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Is the New Urbanist Agenda the Efficient Direction?

David H. Ciscel

The New Urbanist agenda is clear. Proponents wish to see a denser city, where less land is used for housing and more land for open space. The ideal city would be one where reliance on the automobile is reduced and where walking and mass transportation are substituted for cars. The perfect city would be one where residential, commercial and industrial activities are close to one another so that shopping and commuting are easier.[1]

Is this really the right way to go?

Most people have a love/hate relationship with the city. Cities have always been a bit chaotic, seemingly dirtier than the small towns in the country. Cities have also been the center of crime in society. However, for the last century, the city has been the focus of economic activity, too. As industry grew more dependent on complex energy sources, on large quantities of labor and on a steady supply of raw materials, the city became the place to locate because only it could provide that combination of capabilities. Bringing all the participants in production close together paid off in rising productivity and lower costs. But there are initial indications that these economic benefits of urban life are being dissipated because of excessive suburbanization.

Recently, I completed a study of costs of urban sprawl in the Memphis MSA. Memphis is an interesting metropolitan area for two reasons. First, Tennessee has a fairly liberal annexation law; so, the city of Memphis has been able to annex many suburbs as they are developed. Second, the rapid suburbanization of the Memphis MSA did not occur until the 1980s and the early 1990s.

Memphis is a service-based town, one known for its logistics capability. Transportation from river barges, railroads and trucks to the planes of Federal Express—has defined the economy. The Memphis MSA has almost twice the jobs in transportation and a quarter more jobs in wholesaling than the typical city does. And while there is evidence elsewhere of the movement of jobs to the suburbs, transportation and warehousing in Memphis tend to remain separate from residential and retail commercial parts of the city. Consequently, as recently as 1996, two-thirds of the jobs in the Memphis MSA remained in the city.

But the metropolitan area is changing. Comparing 1984 and 1996 housing characteristics in the Memphis area points to a city that already has changed dramatically. While the owner-occupied stock of housing rose almost 8 percent in the city (partly due to city growth through annexation), the owner-occupied housing stock grew by almost 61 percent in the rest of Shelby County.[2] As is typical of many cities, the division of the city and suburbs reflects an increasing spatial separation of new homes and middle-class living environments from the commercial/industrial segments of the economy.

The key component of infrastructure needed to facilitate an automobile-based sprawling city is a complex road system. Roads make commuting possible.[3] They facilitate the construction of new subdivisions. While the purchase and use of the car is largely a private decision with large private costs, the road system is clearly a social good, paid through local, state and federal taxes. In 1990, the Memphis MSA had 3,107 miles of roads. Most of these roads were local, neighborhood roads (2,415 miles or 77.7 percent). But most of the driving was done on the 72 miles of Interstate highway and the 716 miles of arterial and collector roads.

Since 1990, millions of dollars have been spent on new road construction in the metropolitan area. Data on road construction and maintenance are sketchy at the local level. In addition, funding of road projects varies dramatically from year to year. But data from 1990 to 2000 are available for the urban three of the five counties in the Memphis MSA. From 1990 through 2000, Shelby County spent $977 million, Crittenden County spent $88 million and DeSoto spent $219 million.[4]

The construction of roads is expensive, particularly where the population is small. In addition, rapid development puts a particular strain on road building. Per-capita costs of road building are ameliorated partly by a large population. Since the 1999 populations of DeSoto (102,000) and Crittenden (50,000) still remain small compared to Shelby's (871,000), the per-capita costs of road construction naturally are smaller in Shelby. But attention needs to be paid to the high road-building costs in DeSoto County, where, during the 1990s, the dual expansion of the Memphis distribution/warehouse industry into Mississippi and the new highway infrastructure required for the gambling industry in Tunica County led to a lot of county road construction (but almost no maintenance).

The major difference is between construction and maintenance of roads. In Shelby County, the ratio of construction to maintenance is more than 5-to-1. While the ratio is less in Crittenden and far greater in DeSoto, the key here is that repair is less expensive than building—even where there is a large current inventory of roads (as in Shelby County) that need repair.

Average Yearly Per-Capita Highway Construction and Maintenance Costs

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1990-2000

	Shelby County	Crittenden County	DeSoto County
Construction	$81.85	$144.80	$259.75
Maintenance	$15.60	$32.89	$8.57

Note: These averages come from 10 years of data for Shelby and Crittenden and nine years for DeSoto. Shelby data are interpolated from total expenditure data using 1997 breakdowns for maintenance and construction. Population estimates are based on the 1990 Census.

These costs of road construction and maintenance, like many others in the public sector, are hidden from public examination. If made explicit, these costs would add an incentive to increase efficient use of the road construction and maintenance funds. For a high-population area, such as Shelby County, the numbers are not large, but the cumulative effect is significant. First, road building and repair are only part of the social infrastructure. When everything is calculated—law enforcement, fire protection, schools, roads, etc.—the price citizens pay for sprawl is quite high. Second, the fact that taxes are not levied for specific activities—

even the gas tax is levied on energy, not actual road construction or use—contributes to misplaced price incentives that may encourage sprawl.

In addition to the road building and repair that support commuting, the additional social infrastructure required for a sprawling area also may be contributing to the inefficiency of the city. For example, a key issue in the expansion of any city is the drainage of wastewater. When Memphis was a smaller town, there was a tendency for drainage to move toward the Mississippi River. Drainage facilities were not easy to build, but the flow was in the correct direction. With the city now covering all of Shelby County and spilling into the rest of the MSA, constructing proper sewers and drainage has become more complicated.

In fiscal 2000, there were almost 60 subdivisions under construction in suburban Shelby County, most of them outside the city of Memphis. The developers of these residential areas spent $4.75 million in new sewer pipe, which they laid for the homes in these subdivisions. That pricetag amounts to $5.46 per capita for the Shelby County population. These are private costs that are added to the prices of the new homes; however, once the new developments are finished, the maintenance of such sewer pipes becomes part of the public infrastructure.

Like road costs, the price of construction and maintenance of sewers varies dramatically from year to year. But from 1991 to 1999, costs per capita averaged $2.47 per year in the city, while the suburban public sewer costs averaged $10.30 per year, more than four times as high.[5]

But the cost differences do not have an immediate impact on policy. Like road costs, the absolute costs are small. The payment of the costs is spread across the entire county population, not just across the segment of the community that uses the sewers. In addition, the costs of development are hidden inside the larger costs of building new homes.

Overall, the key to the economics of urban sprawl is that incentives for a denser, less automobile-dependent society are not in place. While there is clear evidence that the costs of running a suburban sprawled city are higher—and may be rising—relative to a compact city, currently the inefficiencies are hidden in the private and public costs. Until individuals recognize the higher price being paid by sprawling communities, they have little incentive to choose an alternative.

The views expressed in this article are those of the author and are not necessarily the official opinions of the Federal Reserve Bank of St. Louis.

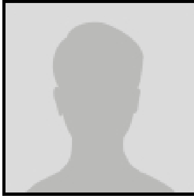
Endnotes

1. Two recent papers that are available on the Internet summarize the New Urbanist argument well. They are: (1) Bruce Katz and Jennifer Bradley, "Divided We Sprawl," The Atlantic Monthly (December 1999), www.theatlantic.com/issues/99dec/9912katz.htm and (2) The Sierra Club, "Sprawl Costs Us All," 2000,www.sierraclub.org/sprawl. For two well written attacks on the whole concept of urban sprawl, see the articles by Edwin S. Mills and Edward L Glaeser in Papers on Urban Affairs 2000 edited by W.G. Gale and J.R. Pack, The Brookings Institution, 2000. [back to text]
2. Shelby County is the home county of the city of Memphis. The MSA also has four other counties: Tipton and Fayette, Tenn.; Crittenden , Ark.; and DeSoto, Miss. In addition, Tunica County, Miss., is closely integrated into the regional economy as the site of the local gambling industry. [back to text]
3. For a review of the costs of commuting in the Memphis MSA, see my article in the Winter 2000-2001 issue of *Bridges*, "The Costs of Urban Sprawl in the Memphis MSA." [back to text]
4. These data are subject to interpretation. They include local, state and federal expenditures, but they exclude some engineering and right-of-way purchases. Also data for DeSoto are missing in 1991 and

1995. Note the data in the Winter 2000-2001 *Bridges* article are based only on city and county government expenditures. [back to text]

5. The averages are computed by dividing public expenditures for sewers by city population and by county population outside the city. If the private developer costs of sewers in new subdivisions were divided by only the population outside the city, costs per capita would rise from $5.46 to $12.84 in fiscal 2000. [back to text]

ABOUT THE AUTHOR



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Letting the Sun Shine in on CRA

On April 1, the CRA sunshine provisions of the Gramm-Leach-Bliley Act took effect. The provisions, which are contained in Regulation G—Disclosure and Reporting of CRA-Related Agreements, require financial institutions and their community-development partners to publicly disclose certain transactions and agreements and to file reports annually about them.

CRA sunshine applies to written agreements that are made in fulfillment of CRA. Covered agreements involve loans, funds or other resources; the agreements are between an insured depository institution (or its affiliate) and a non-governmental entity or person.

Insured depository institutions (IDIs) include banks, savings associations, bank-holding companies and financial-holding companies that receive federal deposit insurance. A non-governmental entity or person (NGEP) is any company, organization or individual other than a federal, state, local or tribal government. NGEPs do not include federally chartered public corporations that receive federal funds.

If an IDI or NGEP believes it may have a covered agreement, it should first review its current community development partnerships. Then, it should contact all involved parties to discuss whether agreements are covered. If the agreements are covered, then the IDI or NGEP should ensure compliance with all reporting requirements.

Covered Agreements

These are any contact, arrangement or understanding that meets all of the following five criteria:

1. The agreement must be in writing, but is not limited to legally binding written contracts. It includes other written agreements that reflect a mutual arrangement or understanding.

2. The parties to the agreement are an IDI and NGEP.

3. The agreement states that the IDI must either:

- Provide cash payments, grants or other consideration (except loans) that has an aggregate value of more than $10,000 in any calendar year, or
- Make loans in an aggregate principal amount of more than $50,000 in any calendar year.

(Note: Individual mortgage loans are not covered, regardless of the identity of the borrower or the rate charged on the loan. Also, loans are not covered unless they are made at substantially below-market interest rates.)

4. The agreement must be made pursuant to, or in connection with, the fulfillment of the CRA. An agreement is in fulfillment of the CRA if it:

- Involves the performance of loan, service and investment activity that factors in a CRA examination or a decision to approve or deny an application.
- Is an activity that is likely to receive favorable CRA consideration from the regulatory agencies.

5. There must be a CRA communication between the parties in the agreement.

CRA Communication

The final rules state that a CRA communication has three parts: content, knowledge and time.

1. Content

- The content of the communication is considered to concern CRA if:
  Any written or oral comment or testimony provided to a federal banking agency concerns the IDI's CRA performance.
- Any written comment submitted to the IDI discusses the adequacy of the IDI's performance under CRA and must be included in the institution's CRA public file. Any discussion or other contact with an IDI about providing (or refraining from providing) written or oral comments or testimony to a federal banking agency concerns the adequacy of the IDI's CRA performance.
- Any discussion or other contact with an IDI about providing (or refraining from providing) written comments concerns the adequacy of the institution's CRA performance and must be included in the institution's CRA public file.
- Any discussion or other contact occurs with an IDI about its performance under CRA.

2. Knowledge

- Conditions apply to both the IDI and NGEP. An IDI is considered to have knowledge of a CRA communication with an NGEP if any of the following three conditions apply: An employee of the IDI approves, directs, authorizes or negotiates the agreement with the NGEP.
- An employee of the IDI who is designated with responsibility for CRA compliance knows the IDI is negotiating an agreement with the NGEP.
- An executive officer of the IDI is aware that an agreement is being negotiated with the NGEP.

In addition, if a communication is part of public testimony to an agency or is part of the IDI's CRA public file, the IDI is presumed to have knowledge of the communication.

An NGEP is considered to have knowledge of the CRA communication if any of the following conditions apply:

- A director, employee or member of the NGEP approves, directs, authorizes or negotiates the agreement.
- The person who functions as an executive officer of the NGEP is aware that an agreement is being negotiated with the IDI.

3. Time

The rule spells out the length of time during which any contact might be considered an official CRA communication.

- Oral or written communication with a regulatory agency three years prior to the agreement.
- Any written communication with the IDI three years prior to the agreement.
- Oral communications with the IDI regarding testimony to an agency or comments in the public CRA file three years prior to the agreement.

- Oral communication with the IDI regarding the adequacy of its CRA performance one year prior to the agreement.

Disclosure Requirements

(This section applies only to covered agreements entered into after **Nov. 12, 1999**.)

1. Duration of obligation:

- NGEP—The obligation to disclose ends 12 months after the term of the agreement.
- IDI—The obligation to disclose ends 36 months after the term of the agreement

2. If an NGEP and IDI are involved in a covered agreement, a copy of the agreement must be made available to any individual or entity upon request; however the NGEP or IDI may withhold either confidential or proprietary information using Freedom of Information Act (FOIA) standards. An IDI also may satisfy this requirement by including a copy of the agreement in the IDI's CRA Public File.

3. Public disclosure must include:

- The names and addresses of each IDI or NGEP.
- The amount of payments, loans, fees and other consideration provided.
- How the funds will be used.
- The term of the agreement.
- Any other information the supervisory agencies deem to be public information.

4. Disclosure to a supervisory agency:

- An IDI must submit within 60 days before the end of each calendar quarter:
  - A complete copy of each agreement for that quarter or a list of all agreements for that quarter. Essential information includes the:
  - Name and address of each IDI and NGEP involved.
  - Date of the agreement.
  - Estimated total value of payments, fees, loans, etc.
  - Date the agreement ends.
  - If applicable, a copy of any public version of the agreement and an explanation justifying FOIA exclusions.
- Within 30 days of receiving a request from an agency, an NGEP must submit:
  - A complete copy of each agreement for that quarter.
  - If applicable, a copy of any public version of the agreement and an explanation justifying FOIA exclusions.

Annual Reports

1. Duration of reporting requirement—Applies to covered agreements entered into on or after **May 12, 2000**. The:

- NGEP must file the report if it received or used funds received under the agreement that year.
- IDI must file the report if it provided or received payments, fees or loans under a covered agreement that year.
- IDI must file the report if it has data to report on loans, investments or services provided under a covered agreement that year.

2. Effective dates (applies to covered agreements that terminated prior to **April 1, 2001**):

- Public: Disclosure of agreements to the public will be available until April 1, 2002.
- Agencies: Disclosure to the agencies:
    - NGEP—available until **April 1, 2002**.
    - IDI—must provide either a copy of the agreement or a list of all agreements by **June 30, 2001**.

3. Annual reports for fiscal years ending on or before Dec. 31, 2000, concerning covered agreements entered into between May 12, 2000, and Dec. 31, 2000, are due on **June 30, 2001**. The:

- IDI sends its annual report to the appropiate supervisory agency.
- NGEP sends its annual report to the appropriate supervisory agency or to an IDI that is party to the agreement.

Here's How the New Rules May Apply to Your Organization

Examples of written arrangements or understandings:

1. An NGEP meets with an IDI and states that the IDI needs to make more community development investments in the community. During the meeting, the NGEP and IDI do not reach any understanding or mutual agreement about the community development investments the IDI should make in the community. Two weeks later, the IDI issues a press release announcing it has established a general goal of making CD grants in low- to moderate-income neighborhoods it serves over the next five years. The NGEP is not identified in the press release. The press release is not a written arrangement or understanding.
2. Using the same example—but the NGEP and IDI have reached a mutual agreement or understanding—the IDI issues a press release incorporating the key terms of the understanding reached between the NGEP and IDI. The press release reflects the mutual agreement or understanding of the NGEP and IDI; therefore, it becomes a written arrangement or understanding.
3. An NGEP sends a letter to an IDI requesting a $15,000 grant. The IDI responds in writing and agrees to provide the grant in connection with its annual grant program. The exchange of letters constitutes a written arrangement or understanding.

Examples concerning loan agreements:

1. An IDI provides an organization with a $1 million loan that's documented in writing; however, the loan is secured by real estate owned (or to be acquired by) the organization. The agreement is an individual loan and is exempt from coverage.
2. An IDI commits to provide a $500,000 line of credit to a small business. The loan is written, but made at an interest rate within the range offered to similarly situated small businesses in the market. The interest rate is not below market rates; therefore, it is exempt from coverage.
3. An IDI offers small-business loans guaranteed by the SBA (Small Business Administration). A small business obtains $75,000 under the SBA program. The loan documentation doesn't indicate that the borrower intends or is authorized to relend the funds. Although the rate charged is well below the institution's commercial loan rate, the rate is within the range of rates charged similarly situated small businesses for a loan under the SBA loan program. This loan is exempt from coverage.

Examples of CRA communication:

1. An NGEP files a written comment with a federal banking agency in response to a general agency request for comments on an application to open a new branch. The comment states that the applicant IDI has successfully addressed the credit needs of the community. This is a communication.
2. An NGEP states to an executive officer of an IDI that the institution must improve its CRA performance. This is a communication.
3. An NGEP states to an IDI that it needs to make more mortgage loans in low- to moderate-income neighborhoods. The connection with the CRA is indicated by the reference to the action requested, which involves activities that are often the focus of CRA performance evaluations. This is a communication.
4. A fund-raising letter sent by an NGEP to an IDI and to other businesses in the community encourages them to meet their obligation of making the community a better place to live by supporting the fund-raising efforts of the NGEP. This is not a communication.
5. A contact was initiated by an NGEP with an IDI to determine what rating the institute received during its most recent CRA performance examination. This is not a communication.

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A Card That Opens Doors

Who says there is nothing new under the sun? MemphisFirst Community Bank has partnered with Western Union and an organization known as Revelation America to offer a MasterCard-branded, prepaid debit card to provide basic financial services to individuals without bank accounts or credit cards..

The Western Union Cash Card offers customers an alternative to carrying cash or using check cashers and other high-fee services. Customers can withdraw money from automated teller machines, make travel reservations and buy items over the Internet and from other businesses that accept MasterCard.

MemphisFirst Community Bank, a state-chartered and minority-owned bank, is the primary issuer of the cards. Jim Sills, president and chief executive officer, sees the cards as a way to open the door to financial services for the unbanked. Even those with a bad credit history can get the debit cards.

With its extensive branch network, Western Union offers many locations where customers can add money to their cards. Paychecks also can be rolled into accounts through direct deposit. No fee is charged for loading the card. No interest or late fees are assessed, either. However, there is a $50 annual fee and a $5.50 monthly maintenance fee for using the card.

Revelation America is owned by the five largest African-American church denominations: the Progressive National Baptist Convention, the Christian Methodist Episcopal Church, National Baptist Convention USA, National Baptist Convention of America and the African Methodist Episcopal Zion Church.

Revelation America markets discounted products in connection with its member churches and puts its profits into mortgages for homebuyers in minority neighborhoods. Some of its products are marketed online. The company developed the new debit cards when it found that some potential customers could not make purchases online because they did not have credit or debit cards.

As an added bonus, a part of the initial $50 annual fee goes to the new cardholder's local congregation.

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Spanning the Region

IHFA Introduces New Foundations Program

The Indiana Housing Finance Authority (IHFA) has designed a group of programs called Foundations to finance predevelopment activities. Money from the federal HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs is used for housing needs assessments, feasibility studies and predevelopment loans. Because most major urban areas of the state get their own allocation of HOME and CDBG funds, the Indiana authority can only distribute these funds outside of metropolitan areas.

IHFA recently introduced a new Foundations program called "CHDO Seed Money Loans" for Community Housing Development Organizations (CHDOs). These loans can be used for preparing final architectural and engineering plans. The maximum loan is $50,000, which must be used within 12 months and repaid within 24 months. The loans have a 0 percent interest rate and can be forgiven if IHFA determines that impediments to the development were beyond the borrower's control.

IHFA's other Foundations programs include:

Housing Needs Assessments—These studies are not specific to a particular site or activity. They are used to gather data, prepare housing-related community plans and identify steps needed to create, develop or preserve affordable housing. Only local units of government are eligible to apply, and the maximum amount of this grant is $50,000.

Feasibility Studies—Applicants can identify a site for a particular development, work out a preliminary estimate of costs or identify whether there is adequate demand for a particular type of affordable housing. Only local units of government are eligible to apply, and the maximum amount is $50,000.

Predevelopment Loan—Recipients are allowed to go further into the planning process, to the point of obtaining site control. Only CHDOs are eligible to apply, and the maximum amount is $50,000.

For information on these or other IHFA programs, call 1-800-872-0371 (Indiana only) or go to IHFA's web site at www.indianahousing.org.

HMDA Exemption Threshold Increased

The Federal Reserve Board recently announced that the exemption threshold for depository institutions that are required to report data under the Home Mortgage Disclosure Act (HMDA) has been increased to $31 million. For further information, call Henry Dove Jr. at (314) 444-8846.

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Resources

Fostering Mainstream Financial Access for the Unbanked

The Federal Reserve Bank of Chicago and the U.S. Department of the Treasury recently launched a new web site designed to help financial professionals provide affordable and convenient financial services to individuals who do not currently have accounts at banks or other institutions. The new web site is www.chicagoFed.org/unbanked. For copies of the following materials, contact Linda Aubuchon at (314) 444-8646.

Arkansas Resource Catalog and Investment Opportunities Profile

The Arkansas Department of Rural Services and the Federal Reserve Bank of St. Louis recently published a profile of national and state resources available for a variety of community and economic development initiatives.

Resource Guide for Small and Micro Business Development in the St. Louis Region

The St. Louis 2004 Microenterprise Development Committee has created a catalog of business assistance and alternative financial resource providers available in the St. Louis metropolitan area that serves small and micro businesses.

Urban Sprawl, Urban Promise: A Case Study of Memphis, Tennessee

Prepared by David H. Cisel for the Community Affairs Department of the Federal Reserve Bank of St. Louis. This research study looks at the effects of urban sprawl on the Memphis MSA's economy.