Federal Reserve Bank of Boston

Communities & Banking

Supporting the Economic Strength of Lower-Income Communities

spring 2017
volume 28, number 2

Sparking Change in New England's Smaller Cities

Lessons from Early Rounds of the Working Cities Challenge

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Communities & Banking

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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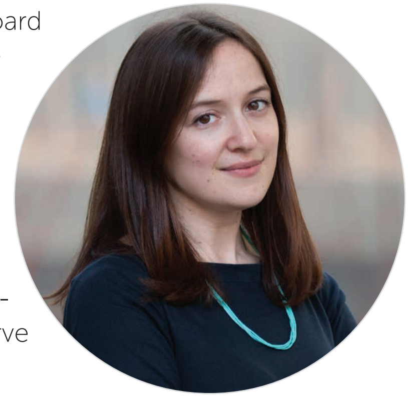
LETTER FROM THE EDITOR



It is my great pleasure to come aboard as the new managing editor for the Federal Reserve Bank of Boston's Regional & Community Outreach department. Having previously served as the editor of *Community Investments* at the San Francisco Fed, I am excited to be back at home in New England and continuing my work with the Federal Reserve as part of such a wonderful team.

This issue will be our last in print and in this format, as this fall *Communities & Banking* will become *Invested*, a new online magazine building on the strong *C&B* foundation and exploring a wide range of views on community development issues. My article in this issue of *C&B* provides additional details on our decision to make this transition and what to expect going forward.

In our cover story for this issue, Kseniya Benderskaya and Colleen Dawicki share key lessons learned from the first two Massachusetts rounds of the Boston Fed's Working Cities Challenge. Their article demonstrates how the Challenge is breaking new ground in community-based systems change initiatives.

Also in this issue, we learn about legal tools helping to protect and increase benefits for low- and moderate-income communities. Sarah Mancini and Margot Saunders discuss predatory land installment contracts and offer recommendations for mitigating their negative impacts, and Edward De Barbieri shows how community benefits agreements can ensure neighborhoods are involved from the beginning and can reap advantages from large-scale development projects.

Two articles focus on expanding support for entrepreneurship and small business. James Jennings offers a viewpoint on the crucial involvement of local government and public schools in sparking an entrepreneurial fire in students of color, and Brian Clarke explains how anchor institutions and small businesses can support one another and their communities through partnerships and contract opportunities.

We also hear from Lili Elkins and Yotam Zeira about a new pay-for-success initiative seeking to reduce recidivism among formerly incarcerated youth. Nick Maynard and Mariele McGlazer show how app-based financial-education games are helping users to increase their savings and develop improved money management skills. And last but not least, Amy Higgins updates us on changes in median rents in New England.

Gabriella Chiarenza
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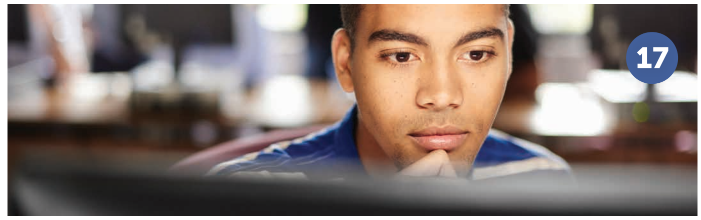

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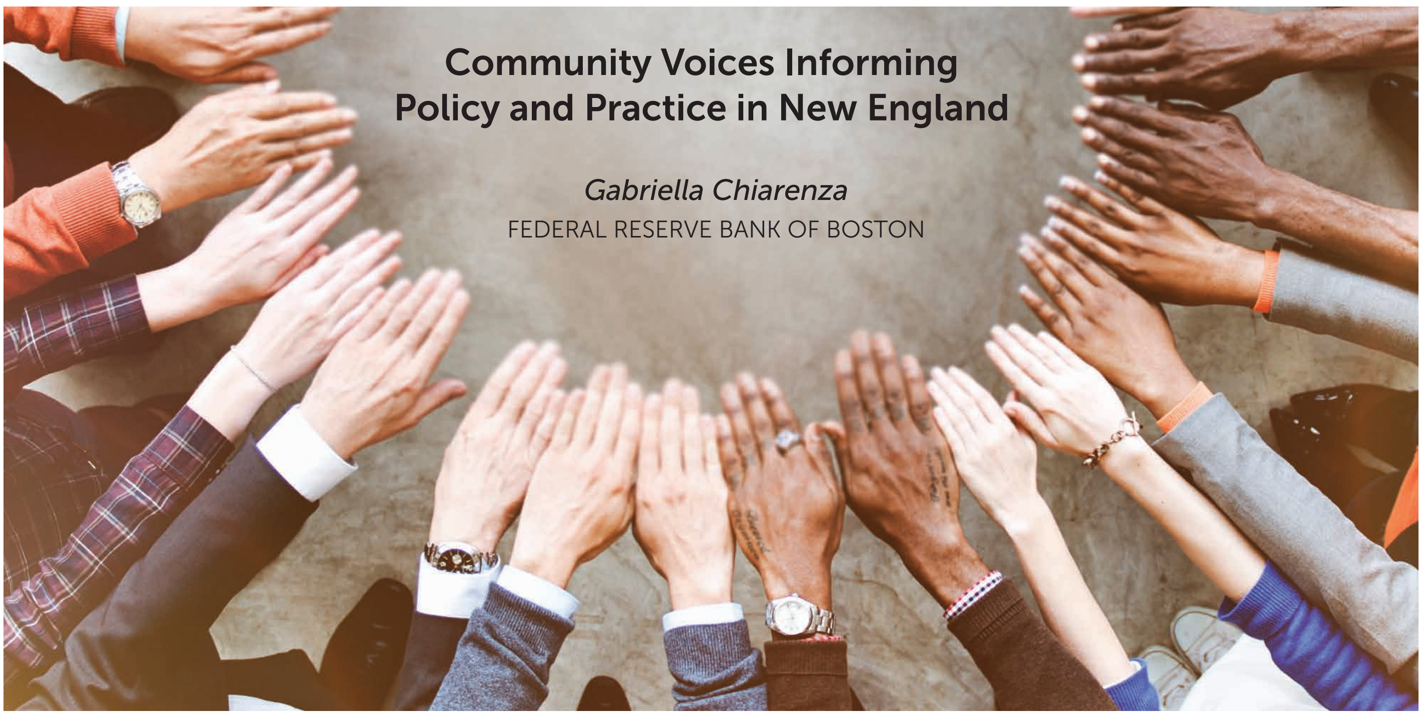
Introducing *Invested*



Community Voices Informing Policy and Practice in New England

Gabriella Chiarenza
FEDERAL RESERVE BANK OF BOSTON

What does it mean to be invested in your community? It might be economic: securing public- and private-sector funding for community initiatives, bringing in new businesses and jobs to the community, or helping to stabilize household finances. It might be social: making sure all families have access to education and safe neighborhoods, providing assistance and services to community members in need, or holding community forums and events to increase civic participation. And it might be personal: reinforcing your sense of connection to and roots in your community, knowing and supporting your neighbors, and representing your community with a sense of pride.

For low- and moderate-income (LMI) communities in New England and across the country, these forms of investment in community collectively establish an important first line of defense against unexpected economic shocks and household financial stressors. Understanding the local and regional economic landscape, as well as the needs and interests of one's neighbors and constituents, is crucial to further strengthening and supporting economic growth in communities. At the Federal Reserve Bank of Boston, our community development research and outreach work seeks to shed light on LMI community needs and conditions and to connect New England's policymakers, community-based organizations, and residents with the tools and resources they need to most effectively invest in their communities. Starting this fall, *Communities & Banking* becomes *Invested*, our new outlet for stories, ideas, and strategies to spur informed and productive investment of all kinds in New England's LMI communities.

Why are we changing *C&B*, and what will be different?

Building on the strong foundation provided by our longstanding and popular platform *Communities & Banking*, our new publication will feature voices from our communities alongside facts and data to provide a rounder view of what is really happening in New England's low- and moderate-income communities. One of the most significant changes to the existing *C&B* model will be a shift to focusing on one overarching topic for each year of content. Each four-issue year of *Invested* will culminate in a detailed compendium and a practical, action-oriented set of recommendations for policymakers and practitioners on a specific issue area, based on a powerful combination of quantitative and qualitative evidence from experts–both those studying and those living and working in our communities.

Our goal for this publication is to thoroughly investigate, over the course of four issues, a selected economic challenge facing New England's low- and moderate-income communities, with an emphasis on four things:

- Gathering and amplifying the voices of those in our region affecting and affected by the issue;
- Weaving together statistics and data with first-person experiences to build a more nuanced picture of how the issue is playing out in New England;
- Offering a user-friendly entry point into the larger body of work on the issue available at the Fed, along with further resources and research in the region; and
- Providing a useful, in-depth, and constituent-informed reference resource covering the issue for our region's policymakers, practitioners, and community stakeholders.

C&B has covered important community development issues in New England for over 25 years, and we hope to build upon that successful history with this new publication. As we have always done with *C&B,* we will keep our focus largely on external voices in *Invested*, and feature content that highlights the promising practices and ideas emerging here in New England. We will continue to share views from across our six-state region and from many different types of community stakeholders. Maps and data presentation will remain an important component of the new publication.

We also will be modernizing the format of *Invested* to make it even more accessible and actionable for broader audiences. *Invested* will be presented online, where an increasing number of readers are reaching us and reading the news and other media. With the online format, we will be able to feature interviewees in text, audio, and video. *Invested* will also be informed by and feature responses from our ongoing Community Outlook Survey to further increase the range of views and voices included on a given topic.

Over time, our new approach will make the content more interactive, engrossing, and dynamic, helping to draw new audiences in to learn about key regional community development issues. Publishing the content regularly online will also make it easier to share on social media, the primary forums for people's consumption and sharing of news and information.

We recognize that this is a significant change from *C&B*, which has been offered in print since 1991, and that some readers prefer a hard-copy publication. With each issue, we will provide a printable summary of the information in the magazine that can be shared with in-person audiences, including a link to the extended content online. We will make it easy to subscribe online to receive an email notice each time a new issue is posted, not unlike opening your mailbox to find the print magazine. Previous issues of *C&B* and *Invested* will also be available in an archive on the *Invested* page on the Federal Reserve Bank of Boston's website.

Who should read *Invested*?

Among our central goals for *Invested* are to make the content accessible to a wide range of audiences and to both initiate and spur conversation among those working on and affected by a given issue in New England. We expect the content will be of relevance and use to policymakers, practitioners, and officials across the region, but it will not be limited to those stakeholders alone. *Invested* will also be a useful resource for LMI communities seeking accessible information to share with their neighbors and government representatives. Financial services professionals and business leaders will be able to turn to *Invested* for information on successful community investment strategies and to learn about the communities in which their investments may have the greatest impact.

For researchers, the publication will offer local viewpoints and a more qualitative look at community development concerns in the region. *Invested* will also be a user-friendly entry point for teachers and students into complex community and economic issues. It is our goal to ensure the content in *Invested* is relevant and enticing for both our existing *C&B* readership and new audiences alike.

How can you get involved?

We welcome our readers' participation and feedback on *Invested*. If you are an existing print subscriber and already have sent us your email address, you will receive a notification email as soon as the first issue of *Invested* is available online this fall. Print subscribers who have not yet provided us with an email address are encouraged to send one to us at **CommunityDevelopment@bos.frb.org** or to use the tear-out card in this issue to remain on our subscriber list. New readers will be able to subscribe online or may simply visit the *Invested* page on our website at **www.bostonfed.org**, where all of the content will be available to the public free of charge, as always.

The *Invested* page will also include a form through which you may send us feedback. Please be in touch to let us know what you think of the new publication, share your reflections on the previous issue, or offer suggestions for future content or interviewees. Thank you for your loyal and engaged readership of *Communities & Banking*, and for taking this hopeful leap with us into *Invested*.

Gabriella Chiarenza *is the managing editor for regional and community outreach at the Federal Reserve Bank of Boston.*

The Gamification Effect

Using Fun to Build Financial Security

Nick Maynard and Mariele McGlazer
COMMONWEALTH

Using a game-based approach, new financial-education and savings programs are putting the power to save in the palm of users' hands and reinforcing and rewarding smart savings decisions.

Introduction

Managing personal finances can be stressful, intimidating, and at times simply mystifying. What if gaining financial knowledge, building self-confidence, and taking positive financial action could be as fun and engaging as playing a video game? At Commonwealth, we believe that tools that use fun to increase people's motivation to engage with financial topics, reduce stress and anxiety surrounding financial decision making, and lead to real-world action taking can improve the financial security and opportunity of financially vulnerable New Englanders. This article describes how Commonwealth has applied video games and gamified tools to financial concepts and behaviors. It discusses what we learned and concludes with an invitation to the financial industry and community practitioners to engage in deep conversations about how these lessons can be applied more broadly.

Why Use Games?

With hundreds of millions of users, casual video games like *Angry Birds* and *Candy Crush* are hugely popular among a wide variety of demographics and offer an opportunity to engage financially vulnerable people. Casual video games are easy to learn, addictive, available on demand, and allow for short periods of play. Thanks to widely used digital technologies like smartphones, video games can be made available at scale more cost-effectively than traditional financial-education workshop models.

Such workshops can lack excitement and are typically offered at times and in contexts removed from those in which people make financial decisions. They therefore have shown limited effectiveness in terms of attracting and retaining participants and improving financial-capability outcomes.[1] Video games address some of the shortcomings of traditional financial education by acting as appealing, low-stress entryways that motivate users to engage with educational experiences. It is possible to embed opportunities for playing the game (gameplay) on the computers and mobile devices that players already use to manage their financial lives and easily connect to platforms for taking action.

Developing and Testing Financial Entertainment Video Games

Building off of these insights, we at Commonwealth set out to create our own games to incorporate basic financial concepts into fun and exciting game experiences. Today our suite of Financial Entertainment video games includes six titles that cover topics ranging from budgeting and debt management to saving for retirement and avoiding financial fraud.[2] We worked on the game designs alongside low- and moderate-income New Englanders, who joined us at three key milestones during the development of each game to give feedback on the gameplay experience. We also conducted preliminary efficacy testing with these and additional users.

Across multiple contexts, Financial Entertainment games have been effective at engaging players to build financial capability and confidence in a fun and stress-free environment. The games have been used to drive financial-capability outcomes for financial institutions, raise financial awareness among military families and community-college students through game tournaments, and encourage sound financial habits among high-school students through Boston's youth summer jobs program. Gameplay in K–12 classrooms took off organically as teachers used the games in many different ways to support classroom education, including as a main classroom activity with pre- and post-tests, as a contextualized activity incorporated into a lesson plan, and as an after-lesson activity to keep students engaged in learning after they have completed the main lesson. Commonwealth's Financial Entertainment game suite has attracted 200,000 users and generated over 500,000 gameplays since its launch in 2010, and over 20,000 mobile game downloads since 2013.

Commonwealth set out to evaluate the potential connection between video games and action taking with two initial studies. First, we conducted a randomized comparison trial of the debt-management game *Farm Blitz*, a match-three puzzle game in which players need to match like vegetables in a row quickly so they can earn money to pay down debt, manage cash on hand, and invest in their future as they advance to higher levels. The *Farm Blitz* study measured the impact of gameplay—as compared to reading traditional financial-education materials—on gains in knowledge and uptake of a savings opportunity. Both groups achieved statistically significant gains from the baseline on measures of confidence and knowledge, but savings action taking was slightly higher for the video game group. Thinking about magnifying impact, a video game is more appealing than reading a pamphlet, and thus video games are better able to attract a larger target population to engage with financial-education content.

In another study, we partnered with office-supply company Staples to customize and test a version of our *Bite Club* retirement-planning game. As owners of a vampire "day club," *Bite Club* players have to keep their customers happy by clicking and moving them around to give them what they want. Between rounds, players must pay down debt and save for retirement. During the test, the customized game connected to Staples's 401(k) and benefit platform and allowed players to take action in their accounts during play. During one test using a single direct-mail piece promoting the video game to newly eligible participants, Staples observed an 11 percent rate of positive action taking in those recipients' 401(k) accounts.

photos Commonwealth

These two research studies provided initial evidence that games can foster learning and prime individuals to take active roles in their own financial planning.[3] The results in turn led Commonwealth to think about how we might further integrate fun financial tools into contexts in which they could create sustained behavior change and lead to improved longer-term financial outcomes.

Gamifying Real-World Tools

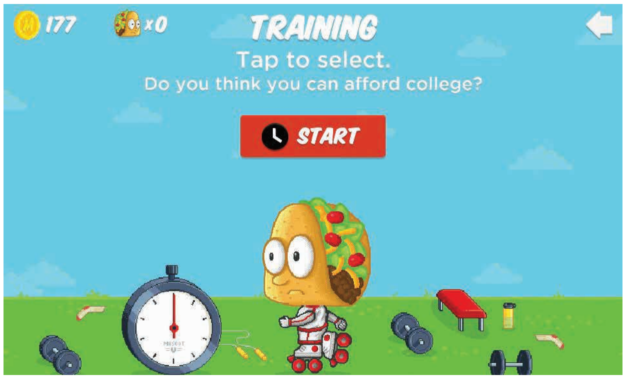
One way to further harness the power of games is through "gamification"—the application of game mechanics in a manner that intrinsically motivates people toward an action or behavior. Gamified tools connect in-game rewards with activity completed outside of the game. A recent example of gamification is *Pokémon GO*, a mobile game that surged in popularity during the summer of 2016. Using a mobile device's GPS to identify a player's location, *Pokémon GO* allows users to find, battle, and capture creatures that appear on the screen as if they were in the same location as the player. With over 100 million downloads in its first month and more daily active users at its peak than Twitter, the game's popularity speaks to an appetite for tools that enable users to cross boundaries and connect their virtual and actual worlds. We created two digital tools—*SavingsQuest* and *Ramp It Up*—that use gamification to help users actively improve their financial stability and opportunity in a fun context.

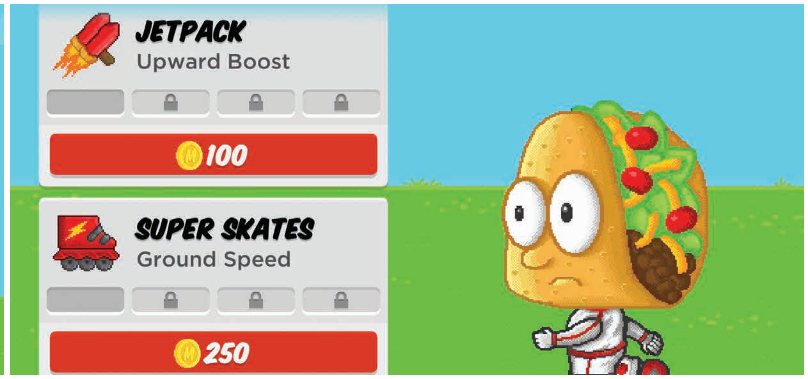
Gamifying Emergency Savings with *SavingsQuest*

Motivated by the findings of our initial research and inspired by the success of gamified digital health and fitness tools like Fitbit and the *Zombies, Run!* app, Commonwealth's next step was to develop an app that would create a self-contained system for motivating and rewarding consumers for ongoing real-world savings actions. *SavingsQuest* is a tool that uses challenges, badges (digital awards offered for completing certain actions, like saving $5 at a time), and messaging to motivate savings transfers connected to live financial products, such as between a checking and savings account.[4] Unlike traditional savings activity, *SavingsQuest* offers a fun and dynamic interface that delivers instant gratification for every save with an animated dancing pig. These elements combine to encourage small and first-time savers to start saving—even if only a penny at a time—toward the goal of having $250 (or any other chosen amount of savings) set aside for an emergency.

A tool like *SavingsQuest* helps users get started on the path to financial security. In our pilot with a prepaid card company, *SavingsQuest* users saved on average 25 percent more frequently than other cardholders. This is no small achievement for households that do not have the savings to manage unexpected expenses—a common crisis many New Englanders face. Across the region, the percentage of households without sufficient liquid assets to subsist at the poverty level for three months in the absence of income ranges from 21 percent in New Hampshire to over 46 percent in Maine.[5] In Vermont, nearly 30 percent of households do not have a savings account.[6] Gamified tools like *SavingsQuest* transform the typical savings experience into something more appealing and can engage and motivate users to take action toward their goals for changing their lives in the real world.

photos Commonwealth





Ramping Up to College Financial Readiness

Beyond emergency saving, we also sought to bring the principles of gamification to bear on the challenge of improving college financial readiness. Low awareness and capability around paying for college can not only stifle educational attainment but also saddle students with excessive debt and leave them on unstable financial footing. In Maine, for example, college students graduated in 2014 with over $30,000 in student loan debt, on average—one of the highest state-level rates in the nation—and over 10 percent of borrowers entering repayment in 2012 went into default.[7] More importantly, nationwide educational access and success are unevenly distributed. College-ready students of color and students from lower-income backgrounds attend college at much lower rates than white or higher-income students of comparable academic ability.[8]

Many resources already exist to help young people lay out a plan to pay for college. While readily available, these resources can intimidate students and, in many cases, fail to engage them. Rather than creating additional tools and materials, we believe it makes sense to tackle the challenge of how to get students to engage with existing high-quality resources. With the support of the Treasury Department's Financial Empowerment Innovation Fund, we developed a gamified application called *Ramp It Up* to do just that. *Ramp It Up* is a game in which players tap their screen to enable their character to fly through the air and avoid obstacles while collecting as many coins as possible. Players use the coins to unlock new abilities and levels. Between rounds, the game requires players to navigate and interact with college- and career-readiness tools—creating a Free Application for Federal Student Aid account, for instance, or searching for scholarships—in order to advance and unlock certain features within the game.[9] As they engage in these activities, students gain both financial knowledge and confidence in their ability to attend and pay for higher education. With so many resources competing for the attention of young people, tools like *Ramp It Up* can help break through the noise to spur meaningful action using a format familiar to and popular with students.

The Future of Gamification and Financial Security

SavingsQuest and *Ramp It Up* are just two examples of the type of gamified tools that can build and improve financial capability. Commonwealth envisions a financial industry that uses elements of fun to engage and motivate financially vulnerable people toward positive financial behaviors that increase their financial security and opportunity. Well-designed games and gamified financial tools can improve engagement and motivation, reduce stress, build confidence, and promote real-world action taking. While the initiatives described here represent promising beginnings, there is more that can be done to design, pilot, and scale innovative solutions that apply these types of tools in new ways. We invite the financial industry, community-development practitioners, and policymakers to join the conversation and explore solutions that leverage games and gamification to increase engagement and improve financial security and opportunity for New England's financially vulnerable consumers.

Nick Maynard *is a senior vice president at Commonwealth, where* **Mariele McGlazer** *is a senior innovation strategist. Contact them at nmaynard@buildcommonwealth.org.*

Endnotes

1 Daniel Fernandes, John G. Lynch, and Richard G. Netemeyer, "Financial Literacy, Financial Education, and Downstream Financial Behaviors," *Management Science* 60, no. 8 (2014): 1861–1883.

2 See the full suite of games here: https://financialentertainment.org/.

3 For a complete overview of research findings on Financial Entertainment, see Nick Maynard et al., "Can Games Build Financial Capability? A Financial Entertainment Report" (report, Doorways to Dreams Fund, Allston, MA, 2012), http://buildcommonwealth.org/publications/can_games_build_financial_capability.

4 Learn more about *SavingsQuest* here: http://buildcommonwealth.org/work/savingsquest.

5 "Assets & Opportunity Scorecard," Corporation for Enterprise Development, accessed January 18, 2017, http://assetsandopportunity.org/scorecard/.

6 Ibid.

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8 Executive Office of the President, "Increasing College Opportunity for Low-Income Students: Promising Models and a Call to Action" (report, White House, Washington, D.C., 2014), https://www.luminafoundation.org/resources/increasing-college-opportunity-for-low-income-students; Jennifer Ma, Matea Pender, and Meredith Welch, *Education Pays 2016: The Benefits of Higher Education for Individuals and Society* (New York: College Board, 2016), https://www.luminafoundation.org/files/resources/white-house-report-on-increasing-college-opportunity-for-low-income-students.pdf.

9 Learn more about *Ramp It Up* here: http://www.playrampitup.com/.

Land Installment Contracts

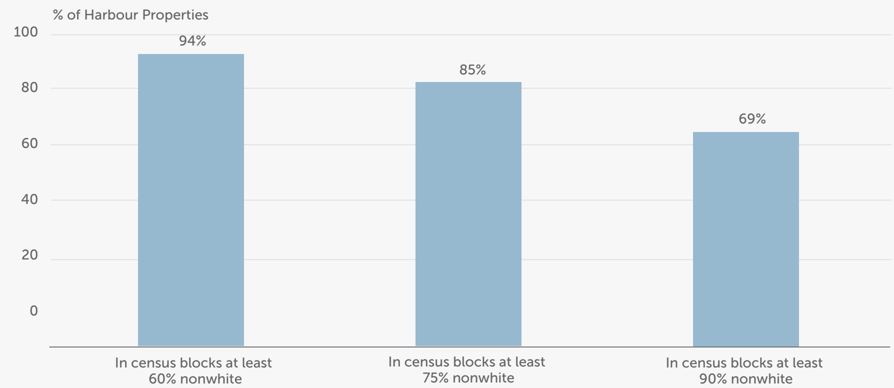
The Newest Wave of Predatory Home Lending Threatening Communities of Color

Sarah Mancini and Margot Saunders
NATIONAL CONSUMER LAW CENTER

Designed to fail, land installment contracts exploit low-income would-be homeowners, especially in communities of color, draining them of resources and often leaving them homeless. Regulation can change that.

Land installment contracts are not new, but they are historically predatory. In these home purchase transactions, also known as contracts for deed, the buyer makes payments directly to the seller over a period of time—often 30 years—and the seller promises to convey legal title to the home only when the full purchase price has been paid. If the buyer defaults at any time, the seller can cancel the contract through a process known as forfeiture, keep all payments, and evict the buyer.

Percentage of Metro Atlanta Harbour Portfolio Properties in Primarily Nonwhite Census Blocks



Source: Atlanta Legal Aid Society, using 2010 census data and 2016 county property tax records.

In the decades between 1930 and the late 1960s the systemic exclusion of African Americans from the conventional mortgage market facilitated the peddling of land contracts with inflated prices and harsh terms to residents of credit-starved communities of color, and in impoverished rural areas.

Until recently, the sellers of land installment contracts were primarily individuals with one or two investment properties. Now, in the wake of the foreclosure crisis, large companies with private equity backing are buying up large numbers of foreclosed homes, many from Fannie Mae and Freddie Mac bulk sales, and selling them to would-be homeowners through land contracts.[1] Companies like Harbour Portfolio, Vision Property Management, and Battery Point Financial are just some of the significant players using this business model.[2]

In mid-2016, the National Consumer Law Center (NCLC) conducted a series of interviews with attorneys across the nation about their cases related to land installment contracts.[3] This article describes the lessons of those interviews, including the problems with land contracts and their impact on communities of color, and proposes a regulatory fix.

The Illusion of Homeownership

While land contracts are marketed as an alternative path to homeownership, contract buyers almost never end up achieving ownership. The contracts are designed to fail. Successive cancellations allow the sellers to churn more would-be homeowners through the same property, creating more profit with each new contract.

Land contracts are structurally unfair and deceptive because they shift all the burdens and obligations of homeownership to the buyers with none of the attendant rights or protections. Land contract buyers are typically obligated to make substantial repairs, which often include overhauls of essential systems like plumbing and heating or adding a new roof. Would-be homeowners invest considerable sums just into making their homes habitable, only to be evicted and lose everything after a default on payments.

Independent appraisals and inspections are seldom performed, and the contracts often require buyers to pay grossly inflated purchase prices.[4] Preexisting liens and mortgages are rarely disclosed, and, as land contracts are infrequently recorded, contract buyers' interests are unprotected.

Impact on Communities of Color

Advocates report that the buyers in these transactions are almost exclusively people of color: African American or Latino homebuyers.[5] Marketing schemes appear to target African American and Spanish-speaking consumers for these toxic transactions. Specifically, companies advertise through signs in front of houses located in majority-minority neighborhoods and rely heavily on word-of-mouth referrals.[6] One company paid a kickback to a pastor of a primarily Spanish-speaking congregation each time he referred a buyer.[7] An NCLC report notes, "One attorney reported that certain land contract sellers exploit homebuyers' vulnerable immigration status: Instead of evicting them through a court of law, which would allow them to raise defenses, the seller threatens to report them to immigration officials if they do not move out of the home."[8]

Atlanta Legal Aid attorneys conducted a search of property tax records in six metro Atlanta counties and found 94 properties currently held by Harbour Portfolio in the Atlanta area; most of these homes were likely being sold through land installment contracts as that is Harbour's business model.[9] Nearly all those properties (approximately 93 percent) were located in census blocks that are at least 60 percent nonwhite, and a significant majority were in census blocks that are at least 90 percent nonwhite. (See "Percentage of Metro Atlanta Harbour Portfolio Properties in Primarily Nonwhite Census Blocks.")

Land contracts are structurally unfair and deceptive because they shift all the burdens and obligations of homeownership to the buyers with none of the attendant rights or protections.

The Atlanta case study is representative of a national trend. The same communities that were drained of wealth by subprime lending and the subsequent foreclosure crisis are now being victimized anew by land contract sales. While hopeful homeowners struggle to regain homeownership in minority communities, land contracts are siphoning away precious savings and sweat equity and postponing communities' recoveries from the housing crash through inflated prices and unfair contract terms.

A Regulatory Fix

A comprehensive set of rules is needed to govern the transaction and eliminate the destructive and unfair features in these contracts. Most states provide little regulation of these instruments, but some, including Maine, have regulated them.[10] Oklahoma and Texas have been the most aggressive in addressing the issue and treat these contracts like mortgages. States have the power to ban these transactions altogether. That is the cleanest and most effective way to eradicate land contract abuses.

Federal regulation would provide the most efficient way to protect consumers in states that permit land installment contracts. The Truth in Lending Act (TILA) applies to land contracts to the same extent that it does to other home-secured loans, requiring disclosures and barring certain abusive conduct, but these limited protections cannot curtail other abusive features of land contracts. However, TILA does require the Consumer Financial Protection Bureau (CFPB) to issue regulations addressing mortgage lending practices that are unfair or deceptive, or that seek to evade TILA's regulations. Furthermore, TILA gives buyers the right to sue in the case of injury caused by the seller's noncompliance with the law. Here, we outline a comprehensive regulation the CFPB could put in place to protect buyers in land contracts:

1. **Require independent inspections, appraisals, and disclosure of the true cost of credit.** A licensed, independent inspector should identify any work necessary to make the home habitable and the estimated cost for that work. An independent appraisal should identify the fair market value of the home as well as the fair rental value in its current condition. The amount by which the contract sale price exceeds the fair market value should be treated as a finance charge. These steps would address the deceptive practice of understating the cost of credit in grossly inflated purchase prices.
2. **Require settlement of property taxes and liens at sale.** Sellers should be required to pay all past due assessments prior to signing the contract.
3. **Require recordation.** The seller should be required to record the land contract in the real property records within a short time frame. If the seller fails to record the contract, then the buyer should be entitled to do so.
4. **Provide protections upon default.** All parties should be treated fairly if the transaction falls apart.
   - If the buyer defaults and the seller attempts to cancel the contract based on the default, the buyer should have the option to demand the return of all amounts paid under the contract, plus amounts expended for necessary repairs, property taxes, and insurance, minus the fair market rental value of the home for the period of occupancy. This provision avoids the punitive forfeiture of all amounts paid, in favor of an unwinding of the transaction.
   - If the seller fails to comply with its obligations (for example by failing to convey title, record the contract in a timely fashion, or pay off preexisting liens), the buyer should be entitled to a full refund of all payments made, without owing the seller the fair rental value. This provision creates strong incentives for compliance.

The rules described above would go a long way toward eliminating the abusive characteristics of land contracts. The harms inflicted on communities of color by these contracts are potentially devastating if left unchecked. Already, tens of thousands of would-be homeowners have invested thousands of dollars in repairs to homes they will likely never own. The CFPB and state lawmakers have the tools to stop predatory land contract practices before they drain further wealth from communities of color—the same communities that were hit hardest by the foreclosure crisis. Swift action is needed to limit the revival of this form of financial exploitation, which threatens to trap more consumers in a mirage of homeownership—one that carries all of the burdens but offers none of the rewards.

Sarah Mancini *is an attorney with expertise in foreclosures and bankruptcy who works half-time for the National Consumer Law Center (NCLC).* **Margot Saunders** *is of counsel to NCLC and served as the managing attorney at NCLC's Washington office from 1991 to 2005. Contact them at smancini@nclc.org.*

Endnotes

1 Matthew Goldstein and Alexandra Stevenson, "Market for Fixer-Uppers Traps Low-Income Buyers," *New York Times*, February 21, 2016, A1.

2 Alexandra Stevenson and Matthew Goldstein, "Rent-to-Own Homes: A Win-Win for Landlords, a Risk for Struggling Tenants," *New York Times*, August 21, 2016; Heather Perlberg, "Apollo's Push into a Business That Others Call Predatory," *Bloomberg*, April 7, 2016, http://www.bloomberg.com/news/articles/2016-04-07/apollo-s-push-into-a-lending-business-that-others-call-predatory.

3 Since 1969, the nonprofit National Consumer Law Center has worked for consumer justice and economic security for low-income and other disadvantaged people. The authors thank Jeremiah Battle, Jr., and Odette Williamson for their research, writing, and editorial contributions to this piece.

4 Jeremiah Battle, Jr., et al., "Toxic Transactions: How Land Installment Contracts Once Again Threaten Communities of Color" (report, National Consumer Law Center, July 2016), http://www.nclc.org/images/pdf/pr-reports/report-land-contracts.pdf; Heather K. Way and Lucy Wood, "Contracts for Deed: Charting Risks and New Paths for Advocacy," *Journal of Affordable Housing and Community Development Law* 23, no. 1 (2014).

5 Battle, Jr., et al., "Toxic Transactions," 4 (citing interviews with consumer attorneys from around the country).

6 Interview with Kristen Tullos (June 22, 2016).

7 Phone interview with Luke Grundman and James E. Wilkinson (March 31, 2016).

8 Battle, Jr., et al., "Toxic Transactions," 4.

9 Ibid., 4–5.

10 See Maine's Revised Statutes, Title 33, Property, Chapter 8, Land Installment Contracts, § 482, Minimum Contents of Land Installment Contracts; Recordation.

Anchor Institutions

The Economic Benefits of Putting Community First

Brian Clarke
FEDERAL RESERVE BANK OF BOSTON

Making it feasible and enticing for anchor institutions to work consistently and at a larger scale with local businesses requires a better understanding of the system, its players, its incentives, and the policies and procedures currently in place that may limit how anchors can engage community businesses for procurement.

"If you try and keep the money you spend local, it's a good thing because it benefits the community," Brian Chapman tells me. Born and raised in Lowell, Massachusetts, and a graduate of Lowell High School, Brian Chapman is a Lowell guy through and through. He began his career at Clean Harbors, a company that performs environmental cleanup in the Boston area, where he learned both how to clean up old industrial sites and how the federal contracting system works. An entrepreneur at heart, Chapman decided to start his own company, Mill City Environmental, in Lowell, to take advantage of the business opportunities he saw. Mill City Environmental is a licensed, minority-owned, full-service environmental firm incorporated in Massachusetts in 2001. While most of the company's business comes from the private sector, Chapman has experienced the good things that can happen when entities known as anchor institutions–large community mainstays such as hospitals and universities–hire local companies to take on the work they need done. Chapman's clients include the local school systems as well as the University of Massachusetts at Lowell, and he knows how important it is to his community's anchors to keep their business local.

Anchor institutions are loosely defined as "nonprofit institutions that, once established, tend not to move location."[1] As noted above, these institutions tend to be universities and hospitals; New England prides itself on having some of the best of both.

Thanks in part to his anchor-institution clients, Chapman has been able to grow his business and now employs 46 people. "I've seen contracts that stipulate local workers need to be hired to do some of the work," he says. "It shows that some organizations, whether it be local government or a university, understand that they have a role to play in the lives of the residents in their community."

Anchor institutions also symbolize stability, as they root themselves in a geographic location and establish strong connections to their surrounding communities. Anchors employ, serve, heal, and educate local residents. It is time for these institutions to fully recognize and proactively commit their power to driving economic growth in their respective communities. This article describes how anchors can engage with local small businesses to identify the challenges that impede local contracting and discuss the key elements and partnerships needed for successful local procurement systems.

Mill City Environmental is exactly the kind of business that could benefit from anchor institutions rethinking the role they play in their communities. A step in the right direction would be to move beyond one-off conversations that lead to small, occasional contracts between an anchor and a local small business. Making it feasible and enticing for anchor institutions to work consistently and at a larger scale with local businesses requires a better understanding of the system, its players, its incentives, and the policies and procedures currently in place that may limit how anchors can engage community businesses for procurement.

When speaking with procurement department staff at anchor institutions, one is struck not only by how much they personally want to keep their business local, but also by how often they report on current policies or systems that make it difficult or even impossible to contract locally to fill their procurement needs. Such barriers include strict risk management policies that encourage institutions to go with larger, more familiar suppliers in an effort to avoid risk, to the detriment of smaller, local suppliers that may be able to provide the same service.

To help combat this problem, the Boston-based organization Interise is convening a collaborative working group to do a "system mapping" exercise with the goal of expanding the number and size of contracts awarded to local women- and minority-owned businesses. Interise helps scale established small businesses, create jobs, and develop local economies. Its StreetWise 'MBA' program puts promising business owners through rigorous training that helps them think more strategically about how to grow their businesses. Often, this search for continued business opportunity growth leads to a search for procurement contracts and government contracting.

What is system mapping? "To change a system one must first understand the system," says Jean Horstman of Interise. "Once a system as a whole is understood, one can shift [its] functions or structure ... with purposeful interventions that may include changes in operations, routines, relationships, resources, policies, and values."

But merely changing procurement systems doesn't address the whole problem. For example, the Initiative for a Competitive Inner City (ICIC) examined a program involving a change in state legislation to encourage more procurement at historically underutilized businesses (HUBs). Their study found that there was one anchor institution, the medical center MD Anderson, that wanted to go above and beyond the new state requirements to contract with local small businesses.[2] However, even though this anchor was able to award procurement in substantial amounts to HUBs, it couldn't meet its ambitious procurement goals with those businesses.[3]

As reported in the case study, "First, MD Anderson has found that few HUBs ... have the capacity to fulfill orders for large volumes of products or services. Second, [HUBs] have a difficult time competing on price with larger national firms. Third, many of MD Anderson's contracts have strict delivery requirements that smaller vendors often have trouble meeting. Finally, few of the local [HUBs] supply the highly specialized products and services that are unique to a large cancer institute, [such as MD Anderson]."[4]

These findings underline the critical importance of including capacity-building organizations in the system-mapping process. With dedicated outreach and linkages in place between small businesses and capacity-building organizations, local business owners can prepare for what anchor institutions will need in the future and, if anchor needs don't match up with their existing offerings, begin to make adjustments in their product or service lines. To avoid financing delays, small-business owners would also have the opportunity to approach lenders with whom they have relationships to discuss additional lines of credit needed for filling future demand.

Most midsized cities are home to anchor institutions, and most of these institutions need to procure items to run their day-to-day operations. It makes sense that local small businesses would look to them as an opportunity for a steady stream of revenue. In spending procurement money closer to home, anchor institutions can contribute to stronger local economies, helping to sustain and grow the communities that support, staff, and rely on them for their services. This is the very definition of a mutually beneficial relationship, and it is something that we hope to see more of in the future as communities determine their strategies for economic development.

Circling back to Lowell and Mill City Environmental, Brian Chapman took a risk by leaving an established job and going into business for himself. As a result of his entrepreneurial efforts and the proactive decisions of his local anchor institutions to hire his small company, Chapman now employs over forty people who live and work in the community, economic growth has expanded in the community, and that growth stays in the community.

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Endnotes

1 "Overview: Anchor Institutions," community-wealth.org, http://community-wealth.org/strategies/panel/anchors/index.html.

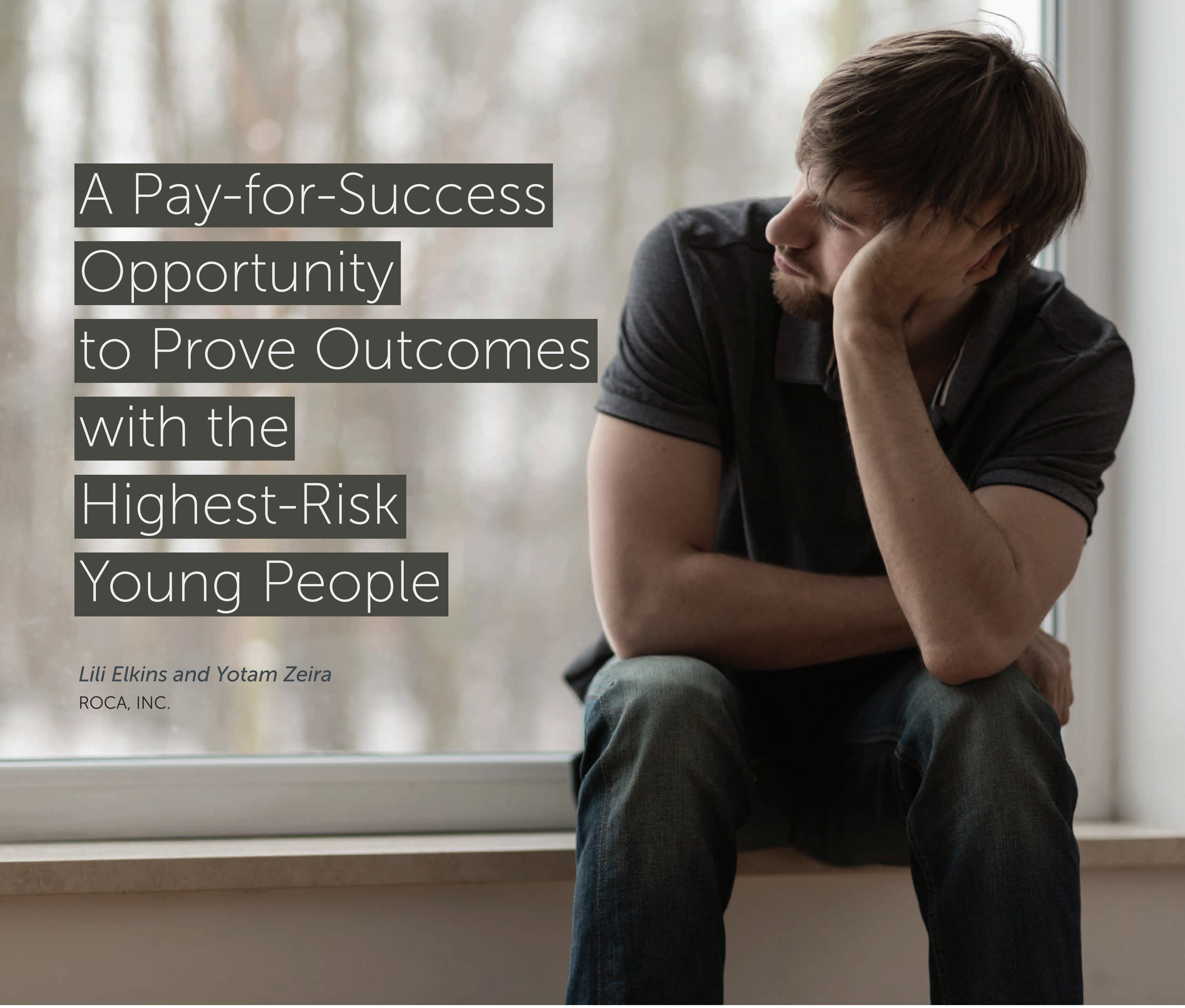
2 "What Works: Hospital Procurement Strategies That Support Small Businesses," ICIC, http://icic.org/works-hospital-procurement-strategies-support-small-businesses/.

3 Ibid.

4 Ibid.

A Pay-for-Success Opportunity to Prove Outcomes with the Highest-Risk Young People

Lili Elkins and Yotam Zeira
ROCA, INC.



Preventing recidivism among formerly incarcerated youth is a difficult challenge, but pay-for-success approaches like this one are beginning to show that supportive interventions can turn lives around and provide significant benefits to the youths' communities.

Several years ago, we at Roca asked ourselves a critical question: Are we really helping young people to change their lives? For almost three decades, Roca had been providing a range of services to help meet the needs of high-risk young people in Massachusetts, but the risks those young people were facing required us to determine just how effective our programs had been to date. We realized that just creating a place for young people to belong or be engaged in activities was not enough and that we needed to get better if we genuinely wanted to achieve the organization's mission to move them out of harm's way and toward economic independence. In order to help our young people succeed, we had to study our own practices.

This was the moment of understanding that jump-started Roca's experience with the sophisticated funding mechanism known as "pay for success" (PFS). In January 2014, Roca signed one of the first PFS contracts in the country and the largest one to date: the Massachusetts Juvenile Justice Pay for Success Initiative. This unique financing tool provided Roca with an opportunity not only to demonstrate the efficacy of our work but also to bring attention to the high-risk young people we serve. The contract held the promise, for the first time in Roca's history, of bringing attention to the fact that young people could change their behaviors and, with support, create better lives for themselves, their families, and their communities. It also provided Roca with an opportunity to demonstrate why public funders should support this work in a sustainable way.

A Journey Toward Impact

Our organization's journey toward a PFS initiative started many years back with a new approach to the important challenge of making and measuring impact. Roca's commitment to effective intervention led to a clear definition of the organization's theory of change, and, as a data-driven organization, Roca used research and data to gradually move toward our areas of greatest impact.

As a result of this process, Roca has focused its energy over the past 10 years on the highest-risk young people we serve, who are also among the most underserved members of our communities. This group is comprised of young men ages 17 to 24 years old who are involved with the criminal justice system and on track for future incarceration, have no employment history, and have low levels of educational attainment. Perhaps most importantly, Roca decided to focus on the young people who are not ready, willing, or able to participate in traditional programming or work. These are the young people who pose the greatest risk in our communities and with whom, over time, Roca has been able to demonstrate impact at the greatest level.

The PFS initiative has provided Roca with the perfect opportunity to expand this impact and convey its benefits to new funders. The PFS mechanism, also known as a social-impact bond, is an innovative structure for government, private-sector, and nonprofit partnerships. Instead of paying up front for programs, the government funds the program only after positive social outcomes are achieved, as determined by an external evaluator. Until success payments start, the program is financed by private funders who, if the chosen outcomes are achieved, eventually receive the success payments and see return on their investment in the program. If the program is successful, this is a "win-win-win" model that provides nonprofits, governments, and investors with the opportunity to achieve better outcomes.

The Massachusetts Juvenile Justice Pay for Success Initiative is a $29.5 million partnership between Roca, the Commonwealth of Massachusetts, the intermediary Third Sector Capital Partners, and a host of private investors. Through the project, Massachusetts criminal justice agencies refer high-risk young men to Roca on a monthly basis, and an external evaluator measures Roca's success in reducing incarceration and increasing employment with these young men. The private funders cover 85 percent of Roca's costs and assume most of the financial risk up front; the Commonwealth will repay them only if projected incarceration-reduction outcomes are met. Roca and Third Sector Capital Partners invest in the project as well (covering the remaining 15 percent of the costs), thus putting "skin in the game."

The project relies on Roca's proven Intervention Model, which has demonstrated success with high-risk young men. Over the course of five years (2014–2019), more than 1,000 high-risk young men will be referred to Roca and engaged in the Intervention Model. Given the high cost of incarceration ($47,500 per year per person at the time the PFS deal was signed) and Roca's demonstrated success in reducing recidivism, the project's financial benefits for Massachusetts residents are expected to be substantial. At the project's target impact of reducing incarceration by 40 percent, the project would generate $21.8 million in budgetary savings, and at a 65 percent reduction, the project would generate $41.5 million in gross budgetary savings.

Roca's Intervention Model: A Clear Basis for Meaningful Changes

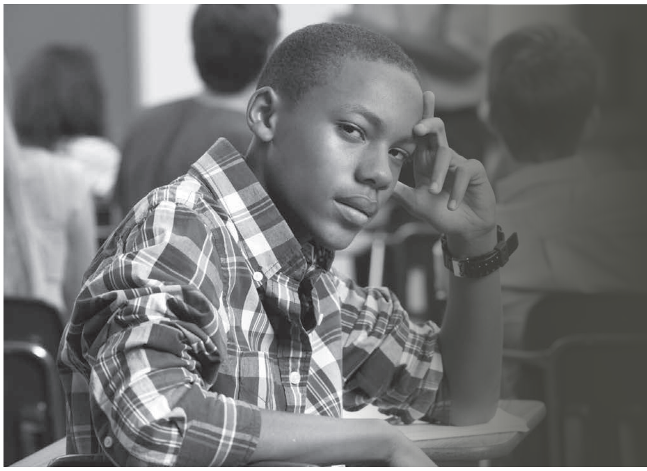
Young people with high risk factors are often living in precarious situations and face challenges just trying to participate in traditional programs for a short period of time, much less succeeding in such programs and experiencing positive outcomes. For the very high-risk young people Roca serves, this level of expected engagement and achievement is not possible, as recruitment, retention, and readiness problems hinder their involvement. In response to this, Roca created the Intervention Model, which is designed to help young people change their behaviors, stay out of prison, and secure and retain jobs.

Roca's Intervention Model engages high-risk young people for longer periods of time than most programs: up to two years of intensive services and an additional two years of follow-up support. The process of engaging high-risk youth in long-term services begins with intensive, repeated street outreach—Roca's most recognizable and well-known design innovation. Youth workers strive to have at least two to three intentional, face-to-face contacts per week with each youth on their caseload. Our relentless approach to outreach is designed to persistently recruit young people who are not yet ready, willing, and able to avail themselves of other community programming or services because they are simply not yet prepared to change. Then, through a long-term process of relationship building with Roca staff, behavioral health intervention, skill development, and employment opportunities, Roca's high-risk young people gain the social, emotional, and functional skills needed to become healthy, happy adults and productive members of their communities.

Roca's dynamic, trauma-informed cognitive behavioral therapy (CBT) curriculum is the primary behavioral health tool driving the Intervention Model. The CBT curriculum was customized specifically for high-risk young people who have experienced trauma, and it was designed in partnership with Massachusetts General Hospital's Community Psychiatry Program for Research in Implementation and Dissemination of Evidence-based Treatments (PRIDE). This innovative, low-threshold program is delivered by paraprofessional staff in short and frequent bursts of informal engagement, as well as in formal group settings like the traditional classroom. Customized in this way, the CBT foundation of Roca's model helps participants "think different to act different" while being highly responsive to the unique characteristics and needs of the high-risk young people Roca serves.

Learning from Pay for Success, Proving Impact

Roca has shown time and again that it can help high-risk young men create the behavior changes crucial to keeping them out of prison and engaged as members of our communities, and we now have



Young people with high risk factors are often living in precarious situations and face challenges just trying to participate in traditional programs for a short period of time, much less succeeding.

begun to demonstrate this to a broader audience through our PFS initiative. While it is too early to see formal evaluation results, Roca's early internal data is demonstrating that the majority of young men we serve are staying out prison, getting jobs, and learning to hold them over time.

Roca's PFS initiative builds upon our data-driven nature and allows Roca to provide services to communities across the Commonwealth. In addition, it is a unique chance for our organization itself to grow, develop, and learn new lessons about how to effectively serve high-risk youth. We learned important lessons from opening two new sites, in Boston and Lynn—an opportunity that became possible thanks to the PFS investment. These sites allow us to expand our reach and better serve our participants. At our Boston site, for example, we have learned how to better manage gang dynamics and other issues at play in the community. We have also learned how to develop portable programming that we can bring to young people in their homes and communities in an effort to maximize their safety while still ensuring that they are given the skills and tools they need to change their lives.

The PFS initiative also taught Roca many lessons at our Chelsea and Springfield sites, which were fully operational before the initiative started. Using preliminary program outcomes, we have made programmatic adjustments, better focusing how we deliver employment services and provide services to young people with severe substance-abuse challenges. These adjustments include providing specialized staff trainings, studying our practices around job placements and retention, and regularly looking at the referral process to ensure that Roca continues to focus on those at the highest risk.

While Roca has been subject to rigorous studies and has conducted detailed data tracking for over a decade, the PFS initiative provides us with the opportunity to take our evaluation to the next level. Roca is being evaluated through a randomized controlled trial (RCT)—the gold standard for demonstrating program impact—throughout the project and is conducting further in-depth analysis of its Intervention Model.[1] These advanced levels of evaluation and research will allow us to prove what we have known all along: that all young people can change when given the right tools and support. As we continue the PFS project and study its impact, we are hopeful that this will be a powerful demonstration that offering the highest-risk young people the opportunity to change benefits us all.

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Endnotes

[1] In social-science evaluations, RCTs often face attrition or lack of participation among the group originally selected at random for the program. In the case of the Massachusetts Juvenile Justice Pay for Success Initiative, participants are selected at random but may choose not to participate in the program. The Urban Institute explains how these trials remain randomized even if selected participants decide not to follow through with the program: "When designing an RCT, the researcher must decide whether to estimate the intent to treat (ITT), the treatment on the treated (TOT), or both. The ITT estimates the average effect of *offering* the treatment on outcomes, or the effect on everyone who was offered the treatment, whether or not they received it. The TOT estimates the average effect of the *actual* treatment on outcomes, or the effect only on those who received the full treatment. In some cases where program participation is voluntary, the ITT may be the more policy-relevant effect. In others, researchers may be interested in understanding the effect of the intervention on everyone in the population." – "Experiments," Urban Institute, accessed January 18, 2017, http://www.urban.org/research/data-methods/data-analysis/quantitative-data-analysis/impact-analysis/experiments.) The Massachusetts Juvenile Justice Pay for Success Project uses an ITT methodology.

VIEWPOINT

The Importance of Entrepreneurship in Black and Latino Communities in Massachusetts

James Jennings
TUFTS UNIVERSITY

Entrepreneurship opens up opportunities that are hard to come by in minority communities. In Massachusetts, public schools can encourage it by exposing young people to its life-changing possibilities.

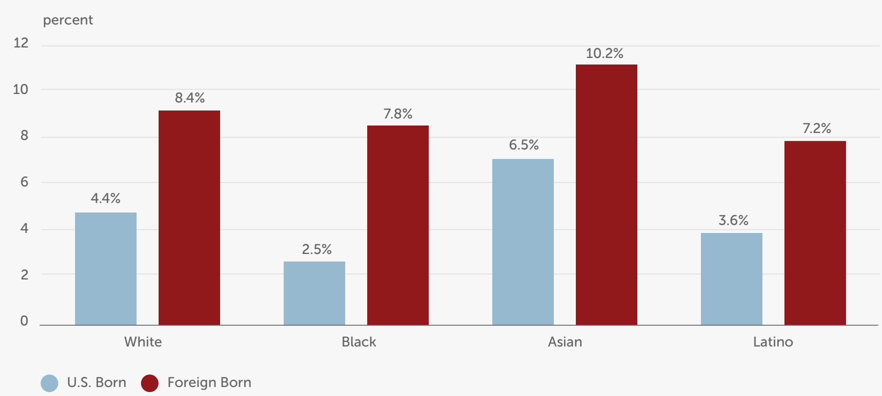
Recent data from the U.S. Census Bureau note a concerning fact regarding entrepreneurship in Black and Latino communities in Massachusetts: the number and proportion of Black and Latino-owned employer businesses,[1] as well as rates of Black and Latino entrepreneurship, are relatively weak.[2] While several studies highlight the important contributions of Black and Latino entrepreneurs in Massachusetts, entrepreneurship in these communities could still use a boost. The benefits of vigorous Black and Latino entrepreneurship are significant: businesses owned by Blacks and Latinos tend to hire residents in these same communities at higher rates than nonminority businesses do. Further, entrepreneurship can help connect youth to their communities, showing them how to tap their creativity and initiative by starting or looking forward to owning their own businesses. Even encouraging youth to think about starting a business and considering what is involved in such a process can be empowering.

What the Data Show

The U.S. Census Bureau's 2014 Annual Survey of Entrepreneurs reported that "more than one third (36 percent) of the 50 most populous metropolitan statistical areas had approximately 20 percent or more minority ownership of their employer businesses."[3] Boston-Cambridge-Newton is the tenth-most-populated metropolitan statistical area in the United States, but can only count 9.6 percent of its employer businesses as minority owned.[4] Drilling down into the term "minority" shows that Blacks and Latinos own a relatively low number of employer businesses. The survey reported that there were 130,710 employer firms in Massachusetts in 2014, with a combined employment base of 2.9 million workers and annual payroll of more than $177.6 billion. Among those, Black-owned firms represented just 1.2 percent and Latino-owned firms only 2.4 percent. By contrast, Asian-descent businesses made up 5.7 percent of all employer businesses in Massachusetts in 2014.[5] Combined, the paid employment base for all Black and Latino employer businesses in Massachusetts was about 33,981 workers.[6]

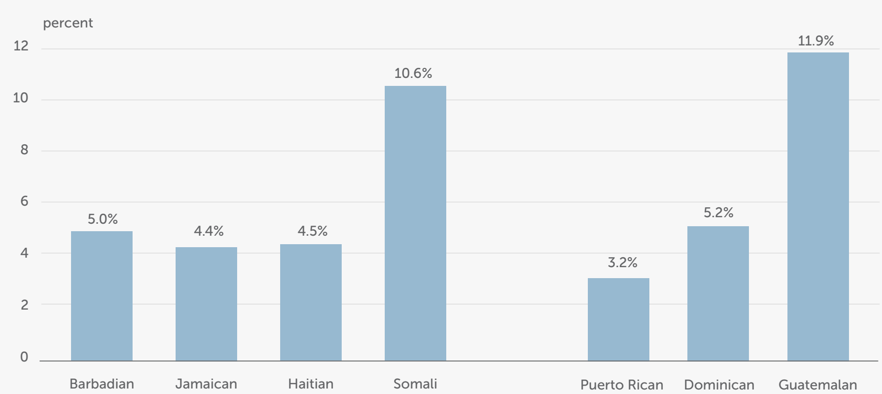
These figures align with reported self-employment rates for these groups, and indeed, self-employment rates are typically a proxy for entrepreneurship and vary by race and ethnicity. There are also evident differences in entrepreneurship within Black and Latino communities depending on gender and place of birth (in the United States or elsewhere). Those reporting themselves as foreign born, for example, are more likely to be entrepreneurs (7.2 percent

Self-Employment by Race, Ethnicity, and U.S. Birth Status



Source: U.S. Census Bureau, 2014 Annual Survey of Entrepreneurs.

Self-Employment Rate by Select Ancestry and Origin



Source: U.S. Census Bureau, 2014 Annual Survey of Entrepreneurs.

of all foreign-born employed persons) than are U.S.-born persons (3.6 percent). (See "Self-Employment by Race, Ethnicity, and U.S. Birth Status.")

There are also other variations within the broad categories of "Black" and "Latino." For example, among Latinos reporting Mexican ancestry, entrepreneurship rates between U.S.-born and foreign-born persons do not differ substantially, but among Latinos reporting Panamanian ancestry, the rate of entrepreneurship for those born in the United States is much higher (9.3 percent) than the rate for those born elsewhere (2.9 percent). Similarly, entrepreneurship rates differ among ancestry groups. (See "Self-Employment Rate by Select Ancestry and Origin.")

How Local Government and Schools Can Help

Regardless of these differing rates, the bottom line is that Black and Latino entrepreneurship rates and the number of employer businesses have to increase dramatically to ensure that these communities can take advantage of economic opportunities. At least two actors—local government and public schools—can play an essential role.

Local and state government can help to expand the capacity of current Black and Latino employer businesses and to increase their numbers by prioritizing minority-owned business growth and diversification strategies within larger economic development plans and policies. Industry diversification is especially important, as Black and Latino entrepreneurs in Massachusetts are largely concentrated within only a few industries. Self-employed Blacks in Massachusetts, for example, are found in only 30 of the 267 industries categorized by the Census Bureau's North American industry classification system.[7] For example, almost half of all self-employed Blacks in the state are in taxi and limousine service; this is followed by construction, child day care services, truck transportation, and what is described as "financial nondepository credit and related activities," which can include check-cashing or credit-lending operations.[8] (See "Black Entrepreneurs by Industry Classification.")

Public schools can be effective venues for teaching and nurturing entrepreneurship. They can expose students to opportunities within the wide range of entrepreneurial industries in today's economy. This can be done through curricula, internships, and introduction of students to local business leaders. Additionally, schools and business partnerships could sponsor contests for innovative ideas and projects through which groups of high school students could win prizes or recognition.

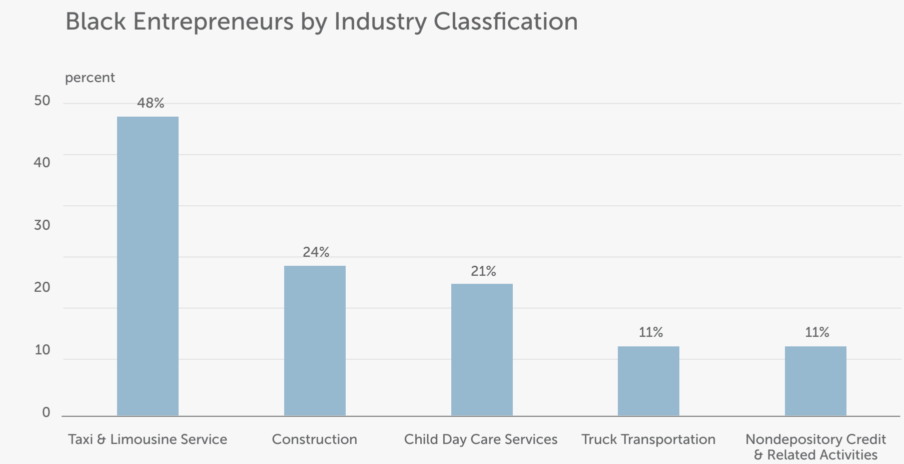
But informal conversations with community leaders and educators in Massachusetts suggest that youth in Black and Latino communities are not being introduced to or prepared for entrepreneurship. Haywood Fennell, a local historian and activist in Boston, believes that public schools are overlooking a rich history of Black innovation that could inspire and encourage greater entrepreneurship among young people. This history could be motivational for youth. He notes that he "never sees the *Wall Street Journal* in school libraries. Youth should be taught about earlier and current successful Black business leaders, including local giants like Ken Guscott and John B. Cruz. After learning about these individuals, they should be surveyed about ideas they may have about starting businesses and then taught the basic steps in terms of how to proceed."

Ana Luna, executive director of ACT Lawrence, a community development corporation in Lawrence, MA, believes that financial literacy—a critical component of entrepreneurship—is missing from too many public schools. She states that "at a minimum, public schools should provide financial literacy for all students. This can include school activities like writing a business plan, understanding competition, reading financial statements, and in places like Lawrence, being introduced to the licensing required for starting different types of businesses."

Young people equipped with an entrepreneurial orientation and skills today can make social and economic contributions tomorrow. Entrepreneurship also goes hand in hand with critical thinking and other skills that youth need to excel, including the desire to raise questions about potential opportunities and the ability to gather information and put it to work. These are lifelong skills that enhance entrepreneurship readiness among our youth and should be part of a quality education for young people.[9]

The community leaders I spoke with believe that Black and Latino youth have to be more directly introduced to learning about entrepreneurship and how it can be applied in a range of settings. SkyLab, an educational organization based in Roxbury, MA, is taking this charge seriously. Bridgette Wallace, founder of this organization, described its mission: "SkyLab works in partnership with local organizations to introduce youth of color to the importance of entrepreneurship to learn firsthand about the risk and rewards of operating a small business." SkyLab provides instructive and hands-on opportunities for the residents of Roxbury to learn about and use the latest technologies, strategies, and business skills required to launch new ventures or sustain existing ones. Wallace stresses that "entrepreneurship being taught in the classroom and in the neighborhoods is an imperative that cannot be overlooked in communities surrounded by high-growth institutions. Organizations must work to create pathways for African American and Latino youth to take risks and dare to dream in neighborhoods where few opportunities exist." Wallace's call is especially urgent given the changing demography in Boston and other Massachusetts cities where Black and Latino populations are growing in numbers.

Entrepreneurship is not a panacea for achieving economic improvement and better quality of life. Nevertheless, state and local government and public schools should not ignore its importance and the impacts it can have on youth and our future entrepreneurs.



Source: U.S. Census Bureau, 2014 Annual Survey of Entrepreneurs.

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Endnotes

[1] "Employer businesses" are businesses that hire employees.

[2] Census data sources include the 2014 Annual Survey of Entrepreneurs (released in 2016), the 2010–2015 Five-Year Estimates of the American Community Survey, and the Public Use Microdata Sample (PUMS) of 2010–2014. The Annual Survey of Entrepreneurs is a new survey developed by the U.S. Census Bureau, the Kauffman Foundation, and the Minority Business Development Agency with the aim of providing more detailed and timely data about employer businesses than is provided by the Survey of Business Owners, which is issued every five years. PUMS is "a set of untabulated records about individual people or housing units. The Census Bureau produces the PUMS files so that data users can create custom tables that are not available through pretabulated (or summary) ACS data products" (see https://www.census.gov/programs-surveys/acs/technical-documentation/pums.html).

[3] U.S. Census Bureau, "Nearly 1 in 10 Businesses With Employees Are New, According to Inaugural Annual Survey of Entrepreneurs," news release, September 1, 2016, https://www.census.gov/newsroom/press-releases/2016/cb16-148.html.

[4] U.S. Census Bureau, 2014 Annual Survey of Entrepreneurs, 2016.

[5] Ibid.

[6] Ibid.

[7] Ibid.

[8] Ibid.

[9] See Richard Paul and Linder Elder, "The Miniature Guide to Critical Thinking, Concepts and Tools" (report, Foundation for Critical Thinking, Dillon Beach, CA, 2008), http://www.criticalthinking.org/files/Concepts_Tools.pdf.

COVER STORY

Sparking Change
in New England's Smaller Cities

Lessons from Early Rounds of the Working Cities Challenge

Kseniya Benderskaya and Colleen Dawicki
FEDERAL RESERVE BANK OF BOSTON

A multiyear, multistate funding initiative in New England is making great strides in smaller industrial cities with community-based efforts to tackle social and economic challenges. Key lessons learned from the first rounds of participating cities in Massachusetts are now informing the planning process for the cities that follow and the regional initiative as a whole.

If not for the struggles of the western Massachusetts city of Springfield, there would be no Working Cities Challenge. Between 2008 and 2011, a team from the Federal Reserve Bank of Boston—including members of its Regional and Community Outreach and Research departments—joined with state and local leaders to commit its analytical expertise to studying the many issues facing that smaller industrial city. The goal of that initiative was to develop strategies to engage more low-income residents in the city's economy and revitalization efforts.[1] Among the questions this team sought to answer was whether a city like Springfield could even achieve revitalization after so many years of economic decline and population loss and, if so, what would it take to get there? The team decided revitalization was possible for Springfield and, to determine the best course of action, it proceeded to investigate the factors that facilitated resurgence in 10 peer cities, finding that effective leadership and collaboration among local institutions were the key factors distinguishing those places from Springfield.

Putting into practice the lessons of the Springfield research, the Boston Fed's Working Cities Challenge (WCC) was developed to advance leadership and collaboration in New England's smaller, postindustrial places.[2] The Boston Fed, in partnership with a team of private-, public-, and philanthropic-sector leaders, offered competitive grants of up to $700,000 to teams from smaller cities in Massachusetts that committed to working collaboratively across sectors on initiatives that would improve outcomes for low-income residents. In the first round of the competition, an independent jury of state and national

leaders representing diverse sectors, issue areas, and perspectives selected four cities to implement their proposals—Chelsea, Fitchburg, Holyoke, and Lawrence—and the winning teams received $1.8 million in grant funds from the private sector, the Commonwealth of Massachusetts, and foundations. (The Boston Fed is not a funder.) A second round announced in 2015 featured a six-month design phase accompanied by $15,000 planning grants to 10 Massachusetts cities. The design phase was added to address some important early lessons from round one; namely, that teams could benefit substantially from the opportunity to learn about the model of collaborative leadership and how to incorporate key elements of that model in the initiatives they were developing. These teams then competed for implementation grants of $475,000.

While the research showed that Springfield could benefit from an opportunity like the WCC, that city's round-one application was not successful. Indeed, the team appeared to stumble out of the gate when the second round was announced; while just one planning grant application is allowed per eligible city, two Springfield teams expressed their intent to apply, potentially eliminating the city from the competition altogether. However, by the time the competing groups joined together on a single proposal, they had already strengthened their collaboration by confronting conflict head-on and addressing the trust and communication issues that many teams do not tackle until implementation is well underway. Once their proposal had been accepted, the team made still more progress during the planning phase of the competition, citing the Federal Reserve–facilitated design sessions as the catalyst for deeper collaboration.

All of this hard work devoted to building and strengthening their cross-sector team paid off: it was abundantly clear to the independent jury charged with selecting winners that Springfield was committed to a new and more collaborative way of working to advance outcomes for its low-income residents, and the team was awarded a $475,000 grant to implement the initiative it had designed. Four other cities were also awarded round-two grants in June 2016: Haverhill, Lowell, Pittsfield, and Worcester. While the Springfield team has much work yet to do to achieve its stated goal—reducing by half the number of adults who are eligible to work but still unemployed—the city is blazing an important new trail toward achieving resurgence through collaborative leadership.

From our close work with those first-round cities and our examination of the independent evaluation of this groundbreaking effort,[3] we at the Boston Fed have learned a great deal about what it takes for cities to lead collaboratively, engage community members, inform decisions with data, and change systems to better promote opportunities for their residents. We have also learned about how to best support the teams in their journeys. Developing these crucial capacities boosts the likelihood that each team will effectively address an entrenched problem with long-term strategies for enduring improvement—a tall order for any community, but particularly challenging in smaller cities struggling after years of shrinking investment and economic opportunity.

Capturing and sharing these lessons is particularly important for the ongoing WCC effort. Since the awarding of the round-two implementation grants in Massachusetts, the WCC has expanded to Rhode Island and Connecticut cities as well. For cities that are ready to participate in the challenge, what will it take to make lasting change? What can they learn from the cities that have come before them? And what is the Boston Fed doing to adapt its model in response to these lessons? Here, we share four key lessons we have learned from the WCC process to date, along with the ongoing questions we are focused on as the initiative moves into new states and further funding rounds.

1. It starts with a team of cross-sector leaders committed to finding new ways to work together.

One of the key predictors of a city's resurgence identified in the Boston Fed's study is the presence of high-level leaders able to work across sectors and assume shared responsibility for making progress on common goals for their community. Based on this finding, the WCC model supports the development of collaborative leadership as a foundational element for effecting transformative change in its participating cities. Collaborative cross-sector efforts create an opportunity to pool diverse resources and leverage a range of expertise to generate, test, and refine promising strategies. Incubating and normalizing this new style of leadership is particularly important for organizations and residents of smaller cities. With shrinking municipal budgets and a relatively thin landscape of institutional capital, places that develop a culture of cross-sector collaboration strengthen their capacity to adapt to changing conditions and overcome unanticipated challenges.

Building and growing cross-sector collaborations is easier said than done. The four winning teams in the first round of the challenge entered the competition with varying levels of experience in managing multistakeholder tables and establishing effective processes for working toward shared goals. One of the toughest challenges facing the groups right out of the gate was how to gain a deeper understanding of the existing team dynamics, including the motivations, contributions, and histories of the partners that could either promote or impede active trust building. Superficial commitment, turf issues, poor communication, and suspicion of others' motives are some of the relational issues that teams needed to work through in order to maximize their members' engagement.

Authentic stakeholder engagement and trust building is a process requiring continuous attention and care that collaborations have to manage alongside the implementation of their work on the ground. The teams faced a constant tension in balancing their time between developing a strong, collaborative process and demonstrating timely, tangible progress on their work plans in order to establish credibility for the initiatives. This challenge of having to "prove yourself" often seemed like a catch-22: the fastest way to build credibility is through small victories generated by the collaboration, but these wins are difficult to accomplish without significant engagement and trust between the partners. Even though the WCC model required each partnership to identify a "backbone" organization to steward both parts of work, we quickly discovered that cross-sector collaborations require an initiative director for each team—a dedicated, senior-level staff person tasked with coordinating the planning, implementation, and communication across multiple partners to advance the collective vision.

Hiring an initiative director to focus on managing the partnership and the day-to-day work of the effort critically transformed the teams' partnership structures from large and unwieldy groups to much more focused teams of core, decision-making members. For instance, the Fitchburg team started out as a less mature collaboration, aiming to improve a broad set of economic and social outcomes in one of the most disadvantaged neighborhoods in the city. Because of the initial breadth of their priorities, the partners felt that their roles were unclear, which made it difficult for some of them to take responsibility for concrete parts of the work. Bringing an initiative director on board had a significant impact on the quality of stakeholder engagement and collective problem solving, making it possible to refine priority issue areas for the initiative. The director dedicated time to building consensus around shared values and goals and helped create a robust organizational structure of core and advisory partners who felt joint ownership of the work. One of the foundational values that strengthened members' commitment was the notion of "give and get." Applying this principle of reciprocity helped partners understand how their individual commitments contributed to the effort's broader goals for the neighborhood and the resulting added value for the participating organizations.

In addition to managing and aligning the work of various subgroups within the initiative (such as the executive committee, steering committee, or action teams), it is common for initiative directors to lead or assist with fundraising, data collection and analysis, program design, sustainability planning, and other critical elements that energize this work. Given the important functions that initiative directors perform, we have adjusted our model to require competing grantees in subsequent rounds to include a job description for an initiative director in their proposals so that if they win, they can start the hiring process immediately. As the WCC expands its cohort of initiative directors, our staff will continue exploring ways to support the individuals in this role and deepen our understanding of the challenges that tend to arise at various phases of the initiatives. Having a forum to discuss the issues associated with this job has proven to be an important form of support, helping initiative directors to stay grounded, and we will work on creating other opportunities for peer-to-peer exchange in addition to the workshops in our learning community.

Beyond initiative directors, another important element in successful collaborative initiatives is the development of a new type of leadership among the broader group of stakeholders. Many of the WCC team members are exceptional organizational leaders who are skilled at exercising power and influence within the clearly defined authority structures of their institutions; they have been trained to focus on the specific outcomes of a single program or organization. However, there are no established organizational charts or work flows to direct cross-sector collaboration. Within these volunteer-based partnerships, there is no hierarchy of authority, and power is shared when stakeholders take responsibility for making a contribution to the shared goal. In this case, their frame of reference becomes a system rather than an organization.

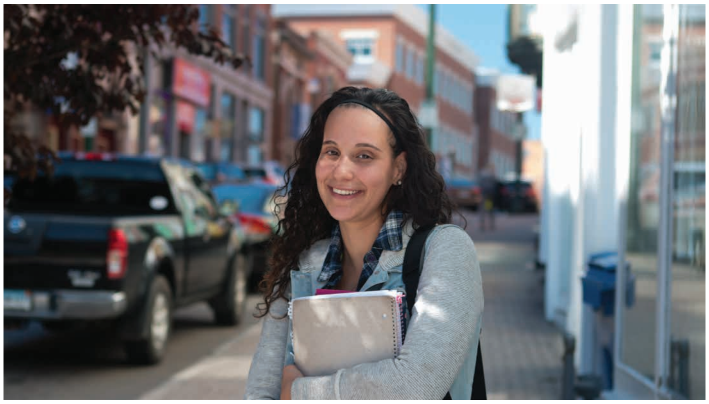
In Holyoke's initiative, which focused on increasing the share of Latino entrepreneurs from 9 percent to 30 percent over 10 years, the partnership grew reliant on two or three members to carry the workload. The initial governance structure supporting the effort set the stage for this imbalance by establishing a more traditional nonprofit management approach in which the initiative director served in a CEO role while the partners functioned as an advisory board. An authentic collaborative-leadership model relies on stakeholders to cocreate the work of the partnership and agree to change the way their individual organizations do business based on the new learning emerging from joint action. For Holyoke's team, the initial management structure worked well for supporting its new small-business accelerator program, but it struggled to generate any substantial improvements in the city's system for nurturing local businesses at various levels of development. As the partnership evolved in scope to cultivate a more comprehensive system for assisting promising entrepreneurs, the stakeholder organizations exercised greater leadership by coordinating and bolstering their existing service offerings while sharing the responsibility for addressing key gaps in what they began calling the "entrepreneurial ecosystem."

Noticing that nascent collaborations often struggled to distribute leadership and change habits and beliefs that stood in the way of progress, we offered training sessions in a framework known as adaptive leadership. This training has since become the best-received form of technical assistance among those the Boston Fed offers. Many grantees stressed that this training would have been even more powerful if offered at the very beginning of the implementation or design phase. Based on this feedback, we are making adaptive-leadership training mandatory for winning teams in expansion rounds of the WCC initiative and using it to anchor the learning community in the first year of implementation for the cities in those rounds.

A final key lesson to share on cross-sector collaboration is that smaller cities seem to have more volatile political and economic environments than larger or wealthier communities. Over the past two-and-a-half years, we observed frequent turnover in leadership at key partner organizations, as well as mayoral transitions at the city level. While we cannot expect teams to be prepared for all of the unexpected changes in their political and economic landscapes, their experiences with managing turnover helped us identify promising strategies to minimize the negative impacts.

For example, in the first year of implementation, Lawrence's WCC team suffered the loss of four individuals due to turnover at institutions that were valuable allies in supporting the initiative's aim of increasing economic opportunities for parents of public-school students. Once these representatives moved on from their positions, the organizations would either drop out of the collaboration or drastically reduce their level of engagement. To reduce

photos Steve Osemwenkhae



the risk of such capacity loss in the future, the Lawrence team invested in building and maintaining multilayered relationships with each partner organization, increasing the chance of keeping institutions engaged for the long haul even after individual staff turnover. Based on this lesson, we are encouraging winning teams to create additional relationships with high-level leaders at partner organizations and to promote the institutionalization of new practices that are discovered in the process of developing and testing solutions to shared challenges in the system. In this way, when one person leaves, there is some established institutional alignment.

2. Improving outcomes for low-income residents requires their voices.

The need to engage community members is implicit in the framing of the WCC, which emphasizes improving outcomes for low-income residents. How can we be sure that low-income residents are benefiting from an intervention if their voices are not included in its design or implementation? Authentic and relentless outreach to groups affected by a city's initiative—and those groups' resulting involvement—lead to a deeper understanding of issues on the ground, build public will for the effort, and allow residents to hold a team accountable for results. A key hypothesis in the WCC model is that development of broader community ownership of the work is important for an effort's sustainability beyond the life cycle of its grant. If these initiatives can mobilize support from both the grassroots and grass tops in the community, they will be less vulnerable to changes in the political and economic climate, such as mayoral transitions or shrinking public resources.

The teams' efforts to involve residents and other stakeholders in a dialogue about issues and priorities for change seem to be leading to new perspectives about opportunities in the targeted communities. Fitchburg's experience offers one example of this positive outcome. At the outset of implementation, some of the partner organizations that had worked in the city for many years had developed a mind-set that residents of poor, transient neighborhoods are hopelessly disengaged from community life and that this dynamic was not going to change. After learning about new approaches and tools for quality community engagement at our learning community workshops, the team tested them at their subsequent neighborhood events. The skeptics on the team were surprised to see hundreds of people attending community design sessions and neighborhood clean-ups and contributing to productive dialogues about what change should look like in their city. This level of energy from community residents encouraged Fitchburg State University—located in the neighborhood but historically isolated from it—to engage in the WCC collaborative working to improve the quality of life in this area.

While the round-one teams have made substantial progress in strengthening their mechanisms for including residents in authentic dialogue about community issues, we recognize that these cities entered the competition with higher levels of capacity and skill to do this work effectively. In general, cities in subsequent rounds will need more up-front support and technical assistance to be successful community engagers, which is why we are placing this topic front and center in design-phase workshops that precede implementation.

As the diagram below shows, we expect community engagement to become increasingly robust as teams move from conceptualizing to implementing their initiatives, and as we build in support along the way in the form of a learning community and targeted technical assistance. We have also developed an opportunity for select members of each team to participate in a cross-team cohort that spends a year getting coaching and peer support to strengthen their approaches to engaging community members.

3. Teams are empowered to learn and adapt when data becomes a tool for learning and not just compliance.

Teams need to track the long- and short-term outcomes of their efforts if they are to gauge the effectiveness of their interventions, change course as needed to maintain progress, and be held accountable for results. But when that tracking feels like an exercise in compliance, it can be hard to move away from traditional indicators and approaches that may be easier for teams to gather and toward a place where data promotes collaboration and learning—exactly where teams need to be in order to sustain the work needed to achieve results.

We saw round-one teams struggle to track progress against indicators from sources like the American Community Survey because such sources were not updated frequently enough to reflect the positive stories coming out of their early implementation efforts. As a result, we realized that our message to the teams concerning the use of data needed to be less technical and more accessible and empowering. After all, teams were already collecting and responding to data; it just didn't always come in the form of an externally generated metric. For example, the Lawrence team gathered information on hiring needs via one-on-one meetings with employers and deployed a survey to team members' organizations to gauge the level of coordination among service providers. This effort provided the team with evidence to inform its decision making and strategy, and it was important for the Boston Fed to recognize that work as data collection.

In order to encourage this kind of learning-oriented data collection and use, we shifted our language and messaging around data: it is now nested within our core element of "evidence-based decision making," a reframing that teams have responded to with enthusiasm (and a sigh of relief). This concept not only makes data feel more accessible to nonwonks on the teams but also promotes creative thinking about what kinds of information can be used to measure and

Core elements of the Working Cities Challenge

	Before you apply for a design grant…	Before you apply for an implementation grant…	After winning an implementation grant…
Collaborative leadership The ability to work together across the nonprofit, private, and public sectors to achieve a shared, long-term vision	Ensure that each sector is represented on your core team. Begin to identify stakeholders who are essential to your ability to undertake this work.	Broaden your team if needed to include partners who can help the team achieve its goal. Begin to clarify your team's values and norms for collaborating. Determine roles and responsibilities for each member.	Hire an initiative director to coordinate the initiative and manage communication among team members. Adapt your governance structure as needed.
Community engagement Authentic involvement of residents in your initiative, particularly those who will be impacted by your work	Consider the role residents can play on your team. Begin to gauge your team's capacity to engage residents and consider whether your team might include a partner with this expertise.	Assess and build your capacity to engage residents. Incorporate community engagement in your implementation plan. Continue engaging residents in the design of your initiative.	Cultivate resident leadership in the implementation of your initiative. Include residents in the initiative's decision making. Adapt your work in response to resident input.
Evidence-based decision making Measuring progress toward an ambitious but achievable long-term goal and using this evidence to adapt strategies as needed	Use data to describe your selected problem, and outline a vision that will shape the team's measurable long-term goal. Consider whether your team might include a partner with experience using evidence for decision making.	Refine long-term vision and intended outcomes, as well as short-term strategies and activities that will contribute to broader change. Define indicators with which to track your progress.	Track progress toward outcomes using shared data and reporting across the team. Course correct as new challenges or lessons emerge.
Systems change Altering activities, priorities, resources, capital flows, and/or decision-making structures within a larger system in order to better solve a problem or deliver services	Begin thinking about how the problem your team will address is affected by policies, procedures, resource flows, and decision-making processes.	Determine the drivers of change within the systems that relate to your long-term goal and short-term outcomes. Develop strategies to change systems to achieve your goals.	Begin testing and undertaking activities aimed at changing systems. Reflect on lessons learned and change direction as needed.

describe progress. The shift in our collective reframing of data is evident in the way that many teams have de-emphasized secondary data and taken data collection into their own hands: every round-one team has developed and launched a survey of its own, and teams in the second round and in the Rhode Island rounds have used surveys and focus groups to inform the planning of their initiatives.

4. Population-level impact and sustainability depend on changing systems.

As is often the case with collective-impact efforts, the three-year duration of WCC implementation grants is much less time than we expect teams will need to realize their shared goals. Moreover, the problems our teams have taken on are anything but technical; they are affected by a complex set of actors, institutions, policies, practices, relationships, and norms that cannot be addressed by the traditional approach of expanding or enhancing existing programs or developing new ones. For this reason, the need for early assessment and possible restructuring of local processes and procedures—what is often referred to as "systems change"—is at the forefront of the WCC.

While we feel that systems can be more readily changed in smaller cities with correspondingly smaller systems, even deciding what system to start with is hard work. One lesson that has emerged from the Holyoke team is that experimentation makes the concept of systems change much more accessible. To test the hypothesis that the city's business-permitting process presented a barrier to entrepreneurship, team members followed an entrepreneur through every step. Because the city is a core partner in this work, the opportunities for streamlining the bureaucratic process were quickly put into place, giving the team an important win. As a result of the lesson that early experimentation can accelerate systems change and enhance the ability of teams to shift away from programmatic approaches, the Boston Fed presented teams with a results framework that pushes teams to develop systems-change hypotheses, test those assumptions early, and collect evidence to determine if and how those changes affect the conditions on the ground.

As the Holyoke team demonstrated, systems change need not start with a major overhaul. Instead, small, focused efforts can provide important early victories that serve as key moments for learning about what larger-scale efforts will require. The Haverhill team, a round-two winner focused on improving the lives of residents in the city's Mt. Washington neighborhood, identified the career center as the target of a number of systems changes that would help neighborhood residents gain employment and increase their incomes. As the team was getting its feet wet, it learned that the bidding process for operating the career center was about to begin, and the career center featured strongly in the team's strategies for improving the employment prospects of neighborhood residents. The team responded by briefing members on the Workforce Investment and Opportunity Act and participating actively in the Workforce Investment Board's process for developing requests for proposals. Their active participation helped ensure that Haverhill and the needs of Mt. Washington residents were recognized in the request for proposal. Not only did this give the Haverhill team an important early victory—just four months into the implementation grant—but it also helped members learn a tremendous amount about workforce development and the key actors they will need to influence in order to achieve larger-scale changes for the community.

Moving forward: what questions do we hope to answer in future WCC rounds?

As the WCC expands to additional states and tests its model in additional cities, we can learn and share more about effective and ineffective approaches, particularly in the context of smaller cities. By extending the challenge to three states, we will have the opportunity to connect different city teams engaged in similar efforts and create issue-specific peer networks. For each of the core elements in our model, we still wrestle with a number of big-picture questions. Answering them could improve our intervention model but requires a larger sample of sites in order to validate our findings. The priority questions for our staff include the following:

- What level of progress, particularly on systems change, can we realistically expect over a three-year grant period?
- How can we scale the lessons we have learned at the local level into systems change at the state level to influence policies, practices, and funding flows that affect smaller cities?
- What elements do successful teams and initiatives have in place when they start?
- Are the capacities built through the WCC (community engagement, collaborative leadership, systems change, data use) being mobilized for other purposes in the city?

Our team will continue to reflect on the lessons we learn as we partner with new city teams to advance their collective visions for meaningful change benefiting low-income residents. We are pleased to see strong progress from the first round of winning cities in creating collaborative teams, strengthening community engagement, and using data to track progress and make informed decisions. These capabilities are the fundamental components creating the platform needed to transform the broken systems WCC teams set out to fix.

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Endnotes

[1] For a thorough discussion of this work, see Lynn Browne et al., "Towards a More Prosperous Springfield, Massachusetts: Project Introduction and Motivation" (report, Federal Reserve Bank of Boston, August 2009), http://www.bostonfed.org/commdev/pcadp/2009/pcadp0901.pdf.

[2] To learn more about the Working Cities Challenge, visit https://www.bostonfed.org/community-development/smaller-industrial-cities/working-cities-challenge.aspx.

[3] To view the evaluation, see "Mt. Auburn Associates Mid-point Evaluation of the Working Cities Challenge First Round in Massachusetts Complete," Boston Fed Working Cities Challenge website, May 4, 2016, https://www.bostonfed.org/workingcities/massachusetts/round1/evaluation.htm.

Mapping New England

Changes in Median Rents

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Nationally, half of all renters are now spending more than 30 percent of their income on housing. That is up from 38 percent of renters in 2000. Moreover, the percentage of renters is increasing in the region. In New England, the percentage of households living in a rental unit increased from 28.6 percent in 2010 to 31.2 percent in 2015. One way to examine postrecession changes within the rental market is to look at changes in monthly median gross rents[1] for one-bedroom apartments. Large percentage changes occurred in metro areas across New England, including the New Haven, Boston, Providence, and Burlington metro areas.[2] The map illustrates the changes in median rents by metropolitan statistical areas (MSAs).

An obvious concern with increasing rents is how much of an individual's income is allocated towards rent. Budget experts recommend that individuals spend no more than 30 percent of their income on housing. Individuals who allocate more than 30 percent of their income to housing are considered to be housing-cost burdened.

At least 45 percent of renters within New England are classified as being housing-cost burdened, and the largest percentage of housing-cost burdened renters reside within the New Haven, CT, metro area. Median one-bedroom rents within the New Haven, CT, metro rose 19.33 percent, and 57 percent of all renters are housing-cost burdened.

[1] Median rents are calculated by the U.S. Department of Housing and Urban Development (HUD). These are not fair market rents (FMR).

[2] The metro areas used in this analysis are defined by HUD and generally align with the federal Office of Management and Budget (OMB) metropolitan area definitions. However, in order to have a more precisely defined local housing market area, HUD occasionally constructs a narrower local housing market which represents only part of the OMB's metropolitan area.

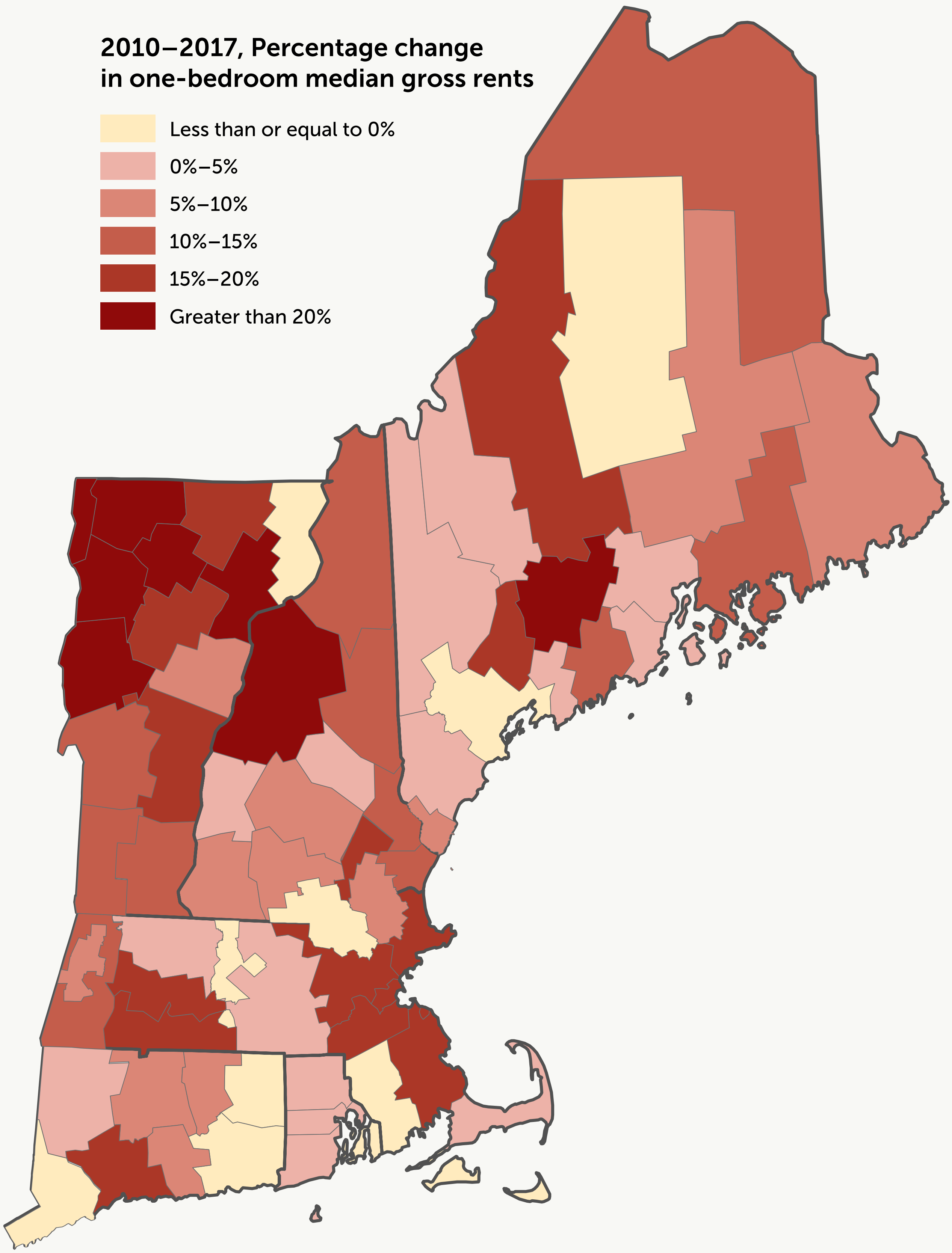
[3] Median rents are expressed in nominal dollars. The metro areas selected in the table are the metro areas that experienced the largest percentage change in median rent for each state within New England.

[4] Percentage of renters who are housing-cost burdened was calculated using the 2015 American Community Survey five-year estimates.

Percent change in rent for selected metro areas[3]

	2010 One-Bedroom Median Monthly Rent	2017 One-Bedroom Median Monthly Rent	Percentage Chance in Median Rent	Percentage of Renters Who Are Housing-Cost Burdened[4]
Grafton County, NH	$767	$970	26.47%	45.41%
Burlington-South Burlington, VT, MSA	$929	$1,169	25.83%	53.39%
Kennebec County, ME	$570	$708	24.21%	51.32%
New Haven-Meriden, CT, HUD Metro FMR Area	$978	$1,167	19.33%	57.03%
Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area	$1,275	$1,494	17.18%	49.23%
Providence-Fall River, RI-MA HUD Metro FMR Area	$860	$888	3.26%	51.25%

Source: U.S. Department of Housing and Urban Development, 50th percentile rent estimates and 2015 American Community Survey five-year estimates.



Source: U.S. Department of Housing and Urban Development, 50th percentile rent estimates.

Do Community Benefits Agreements Benefit Communities?

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Fifteen years into their use, community benefits agreements have revolutionized the land-use approval process for large, public-private economic development projects. Now, developers and coalitions representing low-income communities can settle their disputes directly, outside of formal approval processes.

Community benefits agreement (CBA) campaigns have become commonplace nationwide as a way to address income inequality in poor neighborhoods. A CBA is a contract between a coalition of community groups and a developer in which the developer agrees to provide a slate of economic benefits in exchange for the coalition's promise not to oppose the development project. The CBA movement has its roots in the early 2000s with the efforts of community coalitions to secure living wages, local hiring, and green building requirements for low-income communities that traditionally have been left out of the development planning process for their own neighborhoods. The CBA negotiated around the development of L.A. Live, a large entertainment complex in Los Angeles in 2001, is considered the first major CBA benefiting low-income communities.

While CBAs can be a valuable tool for low-income communities facing development in their neighborhoods, some concerns remain about who truly benefits from these agreements. Criticism of CBAs tends to focus on either (1) instances where coalitions are formed specifically to negotiate CBAs and may not be fully representative of differing viewpoints, inclusive, and accountable or (2) projects where local government is involved in the negotiation and execution of an agreement. These criticisms, however, are misguided. First, coalitions formed specifically to sign CBAs are not representative of community interests, and agreements signed with such groups should not be called CBAs. Second, when government actors are running land-use approval processes, which could include a CBA negotiation, and attempt to add government officials as parties to the agreement, the U.S. Constitution protects developers from the government setting certain conditions on the approvals being granted.

Unfortunately, much of this discussion about CBAs has shifted focus away from the key participants: the coalitions of community groups representing low-income workers and residents, often in communities of color. It is important for these communities to know how CBAs can help protect and serve their interests around development planning and to understand the elements that make a CBA successful. The Kingsbridge National Ice Center case example below demonstrates that CBAs can and do benefit communities when the coalitions involved represent diverse community viewpoints and when such coalitions can be held accountable by the broader community itself.[1]

The Kingsbridge National Ice Center CBA

The Kingsbridge case began with plans to repurpose an empty armory building. Built in 1917 for military practice purposes, the Kingsbridge Armory contains a massive 180,000-square-foot drill hall with an uninterrupted span of structural steel and no internal support columns. The armory was turned over to the City of New York in the 1990s and largely abandoned. Meanwhile, in anticipation of the armory being shifted to city ownership, the Kingsbridge Armory Redevelopment Alliance (KARA) was formed in the late 1980s to unite various community stakeholders around a goal of ensuring that the economic benefits of any armory redevelopment stayed in the community. KARA was organized and staffed by the Northwest Bronx Community and Clergy Coalition, a community-organizing group founded in 1974.

In 2008, the City of New York selected a development firm, the Related Companies, to redevelop the armory into a shopping mall. KARA leaders, along with attorneys representing them pro bono, met with Related officials to negotiate a CBA focused on spreading economic benefits across community stakeholders. Included in the CBA terms was a living-wage provision in which all employees, including those in both construction and permanent operations roles, would be paid above the state minimum wage at the time. Since Related was unwilling to agree to this higher wage, negotiations fell apart. KARA then lobbied the New York City Council, which voted almost unanimously against the Related shopping-mall project and subsequently passed a living-wage law raising wages for city-funded projects.

In 2012, a new group of developers, KNIC Partners, proposed the Kingsbridge National Ice Center, a plan to redevelop the armory into the largest ice sports facility in the world. The ice center developers openly agreed to pay living wages and approached KARA leaders to discuss which economic benefits could be shared with community members. This approach differed from the previous, more confrontational negotiation with Related. KARA, now working with a new group of pro bono lawyers, and the ice center team negotiated many key terms, eventually reaching an agreement acceptable to both parties after months of meetings.[2] Although government officials were not party to the CBA, city officials monitored the negotiations carefully and were watchful for any individual interests improperly influencing the terms of the CBA. For instance, a local council member demanded that the developer pay a significant amount of funding to a charity with which he was associated in exchange for his support; however, KNIC Partners rejected his demand.[3]

In the end, the Kingsbridge National Ice Center CBA included the following shared benefits:

- **Developer contributions directly benefiting the community.** Contributions included the following:
  - ◊ $8 million toward the build-out of approximately 52,000 square feet of community space used in any way KARA agrees upon
  - ◊ $1 million per year for in-kind access to ice center facilities, including discounted rates for schoolchildren who receive free school lunch
  - ◊ 1 percent of annual gross ice-rink rental revenue up to $25 million, plus 2 percent of any revenue above $25 million for community uses
- **Local hiring, training, and living wages.** A majority of employees hired for operations, and at least 25 percent of all employees, must be local residents who were formerly incarcerated or are currently unemployed or underemployed. These employees must be paid living wages, defined in 2013 as at least $10 per hour with benefits or $11.50 per hour without benefits, indexed to inflation.
- **Local procurement.** A local-procurement plan was established in which a majority of all needed goods and services for the development and operation of the ice center would be sourced from local businesses and minority- and women-owned businesses in the Bronx.
- **Greening the project.** The developers pledged to attain a LEED (Leadership in Energy and Environmental Design) certification of silver or higher for the renovation of the armory, incentivize public transportation use, mitigate pollution and ensure healthy indoor air quality, provide or reserve green space accounting for 20 percent of the whole project site, and provide $10,000 per year to train local residents in skills required for work with alternative-energy-generation systems.
- **Technical assistance and mentoring.** The developers will provide a mentoring and assistance program to small businesses near the project and encourage procurement opportunities.
- **New school construction.** If selected to develop an adjoining property, the ice center team agreed to apply for approval to develop a surrounding area for the building of a school.
- **Community involvement.** A working group of community representatives agreed to assist with the implementation of the CBA, address environmental concerns, and facilitate ongoing dialogue with the developers.

The Kingsbridge National Ice Center project, which was approved in 2013, has faced some challenges moving forward, but none of them have been related thus far to the CBA. Currently, following a series of lawsuits, the developers are negotiating with the City of New York to receive a lease granting them site control over the property.

It took significant time and effort—17 years of community organizing and dozens of hours of legal assistance from community economic-development attorneys on the coalition side, and an equal amount of work on the part of the developers—to arrive at a CBA. Enforcing the terms over the next 99 years (the duration of the agreement) will also take consistent, ongoing effort and work. On balance, the inclusion of a community coalition in making decisions about the allocation of economic benefits among community stakeholders is very powerful. Given the representativeness of the coalition—25 organizations were signatories—the CBA has the potential to benefit future generations of Bronx residents.

What is playing out in Somerville mirrors to some extent what happened in Kingsbridge: a coalition of community groups demanded a right to negotiate directly with a developer for the shared benefits of a given development.

Consensus among the involved parties indicated that KARA effectively represented community residents' interests in sharing the economic benefits of the armory's redevelopment. The office of Bronx borough president Reuben Diaz Jr. acknowledged KARA among other community stakeholders and elected officials during the 2008 CBA negotiation.[4] A key question going forward, keeping in mind that the coalitions are unelected, is whether community coalitions should be the *exclusive* representative of community stakeholders. To be enforceable, CBAs must be established between coalitions and developers; government officials cannot commit their offices to enforcing future conditions, and government is limited by the Supreme Court in what conditions it can apply. Thus, when elected officials are unable or unwilling to require developers of large projects to provide shared economic benefits, CBAs negotiated with representative and inclusive community coalitions can play a powerful role.

CBA Campaigns Addressing Needs of Low-Income Communities in New England

CBA campaigns to spread the economic benefits of development among low-income communities are also taking hold in New England. In December 2014, the Somerville Redevelopment Authority and Union Square Station Associates entered into an agreement for a major development project that would include a community-driven planning process and a CBA.[5] The planning process was to include public workshops, public design charrettes, community reviews in several languages, and ultimately a neighborhood plan for the seven-block redevelopment.[6] To facilitate the CBA negotiation, the Somerville mayor hired a real estate consulting firm, LOCUS, to conduct outreach and involve the community.[7]

Yet almost immediately, some community members questioned the role of outside consultants in negotiating and enforcing community benefits during the 30 or so years over which the redevelopment would occur.[8] There is a difference between a consultant helping to facilitate a process and a lawyer representing a community coalition in negotiations: the consultant might be more interested in moving the process along quickly, whereas the attorney must represent the interests of the coalition. One Somerville community coalition, Union United, has called for direct negotiations between the developer and the community to arrive at a CBA that the coalition can enforce.[9] Members of Union United petitioned for a public hearing before the Somerville Board of Aldermen on the displacement of longtime residents and affordable housing, developed a YouTube video explaining the CBA negotiation process, and organized to have their voice heard.[10]

What is playing out in Somerville mirrors to some extent what happened in Kingsbridge: a coalition of community groups demanded a right to negotiate directly with a developer for the shared benefits of a given development. The Union United coalition is comprised of 17 individual groups and appears to be inclusive and representative of varying community interests, and the group states that it is continuing to organize. As the coalition hopes to avoid the displacement of longtime residents and affordable housing, it seems that the community has something to gain in a CBA. Government seems willing to hear the coalition's concerns and has been generally supportive of a CBA, though it remains to be seen how the process will ultimately unfold in the long run.

Elsewhere, in Maine, the Somerset County Commissioners recently approved a wind farm tax-abatement district after the developer agreed to pay an annual per-turbine fee for the next several years as a part of a CBA. In addition, the county approved a tax-increment-financing district, which would allow the county to collect a portion of future property-tax increases and also allow the developer to pay lower future property taxes. The turbine fees can be used however the county commissioners decide.[11]

The Maine wind turbine CBA is somewhat different from the CBA examples mentioned above. Here, the process did not involve a direct contract between a community coalition and a developer; instead, the agreement is between the developer and the county government. However, while different from the Kingsbridge National Ice Center and Somerville examples, this CBA does show an alternative legal mechanism through which to share economic benefits in rural areas. In this rural area of Maine, where there are fewer residents in the voting public, elected officials are directly accountable for how they spend the wind turbine contributions.

Conclusion

So, do community benefits agreements benefit communities? Based on the Kingsbridge National Ice Center CBA case study, the answer is yes: CBAs can benefit communities when an inclusive and representative community coalition negotiates with a developer to reach a binding CBA without government as a party to the agreement. Although it is an open question at the moment whether the Kingsbridge National Ice Center will be developed and the terms of the CBA executed, the model for community coalition involvement and negotiation with a developer is a powerful one that has the potential for significant impact. There are many other CBA campaign examples that show how communities are working to share economic benefits and avoid displacement of neighborhood residents.

A CBA does require a lot of time and resources to address just one particular development. As noted above, the Kingsbridge CBA took 17 years, countless community-organizing hours, and hundreds of hours of attorney time. Given the time it takes to negotiate a CBA, it is unlikely that CBAs will solve every land-use problem, but studying them can yield useful data. For instance, in a survey of 225 CBA participants, respondents ranked "increases in public participation on development outcomes" as the number one way that CBAs improve the development process.[12] Perhaps participation in a CBA negotiation process increases interest among the public to participate in development processes and other issues affecting their neighborhoods more generally. Increased interest in local development is especially useful in low-income communities, where residents typically are less likely to participate in government processes.

Without CBAs, what alternative solutions can ensure accountable development with shared economic benefits? It is possible that local governments can include affordable housing requirements, for instance, or other terms in the rezoning of particular areas. However, because of court rulings that set a precedent complicating those efforts, some terms may be found to be unconstitutional in a court challenge. Further, local government is unlikely to push for minimum affordable-housing requirements in the absence of community groups calling for such terms, and developers are unlikely to provide benefits like affordable housing unless required by government to do so.

Therefore, even with its lengthy and arduous process and time frame, in cases where such work is possible, a representative and enforceable CBA may be one of the most effective tools now available to communities looking to share the benefits from development in their neighborhoods.

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Endnotes

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