

THE BROOKINGS INSTITUTION

HARD TIMES, SOLID POLICIES TO RENEW AMERICAN COMMUNITIES

Washington, D.C.
Wednesday, October 13, 2010

PARTICIPANTS:

PANEL TWO – PERSPECTIVES FROM THE FRONT LINES OF AMERICAN COMMUNITIES

Moderator:

ROBERT E. RUBIN
Co-Chair, Council on Foreign Relations
Former U.S. Treasury Secretary

Panelists:

THE HONORABLE STEVE GOLDSMITH
Deputy Mayor, New York City
Former Mayor, Indianapolis

JOEL MASTERVICH
President and COO
V&M Star

MICHAEL RUBINGER
President & CEO
Local Initiatives Support Corporation

THE HONORABLE ASHLEY SWEARENGIN
Mayor of Fresno

* * * * *

PROCEEDINGS

SECRETARY RUBIN: If you would get seated, please, and then we can begin. We are honored to be joined also by Secretary Coleman. It's very nice to have you with us.

I'm Bob Rubin, and as you get seated I'll begin the process of introducing our second panel, which I will moderate. As Roger Altman said, we have an outstanding group of panelists and just to remind you, it's Steve Goldsmith, Deputy Mayor of New York City and former Mayor of Indianapolis; Joel Mastervich, Chief Executive Officer of V&M Star; Michael Rubinger, the Chief Executive Officer of the Local Initiatives Support Corporation known as LISC; and Ashley Swearengin, Mayor of Fresno, California.

The format will be for me to present a question to each panelist and then they in turn will respond to the question, and we'll do that sequentially. Then after we're all finished, we'll have a discussion and the panelists can discuss each other's remarks or whatever else they'd like to address, and I have a few additional questions that I might pose. In addition, after each panelist completes his or her remarks, if one of the other panelists has a pressing question or a pressing comment, they can interject briefly at that point. Then at the end we'll take questions from the audience. And the overall objective of this panel is, I think, as Mike Greenstone said initially, is to see what can be learned from the experience of those who've had a lot of experience in their own communities that can be applied to other communities, distressed communities, across the country.

So with that, let me pose the first question to Joel Mastervich and then I'll sit down. Joel, your company is building a brand new pipe mill in your hometown of Youngstown, Ohio, \$650 million of private capital, which is a very large manufacturing project in today's America. So obviously a plant you could have built anywhere in America, for that matter anywhere in the world, but you decided to build the plant in Youngstown, Ohio. It would be interesting to know what went into your decision making and also as you comment on that, whether you think there are lessons that can be learned from your experience in other communities.

MR. MASTERVICH: Thank you. Well, I'd like to start by saying why a company might say "no" to Youngstown, and this too-often-used photo here is our facility in the background. So nothing is a deterrent to investment more than blight. And it's a symbol of a community that's not able to partner with business, that's not able to change, and I think I can convince you that it poses some interesting issues in terms of recruiting the type of talent that you need to pull off a project like this. And the bottom line for us is that it's not us.

We're a vibrant company, we're in an important market, and we're looking at a huge expansion. So all that being said, we said "yes" to Youngstown, and so why did we say "yes?" It's really two main reasons: The first one -- and it sounds simple, but it's true -- it's our people. The operations, the maintenance, and the technical skills that we have in our workforce, combined with the existing operations in the facilities we have in Youngstown, really give us a center of competency in pipe making. It's one that we're proud of and very importantly, it's one that we're confident in to deliver a project like this.

The second point is the proximity to the marketplace. So I think you've all heard about the emerging natural gas opportunities in the Marcellus Shale region in the Northeast United States. So if you combine those two issues for us -- the workforce competence and the emerging marketplace -- we really have a speed to market that's a very appealing opportunity for us.

So, all that being said, it's not that we didn't have issues in locating in Youngstown. First and foremost, our site crosses two city lines and neither one of them had the 200 acres that we need for the single facility. Those two cities, Youngstown and Girard, have different income tax rates, and we wanted to have the same rate for all of our employees. They're both distressed communities so that means they don't have the money to purchase the properties, and they struggled to get the matching share of funds to access federal and state funds as well. The land needs site preparation and environmental remediation, and I think the environmental permitting process itself can be a lengthy one. And lastly, we have the question of utilities so we wanted to achieve a stable and competitive utility rate arrangement.

So those are a lot of challenges. So what did we do issues-wise to face those? And this sounds simple, but it's true, and that is collaboration. We have really formed a very unique partnership between the business and government communities there. We've worked together very, very well on a very aggressive timeframe for this project to make this project go forward. So what did we do from the city standpoint? Vallourec, our parent company, guaranteed a line of credit to the City of Youngstown, which allowed them to purchase the property and to be given environmental remediation. And very importantly, those two cities were able to cooperate and reach an agreement on annexing the land and sharing the income tax revenue.

From the state standpoint, we worked very, very hard on a lot of fronts to obtain reasonable rate arrangements for all of our utilities. And the Ohio EPA also worked very hard with us to get our environmental permitting done in an aggressive timeframe without cutting any corners, without any compromise to standards. So it can be done.

From a federal standpoint, the City of Youngstown utilized \$17 million from the Recovery Act Fund to help prepare the site, make it industry ready, so that means land leveling and rail access points. And very, very important to us was the decision from the National Trade Commission to enforce our trade laws with respect to seamless pipe imports from China.

Finally, the bottom line for us -- really, I heard this this morning and it's true -- we built on our strength. That's what we did. That's why we picked Youngstown. That's what we're doing today. And we've been able to achieve great cooperation amongst all levels of government. I would say we're investing in each other almost. We are sharing our constraints, some of them in confidence; so that we can both help each other meet a very aggressive timeframe to get this project off and running. And as it's been said, it's a huge project. It's \$650 million from Vallourec Investment. It is a million square foot facility, state-of-the-art equipment, 400 plus construction jobs followed by 350 full-time, well-paying, manufacturing jobs. I think it's an estimated \$1 billion boom to the Mahoning Valley economy in an area that sorely needs it.

And aside from the investment, I would say that it's launched a number of very cooperative efforts to remove blight and to create some green space in the neighborhoods

around our facility, including that house that's in that photo earlier. So finally for us -- I mean our announcement has generated worldwide positive publicity both for the community and for the company. We have a great story to tell, that's why I'm here, and thankful and appreciative of the opportunity to speak here today.

SECRETARY RUBIN: Joel, thank you. Would anybody like to pose a question to Joel or should we wait until later? Okay, we'll wait till later.

Why don't we turn to Steve. Steve, you faced many issues in Indianapolis I know because we talked about it, and now you're in New York and you see the issues that New York has. Why don't you reflect a little bit on your experiences with all that you accomplished in Indianapolis and also some of your initial reflections as you begin to approach the issues of a somewhat larger city of New York? And just as with Joel, are there any thoughts that come to mind as to how your experience could be useful to others, that would be helpful.

DEPUTY MAYOR GOLDSMITH: That's a pretty general question, Mr. Secretary --

SECRETARY RUBIN: Gives you a lot of room to operate in.

DEPUTY MAYOR GOLDSMITH: Well, I'll see if I can do this succinctly. I was District Attorney in Indianapolis for 12 years so I saw a lot of the problems there. I was Mayor for eight years. I was in academia where I tried to teach other people to do it, and I realized that that didn't work real well, so now I've been demoted back to Deputy Mayor of New York. So I have a lot of lessons. I guess if you think of it in terms of distressed communities, let me just take -- you know, I'm so old I actually was a volunteer in the Model Cities days, thinking that I was changing the world by the amount of energy I spent volunteering, and I really had a sensation that I was till I saw the results later.

So let me think about it real quickly in the following way. I don't think -- so you look at massive amounts of investment over the last several decades and you say well, we really need federal and state participation, particularly in urban areas of concentrated poverty because there's not enough wealth in a city to spread it over that degree of poverty to produce opportunity. Right? And I got elected Mayor in the early '90s with a whole group of us who actually were

friends. We were all DAs at the same time. We got elected Mayors at the same time -- Rich Daley and Ed Rendell and myself and Kurt Schmoke in cities in a real difficult place -- and the 20 or 30 years before that, Mayors who inherited concentrated areas of poverty would try to do good things. And so they would raise the taxes on people who had money in order to redistribute the wealth to those who didn't in order to help ameliorate the problems of poverty. Right? And obviously you can figure out the end of this story. The more taxes you raise, the more people who are worth money move. And the more people with money move, the weaker the base. And the weaker the base, the more taxes you have to raise in order to pay, right, and then you're on a slippery slope. And on really bright, clear days when I was Mayor of the City of Indianapolis, I could actually see dollar bills float across the county line and land in the suburbs. Right? My office was on the 25th floor. You know the tax rates are less and the schools are better and the prime is arguably best or maybe not.

So we have all these programs and that earned many of us who are Mayors the right to go to Washington and beg for massive amounts of federal money and that was all very helpful, but really not quite because the situation never got much better. So now you step back and say kind of what can we do about the current situation where the income disparities are greater really than in any recent time, concentration of poverty is back up, urban concentration of poverty is as well, single-family households have started to go back up, and all of the accompanying social issues with them.

So just a couple of quick reflections: One, obviously there still is more concentrated poverty than there is wealth inside a city. So whether you talk about Brookings' metro regions or help from the federal government or the state government, I think you have to start with the proposition that if you just take folks who are living in the areas proximate to those with the most concentrated areas of poverty, there is not enough wealth to redistribute there and wealth is too mobile. And New York City is close to a classic example of that. Right? Half of 1 percent of the taxpayers pay 55 percent of the income tax, 2500 New Yorkers pay almost a quarter of the income taxes, and those folks can move and they are. So that's not a path to prosperity and opportunity. You can't redistribute wealth fast enough to buy yourself out.

A couple of other really quick points, Mr. Secretary, and then more current Mayors can correct me if you will. The problem also, I think, is not an absence of creative Washington programs. We've had a number of really talented HUD secretaries, for example, including the current one who I think is just tremendous, a lot of creativity. But there is a program with federal rules for every problem, and the cost of implementing them and the restrictions on creativity -- in one burst of enthusiasm for a Congressional hearing when I was the Mayor 10, 12 years ago, I said to the Committee, look, just give me 80 percent of the money HUD's sending me and none of the rules and tell me how many units of housing you want, and I'll produce that number of units. Just tell me the outcome and give me the check. You can give me less money. Right? Well, I remember the answer which was, how could we possibly trust Mayors with our money. Right? And so I think it's not an absence of creativity on the policy side that restrains us so much as it's the ability to kind of implement creatively at the street level.

Second, and a comment I think I heard with respect to your plant, is that we have a group of federal programs that operate and state and local in vertical mechanisms and life is horizontal. So even though there's a program for everything, it doesn't make it easily implemented. And so if we begin to think about collaborations, right, why does the Harlem Children's Zone work? Well, it works because of Geoffrey Canada, but it also works because it creates an inclusive approach to a very highly concentrated area of poverty where it touches everything. It touches the family. It touches the preschools. It touches the charter schools. It touches the job training. And it does it in an organized, collaborative way. So I think one answer here is to facilitate the delivery of services through collaborations.

Last -- Bob asked us a kind of open-ended question. I've been a public official for 30 years, so it's tough to get it all in the first answer. The other one comment, which gives me a chance to plug a book for which I get no royalties, is I just -- I was Chairman of the Corporation for National and Community Service, local in Washington is AmeriCorps VISTA, and we fund Teach For America and the like. So I started to examine what made a profit or a nonprofit leader successful. Right? And we found -- and it's not that we have problems for which we do not have successful solutions; that we don't have -- the problem is, we don't have successful solutions to

enough scale, right? And because they get successful and then government has to take them out -- and we can kind of go through the autopsy later on kind of how that works. But the point is that I think we should concentrate a little bit on how the relationship between the nonprofit and -- actually for profit -- and government sectors can produce more value and how the learnings can go more to scale. And yet we have these systems where legislative branches, executive branches, nonprofit boards, United Way lenders, come together around an existing set of providers and lock them into place. So I think the question I will leave with, Mr. Secretary, is if we know innovatively what works and we know it involves civil society as well as government, and we know unlocking the assets in that civil society is the key to hope in the future whether it's an education or whatever else, how can we pray to a more dynamic marketplace for innovation to scale from Indiana or New York to Ohio or California?

SECRETARY RUBIN: Steve, we'll move from each of our panelists, but I would like to ask you one question. New York is traditionally thought of as having very restrictive environments and functions for all kinds of reasons that you and I discussed having breakfast the other day.

MR. GOLDSMITH: Right, right.

SECRETARY RUBIN: You want to talk just a little bit how one tries to free up the ability to function, not from federal regulations -- by itself is a very interesting question -- but from local and state constrictions of all kinds.

DEPUTY MAYOR GOLDSMITH: Yes, I think this is actually a very important question. I'll do it very quickly. So let me -- Bob and I had a conversation last week, which is predicate so I'll footnote his question on my answer quickly. I would say that -- I would ask the same question the following way: Why does KIPP Academy work and Public School 103 doesn't or whatever? Right? And you'd say, and you look at it for a while, you say well, teachers have more discretion, they can tailor the curriculum more particularly, they can interact with the parents, they have longer hours, whatever. But they don't operate -- whatever the answer is, they do not operate pursuant to a highly prescribed set of rules that says "treat every child in every situation exactly the same." Right? Well, we developed government coming out of the problems

of Tammany Hall with rules that restrict discretion. Right? We set up government in order to prevent the abuse of discretion. We have prevented the use of discretion. Right? So good people don't have discretion inside government. In a highly complex world with lots of tailored verticals -- and you know, I was very active in child abuse, I was very active in arresting violence in various aspects of my life, and if you gave a public official authority, whether it's an individual police officer or a counselor, and said "go solve the problems in that family and don't worry about the rules," they could do it. So it's the same that's true of teaching a child in one of these schools, and New York City is the epitome of rules imprisoned. Nobody has discretion to do anything. I'm not talking that there aren't really good people appointed by a terrific Mayor at the top, that's not the point of this conversation. It says you go down to the person who actually touches the person who needs help; he or she has no discretion. And you have to turn the system on its head and give them discretion and then a lot of really good public officials can solve problems, particularly in partnerships with the civic groups.

SECRETARY RUBIN: We'll get back to that, Steve, but you are a politician as well as a manager. I'm interested to know what your political strategy for doing that would be.

Mayor Swearingin, you have a city that, as you and I discussed, has had long-standing problems and as you said, there's been civic decay, there's been infrastructure decay. You were at the epicenter of the housing crisis, a lot of your revenues, I think, are dependent on real estate taxes. You are also known as one of the really dynamic new Mayors of America.

MAYOR SWEARENGIN: Thank you, that's news to me, but I'm willing to hear it.

SECRETARY RUBIN: Well, let me say, that's what other people have told me, and I'm prepared to stipulate that it's true.

MAYOR SWEARENGIN: We'll see, the jury's out. Anyway, let's move on.

SECRETARY RUBIN: Well, people who know you certainly say that. Why don't you give us a little sense of how you're going to approach dealing with the problems of Fresno, and it might be interesting as you do it if you feel like just expanding a bit on the question that Steve just raised. How do you create an environment which is a balance? Because yes, you want to restrict abuse, but you want to find a balance so that you don't prevent the use of

discretion. And you accept the fact that sometimes things can go wrong, and you want to get the right balance between the two.

MAYOR SWEARENGIN: Well, yes, thank you very much Mr. Secretary. And just first of all, Steve's comments are dead on, and he's got a lot of experience, much more than I. My observation from being Mayor of the City of Fresno for the last two years and then being in leadership and economic development for the 10 years prior to that, absolutely dead on. So what we have to do at the local level is navigate, and that's why we can develop the civic entrepreneurial skills. I think, frankly, Fresno is one of the most civically entrepreneurial communities in the country because we have such restrictions on the things that we'd like to do. It actually produces a muscle, a civic entrepreneurial muscle.

I wanted to start by saying thank you to the Brookings Institution and the Hamilton Project for shining a light today on long-term distressed communities. I can't tell you how grateful I am for the work that the Hamilton Project has done to surface some of the things that as the Mayor of the City of Fresno that has dealt with long-term economic disadvantage. It is like water on a dry sponge to have this conversation today. So I'm very, very grateful.

And just to give you a little bit of context so you know from which I speak, I want to tell you about my city. And first, let me say I'm wholeheartedly in support of the idea that there needs to be a national discussion, a national policy, on how we really focus on distressed communities. It is the case that a lot of resources go to people that are scattered across the country. As a result, there's no focus, there's no target, and we're not shifting in any significant way in these places that show up on the map that we saw earlier. I love that the paper calls for a focus on concentrated communities and regions.

So the City of Fresno is a city of 500 thousand people right in the middle of California. We like to say we're the heart of California. It's the fifth largest city in the state so we've got Los Angeles, San Diego, San Jose, San Francisco, and then Fresno, which comes as a surprise to most people. We're larger than Sacramento, Long Beach, Oakland, Anaheim, and Santa Ana. We are situated in the largest ag-production region in the world. We feed a third of the world out of Fresno County every year, a third of the world, and we suffer the consequences

frankly. And it's been very difficult to shine the light on sort of the tail end of being this supplier of food, and yet we deal with many economic and social consequences as a result.

The value of ag-production in Fresno County last year was \$5.3 billion and that's just from one county out of an eight-county region that makes up the San Joaquin Valley. There are over a hundred crops produced in Fresno County alone. I know many regions in the country have large masses of agriculture, but they do one thing: They make wheat or cotton or soy bean. We do everything, every fruit and nut and grain product you can imagine, a tremendous diversity of products, and it really is a blessing. Unfortunately, the bounty that we've seen in the agricultural industry has not spilled over into economic bounty for the people who live in our community. Pre-recession unemployment rate in Fresno County was at its lowest because of the housing boom, because of our population growth. We've seen -- we did housing on steroids as Bruce said. So that coupled with our dependence on an industry that competes on one-tenth of 1 percent of one penny globally, returns very little to our community. But we do tend to grow, and we have a very high internal birth rate and that means we build houses and so we did housing on steroids. Our lowest unemployment that we've seen in the last 30 years was 6.3 percent in 2006. So that was the height of the bubble. If you look at the state records on unemployment in Fresno County, just quickly glancing online, they only track it back to 1980. But if you look over the last 30 years, you can count on one hand the number of times that the average unemployment rate in Fresno County dropped below double digits, like four or five times in the last 30 years. And in some cases in the '90s, I was finishing my graduate work at that time, and unemployment was 16, 17 percent and right now in the City of Fresno, it's 14.5 percent. In some places in Fresno County it's as high as 40 percent, 40 percent. In 2005 the Brookings Institution revealed in its report, "Katrina's Window," that the City of Fresno, the City of Fresno, had the highest concentration of poverty of any other large city in the United States. Now this report was done to find out what was going on in New Orleans. All of a sudden, Katrina happened and we see this footage of people in poverty. We can't believe that poverty still exists like this in America. So this study was done. The top city produced based on census data was the City of Fresno, followed by New Orleans, Louisville, Miami, Atlanta, and New York. So all of that to say, I love the fact

that your report you released today cites that Wilson's work, "that concentrated areas of economic distress, a long duration of economic distress, causes an erosion of pretty much everything in your community." That's certainly been true in Fresno.

So, anyway, I'm finished with the misery index, but that's the context. All right, now let's turn the page. What has been going on in our community to address the fact that 30 and 40 years of social and economic and environmental erosion have taken place? It really for us came from the civic entrepreneurial machine that Steve talked about. About ten years ago, university, business, and civic leaders got together after this great economic expansion of the '90s and early 2000. This new economy, this knowledge-based economy, hit California and the world, and our region was left behind completely. And it was very startling for many of us who were business leaders at the time in the community. So we rallied. It wasn't the federal government. It was not state government. And, frankly, it wasn't even city government because at that time, we were still dealing with the long-term effects of this sort of economic erosion resulting in a lot of political corruption and insufficient leadership in every level. So it came from outside government. We came up with our game plan, which Bruce talked about, EU comes up with their game plan, and then they work the plan. We developed a plan called the Regional Jobs Initiative that focuses on our industry clusters, our export-oriented industries. Agro business certainly is a base, but other industries beyond that. And then we've been working that plan. We've gone after innovation. We formed industry cluster organizations for the ten industries we were focused on to try to enhance their productivity and bring resources to them in a coordinated way. So I really like the focus on the manufacturing extension program that's talked about in the report. I would have one caution on that, though, low-cost service oftentimes means low quality. And so we don't have an MEP program in Fresno, but we relied on SPD fees and university centers and others. And sometimes there's a reason why people are in government consulting work. So it really would be incumbent upon expansion, anybody who would be expanding that program, to get the best and the brightest and get the top accounting firm or whomever and really provide high-quality advice to improve productivity.

We launched a series of university-based, industry-focused, R&D centers including the International Center for Water Technology, a water energy technology -- a business incubator which we believe is the only one in the country and nobody has proven me wrong yet -- and the Institute for Food and Nutrition Innovation. We also launched the Lyles Center for Innovation and Entrepreneurship. They have one of the top-rated undergraduate programs in entrepreneurship training in the country. We were ranked number seven by *Entrepreneur Magazine*, just after MIT three or four years ago. In other words, we are teaching students. They have to -- upon graduation from college, they have to start a business, and they have to run that business. The focus on entrepreneurship and business creation is absent from the discussion today. It's hugely important even if it doesn't result in a gazelle company growing up in your community, the skills that are imparted in entrepreneurial pursuits are absolutely invaluable for every part of the community, and that's been a big focus for us.

We've also had a major, major focus on job training and matching skills of workers with jobs that are available as was pointed out in your paper. It is the case that in Fresno we've actually had thousands of jobs. In fact today have thousands of jobs that go unfilled because of the mismatch between the skills of the people looking for work and those required on the job. Our local one-stop center, Workforce Investment Board, has done major work to use national norm skills, testing skills, make sure that we're qualifying people for jobs that exist and really are pushing community colleges to provide the job training that we know industry requires. And that's been a big focus for us.

Risk capital has been absent in our community. We've had to go out and start a mezzanine fund and now we're after an early stage fund as well. And then we've done creative things in the government sector. We lobbied Governor Schwarzenegger to create a regional partnership of local elected officials, local business leaders, as well as state cabinet secretaries, all sitting on one board to coordinate a ten-year regional plan for our entire region. So now -- and I served as the Director of Community and Economic Development at Fresno State and was leading those efforts. Now I'm Mayor. And to Bruce's point about what are communities doing to restore their waterfront and really go after quality of place? Well, for the City of Fresno as Mayor,

that's what we have to do, that's our job. So we're going out for quality of place, addressing land use policies that have resulted in a real decay in the urban part of Fresno and those neighborhoods of concentrated poverty and so that's our work, also, adult education and basic skills. Look, there are no shortcuts here. There just simply aren't. I wish there were. And maybe for some communities that really are just simply experiencing the result of this recession, maybe they can spring back. But the communities we're talking about today, there are no shortcuts.

So we've got to deal with the root issues that relate to basic skills and lack of education. And we're going after the adults because we know that if we can get adults in basic skills training, even if it's a little bit, and get them into some kind of a productive role, the lives of their kids are instantly stabilized and they do so much better in the K-12 system coming up. So our focus is on the adult population.

Anyway, so is the proof in the pudding yet? Are these things working? Well, we can't show it in the data yet, and I'm always the first to say, save your applause till the end. I know that I was invited here today because we have the history of being a distressed community. I think I hopefully was also asked here today because we're doing some very innovative things to address what's been going on in our community for a long time. I wasn't invited here today because we fixed it, but hopefully someday I will be and then we can applaud. But in the meantime, we still have a lot of work to do.

SECRETARY RUBIN: I can see why people refer to you as extremely dynamic. Let me ask you this, if I may Mayor, before we turn to Michael Rubinger. Just two very quick questions, if I may. Number one: You've obviously, or it sounds like at least, you made a lot of progress with working to cross the artificial lines that we have with cities, states, towns, counties, and so forth. Does that look to you as if that's working reasonably well? You've found ways to actually -- and secondly, just a related question, or maybe it's related; I'm not sure. Where are the resources, the fiscal resources, going to come from to fund the kinds of things you're talking about?

MAYOR SWEARENGIN: Right. The first question is easier to answer. We have come a long way in overcoming parochial interests. It wasn't that long ago that the Fresno region

lost out on the location of the newest UC campus because there was infighting between the city and the county and it went to a location -- and that's where it is and it's not far from Fresno, but frankly, it's in a place that just doesn't make sense economically. And that's just one example of many of the opportunities we've missed out on because we haven't cooperated. I can't say enough about cooperation. I think a lot of times in the government arena and in nonprofits, having served as a nonprofit executive before, we do a lot of cooperating but we don't actually collaborate often. So there's a big difference between cooperating, which means we hang out and we talk and we know what each other is doing, but we don't actually share resources. We don't do any kind of joint planning, and we don't actually do heavy lifting together. So co-laboring is, I believe, underway in Fresno. Now, having put together Fresno region collaboratives and San Joaquin Valley collaboratives and now I'm the Mayor of Fresno and I have to say, nothing replaces the fact that the City of Fresno has to be a strong, capable, functioning entity to be a good partner. And so my focus has gone from really caring that everybody's talking and collaborating back to we're missing the fundamentals and it's our responsibility to get those things right in order to really support effective partnerships. So that's our focus.

In terms of funding, it's really a -- well, you asked me earlier, the federal government, you know, they're the ones who have the money. You know what? We've never seen any kind of large federal investment in Fresno or the San Joaquin Valley. In fact, the U.S. Congressional Research Service released a report in 2005 that showed our federal-direct-per-capita expenditure rate in the Valley, which has some of the hardest hit areas, is 32 percent less than the national average. The good news there is we're not used to handouts at all. We have to figure out on our own. I would love to be proven wrong, and I'd love for somebody to show up with a big truck with money, but I'm not looking for it anytime soon. That means we have to be smart with what we have. We have spent money in stupid ways in the past. I think there's some increment that we can fund locally and that's so that hopefully the momentum is really sparked and then investment comes from outside the area.

DEPUTY MAYOR GOLDSMITH: Hey Bob, can I have 30 seconds? Going back to my kind of teaching days so I can look more abstract because I don't want to compete with the

Mayor; she's too dynamic. So another way -- I'm less sanguine about the relationship between cities, counties, and the regions in the state. There's still a lot of parochialism. So my 30-second postscript is there may be a moment in time here now where -- when I was Mayor and there was this continuing flight to the suburbs, it created this kind of zero-sum situation. Now I think, although not very many Mayors have successfully made this regionally, it's not clear to me that being suburbanite to a highly concentrated area of poverty where folks live in despair and have no hope or future is really good for you. And there may be opportunities for other regions to follow what the Mayor has done on not just a moral imperative, but kind of the enlightened self-interest imperative as well.

SECRETARY RUBIN: Michael, that probably brings us to you. Why don't you very briefly tell us what LISC is because I'm not sure everybody's totally familiar with LISC. LISC is the nation's largest community -- let me say in full disclosure, I happen to be Chairman of LISC, but that's neither here nor there and have been for quite some time -- but it is the nation's largest community development organization. And why don't you give us a sense, Michael, you've dealt with distressed communities around the country, usually communities that have really been pockets of poverty for generations. So it's a slightly different description than Fresno despite your long-standing problems. Why don't you give us a sense of how you would approach all this strategically?

MR. RUBINGER: Sure. Thank you, Bob. Let me first begin by saying how refreshing it was for me to hear the first panel and its emphasis on place-based strategies for distressed communities. LISC has been there for a long time. We haven't always had a lot of company, so it's nice to hear economists talking in those terms these days.

LISC started 30 years ago, and we basically had two goals at the time. One was to work with community-based organizations in their efforts to revitalize their neighborhoods. And the second was to try to attract private capital into those same communities. And I think we've had a fair degree of success over those years. The community development industry itself has grown by leaps and bounds and LISC, as one nonprofit organization, we have raised and invested over \$10 billion in these communities, leveraging another \$30 billion, which has

produced close to 300 thousand affordable homes and apartments and over 40 million square feet of retail, commercial, and community facilities.

But as we were approaching a strategic planning process in 2006, we realized that even with that progress that something was still missing. We realized that if we really were serious about creating healthy and sustainable communities that would attract people of all income levels to live there, work there, and raise their families, that we had to begin to take on the other issues, the other daunting issues that these communities faced, like jobs, education, health care, safety, access to arts and culture and recreation, all the things that make for healthy communities. And what's more, we had to take them on simultaneously in an integrated and comprehensive way. And so in 2006 we developed a strategy which we call "building sustainable communities." It was based on a program that we had piloted several years earlier in Chicago, and basically it's an effort to take on five fundamental program objectives in selected, targeted, neighborhoods in the 30 cities across the country where we work.

Now what are those five program objectives? The first is to continue to increase investment in housing and other forms of real estate. That's our core competency. It's what brought us to the dance. We think it's still important, and we continue to do that.

The second is to expand family income and wealth. We do that in a variety of ways, but the flagship of that program at the moment is something that we call "financial opportunity centers." These are one-stop shops where people can get job placements, placements in job training, access to public benefits, and financial counseling and coaching. We've opened 32 of these centers in nine cities so far, and we're going to double that over the next couple of years with a grant that we've just gotten from the White House's new social innovation fund.

Our third goal is expanding economic development activity and trying to connect the neighborhoods where we work to a larger economy. Again, we do that in a variety of ways, but we have a "commercial revitalization program" that we've had for a long time, investing in shopping centers. We've invested in over 40 supermarkets and grocery stores across the

country, and we've invested over \$600 million of new market's tax credits for economic development activity.

The fourth goal is expanding access to quality education. I don't think any of us believes that we can turn these neighborhoods around if we don't do something about the schools. To date, most of what we've done is with charter schools. We've invested in over 120 charter schools across the country, but recently we've begun to move into some other program areas in education as well like after school programs, remedial programs, service learning programs, parental involvement programs, and the like.

And finally, the fifth goal is supporting healthy environments and lifestyles. Now under that rubric comes our green building programs, our green jobs programs which we've begun recently, our community safety initiatives where we work with local police departments to lower the crime rates in these targeted neighborhoods, health care where we've invested in over 25 health clinics around the country, and recreation where we've had a long-standing program with the National Football League where we have invested in 150 youth football fields across the country.

So in short, by taking on these five new program goals, we're trying to bring the human dimension to the physical dimension of neighborhood revitalization. And although I've just ticked off a whole series of programs and projects, I want to make clear that this strategy, this "building sustainable community" strategy, is not about individual programs and projects. It's about how those programs and projects work together, are woven together in a mutually reinforcing way, to create greater scale and greater impact. And it's about the creation of a network of relationships at the neighborhood level among organizations, institutions, and individuals in those neighborhoods, that we can build on going forward and that we'll be there for the long haul.

So I just want to close by saying obviously, we rolled this strategy out in July of 2007. We could not have picked a worse time to roll out a strategy like this. And the economic crisis that we've faced over the last several years has no doubt been a setback for us, but at the same time this strategy is getting traction in numerous communities across the country where we

work. It has resonated with local stakeholders in a real way, and it is also very compatible with the Obama Administration's efforts to break down silos, to create greater coordination and integration among programs. So even with all of the challenges that we're facing, we think we're on the right track, and we think we're headed in the right direction.

SECRETARY RUBIN: We're going to throw the -- thank you, Michael -- we're now going to throw this open to questions. I'd like to ask you one question, though, myself before we ask for questions from the audience. Joel, with what you're doing in Youngstown, Ohio, if a CEO of a company -- of course, you have the Marcellus Shale situation, which may have been a special circumstance in terms of remaining in Youngstown -- but if a CEO of a company in another area were to come to you and say, all right, you're staying here because you keep your people here and one thing or another and that's important. What would you suggest I do? I'm the CEO of some other company that's thinking of closing a plant in order to try to marshal the resources to make this an economically sensible thing to do. What advice would you give me?

MR. MASTERVICH: Well, I think that in our case, as we said before, we build on our strength, and so my advice would be to look to where your strengths are. In our case, despite all the issues that we knew we would face by remaining in the Northeast and in Youngstown, regardless of the Marcellus Shale, that's where our strength is, that's where our technical competency is. And we felt that to relocate or to reestablish that in a different location would slow our project down. So if the speed to market is important, which is was for us and it is for most, I think you have to look first to where your strengths are and try to build them before you consider an alternative site.

SECRETARY RUBIN: Have either -- the former Mayor or the current Mayor -- had experiences with companies that could relate to Joel's description of his experience in Youngstown?

DEPUTY MAYOR GOLDSMITH: Well, we probably all have. So really, I mean, and Indiana's not far from Ohio, so some of the same issues. I'd respond this way. A, if a city doesn't get its fundamentals right, it can't incent a company enough to stay there, right? If the tax rate is too high and the roads are broken and the sewers don't work and the job force is not

prepared, it takes an awful lot of incentives. And then you can attract one factory, but you're essentially taxing a group of folks who are not serving in order to resolve the issues for one. So I'm all for these public/private partnerships. I used them frequently, but you have to say that we're using these on top of a foundation that works.

And the second, as the Mayor said, they tend to make more sense when they are -- to kind of change the phrase -- investment in an anchor tenant or at core competitive use that builds out these ancillary uses around it. Otherwise, you run the danger of kind of running from event to event as contrasted to having a strategy to play out.

MAYOR SWEARENGIN: Yeah, I would concur, and our focus has been on expanding the companies that fit. We did a lot of work with economists to identify what our core competencies were as a region, what already existed, and some level of increased concentration. We identified water, technology, value-added food processing, and some things that were natural for us to be competitive in. And then we went out to the companies that were in many cases are very, very small firms. They've never been contacted by anybody from local government. They really are not connected to their peers, and we just started to network those companies. We have not had an experience like Youngstown where there's a major company that's looking to invest \$650 million; maybe that's next for us. We are competing for an \$800 million high-speed rail, have a maintenance facility. But it really is about the fundamentals, and then we know we'll be much more persuasive and competitive with some attraction strategies if we're getting the retention expansion. And frankly, the creation part as well.

SECRETARY RUBIN: I'll make one comment and then we'll go to the questions. I first heard Bruce Katz a long time ago talk about building around core competencies, or another term for the same thing would be comparative advantages. What are your comparative advantages in the national and global economies? And it seemed to me that that made an enormous amount of sense, and then you'd have all the questions of how you'd do it, which are some of the issues that you've raised. But it seems to me that really could be a national growth strategy if it's thought through and then brought to scale and it had the support at political levels, but you've got all the regulatory and other issues.

MAYOR SWEARENGIN: Well, and I think it's why the focus at the metro level is so important because you can't do that from the top down. It has to be organic and authentic to the region and there are nuances that simply don't show up. For example, our water technology industry, which sparked a lot of university partnerships and innovation and research grants and companies started to locate their R&D facilities in Fresno, really you would never have seen the blip on the scale. It really just came from local business leadership highlighting that comparative advantage for our region. And it really comes down to people. If you have civic entrepreneurs, business leaders, who are willing to champion their company and their industry, it makes a huge difference.

SECRETARY RUBIN: Why don't we now -- Michael?

MR. RUBINGER: I just want to go back to something that Steve Goldsmith said earlier because it really resonated with me. You asked the question, how do you -- where do you find the resources to do all of these things? I think most of the resources are already there. It's just a question -- I mean, if we could -- in terms of what we do, if we could get federal resources flowing to the local level without all of the bells and whistles and strings and regulations and what not, most of the federal resources that come down, at the end of the day it's about compliance. It isn't about carrying out the program objectives; it's about complying with all of the regulations. If we could get that money coming down to the local level in a more integrated way without all of those regulations, I think the resources exist. And I think we already know how to do a lot of these things. We just can't do it because we're stuck in these silos.

DEPUTY MAYOR GOLDSMITH: So I complain about compliance all the time because all we have is a number of kind of policing compliance agencies. When I was Chairman of the Corporation for National and Community Service I ran into Allen Casey who was the founder of City Air -- and I decided now to move from local to federal -- so I sit down and we're really doing a great job. We're funding all your City Air and AmeriCorps members. He said, yeah. And I said, how we doing? He said well, it costs us 25 cents in compliance for every dollar you give us for AmeriCorps number. And in your world it gets even worse.

MR. RUBINGER: I was going to say, that's pretty good.

SECRETARY RUBIN: Why don't we -- we could do this all day, I think -- but why don't we open the panel to questions from the audience? Mr. Secretary?

SECRETARY COLEMAN: I want to make a comment. It's one I would not have made four months ago. I've just written a book which Brookings is going to publish on October 18. And when I wrote the book, I really thought only of thanking people that helped me, like for example, Elliot Richardson. I met him the first day at the Harvard Law School. After I finished first in my class, clerk for Court of Appeals judge, clerk for Felix Frankfurter; no New York firm, no Philadelphia firm or Washington firm would hire me. But he had an uncle they called Paul White and that's how I got my first job. What I really want you to turn your mind to -- when are the American people going to realize that the same time the white Pilgrims came here there was another group that came here, black people. And I think that they have the same range of talent as anybody else. And there's a lot of misinformation. I always thought until two months ago that when that German ship landed 22 blacks in Virginia that they were slaves. That's not true, only three of them were slaves. The other 19 were indentured servants because the British had a rule that if you were Episcopalian you couldn't be a slave.

Also, just recently I found out that only four percent of white people in the South owned slaves. And what I would suggest that if you take a look at the talented blacks I think you will find that their ability is the same range as anybody else. And the great problem is that it's all right to talk about the cities but my father was a director of Boys Club and he trained a lot of people but, you know, the smart rich people end up in the suburbs. And, therefore, the whole idea and the great tragedy was that when Franklin Roosevelt decided to do something on housing he wouldn't follow Eleanor Roosevelt to buy and sell to blacks, he sold only whites. The first one to start selling to blacks, causing blacks to get out of the -- Bill Clinton followed by Bush. And then the banks foolishly or not took a lot of the money because you will find that those presidents called them all the time, asking them to do it. That's why we have the problem.

I really think if you really say that the same time the whites came here from Europe that black people came here, and they have the same ability and talent that you got a lot of these problems. My father was a director of the Boys Club in (inaudible). He trained a lot of

people. But I don't think that those people that end up running corporations and doing other things usually from that source. And if you finally turn your mind to that and, you know, the guys who is head of American Express now – he was a poor boy but now he's CEO of American Express. You'll find as you look at it that a hundred of the companies listed on the New York Stock Exchange today have a black CEO or black guy who is general counsel.

I really think you've got to do what you can do for your own people. Namely, that you train your kids, you teach them to do better than the kids before. Now, rather than all this stuff about -- all this local stuff that the government can give you, because the government really can't give you anything without causing a big debt. And what makes it worse, finally, I really think you begin to think that way rather than the way we thought for the last 15 years.

SECRETARY RUBIN: Thank you, Mr. Secretary. I must say, to graduate first in your class from Harvard Law School is good proof of your point. I said graduating first in your class from Harvard Law School is good proof of your point.

Michael, do you want to respond a little bit -- it strikes me there is a really important question there, though. Race has been part of the problem of distress in inner cities and yet it seems to me there's been enormous progress in many different ways. If a hundred companies listed on the stock exchange now have African American CEOs or General Counsels, it suggests that something's real and very good has changed in America that we recognize as still enormous problems. How do we deal, though, with the people who really have been the victims of replicating poverty through generations? That was the question I was going to ask.

MR. RUBINGER: Well, I think that's, frankly, what all this conversation has been about.

SECRETARY RUBIN: Well, part of it, but part of it has been about communities that were hit with economic shocks, but then became distressed. And I know a lot of what you've done --

MR. RUBINGER: Well, I was thinking more of -- the first panel was really focused on the plight of long-term distressed communities, and that's really what we're talking about. And frankly, that's where we do most of our business and that's what we're trying to deal

with. I think -- look, I'll say the obvious, in the long run I think it's about education. I mean, I think if you're going to do what the Secretary's talking about, then people have to be given equal access to a quality education. That's really the bottom line. And we just have to do a better job of doing it. Now there are a lot of other things I think that go along with that. I think if you just focus on the schools exclusively and ignore what these kids are dealing with in the rest of the community, then you're not going to deal with the whole problem. You can't expect the schools to do everything. So I do think you have to take a more comprehensive view of this, but I think in many ways the schools have to be at the center of that.

SECRETARY RUBIN: Other comments?

DEPUTY MAYOR GOLDSMITH: Well, at the risk of sounding -- when I got elected Mayor, LISC came and told me what to do, so agreeing with Michael is the least I can do.

SECRETARY RUBIN: Did you do it?

DEPUTY MAYOR GOLDSMITH: Yeah, I did it and it worked actually, generally, but nobody's perfect as his point and the Secretary's comment. The issue in Indianapolis today and even New York City has it, highly concentrated areas of poverty obviously, is that -- I'm more familiar complaining about Indianapolis since I was the Mayor and I can do that. So the path to the middle class for an African American family was to get out of the city. So you do have a very significant strain between place-based and people-based opportunities. And if you are an African American male kid and you have a 25 percent chance of graduating from the local high school, your family will get you out of town, right, if they can. So now we have these concentrated areas and I was just looking at the New York City statistics. If you came from a -- and I started my public career in child support and working for AFTC moms and understanding the heroic work they've done -- but if you're born in a single family household, you have a 55 percent chance of being poor in New York City, and if you're born into two parents, 17 percent. So it's not a race-based situation we have today per se, although driven by it, it's this concentration of poverty that is disproportionately Black and Hispanic and the inability of folks in those communities to have true opportunity. And you're doing some things to resolve it, but it's a communitywide resolution. It's not just a house here or a school here.

MR. RUBINGER: No, I agree with that and I -- look, what you're saying -- the knock on what I do over the years on community development has always been that well, as soon as somebody can, they're going to get out and they're going to go to a better place, which is fine for them. But what they leave behind is the same community with the same intractable problems. And so we're trying to make those communities more attractive so that people not only won't leave, but you might even attract people in so that you have more of an income mix. You have decent schools that people want to go to, and these communities themselves can improve so they're not just constantly turning over and always taking on the most difficult issues.

DEPUTY MAYOR GOLDSMITH: I got this aghast look from Jill Klein last month, like I can't believe you said something this dumb, Goldsmith. And I said if you took equally poor kids, one in a school with income distribution and the other in highly concentrated -- and you looked at how they compare -- and I said, are you kidding? The poor kid in the mixed income school performs remarkably better than the poor kid in the highly -- I mean, this is intuitively obvious, but it kind of makes the point you said to the extent that you can create a more diverse neighborhood in particular on the economics.

SECRETARY RUBIN: Why don't we take -- I think we have time for one or two more questions. Right there.

QUESTIONER: Thank you. It seems to me that a theme of the last panel was evaluation and maybe the declining federal appetite for large-scale social experiments like the experimental housing allowance program or the negative income tax experiment. And the theme of this panel is flexibility. If only we didn't have the constraints of local governments to nonprofit, then the for-profit sector or state to local governments or federal to local governments, we could innovate. So I wonder if we could tie these themes a little bit together and talk about one way of getting around the lack of perhaps federal support for large experiments is to let a thousand flowers bloom and have more flexibility at the local level. So do you see any trends in terms of waivers? I think you discussed silos a little while ago, and how has that changed over time? Is there anyone who is paying attention basically to the results at the local level and who can kind of put all these lessons together in a central clearing house so that we benefit from what you've

learned?

SECRETARY RUBIN: Before anybody else answers, let me ask. There is a federal agency or maybe not an agency, but a subpart of an agency that actually has the job of trying to make sense out of regulation, which is a wire in OMB as you know. And arguably you could make the case that they should be applying some kind of cost-benefit analysis to all the regulations that come through the federal government. I don't know whether that's happening or not because I'm not close enough to it, but that is basically I think their mission. Would someone like to comment?

DEPUTY MAYOR GOLDSMITH: Well, I would just say quickly if nobody at the federal level is paying attention to what's going on at the local level, I'm going to go out and slit my wrists because it's hopeless. I think we have to do a better job of evaluation. I agree with the first panel on that. I think one of the real tragedies of the field that I'm in is that, frankly, we haven't done a very good job of measuring anything, and it's still highly anecdotal. I still say the best way to show people what we do and explain what we do is put them in a bus and take them out on a tour. Well, that's no way to do it. So we got frustrated so we invented our own research component. We're researching our own program. Now that is always going to be suspect with the purists, but at least we're making an attempt in that direction. But I think that the general proposition that we have to measure what we're doing better and do a better job of evaluating outcomes is in the long run the only thing that's going to work because we're being held increasingly accountable for those kinds of outcomes. And if we can't prove that what we're doing is working, then there aren't going to be any resources there and there shouldn't be.

SECRETARY RUBIN: Mayor?

MAYOR SWEARENGIN: I'll just comment from a practitioner's standpoint. I think for us in Fresno, the first major issue we had to deal with was just simply the fact that there was no connection, communication, or coordination between the local, state, and federal levels. And what we knew was that everything was very, very onerous, and we just assumed there was nothing that could be done, that there was no flexibility at all. But that was based on just the myth and lore of what we know is the federal government and the state government. So we started

breaking through that; frankly, it was just something that was done on paper that ended up yielding a pretty good result for us. Back when President Clinton was still in office, there was a very hotly contested Congressional race going on in our area. And so the incumbent Congress member, Congressman Dooley at the time, lobbied the President to find an executive order that created the Federal Interagency Task Force for the Economic Development of the San Joaquin Valley. Absolutely no money went to this. It was simply a stroke of the pen that said, "Every agency in Region 9 has to sit at the table with local people and with state people and figure out what you can do to help each other." And when it started, it was just meetings, and the last thing you want to do is sit down and talk to people from the U.S. EPA or from DOE. I mean, it just seemed like it was very overwhelming. But, frankly, they were very civically -- again, the theme of civic entrepreneurs. And we have one of the most entrepreneurial people that runs our regional head office of anybody I've worked with. And he's a fed for crying out loud. And he brought his colleagues to the table. He went out and found local business leaders and civic leaders, and we just started talking. We didn't know what they could do and what they couldn't do. And we actually found there was more flexibility than we realized. We just didn't know. Well, then we realized that the state, and the feds would say, hey, we'd love to help you with this, but we'd pass through to the state and the state's nowhere to be found. And I live in California so it's like living in a world in and of itself. But we took the model that the feds had put together, and we went to Governor Schwarzenegger and said, you're really missing in action here. The San Joaquin Valley is California's dirty little secret that we're going to expose. But you're not dealing with the issues here if you don't cooperate in some way; again, very little resource. This was back when there was still money in California. They did put like \$2 million on the table to create this regional table with the state folks, the feds, and the locals working together. Now that money is all expired and the partnership continues. We found more flexibility than we thought. We have also found very specific constraints, but now we're educated and armed with information. For example, when the Workforce Investment Act is reauthorized at some point, we have specific recommendations we'll be making because we know what we're talking about now. And we couldn't really effectively lobby ten years ago. We just didn't know.

DEPUTY MAYOR GOLDSMITH: Bob, I have four 4-second answers.

SECRETARY RUBIN: Okay, you have 16 seconds.

DEPUTY MAYOR GOLDSMITH: Okay. One, obviously more block grants would help. Two, HUD's the only agency that recognizes cities even exist. There's no Mayor in America that thinks he or she gets a fair deal from the Capitol City and the larger the city, the more unfair the deal. So passing federal dollars to the states is just a recipe for a lot of spinning. C, the social innovation fund from President Obama, very small fund, Michael was one of the winners, a CEO in New York City was another winner. It's a totally different program that says, tell us what you're going to do, we'll give you the money, and we're going to measure results. It's not an RFP that says we're going to tell you from a government request for proposal very specifically what we want you to do and we're going to judge you on whether you matched what we wanted and not what needs to be done. If that would move to a broader frame, it would make a big difference. Fourth -- well, third you could actually give people choices like vouchers and use of tax credits and other things that have less friction in the system. I know they have some Treasury issues, but at least they have less kind of commotion on the way down. Last, if we're serious about outcomes, then maybe the money ought to follow the outcome. Just to take kind of a controversial example, a lot of people would argue -- this is obviously more than 16 seconds, but I'm about done -- that whether Head Start's a success or Head Start's a failure. Some people say Head Start's a total failure, but everyone would agree if you look at the last GAO study, that the bottom 20 percent of Head Start is a failure. The bottom billion is a failure. But the chances of getting that money reprogrammed as just something that follows outcomes is very slim. So if we're serious about it, then Congress, state legislatures, local city councils, will have to have the money repurposed. If the money is repurposed, it can float other things we've been talking about. Those are some kinds of ways to approach that.

SECRETARY RUBIN: Well, let me thank the panel. You really have been terrific. We are now -- I really do think states and localities are going to play a larger and larger role in national economic growth for all kinds of reasons, and I think they've come forward in these two panels.

I'm now going to ask the panel to leave. Roger Altman will rejoin us, and he will introduce our next speaker who is an extraordinary advocate for and very thoughtful advocate of state and local involvement in economic growth. Roger?

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012