The Untapped Urban Market:
Attracting Business to the Inner City
Buffalo Branch
Federal Reserve Bank of New York
Remarks by
Robert D Bannister
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OPENING

Thank you. At the outset, I want to express my gratitude to the Buffalo Branch of the Federal Reserve Bank of New York for sponsoring this conference, "The Untapped Urban Market: Attracting Business to the Inner City." It is timely, appropriate and necessary.

Hosting this conference in Buffalo is truly fitting. This City and region, perhaps more than any other, represents both the problems of the past and promise for the future, when it comes to urban revitalization.

SETTING THE STAGE:

For generations the citizens of Western New York have witnessed urban atrophy. A city that hosted the fifth largest economy in the United States at the turn of the last century now has half the population it did at its high-water mark. The exodus of jobs/population has continued unabated for almost half a century. We did not need the 2000 census to confirm that fact. The headlines remind us.

- "Area's population exodus continues" -April 15, 1999
- "Youthful migration at core do WNY population decline" –April 24, 1999
- "City's population continues to erode in the '90s" –July 2, 1999
- "Buffalo, Rochester missing out on job growth" –July 25, 1999
- "Buffalo, Falls on list of boom-less cities" –November 5, 1999
- "Assembly reports boom has left WNY far behind" –February 7, 2000
- "Population losses plague much of Northeast" –March 22, 2001
- "Population slide gaining speed" –March 22, 2001
- "Prosperity still eludes upstate" –March 23, 2001

Even the most hardened observer, however, had to take notice last month of the April 3rd Buffalo News article "Area tops US list for loss of population" which pointed out the Buffalo Niagara region lost a larger share of its population during the 1990s than any major metropolitan area in the nation. Period.

Buffalo need not be singled out. Under the "misery loves company banner" we have a lot of company. Niagara Falls, Rochester, Syracuse, Utica, Rome, Binghamton, for that matter, most of New York and much of the Northeast all face similar challenges of urban flight and urban blight.

FRAMING THE ISSUE:

I don't want to dwell on the problems of the past, and won't. But I think it is instructive to reflect on the factors contributing to urban decline…the reason why companies vote with their feet (or moving vans)…taking their employees with them… abandoning inner cities/urban areas for greener pastures. If government decision-makers fail to recognize the causes of urban decline they will be unable to come up with the cures. Let's briefly examine a few. Some point to America's fundamental shift from an industrial to a service-based economy, with the loss in steel production, the machine tool industry, etc., as the reason for the economic slide in Western New York.

According to the Federal Reserve Bank of New York's recent report, ["The Regional Economy of Upstate New York, Spring 2001"], between 1969 and 1999 New York State lost 52% of its manufacturing jobs. At first blush, the loss of manufacturing jobs looks to be a major culprit. However, when contrasted with national statistics we see a different picture. While New York was losing 52 percent of its manufacturing jobs, the nation as a whole lost only 9 percent, revealing a dramatic disproportionate loss for New York.

Other factors had to be driving the disinvestment, relocation and the exodus of jobs and business. Business leaders will point to one or all of what I refer to as the half dozen or so "highs"…high utility rates, high airfares, high labor costs, high crime rates, high inefficiency in the delivery of government services, and the grand daddy of them all, high taxes. [When I moved back to Western New York 32 months ago, the first month I was here the headline in the Buffalo News said it all: "Buffalo has highest tax rates in nation."]

OUTLINING SOLUTIONS:

These business deterrents have a common origin; they emanate from governmental programs and policies, at the local, state or federal level. As disappointing as that may sound, we can, however, take solace in the revelation that if government is part of the problem, then government can be part of the solution. By changing policies, creating new incentives and forming public/private partnerships, business and business investment can be enticed back to our inner cities and bring a renewed vibrancy and vitality with it.

City mayors working with city councils must work to improve schools, lower crime and streamline regulations making it easier for businesses to renovate/upgrade plants and equipment. County executives can work to streamline and consolidate government services, and reduce the tax burden. Governors can reduce the tax burden and create a healthy business environment. The most significant gains will be made where all local entities work together in a unified regional strategy, focused on retaining existing and attracting new business/investment ventures.

This is not rocket science. It is dealing with the basics. It means coming up with a vision and achieving that vision through a plan of action, a plan that plays to the strength of the area and region. It will take dedication, commitment, and focus. It will require local officials to do the politically incorrect thing of just saying "No," –i.e. not agreeing to support every request that comes in the door. If everything is treated as a priority, then nothing is a priority. Too often, mayors make the mistake of dividing up the scarce resource pie for every neighborhood, constituent group and political faction –resulting in ineffective cosmetic, Band-Aid remedies that have little chance of stabilizing neighborhoods, let alone revitalizing them. Resources need to be husbanded, leveraged, and targeted on projects/investments that will reach a critical mass and have the intended catalytic impact on entire neighborhoods and cities.

That is being done right here on the Niagara Frontier…and that is why I mentioned at the outset that we see such a promising future for Buffalo, western New York and all of Upstate. The vision, focus and essential coordination/cooperation is evident. The vision is twofold. First, recognizing Niagara Falls as an international tourist mecca that will attract over 20 million visitors annually within ten years. Spokes radiating out from Niagara Falls will provide tourists opportunities to enjoy the Finger Lakes/Adirondacks, Corning's world-renowned glass collection, Buffalo's art museums/Frank Lloyd Wright homes/Underground Railroad, Jamestown's Lucille Ball-Desi Arnez Museum and New York City's shopping. The second part of the vision is to utilize the strengths of the region with its unparalleled highways, port, rail, air, power generation and fiber optic infrastructure as the foundation for attracting business investments and jobs to bring a new vitality to the Niagara Frontier.

Governor Pataki, elected officials and private sector leaders are working together with a common purpose and shared vision. Significant strides are being made. State and local taxes have been lowered. Resources are being shared to improve schools and lower crime rates. Erie County is leading the way to make government more efficient and effective. Niagara Falls is developing a comprehensive development/re-development plan and has just opened one of the most impressive 'state of the art' high schools in the nation. Incentives provided from state and local governments are beginning to pay dividends; Buffalo's theater district has added a new vitality to downtown, Adelphia will soon be adding 1,000 new jobs in the city, a world class medical/research campus is taking shape, the waterfront development project is moving forward. The private sector has pooled resources through the Buffalo Niagara Enterprise to attract new jobs and investment. Fannie Mae is ahead of schedule in implementing our $2 billion investment plan for western and central New York.

FEDERAL ROLE:

There is another piece to putting the "urban puzzle" back together -- which I have not mentioned. It's not "all the King's horses and all the King's men"…close…its the Federal Government. There is some encouraging news. Washington seems to finally get it. There is a shift in the way Washington decision-makers are dealing with urban problems, i.e. provide some incentives, get out of the way and let state and local government go to work.

We can tell Humpty Dumpty help is on the way. Last year the Congress passed and the President signed into law the Community Renewal Tax Relief Act of 2000. Perhaps the most sweeping federal policy to assist distressed communities since UDAG. If you remember one thing from my remarks, remember Community Renewal Tax Relief Act.

This new law will:

1. Permit States to issue an additional $35 billion in tax exempt bonds for economic development, infrastructure and affordable housing.

2. Establish a new 30 percent tax credit for equity investments in selected Community Development Entities (CDEs). The tax credit is designed to spur investment in new and existing businesses, industrial development, retail centers, office space and day care centers in low-income neighborhoods. Every mayor seeking to restore blighted neighborhoods should be working to assure a CDE is set up in their cities.

A CDE is a corporation or partnership, which has the primary mission of serving or providing investment capital for low- income communities. [A CDE must have local residents on its governing board and be certified by the Department of the Treasury.]

3. Extend the benefits of existing Empowerment Zones through December 31, 2009 and establish nine new Empowerment Zones.

4. Increase in the state allocation of the Low-Income Housing Tax Credit to produce an additional 110,000 affordable apartment over the next five years.

5. The extension and modification of the brownfields remediation expensing through 2004.

6. Establish 40 "renewal communities." Those areas fortunate enough to be chosen, as "renewal communities" will receive powerful tax incentives designed to attract business investment in distressed neighborhoods.

   - A 15 percent employment credit for the first $15,000 of wages.
   - Zero capital gains rate on qualified assets held five years. (Qualified assets include stock, partnership interest or tangible property.)
   - Additional business expensing up to $35,000 and
   - A deduction for expenses associated with new construction or renovation of commercial buildings.

I think you will agree that these federal incentives, combined with state and local endorsements, will attract business and jobs to distressed areas. We are actively involved in efforts to obtain a "renewal community" for the Buffalo-Niagara area, which in our view is one of the most deserving areas in the nation.

The Secretary of HUD, in consultation with other Cabinet Secretaries, will select renewal communities in areas demonstrating general economic distress, pervasive poverty and high unemployment. The renewal communities must have a continuous boundary with a population not to exceed 200,000.

<u>PRIVATE SECTOR PARTICIPATION:</u>

While I alluded to government policies and programs being part of the problem of urban distress, they are by no means solely responsible. Accordingly, government should not be expected to provide all the answers and solutions. The private sector has a role, and an obligation to help. Businesses need to participate, invest, and take part in urban revitalization in the communities in which they reside. Fannie Mae is committed to doing its share. Partnership Offices throughout the country are undertaking bold, innovative initiatives to expand homeownership, stabilize and revitalize neighborhoods. Fannie Mae's Western and Central New York Partnership Office is focusing on three programs which will help entice business and families to urban centers.

The first program is through our Down Payment Assistance Investment Note (DPAIN). We help mayors leverage their limited resources to expand homeownership in city neighborhoods. [A partnership between City of Albany Mayor Jennings, HSBC and Fannie Mae will leverage the city's $100,000 collateral to a $1 million note to attract families to locate in downtown Albany.] This program is designed to encourage middle-income families to move back to urban centers and places no income restriction on eligible homebuyers.

Second, with our lending partners, we work with employers to offer financial incentives to their employees to become homeowners. While an important tool for employee retention and recruitment, the Employer Assisted Housing (EAH) programs have an added value/benefit. They help build strong neighborhoods. Expanding homeownership in inner city neighborhoods has demonstrated its role in stabilizing and preserving neighborhoods…a fundamental first step in attracting new business and investment to our inner cities. Example: $107,000 vs. $4,300 equity/wealth for homeowners vs. renters.

Finally, our American Communities Fund.

The ACF is one of America's leading private-capital, community development investment funds. Since 1996, the ACF has pursued its mission to provide debt and equity financing to transform neighborhoods throughout the country. ACF is a catalyst for change. We aim to significantly improve the communities that we make a commitment to transform. We work closely with our partners to leverage the resources of the financial services industry, for-profit and nonprofit developers, and federal, state and local governments.

An ACF investment must possess a few basic elements. Our investments must have a significant catalytic impact on a community, the projects must be consistent with the community development /redevelopment priorities of local officials and strong partners, with experience, have to be involved. In keeping with our mission the projects should have a housing and/or neighborhood retail focus.

Collectively, these three programs will play a significant role in attracting new business to the inner cities.

We are all in this mission together, we stand ready to work with all our partners to expand homeownership and bring a new vitality to the urban centers throughout Upstate New York. [I saw them tearing a building down]

Thank you.