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A Fresh Start in Distressed Cities

Experts Present Ideas on Renewal

By Linda Fischer
Assistant Editor

Let's play a word association game. I say, "East St. Louis." You say? Most likely "crime, corruption, poverty." You might want to add "crumbling buildings, inferior schools, trash-filled vacant lots." And the list goes on.

For decades, poverty has tightened its grip on this city, keeping thousands who live there in its stranglehold. To those who don't know better, the situation seems hopeless.

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East St. Louis, Ill., like many impoverished areas, is all of the things mentioned above. But take a second look. In the midst of the devastation that pervades the city, there are signs of new life. New stores are going up,

new schools are under construction, new houses stretch down tree-lined streets. The progress is on a small scale, but something is happening in the city.

That "something" prompted the Community Affairs department of the Federal Reserve

efforts there inspired the title of the conference: *Rays of Hope: A New Day for America's Distressed Urban Areas*.

The specific work going on in East St. Louis and the general themes of how community development comes about were



John Gulick makes a point during a roundtable discussion at the Rays of Hope conference in East St. Louis on Oct. 22 and 23. Gulick is a community development specialist with the Missouri Department of Health and Senior Services.

Bank of St. Louis to hold its recent conference on community development across the river in East St. Louis. The revitalization

interwoven throughout the event Oct. 22 and 23 at the Jackie Joyner-Kersey Center. The East St. Louis Action Research Project

(ESLARP), a community assistance program run by the University of Illinois at Urbana-Champaign, joined the Fed as co-sponsor.

Panelists covered many topics, including building individual wealth, traditional and nontraditional approaches to redevelopment, attracting businesses to the inner city, redeveloping brownfields, models for urban design and the economic benefits of a light-rail system. Keynote speakers focused on: (1) the breakdown of cities and programs that were intended to help but did just the opposite; (2) the renewal that is going on in some communities.

The Breakdown of Cities

An overview. Federal housing policies going back to the 1930s are generally seen as contributing to the demise of many urban neighborhoods, with major changes kicking in after World

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War II. Prior to the war, cities had a healthy mix of upper-, middle- and lower-income populations, said Andrew Theising, an associate political science professor at Southern Illinois University Edwardsville. He cited historian Kenneth Jackson's book *Crabgrass Frontier*, which lists three ways federal policy began to interfere with growth in the cities after the war.

"Federal housing subsidies shifted the balance of affluence from cities to suburbs...and made tremendous changes to the housing landscape of the United States," Theising said. Making money available for home loans became a priority. Second, there was the "ghettoization" of public housing. Although the original intent was that public housing would be a transitional step to home ownership, it became instead a way to clear out slums. Third, the federal government's transportation policies had a negative impact on urban growth. The construction of interstate highways to accommodate automobiles meant that transit options started to diminish. Decisions about where to build highways hurt the economy in many urban areas.

"Government didn't understand what impact these policies would have on cities," Theising said.

Federal Reserve Board Gov. Mark Olson added, "The conventional wisdom at the time was that improvements in housing conditions would enhance urban residents' overall quality of life,

thereby resolving other social and economic ills that had beset inner-city neighborhoods."

Into the 1960s, federal agencies were dedicated to funding home mortgages, constructing public housing and replacing standard housing in the cities. "With a large budget and a heavy hand, neighborhoods were transformed as urban planners demolished long-standing homes and businesses and replaced them with high-density, subsidized apartment buildings for low-income residents," Olson said.

are more payday lenders in California than McDonald's and Burger Kings altogether," Carr said. That is significant because McDonald's and Burger King are located throughout the state, while payday lenders are located mainly in low-income neighborhoods, he said. It is also significant because payday lenders are not subject to the same regulations as banks.

Such urban areas also have become incubators for criminal activity by predatory lenders. Although Carr is quick to point

In addition to housing, meaningful community renewal requires community involvement, broad-based partnerships and local, sustained investment by the private sector. —Fed Gov. Mark Olson

Those affected by the policies had no say in the redevelopment that drastically affected their lives, he said.

The unintended consequences were displacement of residents, demoralized communities and the concentration of poverty, unemployment and crime.

Wealth stripping. James Carr, a senior vice president at the Fannie Mae Foundation, specifically linked inadequate financial services in many urban areas with their breakdown. Through the years, reputable financial institutions have moved out, leaving a void that was easily filled by subprime lenders, payday lenders, pawn shops and rent-to-own businesses. "There

out that many alternative financial institutions operate within the law, he said they target the nation's most vulnerable people and do not offer savings plans. High-cost loans turn into a cycle of debt, with the borrower often taking out a second loan to pay off the original loan.

For someone in a distressed area who is lucky enough to buy a home, it often comes through a subprime lender with high interest rates, Carr said. Although Carr acknowledged the legitimacy of subprime home mortgage lending, he said high interest rates have an adverse effect on homeowners. "Money spent on interest could have been spent on home repairs instead," he said.

Adding to the cycle of poverty are rent-to-own businesses, Carr said. He gave an example of a person who rents a television and ends up paying three times what it's worth in rent. If the customer misses one payment, he may lose the product. "People often furnish their entire households at rent-to-own places," he said. "The problem is, they aren't building wealth."

Renewal in the Cities

An overview. It became clear to policy-makers who craft urban revitalization programs that the federal government's early unilateral approach to community development did not work, Olson said. In addition to housing, meaningful community renewal requires community involvement, broad-based partnerships and local, sustained investment by the private sector, he said.

Community involvement became so important to the process that by 1970, local community development corporations were created and given federal assistance in mobilizing neighborhoods to improve their social and economic conditions.

The process of funding redevelopment initiatives has also changed. "For example," Olson said, "the Community Development Block Grant program authorized local governments to allocate federal funding for community redevelopment, rather than the direction being dictated by federal agencies." This began a process that would expand local involvement and investment and

use philanthropic and private-sector funds to leverage federal dollars for revitalizing distressed communities, he said. Foundations, as well as banks, have become important sources of capital for urban redevelopment, he said.

"The change in the base of capital providers for community development...fostered innovation in the financing strategies," Olson said. The federal government's role shifted from being the

with individual wealth building," Carr said. It's important for community developers to figure out how to empower residents to build wealth, he said. In turn, the entire community will prosper.

He touted home ownership as the most significant way Americans build wealth. Because a house is a major investment, homeowners will work to improve their communities, which results in rising property values, improved busi-

nesses and services, increased wealth and a cycle of wealth, he said. However, low- and middle-income people have a difficult time saving for a house and when they do, they often can't find a bank to give them a loan.

Carr said the Earned Income Tax Credit could be a valuable tool for increasing wealth. The federal tax credit of up to \$4,000

is intended to help low-income workers increase their financial stability. The General Accounting Office estimates that 25 percent of these refundable tax dollars go unclaimed every year.

"There are billions of dollars sitting in the Treasury Department that are untapped," Carr said.

As for payday lenders and rent-to-own shops, Carr said they are here to stay. And since the majority of their customers

people need a full range of financial services and insurance to guard against disaster, Carr stressed.

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The power of the people. One theme that ran through the conference was the importance of using the power that already exists within a distressed area. John Kretzmann, co-director of The Asset-Based Community Development Institute at Northwestern University, said those involved in redevelopment often dwell on the negative aspects of a community. They might see unemployment, crime, illiteracy, gangs, broken families, welfare recipients. If they focused on the assets in a community, they might see youth, elderly, artists, libraries, block clubs, churches, parks, community colleges. "We're not just talking about economic assets," he said.

A South Bronx resident once told Kretzmann that the most difficult thing about living in her neighborhood was other people's perceptions. Whenever she told people where she lived, they immediately defined her by her neighborhood's deficiencies, she said. As hard as she worked to improve her community, she felt imprisoned by outsiders' views of what her community was like.

About 15 years ago, Kretzmann and members of his organization decided to find out what they could learn by talking to people who had improved some of the nation's toughest neighborhoods.

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Conference attendees ride MetroLink, the St. Louis area's light-rail system, and listen to John Roach explain how its extension into Illinois has spurred development in the East St. Louis area. Roach is with the St. Clair County Transit District. In red tie is Fed Gov. Mark Olson.

sole source of funding to providing tax incentives and credit enhancements to encourage private investment. "This fundamental shift in community development financing philosophy engendered market-based strategies for redeveloping distressed communities," Olson said.

Wealth building. "Communities that are really vibrant start

nesses and services, increased wealth and a cycle of wealth, he said. However, low- and middle-income people have a difficult time saving for a house and when they do, they often can't find a bank to give them a loan.

Carr said the Earned Income Tax Credit could be a valuable tool for increasing wealth. The federal tax credit of up to \$4,000

don't have bank accounts and deal mostly in cash, it's difficult to track how much money flows through poor neighborhoods.

Customers could be drawn away from fringe lenders by banks and other lenders that offer competitive rates, Carr said. Financial literacy classes for residents also would help. In order to prosper, low-income

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They embarked on a three-year nationwide odyssey, collecting 3,000 success stories from neighborhoods where young people were prospering, where drug dealers were being moved out, where schools were being brought back to life, where microenterprises were thriving, where things were happening without a lot of fanfare.

The most important lesson they learned was that successful revitalization starts with residents in the neighborhood.

"When problems come up, turn to each other first," Kretzmann said. "The solutions might be down the block or in the church or in the local school, not necessarily in the big systems or institutions whose job is to treat us after we have gotten sick."

In most communities, there are many small civic, faith-based and cultural groups, from softball teams to choirs, with the potential to have a positive effect on the neighborhood.

His group also learned that the community needs to take advantage of the local economy—there is often an untapped market—and figure out how to link it to a larger economy.

Kretzmann said the findings do not mean that communities have everything they need or that they can survive without help from governments. They need help from the traditional institutions, but they also need recognition that they are capable of improving themselves.

Kretzmann said when his group asked people what they did best—instead of asking what they were lacking—it became clear that poor neighborhoods have many skilled people who are capable of bringing about change.

The National Center for Neighborhood Enterprise takes a strikingly similar approach. Founded in 1981 by Robert L. Woodson Sr., its members have traveled to low-income, high-crime neighborhoods around the country to find residents who are functioning within those communities

that are having some measure of success, links them to sources of support and evaluates their experience for public policy. The organization particularly works with groups on the issues of youth violence, substance abuse, teen pregnancy, homelessness, joblessness, education and deteriorating neighborhoods.

"It's a lack of imagination and new thinking that prevents us from serving the poor," Woodson said.

Millions of dollars have been invested in programs to help

victims who must be rescued by experts," he said. When the community doesn't respond, the liberals seek more money for programs to resolve the problems. "People on the conservative right say if people are not responding to all that those on the left are giving them, we should cut the program," he said.

Woodson contends that poverty does not cause social dysfunction. During the Great Depression, a time when unemployment soared to 25 percent, crime and substance abuse rates were minimal compared with today, and families and communities formed networks of support, he said. He attributes many of today's critical problems to an internal and spiritual void. He cites the success of faith-based grassroots groups and calls their leaders "community healers." He points to groups that are not rooted in a particular religion but whose members have spiritual motivation for their tireless efforts.

Many of these organizations have forged solutions to youth violence and drug abuse because they have inspired an internal transformation in young people, on the level of heart and spirit, he said.

Woodson recommends one important criterion for evaluating public policy on social and economic issues: "How does it affect the least of our society?"



Conference participants pick up resource material.

despite the problems.

"National Center looks for strengths in neighborhoods. Once they identify successful people in low-income neighborhoods, they bring them together and get them interacting with their peers," Woodson said. He called such people "antibodies" to the societal diseases around them.

The center helps community and faith-based organizations

the poor, yet millions of people live in poverty, Woodson said. "Secular comforts aren't making affluent people happy. How can we expect low-income people to be happy?"

Government programs often are weakened by the struggle between conservatives and liberals. "People who suffer in this struggle are the low-income people," Woodson said. "People to the left of center see a sea of

East St. Louis: One City's Story

"You don't have to look far in East St. Louis to see something profound has happened there."

Andrew Theising, associate political science professor at Southern Illinois University Edwardsville, was telling the story of East St. Louis' tumble into impoverishment to the audience at the St. Louis Fed's fall conference. (See story on Page 1.)

The city's dilapidated landscape attests to his statement. Although it's hard to see the city the way it once flourished, there are some indications, such as new housing and stores, that East St. Louis could make a comeback. But first, what happened there?

At the turn of the century, East St. Louis was a thriving industrial town built by the "great capitalists," including Andrew Carnegie and J.P. Morgan. The railroad played a major role in its economic growth. Factories ran 24 hours a day. Jobs were plentiful. The population not only grew, but doubled each decade through the first half of the 1900s. In 1959, the National Civic League named East St. Louis an All-America City, honoring its culture of civic excellence and the cooperative spirit among residents, businesses, nonprofits and government.

Ironically, by that time, East St. Louis was on the precipice of disaster. Industries had already begun to abandon the city for greater economic opportunities elsewhere. Between 1960 and 1970, the city lost nearly 70 percent of its businesses. Unemployment soared. Residents moved out of town. The

population drain continued for years. Between 1970 and 2000, the city lost 55 percent of its population.

During all this time, inaction by an ineffective city government compounded the problems, Theising said. East St. Louis slipped into a downward spiral that has been tough to stop. As businesses left and the local government struggled, the tax base shrunk. As the tax base shrunk, the local government struggled more.

The city eventually had to eliminate all but basic city services, and even those were cut. The city couldn't pay its light bill or pay for its garbage collection. Street lights and stoplights were turned off, and abandoned lots became dumping grounds for trash. Police and fire protection was spotty, at best. Buildings began falling down. Crime and unemployment rose.

East St. Louis and devastation became synonymous.

Today, for most of the city's residents, things haven't changed much. Poverty is a way of life. However, in the last few years, organizations and investors have made headway in economic and community redevelopment. Concurrently, the population in the surrounding county has been growing dramatically, which Theising sees as good for the city.

"East St. Louis has too great a concentration of poverty," he said. "We need to bring back a middle class." As more people move near to and become familiar with East St. Louis, the more comfortable they will be with the city and what it has to offer, Theising said. He also said the city plays an important role in the revitalization of St. Louis, across the river.

The importance of creative partnerships in spearheading the growth that has occurred in East St. Louis was emphasized by Mark Olson, a member of the Board of Governors of the Federal Reserve System.

He cited the work of the federal government's Enterprise Community program, which has spurred collaboration among local government agencies and community organizations.

"The Enterprise Community has tapped federal, state and local resources to expand community development groups, provide workforce development programs and make infrastructure improvements," he said.

Both existing businesses and new enterprises in East St. Louis have benefited from private-sector

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Parson's Place, with 174 townhomes, is located in the Emerson Park neighborhood.



The Jackie Joyner-Kersey Center provides recreational and educational opportunities for youngsters from surrounding communities.

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investments that were cultivated by the program, he said. One of the many outcomes was the construction of a new building for the city's oldest bank, Union Bank of Illinois (now First Bank).

Other partners that are committed to improving East St. Louis include the Casino Queen Foundation, which provided partial funding for Kim's Kids, a 24-hour day-care facility; the Jackie-Joyner Kersee Center, which provides educational and recreational programs for children; and the Metro East Lenders Group, a group of banks working together on economic development in East St. Louis and in nearby distressed cities.

One of the city's most effective partnerships is with the University of Illinois at Urbana-Champaign, which sponsors the East St. Louis Action Research Project (ESLARP). The project's goal is to nurture partnerships between community groups in the city and the students and faculty at the university.

Ken Reardon, former director of the project and currently an associate professor at Cornell University, is credited with establishing ESLARP, a revamped version of an earlier university program.

Reardon, who spoke at the Fed conference, echoed what others had to say: Look to the leaders in the community. Those leaders, for Reardon, turned out to be long-time resident Ceola Davis and a group of her friends who were members of the Emerson Park Development Corp., a neighborhood organization.

"These were eight African-American women pledging to each other that they would show up for work every

day to begin building a citizens' movement in East St. Louis that could transform a very old and a very difficult political system," he said.

The group sought help from the university and also was instrumental in organizing a coalition of black churches to assist them. Through the years, they were able to develop partnerships among local community-based organizations, public agencies and university students and faculty.

Early on, it was evident to Reardon that Davis and her friends had dealt with the university before and that they weren't in the market for another university study. At their first meet-

taxpayers. Not one had resulted in a benefit to her neighborhood, she said.)

- The university would commit to a long-term partnership, a minimum of five years—after a probation period of one year.
 - The university would help create a community-controlled, nonprofit independent organization to provide technical assistance to neighborhood groups. This would ensure support for the residents if the university ever pulled out.
- Together, the Emerson Park group and Reardon and his students came up with an award-winning community

middle of the street. A local television station did a story on the volunteers' plight, and by the next week the Emerson Park Development Corp. received a check for \$15,000. It was the beginning of bigger and better things, Reardon said.

Over the course of the next summer, they used the money to haul away trash that volunteers cleared from hundreds of lots. They designed a playground and got a local church to build it. They fixed up and painted the outside of houses with paint the university donated.

The efforts of the neighborhood group and ESLARP drew the attention of the Illinois state treasurer, who worked out a plan for them to receive \$75,000 in state funding. They used it to buy materials for more serious rehabs of houses. Habitat for Humanity workers offered their help and started a faith-based initiative in East St. Louis to construct new houses.

Eventually, ESLARP set up the Neighborhood Technical Assistance Center, which offers training in community organization, neighborhood planning, building and urban design, grant writing, digital technology and nonprofit management.

From a weekend cleanup project in Emerson Park back in the early 1990s to ongoing multiple projects in various neighborhoods, ESLARP today is a model for an enduring university-community partnership. Its goal is to have a strong presence during its initial involvement in neighborhood organizations and a diminishing role as the organization becomes stronger.

The Emerson Park Development Corp. has evolved into a well-run



Kim's Kids, a 24-hour child-care center, opened in 1992 at 1000 Gaty Ave. and expanded to two buildings in 1997.

ing with him in 1990, they outlined what it would take for them to work with the university:

- Residents, not the university, would decide which issues to tackle.
- Residents would be involved in every part of the planning and development process.
- The university would actively participate in projects, not just collect data for a study. (Davis showed Reardon 61 reports that the University of Illinois had done on East St. Louis between 1956 and 1990 at a cost of \$13 million to

development plan. There was one problem. No one would fund it. In the end, 30 regional agencies turned them down.

The lack of interest was no surprise to Davis, who convinced Reardon that they should start community redevelopment on their own, with a cleanup of one street in the Emerson Park neighborhood.

A large group of volunteers collected trash along the main street through Emerson Park. Because there were no funds to have it hauled away, they piled bags of trash in the

neighborhood organization capable of bringing about major changes. An impressive example is the MetroLink (light-rail system) stop in Emerson Park, Reardon said. Original plans for the extension of the light-rail line called for trains to bypass the neighborhood. Undeterred by the fact that the plans were already drawn, the development corporation persuaded the powers-that-be to reroute the trains and put a stop in Emerson Park. Since then, the corporation has partnered with McCormack Baron & Associates to build affordable housing near the stop.

"Everyone had written off this city," Reardon said. "But it just took one dedicated woman to start bringing people together to do the impossible.

"If we can create this kind of long-term, sustainable partnership for real development here in East St. Louis, what can we accomplish in the rest of the region? We can do whatever we set our minds to."

Progress in East St. Louis

Among a number of developments in recent years are:

Parson's Place

This complex of 174 townhomes for rent is located in East St. Louis' Emerson Park neighborhood. Adjacent to a MetroLink station and just blocks from the Jackie Joyner-Kersey Center, it is the first phase of more than 400 units of affordable rental and 100 units of for-sale housing. The Emerson Park Development Corp. and McCormack Baron & Associates are partners on the development.



The State Street Shopping Center is at the core of a revitalized shopping district.



East St. Louis has a new public library at 5320 State St.



The 5th & Missouri MetroLink station is also a hub for buses and has a parking lot for commuters.

East St. Louis Community College Center

Scheduled for completion in the fall of 2003, it will be shared by East St. Louis Community College, Southern Illinois University and the

Illinois Department of Employment Security. Located at 601 James Thompson Blvd., it also will be a one-stop service center for Illinois' Workforce Advantage program.

5th & Missouri MetroLink Stop

Construction on the initial MetroLink route from Lambert-St. Louis International Airport to the 5th & Missouri station began in 1990 and was completed in July 1993. The construction of the St. Clair County extension from 5th & Missouri to College Station began in 1998 and opened in May 2001.

Jackie Joyner-Kersey Center

Opened in 2000, the 41,000-square-foot youth center is named for the Olympic star and native of East St. Louis. The facility provides computer rooms, learning resource centers, a music room and athletic activities.

State Street Shopping Center

This \$3 million development at 24th and State streets is anchored by Walgreen's and Blockbuster Video stores. The shopping area opened in 1999 directly across the street from a Schnucks supermarket, making this area the city's commercial center. Work recently began on an addition, which will include a McDonald's restaurant and a Foot Locker shoe store. AutoZone, an auto-parts retailer, is slated to open next to Schnucks.

East St. Louis Public Library

The 18,000-square-foot facility opened in January 2001 at 5320 State St. The library provides the community with regional and global information resources through the Internet and through the online services of the Lewis and Clark Library System.

Casinos and Economic Development

A Look at the Issues

By Thomas A. Garrett
Senior Economist
Federal Reserve Bank of St. Louis

Casinos have become a major industry in the United States over the past two decades. Prior to the 1980s, casino gambling was legal only in Nevada and Atlantic City, N.J. Since then, nearly 30 states have legalized casino gambling.

Many states have approved commercial casino gambling primarily because they see it as a tool for economic growth. The greatest perceived benefits are increased employment, greater tax revenue to state and local governments, and growth in local retail sales. Increasing fiscal pressure on state budgets, the fear of lost revenue to casinos in neighboring states and a more favorable public attitude regarding casino gambling all have led to its acceptance, according to the National Gambling Impact Study Commission's Final Report. In addition, the passage of the Indian Gaming Regulatory Act in 1988 allows Indian tribes to operate casinos on their reservations. Many states now have a combination of tribal and corporate casinos.

The amount of money wagered in American corporate casinos is not trivial. More than \$370 billion was wagered during 2000 alone. This is roughly

\$1,300 per person in the United States. Of this annual total wagered, nearly 93 percent is returned to players in the form of winnings, leaving casinos with \$26 billion in annual adjusted revenue.

Casino revenue varies greatly across states, however. Nevada has the largest market, with casinos capturing nearly \$9.5 billion annually in adjusted gross revenue. Atlantic City casinos generate more than \$4 billion annually, whereas the riverboat casinos in Missouri and Illinois collected more than \$1 billion and \$1.8 billion in adjusted gross revenue during 2001, respectively.

Although economic development is used by the casino industry and local governments to sell the idea of casino gambling to the citizenry, the degree to which the introduction and growth of commercial casinos in an area leads to increased economic development remains unclear. What are some of the issues surrounding the perceived benefits?

Casinos increase employment.

Issue 1: Casino proponents commonly point to a lower local unemployment rate after a casino is introduced as evidence that casinos improve local employment. Because the local unemployment rate dropped after the casino was introduced, it must be that the casino helped lower

the local unemployment rate. Maybe. The change in the unemployment rate in the local area should be compared with the change in the statewide unemployment rate during the same period. If the changes are about the same, then it is possible that all of the employment growth in the casino area is the result of the natural movement of the business cycle (economic changes in other sectors of the economy) and not the introduction of the casino. If the drop in unemployment is larger in the local area than statewide after the casino is introduced, then one could argue that the casino has indeed reduced local unemployment.

The point here is that local changes in unemployment should be compared with statewide unemployment changes. Other factors, such as population changes and local business conditions, should also be considered when comparing local unemployment rates before and after a casino opens. Just looking at differences in local unemployment rates over time without an

understanding of population dynamics and the statewide business cycle can paint a false picture as to the employment benefits of casinos.

Issue 2: The basic idea regarding increased employment is that a casino's operation requires labor, and this labor will come from the local area. This, in turn, will reduce unemployment in the area. The question to ask is not just whether casinos decrease unemployment, but for whom they decrease unemployment. Most casino jobs require some kind of skill, be it accounting, dealing cards, security or other expertise. If a casino is planning to move to a rural area having a relatively less skilled work force, the casino probably will draw



skilled labor from outside of the area. If this labor remains outside of the local area and workers commute to the casinos, then unemployment in the local area will remain unchanged. If some of this skilled labor decides to move near the casino, then the unemployment rate (which is the number unemployed divided by the labor force) in the local area will fall because the labor force has increased. It is this decreased unemployment rate that is often used as evidence that casinos have indeed improved local employment. However, it is important to realize that unemployment for the original, relatively less skilled population has remained essentially unchanged—only the higher skilled, new arrivals have found employment with the casino. It is the employment of these new arrivals that has decreased the unemployment rate.

The main lesson regarding casinos and their impact on the local unemployment rate for the original population is that local officials and the citizenry need to know whether the work force for the new casino will come from their area. The promise of increased employment for the original population that is often used as an argument for the construction of casinos may not be realized. In a relatively urban

area, there is probably enough variety in the work force to ensure that skilled labor will be provided locally. In rural areas, however, most of the labor will be from outside of the local area, thus leaving the unemployment rate for the original population unchanged.

Casino tax revenue is a benefit.

Issue 1: Most states tax adjusted casino revenue and use the taxes to fund state and local programs. In Missouri, the tax rate is 18 percent, and there is an additional 2 percent tax to aid local city governments. Indiana has a 20 percent tax rate. Illinois and Mississippi have a graduated tax schedule.

Casino proponents and state and local governments promote casino tax revenue as a benefit. This revenue is a benefit for the recipients of taxed casino revenue. However, it is important to realize that this revenue is not “new money” to society. Taxes result in a transfer of income from one group to another group—in this case, casino owners to state and local governments (and eventually to program recipients). So, for example, while the state of Missouri collected nearly \$190 million in casino taxes during 2001, this \$190 million is a cost to casino operators. Zero new money was created as a result of the casino tax.

Issue 2: State governments use casino tax revenue for various programs, but public education seems to be the favored destination for casino tax revenue in many states. In fact,

states often promote how much money from casino revenue is earmarked to public education. This suggests to the public that spending on education has increased since the taxing of casino revenue began. Not necessarily.

The problem is that all earmarked revenue is interchangeable. Consider the following example: Your son is in college and spends \$40 a week on pizza. You send him a check for \$20 and insist that he spends the money on pizza. This suggests that his total spending on pizza will now be \$60 a week. But there is nothing from preventing your son from taking \$20 out of his original \$40 and using it for something else, and then simply adding your \$20 back to get the final \$40.



The same works for state, local and federal governments regardless of the tax and destination of revenue. If \$100 million a year from casino taxes is earmarked

to education, one would expect total education spending to increase by \$100 million. However, state legislators can simply reduce the total amount of funds budgeted for education by \$100 million and use these funds elsewhere, and then use the \$100 million from casino revenue to bring total education expenditures back to their pre-casino levels. No increase in education spending has occurred.

The swapping of casino revenue has yet to be tested empirically, but the issue has been explored using state lotteries. Numerous studies have found that in those states that earmark lottery funds for education, spending on education has not increased beyond historical trend levels after the introduction of the lottery. Essentially, contrary to the claim made by lottery officials, state lotteries do not appear to help public education. There is no reason to doubt the same result could occur with casino revenue.

Casinos help boost local retail sales.

The issue of whether casinos help or hurt local retail sales, and thus retail sales tax collections, has received the most attention in the academic literature. Essentially, the degree to which casinos attract visitors from outside the local area relative to local customers determines the casino's impact on local retail sales. If the bulk of a casino's clientele is local, then one would expect retail sales

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(and thus retail sales tax revenue) in the local area to be negatively impacted. This is the substitution effect, i.e., consumers substitute casino gambling for other

Another factor to consider is that many casinos have restaurants, shops and hotel rooms for casino customers. All items purchased in these outlets are taxable under state and local sales tax laws.

A possible loss in retail sales in the local community may be partly offset by an increase in retail sales activity in the casinos.

Rural areas that have one or two casinos are more likely to experience a

decrease in local retail sales than urban areas that attract a greater number of tourists. Areas such as St. Louis and Kansas City would probably experience less, if any, of a decrease in retail sales compared to rural casino areas such as Booneville or



consumption activities such as dining out or going to the movies. However, if casinos act as part of a "tourist vacation," where non-local visitors spend several days gambling, touring museums and dining out, then local retail sales would probably increase.

Caruthersville, Mo. Of course, only empirical testing can provide a definite answer regarding retail sales losses and gains due to casinos. An interesting point is that many rural communities do promote their casinos along with other area attractions to draw out-of-area visitors.

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Regardless of the specific issues, casino gambling in the United States is likely here to stay. The only question is to what degree its popularity will increase in the future. The topics presented here should be understood by both citizens and government officials when they debate the issues surrounding casinos and economic development.



Thomas A. Garrett joined the Federal Reserve Bank of St. Louis in July 2002. A senior economist for the Bank's Research and Community Affairs departments, Garrett will contribute articles to *Bridges* on community and economic development issues.

Where to Find Information

- *The National Gambling Impact Study Commission's Final Report* (www.casino-gambling-reports.com/GamblingStudy/) offers a detailed look at gambling in the United States.
- Casino revenue for Las Vegas and Atlantic City, as well as national totals, is listed in *The Gaming Stocks—2002 Gaming Industry Outlook*, published by Salomon Smith Barney.
- Casino revenue data for individual states can be found on the web site for each state's gaming commission.

Have you HEARD

Fed Adjusts Reg Z Trigger

The Federal Reserve Board recently adjusted the dollar amount of mortgage loan rates or fees that trigger additional disclosure requirements under the Truth in Lending Act, implemented by Regulation Z.

The fee-based trigger has been

increased from \$480 for 2002 to \$488 for 2003. The adjustment was based on the annual percentage change reflected in the Consumer Price Index on June 1, 2002. The change is effective Jan. 1, 2003.

The Home Ownership and Equity Protection Act of 1994 requires additional disclosures when the consumer's total points and fees exceed the fee-based trigger (initially set at \$400 and adjusted annually) or 8 percent of the total loan amount, whichever is larger.

HUD Seeks Opinions on Housing Regulations

Are there regulatory barriers to affordable housing? The U.S. Department of Housing and Urban Development (HUD) wants to know.

Community groups across the country can submit material to HUD about their experiences with state and local regulations that present barriers to affordable housing. HUD is particularly interested in regulations that are thought to be exclusionary, duplicative

or otherwise unnecessary. The agency may post the information on its new Regulatory Barriers Clearinghouse, a component of the web-based resource HUD USER.

The clearinghouse will serve as a source of information on public policies that adversely affect the availability of affordable housing and will try to identify strategies for overcoming those barriers.

For information, visit www.huduser.org/regbarriers/.



SPANNING THE REGION

THE REGION SERVED BY THE FEDERAL RESERVE BANK OF ST. LOUIS ENCOMPASSES ALL OF ARKANSAS AND PARTS OF ILLINOIS, INDIANA, KENTUCKY, MISSISSIPPI, MISSOURI AND TENNESSEE.

Illinois Facilities Fund Receives National Honor

The Illinois Facilities Fund recently became the first recipient of the Wachovia CDFI Excellence Award for Advocacy.

The national award recognized the fund's leadership role in the formation of the Illinois Community Development Financial Institution Coalition, which works to increase economic activity in underserved markets.

The Illinois Facilities Fund, a nonprofit lender, provides below-market real estate loans and consulting services to nonprofit corporations serving low-income or special needs residents in Illinois. Since its inception in 1988, the fund has started a number of initiatives, including a real-estate services program, a study of the financial status of Illinois nonprofit organizations and a fund to increase licensed child-care facilities in Chicago.

To expand its work into central and southern Illinois, the fund opened an office in Springfield in January 2001 and recently conducted workshops in Carbondale.

For more information, contact the Illinois Facilities Fund, 730 E. Vine St., Suite 109, Springfield, IL 62703 or call (217) 525-7701.

RESOURCES

Financial Literacy: An Overview of Practice, Research and Policy—Studies indicate that the effectiveness of financial literacy training depends on human traits and the type of training provided. A new article from the Federal Reserve focuses on recent research on personal money management styles and offers insights that may be useful in developing successful training programs and strategies. Go to www.federalreserve.gov/pubs/bulletin/2002/02bulletin.htm#nov.

Faith-Based Community Economic Development: Principles & Practices—Those who are new to faith-based community economic development can benefit from this booklet. Produced by the Federal Reserve Bank of Boston in collaboration with New Hampshire College (now Southern New

Hampshire University), it can be accessed at www.bos.frb.org/commdev/html/capubs.htm#faith. A hard copy is available for a minimal charge from the Bank by sending an e-mail to PublicComm.Affairs-Bos@bos.frb.org.

Ten Things Your Faith Community Can Do to Encourage Homeownership—Ten simple suggestions list how a faith-based group can help its members and families in their neighborhood take the first steps to homeownership. Go to the Department of Housing and Urban Development's web site www.hud.gov/initiatives/fbci/topten/index.cfm.

Arkansas Business Resource Guide—A publication of the Federal Reserve Bank of St. Louis, the guide provides a list of planning, development and financing sources throughout the state. The guide can be viewed at

www.stlouisfed.org/community/other_pubs.html or ordered from Lyn Haralson at the Fed's Little Rock Branch, 1-800-482-9463, ext. 240.

Beyond Merger: A Competitive Vision for the Regional City of Louisville—The Brookings Institution examines key trends challenging the Louisville region as it merges with Jefferson County in 2003. After the merger, Louisville will be the 16th largest city in the country. The report provides a five-point competitive agenda for how local leaders can ensure that the new city becomes a top-tier American metropolis. The report is posted on the web at www.brookings.edu/dybdocroot/es/urban/louisville/abstract.htm.

BRIDGES

Bridges is a publication of the Community Affairs department of the Federal Reserve Bank of St. Louis. It is intended to inform bankers, community development organizations, representatives of state and local government agencies and others in the Eighth District about current issues and initiatives in community and economic development. The Eighth District includes the state of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

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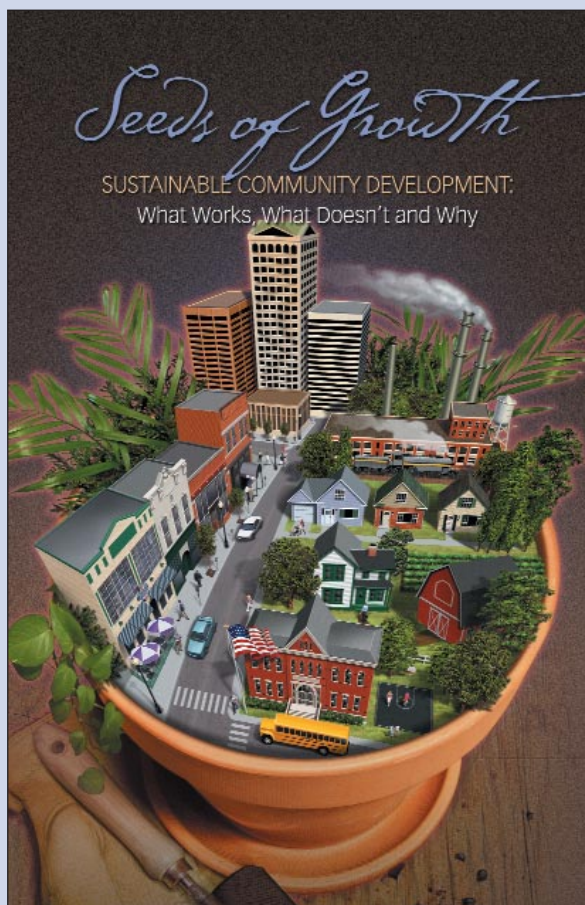
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Free subscriptions and additional copies are available on request by contacting Jean Morisseau-Kuni at (314) 444-8646 or by e-mail to Jean.B.Morisseau-Kuni@stls.frb.org.



Federal Reserve Conference Set March 27, 28

The Community Affairs officers of the Federal Reserve System will present their third biennial research conference on community development March 27 and 28 in Washington, D.C.

Seeds of Growth, Sustainable Community Development: What Works, What Doesn't and Why will bring together economists and scholars from the Federal Reserve System, colleges and universities, and major research institutions to present research on community economic development tools, programs and strategies. Discussants will review each paper, and conference attendees will have an opportunity to talk with the presenters and discussants.

Papers selected for presentation evaluate credit counseling and financial literacy programs, the impact of the Community Reinvestment Act, partnerships in sustainable community development, housing developments, public policy intervention, and international and cultural approaches to community development.

This conference will be of interest to scholars, financial institution employees, community and economic development policy-makers, and staff of community and economic development organizations.

For information, go to www.federalreserve.gov/communityaffairs/national.



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