

# Revitalizing Inner Cities: The Strategic Agenda

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REVISITING THE PROMISE AND PROBLEMS OF INNER CITY ECONOMIC DEVELOPMENT



# THE STATE OF THE U.S. ECONOMY

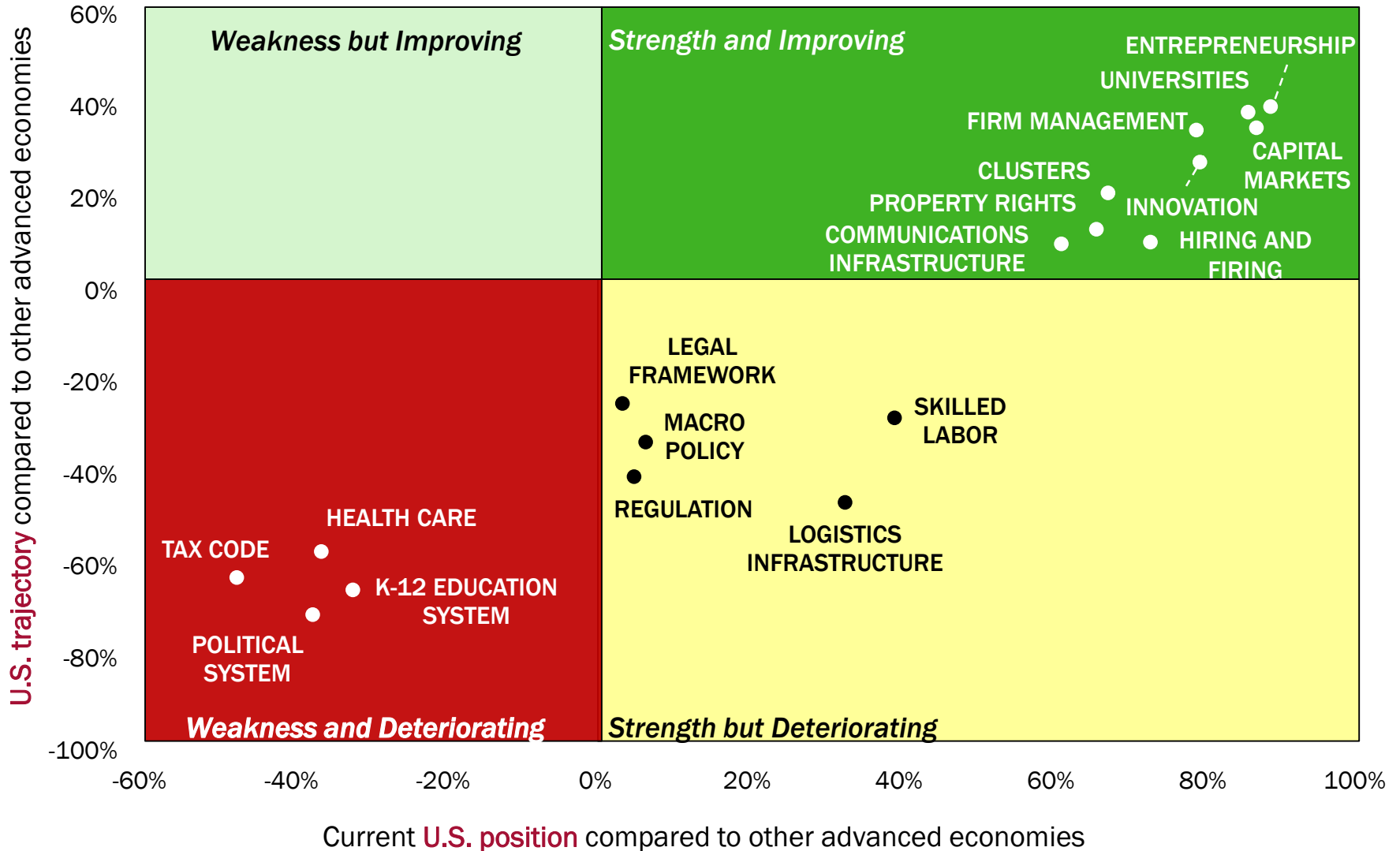
- The performance of the U.S. economy is **weaker** than it has been in a generation or more
- Declining economy reflects a **structural problem**, not just a cyclical downturn
- While the U.S. retains core strengths, the U.S. **business environment has deteriorated** in important areas
- There is a **growing divide** in the economy between those who are:

PROSPERING	STAGNATING
<ul style="list-style-type: none"><li>• Highly-skilled individuals</li><li>• International companies and high-tech startups</li></ul>	<ul style="list-style-type: none"><li>• Middle and lower-middle class workers</li><li>• Many small businesses</li></ul>



- Strengthening America's inner cities has become **more challenging** due to the overall state of the U.S. economy

# THE U.S. BUSINESS ENVIRONMENT IN 2014: STRENGTHS AND WEAKNESSES



## WHAT IS AN INNER CITY?

ICIC defines an inner city as **contiguous census tracts within central cities** that are economically distressed, based on the following criteria:

*A poverty rate of 20% or higher, excluding currently enrolled undergraduate and graduate students*

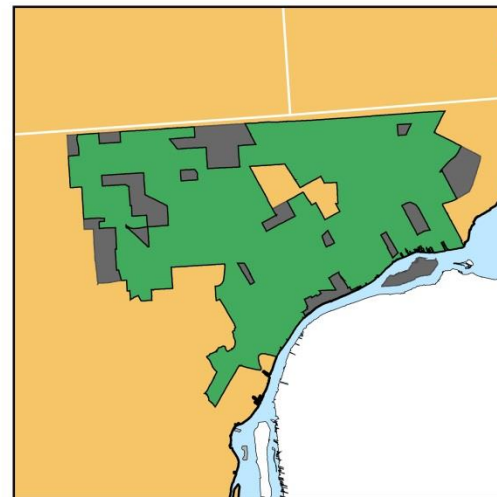
**OR**

- Poverty rate (excluding students) of **1.5x or more** than the MSA

*And at least one of two other criteria:*

- Median household income **50% or less** than the MSA
- Unemployment rate **1.5x or more** than the MSA

Example:  
Inner City Detroit, MI



# INNER CITY ECONOMIES: KEY FACTS

## Share of U.S. Employment by Geography, 2013



Inner City  
**11%**

Rest of Central City  
**28%**

Rest of MSA  
**49%**

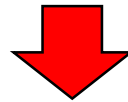
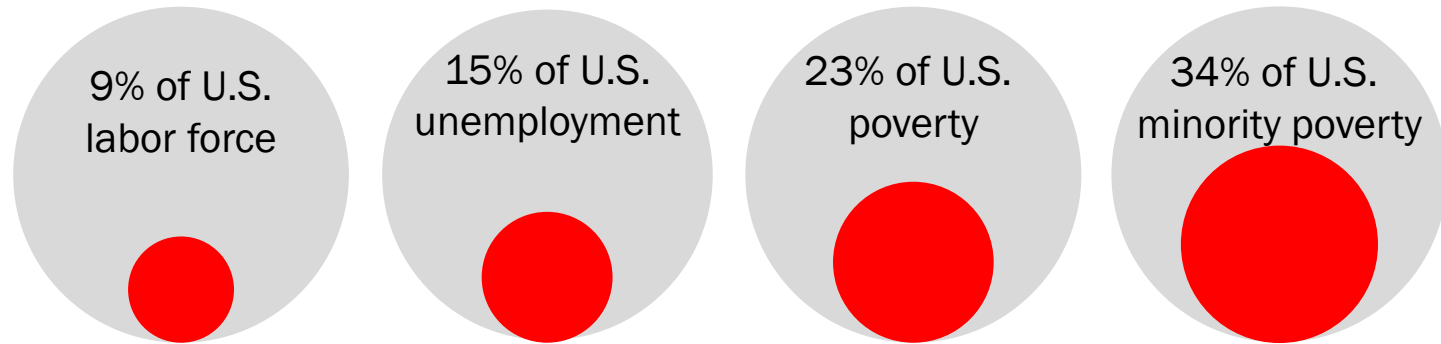
Rest of U.S.  
**23%**

## WHO LIVES IN THE INNER CITY?

- **10%** of the U.S. population
- A **younger** population:
  - The median age of an inner city resident is **30 years**, compared to 37 years old for the U.S. overall
- A **diverse** population:
  - **37%** Hispanic or Latino, any race
  - **31%** Black or African American
  - **24%** White
  - **5%** Asian
  - **2%** Two or More Races
- Lower **education** levels:
  - **15%** of inner city residents 25 years and older have a Bachelor's degree or higher, versus 29% in the U.S. overall
- Lower **income**:
  - Median household income in the inner city is **\$30,300**, versus \$53,000 for the U.S. overall

## ROLE OF INNER CITIES IN PROSPECTS FOR CITIZENS

The 328 inner cities in the U.S. represent only **9% of the national labor force**, but have a much larger impact on the average prosperity of Americans



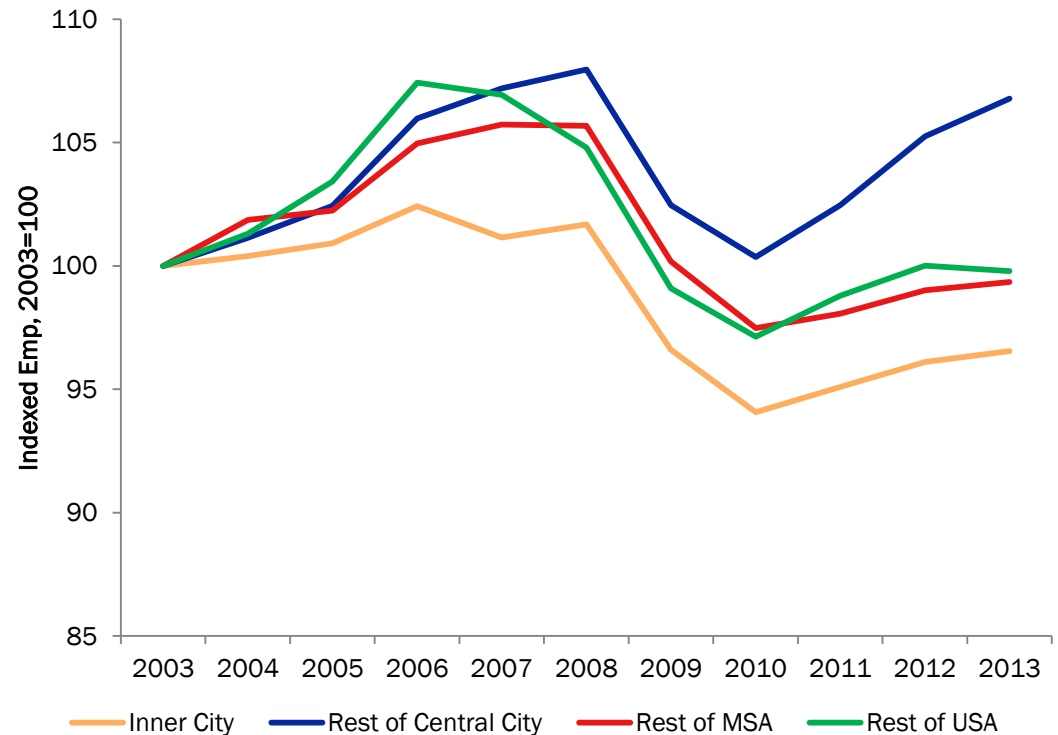
- Poverty and unemployment are concentrated in inner cities
- Targeting inner cities allows a **wholesale** rather than a retail approach to **poverty, unemployment, and the prospects of minorities**

# THE ECONOMIC PERFORMANCE OF INNER CITY ECONOMIES

During 2003-2013, inner cities lost significant jobs while the rest of the central city gained jobs

2003- 2013 Net Job Growth		
	CAGR	Number
<b>Inner City</b>	<b>-0.4%</b>	<b>-440,000</b>
Rest of Central City	0.7%	2,000,000
Rest of MSA	-0.1%	-287,000
Rest of U.S.	-0.02%	-56,000

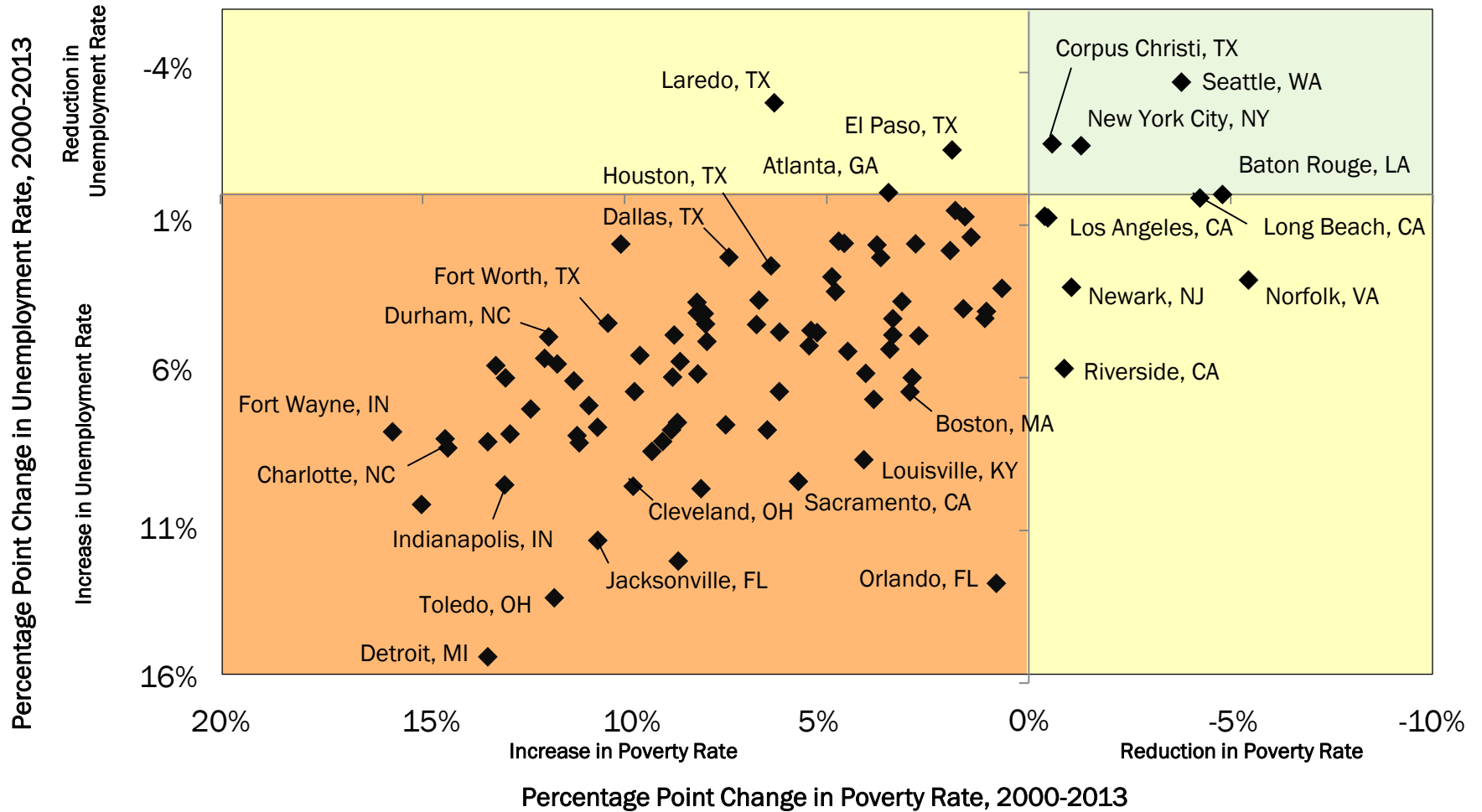
Inner City Employment vs. Other Geographies (2003-2013)





# ECONOMIC PERFORMANCE OF INNER CITY RESIDENTS: POVERTY AND UNEMPLOYMENT

## 100 LARGEST CITIES, 2000-2013

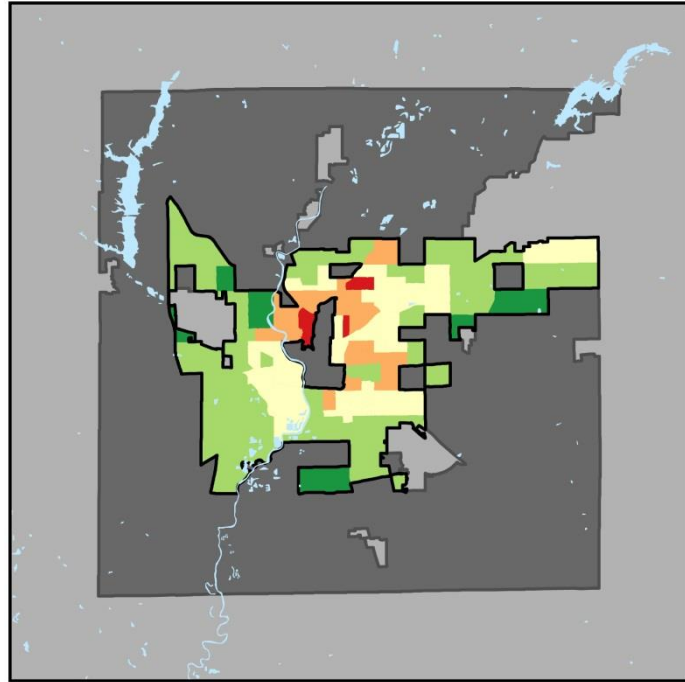


Note: In some inner cities, changes in poverty levels may be largely attributed to population migrations

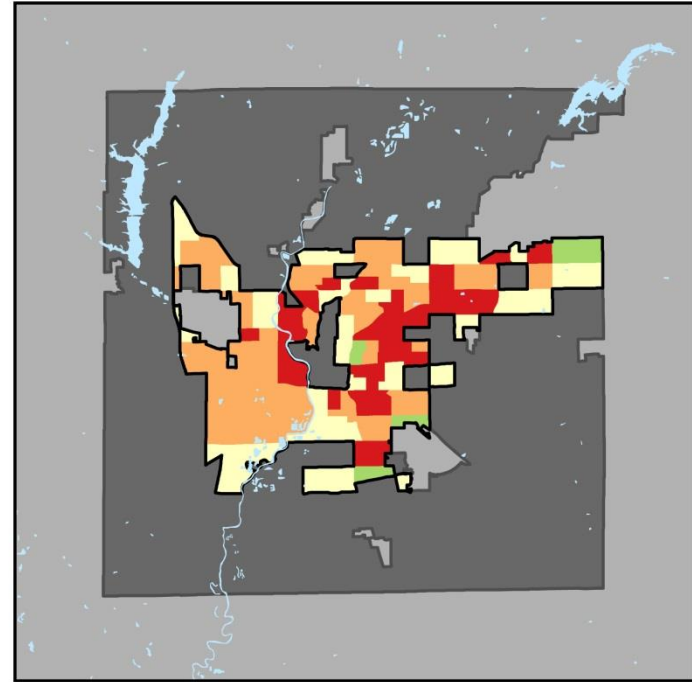
Source: State of the Inner City Economies (SICE) Database; Decennial Census 2000; 2009-13 American Community Survey; ICIC analysis

# INNER CITY PERFORMANCE: INDIANAPOLIS

Poverty Rate (2000)

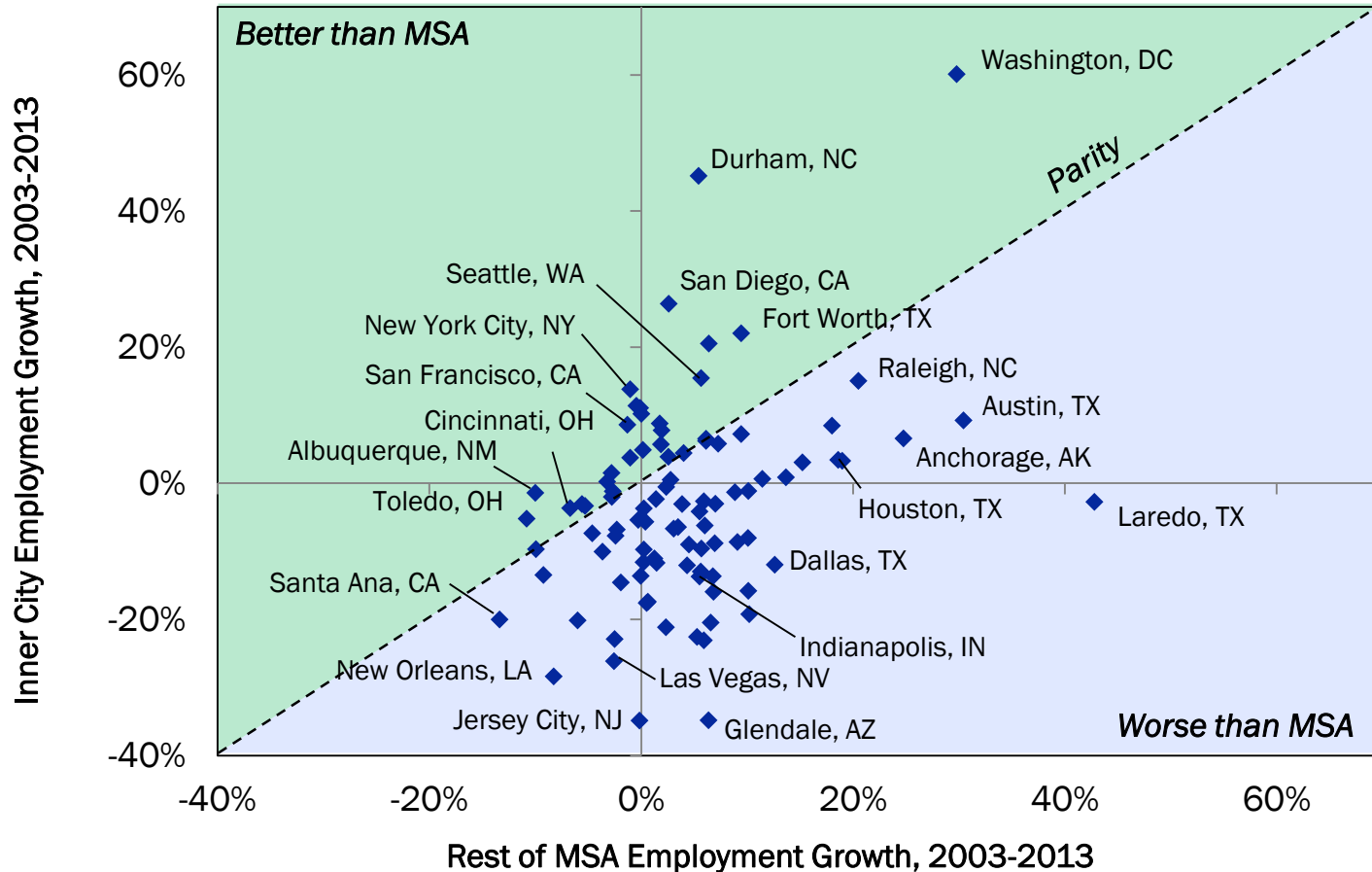


Poverty Rate (2013)



- Indianapolis' inner city registered a poverty rate **increase** between 2000 to 2013

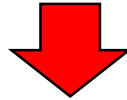
# PERFORMANCE OF INNER CITY ECONOMIES VERSUS THE MSA



The correlation between regional and inner city growth for the largest 100 cities is **12%**

## REVITALIZING AMERICA'S INNER CITIES

- Economically underperforming urban core neighborhoods are the places where **low income**, **unemployment**, and **poverty** in America are concentrated
- Inner cities have been **disproportionately affected** by weak overall US economic performance



- Much has been learned about **what works** in revitalizing economically underperforming inner city areas
- Some inner cities are economic **success stories**

# COMPETITIVENESS AND ECONOMIC DEVELOPMENT

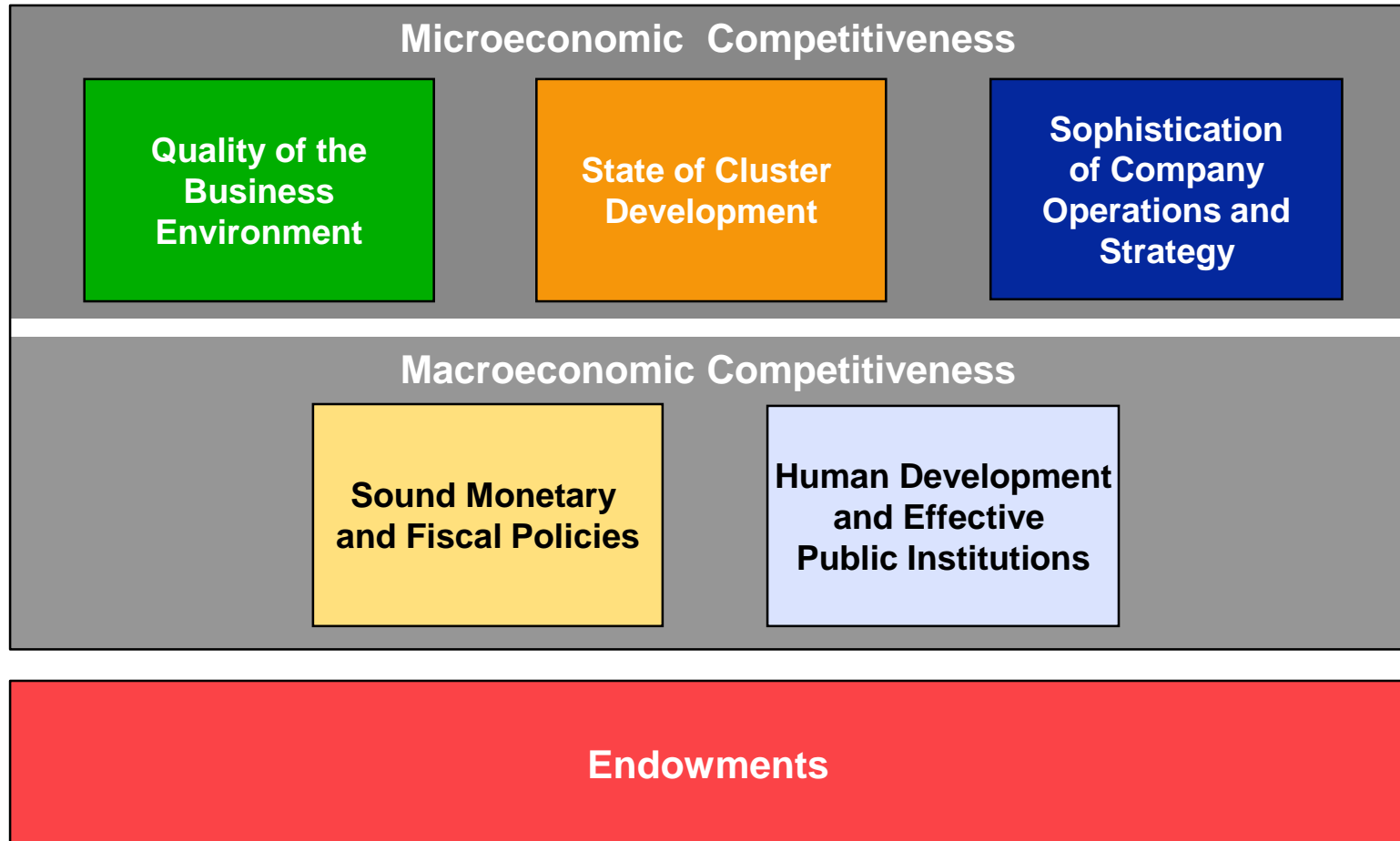
A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the national and global economy while maintaining or improving **wages and living standards** for the average citizen

- Competitiveness depends on the **long-run productivity** of a location as a place to do business
  - The productivity of **existing** firms and workers
  - The ability to achieve **high participation** of citizens in the workforce
- Competitiveness is **not**:
  - Low wages
  - Jobs per se

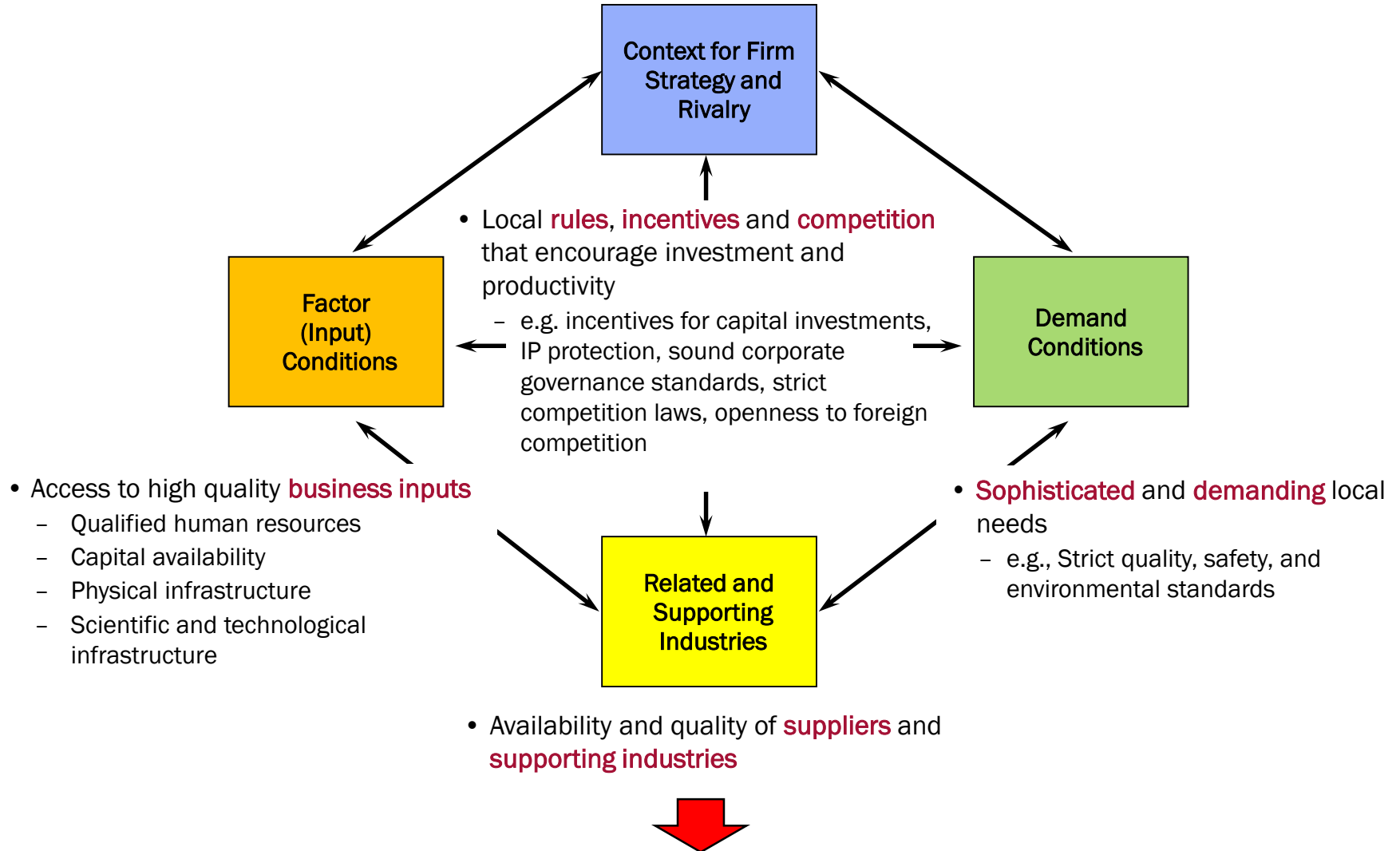


- Successful economic development depends on **improving competitiveness**

# WHAT DETERMINES COMPETITIVENESS?

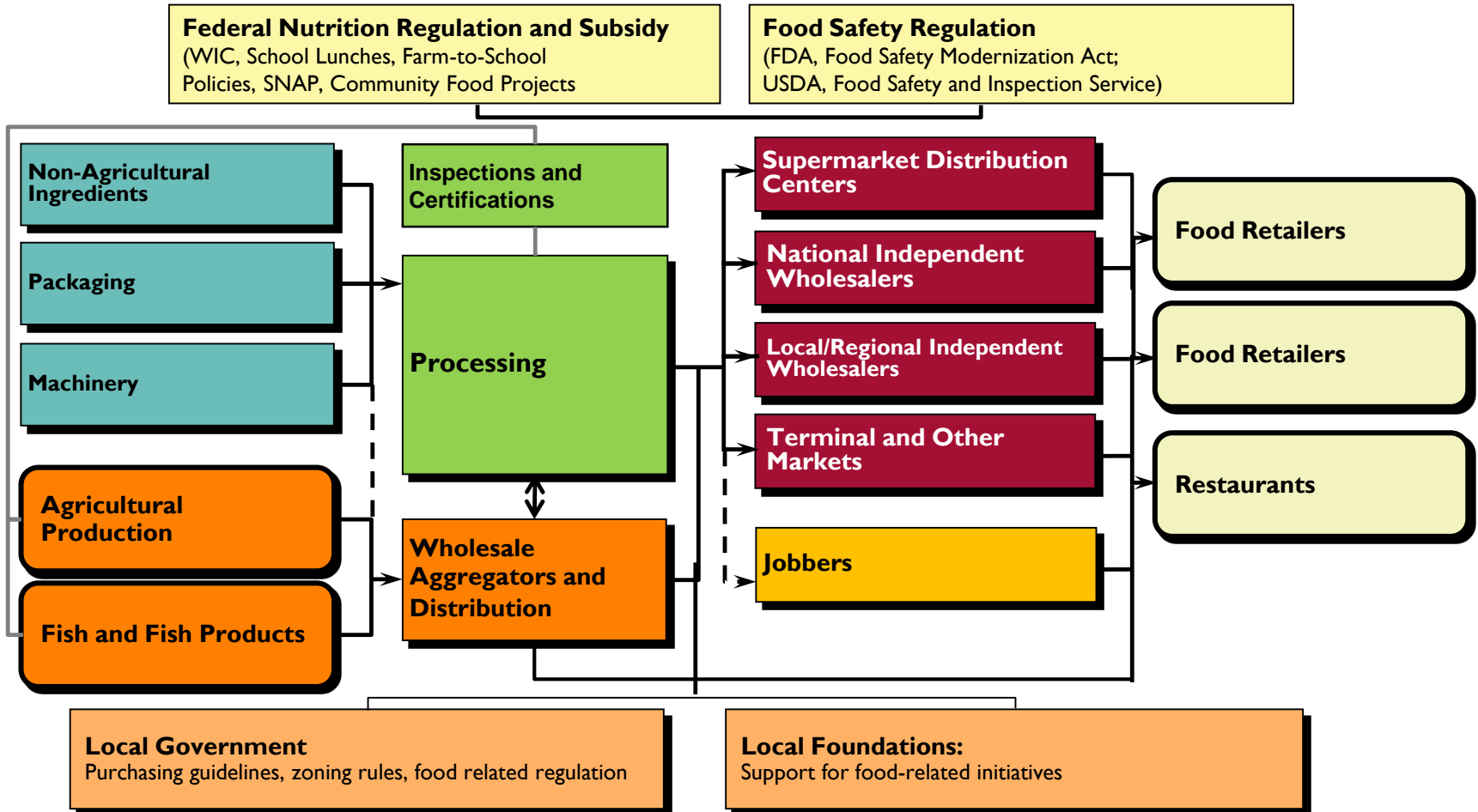


# QUALITY OF THE BUSINESS ENVIRONMENT



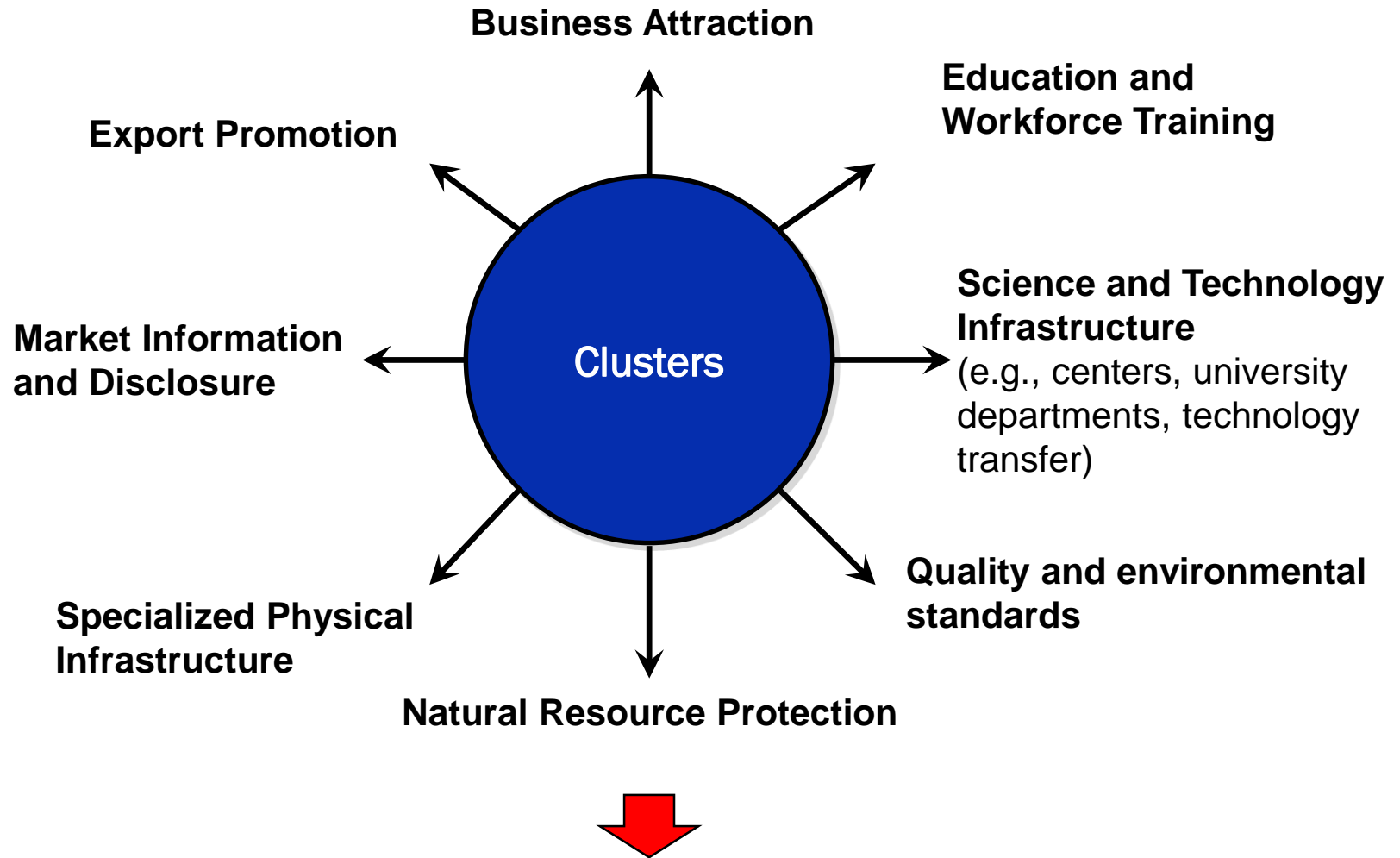
- **Many things in the business environment matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

# WHAT IS A CLUSTER? BOSTON FOOD CLUSTER



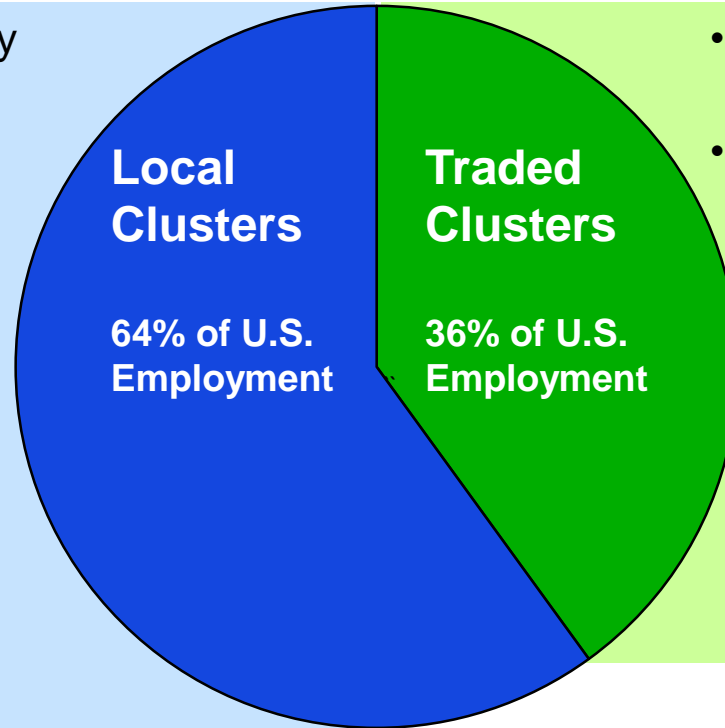


# ORGANIZE PUBLIC POLICY AROUND CLUSTERS



Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development

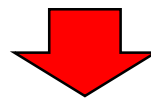
# THE COMPOSITION OF REGIONAL ECONOMIES



- Serve **national** and **global** markets
- **Exposed to competition** from other regions and nations

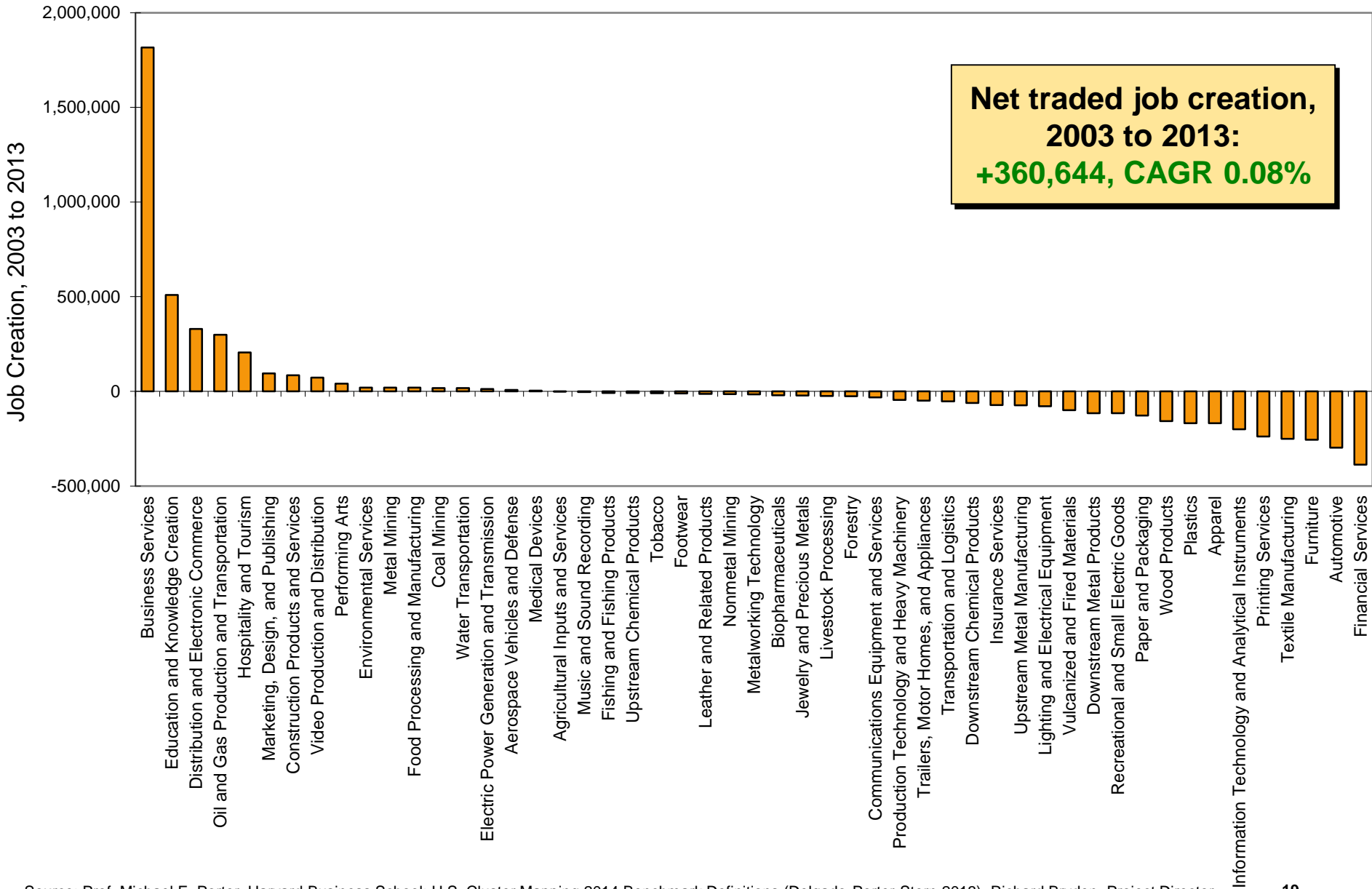


- Much higher average wages with 51% of payroll
- Much higher rate of innovation with 91% of patents issued



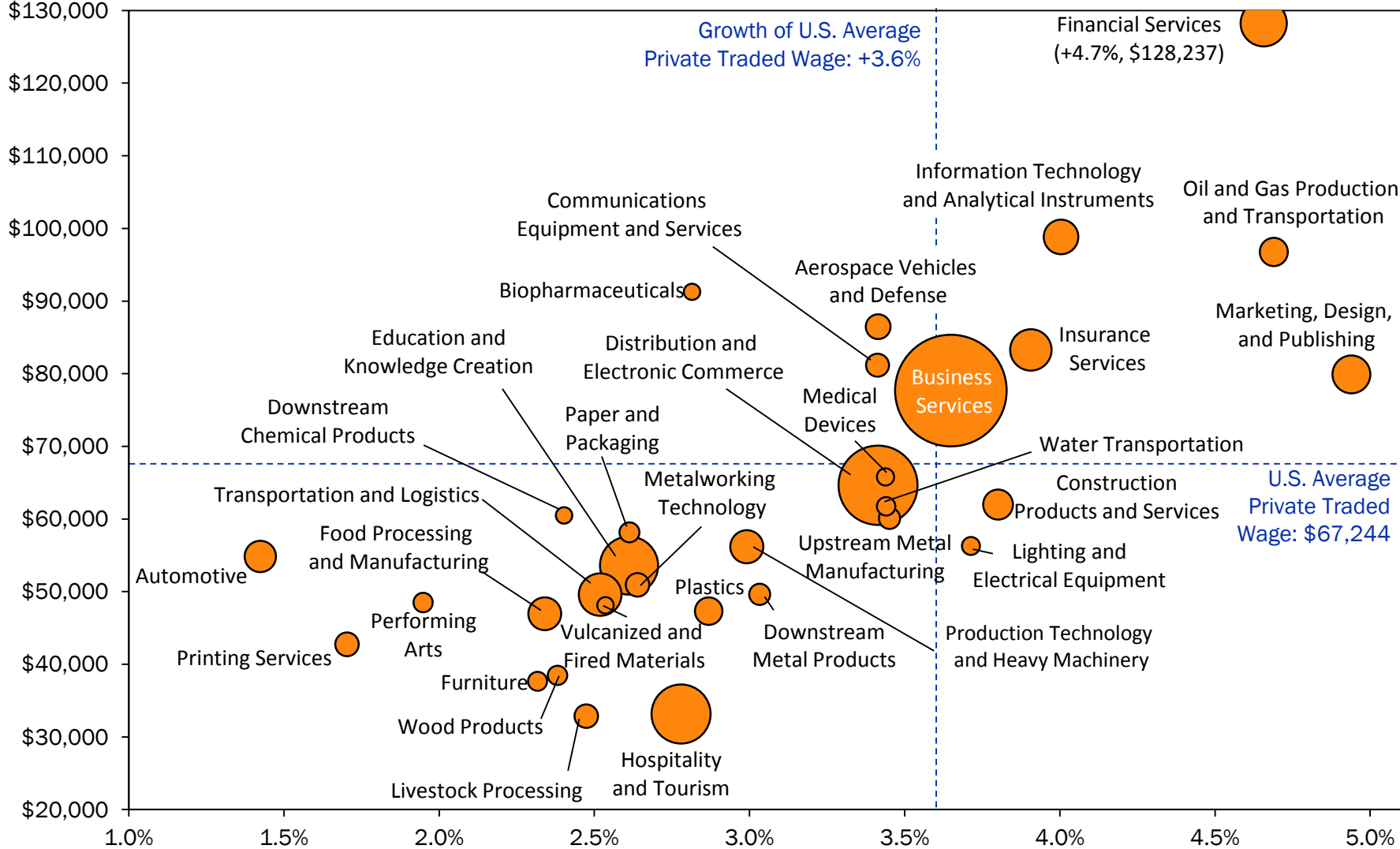
- In traded clusters, productivity, wage, and patenting are **significantly higher** than in the average of the economy
- Roughly **44% of traded employment is in strong clusters** (i.e. regional clusters with significant critical mass)
- Regions **at all stages of development** benefit from cluster presence

# U.S. JOB CREATION IN TRADED CLUSTERS 2003 TO 2013



# U.S. WAGES IN TRADED CLUSTERS 2003-2013

Average Private Wage, 2013

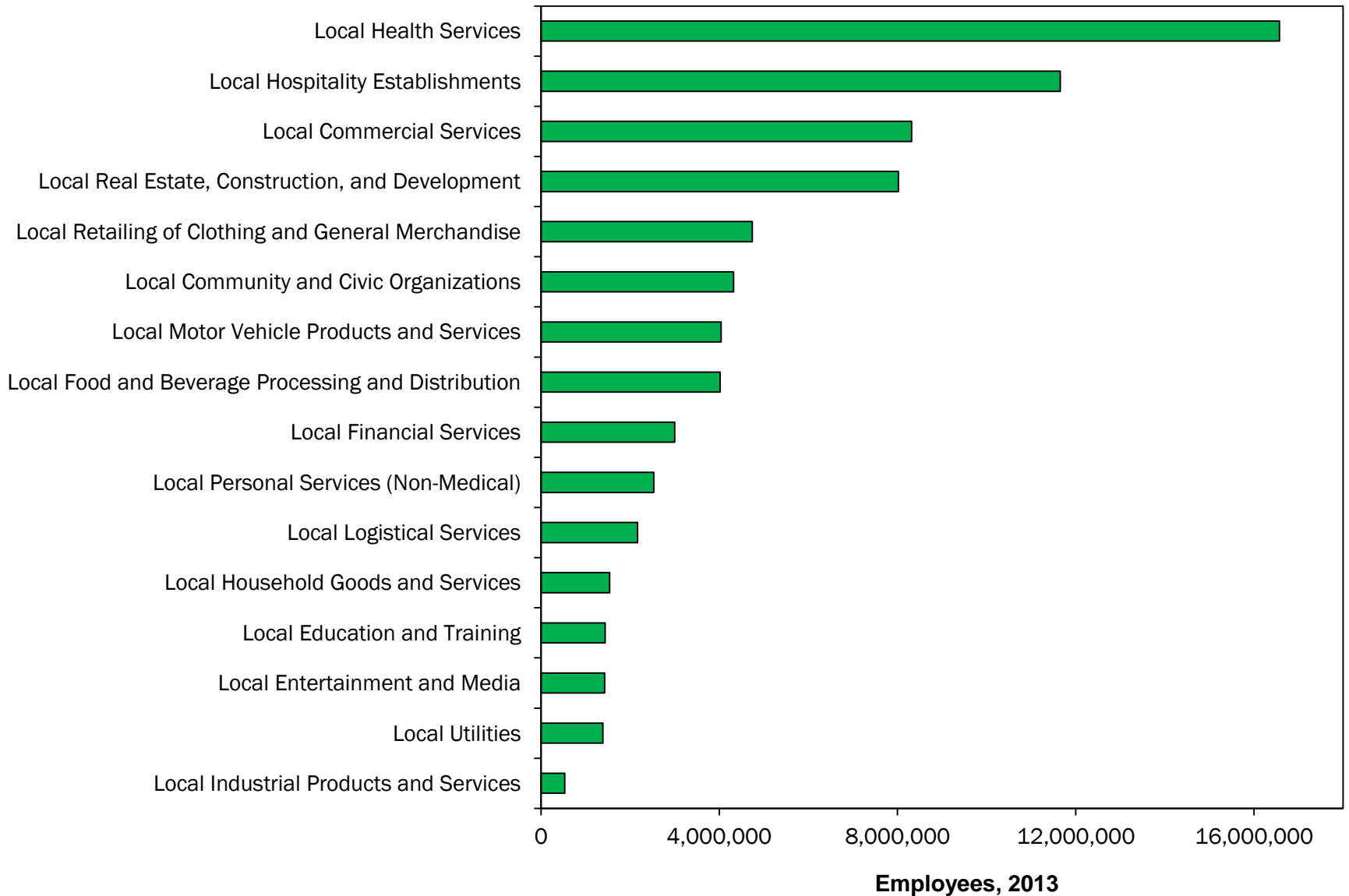


**Growth of Average Private Wage, 2003 - 2013**

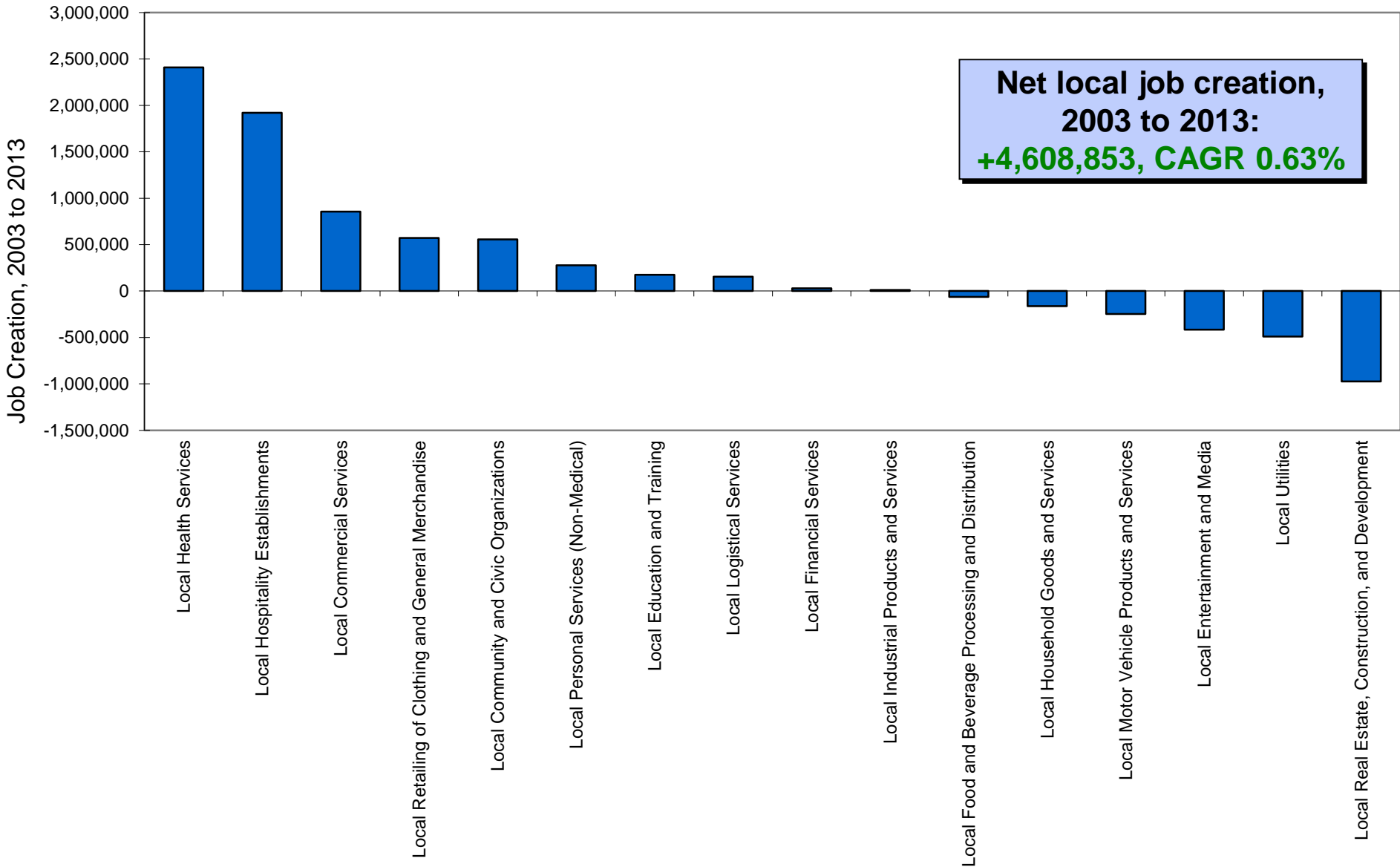
1,500,00 Employees =

Note: Clusters with less than 200,000 employees not displayed.  
Source: Census CBP; author's calculations.

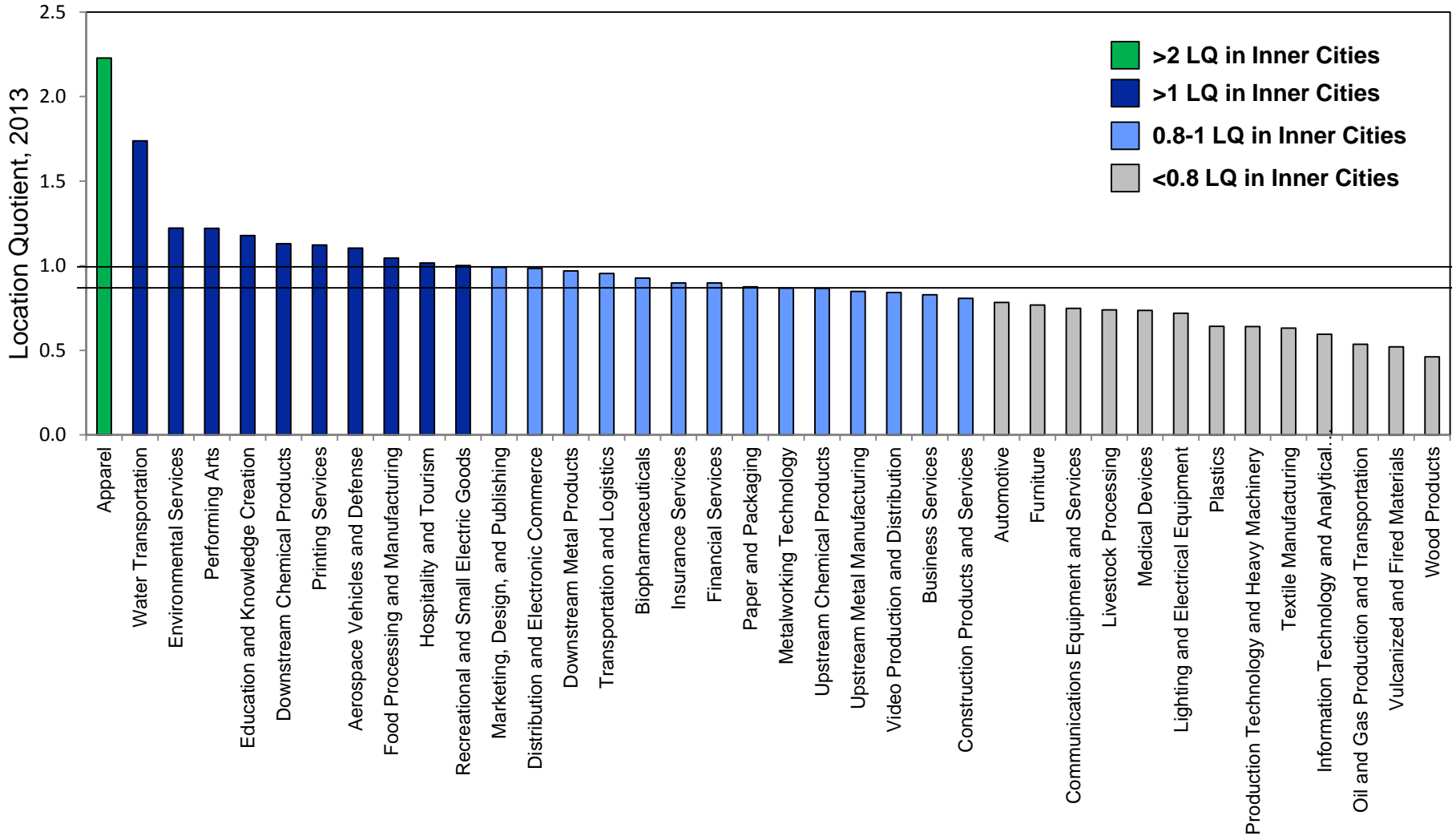
# U.S. EMPLOYMENT IN LOCAL CLUSTERS 2013



# U.S. JOB CREATION IN LOCAL CLUSTERS 2003 TO 2013



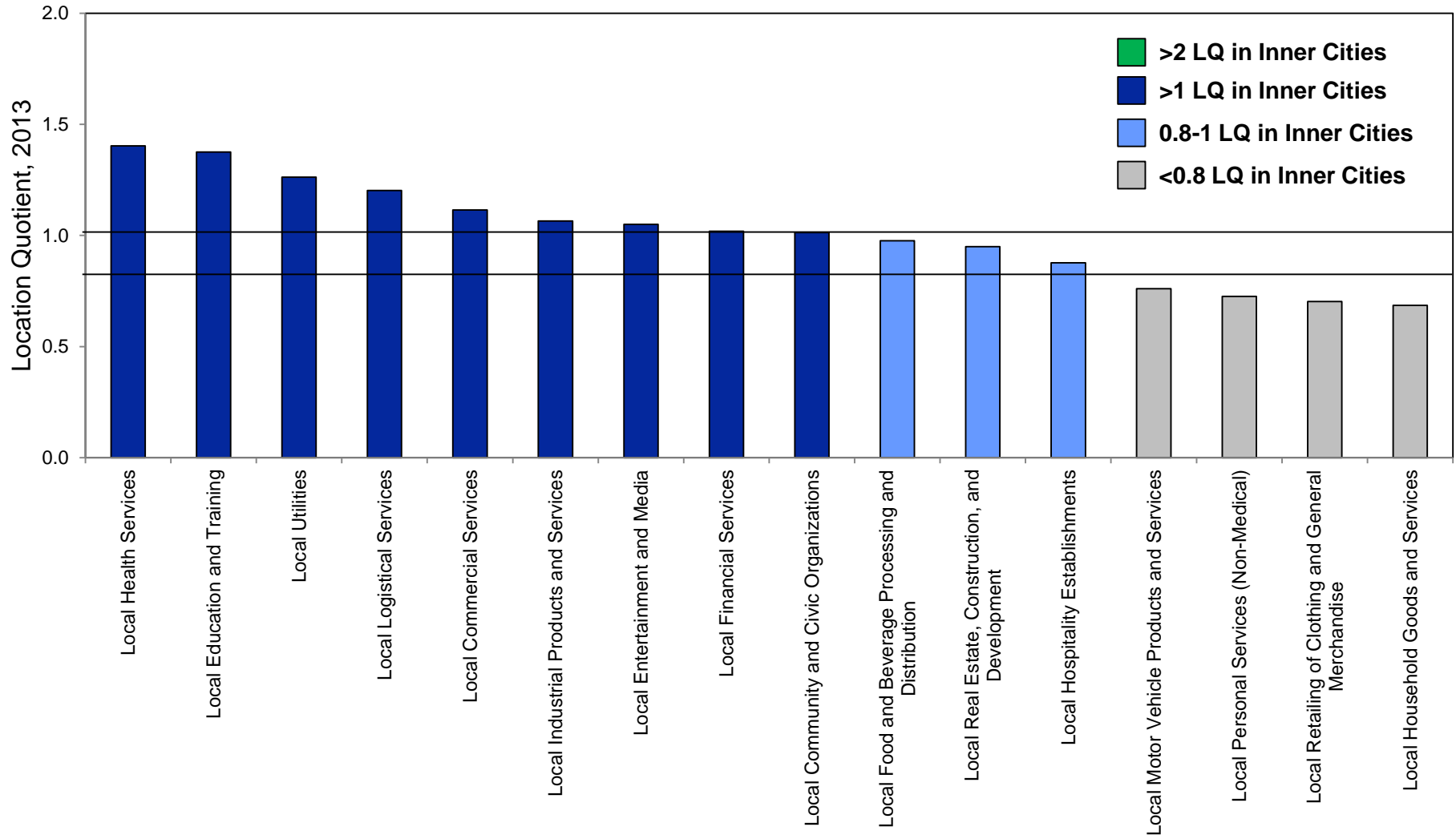
# TRADED CLUSTER PRESENCE IN INNER CITIES



Note: Location Quotient (LQ) is the ratio of an industry's share of total employment in a location relative to its share of total national employment. LQ measures the specialization of a cluster in a particular location relative to the national average.

Source: State of the Inner City Economies (SICE) Database 2013; U.S. Cluster Mapping 2014 Benchmark Definitions (Delgado-Porter-Stern 2013); ICIC analysis

# LOCAL CLUSTER PRESENCE IN INNER CITIES

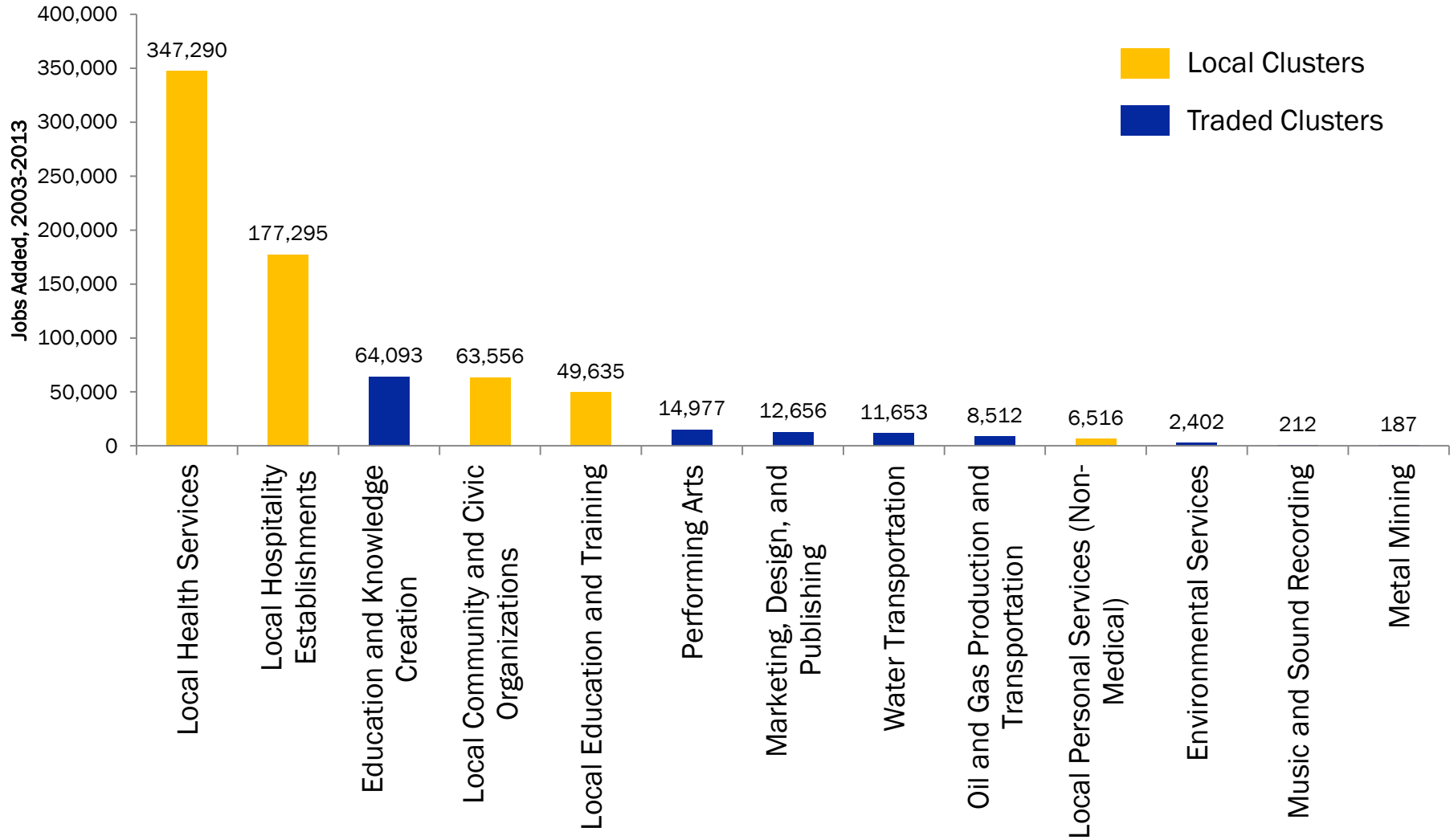


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# GROWING CLUSTERS IN INNER CITIES 2003-2013



## TYPES OF LOCAL CLUSTERS

	Business-to-Consumer (B2C)	Business-to-Business (B2B) and Hybrid (B2B/B2C)
<b>Definition</b>	– Serve local consumers	– Serve both local consumers and local businesses
<b>Dominant Clusters</b>	<ul style="list-style-type: none"> <li>– Local health services</li> <li>– Local hospitality establishments</li> <li>– Local retailing of clothing and general merchandise</li> </ul>	<ul style="list-style-type: none"> <li>– Local commercial services</li> <li>– Local real estate, construction, and development</li> <li>– Local community and civic organizations</li> </ul>
	<ul style="list-style-type: none"> <li>– Offers important entry-level jobs</li> <li>– Promotes availability of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>– Offers middle-wage jobs</li> <li>– Strengthens business environment</li> </ul>
<b>Share of National Employment (2013)</b>	40%	26%
<b>Share of Inner City Employment (2013)</b>	42%	27%
<b>National Employment Growth (2003-2013)</b>	+10.6%	-2.0%
<b>Inner City Employment Growth (2003-2013)</b>	+6.9%	-6.9%
<b>Average Annual Wage (2013)</b>	\$34,100	\$40,400

# KEY LEVERS FOR INNER CITY ECONOMIC GROWTH

## I. Improve the local business environment

1. Upgrade the **inner city business environment** (e.g., infrastructure, workforce)
2. Engage **anchor institutions**

## II. Implement a cluster-based growth strategy

3. Strengthen **existing and emerging inner city clusters** and better link the inner city to **regional** clusters

## III. Support company growth and upgrading

4. **Management** and **leadership education**
5. Connect companies to **growth capital**
6. Increase company **recognition** and strengthen **business networks**
7. Expand **contracting opportunities**

# 1. UPGRADING THE INNER CITY BUSINESS ENVIRONMENT

## COMMON CHALLENGES

- **Weak physical infrastructure:**

- Poor roads
- Inadequate public transportation
- Blight and undeveloped commercial lots
- Parking and congestion problems

- 10% of fast growing inner city companies report low-quality transportation infrastructure as a disadvantage of their inner city location

- High **crime and the perception of crime** deter businesses
- **Lack of amenities** makes it challenging to attract businesses
- **Workforce training is weak**, and often fails to connect those seeking employment with available jobs

# UPGRADING THE INNER CITY BUSINESS ENVIRONMENT: WHAT WORKS NEWARK

- Newark has invested significantly in new **anchors**:
  - The \$375M Prudential Center hockey arena, a private-public partnership, opened in 2007
  - Newark's first new hotel in four decades opened in 2012 adjacent to the arena. More than 30% of construction workers and over 50% of permanent hotel workers live in Newark
- Audible and Prudential Financial formed Newark Venture Partners in 2015, a social impact **venture capital** fund and business accelerator. The accelerator will accept between 10-50 startups/year and will be housed in Rutgers Business School, and projects capital of \$50M
- The NJIT Enterprise Development Center (EDC), a **technology** and life sciences incubator, has about 90 member companies. EDC helped launch the NJIT Highlanders Angel Network in 2013 and the New Jersey Innovation Institute (NJII) in 2014

## UPGRADING THE INNER CITY BUSINESS ENVIRONMENT: WHAT WORKS CLEVELAND

- Cleveland Foundation, in partnership with leading Cleveland organizations, created the **Greater University Circle Initiative** in 2005
  - Goal is “to turn these four square miles of Cleveland into the best place to live, work, and visit in all of Northeast Ohio”
- The focus is on economic inclusion, improving public transportation, housing, education, and enhancing safety and security

### Outcomes:




- Stimulated hundreds of millions of dollars of **new investment** in the neighborhoods of Greater University Circle
- Established a **new workforce training institute**
- Completed a housing, retail and entertainment **mixed-use development project** in Cleveland’s Uptown District
- **Expanded public transportation** to more effectively connect anchor institutions to the surrounding neighborhoods

## 2. ANCHOR INSTITUTIONS AND INNER CITY ECONOMIC DEVELOPMENT

- Anchor institutions are **large, place-based organizations** with strong roots in Inner City communities
  - Includes universities, medical centers, sports teams, arts and cultural organizations, and large legacy corporations
- Anchors are **deeply rooted in inner cities** due to their history, assets, and dependence on the success of the surrounding community
- Anchor institutions can play a **significant role** in the local economy and in economic development due to their assets and scale

# ANCHOR INSTITUTIONS AND ECONOMIC DEVELOPMENT: STRATEGIC FRAMEWORK



-  **Actor:** Anchor's own business activities
-  **Leader:** Leading joint efforts with other organizations
-  **Collaborator:** Uses resources and influence in collaboration with other stakeholders to identify and serve community needs



### **3. STRENGTHEN EXISTING AND EMERGING CLUSTERS CLUSTER GROWTH STRATEGY IN THE INNER CITY**

- Create a **private sector-led** cluster upgrading program, with matching funding
- Focus on clusters where the inner city has **potential competitive advantages**
- Focus on both **traded** and **local** clusters
  - Including local B2B clusters
- Catalyze the formation of cluster-focused **Institutions for Collaboration**
- **Align other economic development policies** with clusters, including targeted workforce development, export promotion and specialized infrastructure and research initiatives

## EVOLUTION OF INNER CITY CLUSTER STRATEGY

### Local B2C Clusters

- Initial focus tended to be on B2C clusters such as **local retail** that serve local populations and improve quality of life
- Such clusters provide the most accessible entry-level jobs
- For example, ICIC and others spent a decade addressing the inner city retail gap, lending to good progress

### Local B2B Clusters

- Focus now needs to encompass **B2B clusters** such as local commercial services
- These clusters often provide higher-wage jobs and improve the operating environment for inner city businesses

# IMPLEMENTING A CLUSTER GROWTH STRATEGY IN THE INNER CITY: WHAT WORKS NEW ORLEANS

- New Orleans Business Alliance (NOLA-BA), a public-private partnership, launched a cluster-based economic development plan in 2013 called *Prosperity NOLA*
- Prioritized five clusters with quality jobs and with the greatest impact on competitiveness:
  - Advanced Manufacturing; Transportation, Trade and Logistics; BioInnovation and Health Services; Creative Digital Media; and Sustainable Industries
- The City established an Economic Opportunity Strategy in 2014 to accelerate cluster growth, involving 8 anchors, including Tulane and Xavier University
  - Goal is to “connect disadvantaged job seekers and businesses to new opportunities.” A workforce intermediary connected employees to anchors and provided job training
- Established the BioInnovation Center incubator in 2011, to foster commercialization of technologies developed at local universities
  - 66 companies formed involving more than 220 jobs and \$28 million in financing



## SUPPORTING COMPANY GROWTH AND UPGRADING MAJOR DRIVERS OF BUSINESS GROWTH IN INNER CITIES

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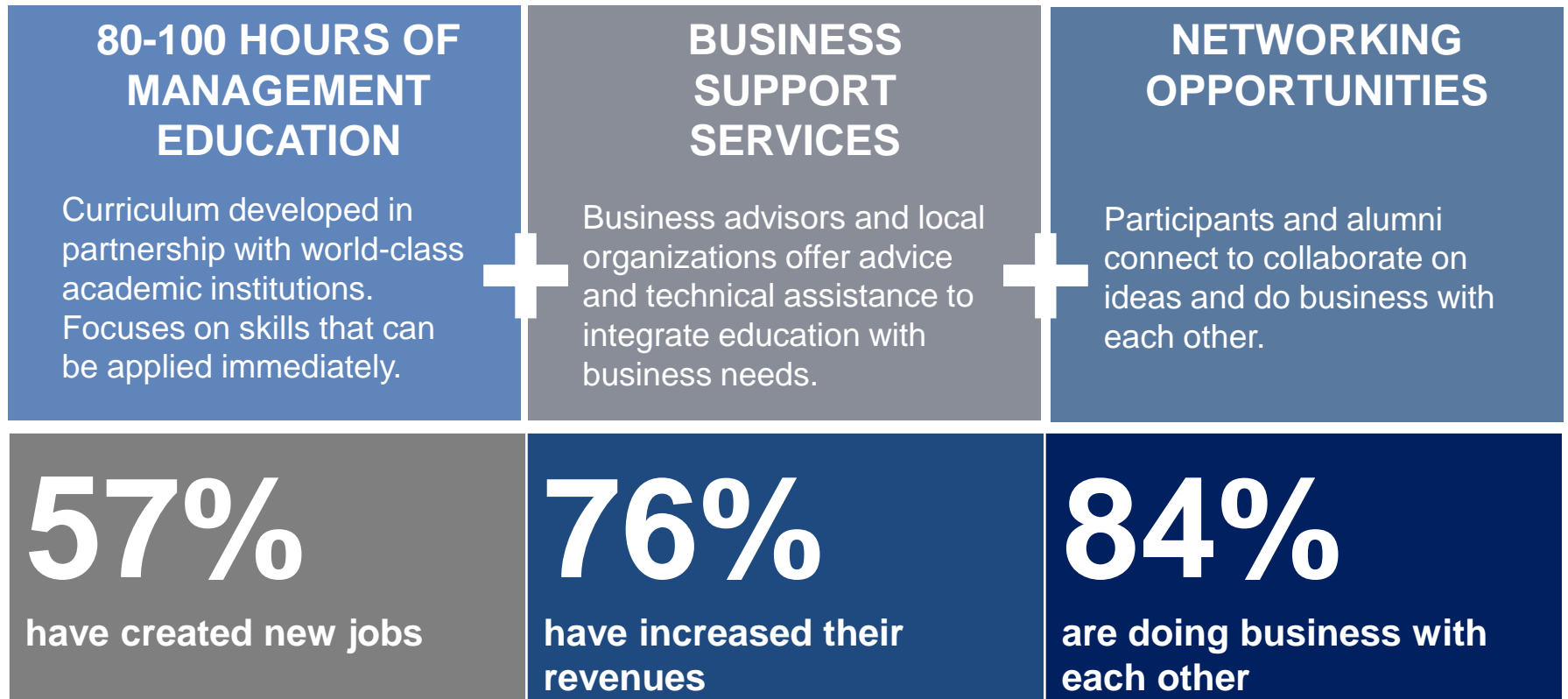
### **Management and Leadership Education**

- Access education in accounting, finance, organizational development, marketing and strategic planning

# MANAGEMENT AND LEADERSHIP EDUCATION: WHAT WORKS

## GOLDMAN SACHS 10,000 SMALL BUSINESSES

- ICIC partners with Goldman Sachs and Babson College to connect business owners in underserved communities to a comprehensive program of education and support services. To date, the program has **served over 4,600 small business owners across 44 states**



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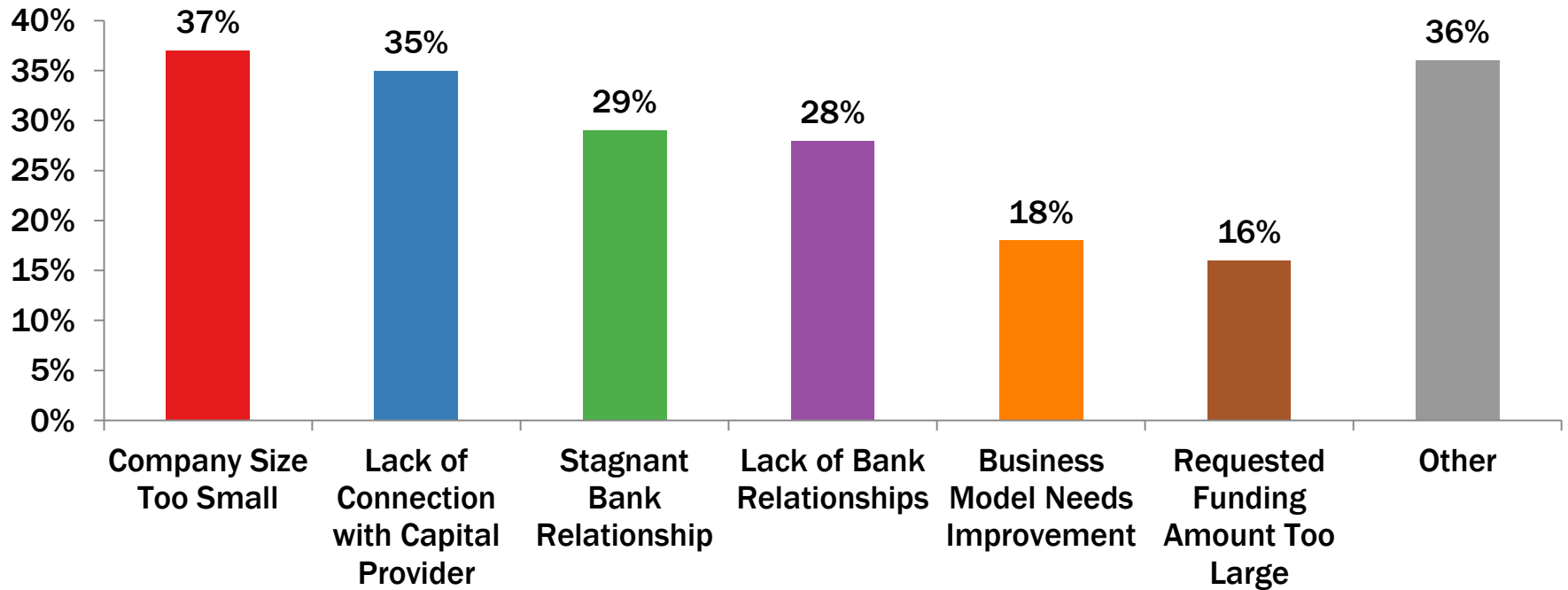
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### Capital Access

- Understanding capital sources
- Steps in qualifying for financing
- Access to capital providers

# THE NEED FOR CAPITAL ACCESS PROGRAMS

## Barriers to Accessing Capital Among ICCC Companies



Inner City 100 winners show the impact of accessing capital: 87% of 2015 Inner City winners secured debt capital and 49% raised equity since 2010

# INCREASING ACCESS TO CAPITAL: WHAT WORKS

## INNER CITY CAPITAL CONNECTIONS

- The goal of the Inner City Capital Connections (ICCC) program, launched in 2005 in partnership with Bank of America, is to help companies achieve their **next phase of growth**
- Helps inner city companies understand when and how to **access equity and debt financing**, and facilitates access to capital providers

**Bank of America**



### MANAGEMENT EDUCATION

Seminars, led by top-tier professors from leading entrepreneurship institutions, cover a range of practical skills – from talent management and entrepreneurial finance to strategy and investor pitch presentations.

### COACHING & PITCHING SESSIONS WITH CAPITAL PROVIDERS

Through intensive coaching sessions throughout the year, small business owners connect with high-profile capital investors in an exclusive portfolio made available through our partners.

### CAPITAL MATCHMAKING

At the program's annual culminating conference in New York City, participants put learning into practice and can market and pitch their businesses. 2015's conference will be held in November.



## INNER CITY CAPITAL CONNECTIONS RESULTS

- **677 alumni** of the Inner City Capital Connections program raised **\$1.22 billion** of debt and equity capital, over the 2005 to 2013 period
- **54%** of employees are inner city residents
- These companies have created **10,930 total jobs** from 2005 to 2013

## INNER CITY CAPITAL CONNECTIONS PROGRAM EXPANSION

- Goal to serve 1,000 inner city businesses by 2018:

2015	2016	2018
<ul style="list-style-type: none"><li>• Philadelphia</li><li>• Birmingham</li><li>• Boston</li><li>• Dallas</li><li>• San Francisco</li></ul>	<ul style="list-style-type: none"><li>• Add Milwaukee, Chicago, and Baltimore</li></ul>	<ul style="list-style-type: none"><li>• Six additional cities</li></ul>

- Identifying **new corporate sponsors** that can fund programs in the target cities (Total cost ~ \$100 to 150K)
  - Current strategic partners include Bank of America, Santander, Regions Bank, JPMorgan Chase, John Hancock, Coca-Cola

## SUPPORTING COMPANY GROWTH AND UPGRADING MAJOR DRIVERS OF BUSINESS GROWTH IN INNER CITIES

4.

### Management and Leadership Education

- Access education in accounting, finance, organizational development, marketing and strategic planning

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### Capital Access

- Understanding capital sources
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### Recognition and Networking

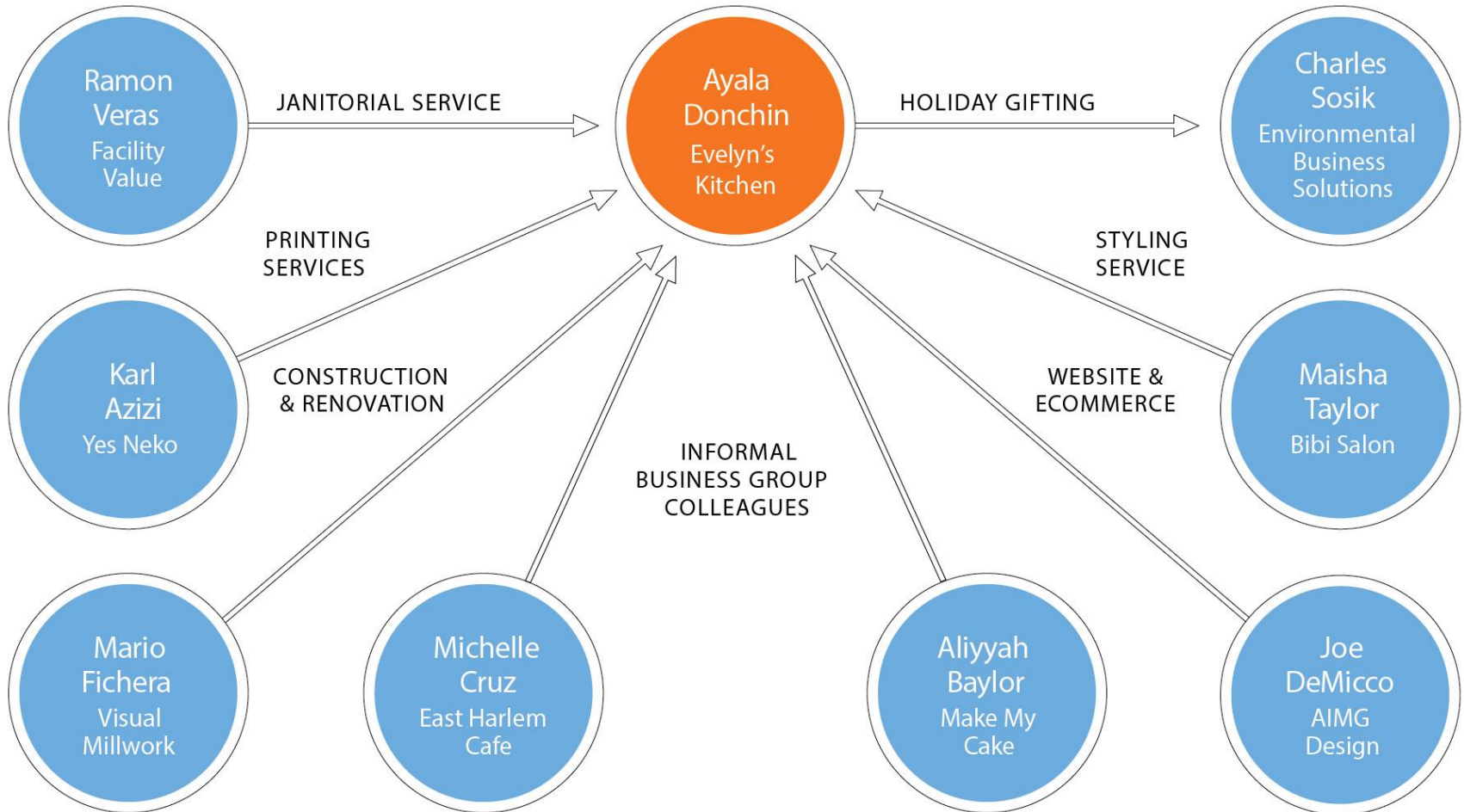
- Provide visibility for inner city companies with all constituencies
- Establish a network of peers, advisors and partners

## RECOGNIZING SUCCESSFUL INNER CITY COMPANIES: THE INNER CITY 100

- **ICIC's Inner City 100** program has identified, showcased and supported the fastest-growing private companies based in America's inner cities since 1999
- Over 800 total winners, including some of today's most **creative urban entrepreneurs**: Coyote Logistics, Fruition Partners, Happy Family, Revolution Foods, Numi Organic Tea, Pandora, Pinnacle Technical Resources and TerraCycle
- In 2015, the Inner City 100 winners had \$12 million in annual revenue, 62 full-time employees, and a **five-year growth rate of 378%**
- As a group, the 2015 Inner City 100 winners have created **3,775 new jobs** over the past five years

# CREATING NETWORKING OPPORTUNITIES: WHAT WORKS

## EXAMPLE FROM 10,000 SMALL BUSINESSES



## SUPPORTING COMPANY GROWTH AND UPGRADING MAJOR DRIVERS OF BUSINESS GROWTH IN INNER CITIES

4. **Management and Leadership Education**
  - Access education in accounting, finance, organizational development, marketing and strategic planning
5. **Capital Access**
  - Understanding capital sources
  - Steps in qualifying for financing
  - Access to capital providers
6. **Recognition and Networking**
  - Provide visibility for inner city companies with all constituencies
  - Establish a network of peers, advisors and partners
7. **Contracting Opportunities**
  - Expand access to public and corporate contracts, and how to qualify for and win them

## THE VALUE OF CONTRACTING RELATIONSHIPS INNER CITY 100

- 71% of Inner City 100 winners counted **anchors** as customers
- A significant proportion of the **customer base for the Inner City 100** is large companies:
  - 48% of IC100 winners serve the healthcare and medical industry
  - 44% serve the government and military
  - 42% serve the education industry
- 63% cited contracting opportunities with large organizations and/or local, state or federal government as a **company growth factor**

# CONTRACTING OPPORTUNITIES: WHAT WORKS

## UNIVERSITY OF PENNSYLVANIA

- **“West Philadelphia Initiatives”** established in 1994
  - Renamed Neighborhood Initiatives in 2004
- **Five areas:**
  - Cleanliness and safety
  - High quality housing
  - Commercial development
  - High quality public education
  - Economic inclusion
- Included a **procurement program**, “Buy West Philadelphia,” that seeks local businesses in the building trades and professional services
- **Outcomes 1999-2012:**
  - Increased minority contracting in construction by 6%
  - Increased share of local purchasing by 1.6%



## HARNESSING THE POTENTIAL OF INNER CITIES

- Inner cities can contribute to city and regional growth
- Inner cities can benefit from metropolitan-wide initiatives
- However, success will require a **tailored inner city economic development strategy** :
  - Enhancing the inner city business environment
  - Engaging anchors
  - Implementing a cluster-oriented growth strategy focusing on the inner city circumstances
  - Providing management and leadership education for businesses
  - Connecting businesses to sufficient capital
  - Recognizing and connecting businesses to networks
  - Expanding contracting opportunities

Catalyzing market based business development in Inner Cities is the **only true solution** for revitalizing underperforming urban communities and reversing the tide of rising income inequality



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