

## **HAMPTON ROADS PARTNERSHIP Condition and Needs of Virginia's Cities**

### **ARE CITIES IMPORTANT?**

- A. Cities are extremely important in Virginia. We are a highly urbanized state and most of our economy is located in metropolitan centers. In fact, the metropolitan regions account for 85% of Virginia's economic growth.
  
- B. Cities are a region's most visible symbol.
  
- C. Cities serve vital economic functions:
  - 1. Centers of innovation and advanced services
  - 2. Transportation and trade
  - 3. Education
  - 4. Culture
  - 5. Conventions
  - 6. Sports
  - 7. Entertainment
  - 8. Tourism
  - 9. Labor and consumer markets

All of these functions are vital to maintaining the global competitiveness and growth of industry clusters that operate throughout the region.

- D. Cities are vibrant hubs of metropolitan regions so there is a direct relationship between the health of the cities and the prosperity of the region. This is becoming even more important because regions are now the primary economic

competitors in the new global economy. The real boundaries of this country are those of commerce, not those of political division. Therefore, there is no good strategy related to just one community or two as to how it will survive and thrive, it must be regionally based and all communities of the region must be strong if the region is to be strong.

1. The regions are the competing entities, both nationally and internationally. (Lester Thurow)
2. Regions drive local, state, national and global economies. It takes the whole region to live the good life. (William R. Dodge)
3. America's future is the future of its city-states – the 314 metropolitan regions where 80 percent of us live. When metro areas thrive, the nation thrives. (Neil Pierce)
4. Economic activity occurs in a regional context, and policy makers ignore this fact at their peril. (Dr. Marc Weiss)

E. The inescapable oneness of each region covers a breathtaking range of functions

1. Success or failure on any one of these fronts ricochets among all the communities of a metropolitan region.
2. The higher a region's internal disparities by jurisdiction, by race, and by income group, the less its economy can be competitive.

F. Cities are also very important because there has been a lot of research that shows suburbs are better off in general when the city was better off.

1. Political boundaries do not seal off problems.
2. The suburbs suffer in the long run in terms of income growth and job growth where an entire region's competitive position is undermined by a failing urban education system and the image problems generated by urban deterioration.
3. There is growing evidence from all over the country of this conclusion. The point is that there are real and serious adverse consequences for apparently thriving suburban areas if the central city is in decline. For one, the problems always spread. Building walls or digging moats doesn't work. Neither does moving farther and farther from the central city. Secondly, the resources of a viable central city are a key part of the attractiveness of a region and cannot be replaced. Efforts at replicating such resources absorb enormous public costs and end up making the region less competitive.
4. The Fannie Mae Foundation recently published The American Metropolis at Century's End, Past and Future Influences. In its list of the top ten influences of the future, it includes deterioration of inner suburbs. It further explains, "these first-ring suburbs" once defined the outer edge of the metropolis. But now they are far from the affluent edge and are considered too close to the central city and its problems. They usually lack the tax base and political clout to deal with the social problems unexpectedly thrust upon them. This continued deterioration will further divide the American metropolis. As the affluent move even further out, the poor will find themselves in greater isolation in the inner cities and adjacent first ring suburbs.

## HOW ARE VIRGINIA'S CITIES DOING?

- A. Report on the Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Counties and Cities, 2000/2001 as published by The Commission on Local Government, Commonwealth of Virginia, April 2003 details the following:

Composite Fiscal Stress Index Scores and Classification by Locality.

Those receiving a designation of "High Stress":

Cities	17 out of 40
Counties	4 out of 95

- B. A review of the composite index of local ability to pay as used in determining the amount of education funding shows significant decline in the past ten years for the fifteen largest cities.
- C. Examining the percentage of students in free and reduced lunch programs in the fifteen largest cities during the past twelve years is quite revealing.
- D. Seven of our cities have less than 10% of their land available for development. Very soon they will be fully developed with costly redevelopment their only option. A footnote to this is the fact 22% (FY2000) of the fair market value of land in Virginia's cities is tax exempt.

## WHAT IS INFLUENCING FISCAL STRESS?

- A. Cities face the real threat of concentrated poverty and statistics clearly reflect it is becoming more of a reality. Under present arrangements, cities must finance and manage, not only the usual array of broad based local services, but where necessary, offer critical services to the poor. The latter services are costly and they consume resources that make it harder to provide high quality educational and other services for the rest of the population. Because most cities cannot limit or determine their population mix, the particular profile of businesses and households that reside within their boundaries will determine whether or not the city is a desirable place to live.
- B. The most obvious and urgent impact of having large concentrations of the poor is on the affected municipalities' quality of life. The term, while vague and difficult to precisely define, measures three things: the attractiveness, functional adequacy, and cleanliness of the physical environment (streets, sewers, parks, housing and so on); the quality of local education and other ordinary municipal services; and the level of civic order ( the extent of crime, graffiti, drugs, homelessness or other real and perceived threats).
- C. The results of these issues have led to a mismatch of revenue capacity and service responsibility for the localities.
- D. If we accept these ideals of a city's importance and its relationship to, and influence on, the prosperity of a region, then we must focus on the challenges facing our cities today.
- E. HUD report, State of the Cities 1998, had several main findings.
  - 1. Despite recent gains, cities still face the threat of concentrated poverty and middle class flight that began two decades ago.

2. Cities face three fundamental opportunity gaps – in jobs, education, and housing – that are critical to reducing poverty and attracting and retaining middle-class families.

F. A Brookings Institution 1998 Policy Brief, Reviving Cities: Think Metropolitan, expressed the following:

1. Perhaps the worst thing that federal and state policies have done to cities and older suburbs has been to concentrate populations of poor people within their borders.
2. Cities and older suburbs are home to a disproportional share of a region's poor people.
3. Concentrated poverty is directly related to higher crime, failing schools, and additional demands on services. Addressing these challenges leads to higher taxes. Taken together, these conditions compel businesses and residents to leave for new low-tax suburbs, and keep new businesses and residents from moving in. The flight of people and firms further concentrates poverty. And so the cycle continues.

G. Said another way, in a June 1998 article in the US News and World Report special report on "Cities That Work":

1. There is a continuing dismal and fundamental trend – middle class families which are "the bedrock of a stable community," according to the Department of Housing and Urban Development's most recent "State of the Cities" report – continue to leave; suburbs contain 75% more families than cities, compared with 25% more in 1970. For every American who moved to a city in that

period, four relocated to a suburb. As those with means flee the city's high taxes and poor schools and services, urban poverty has worsened.

H. Summary – keep focused on the basic fairness considerations. The negative consequences of population mix, the resulting demands, and the available revenue sources to address such are increasing. One only has to consider the compelling evidence concerning the impact of a deterioration of the core, a growing deterioration of the inner suburbs, the link between the well-being of the core cities to the well-being of the suburbs, and the overall competitiveness of the region and the state to conclude something must be done differently.

1. Because most cities cannot limit or determine their population mix, the particular profile of businesses and households that reside within their boundaries will determine whether or not the city is a desirable place to live.
2. The well-being and service capabilities of metropolitan localities should not be hostage to their economic, social or demographic profiles over which they have no control.
3. The structure of state government through its annexation and independence restrictions, limits localities' ability to finance and manage, not only the usual array of broad based local services, but where necessary, offer critical services to the poor.

Consequently, from a fairness point, the costs of these services, which would include among others, jails, social services, health departments, Comprehensive Services Act and Community Services Boards, should be totally funded and managed at the state level.

## WHAT ARE RAMIFICATIONS OF FISCAL STRESS?

- A. It is in the realm of quality of life that the central cities are at the greatest disadvantage relative to their suburbs. The need to provide an expensive array of social, health and other services for the poor keeps cities from spending more money and attention on education, parks, roads and revitalization and redevelopment efforts. No longer should the well-being and service capabilities of metropolitan localities be hostage to their economic, social or demographic profiles.
  
- B. The future of the cities depends largely on their ability to retain the middle class. The things which influence this the most seem to be the education opportunities and the overall appearance and condition of the city.
  
- C. Several years ago David Rusk, the author of Cities Without Suburbs, testified to the Governor's Advisory Commission on the Revitalization of Virginia's Urban Areas. He made the following points:
  - 1. What happened to a central city depended literally on its ability to grow geographically. This is referred to as a city's elasticity. Elastic cities are able to expand their boundaries and capture much of their own suburban type growth within their expanded city limits.
  
  - 2. Inelastic cities are trapped within their city limits. They cannot capture any new growth.
  
  - 3. There is a point of no return in a city's life. Once past this point of no return, inelastic central cities, structured as they are structured, never reverse their decline.

4. Inelastic cities are so structured that they cannot adapt to, nor can they benefit from the massive demographic and economic trends shaping our urban areas. Inelastic cities are caught in a spiral of middle class flight, increasing poverty, rising crime, troubled schools, declining city services, failing businesses, rising tax rates and more middle class flight.
5. Obviously, Virginia's cities are inelastic due to their being independent of counties and an inability to annex.
6. In view of Rusk's comments, the fact that at least seven of Virginia's key cities are either fully developed or soon will be, takes on added significance. How will their tax base expand?

## WHAT STATE POLICIES AND/OR ACTIONS INFLUENCE THESE CONDITIONS?

- A. Virginia is the only state in which cities are independent of counties and thus there is not the usual division of service responsibilities between the state and local governments.
- B. Annexation laws are very restrictive.
  - 1. Areas which are doing better than Virginia's regions do boundaries differently, not the city and suburban split.
  - 2. In those states, which are doing well, the state assumes a role in a wide area of activities so that boundaries do not make a difference.
- C. Dillon Rule restricts powers of cities.
- D. Distrust issue which currently exists between state and local governments.
  - 1. Somehow, we must confront the opinions and attitudes of the local and state governments toward each other. Without doing so, we will never, as a state, reach our economic potential. It is very discouraging to hear legislative leaders consistently refer to localities as just another special interest or being "mismanaged" or that were it not for the Dillon Rule, the cities would be "bankrupt" or "go wild," or "the problem with giving localities a portion of the income tax receipts is that they wouldn't then incur pain," or localities have no business in public private partnerships without understanding the necessity for doing so. Monies sent to the localities are often referred to as "state aid" no matter what the purpose. This reference is very objectionable to local governments. As a result of the localities hearing these kinds of comments so much, they conclude

they are being communicated as a smoke screen to avoid conversations on the real issues. There probably are similar examples from the state's perspective. These feelings must be addressed.

E. "Aid to localities" is a misnomer. Legislators frequently boast 48 to 50 percent of the state's budget is returned to the localities as aid. Also, the amount of state aid has significantly increased during the ten year period ending in fiscal year 2000 and the percentage increase in state and local income over a twenty year period has been approximately the same. Questions should be asked.

1. What are the specific items and amounts included in aid to localities? What dictates how these funds are spent; federal regulation or law, state constitution, state law, state administrative rulings, or how much is actually unrestricted?
2. How much of the total delivery cost of the services receiving the state funds must be borne by the locality? What are the history and trends of this burden?
3. What has been the corresponding ability of the localities to absorb this burden? What has been the income growth rate experienced by the localities not just in total but by categories such as the older core cities, urban, suburban, suburbanizing and rural communities? How does the expenditure burden match with the income growth?
4. In the aid to localities, how much is truly unrestricted as to use?

If these kinds of questions are pursued, one will conclude "aid to localities" is an enormous misnomer. The overwhelming majority of the money included in these categories is for state regulated purposes. The remaining unrestricted funds are a very small percentage of a locality's budget. The locality's burden for these

services is increasing and particularly so in those cities where the revenue growth is much smaller than the state average growth for all localities. Obviously, this burden comes at the expense of having funds available to do the things necessary to retain the middle class, and make the community an attractive place to live and invest.

F. The state has grossly under funded the K-12 education Standards of Quality

	Estimated FY2004 State Cost Above FY2002 (In millions)
Tier 1 - Meeting existing SOQ costs	\$580
Tier 2 - Enhancing the Recognition of Instructional Personnel and At-Risk Preschool Funding. "Real world" conditions	<u>\$343 - \$428</u>
	\$923 - \$1008
Tier 3 - Debt Service Cost of Funds to Supplement Current State Funds for Capital Purposes and Teacher Salary Costs to Go Beyond Tier One	<u>\$87 - \$361</u>
Total Estimated Increased Cost All Three Tiers	<u>\$1010 - \$1369</u>

G. The locality's share of state mandated and regulated services have been increasing in significant amounts.

H. The State has reneged on its promise to fund HB599 by approximately \$610 million. The cities gave up their rights to annex.

I. Despite all that has been highlighted to this point, the State has had no hesitancy in attacking the localities revenue sources.

1. Personal property tax – Car tax.

- Actual FY03 reimbursements were \$856 million. FY04 budget is \$921 million.

Estimated cost in excess of \$1.5 billion annually would be required to repeal the personal property tax on all vehicles (Update 8-29-03).

2. Business license tax – (\$420 million in annual revenue – Update 8-29-03).

3. Sales tax as a result of E-commerce.

These are three of the top five sources of revenue for a city.

4. There were several attempts in the 03 General Assembly Session to cap real estate tax increases.

J. Also of significance has been the lack of support in helping the localities receive the full funding as promised when the special education legislation was passed by Congress in the seventies. Just in Hampton Roads, the difference in what was promised and what was received on an annual basis exceeded \$62 million in 1998. It is significantly more now. The localities have to absorb this.

## **WHO SHOULD BE A STRONG ADVOCATE FOR CHANGED STATE POLICIES AND/OR ACTIONS IN REGARD TO CITIES?**

- A. The counties/suburbs have a significant vested interest in the performance and well being of the cities.
1. Chief elected officials in the counties and suburbs acknowledge their communities are growing too fast. They believe their growth normally would go to the cities. Such growth is a major factor in the unwanted sprawl and costs of infrastructure to accommodate it.
  2. The resources of a viable central city are a key part of the attractiveness of a region and cannot be replaced. Efforts at replicating such resources absorb enormous public costs and end up making the region less competitive.
  3. The deterioration of inner suburbs, the “first ring,” has been identified as a top ten influencer of the future. These areas usually lack the tax base and political clout to deal with the social problems unexpectedly thrust upon them. The continued deterioration will further divide the American metropolis.
  4. Political boundaries do not seal off problems. They always spread.
  5. The cities usually contain the major employment centers. Many of the suburbs’ residents commute to another community to work. The continued viability of these employment centers is influenced by the overall condition of the community in which they are located.

## WHAT STATE POLICIES AND/OR ACTIONS SHOULD BE CHANGED?

- A. There must be a new partnership forged between the local and state governments that is more appropriate to the tremendous change we are experiencing. The State government should recognize how important the urban and metropolitan areas are to the economic future of Virginia and provide strong leadership in finding solutions. The underlying principles of the new policies should be as follows:
1. The recognition that, because most cities cannot limit or determine their population mix, the particular profile of businesses and householders that reside within their boundaries will determine whether or not the city is a desirable place to live.
  2. The acknowledgement that there currently exists a significant gap between revenue capacity and service responsibilities for the cities.
  3. The importance of retaining the middle class in the core cities.
- B. Specific actions in response to the underlying principles could be:
1. Full funding of the SOQ costs.
  2. The State paying the total extraordinary human needs costs for those services it regulates. This would include city and regional jails, social services, Comprehensive Services Act, preventive medicine and Community Services Boards. There are strong arguments that programs of income and health assistance, as well as poverty and child related social services, should be totally funded and managed at the state level,

their benefits available to eligible householders without regard to place of residence.

These suggestions are in opposition to other potential solutions which have been advocated including some form of revenue sharing. The discussion concerning this moves quickly to the controversial debate as to how much, where do they work, what is the wealth base of a community, etc. When one goes down this path, you lose sight of the basic fairness considerations concerning the cities having no control of who lives in them and the corresponding financial burden that is often imposed on them as a result.

## **CONCLUSION**

**IN THE GLOBAL ECONOMY, FIRMS CHOOSE REGIONS. THE HEALTH OF THE CORE CITIES IS A KEY FACTOR IN THEIR DECISIONS. STRONG CORE CITIES SPELL A SOUNDER ECONOMIC FUTURE FOR EVERYONE.**