Third-Tier Cities: Adjusting to the New Economy

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U.S. Economic Development Administration
THIRD-TIER CITIES: ADJUSTING TO THE NEW ECONOMY

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JUNE 2001

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INTRODUCTION

Focusing Attention on America’s Small Cities

Had you told the people of Youngstown, Ohio, in the 1950s that most of their city’s thriving steel mills would be abandoned by the end of the century and that its population would decline by 50 percent, they would have found it hard to believe. Similarly, if you had told the residents of Glens Falls, New York, as they celebrated being chosen by Look Magazine as “America’s Home Town” in 1948 that by the new century the neighboring small, rural community of Queensbury would surpass it in population and that its downtown would be eerily quiet in the year 2000, they, too, would have been surprised. And imagine the amazement of residents of Lawrence, Massachusetts, a city ethnically dominated in the 1950s by Irish, Italians, and French Canadians, to discover that their city would be largely made up of immigrants from Latin America and East Asia by the year 2000.

In their economic heyday such small cities were regional centers for medical services, retail, banking, and professionals. Their banks were locally owned and their retail centers vibrant. They were home to large hospitals and their downtown offices were filled with lawyers and insurance agents. Most of these cities had a rich industrial history. They were the centers of industries such as steel, textiles, shoes, and furniture. They possessed a strong civic infrastructure. Owners of local banks and factories contributed both time and money to creating a high quality of life for residents—building libraries, developing parks, and contributing art to public buildings. Moreover, they were the types of communities in which the economic future—and the economic fortune—of generations were determined by the health of a handful of employers. These were America’s “hometowns,” the kind romanticized in movies and literature.

Now the images of these smaller cities are not so positive. A recent report in the New York Times called Youngstown, Ohio, a “dilapidated shell of a once-vital” city. A recent study of small cities in Pennsylvania captures the essence of the struggles many of these communities now face:

Many of the older small cities have shuttered downtowns populated by persons on welfare. Commercial establishments that depend on walk-in traffic open and close. Leases are hard to fill. Department stores give up. Even the bankers and the lawyers are moving out closer to the malls. Yet…. The tax burdens remain; the cities are still obliged to provide essential services that anchor suburban and exurban regions. The declining tax bases of the cities, some with tax-exempt properties, are hard pressed… to continue to support the kinds of infrastructure which would attract new investment and serious revitalization initiatives.¹

Like many of America’s smaller cities, Youngstown, Lawrence, and Glens Falls have stumbled and fallen behind during the transition from an economy based on traditional industry to an increasingly globalized economy based on knowledge, information, and technology. While there is talk everywhere of the substantial benefits of the “New Economy,”² many of the na-
tion’s smaller cities have yet to reap these benefits. What has happened to our American “home-
towns” in the transition to the so-called New Economy?

Over the past 15 years, Mt. Auburn Associates has worked with about 25 smaller cities on the design and implementation of strategic economic development plans. While we have also worked in inner-city neighborhoods of larger cities as well as in very rural regions, our most challenging work has always been in what we have come to call “third-tier” cities—cities such as Fitchburg and Fall River in Massachusetts, Kingston and Glens Falls in New York, Waterville and Augusta in Maine, and St. Joseph and Cape Girardeau in Missouri.

Unfortunately for these cities, many of the sources of strength that they drew upon in their heyday are now disadvantages in the New Economy. For example, their rich industrial heritage was the result of large, densely built factories that were constructed to take advantage of the transportation modes of the day—waterways and railroads. In the New Economy, employers prefer an entirely different sort of location—sprawling one-story buildings near highways and advanced telecommunications lines, or in larger, more vibrant cities.

As jobs moved out of these small cities, a host of other problems followed: declining population, loss of the middle class, abandoned mill buildings with environmental legacies, struggling downtowns, a shrinking tax base, and fewer employment opportunities. The premise of this paper is not that these problems are necessarily worse in smaller cities, but rather that many of the problems we identify with the nation’s larger cities, the “former poster children of urban decay,” are also found in smaller cities. Moreover, the smaller scale of these cities provides an added burden that must be overcome in order to address the economic challenges that they now face. A smaller population means a smaller market, less capacity, less diversification, and fewer financial and institutional resources that can be leveraged in making the transition from the Old Economy to the New.

There are some studies that have begun to document the difficulties that smaller cities have faced in making this transition, most notably, HUD’s recent study, “Places Left Behind in the New Economy.” This report identifies many of these small urban centers as those most in economic distress. Despite a few examples, there has been relatively little research and analysis of America’s smaller, mature industrial cities, their common characteristics, and their unique challenges. The economic development tools that have been introduced to address downtown revitalization, economic restructuring, and neighborhood decline in the nation’s larger cities are not always applicable to these smaller cities. In addition, the attention of federal, state, and foundation policymakers and funders is often focused on larger cities and very rural communities, where considerable resources are being spent to address inner-city and rural poverty, respectively.

This paper seeks to fill that gap—to begin the process of developing new research and new economic development strategies that focus on the problems and opportunities facing the nation’s hometown cities, the small urban centers with a rich industrial history.
Organization and Methodology

The paper has three sections:

First, it answers the question: who are America’s third-tier cities? We review current literature and research on the topic of defining smaller cities and propose a new definition that captures the characteristics of older, small industrial cities.

Second, it examines the major barriers to economic adjustment faced by these cities, such as inadequate infrastructure, declining dependence on traditional industry, and increasingly limited access to resources. The paper highlights six major trends and economic conditions that pose the most significant challenges to the competitiveness of these cities in the New Economy.

Third, it highlights some of the economic opportunities, and provides examples of cities that have overcome these challenges successfully.

The paper explores these issues using several research methods:

1. Literature Review: We reviewed the urban economic development literature to identify research studies that focused on the characteristics of the nation’s smaller urban areas, and the economic development challenges and opportunities in these communities. This review looked at both general studies as well as books and monographs on specific smaller cities.

2. Field Experience: The authors of this paper have been involved in strategic economic studies for over 25 small cities during the past two decades. This prior work serves as in-depth case material for the current analysis.

3. Analysis of City and Metropolitan Area Data: A database was created using U.S. Census demographic and economic data on cities and metropolitan areas. In addition, it includes data from the U.S. Department of Housing and Urban Development’s “State of the Cities” database, which has detailed statistics for 542 metropolitan central cities and their associated metropolitan areas.

4. Supplemental Interviews: To broaden the geographic base beyond the authors’ field experience, individual interviews were held with economic development officials in ten smaller urban areas. The cities selected included communities that, though small and mature, have experienced relatively positive economic performance, particularly in the last decade. This selection of cities was nationwide, to ensure geographic representation. Interviews were held with the directors of economic development departments, chambers of commerce, and planning officials in these cities. In addition, data on the cities and the surrounding metropolitan areas were analyzed.

Summary

While third-tier cities face challenges not unlike those found in other cities, large and small, it is the combination of factors outlined here that creates a picture greater, and more daunting, than the sum of its parts. The following is a look at the ways in which forces of scale and sustenance come together to put the squeeze on a particular type of small city, and the attempts that have been and could be made to address these disturbing trends.
DEFINING AMERICA’S THIRD-TIER CITIES

Through field experience working in many of the nation’s smaller, mature industrial cities, Mt. Auburn found many commonalities in terms of their economic characteristics and challenges; however, additional research was necessary to assess the scale of the problem and to determine how representative the field experience was of smaller cities in general. In order to develop a better understanding of these hometown or third-tier cities, we looked first at the literature on urbanization and city size. With this literature as a starting point, we then developed a multidimensional definition that would allow us to identify cities that shared many common economic and demographic characteristics.

A Review of the Literature on City Size and Urban Structure

Perhaps a symptom of the very lack of attention we seek to address here is the limited literature that categorizes cities based upon their size and/or position in the metropolitan region. There has also been relatively limited research and analysis of the characteristics of these smaller cities and of the economic development challenges and opportunities that they now face. In a recent book, Ann Markusen noted that the challenge faced by scholars seeking to understand the economic dynamics of small- and mid-sized cities is daunting because

We have inherited a rich urban-centric body of literature that encompasses excellent theories of urban form and social phenomena, buttressed by extensive empirical studies of particular cities around the world. Most of this research is devoted to large cosmopolitan cities that have their roots in previous commercial and industrial eras and that continue to serve as financial, political, cultural, educational, industrial and service centers.5

The literature on smaller cities is limited to general public interest and economic development pieces concerning cities of different sizes, and to writings specific to the U.S. Census definitions of urban places and metropolitan areas. The issues surrounding each of these types of literature help clarify the need, and pave the way, for a definition of third-tier cities.

The U.S. Census has very precise definitions of all of the terms that it uses. Nonetheless, as part of its decennial revision of its definitions, the Census Bureau is currently struggling with some of these same definitional issues in categorizing different types of urban areas. The Census does not classify cities by themselves. It does, however, make distinctions between cities based on the size of the urbanized area and the larger region in which a city is located. Under the current definition, the Census uses the term metropolitan area (MA) to refer to an economic region.6 Counties are combined to constitute a single MA if they have a high level of shared commuting as well as other forms of economic and social integration. Furthermore, if an urbanized area and region are under a certain size threshold, they are considered nonmetropolitan. The definitions used by the U.S. Census were recently revised by the Metropolitan Area Standards Review Committee of the Office of Management and Budget, the government entity that determines the definitions used by the U.S. Census.7 The Census expected to have the new definitions in place by April 2000, however, the final report and recommendations were not released until December
2000. The extensive debate around the redefinition played a significant role in the delay. One issue that was being disputed related to the uncertainty about “the significance of specific population thresholds as a means of identifying functional differences between different sizes of areas.” There was also concern that the current definition’s implied dichotomy between metropolitan and nonmetropolitan areas provides an inaccurate representation of settlement and activity patterns in the United States.

It is not only the Census that has difficulty with these issues. Within urban policy and economic development literature, there is neither consensus nor consistency in discussions concerning the definition of a small city. In *The Future of Pennsylvania’s Small Cities*, a book composed of ten articles on the subject, each author uses a slightly different definition—noted in the book’s introduction, “Small cities in Pennsylvania evoke definitional confusion.” Other related literature reflects this diversity, and none seems to justify one definition over another. In its book *Small City Economic Development, Roads to Success*, the National League of Cities states: “The National League of Cities defines ‘small’ cities as communities with populations of 50,000 or less, and that is the definition used throughout the rest of the book.” Some articles refer to “second-tier” and third-tier cities, yet vary on the issue of qualifying population.

A variety of authors uses the current census-based dividing line between metropolitan and nonmetropolitan areas to delineate the type of city to which they are referring. For example, G. Scott Thomas coined the term “Micropolitan Cities,” and his definition of this term excludes all cities that are within metropolitan areas. A variety of books and articles has been written about this type of city and area, all using the same definition: “Each micropolitan area consists of a small central city and its county. Just three rules and two notes define a micropolitan: (1) the central city must have at least 15,000 residents; (2) the county must have at least 40,000 residents (including the population of the central city); and (3) no micropolitan area may be part of an officially designated metropolitan area.” Other than falling on one side or the other of the Census rules for classification, however, it is unclear what substantive differences exist between cities such as Glens Falls, New York, and Augusta, Maine. Both have populations between 15,000 and 20,000, yet Glens Falls is within a metropolitan area, and Augusta is not.

**Categorizing Third-tier Cities**

Like the general literature, our definition of the smaller cities, which we refer to as America’s third-tier cities, is not precise. It builds upon some of the concepts found in the literature as well as our own experience working on economic development in many small cities throughout the Midwest and Northeast. The definition we have developed of third-tier cities has the following elements:

1. cities of between 15,000 and 110,000 in population;
2. cities that are primary to the regional economic base; and
3. cities that were incorporated prior to 1950 and have not tripled in population since 1950.

We estimate that out of a total of 1,743 cities in the United States with a population of over 15,000, there are about 396 cities that fall within our third-tier definition. These third-tier cities have a combined population of about 16 million people. They are not the home of major
league sports teams, but do claim most of the country’s minor league ball clubs; for example, the Danville Braves, the Harrisburg Senators, the Lowell Spinners, and the Pittsfield Mets, to name a few. Sixteen state capitals are third-tier cities, including Jefferson City, Missouri; Trenton and Albany, New York; Bismarck, North Dakota; and Olympia, Washington. Many such cities are college towns, featuring private liberal arts colleges such as Vassar College in Poughkeepsie, New York, or Beloit College in Beloit, Wisconsin. These third-tier cities are found in almost every state, though there is a high concentration of these cities in the mid-Atlantic and midwestern regions.

Map 1: Third-Tier Cities, by State

Size Characteristics

While size alone is not a determining factor, for the purposes of this analysis we have focused on cities with populations between 15,000 and 110,000. From our experience in the field, we have found that there is an important difference between smaller cities and mid-sized cities in terms of available opportunities and the capacity to address economic challenges. Having worked in a number of different size cities, we have found that cities such as Hartford, Connecticut, (population 133,000) and Providence, Rhode Island, (population 152,000) face different challenges when compared to cities such as Danbury, Connecticut, (population 65,000) and Newport, Rhode Island, (population 24,000). Clearly, there is no specific delineation point separating small cities from mid-sized cities. While the upper dividing line could have been anywhere from 100,000 to 125,000, we believe that by using the population mark of 110,000, we capture most of the nation’s smaller cities that share common attributes. Out of the total of 1,743 cities in the United States with a population of over 15,000, the great bulk, 1,572, have a population between 15,000 and 110,000.

Role in their Region

In addition to size, we examined the role of the city in the larger economic region. Based upon our experience, what differentiates third-tier cities is not necessarily whether or not they
are part of a metropolitan area, but whether they are a significant contributor to defining the economic base of a larger geographic region. Thus, our definition of third-tier cities excludes those cities that are not primary to their regional economies, i.e., suburban cities or those that are clearly dominated by much larger cities within the same MA.

The majority of smaller cities—1,063, or about 68 percent of all small cities—we consider “non-primary” cities. All of these smaller, non-primary cities are within metropolitan areas. Most of these cities are not considered “central cities”\textsuperscript{13} by the Census, and are clearly dominated by larger cities; others are considered central cities by the Census, but are, in fact, very small components of large MAs and are dominated by a much larger neighboring city. For example, while Cambridge and Waltham, Massachusetts are classified as central cities in the Boston Primary Metropolitan Statistical Area (PMSA) by the U.S. Census, they are fully integrated within the larger Boston economy—their residents work throughout the Boston region and their economic base is largely determined by the economic factors affecting the entire region. These non-primary cities, while sharing some of the characteristics of third-tier cities, have a range of opportunities that are a function of being part of a large metropolitan area.

We categorized a city as “primary” if it was either outside of an MA, was the clearly dominant central city of an MA, or was one of a number of roughly equally sized central cities in an MA. Nearly a third of the small cities fit within this definition. (See Table 1.)

<table>
<thead>
<tr>
<th>Table 1: Small Cities: Primary and Non-Primary</th>
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<tbody>
<tr>
<td>ALL CITIES OVER 15,000</td>
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<tr>
<td>ALL SMALL CITIES (pop. 15,000-110,000)</td>
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<tr>
<td>Small Non-Primary Cities</td>
</tr>
<tr>
<td>Small Primary Cities</td>
</tr>
<tr>
<td>Outside of Metro Areas</td>
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<tr>
<td>Central City in a Metro Area</td>
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</tbody>
</table>

By excluding non-primary small cities from our definition of third-tier cities, we do not mean to minimize the economic challenges faced by these cities. While many of these non-primary cities could be described as suburbs, there are a large number of small cities in the larger metropolitan areas—such as Chelsea, Massachusetts, or East St. Louis, Missouri—whose level of economic distress is sometimes as severe as the inner-city communities of their neighboring cities. In addition, we recognize that there are also hundreds of smaller, older industrial cities throughout the United States that once had relatively self-contained economies and, thus, share many of the characteristics of the third-tier cities that we have identified. Many of these cities also have a declining economic base, population loss, distressed commercial districts, old indus-
trial buildings, and high levels of poverty. However, the economic base of these cities is less and less relevant—their primary challenge is to become better integrated within the larger economic region. The towns of the Monongahela Valley in Pennsylvania, such as Homestead and Braddock, perhaps best exemplify these cities. While in the past the small cities of the Monongahela Valley were the home to many of the companies that drove the greater Pittsburgh economy, today over 40 percent of the residents of Homestead and Braddock work in Pittsburgh.

Stage of Development and Growth Characteristics

Finally, the new definition of third-tier cities looks at a further distinction based upon the level of maturity of the city. There are a number of rapidly growing smaller cities that are the primary economic centers in their regions. These cities either did not exist 50 years ago, or have undergone some type of fundamental change in the past 50 years that has led to significant population growth. These cities might have become new centers of tourism, new retirement communities, or the site of an expanding state university. Many of these cities have grown as a result of population shifts to the southern and western parts of the country. They face very different challenges than do the more mature cities that have had to adjust to a new set of economic realities over the past few decades.

In order to refine these variations and capture those smaller cities that share similar histories, we created a population index that takes the 1950 population of a city and divides it by the 1998 population. This gives us three groupings of small cities:

- **Declining Cities**, those with a 1950 population higher than the current population;
- **Established Cities**, which have grown since 1950, but at a moderate rate; and
- **New Cities**, those that either were not incorporated in 1950 or have grown significantly (over 200 percent) over the past 50 years.

Our definition of third-tier cities excludes the “new cities” because of the substantial differences that they have with the more mature cities. Therefore, of the 509 small primary cities, 396 are third-tier cities.

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<td><strong>Small Primary Cities by Stage of Development</strong></td>
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<tr>
<td>All Small Primary Cities</td>
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<tr>
<td>Non-Third-tier New Cities</td>
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<tr>
<td>Third-tier Declining Cities</td>
</tr>
<tr>
<td>Established Cities</td>
</tr>
<tr>
<td>Total Third-tier</td>
</tr>
</tbody>
</table>
The following discussion of third-tier cities is based on our classification that includes those cities between 15,000 and 110,000 in size; with a primary role in the larger economic region; and having experienced a significant population decline, or moderate growth, since 1950.

**Third-tier Cities — Economic Characteristics**

A large number of third-tier cities are represented on any list of cities that have high unemployment rates, a declining population base, and high poverty rates. HUD’s study, “Places Left Behind in the New Economy,” highlights the plight of the many “doubly burdened” small central cities. This analysis confirms HUD’s findings. Many of the nation’s most distressed urban centers are the third-tier cities as defined in this analysis.

A large number of third-tier cities share many of the characteristics of the nation’s larger cities. They have experienced relatively slow population growth, they have relatively high poverty rates, and they are home to a sizable population of minorities and immigrants. On some measures, their economic performance was actually weaker than the average of central cities in metropolitan areas—their average median income is lower, the average 1990 poverty rate was marginally higher, and recent population growth was below that of the larger universe of central cities.

<table>
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<th>Table 3</th>
<th>Comparison of Third-tier and Central Cities in Metropolitan Areas</th>
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<tr>
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<td>1990 Poverty Rate</td>
</tr>
<tr>
<td>Third-tier Cities</td>
<td>17.1%</td>
</tr>
<tr>
<td>All Central Cities</td>
<td>15.2%</td>
</tr>
<tr>
<td>United States</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Two hundred forty-two third-tier cites, or 61 percent, had estimated poverty rates of over 15 percent in 1990, and 28 percent had poverty rates over 20 percent. These cities were found all over the United States and included Anniston, Alabama; Pine Bluff and Texarkana, Arkansas; Tulare, California; Ocala, Florida; Albany, Georgia; Lawrence, Massachusetts; Saginaw, Michigan; Binghamton and Utica, New York; Harrisburg, Pennsylvania; Brownville, Texas; and Pasco, Washington. In some states, a relatively large percentage of residents with incomes below the poverty level reside in these third-tier cities. (See Table 4.)
## Table 4
Low-income Residents Living in Third-tier Cities

<table>
<thead>
<tr>
<th>State</th>
<th>Third-tier Poverty: % Total State Poverty</th>
<th>Third-tier Population: % Total State Population</th>
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<tbody>
<tr>
<td>NH</td>
<td>31</td>
<td>26</td>
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<tr>
<td>MT</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>LA</td>
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<tr>
<td>ND</td>
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<tr>
<td>ME</td>
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<td>WY</td>
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<td>DE</td>
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<td>WI</td>
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While the data demonstrate that third-tier cities are having difficulty transitioning to the New Economy, a more thorough understanding of these cities is needed, an understanding that goes well beyond statistics. With the context of previous attempts to examine smaller cities provided, and a new definition of third-tier cities in place, the rest of this paper offers a more complete story of the unique challenges that these cities face, and the ways that some of these cities have successfully addressed those challenges.
OLD ASSETS, NEW ECONOMY

Why have so many of our nation’s smaller cities had such a difficult time prospering in the old economy, as well as adjusting to the New Economy? In the digital age, when we can do just about anything from anywhere, it would seem that size and location matter less. However, field experience working in many third-tier cities finds that many of America’s old hometowns are facing a number of challenges as they seek to remain competitive. High-speed Internet connections have replaced rivers and rails as lifelines to industry. Limited 21st century career opportunities in smaller cities create little incentive for young people to remain or relocate there. Resources are redirected, downtowns decline, and overall competitiveness suffers. Certainly these changes did not take place overnight; however, they were compounded by the challenges third-tier cities faced in earlier economic conditions.

Many such challenges are common to cities of all sizes, yet they often play themselves out in unique, or in some cases worse, ways in third-tier cities. Some of these problems are thought of as unique to larger cities. The lack of awareness of their occurrence in small cities has meant that creative solutions that are applicable to small cities have rarely been explored, and the resources to solve them are often not applied.

There are six primary challenges facing smaller cities and affecting their ability to compete and thrive in the New Economy:

• out-of-date infrastructure;
• dependence on traditional industry;
• transformation of their human capital base;
• declining competitiveness within their regions;
• weakened civic infrastructure and capacity; and
• more limited access to resources.

While any one of these factors individually poses a challenge to a city, taken together they present a significant and striking set of circumstances for third-tier cities. Following is a description of each challenge, and the connections between them.

Out-of-Date Infrastructure

Third-tier cities face a number of challenges to becoming attractive places for modern businesses to locate. A large number of these cities were originally built when transportation and communication infrastructures were drastically different from what they are today. Because the demands of business have changed, the old infrastructure is no longer appropriate for New Economy companies. While all cities have had to adjust to these new realities, third-tier cities, because of limited economies of scale, have had to face unique challenges in updating their infrastructure in order to attract businesses. Third-tier cities have particular trouble meeting four business requirements: competitive industrial sites and facilities, cleaning up the environmental
legacy of old businesses, providing high-speed Internet connections, and providing access to affordable air travel.

Losing Their Competitive Advantage — Locations Based on Obsolete Transportation Systems

Many third-tier cities grew up on rivers. The Merrimack River hosts four third-tier cities: Lawrence and Lowell in Massachusetts, and Nashua and Manchester in New Hampshire. South Bend and Elkhart, Indiana, are both on the St. Joseph. The Ohio River Valley, with its many rivers, as well as the Hudson River, all host a number of third-tier cities. While these examples are all from the Northeast and Midwest, the same is true in other regions of the country: the Columbia River Valley, with its network of interconnected rivers, is the home to Pasco, Richland, Kennewick, and Yakima, Washington; Decatur and Florence, Alabama, are both on the Tennessee River. It used to be that cities sprang up along rivers because manufacturers needed a way to transport their goods. This affected the way these areas were laid out and built up. With factories close to shore to enable easy access to the boats, the port became the center of town.

The rise of railroads brought about the first stage in the decentralization of manufacturing that has continued to this day. Though manufacturers did not cluster in quite the same way as when relying solely on water transportation, railroads had fixed routes and still required a relatively dense building pattern. This led to the growth of many cities along these new rail lines, yet away from waterways. Cities also grew around mining operations that were located near rail routes so that natural resources could be extracted and transported to buyers.

In the 20th century, the prominence of highways meant that factories could be located anywhere that was accessible by truck. And, with new production and storage methods, industry was now seeking open land on which sprawling one-story facilities could be built. This meant great things for many communities, but a new reality for those older cities dependent on water and railroads for their livelihood. They were left to compete with suburban areas that had large amounts of open space for brand new buildings and ready access to the new Interstate highway system.

By the end of the 20th century, densely built, multistory factories along waterways and rail lines had become outmoded for manufacturers. The cities that were filled with such structures, as well as a whole network of infrastructure to support them, were faced with the challenge of adjusting to a new set of realities. Big industrial cities like Pittsburgh and Cleveland felt the same pinch, but, unlike most smaller cities, due to their size they had a more diverse economic resource base and played a more important role in providing services to a larger geographic region. Moreover, as will be discussed, these larger cities have been able to develop the new infrastructure that is a prerequisite to prospering in the New Economy.

The Environmental Legacy — Brownfields in Small Cities

In seeking to adjust to the new realities, former manufacturing sites in cities of all sizes must be redeveloped in a more appropriate manner. One challenge to redevelopment is the environmental legacy of contaminated waste left behind in old abandoned industrial sites known as brownfields. With growing demand for developing properties in suburban and rural communities, brownfields add another disincentive to investment in cities. Not only does the cost of cleanup
add to the challenges of redevelopment within older urban areas, but environmental regulations are often another deterrent for recycling previously used parcels of land.

Tighter contamination controls came into being during the 1970s following highly publicized commercial and residential development disasters. In 1980, the Superfund law was passed, with very strict requirements regarding the cleanup of sites containing hazardous waste. Though the law was targeted at the worst of the worst, it had a chilling effect on the redevelopment of all sites that had even trace levels of environmental contamination. This provision of the law left banks fearful of environmental liability and led to a clear reduction in lending on sites with any level of contamination, not just at Superfund sites. In 1990, an American Banker’s Association (ABA) survey of 2,000 lending institutions found that 62.5 percent had rejected loan applications based on just the possibility of environmental liability. “Brownfields have emerged in recent years to replace redlining as an excuse for not investing in the city,” said Hunter Morrison.16

The problem of brownfields is as severe for the nation’s third-tier cities as it is for its larger cities. For smaller cities that already had limited development potential, fears of environmental contamination created an additional barrier to industrial evolution. Of the approximately 1,300 Superfund sites in the country, about 10 percent are located in third-tier cities. Furthermore, brownfields with problematic contamination, though less extreme than Superfund sites, exist throughout these smaller cities. A national survey released in February 2000 by the U.S. Conference of Mayors (USCM) maintains that there are 21,000 brownfields sites in the nation’s cities, with more than 81,000 acres of land that were abandoned or underutilized because of contamination. Of the 231 cities that responded to the survey, more than six out of ten respondents were cities with populations under 100,000. According to USCM, the survey proves that “the problem of brownfields affects cities of every size.”17

An additional issue that exacerbates the brownfields problem in a number of smaller cities is that because of their smaller geographic area there are simply fewer available places for development; most of the sites appropriate for development have already been utilized. Therefore, even if there are only two brownfields sites in a third-tier city, these two locations would likely represent a large proportion of the sites available for redevelopment. We found this situation in Waterbury, Connecticut. Wetlands and mountains make it difficult to develop much of the area surrounding the city. Yet, because of contamination issues and the slow regulatory process with brownfields, investors have shied away from brownfields sites that otherwise are ripe for redevelopment.

Unequaled Access to the Infrastructure Required in the New Economy — The Growing Digital Divide

Not only do third-tier cities face challenges related to existing, outmoded infrastructure, they must also deal with unique issues related to new forms of infrastructure, namely telecommunications. Proximity to high-speed data networks is to today’s businesses what proximity to rivers and rails was to earlier industries. Ironically, while new telecommunications technologies could provide smaller cities with new linkages to the global economy, issues of scale have delayed telecommunications infrastructure improvements in many third-tier cities, leaving these cities even further behind.
Until wireless technology is improved considerably, high-speed Internet access relies on physical wires—phone lines, cable television, fiber optics, or a combination thereof—to connect and communicate with the global network. The level of bandwidth, “the amount of data that can be transmitted in a fixed amount of time,” is an increasingly important competitive factor for businesses. Over the last several years, the availability of Synchronous Optical Network (SONET) technology, a standard for connecting fiber optic transmissions that can transmit at a rate over 2,000 times faster that the typical “dial-up” modem, has also greatly influenced business location decisions. According to Plant Site Location, “Savvy business location decision-makers will ask about the availability of SONET when relocating or expanding a facility.” Cities that do not have this or other similar high-speed technology are at a competitive disadvantage.

Since decisions to upgrade high-speed telecommunications lines are usually being made by private entities, they must be convinced that there will be a healthy return on their investment before installing high-speed technology in a specific area. Telecommunications companies often believe that this type of return is more likely if there are a large number of potential customers in close proximity to digital switches or expensive fiber optic cables. Large cities are the first to get these investments as companies are convinced that they will be able to make enough profit in these areas. Rural areas are the worst off and are sometimes fully bypassed by technological upgrades. It took an act of Congress to ensure that all people, no matter where they lived, had access to basic telephone service.

While not as bad off as rural areas, many smaller cities are often so slow to receive technological upgrades that they are left at a severe disadvantage when competing for businesses with more populous areas. Pueblo, Colorado, did not realize that its lack of telecommunications infrastructure was a problem. This changed when a former resident who was in charge of locating a new call center asked the city about siting the center in his old hometown. The former resident asked the city’s Office of Planning and Development if all of its company’s location requirements could be met. The planning office did not know what one of the items on the list was: a digital switch that would allow for high-speed telecommunications access in the city. When the city explored the issue, it learned that this lack of a digital switch had been a deterrent for a number of other companies. These companies had not even bothered to contact the city when they found out about the lack of high-speed access. Pueblo was able to convince its telecommunications company to provide the technology that would minimally meet the call center’s requirement. Nonetheless, it realizes that with the ever-advancing telecommunications technology, it will soon again be at a competitive disadvantage with respect to larger cities that have sufficient demand for new services to be able to stay on the cutting edge.

High Costs of Air Travel in an Increasingly Global Economy

Another infrastructure barrier faced by third-tier cities is accessibility to air travel. While some of these cities either have an airport, or are located within a relatively short drive of larger cities that have airports, many are not as fortunate. Moreover, the deregulation of the airline industry has affected the cost of air travel to and from many of those third-tier cities that do have small airports. An article in The Brookings Review on the impact of deregulation noted, “Although all travelers are now enjoying lower fares, on average, as a result of deregulation, it is clear that travelers at large and medium hub airports have benefited more than those at small and non-
The lack of population density makes it less profitable for airlines to run flights to these areas. In addition to the high price and hassle of using smaller airports, the fact that many smaller cities are located at a distance from international airports affects their ability to attract businesses and residents alike. According to the director of planning and development in Pueblo, Colorado, when commercial jet service in his city was no longer profitable, and, thus, eliminated, it was like “turning off the spigot”—many companies would no longer consider moving to the city. In his book *Edge City*, Joel Garreau describes the five laws of business location decisions, and names “accessibility,” defined as the measure of difficulty getting to and from company headquarters, among them. He states, “Your boss’s boss will never approve [opening a branch facility in] a remote Edge City location unless he can personally imagine traveling there for a meeting without having to stay overnight. That choke point is one and a half hours by car, or three hours by plane, nonstop. If there is no airport nearby, you can bet a city would not be a consideration in the first place.”

The growing importance of affordable air travel to business location decisions was recently illustrated in Glens Falls, New York, when one of the city’s larger employers was recently acquired by a European-based company. The new owners were considering consolidating their North American operations and had to decide whether to retain their Glens Falls office or one in suburban Atlanta. Company officials reported that the largest cost differential between the two sites was the cost of air travel. The closest airport to Glens Falls was in Albany, and the cost of international travel through this small airport was very high. The company decided to close the Glens Falls facility, even though on most other measures it was the lower cost, more productive location.

**Dependence on Traditional Industry**

What happens when the center of your sustenance becomes obsolete? Third-tier cities that have faced the most serious economic problems share one clear characteristic—the lack of economic diversity. Most of the economically troubled third-tier cities suffer from a reliance on one sector, or on a few large employers, most notably in manufacturing and mining. This reliance left many third-tier cities particularly vulnerable to the changing demands for infrastructure described above. Once a thriving industry center, Fitchburg, Massachusetts, exemplifies the type of economic restructuring that many of the nation’s third-tier cities have experienced. In 1966, there were more than 10,000 manufacturing jobs in the city; by 1996, only 3,600 remained. Last year, General Electric announced plans to close its Fitchburg facility, a major blow to the city’s economic base. From the transformation of the steel industry in Pennsylvania to the decline of the shoe industry in Maine, industrial change has affected smaller cities that did not have a diversified economic base.

While larger cities have experienced similar losses, the following factors have made restructuring particularly difficult for the smaller cities that have experienced it:

1. **Third-tier cities have been more dependent on manufacturing than large central cities.** On average, approximately 24 percent of the residents of third-tier central cities worked in manufacturing in 1980, as compared to 19 percent of the residents of the larger cities. By 1990, the percentage working in manufacturing had declined signifi-
This larger dependence on manufacturing has made the smaller cities more vulnerable to declines in that sector.

2. *With a smaller, less diversified economic base to start, there was less resilience in the economy of third-tier cities when manufacturing moved out.* One or two large plant closings in a small city could have a substantial rippling effect throughout the economy.

3. *Many smaller cities have not benefited as much from the shift to service sector jobs as the nation’s larger cities.* In larger cities, as traditional industry moved out to the suburbs, or out of the region altogether, new jobs were created in the service sector. These jobs in professional services (lawyers, advertising, financial services, accounting, etc.) filled some of the gaps left from the job losses. In addition, larger central cities were the home to large hospitals, cultural institutions, educational institutions, and government agencies, again providing a more stable economic base.

**Transformation of their Human Capital Base**

With vitally important primary industries leaving third-tier cities, and with the difficulties associated with bringing in new businesses because of a lack of modern infrastructure, third-tier cities face the challenge of providing young residents with reasons not to move away, and of finding ways to attract productive new residents. The immigrant population segment that has settled in many of these cities presents a new set of difficult challenges for many third-tier cities.

**The Small City Brain Drain: Difficulties in Retaining Youth and Attracting New Residents**

With limited professional opportunities and a struggling economy comes an exodus of young people looking to establish themselves elsewhere. When leaders of small cities assemble to discuss their economic challenges, the most common problem that comes up is the exodus of their children from the community because of lack of opportunities. Following high school, many of the young people of America’s small cities are leaving for college or job opportunities elsewhere and not returning. Increased mobility has been affecting communities throughout the United States for decades. However, this problem is more extreme in small cities (as well as rural areas) where limited career opportunities create little incentive for the youth to return and put down roots.

This migration is magnified by the difficulty in attracting new residents to these cities, creating a serious challenge at a time when a skilled labor force is one of America’s most scarce and valuable commodities. With unemployment rates at record low levels, labor concerns have only become that much more important. According to *Expansion Management* magazine: “Year after year, labor force skill and availability rank at the top of corporate site selectors’ lists...In today’s economy in particular, it’s fair to say that for most companies, a quality labor force is the scarcest of all resources.”

In this environment, many smaller cities are at a distinct disadvantage. Companies in these locations are finding it difficult to recruit managers, particularly in the declining, older in-
Industrial cities. Though many of these cities are experiencing their lowest unemployment rates in years, this is often because the size of their labor force as a whole is shrinking, rather than because new jobs are being created. As businesses look for areas to expand or locate, they naturally shy away from those cities that have a small pool of unemployed residents coupled with a limited influx of new ones.

Immigration Is Creating a New Set of Challenges

While we are all well aware of the high concentration of immigrants in many of the nation’s larger cities, there is less awareness that immigration trends have also had an impact on smaller cities, providing many economic and social opportunities—as well as many challenges. The 2000 Census will undoubtedly uncover the most recent immigration trends, though field research in many smaller cities during the last decade revealed evidence of a growing population of foreign-born residents. Lawrence, Massachusetts, a classic New England mill town, provides a good example of a third-tier city that has become home to a new generation of immigrants.

Lawrence, a planned textile center that peaked in the early part of the 20th century, has seen its population decline from 80,000 in 1950 to 69,000 by 1998. While it was always the home of immigrants, during the past two decades it has seen a rapid influx in concentrations of immigrants from the Caribbean and Central and South America. In 1990, Hispanics comprised 42 percent of the population of Lawrence; by 1998, that number had grown to 70 percent. Many other cities in the Northeast have experienced a similar increase in their immigrant populations. Utica, New York, for example, has seen the influx of over 3,000 Bosnian refugees in the last six years.

This influx of new immigrants is also reaching small urban centers in the Midwest and Great Plains that were previously very homogenous. In 1980, the U.S. Census reported that Wasau, Wisconsin, was one of the most ethnically homogenous cities in the country. By 1994, as a result of the resettlement of Southeast Asian refugees, the children of immigrant families made up almost one-quarter of the elementary school population. The Pew Partnerships for Civic Change provided the third-tier cities of Fargo, North Dakota, and Moorhead, Minnesota, with resources to address the issue of the increasing diversity in their communities. A combination of a healthy economy and an assertive refugee resettlement program attracted a large number of Cambodians, Vietnamese, Bosnians, and Sudanese. The region’s school system had to adjust to a growing percentage of students who spoke English as a second language. While only a small number by larger urban standards (371 students in 1996), this represented a new challenge for these small cities.

While the increase in immigrants is nothing new in the nation’s cities, there are differences in how small cities and larger cities have been able to respond to the changing demographics within their communities. Through field experience in many third-tier cities, Mt. Auburn found that in contrast to immigrant communities in larger cities, the immigrant groups in smaller cities are not well organized and are not represented in the community’s civic life. Moreover, many of the human service organizations do not have the capacity to address the needs of the new immigrants—for example, hospitals often lack translators, and schools are not prepared to handle the needs of large groups of non-English-speaking students.
Declining Competitiveness within Their Regions

As a result of the outmigration of jobs as well as long-time residents, third-tier cities are suffering compared to their suburbs. This has led to a situation where smaller cities are struggling with a similar, but not identical, set of regional growth issues as those facing larger cities. Urban sprawl is as real in Glens Falls, New York, as in Atlanta, Georgia. Conflicts abound between the surrounding municipalities and the urban service centers where population is declining, taxes are higher, and infrastructure is older. While well documented in the larger cities, the move to the suburbs, by both residents and businesses, is also creating a downward spiral in many of the nation’s smaller cities.

Division Between the Haves and Have-nots

The suburbanization of people and jobs during the last half century has caused an erosion of the human capital base in cities throughout the United States. The outflow of residents to suburbs has tended to leave a poorer, less educated, less professionally successful population in the urban centers. Homeownership rates and neighborhood stability have declined. The outflow of both people and jobs has reduced the urban tax base, making it difficult to meet the needs of the more service-dependent population left behind.

The trend of middle-class suburban flight in large cities such as Detroit, Philadelphia, and Cleveland is readily apparent and has been frequently analyzed. However, while perhaps less visible at the national level, this trend has also occurred in many third-tier cities. Our research on ten selected third-tier cities provides ample evidence of this. Mt. Auburn compared cities and suburbs along a number of variables and found:

- data on population change in the ten cities and their suburbs between 1970 and 1998 show that the ratio of city to suburban population declined in all but one city;
- all ten cities had a lower proportion of middle-income residents then their suburbs in 1989;
- poverty rates in all ten cities were higher than in their suburbs in 1995;
- unemployment levels in all ten cities were higher in 1990 than in their suburbs;
- the proportion of city residents who had not graduated from high school was higher in all ten cities than in the suburbs in 1990; and
- the rate of homeownership in all ten cities was lower than in the suburbs in 1990, ranging from 62 percent to 83 percent of the suburban rate.

While not all third-tier cities are facing serious fiscal problems, the loss of population and businesses has eroded the tax base of many. At the same time, as the above data illustrate, many small cities, like their larger counterparts, are having to address the service needs of the region’s poorer residents. In contrast, many of the suburban communities have seen rapid growth in their tax base due to new housing developments and suburban retail development.

For those smaller cities experiencing a tax base decline, the problem can be devastating, leading to severe deterioration in infrastructure, services, and housing stock. For example, in Saginaw, Michigan, the city’s tax base has plummeted as businesses and middle-class residents
have moved to the suburbs. As a result, city streets and sewer lines go without repair or re-
placement, and the city’s ability to provide services to its increasingly poor population is con-
strained. Property values have sunk while property tax rates have risen, leading to conversion of
single-family homes to multifamily use, and to housing abandonment. This has generated a self-
reinforcing downward spiral.

Glens Falls, New York, provides another good example of the impact of the shift of
population and tax base from city to suburb. Glens Falls’ population declined by 1,400 resi-
dents, or 86 percent, between 1980 and 1998, while suburban Queensbury’s grew by 5,600 resi-
dents, or about 30 percent. At the same time, a wholesale shift from city to suburb occurred in
retail and other business activities. By 1998, Queensbury was generating $5 million in sales tax
revenues compared to only $2.4 million in Glens Falls. The owner of a $100,000 home in the
city was found to be paying at least $1,000 more in annual taxes and fees than the owner of a
comparable home in Queensbury.27 The fiscal and economic difficulties in the city of Glens Falls
have led many of its leaders to seriously consider whether the only viable solution would be to
“de-incorporate” as a city or merge with a neighboring community.

Declining Downtowns

The shift to the suburbs and the problems of sprawl leave the downtowns of third-tier
cities in a much weaker position. The health of a city’s downtown is essential to its economic
viability. Downtowns serve as centers of commercial, civic, and cultural life. They influence the
ability of the community to attract both residents and business activity. They are also an essen-
tial generator of tax revenues to support public services and infrastructure.

Most U.S. cities, both large and small, experienced deterioration in their downtowns be-
ginning in the 1950s and 1960s. This was precipitated by a number of factors, most notably the
movement of people and businesses from city to suburb and trends in the retail industry favoring
suburban shopping malls and “big box” retailers over traditional mass retailers and independent
retailers that formed the core of downtown retail districts.

Many studies have documented the loss of the downtown retail base of small- and me-
dium-sized cities brought on by these trends.28 Until the 1960s, mass retailing was dominated by
three giants: Sears Roebuck, Montgomery Ward, and J.C. Penney. These stores often served as
the anchors in the downtown retail districts of smaller cities. Starting in the 1960s, discount de-
partment stores such as Wal-Mart, K-Mart, and Target began to emerge as competitors to the
traditional mass retailers. These were followed in the 1970s by a new type of store, called “cate-
gory killers”: pharmacies such as Walgreen’s, electronics stores such as Best Buy, children's
merchandise stores such as Toys ‘R Us, hardware stores such as Home Depot, and warehouse
stores such as Price Club, among others. Today, these “mega discounters” and big box stores
have become dominant in their markets. Unlike the traditional retailers, they have typically lo-
cated their stores near highway interchanges in suburban areas, often drawing smaller independent
and chain retailers with them.

Interviews with economic development officials in smaller cities, as well as our own work
in smaller cities, provide ample evidence of the devastating impact of demographic, market, and
retail industry trends on small-city downtowns. The loss of their traditional markets and the in-
ability to compete with large, national chains has forced many downtown retailers out of busi-
ness and left downtowns with vacant and deteriorating properties, crumbling infrastructure, and increasing crime rates. With the attendant loss of a commercial tax base, communities are unable to make the investments needed to retain and attract new businesses, furthering this downward spiral.

One recent study that did take a systematic look at small-city downtown development issues involved 57 small non-suburban American cities with populations between 25,000 and 50,000. The study, published in the *Journal of American Planning Association*, identifies several interconnected problems that have led to the decline of small-city downtowns during the past four decades: (1) construction of highways and increasing automobile use; (2) decentralization of functions previously centered in downtowns (retailing, professional services, entertainment, hospitality, governmental activities); (3) disinvestment in downtown in favor of commercial development on the periphery; and (4) the declining image of downtown as a desirable location. It also identifies several development issues specific to small cities:

- The size of most small cities is inadequate to meet the market area requirements of development projects.
- Small-city downtowns usually do not include cultural and entertainment attractions found in larger cities.
- Small-city downtowns are seriously impacted by the opening of regional malls. At the same time, small-city downtowns are a more natural environment for smaller-scale development that distinguishes downtowns from the malls.
- Small cities suffer more heavily from the symbolic effect of single, large vacant “white elephant” buildings.
- Small cities tend to be less affected than large cities by crime and traffic circulation problems.

The study also identifies a few common factors among smaller cities that have enjoyed some degree of success in revitalizing their downtowns. First, unlike larger cities that practiced wholesale urban renewal, many of these downtowns have historic or architecturally significant structures that can serve as a nucleus for revitalization efforts. Second, many of these downtowns, particularly in older cities, are located along a waterway, providing a natural amenity for parks, recreation, and entertainment activities that can stimulate development.

**Civic Infrastructure and Capacity**

Many of the changes in third-tier cities described above have a direct effect on the strength of the civic infrastructure needed to turn these areas around. Civic infrastructure is the backbone or “operating system” that gives shape and substance to a community. The elements of civic infrastructure are the people who live and work in the community, the elected officials who govern, the human service organizations that deliver services, and the formal and informal civic organizations that focus on solving problems in the community. When the civic infrastructure is strong, unified, and broadly representative, it creates a vision for a community, it provides
a voice to people who live in the community, and it puts in place the leadership and resources to make the vision a reality.

Smaller, urban centers suffer disproportionately from a number of development barriers related to their civic organizations and civic leadership. Just as these communities have many physical brownfields, they are also littered with organizational brownfields. The economic development and civic institutions were created in a time when these communities had a plethora of strong civic leaders. Today, the civic leaders that remain are stretched thin—often serving on multiple, overlapping boards. Lack of regional cooperation and limited staffing at the municipal level further limit effective civic capacity.

Loss of Local Ownership has Meant Loss of Civic Leadership

Thirty years ago, in most small cities in the United States, if you needed something done, such as renovating a historic building or funding a downtown market study, you could get together the “captains of industry” and they would not only provide the funding, but get personally involved and committed to the effort. These “captains” were usually the owners of the large, locally owned manufacturing companies and the executives of the locally owned banks, department stores, and nonprofit institutions. Today, this core of corporate leadership has largely evaporated in the third-tier cities.

The erosion of corporate leadership in the city and regional infrastructure is a major economic development challenge in every small city in which we have worked in the past decade. The loss of local ownership is a big reason for this change. Where these cities once had local management, today they have branch plants with distant headquarters. Management is oriented elsewhere and plant managers are focused on the operation of their facilities. In fact, many plant managers think of themselves as temporary residents; they hope to move up the corporate ladder and on to the headquarters locations. Even when they are committed and interested in doing good in the community, they need approval from their superiors who are not in the area and have limited interest.

Most larger cities continue to have a core of locally owned companies whose CEOs and executives provide leadership in efforts to revitalize the city’s economy. In contrast, smaller cities are finding that the remaining leadership is primarily composed of the key staff of the community’s nonprofit employers—most notably, the regional healthcare institutions, United Ways, and community colleges. Small businesses that are involved do not have the staffing depth to back employees up when they are working on civic issues.

Recent interviews with city officials in a sample of third-tier cities confirmed these findings:

- The changing nature of corporate involvement is exemplified in Scranton, Pennsylvania. The head of its chamber of commerce noted that corporate involvement has dropped significantly. With more demands by distant stockholders, there is less time for community services. Banks are the biggest example. According to the chamber, 10 years ago it could get six of the largest banks to give it 10 to 20 vice presidents for a fund drive. Today, it is lucky to get two or three.
• In Saginaw, Michigan, chamber of commerce officials noted that there has been a dramatic change in corporate involvement in civic affairs. It lost bank leadership through consolidation and this has created a large void in corporate involvement.

• In Pueblo, Colorado, the example was given of the local Pepsi plant, owned by a local family. Museums and social service organizations needing resources could go directly to the owner, who would provide them with support. When the local Pepsi plant was sold to an outside party, participation in the city dropped dramatically.

Limited Scale Constrains Effective Development Efforts

The capacity of both nonprofit organizations and municipal departments in small cities is affected by their scale. For example, in contrast to most larger cities, many third-tier cities simply do not have enough resources to support a full-time economic development or community development staff person. In Marshall, Texas, the city was only able to develop economic development capacity through a half-cent sales tax dedicated to that purpose. The director of the Marshall Economic Development Corporation noted that cities the size of Marshall need to have someone like himself available to answer the calls of business and do some proactive planning. He further stated that businesses make decisions so quickly these days that you have to be able to respond rapidly or you will not be able to compete. Because the big cities have greater resources, they can respond more effectively when called upon by businesses.

A second issue is that smaller cities working on their own do not have a large enough scale to justify the costs of innovative workforce and economic development programs. Many effective workforce development and economic development programs require a certain scale to be effective. This is particularly true in workforce development and recent welfare-to-work programs where many of the most effective efforts involve the development of sector-specific training programs. While it makes sense for a community college to work with local metalworking companies to develop a new curriculum to train 100 residents for available jobs, such a program is no longer cost-effective in a small community when there are two metalworking companies seeking five highly skilled machinists. A similar case can be made with respect to entrepreneurial training programs and for development finance programs focused on risk capital.

Parochialism Can Compound Scale Issues in Smaller Cities

Problems of scale are compounded when there is limited regional cooperation. The economic well-being of residents of any community is ultimately linked to the ability of the private sector in that region to thrive and compete successfully in a global arena. The reality today is that in many parts of the nation the governance system does not match the economic system. In essence, business interests are not limited by municipal boundaries—the labor sought by businesses lives throughout the region; the infrastructure needed is regional in nature; and business markets are increasingly global. Any single, small city can do little to compete efficiently with other locations that are significantly larger or that have achieved efficiency in economies of scale through regional, multijurisdictional action.

The fragmentation amongst existing organizations in many regions has made cooperative action difficult. More importantly, the parochialism of individual municipalities within a region constrains effective economic development actions. While regional cooperation is becoming more
of an imperative for all cities, it is particularly important for third-tier cities. On their own, smaller cities simply do not have the resources or scale to address the range of economic problems that they are currently confronting.

Many third-tier cities have developed effective regional approaches to economic development and workforce development. However, the issue of parochialism amongst municipalities remains a significant challenge for many smaller cities adjusting to the economic realities of the New Economy. This is particularly acute in New England, where limited county government and a fiscal structure with a heavy dependence on the property tax are major deterrents to regional action. As long as property taxes remain the major revenue source to support local services, competition for economic activity amongst municipalities constrains regional cooperation. When a single municipality accrues the fiscal benefits of development activities, there is little incentive for communities to work together to promote economic development.

**More Limited Access to Resources**

Not only are the various aspects of civic infrastructure important for turning around cities, but access to funding resources can also play a crucial role. Unfortunately, third-tier cities face barriers in accessing philanthropic and other private-sector resources to address their economic challenges.

**Smaller Cities Have More Limited Access to Philanthropic Resources**

In the nation’s larger cities, nonprofit organizations involved in human services, education, economic development, and workforce development have access to a large array of philanthropic resources to support their activities. Often these organizations are large enough to support staff or consultants whose sole role is to write grants and pursue funding from large national foundations, community foundations, family foundations, and corporate support from larger companies based in the city. Through field experience in third-tier cities, Mt. Auburn found that nonprofit organizations in smaller cities may encounter many more barriers in accessing philanthropic funding. Their small scale means less capacity for grant-writing activities. In addition, while some national foundations have targeted special initiatives to larger cities and rural communities, few have focused attention on third-tier cities. Finally, while there are some third-tier cities with large community foundations, such as Kalamazoo, Michigan, and Erie, Pennsylvania, many of the nation’s smaller cities do not have community foundations, or have very small endowments that support community development and human services.

While smaller, mature cities are recipients of philanthropic investments, a sample of the nation’s large foundations finds an abundance of national programs and initiatives targeted to large urban inner-cities. Larger cities are repeatedly the subject of special initiatives. The Annie E. Casey Foundation’s national Rebuilding Communities Initiative has focused exclusively on neighborhoods in larger cities such as Boston, Philadelphia, Washington, D.C., Denver, and Detroit. Likewise, the Ford Foundation’s Neighborhood and Family Initiative, and later the Community Development Partnership Strategy, have focused almost entirely on similar large cities. The same follows for other prominent, national community building initiatives. For example, the Enterprise Foundation’s Neighborhood Transformation program concentrates its
large-scale investments in 17 of our nation’s largest cities. The Annie E. Casey Foundation’s Jobs Initiative commits resources to initiatives in Denver, New Orleans, Seattle, Milwaukee, St. Louis, and Philadelphia. Even the National Community Development Initiative’s selection of 23 partner cities largely consists of a list of the nation’s 50 largest cities.

There is one major foundation initiative targeted to smaller cities. The Pew Partnership, part of the Pew Charitable Trusts, recently launched a community-building initiative focused on 14 smaller cities. The initiative brings formidable resources and expertise in “collaborative community solving, issue identification, and solutions in a long-term context” to community building in 14 cities with populations between 50,000 and 100,000.

Access to Private Financing Is More Limited

While there are studies that have looked at issues of access to private financing within large cities (the literature on redlining, for example), as well as a relatively extensive literature review on financing availability in rural communities, there have been few efforts that seek to examine whether residents and businesses in the smaller cities face any particular problems in accessing financing from local banks or risk financing from venture capitalists.

However, our experience in the field has found that the restructuring of the financial system has had a potentially negative impact on smaller cities, many of which have been left with no locally owned banks. Financing decisions by loan officers and bank managers that in the past could be made locally are now being decided outside of the region. Many small communities have also experienced large turnover in the commercial lending staff and a loss of personal banking relationships.

The availability of risk capital is also an issue that emerges often in smaller cities. Not only do these cities have difficulty in accessing sources of risk capital given their distance from venture capital pools, but “informal” sources of risk capital—through individual wealthy investors—are also less available.

While few studies have looked specifically at the availability of business financing in smaller cities, there is one study that did examine mortgage lending in different types of cities. This study examined home mortgage lending data in Texas and found that getting a loan to buy a home is harder for Texans living in small- to mid-sized cities than for residents of the state’s larger cities. This study of Home Mortgage Disclosure Act data found that in 1997 the percentage of home purchase loan applications that resulted in a loan origination was 42.4 percent in the smaller MSAs, compared to 59 percent in Dallas and Houston. The author concluded, “The study dispels the misconception that home lending problems only exist in the largest urban areas.”

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BUILDING ON OPPORTUNITIES

Not all of the nation’s third-tier cities are in dire economic straits. While they share many of the demographic characteristics of distressed large cities, some have been able to remain competitive and are marked by more recent population growth, lower unemployment, and growing industrial activity. Examples of such cities include Danbury, Connecticut; Manchester, New Hampshire; Green Bay, Appleton, Oshkosh, and Sheboygan, Wisconsin; Burlington, Vermont; Wilmington, North Carolina; and Lafayette and Elkhart, Indiana. These cities have been able to maintain relatively low unemployment and poverty rates and sustain a relatively healthy economic base—many even retaining a strong manufacturing sector.

Case material on some of these more successful cities paints a different picture from that of the distressed smaller cities:

- Green Bay, Wisconsin, has almost doubled in size since 1950 and has continued to see its population expand in the 1990s. Its unemployment rate is below four percent and its estimated poverty rate in 1995 was only ten percent, representing a decline since the 1990 census. Its downtown remains relatively strong with a new convention center, three new hotels, micro breweries, and vibrant retailing. Its economic base remains diverse and relatively stable.

- Danbury, Connecticut, is one of the only cities in the state of Connecticut that has done well economically in the last two decades. While home to a growing non-English-speaking population (15 percent of the residents in 1990 were foreign-born), the city has maintained a low poverty rate (estimated at 6.4 percent in 1995) and a very low unemployment rate. Between 1980 and 1990, when many small central cities were seeing their job base contract, the number of jobs in the city of Danbury grew by 12,000, or over 30 percent. While the rest of New England experienced a profound recession in the early 1990s, the Danbury region continued to grow and prosper.

- Wilmington, North Carolina, was at one time a center of shipbuilding and the cotton trade, and in the 20th century a major rail center. Like many small cities, it went through a period of serious economic decline following the closing of the railroad company headquartered in the city. Today, Wilmington is again a vibrant city, with a successful downtown and a revitalized economy that has become a national filmmaking and media center.

So why have some of these smaller cities been able to build upon their economic base while others have experienced steady decline? What contributes to the turnaround?

Part of the answer to these questions involves developing creative solutions, appropriate to small cities, that address the challenges described above. Because the old assets of rivers and rails that gave these cities their strength at their creation no longer serve the same purpose, new assets must be drawn upon, and these old assets must be used in new ways. Because these cities do not always have the economies of scale to be able to tackle their problems, an added emphasis must be placed on regional cooperation. Because the traditional forms of civic infrastructure that
used to be relied upon are no longer there, new parts of the community must be drawn upon in order to keep third-tier cities strong or to create effective revitalization efforts.

Analyzing why some third-tier cities are thriving while others are suffering is an area that needs considerable additional research. Some of the capabilities that appear to make a difference to these hometown cities include

- enhancing local amenities;
- building on institutions of higher education;
- engaging in regional collaboration;
- creating an effective civic infrastructure; and
- promoting diversity as strength.

Creating and Enhancing Local Amenities

In the New Economy, the factors that businesses use in making business-location decisions have changed. With effort and investment, it is possible for third-tier cities to develop the amenities that today’s businesses seek. A recent study of the importance of quality of life in business location decisions concluded:

The classic variables of land, labor and capital as well as utility rates, taxes and the elusive business climate and entrepreneurial environment are now essentially available universally. As the focus of economic activity shifts more toward the service sector we are beginning to see other transformations... The new variable has become psychic income. This translates into a higher value placed on more intangible variables such as quality of life and Amenities.31

David Rusk, former mayor of Albuquerque, New Mexico, noted that the reason small-and medium-sized cities so often dominate any list of distressed communities is that “they don’t have the great urban assets to draw on...They don’t have the legacy of parks, museums, and recreational facilities that big cities have.”32 While this is true in many cases, it is still possible for third-tier cities to emphasize the amenities that they do have, or to find creative ways to develop new ones. The stronger third-tier cities are doing just that.

Enhancing Riverfronts

One such amenity is the riverfront that, as noted above, played a crucial role in the formation of many third-tier cities. In 1998, PBS televised a program that focused on the economic revival of three communities around the country. All three made significant use of a river to bring back an economy. These communities are part of a much larger movement in the United States to use natural resources, such as rivers, as economic engines. Rivers can be engines when combined with appropriately planned riverfront parks, walkways, and bikeways, as well as restaurants and retail developments.

A number of the third-tier cities have begun to refocus attention on their riverfronts. For example, in both Wasau, Wisconsin, and Pueblo, Colorado, local officials specifically noted that
the creation of a river walk and other recreational amenities has contributed to the improvements in their downtowns.

Using Arts and Culture As a Community Development Tool

Another successful community development tool in smaller cities is a focus on arts and culture. An article in the *New York Times* reports that cities large and small have spent more than $5 billion since the late 1980s on performing arts centers, cultural districts, museums, and festivals. Third-tier cities are renovating old theaters, investing in artist housing, and supporting local arts organizations. In Lancaster, Pennsylvania, a renovated opera house has breathed new life into an area of downtown, while both the Pennsylvania School of Art and Design and the Pennsylvania Academy of Music have helped create a rich cultural environment complete with quality restaurants and vibrant retailers. Scranton, Pennsylvania, is another small city with an aggressive program to promote arts and cultural development as part of its economic revitalization strategy. It renovated an old Masonic temple and established the Scranton Cultural Center that houses the Northeastern Philharmonic and the Broadway Theater League.

Colleges and Universities As Critical Assets

Similar to amenities, colleges and universities are an asset that third-tier cities have drawn upon in order to be successful. While few third-tier cities boast renowned research universities, many have colleges and universities that provide them with a wide range of economic benefits. The student body promotes a thriving retail market; the faculty and staff provide a stable base of middle-class professional residents; the institutions enhance the community’s quality of life with arts and cultural activities, and contribute to overall physical well-being with fine facilities and grounds. In addition, research and development activity provides a potential source of new business and entrepreneurial efforts.

Interviews with local officials in small cities reveal the important role colleges and universities can play. In Marshall, Texas, for example, there are three colleges, including Texas Tech, that have sponsored a technology incubator and customized training programs. Mississippi State University in Meridian established a downtown branch and has spent upwards of $32 million on downtown revitalization projects in conjunction with the city government. And, Fitchburg State College in Fitchburg, Massachusetts, has forged a new partnership with the city. The college is involved in creating a pedestrian link between the campus and the city’s downtown and is working with the city on the design and feasibility of a Digital Technology Center.

In many smaller cities that do not have a large university or four-year college, community colleges play a particularly important role, often becoming the most important economic development asset in the region. Examples of community college involvement in smaller cities abound. In Anniston, Alabama, the city partnered with Gadsden State Community College on a 1.6-million-square-foot incubator that now houses three or four technology-based firms. In Pueblo, Colorado, the community college has played a very big role in that city’s success in recruiting and retaining businesses.
Effective Regional Cooperation

The issue of regional cooperation is probably more critical to America’s smaller urban areas than it is to its large cities. Because of the problems of scope noted throughout this report, it is often difficult for a smaller city to address its economic challenges and opportunities alone. Third-tier cities are part of larger regional economies, and while many of the urban centers are struggling, their surrounding communities are prospering.

Some third-tier cities have been able to overcome this fragmentation through creative efforts. The Augusta/Waterville area of Maine provides one good model of effective regional collaboration by a number of small cities and towns. Cities in this area are in the process of jointly developing a regional “Smart Park.” They are sharing both the costs and benefits of this development through an innovative tax-sharing arrangement that includes more than 25 municipalities. The state of Maine has played a crucial role in this development by offering an incentive to municipalities that join together to promote regional economic development. The Kennebec Regional Development Authority is acting as the developer of the industrial park. Any property taxes generated by the site are to be distributed to member municipalities that are participating in the development costs.

Building Effective Civic Infrastructure

Communities fall within a spectrum in regard to the strength of their civic infrastructure. Some have a very weak civic infrastructure capacity that is fraught with differences and conflicts and is incapable of helping a community pull together around common goals and interests. Other communities are able to overcome some of the obstacles that get in the way of an effective civic infrastructure. Their civic organizations function effectively some of the time and for some of the people in the community. Still, other communities are able to create a solid foundation of cooperation, coordination, and shared decision making. Communities with this kind of civic infrastructure generally have a high quality of life, they create opportunities for jobs and economic growth, and they look after those who lack the means to succeed.

Because the old forms of civic infrastructure in many cases no longer exist in third-tier cities, throughout the nation these cities are struggling with how to create a strong, inclusive civic infrastructure that is able to respond to the economic opportunities in the New Economy. Considerable additional research is needed to better understand the components of an effective civic infrastructure. The Pew Partnership is working with a number of smaller cities on these issues. For example, it has worked with the third-tier city of Danville, Virginia, which has developed “Southern Virginia 2000,” a collaborative effort to address the area’s workforce needs. Southern Virginia 2000 is a collaboration of business, city and county governments, education, community, and other representatives who are working to address the needs of the region’s changing workforce. Both local business leaders and the local community college have been very active participants in the effort.

Interviews in both Lancaster, Pennsylvania, and Green Bay, Wisconsin, two smaller cities that have maintained a strong and diverse economic base as well as vital downtowns, found that strong civic organizations were very important to their success. In Lancaster, the city has been very aggressive and has worked in close partnership with the corporate sector on a wide range of
community development initiatives. There are two effective collaborative organizations, the Lancaster Alliance and the Economic Development Action Group, which have effectively mobilized businesses and residents around a range of community building activities. In Green Bay, both the chamber of commerce and the city were noted to be extremely entrepreneurial and worked together effectively on economic development. On the corporate side, the chamber of commerce has 40 staff people, many of whom work on economic development.

**Promoting Diversity As a Strength**

Racial and ethnic divisions pull at city and regional cohesion, cut at the ability of the city to solve problems as a whole community, and ultimately waste productive energy of citizens. Untapped entrepreneurial talent among minority immigrant groups is a lost opportunity for small business growth.

In many third-tier cities the economic and social institutions have not fundamentally responded to reflect the changes in the community’s residential base. As a result, many of the informal networks and relationships that are critical for accessing economic opportunity have not been as fully inclusive as they could be. Rather than the diversity of the population being perceived as a community strength, it has, in some ways, constrained community progress.

Some third-tier cities have begun to look at their new residents as a potential asset. Interviews in both Lancaster, Pennsylvania, and Wasau, Wisconsin, found that these successful small cities viewed their new immigrants positively. In Lancaster, the growing Latino population is perceived as a real boon to the city. The new immigrants have moved into houses and apartments that would otherwise have been left vacant. Similarly, Wasau perceives its new and growing Asian immigrant population as a strength. This population has added a great deal to the region’s workforce and has clearly helped to maintain and strengthen local industry.

In Fitchburg, Massachusetts, the city recognized that its growing immigrant and minority population was not participating in the city’s civic and economic life. The city developed an initiative to create Study Circles, a mechanism for helping Fitchburg’s minority population achieve that greater sense of economic integration. The Study Circles involved a diverse set of Fitchburg residents in an effort to create an economic and social environment where minority and non-minority residents are working cooperatively to address the many economic issues facing the city.

**Summary**

Certainly worthy of additional research, the factors that contribute to a third-tier city turnaround are rooted in existing assets; what differentiates the more successful cities seems to be the ability to maximize them. Such efforts include developing local amenities such as the arts and culture, and natural resources including riverfronts; drawing on educational institutions as a source of economic and social well-being; and engaging the public in efforts to build and bridge communities.
LOOKING AHEAD: THE POLICY IMPLICATIONS

This paper provides only a first step in examining the complex issues related to America’s small urban centers. To better understand the problems and potential of third-tier cities, we suggest further analysis of the reasons that some older industrial communities have enjoyed a rebirth while others have not. While general research has been conducted on many of the issues that cities face, very few studies have been done that focus on the specific ways these problems play themselves out in third-tier cities. A more thorough analysis of the manifestations of the challenges faced by these cities will lead to new learning and sharing that can, in turn, result in more effective, more appropriate solutions that can be applied to the specific context of third-tier cities. Furthermore, our hope is that, by demonstrating that these cities face the problems that are often thought of as only big-city problems, more attention and, therefore, more resources, from state, federal, and philanthropic organizations will be targeted to third-tier cities.

While additional research is required, the findings of this paper point to a number of public- and private-sector policies that would enhance third-tier city development nationwide:

- Foundations, public interest groups, and state governments should consider making greater investments in leadership development programs and civic capacity building measures in third-tier cities.
- Smaller urban areas should seek increased support for technical assistance and staffing. Few programs build in the “soft” costs associated with community development, and many third-tier cities are lacking sufficient resources to develop comprehensive economic development strategies, or to implement these strategies once they have them.
- States should look more closely at the impact of their fiscal policies on smaller cities, with an eye toward creating stronger motivations for regional cooperation. In addition, states should develop incentives in economic development, community development, and workforce development programs that promote regional cooperation.
- Special funding to support amenities development would go a long way to strengthen smaller cities. These programs could focus on the arts and culture, and the environment and recreation, to name a few. The goal would be making third-tier cities more attractive places to live and work.
- Greater attention should be paid to overcoming the barriers to affordable, convenient air travel and affordable, accessible telecommunications infrastructure. Public policies should be developed that address these issues and increase the competitiveness of these smaller cities.
- Funders might address the need for programs that seek to integrate the immigrant and minority communities more fully in the civic life of hometown cities, and could help these cities by supporting initiatives to better serve specialized populations.
Third-tier cities could easily emulate, with support from more major foundations, some of the comprehensive community-building efforts being undertaken in the nation’s larger cities.

As federal and state agencies make significant regional investments, it would be useful to examine the economic and social impacts of these investments on nearby small cities. Once third-tier cities are integrated into the overall consciousness of lawmakers and policy officials, new opportunities and ideas for making them stronger will begin to emerge and take shape.

The challenges of the New Economy are crucial for cities of all kinds. For reasons outlined here, a combination of factors has created a unique challenge for cities of a certain size and spirit. It is our hope that by outlining some of the specifics related to America’s hometown cities, we can inspire productive programs and partnerships to help them rebuild following what we believe has been disproportionate deterioration.
ENDNOTES

1 Rotberg, p. ix–x.

2 A report on the New Economy states, “The term New Economy refers to a set of qualitative and quantitative changes that, in the last 15 years, have transformed the structure, functioning, and rules of the economy. The New Economy is a knowledge- and idea-based economy where the keys to job creation and higher standards of living are innovative ideas, and technology embedded in services and manufactured products. It is an economy where risk, uncertainty and constant change are the rule, rather than the exception.” Atkinson, p. 8.

3 Because these larger cities have come to be thought of as the source of much of our society’s problems, yet have recently seen a partial renaissance, HUD refers to these large cities as the “former poster children of urban decay.” HUD, p. 27.

4 The ten cities that were interviewed were: Anniston, AL; Green Bay and Wausau, WI; Lancaster, PA; Pasco, WA; Pueblo, CO; Saginaw, MI; Scranton, PA; Wilmington, NC; Marshall, TX.

5 Markusen, et al.

6 There are three types of metropolitan areas: Metropolitan Statistical Areas (MSAs), Consolidated MSAs (CMSAs), and Primary MSAs (PMSAs).

7 The Office of Management and Budget is the government agency that determines the definitions used by the Census. It has created a committee, the Metropolitan Area Standards Review Committee, to revise this particular definition.

8 Office of Management and Budget 2000, p. 51064.

9 Rotberg, p. ix.

10 See Norton and Thuemer.

11 This definition was quoted in the second edition of the book written by Heubusch, p. 11.

12 Heubusch, p. 11. The 2 notes describe exceptions in which a micropolitan area may have two counties instead of just one, or may include independent cities that are not part of any county.

13 By “central city” we are using the United States Census term that is defined as follows: “The largest city in each MSA/CMSA is designated a ‘central city.’ Additional cities qualify if specified requirements are met concerning population size and commuting patterns. The title of each MSA consists of the names of up to three of its central cities and the name of each state into which the MSA extends. However, a central city with less than 250,000 population and less than one-third the population of the area’s largest city is not included in an MSA title unless local opinion supports its inclusion.”

14 HUD’s annual State of the Cities report includes data on only 114 cities. Of these cities, only nine third-tier cities that are the largest cities in their respective areas are included. In “the State of the Cities 2000,” HUD concludes, “Cities are sharing in the unprecedented expansion of the New Economy.” Since so few are included, these reports do not reflect the economic conditions in the nation’s third-tier cities.
15 Di Pasquale and Wheaton, p. 102.
16 Wright, p. 13.
17 United States Conference of Mayors, p. 5.
18 Berquist, p. 21.
19 Fitzgerald, p. 48.
20 Morrison and Winston, p. 43.
21 Garreau, p. 90.
22 Author’s calculations based on United States Census data.
24 Valburn.
26 See Endnote 4.
28 See, in particular, Shils and Taylor.
29 Robinson, pp. 270–83.
30 Henneberger.
31 Segedy, p. 60.
32 Quoted in Kelly, 1996.
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