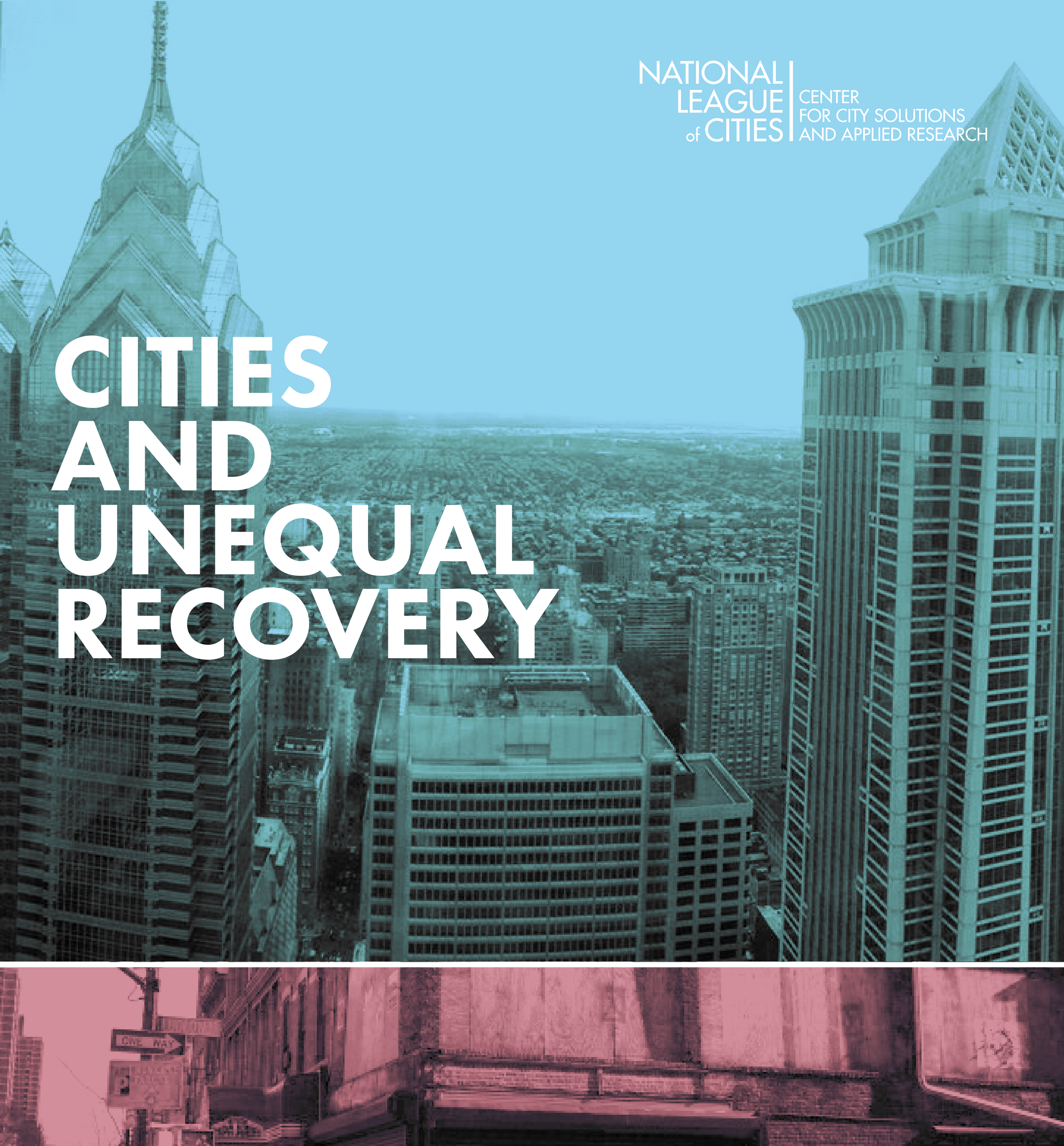

NATIONAL LEAGUE of CITIES | CENTER FOR CITY SOLUTIONS AND APPLIED RESEARCH

CITIES AND UNEQUAL RECOVERY

Local Economic Conditions Survey 2015

About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans. NLC's Center for City Solutions and Applied Research provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.

Authors

Christiana McFarland is Research Director and **Emily Robbins** is Senior Associate for Finance and Economic Development in the Center for City Solutions and Applied Research at the National League of Cities.

Acknowledgements

The authors are grateful to Micah Farver, Associate for Finance and Economic Development, for his research assistance; Soren Messner-Zidell, Program Manager, Information Design and Visual Storytelling, for design and layout of the report; and staff in NLC's Center for City Solutions and Applied Research and Institute for Youth, Education and Families for their feedback and guidance on the report.

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CITIES AND UNEQUAL RECOVERY

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Beneath the murky waters of 'recovery' lie new contours of an economy defined as much by job gains as by slow productivity growth, suppressed wages and stubborn unemployment. The dynamics between growth and stagnation are most apparent in cities, where the realities of these trends converge, resulting in a tsunami of severe extremes. A dwindling middle class, racial tensions and lack of opportunity are occurring alongside disruptive innovation, economic diversification and community investment.

To better understand the specific impacts of unequal recovery for those in cities and the policy implications for city leaders, the National League of Cities (NLC) conducted the Local Economic Conditions Survey 2015. Based on the survey, this analysis offers a place-based perspective on economic recovery from the unique vantage point of those who are held most accountable for prosperity and equity in cities: chief elected officials.

Local Economic Conditions gauges the performance of key local economic indicators and finds:

1. Economic conditions over the past year have improved in nearly all cities, with 28 percent reporting vast improvement, and 64 percent reporting slight improvement;
2. Cities with populations between 100,000 and 299,999 were most likely (40 percent) to report greatly improved local economic conditions, and least likely were cities with fewer than 50,000 residents (20 percent);
3. New business startups and business expansions are driving improved economic health in cities; meanwhile, the misalignment between skills available in the community and the needs of businesses is worsening;
4. Rising residential property values are stabilizing local economic and fiscal bases, yet the lack of affordable housing is a major concern facing cities; and
5. Retail sector health is improving, but the demand for basic survival needs (food, shelter) is on the rise.

This year's survey demonstrates that there are two different storylines playing out in cities: economic conditions are improving for some, but worsening for others. This is troubling both socially and economically, making an even stronger case for inclusive growth policies that move the needle towards equity in our nation's cities. This report provides an in-depth analysis of survey findings and profiles of city inclusive growth strategies.

28%

64%

Economic conditions over the past year have improved in nearly all cities, with 28 percent reporting **vast improvement**, and 64 percent reporting **slight improvement**.

INTRODUCTION

The City of Philadelphia has come to terms with a new meaning of middle class in America. In a city with an average home price of $142,500 and rents of $1,450, families earning upwards of $100,000 struggle to afford a place to live.[1] Those making closer to the city's average family income of $37,200 are just about priced out of the market. Increasing home prices and inflation are as much to blame for this predicament as growing income inequality. Philadelphia ranked 12th among other large metro areas for high income inequality in 2012, which has only worsened since the recession began.[2] The ramifications are stark, with lower-income residents forced out of the city, further from jobs and critical services.

In response, the city aims to create 1,000 new homes for sale to middle-income buyers, and 1,000 new apartments for low-income renters. As part of this affordable housing plan, the city recently sold vacant city-owned land in key "opportunity zones" to developers for $1 in exchange for building housing that is affordable for working class families earning too much to qualify for public housing assistance, but not enough to afford market price housing.[3]

The results of the Philadelphia workforce housing initiative are not yet in, but the message is clear: recovery is unfolding in a way that is skewing opportunity away from those at the bottom and middle of the economic ladder, with cities thrust to the forefront of stemming the tide of inequality.

Beneath the murky waters of 'recovery' lie new contours of an economy defined as much by job gains as by slow productivity growth, suppressed wages and stubborn unemployment. Private sector employment growth has been consistent, but the jobs that have been added are predominantly low wage. Low-wage jobs accounted for 22 percent of jobs lost during the recession, but 44 percent of new jobs created since the recession.[4] The top one percent of income earners captured at least half of all income growth in the majority of states, leaving the largest gap between high and low income households on record.[5][6] Even more striking are the wealth gaps between races, which are higher now than they were before the recession.[7]

Recent studies have also examined differences in income, employment and productivity between cities and within regions, finding similar trends. The Brookings Institution found that nearly half of large U.S. metros have yet to regain all the jobs lost from the recession, and almost a third have not returned to previous levels of output.[8] Despite slow job recovery, workers in larger, more populated metros are earning more than their counterparts with the same education and jobs in smaller regions, but larger cities also have the highest levels of inequality between neighborhoods (in terms of income, homeownership rates, housing values, college attainment), according to the Urban Institute.[9] Additionally, if racial differences were eliminated and all groups had similar average incomes as non-Hispanic whites, every region of the country would be financially stronger.[10] PolicyLink found that potential metro GDP gains range from $287 million per year in Springfield, Mo., (the lowest potential gain) to $510 billion per year in Los Angeles (the highest).

While enormously helpful in accelerating the dialogue on inequality, these city-level comparative studies of average income and employment still mask the more granular nature of inequitable recovery in local communities. We are left with a gap in our understanding about the specific impacts of inequality for those in cities and the policy implications for city leaders.

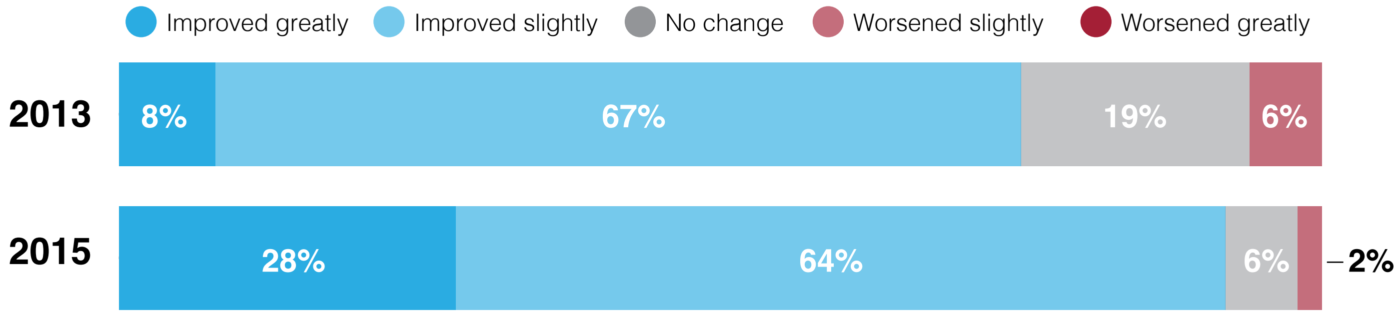
NLC’s Local Economic Conditions 2015 survey offers a place-based perspective on economic recovery from the unique vantage point of those who are held most accountable for prosperity and equity in cities: chief elected officials. The survey, last conducted in 2013, gauges the performance of key local economic indicators and finds that, despite widespread economic improvement, lack of affordable housing, poverty, and skill and achievement gaps are dampening the ability of all segments of society to participate in emerging growth, impeding the long-term economic sustainability of cities.

While comebacks in key business sectors and property markets are stabilizing local economies, rising tides do not lift all boats. As cities continue to attract more residents and businesses, they are faced with the challenge of ensuring that the benefits of growth reach all in the community. This new local economic reality must be matched with strategies to address inequality not only as a deeply concerning social problem, but an economic one as well. This report provides an in-depth analysis of survey findings and profiles of city inclusive growth strategies.

LOCAL ECONOMIC CONDITIONS – A CLOSER LOOK

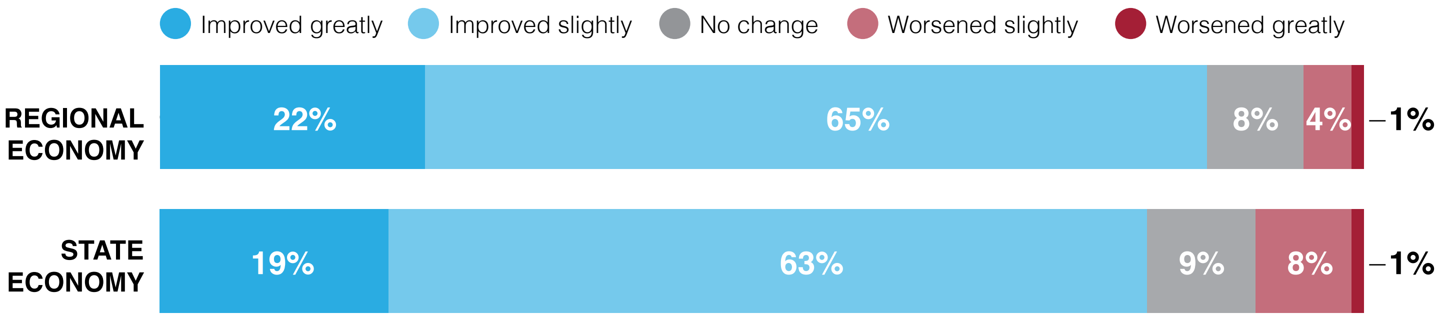
At the local level, most cities experienced either greatly improved (28 percent) or slightly improved (64 percent) local economic conditions during the past year. Conditions remained the same or worsened in less than 10 percent of cities. Compared to the 2013 survey, a larger number of cities reported that local economic conditions are improving greatly (eight percent in 2013 compared to 28 percent in 2015).

CHART 1: Change in local economic conditions since last year



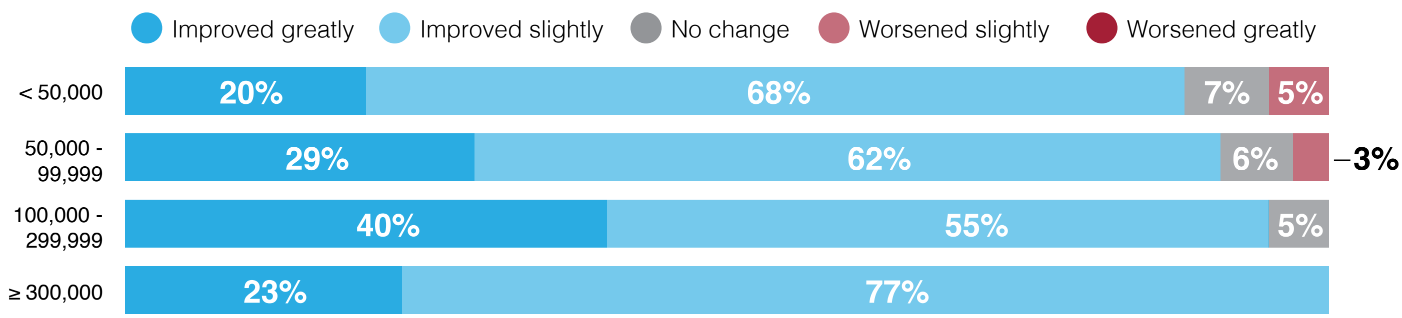
The change in economic conditions at the state and regional levels followed a similar trend as in cities, with about one in five city leaders indicating that their state and region improved greatly and two-thirds reporting that conditions improved slightly.

CHART 2: Change in regional and state economic condition since last year



Cities with populations over 100,000 fared the best over the past year in terms of improved economic health, while cities with fewer than 50,000 residents fared the worst. Cities with populations between 100,000-300,000 most frequently reported greatly improved economic conditions (40 percent), followed by 50,000-99,000 (29 percent), over 300,000 (23 percent), and lastly under 50,000 (20 percent). Smaller cities (under 100,000 residents) were the only cities to report worsened economic conditions, but in relatively small numbers. According to Moody's, faster growth in larger metro areas compared to smaller communities is unique to this recovery compared to others, and likely caused by the faster housing rebound resulting from more people moving back to larger cities.[11]

CHART 3: Change in local economic condition by city population size



The most positive drivers of local economic health are the number of new startups, new business expansions, and the health of the retail sector. The most negative impacts on local economic health are skills misalignment with employer needs, lack of affordable housing, and demand for survival services like food banks and shelters.

CHART 4: Three most positive and negative drivers of local economic conditions

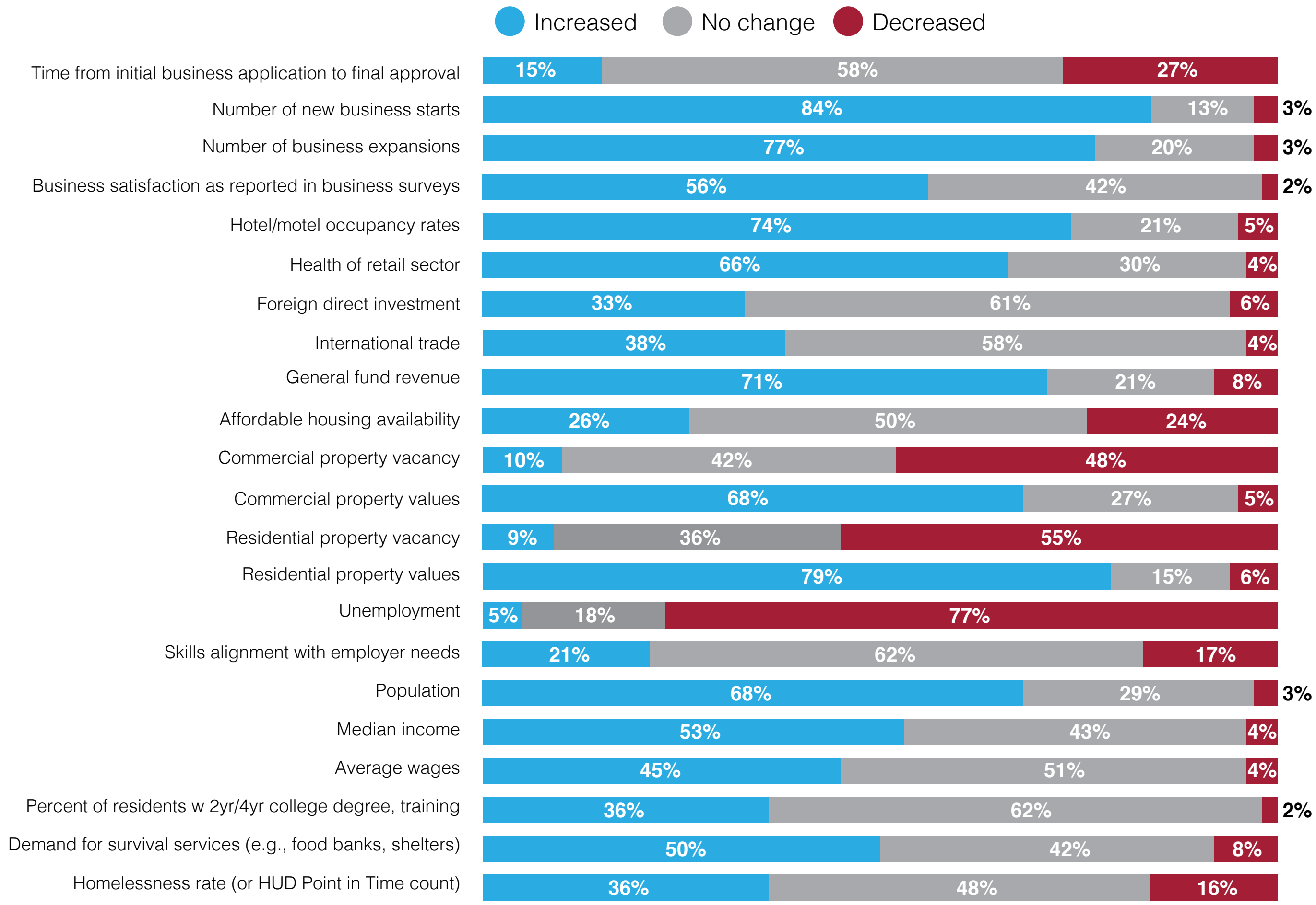
Positive +

47%	Number of new business starts
43%	Number of business expansions
26%	Health of retail sector

Negative −

40%	Skills alignment with employer needs
33%	Affordable housing availability 33%
23%	Demand for survival services (e.g., food banks, shelters, etc.)

CHART 5: Change of key local economic indicators since last year



City of Garland, Texas Economic Development-Workforce Development Alignment

Population:	**234,566**
Median Household Income:	**$51,842**
Bachelor's Degree or Higher:	**21.4%**
Unemployment Rate:	**3.8%**

Sources: Katie McConnell. Workforce Development for Economic Competitiveness. National League of Cities, 2010. Case study updated July 2015 by Garland Mayor Douglas Athas and Executive Director of Garland Chamber of Commerce Paul Mayer.

Photo Credit: Garland Chamber of Commerce, 2015

In 2005, the Garland Chamber of Commerce and Richland College Garland Campus (the local community college) joined forces to provide the local manufacturing community with the best possible opportunities to grow, compete and succeed in the global marketplace. To create a seamless relationship, the Garland Chamber opened an office within the community college, which allows both groups to work side by side and coordinate everything from daily problem solving to setting long term goals. As a direct result of the partnership, the Garland Chamber formed the Dallas County Manufactures' Association (DCMA), which works directly with a college liaison to provide members with an extensive array of training programs. To date, the DCMA has secured approximately $4.1 million in grant funds to train more than 5,000 employees for jobs in more than 30 Garland-area companies. Through its partnership with the Garland Independent School District, DCMA provides mentorship opportunities, a student career expo and other programs that facilitate the development of a qualified workforce and create sustainable pathways to success for Garland students.

BUSINESS ACTIVITY BOOMING, WORKFORCE SKILLS LAGGING

According to city leaders, new businesses (47 percent) and business expansions (43 percent) are the most widespread positive drivers of local economic health over the past year. The number of new businesses increased in 84 percent of cities, and 77 percent of cities experienced a rise in the number of business expansions.

However, labor force challenges threaten to stymie this business growth. City leaders report that the misalignment between available workforce skills and the skills employers' need (40 percent) is the most widespread concern facing local economies, with 17 percent of cities reporting an increase in the skills gap over the past year. Interestingly, however, residents with college degrees and other workforce training increased in 36 percent of cities, and business satisfaction (in local business surveys) increased in 56 percent of cities. These findings underscore the fact that the "skills gap" is often the face of a complex nexus of trends, including job readiness and availability of appropriate skills, long-term unemployment, underemployment, uncompetitive wages and poor hiring patterns.

Cities are creating collaborative, systemic workforce development approaches to not only improve the local talent pipeline, but also to open communications with employers about assessing needs and improving hiring practices. Workforce development has not traditionally been an area of leadership for city governments outside of participation on local workforce investment boards. However, as the economy changes and concerns increase about training attainment and business retention and attraction, more cities are actively engaging in workforce development activities. City leaders have come to see their participation and leadership in workforce development as critical to enhancing both equitable opportunity and economic competitiveness of their city.

More than one in four city leaders report that their city is very involved in workforce development activities, and another 42 percent are somewhat involved. The most common ways cities accelerate the skills of the local workforce are by communicating with businesses about their workforce needs (63 percent) and aligning workforce and economic development policies (63 percent). Not surprisingly, chambers of commerce (89 percent) are the most widely cited partners of local governments, followed by community colleges (79 percent) and local businesses (64 percent).

CHART 6: Extent to which local government is involved in workforce development activities

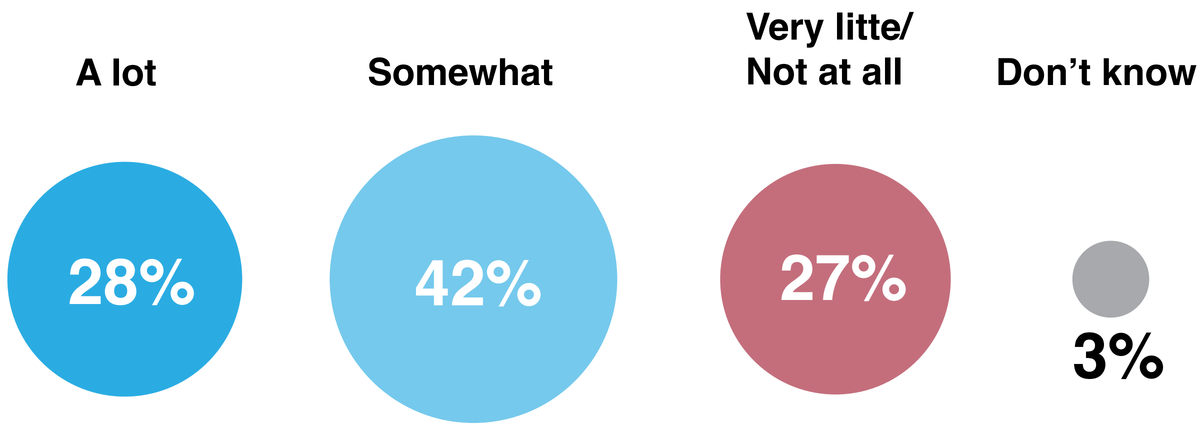


CHART 7: Percent of cities participating in the workforce development strategy

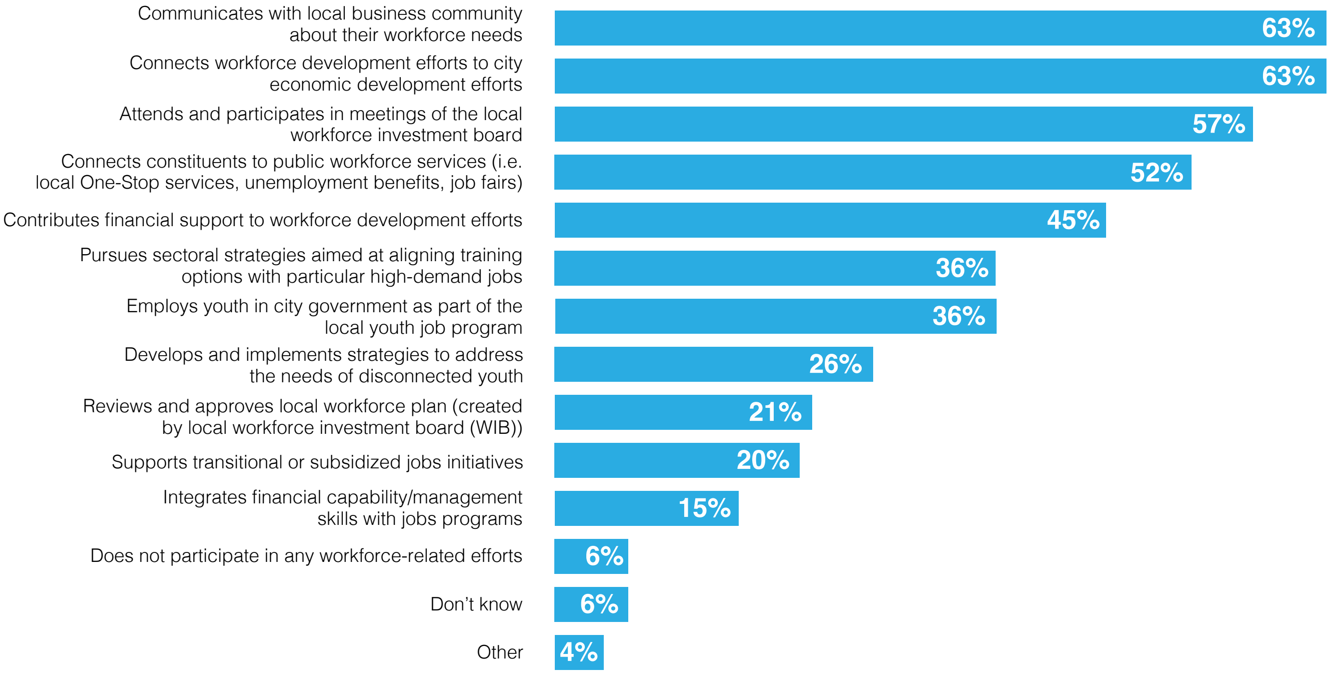
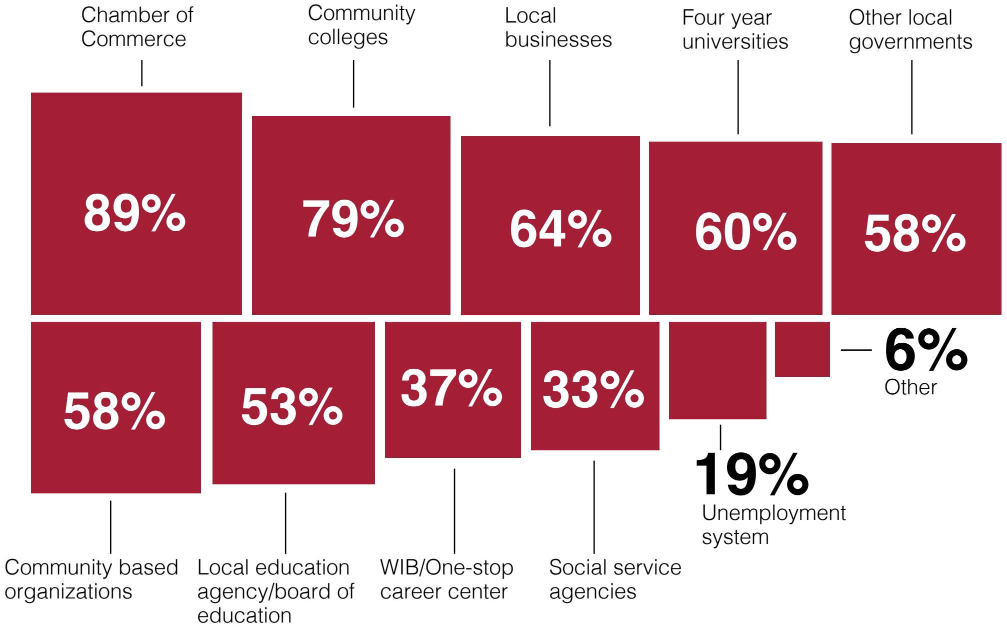


CHART 8: Percent of cities reporting engagement with the workforce development partner



City of Salt Lake City Veteran's Homelessness

Population:	**191,180**
Median Home Value:	**$226,200**
Median Rental Value:	**$1,000**
Median Household Income:	**$45,862**

Source: Elisha Haring-Blaine. "Regional Forums Begin as NLC and HUD Sign Memorandum of Understanding." CitiesSpeak.org, December 5, 2014.

In an effort to end veterans' homelessness, officials in Salt Lake City worked with county and state leaders to ensure program administrators using Community Development Block Grant (CDBG) resources only needed to file one report to meet federal reporting requirements rather than multiple reports for local, county and/or state CDBG dollars. Additionally, the Mayor engaged local landlords to provide apartments for veterans who have been matched with supportive services and housing resources. Beginning in 2013, Mayor Becker was one of two mayors to inspire the Mayors Challenge to End Veteran Homelessness. Since then, more than 700 mayors and local officials have joined the challenge, and housing providers in Salt Lake City have housed more than 250 veterans, placing the city on the path to effectively end veteran homelessness by December 2015.

PROPERTY VALUES INCREASING, AFFORDABLE HOUSING A CONCERN

Residential real estate values increased over the past year in 79 percent of cities. This is great news for local property tax rolls and for existing property owners, but troublesome for those priced out of the housing market. Lack of affordable housing, for both homeowners and renters, is a leading threat to economic health in 33 percent of cities.

According to the Joint Center for Housing Studies, homeownership rates are declining nationwide, leading to tight rental markets with less vacancies and higher rents.[12] The falling rate of homeownership is attributed in large part to a lack of affordability, with households earning less income and finding it more difficult to access credit for a mortgage. Meanwhile, rental prices are rising faster than inflation, and a record high number of renters (almost 50 percent) fall under the housing cost burden designation (i.e., paying more than 30 percent of their incomes on housing). The housing cost burden for renters is particularly troubling because of the disproportionately negative impact on veterans, lower-income and minority households who may be forced to forego groceries, medical care or other necessities to pay for housing.

Meeting the need for affordable rental housing will be a long-term issue for cities, with the Urban Institute predicting that the rental population will increase significantly over the next 15 years.[13] Cities can address this trend through housing policies designed to incentivize construction of affordable housing, especially rental units. The most common local strategy is incentivized or mandated affordable unit set-asides in new housing developments. Another emerging strategy to support construction and preservation projects is working with county, state and federal agencies to streamline the funding cycles of housing programs.

City of Nashville, Tenn. Financial Inclusion Centers

Population:	**634,464**
Median Household Income:	**$46,686**
Poverty Rate:	**18.9%**

Under the leadership of Mayor Karl F. Dean, the Metro Government of Nashville and Davidson County partnered with the United Way of Metropolitan Nashville to create seven Financial Empowerment Centers (FEC) to offer free one-on-one financial counseling to eligible residents. Services include money management, budgeting, reducing debt, establishing and improving credit, connecting to safe and affordable banking services, building savings and referrals to other services and organizations as needed. Nashville's FECs serve as a national model, and since opening in March 2013, have helped over 1,800 individuals and held more than 5,800 individual counseling sessions.

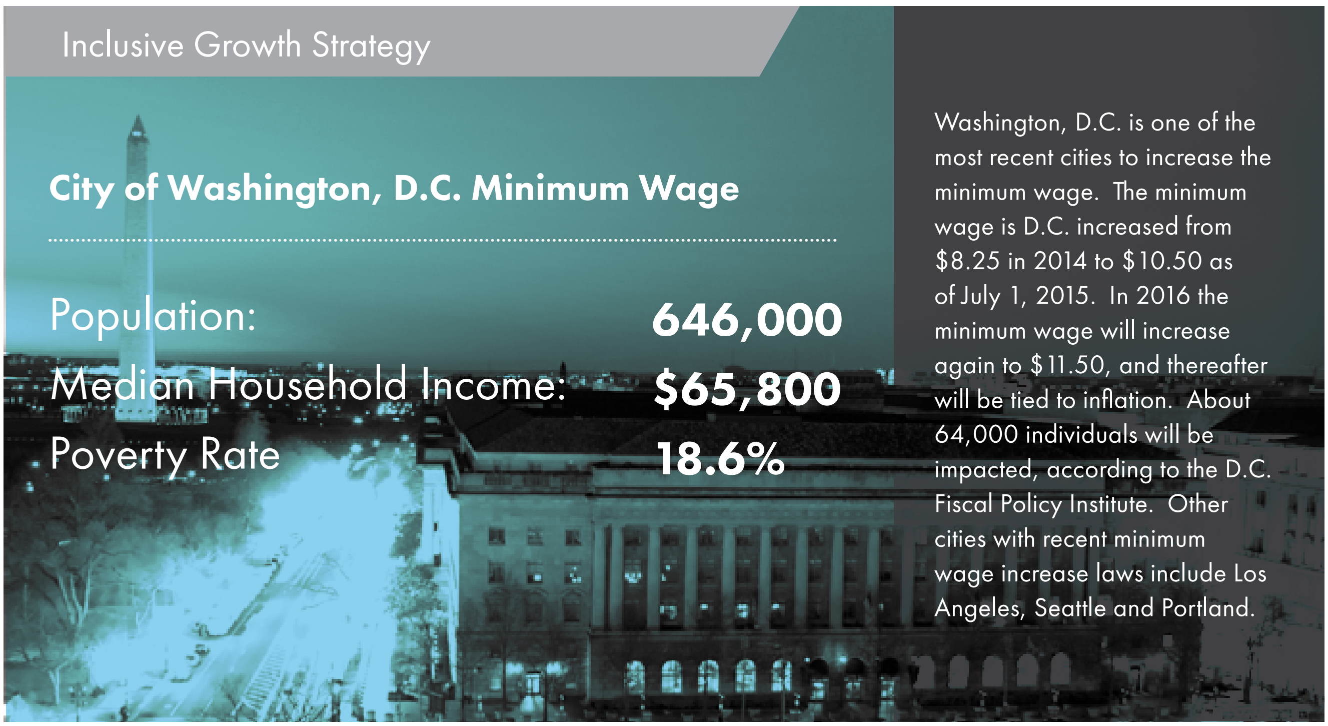
Source: City Financial Inclusion Efforts: A National Overview (city profile addendum). National League of Cities' Institute for Youth, Education and Families, Washington, D.C. June 2015.

HEALTHY RETAIL SECTOR, RISING DEMAND FOR BASIC SERVICES

The health of the retail sector improved over the past year in two out of three cities (66 percent), indicating consumer spending is increasing as we exit the roughest years of post-recession recovery. The median income of residents also increased in 53 percent of cities, and average wages increased in 45 percent of cities. This positive growth in socioeconomic indicators is tempered by the increasing demand for basic "survival" services, such as food banks and homeless shelters. Demand for these types of safety net services increased over the past year in 50 percent of the cities. In greater than one-third (36 percent) of cities the homeless rate also increased over the past year.

The widening income inequality in cities is striking, and underscores the fact that local economic recovery is not taking root across the entire socioeconomic spectrum. Today's median household income (adjusted for inflation) is the same as it was in 1995, and the difference between what high-income and low-income earners take home annually (a gap of about $175,000) is the largest disparity on record since 1967, according to the Center for American Progress.[14] The growth of low-wage, part-time work, with limited health and retirement benefits, has contributed to income inequality, and has left many families financially insecure and not well connected to the mainstream financial system. Despite some overall national gains in employment, the issues of poverty, unemployment, and debt remain problematic, particularly among minority communities.

Providing safety net services, affordable housing, job training, and even raising the minimum wage, help ensure economic stability and upward social mobility. However, fundamentally changing the economic prospects of city residents requires a comprehensive wealth-building and financial inclusion approach that includes providing: knowledge of and access to affordable financial products and services; incentives to encourage savings and investment; and consumer protections in the financial marketplace.[15]



Inclusive Growth Strategy

City of Washington, D.C. Minimum Wage

Population:	**646,000**
Median Household Income:	**$65,800**
Poverty Rate	**18.6%**

Washington, D.C. is one of the most recent cities to increase the minimum wage. The minimum wage is D.C. increased from $8.25 in 2014 to $10.50 as of July 1, 2015. In 2016 the minimum wage will increase again to $11.50, and thereafter will be tied to inflation. About 64,000 individuals will be impacted, according to the D.C. Fiscal Policy Institute. Other cities with recent minimum wage increase laws include Los Angeles, Seattle and Portland.

CONCLUSION

There are two different storylines playing out in cities: economic conditions are improving for some, but worsening for others. The business and retail sectors are booming, but workforce skills are not keeping up with business needs. Residential property values are improving, which is beneficial for property owners and property tax revenue — but meeting the demand for affordable housing is more difficult for cities to achieve. The retail sector appears reflective of strengthening consumer confidence, yet more people lack the basic necessities of life. Economic growth under these conditions is not sustainable.

The results of this year's survey underscore the unique position of city leaders as those on the frontlines of the complex interplay between growth and decline. They must meet the immediate needs of residents for survival needs like food and shelter while considering housing and economic development strategies that ensure a strong and appropriately skilled labor force comprised of residents who can afford to live near jobs. As recovery continues to move slowly, it has become apparent that the market is demanding greater inclusion as a condition of sustained economic prosperity. More equitable and inclusive places will have greater opportunities for economic mobility among residents. These localities will also more easily connect to external markets, producing stronger, longer-term growth. Inclusive growth policies that move the needle towards equity in our nation's cities are therefore more important than ever.

Methodology

The National League of Cities Local Economic Conditions 2015 is a bi-annual national mail and email survey of city government officials which asks for assessments of their local economic conditions. The first survey was conducted in 2013. Surveys were distributed to chief elected officials in a sample of 986 cities from February-April 2015. In total, the data from this report were drawn from 251 cities for a response rate of 25 percent and a margin of error of +/- 5 percent.

Population	# of Responses	Percentage
Below 50,000	81	32%
50,000-99,000	80	32%
100,000-299,000	64	25%
Over 300,000	26	10%

Endnotes

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