V
Non-Resident Employment in Economically Challenged Cities, 2015

Source: U.S. Census Bureau. (2015). LEHD Origin-Destination Employment Statistics (2002-2015). Washington, DC: U.S. Census Bureau, Longitudinal-Employer Household Dynamics Program at https://onthemap.ces.census.gov. LODES 7.3

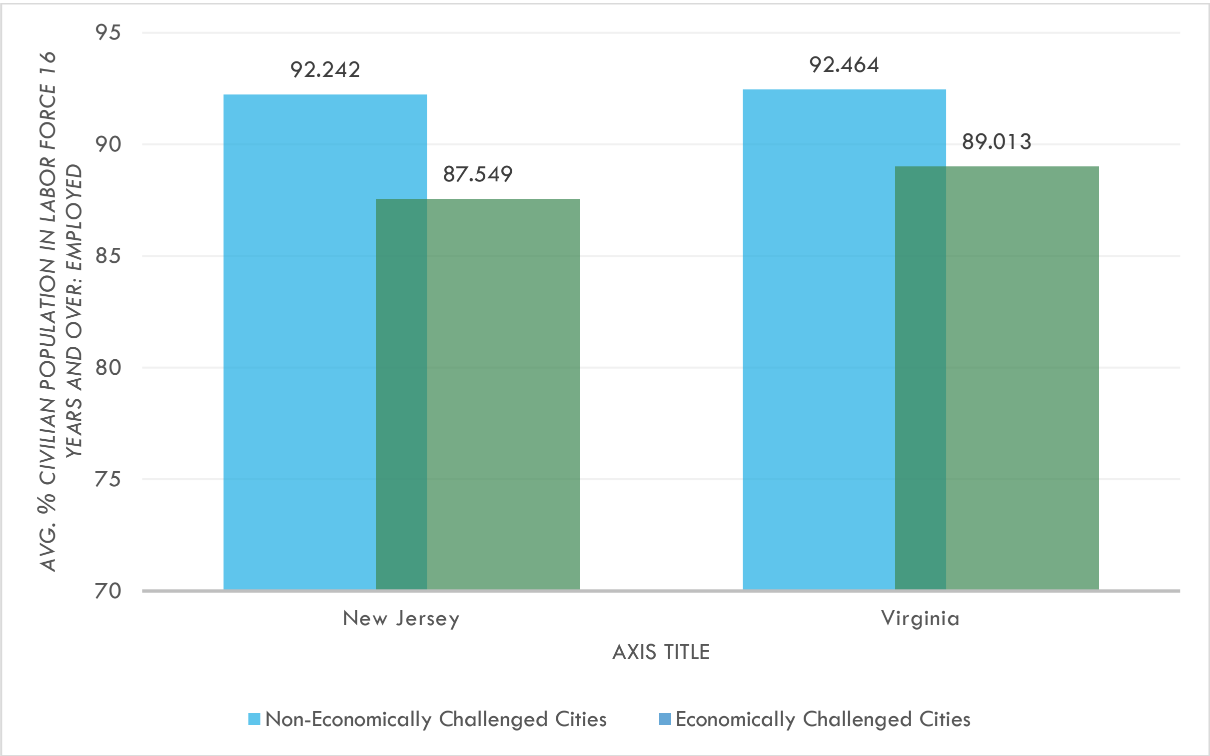


And these jobs do not just benefit the residents of these cities. In every one of the economically challenged cities in both New Jersey and Virginia, the vast majority—in all but two cities—non-residents held more than 70 percent. On average, 78.8 percent of jobs in these cities were held by non-residents: directly showing the importance of these cities to the regional and state economies.

Table VI

Employment Participation in Economically Challenged Cities

Source: American Community Survey (5-year estimates) (2011-2015)



Labor market participation in both states and in both economically challenged and non-challenged cities is nearly identical. In New Jersey it is just above 90 percent and in Virginia just below 90 percent, spotlighting the high employment rates in both states.

Table VII
Income (per capita) in Economically Challenged Cities

Source: American Community Survey (5-year estimates) (2011-2015)

The main difference between challenged and non-challenged cities is per capita income. An assessment of all cities with populations above 30,000 in both New Jersey and Virginia reflect a very different employment outlook for workers. In New Jersey, per capita income for residents of economically challenged cities is about 50 percent less than it is for residents in other cities. In Virginia, per capita income in economically challenged cities is about 20 percent less than it is for residents of other cities.

Assessment of State-City Partnerships in New Jersey

New Jersey may be the single best place to examine state-city relations. The Garden State has long been the most urbanized and densely populated in America with sizeable cities and towns dotting the shoreline, bordering Philadelphia and New York City, and a number of port and industrial cities throughout the state.

In support of this urban tradition is an 80 year effort of fiscal monitoring and assistance that is widely seen as one of the most targeted approaches in the country. According to Pew, New Jersey is one of only eight states with both intensive budget analysis at the state level and an early warning system that triggers state intervention.[xviii] But more than just scrutiny, New Jersey also provides significant funding for economically and fiscally distressed cities.

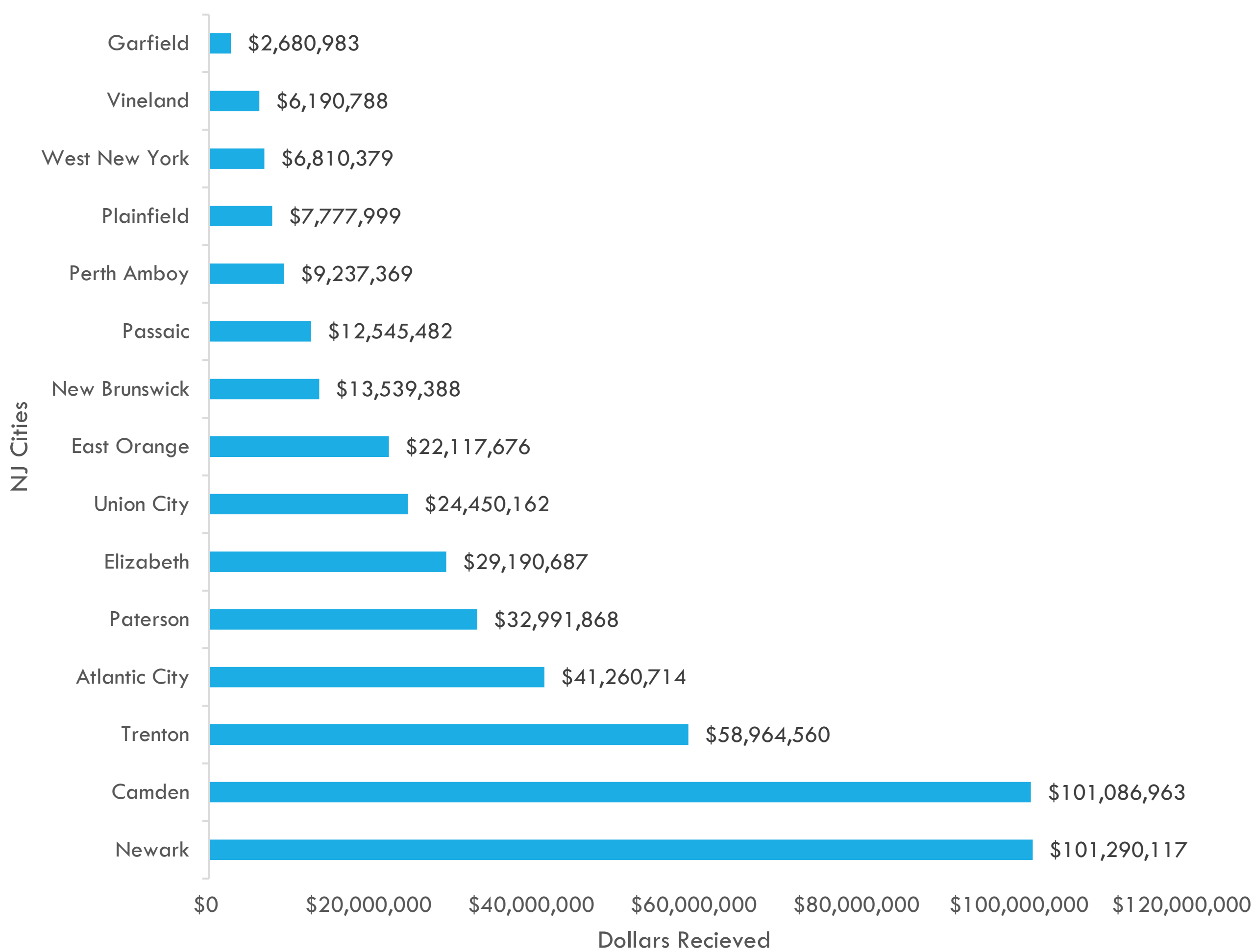
Beginning in 1986, the State launched a 'distressed cities' program that initially assisted 13 cities feeling the effects of acute drops in revenue. The effort began under Republican Governor Thomas Kean and was a response to the long running plight of cities recovering from the late 1960s riots that broke out in Newark and other major cities.

New Jersey cities are dependent on property tax revenue and after many years of middle class flight, a few major cities began to fail. The distressed cities program aimed to address the immediate needs of cities such as Paterson, Camden and Trenton, and keep local property taxes stable. The program began with just $8 million dollars allocated by formula and within five short years it increased to $70 million going to 50 cities.

The distressed cities program was established as part of the Division of Local Government Services in the Department of Community Affairs and historically has offered more than just aid, as it was intended to provide genuine state-level guidance. When the program began, auditors would review all financial and budget information and spend time in the cities encouraging sound fiscal planning.

This level of focus and technical assistance began to wane under subsequent governors beginning with Christine Todd Whitman in 1994. But the financial commitment to challenged cities never receded as Whitman and other governors created new aid programs that funded schools, police and fire departments. As recently as 2017, $1.4 billion was distributed through municipal state aid. Not surprisingly, $470 million has gone to the 15 New Jersey cities defined as economically challenged.

Table VIII
2017 Transitional Aid to Economically Challenged Cities



At inception, State support for challenged cities not only provided relief, it was widely seen as helping cities pivot to a true recovery. Marc Pfeiffer, one of the original staffers at the Local Government Service Agency and now a director at the Bloustein Local Government Research Center at Rutgers University, claims "these programs made a real difference. As of today you have far fewer cities in economic distress. Places like Camden and Newark have a path and others have actually exited the program. This comes (partly) from the focus and the aid the cities received."

No one interviewed for this report suggests that there still isn't significant need in the state including some of the original distressed cities such as Paterson and Trenton, but those and many other cities would be in a far worse position without the long-running state support. Still, the economic and fiscal challenges in New Jersey cities remain real.

And, in more recent years the aid has been described as "life support" with little of the original strategic or budgetary guidance at the state level. Most notable is the injection of politics in many recent urban aid allocations.

Atlantic City is an instructive case in point. When examining fiscal and budgetary health in New Jersey, it is readily apparent that the single most important factor is "ratables." This phrase refers to property that provides the base for tax revenue for local government—in the Garden State that is everything as property tax is by far the single largest revenue stream for cities and towns.

Unlike most New Jersey municipalities, historically, Atlantic City did not receive state transitional aid. In the late 1970's, the State authorized legalized gambling and casinos—which quickly yielded a sizable ratables base that drove municipal revenues. Particularly in the last 10-15 years, that revenue stream has been challenged as more and more locales along the East Coast sanctioned gaming. As casinos in Atlantic City began to falter, in just a five year stretch from 2010 to 2015, the assessed value of casinos in the City lost over two-thirds of assessed value, dropping from $20.5 billion to $6.5 billion. Just as damaging to local finances was a series of contested assessments that the casinos made that created $500 million in one-time debt that the City was forced to repay. The impact was tremendous: the city's credit rating was dropped to "junk bond" status and, across the board, drastic cuts to personnel and services were imposed. Beginning in late 2013, the City's workforce was reduced from 1,323 to 965; 120 vehicles were removed from the city fleet; and $7 million in surplus real estate was auctioned off. These changes were just the tip of the iceberg as many more measures were put into place, but the combination still wasn't enough to maintain fiscal sustainability.

The take-away is lots of money without true partnership is, at best, something that leads to solvency but not long-term solutions.

All parties agreed that the State *could* play a central role in Atlantic City's recovery; however, there were significantly different views as to the precise and appropriate role that the State *should* play. Finally, in spring 2016, a somewhat chaotic and politically-charged legislative process played out and resulted in the State passing legislation (and the Governor signing the legislation) that set the path and terms for a State-led takeover of Atlantic City's municipal operations. At present, the City's finances appear to have somewhat stabilized as the State has helped to implement significant casino-related debt relief actions. However, the State's relationship with this iconic city remains a central point of contention among many—both in Atlantic City and across the State. The State's incoming Governor has signaled a potential shift in approach—not only in Atlantic City, but with municipalities across the State—to transition from a more paternalistic relationship to a more collaborative relationship.

Atlantic City is starting to recover, but the road ahead is still murky. The take-away from this story is lots of money without true partnership is, at best, something that leads to solvency but not long-term solutions.

The conclusion in recent years is that the oversight and aid for economically challenged cities in New Jersey has rarely been accompanied with a strategic vision or urban strategy. One former state official notes, "We used to be more proactive. Now the orientation is almost purely reactive. More about dispensing aid than really helping cities." There are also a number of urban advocates who note that state aid may be progressive but on a range of other issues such as housing, transportation and economic development, the state has rarely advanced programs that provide genuine or broad-based support locally. Jon Whiten of the New Jersey Policy Perspective said, "although generous, the aid seems heavy handed and unconnected to other programs; it is certainly not a (partnership)."

Assessment of State-City Partnerships in Virginia

Up until 2016, Virginia did little to nothing to monitor or directly help cities struggling with fiscal distress. The Pew Charitable Trusts 50-state survey referenced earlier in this report did not even rate Virginia as a state that assessed local economic conditions at all. And, the state had no mechanism or authority to do anything if a city faced serious fiscal threats. Unlike Michigan or Pennsylvania, there are no triggers that enable the state to take over a local government or demand new fiscal measures. Evan Feinman, Virginia's Executive Director of the Tobacco Region Revitalization Commission said, "there is just no formal mechanism to work with a locality in distress. No codified triggers or red flags for relevant state authorities."

In reality, the Commonwealth had little history to suggest a need to be more involved in local government finances. As long-time Finance Secretary Ric Brown noted in a *Washington Post* article, "As a rule, most Virginia localities are in pretty good shape."[xix] The entire state is known as fiscally conservative and Virginia has held a AAA bond rating since 1938, longer than any other state.

Virginia has begun to move in a different direction. The main agency has been re-staffed and is now advancing a more broad-based approach.

In 2016, the near fiscal collapse of Petersburg—one of four economically challenged cities in the Commonwealth—led to changes in the state's approach. Beginning around 2012, the city of 32,000 began to spend down all of its reserve funding yet kept allocating dollars for new projects. It didn't take long before the city could no longer pay off its debt nor seek new credit.

At the request of the City, the Commonwealth deployed a team of financial experts to review the City's books. The experts reached two troubling findings: the City had overspent its budget by $16 million and its FY 2017 budget was $12 million out of balance. As the Commonwealth technical assistance team was unearthing past misspending, the City commissioned an emergency plan to balance its current year budget so that it could seek short term financing. The plan included significant tax increases and targeted reductions in funding for education and City services. The City also brought in an outside emergency manager to run the City on a day-to-day basis.

Petersburg's near miss was certainly a wake-up call for state leaders. In 2017, the General Assembly took a series of actions to begin to assess and assist fiscally challenged cities. The State set aside $500,000 for future technical assistance for fiscally distressed cities and created a fiscal monitoring program to be led by the Auditor of Public Accounts to serve as an early warning system in case other local governments were heading toward the fiscal brink.

Beyond fiscal assistance, the Commonwealth is also taking steps to improve its economic development programming—a critical need for all cities. Historically, Virginia's economic development efforts were centered on tax incentives and packages for large corporations. A 2016 legislative audit found poor oversight, accountability and performance at the quasi-independent development authority charged with economic development: only 55 percent of 133 completed projects in one program area met or exceeded the state's job creation requirements.

Virginia has begun to move in a different direction. The main agency, the Virginia Economic Development Partnership has been re-staffed and is now advancing a more broad-based approach that includes customized job training, addressing the tax burden on new business investments and remaking the state's overall marketing to business. Perhaps most impactful will be a partnership effort with the Department of Housing and Community Development on a new program called GO Virginia.

Now in its second year, the GO Virginia program is the Commonwealth's primary effort to promote regional collaboration and economic development. The Commonwealth is divided into nine regions and each region is required to establish a regional board made of residents from local government, higher education, major businesses in the region, and other stakeholders. The groups are chosen to be representative across age, race, and gender. The aim is to get an honest assessment of what assets the region has, where the businesses are located, and which industries have growth potential, in order to see what the opportunities and barriers are. Each of the regions have established their councils and completed their initial assessments.

Based on the assessments, the next phase will involve identifying projects to address the issues that were found and building upon the strengths of the region. The projects will have to be a collaboration of at least two localities in the region, and will have to be approved by the Commonwealth. The Governor and Secretary of Commerce, among others, have responsibility for reading and approving the project plans. With a total of $29 million set aside for the program, a portion of the funding will be divided among the regions and matched by local, federal, and private funds; and used for implementing the plans.

The development of region-specific economic plans points to the need for a tailored approach to economically challenged cities. This all makes good sense in a state with a very diverse set of locales. As Joseph Schilling of the Urban Institute and formerly a Virginia Tech professor notes, "There is no one urban agenda in the Commonwealth and that would be hard. This is a very diverse state. There are few issues where you can get all cities lined up. Roanoke still has ties to its industrial and agriculture past but has an emerging hip cultural community taking shape; many coastal cities are tied to military installations and Northern Virginia relies heavily on federal agency spending." Indeed, both New Jersey and Virginia reflect two states with a rich tapestry of cities that have and can continue to benefit from state support and partnership.

CONCLUSION AND RECOMMENDATIONS

Economically challenged cities need partners and support to increase their competitiveness and opportunity for the people who live there. States can play a critical role, but successful partnerships require clarity of strategy and vision in order to be effective.

Some states have allocated significant aid to economically challenged cities. And while few mayors or city councils would turn down additional funding from the state, more dollars alone are not the key to better partnership. Instead, states need to work with economically challenged cities to identify priority strategies for economic competitiveness, channel current funding and policies to support those priorities and provide technical assistance where cities may lack the capacity to pursue those strategies on their own.

What's needed at the outset of a new administration is real clarity on the importance of cities generally, and those that are economically challenged in particular.

As Michael Pagano, notes, "the more we know about places, and the more we appreciate the variation across the urban landscape, the better positioned states will be to address the underlying challenges of each city or micro-economy."

Clearly, there is no single, one-size-fits-all policy or program that can be applied to every economically challenged city in New Jersey or Virginia…or in any state. Instead, states and cities need to be deliberate in working together. For the Governors-elect in New Jersey and Virginia and in all states, two approaches merit consideration.

I. Create a Statewide Framework for Urban Partnerships

A state strategy needs to start with a clear framework applied to all economically challenged cities. As we have stressed in this report each city is unique and must have its own path to prosperity. But at the macro level there is a need for clarity as to what policy is for economically challenged cities. The vast majority of states have no policy other than an ad-hoc response when cities find themselves in distress. And, even in a state like New Jersey that has a long history of assisting local government, policy has fluctuated with each new administration. What's needed at the outset of a new administration is real clarity on the importance of cities generally, and those that are economically challenged in particular.

Connected to this framework is a commitment to align resources and agencies that interface with local government. This is not about getting every agency in a room to redefine and realign programs and services. But it does mean program goals and delivery are coordinated around major program areas such as municipal aid and economic development. Virginia is in an excellent position to do just that as they are creating the first state monitoring and assistance program at the same time that a new regional economic development initiative is being advanced. The goals for cities to improve local finances should be concretely aligned with how those cities aim to improve the local business climate and state efforts should be supportive of that alignment.

II. Establish a State Resource Network

When cities need state assistance that assistance must be tailored to local needs, and often this means gaining help from outside organizations and enterprises that can deliver the exact mix of consulting, advice, plans and products that local leaders need to prosper for years to come. This is not about a 'continued' aid program, but as New Jersey labeled it 'transitional aid'—aid that enables localities to learn for themselves how to stabilize shaky finances and execute on feasible growth plans.

States and cities need to be deliberate in working together.

That is what is being made available through the newly created State Resource Network competition. As an outgrowth of the National Resource Network's efforts a new initiative has been established to foster state-city partnerships that address core economic, fiscal and related challenges. Participating states will receive funding and support from the network to create a State Resource Network with $2 million in funds from the Laura and John Arnold Foundation. Massachusetts launched a state network in 2015 and California just announced one in November.

Examples of projects that can be created through a State Resource Network could include:

- Creating a long term financial plan or working to ensure balanced budgets;
- Developing a comprehensive affordable housing plan to address a shortage of options for low income residents;
- Identifying innovative workforce development strategies and roadmaps that connect hard-to employ residents to jobs in high-growth industries; and
- Helping to improve city service delivery in public works, education, or public safety, based on benchmarking and national best practices.

The State Resource Network is one option immediately available for states. But whether states choose this path or an alternative, we highly recommend they form some type of assistance program that is both customized and focused on imparting capacity localities need to control and advance their own economic destiny.

ENDNOTES

[i] Bruce Katz and Jennifer Bradley, The Metropolitan Revolution (Washington, DC: Brookings Institution Press, 2013.
[ii] We want to be clear that we use the term "city" interchangeably throughout this report to also refer to a municipality, town and other forms of local government.
[iii] Richard Florida, The New Urban Crisis (New York: Basic Books, 2017).
[iv] As reported by special edition section of The *Economist*, "Left in the Lurch: Globalization has Marginalized Many Regions in the Rich World" (London: October, 21, 2017).
[v] Mark Muro and Jacob Whiton, "Big, Small Cities—and the Gaps" (Washington, DC: Brookings Institution Metro Center, October 17, 2017).
[vi] Economic Innovation Group, "Dynamism in Retreat: Consequences for Regions, Markets and Workers" Washington, DC: Economic Innovations Group, February, 2017).
[vii] Neil Kleiman, "Hidden in Plain Sight: Why California's Economically Challenged Cities Matter" (Washington, DC: National Resource Network, November, 2015).
[viii] Neil Kleiman, Liza Getsinger, Nancy Pindus and Erika Poethig, "Striking a (Local) Grand Bargain: How Cities and Anchor Institutions Can Work Together to Drive Growth and Prosperity" Washington, DC: National Resource Network, September, 2017.
[ix] Justin McCarthy, "Americans Still More Trusting in Local Over State Government" (Washington, DC: Gallup, September 19, 2016).
[x] Charles Frug and David Barron, City Bound: How States Stifle Urban Innovation, (New York: Cornell University Press, 2008). Page, 44.
[xi] Pew Charitable Trusts, "State Strategies to Detect Local Fiscal Distress: How States Assess and Monitor the Financial Health of Local Governments" (Washington, DC: September, 2016).
[xii] Immortalized in a October 30, 1975 *Daily News* headline that read: Ford to City: Drop Dead.
[xiii] Michael Pagano et al, "The Fiscal Policy Space of Cities; A Comprehensive Framework for City Fiscal Decision-Making" (Chicago: University of Illinois at Chicago, September, 8, 2016).
[xiv] Alan Mallach, "State Government and Urban Revitalization: How States Can Foster Stronger, More Inclusive Cities" (Cambridge: Lincoln Institute of Land Policy, April, 2017).
[xv] Ibid.
[xvi] In this report "city" refers to an incorporated municipality that is urban in nature. This could and does include areas designated as "townships" but does not include "metros" which contain multiple municipal governments.
[xvii] The GDP at the city level was derived by inferring municipal GDP from the Bureau of Economic Analysis (BEA) GDP-by-Metropolitan-Area Statistics (2016). Longitudinal Employer-Household Dynamics (LEHD) data sourced from the On the Map Tool provide job counts by census designated place and are used as the basis for calculating a GDP from a Metropolitan Statistical Area (MSA) to the individual cities within that MSA.
[xviii] Pew Charitable Trusts, "State Strategies to Detect Local Fiscal Distress: How States Assess and Monitor the Financial Health of Local Governments" (Washington, DC: September, 2016).
[xix] Gregory S. Schneider, "City on the Brink: Petersburg Can't Pay its Bills, and Time is Running Out" (Washington, DC: Washington Post, September 6, 2016).