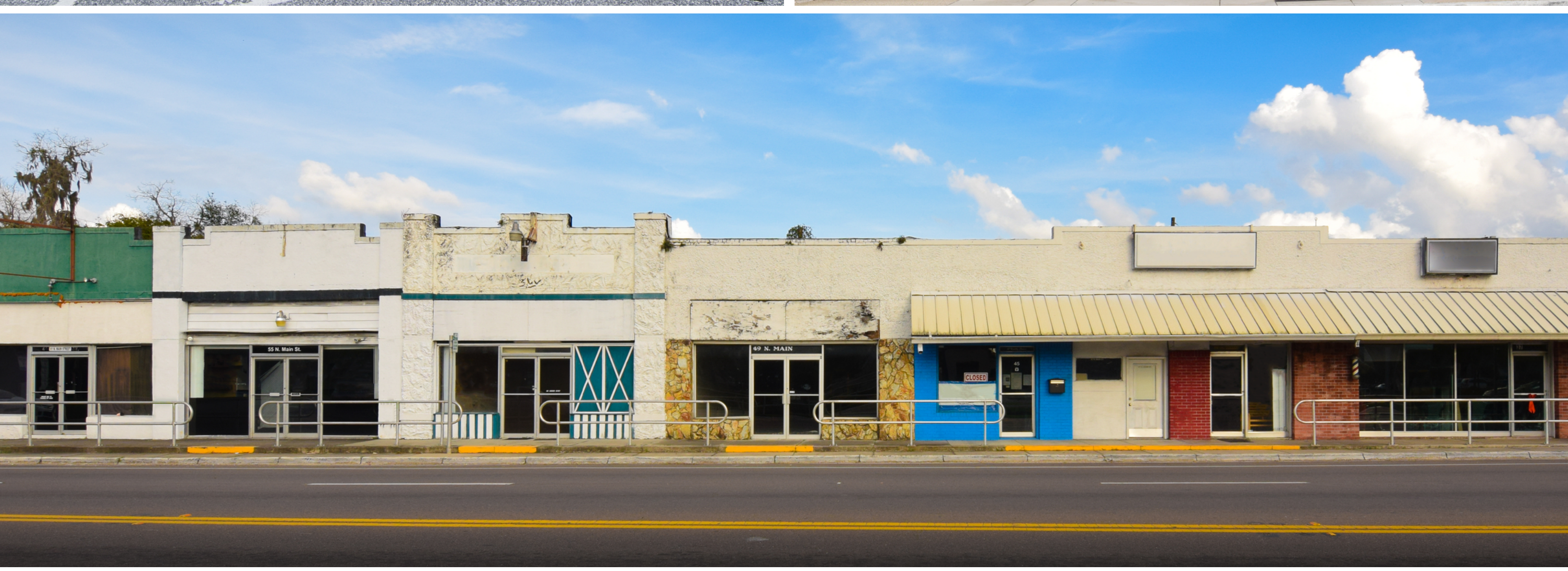
ACCELERATOR FOR AMERICA

AVERTING A LOST DECADE

Rethinking an Inclusive Recovery for Disadvantaged Neighborhoods

By Bruce Katz and Mary Ellen Wiederwohl



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CONTENTS

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Finally, this paper was informed mightily by a meeting of Accelerator for America's Advisory Council, held in Louisville on May 1-3, 2022. Hosted by Louisville Mayor Greg Fischer and co-Chaired by Kansas City Mayor Quinton Lucas and Phoenix Mayor Kate Gallego, the Advisory Council reviewed a draft version of this paper, challenged us, and improved the final product. The involvement of a network of mayors and urban practitioners grounded the paper in the expertise and experience of leaders on the front lines.

All of these individuals and others have helped shape and advance this paper's contents; we look forward to the journey ahead, together, to test its theories of intervention, and work steadfastly to improve the lives of our cities' residents.

INTRODUCTION

As the United States emerges from the COVID-19 pandemic, it is becoming increasingly clear that cities are entering a period of deep economic uncertainty and adjustment. The pandemic and other forces accelerated a series of disruptive dynamics, including remote work, e-commerce, and the digital transformation of health care, education, and business. Taken together these dynamics challenge the re-centering of metropolitan economies around robust downtowns that has been underway since the turn of the 21st century. The pandemic also exacerbated the shift in ownership of urban properties towards institutional and other investors and altered the landscape for small businesses, both in general and Black and brown-owned small businesses in particular.[1] Despite positive signs of entrepreneurial dynamism, minority owned businesses remain overly concentrated in low-wage, low-growth sectors and are disproportionately likely to have fragile finances.[2]

Given the financial investments at stake, volumes are already being written about the future of central business districts and, more broadly, the potential reshuffling of American cities and metropolitan areas from the concentration of superstar cities to a more spatially even urban order. Less attention has been paid to the possible trajectory of disadvantaged neighborhoods.[3] A clear perspective has yet to emerge, distracted understandably by the unprecedented level of federal investments and aid made available through the American Rescue Plan and the Infrastructure Investment and Jobs Act, the Biden Administration's unparalleled commitment to equity and the substantial commitments made by major corporations, financial institutions, and philanthropies to reducing racial disparities in the aftermath of George Floyd's murder.

Despite these historic moves, we are uneasy about the state of urban neighborhoods and hope this paper provokes a deeper discussion about more ambitious interventions that cities must design and deliver to spark an inclusive long-term recovery, particularly absent the arrival of federal funding for structural investments in housing, childcare, or higher education. Kenan Fikri of Economic Innovation Group put it succinctly when he recently said "It's almost a hard and fast rule of modern economic growth that absent intentionality to the contrary, it will bypass the places that need it most."[4] In our view, low-income neighborhoods face a series of super-sized challenges post-crisis that demand the strategic, coordinated deployment of public, private and philanthropic resources. Unless major structural changes are made, at all levels of government and across multiple sectors, the nation runs the risk of a lost decade, followed by a lost generation, with racial wealth disparities that are greater and neighborhoods that are worse off than the period that preceded the pandemic.

In many respects, we have seen this movie before. In the aftermath of the Great Recession, low-income neighborhoods bore the brunt of mortgage foreclosures, real estate vacancies and long-term unemployment, leaving a vacuum filled by parasitic capital and predatory actors. Most of these neighborhoods saw little if any progress during the decade following the economic collapse of 2008.[5]

If the United States is to avert another lost decade, cities must spark an inclusive recovery that upgrades skills, raises incomes, catalyzes revitalization, avoids displacement, prizes local ownership and builds wealth through homeownership and the formation of businesses. To guide this fundamental shift, our paper does the following:

- Recounts **patterns of structural racism**, which have fundamentally shaped present conditions and continue to evolve in disturbing ways;
- Describes **five disruptive and even destructive dynamics** precipitated or accelerated by the pandemic, which radically affect the current and future state of disadvantaged neighborhoods;
- Presents the positive potential represented by the **massive investments and commitments** that are being made by the federal government and large private and civic actors; and
- Lays out a path towards an inclusive recovery, capturing **seven kinds of interventions** that cities are experimenting with that, if successful, need to be codified, adapted and scaled across the country.

These interventions represent a marked departure from traditional neighborhood policies and practices in the United States. Taken together, they constitute new "whole neighborhood" approaches that can mitigate the threat of parasitic capital and absentee ownership and harness the potential of federal and other funding to drive scaled increases in quality infrastructure and housing, small enterprises, skilled workers and corridors of commerce and civic life.

"Unless major structural changes are made, at all levels of government and across multiple sectors, the nation runs the risk of a lost decade, followed by a lost generation, with racial wealth disparities that are greater and neighborhoods that are worse off than the period that preceded the pandemic."

THE CONTEXT: A HISTORY OF STRUCTURAL RACISM AND DEEP DISPARITIES

A drive down any commercial corridor in most low-income neighborhoods shows a common pattern. There are few mainstream banks, many alternative financial services such as payday lenders, and a plethora of low-quality chain stores. Access to healthy food and low-cost financial products (e.g., car insurance, mortgage insurance, working capital for small businesses) is appallingly low, and the COVID pandemic added further hardship to the lives of those in poor urban neighborhoods. In short, it's very expensive and dangerously unhealthy to be poor in America.

Poor urban neighborhoods in this country didn't just become that way. Most neighborhoods with high concentrations of non-white residents lost wealth not by accident, but through a series of intentional political and business decisions.[6]

Nearly 160 years since the end of the Civil War, 58 years since the passage of the Civil Rights Act, and 54 years since the enactment of the Fair Housing Act, racial disparities in wealth and health remain stark across American neighborhoods, as do the effects of race-based policies. We described the origins of these divisions in our 2019 paper, "Towards a New System of Community Wealth:"

> *Created in 1933 as part of the New Deal, the Home Owners' Loan Corporation drafted more than 200 color-coded "Residential Security" maps of major American cities to evaluate lending risk, with neighborhoods graded from Type A ("Best" and outlined in green) to Type D ("Hazardous" and outlined in red). Neighborhood scores reflected racial and ethnic composition. As researcher Bruce Mitchell explained, 'Anyone who was not northern-European white "was considered to be a detraction from the value of the area.' Based on these maps, banks and government development plans refused loans to the primarily Black and brown aspiring homeowners and small business entrepreneurs in economically distressed areas. Redlining's segregative effects, though officially banned in 1968 through the Fair Housing Act, endure. Today, over half (64 percent) of neighborhoods that were graded as "Hazardous" are majority-minority neighborhoods, while 3 in 4 are low-to-moderate income."*
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> *Beyond influencing banking behavior, government and institutional activity directly segregated American neighborhoods that had been previously integrated and harmed communities of color. For instance, in the 1940s, the Federal Housing Administration provided tax incentives to the Metropolitan Life Insurance Company to demolish a racially integrated neighborhood in Manhattan and create a 9,000 unit-apartment complex "for white people only," and in Richmond, California, funded construction of public housing for shipbuilders under the requirement that the complexes be racially separated in the name of "racial harmony."*
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> *In the 1950s and 1960s, the development of the interstate highway system cut many middle-class neighborhoods off from economic centers, and white flight moved activity to the suburbs, hollowing out in-town neighborhoods. Under the framing of urban development or urban renewal, interstate projects cut directly through communities of color. When constructing I-95, officials in Miami selected a route that ran directly through Overtown, a historically Black neighborhood, rather than through an old railroad track. 10,000 people were displaced in the creation of a single interchange, and - by the project's completion in the early 1960's - Miami's keystone Black community was reduced from 40,000 residents to one quarter of that. Even today, health disparities arising from interstate expansion remain stark: along I-70 in Denver's predominantly Latino Swansea/Elyria neighborhood, for instance, life expectancy is 3.5 years lower than elsewhere in the city."*[9]

Paralleling deliberate federal actions in the 20th century were equally devastating state and local government decisions that either overtly segregated Black and white families or covertly did so under the guise of city planning. In the book The Color of Law: A Forgotten History of How Our Government Segregated America, Richard Rothstein describes how Harland Bartholomew, who many call the father of modern city planning, peddled city plans to dozens of cities in the early half of the 20th century, including St. Louis, Kansas City, Washington, D.C., New Orleans, and Pittsburgh. These plans used zoning and infrastructure decisions to segregate Black populations into pockets of cities.[10] It is no accident that nearly every American city has a "west end" or "south side" or other collection of neighborhoods that are majority Black and aggressively constrained by a major highway or other permanent, divisive structure.

The long-term impact of redlining has been devastating on multiple fronts for the Black community. Philadelphia, like many American cities, saw a tragic uptick in gun violence and homicides in 2020 and 2021. The Philadelphia Inquirer conducted a block-by-block analysis of homicide data and police reports and found that, between 2015 and 2021, "nearly all of the neighborhoods in Philadelphia suffering from perpetual violence and other structural disadvantages were redlined starting in the mid-1930s."[11] Nationally, Black Americans were eight times as likely as white Americans to be victims of gun violence in 2020.[12]

Redlined and other distressed neighborhoods continue to face new and evolving financial headwinds. The role of what Jane Jacobs labeled federal "cataclysmic money," leading to the rapid transformation of neighborhoods, has now been assumed by parasitic private capital.[13] Financial malfeasance triggered the Great Recession, scamming many low-income households with sub-prime mortgages and saddling them with excessive debt and low credit scores that have constrained their ability to build wealth ever since. The Recession was followed by different but comparable threats. These included vast pools of resources, domestic and foreign, buying up large swaths of cities and their affordable apartments and backing the proliferation of parasitic retail (e.g., "Dollar Stores") that provide unhealthy offerings, crowd out local business and undermine regeneration. In his powerful essay in The Atlantic, "The Case for Reparations," Ta-Nehisi Coates demonstrated how a toxic mix of government policies, predatory practices and parasitic capital have not only suppressed the growth of Black wealth in the United States but also extracted income and assets from families living in segregated neighborhoods, like in Chicago's North Lawndale community which he highlights.[14]

All of this adds up to pronounced racial and ethnic disparities on income and wealth. Before the pandemic, data from the Federal Reserve's 2019 Survey of Consumer Finances (SCF) showed the typical white family in America had a net worth of nearly $190,000, the typical Black family had a median net worth of approximately $24,000, and the typical Hispanic family had a net worth of approximately $36,000.[15] Some of these wealth disparities come from differences in earnings: Black and Hispanic households earn, on average, approximately 60 percent of what white households earn, a number that has been relatively stable in recent decades.[16] White men's median annual earnings were $60,000 in 2019, compared to $45,000 for Black men, $41,000 for Hispanic men and Black women, and $36,000 for Hispanic women.[17] Yet many other factors also play a role — from differences in homeownership, intergenerational transfers, business ownership, income differences, and access to stock and retirement accounts. For instance, while 73 percent of white households own their home, only 45 percent of Black households and 48 percent of Hispanic households own their home.[18] Even among homeowners, differences in house and neighborhood assessments mean that Black and Hispanic homeowners are disadvantaged; the median Black homeowner has only $150,000 in home value, the median Hispanic homeowner only $200,000 in home value, compared to the median white homeowner, who has $230,000 in home value.[19]

The Federal Reserve's SCF data and accompanying analysis also highlights the importance of intergenerational wealth transfers. White households are more likely to pass on inheritance to their children and that inherence is typically larger. Wealthier households are also able to invest in their children. They can pay for education, invest in businesses, and help with other wealth-generating activities, like mortgage down-payments. Inequities in business wealth also abound. Analysis by the Aspen Institute finds that Black, Hispanic, and white households all have roughly similar rates of equity in closely-held businesses, but the value of that equity is substantially higher for white households.[20] This is similarly reflected in business ownership data, prior to the pandemic. The average employer Black-owned business had sales of $1 million, the average Hispanic-owned business had sales of $1.3 million, and the average white-owned firm had sales of $2.5 million.[21] Even before the pandemic, white, Black- and Hispanic households were in very different starting points regarding wealth and income.

> **"It is no accident that nearly every American city has a 'west end' or 'south side' or other collection of neighborhoods that are majority Black and aggressively constrained by a major highway or other permanent, divisive structure."**

CURRENT CHALLENGES: FIVE FORCES CONSTRAINING NEIGHBORHOOD PROSPERITY

As described at the outset, the forces affecting cities and metropolitan areas coming out of the pandemic have not yet settled. On the positive side of the ledger, the U.S. is experiencing historically low levels of poverty and hunger thanks to federal interventions including individual stimulus payments, expanded unemployment benefits, and the expanded Child Tax Credit.[22] Those temporary interventions buoyed savings accounts among low-income Americans and reduced bad credit scores.[23] The tight labor market has also led to fast wage growth, particularly for low-wage workers, and more job opportunities.[24] Yet the headwinds facing low-income neighborhoods are pronounced. Temporary federal aid is phasing out, federal efforts aimed at bolstering the nation's safety net through the Build Back Better Act were derailed, and inflation is squeezing low-income households.[25] The war in Ukraine and other dynamics have raised serious concerns about the global economy entering a period of "stagflation." It's safe to assume distressed communities are going to be left behind by the next wave of growth.

The following are trends that we are watching closely that either directly or indirectly affect the performance of disadvantaged communities.

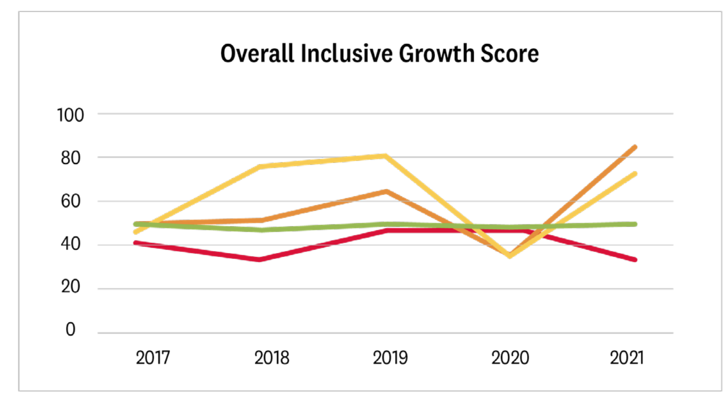
Constraint #1: Many Neighborhood Challenges Have Worsened

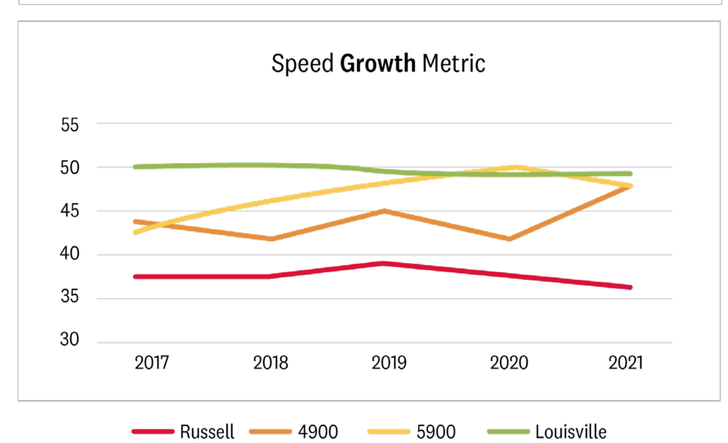
The data on neighborhood vitality and conditions is rarely current or comprehensive in the United States. But there is incontrovertible evidence that low-income neighborhoods bore a disproportionate burden during the pandemic. The COVID pandemic shone a bright light on structural racial and socio-economic inequities, particularly the lack of health equity, which is dependent on access to education, steady income, wealth, access to health insurance, and housing. The Centers for Disease Control reported that these compounding factors accounted for higher COVID-19 cases, hospitalizations, and deaths in neighborhoods with high concentrations of non-white residents, a terrible coda to decades of disinvestment.[26]

There are other examples of deeply entrenched disparities — from COVID small business aid, including the Paycheck Protection Program, that missed non-white owned firms, to the increase in evictions as moratoria expire nationwide, to the troubling rise in gun violence and homicides, to the inadequate schooling or digital access provided to low-income students during the COVID shutdowns, to inflationary pressures that are always greater for those with the least discretionary income. Given these harsh realities, the bulk of low-income neighborhoods most likely emerge from the pandemic worse off relative to better-off communities.

All this is exacerbated by the rise in parasitic capital, the fifth constraint identified below. In many respects, the current period is upending long standing perspectives about the threats low-income communities face. Concerns about redlining, disinvestment and decline are now giving way to the recognition that an abundance of parasitic capital is sweeping vulnerable communities. Similarly, concerns about gentrification and displacement emanating from higher income residents is now amplified by the reality of low-income renters bring evicted by new absentee owners, who have no allegiance to place or commitment to equity. The speed of change on the ground is happening faster than our ability to understand it, describe it and construct scaled and aligned responses.

While many data sources tracking vital economic statistics have yet to report on 2021 metrics, there are resources available. The Mastercard Center for Inclusive Growth has a composite index, the Inclusive Growth Score, which is a tool that measures equitable economic development in place, economy, and community through 18 key metrics using a rank from 0 to 100, where a higher score indicates more inclusive growth. An examination of the Inclusive Growth Score in three zip codes in Louisville, Kentucky encompassing the historically disadvantaged Russell neighborhood in West Louisville, downtown (4900), and NuLu (5900), a gentrifying neighborhood in East Louisville, shows the overall inclusive growth score for Russell had a lower starting point and trended downwards between 2017 and 2021, whereas the downtown and NuLu neighborhoods show signs of improvement over time. Zooming in on the spend growth metric, which is derived from Mastercard's anonymized and aggregated spend data, we see a similar but more pronounced trend, where the Downtown and NuLu neighborhoods bounce back from the pandemic, but the Russell neighborhood does not. These metrics shed light on the diverging development paths for these different communities and the need for intentional and targeted efforts at inclusive recovery.[27]





Constraint #2: Urban Downtowns are Weaker

Remote work became one of the most visible implications of the pandemic. Overnight, tens of millions of knowledge workers in major cities around the world went from commuting to central business and financial districts and meeting in person to living on Zoom, Microsoft Teams and a dizzying array of communication and collaboration platforms. Downtowns became ghost towns in an instant, triggering negative second order effects on restaurants, service businesses, transit ridership and local tax revenue generation.

By all accounts, remote work appears to be a permanent rather than temporary phenomenon, a structural rather than cyclical trend. The McKinsey Global Institute's Future of Work After COVID-19 report estimates that 20-25% of the workforce could work remotely in the future.[28] It is now commonplace to acknowledge that office workers will not return to pre-pandemic levels, and that many central business districts are looking at the prospect of empty or semi-occupied office buildings for years to come. This, in turn, will continue to suppress tax revenue generation, given how much many cities depend on downtown workers and properties, and undermine demand for small businesses that depend on office workers. It will also demand that transit systems rethink their revenue base and operating models. Transit systems depend on fares to meet operating costs, and while they could permanently lose a subset of riders to remote work during traditional rush hour, millions of workers will continue to depend on public transit at all hours of the day.[29] Unlike 2020-2022, the federal government will no longer provide flexible "rescue" funding to businesses, municipalities, transit systems, or public entities. The weaker position of urban cores will shift some economic activity to surrounding urban and suburban corridors and centers but, on balance, the diminution of tax revenues and the stress on local services will be a net loss to distressed city neighborhoods, which are often near central business districts – this adjacency previously viewed as a potential asset and now an unknown or threat.

Constraint #3: Locally Owned Retail Faces New Competition

Beyond remote work, the pandemic is ushering in a new era of digital commerce, tele-services and chain-store proliferation. This surge is punishing many small local retailers that have fragile finances and few ties to our mainstream banking system.

E-commerce boomed during the pandemic. The pandemic showed that nearly everything – from cars to electronics and groceries to prescription drugs – can be ordered online and arrive "just in time." Although most retail sales nationwide still happen at brick-and-mortar stores, online sales increased at breakneck speed and spiked at the height of the pandemic in the second quarter of 2020, comprising nearly 16 percent of all retail purchases.[30] The dust hasn't settled on where consumers will draw the line on online shopping. Preferences vary depending on the type of good or service. Data from Mastercard SpendingPulse shows that by the end of 2021, the share of retail purchases made online had reverted back to the pre-pandemic level of 13%.[31]

The "just in time" consumer delivery phenomenon is altering the physical landscape of cities and metros and driving a form of "warehouse sprawl," sometimes subsidized with state and local subsidies, to service the logistics needs of Amazon, Walmart, Home Depot and a host of other businesses seeking greater control of their supply chains.[32] Macro fulfillment centers are primarily located at the periphery of metropolitan areas, and micro-fulfillment centers are taking over vacant storefronts and former shopping malls to enable 15-minute delivery systems. The strain of these models on local enterprise is palpable. In New York City, it is claimed that a 3,000 square foot, continuously stocked micro-fulfillment center can either serve or replace 1 square mile of dozens of small storefront groceries and bodegas.[33] For the workers who labor at these sites, nascent efforts to unionize macro-fulfillment centers and warehouses are an encouraging trend but have yet to demonstrate their ability to scale.

Simultaneously, the "Dollar Store" Economy is growing. The pandemic accelerated the trend towards the location of low-quality dollar stores in low-income neighborhoods, crowding out locally owned groceries and other merchants that keep dollars local and offer healthier foods. At the end of 2020, for example, Forbes reported "Dollar General operated 17,000 stores, in addition to Dollar Tree's (functionally identical) 15,700 stores. Dollar General alone operates 1.9 times the number of Walgreen's stores and 1.2 times the combined store count of Walmart, Kroger, Target, Big Lots, Five Below and Albertson's." Incredibly, their reporting noted that "Dollar General stores comprised 5.2 percent of all U.S. brick-and-mortar stores in 2020, up from 3.5 percent in 2018."[34] The vast brick-and-mortar network of dollar stores could enable them to expand into segments of consumer spending beyond retail.

These trends could further undermine the ability of disadvantaged neighborhoods to chart a new course post pandemic and give entrepreneurs the ability to offer multiple choices in goods, services, food and amenities and build wealth for themselves and their community.

Constraint #4: Access to Capital Remains a Persistent Barrier for Diverse Entrepreneurs

Eighty-three percent of all entrepreneurs in the U.S. lack access to traditional banking or start-up capital; instead, they fall back on personal savings or credit cards, costly and risky methods for starting a business that further drive inequality.[35] This is particularly true for women entrepreneurs and founders of color. These challenges partly reflect limitations in federal responses over decades. For example, the Community Reinvestment Act (CRA), the federal government's main tool in coaxing capital in depository institutions towards community investment is often limited to debt and concentrated in housing investments. Part of this is the failure of the U.S. financial and regulatory system to track and report small business lending data, as it does for home mortgages, leaving us blind to areas of need.[36] The rise of fintech has also vastly expanded the reach of predatory lending, beyond the purview of current federal rules and regulations.[37] Payday lenders and check cashers, many backed by outside capital, dominate the landscape of traditional commercial corridors.

While community development financial institutions (CDFIs) have expanded and performed well during the pandemic, their overall size and uneven geographic coverage means that many entrepreneurs do not have access to quality lending products or innovative equity investments. In fact, business financing and micro-financing comprised just 10 percent of total CDFI activity in fiscal year 2020, demanding a broader rethink about how to maximize their potential.[38]

As for venture capital, in 2021, over 70 percent of all investment targeting high-growth entrepreneurs remained concentrated in five metropolitan centers of the country, namely San Francisco-San Jose, New York City, Boston, Los Angeles, and San Diego.[39] The geographic reshuffling of knowledge workers during the pandemic shifted the landscape somewhat but didn't result in a broad realignment. These five metros aren't representative of entrepreneurship and business ownership, let alone American society as a whole. Our current capital landscape thus shows disparities at both the national and local scale with vast differences between regions but also adjacent neighborhoods, across all types of firms.

Constraint #5: Parasitic Capital is Altering Housing Markets

The run up in the stock and real estate markets, even with recent gyrations, means an abundance of private capital that can flow for parasitic purposes and drain communities of economic value and vibrancy. Private equity firms like Blackstone have continued their post-Recession buying spree, taking a major position in rental housing, particularly in high priced coastal cities, a harbinger of an overall rise in investor purchases, radically altering the ownership and character of whole areas of cities.

As Kevin Schaul and Jonathan O'Connell have reported: "In 2021, investors bought nearly one in seven homes sold in America's top metropolitan areas, the most in at least two decades. Neighborhoods where a majority of residents are Black have been heavily targeted, according to a Washington Post analysis of Redfin data. Last year, 30 percent of home sales in majority Black neighborhoods were to investors, compared with 12 percent in other zip codes.[40] The Washington Post analysis shows, that, overall, places with the highest share of investor purchases are in Southern metropolitan areas like Atlanta and Charlotte. Yet, significantly, some of the most impacted zip codes overall are in older industrial cities in the Midwest, especially in neighborhoods in Detroit and Cleveland that have high concentrations of minority populations.[41] A May 2022 report by the Rutgers Center on Law, Inequality and Metropolitan Equity reinforced this last finding, showing that investor purchases in largely Black neighborhoods are quite pronounced in Newark, New Jersey where almost half of all real estate sales involved institutional buyers.[42]

Large scale investor purchases are changing the equilibrium between landlords and renters. Investors buy low, rent high and minimally maintain their properties. A new report from the Local Initiatives Support Corporation (LISC), *Gambling with Homes or Investing in Communities*, revealed investor-owned properties show more code violations and higher rates of evictions.[43] As U.S. Senator Sherrod Brown, Chair of the Senate Committee on Banking, Housing and Urban Affairs, concluded at a recent Congressional hearing, "They [investors] bought up properties, they raised rents, they cut services, they priced out family home buyers and they forced renters out of their homes."[44]

FEDERAL INVESTMENTS AND PRIVATE COMMITMENTS TO THE RESCUE?

In the face of these structural challenges, the federal government and some of the largest financial institutions in the country have made unprecedented investments, commitments, or policy changes. These interventions are far from perfect but they could, if designed smartly and implemented well, drive positive changes in many distressed neighborhoods and help create new systemic approaches towards inclusive revitalization that can persist over time.

Biden-Era Legacy Investments

The $1.9 trillion American Rescue Plan, signed by President Biden in March 2021, provided a safety net for cities, vulnerable residents and disadvantaged residents. The American Rescue Plan, in particular, made $350 billion available to states, counties and cities through the State and Local Fiscal Recovery Fund, which, beyond enabling communities to shore up their fiscal position, has provided much needed investments in projects (e.g., brownfield remediation, blight removal, home acquisition and renovation) that have been starved for capital for decade. These funds will continue to roll out over the next few years, enabling strategic decisions to be replicated and adapted across the country.

The $1.2 trillion Infrastructure Investment and Jobs Act (IIJA), signed by President Biden in November 2021, makes some of the largest investments in transportation, water, bridge, rail and digital infrastructure in the country's history, and includes new investments in climate resiliency and low-emission technology to ensure that communities can adapt to the impacts of climate change. Combined with the funds made available by the American Rescue Plan, these legacy-forming measures have the potential to remake the American economy and reshape the physical landscape of communities.

After decades of drift and disinvestment, the scale of investment is remarkable. The Infrastructure Investment and Jobs Act supports $550 billion in new spending across a broad array of asset classes. The Act provides $110 billion for roads, $39 billion for transit, $25 billion for airports, $17 billion for ports, $65 billion for broadband, $73 billion for the electric grid and on and on and on. The Act appropriates these funds on top of the infrastructure investments made in the American Rescue Plan, which included $122 billion to ensure the safe reopening of elementary and secondary schools, $10 billion for broadband through the Capital Projects Fund, and $350 billion in flexible funds that can be put toward broadband, water, and sewer upgrades. As of June 2022, the possibility remains that Congress will pass a Bipartisan Innovation Act, which could authorize hundreds of billions of dollars for programming to grow advanced industries and support regional innovation hubs. [45]

These federal investments are part of a broader effort to make "equity" the overarching objective and theme of the Biden Administration's domestic policy. On President Biden's first day in office, he signed an executive order "Advancing Racial Equity and Support for Underserved Communities Through the Federal Government."[46] As a result of the President's focus on equity and his executive order, over 90 agencies across the federal government have undertaken systemic reviews of their programs and services and already taken substantial action on data collection and reporting, the use of procurement and grantmaking to drive equity, and reductions in administrative burdens on program applicants.[47] The Small Business Administration, as one example, released federal procurement data disaggregated by racial ownership for the first time in 2021.[48] In addition, the President's Justice 40 initiative promises to deliver at least 40 percent of the overall benefits from Federal investments in climate and clean energy to disadvantaged communities.

These federal investments also come on top of a panoply of place-based investments and policies, many of which have been in place for decades. Federal regulations (e.g., the Community Reinvestment Act, the Home Mortgage Disclosure Act), formula driven programs (e.g., Community Development Block Grants), a plethora of tax advantaged capital incentives (e.g., Opportunity Zones, New Markets Tax Credits, Historic Preservation Tax Credits, Low Income Housing Tax Credits) and the evolution of neighborhood-oriented development and financial institutions form a broad-based platform for neighborhood revival.

Our Racial Reckoning: A New Era of Private and Philanthropic Commitment

Beyond federal investments and policy changes, large corporate and philanthropic institutions have also responded in the aftermath of George Floyd's murder and the nation's reckoning with deeply entrenched racial and ethnic disparities. As the Urban Institute summarized in a report issued in December 2021:

> *The racial equity commitments made between June 2020 and May 2021 across the corporate and philanthropic sectors, by some rough counts, are estimated to have reached more than $215 billion, largely with plans to distribute the funds fully between 2023 and 2025. It is important to recognize that these commitments, while substantial, represent a mix of some new funding and some repurposed or refined targeting, delivery and execution of existing products and activities. Taken together, this concentration of grants, lending, expanded access to banking and credit, targeted procurement spending, growth capital and impact investments – all focused on racial equity – could generate more positive outcomes for communities of color, if deployed effectively."* [49]

These private sector investments and policies are large and welcome and could be a vehicle for substantial progress if they are used to drive structural change. Within the domestic U.S. market, for example, impact investors are still searching for community-based causes they can invest in with confidence and at scale. Banks, Community Development Financial Institutions (CDFIs), and investors could up their game by agreeing upon metrics of success for innovative, equity funds (not just debt) that reach diverse entrepreneurs, and track and report fund demographics, jobs created, and other key performance indicators (KPIs). Large banks would then have confidence that their CRA dollars they must invest qualify for CRA credit, and innovative fund managers can demonstrate their responsiveness to community needs and unlock a wellspring of CRA-motivated institutional capital for social impact investment. For now, large funders and impact funds are two ships passing in the night.

Similarly, the Environmental, Social, and Governance (ESG) and impact investing movement has grown to maturity on a global scale over the past decade. Yet, of the estimated $2.3 trillion in global impact investments, much of the volume and growth were due to the rise of green bonds and climate-oriented investment.[50] Moreover, a whole industry has emerged certifying green investments and measuring outcomes, with authorities auditing impacts in terms of carbon reductions for corporations and projects. The Securities and Exchange Commission recently proposed a rule to require climate-related disclosures for public companies, but we have no such uniform analog for measuring social impact.[51] This is critical given the size of our current climate emergency, but there’s room for much more” S” in ESG given impact investing represents only 2% of global assets undermanagement.[52]

The Delivery Crisis: An Unresolved Challenge [53]

Federal investments present their own set of challenges. In particular, they remain highly prescriptive and compartmentalized, and too often, the paradigm for measuring success is the number of jobs created and quantity of investment, regardless of quality. The Infrastructure Investment and Jobs Act will channel resources through, literally, hundreds of programs across dozens of agencies and sub-agencies. This compartmentalization of federal programs makes the blending of public resources, let alone the leveraging of private and civic capital, inordinately complex. The 20th century paradigm of community development remains the practice in cities across America, yet it is wholly inadequate to the scale of the problem. Interventions financed through the Community Reinvestment Act and Community Development Block Grants represent mere nickels and dimes towards problems that require dollars.

The revitalization of whole neighborhoods and the adaptive reuse of even one iconic community anchor within those neighborhoods (e.g., the former Studebaker factory in South Bend), requires separate but related investments in transportation, energy and broadband infrastructure as well as historic preservation, affordable housing, entrepreneurial start-ups, workforce development and more. Yet funding for each of these investments will flow through separate agencies with different rules to different recipients along different time frames and via different allocation methods (e.g., block grants versus competitions versus tax incentives versus innovative financial products). The end result is a Rubik’s Cube of government programming and investment.

And federal and private investments, particularly given the excessive balkanization, require and assume a level of local capacity which does not exist in most cities and communities. The capacity of localities is not sized to the scale of federal funding or the tasks at hand. City and county governments (and many public authorities or quasi-public entities) have been degraded for decades, the long tail effect of President Reagan’s depiction of government as the problem. Many non-profit intermediaries that focus on supporting local entrepreneurs or delivering community housing are similarly understaffed and under-capitalized. This means that most communities do not have the personnel with the capabilities, competencies, bandwidth or muscle memory to plan transformative projects, apply for disparate federal sources, do the capital stacking necessary to make catalytic projects happen and coordinate multiple investments for synergistic effect.

Complicating matters, the failure of Congress to pass the Build Back Better Act in 2021 ensures efforts around childcare affordability, affordable housing, community college access, and bolder, more robust climate interventions will remain fragmented by default. Without federal interventions that provide scaled solutions, it will be up to state and local networks to advance new strategies and programs to move the needle on these issues over the next decade.

TOWARDS AN INCLUSIVE RECOVERY

Against this backdrop of structural challenges, large but balkanized capital and inadequate local capacity, U.S. cities need a new path towards inclusive recovery. Despite the attention paid to the size and scope of federal and financial investment, an inclusive recovery will largely be determined by the effectiveness of local design and delivery. The federal government is partially bankrolling this moment, but all of this is dependent on networked governance in cities and metropolitan areas and the marshalling of private and civic resources. Only at the local level will the myriad infrastructure and other investments be pulled together for cumulative rather than disjointed impact and long term rather than short term effect. Indeed, many cities have stood up Stimulus Command Centers and other structures to house strategic planning efforts for American Rescue Plan and infrastructure funds, in a manner that allows for regional coordination with public, private, and civic stakeholders.[54]

The path towards an inclusive recovery must start with a clear-eyed perspective and evidentiary accounting of the disruptive and destructive dynamics underway in many neighborhoods, backed by parasitic and predatory capital. We cannot be pollyannish about the challenges these communities face, or the sources of their discontent. The moment requires ample transparency and accountability, public shaming of bad actors, and responses that are fit to purpose and scaled to impact. The urban field is littered with small and compartmentalized actions; the moment demands scaled and holistic, integrated responses.

The path towards an inclusive recovery must offer a different framing of the problem and the solution: policies and practices as well as investments and institutions must be restructured to break the destructive cycle of poverty and create a new virtuous cycle of individual and family prosperity and community wealth. To that end, cities must offer concrete local visions for inclusive neighborhood revival and specific and implementable ways of achieving it. Visions and strategies alike must be centrally about raising incomes, driving ownership and building wealth. In the end, a focus and marshalling of market demand and forces for inclusive benefit must be central rather than peripheral if structural disparities are to be radically reduced. We must fight fire with fire.

With visions and strategies in place, the path towards an inclusive recovery must then take full advantage of the federal moment, combining and layering different infrastructure investments in the same geography and then connecting them with other investments in housing, economic and workforce development, place making and the remediation of former industrial properties. Cities must determine the core projects that will drive inclusive growth and then match them to federal investments at hand; we need to reverse engineer neighbor-hood revival in other words. Federal resources must both invest in the right things (e.g., a water project, a broadband expansion) and use these investments as vehicles for business creation, worker skilling and wealth building. Decades of delivering projects *for* disadvantaged neighborhoods must transition to delivering project *with* locally owned businesses and local residents.

The path towards inclusive recovery must create a new *modus operandi* for neighborhood regeneration. Federal investments of the scale we are witnessing are likely to be short-lived. Local leaders must catalyze a decade of inclusive recovery and bake-in structural change on many levels. Large anchor institutions (i.e., local government, universities, hospitals, corporations, philanthropies) that employ hundreds of local residents, purchase large quantities from suppliers, and direct substantial funding must work harder for the communities in which they are located and be willing to re-evaluate conventional wisdom and resource allocation. Interventions, and the financing of projects and capitalization of intermediaries, must pass the “scale test;” they must be broader in scope, more ambitious in design and more market bending in delivery than traditional community development. Strategies must be consistently pursued, with stakeholder support and community engagement. As cities consider FY 2023 budgets and beyond, additional staff capacity for this planning and coordinating work, or strategic partnerships with planning-focused research organizations is a must. The cost of hiring new staff is far less than the opportunity cost of missing out on funding opportunities in the tens of millions.

A few cities are providing early indications of what inclusive recovery might entail. In these cities, leaders across multiple sectors are rising to the challenge and showing the measure of agility and adaptation, purpose and intentionality, that our times demand. These early signs comprise seven separate strategies that encompass both the kinds of investments that must be made as well as a change in how cities actually do the work of inclusive recovery.

SEVEN STRATEGIES FOR AN INCLUSIVE RECOVERY

1. Develop Investment Playbooks to Revitalize Targeted Geographies

First, a growing number of cities are creating Investment Playbooks to take full advantage of federal resources in geographies like downtowns, waterfronts and innovation, commercial and industrial corridors.[55] These playbooks, co-created by New Localism Associates and the Nowak Metro Finance Lab at Drexel University, respond to the reality that the federal government is investing trillions of dollars across hundreds of programs and dozens of agencies. These resources will only have transformative effect if cities identify, prioritize and cost out concrete projects that can access federal resources, leverage private and civic capital and together add up to a “big bang” effect. This tool follows the simple maxim that “failing to plan is planning to fail.” Federal resources may now be ample but only localities can design specific projects that are fit to place and ripe for investment. U.S. cities have learned the hard way that transformative visions without capital specifics drive conversation, not investment.

The most ambitious Investment Playbook in progress is in Erie, Pennsylvania, a former industrial city home to 100,000 residents that is reimagining the economic purpose of its waterfront, downtown, adjoining low-income neighborhoods and industrial areas in a targeted geography encompassing their historic downtown. The draft Playbook prioritizes 25 separate co-located projects that have the potential, together, to make Erie a poster child of older industrial city revival. Those projects include a layering and alignment of different federal infrastructure investments in transportation, energy, broadband, port reconstruction and remediation of polluted industrial sites, successfully overcoming the fragmentation of federal programs.

A formal Investment Playbook has also been created for the downtown of Dayton, Ohio, a health innovation corridor in El Paso and disadvantaged commercial corridors in Buffalo, Greensboro, N.C., Philadelphia and Pittsburgh.[56] De-facto Playbooks are being followed for historically disadvantaged areas in Chicago, St. Louis and San Antonio, and in Richmond, Va. through their City Center Investment Innovation District. Similar hyper-local community-focused investment models are being piloted with the support of LISC and the Brookings Institution.[57]

This new tool is powerful because it is customized to the distinct market and social conditions of different places, recognizing that all low-income neighborhoods are not the same, given location, legacy assets, city performance and the financial throw-weight of anchor institutions. The Investment Playbook model is just getting started. Infrastructure investments through the IIJA present another opportunity to revitalize targeted commercial corridors, paired with capital for entrepreneurs to regenerate walkable, vibrant retail business districts in disinvested neighborhoods. Once norms and models are established, replication could be accelerated. MassDevelopment’s Transformative Development Initiative, focused on “Gateway Cities,” demonstrates how this corridor approach could be scaled statewide.[58]

In a period of abundant federal capital, the return on investment of Investment Playbooks could be quite substantial. In Western New York, for example, the UB Regional Institute at the University of Buffalo has created a Playbook for impoverished neighborhoods in Buffalo, Niagara Falls and Rochester. The Playbook has already garnered $100 million in commitments from philanthropies and corporations (led by the Ralph Wilson Foundation) and is now poised to leverage an additional $200 million in support from the state government via American Rescue Plan resources. St. Louis, meanwhile, dedicated some of their State and Local Fiscal Recovery Funds from the American Rescue Plan to projects in dedicated corridors in North St. Louis.[59] Funding at this scale for these places will not come around again anytime soon; the absence of an Investment Playbook is a guarantee that federal funding (and the leveraged public, private and civic capital it brings) will bypass disadvantaged neighborhoods.

> **“…the absence of an Investment Playbook is a guarantee that federal funding (and the leveraged public, private and civic capital it brings) will bypass disadvantaged neighborhoods.”**

2. Pursue Game Changing Investments

Second, cities are making game changing, transformative investments that can provide a new market platform for the inclusive revival of disadvantaged neighborhoods. As defined by Bruce Katz and Julie Wagner, such investments are "... discrete public or private development projects that trigger a profound, ripple effect of positive, multi-dimensional change in ways that fundamentally remake the value and/or function of one or more of a city's physical building blocks."[60] These projects establish a new center of gravity in communities that have mostly lost economic relevance over multiple decades. These investments generally involve the renovation of iconic, historic properties (e.g., a former rail station, a former bank, a former industrial facility), the leveraging or re-location of major anchor institutions or the combination of separate but related infrastructure investments in a defined territory.

The Investment Playbooks described above provide a framework to situate game-changing investments in a broader, strategic context. If Playbooks include 15 to 25 discrete projects, game changing investments are the one or two most ambitious projects among that set that will have substantial ripple effects. Existing Investment Playbooks, for example, have already prioritized the restoration and reuse of properties that literally define the character of an entire downtown or neighborhood—the magisterial Dayton Arcade, the abandoned Buffalo Central Terminal, the Steelhouse in Greensboro (a former manufacturing facility). Bringing these iconic buildings back on line sends a strong signal, to long standing residents as well as government, philanthropic and market investors, about the potential for inclusive recovery.

Beyond anchor buildings, the leveraging of anchor institution assets could be game-changing. Many neighborhoods of high poverty are located close to major universities, hospitals and other anchor institutions. Realizing the full potential of this locational advantage implicates multiple moves. In Philadelphia, Pennsylvania, for example, Drexel University has embraced a vision to become the most civically engaged university in the United States. The university has created the Dornsife Center for Neighborhood Partnerships as an "urban extension center: It offers various programs to place Drexel students, faculty, and staff alongside community members to solve problems in West Philadelphia."[61] Drexel has brought the same long-term focus to both market development and social innovation. The university's signature physical development, the $3.5 billion Schuylkill Yards innovation campus, will be built out over 20 years, creating thousands of high-quality jobs. That gives the university 20 years to make sure that a child born today in the nearby high poverty Mantua community is able to get those jobs. To that end, the university has laid out an ambitious "cradle to career" pathway for children and their parents, striving to line up its place-based, innovation, and community work into one coordinated effort.

In Birmingham, Alabama, Southern Research, an 80-year-old nonprofit that performs translational research, is anchoring a new biotech innovation district in close proximity to neighborhoods of high poverty. In a 25-block area, nearly $700 million in biomedical R&D is generated every year by the University of Alabama at Birmingham (UAB) School of Medicine and Southern Research. Southern Research is using this platform and their clinical partnership with the third largest public hospital in the US (located at UAB) and a vast network of providers and community health agencies to launch a widespread genomic sequencing effort aimed at underserved Black populations in both the city and rural areas. The goal is to model a way for anchor institutions to crack at health disparities in their backyard. Funding for this effort has already been raised from the state and local governments as well as private sources.

> **"[Game changing] projects establish a new center of gravity in communities that have mostly lost economic relevance over multiple decades."**

The un-anchoring of anchor institutions and their relocation of key facilities to distressed neighborhoods is another example of a game-changing investment. Some recent examples include the Cleveland Foundation's decision to move its headquarters to MidTown, the National Geospatial-Intelligence Agency's decision to locate in North St. Louis and the University of Texas-San Antonio's decision to build a new $90 million downtown campus on the site of the old Bexar County Jail to drive development in the San Pedro Creek area. Boston Public Schools relocated their 500 person headquarters from downtown Boston to a new building in Roxbury in 2015,[62] which will soon be followed by a new technical college campus set to open in 2024, sparking a new wave of development in one of the city's historically disinvested Black neighborhoods.[63] Other cities are siting key manufacturing workforce hubs in disinvested neighborhoods, including West Philadelphia and East Buffalo. In their Build Back Better Regional Challenge proposal, the City of Louisville is betting big on artificial intelligence and data in healthcare, and they are seeking to locate nodes for a new health innovation corridor in both West Louisville and the NuLu neighborhood. This is a form of locational equity and smart positioning of new anchors that exists in relatively few applications. Our favorite global example is the movement of Buenos Aires' City Hall from the heart of the city to Parque Patricios, historically a low-income and marginalized part of the city that is a target for regeneration.[64] All of these efforts, of course, must be accompanied by strategies to avoid displacement, to ensure that the very effort intended to support a neighborhood and its residents doesn't force them out.

A final example of game changing investments, still in formation, involves the layering of infrastructure investments in disinvested areas of cities. As mentioned above, infrastructure policy has a legacy of destroying Black and brown wealth in America, infamously through the construction of highways in the name of "urban renewal" in the 1950s. Rectifying this must be part of the solution for rebuilding that wealth. The alignment of different federal infrastructure investments in freeway-to-boulevard conversion, street reconfiguration, transit expansion, renewable energy, broadband, climate resilience, port reconstruction and remediation of polluted industrial sites, just to name a few, would go a long way towards repairing the mistakes of the past while successfully overcoming the fragmentation of federal programs.

3. Expand Local Ownership

Third, cities are expanding local ownership of land, housing and commercial buildings in distressed neighborhoods. This is a critical means of countering the rise in parasitic capital noted among the five key challenges and could serve as a platform for scaling homeownership and housing renovation for neighborhood residents and regenerating commercial corridors.

In Akron, Ohio the Knight Foundation and key city, corporate and civic partners are working with The Well Community Development Corporation to intervene at scale in the housing market, purchasing dozens of single family homes from absentee owners and using renovation and stewardship of properties to drive an inclusive regeneration.[65] In Cincinnati, the Port of Cincinnati purchased almost 200 single family homes from a Los Angeles-based firm that struggled for years to pay its taxes and maintain its properties. The Port plans to upgrade the homes and sell them to tenants at affordable rates.[66]

The U.S. is home to over 225 non-profit community land trusts (CLTs), which seek to purchase land and provide permanent affordable housing.[67] The Dudley Street Neighborhood Initiative in Boston and Lykins Neighborhood Land Trust in Kansas City are two among many CLTs creatively pursuing neighborhood revitalization and community ownership, but these efforts often suffer from a lack of resources that make scaling a challenge.

In Philadelphia, The Enterprise Center is buying properties along 52nd Street in West Philadelphia as a central strategy in the remake of that historic commercial corridor, experimenting with an ownership model that goes beyond housing.[68] As Della Clark, the President of The Enterprise Center has said, "If you don't have site control, you just have an opinion."

These examples show how an eclectic mix of public and nonprofit entities, often backed by private and philanthropic capital, can focus on local, responsible ownership of at-risk housing and commercial properties. In Kansas City, Daniel and Ebony Edwards aspire to take the ownership model one step further. Their firm, neighborbuilt, has invested in a series of businesses (including a lumber yard) as part of their effort not only to build a vibrant community of 200 homes and commercial amenities in a neighborhood devastated by highway development and decades of disinvestment but own the entire value and supply chain of the regeneration process.

Worker cooperatives and "economic democracy movements" also provide an opportunity for collaborative local ownership. Cooperation Jackson in Jackson, MSis pursuing cooperative ownership models spanning a housing co-op, a land trust, and is supporting the creation of worker-owned business enterprises in construction, childcare, security, waste management and more. They established the land trust in West Jackson to preserve Black ownership, where they have successfully acquired over forty properties, including a shopping mall and three commercial facilities.[69] Similarly, the Bronx Cooperative Development Initiative (BCDI) is pursuing a six-pronged strategy to create shared wealth and ownership for low-income people of color, which involves a community owned and led advanced manufacturing center and a cooperative to support the back-office functions of local businesses seeking to contract with larger anchors.[70]

In Louisville's Russell neighborhood, Russell: A Place of Promise (RPOP) is building Black wealth through investment without displacement that includes sharing decision-making and leadership with residents. RPOP is connecting individuals and families to resources leading to homeownership and traditional and nontraditional business ownership, building pathways and opportunities to strengthen existing Black-owned businesses, creating innovative connections to career-track jobs, and pursuing community ownership of neighborhood assets.

The focus on local ownership can and must be a vehicle for homeownership and the testing of new, scalable strategies. Last fall a group of us wrote about the emerging model of "community equity districts,"[71] a tool that could respond to this moment and create wealth for the many non-white residents of disadvantaged neighborhoods. They are an especially relevant model for low growth, high vacancy neighborhoods. These districts are defined by a threefold approach:

- *The implementation of a local "district economic redevelopment" initiative, that facilitates planned, whole neighborhood, public-private growth.* This entails creating a neighborhood "district," comprised of a mix of uses that includes hundreds of units of newly built and revitalized high-quality owned homes for low- and moderate-income families alongside substantial whole-neighborhood economic redevelopment. It necessitates focusing on a broad suite of economic development investments in this neighborhood district.
- *The development and implementation of a "community equity" share in the neighborhood district so that resident and investor benefits are aligned.* This new, ultimately liquid, security product – akin to shares of stock in the neighborhood– will enable all community residents, whether owners or renters, to participate in the financial upside and value appreciation of a whole neighborhood. This share would gain value over the life of the district economic redevelopment, ensuring that residents realize the benefits of economic growth of their own neighborhood.
- *Implementation of a scaled lease-purchase model.* A scaled, accessible homeownership strategy requires a credible, safe and market-specific approach to growing homeownership. In a post-industrial neighborhood, a scaled lease-purchase model provides the most impactful solution to the homeownership gap by offering a long-enough runway to enable financial qualification and provide time to rebuild resident belief in a neighborhood's potential for upward revaluation.

The bottom line is this: disadvantaged neighborhoods need new approaches both to combat the wave of parasitic capital as well as create new models of wealth building and inclusive regeneration. These early examples and ideas show a marked departure from the traditional ways of doing things and need serious attention from policymakers and practitioners alike.

4. Drive a Surge in Workforce Diversity

Fourth, cities are using federal investments to drive a surge in workforce diversity and, in the process, upgrade the skills of workers and raise incomes. New infrastructure spending will demand high volumes of skilled labor. Qualified workers will be needed to build, improve and maintain existing roads, bridges and transit and rail systems. They will also be needed to deliver the next generation of infrastructure projects, whether building or maintaining new sources of clean energy, assembling and servicing electric vehicles, installing new broadband cable and supporting millions of new customers, enhancing cybersecurity capabilities across sectors, environmental remediation work on brownfields, lead pipe replacement, home weatherization and energy efficiency retrofits, and traditional construction—the list goes on and on. The good news is that these are jobs with comparatively high wages. Construction jobs pay over $32 an hour, on average, higher than average wages in retail, hospitality, transportation, manufacturing, and warehousing.[72]

There are several ways American Rescue Plan and IIJA funds can be put toward infrastructure workforce programs. Accelerator for America, for example, is partnering with the North America's Building Trades Unions to encourage cities to use State and Local Fiscal Recovery funds to expand the capacity of NABTU's 175 Apprenticeship Readiness Programs, at a price tag of $150,000 per program.[73]

The Economic Development Administration's Build Back Better Regional Challenge and Good Jobs Challenge have motivated communities across the country to chart out sector-focused workforce programs, including in the infrastructure space, efforts that are replicable whether cities receive funding from these programs or not. These efforts involve crafting deliberate networks of private employers, high schools, community colleges, universities, and private and non-profit training partners. These networks must create curriculums that align with regionally available jobs and employer demand for skills. Networks must build credentials that will be recognized by local firms, and create work-learn opportunities, including apprenticeships. Programs should seek to shift the financial risk (debt) of education away from learners, and offer wraparound services, so they can be maximally inclusive of marginalized residents. The City of Newark, for example, is seeking BBBRC funding to develop a workforce trained in smart port operations as they plan to modernize the Port of New York and New Jersey. In another BBBRC proposal, the Indian Nations Council of Governments (INCOG) in Tulsa, Oklahoma used labor market analysis to create three specific workforce programs that target growth in the advanced mobility industry and embed diversity, equity, and inclusion personnel throughout. A significant portion of these jobs will not require a college degree.

Looking beyond infrastructure needs, a central task for the next generation will be to scale democratized career training pathways, so neither students nor employers are reliant on expensive and exclusive four-year degrees. We're in an era of workforce innovation, but efforts are too often disjointed and bespoke. In 2020, Harvard University's Project on Workforce analyzed over 300 independent private and non-profit training programs in the U.S. and found most had poor track records of placing trainees in jobs. Programs that have scaled fastest, meanwhile, did so through strong employer partnerships.[74]

Colorado and Rhode Island have been at the forefront of designing and delivering scalable workforce systems that are true public-private partnerships, through Real Jobs RI and CareerWise Colorado.[75] Rhode Island's system features employer-driven community college and credentialing pathways, while Colorado has supported CareerWise in building a high school apprenticeship system now deployed by nine county school systems, spanning 10 sectors, and made possible by partnerships with over 100 employers.

> **"Looking beyond infrastructure needs, a central task for the next generation will be to scale democratized career training pathways, so neither students nor employers are reliant on expensive and exclusive four-year degrees."**

5. Drive a Surge in Supplier Diversity

Fifth, cities are using federal investments to drive a surge in supplier diversity, building on efforts over the past decade by major anchor institutions to use their procurement decisions to grow Black- and brown-owned businesses. Since the enactment of the Infrastructure Investment and Jobs Act, there has been a collective epiphany that the enormous purchasing power of infrastructure agencies and anchor institutions can be put to use to support the growth of minority-owned firms that can design, engineer, construct, maintain and finance next generation projects.

The United States, of course, has been fiddling with supplier diversity since the late 1960s, but advocates and practitioners alike agree that the results have been lower than expected, largely because supplier diversity efforts cannot be divorced from market dynamics facing small businesses. In 2019, for example, Black-owned employer firms represented 2 percent of all employer firms in the U.S. and Latino-owned employer firms represented 6 percent.[76] This is a far cry from the 13 and 18 percent share of our national population that identifies as Black or Latino, respectively. These figures are also far below the ambitious minority business enterprise (MBE) contracting targets set by many cities and states. Efforts at supplier diversity must be married with efforts to break down structural barriers to capital access and support for minority business formation and growth more broadly. They must support entrepreneurship in a more diverse range of sectors, specifically those that are actually equipped to participate in the business-to-business (B2B) markets that dominate contracted goods and services.

Procurement remains an essential tool to strengthen the existing supply of businesses. And yet, the implementation of federal programs, from the construction of roads and bridges, new housing, new transit lines, and more, is mostly delivered by non-neighborhood firms and workers rather than promoting jobs for residents and demand for local enterprise. Supplier diversity efforts remain a highly legalistic, "check-the-box" exercise rather than a platform for growing firms and creating quality jobs, even in areas like housing renovation, which present low barriers to entry for firms and workers.[77]

In recent years, there has been a burst of energy in the private and public spheres to direct more spending toward minority owned businesses and other historically underutilized firms. B2B spending is an essential part of our supply chain. Federal, state, and local governments alone outsource a combined $2 trillion in spending every year. Now that the public witnessed the disruptive impact of the pandemic on global supply chains, the appetite for local purchasing may never be higher. Several new initiatives have emerged to encourage diverse spending from private companies, large anchor institutions, and public agencies and authorities, and local leaders should encourage this. On the public side, it is imperative that efforts include not only state and city governments, but quasi-public entities including transit agencies, ports, airports, school districts, public utilities, and development authorities that outsource billions in spending every year.

On the private side, examples include KC Rising's CEO-to-CEO Challenge and the Greater Washington Partnership's Collective Action for Shared Prosperity. In the anchor institution arena, primary examples include Philadelphia Anchors for Growth and Equity (PAGE), Chicago Anchors for a Strong Economy (CASE), and the multi-city Healthcare Anchor Network. On the public side, Los Angeles (LA Metro and the City of Los Angeles) and Chicago (Chicago Transit Authority (CTA), the Chicago Aviation Commission, and the City of Chicago) are widely considered to be industry leaders on inclusive public procurement. Philadelphia's Rebuild program for public facilities has also won widespread praise. More ambitious supplier diversity efforts are underway in the U.K. and Scotland, including the London Anchor Institutions Network, which can be broadly adapted.

These efforts, while impressive, are still exceptions to the rule and need to be codified and routinized if the country is going to benefit fully from anticipated federal investments in broad categories of infrastructure. To that end, Denver International Airport and four leading public authorities, including SEPTA, CTA, the Port of Long Beach, and the Metropolitan Water District of Southern California, launched the Equity in Infrastructure Project in early 2022, making pledges to spend infrastructure funding on diverse suppliers that can be repeated across the country.[78] In addition, cities like San Antonio are working with the Aspen Institute and the Nowak Metro Finance Lab to invent regional, market-based *Procurement Playbooks* to unleash the full potential of federal infrastructure spending to grow Black- and brown-owned businesses.

The elements of such a Playbook are clear-cut:

- Collect data to assess the current state of diverse spending, set goals to expand such spending, and provide transparent reporting to assess progress or the lack of progress on an annual basis;
- Assemble an inventory of diverse vendors that have a track record of supplying particular goods and services routinely procured by infrastructure agencies;
- Explore the creation of digital marketplaces that can easily match buyers and sellers by showing buyer credentials and seller demands across multiple purchasers;
- Drive innovation in financial products through loan and bonding guarantees, contract financing, and other mechanisms, taking full advantage of the State Small Business Credit Initiative; and
- Consider the creation of Supplier Diversity intermediaries that can help coordinate and align procurement efforts across multiple public entities and work closely with a consortium of entrepreneurial support organizations, business chambers and capital providers to provide the full suite of necessary services to target firms.

Procurement diversity efforts must be married with efforts to support the creation and growth of new small, minority, and women-owned firms more broadly, given the relatively low supply of such firms, at present, described earlier in this section. There are several strong local organizations fostering this growth, including Urban Impact in Birmingham, which offers technical assistance and a local revolving loan fund to support diverse entrepreneurs in targeted districts. Each of these efforts require working closely with Congressional and local leaders and key agencies in a deliberate effort to routinize tools and practices that can make markets, grow firms and drive measurable outcomes.

> **"Procurement diversity efforts must be married with efforts to support the creation and growth of new small, minority, and women-owned firms more broadly, given the relatively low supply of such firms, at present..."**

6. Support the Creation of Innovative Financial Funds and Products

Sixth, cities and regional funds are pushing the envelope on innovative financial funds and products to grow a more inclusive and sustainable economy. For the past several decades, federal support for small businesses has mostly flowed through legacy debt products rather than innovative equity investments and other financial instruments. Ironically, more innovative financial products are offered through export-oriented and international aid programs than programs aimed at the domestic market. Innovative financial products are a necessity to facilitate the formation and growth of diverse firms.

There are early signs of innovation that, if scaled, will construct a continuum of capital (from equity to debt) for a continuum of entrepreneurs (from construction contractors to cluster-led startups).

Build on Existing Federal Efforts: Some of the innovations underway extend the reach of existing and underutilized federally-backed entities and small business- oriented capital. In Philadelphia, for example, The Enterprise Center recently launched the Innovate Capital Growth Fund. The private equity fund is an SBA-registered Small Business Investment Company (SBIC) with a goal to raise $50 million.[79] SBIC designation will give The Enterprise Center, already a renowned CDFI, the ability to grow minority businesses and regenerate commercial corridors with new forms of capital.

We are encouraged that the $10.5 billion federal State Small Business Credit Initiative (SSBCI), a key component of the American Rescue Plan, could boost the volume of quality, reasonably priced capital in the service of supplier diversity. There is precedent here: New York State used the first round of SSBCI funds, issued in 2010, for a surety bond program that effectively doubled minority contracting.[80] The program is run through the Treasury Department and is set to distribute funds to states in the spring and summer of 2022. This is a moment for states to work closely with cities to join up SSBCI finance with federal infrastructure funding for purposes of scaling Black and Latino-owned businesses.

We are convinced that community development financial institutions deserve increased attention as key intermediaries for channeling much-needed capital into disinvested neighborhoods. Even though small business lending and microfinance represent only 10 percent of CDFI activity, they showed themselves as lifelines for PPP funds to Black and brown businesses and expert underwriters for their communities.[81] Their challenge: they are undercapitalized. Calvert Impact Capital and Community Reinvestment Fund (CRF) came together in the beginning of the pandemic to meet this critical need. They agreed Calvert would syndicate institutional and philanthropic capital, and CRF could plug local CDFIs and their origination functions into its Connect2Capital and SPARK online platforms so local lenders could focus on what they do best: on-the-ground technical and capacity support for under-resourced small businesses.[82]

Using this "capital aggregation" method, Calvert and CRF matchmake institutions' comparative strengths: the *volume* of institutional capital, *speed* of technology, and local knowledge of CDFIs.[83] Through this partnership, more than 50 financial institutions committed more than $300 million to small businesses when credit was needed most—with 70 percent going to minority and women business enterprises (MWBEs) and 51 percent in low-income communities. In New York, for example, the partnership created the $100 million New York Forward Loan Fund, with investments from Wells Fargo and the Ford Foundation to small businesses, nonprofits, and small landlords.[84] Combined with innovative capital products, such as Denkyem (described below), cross-sector collaboration, creative capital stacking, and scale can uncover new investments and possibilities for Main Street economies.

Pioneer New Products and Funds: Innovations are also needed in financial products and funds if long standing barriers are to be addressed. To this end, three trends have enormous potential.

In Seattle, the National Development Corporation (NDC) is working to channel state SSBCI risk capital and private dollars into local revenue-based financing (RBF) funds. An early RBF leader in the region is Denkyem, a local cooperative capital provider focused on new and emerging Black-owned businesses in King and Pierce Counties. Situated between rigid debt and dilutive equity investment, instead of collecting set monthly payments like a term loan, the RBF repayment is set at 5 percent of monthly revenues, flexibly matching the ebbs and flows of starting a new business. Denkyem operates through relationship lending, relying on character and past cash flow of a business rather than collateral and personal assets.[85] Their team not only works with entrepreneurs to help them gain access to better fitting capital, they get back to their clients quickly, gaining approval in just 2 to 4 weeks.

The post pandemic period could see the growth of Black and brown-founder funds to reach underrepresented founders. Collab Capital is an Atlanta-based, Black-led venture fund focused on Black founders – seed-stage investments for Black tech entrepreneurs cross the U.S.[86] Collab has piloted a profit-sharing investment model (or "SPACE," Shared Profits and Collaborative Endorsement) that like RBF aligns incentives between funders and founders, does not dilute ownership like traditional venture capital, and brings capital to innovators in communities where "friends and family" money or assets for loan collateral may be limited.[87] Our core challenge moving forward is standardizing, scoring, and scaling these innovative financial products so intuitional investors and CRA-motivated capital can better reach diverse founders.

Finally, the post pandemic period could see the growth of targeted commercial corridor funds. In Charlotte and Detroit, special funds and intermediaries are dedicated to regenerating commercial corridors within low-income neighborhoods. Charlotte has created a $250 million Racial Equity Initiative, with funding dedicated in part to six "Corridors of Opportunity" to attract and grow existing Black- and Latino-owned businesses to areas of cities that have historically been areas of disinvestment and underinvestment. Detroit, for its part, created a $130 million Strategic Neighborhood Fund focused on commercial corridor revitalization efforts in 10 separate neighborhoods.

7. Modernize Urban Institutions to Catalyze Inclusive Recovery

Finally, cities are creating new, and reforming old, urban institutions and networks to deliver innovative, inclusive and climate solutions and leverage the full public powers and private and civic resources that cities possess.

History teaches us that crises lead to institutional transformation. The United States is no exception and has a long history of new federal institutions being created in the aftermath of crises: The New Deal in response to the Great Depression, the Homeland Security Administration after 9/11, and the Consumer Financial Protection Bureau following the housing crash of 2008/2009. The post pandemic period is already stimulating the creation of new or reformed urban institutions and networks. Several factors are driving this trend.

> **"History teaches us that crises lead to institutional transformation. The United States is no exception and has a long history of new federal institutions being created in the aftermath of crises..."**

The flow of abundant federal resources across multiple agencies, programs and distribution channels, without even a semblance of coordination, requires cities to organize for success, within government and across multiple sectors. Since March 2021 and the enactment of the $1.9 trillion American Rescue Plan Act, several cities, for example, have been working with Accelerator for America and the Nowak Metro Finance Lab to create Stimulus Command Centers to enable coordination and cumulative impact across fragmented federal programs. In Dayton and Louisville, Mayors appointed senior executives to create and lead new teams to set priorities and deploy flexible COVID relief funds and coordinate engagement with public-private stakeholders. These Centers are emerging as networked hubs for local collaboration around waves of federal investment, enabling cities to bend federal resources towards local priorities and leverage public, private and civic capital for maximum impact.

The Economic Development Administration's $1 billion Build Back Better Regional Challenge has similarly driven the creation or bulking up of network governance models that extends across the public, private and civic sectors. The BBBRC applications show how research universities, major industrial companies, small and medium sized enterprises, entrepreneurs, investors, community colleges and others are coming together to collaborate to compete. Such collaboration is the only way to connect the dots, often across vast geographies, between the commercialization of research, the development of talent, the formation and scaling of innovative firms and the adoption of cutting edging technologies in companies large, medium and small.[88] Many of these efforts build on successful efforts that originated in Indianapolis, Northeast Ohio and Pittsburgh and were chronicled in *The Metropolitan Revolution*[89] and *The New Localism*.[90]

These organizing efforts are iterating and evolving as the Infrastructure Investment and Jobs Act comes on line. In San Antonio, for example, Mayor Nirenberg established an Executive Roundtable of leaders from public authorities and a local military base to coordinate metro-wide infrastructure planning and competitive grant applications.

Beyond organizing for federal funding, city leaders recognize that many of the institutions built in the 20th century to govern and finance cities are now inadequate to the task and are experimenting with new kinds of institutions and intermediaries that are more fit to 21st century needs and possibilities. Tulsa, for example, has created a new Public Authority on Economic Opportunity to adapt models pioneered in European cities like Copenhagen and Hamburg that capture the appreciation in land value for continuous reinvestment in public goods and services. The effort started with a merger of multiple public authorities and entities into a new Tulsa Authority for Economic Opportunity (TAEO).[91] This new authority will own substantial assets, including multiple parking structures and surface lots in the downtown, large landholdings prime for redevelopment just outside of downtown, residential lots throughout the city, and a hangar leased by American Airlines. Excitingly, these assets generate stable cash flow and have the potential to generate even more revenue through smart development and disposition, which then be reinvested into the poorest neighborhoods in the city.

The Infrastructure Investment and Jobs Act could stimulate greater interest in the public asset corporation model. It has a new $100 million program to encourage asset concessions and explicitly encourages the use of public-private partnerships (P3s) for a range of transportation projects.[92] Both are underutilized tools for putting private financing and private leasing to good public use through value capture and revenue that can be invested in other public projects.

Other governance models are emerging to stimulate neighborhood regeneration and combat the rise of absentee, parasitic capital. Cincinnati and Erie, for example, have pioneered new nonprofit development corporations – the Center City Development Corporation[93] and Erie Downtown Development Corporation respectively—with the capacity, capital and community standing to drive large scale urban transformation. Hundreds of millions of dollars of patient capital, generally raised through corporations and philanthropies, has enabled the development corporations to acquire strategically located properties in blighted areas and rejuvenate them with a mix of public and private sector investments. The same model could easily be applied to distressed neighborhoods throughout the US, either as part of a commercial corridor regeneration or broader housing redevelopment plan.

CONCLUSION

Cities have the right mix of market relevance, civic agency and network power that will be necessary to navigate the uncertain period that will follow the pandemic. They will need all those assets and attributes to address the challenges that will undoubtedly face the poorest of their neighborhoods.

The new disorder will be qualitatively different than what has come before. As we have described, the pandemic has accelerated certain trends and exacerbated others. It will take years to decipher what has been unleashed and to discern what dynamics are structural and permanent and what are cyclical and short-lived. Irrespective, the challenges are inordinately complex and difficult and will take a change in thinking and action to address.

Cities, unlike national and state governments, do not have the luxury of waiting for the dust to settle. They need to begin to act now—as networks of public, private, civic and community leaders and organizations and as institutions and residents alike—to assess and acknowledge the severity of the challenges before them and develop responses that match in scale, scope and urgency.

Simply repeating what has been done in the past or, believing that the federal government is the deus ex machina, will not be sufficient to address what is coming. To that end, we have identified seven moves—planning, game-changing investments, ownership, supplier diversity, workforce diversity, finance and institutions—that we believe are aligned with the moment. They are, by no means, the full sum of what is happening in the United States. But they are a powerful snapshot of the different kinds of strategies that could make up a radically different approach to city building and neighborhood revitalization in the post-pandemic environment.

Taken together, these strategies represent a marked expansion of, and move beyond, the federal government's historic emphasis on the building, preserving or renovating subsidized rental housing for very low-income populations in disadvantaged neighborhoods. The strategies enumerated here, by contrast, make raising incomes, shifting ownership and building wealth the centerpiece of neighborhood regeneration. They focus on bending a broader array of federal spending, as well as local discretionary capital, in the service of inclusive recovery and neighborhood prosperity. They also intervene with holistic, integrated and aligned strategies that reinforce each other and drive synergistic outcomes (e.g., acquiring and renovating dozens of properties for rental or lease-to-purchase, growing local businesses at scale or saturating neighborhoods with talent development efforts that are proven to succeed).

We intend for this provocation to be the first of a series. As we move forward, we will provide more specificity, both on the contours of disparate strategies and on what different layers of government and sectors of society can do to make systemic change. We recognize that these enormous challenges are set against a backdrop of what has been dubbed a "delivery crisis"—wherein the current resources outpace the ability of government at all levels, with private, civic and community partners, to deploy solutions effectively. Our next installments will further bring to ground the what and the how for meeting these challenges head on.

For now, our message to city leaders—mayors, corporate CEOs, business chamber heads, foundation and university presidents, community organizers and beyond—is clear. The storm is not over. There will be no post-pandemic bounce-back. The impact of the past few years will take years to clarify and even more time to resolve. And it will not be solved with federal money or private and civic dollars alone. It will take leadership from the ground up that can harness the full power of public, private and philanthropic capital and resources in the service of local solutions.

Gather yourself. Build a network of community builders that cut across agencies, sectors and disciplines. Take a frank stock of your assets and liabilities. Walk the streets. Engage the community. Build capacity in key places to design, finance and deliver solutions that are fit to purpose and geared to succeed.

The central message of *The New Localism*, written during the rise of populism rather than the aftermath of a pandemic, remains true:

> **"Power belongs to the problem solvers. And these problem solvers now congregate disproportionately at the local level, in cities and metropolitan areas across the globe."**

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