A CENTER FOR URBAN RESEARCH WHITE PAPER

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WHAT BUSINESS ARE CITIES IN?

Understanding the True Product of Urban Governance

CITIES AREN'T JUST SERVICE PROVIDERS.

Our true product is neighborhoods—places where people live, work, raise children, build community, and invest in their futures.

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Center for Urban Research

Introduction

Ask any city official what business they're in, and you'll get a familiar list: police, fire, parks, schools, water, sanitation, public works. This answer isn't wrong exactly, but it misses something essential. These are the services cities provide, not the product cities create. The actual product—what cities are really in the business of producing—is the neighborhood. The place where people live, work, raise children, build community, and shape their futures.

This distinction matters profoundly. A city government that sees itself merely as a service provider approaches its work transactionally, delivering discrete outputs like 911 response times or trash collection. A city that understands itself as being in the neighborhood business recognizes that its true product is something far more complex: creating and maintaining places where people can flourish. This reframing should transform everything about how cities should govern—how they organize, deploy resources, and measure success.

I. A Lesson from the Telephone Company

Legend has it that it began with an article published by McKinsey and Company in the 1980s. In that piece, McKinsey made the rather astute observation that people absolutely loathed dealing with their telephone company. After the Federal government broke up Ma Bell in 1984, regional companies took over local telephony service and they were pretty much uniformly awful. For those of us old enough to remember, a call to the telephone company in those days was not materially different than passing through Dante's circles of hell, as one customer rep forwarded you to another customer rep who then forwarded you to another customer rep who often sent you back to the original customer rep—at which point you might have noticed that you had somehow managed to chew your own arm off.

The reason for all those hand-offs was organizational. Telephone companies were not structured in a way that was at all helpful to their customers. Instead of having one person you could call for access to the full array of services, telephone companies organized themselves into separate product units—mostly for their own convenience. When a new communications technology emerged, like mobile phones, the companies simply added another unit to the ones they already had, complete with its own management team, product developers, sales staff, and customer service representatives. A landline division. A data division. A mobility division. An equipment division. A yellow pages division. All organized around products rather than customers.

The paper pointed out the absurdity of this structure and recommended that telephone companies reorganize around their customers instead. Over the course of the 1990s, the companies heeded that advice and created new business units: a consumer division, a small business division, a large business division. Things were by no means suddenly perfect, but the telephone companies became much easier to navigate, and customers were substantially more satisfied.

The lesson we should take from that experience is that it is never too late for an organization to rethink how it is structured to deliver whatever it is supposed to deliver. And more specifically, organizations should invest their time and energy in truly understanding what it is that the people they serve actually want from them.

Municipal governments have not learned that lesson. Like telephone companies in the 1980s, cities are organized around products not around the people they serve. They run police departments, fire departments, public works departments, and parks departments. These vertical services operate independently within their own silos. And most importantly, they don't think of themselves as being in the neighborhood business. But they should.

II. The Hospitality Parallel

To understand what cities actually do, consider an unusual comparison: Walt Disney World. Both Disney World and cities compete to attract people. Both try to maximize length of stay—Disney wants multi-day passes, cities want people to settle permanently. Both deploy nearly identical levers to create positive experiences: safety and security (Disney security versus city police), cleanliness (custodians versus sanitation), infrastructure (monorails versus transit), programming (rides & attractions versus schools & parks), retail (both want you to buy stuff), facilities maintenance, and customer or citizen service.

The same business, different names

Disney World	Shared lever	Municipal Government
Disney security	**Safety**	Police department
Custodial staff	**Cleanliness**	Sanitation department
Monorail + roads	**Infrastructure**	Transit, parks, bridges and streets
Attractions + events	**Programming**	Schools, recreation centers, senior centers
Gift shops + dining	**Retail + commerce**	Active commercial corridors
Attractive buildings	**Facilities**	Quality built environment
Guest experience scores	**Reputation**	Resident satisfaction

Shared strategic goal: create desirable places where people want to be

Both want their places to be safe, clean, interesting, diverse, and hospitable. Both make continuous investments in physical infrastructure. Both manage crowds and traffic flow. Both worry about reputation and word-of-mouth. They're in fundamentally the same business: creating and maintaining desirable environments where people want to spend time.

III. The Portfolio Reality

Walt Disney World doesn't operate one undifferentiated park. It manages a portfolio of distinct products: Magic Kingdom, Epcot, Hollywood Studios, Animal Kingdom and others. Each park has its own character, attractions, maintenance needs, and target audience. Disney measures each park separately—cleanliness scores, wait times, safety incidents, guest satisfaction—because each is a distinct product. If Animal Kingdom underperforms, Disney doesn't celebrate that the Disney World average looks acceptable. It invests in Animal Kingdom specifically.

Cities operate identically, whether they acknowledge it or not. Atlanta isn't one undifferentiated place. It's a portfolio of neighborhoods: Garden Hills, Old Fourth Ward, Cabbagetown, West End, East Lake, Virginia-Highland, Summerhill. Each has its own character, schools, safety profile, infrastructure needs, and resident population. Each serves different people with different requirements.

> ***The neighborhood is the actual product unit—the scale at which people experience the city and make investment decisions.***

Three factors make neighborhoods—not cities or metro regions—the correct unit of analysis for urban governance.

First: People Experience Neighborhoods, Not Cities

People don't choose to live in "Atlanta." They choose a specific neighborhood with particular schools, safety conditions, and community character. They assess whether their street feels safe to walk at night. They notice whether the neighborhood's sidewalks have cracks, whether the local park is maintained, and whether potholes get fixed.

When my sister-in-law was thinking about relocating, she developed an informal set of criteria: proximity to work, family, and friends; general vibrancy; safety; and above all, as a single mother with a young son, the quality of the elementary school he will attend. She intends to purchase a house, but she is really purchasing a neighborhood. The perfect house in the wrong neighborhood is useless to her; a less-than-perfect house in the right neighborhood will suit her just fine. She is a consumer, and the product is the neighborhood.

And it is the neighborhood that matters because it is neighborhood conditions that drive the outcomes people care about. Opportunity Atlas has research that demonstrates this empirically. Their data shows that "characteristics of tracts that are one mile away have little predictive power for a child's outcomes." The relevant geography for childhood outcomes is the immediate neighborhood, perhaps a few census tracts in radius. What happens two miles away matters less than what happens on your street.

City's manage places, and those places are neighborhoods. It's the only consistent and meaningful unit of analysis for municipal managers

Second: Markets Work at Neighborhood Scale

Housing markets are intensely local. Home buyers don't shop across entire metro regions. They search within a radius of a few miles, constrained by school boundaries, job commutes, and community ties. A house in North Fulton County is not a substitute for an identical house in South DeKalb County, even though both are in the Atlanta metro area. They serve different schools, have different safety profiles, offer different commutes, and attract different neighbors.

Labor markets operate similarly. Workers don't evaluate "regional employment." They consider specific commutes from specific neighborhoods to specific job centers. A job in Buckhead is far more valuable to a Buckhead resident than to someone living in Henry County, even if both are in the Atlanta commuting zone.

The metro region is a statistical artifact, not a real market. Outside of water and energy use, intercity transportation, and perhaps air pollution, few issues that matter to people can be addressed at the regional level. The relevant geography for most decisions people actually make—where to live, where to send children to school, whether to feel safe—is the neighborhood.

Third: Cities Have Authority at Neighborhood Scale

American governance doesn't operate at metro region scale. We don't elect commuting zone mayors or fund commuting zone school systems. The Atlanta commuting zone spans 29 counties across two states, each with separate governments, school boards, police departments, housing authorities, and tax regimes. When Atlanta gets ranked on metro-wide statistics—which is remarkably common—Atlanta leaders are learning about an area twelve times larger than their jurisdiction, governed by dozens of separate authorities with no formal coordination mechanism.

The performance of metro regions is often evaluated and compared by academics and researchers. But the metro region is rarely an actionable geography

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Even within cities, different services are delivered at different scales. Elementary schools serve neighborhood attendance zones. High schools draw from a regional cluster. Police precincts map to specific jurisdictions. Public works maintains specific streets. Zoning applies parcel by parcel. The neighborhood is the rough scale at which most services converge—where a specific school serves a specific area with specific infrastructure maintained by specific city crews.

IV. The Horizontal Business of Neighborhoods

Rather than being in the business of delivering vertical services, cities should be in the horizontal business of delivering high-quality neighborhoods. The health of those neighborhoods should be their central strategic priority.

The problem: cities organized around products, not neighborhoods

Each department optimizes for its own metrics — no one is accountable for the neighborhood as a whole

Policing	Parks	Schools	Sanitation	Infrastructure
Precincts	Maintenance	Test scores	Collection runs	Road conditions
Response times	Programming	Grad rates	311 response	Transit access
Crime stats	Acreage	Enrollment	Code enforcement	Water quality
Clearance rates	Usage counts	Building conditions	Compliance	Lighting

Who is accountable for the neighborhood as a whole? No one.

Under this model, the city would more closely resemble a traditional private-sector business. Each neighborhood would be treated as a separate business unit with its own performance goals. And like the business units within a company, each neighborhood would require an independent strategy developed in conjunction with neighborhood stakeholders: upscale residential neighborhoods would have a different set of strategic priorities than downtown industrial districts. A neighborhood strategy should be a unique reflection of its distinct history, its hopes and aspirations and would require its own blend of investments and services.

The result would be a constellation of neighborhood strategic plans. Some strategies might call for shifting resources from policing to infrastructure. Others might involve a focus on branding and marketing. Capital investments might increase in some neighborhoods while service levels rise in others. The default approach to resource allocation—providing an equitable level of service and spreading capital investments uniformly across the city—would be replaced with tailored, outcome-focused, differentiated investment strategies.

In a world of limited resources, these plans will necessarily compete for capital and service resources against each other. The challenge for municipal government will be to mediate among them—guided by data on actual neighborhood health.

V. Taking the Neighborhood's Vital Signs

If neighborhoods are the product, how should cities measure their health? Atlanta has aligned around one approach: the Neighborhood Operating Impact, or NOI. The concept is simple but powerful. Healthy neighborhoods generate revenue (primarily property taxes) while consuming fewer city services (primarily police expenditures). Struggling neighborhoods do the opposite—low property values, high service costs. The NOI tracks both dimensions over time.

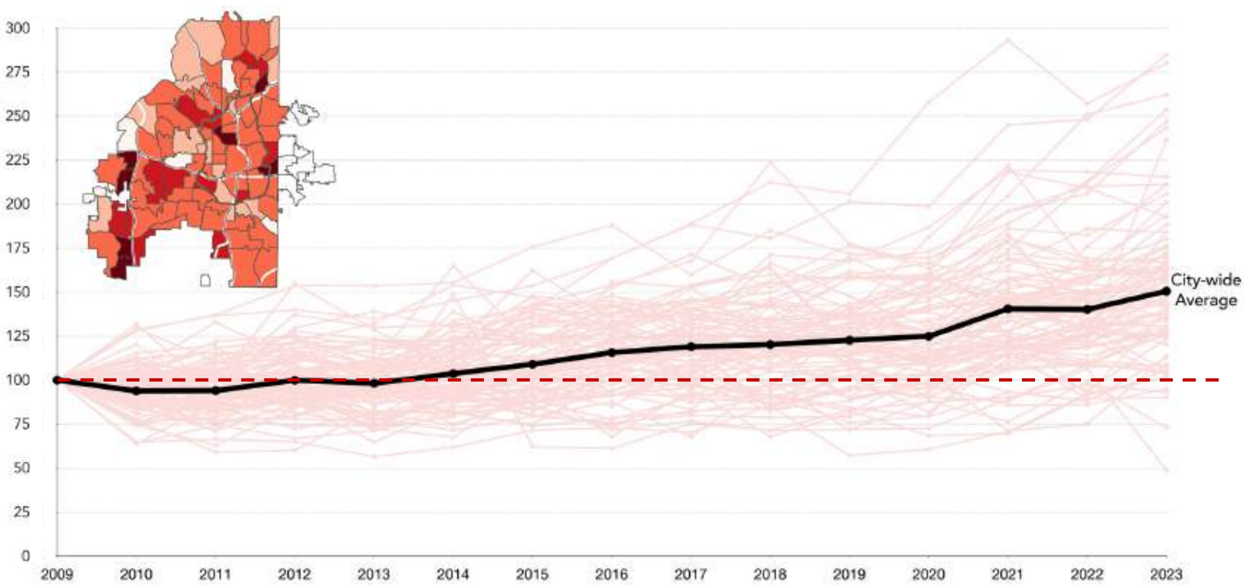
This isn't about reducing human communities to balance sheets. It's about recognizing that financial flows reveal something true about neighborhood health. When property values rise sustainably, it usually means people want to live there—they feel safe, schools are performing, desired amenities are nearby. When 911 calls decline year after year, it suggests not just less crime but stronger social networks, more eyes on the street, a community watching out for itself.

What makes this framework powerful is its emphasis on trajectory, not levels. The absolute numbers matter less than the trend. Is this neighborhood's NOI improving or declining relative to the city as a whole? A neighborhood might have low property values but rapidly improving conditions. Another might have high values but stagnating or declining. The trajectory tells you where to intervene.

What the Data Shows

Atlanta's NOI data reveals dramatic neighborhood-level variation invisible in citywide statistics. Cabbagetown and Reynoldstown, two historic neighborhoods, were underwater in 2009—consuming far more in police resources than they generated in property taxes. By 2023, they had become significant net contributors. Property tax revenues increased over 400 percent while police expenditures declined 75 percent. The numbers reflect what anyone walking those streets knows: these neighborhoods transformed.

Change in Neighborhood Operating Impact by Atlanta Neighborhood (2008-2023)
(Indexed: 2009=100)



The Georgia Tech corridor saw property tax revenues surge 649 percent since 2008—not just development, but transformation from neglected to vital. Fort McPherson saw its tax digest more than triple after Tyler Perry's studio investment. The NOI makes these changes visible, quantifiable, and comparable across neighborhoods.

But the data also reveals uncomfortable truths. Some neighborhoods show little change over 15 years, treading water while the city around them transforms. Others show declining trajectories. The metric doesn't explain why—that requires deeper investigation—but it waves a red flag demanding attention.

VI. When Well-Intended Solutions Undermine the Neighborhood

A singular focus on neighborhood health quickly reveals how many existing urban interventions work contrary to that goal. Consider school choice as an instructive example.

Over the past two decades, efforts to improve educational outcomes have focused on creating a competitive dynamic in the provision of primary and secondary education. The rationale typically runs as follows: public schools are failing because they are inefficient and ineffective monopolists, and were they to face real competition they would improve. What this line of thinking has yielded is a set of solutions—magnet schools, charter schools, voucher systems—all designed to provide parents with options on where they can send their children to school.

But schools are not merely a service—they are a critical economic development engine for neighborhoods. When families are choosing where to live, the quality of the neighborhood school is a principal consideration. If the school a child attends is detached from the neighborhood within which that child resides, as is the case under school choice programs, then the school no longer serves as an economic development asset for that neighborhood. It no longer anchors families to a place, and it no longer gives nearby parents a reason to invest in that community.

If you take a unique asset away from any enterprise, its performance will suffer. School choice policies directly undermine neighborhood health by removing a critically important developmental asset.

By addressing a specific outcome—failing schools—using a solution based on a presumed causal relationship (failing schools are a consequence of the lack of competition), cities have directly if perhaps inadvertently undermined the health of their neighborhoods. And if high-performing schools are an emergent outcome of healthy neighborhoods, these solutions are doing significant damage to the very cause they are intended to advance.

This is not an argument against improving schools. It is an argument for seeing schools as one element of a larger product: the neighborhood. Policies and interventions directed at schools need to developed through the lens of the neighborhood health, no matter how sensible they might look in isolation.

VII. What Changes When Neighborhoods Become the Unit

If cities are in the neighborhood business, governance should be organized around neighborhoods, not service silos. Currently, most cities operate vertically—separate departments for police, fire, parks, schools, public works. Each department optimizes for its own metrics, often with little coordination.

A neighborhood-focused approach operates horizontally. The question isn't "How well is the police department performing?" but rather "Is this neighborhood getting healthier or sicker?" All services contribute to neighborhood health. The police chief, school superintendent, public works director, and parks commissioner are jointly accountable for specific neighborhoods' trajectories.

Managing the Product

In the business world, a product on offer for sale has something that corporations call a product manager. Name any product you purchase—an iPhone, a McRib sandwich—and you will find someone inside the relevant enterprise responsible for ensuring that the product performs well. A product manager is responsible for:

- **Setting the product's strategy**—defining what is sold, to whom, leveraging what source of competitive advantage
- **Defining the product's features**—deciding what the product will actually do and what unique value it delivers
- **Owning the profit and loss**—ensuring the product is financially successful, using market share and customer satisfaction as diagnostic indicators

Atlanta Neighborhood Health Report

Neighborhood	Property values	Safety	Schools	Infra-structure	Services	NOI trend
Thriving — strong market, improving trajectory						
Old Fourth Ward	A	B	B	A	B	↑ +18%
Cabbagetown	A	A	B	B	B	↑ +22%
Summerhill	B	B	B	B	A	↑ +14%
Improving — investment working, trajectory positive						
East Lake	B	B	A	B	B	↑ +9%
Reynoldstown	B	B	C	B	B	↑ +11%
Stagnant — little change, needs targeted attention						
Vine City	C	D	D	C	C	→ 0%
Pittsburgh	C	C	D	C	C	→ +1%
Distressed — declining trajectory, priority intervention						
English Avenue	D	D	D	D	C	↓ −4%
Bankhead	D	D	D	C	D	↓ −6%
Mechanicsville	D	D	D	D	D	↓ −8%

A = Exceeds standard   B = Meets standard   C = Below standard   D = Significantly below

If cities are in the business of delivering the product we call neighborhoods, the obvious question is: who is serving as the product manager? Who is ensuring that each neighborhood has a strategic vision that leverages its unique competitive advantages and will perform in a financially successful way? And who is designing the interventions needed to improve future performance?

The short answer is no one. As far as our research can uncover, no cities have yet employed anyone to serve as the equivalent of a neighborhood product manager. They don't seem to exist. But they should.

Resource Allocation

Traditional budgeting allocates resources by department and service type. Police get X million for patrols. Parks get Y million for maintenance. Public works gets Z million for streets. This makes sense from an accounting perspective but obscures the fundamental question: which neighborhoods need what?

Neighborhood-based budgeting flips this. Start with neighborhood health assessments. Which neighborhoods are thriving? Which are struggling? What's driving the differences? Then allocate resources to address specific neighborhood needs. Maybe one neighborhood needs intensive crime intervention. Another needs infrastructure investment. A third needs school improvement. The budget reflects neighborhood priorities, not departmental claims.

This approach also creates interesting fiscal dynamics. As neighborhoods improve, they consume fewer services—particularly police and fire services, which represent major expenditures. Those savings could be reinvested in neighborhood improvements, used to help struggling areas, or returned to taxpayers by lowering taxes.

Accountability

Perhaps most importantly, neighborhood-level management creates accountability at the level that matters. When a city government works with its neighborhood leaders to develop a vision for a neighborhood's future, designs the strategies to deliver against that vision, and tracks progress in implementing those strategies, multiple conversations across domains become one conversation around a singular goal: neighborhood health. The customer—the residents and businesses of the neighborhood—can now hold the city accountable for the outcome that matters most to them: the health of their neighborhood.

VIII. The Path Forward

Cities are in the neighborhood business whether they acknowledge it or not. They create, maintain, and enhance the places where people actually live. The question is whether they'll manage themselves accordingly.

Imagine if every major city published an annual *State of Our Neighborhoods* report. A color-coded map showing depicting the health of each neighborhood. Every neighborhood visible. Every disparity clear. A measurement system design to express a city's commitment that every neighborhood should meet minimum standards—no child attending failing schools, no neighborhood with crime rates making residents feel unsafe, and no area lacking basic infrastructure.

When neighborhoods fall below standards, the city responds with targeted investment, measuring results annually. Did test scores improve at the specific schools that received resources? Did crime decline on the specific streets that got intervention? Did residents in the specific neighborhood that got infrastructure upgrades report better quality of life? The accountability would be specific and immediate.

The goal should be simple: every neighborhood in the portfolio should be healthy, so whoever lives there can flourish. Not perfect—every neighborhood serves different populations with different needs. But good: safe enough that parents let children play outside, well-maintained enough that infrastructure works reliably, clean enough that residents feel proud of their community, educational enough that children are prepared for what comes next, accessible enough that people can reach jobs and services, and responsive enough that government solves problems residents face.

The Governing Principle

Every neighborhood is a product

Every product requires measurement, investment, and management

Measure differently

Track neighborhood health—housing stability, resident satisfaction, quality of the public realm, civic infrastructure, NOI

Invest accordingly

Budget at the neighborhood level. Allocate the next marginal dollar where evidence says it produces the highest return on neighborhood health

Manage horizontally

Appoint neighborhood product managers. Hold police, parks, schools, and public works jointly accountable for each neighborhood's trajectory

Measure what matters. Invest where it counts.

These are place-based outcomes for place-based businesses. They can be measured immediately, at the neighborhood scale where they matter, for people who are actually present. They create accountability for what cities control rather than what they merely hope to influence. They reveal disparities that regional averages hide. They enable targeted intervention where it's needed. This is the approach to management that cities deserve—and the framework that makes neighborhood governance possible.

For questions and feedback, please reach out to:

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