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WHO ARE THE PUBLIC EQUITY HOLDERS? PARTNERS NEEDED IN PHILADELPHIA AND BALTIMORE FOR URBAN SUSTAINABILITY

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ABSTRACT. The Great Recession has strained governments at all levels and presented cities, especially formerly industrial cities, with nearly unprecedented budgetary challenges. This paper examines the long-term implications for infrastructure maintenance and service provision of unfavorable economic and demographic trends in Philadelphia and Baltimore. The concept of the *public equity holder*, which borrows a term for public finance from corporate finance, introduces a category of potential contributors to the capital deficit undermining urban sustainability. The concept is illustrated by a case study of the two cities to explore how candidate public equity holders, including taxpayers, nonprofits, and public employees, may contribute. Resulting from this research are identifiable factors, particularly patience and risk tolerance, which have led to or impeded partnerships promoting urban sustainability and will provide the foundation for broader future study.

INTRODUCTION

At the height of the financial panic in November 2008, Philadelphia Mayor Michael Nutter joined two other big-city mayors in requesting a $50 billion federal fund to rebuild infrastructure (Hurdle, 2008). The financial crisis that prompted the mayors' request introduced the term *recapitalize* into the public policy lexicon (Bernanke, 2008) from its formerly specialized reference to distressed firms (see, for example, Baird & Bernstein, 2006). The concept of *public equity holder* is offered in response to analogous distress in many cities. The problem of recapitalizing cities warrants a

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fresh look because recognized sources, such as taxpayers, bondholders, and fee- and rate-payers, increasingly lack an economic rationale for exchanges with municipalities in decline.

Demographic trends squeeze formerly industrial cities, spurring a "national debate about so-called shrinking cities" (Barry, 2009, p. A18). As subjects of this case study, Philadelphia and Baltimore represent these shrinking cities: characterized by aging infrastructure, declining size, grinding poverty and its associated ills, and unrelenting revenue challenges.

Broadening the public finance lexicon by borrowing from related financial disciplines can be useful for public managers. Frank and Fink (2008, p. 441) demonstrated this utility by recognizing a "Convergence Model," which relaxes distinctions in "accounting, auditing, and financial reporting for the public, nonprofit, and government sectors." A direct analog to this study compared the roles of taxpayers and stockholders in the evaluation of capital projects (Vries, 2007). An important innovation taken from the private sector for practitioners has extended the time horizon relevant to public finance. Replacing the traditional annual focus of municipal financial reporting, the government-wide section of the Comprehensive Annual Financial Report (CAFR) now exhibits long-term assets and liabilities. This article assumes that the long-term perspective cannot be confined to reporting, but should encompass planning as well, particularly planning for sustainability. Capital plans routinely accommodate time horizons of 20 to 50 years. Yet the debt service supporting these plans is predicated on continuity. In 1960 Philadelphia's planners projected a city population of at least 2.25 million (Bissinger, 1997, p. 31), but infrastructure sized to meet that projection must now be supported by roughly one-third fewer inhabitants. Similarly, smaller present-day cities must fulfill post-retirement obligations to public employees who supported the larger cities of the past.

The concept of the public equity holder, which borrows a term for public finance from corporate finance, introduces a category of potential contributors to the capital deficit undermining urban sustainability. Redefining *equity* for application to the public sector is possible by stripping the term of its abstract connotation of possession. This new definition is based on stockholders' real roles: contributors to non-debt financing, claimants of the residual after mandatory payments and taxes, and parties whose standing is most compromised under default. Examining how cities leverage the investments of public equity holders is a form of descriptive theory building, a type of theory that promotes understanding of the state of practice (Forrester & Adams, 1997). In this case we are interested in how public managers are currently responding to the challenges of sustaining cities, and who is assisting in that effort. But managing cities always begins with today's pressing concerns, which frequently displace long-term plans. The resulting patchwork of responses to current challenges interspersed with provision (time-permitting) for future needs can be expected to call for art more than science. Thus, it would be surprising to discover a standard way or even a consistent menu of options to sustain future capacity. The "thick" description obtained from a case study is an appropriate research choice, given this expectation of non-standard approaches.

This study employed mixed methods, including elite interviews, document review, high-level financial analysis, and secondary sources. Interviews served multiple purposes (Yin, 1984), beginning with bolstering the factual record. Due to elite interviewees' "insider" status, they have long experience with the cities' financial circumstances and are often engaged in the response to recent stresses. Of comparable importance are the judgments of elite interviewees about the direction events are taking and the reasons why. Interviews consisted of open-ended questions and elicited in-depth responses. Qualitative research, such as case studies, can assist with theory building by revealing undiscovered variables and/or relationships between variables (Marshall & Rossman, 1999). This comparison of two cities' experiences with combating declining population and challenging economic conditions—even before the financial collapse of 2008—promises to nominate candidate variables for broader studies of urban sustainability in the future.

The conventional theory of sustainability assumes that localities compete to attract and retain a sufficient level of economic activity using a combination of tax structure and service offerings advantageous to individuals and businesses. Inman (2009) examined the correspondence between levels of city staffing, tax rates, and property values. His finding of an inverse relationship between taxes and property values suggests that tax policy has economic consequences not just for taxpayers, but for their real property investments as well. This reasoning implies an ultimately negative outlook for cities facing a tradeoff between reducing services and increasing taxes.

Defining municipal finance on the basis of taxation and borrowing anticipates "shopping" for the strongest economic base and most advantageous combination of taxes and services as the dominant dynamic. Unfortunately, the economic stagnation plaguing formerly industrial cities leaves fewer takers for the cities' offerings, further reducing the capacity to sustain infrastructure and services. A potential innovation of this study is to introduce the factor of patience to account for contributors maintaining their investment over the long run: the equivalent of an investment strategy of "buy and hold." The objectives of this research include identification of public equity holders who have a lasting stake in the health of the cities and exploration of the potential factors that may encourage that long-term investment. Two of these factors in particular, patience and risk tolerance, emerge as crucial in public equity holders' decision-making, as does the environment for governance, which is influenced by municipalities' financial policies.

CONCEPTUAL FRAMEWORK

Conceptual borrowing from corporate finance is nothing new. Credit rating reflects the overlap between corporate and public finance, rooted in common factors such as cash flow, asset portfolio, and vulnerability or resilience to economic cycles. Why not equity? Table 1 draws a correspondence between private equity and the new concept of public equity using the factors of return, transferability, and claims under insolvency.

The attribute of return on investment is comparable for private and public equity. Inman's (2009) analysis of taxpayers' investment defined the return to property owners using terms similar to financial return earned on private equities. Services and appreciation of assets represent a return on taxes and fees. Asset appreciation depends on whether or not services are worth the payment of taxes and fees. Shopping reflects the comparison with other jurisdictions' taxation, services, and property value changes.

Transferability provides the greatest contrast between private and public equity. Markets provide quick sales at predictable prices.

Stockholders of equities traded on major exchanges can generally transfer holdings instantly. Transferring public equity, however, is not possible, though relocation offers taxpayers a way to exchange one jurisdiction's services and taxes for another's. Transaction costs of relocation are usually much greater proportionally than the comparable exchange of market-traded equities, primarily because of the costs of job search and real estate purchase and sale. An exception to the ready transferability of private equity, however, occurs in times of extreme market volatility, when transactions may be delayed and continuity of prices cannot be assumed. Non-publicly traded equities, such as partnership interests, may require transfer on unfavorable terms or may not be transferable at all.

TABLE 1
Attributes of Private Equity versus Public Equity

ATTRIBUTE	PRIVATE EQUITY	PUBLIC EQUITY
Return on investment	Return is dependent on dividend policy and changes in asset price. For derivatives, such as stock indices, the return consists of appreciation alone.	Return is manifested through services and, indirectly, appreciation of locally owned assets, such as real estate.
Transferability	Publicly traded equities (excluding partnerships and privately held corporations) are readily transferable, while fund owners can transfer groups or classes of equities, but only indirectly buy or sell individual stocks. Market volatility (an extreme case is a panic) may interrupt availability of buyers at predictable prices and may preclude timely redemption of investments.	Public equities holders cannot transfer holdings. But relocation offers an analogous exchange, albeit with higher transaction costs.
Claims under Insolvency	Equity interests bear the greatest loss. Usually, no equity claim is recognized under bankruptcy.	Services continue, but may be curtailed. Collateral losses due to depreciation of locally owned assets are likely.

In contrast to transferability, insolvency advantages public equity over private equity. One reason is that cities seldom default, but even in those cases, bankruptcy protection precludes liquidation of assets (Moody's, 2002, pp. 4-5). Municipal bankruptcy is rare because state governments often intervene to prevent an actual default (p. 10). Therefore, most municipal services are not interrupted, even in case of insolvency "on paper."

The foregoing comparisons analogize public and private equity holding. But the first step in developing a working definition of public equity is to deemphasize the concept of ownership. Notwithstanding stockholders' legal standing as owners and the lack of a comparable claim on municipalities, the commonsense notion of *possessing* has little correspondence with owning stock. I draw upon Jensen and Meckling's (1976) conception of the firm to demonstrate the prospective and contingent nature of the equity interest in a corporation by an absentee owner. Their insight into the firm as a "nexus of contracting relationships" (1976, p. 311) takes businesses apart by opposing the interests of equity, management, and debt based on the claim each holds on the assets under various scenarios. For example, they maintained that management holds an immediate claim on a firm's assets in the form of perquisites. Bondholders hold the primary claim on assets during a bankruptcy, when the equity interest is, by and large, nullified (p. 340). Even assuming financial health, equity claims can be largely prospective, given the limited and transient nature of stockholding by many investors, particularly those whose interests derive from mutual funds or derivatives such as stock indices. The economic stake issuing from market appraisal of expected corporate earnings can dwarf any interest due to dividends—the accounting form of return on equity.

Applying corporate finance principles allows us to designate municipal stakeholders as equity holders based on three separate criteria. First, equity is non-debt financing. Identifying equity as any non-debt contribution implies that payers of taxes, fees, and other payments constitute the public equity holders. An alternate view of equity focuses on recipients of the remainder after mandatory outlays for supplies and services, interest, and taxes are satisfied. But whose claim on the residual funds of cities could be comparable? A city's residual claimants are those covered by services, whether residing, commuting, or visiting, including indigents, nonprofits, and corporations shielded by abatements, as well as free-riding commuters and visitors who manage to avoid wage and hotel taxes, tolls, and parking tickets. The last category of public equity holders, those with the most to lose under default, requires an illustration.

Determining who bears the largest loss in case of financial distress is problematic, given the infrequency and idiosyncrasy of municipal insolvency (Moody's, 2006, p. 6; 2002, pp. 13-17). Consider bond holdings with nominal value of a million dollars losing one half or $500,000 of pre-default value due to market uncertainty and a residence valued at $100,000 losing 10 percent of its value due to the wariness of potential buyers. At face value the homeowner's loss would be proportionately smaller and thus not qualify him or her as a public equity holder on the third basis—equity holders faring worse than bondholders under insolvency. But a homeowner who recently purchased by financing at 90 percent loan-to-value could lose his or her entire equity—a greater proportional loss. In any case, homeowners are public equity holders under the other two criteria, as non-debt contributors and residual claimants of municipal services. The three classifications of public equity are not mutually exclusive, but serve to highlight distinct motivations.

This paper draws on the distinct contexts arising from differences between the two cities to enrich the prevalent characterization of taxpayers' motivation. If a hypothetical homeowner would accept higher taxes and fees to prevent a default, that willingness could be construed as indicating an enduring stake in the city. This broadens the interpretation of property owners beyond that of mere shoppers for the best combination of taxes and services. The difference is due to an altered context. This study does not stop with taxpayers, but also looks at the enduring stakes that nonprofits and public employees may hold in their cities.

SUBJECTS OF THE CASE STUDY

The challenges facing the City of Philadelphia (2008, pp. 2-3), evident in its 2007 CAFR, are emblematic of the struggles of other formerly industrial cities: "after 50 years of losing residents to the suburbs…. tax base is under pressure as personal income levels remain relatively low in comparison to the region and poverty in the region has become increasingly concentrated in the City." During the half-century beginning in 1950 the population of Philadelphia and the next seven most populous Eastern cities shrank by a total of 3 million inhabitants (U.S. Bureau of the Census, 1972, pp. 22-23, 2003, pp. 36-38). Even though Philadelphia's and Baltimore's losses, 26.7 percent and 31.5 percent respectively, are lower than the average, the two cities are representative otherwise. Their poverty rates were closest (within two-tenths percent) to the eight-city average (22.0 percent); their median household incomes ranked fourth and fifth out of the eight; and the annual contributions received by their resident foundations (an important measure in view of nonprofits' role in this study) were near the median (Urban Institute, 2008).

Like Philadelphia, Baltimore functions as a county, charged with responsibility for human services, public safety, and courts, but separated from the wealthier suburbs. The two cities occupy comparable positions as central cities, accounting for approximately one-quarter of the population of their metropolitan areas (U.S. Census Bureau, 2009a). Per capita incomes for the two cities are separated by less than 1 percent; the same is true for the metropolitan areas, resulting in a virtually identical ratio of central city incomes to suburban incomes, slightly less than 70 percent, considerably worse than the overall ratio for the top 50 metropolitan areas (85.5 percent [Swanstrom, Dreier, Casey, & Flack, 2003, p. 148]).

An obvious difference is the urgency of the fiscal problems resulting from the Great Recession. Philadelphia needed the General Assembly to authorize deferred pension payments and a temporary sales tax increase, nearly three months into the City's fiscal year (Lattanzio, 2009). The agreement narrowly avoided the so-called "Plan C" budget, which would have meant "the largest lay off of Philadelphia public servants in history" (City of Philadelphia, 2009b, p. 1), but did not come in time to prevent suspension of payments to vendors (MacDonald, 2009). Uncertainty over negotiations with all four municipal unions (Gelbart, 2009) still clouds Philadelphia's fiscal situation at this writing.

Just over an hour away by train, Baltimore faced less severe hurdles, with "the toughest decisions about budget priorities yet to come" (Grady, 2009 personal correspondence), as revenue declines worsen and state cutbacks are anticipated to deepen. The relative severity of the impacts corresponds to the financial position of their governments: Baltimore's $4.4 billion in net assets is more than fivefold its larger neighbor's (City of Baltimore, 2008, p. 7; City of

Philadelphia, 2009a, p. 13). More troubling for Philadelphia is the deficit in unrestricted net assets of $1.3 billion, compared to Baltimore's more manageable $150 million deficit.

This disparity cannot be explained by the two cities' annual personal income, which is in line with the roughly two-to-one ratio of their populations (City of Baltimore, 2008, p. 115; City of Philadelphia, 2009a, p. 173). A City Hall reporter gave credit for Baltimore's sound fiscal footing to the Office of Finance, with its reputation for "extremely conservative" dealings, personified by its director, Edward Gallagher, "who has his hands tightly closed around the City's coffers" (Linskey in WYPR, 2009). Whereas Philadelphia's Baa1 rating translates into "average creditworthiness" (Moody's, 2002, p. 18), Baltimore's is two major classes higher, due to Moody's (in City of Baltimore, 2007, p. xii) upgrade to "double-A" rating two years earlier, citing "the City's strong financial position, characterized by conservative fiscal management, improved reserve levels, and sustained operating stability."

Regardless of the rating agencies' positive impression, Deputy Director of Finance Helene Grady (2008, p. 2) recognized the tradeoff the City faces: "It's difficult to strike a balance between making critical investments without over-burdening future operating budgets." Deputy Mayor Andrew Frank (2009, p. 1) lamented the decrease from $60 million to $50 million in annual capital investment, pointing to "increases in tax assessments that come from investment....We're investing in ways that expand the tax base." But discretionary spending in either city's budget, including capital expenditures, is under pressure during the Great Recession. As Philadelphia's Director of Finance Rob Dubow (2009, p. 1) observed, the majority of the budget comprises "costs that we are reimbursed for or are fixed.... So you're left with 42% to meet police, streets, etc., which are the services that the public is really looking to the City to provide." Deputy Mayor Frank (2009, p. 3) noted Baltimore is "the only jurisdiction in the state that spends more on public safety than on education, 35% of the general fund." Both cities are expecting less help from their state governments. But raising revenue to sustain services in the face of the declining economic activity of the Great Recession is considered the last option. "[T]here is no tax capacity at all," according to Frank (2009, p. 1). Indeed, concerted efforts in

Philadelphia for the last 15 years and more recently in Baltimore have lowered tax rates, as will be seen in the next section.

TAXPAYERS AS PARTNERS

Philadelphia and Baltimore have pursued very different strategies on taxation. The Mayor's Task Force on Tax Policy and Economic Competitiveness (Mayor's Task Force, 2009, p. 6), whom Mayor Nutter convened as Philadelphia's fiscal challenges deepened in early 2009, found that the City "heavily taxes things that can pick up and leave… chas[ing] residents, companies, and jobs out of Philadelphia into the suburbs and to other regions" in contrast to most cities (such as Baltimore), which tax *immobile* sources. Table 2 summarizes the two cities' tax policies.

Per capita levels of taxation for the two cities appear at first glance to be quite close. But review of the last two rows of Table 2 reveals that the comparison of General Fund tax revenue per capita is skewed by the role of the Pennsylvania Intergovernmental Cooperation Authority (PICA), a state agency created during the 1991-1992 fiscal crisis to oversee the budget process and assume responsibility for much of the City's debt. PICA's designated portion of City revenue, more than 60 percent of which is returned to the General Fund after debt service and administrative expenses are satisfied, is virtually indistinguishable in its source and use from taxes applied to the General Fund. Adjusting Philadelphia's General Fund taxation by adding the PICA portion results in per capita levels approximately $200, or 12 percent, higher for Philadelphia than for Baltimore.

The City's Director of Finance, PICA's Executive Director, and the Mayor's Task Force (Dubow, 2009; Monson, 2009; Mayor's Task Force, 2009, p. 6) all have agreed that the level of taxation, actual and perceived, represents a threat to Philadelphia's economic vitality. The tax burden has lightened since 1996 through reduced taxation of economic activity, with the cumulative result an estimated $1.5 billion of tax reductions (Cohen, 2008). More recently a deteriorating City financial situation meant that continuing rate reductions depended exclusively on offsetting state gaming revenue (City of Philadelphia, 2008; 2009a). The budget crisis forced suspension of

TABLE 2
Key Aspects of the Tax Policies of Philadelphia & Baltimore[1]

Type of Tax	Philadelphia		Baltimore	
	% of General Fund Taxes	Description of Tax	% of General Fund Taxes	Description of Tax
Income and Earnings Taxes	49.4%	Wage & earnings tax: 4.22% for residents and 3.72% for non-residents employed in the City.	24.9%	Rate of 3.05% on residents' taxable income (collected with state income tax). All Maryland counties apply the tax, though at varying rates.
Business Taxes	17.2%	Taxes of 6.5% on net income and 0.154% on gross receipts for businesses and professions engaged in for-profit activities.	N/A	Businesses pay generally applicable taxes, including property, electric & gas, and telecommunication taxes, but no specific receipts or income taxes.
Property tax	16.8%	Real property tax of 0.966% (collectability is an issue due to the ease of appeals to the Board of Revision of Taxes)[2]	58.3%	Real property tax of 2.268% with 4% homestead cap on annual increases
Transfer Tax	7.7%	Real property transfer tax of 3.0%	7.0%	Transfer and recordation tax of 2.5%
Sales Tax	5.7%	Increment of 1% was added to 6% state sales tax (only Pennsylvania locality to collect incremental tax.)[3]	N/A	No local sales tax
Per Capita General Fund Taxes[4]	100%	$1,653 ($2.396 billion in tax revenue for 1,449,634 residents)	100%	$1,685 ($1.074 billion in tax revenue for 637,455 residents)
Diverted Taxes	$230 per capita tax revenue[5]	1.5 percentage points of earnings & net profits taxes (resident portion only) diverted to Pennsylvania Intergovernmental Cooperation Authority (PICA) for debt service, beginning with 1991-1992 fiscal crisis.	N/A	No diverted tax collections

the reductions altogether, with resumption planned for 2015, though the Mayor's Task Force (2009, Appendix p. 9) recommended accelerating by three years the resumption of rate reductions.

Consistent with the research of a task force member, University of Pennsylvania Professor Robert Inman, its report emphasized the impacts of tax policy on cities' competitiveness in attracting and keeping residents and businesses (Mayor's Task Force, 2009, p. 6). Recommendations included gradually reducing the wage and earnings tax by more than one percentage point and eliminating the tax on gross receipts during the next 15 years. The effect of these changes was projected to result in higher employment in Philadelphia of 70,000 added or saved jobs by 2025 (p. 17). A recommendation to increase the property tax accompanied the envisioned decrease in tax rates on mobile revenue sources (p. 18).

Baltimore's tax structure, in contrast, already targets stationary sources. Concern about its property tax, more than twice the rate of some nearby jurisdictions, led Mayor Sheila Dixon to create the Blue Ribbon Committee on Taxes and Fees. That body developed a menu of options that included raising the income tax rate by 0.15 percentage points to the 3.2 percent ceiling for Maryland localities (Blue Ribbon Committee, 2008, p. 51). Such a shift would move Baltimore's and Philadelphia's tax policies in opposite directions. Although fundamental reform was not undertaken, Baltimore reduced property tax rates in three yearly decrements of $0.02—nearly a three percent decrease cumulatively—toward a targeted reduction of $0.10, before pressure on the 2010 budget forced curtailment of the reductions (City of Baltimore, 2009).

Before the Great Recession devastated the housing market, property tax historically had provided a steady stream of revenue. But property values decreased in most major cities between 2008 and 2009, by nearly six percent in Baltimore (Metropolitan Policy Program, 2009, p. 19). The dampening effect of the homestead cap on annual increases, projected to defer more than $150 million in property tax for 2010, cushioned the impact on city revenues (City of Baltimore, 2009, p. 16). Tri-annual assessments have also helped postpone the effects of falling property values. But the next third of reassessed properties can be expected to impair property tax receipts significantly (Frank 2009).

An important lesson of the Great Recession is that any city's tax reform agenda is contingent on sustaining its level of economic activity. Both cities lack the maneuvering room to change tax rates fundamentally or even to sustain incremental changes already in motion. How patient taxpayers will remain during the hiatus to tax changes remains to be seen. Philadelphia's emergency fixes to the budget, raising sales tax and pausing its 15-year tax rate reduction, have made beneficiaries of the recent moderation in taxes "nervous" (Monson, 2009, p. 4). Accordingly, motivation from a purely taxpaying perspective can be expected to perpetuate the shopping mindset, which places both cities in competition with the lower-tax suburbs. Under these circumstances the cities must look elsewhere for contributions to their capacity to sustain infrastructure replenishment and service provision in the years to come.

OTHER PARTNERSHIPS FOR BUILDING CAPACITY

This section reveals how each city has drawn on capital infusions from non-taxpaying sources. Public-private partnerships targeting areas of the cities for development are a crucial element of urban revitalization and a staple of the urban planning literature. Both cities have institutionalized such partnerships, under the aegis of the Philadelphia Industrial Development Corporation and the Baltimore Development Corporation. David Cohen (2009, p. 6), a Philadelphia business and civic leader, noted extensive progress: "the Convention Center expansion, Penn's redevelopment, [of Penn Park, a 14-acre green space]… the renovation of the airport (a host of projects), the waterfront development, and the dredging of the river." But public infrastructure, below-market financing, and advantageous tax treatment, which are the main tools of this type of development, have been explored extensively elsewhere. This section conceives of capital more broadly.

The term "capital" is applied consistently with an Annie E. Casey Foundation (AECF) executive's usage, reflecting on the foundation's East Baltimore redevelopment initiative: "urban development and revitalization will be redefined as not just buildings. You're putting investment into human capital" (Cipollone in Annie E. Casey Foundation [AECF], 2009, p. 6). Cohen (2009, p. 6) concurred: "From a human capital infrastructure standpoint, we have to fix public education," but pointed to "probably more minority kids here getting a superb education at Friends schools on scholarships than anywhere else" (p. 4). Beyond human capital, urban planners recognize social and cultural capital as less visible forms of stored growth capacity (Light, 2004). This study uses human capital as a sufficient proxy for the other two types.

The crucial role of human capital in sustaining cities' capacity is hardly an urban planner's recent discovery, but was evident in the 1920 edition of Moody's Government and Municipal Manual: "a municipal obligation of a well-established and *growing* city or town is substantially secure" (Moody's, 2002, p. 4, italics added). In recognition, Baltimore's long-term plan sought to add 140,000 in population (Frank, 2009). Human capital loss creates an untenable cycle, as first-term Mayor Ed Rendell was overheard to privately concede: "We're dying.... Forget all the good things I've done. Philadelphia is dying" (in Bissinger, 1997, p. 278).

The search for partnerships to help address the needs of stagnant cities for revitalization focuses within. But anchor institutions, interpreted conventionally as major employers, can be temporary. As another corporate headquarters left Philadelphia when manufacturer Rohm and Hass was acquired, Cohen (2009) observed how few business anchors remained. Yet nonprofit anchors persisted: "Compared to a national employment decline of 3.7 percent… metro areas with specializations in education and health care saw employment drop by an average of only 2.0 percent" (Metropolitan Policy Program, 2009, p. 2).

Long-Term Partnerships in Philadelphia

Philadelphia Director of Finance Rob Dubow (2009, p. 2) confirmed that his city's "biggest industries are education and medical services, so we need to be as supportive of them as we can": a pragmatic stance in light of Philadelphia's loss of roughly 90 percent of 400,000 manufacturing jobs in the last fifty years (Cohen, 2009). "Eds and meds" contribute to the economy not only through employment and spending, but also as important capital investors. University of Pennsylvania (Penn) President Judith Rodin (2007, pp. 189-98) cataloged during her tenure more than $500 million of investment directed by Penn and private partners to adjoining West Philadelphia neighborhoods.

Most nonprofits lack Penn's resources, as well as its capacity for independent action. William Penn Foundation President Feather Houstoun (2009, p. 1) emphasized the "cacophony of different voices" usually heard in the public forum, exacerbated by Philadelphia's fragmentation: "When I arrived, I asked someone, 'Where's the room? I'm used to knowing where things are decided.' His reply was: 'There's no room. There are a thousand rooms, and they don't have connecting doors.'" In this regard, Cohen (2009, p. 5), whose public service began as chief of staff to Mayor Rendell, labeled his city "mayor-centric" because of the role Rendell and each of his successors played as the "convener and coordinator" for a public agenda. Penn's West Philadelphia initiative did not have to wait for a place on the agenda, given Rodin's (2007, p. 58) fear of "death by consensus" and her insistence on the "flexibility to act boldly."

Skepticism about the City's capacity for full partnership was understandable in the wake of Philadelphia's fiscal crisis. In 1992 it was the "first American city to have its debt classified at junk levels… with no money to repair streets [and]… 14 bridges closed down because they were structurally unsafe" (Cohen, 2008). From a $250 million annual deficit at the outset, totaling $1.4 billion over the five-year budget, the Rendell administration achieved seven consecutive balanced budgets. Reflecting on the turnaround, Cohen (2008) acknowledged, "We saved the patient. The bad news is the patient still had terminal cancer."

Yet the inauguration of Mayor Nutter represented a hopeful sign to observers including Houstoun (2009) and PICA Executive Director Uri Monson (2009). Even the unions, who still felt wronged nearly two decades after "give-backs" (Monson, 2009, p. 2)—including a two-year salary freeze and associated work rule reforms the Rendell administration demanded in pursuit of budget balance (Inman, 2009, p. 340), "were prepared to accept 'a new way for a new day' [quoting Mayor Nutter]" (Gelbart, 2009). But the budget crisis stalled promised reforms (Monson, 2009; Dubow, 2009). Houstoun (2009, p. 3) sensed "little capacity to use the current fiscal crisis to resize." Monson (2009, p. 1) outlined the dispute: "On the table are big changes: no wage or salary increases over five years, plus benefit and work rule changes accounting for $25 million." In stark contrast, police union initial demands included eight percent pay increases over two years, two additional paid holidays, and lifetime health benefits (p. 3). So the City and its public employees represent an uneasy and unconventional partnership. But pension deficits have left the "GM of cities" (p. 1) heavily indebted to the pension fund, which would have needed $3.8 billion to satisfy the shortfall at the start of Mayor Nutter's term in 2008, subsequently reaching a level below 50 percent coverage in the market downturn (Philadelphia Research Institute, 2009, p. 1). Collectively City employees and retirees can be called Philadelphia's largest creditor.

If the positive assertion of a partnership between the City and its employees is unconvincing, a stalemate clearly harms Philadelphia's long-run economic viability. The City's plan envisions two tiers: "increasing the contribution rates for existing employees and going to a 'hybrid' plan [saving]... $400 to 500 million over the first 30 years" (Monson, 2009, p. 2). Even if agreed to, the depth of the pension shortfall will require decades for changes to bring the retirement fund into balance (Rubin, 2009). The partnership, whether actual or semantic, promises to be an enduring one.

Long-Term Partnerships in Baltimore

Lacking Philadelphia's reputation as a "union town" (Monson, 2009, p. 2) and the requirement for its employees to reside in the city, Baltimore's issues with public employees have been less visible than its neighbor's. Recently, however, recognizing post-employment health benefits as required by Governmental Accounting Standards Board (GASB) Statement 45 added a $2 billion obligation, which the City has only begun to account for (Philadelphia Research Institute, 2009, p. 11). Indeed, Deputy Mayor Frank (2009, p. 1) framed Baltimore's pension funding requirements in stark terms: "fire and police represent a tsunami of pensions.... [I]t would require a 27-cent increase in property tax or a drastic cut in services to meet the $100 million in additional contribution that will be required." But Baltimore historically maintained the separation between current expenses and future obligations, with its pension funds only 10 percent underfunded in 2007 (Philadelphia Research Institute, 2009, p. 6). Positing a partnership between Baltimore and its public employees is more difficult than in Philadelphia's case.

The Johns Hopkins University (Hopkins) fills the role of anchor institution, as the leading private employer in the city (City of

Baltimore, 2008, p. 116). In addition, East Baltimore Development, Inc. (EBDI), called the "major economic engine and development project" (Cipollone in AECF, 2009, p. 3) of then-Mayor Martin O'Malley, brought the City together with Hopkins and AECF. This project tackled the neighborhood described by a law enforcement official as the "worst urban situation he'd ever seen" (Brody in Baznik, 2003, p. E-3). The public-private partnership coupled local, state, and federal investment garnered by the City with philanthropy led by Hopkins and AECF to assemble more than half of the $564 million invested in East Baltimore (Jacobson & Simmons, 2011, p. 10A), a level comparable to the Penn-led investment in West Philadelphia, with quite a different composition: distributed among many more sources and heavily reliant on municipal financing.

Unlike Penn, Hopkins did not have the option of going it alone. According to the executive who directed AECF's effort, "the City alone couldn't do it, the State couldn't, one foundation couldn't, and the University couldn't" (Cipollone in AECF, 2009, p. 4). Hopkins's constraint was an "enormous financial issue... the rebuilding of the medical center" (Sonenstein in AECF, 2009, p. 6), which was adjacent to the East Baltimore neighborhood EBDI targeted. The imperative for AECF was an unprecedented commitment to 800 current households: "the kids and families who are pushed aside by economic processes" (Cipollone in AECF, 2009, p. 1). Families who relocated within Baltimore would receive as much as $70,000 above the market value of their homes, which averaged approximately $10,000 (Sonenstein in Baznik, 2003, p. E-6).

Hopkins brought philanthropic and economic power to the project, leasing the majority of the 270,000 square feet of office space currently under construction, and locating university-affiliated functions there, such as student residences, which will represent fresh tax revenue for Baltimore (Sonenstein in AECF, 2009). Yet AECF, with its relatively smaller economic footprint in the city, made an all-out effort, including an incentive grant targeting Hopkins (Sonenstein in AECF, 2009). AECF and Hopkins provided the core of loan guarantees for working capital to cover EBDI's start-up and administration, preventing the usual fate of community development organizations: "always starved for cash. This funding gave EBDI credibility" (Sonenstein in AECF, 2009, p. 2). But the City's second $40 million tax increment financing (TIF) offering languished in the

Great Recession's moribund municipal bond market. Then, AECF made another investment, purchasing two-thirds of the offering and enabling Baltimore to finance the needed infrastructure: "We would not just have lost momentum; we would have lost all credibility" (Cipollone in AECF, 2009, p. 5). "You're not just dealing with buildings, you're dealing with people. What if we'd moved most of the people and some institutions, such as churches, and then said to people, 'We'll get back to you. We'll pick it up in a few years when things get better'" (Sonenstein in AECF, 2009, p. 5). The project's success translated into an achievement for the City: "to raise $80 million with TIF bonds, the largest in the history of the city" (Sonenstein in AECF, 2009, p. 4). This investment showed AECF's confidence in the partnership with Baltimore, as its president, Douglas Nelson (in Jacobson & Simmons, 2011, p. 13A), underscored, "if there is no tax increment, the city can't pay us back... but I recognize that this is a debt that requires a patient lender."

Partnerships extend beyond East Baltimore. Chief Financial Officer James McGill (2009) noted Hopkins's work with the City on a trolley line to connect downtown areas to its mid-Baltimore campus. Up to $17,000—$1,000 from the City and the rest from its partnership with The Rouse Foundation—can be claimed by Hopkins employees relocating in transitional areas: "We start from the edges of distressed areas where there is still viable community and work inward" (McGill, 2009, p. 3). Nor was the initiative by AECF "confined to 80 acres. Our efforts include working on the child welfare system and the juvenile justice system, providing technical support to other agencies, supporting non-profits in West Baltimore" (Cipollone in AECF, 2009, p. 7). Other nonprofits, though lacking the resources of Hopkins or AECF, see their missions as bound up in the life of the city they inhabit and have the focus to target their impact. The Associated has been active in the communities and schools of the northwest Baltimore neighborhoods that historically have housed a significant portion of the city's Jewish population (Smolarz, 2008).

THE ROLE OF PATIENCE AND RISK TOLERANCE IN RECAPITALIZATING CITIES

This study has gathered up conceptual fragments, hitherto regarded as unrelated, from public and private finance and urban planning into an amalgam for supplementing conventional notions about financing cities that assume economic vitality. Clearly, stagnation rather than vitality characterizes Philadelphia and Baltimore, as well as the formerly industrial cities they represent. Transfer of population, wealth, and income to surrounding suburbs and the loss of jobs, particularly in manufacturing, have produced chronic fiscal challenges. Yet these two cities have drawn investments from unconventional sources, as least in financial parlance. The paramount factor in capital investments is a long-term horizon. Such farsightedness fixes on distant objectives, which cannot be achieved, even appreciated, immediately, at the expense of present needs. This section describes the orientation needed by public equity holders who assist in recapitalizing cities. This orientation will be shown to depend on the attributes of patience and risk tolerance.

The sources of investment described above, which cities and their partners have brought to bear already to sustain future operating capacity, require a richer vocabulary to support a truly descriptive theory. Analyzing poorly understood sources of investment, such as those by public employees and nonprofits, begins with fundamental questions. What do contributors hope to gain, how long are they willing to wait for gains to materialize, and what can cities do to encourage these investments?

Patience and Risk-Tolerance for Categories of Public Equity Holders

This inquiry begins with most studied and best understood behavioral dynamic: taxpayers who might seek lower taxes in other jurisdictions. But mobile taxpayers "voting with their feet" illustrate only one type of motivation by public equity holders. As contributors to cities' sustainability, public equity holders have varying levels of sensitivity to changes in tax rates and property values. Making the obvious point that nonprofits in most locations are largely immune to the impacts of either change establishes the extremes of transient homeowners and stationary nonprofits, including medical facilities and universities. Yet these extremes do not represent a single continuum, rather they exemplify two distinct dimensions: patience and risk tolerance.

The risk-return tradeoff is a fundamental dynamic of investment. Once the risk-mitigation strategies of pooling and portfolio diversification have been exhausted, the only theoretical explanation for increasing return to investors is to undertake riskier investments, that is, those with higher beta—the variance of expected return relative to the market's variance. A corollary implied by this principle is that higher-risk investments must promise higher returns to attract investors. To distinguish patience and risk tolerance, observe that the former affects the term of investment rather than the variability of returns. A 30-year U.S. Treasury bond purchaser is patient, but risk-averse. The importance of patience is also associated with the challenge of corporate governance. The significance of capital invested for the longer term is to spare managers from "shareholders who don't hesitate to revolt when corporate performance doesn't satisfy them. Top managers have little time and leeway to execute strategy because all eyes are on quarterly results" (Ettorre, 1996, p. 28). The intersection of two possible values each for the dimensions of patience and risk tolerance creates four combinations.

The first combination links patience with risk-tolerance, exemplified by the anchor institution, deeply rooted in its location. In addition to infrastructure and history, considerations promoting stability include the expectations of the clientele served, derived from convenience or based on tradition and affinity—geographical, cultural, or institutional. Antipodal to anchor institutions on both dimensions are impatient, risk-averse residents, whose ties are more fragile and subject to practical alternatives with relatively modest opportunity costs. Highly leveraged homeowners were particularly vulnerable to recent property value declines, averaging six percent nationally between same-quarter estimates from 2008 and 2009 (Metropolitan Policy Program, 2009, p. 2). Baltimore's 5.6 percent decline (Metropolitan Policy Program, 2009, p. 19) more than halves the 10 percent equity of a conventional mortgage. More highly leveraged homeowners, who proliferated in the prelude to the financial crisis (Gramlich, 2007), risked a total loss of their stakes.

Examples for the remaining combinations are less obvious. Businesses or high-earning individuals exemplify the combination of impatience and risk tolerance. The capacity to draw on greater resources than middle-income individuals can command does not cement the ties to a given location. On the contrary, greater means provide the wherewithal to cover transaction costs that may otherwise represent a barrier to movement. Thus, greater patience does not accompany higher incomes or greater wealth. But stronger financial position does correspond to greater risk tolerance because of greater portfolio diversification.

The last combination stretches the conventional view of a contribution because the principal example comes from “borrowing ‘off the books’ through... under-funding defined benefit employee pensions” (Inman, 2009, p. 343). Describing such under-funding as *borrowing* brings the discussion of a widespread de facto financing method into the open. When a city owes an amount, as Philadelphia does, comparable to its annual budget, under-funding pension requirements cannot be regarded as merely undisciplined. Given sizeable pension shortfalls by virtually all major cities (Detroit is an exception), the problem is endemic (Philadelphia Research Institute, 2009, p. 6).

Support by public employee unions while the state legislature was considering Philadelphia’s requested deferral of $230 million in pension payments demonstrated public employees’ patience (Gelbart, 2009). Philadelphia Pensions and Retirement Board Vice-Chairman Bill Rubin (2009, p. 2) illustrated the risk-averse stance of individual public employees: “Looking at 457s [deferred compensation plans] 80 percent of the members put their money into the secure value plan.” Yet the public employees’ response to markets is more graphically illustrated by two scenarios that Rubin, also an officer of one of the non-uniformed union locals, found persuasive with members of the City Council. Rubin forecasted one scenario under a defined benefit plan, when “someone who retires after 30 years of working for the City... has the ability to do good things, say, for his family. And he’s proud of accomplishing something” (Rubin, 2009, p. 2). But he maintained that the typical public employee “doesn’t want to take risks or make a lot of decisions,” and predicted that reliance on defined contribution plans could leave the public employee “a ward of the City. It takes away the pride and the dignity of that person, and he says, ‘After 30 years of working for the City, what did I accomplish?’”(Rubin, 2009, p. 2).

Impacts of City Finances on Patience and Risk Tolerance

Partnerships between cities and key stakeholders can be anticipated to include unique elements. But the financial position of a municipality can be expected to have a systemic influence on potential partnerships. The stages of fiscal stress depicted in Table 3 follow the classification used by Moody's (2006, p. 3): cities "not experiencing stress will generally be rated A3 or higher"; cities "experiencing some stress will be rated in the Baa category"; and cities "experiencing significant stress and [that] have a growing probability of default in the absence of extraordinary support will be rated below investment grade." The top category is labeled "Not Experiencing Stress" in Table 3. Baltimore's fiscal strength, maintained throughout the period of analysis, exemplifies this category. Philadelphia during the administration of John Street, when underlying issues were masked by national economic strength (Cohen, 2009), also belongs in the strongest category. The middle credit position, labeled "Experiencing Stress," is consistent with Philadelphia's current fiscal challenges and impaired, yet still investment grade, bond rating. The latter years of Mayor Rendell's tenure, following Philadelphia's emergence from its fiscal crisis, also belong in the middle category. Given that the level of highest vulnerability has been assigned very rarely to cities, only Philadelphia's fiscal crisis of the early 1990s will be used to represent the third category.

TABLE 3
Outlooks about Investing Based on Combinations of Patience and Risk Tolerance under Categories of Fiscal Stress

Stance of Public Equity Holder on Risk and Patience	Not Experiencing Stress – Philadelphia (2000-2008) and Baltimore (entirety)	Experiencing Stress – Philadelphia (1995-1999 and 2009 to present)	Risk of Insolvency – Philadelphia (1991-1994)
Impatient and risk-tolerant (Businesses and high-income individuals)	Diversifying: Business sensitivity to taxes forces cities and suburbs to compete on rates. The Mayor's Task Force (2009, p. 16) credited Philadelphia's reduced rates with saving 25,000 jobs.	Reassessing: Businesses are monitoring the hiatus in lowering Philadelphia's tax rates. "Suspending it is a short-term hit.... [B]usiness is understanding to a point, but nervous" (Monson, 2009, p. 4).	Temporizing: Comparable risk attaches to disinvesting and holding during uncertain times. Diversification gives wealthier residents better options than precipitous liquidation.

TABLE 3 (Continued)

Stance of Public Equity Holder on Risk and Patience	Not Experiencing Stress – Philadelphia (2000-2008) and Baltimore (entirety)	Experiencing Stress – Philadelphia (1995-1999 and 2009 to present)	Risk of Insolvency – Philadelphia (1991-1994)
Impatient and risk-averse (Middle-income individuals)	Shopping: The City's tax abatements on residential improvements got credit for the "reverse commute" phenomenon, attracting "those working for companies such as Vanguard, SAP, and the pharmaceuticals in King of Prussia.... [I]t's exceeded every expectation" (Monson, 2009, p. 4).	Churning: Philadelphia's abatements "coming off a lot of properties in two to three years" gave Monson (2009, p. 4) pause, watching "to see if there's an impact on property values," as Inman (2009) predicted. A test of this premise is the anticipated (assuming impatience) exodus to the suburbs.	Unloading: Having their principal investment (home) in the impacted area and lacking the luxury of time, middle-income taxpayers' risk-aversion and impatience could offset one another unpredictably.
Patient and risk-tolerant (Anchor institutions)	Partnering: Initially, Baltimore's EBDI benefited from a period of relative prosperity. AECF's funding of the City's second TIF offering reflected confidence in City obligations despite unfavorable bond markets.	Reclaiming: Capital-intensive investment (for example, a new tenant for Philadelphia's Naval Yard) required long-term investment, with terms difficult for the City to meet (Bissinger, 1997, p. 344).	Standing "pat": Philadelphia's severe crisis in the early 1990s was too brief to test Penn's commitment as an anchor institution.
Patient and risk-averse (Public employees)	Deferring: Pension fund trustee Rubin attributed prevalence of pension holidays beginning in the 1970s to the "short-term view of financing pensions. When times were good, pension holidays worked, in the politicians' view. So 70 percent funding was considered to be sustainable" (Rubin, 2009, p. 1).	Retaining: Philadelphia's negotiations with its unions underscore the perceived risk of a hybrid pension system. Defined contribution plans for new employees meant accepting risk. "The unions want their piece of the pie. They don't buy the argument that if we had a bigger pie, then a smaller slice would be more" (Monson, 2009, p. 2).	Writing down: The City's advantage in labor negotiations at the height of its fiscal crisis could be due to its fiscal straits. The defensive stance by employees—willing to wait for the City to make good on its promises—may depend on confidence in City finances.

The illustrations in Table 3 categorize widely varying responses to the fiscal environments according to the profile of the public equity holder, assigned based on patience and risk tolerance. Yet it is possible to note broad themes that apply across several categories. Taxpayers, for example, are always classified as impatient, as established in the previous section, whether they are wealthier, therefore more risk tolerant, or less so because they lack the means to diversify their investments, which leaves them more vulnerable to change.

This impatience implies that their behavior is patterned after investors whose interests coincide with the short-term return of the underlying asset. Like mutual fund owners, the payoff is derivative, based on the market's day-to-day assessment of the value of a dynamic portfolio. The aptness of this investment analogy, comparing taxpayers' "return" on their payments to the municipality, lies in the derivative nature of their interest, dependent on property values. A city may have intrinsic value derived from physical, historical, demographic, or other attributes that resist substitution. Cohen (2009, p. 7) stressed Philadelphia's potential to host a "world class hospitality industry," built on its history, and to provide a hub for distribution, based on its multi-modal access. Such uniqueness would be a reason for companies and individuals to stay despite fluctuations in property values. Corporations headquartered in a city may also exhibit a special allegiance, not shared generally by the business community. Wealthy investors' use of Philadelphia's tax abatement program surprised Monson (2009, p. 4): "If somebody had told me what Philadelphia actually needed was more $1 million condos, I wouldn't have believed it." Yet, as indicated in the "churning" scenario, Monson remained unconvinced that improved financial position can be sustained. The "temporizing" and "unloading" scenarios imply that uncertainty about taxpayers' commitment reaches its zenith when municipalities' need is greatest.

The patience and risk-tolerance of anchor institutions may render them the most reliable contributors. Initial major investments for EBDI occurred during relatively strong fiscal performance by Baltimore. Even when TIF offerings could not be sold, Baltimore maintained its double-A rating and its credibility with partners. Philadelphia's fiscal crisis, at its worst lasting just two years, was too brief to test the staying power of Penn and other anchor institutions under the “standing ‘pat’” scenario.

The commitment of the most patient investors can be gauged by AECF’s purchase of the majority of Baltimore’s unsold second TIF offering. Executives responsible for AECF’s work in East Baltimore identified the city’s underserved populations as the crucial tie to this location: “We take the people part of our mission quite seriously. We’re not into urban revitalization for its own sake, but for the people’s sake” (Cipollone in AECF, 2009, p. 7). In contrast, Cohen (2009, p. 5), as chairman of Penn’s board, underscored the primacy of its fiduciary role: “Penn is not the Pew Charitable Trusts. It’s not there to provide human services.” Identifying the most durable of the anchor institutions entails testing the relative strength of the mission-based attachment to a city, exemplified by AECF, versus the economic and historical ties of traditional anchors. Financial stress could present cities with a choice of maintaining a balance of services and taxes attractive to professionals—important to educational and medical institutions—or sustaining the commitment to underserved populations, who matter most to foundations with charitable missions. It would require an extended financial crisis to test the durability of these commitments by a city’s partners, with ties by mission on the one hand and ties by tradition and infrastructure on the other hand. It is, however, a hypothetical to be contemplated under the public equity construct.

The most obvious example of the patient but risk-averse public equity holder is the public employee, attached more permanently to the city than property owners, and having, it seems, little alternative except to be patient. Yet patience may depend on public employees’ confidence, which appeared undiminished in the view of union member and pension fund trustee Rubin (2009, p. 2): “[T]he plan is held viable by the City being responsible for the payments. How they get it is irrelevant.” Under the “retaining” scenario risk aversion precludes rewriting labor agreements. PICA Executive Director Monson (2009, p. 6) underscored the criticality of the current negotiations for Philadelphia’s long-term sustainability: “More than anything else it’s riding on these labor contracts.” Should the unions’ position prove intractable, one reason could be the lack of threat posed by municipal insolvency. Notwithstanding the holding, most recently in the case of Vallejo, California, that municipal labor agreements can be set aside under bankruptcy (McManus, 2009), the eventuality is remote. Patience and risk aversion on the part of the public employees did not figure in Bissinger's (1997) account of the 1991-1992 negotiations, which focused on political maneuvering and public relations. Thus, the "writing down" scenario ascribed to Philadelphia's fiscal crisis only notionally links concessions to public employees' shaken confidence in the City's finances. It remains to be seen whether renewed financial vulnerability could account for another episode of labor tractability.

CONCLUSION

This research has suggested that public equity holders represent categories of municipal stakeholders whose motivation and responses to the fiscal environment are important to cities. The attempt to explain why anchor institutions might supplement public initiatives targets the issue of long-term sustainability, providing a possible insight into an increasingly important partnership. To the extent nonprofits, especially those with significant economic power, are overlooked by development officials, as Adams (2003) found, cities are missing significant assistance available from these contributors. There can be no doubt that nonprofits' capacity for investing in the broader public interest is limited and that mission orientation is paramount, which perhaps may reduce the significance of these contributions. On the margins, however, any efforts that augment commerce and sustain human capital certainly move cities in the right direction.

A crucial factor distinguishing Philadelphia from Baltimore is the latter's fiscal conservatism. In terms of the diverse stances of public equity holders explained by patience and risk tolerance, it is plausible that a city's approach to financial management influences the behavior of its potential partners. Future study will require patience and risk tolerance to take on categorical or ordinal values. Perhaps more systematic research could determine the extent to which a city's fiscal conservatism signals to its partners a greater likelihood of sustaining commitments. Such discipline on Baltimore's part appeared to resonate with a very patient investor, AECF, as expressed by Chief Financial Officer Burton Sonenstein's (in AECF, 2009, p. 4) confidence in buying $27 million of unsold TIF bonds: "[W]e may not get repaid in five to ten years, but over the long term we'll be repaid. The City will be able to service the bonds."

The future direction of this research will be to investigate factors that may contribute to public equity holders' patience and risk tolerance. Attributes suggested by these two cities include fiscal conservatism, philanthropic potential, and taxation approach, including rate trajectory and bases. Subjective factors should be considered too, following leading Philadelphians Cohen and Houstoun to examine the cohesion of entities acting in the public interest and identify conveners of the public agenda. An additional factor would be the capacity of counties to assist cities, not possible in this study due to the overlapping city-county jurisdiction of both Philadelphia and Baltimore. Following decades when urban challenges seemed daunting, even intractable, and cities found themselves in unprecedented fiscal straits, an era of new possibilities dawns with the potential for exploitation of knowledge economies and the greening of urban landscapes through mass transit and high-density living (Glaeser, 2011). Examining sustenance of cities from a financial perspective that goes beyond traditional reliance on an expanding base seems well timed to coincide with this historic juncture.

NOTES

1. Philadelphia tax data came from the 2008 CAFR (City of Philadelphia, 2009a). Baltimore tax data came from its 2008 CAFR (City of Baltimore, 2008).
2. Authority of the Board of Revision of Taxes (BRT) was temporarily transferred to the Director of Finance in response to widespread complaints about the fairness and effectiveness of the Board (Tanfani, Fazlollah & Gelbart, 2009).
3. The City proposal to double the tax to 2 percent beginning in FY2010 in response to the budget crisis was approved by the state legislature in September 2009, three months into the fiscal year (Lattanzio, 2009).
4. The reason for emphasizing the General Fund rather than looking at broader measures of taxes and fees is the larger footprint of

enterprise activities in Philadelphia, which includes the City-owned airport.

5. PICA transferred $241 million back to General Fund, nearly 60% of amount collected in FY08, which was in excess of debt service requirement (City of Philadelphia, 2009a, p. 111).

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