

# Early Education's Big Dividends

## *The Better Public Investment*

To keep receiving  
your free  
**Communities & Banking**,  
send e-mail to  
bostonfed.publications  
@bos.frb.org

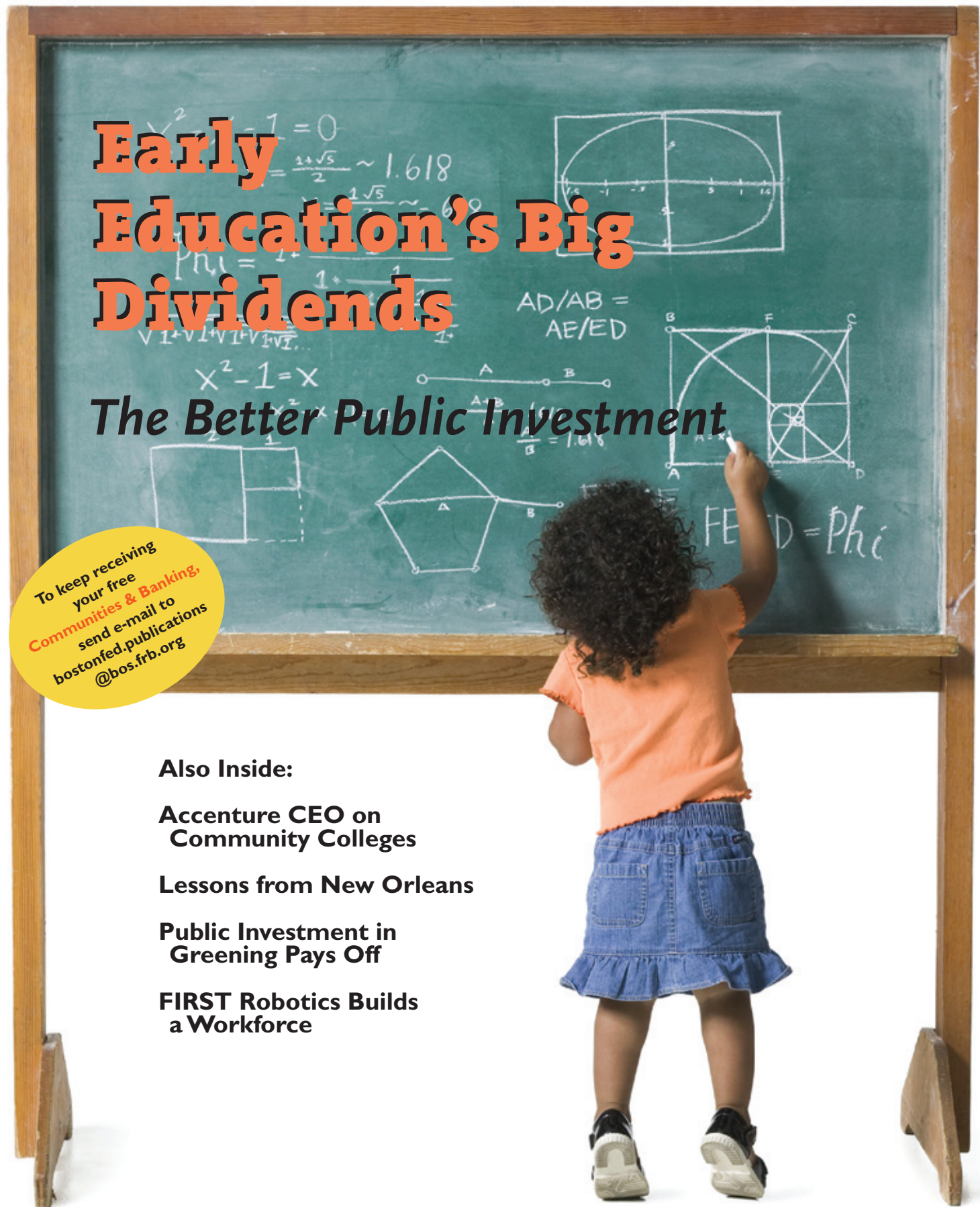
### Also Inside:

**Accenture CEO on  
Community Colleges**

**Lessons from New Orleans**

**Public Investment in  
Greening Pays Off**

**FIRST Robotics Builds  
a Workforce**



# Contents

*Communities & Banking* magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

## Editor

Caroline Ellis

## Graphic Design

Fabienne Anselme Madsen

## Editorial Board

Patricia Allouise  
Heather Brome  
Marques Benton  
Katharine Bradbury  
Prabal Chakrabarti  
Tom DeCoff  
Ann Eggleston  
Jane Katz  
Andrew Olszowy  
Robert Tannenwald

If you would like to submit an article for a future issue of *Communities & Banking*, please contact the editor.

The views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System. Information about upcoming events and organizations is strictly informational and not an endorsement of these activities.

Articles may be reprinted if *Communities & Banking* and the author are credited and the above disclaimer is used. Please send copies to:

Caroline Ellis  
Editor, *Communities & Banking*  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, MA 02210  
(617) 973-3187  
caroline.ellis@bos.frb.org

For free subscriptions, contact:  
Public and Community Affairs  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, MA 02210  
(800) 409-1333  
bostonfed.publications@bos.frb.org

Available on the web at  
[www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm)



## 3 Early Childhood Development Yields High Returns

by Arthur J. Rolnick and Rob Grunewald, *Federal Reserve Bank of Minneapolis*

Public investments in projects like new stadiums never achieve returns equal to those from early childhood education—which several small studies have assessed at 7 percent to 20 percent. Now Minnesota is testing whether scaling up can produce the same results.

## 6 FIRST Robotics in Clinton, Massachusetts

by Judi Poe, *Federal Reserve Bank of Boston*

School and business partnerships can strengthen the workforce. The vehicle for one such collaboration is FIRST, a national robotics competition that a Massachusetts school district and plastics company Nypco Inc. have participated in since 1992: “the hardest fun ever.”

## 9 Mapping New England: Community Colleges Serve Local Needs

by Kai-yan Lee, *Federal Reserve Bank of Boston*

The spatial distribution of community colleges in New England generally corresponds to the concentration of potential applicants.

## 10 Viewpoint: Competitiveness and the Community College

by William D. Green, *Accenture CEO*

Bill Green is living proof that community colleges can lead to a great career. In this “Viewpoint,” he makes the case that they also can help U.S. business maintain its competitive edge while improving the economic resilience of local communities.

## 13 Rebuilding a Community: Lessons from New Orleans

by Kenneth M. Reardon, *Cornell University*

Whether low-income communities are struggling to rebuild after a hurricane or after long neglect, the challenges often seem insurmountable. The New Orleans 9th Ward’s inclusive approach to decision making shows that the best revitalization plans are those with the broadest buy-in.

## 16 Measuring Cultural Vitality in Communities

by Maria Rosario Jackson, Ph.D., *The Urban Institute*

Until recently, arts and culture data collected as part of urban revitalization planning focused on large institutions. The Urban Institute’s Arts and Culture Indicators Project provides a richer understanding of communities’ cultural strength and how it can boost economic development.

## 20 The Evolution of Philanthropy

by Kerry Murphy

As philanthropy evolves, nonprofits are responding to trends that include donors’ increased emphasis on results, a movement to pool small contributions for targeted impact, and a preference for contributing professional skills instead of baked goods.

## 24 Green Investment Strategies: A Positive Force in Cities

by Susan M. Wachter, Kevin C. Gillen, and Carolyn R. Brown, *University of Pennsylvania*

Deterioration of urban neighborhoods is known to induce outmigration, but how well do public investments to reverse decline actually work? To evaluate Philadelphia’s greening investment, researchers measured property buyers’ willingness to pay more—and found that greening works.

## 28 The Heron Foundation Expands Philanthropy’s Reach

by Michael Swack, *Southern New Hampshire University*

Contrary to the perception of trade-offs between financial return and social impact, the F.B. Heron Foundation demonstrates that it’s possible to achieve competitive returns while incorporating mission-related investments into an overall portfolio and asset allocation.

## 31 Public Investment in Higher Education

by Philip A. Trostel, *University of Maine*

Conservatively speaking, a college graduate generates \$142,000 in state fiscal benefits over time while costing a state only \$60,500. But trends in higher education allocations (4.1 percent of total state spending nationwide in 1984; 1.8 percent in 2004) suggest states have become shortsighted.



by Arthur J. Rolnick and Rob Grunewald  
Federal Reserve Bank of Minneapolis

# Early Education's Big Dividends

## *The Better Public Investment*

**F**or more than 20 years, government leaders at the state and local levels have invested public dollars in economic development schemes that represent a zero-sum game.<sup>1</sup> In the name of boosting the local economy and creating new jobs, virtually every state has tried to lure companies with public subsidies. But the case for the resulting bidding wars is shortsighted and fundamentally flawed.



Jobs are not created by such programs—they are only relocated. From a national perspective, the public return is, at most, zero. Even the apparent economic gains at state and local levels are suspect because, more often than not, subsidized companies have other reasons for location decisions and the public subsidy is just gravy. What passes for economic development and sound public investment is often neither. There are better investments: for example, human capital investments, especially when started early.

## Early Childhood and Economics

Speaking to business leaders in Omaha, Nebraska, in February 2007, Federal Reserve Chairman Ben Bernanke pointed to a growing body of research demonstrating the high returns that investments in early childhood development have garnered “in terms of subsequent educational attainment and in lower rates of social problems, such as teenage pregnancy and welfare dependency.”<sup>2</sup>

## Cost-benefit analyses showed annual rates of return, adjusted for inflation, ranging between 7 percent to just over 20 percent.

It should be no surprise that the Federal Reserve is interested in this. Although the Fed focuses much of its research on monetary policy and banking issues, it also studies how economies grow and the conditions that affect growth. Workforce quality and public investment in human capital development are critical for economic growth. Research shows that human capital investments that start in early childhood can have especially impressive returns.

Investments prior to kindergarten—especially for children considered at-risk because of poverty, abuse, neglect, parent chemical dependency, among other fac-

tors—can have a substantial impact on the sorts of students, workers, and citizens the children eventually become. This is the most efficient means to boost the productivity of the workforce 15 to 20 years down the road. As University of Chicago Nobel laureate economist James Heckman says, “Enriching the early years will promote the productivity of schools by giving teachers better-quality students. Improving the schools will in turn improve the quality of the workforce.”<sup>3</sup>

But what about the zero-sum game that many localities play? We don’t pretend to have all the answers, but we’re certain that investing in early childhood education is more likely to create a vibrant economy than using public funds to lure a sports team by building a new stadium. Several longitudinal evaluations reach essentially the same conclusion: The return on early childhood development programs that focus on at-risk families far exceeds the return on other economic-development projects.

Cost-benefit analyses of the Perry Preschool Program in Ypsilanti, Michigan, the

Abecedarian Project in Chapel Hill, North Carolina, the Chicago Child-Parent Centers, and the Prenatal/Early Infancy Project in Elmira, New York, showed annual rates of return, adjusted for inflation, ranging between 7 percent to just over 20 percent.<sup>4</sup> The findings lead to another question. Can the success of small-scale early childhood development programs for at-risk children be reproduced on a much larger scale?

## Increasing the Scale

There are reasons to be skeptical. Programs such as Head Start and some other attempts to reach a large number of at-risk fami-

lies have not consistently generated high returns. Although a full critique of Head Start is beyond the scope of this article, several studies have concluded that even though pockets of success exist, long-term gains from Head Start have fallen short of the results achieved by the Perry Preschool, Abecedarian, and other programs we studied. It is true that Head Start is not funded at the levels of those model programs, but we think the problem cannot be solved by more funding alone. We argue that funding a top-down, planned system is unlikely to yield consistently high returns. Large-scale efforts can succeed if they are market based and incorporate four key attributes: a focus on at-risk children, parental involvement, measurable outcomes, and a long-term commitment.

Getting those attributes into large-scale programs requires the flexibility, innovation, and incentives that are inherent in markets. For some, that is a radical idea, but many middle- and upper-class families have long benefited from the power of markets for early childhood education—by choosing the early learning centers that their children attend and by demanding results from those providers.

Why not give the same purchasing power to those of lesser means? Our idea is to provide scholarships that empower parents of at-risk children to access high-quality early education. Programs eligible to attract scholarship children must have characteristics that correlate with school readiness outcomes, such as well-trained teachers, relatively low ratios of children to teachers, and research-backed curricula. Qualified early education providers would then compete for the scholarship children, and parents would make decisions about which providers they preferred for their children. This market-based approach is in contrast to the more conventional approach of increasing funding of existing programs, such as public school-based preschool pro-





grams, child-care subsidies, and Head Start. Nevertheless, those programs can benefit by enrolling the scholarship children.

To establish a successful, long-term commitment, we have proposed a permanent scholarship fund for all families with at-risk children.<sup>5</sup> A pilot of a scholarship model based on this proposal began in January in St. Paul, thanks to volunteer families in targeted neighborhoods, funding from the Minnesota Early Learning Foundation, and the enthusiasm of preschool providers that are expanding facilities to meet the need. For the next four years, low-income families with 3-year-old children will receive scholarships of up to \$13,000 to pay for two years at a high-quality early education program.

Additionally, mentors will provide parent education for families receiving scholarships, including information about available human-services, financial, and health resources, and guidance on selecting an eligible early education program. Research shows that reaching children with multiple risk factors as early as possible is essential. Even age 3 may be too late. Therefore, the parent mentoring component is starting as

early as prenatal in the pilot neighborhood. An independent evaluation of the scholarship pilot will measure the impact on child outcomes, changes in the number of openings at high-quality programs, and parents' involvement in their children's education.

We argue that earnings from an endowment for early childhood development would be an effective source to provide scholarships for children in low-income families throughout Minnesota. An endowed fund would send a signal to the market of early education programs that funds for scholarships will be available into perpetuity.

What would a permanent scholarship fund cost? In Minnesota, we estimate that a one-time outlay of about \$1.5 billion—about the cost of two professional sports stadiums—would create an endowment that could provide scholarships on an annual basis to the roughly 17,000 Minnesota 3- and 4-year-old children living below poverty. With the endowment's funds invested in corporate AAA bonds, earning about 6 percent to 7 percent per year, we estimate that \$90 million in annual earnings would cover the costs of scholarships, parent mentoring, program monitoring, and assess-

ments—and would supplement existing revenue sources as needed for early childhood screening and teacher training reimbursement programs.

Compared with the billions of dollars spent each year across the country on high-risk economic development schemes, an investment in early childhood development is a far better and more secure tool. We are confident that such investments—driven by a market-based approach that focuses on at-risk children, encourages parental involvement, produces measurable outcomes, and secures a long-term commitment—will achieve a high public return.

---

**Arthur J. Rolnick** is a senior vice president and the director of research at the Federal Reserve Bank of Minneapolis, where **Rob Grunewald** is an associate economist.

## Endnotes

<sup>1</sup>This article is based on a Federal Reserve Bank of San Francisco article, "The Economics of Early Childhood Development as Seen by Two Fed Economists," *Community Investments* 19, number 2 (fall 2007), which was partially based on A. Rolnick and R. Grunewald "Early Intervention on a Large Scale," *Education Week* 26, no. 17 (January 4, 2007): 32, 34-36.

<sup>2</sup>Benjamin S. Bernanke, "The Level and Distribution of Economic Well-Being," remarks before the Greater Omaha Chamber of Commerce, Omaha, Nebraska, February 6, 2007, <http://federalreserve.gov/Board-Docs/Speeches/2007/20070206/default.htm>.

<sup>3</sup>J. Heckman and D. Masterov, "The Productivity Argument for Investing in Young Children," Early Childhood Research Collaborative, discussion paper 104, August 2006, p. 43. Online at <http://www.earlychildhoodrc.org/papers/DP104.pdf>.

<sup>4</sup>Jean Burr and Rob Grunewald, "Lessons Learned: A Review of Early Childhood Development Studies" (Minneapolis: Federal Reserve Bank of Minneapolis, April 2006), <http://minneapolisfed.org/research/studies/earlychild/lessonslearned.pdf/earlychild>.

<sup>5</sup>For a detailed description of the scholarship fund, see A. Rolnick and R. Grunewald, "A Proposal for Achieving High Returns on Early Childhood Development," working paper, Federal Reserve Bank of Minneapolis, March 2006, <http://www.minneapolisfed.org/research/studies/earlychild/highreturn.pdf>.



Photographs courtesy of Gael Force Team

## *FIRST Robotics in Clinton, Massachusetts*

by Judi Poe, Federal Reserve Bank of Boston

Communities around the country are finding that partnerships between businesses and schools can help young people develop the skills they need for the job openings companies need to fill. One New England collaboration demonstrates just how successful such partnerships can be. The vehicle for the joint effort of the Clinton, Massachusetts, school district and Clinton-based plastics company Nypro Inc. is a national robotics competition. It is called FIRST (**F**or **I**nspiration and **R**ecognition of **S**cience and **T**echnology).



## The Hardest Fun Ever

Imagine this: You have to build a robot that performs specified functions, using the parts provided and no more than \$3,500 for additional parts. Complete the design, build the robot, and test it within six weeks. Impossible? Thousands of high school students in the FIRST program nationwide have been doing it every year since 1992.

The brainchild of Dean Kamen (inventor of the insulin pump and Segway personal transporters) and Woodie Flowers (MIT engineering professor), FIRST seeks to excite students about science, math, and technology, and encourage them to go to college. In 1992, 28 teams participated in the inaugural competition in Manchester, New Hampshire. By 2007, there were 37 regional competitions (including competitions in Israel, Brazil, and Canada), one national competition in Atlanta, 1,300 teams, 32,000 students, 18,000 mentors, and 5,700 other volunteers.

As the FIRST web site says, it's "the hardest fun ever." The challenge is different every year, with robots being assigned to climb a bridge, stack boxes, shoot balls through a hoop, or hang from a chin-up bar. At the competition, there are six robots on the field at once (each weighing approximately 130 pounds) and 24 humans playing a prescribed "game." Each match lasts two minutes 15 seconds. It's a real sporting event: The fast-moving robots are loud, the human players are loud, the fans are loud, the announcer is loud, the music is loud.

That's the fun part. The hard part is finding sponsors and mentors, raising funds, planning and building the robot, and arranging transportation. With newsletters to write, presentations to give, project plans to create, and strategy to plan, a strong support team is essential. Flowers calls FIRST a microcosm of a real engineering experience: "It's a problem too big, in a time too short, with a budget too small, and a team too large."<sup>1</sup>

## How Nypro Got Involved

Peter Marshall of Nypro learned about FIRST from customer Deka Research, Kamen's company. During a sales call in 1991 Kamen talked about a project to interest young people in technology. Kamen thought Nypro should start a team. Marshall spoke to Nypro owner Gordon Lankton and key technical people, who saw FIRST as an opportunity for community involvement with the added possibility that some students might one day make good employees. Nypro approached the Clinton School system, which jumped at the chance for a great learning opportunity.

Nypro engineers and teachers from Clinton High School collaborated to interest students in joining the team. Team Gael Force was formed, the motto "Molding the Future" was chosen, and a robot was built. None of the participants knew how much



their world was going to change. They won the championship and got to meet President Clinton.

Lankton says, "Once you win and are invited to the White House, how can you give up?"<sup>2</sup> Nypro was in for the long haul. Gael Force is one of only six of the original 28 teams that have competed in every championship since 1992—and one of only

three teams that have had the same high school and sponsor from the beginning.

The mentors work with young people who may never have used tools, designed parts, built anything. They help students analyze the construction project, plan their robot, fabricate parts, assemble the robot, and plan their strategy. They provide space to work in and serve as the role models.

Why do they do it? Though Lankton has been heard to say, "I love that school," Nypro is probably practicing some enlightened self-interest, too. The company is building goodwill and at the same time helping to train the workforce of the future.

The company experienced the value of goodwill in 1998, when it needed to expand its plant. Its factory is located in a National Historic Register building, which limits changes to the exterior. An athletic field owned by the town abutted the Nypro building. The company proposed purchasing the property in exchange for building a new athletic field. In addition, the company assured the town that it would continue its commitment to Gael Force. The people of Clinton voted overwhelming support of Nypro. The educational, inspirational, and job-related value of FIRST likely played a role in voters' attitudes.

Since 1992, the company has hired more than 50 students from the FIRST program for both full-time and part-time jobs. According to Rob Brand, director of human resources, hiring students is cost-effective. "If it costs \$5,000 to recruit an employee, we've saved \$250,000." The program acts as an automatic job reference for students. "What better recommendation can you get," says Brand, "than working with someone from the time they are 14 and watching them grow?" Although Nypro did not get involved with FIRST with the intent to create a recruiting pipeline, that has been another of the many positive outcomes of the program.

## The Making of an Engineer

In some ways, Tim Baird is the poster child for FIRST. Entering high school, Tim was thinking about a career in architecture or marine biology. But he joined the FIRST team in fall 1998 and never looked back. He was awarded the FIRST scholarship to Worcester Polytechnic Institute, a four-year full-tuition scholarship worth more than \$120,000 at the time. In 2004 he graduated, began work on his master's degree, and started working at Nypro as a project engineer.

### FIRST is a microcosm of a real engineering experience: "It's a problem too big, in a time too short, with a budget too small, and a team too large."

A mentor for WPI/Massachusetts Academy of Math & Science FIRST team during his college years, Baird now mentors the Clinton High School/Nypro team.

"Nypro and [Lankton] give so much to the program," he says, "that we are rather spoiled in comparison to some other teams. We have the right facilities, supplies, mentors, and everything else that a successful team needs to survive. Working with the engineers was fantastic for me as a high school student. Watching what some of them did inspired me to go on and do the work that I am doing now. It was also great because through FIRST I became better friends with Rick Paulino, a Nypro engineer who worked on the team during my high school years. Whenever I had problems with homework at WPI or needed info for a project, I'd call or e-mail him, and he helped me out. I try to do the same now for my friends on the team because I know how much I appreciated it."

As teams have become more experienced, the program has become less about winning and more about building leaders. All student team members are required to do fund-raising. The outreach means students get to know

local businesspeople and learn skills such as giving presentations. The students also make presentations about their FIRST experience to the Nypro senior managers.

Additionally, students are encouraged to give back to their community. They mentor middle school students in FIRST Lego League, make presentations to other schools about FIRST robotics, and generally spread the message of FIRST.

Jorge Martinez, a Nypro mentor for 16 years, began mentoring originally for the

Talk to any student in the country who has been a member of a FIRST team and you will hear the names and industries of the many sponsoring companies. The competition process introduces students to the business world. Meanwhile, the companies know they are not only promoting education but paving the way for their own future success. The importance of creating new generations of engineers, scientists, and technologists cannot be overemphasized. Nor can the satisfaction of employees who have become mentors and watched young people bloom.

---

**Judi Poe** is a technical consultant at the Federal Reserve Bank of Boston and "the cookie lady" for Team 126 in Clinton, Massachusetts.

#### Endnotes

<sup>1</sup> See [www.youtube.com/watch?v=zyavvQEDYW0](http://www.youtube.com/watch?v=zyavvQEDYW0) and [www.usfirst.org](http://www.usfirst.org).

<sup>2</sup> *FIRST: Chronicles of Inspiration, Competition, and Changing the World* (Los Altos, California: Palo Alto Press, 2007).

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).



Joel Cosme, Ryan Doherty, Coach Tim Baird, and Rachel Kulis made up the 2007 Gael Force Team.

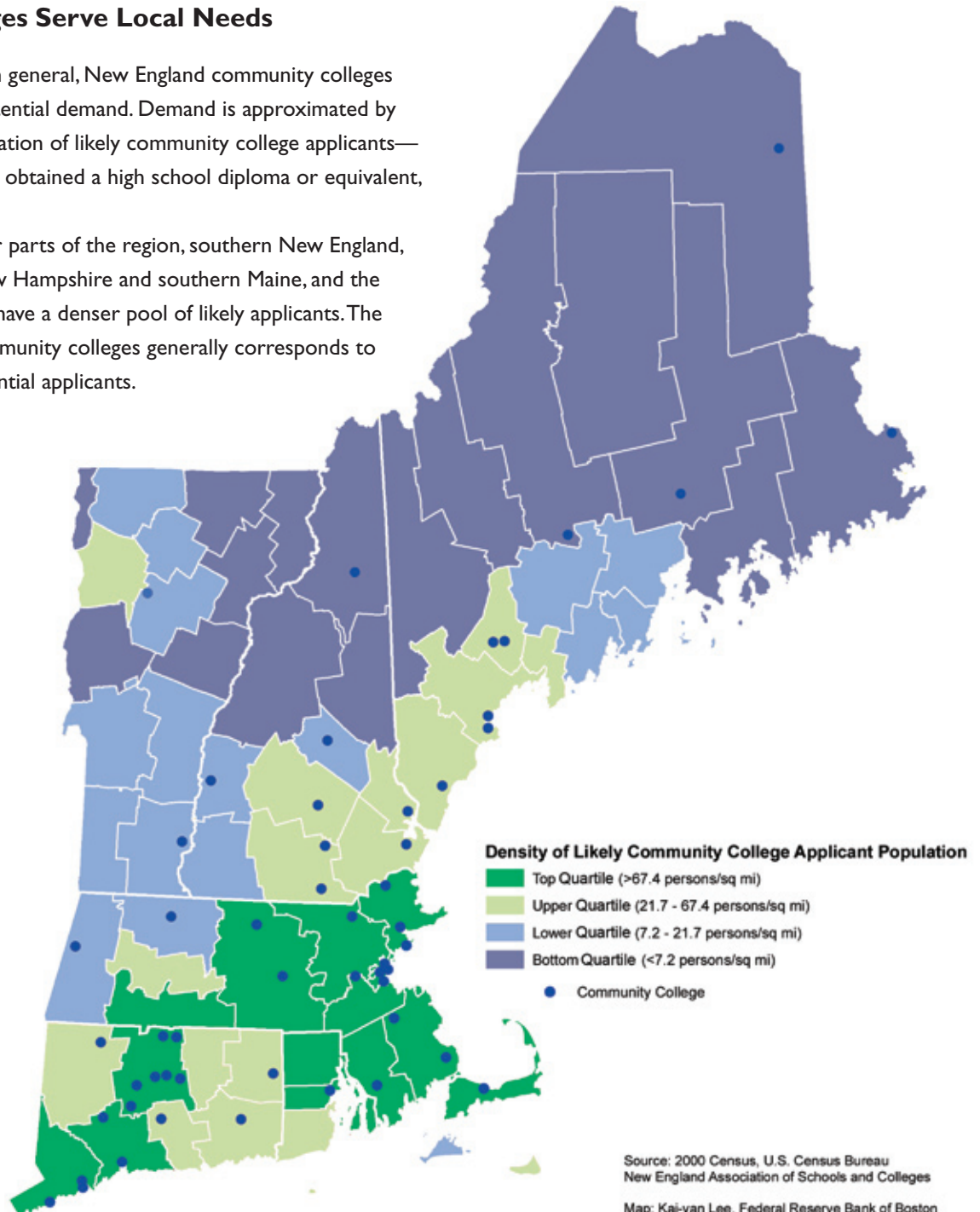


# Mapping New England

## Community Colleges Serve Local Needs

The map illustrates that, in general, New England community colleges are located in areas of potential demand. Demand is approximated by the geographical concentration of likely community college applicants—people 25 to 44 who have obtained a high school diploma or equivalent, but not a college degree.

Compared with other parts of the region, southern New England, the coastal regions of New Hampshire and southern Maine, and the Burlington, Vermont, area have a denser pool of likely applicants. The spatial distribution of community colleges generally corresponds to the concentration of potential applicants.





Viewpoint:

# Competitiveness *and the* Community College





**R**apid growth in emerging economies, closer economic integration across geographies, and unparalleled advances in information and communications technologies are creating a new wave of competitive pressure for U.S. businesses and communities.

As a result, America faces the challenge of keeping its workforce competitive. The best hope for dealing with this issue lies in business and government focusing more resources on education. Fostering an environment that rewards critical-thinking skills, analytical reasoning, and problem solving is critical to a competitive future. And I believe that, in reaching for that future, the often underestimated community college will be an increasingly important player.

The programs offered through community colleges can benefit the communities they serve, improve business productivity, and enhance U.S. global competitiveness through their workforce development activities. Studies of corporate training indicate that community colleges are one of the largest single public providers of formal training of hourly workers in the United States. They are also the largest provider of retraining services for dislocated workers.

At the same time that they are boosting the national economy, community colleges are also helping individuals and their communities. That's because, for many, these institutions are a stepping-stone to rewarding careers and improved standards of living.

For some students a two-year program may be the launching pad for a four-year

degree or an MBA. For others it may mean getting a certificate in a marketable skill and moving to a more fulfilling career or higher pay.

The benefits of starting out at a community college or other two-year program are tremendous, as I know from firsthand experience. I am an example of what a community college can help people accomplish. The school that put me on the right path was the two-year program at Dean College in Franklin, Massachusetts.

### Taking the First Step

When I finished high school, I wasn't really thinking about going on to college. Like my father before me, I thought I would become a plumber. In fact, I spent the summer after high school doing construction work, and college was the farthest thing from my mind.

Then one day, I went to visit some friends who were students at Dean, and my mind-set began to change. As I walked around campus and listened to my friends talk about their experiences in the classroom and on campus, I realized this was an opportunity to change my path and take another shot at learning—an opportunity that might never come again. Dean reached out a hand to me, and I can honestly say it was a life-altering experience.

Dean's philosophy is to educate, energize, and inspire. Attending Dean helped me build my confidence. In fact, it was at Dean that a professor named Charlie Kramer ignited my passion for economics and taught me how to think analytically. After all these years, I still have my notes from his

economics classes, and I've referred back to them from time to time—even as I went on to Babson College, where I earned my bachelor of science degree in economics and then an M.B.A.

I'm not sure I would have felt comfortable enough or confident enough starting off at a four-year institution right after high school, and I believe that there are millions of students and potential students out there who feel the same.

According to the American Association of Community Colleges (AACC), there are more than 1,200 community colleges in the United States, most of them publicly funded. They serve nearly 12 million students. In New England alone, there are an estimated 200,000 students enrolled in community and technical colleges.

What's especially striking is that community colleges serve a large share of those minority students who attend college: 47 percent of African American undergraduates nationwide attend community colleges, as do 55 percent of Hispanic undergraduates. Additionally, there are nearly 100,000 international students—about 39 percent of all international undergraduates in the United States.

### The Workforce Future

What makes the community college so important to our future? For starters, no other institution is so attuned to the needs of our communities. Fifty percent of new nurses and the majority of new health-care workers are educated at community colleges, according to the AACC. Nearly 80 percent of firefighters, law enforcement officers, and

by William D. Green, Accenture



Photograph courtesy of Accenture

emergency medical technicians also receive credentials at these schools.

Additionally, community colleges excel at working with local businesses to identify specific needs, whether helping displaced workers gain new job skills or providing local companies with a steady supply of qualified workers.



Another plus: community and technical colleges are convenient. Located all over the United States, they are within 30 minutes of most centers of business activity. Wherever there is a large manufacturing plant, a nearby community college is likely to be cooperating with it on technical training. The plant improves productivity, and employees gain better skills and better pay. Moreover, when employees feel more secure, they spend more—another way their education and training help the economy.

A list of notable community college graduates reveals a virtual Who's Who of executives past and present at the top of some of the world's largest corporations. Additionally, there are astronauts, well-known lawyers, judges, journalists, members of Congress, and leaders of government organizations and social service organizations who first graduated from a community college or other two-year program.

Clearly, it is a misconception that community college students have less potential

than students at four-year schools. There are good reasons why people choose to attend a community college. High on the list is that the schools offer an excellent education, whether students plan to use their associate's degree to pursue further education or to get a job right away.

The colleges mirror the communities they serve. They enable students from low-income communities to continue their education at a more affordable cost, to develop careers in a wide range of fields, and to get the training they need either to advance their careers or to change careers and find greater job satisfaction.

As a business leader, I have frequently urged others like me to support community colleges, reminding them of the many ways the schools have served business. Corporate support is especially important today as state funding—which constitutes an estimated 38 percent of community colleges' financial resources nationwide—continues to decline. It is heartening to see more companies donating funds, recruiting students, offering community college students career counseling, and encouraging company employees to teach at these schools.

Nevertheless, the best interventions are strategic, and I recommend that businesses use their resources and experience to help community colleges get even better. One concern has been program completion. National surveys indicate that 17 percent of students starting community college do not complete 10 credits within eight years of high school graduation. Another 33 percent complete 10 credits or more, but never earn a certificate or degree or transfer to a four-year college. Within eight years, 18 percent

of those who started at a community college earn a bachelor's degree, 15 percent an associate's degree, and 6 percent a certificate. We need to do whatever we can to encourage students to finish the requirements for degrees and certificates.

I applaud Massachusetts Gov. Deval Patrick's proposal to fund two years of community college for the state's high school graduates. Two-year programs have been underappreciated for too long. In my view, however, we must go beyond mere access and push for program completion and accountability. Simply making college free does not guarantee that students will go far enough to become productive citizens.

### Leading by Example

There are many actions the business community can take to support America's junior and community colleges. Accenture, for example, has just created a scholarship program for students who are making the transition from a two-year program to a bachelor's program. In our first year, there were 20 scholarships, renewable for up to one year or until a bachelor's degree is earned. Our aim is to do all we can to encourage young people to continue their education, and attending a community college can be a great portal to lifelong learning.

Our hope is that the scholarship program will inspire more colleagues in the business community to support junior and community colleges. The more attention we all focus on education—whether we work to improve schools or simply encourage Americans to continue their education and earn a degree—the greater the chances are that U.S. business will maintain its competitive edge and that local communities will be economically strong.

---

**William D. Green** is chairman and CEO of Accenture. He lives in Boston.





# Rebuilding a Community

## Lessons from New Orleans

**D**uring hurricanes Katrina and Rita in 2005, the destruction of the New Orleans levees wreaked havoc, and nowhere were the consequences more painfully visible than in the neighborhoods comprising the city's 9<sup>th</sup> Ward. Seventy-two people died and hundreds more were forced onto their roofs, anxiously awaiting rescue. Even today, the traumatized children, when asked to draw a house, will frequently draw a triangle only: the roof.<sup>1</sup>

by Kenneth M. Reardon  
Cornell University

What happens to a low-income community after such complete desolation? Can it come back? The story of the 9<sup>th</sup> Ward since 2005 may offer lessons for other communities.

## The First Proposal

A survey conducted by the Brookings Institution in the weeks following Katrina and Rita revealed that approximately 50 percent of survivors planned to return to New Orleans. Real estate and land use experts from the Urban Land Institute (ULI) responsible for developing the city's first recovery strategy based their recommendations on those data.

The ULI plan recommended immediate public investment for infrastructure, housing, and business development in areas that had experienced the least flood-related damage. It also recommended withholding investment from the city's most heavily damaged areas until there were revitalization plans demonstrating significant investor and resident support. The ULI plan suggested there might be sections, such as parts of the historic 9<sup>th</sup> Ward, where the risk of future flooding was so likely that it might be better to clear the area and use it as an urban park and wetland buffer.

Community response to the ULI plan, which Mayor Ray Nagin initially supported, was harsh, prompting the mayor to withdraw his endorsement. Instead he called for a mayoral task force, the Bring New Orleans Back Commission, to prepare a strategy to assist all former residents who desired to return home. The commission's final report asserted former residents' right to return and called for a comprehensive recovery plan to make it possible.

## Taking a New Tack

Lacking the financial and staff resources to create a comprehensive recovery plan, the city secured \$3.5 million from the Rockefeller Foundation, Greater New Orleans Foundation, and the Bush-Clinton Katrina Fund to do so. In July 2006, the city issued a request for qualifications (RFQ) for consultants capable of designing neighborhood and citywide strategies that could be integrated into a comprehensive recovery plan, the United New Orleans Plan (UNOP).

Enter the Association of Community Organizations for Reform Now (ACORN), the nation's largest citizen organization representing poor and working-class families, headquartered in New Orleans since 1978. Several weeks after the RFQ, ACORN staff directed Cornell graduate students working as interns to help in preparing a formal proposal.

Aware of the challenges of developing a comprehensive recovery plan in a post-disaster context and the intense competition they would face, the students worked hard, with the assistance of Cornell faculty, to prepare a proposal on behalf of a community/university partnership they helped establish, the ACORN Housing/University Collaborative (AHUC).<sup>2</sup> AHUC was subsequently selected from a pool of 69 experienced architecture, engineering, and planning firms to serve as one of five senior consultants to work on the city's comprehensive plan.

In fall 2006, the faculty participating in AHUC recruited more than 80 undergraduate and graduate students to undertake a research program to more accurately determine existing local conditions and to identify the strategies and projects most preferred by residents, business operators, institutional leaders, and elected and appointed officials. The students were enrolled in five different field-based research courses on the Cornell, Columbia, and Illinois campuses between September 1, 2006, and December 15, 2006. The classes undertook the following activities in order to produce an empirically based and resident-supported comprehensive recovery plan for the 9<sup>th</sup> Ward:

- examination of 29 historic reports, studies, and plans;
- analysis of population, housing, and business trends using the U.S. Census;
- inspection of more than 3,000 buildings to determine their structural integrity;
- surveying of storm drains, roads, and sidewalks to identify those requiring immediate repair;
- interviewing individuals operating busi-

nesses within the 9<sup>th</sup> Ward's four most intensively used commercial corridors;

- interviewing 200 families who had returned;
- evaluating the physical condition of more than two dozen playgrounds, parks, parkways, and residual open spaces; and
- reviewing best practices from other post-disaster recovery efforts from around the world.

Following each activity, AHUC representatives traveled to the 9<sup>th</sup> Ward to share their results with the returnees. The research team was thus able to involve a wide range of local stakeholders in analyzing the data and discussing the implications for local recovery efforts. Recurring themes raised during the highly interactive sessions gave the team a clear sense of the preferred recovery scenarios of residents, business leaders, pastors, community activists, and elected officials.

## The People's Plan

By the end of the fall 2006 semester, AHUC students had completed a first draft of *The People's Plan for Overcoming the Hurricane Katrina Blues: A Comprehensive Strategy for Building a More Vibrant, Equitable and Just 9<sup>th</sup> Ward*. A few students gave up their winter holidays to transform the somewhat rambling, 400-page study into a tightly written and lavishly illustrated document.<sup>3</sup>

*The People's Plan* contained critical research findings that contradicted widely held beliefs. The following were among the new insights:

- 8 of 10 buildings within the 9<sup>th</sup> Ward were structurally sound and, therefore, candidates for cost-effective rehabilitation;
- a much higher percentage of former residents than previously thought had returned and were actively engaged in rehabilitating their properties (25 percent of residents have now returned to parts of the Upper 9<sup>th</sup> Ward);
- more than three-quarters of the returnees who were restoring their homes were us-





public investment in 17 areas.<sup>4</sup> Among the targeted redevelopment areas is a significant section of the Lower 9<sup>th</sup> Ward that *The People's Plan* had recommended for immediate renewal.

## Looking Ahead

Encouraged by the inclusion of an important segment of their community in the city's new investment strategy and guided by the recommendations contained within their own plan, 9<sup>th</sup> Ward residents are working hard to capitalize on the attention and resources they have received to restore and enhance the quality of life available to current and future residents.

The 9<sup>th</sup> Ward story is the story of one community in extraordinary times. But any devastated community, whether it has suffered a sudden natural disaster or years of neglect, can learn something from the inclusive approach to decisions on rebuilding. The best plans have the broadest buy-in.

---

**Kenneth M. Reardon** is an associate professor in City and Regional Planning at Cornell University, where he pursues research, teaching, and outreach activities related to neighborhood planning, community development, and municipal government reform. He was one of the dozen faculty members participating in the ACORN Housing/University Collaborative, [www.acorn.org](http://www.acorn.org).

## Endnotes

1 Shaila Dewan, "Using crayons to exorcise Katrina," *The New York Times*, Monday, September 17, 2007, p. B1.

2 The partnership included ACORN, its housing production affiliate, ACORN Housing, Cornell University's Department of City and Regional Planning, Columbia University's Earth Institute, and the University of Illinois at Urbana-Champaign's Department of Urban and Regional Planning.

3 See <http://www.rebuildingtheninth.org>.

4 Adam Nossiter, "New Orleans Proposes to Invest in 17 Areas," *The New York Times*, March 30, 2007.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).

ing their own resources and/or charitable donations to do so because insurance and federal reimbursements were slow in arriving;

- many returnees were anxious about not having access to high-quality building design and construction advice and, as a result, feared they were making costly errors that might compromise their plans to return; and
- most were in daily contact with family members, neighbors, and friends hoping to return but concerned about public safety, educational quality, primary health-care services, availability of job training, and access to living-wage jobs.

The findings prompted the team to adopt a development goal designed to transform, rather than simply restore, the environmental, economic, and social conditions that had existed within the nine historic neighborhoods comprising the 9<sup>th</sup> Ward. The 26 recovery proposals of *The People's Plan* go beyond reestablishing functioning local infrastructure systems. Almost without exception, residents and would-be returnees expressed concerns about quality-of-life issues—public safety, quality neighborhood school buildings and education, and access to primary health-care services. So the "Field of Dreams" proposals of many past recovery plans ("if you build it,

they will come") were rejected. *The People's Plan* took a more holistic approach to community development, one that gives equal attention to the physical and social dimensions of community revitalization.

In early 2007, eight students and faculty members representing AHUC summarized the major elements of *The People's Plan* for a group of more than 50 local officials and 150 residents at the Holy Angels Roman Catholic Church. The community's response was overwhelmingly positive. Oliver Thomas, then the president of the New Orleans City Council, requested that the team submit the plan as an amendment to the comprehensive plan being finalized by the UNOP planners.

An Associated Press story describing the plan's enthusiastic reception was subsequently carried by more than 175 news outlets under the headline "Planners Say 9<sup>th</sup> Ward Can be Rebuilt." As a result of the coverage and ACORN's organizing efforts, the New Orleans City Planning Commission and City Council unanimously passed resolutions directing local planners to incorporate the major elements of *The People's Plan* into the comprehensive plan.

Not long after, Edward J. Blakely, New Orleans recovery director, outlined a \$1.1 billion capital improvement plan designed to accelerate the city's recovery by focusing

# Measuring Cultural

A growing body of research suggests that arts and culture activity is a catalyst for economic development.<sup>1</sup> That is one reason that civic leaders interested in urban revitaliza-

tion have been giving it more attention in recent years.<sup>2</sup> Another reason is that arts and culture activity can strengthen community identity—boosting a community’s mental and physical health and its quality of life.<sup>3</sup>

But what do people mean when they speak of “arts and culture”?

## Defining Culture

For many years, the default definition tied arts and culture to large institutions—symphonies, opera houses, established theaters, ballet companies, and museums. Today another interpretation is gaining currency. The emerging interpretation looks at *cultural vitality*—evidence of creating, disseminating, validating, and supporting arts and culture as a dimension of everyday life.

A cultural-vitality lens includes large institutions but only as part of a much bigger picture that encompasses amateur arts and arts education in schools and other institutions. It focuses not just on the artis-

tic product but also on the creative process. It holds that a community’s cultural vitality involves not only opera houses, traveling art exhibits, and culture brought from the outside, but also what comes out of the community.

How does one measure cultural vitality? Since the mid 1990s, researchers at the Urban Institute have been seeking the answer through the Arts and Culture Indicators Project (ACIP).<sup>4</sup> The project, which has worked with practitioners, researchers, and policymakers in urban planning, community development, and arts-related fields, has created national cultural-vitality measures and has recommended adding locally generated data for a more granular understanding.

Specifically, understanding cultural vitality relies on multiple measures in three areas: presence of opportunities for cultural participation, participation itself, and support for arts and cultural activity.



## Developing the Measures

Urban Institute researchers have spent several years in U.S. communities—including low- and moderate-income communities, communities of color, and immigrant communities—studying arts and culture activity. They have looked at activity in the non-profit, commercial, and public sectors, and to the extent possible, informal arts-related activity. Both professional and amateur practice, and active and passive participa-

Photograph courtesy of Artists for Humanity



# Vitality in Communities

by Maria Rosario Jackson, Ph.D., The Urban Institute

tion have been included. The field research reveals that arts, culture, and creative expression are important determinants of how communities fare and that, by extension, a full understanding of U.S. communities is not possible without their inclusion.

## Progress

Documenting the various aspects of cultural vitality—sufficiently, reliably, and repeatedly—calls for more data than are currently available. However, ACIP and other researchers have made progress in developing relevant measures and data to tell important pieces of the story. These measures are grouped under the three broad categories that ACIP has identified: presence of opportunities, participation, and support. (See “A Three-Part Framework.”)

ACIP has identified seven nationally comparable measures of cultural vitality. The measures are derived from national data sources that meet the following criteria: they are (1) publicly available, (2) reliable and recurrent annually, (3) able to be disaggregated to at least the metropolitan statistical area level, and (4) free or inexpensive.

Such data are most suitable for integration with quality-of-life measurement systems that track aspects of communities over

## The Three Domains of Cultural Vitality

### Presence

of opportunities for cultural participation

### Participation

cultural participation itself

### Support

for cultural participation

comprehensive  
picture of a  
community's  
cultural vitality

time. The measures provide an indication of several priorities in the presence and support domains. (National data meeting the four criteria are unavailable for traditional definitions of participation—attendance at formal venues—or for the more comprehensive ACIP definition described in the sidebar.)

## Measuring

For the presence domain, ACIP recommends the following four measures:

1. arts establishments per thousand population, including both nonprofit and commercial entities (use County Zip Business Patterns data).<sup>5</sup>
2. percentage of employment in nonprofit and commercial arts establishments as a proportion of all employment (CZBP).
3. nonprofit arts organizations per thousand population (National Center for

Charitable Statistics).

4. nonprofit community celebrations, festivals, fairs, and parades per thousand population (NCCS).

Measures 1, 3, and 4 show the incidence and density of arts and culture-related venues that, according to field research, are significant opportunities for cultural participation. Measure 2 provides an indication of the robustness of those venues.

Measures 5, 6, and 7 relate to the support domain:

5. nonprofit art expenses per capita (NCCS).
6. nonprofit arts contributions per capita (NCCS).
7. percentage of artist jobs relative to all jobs (Bureau of Labor Statistics and Non-Employer Statistics).



## A Three-Part Framework

The Urban Institute's Arts and Culture Indicators Project recommends monitoring and measuring three broad aspects of cultural vitality over time as a way to understand and encourage arts and cultural activity and its often positive impacts on communities.

### 1. Presence of Opportunities for Cultural Participation

- Nonprofit, commercial, and public sector arts-related organizations
- Retail arts venues—book stores, music stores, film theaters, craft and art supply stores
- Art schools
- Non-arts venues with arts and cultural programming—parks, libraries, community centers, ethnic associations, churches
- Festivals, parades, arts and crafts marketplaces
- Formal and informal cultural districts; neighborhoods where artists congregate
- Web-based opportunities for cultural engagement specific to the place in question

### 2. Participation in Arts and Cultural Activity

- Amateur art making
- Collective and community art making
- K-12 arts education
- After-school arts programs
- Audience participation
- Purchase of artistic goods (materials for making; final arts products)
- Discourse about arts and culture in print and electronic media (television, radio, web)
- Membership in professional arts associations or unions

### 3. Support for Arts and Cultural Activity

- Public expenditures in support of arts and cultural activities in the nonprofit, commercial, and public sectors
- Explicit public policies about arts and culture
- Foundation expenditures in support of arts and culture in all sectors
- Volunteering and personal support of arts and cultural activity
- Integration of arts and culture into other policy areas; corresponding allocation of resources (community development, education, parks, recreation, and the like)
- Working artists

ACIP's cultural-support indicators include the relative amounts of financial resources received and spent by nonprofit arts organizations. More so than governmental or commercial arts organizations, nonprofit arts organizations depend on community financial and participatory support. Another indication of a community's support for cultural activity is the number of resident artists.

"Artist jobs" refers to the proportion of a region's workforce employed in artist occupations. Jobs reflect support because, as the research shows, most artists depend upon numerous formal and informal resources—training, employment, grants, awards, gifts, materials, workspace, and validation.<sup>6</sup> Communities with more people earning money as artists also may have more such resources.

The relative standing of a city's cultural vitality can change substantially depending on which element of cultural vitality is being compared. So, for example, a place might have a high incidence of commercial arts establishments or festivals and parades, but a much lower incidence of nonprofit arts organizations. That evidence argues strongly for including a wide range of measures in assessments, whether to monitor trends in a



single community or to make comparisons across different communities for a single point in time.

## Local Details

The recommended measures are nationally comparable—something that has not existed before. However, they alone cannot paint the full picture of arts and culture in a community.

Researchers must also tap locally generated data for more detail. The drawback of local data is that they are not nationally comparable, but there are three categories of data worth noting: (a) administrative data housed in agencies such as regional and local arts councils, school districts, library sys-

tems, police departments, and other municipal agencies, (b) survey data from annual quality-of-life and arts-specific surveys, and (c) directories and lists from various kinds of agencies. However, care must be taken to ensure that the methodology for collecting and updating lists and directories is reliable and transparent.

Although barriers to fully capturing cultural vitality in communities still exist, there is room for optimism. Already the data are beginning to inform decisions about community and economic development, public health, transportation, and education, among other areas. Measures such as ACIP's should make it easier for cultural vitality to be integrated into decision

making on an even broader scale. This is an important step forward for urban planners, community developers, and anyone concerned with improving American communities. The new data make possible a more adequate and nuanced understanding of communities, their conditions, how they work, and how they might be strengthened.

---

**Maria Rosario Jackson, Ph.D.**, is a senior research associate in the Metropolitan Housing and Communities Center at the Urban Institute in Washington, D.C.

## Endnotes

<sup>1</sup> Richard Florida, *The Rise of the Creative Class* (New York: Basic Books, 2002).

<sup>2</sup> This article draws heavily from Maria Rosario Jackson, Florence Kabwasa-Green, and Joaquin Herranz, *Cultural Vitality in Communities: Interpretation and Indicators* (Washington, D.C.: The Urban Institute, 2006).

<sup>3</sup> See Alaka Wali, Rebecca Severson, and Mario Longoni, *Informal Arts: Finding Cohesion, Capacity and Other Cultural Benefits in Unexpected Places* (Chicago: Center for Arts Policy, Columbia College, 2002); *Communities Count: Social and Health Indicators Across King County* (Seattle: 2005), <http://www.communitiescount.org>; Metropolitan Chicago Information Center, <http://info.mcfol.org/www/index.aspx>; *Metropolitan Philadelphia Indicators Project Report* (Philadelphia: 2005), [www.temple.edu/mpip](http://www.temple.edu/mpip); and Boston Foundation, *Cultural Life and the Arts Report*, [www.bostonfoundation.org/indicators2004/culturallife/grid.asp](http://www.bostonfoundation.org/indicators2004/culturallife/grid.asp).

<sup>4</sup> Launched in the 1990s with Rockefeller Foundation support, ACIP provides information about the presence and role of arts and culture in communities.

<sup>5</sup> The recommended national measures come from County Zip Business Patterns (CZBP), the National Center for Charitable Statistics (NCCS), the Occupational Employment Survey of the Bureau of Labor Statistics (BLS), and the U.S. Census Bureau's Non-Employer Statistics (NES).

<sup>6</sup> Maria-Rosario Jackson, Florence Kabwasa-Green, Daniel Swenson, Joaquin Herranz, Kadija Ferryman, Caron Atlas, Eric Wallner, and Carole E. Rosenstein, *Investing in Creativity: A Study of Support Structures for Individual Artists* (Washington, D.C.: The Urban Institute, 2003).

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).



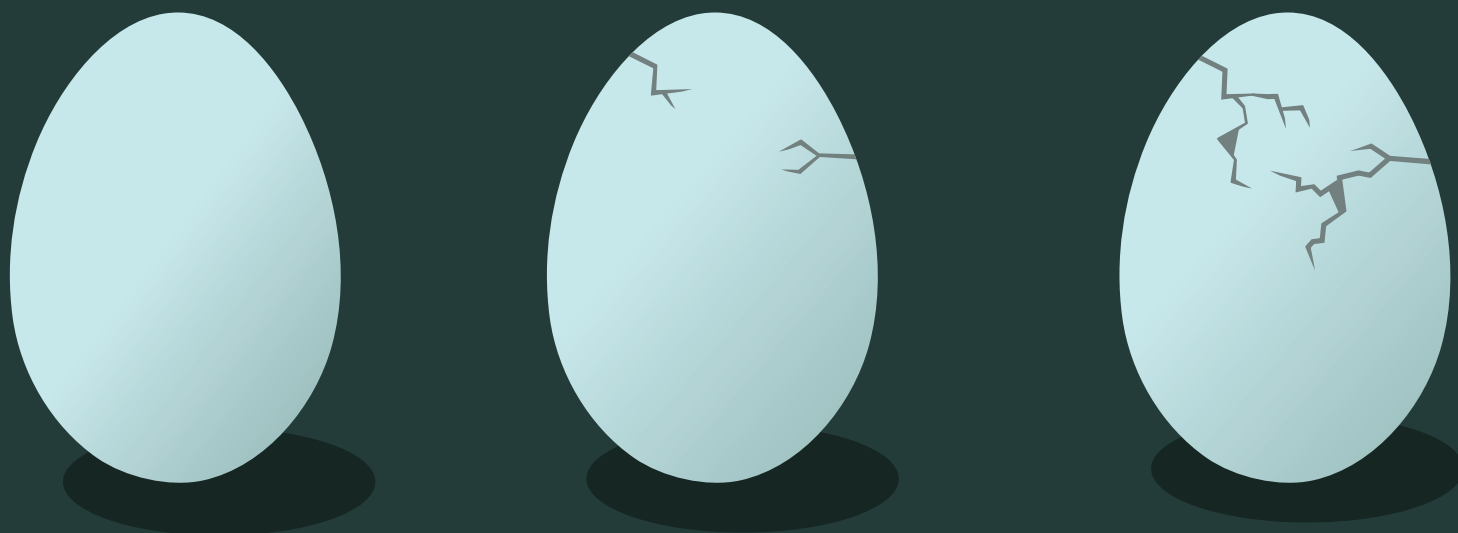
Photograph: [www.bobbyshakes.com](http://www.bobbyshakes.com)

Boston's West Indian Festival 2007

# The Evolution *of* Philanthropy

## Takeaways for Community Groups

by Kerry Murphy



**P**hilanthropy is changing. One change is that there are fewer Andrew Carnegies spreading vast sums around libraries, colleges, music schools, and hospitals. Today both large foundations and individuals of modest means are pooling resources for the greatest impact in a targeted area of need.

A second change is that donors are demanding more proof of what their money has accomplished, forcing nonprofits and community groups to keep track of what works and to make hard decisions about what doesn't.<sup>1</sup>

A third change is that children are getting involved younger, fulfilling graduation requirements with work in a food kitchen,

for instance, or donating profits from a lemonade stand to help inner-city youth study marine education.<sup>2</sup>

A fourth change is how volunteers want to contribute their energy. Men who once did the heavy physical work for rummage sales are more likely to be offering their professional talents through an alumni outreach—with experienced marketers, for example, teaching a nonprofit's staff new ways to reach potential clients and donors. Similarly, women who once organized bake sales may now volunteer strategy skills to help a homeless shelter create a long-range plan for moving clients to permanent housing. And a corollary to that change is the recent

phenomenon of *virtual volunteering*, which may allow a busy information technology professional, for example, to work remotely through the Internet to help a community group's staff to fix a computer problem or update a web site.

As philanthropy changes, nonprofits that adapt are likely to reap advantages that others don't.

### Targeting

Donors are increasingly using a targeted approach. In the case of smaller foundations and ordinary donors, targeting is often the result of personal history. Individuals may set up a foundation to fight a familial dis-





Illustration: iStockphoto

ease or to provide youth with opportunities they themselves once needed.

Consider the founder of Girls on the Run, a nonprofit that encourages “preteen girls to develop self-respect and healthy lifestyles through running.”<sup>3</sup> Molly Barker started Girls on the Run for personal reasons. When she was 15, she felt trapped in what she calls the “girl box.” The standard of beauty was limited, and Barker resisted being boxed in. She began running, which gave her self-confidence and a lasting appreciation for a healthy lifestyle. Her nonprofit grew out of a wish to help girls build self-esteem and enhance their social, physical, and mental health.

Although established nonprofits in a given field may feel frustrated by this trend, most recognize the power of the personal. Some respond by partnering. Groups join-

harness personal motivations by seeking new ways to identify fellow travelers—buying the mailing list of a similar organization is only the beginning.

**Giving circles typically are groups of professionals who gather to research charitable opportunities, identify common interests, and choose beneficiaries.**

ing forces with Girls on the Run, for example, include the President’s Council on Physical Fitness and the North Carolina Conference for Women. Other nonprofits

Nonprofits also are reaching out to *giving circles*. Giving circles typically are groups of professionals who gather to research charitable opportunities, identify common

interests, and choose beneficiaries. They get personal satisfaction from conducting research with likeminded, thoughtful people and knowing that their strength in numbers provides a larger philanthropic benefit. According to the Forum of Regional Associations of Grant Makers Groups, giving circles currently involve 12,000 people. In 2006 alone, they provided \$13 million for community needs.<sup>4</sup>

Members of Soroptomist International function similarly. In New England, the women professionals in Soroptomists combine community service with career networking. Gathering at least monthly, they share ideas and resources for serving local underprivileged women. They have evolved over 80 years from bake sales to offering legal advice, design expertise for homeless shelters, and other services. Like giving circle participants, Soroptomists take dual satisfaction from building friendships while increasing their philanthropy.

Giving circles and professional groups like Soroptomists frequently invite nonprofits to give presentations on their work and perhaps reach new benefactors.

## Measuring

The growing importance of measuring results may be seen indirectly in the number of organizations that have sprung up to help nonprofits do just that. According to its web site, New York's TCC Group develops "strategies and programs that enhance the efficiency and effectiveness of nonprofit organizations, philanthropies, and corporate citizenship programs to achieve social impact."

Likewise, the Cambridge-based Center for Effective Philanthropy (CEP) offers "management and governance tools to define, assess, and improve overall foundation performance." CEP's assistance with evidence-based assessments of the Vermont Community Foundation's success, for example, refined that nonprofit's strategizing, says VCF chief

executive officer Brian Byrnes.

The United Way of Massachusetts Bay (UWBM) is an example of a donor organization demanding measurable outcomes from the agencies it supports. Until UWMB brought in evaluation experts and launched Impact Councils, its housing agencies had 360 metrics, making the task of assessing success impossible. Now they have six. Jeff Hayward, UWMB senior vice president of community impact, says that the focus on metrics "drives the agencies crazy," but they admit "it guarantees a better product in the end."

## Starting Young

Although children have long been encouraged to collect pennies for UNICEF at Halloween or donate to overseas religious missions, there is a new understanding that the satisfaction of seeing local results can help create a lifetime philanthropist.

Consider the web site of Youth in Philanthropy, which gives students a chance to communicate with other young people about their local outreach efforts. A 13-

ergy in scout troops, schools, colleges, and churches often find that, beyond getting help on a particular activity, they have attracted long-term support from parents and have secured students' dedication into adulthood.

## Using Professional Skills

A Massachusetts nonprofit, the Jericho Road Project, was launched in 2003 to test another philanthropic approach: tapping the professional skills in one community to assist nonprofits in a community having greater needs.

In its first initiative, the group linked professionals in the affluent suburban town of Concord to nonprofit groups in Lowell, a former mill town and home to succeeding waves of immigrants. The focus was on building the economic strength of individuals and groups in Lowell.

Jericho Road offered experienced professionals for such activities as strategic planning, grant applications, publicity, capacity building for staff, web-site construc-

## Nonprofits that tap the youthful energy in scout troops, schools, colleges, and churches often find that, beyond getting help on a particular activity, they create lifetime philanthropists.

year-old who works with Crossroads Youth Center in Saco, Maine, writes, "I visit primary schools and speak about bullying prevention and my experiences about being bullied, and how I worked at the state level to help pass an anti-bully bill." On the web site for a similar group, Youth Action Net, a student documents 36 hours spent serving women and their families at Rosie's Place, a homeless shelter in Boston," and "community service at Needham Community Council."

Nonprofits that tap the youthful en-

tion, small business assistance, and more. Many nonprofits responded. The United Teen Equality Center, for example, received free help from an architect who did the planning, design, and public-hearing testimony for UTEC's expansion into a larger building.

Jericho Road editors helped refine groups' grant applications, publicity, web content, and the like. Sophisticated nonprofits were more likely to make use of a service like editing. Groups for whom English is a second language tended to hold back,





Photograph courtesy of UTEC

In 2005, Jericho Road Project volunteer Paul Minor (in back row, with beard) contributed his architecture skills to the United Teen Equality Center in Lowell, Massachusetts, when it was planning an expansion.

perhaps because interactions were remote and relied heavily on e-mail and editing software—a learning experience for all concerned.

But although editing remotely helped some nonprofits more than others, Jericho Road executive director Dan Holin believes that, overall, virtual volunteering will grow. For volunteers who have time constraints, it is liberating. Already, he says, “Maybe 15 to 20 percent of our work is done that way.”<sup>5</sup>

Jericho Road is now working to replicate the community-to-community, professional-skills model and hopes offer advice and support as it reaches new communities. Critical for success are (a) a strong base organization with plenty of volunteers (like a large church or service organization), (b) proximity to the town being assisted, and (c) that town’s ability to provide a critical mass of professional nonprofit infrastructure.

## Philanthropy for Everyone

As philanthropy continues to evolve, the challenge for nonprofits is to keep up—and to find new ways to reach donors and volunteers. Personal motivators will be key. An individual will no longer respond to the community service club that says, “The old guard has been running this fund-raiser for 20 years; now it’s your turn.” Groups that identify the issues and activities that energize individual volunteers will prove the truth of the old refrain, “One and one and 50 make a million.”

---

**Kerry Murphy** is a freelance writer based in San Francisco.

## Endnotes

<sup>1</sup> See <http://www.effectivephilanthropy.org>.

<sup>2</sup> Peter Voskamp, “Some Cottagers Named Cassidy,” *The Block Island Times*, August 6, 2007, <http://www.block-islandtimes.com/articles/2007/08/06/news/news5.txt>.

<sup>3</sup> See <http://www.girlsontherun.org>.

<sup>4</sup> See [http://www.givingforum.org/s\\_forum/index.asp](http://www.givingforum.org/s_forum/index.asp).

<sup>5</sup> Don Aucoin, “A Web of Volunteers,” *The Boston Globe*, September 15, 2007.

**For volunteers who have time constraints, virtual volunteering is liberating. Already, Holin says, “Maybe 15 to 20 percent of our work is done that way.”**

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).





A Positive Force in Cities

# Green Investment Strategies

by Susan M. Wachter, Kevin C. Gillen, and Carolyn R. Brown,  
University of Pennsylvania



**New research looks at buyers' willingness to pay more for property and uses it to gauge the value of a public, place-based investment called *greening*.**

**U**rban researchers have long known that physical signs of deterioration induce outmigration and abandonment of properties, accelerating neighborhood decline.<sup>1</sup> However, the effects of public investments meant to reverse deterioration have been difficult to quantify.

New research from Philadelphia looks at buyers' willingness to pay more for property and uses it to gauge the value of a public, place-based investment called *greening*. Greening works to transform blighted vacant lots through debris removal, community gardens, newly landscaped commercial corridors, and the like. The idea behind greening is that such investments can change negative perceptions of neighborhoods and consequently, can arrest housing abandonment rates, restore the property tax base, improve quality of life, and spur economic growth.<sup>2</sup>

**A Manufacturing Center  
No More**

Between 1950 and 2005, the deindustrialization of Philadelphia resulted in a decline from approximately 2 million people to 1.5 million. Many neighborhoods experienced

disinvestment and blight. With spatial patterns of empty lots and intermittent occupancy, policymakers began to think about using green investment activities to seed revitalization.

To help the city assess the value of such investments, University of Pennsylvania researchers analyzed the impact of a multi-year vacant-land cleanup and management program in the at-risk New Kensington neighborhood. The initiative, run by the New Kensington Community Development Corporation and the Pennsylvania Horticultural Society, cleared neglected lots of debris, seeded and landscaped them, and put up rustic wood fencing. It also created an ongoing community gardening program and beautified streets by planting trees.

Between 2000 and 2003, 18,800 lots were cleared of trash, and 12,186 were improved and maintained.

## Measuring Green Benefits

When neighborhoods become more satisfying places to live, housing prices increase. Most studies of house-value capitalization add variables such as adjacency to a park to the basic specifications of house size, location, number of bedrooms and baths, and the like. But these studies still use static techniques that fail to capture the gains from new investments and may underestimate a new amenity's benefits.<sup>3</sup>

After the New Kensington report, the researchers studied Philadelphia as a whole. They used geographic information systems (GIS) technology and integrated separately collected datasets into one database. Precise, time-based spatial data showed when and where investment occurred.

City data on property sales, including more than 50 attribute characteristics for

cial-corridor quality, and schooling were all collected and integrated with the property database. The Pennsylvania Horticultural Society provided data on the location and timing of efforts such as tree plantings and vacant lot stabilization.

By analyzing nearby property sales, the researchers could compare neighborhood values before and after the various types of green investment. (See "Summary of Green Infrastructure Findings.")

## Commercial Greening

The phrase "commercial greening" was used to denote improvements to public spaces that featured business activity—for example, commercial streets or shopping centers. When a corridor was rated as being in "excellent" condition, a home's location within one-quarter mile of the corridor was found

## Vacant Land Management

Adjacency to a neglected vacant lot subtracted 20 percent of a home's value relative to comparable homes farther away from the site. Initiatives such as removing trash, planting shrubs, and adding benches reversed the negative impact and led to a gain in value of 17 percent.

## Neighborhood Greening

Investment in green projects positively affected values of nearby homes.

For example, streetscape projects—horticultural treatments to a sidewalk or roadway that improve appearance, particularly of commercial corridors with high visibility and high levels of pedestrian or vehicular traffic—increased surrounding home values about 28 percent relative to similar homes in comparable areas without streetscape improvements.

## Employing New Tools

The Philadelphia study may help policymakers in other cities make decisions about green investment. The percent improvement in nearby property values is impressive. So are the takeaways from the contingent valuation method, which assigns a dollar value to the geographically distributed benefits of new community amenities and thus makes it possible to translate concepts such as "quality of life" or "sense of place" into measurable economic variables.<sup>5</sup>

The deeper understanding of investment effects that the new tools offer should also help communities make the case for public, green-based investment to jumpstart growth in at-risk neighborhoods.



Photograph courtesy of HAP Inc.

A community garden spruces up the Old Hill Neighborhood of Springfield, Massachusetts.

over 120,000 properties and over 200,000 sales for the period 1980 to 2005, enabled an evaluation of quality-of-life improvements in neighborhoods that had used green investment strategies. Data on public place-based investments and on neighborhood safety, public transit accessibility, commer-

to impart an additional 23 percent to its value; a home's location between one-quarter mile and one-half mile imparted 11 percent to the value. Houses within a business improvement district (BID) were estimated to have a value 30 percent higher than other local houses.<sup>4</sup>



## Summary of Green Infrastructure Findings

Based upon the 2004 Median-Priced Philadelphia Home of \$82,700\*

	Percent Impact	Dollar Impact
<b>Commercial Greening</b>		
<= ¼ mile to a commercial corridor in “excellent” condition (net impact)	23%	\$19,021
¼ to ½ mile to a commercial corridor in “excellent” condition (net impact)	11%	\$9,097
Located in a business improvement district (BID)	30%	\$24,397
<b>Vacant Lot Management</b>		
Adjacent to a stabilized and greened lot	17%	\$14,059
<b>Neighborhood Greening</b>		
Near a new tree planting	9%	\$7,443
Improvements to streetscapes	28%	\$23,156

\*“Percent Impact” shows the percent change in value. “Dollar Impact” shows the dollar change in value when the percent impact is multiplied times the median value of a typical Philadelphia home—\$82,700 in 2004.

**Susan M. Wachter** is a professor of real estate and finance at the University of Pennsylvania’s Wharton School and co-director of the Penn Institute of Urban Research. **Kevin C. Gillen** is a Wharton research fellow, and **Carolyn R. Brown** is a doctoral student in the University of Pennsylvania’s department of city and regional planning.

### Endnotes

<sup>1</sup> Jerome Rothenbeg, *The Maze of Urban Housing Markets: Theory, Evidence and Policy* (Chicago: University of Chicago Press, 1991).

<sup>2</sup> To read how quality of life helps to attract new knowledge workers to urban places, see Richard Florida, *The Rise of the Creative Class: And How It’s Transforming Work, Leisure, Community and Everyday Life* (London: Pluto Press, 2003).

<sup>3</sup> Parks, like other amenities, may be associated with other positive housing characteristics, however. The correlated attributes may make it difficult to identify separately a park’s positive impacts. See Edwin S. Mills and Bruce W. Hamilton, *Urban Economics* (New York: HarperCollins, 1994), 229-230.

<sup>4</sup> BIDs are defined as geographically delineated, quasi-public agencies that provide collective public services, including enhanced security, street cleaning, and streetscape improvements.

<sup>5</sup> For a more detailed discussion on the effects of green-based investment strategies on home values, see Susan M. Wachter, Kevin C. Gillen, and Carolyn R. Brown, “Green Investment Strategies: How They Help Urban Neighborhoods” in Susan Wachter and Genie Birch, eds., *Growing Greener Cities* (Philadelphia: University of Pennsylvania Press, forthcoming).

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).



*Mission-Related Investing  
at the F.B. Heron Foundation*

# Expanding Philanthropy's Reach

**When New York's F.B. Heron Foundation,** a private, grant-making institution, was created, it had a mandate to invest assets and donate 5 percent of returns annually to help low-income people and communities to help themselves.<sup>1</sup> The year was 1992, the cusp of one of the greatest economic booms in U.S. history. But as Heron's asset base swelled, 5 percent for community work began to look insufficient to help the many Americans who were missing out on the boom.

by Michael Swack  
SNHU School of Community  
Economic Development



In a 1996 meeting, directors realized they were spending too much time reviewing a particular investment manager's performance and too little time discussing Heron programs. It was time to reevaluate priorities. The foundation's social mission and tax-exempt status suggested that it should be more than a private investment company using excess cash for charitable purposes. It needed to be different from conventional investment managers.

Heron concluded that the 5 percent payout requirement was the narrowest expression of its philanthropic goals. The other 95 percent of assets, the *corpus*, could give the board the tools it needed for greater social impact. Staff members were encouraged to explore ways in which Heron could engage more of its assets through a combination of grants and mission-related investment strategies.<sup>2</sup> The foundation decided to leverage an increasing amount of its resources to pursue its mission and to maximize its impact in low-income communities.

## The Road to Mission-Related Investing

Developing a mission-related investment strategy did not happen overnight. Heron spent considerable time refining its mission and determining how a proactive investment strategy could enhance it.

With initial uncertainty as to how far and fast the foundation could move, there was a reluctance to establish specific mission-related investment targets. So the foundation adopted an incremental approach. Staff members were encouraged to explore core-program opportunities that would build on existing networks and expertise—and to share lessons learned.

### First Step

First Heron transferred some of its actively managed investments into index and enhanced index funds. The decision was based on widely accepted research unrelated to

mission investing that showed no substantial long-term advantage for active management in many core asset classes. The step reduced investment-management fees and allowed Heron to redirect its resources—away from managing dozens of investment managers and toward building a mission-related portfolio. Today the investment performance is as good as when the entire portfolio was actively managed.

### Assembling the Skills

Asked for guidance in developing a mission-related investing strategy, Heron's investment consulting firm was deprecating, and the board began to realize how much its intentions challenged conventional thinking. So it built an internal management capacity for certain functions and encouraged staff to get training in financial analysis and the investment process. It also authorized a new position separate from the finance and administration functions—vice president of investments. Additionally, it conducted a search for an investment consulting firm that could relate to mission-related investing, and in 2004 it retained Evaluation Associates.

### Learning from Others

Early on, Heron looked to other foundations and institutional investors (including commercial banks, insurers, and some public pension funds) for examples of alternative asset deployment. It learned about below-market investments, including program-related investments (PRIs).<sup>3</sup> It also found willing partners among like-minded large commercial banks that sought to deliver both market-rate financial returns and positive social impact through “double-bottom-line” real estate and venture-oriented private equity funds.

### Leveraging Relationships

Through partnerships with community-based organizations and financial intermediaries, Heron witnessed firsthand the

transformative power of investing in America's low-income communities—primarily through home ownership, enterprise development, and access to capital. Its grantee pool offered a natural place to look for opportunities to make below-market program-related investments, and its past knowledge of grantees' management and operational histories supported high-quality underwriting. It began making PRIs in 1997.

### Market-Rate Opportunities

Heron's staff works to build a market-rate portfolio of mission-related investments in three primary ways:

- Conducting active outreach to identify opportunities within various asset classes,
- Adapting traditional investment vehicles and asset managers to mission goals, and
- Researching and developing new investment vehicles, such as the Community Investment Index, a screened, best-in-class methodology used to identify publicly traded companies with superior records of engagement with underserved communities.

### Bridging the Program and Investment Functions

As its prospecting efforts turned into a pipeline of tangible deals, Heron began a conscious effort to bridge its program and investment units—a significant departure from how typical foundations are organized.

Although many program staff members appreciated the benefits of having access to a new philanthropic tool, others did not feel comfortable with the training, mentoring, and analysis that making PRIs demanded. The result was some staff turnover. In replacing staff who decided to leave, Heron looked for officers who felt comfortable with financial analysis and investing. It took time, but Heron now enjoys a collaborative model, with staff in the two functional areas working side by side.

## Using Resources Effectively

To be successful in developing a mission-related investing strategy, a foundation must, of course, have board support. Although foundations' executive and professional staff may encourage boards to discuss mission-related investing, the transformative effects of the strategy depend on board commitment. Heron's success is closely tied to that factor.

## Mission-Related Investment Continuum

To sort through the mission-related investing opportunities, Heron's staff developed the "Mission-Related Investment Continuum," which lays out asset classes available to mission-related investors. On the left side are below-market investments—grants and PRIs including private equity, senior

**The objective of achieving competitive investment returns can be met even when incorporating mission-related investments into an overall portfolio.**

loans (first claims on collateral), subordinated loans (second or "junior" claims on collateral), and cash. On the right side are mission-related investments that generate market rates of return (cash, fixed income, public equity, and private equity). The least risky investments are in the center of the Continuum; the risk level increases as you move toward both ends.

In developing the Continuum, Heron staff considered the central tenets of traditional investing discipline: asset allocation, performance benchmarking, and security or manager selection. Heron's asset-allocation policy—which is paramount to portfolio performance—has not changed to accommodate its mission-related investing prac-

tice. Rather, mission-related investing opportunities are considered within the overall asset-allocation framework of a well-diversified portfolio.

Heron also has identified appropriate performance benchmarks by asset class to evaluate relative performance and to compare both risk and return for its mission-related investments versus standard, capital-market measures. In choosing its mission-related investments, staff considers variables such as track record, investment strategy, and market opportunity.

Heron has taken advantage of mission-related investment opportunities across the Continuum. In some ways, its mission is particularly suited for such opportunities. Foundations that are active in fields where investment and lending are more limited may find it challenging to identify the same breadth of opportunities. Not all foundations will employ mission-related investing along the entire Continuum; one or two asset classes may be sufficient. In these cases, determining where to start depends on opportunities that are most consistent with mission and investment goals.

## The Result

The result has been better than average portfolio performance. Contrary to the perception that there is a trade-off between financial return and social impact, Heron's experience during the last 10 years demonstrates that the objective of achieving competitive investment returns can be met even when incorporating mission-related investments into an overall portfolio and asset allocation.

As of December 31, 2006, Heron's total fund performance was in the second quartile of the Mellon All-Foundation Universe on both a trailing one-year and three-year basis, with 18 percent of assets in market-rate mission-related investments, 6 percent in below-market program-related investments (PRIs), and 3 percent in grants.

Today's mission-related investing environment is very different from the one in 1996. Now, there are mission-related investment vehicles in virtually every asset class. As Vice President of Investments Luther M. Ragin Jr. says, "While each foundation will have to work at visualizing its own mission through an investment strategy, there is no need to reinvent the wheel."

The F.B. Heron Foundation has moved well beyond the tipping point toward a fully diversified mission-related investing practice. Indeed, Heron continues today to expand its vision and investment horizons—using its broad experience in working with community-based organizations—to bring to bear on its mission the full weight of its resources and those of other investors. No longer does Heron view low-income people and neighborhoods merely as candidates for grants. It views them as good investments.

---

**Michael Swack** is dean of the School of Community Economic Development at Southern New Hampshire University in Manchester, New Hampshire. He serves on the Federal Reserve Bank of Boston's Community Development Advisory Council.

## Endnotes

<sup>1</sup> This article is excerpted from a case study by the School of Community Economic Development (SCED), Southern New Hampshire University, [www.snhu.edu/ced](http://www.snhu.edu/ced). For the full study, see [http://www.altrushare.com/apps/altrushare/Case\\_Study-MRI\\_Heron\\_Foundation2.pdf](http://www.altrushare.com/apps/altrushare/Case_Study-MRI_Heron_Foundation2.pdf).

<sup>2</sup> Mission investments are "financial investments made with the intention of (1) furthering a foundation's mission and (2) recovering the principal invested or earning financial return." Unlike socially responsible investing, which focuses on social screening and proxy activity in public equities, mission-related investing is proactive. See "Compounding Impact: Mission Investing by U.S. Foundations" (FSG Social Impact Advisors: March 2007), <http://www.fsg-impact.org/app/content/ideas/item/485>.

<sup>3</sup> Program-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. See <http://foundationcenter.org/getstarted/faqs/html/pri.html>.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).



# High Returns:

## Public Investment in Higher Education

**R**emember the United Negro College Fund slogan, “A mind is a terrible thing to waste”? It’s powerful because it’s founded on a universal truth. A mind is indeed a terrible thing to waste.

When a mind fails to reach its full potential, whether for lack of access to a college education or for some other reason, society suffers, too. That is why higher education is important. Most of the benefits are well established: higher income, lower unemployment, better health, longer life, faster technology creation and adoption, reduced crime, greater tolerance, increased civic involvement, and so on. Less widely known is that college education also creates substantial government fiscal benefits.

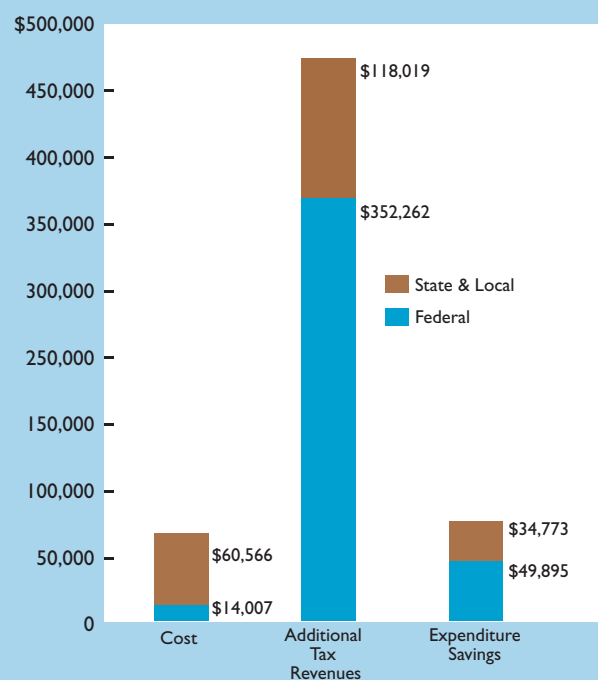
### The Fiscal Impacts of College Attainment

Because college education leads to higher earnings for individuals, it also leads to more tax revenue. The magnitude of this effect may be surprising. (See “National Fiscal Effects per Four-Year-Equivalent Degree.”) Over the course of an average lifetime, a four-year-equivalent degree (the weighted average of associate’s, bachelor’s, master’s, professional, and doctorate degrees) gives government \$471,000 more in income, payroll, property, and sales-tax revenue—more than twice what it would collect in lifetime taxes from a high school graduate lacking a college degree.<sup>1</sup>

The magnitude of the college-attainment effects on the amounts going out of government coffers may be surprising as well. Each four-year-equivalent degree leads to lower spending on welfare programs, Medicare, Supplemental Security Income, unemployment compensation, workers’ compensation,

**Because college education leads to higher earnings for individuals, it also leads to more tax revenue.**

## National Fiscal Effects per Four-Year-Equivalent Degree



prisons, and medical care for the uninsured. The government savings over an average lifetime is conservatively estimated to be almost \$85,000.

Direct savings in post-college government expenditures per college degree exceeds what the government spends for each college degree. In other words, government spending per college degree is negative. The post-college savings for government are, conservatively, about \$10,000 more than the cost. The cost is generously estimated to be about \$74,500 per four-year-equivalent degree from public colleges. That estimate is on the high side because it includes all public funding for higher education (all appropriations for operations and capital costs at state colleges, public college endowment revenues, financial aid and loan subsidies to students in both public and private colleges, and spending on university research and service activities).

Thus the \$556,000 fiscal payoff per four-year equivalent degree is actually a conservative number, and the \$74,500 fiscal

cost per degree is a high estimate. Government gets back at least \$7.46 for every dollar it invests in a college student.

Moreover, \$7.46 in fiscal benefits per dollar spent is only the direct fiscal return from college attainment. Indirect effects on tax revenues and government expenditures through higher education's effect on economic growth are not included. The estimated fiscal return also does not include any economic benefits from publicly sponsored university research, from university public service and extension activities,

or from the effect of public colleges and college education on entrepreneurial activity and job creation.

## Recouping the Investment

Obviously, most the \$556,000 lifetime fiscal payoff occurs well after the \$74,500 cost per degree. As with any investment, the up-front costs matter relatively more in present value than the benefits in the future. The fiscal benefits of college attainment are so much greater than the costs, though, that it takes only a little over nine years after graduation to fully recoup the government investment. Putting it another way, the public investment in a student who graduates with a bachelor's at the typical age of 22 is recovered just after the individual turns 31.

The real internal rate of return on government investment in college students—direct fiscal impacts—is conservatively estimated to be 10.3 percent above the rate of inflation. For comparison, the average yield on inflation-indexed five-year U.S. Treasury bonds is 1.5 percent. So even if one ignores

the many other important social benefits of higher education, public investment in college students is a sound use of tax dollars.

And as if a 10.3 percent fiscal rate of return was not already almost too good to be true, there is a way to make it even higher. Specifically, the fiscal rate of return would be greater still if government funding for higher education were better targeted on students on the margin of college attendance—those struggling with the choice of whether to enroll or forgo higher education. In other words, the marginal fiscal rate of return from targeted public investment in college students exceeds the average fiscal rate of return from all public investment in college students.

Today much of the public funding for higher education benefits those who would be going to college without the subsidy. Although those students and their families may be grateful for less expensive college degrees, their degrees do not create additional fiscal benefits. Maximum bang per college-education buck comes from getting people into college who would not otherwise be there. Even if there were no concern for equality of opportunity, better targeting of public support for higher education toward the disadvantaged makes good economic sense.

## Conundrum

There is a conundrum implicit in the costs and benefits of public investment in college education: Most of the investment is at the state level, whereas the lion's share of the fiscal benefits accrues at the federal level. Indeed, 72.5 percent of the \$556,000 fiscal payoff goes to the federal government, whereas the federal share of funding for higher education is less than 19 percent. Thus, the average fiscal return to individual states is substantially less than 10.3 percent. Moreover, interstate migration of college graduates further reduces the fiscal return to individual states.

Nonetheless, public investment in col-

## New England's State Support for Higher Education

by Carl Nadler, Federal Reserve Bank of Boston

How does New England's public support for higher education compare with other regions? According to a recent paper by Philip Trostel and Justin Ronca, not well.\*

To measure state support for higher education fairly, the authors considered a state's ability to pay and the overall need for support. State income per resident is an established measure of ability to pay, but defining need is trickier. One definition—total students enrolled in the public higher education system—can lead to biased conclusions because a state's investment in higher education may lower tuition and raise quality and therefore affect the number of students who enroll.

In Connecticut, for instance, if support is defined as average state funding for higher education per full-time enrolled student in its public institutions, the state ranks 4<sup>th</sup> in the nation. Define support as a percentage of state income, and Connecticut drops to 44<sup>th</sup>.

Hence the researchers defined need as the total number of high school graduates in the previous four years and assumed that all high school graduates—within classes, among states, and over time—are equal in needing higher education.

They then measured state support as total state funding for higher education (all state and local government appropriations) divided by both a state's average per-resident income and the total number of high school graduates over the previous four years. The result: the New England states ranked dismally low, and as a region the worst in the country.

Why does New England rank so poorly? Old habits are hard to break, and past research suggests that the level of state funding in 1994 is related to the 1929 level.\*\* Many states founded public colleges and universities during the mid 19<sup>th</sup> century with the large land grants of the 1862 and 1890 Morrill Acts, created to support the development of mechanical and agricultural industries. Yet, in the northeastern states, home to the nation's oldest private colleges and universities, a few of the grants were given entirely to private colleges (Cornell) or were divided among public and private colleges (University of Massachusetts in Amherst and MIT).

An analysis by Claudia Goldin and Lawrence Katz suggests that during the early 20<sup>th</sup> century, financing of public higher education increased in wealthier states with higher shares of mining, manufacturing, and agriculture. However, states with higher shares of private college enrollments, like the New England states, invested less. Higher education appears to have been publicly supported where there was greater demand for technical training and research that couldn't be supplied by preexisting higher-education infrastructure. Though the need has since broadened, the pattern persists to this day.

\* Philip A. Trostel and Justin M. Ronca, "A Simple Unifying Measure of State Support for Higher Education" (working paper, Wisconsin Center for the Advancement of Secondary Education, 2007) uses 2005 estimates.

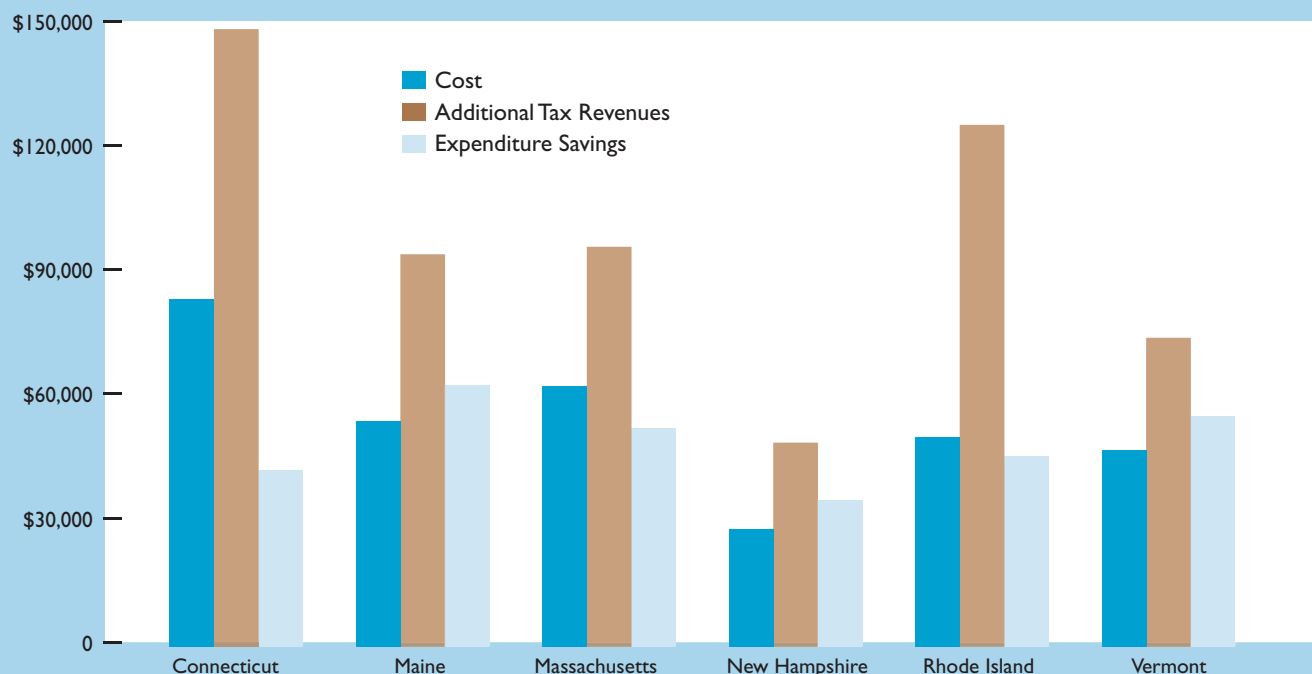
\*\* Claudia Goldin and Lawrence F. Katz. "The Shaping of Higher Education: The Formative Years in the United States, 1890 to 1940," *The Journal of Economic Perspectives* 13, no.1 (1999): 37-62.



Photograph: iStockphoto



## Fiscal Effects per Four-Year-Equivalent Degree in New England



lege students does benefit states. At the individual state level, each potential college graduate creates \$142,000 in fiscal benefits (after the downward adjustment for net interstate migration of college graduates) and only \$60,500 in public costs. Nationally, the average real fiscal rate of return to individual states is 3.1 percent. The average fiscal return in New England states is generally somewhat higher than in the rest of the nation. The net fiscal payoffs per degree range from \$56,000 in New Hampshire to \$121,000 in Rhode Island, and the fiscal rates of return range from 3.0 percent in Connecticut to 4.7 percent in Rhode Island. (See “Fiscal Effects per Four-Year Equivalent Degree in New England.”)

### Mistaken Priorities

Despite these fiscal payoffs, public investment in college education is a falling priority in this country. In 1984, nationwide net state funding for higher education was 4.1

percent of total state government spending. In 1994, the proportion was 2.4 percent; and in 2004, it was 1.8 percent. Moreover, investment in public higher education is particularly low in New England. In state support for higher education from 1980 through 2005, the New England states ranked low: 50<sup>th</sup> (New Hampshire), 49<sup>th</sup> (Vermont), 48<sup>th</sup> (Massachusetts), 47<sup>th</sup> (Connecticut), 44<sup>th</sup> (Maine), and 41<sup>st</sup> (Rhode Island).<sup>2</sup>

In sum, minds are going to waste in this country, and particularly in New England, where the number of private colleges do not make up for the lack of support for public higher education. In not making college education more widely accessible, we are losing out in many dimensions and are paying more taxes. The most sensible taxpayers’ bill of rights would emphasize increasing access to college education rather than capping spending growth.

**Philip Trostel** is a professor of economics and public policy in the School of Economics and the Margaret Chase Smith Policy Center at the University of Maine, and a faculty affiliate at the Wisconsin Center for the Advancement of Postsecondary Education at the University of Wisconsin, Madison. In 2007 he was a visiting scholar with the Federal Reserve Bank of Boston’s New England Public Policy Center.

### Endnotes

<sup>1</sup> For details on how this and other numbers in the article were estimated, see Philip A. Trostel, “The Fiscal Impacts of College Attainment,” <http://www.bos.frb.org/economic/neppc/index.htm>.

<sup>2</sup> These rankings are from Philip A. Trostel and Justin M. Ronca, “A Simple Unifying Measure of State Support for Higher Education,” Wisconsin Center for the Advancement of Secondary Education working paper no. 7, 2007.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).

The latest ***New England Community Developments*** features an article on how New Haven created an ID card that's good for all residents, regardless of immigration status. Read it in issue 1, 2008, at <http://www.bos.frb.org/commdev/necd/index.htm>.

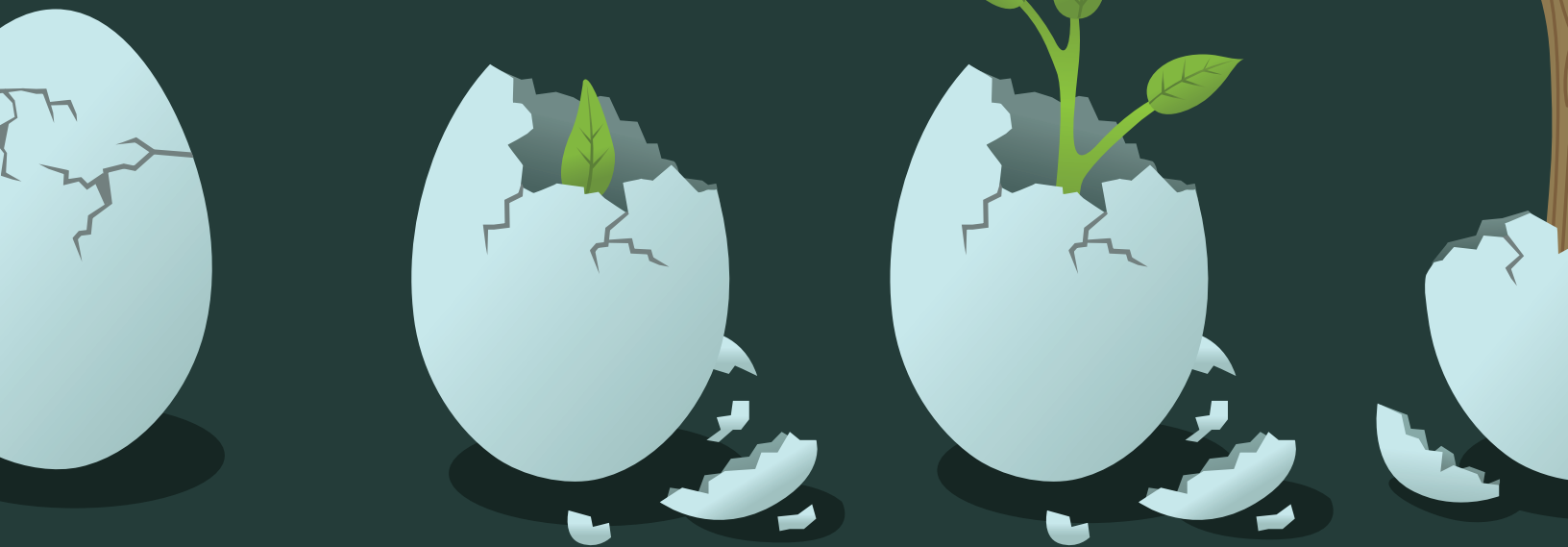


Illustration: Joe Guidry

One of the many New Haven residents to obtain the new ID, Mayor John DeStefano, shows his card in "The Elm City Resident Card: New Haven Reaches Out to Immigrants," by Kica Matos.

Inside this issue:

# The Evolution *of* Philanthropy



*Communities & Banking* articles can be downloaded at <http://www.bos.frb.org/commdev/c&b/index.htm>. For reprint permission or to offer feedback, contact the editor at [caroline.ellis@bos.frb.org](mailto:caroline.ellis@bos.frb.org). To be notified when the latest issue of *Communities & Banking* or other Federal Reserve Bank of Boston publications are posted online, sign up for the free E-Mail Alert! service at <http://www.bos.frb.org/genpubs/email/index.htm>.



## **Communities & Banking**

Public and Community Affairs  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, MA 02210

Change Service Requested

U.S. Postage

**PAID**

New Bedford, MA  
Permit No. 450