Federal Reserve Bank of Boston

Communities & Banking

Supporting the Economic Strength of Lower-Income Communities

spring 2012
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Immigrants and the Economy

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The Growth of Latino Small Business

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

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Letter from the Editor

Other than you, the faithful reader of *Communities & Banking* magazine, surprisingly few people know that the Federal Reserve has any interest in lower-income issues. Even many otherwise well-informed people seem to think the Fed just works on interest rates and inflation.

But the Fed's mandate since 1913 involves both inflation *and* unemployment. Additionally, since 1977, when Congress passed the Community Reinvestment Act, we have helped banks find ways to invest in their communities. Deep into our many assigned tasks, we may historically have failed to emphasize the task of talking about them. Fortunately, we now have a heightened focus on transparency.

By coincidence, the last months of 2011 brought the need for transparency home to us on a daily basis. Our windows looked out at Boston's Occupy encampment. Among the hand-lettered posters on income inequality, free speech, and homelessness, there was always one sign aimed directly at us: "End the Fed." But what exactly did the protestors think the Fed does? Did any know about our continued work to deal with foreclosures and high unemployment, and to reach out to community groups through our research, convening, and sharing of good ideas?

By offering those who care about lower-income communities new research and details on best practices, we aim to improve the public understanding of the Fed—and even more, make sure that entities focused on improving the lot of people in need can do so more efficiently. Perhaps a community bank will find a suitable match for its outreach mission. Perhaps an article will help a nonprofit assess the relative efficacy of two programs. Perhaps a new study will give a policymaker deeper insight into the likely effects of proposed legislation.

As you pick up our spring issue, be sure to read about improving day-care facilities, harvesting excess crops for food banks, gauging the results of low-income arts programs more aptly, and encouraging immigration for jobs that spur other jobs. That's just the beginning.

Please spread the word about *Communities & Banking* and the Fed's interest in the economic strength of lower-income communities. U.S. residents may e-mail me for free subscriptions, and anyone may follow us on twitter @BostonFed.

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The Role of Immigrants in the New England Economy

by Pia M. Orrenius
Federal Reserve Bank of Dallas
and Madeline Zavodny
Agnes Scott College

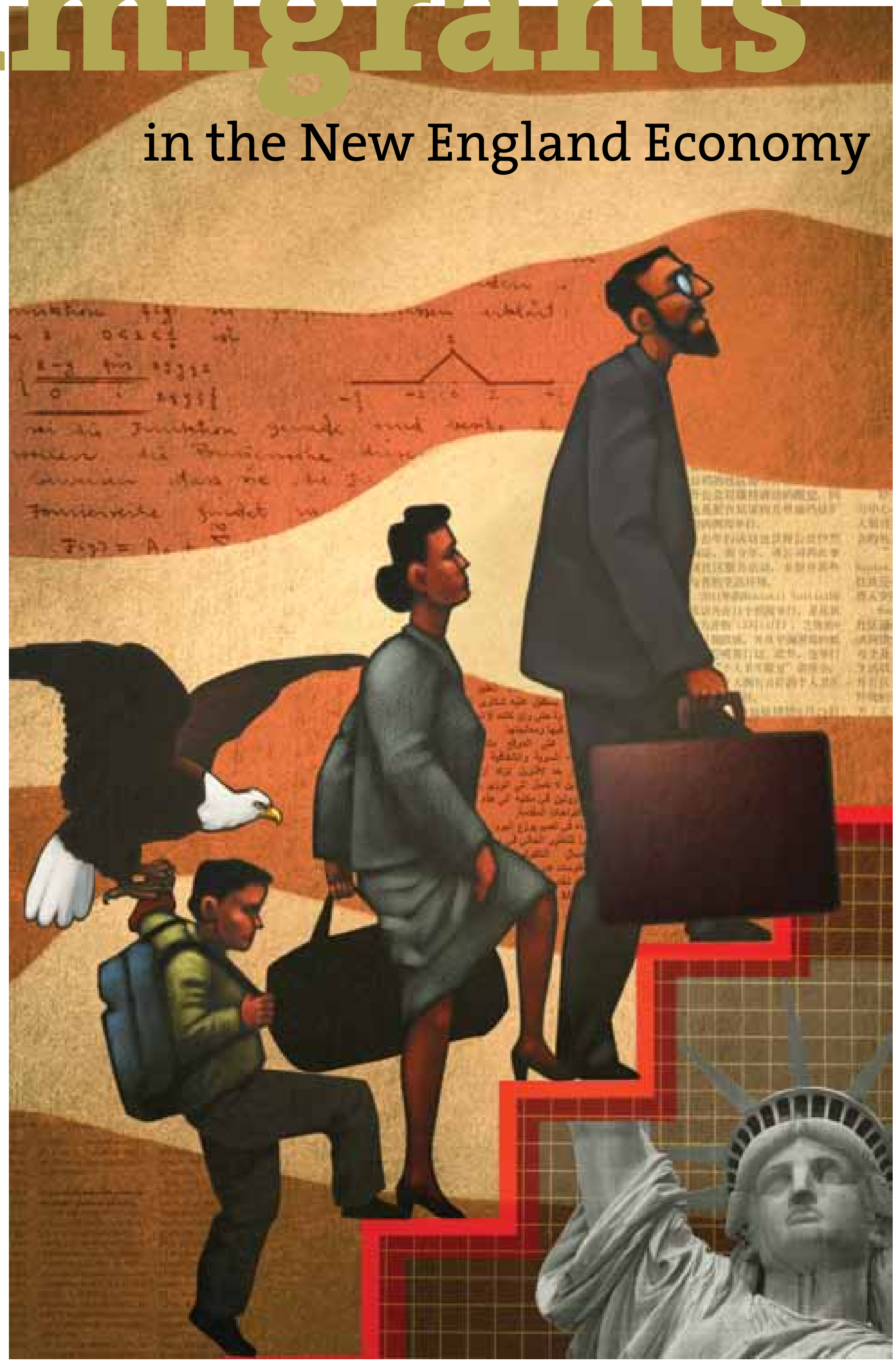


Illustration: Kirk Lyttle

Immigrants play an important role in the U.S. economy. Nationally, almost one in six workers is foreign born, and immigrants account for more than 40 percent of labor force growth during the last two decades. New England differs slightly—immigrants comprise a smaller share of the labor force yet account for a greater share of labor force growth than nationally.

The region has the advantage of a better-educated and higher-earning population than national averages. However, its numbers are growing at less than half the national rate, and its average age is rising more quickly. In recent years, net domestic migration has been negative, and the outmigration of well-educated young residents has been high. Shortages of workers, particularly of highly educated engineers and scientists—and certain occupations requiring midlevel skills—could threaten New England's continued prosperity. Immigrants are a vital source of skilled workers for the region.

Economic disparities are another challenge. In recent years, New England has experienced rapid increases in income inequality.[1] The poverty rate is lower than nationally, but poverty is relatively high in several former manufacturing centers and rural areas. Economic growth and job creation have been strongest in cities with sizable health-care and education sectors, and immigrants are concentrated in those same cities. For more economically depressed areas, attracting well-educated immigrants may be a way to spur economic development.

Characteristics

New England states vary greatly with regard to the volume of immigration. In 2009, three New England states had a foreign-born share of population that was slightly higher than the 12.5 percent national average. Those states were Connecticut (13.1 percent), Massachusetts (14.3 percent), and Rhode Island (12.7 percent). The other three states—Maine (3.3 percent), New Hampshire (5.2 percent), and Vermont (3.3 percent)—had considerably smaller proportions of their populations that were foreign born. Within states there was also variation. The highest concentrations were in Suffolk County (home to Boston) and Fairfield County (home to Bridgeport and Stamford).[2] (See "Foreign-Born Population.")

Immigrants are more likely to be employed than U.S. natives, both in New England and across the country. That is partially due to the fact that so many immigrants are in the prime working ages, 25 to 54. Additionally, many come specifically to work, and recent arrivals have little to no access to government benefit programs.

The home countries of New England's immigrants differ from those of immigrants nationwide, where Mexico is the main country of origin, accounting for almost one-third of all immigrants. In New England, less than 3 percent are from Mexico. Canada, the West Indies, South America, and Africa are more common areas of origin in New England than in the rest of the country. Portugal is perhaps the most overrepresented country of origin in New England, accounting for more than 5 percent of immigrants, versus less than 0.3 percent of all immigrants in the United States.

Among adults, immigrants living in New England tend to be better educated than those living elsewhere in the country, being slightly more likely to have completed high school than the average U.S. immigrant. The bigger difference is in advanced degrees. (See "Education Higher Among New England Immigrants.") The region's universities have played an important role not only in more natives having an advanced degree than the national norm, but also in the degree attainment of the foreign born.

Immigrants and Economic Growth

One way that immigrants contribute to economic growth is by adding to the labor force. That increases total output and gross domestic product (GDP). Most of the gain accrues to immigrant workers in the form of their earnings, but natives gain as well. Business owners benefit from lower labor costs and a larger customer base. Natives benefit from lower prices for goods and services produced by immigrants. Although some natives compete with immigrants for jobs, others benefit from working alongside immigrants. They may even have a job because of them. Natives often have different skills and work in different jobs. In economic jargon, immigrants are *complements* or *imperfect substitutes* for natives, not perfect substitutes.

New England has been fortunate in an immigrant population that is relatively high skilled. Recent research provides convincing empirical evidence that high-skilled immigrants play an important role in innovation and research and development. Highly educated immigrants receive patents at more than twice the rate of highly educated natives. The difference has been linked to immigrants' overrepresentation in STEM fields (science, technology, engineering, and mathematics) and the growing number of immigrants entering on employment-based and student visas.[3] There is also evidence that immigration boosts natives' patent activity.

Highly educated immigrants' entrepreneurial activities have been instrumental in the growth of the U.S. high-tech sector. In New England, more than one-quarter of biotechnology firms have an immigrant founder. In one year (2006), those firms employed more than 4,000 workers.[4]

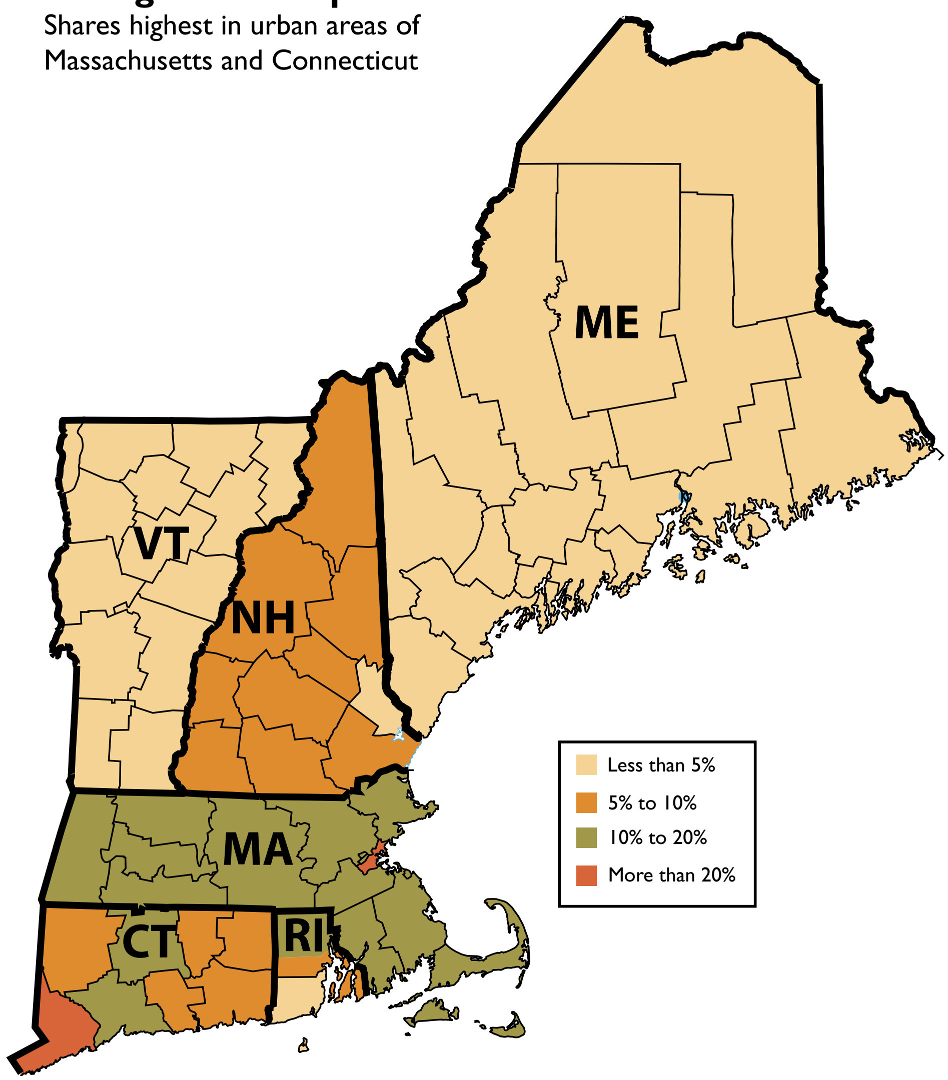
Innovation and entrepreneurship predominately involve highly educated immigrants, but less educated immigrants contribute to the economy as well. They may pick crops, build houses, or provide household services, among other activities. In New England, less educated immigrants are particularly important to the leisure and hospitality industry.

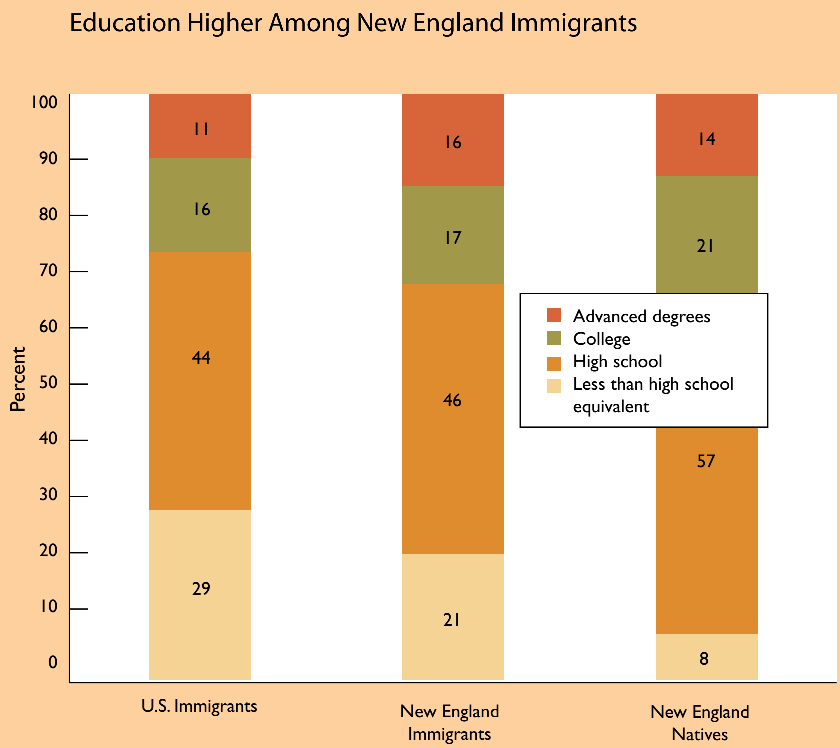
Population Loss

For several decades, New England and Midwest states have lost people, businesses, and political representation. Nevertheless, some cities have thrived, bucking the regions' overall trends, and highly educated immigrants (together with educated natives) have played important roles. The immigrants are concentrated in areas that have relatively strong economies. A virtuous circle is evident: robust economic growth attracts

Foreign-Born Population

Shares highest in urban areas of Massachusetts and Connecticut





Source: American Community Survey 2007-2009. Individuals ages 25 and above.

skilled immigrants, and skilled immigrants boost economic growth.

But what about areas that are struggling economically, like parts of rural New England and postindustrial midsize cities? These areas often have small shares of immigrants, and those immigrants they do attract are less likely to be highly educated. To attract skilled immigrants, special initiatives may be needed, such as recruiting foreign students and encouraging them to stay when they graduate from local colleges or universities. In order to attract immigrant entrepreneurs (native entrepreneurs, too), local governments can use tax breaks and other incentives that reduce the cost of doing business. Federal immigration laws can be used to recruit immigrant investors. By creating a "Regional Center," authorities can devise community-investment projects and attract immigrant investors under a special provision of the immigrant-investor visa program.[5]

U.S. immigration policy is generally not designed to promote economic development. The government runs out of H-1B visas for skilled temporary workers in most years because quotas are insufficient. And the immigrant-investor program, though well-intentioned, is costly and difficult to administer. Other nations have a better track record of using immigration for regional economic development. In Canada, for example, the provincial nomination program allows provinces to nominate individuals for an immigrant visa. Provinces can determine the admissions criteria. Less populated provinces are willing to accept family-based immigrants. British Columbia, Ontario, and Quebec, however, favor skilled workers, entrepreneurs, and students.

Pia M. Orrenius *is a research officer and senior economist at the Federal Reserve Bank of Dallas.* **Madeline Zavodny** *is a professor of economics at Agnes Scott College. The opinions expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Bank of Dallas or the Federal Reserve System.*

Endnotes

1 Russ Gittell and Jason Rudokas, "New England Has the Highest Increase in Income Disparity in the Nation" (Carsey Institute New England Issue Brief no. 4, spring 2007), http://www.carseyinstitute.unh.edu/publications/IB_incomeinequality_07.pdf.

2 Data from 2007-2009 American Community Survey are available for every county in Connecticut, two counties each in Maine and Massachusetts, one in New Hampshire, three in Rhode Island, none in Vermont. The map shows data for the balance of the state if county-level data are unavailable.

3 See Jennifer Hunt and Marjolaine Gauthier-Loiselle, "How Much Does Immigration Boost Innovation?" *American Economic Journal: Macroeconomics* 2, no. 2 (2010): 31–56; William R. Kerr and William F. Lincoln, "The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention," *Journal of Labor Economics* 28, no. 3 (2010): 473-508; Jennifer Hunt, "Which Immigrants Are Most Innovative and Entrepreneurial?" *Journal of Labor Economics* 29, no. 3 (2011): 417-457; and Gnanaraj Chellaraj, Keith E. Maskus, and Aaditya Mattoo, "The Contribution of International Graduate Students to U.S. Innovation," *Review of International Economics* 16, no. 3 (2008): 444-462.

4 Daniel J. Monti, Laurel Smith-Doerr, and James McQuaid, "Immigrant Entrepreneurs in the Massachusetts Biotechnology Industry" (Malden, Massachusetts: Immigrant Learning Center, 2007), http://www.ilctr.org/wp-content/uploads/2009/09/immigrants_in_biotechnology.pdf.

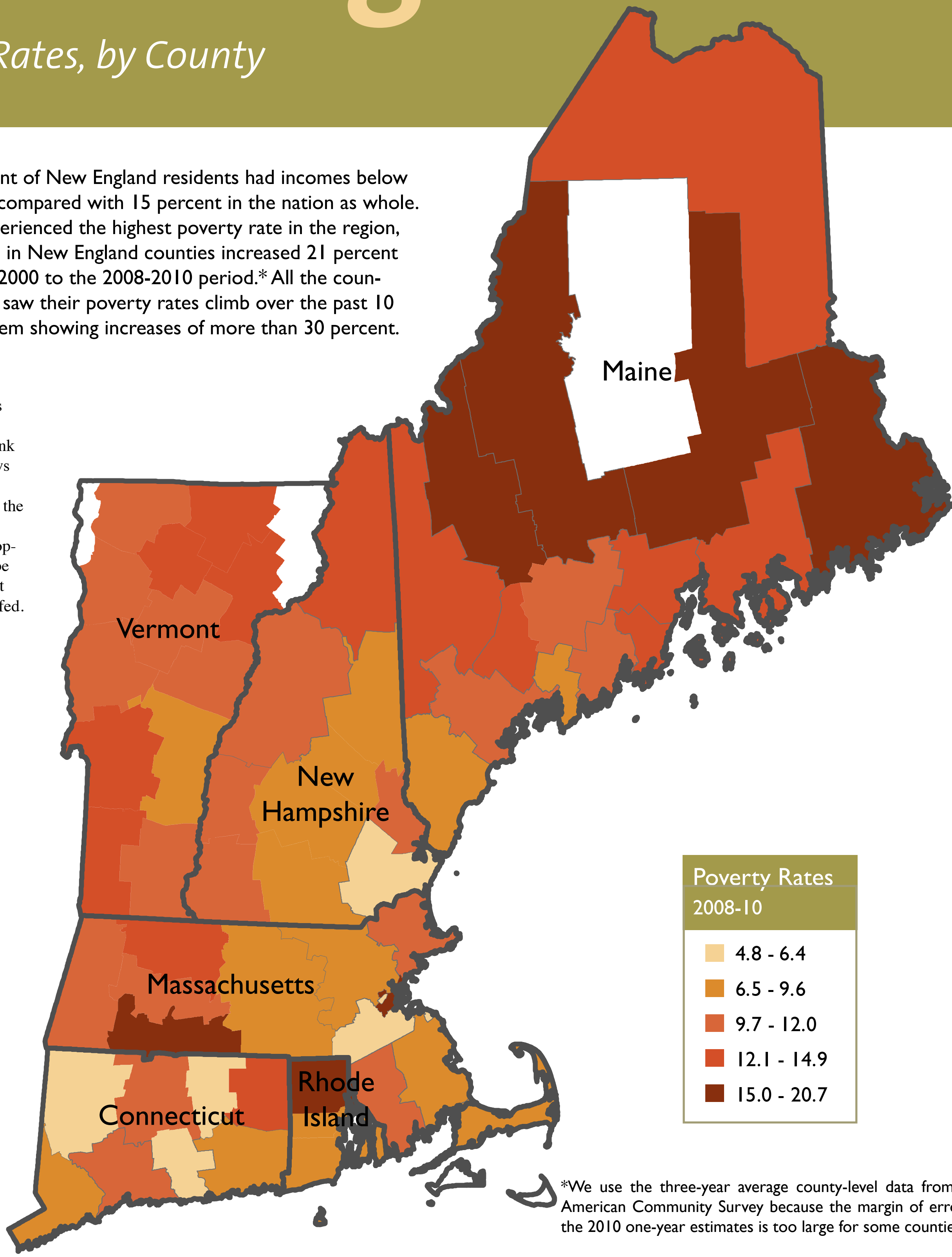
5 Foreign entrepreneurs who invest a minimum of $500,000 in "targeted employment areas" (for example, "high-unemployment or rural areas") receive provisional visas that are later converted to permanent resident visas (green cards) under the "EB-5" admission class. There is a requirement that the commercial venture create 10 jobs, but investors can pool their money and use the same employees to reach the required 10 new full-time positions.

Ana Patricia Muñoz
Federal Reserve Bank of Boston

Mapping New England

Poverty Rates, by County

In 2010, 11 percent of New England residents had incomes below the poverty line, compared with 15 percent in the nation as whole. Rhode Island experienced the highest poverty rate in the region, 14 percent. Rates in New England counties increased 21 percent on average from 2000 to the 2008-2010 period.* All the counties in the region saw their poverty rates climb over the past 10 years, some of them showing increases of more than 30 percent.



*We use the three-year average county-level data from the American Community Survey because the margin of error in the 2010 one-year estimates is too large for some counties.

Source: Decennial Census 2000, American Community Survey 3-year estimates 2008-2010.

by Corinne Almquist

GLEANING

Capturing Surplus to Meet Local Needs

Walk into most any emergency food pantry in the United States and you'll likely witness the same inventory: towers of canned, boxed, highly processed foods loaded with fats, sugars, and preservatives. Fresh produce is rarely featured, and when it does appear, it's often the wilted remains of grocery store surplus. What's wrong with this picture?

Fresh Food and Health

Highly processed foods may last a long time sitting on a pantry shelf, but too often they fail to provide substantive nutrition. Emergency food sites accept the donations because they're easy to store. Producers are happy to offload surplus commodity food.

But do we want the rejections from our industrialized food economy ending up as the salvation for hungry individuals most in need of a healthful meal? No wonder heart disease is the leading cause of death in America.[1] Obesity rates at over 30 percent and diabetes rates at nearly 8 percent testify to dependence on harmful food. Given our culture of quick, cheap meals, too many of us are eating products that are bad for us—and low-income people are often the most affected.[2]

However, healthful food is being produced in abundance across the country. In Vermont, we joke that the only time you need to lock your car is in the height of summer, when neighbors try to pile their gargantuan zucchinis in your passenger seat. Farmers always plant more than they expect to sell, anticipating possible problems with pests, disease, or poor growing conditions. Anyone who has been to a farmers market at day's end, when everyone is packing up to head home, may have wondered what will become of all the beautiful, fresh, unsold produce. At many farms, this nutritious bounty is simply thrown onto the compost pile. Meanwhile, thousands of pounds of crops that are never even harvested are left in the field and are eventually tilled back into the soil.

Researchers estimated in 1997 that around 27 percent of the food grown nationwide is wasted before it even reaches people's plates.[3] Today that estimate approaches 50 percent.[4] Wasted food now accounts for more than any other waste product in the country's landfills. As a nation, we are growing in volume faster than is necessary for our survival.[5]

Small Fix, Big Impact

Addressing poverty, hunger, and our industrialized food system may seem a daunting task, but if we break down the challenge into simple solutions, it quickly becomes clear that a bit of creativity and cooperation can help us provide nutritious food for all.

Gleaning is one such solution. Gleaning addresses problems of food waste, hunger, poverty, and carbon footprint through one simple activity. Defined as the act of harvesting surplus produce, gleaning has been practiced at least since biblical times. In fact, a chapter of Leviticus instructs farmers to leave the edges of their fields unpicked so that the poor might reap the benefits of the harvest. People may also recall the story of Ruth, who survived lean times and supported her family by gleaning crops.

Over recent decades, groups and individuals across the country have begun to resurrect that ancient tradition in order to provide meals for those in need. Powerful in its simplicity, it demonstrates that not all problems require expensive technological fixes: some can be addressed simply through ingenuity and regard for neighbors.

Gleaning groups have sprouted up nationwide, each with unique programs and approaches. In Vermont, where agriculture is a significant economic engine, gleaning is seen as one obvious solution to hunger and malnourishment. It first became organized in the state about a decade ago, when Theresa Snow started a nonprofit called Salvation Farms.

While working at an organic vegetable farm in her Lamoille County hometown, Snow noticed how much edible food was being composted or left in the field. She asked her employer if she could salvage the food for those who could not afford to buy it. Soon she was enlisting other farms, and before long she had built a grassroots food-justice program that continues to thrive. She also worked to institute the Vermont Foodbank's statewide gleaning program, and she personally inspired me to organize a gleaning crew in Addison County.

Addison County is ripe for an effort like gleaning. As many as 11 percent of the residents survive under the federal poverty line, and hundreds of families make a trip to the food shelf every month for emergency rations.[6] Before gleaning came along, HOPE (Helping Overcome Poverty's Effects), an antipoverty organization that houses the county's largest food shelf, was receiving only nonperishable items from traditional commodity surpluses and produce that had exceeded its shelf life in grocery stores.

Soon after a connection was made to HOPE and farmer interest in making donations was established, the gleaning program grew almost effortlessly. HOPE was thrilled to start receiving fresh, locally produced, nourishing food, and farmers were happy that their extra crops were feeding hungry families.

In the first three months of the Addison County Gleaning Program, we harvested 8,478 pounds of food from local farms with the help of many enthusiastic volunteers. Our second year brought in nearly 20,000 pounds of food, with more than 30 farms participating. As of this writing, we are on track to break records in our third year and are focused on trying to freeze and can what can't be distributed immediately so that it will be available all winter.

Many Wins

The act of gleaning benefits every person involved. Food shelves and their clients benefit from free, nutritious food, and the planet benefits from the elimination of the hundreds of thousands of transportation miles that moving commodity goods entails. Volunteers have the opportunity to visit local farms and share in the bounty. In ripple effects, many volunteers subsequently leverage their purchasing power at the grocery store to support farms that they have visited because of gleaning. Farmers get publicity, tax breaks for their donated produce, and the knowledge that the food they worked so hard to grow is addressing hunger in their community. In sum, gleaning creates a thriving local-food economy that ensures accessibility of food for everyone. Gleaning stands in opposition to the misconception that the local foods movement is an elitist phenomenon.

For me, personally, one of the most important aspects of gleaning lies in the stories it creates. In 2009, the first year of gleaning in Addison County, the food shelf eliminated boxed mashed potatoes in favor of real, local potatoes in Thanksgiving baskets. On Thanksgiving itself, Addison County families were able to express gratitude for delicious food grown by local farmers. In 2010, a woman selecting from the food shelf stopped to say that the spinach we had gleaned was her only source of the iron she needed during her pregnancy.

Gleaners from all over the country, whether they work in rural or urban areas, have similar stories of individuals touched by the program. Gleaning has become not only a logical solution to many of the pressing concerns of society, but a celebration of community, labor, and local resources.

Addressing the social, environmental, and economic problems perpetrated by the current food system will require a massive restructuring, with change initiated at the level of the farm, the federal government, and everywhere in between. Why not start in our own backyards? Food has brought friends, families, and neighbors together throughout history, and sharing local, healthful food with those who need it provides an opportunity to fight inequality and become more rooted in our communities.

Gleaning programs are proof that solutions can be found through community engagement. The act of gleaning may serve as a prayer of gratitude for the generosity and resilience of our local food economies.

Corinne Almquist *pursued environmental and religion studies at Middlebury College. Upon graduating, she received a 2009 Compton Mentor Fellowship to promote gleaning across Vermont. She continues to coordinate the Addison County program and support gleaning initiatives statewide.*

Endnotes

1 Kenneth D. Kochanek et al., "Deaths: Preliminary Data for 2009," *National Vital Statistics Report* 59, no. 4 (March 2011).

2 See "Overweight and Obesity" (Washington, DC: Centers for Disease Control and Prevention, 2010); and "Diabetes Statistics" (Alexandria, Virginia: American Diabetes Association, January 2011): http://www.cdc.gov/obesity/data/trends.html.

3 Linda Scott Kantor et al., "Estimating and Addressing America's Food Losses," *FoodReview* (January 1997): 3.

4 "The Environmental Food Crisis: A Crisis of Waste," *Environment News Service* (February 17, 2009), http://www.ens-newswire.com/ens/feb2009/2009-02-17-01.asp.

5 U.S. Environmental Protection Agency, "Basic Information about Food Waste," http://www.epa.gov/osw/conserve/materials/organics/food/fd-basic.htm.

6 See U.S. Census Bureau Quick Facts 2009 for Addison County, http://quickfacts.census.gov/qfd/states/50/50001.html.

A Food Bank That Provides Produce

by Stacy Wong, Greater Boston Food Bank

There are a variety of ways to provide fresh produce through food banks. The Greater Boston Food Bank (GBFB), for example, distributed about 6 million pounds of produce in 2011 (out of 36.7 million pounds of food overall). Some was purchased from Massachusetts farmers, using money from the Massachusetts Emergency Food Assistance Program.

In what might be considered a form of "gleaning," GBFB also rescues fresh produce at the end of trade shows so that the food doesn't go to waste. Also, larger farming operations that are too big for the handpicking method of gleaning (or don't want the liability of having strangers on their land) may offer the produce at low cost. The food bank pays the farm's nominal cost to harvest, pack, and ship it. We call that "low bono" (derived from the term "pro bono") because the produce is offered at a deep discount. In fact, the cost comes to about 13 cents per pound.

NEW CONSERVATION MODEL IN MAINE

Structured Financing that Benefits Communities

by Walter Graff and Rob Burbank, Appalachian Mountain Club

A new model for conservation in the woods of north-central Maine is contributing to the local economy, the environment, and social equity while supporting forest-products jobs and creating new outdoor recreational opportunities for the public. And as it's being carried out on nearly 70,000 acres of forestland—truly landscape-level conservation.

Threefold Opportunity

In Maine's storied 100-Mile Wilderness region, the Appalachian Mountain Club (AMC) is building its Maine Woods Initiative, a new approach to land conservation that combines outdoor recreation, natural-resource protection, sustainable forestry, and community partnerships to address the region's economic and ecological needs.

The initiative's goals include supporting forest jobs and creating recreational opportunities to attract new, nature-based tourism. Success is evident in many recent improvements: local logging crews are being employed, paper mills are receiving needed timber, and residents are being employed to run AMC's three traditional sporting camps and maintain roughly 70,000 acres of recently purchased forestland to be kept open for recreational use. Eleven new, full-time, benefited positions have been created so far, in addition to several seasonal jobs.

The nation's oldest conservation and recreation organization, AMC saw in the growing demand for backcountry recreation a chance to build on its experience providing mountain hospitality and hiking-trail stewardship in New Hampshire's White Mountains. It began looking for an area big enough to create a new system of lodges and trails while achieving landscape-level conservation. In Maine, large tracts of timberland were coming on the market, and with the economics of the pulp and paper industry changing rapidly, the state presented a golden opportunity.

Since the Maine Woods Initiative kicked off in 2003, AMC has faced new challenges, including the need to maintain more than 150 miles of forest roads on its property, manage camps dating to the 19th century, and build miles of new hiking and skiing trails. At the same time, it has adopted a major focus on sustainable forestry and ecological protection. Roughly half of AMC's Maine Woods property is open to timber harvesting, while more than 20,000 acres of forest preserves have been designated to help protect the headwaters of a fishery for wild brook trout and other sensitive ecological areas.

Photograph: Bryan Wetzell

Partnering Is Key

Partnerships with town and county leaders, local schools, and businesses have been vital from the start and will continue to be because the essence of the project is the marriage of landscape-scale protection with community economic development. In fact, the scale, scope, and pace of the progress to date are attributable in large part to one such partnership and the structured financing it provided.

The nonprofit, Portland-based Coastal Enterprises Inc. (CEI) and its for-profit subsidiary, CEI Capital Management LLC, structured two deals for AMC using New Markets Tax Credits (NMTC, financing tools to help spur economic activity in distressed communities). The tool is attractive to a wide array of investors, who benefit from a 39 percent federal income tax credit.

The CEI arrangements (one providing a $17 million loan, another providing a $15 million loan) enabled AMC to make quicker progress toward project goals, including the injection of capital into the local economy. For example, AMC could move faster to purchase construction materials and to hire local contractors for a lodge based on "green" principles.

The lodge, near Greenville in the Moosehead Lake region, is a benefit to one of the poorest counties in Maine, Piscataquis County. Piscataquis had the state's highest unemployment rate in 2009, at 12.4 percent, and the second-lowest median household income, at $35,144, according to 2008 statistics. [1] More than 57 percent of the county's children were eligible for free or reduced-cost school lunches in 2009, the second-highest rate among Maine counties.

Bruce Glabe, AMC's chief financial officer and vice president for operations, is grateful for CEI's ability to provide "more favorable financing than we could have obtained through conventional means" and notes that the financing "freed up dollars that [could] go into the project itself." In 2010 alone AMC spent $4 million in the region. According to Glabe, CEI is "attuned to economic development projects involving forestland and rural areas" and thus makes an especially good partner.

CEI describes its New Markets Tax Credits underwriting approach as mission-oriented and focused on the "3-E Investing Perspective"—Economics, social Equity, and Environment. According to Chief Executive Officer Charles J. Spies III, CEI Capital Management LLC was enthusiastic about underwriting NMTC transactions for the AMC project. "We're the second-largest practitioner in the country of New Markets Tax Credits," he says. "We have a reputation for working in rural communities to help diversify the economy and support the natural resource base." Spies adds that as part of a mission devoted to "economically and environmentally healthy communities," CEI supports forestry and ecotourism—two key components of the Maine Woods Initiative.

The biggest infrastructure endeavor the partners faced was construction of the new LEED-registered (Leadership in Energy and Environmental Design) Gorman Chairback Lodge. More than a dozen local contractors and craftsmen helped build it. Even more workers were added to the payroll to refurbish log cabins at the site, formerly a private Maine sporting camp dating back to the 1800s. January 2011 saw the camp open to the public.

The $2.3 million Gorman project is the third in a series of Maine wilderness lodges operated for public use by AMC. AMC also operates Little Lyford Lodge and Cabins and Medawisla Wilderness Lodge and Cabins. In winter, it partners with a fourth-generation family-owned camp and offers lodge-to-lodge cross-country skiing opportunities on a 37-mile-long ski trail network connecting the four lodges. Half a million dollars will be spent on trail-system expansion and improvement. And supported by a $52 million capital campaign, the Maine Woods Initiative will see a $1 million to $2 million renovation of Medawisla and establishment of a series of wilderness canoe campsites over the next two years.

The "project is probably one of the biggest investments in that county in a decade," says Keith Bisson, CEI director of the Northern Heritage Development Fund.

Many Winners

Despite its long history in Maine, some residents questioned AMC's intentions when it kicked off the Maine Woods Initiative. Knowing that it must provide value to the community, AMC is working to ensure that its efforts generate local benefits.

In one example, AMC contributed its mapmaking expertise to a new recreational map issued by the local economic development council. It has been a sponsor of and partner in the annual 100-Mile Wilderness Sled Dog Race, a major spectator event for the town of Greenville. And it created the Moosehead Area Schools Project, offering free or low-cost outdoor learning experiences to every elementary school, middle school, and high school student in Piscataquis County at least three times over the course of the student's school career.

Local merchants see AMC's positive impact in their cash registers, as visitors spend a night in a local inn or motel before picking up provisions or gassing up their vehicles and heading out to the lodges.

Mike Boutin, owner of Northwoods Outfitters in Greenville, is a local business partner. A popular gathering spot for hikers and skiers on their way to the backcountry lodges, Boutin's shop runs a shuttle for lodge-to-lodge skiers.

"Since the beginning, AMC has always made an effort to have a relationship with us and work with local businesses to help them," said Boutin in a recent issue of *AMC Outdoors*. "They bring more people to our business and have given us the opportunity to do more guiding for their guests."

In a landscape nearly one and a half times the size of Acadia National Park, with a strong tradition of jobs tied to forest products and year-round outdoor recreation, the Maine Woods Initiative is raising the profile of the region as a premier, nature-based tourism destination.

Most critical has been the structured financing through New Markets Tax Credits. In the past, notes AMC's Glabe, "New Markets Tax Credits have been very focused on urban projects, because it is hard to structure an economic win in the backcountry." Fortunately, AMC's partner knew how to make them work, and they have made all the difference.

Walter Graff, *senior vice president of the Appalachian Mountain Club, leads the Maine Woods Initiative.* **Rob Burbank** *is AMC's director of media and public affairs. They are based in Gorham, New Hampshire, and can be reached at wgraff@outdoors.org or rburbank@outdoors.org.*

Endnote

[1] Ann W. Acheson, *Poverty in Maine 2010* (Orono, Maine: University of Maine Margaret Chase Smith Policy Center, 2010), 50. See also www.outdoors.org/mwi.

The Growth of Latino Small Businesses In Providence

by Kerry Spitzer and Sol Carbonell
Federal Reserve Bank of Boston

GettyImages

Providence was hit hard in the Great Recession. By June 2011, the city's unemployment rate was over 15 percent, above the national average and the highest in New England.[1] But a positive trend recorded before the financial crisis—when the city's Latino-owned businesses grew in number from 731 in 1997 to 2,999 in 2007—may hold promise for the future.[2]

That change—substantial both in absolute terms and in comparison with other small and midsized cities in the region—led researchers from the Boston Fed to investigate. Their conversations with business owners, technical-assistance providers, and microlenders from the nonprofit and government sectors offer a better understanding of the Providence phenomenon.

What Has Changed?

According to the census, the Latino population in Providence has been growing for decades. In 2010, 67,835 Latinos were counted (up 30 percent from 2000), comprising 38 percent of Providence's total population of 178,042. Among the largest groups today are Dominicans, Puerto Ricans, Guatemalans, Mexicans, Salvadorans, Bolivians, and Colombians.[3]

Originally, Latinos found employment in textile and jewelry manufacturing. But with such jobs scarce today, nearly every interviewee mentioned the decline of manufacturing as a reason for the increase in self-employment. One business owner, who had lost her job in the jewelry industry, cited herself as an example. (See "Share of Latino Population that Own Businesses.")

The loss of manufacturing and a lack of in-demand skills have led to the increase in Latino small businesses, especially among first-generation immigrants, but others have suffered from the same issues. By themselves, these reasons do not explain the high growth in Latino businesses.

Is It Clout?

No one group dominates Providence's Latino population, which sets it apart from otherwise comparable cities. In Springfield, Massachusetts, for example, 86 percent of the Latino population is Puerto Rican. There is more diversity in Providence, and the pan-Latino community has a history of organizing to demand services.

The Rhode Island Latino Political Action Committee, founded in 1998, has contributed to the ascent of several Latino political leaders, including Providence Mayor Angel Taveras. But when asked about the correlation between increased political representation and the growth of Latino small businesses, most interviewees say that Latinos may feel empowered to make greater demands but they have not seen additional resources.

One owner commented, "The only connection I see is more personal. Not businesswise. I mean, what's happening is [that] as Latinos, we're getting a little more guts."

Another said, "While we still don't have the power to make decisions and bring a direct benefit, [representation] generates more confidence. … We have people that can help us and represent us at the right moment."

Is It Resources?

The researchers talked to business owners who varied greatly in their education, English-language competence, and business skills, with the second generation often being stronger in those areas than the first generation. But that was not always the case. Several first-generation immigrants had extensive advanced degrees.

Nevertheless, second-generation Latinos were more likely to open "professional" businesses—for example, in web design or insurance. One owner whose family came to Providence to work in the textile mills before his birth reported, "A lot of my peers … went to college. We're all professionals now." In fact, according to the census, the share of the Latino population in Providence with a bachelor's degree or higher increased from 7 percent in 2000 to 11 percent in 2009.

Even with the increased educational attainment of many Latinos, a third of Providence households live below the poverty line, 44 percent over the age of 25 have less than a high school diploma, and 35 percent don't speak English or speak English "not well."

The entrepreneurship service that bilingual business owners most often reported using was the mentoring offered by the Small Business Development Center at Johnson and Wales University. SBDC links entrepreneurs with experienced faculty, professionals, and students, who assist people on a one-on-one basis. Such services were seen as being instrumental in forming business plans and developing websites.

The business owners who used SBDC were first-generation immigrants. Most of the interviewees expressed a feeling that, in general, small-businesses services such as those offered by the city and local nonprofits were not for them. Some interviewees were not even aware of the services. A lack of English may have been a reason.

With regard to financing, nearly all said they relied on family or personal assets, an approach they found preferable to trying to access money from the government. Said one owner, "It has been more costly [in terms of higher interest rates] but certainly faster and more effective."

Only a few reported receiving loans or lines of credit from a bank, and no interviewee had participated in the city's micro-loan or storefront-improvement program. A few owners had approached the city or the Small Business Administration about obtaining loans, but the lending requirements were perceived as "too complicated" and the process for seeking assistance or applying for funds as "too lengthy."

After being denied an SBA loan, one owner reported using the equity in her house: "I got discouraged … so I did my own thing." A few owners, especially those who were not bilingual, reported using *prestamistas* who charge very high interest rates (essentially loan sharks). Mainstream Providence institutions have not played a big role. As one business owner said, "There are organizations that are doing a great job, but on average, they can assist eight to 10 people. There are 2,000—3,000—of us. The programs are very good, but what's needed is scale. … There is a lack of vision, perhaps, on the potential that Latinos represent."

Elusive Lessons

The relatively small size of Providence and its role as a cultural hub and state capital appear to have supported the development of a cohort of professional Latino leaders who hold networking events that bring the community together. One prominent group grew out of the small business development class Primer Paso, a 12-week class funded by a grant from the Kauffman Foundation and based on Kauffman's curriculum. The sessions, conducted in Spanish, were held at the SBDC and were offered several years in a row.

One thing people loved about the classes was the chance to learn from peers and to network. As one participant said, "It was there that I understood that opening a business was not about having a store and opening the doors, but rather things associated with marketing, with having your accounts in good standing. The program gave me the opportunity to meet people [who] have been able to help me move forward."

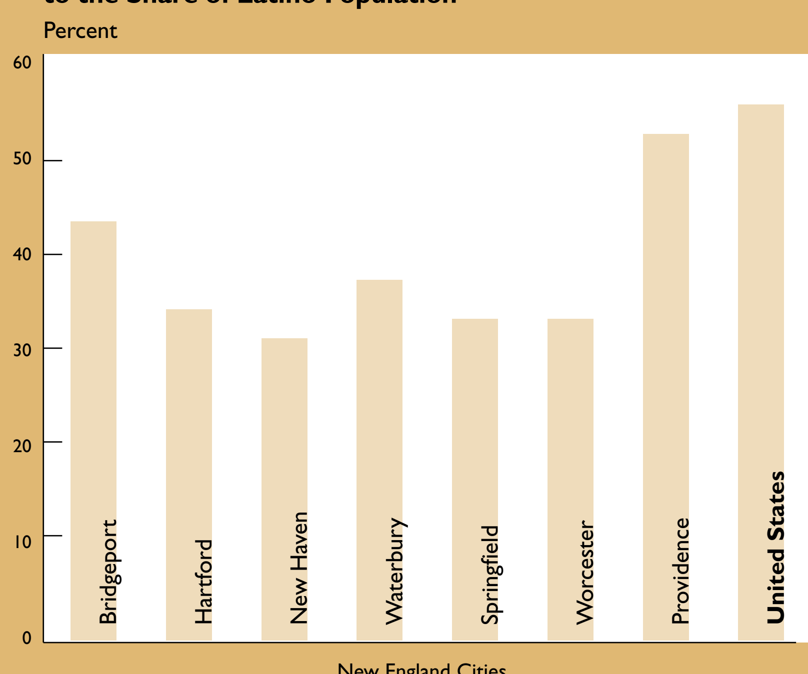
Business owners and technical-assistance providers continued to attend the monthly networking events after the class ended. "The networking has been critical to developing my business," the participant adds. He liked "the opportunity … to know what's out in the marketplace. You can see globally what's happening not only in the area in which you have your business but other related areas as well."

In sum, the growth of Latino small businesses in Providence has occurred organically. There is no one program or institution that explains why so many Latinos decided to start businesses—not political clout, not training programs, not networking. Many threads comprise the whole.

The researchers believe that there is untapped potential in Providence that could help business owners more while boosting economic growth. Nationally, Latinos are experiencing more entrepreneurial activity than other groups.[4] Providence would be well advised to make Latino entrepreneurship a priority, leveraging its past success and embracing the potential. City government, technical-assistance providers, and lenders should capitalize on the Latino community's strengths and try to broaden the availability of services to bilingual and Spanish-speaking entrepreneurs. Just improving public safety and streamlining the permitting process would be beneficial, as several owners indicated.

Of course, expanding services can be a challenge in tough times. And small business owners frequently do not see value in closing their businesses to attend an event or a class. Overcoming the challenges will require outreach that is culturally sensitive and language specific. A coordinated, strategic, and collaborative effort by all service providers would be a good place to start.

Share of Latino-Owned Businesses Relative to the Share of Latino Population



Source: American Community Survey (3-year estimates 2005-2008), Survey of Business Owners (2007).

Kerry Spitzer, *a doctoral candidate in the department of urban studies and planning at MIT, assisted with this research while an intern at the Federal Reserve Bank of Boston, where* **Sol Carbonell** *is a senior community affairs analyst.*

Endnotes

1 "New England Economic Snapshot" (white paper, Federal Reserve Bank of Boston, August 2011), http://www.bos.frb.org/bankinfo/firo/publications/economicsnapshot/2011/EconomicSnapshot-Aug2011.pdf.

2 Ana Patricia Muñoz et al., "Small Businesses in Springfield, Massachusetts: A Look at Latino Entrepreneurship" (Public and Community Affairs discussion paper no. 2011-2, Federal Reserve Bank of Boston), http://www.bostonfed.org/commdev/pcadp/2011/pcadp1102.pdf.

3 U.S. Census Bureau, 2010 Census.

4 See http://www.kauffman.org/newsroom/jobless-entrepreneurship-tarnishes-steady-rate-of-us-startup-activity.aspx.

GETTING COMMUNITY INPUT

A Better Way to Plan and Grow

by Jane Lafleur, Friends of Midcoast Maine

iStockphoto

What do the towns of Newport in Vermont and Damariscotta and Camden in Maine have in common besides waterfront? If you looked only at their economic profiles, you would say “not much.” According to the 2000 Census, Newport’s population of 5,005 has an average family income of $34,922. Damariscotta has a population of 2,041, with an average family income of $47,105. Camden has 5,254 people and an average household income of $56,439. What they lack in economic similarities, however, they share in community building. And they are all examples of a new approach to planning.[1]

Letting the People Lead

Over the past three years, in different ways, Newport, Damariscotta, and Camden have worked successfully to make themselves better places by letting residents lead the way.

Newport, Vermont

In Newport, the nonprofit organization Newport City Renaissance Corporation (NCRC) worked with municipal staff to conduct a communitywide visioning process. The two main goals were to develop municipal codes that were more friendly to business and to help property owners and renters locate community gardens in urban neighborhoods.[2]

Community members were invited to participate via posters, newspaper articles, an electronic listserv, personal door-to-door visits, and a survey. The survey included questions on residents’ interest in specific activities, such as community gardens, and on people’s top priorities. Many seniors responded, for example, that they wanted neighborhood safety and porch tomatoes. Parents said they needed play areas for children.

As part of community building, a street party was held, with free food from the organic farmers association. (Hands-on training on growing tomatoes in buckets was a huge draw.) Interestingly, residents have since taken group ownership of new gardens, overseeing the production of fruits and vegetables while benefitting both health and budgets.

Residents also created new municipal codes. In 2009, the community mobilized for a five-day American Institute of Architects Regional/Urban Design Assistance Team (R/UDAT) charrette, an intense period of design activity. More than 500 people from all walks of life (including students of all ages; business people; leaders of community organizations, churches, and city government; landlords; renters; neighborhood people; and second-home owners) joined in the focus groups, workshops, and town meetings. The integrated approach led to the successful development in 2010 of an innovative *form-based code*. That’s a building code that helps create a particular urban form, such as walkable, pedestrian-friendly, compact communities, front porches no longer prohibited by setback lines, and denser development for closer-knit neighborhoods. With its own form-based code, Newport is encouraging more mixed uses and first-floor retail and has already reenergized its downtown.[3]

Damariscotta, Maine

Damariscotta, in partnership with Friends of Midcoast Maine and the Orton Family Foundation, rallied residents and businesses in 2008 to undertake a three-year visioning process called Heart & Soul.[4] Postcards, posters, e-mails, listservs, and word of mouth aided the outreach. Special techniques included storytelling, community conversations, neighbor-to-neighbor interviews, mapping of unique places, multiday planning, and a municipal-code-writing process that adapted the so-called SmartCode template to Damariscotta.[5]

Approaches such as storytelling clarified individuals’ values and enabled the town to reach consensus on values held in common. People discovered that, despite individual differences, most residents valued:

- working locally,
- living locally,
- having access to nature and culture,
- being an accessible community,
- being an involved community, and
- having a strong sense of community.

The Board of Selectmen adopted that list in a December 2010 resolution, noting that the values and the extensive public-engagement process that led to them would guide policy and investment decisions in the future.

The process allowed Damariscotta to engage more people than ever before in community planning and in deciding how the town should grow. Unlike Newport residents, the townspeople decided not to approve the form-based code they had worked on. They concluded that until more had been done on economic development strategies, it was not the right tool to protect downtown or plan for the future. Nevertheless, participants found that the process had given them a valuable understanding of form-based municipal code, and they expressed a hope that the high level of public engagement would continue.

Photographs: Courtesy of Friends of Midcoast Maine

Camden, Maine

In Camden meanwhile, a group comprising Friends of Midcoast Maine, interested high school students, and a few adult leaders spearheaded community-building efforts that resulted in the founding of a meeting place for young adults called the Rig. The collaboration emerged from a public meeting organized after Dunkin Donuts expressed interest in coming to town, generating concern about its possible effects on the character of

Tactical Urbanism

A lighter, quicker, cheaper approach to building community, *tactical urbanism* (or *pop-up urbanism*), is sweeping the country. A bottom-up concept that enables towns to test new ideas without incurring long-term financial commitments, it features five key components:

1. a deliberate, phased approach to instigating change;
2. the presentation of local solutions for local planning challenges;
3. short-term commitment and realistic expectations;
4. low risk combined with possible high reward; and
5. the development of social capital among citizens and of organizational capacity among public and private institutions, nonprofits, and their constituents.[a]

Concrete examples of outcomes that continue the process of bringing people together include pop-up cafes, pop-up street carts, and the delightful PARK(ing) days, when car-parking spaces are taken over for a use as actual parks.[b]

a See Mike Lydon, "Tactical Urbanism: Short Term Action, Long Term Change," http://patterncities.com/archives/175.
b See http://parkingday.org and http://www.boston.com/jobs/news/jobdoc/2011/12/with_a_pouf_this_pop-up_store.html.

the community.[6] The Rig provides youth in grades 9 to 12 with opportunities not just to socialize but to experience deeper connections—with their own identity, with one another, and with the community. It is a much-needed safe place for young adults to pursue new ideas, new friendships, and new skills.

For example, youth members actively assist with the Rig's operation and help facilitate numerous community-based initiatives. Often they provide area businesses with services, and businesses reciprocate. For example, young people might shovel snow in front of shops or distribute flyers for a business, and in exchange the business might provide food for the Rig's Friday movie night. Some students have staffed tables at the local Chili Challenge and Chowder Challenge events and have worked at the International Toboggan Festival. They have raised money for charities such as Meals on Wheels, the animal shelter, the food pantry, and Big Brothers Big Sisters. Some started an Interact Club, a youth chapter of the service organization Rotary International.

Most important, the Rig has provided a place where students are becoming leaders, setting an example for their peers, and helping reenergize downtown by drawing in other young people from the five-town high school located on Camden's outskirts.

The Future

Newport, Damariscotta, and Camden are just three examples of the positive effects of bringing together citizens, governments, nonprofit entities, and grassroots organizations in a community-based approach to planning. Community members become empowered when they can make their own decisions, lead their own meetings, and determine their own futures. Not all initiatives turn out as expected, but it is important that the path is chosen by the people who must live with the results. Without fail, the results are really what is best for them. (See "Tactical Urbanism.")

The long-term goal in communities should be to use government expertise and assistance to help ordinary people build capacity so that they can do what is needed on their own. When the community is empowered to make decisions, that is when gardens grow, students mature productively, and residents and land develop in ways that make sense to the greatest number.

None of us can go it alone. The community-building process is the opposite of following the solitary, heroic leader. Partnerships are required, often with unlikely partners. Realtors may partner with environmentalists, school children with food-pantry patrons and restaurants, teachers with activists, senior citizens with fishermen. Bankers who want to make better loans may partner with property owners hoping to develop land. Community leaders and residents may partner to plan for compact, incremental development. It is in the interest of all the parties to build communities that people will love.

When residents have the opportunity to get together and agree upon important decisions, the resulting changes are wiser and more enduring. With everyone weighing in, we can build healthier, more vibrant, and more economically diverse and economically sound communities.

Jane Lafleur *is the executive director of the Friends of Midcoast Maine. She is based in Camden.*

Endnotes

1 See www.patterncities.com.

2 See www.discovernewportvt.com.

3 Form-based code is a means of regulating development. It can create a predictable public realm by controlling physical form, primarily through city or county regulations. Such codes are a response to urban sprawl, deterioration of historic neighborhoods, and neglect of pedestrian safety. They are an answer to single-use zoning regulations that discourage compact development, and they can provide local governments with the regulatory means to achieve development objectives with greater certainty. See http://www.formbasedcodes.org/what-are-form-based-codes.

4 See www.orton.org/who/heart_soul.

5 The SmartCode is a template for a form-based code.

6 See www.friendsmidcoast.org.

Infrastructure Investment Begins with CHILDREN

Mav Pardee, Children's Investment Fund

iStockphoto

When the topic is economic development, most people think about construction of roads and bridges and the effective functioning of capital markets. That's why many were surprised when economist Arthur Rolnick of the Minneapolis Fed declared that early childhood development was really economic development—economic development with a very high public return.[1]

Rolnick and economists Rob Grunewald and James Heckman reviewed three carefully controlled studies of high-quality early-learning programs for children from birth to five. From those studies, the economists calculated high returns for children at risk, and even higher returns to the public in reduced spending on special education, social welfare, and health care.[2] (See "High-Quality Early Childhood Education Spending.")

Nevertheless, there is an enormous disparity between the value of these programs and the funding needed to ensure high quality, which generally includes teacher qualifications, class size, good teacher-child ratios, a supportive emotional climate, curricula, cultural competency, and a safe and healthful physical environment.

Community-based nonprofits or small businesses operate most early-education and out-of-school-time programs. They exist at the margin of financial viability, especially programs that serve children on public subsidy, which are the focus of many efforts to close the achievement gap and reduce health disparities in America.

True Quality

In 1995, the "Cost, Quality and Outcomes" study garnered nationwide attention for its finding that only 14 percent of child-care centers provided a sufficiently high level of quality to support children's development. Twelve percent were rated as poor quality, and 74 percent were judged mediocre.[3] The report deserves much of the credit for subsequent "quality improvement" categories in federal and state subsidized-care allocations.

Over the past decade, policies for child-care subsidies have continued to evolve, influenced partly by brain-development research showing the critical importance of the first five years of life. Even the terminology changed—from "child care," a support to help low-income single parents enter the workforce, to "early childhood education," which emphasizes child development and learning.

Simultaneously, a parallel movement to raise teacher qualifications has emerged, with a growing emphasis on program accreditation and Quality Rating and Improvement Systems nationwide. The standards generally have four or five quality levels—for example, curricula, staff qualifications, learning environment, family involvement, and program management. Independent evaluators do the measuring, and participating providers receive technical support and incentives to improve.

Unfortunately, scant attention is paid to the design, layout, and functionality of the facilities that house the programs. Factors such as size, density, privacy, defined activity areas, a modified open-plan design, technical design features, and the quality of outdoor play spaces are known to correlate with children's cognitive, social, and emotional development.[4] Noted Italian educator Loris

Massachusetts Facilities Inventory

Early Childhood & Out-of-School-Time Facilities	Percentage Facing Problems
One or more classrooms without windows	20
Elevated CO_2 levels in indoor air	22
Lack workspace for teachers	22
Inadequate heating & cooling of the space	34
Lack indoor active play space	54
Lack technology for teachers	65
Lack classroom sinks	70

Source: *Building an Infrastructure for Quality*, by Mav Pardee, Children's Investment Fund, 2011

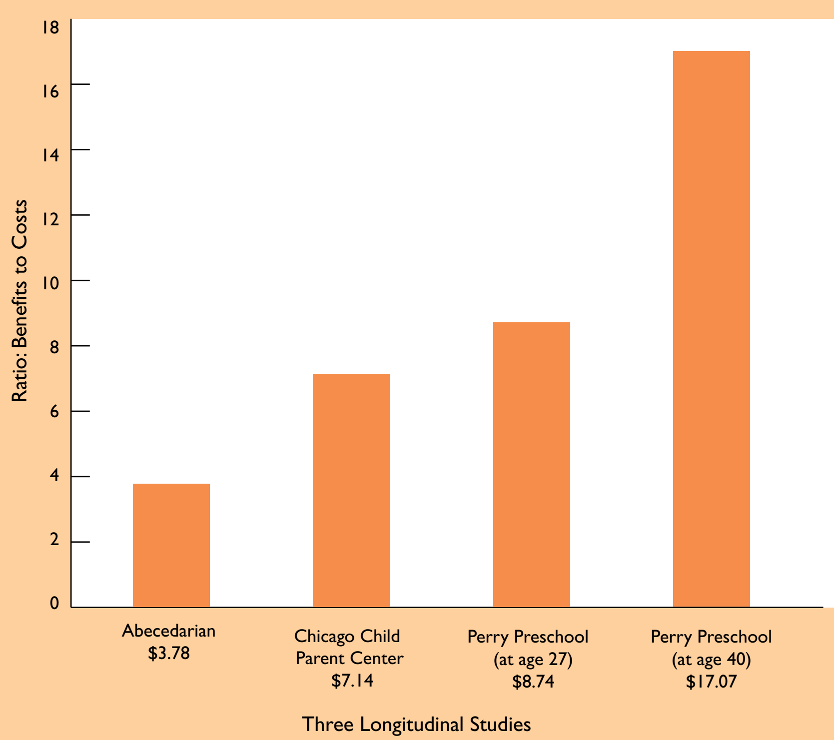
Malaguzzi emphasizes that a well-designed environment is the "third teacher"—an understanding that American policymakers have been slow to adopt, especially for programs serving low-income children.

Use of in-kind space—including below-market rentals—is one of the most common strategies for managing operating costs.[5] Low-cost space and difficulty paying for facility improvements highlight a fundamental problem. Public subsidy rates are established by state and federal regulation. Even with the income-based parent co-pay, rates do not cover the cost. The federal government recommends setting subsidy rates at the 75th percentile of market rate, but those market rates are already artificially depressed through payment of low salaries, minimal benefits, low occupancy costs, and careful spending on other expenses.[6] Consequently, programs must raise additional resources if they hope to achieve the level of quality Rolnick and colleagues cite.

A 2010 report by the Urban Institute made a link between financial stress and quality, noting that "classrooms with the lowest observed quality were typically in centers characterized as struggling financially."[7] The discrepancy between public subsidy rates and the cost of quality are common nationwide. In Boston, reimbursements for early childhood services have fallen from 52 percent of market rate to 43 percent since the last report in 2009, and a similar rate structure is found statewide.[8]

High-Quality Early Childhood Education Spending

Return on investment



Source: *Enriching Children, Enriching the Nation*, by Robert G. Lynch, Economic Policy Institute, 2007.

First-Ever Report

This year, Children's Investment Fund released "Building an Infrastructure for Quality" on the first comprehensive inventory of early-childhood-education and out-of-school-time facilities in Massachusetts.[9] It examined whether existing learning environments support educators' and policymakers' educational goals for children at risk—or whether some spaces might interfere with running a high-quality program. The Fund commissioned the inventory to review the effect of physical space on children's health and safety, behavior, physical development and cognition, and how adult workspace either enhances or impedes staff effectiveness.

First, evidence-based program-facility standards were compiled to measure space across three categories: regulatory, professional, and best practice.[10] The inspection protocol measured 268 items that cover regulatory compliance, site elements, the building envelope, mechanical systems, and environmental health, plus a detailed review of children's activity spaces, adult work space, and outdoor play space. The Wellesley Centers for Women and a team from Boston-based On-Site Insight selected a random sample of 182 sites and made field visits to each to collect data.

The inventory found that many sites faced the combined challenges of poor layout, outmoded features, and deteriorating conditions. Between 15 percent and 26 percent failed to meet current Massachusetts building-code requirements. And only one program—a center built the preceding year—met all accessibility guidelines.

A number of building deficiencies undermined the quality of teaching and children's learning, or presented health or safety concerns. (See "Massachusetts Facilities Inventory.") Moreover, given widespread childhood obesity, it was discouraging that few sites had appropriate space for indoor active play in inclement weather. Many outdoor spaces lacked sufficient space for physically strenuous play. They also lacked trees or plants.

Another concern was the lack of adult workspace and the absence of appropriate technology, impeding the goal of developing a highly qualified workforce and possibly undermining other quality-improvement efforts.[11]

It is true that Massachusetts, like other states, has invested significant private and public resources in quality improvement for early care and education and out-of-school-time services, particularly for low-income children. But quality—and the physical infrastructure to support it—is critical to fulfilling the state's aspirations for these children, and clearly, the resources to fix problems cannot be found in program operating budgets. Children's Investment Fund has therefore begun to pursue options for improving facility quality, some near term, some longer term. It is working with the business community, public officials, community development organizations, and funders to ensure that early care and education and out-of-school-time programs can make improvements. The following are among the strategies being pursued:

Ensure that repairs and hazardous conditions are addressed by making small grants available to nonprofit providers.

- Encourage green environments by working with utility companies to address energy efficiency that can generate operating savings and create healthier indoor spaces.
- Work with community development resources to identify capital for ensuring that community infrastructure includes early care and education and out-of-school-time facilities.
- Work with public officials, researchers, and advocates to expand the definition of quality to include the physical plant as the foundation of other quality initiatives related to children's health, development, and education.

The issue is so urgent and the potential benefits so high that we need to find the public will to create affordable and sustainable financing to improve the buildings where the most vulnerable Massachusetts children spend their childhoods. There is no better public investment.

Mav Pardee *is the program manager at the Children's Investment Fund. She is based in Boston.*

Endnotes

[1] Arthur J. Rolnick and Rob Grunewald, "Early Education's Big Dividends," *Communities & Banking* 19, no. 2 (spring 2008): http://www.bostonfed.org/commdev/c&b/2008/spring/Rolnick_early_education_pays.pdf.

[2] "The Science of Early Childhood Development: Closing the Gap Between What We Know and What We Do" (white paper, National Scientific Council on the Developing Child, Harvard University, Cambridge, Massachusetts, 2007).

[3] "Cost, Quality and Child Outcomes in Child Care Centers" (technical report, University of Colorado, 1995).

[4] Gary T. Moore, "Ready to Learn: Towards Design Standards for Child Care Facilities," *Education Facility Planner* 32, no. 1 (1994).

[5] Monica Rohacek, Gina C. Adams, Ellen E. Kisker, Anna Danziger, Theresa Derrick-Mills, Heidi Johnson, "Understanding Quality in Context: Child Care, Communities, Markets, and Public Policy" (white paper, Urban Institute, Washington, DC, 2010).

[6] In Massachusetts, full-time preschool teachers earn on average $33,400, according to U.S. Department of Labor May 2010 data.

[7] In low-income neighborhoods, space is chosen for size, cost, and location on commuting routes. Few providers can afford more than $10 per square foot. More experienced providers seek $6 to $8 rates: churches, community buildings, Boys & Girls Clubs, residential buildings, former schools. In our sample, only 13 percent of centers were designed for child care.

[8] October 2011 data from the National Women's Law Center on state child-care assistance rates.

[9] Mav Pardee, Martha McCahill Cowden, Theresa Jordan, Carl Sussman, "Building an Infrastructure for Quality: An Inventory of Early Childhood Education and Out-of-School-Time Facilities in Massachusetts" (report, Children's Investment Fund, Boston, 2011), www.cccif.org.

[10] "Program Facility Standards for Early Care and Education and Out-of-School Time Programs" (white paper, Children's Investment Fund, Boston, 2011), www.cccif.org.

[11] The sample was drawn from communities with many low-income families. No programs were from Nantucket or Norfolk counties, for example, where fewer than 3 percent of families are below the poverty line.

Rhode Island Changes the

CREATIVE Economy

by Drake Patten
The Steel Yard

Gettyimages

We hear it a lot: art improves our lives, makes us better people, changes our futures. But how, exactly, do we know that? What does an arts-driven metamorphosis really look like? In which sectors of our community do we see it? And where does it matter the most?

Until recently, the arts were identified with privilege, education, and a secret handshake involving a certain sophistication. Even though that has changed over the last 20 years, the newer "economy positive" profile is sometimes still accused of being a walled community. That may be the result of how we've come to argue for the arts' validity, a direction largely fueled by funders and their ideas about what success looks like.

In short, we're mired in metrics such as dollars spent, numbers of people served, peripheral impact (restaurants and parking garages), and the like.[1] Some of this also comes directly from how the arts have been studied and argued for—the price of seeking mainstream legitimacy. Consider Richard Florida's often referenced *The Rise of the Creative Class*, which equates vibrant cities with creative activities.[2] The idea is that if you mix up art and capitalism in urban centers, everyone will be better off. Would that it were that easy.

Inclusion Wanted

In *From Creative Economy to Creative Society*, Mark Stern and Susan C. Seifert make the point that such activity does not always offer the trickle-down benefits it promises.[3] Many people get included in the creative economy's new wins, but many don't. Displacement resulting from the influx of an out-of-state workforce and the loss of potential jobs to outsiders are among the oft-cited negative outcomes. Instead of trying to find the sunny side, Stern and Seifert focus intelligently and sensitively on *cluster economics*, identifying the impact of neighborhood-based creative economies.

Nevertheless, mainstream economics continues to exert a hold on arts advocacy and on the agencies and membership groups charged to do this work. Witness Ann Markusen and Anne Gadwa's white paper "Creative Placemaking," which provides copious metrics to support their claim that artists are a highly educated and innovation-producing segment of the American workforce.[4] Indeed, a review of this workforce reveals an extraordinary breadth of jobs and industries currently included in what makes up our creative class. But again, what happens if you aren't a member of the group? Can the arts make a difference in your life? Can the arts engender social justice and community equity?

It can, via a different kind of arts, one that may or may not ever be fully counted by mainstream arts metrics, but one that exemplifies cluster economics with precision. This art and its practitioners are engaged in seriously committed applied work at the grassroots level within communities. It builds its success with the simple tool of a creativity that is deeply collective (the boundary between expert and novice is blurry), responsive (this kind of art listens), and bold (this art is unafraid to move in where it may not initially be wanted or understood). It also is determined and idealistic, sometimes appearing more like social service than art.

It is also intelligent, agile, and hardworking. Its practitioners see art as a means for change, a mutually defined language, an act of mutually constructed social responsibility. Outcomes may or may not include a newly minted workforce for the creative sector or converts to museum going, performance attendance, or art buying. However, it often does result in a job, become the doorway to something new, or engender a desire to change a personal or community status quo. This art may simply be a means to an end. And that's OK.

Taking Art to the Streets

In Rhode Island, all forms of art exist in relative harmony—the highbrow, the creative capitalism, and the type that takes art to the streets. It may be the mix itself that makes the whole work so well. Statewide, the arts are change makers, although not always in the traditional feel-good ways that the public associates with arts experiences.

Rhode Island is particularly adept at taking art to the streets. Three programs offer a window into how this less-recognized kind of art-making is modeling major, sustainable social change. In all three cases, how big the efforts are or hope to be, where they do the work, and how well they integrate arts professionals with constituents are all critical aspects of their success.

Community MusicWorks

With a conviction that musicians can play an important role in public service—and with start-up funding from Brown University's Swearer Center for Public Service—Sebastian Ruth launched Community MusicWorks in 1997. Through the permanent residency of the Providence String Quartet, CMW provides free after-school education and performance programs that build long-term relationships among professional musicians, children, and families in Providence neighborhoods.[5]

A 2009 evaluation by arts consulting firm WolfBrown reports, "playing music becomes an experience of developing personal agency and of recognizing both the power and the responsibility of having a voice in larger civic and cultural conversations." CMW works with families, takes music into communities, and gives students the responsibility of co-owning every performance. What a way to model social responsibility!

RiverzEdge

RiverzEdge Arts Project is a youth-development program giving paid employment and a voice in their community to educationally and economically disenfranchised youth aged 12 to 24.[6] Based in Woonsocket, RiverzEdge engages teens in creative expression, disciplined effort, and economic self-reliance. Youth serve as designers and producers of output from T-shirts to letterhead. They are able to compete with mainstream printing companies and are fast becoming the local choice for graphic work and production. In addition to having a safe space in a challenging urban environment, they are learning about small business from the ground up.

The Steel Yard

Located where five of Providence's poorest neighborhoods meet, the Steel Yard focuses on opportunities to engage people in processes related to industrial arts.[7] The nonprofit works with a wide range of students, but its niche is increasingly that of underserved individuals, aged 18 to 24, who take part in workforce training in metalworking. Trainees work side by side with the Steel Yard's own public-projects senior fabricators to place one-of-a-kind street amenities (trash cans, bike racks, tree guards, fence panels) into neighborhoods across the city. Thus arts can train people for high-paying (non-arts) jobs. In the process, the programs develop communication skills, build expectations about showing up, and require participants to recommit each day to collaboration and learning.

Lessons Learned

These examples offer sound community-building lessons. First, both the production and placement of programs' products—whether concerts, posters, or trash cans—happen in areas these organizations serve. Second, no matter how lofty the goal (a CMW graduate playing at Carnegie Hall, a sculptor showing internationally, or a graphic designer taking over at a major magazine), organization leaders believe that what's important is for the process to alter people's outlook, their future, their sense of social responsibility, and their opportunity. Arts converts are not expected, but participating, fully franchised citizens are.

We're mired in metrics such as dollars spent, numbers of people served, peripheral impact (restaurants and garages), and the like.

Nationwide there are many programs where social justice is happening at the intersection of art-making and the human experience. Some arts-driven metamorphoses may end up looking different from what people normally think of as arts, and that's OK. But will arts metrics capture that? Given the outcomes described here, it seems more likely that the successes will get swallowed up in statistics that measure poverty resolution (home ownership rates, education, access to health care, and rates of employment). And for artists trying to have their sector recognized for the important work they do in communities across the nation, that's not OK.[8]

Economic arguments are common and popular in arts advocacy, and they have a critical place in moving the sector toward adequate support and better public understanding. But they tell only a fraction of the story. The rest of this story, the part that might count most, is found at the physical intersection of arts and community. There, uncounted, are the powerful stories of how art really does change lives.

Drake Patten *is the executive director of the Steel Yard, a Providence-based arts nonprofit.*

Endnotes

1 Secondary-impact statistics that include factors such as hotels, restaurants, and parking fees sometimes seem desperate. Corporations don't count such things when estimating their impact on home communities; why should the arts?

2 In 2005, Florida acknowledged that his "city on a hill" concept was proving false—too late for cities that had acted on it.

3 Mark J. Stern and Susan C. Seifert, *From Creative Economy to Creative Society*, http://www.trfund.com/resource/downloads/creativity/Economy.pdf.

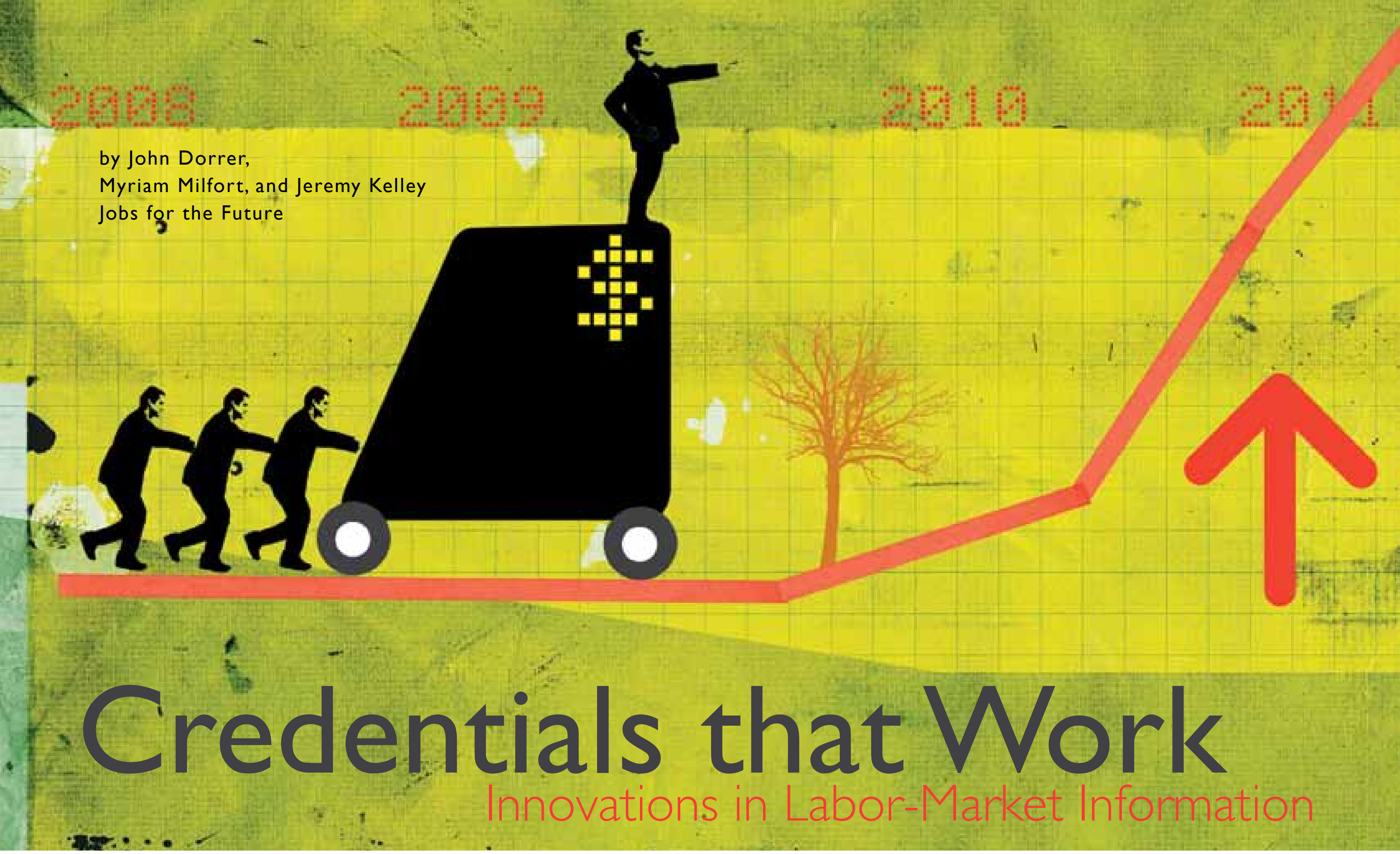
4 Ann Markusen and Anne Gadwa, "Creative Placemaking" (white paper, Mayors' Institute on City Design, U.S. Conference of Mayors and the American Architectural Foundation, 2010), http://www.nea.gov/pub/CreativePlacemaking-Paper.pdf.

5 See http://www.communitymusicworks.org.

6 See http://riverzedgearts.org.

7 See www.thesteelyard.org.

8 Similarly uncounted are many small businesses owned by artists. Not macro enough to get seen in larger studies, they too exist on the fringe, uncounted where their numbers might make a more salient arts argument than restaurant and parking revenues.



GettyImages

by John Dorrer,
Myriam Milfort, and Jeremy Kelley
Jobs for the Future

Credentials that Work

Innovations in Labor-Market Information

The Great Recession presents challenges most of all for the 14 million Americans who are unemployed and the 9 million who are underemployed.[1] It also presents challenges for policymakers and government agencies that must craft job-creation strategies, address student-loan default rates, and implement the new federal requirement that colleges' career programs do a better job of preparing students for good jobs. (See "U.S. Employment, 2011.")

Underlying all the issues is a basic fact: education beyond high school is essential to achieving economic success. Accordingly, education and training institutions and workforce-development programs face their own challenges. They must equip their students with the knowledge and skills needed to compete in a global economy. To facilitate this objective, Jobs for the Future launched Credentials that Work to help regions, states, and postsecondary institutions align their investments in occupational training programs with the skills that employers currently demand.[2]

Tapping Information

With funding by the Joyce and Lumina foundations, Credentials that Work is surveying and assessing the potential of sophisticated real-time labor-market information technologies as a tool for ensuring that education credentials have high value for both workers and employers. Institutions of postsecondary learning have long needed a way to measure productivity, by which we mean the percentage of students who enter a program and complete a credential within a reasonable period of time, preparing them to succeed in today's labor market. Labor-market information technologies have the potential to transform the way institutions measure the productivity of their associate's degrees, occupational certificates, and other subbaccalaureate programs.

Real-time labor-market information comes from analyzing job postings by occupation, available on public and private labor exchanges (Internet job boards, company websites, and newspapers). New *spidering* software programs travel the web to aggregate and analyze online job ads and provide a more comprehensive, up-to-date source of information about the hiring and skill needs of local employers than has been available to date.

Using artificial-intelligence technologies, it is possible to collect ads from the Internet daily. After duplicates have been removed and the data analyzed, they provide valuable indications of labor supply and demand trends, emerging occupations, current and emerging skill requirements, and market-based demand for specific education credentials.

A few companies have developed tools to aggregate job postings accurately on the basis of the Standard Occupational Classification (SOC) codes developed by the Bureau of Labor Statistics and the Occupational Information Network (O*NET), a comprehensive database of worker attributes and job characteristics developed by the U.S. Department of Labor, Employment, and Training Administration. The firms are licensing their real-time databases for analysis to state governments, colleges, and other organizations that seek to enhance their understanding of local labor markets and to support programmatic decisions and investments.[3]

In the pilot phase of Credentials that Work, 10 community colleges are participating in the Real-time Labor Market Information Innovators Network.[4] They are as follows:

- Cabrillo College (Aptos, California)
- Cerritos College (Norwalk, California)
- Gateway Community and Technical College (Covington, Kentucky)
- Harper College (Palatine, Illinois)
- Kentucky Community and Technical College System Office (Versailles, Kentucky)
- LaGuardia Community College (New York)

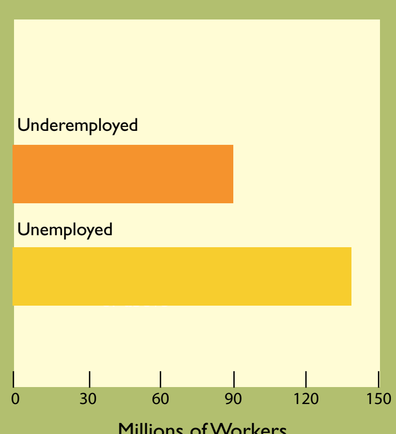
- Owensboro Community and Technical College (Owensboro, Kentucky)
- Southeast Kentucky Community and Technical College (Harlan, Kentucky)
- Southern Maine Community College (Portland, Maine)
- Texas State Technical College (Waco, Marshall, West Texas, and Harlingen)

The goal is to give colleges and other training institutions the capacity to build systems, cultures, and capabilities for basing planning and decision making on the best available data. The colleges will test real-time labor-market information tools in the context of their strategic planning, data-driven decision making, curriculum design, and student career guidance. At the same time, the initiative encourages the institutions to examine both traditional *and* real-time labor-market information data sources. The use of the latter is an important, emergent innovation, but in itself it is a limited input.

The Context

The context for Credentials that Work is in part the recession, but just as important is the so-called skills gap. In today's rapidly evolving economy, appropriate matching of skills to jobs is crucial for sustaining productivity and competitiveness. In May 2011, in the midst of the recession, a survey by job-placement company ManpowerGroup found that "52 percent of U.S. employers are experiencing difficulty filling mission-critical positions within their organizations."[5] According to the survey, the jobs that are most difficult to fill include skilled trades, sales representatives, and engineers. The respondents identified applicants' lack of technical skills and experience as the main reasons jobs remained vacant. And in August 2011, even as the Bureau of Labor Statistics reported that millions of Americans were unemployed or underemployed, it estimated that there were 3 million job openings nationwide.

U.S. Employment, 2011



Source: Bureau of Labor Statistics, 2011.

In addressing the mismatch of skills and needs in the economy, real-time technologies enable institutions to be proactive. They can improve organizations' ability to anticipate the needs of employers and match those to the occupational-skills training they offer to their students. They can do a better job of meshing with regional job-creation strategies as they partner with local businesses, workforce and economic development agencies, and other community organizations to address the skill needs of critical industries.

Additionally, real-time labor-market information has implications for default rates on education loans. In September 2011, the U.S. Department of Education released the official Fiscal Year (FY) 2009 national student loan cohort default rate, which increased to 8.8 percent from the 7 percent of FY2008. The report reveals that 15 percent of borrowers in FY2009 defaulted in the first two years of repayment.[6] U.S. Secretary of Education Arne Duncan said in a press release, "We need to ensure that all students are able to access and enroll in quality programs that prepare them for well-paying jobs so they can enter the workforce and compete in our global marketplace."[7] By using real-time labor-market information, postsecondary institutions and workforce training providers will have the ability to measure their curricula and program development against market demands, thereby making it more likely that their students will find good employment and be able to repay their student loans.

Educational institutions can gain the same potential benefits in connection with the U.S. Department of Education's new "gainful employment" rule.[8] Aimed at for-profit institutions and colleges that offer nondegree certificate programs, the rule requires college-level career programs to meet certain standards for preparing students for jobs—or risk losing access to federal student aid. Its purpose is to address abuses that leave students with high debt and few prospects for employment.

Improving Decisions

All participants in the labor market face complex questions regarding occupational paths. To make effective decisions, individuals and institutions need access to current and accurate labor-market information. Although the availability of real-time information is a recent development—and its use in the context of occupational training programs is just emerging—its potential is significant.

Armed with both traditional and real-time labor-market information, governments and schools can tailor workforce programs and subbaccalaureate occupational programs to meet the needs of both employers and job seekers. These tools make it possible to analyze what occupational skills and certifications are required for specific jobs. The availability of such information promises to be valuable to leaders in postsecondary education, workforce development, and policymaking and should help prepare our workforce for the economy of the future.

John Dorrer, *a project director at Jobs for the Future, heads up Credentials that Work.* **Jeremy Kelley,** *project manager, and* **Myriam Milfort,** *senior project manager, are also on the team. All three are based in Boston.*

Endnotes

1 See http://www.bls.gov/news.release/empsit.nr0.htm. *Underemployed* (or involuntary part-time workers) refers to people employed part-time for economic reasons. The number rose from 8.4 million to 8.8 million in August 2011. Individuals were working part time because their hours had been cut back or because they were unable to find full-time jobs.

2 See http://www.jff.org/projects/current/workforce/credentials-work/1222.

3 David Altstadt, "Aligning Community Colleges to Their Local Labor Market" (report, Jobs for the Future, Boston, 2011), http://www.jff.org/publications/workforce/aligning-community-colleges-their-local-/1303.

4 See http://www.jff.org/media/news-releases/2011/real-time-labor-market-data-help-college/1304.

5 See http://press.manpower.com/press/2011/manpowergroup-annual-survey-shows-more-than-half-of-u-s-employers-cannot-find-the-right-talent-for-open-positions/. See also http://www.washingtonpost.com/blogs/ezra-klein/post/can-job-training-help-solve-the-jobs-crisis/2011/08/30/gIQAK9COqJ_blog.html.

6 See http://www.ed.gov/news/press-releases/default-rates-rise-federal-student-loans.

7 See http://www.ed.gov/news/press-releases/default-rates-rise-federal-student-loans.

8 See http://www.ed.gov/news/press-releases/gainful-employment-regulations.

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Making Cuts in State Aid More Equitable

by Bo Zhao and David Coyne
Federal Reserve Bank of Boston

State aid plays an important role in local government finances in New England. In fiscal year (FY) 2008, for example, revenue transfers from state government made up on average 33 percent of local governments' general revenues, ranging from 29 percent in New Hampshire to 67 percent in Vermont.[1] Local governments rely on state aid to provide essential services, such as education, police and fire protection, and road maintenance.

However, in the ongoing fiscal crisis, state governments have deeply cut local aid.[2] In FY 2010 alone, Massachusetts and New Hampshire reduced nonschool aid by 21 percent; Rhode Island and Connecticut

cut total aid by about 12 percent and 2 percent, respectively.[3]

When states cut aid across the board, as often happens, each community receives the same percentage reduction. But that approach fails to take into account differences in underlying fiscal health or existing aid distribution across communities.

Indeed, because existing aid is usually aimed at reducing fiscal imbalances, resource-poor communities tend to receive a larger amount, and they depend more on state aid than do resource-rich communities. For example, in FY 2008, municipalities in the bottom 20 percent of per capita taxable property values among Massachusetts communities received average per capita state aid of $1,321, nearly half of their total general revenue. In comparison, communities in the top 20 percent received only $339, or 10 percent of their total general revenue. Thus across-the-board percentage cuts may result in larger per capita aid cuts for resource-poor communities.

Local officials have raised concerns that across-the-board aid cuts widen the gap between resource-rich and resource-poor communities, undoing years of fiscal equalization. In response, we propose a two-pronged approach that is more equitable.[4] First, holding per capita existing aid equal, the approach cuts less aid from communities that, through no fault of their own, have worse underlying fiscal health. Second, among communities with similar underlying fiscal health, it cuts less from communities that received less aid the previous year.

A More Equitable Approach

It is necessary first to identify a way of measuring underlying local fiscal health. In our previous research, we developed what we call the *need-capacity gap*, a measure that shows the difference between the underlying costs of providing local public services to a community and the community's capacity to raise revenue from local sources to fund those services. A larger need-capacity gap indicates worse fiscal health.

We base each community's underlying costs and capacity only on local social and economic characteristics that are outside the direct control of local government. These are not actual levels of spending and revenues. Focusing on factors beyond the control of local governments keeps states from rewarding wasteful local spending or punishing efficient operations.

Using a gap-based aid-reduction approach, a state could distribute cuts more equitably. (See "Aid Cuts under the Gap-Based Approach.") For simplicity, we assume that existing aid was distributed in proportion to need-capacity gaps, although that is often not the case.

Under our approach, communities with small need-capacity gaps would receive the maximum percentage cut from their previous year's aid. Policymakers would cap the maximum aid cut to ensure that no community would lose all its aid. Communities with the largest need-capacity gaps would receive a minimum aid cut. Having a nonzero minimum aid cut ensures that all cities and towns share some burden of a cut, regardless of local fiscal health.

Note that municipalities not receiving the minimum or maximum cut would receive aid cuts inversely proportional to their gap. This means that communities with worse underlying fiscal health (for example, because of lower taxable property values) would lose less than those with better underlying fiscal health.

Massachusetts

In principle, this approach can be applied to all states providing local aid. To illustrate, we explore Massachusetts general municipal aid and simulate the effect of the proposed gap-based approach.

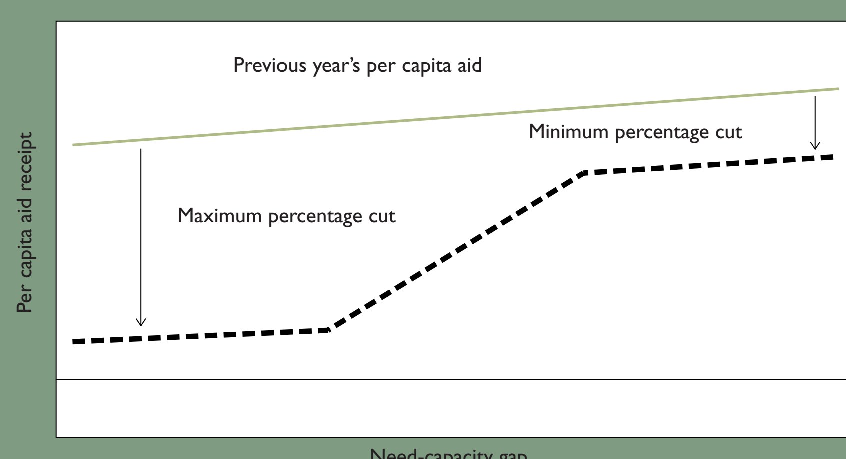
Massachusetts allocates general municipal aid to its 351 cities and towns with a declared goal of equalizing their ability to provide municipal services. Total general municipal aid reached a peak of $1.3 billion in FY 2008. After the recession, the state cut general municipal aid across the board by about 10 percent (FY 2009), 21 percent (FY 2010), and 4 percent (FY 2011). That presented an opportunity to simulate what the aid distribution would look like if the state had used a gap-based approach to cuts.

To measure the need-capacity gap for municipal services (the municipal gap, for short), we focused on social and economic characteristics outside the direct control of local officials in any given year. Our previous research pointed to four significant cost factors in Massachusetts: the poverty rate, the unemployment rate, population density, and the number of per capita jobs located in the municipality.[5]

The research found that the capacity to raise revenue from local property taxes is determined both by taxable property values and the personal income of local residents. We also included revenue capacity from various local excises, such as the motor vehicle excise and the local hotel and motel excise. However, we needed to subtract state-required local contributions to public schools and other required assessments and charges from municipal capacity, since those funds are not available for municipal services.[6]

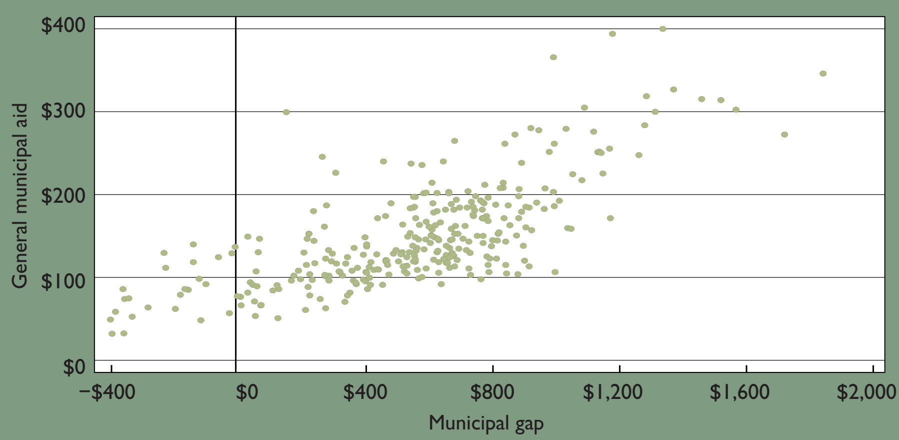
Despite the state's goal of fiscal equalization, municipal-aid distribution was not directly proportional to municipal gaps in FY 2008. (See "Municipal Aid vs. Municipal Gaps in Massachusetts.") Communities with similar gaps received very different municipal aid amounts, and communities with similar aid receipts had different municipal gaps. A more equitable aid-reduction approach should take into account both differences in municipal gaps and the existing aid distribution across communities.

Aid Cuts under the Gap-Based Approach



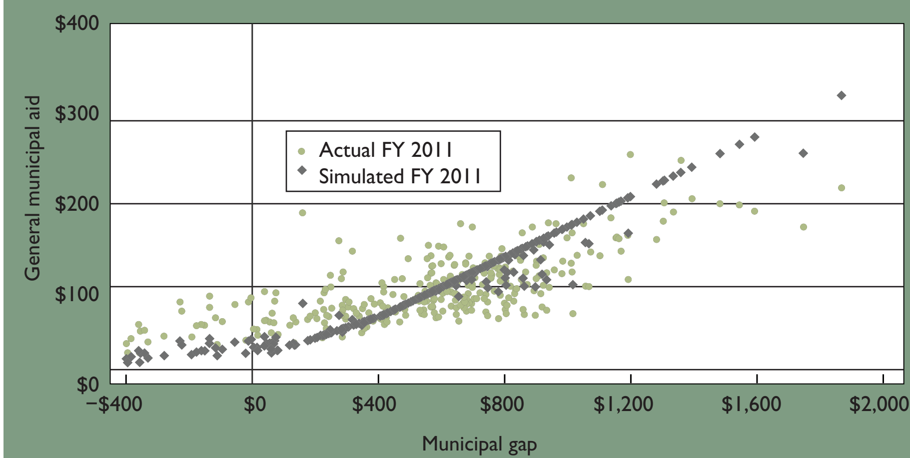
Source: Authors' illustration.

Municipal Aid vs. Municipal Gaps in Massachusetts (FY 2008, per capita)



Note: To show the general pattern more clearly, 40 communities with a per capita gap below −$400 have been omitted.
Source: Authors' calculations.

Simulated Aid Distribution vs. Actual (FY 2011, per capita)



Note: To show the general pattern more clearly, 40 communities with a per capita gap below −$400 have been omitted.
Source: Authors' calculations.

We ran a data simulation to explore what the aid distribution could have looked like if the state had used the gap-based approach. We distributed the actual statewide cuts in municipal aid fromok

FY 2009 to FY 2011 using a gap-based formula. In a policy scenario, we set the maximum percentage aid cut for any community to 2.5 times the statewide aid cut, and the minimum percentage cut to one-tenth of the statewide percent cut in each year.

Under the actual aid cuts, each community across the state lost roughly 31 percent of its aid. If Massachusetts had used the gap-based approach, higher-gap communities would have experienced a smaller percent aid cut than lower-gap communities. Communities in the top 20 percent of the gap distribution—those with the worst underlying fiscal health—would have lost 24 percent of their aid, on average. Communities in the bottom 20 percent would have experienced a 66 percent reduction in aid over the three-year period.

More than half of all communities in the state would have received smaller cuts under the gap-based approach than with the across-the-board cuts. Together, these communities have about 52 percent of the state's population and often have large municipal gaps.

Aid payments would obviously be more closely related to municipal gaps if the state had implemented the gap-based approach. (See "Simulated Aid Distribution vs. Actual.") Indeed, a comparison of the actual FY 2011 municipal aid distribution and the simulated FY 2011 municipal aid distribution reveals that FY 2011 aid bore little relation to municipal gaps. A gap-based approach would have created a stronger relationship between state aid and community need.

Cutting aid across the board appears equitable on the surface, but it ignores the relative fiscal health of local communities. It tends to put more burden on communities that have fewer resources and are already fiscally stressed. The gap-based aid-cut approach would help state governments improve fiscal equalization, even in difficult times.

Bo Zhao *is a senior economist in the New England Public Policy Center of the Federal Reserve Bank of Boston, where* **David Coyne** *is a senior research assistant.*

Endnotes

1 See the Census Bureau's 2008 Annual Survey of State and Local Government Finance, http://www.census.gov/govs/state/historical_data_2008.html.

2 For the purposes of this article, we do not address whether there *should* be aid cuts.

3 Aid reduction numbers are calculated from the *National Association of State Budget Officers' Fiscal Survey of States*, http://nasbo.org/Publications/FiscalSurvey/FiscalSurveyArchives/tabid/106/Default.aspx; New Hampshire Municipal Association's *State Aid to Municipalities: History and Trends*, http://www.nhlgc.org/attachments/nhma/StateAid_booklet.pdf; and Massachusetts Department of Revenue *Cherry Sheets*, http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/cherry-sheets/.

4 Bo Zhao and David Coyne, "Designing Formulas for Distributing Reductions in State Aid" (New England Public Policy Center working paper 11-2, Federal Reserve Bank of Boston, August 2011).

5 Katharine Bradbury and Bo Zhao, "Measuring Non-School Fiscal Disparities among Municipalities," *National Tax Journal* 62, no. 1 (2009): 25-56.

6 A more detailed explanation of municipal gap calculations for Massachusetts cities and towns can be found in Bo Zhao, Marques Benson, Lynn Browne, Prabal Chakrabarti, DeAnna Green, Yolanda Kodrzycki, Ana Patricia Muñoz, and Richard Walker, "Does Springfield Receive its Fair Share of Municipal Aid? Implications for Aid Formula Reform in Massachusetts" (New England Public Policy Center working paper 10-4, Federal Reserve Bank of Boston, July 2010).

The Need for

Financial Education in New Bedford

by Michael D. Goodman
and the UMass Dartmouth
Policy Analysis Research Team

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In spring 2011, the UMass Dartmouth Policy Analysis Research Team, an interdisciplinary group of public policy master's students, examined the ways in which low-income residents of Greater New Bedford, Massachusetts, use and interact with the region's financial-service providers—not only traditional banks and credit unions, but also nonbanks. Their findings highlight significant gaps in the financial literacy of the city's low-income population. They document a lack of awareness of local, low-cost banking options and a short-term perspective on financial matters. Ultimately, they underscore the need for more financial education targeted to low-income individuals and households.

Background

New Bedford, once the whaling capital of the world and still called the Whaling City, remains important to the New England fishing industry. According to 2011 National Oceanic and Atmospheric Administration (NOAA) data, the city is currently the number one U.S. fishing port ranked by the value of the catch.[1]

New Bedford also is home to a large low-income population, and as is true of many urban centers across New England, its economic performance has lagged that of its suburban neighbors. In August 2011, New Bedford's unemployment rate stood at 12.5 percent, significantly above the statewide rate of 7.4 percent. Although the reasons for the lagging economic performance are complex, disinvestment is clearly major.

In New Bedford, traditional banking relationships are not common, despite the fact that both national and regional analysts have long highlighted their importance. Such relationships not only help to limit the expense of financial-services transactions (for example, check-cashing fees); they also can provide the opportunity to build credit and develop assets, prerequisites for economic mobility and entrepreneurial activity.[2] As a 2007 *Communities & Banking* article noted,

> Formal saving is positively correlated with critical asset-building behavior. Individuals who save in a savings account are more likely to have other types of financial accounts, such as certificates of deposit and insurance contracts. They are more likely to own homes and cars, and they are also more likely to use formal sources of credit. [3]

In spring 2011, the Community Economic Development Center of Southeastern Massachusetts—a nonprofit organization that works with low-income populations in the New Bedford area—met with one of the authors to discuss the possibility of conducting a study of how low-income residents interact with traditional banks and credit unions—also with check-cashing outlets and other nonbanks in the region. The research project that emerged had a twofold goal: to improve the New Bedford community's understanding of the nature and scale of the challenges involved in assisting low-income residents to make wise financial-services choices, and to inform the development of evidence-based solutions to those challenges.

Information gathered in the subsequent UMass Dartmouth survey of 173 low-income residents was enriched by interviews with community members and by focus groups with low-income residents.[4]

New Bedford's Unbanked

As many as 18.2 percent of low-income residents of the New Bedford area previously used a bank but stopped; 9.1 percent have never had a formal relationship with a bank or credit union. Overall, an estimated 27.3

Why Cash Checks at Nonbanks?

	Percent (%)
I don't have a bank account	22.8
The hours are convenient	20.8
The locations are convenient	18.1
I can get my money faster	9.4
The place asks for fewer IDs	3.4
I can take care of other business at the same time	6.0
It costs less	4.0
More privacy	2.0
Lines are shorter	2.7
I feel more comfortable	2.7
Other	8.1

Source: Survey by authors.

percent are unbanked. Compare that with the roughly 20 percent rate for low-income people nationwide.[5]

Other demographics: Greater New Bedford's unbanked have had fewer years of education (73 percent have a high school diploma or less) than their neighbors with bank accounts. They are very low-income (61 percent have household incomes below $25,000 per year) and generally young (53 percent are between 18 and 25 years old). They represent every racial and ethnic type. Fifty percent are white; 33 percent are Hispanic/Latino/Guatemalan/Mayan.

There is no evidence that access to low-cost banking services is the problem. All state-chartered banks are required by state law to provide a no-fee, no-minimum-balance account. Moreover, several area banks participate in the Massachusetts Community and Banking Council's Basic Banking Program, which provides customers with access to a low-fee ($3 per month), no-minimum-balance account with ATM and check-writing privileges.[6] Several of those banks are located within walking distance of New Bedford's most economically disadvantaged neighborhoods.

However, interviews and focus groups reveal a lack of awareness of such products and services, suggesting that special outreach efforts specifically targeted to the low-income community may be required.

Most low-income residents use nontraditional providers to cash checks, citing check-cashers' convenient hours and locations. Interestingly, 39 percent of *banked* low-income residents also report cashing checks at nonbanks, with 48 percent using supermarkets, 23 percent using check-cashing establishments, and 11 percent using Walmart. (See "Why Cash Checks at Nonbanks?")

Despite the disadvantages, being unbanked can appear to be a rational choice for those with very low incomes and a short-term perspective. If they cash checks infrequently, don't save or borrow money, and use supermarkets or other low-cost, nonbank check-cashing outlets, the cost of being unbanked is not high in the short run. However, as savings opportunities are missed and as income grows, the cost of being unbanked rises significantly.

Insights that the researchers gained through focus groups and interviews suggest a lack of understanding of the financial advantages of being banked, specifically the advantages of building a credit history and of tapping asset-development strategies. Basic financial literacy is clearly lacking.

Reported Reasons for Being Unbanked

	Percent (%)
Don't have enough money	23.6
Don't trust or like banks	8.7
Don't need this type of account	8.2
Fees are too high	6.7
Bank staff does not speak my language	6.7
Fees are unpredictable	5.8
Don't have proper ID/SSN	5.8
Fees are too confusing	5.8
Fear of overdrawing my account	5.8
Poor banking history/bank would deny me	5.8
Not sure how to open an account	3.9
Other	3.9
Minimum balance is too high	2.4
Don't have money banks require to open account	2.4
Interest rates are too low	1.4
Don't know how to manage this type of account	1.4
No bank has convenient hours or locations	1.0
Banks take too long to clear checks	1.0

Source: Survey by authors.

Sources of Credit

	Percent (%)
Family or friends	38.6
I don't want to borrow	19.8
Credit card	11.6
Auto/home/boat/school loan	10.1
Personal loan	8.2
Home equity loan/other credit line	5.8
I can't get credit	5.3
Community members	0.5

Source: Survey by authors.

When asked why they were unbanked, nearly 23.6 percent of respondents reported that they "do not have enough money" to use a bank. Other reasons cited included a "dislike or mistrust" of banks (8.7 percent), the lack of a need for a bank account (8.2 percent), and a belief that "fees are too high" (6.7 percent). (See "Reported Reasons for Being Unbanked.")

Despite the disadvantages, being unbanked can appear to be a rational choice for those with very low incomes and a short-term perspective.

Many low-income residents of the area live in a cash economy. As many as 32.9 percent of renters reported paying their rent in cash. Some (15.4 percent) said that their landlords do not accept personal checks. Significant numbers of low-income residents rely on informal networks to access credit. Nearly 4 in 10 (38.6 percent) report family and friends as their preferred source of credit. Notably, an additional 19.8 percent have no desire to borrow money. (See "Sources of Credit.")[7]

Reaching the Unbanked

The research findings highlight significant gaps in the financial literacy of the Whaling City's low-income population, while documenting a short-term perspective and lack of awareness of local, low-cost banking options, and underscoring the need for more financial education targeted to low-income individuals and households.

Efforts being made to incorporate financial education into primary and secondary school curricula should help. But it is important to keep in mind that in communities like New Bedford, where the Massachusetts Department of Elementary and Secondary Education says the four-year high school graduation rate is a mere 53 percent, new curricula may not be enough to reach everyone.

Particularly during these difficult economic times, we can ill afford to allow another generation of low-income families to suffer the consequences of financial ignorance. Our findings suggest that financial and economic education must be accompanied by a concerted effort to make low-income residents aware of the advantages of the low-cost products and services already available. Successfully empowering families with the knowledge to make better financial choices will result in multiple payoffs for them and for the communities where they reside.

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Endnotes

1 See http://www.noaanews.noaa.gov/stories2011/20110907_usfisheriesreport.html.

2 M. Fellowes and M. Mabanta, *Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential* (Washington, DC: Brookings Institution, 2008); and B. Forman and L. Sanders, *Going for Growth: Promoting Access to Wealth Building Financial Services in Massachusetts Gateway Cities* (Boston: MassINC, 2010).

3 Tyler Desmond and Charles Sprenger, "Estimating the Cost of Being Unbanked," *Communities & Banking* 18, no. 2 (spring 2007): 26.

4 See http://www.umassd.edu/seppce/departments/publicpolicy/thepolicyanalysisresearchteampart/. Our research was greatly informed by C. Berry, "To Bank or Not to Bank: A Survey of Low-Income Households" (working paper 04-3, Joint Center for Housing Studies, Harvard University, Cambridge, Massachusetts, 2004).

5 "National Survey of Unbanked and Underbanked Households: Executive Summary" (Washington, DC: Federal Deposit Insurance Corporation, 2009), http://www.fdic.gov/householdsurvey/executive_summary.pdf. Note that although the share of low-income Massachusetts households who are unbanked is unknown, a recent analysis of FDIC data by the Pew Charitable Trusts estimates that 4.1 percent of all Massachusetts households were unbanked (as compared with 7.7 percent nationally) in 2009. See http://www.pewtrusts.org/our_work_report_detail.aspx?id=85899365577.

6 They include Bank Five, Rockland Trust, and Citizens Union Savings Bank.

7 Although the researchers heard many concerns about safety for people carrying cash, it was from partners and antipoverty groups, not from those who filled out the survey.

Corrections

In the winter 2012 issue, page 5, the correct population of Springfield, Massachusetts, should be 153,000, not 112,000.

On page 17, Maine and *Connecticut* experienced the highest foreclosure rates in the region, not Maine and Vermont.

NEW ENGLAND
COMMUNITY OUTLOOK SURVEY

The Federal Reserve Bank of Boston announces the release of the New England Community Outlook Survey results for the fourth quarter of 2011.

The Boston Fed's New England Community Outlook Survey incorporates observations and commentary from New England organizations working with low- and moderate-income populations, including their perception of job availability, affordable housing availability, and access to credit. This report continues its discussion on the strategies New England's community development organizations are employing to maintain capacity while meeting the difficult challenge of increasing demands for services in an era of rapidly decreasing funding.

To learn more, go to:

http://www.bostonfed.org/commdev/community-outlook-survey

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