

COMMUNITY OUTLOOK SURVEY.

Fourth Quarter 2011

FEDERAL RESERVE BANK OF BOSTON
Regional & Community Outreach

ABOUT THE SURVEY The New England Community Outlook Survey asks service providers to comment on changes in the financial and economic conditions of the region's low- and moderate-income (LMI) communities and the organizations that serve them.¹ To see previous reports or to register as a survey respondent, please visit <http://www.bostonfed.org/commdev/community-outlook-survey/>.

Introduction

Most of our indicators pertaining to the conditions of lower-income households improved in the fourth quarter compared with the same period a year ago (Financial Well-being, Job Availability, and Access to Credit). The exception was the Availability of Affordable Housing Index, which saw a decline over the period. Indicators pertaining to the conditions of the organizations that serve these households saw a decline as well (Demand for Services, Organization Capacity, and Organization Funding). Service providers were nearly evenly split on whether or not they believed they would be able to maintain capacity over the next 24 months. Other emerging issues raised by respondents included proposed healthcare spending cuts in Maine and the escalating cost of higher education.

Top Challenges Facing LMI Communities

Once again, service providers ranked job availability, state and local budget cuts, federal budget cuts, access to affordable housing, and adequate adult workforce development as the top five challenges facing LMI communities (Figure 1). Figure 2 compares respondents' rankings of the top challenges over time.

Diffusion Indexes: Tracking Changes in Conditions

Figures 3–5 feature diffusion indexes, which show changes in the conditions of LMI households and the organizations that serve them. See the sidebar for details about how the indexes are computed. Most of the indexes showed an improvement between the third and fourth quarters. As in past quarters, the Financial Well-being Index and the Demand for Services Index have the most unfavorable numbers. We see significant variation in the comparisons

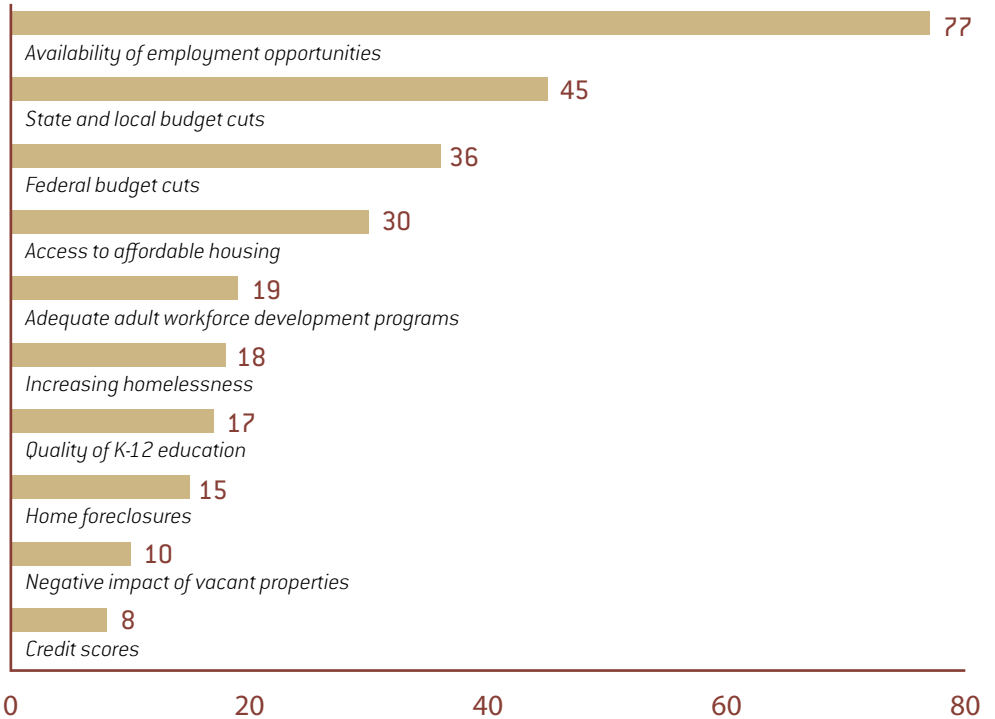
Respondent Quotes

.....
Low- and moderate-income families continue to struggle to provide for basic needs.
— Massachusetts
.....

FIGURE 1

TOP 10 CHALLENGES FACING LOW- AND MODERATE-INCOME COMMUNITIES

Percentage of respondents



Note: respondents were able to select up to 3 responses

between fourth-quarter conditions in 2010 and in 2011 (Figure 5). Additional detail on the themes emerging from the diffusion indexes and other data are provided in the sections following.

Job Availability Improves, but Remains the Top Challenge Facing LMI Communities

Service providers continue to cite job availability as the most important challenge facing LMI communities (Figure 1), noting concerns about high unemployment, low wages, and the mismatch between the skills of lower-income workers and the requirements for available jobs. Notwithstanding, our Job Availability Index improved in the fourth quarter to a relatively neutral value of -2.1 (Figure 3). Figure 5 shows that this improvement brought the index to a full 21 points above its value in the fourth quarter of 2010 (-23.2). The change over the year suggests that some lower-income workers may be benefitting from the modest decline in unemployment rates across the region over the period (Figure 6). Expectations for the next quarter suggest optimism regarding continued improvement in job availability, with more service providers expecting job availability to increase (30.5 percent) than to decrease (20 percent).

FROM OUR RESEARCH:

Our Job Availability Index showed the sharpest single-quarter increase among the indexes.

Availability of Affordable Housing Declines

Respondents have consistently ranked access to affordable housing a top challenge for lower-income communities, just behind job availability and public-sector budget cuts (Figure 1). Additionally, respondents have indicated that the availability of affordable housing has declined between the fourth quarter of 2010 and the fourth quarter of 2011: our Availability of Affordable Housing Index dropped nearly 16 points to -10.4 over the period (Figure 5). Expectations for the availability of affordable housing over the next quarter is relatively neutral, at 2.1 (Figure 3).

In their written responses, respondents cited several reasons for the decline in the availability of affordable housing, including cuts in public funding for new development and reduced family income and ability to afford housing because of job loss. Respondents also expressed concern about the effect of increased rents on families' ability to find affordable housing. They suggested that foreclosures are pushing more families into rental housing, and tight credit markets mean that other families cannot purchase a home—both factors that are pushing down rental vacancies and pushing up rents. Indeed, an informal survey of rental prices shows rents went up in 2011 in several New England states/municipalities, although they declined in others. Over the year, rents went up in the states of New Hampshire (including Manchester), Massachusetts (including Boston), and Connecticut, but down in the states of Maine and Vermont and the cities of Providence (Rhode Island) and Concord (New Hampshire).² Respondents also noted a decline in the quality of available housing, caused

With a decline in available rental units, many single-family foreclosures, and cuts in rental assistance, I expect rents to begin increasing, perhaps rapidly.
— Massachusetts

Figure 2
COMPARISON OF TOP CHALLENGES OVER TIME

Issue	Rank Q4 2011	Rank Q3 2011	Rank Q2 2011*
Availability of employment opportunities	1	1	1
State and local budget cuts	2	2	2
Federal budget cuts	3	3	3
Access to affordable housing	4	4	4
Adult workforce development programs	5	5	7
Increasing homelessness	6	8	8
K - 12 education	7	6	n/a**
Home foreclosures	8	7	5
Negative impact of vacant properties	9	11	11
Credit scores	10	10	9
Access to consumer credit	11	12	6
Other	12	13	14
Predatory and/or fraudulent financial services	13	14	12
Access to small business loans	14	9	10
Immigration issues	15	15	13

*We began asking respondents to rank the top challenges facing LMI communities in the second quarter of 2011.

**The Quality of K-12 education category was added in the third quarter of 2011.

Figure 3
DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS

	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011	1st Qtr 2011	4th Qtr 2010
Current conditions relative to previous quarter					
Financial well-being	-52.6	-62.2	-51.9	-45.6	-57.1
Job availability	-2.1	-34.3	-24.5	-12.7	-23.2
Availability of affordable housing	-10.4	-20.2	-12.5	7.1	5.4
Access to credit	-22.9	-28.7	-34.9	-32.1	-25.0
Demand for services	-60.0	-64.3	-55.5	-52.6	-36.2
Organization capacity	-16.0	-9.8	-15.5	-11.9	0.0
Organization funding	-18.0	-26.8	-30.0	-30.5	-13.8
Current conditions relative to one year ago					
Financial well-being	-50.5	-75.2	-67.9	-45.6	-62.5
Job availability	7.3	-45.3	-23.8	-7.3	-14.3
Availability of affordable housing	-5.4	-11.8	-6.7	21.8	9.3
Access to credit	-33.3	-46.7	-45.7	-28.3	-25.5
Demand for services	-62.0	-74.1	-58.2	-45.8	-41.4
Organization capacity	-14.0	-14.3	-18.2	6.8	-6.9
Organization funding	-27.0	-39.3	-41.8	-33.9	-25.9
Expectation for conditions over the next quarter					
Financial well-being	-31.6	-58.2	-38.1	-12.7	-33.9
Job availability	10.5	-12.8	-5.6	22.2	14.5
Availability of affordable housing	2.1	-11.0	-7.5	5.6	3.8
Access to credit	-11.8	-23.8	-19.8	-13.2	-15.7
Demand for services	-69.0	-67.0	-57.3	-54.2	-58.6
Organization capacity	2.0	-5.4	-10.9	-10.2	-6.9
Organization funding	-22.0	-26.8	-33.6	-28.8	-29.3

⋯⋯⋯ = indicates index is worse than previous quarter

in part by landlords' increasing inability to afford maintenance and by cuts in code enforcement staff at municipal housing agencies.

Organizations Split on Their Expectations Regarding Maintaining Capacity

Our Demand for Services Index and Organizational Funding Index declined from the fourth quarter of 2010 to the fourth quarter of 2011, and expectations for the first quarter of 2012 are also negative. The Organization Capacity Index also declined over the past year, but expectations for the next quarter are neutral, with 28 percent of respondents expecting capacity to increase and 26 percent expecting it to decrease.

Foreclosures are having a multiplier effect as the issue intersects across sectors such as public health, school performance, the economy through stress on local budgets, and the housing market as a result of neighborhood destabilization and discounted sales of distressed properties.

— Rhode Island

FIGURE 4

COMPARISON OF DIFFUSION INDEXES

Current conditions relative to previous quarter

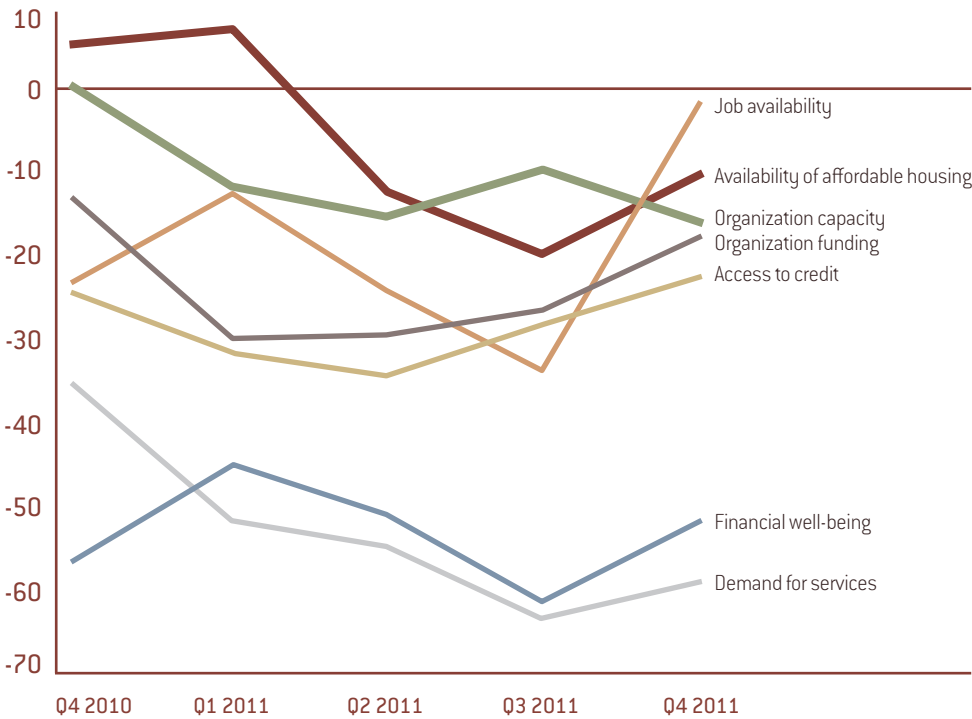
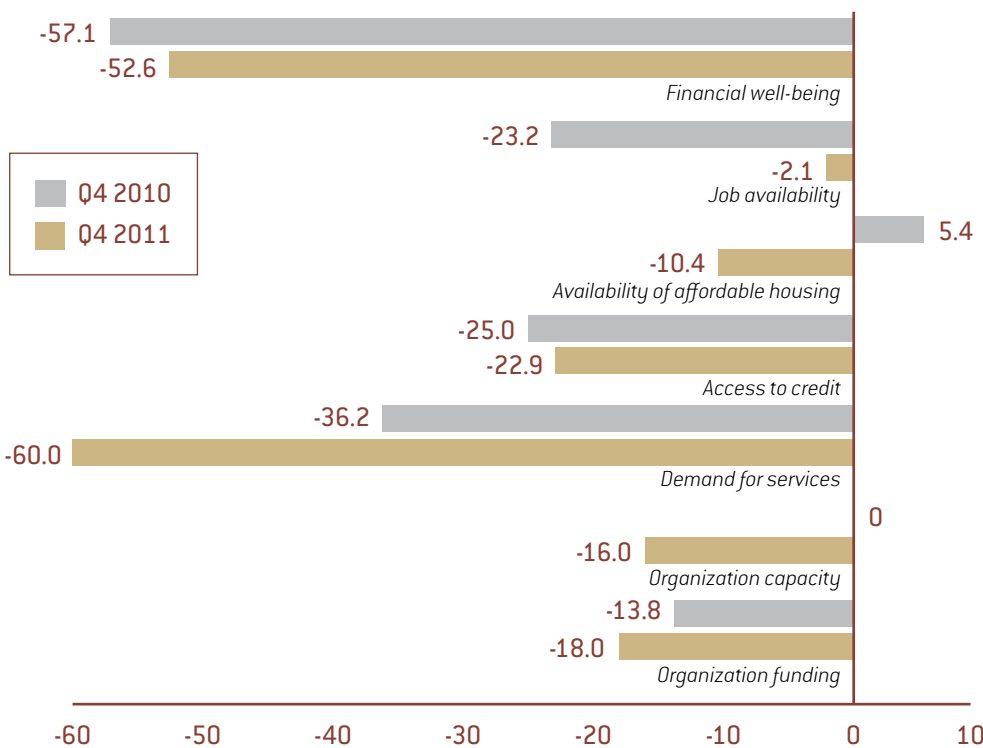


FIGURE 5

COMPARISON OF DIFFUSION INDEXES FOR Q4 2010 AND Q4 2011

Current conditions relative to the previous quarter



Interpreting the Diffusion Indexes

- For each index, we ask respondents to indicate whether conditions improved, declined, or remained unchanged. The index scores are calculated by taking the percentage of respondents that reported improvements in conditions and subtracting the percentage of respondents that reported declines.
- The exception is the Demand for Services Index, which we compute by subtracting the percentage of respondents reporting an increase in demand from the percentage reporting a decrease. We do this to show that an increase in demand for services indicates a decline in the condition of lower-income households and to allow for easier comparison of scores across indexes.
- A score above zero indicates respondents' attitudes are, on average, positive. A score below zero indicates respondents' attitudes are, on average, negative.

Quick Facts about the Fourth Quarter Diffusion Indexes

- With the exception of Organization Capacity, all the indexes showed an improvement from the third quarter to the fourth quarter.
- When comparing the indexes for the fourth quarter of 2010 and the fourth quarter of 2011, Financial Well-being, Job Availability, and Access to Credit showed improvement, while the Availability of Affordable Housing, Demand for Services, Organizational Capacity, and Organizational Funding declined over the period.

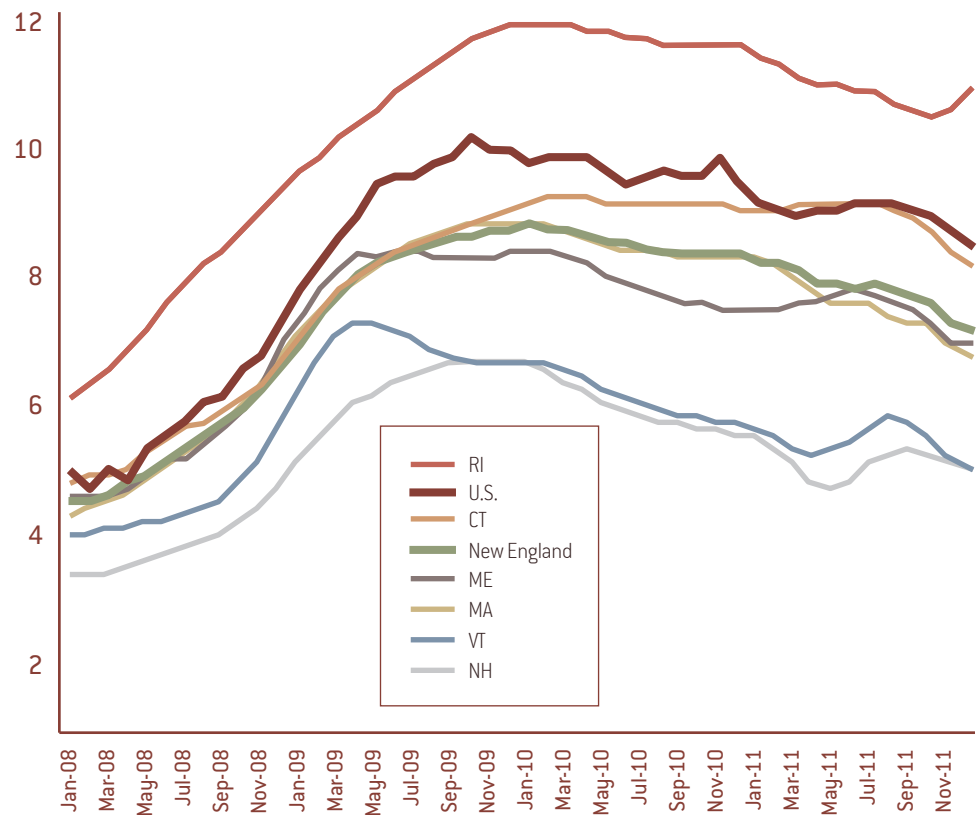
The manufacturing sector appears to have stabilized and is looking for qualified workers. Unfortunately, workforce development cuts have limited training opportunities for these jobs.

— Maine

FIGURE 6

U.S. AND NEW ENGLAND UNEMPLOYMENT RATES

Seasonally adjusted



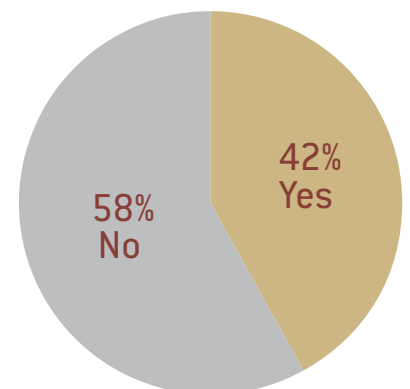
Source: U.S. Bureau of Labor Statistics

In the third quarter of 2011, we asked respondents to share with us their tactics for continuing to serve existing customers. (See our report covering the third quarter of 2011 for these results.) In the survey covering the fourth quarter, we asked respondents who have managed to maintain capacity over the last 12 months despite funding cuts to identify (1) whether they expect to be able to continue do so over the next 24 months and (2) if not, to tell us why not. Forty-two percent of those that responded to the question (n = 74) expect to maintain capacity over the two years, while 58 percent do not (Figure 7).

FIGURE 7

SUSTAINABILITY OF ORGANIZATIONAL STRATEGIES

Organizations were asked, “If your organization has experienced cuts in funding over the last 12 months but has been able to maintain capacity, do you feel that your strategies for maintaining capacity are sustainable over the next two years?”



The text box displays quotes from respondents describing why they do not expect to be able to maintain capacity over the next two years. Most explained that this was due to expectations of further public-sector budget cuts and the effect those additional cuts would have on their organizations' already strained budgets. Service providers explained that further cuts would likely mean that their organizations would have to further reduce the scope of services to clients, reduce the number of clients served, and/or reduce staff. Some respondents shared that current strategies aimed at maintaining capacity were hurting their long-term effectiveness as an organization.

What Service Providers Are Saying about Their Current Strategies

Service providers explained that current strategies are unsustainable in light of anticipated public-sector budget cuts:

"Cuts and anticipated cuts have caused us to reduce staff, hours, and some capacity. We anticipate additional cuts in the next fiscal year that may further reduce capacity."

"We anticipate further cuts in major federal programs. These cuts cannot be offset with philanthropic resources, nor is the Commonwealth of Massachusetts in a position to make up the shortfall."

"CDBG is being reduced. Most other primary funding sources anticipate level funding at best."

"The cumulative effects of continued cuts are outpacing our ability to deal with them."

Service providers also noted other strategies that are unsustainable:

"We are highly dependent on successfully obtaining a few large grants."

"We are too heavily grant funded and do not have enough grass-roots dollars."

"We cannot continue to operate at a deficit."

"We are going through reserves."

Many said that continued cuts would force a reduction in core services and/or staffing:

"Organizational survival will force [us to] reduce service levels."

"We have reached a tipping point, and any further cuts will require we reduce services to LMI families."

"If we continue to cut, core services will suffer."

"We have trimmed everywhere we could, and if the cuts continue, the only area left is employees."

Current strategies are also limiting overall effectiveness for some organizations:

"With less people resources, we are not able to be proactive in our approach to economic development in the city. "

"As we stretch our capacity to support existing human resources, we lose capacity to invest in technology and other [areas of operation] that support our ability to function effectively at all levels of service. "

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We have reduced staff, and those remaining do their best to provide adequate services. However, this cannot be maintained over the long term.
— New Hampshire
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Other Challenges

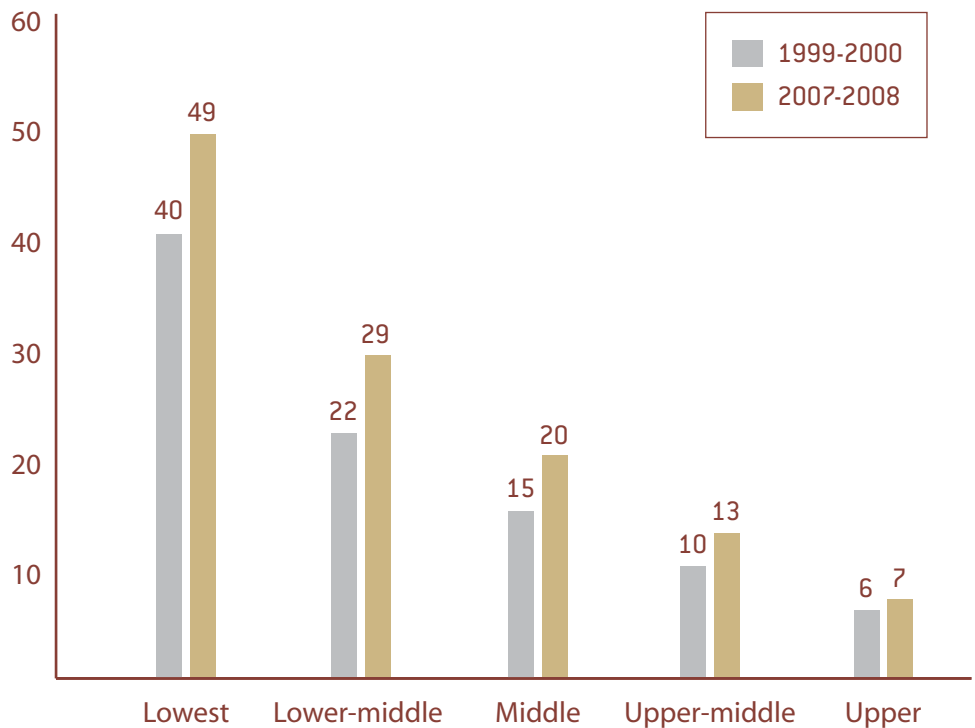
In their written responses, service providers highlighted two emerging concerns. First, a number of service providers located and operating in Maine expressed concerns over the projected effect on lower-income individuals of the MaineCare/Medicaid budget cuts proposed in December 2011. The cuts are aimed at closing a \$121 million shortfall in the state's Department of Health and Human Services budget. The Maine Center for Economic Policy projects that the cuts would impact services to 65,000 people and would cost the state almost 4,500 jobs.³ Proponents of the cuts say that without the cuts, the state would need a tax hike that would cost the state 6,400 jobs.⁴

Another emerging concern cited was the escalating cost of higher education. Several respondents noted the increasing burden higher costs place on lower-income families and the negative effect of higher costs on access for lower-income families. President Obama raised similar themes in his State of the Union address on January 24 (after our survey had closed).⁵ The National Center for Public Policy and Higher Education has released a number of measures of affordability of higher education that corroborate the findings of our survey.⁶ Figure 8 illustrates the changes in cost burden of attending community college for families by income quartiles. Between 2000 and 2008, the cost burden increased for each income quartile, with the lowest income quartile being the most severely affected.

FIGURE 8

COSTS FOR PUBLIC TWO-YEAR COLLEGES NET OF FINANCIAL AID

Percentage of median family income, by income quartile



Source: National Center for Public Policy and Higher Education (2008)

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The lack of affordable education options is a problem.
— New Hampshire
.....

Conclusion

Expectations over the next quarter are positive for three of our seven indexes (Job Availability, Availability of Affordable Housing, Organization Capacity), while four are negative (Financial Well-being, Access to Credit, Demand for Services, and Organization Funding). As such, it is unclear whether the uptick we have seen in the fourth quarter will be sustained or is temporary or seasonal. We do know that our composite indexes, Financial Well-Being and Demand for Services—which reflect the effects of conditions measured by the other indexes on LMI households and the organizations that serve them—remain low at -52.6 and -60.0, respectively. Expectations over the next quarter for these indexes are also low, at -31.6 and -69.0.

Survey Methodology

In January 2011, the Boston Fed launched the New England Community Outlook Survey, a quarterly online poll. Respondents represent organizations providing direct services to LMI households. Organizations are asked to designate one senior staff member to respond to the 10-minute survey each quarter. For this wave of the survey, 100 service providers from economic development, affordable housing, community action, human services, and workforce development organizations and representing each of the six New England states responded to 23 multiple-choice and fill-in questions. We asked respondents to comment about the period from October 1 to December 31, 2011, and respondents completed the survey between January 3 and January 14, 2012. Data collected represent the opinions of service providers who completed the survey and should not be interpreted to represent the opinions of all service providers to LMI households in New England. In addition, there is some variation in respondents from quarter to quarter.

Report by Anna Steiger and Anthony Poore

The views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System.

Endnotes

¹ The survey covers the Boston Fed's New England district, comprising Connecticut (excluding Fairfield County), Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. LMI individuals have incomes below 80 percent of the area median income, which is defined as the metropolitan median income for urban residents and state median income for rural residents.

² Based on rental price data collected from Zillow.com, <http://www.zillow.com/local-info/>, accessed on January 30, 2012.

³ Maine Center for Economic Policy, *Maps & Figures: Ideas for Shared Prosperity*, <http://www.mcecp.org/view.asp?news=2020>.

⁴ Sam Adolphsen, "Report Shows Raising Taxes to Address DHHS Deficit Would Cost Maine 6,400 Jobs," news release, December 19, 2011, <http://www.maineconomy.org/2011/12/report-shows-raising-taxes-to-fill-dhhs-deficit-would-cost-maine-6400-jobs/>.

⁵ Barack Obama, "The 2012 State of the Union: An America Built to Last," January 24, 2012, <http://www.whitehouse.gov/state-of-the-union-2012>.

⁶ Patrick Callan, "The 2008 National Report Card: Modest Improvements, Persistent Disparities, Eroding Global Competitiveness," in *Measuring Up 2008: The National Report Card on Higher Education* (San Jose, CA: National Center for Public Policy and Higher Education, 2008), 5–19, <http://measuringup2008.highereducation.org/print/NCPPEMU-NationalRpt.pdf>.

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Many believe that we are still
in a recession and think our
economic condition is worse
now than in previous years.
— Massachusetts
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