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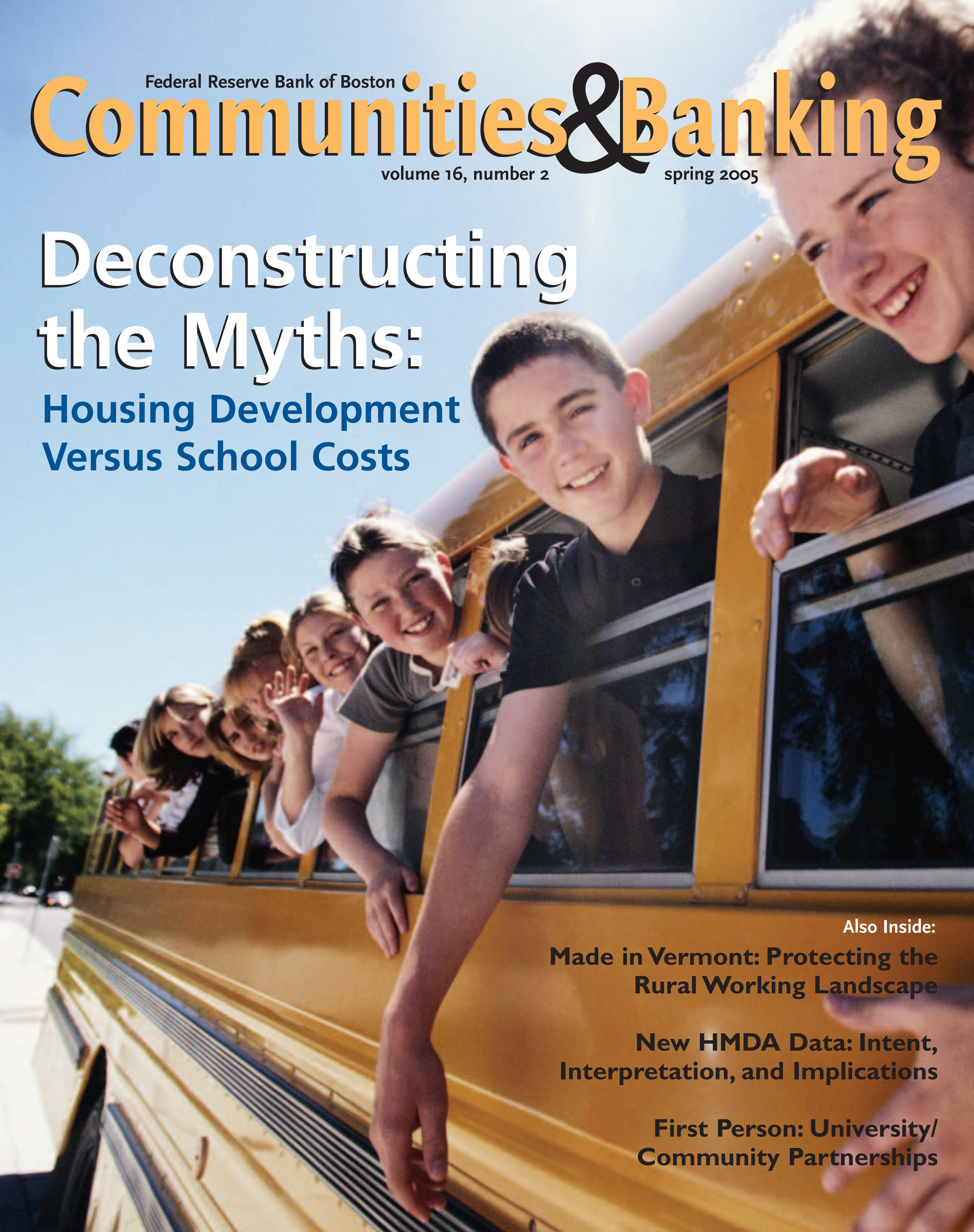

Deconstructing the Myths:

Housing Development Versus School Costs

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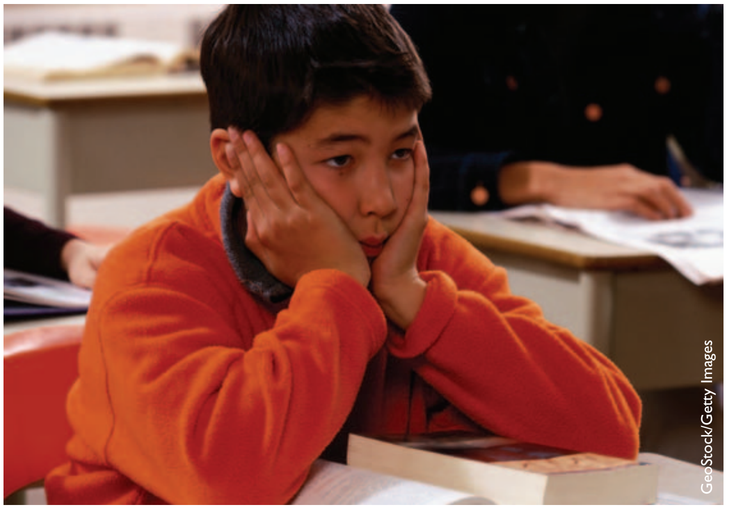

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Communities & Banking seeks to offer insightful articles on topics in community development and fair access to credit, with a focus on innovative research and effective programs and partnerships in New England.

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Deconstructing the Myths:

Housing Development Versus School Costs

by William Ray, New Hampshire Housing Finance Authority

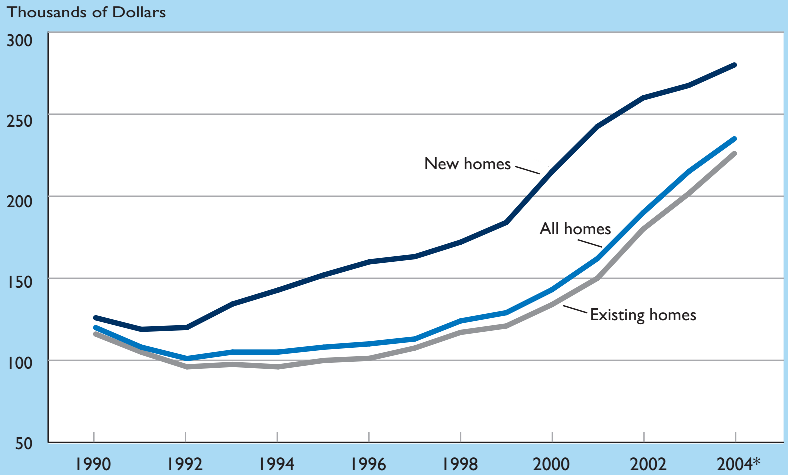

SW Productions/Getty Images

In the last decade, New Hampshire has experienced a major population boom. From 1993 to 2003, the state's population increased by 14.8 percent, a faster growth rate than experienced by any other New England state. The rise in population has driven economic growth and generated new tax revenue for the state, but it has also created a crisis in housing. Today, rapidly rising home prices, higher rents, and record low vacancy rates are presenting a housing affordability challenge for many New Hampshire citizens, and the lack of reasonably priced housing is hampering the state's economic growth. The impact is not insignificant. Employers are having difficulty recruiting and retaining their workforce in the heated housing market, and as a result, the state is foregoing an estimated 2,800 new jobs each year.

While many factors contribute to the shortage of affordable housing, at its heart, the crisis is a straightforward story of supply and demand. New Hampshire's rising population has generated a sizable demand for new housing units, but the growing need has not been met with the appropriate level and variety of new housing stock. The shortage has caused prices to shoot up. The median purchase price of a single family home in 2004 was $280,000, well out of reach for most of the state's newly formed households. Priced out of the starter home market, many families have turned to the rental option, only to find that rents are just as unaffordable. Median rents have risen 6.6 percent a year since 1995, and apartments are increasingly hard to find as vacancy rates float just above 2 percent.

Home Prices in New Hampshire, 1990 – 2004

Median Purchase Price of Primary Homes



Source: New Hampshire Housing Finance Authority.
* January to June.

The state's low rate of housing production during the 1990s is partly to blame for the lack of supply, but in recent years, the story has grown more complex. According to a study commissioned by the Workforce Housing Council, aggregate housing production rates have reached levels that closely match employment and population growth. However, the production of moderately priced homes, starter homes, and rental units remains low, continuing the squeeze on New Hampshire families. Rather, the bulk of new housing production is in high-end single family housing or age-restricted housing. Why is the market supplying high-priced and senior housing in lieu of the housing that is most needed? A big reason—schools.

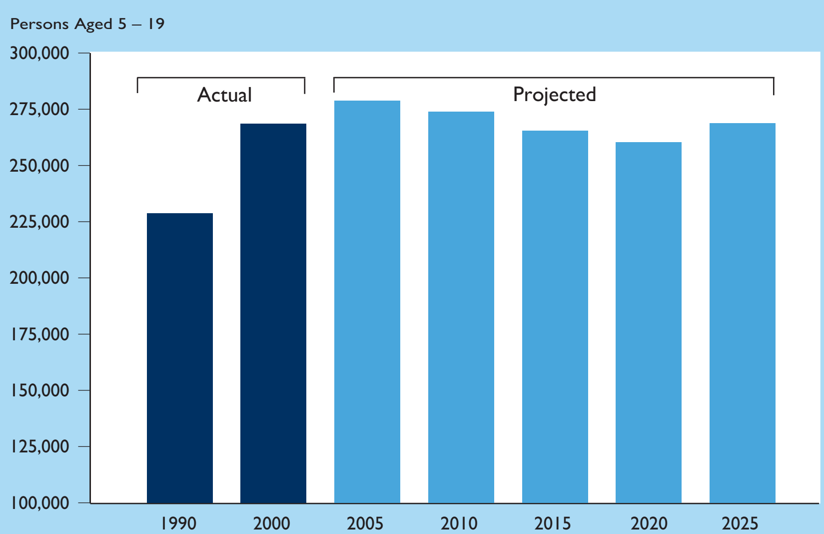
An Issue of Local Control

While the amount, type, and affordability of the state's housing stock are determined by economic and market conditions, these factors are also influenced by local government decisions. In New Hampshire, the majority of land-use determinations are made at the local level. Counties have no say in city and town land-use management, and the state's role is limited to overseeing environmental controls, highway placement, and state parks. In this situation, local land-use laws—such as growth control, zoning, and subdivision ordinances—significantly affect the cost and supply of housing. While most of New Hampshire's 224 localities agree that the state's housing crisis must be addressed, many have adopted a "not in my back yard" stance, slowing the development of housing within their borders. The municipal resistance is primarily generated by fear—fear of increasing taxes; fear of depreciating home values; and fear of crime, traffic, noise, and urbanization. Of these, the fear of increasing taxes has most directly distorted new housing production away from units geared toward families.

In New Hampshire, on average, two-thirds of local property taxes go to local school expenditures. The high relative cost of education has made municipalities hesitant to permit housing development that will increase the number of school-aged children in the public schools. It is not an unreasonable concern. In the last decade, school enrollment has increased twice as fast as the total population, growing 24 percent since 1993. This exceptional growth has stressed classroom capacity and school resources in many communities, forcing some to raise property taxes.

To try to better manage school enrollment growth and property tax bills, municipalities have begun evaluating each housing development proposal

New Hampshire's School Age Population 1990 – 2025



Source: U.S. Census Bureau; New Hampshire Office of Energy and Planning.

for its fiscal impact on the community. An assessment is performed comparing the estimated annual cost of providing municipal services to each new household, including schooling, with the property tax revenue generated by the home. While the calculation is useful, communities frequently make a number of unsupported assumptions concerning school enrollment that have an adverse influence on housing development in the state. These myths warrant examination.

Vicky Kasala/Getty Images

Challenging the Myths

The New Hampshire Housing Finance Authority is a state-chartered organization committed to creating affordable housing opportunities for low- and moderate-income people. Recently, NHHFA recognized that some of the imbalance in the housing market was driven by municipalities' misconception of the actual fiscal impact of new housing. With a more accurate picture of the budget effects, NHHFA believed localities would be willing to refashion local land-use controls in ways that would encourage a broader range of housing types and prices. NHHFA embarked on a campaign to provide factual information to municipal officials and the public to help ease concerns about new affordable housing in the state. As part of this campaign, NHHFA asked Russell Thibeault of Applied Economic Research to analyze the correlation between school enrollment and housing using demographic data from the U.S. Census Bureau. The results of his study are beginning to challenge the myths.

Myth 1
"Housing development is responsible for school crowding!"

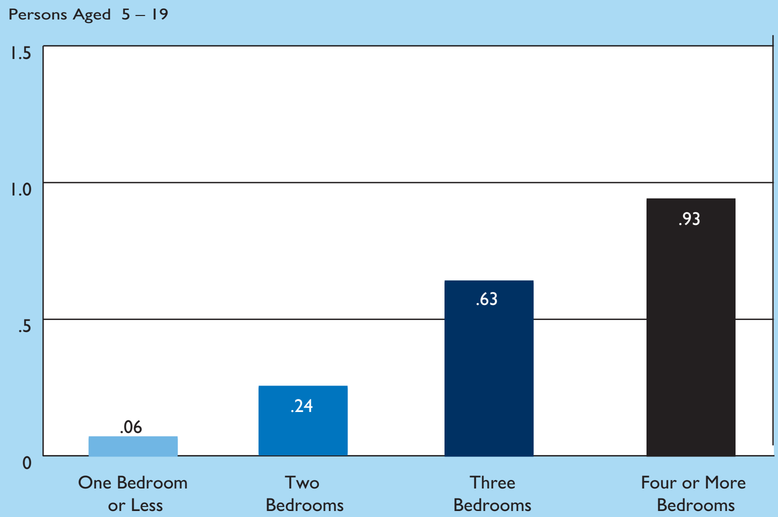
The 1990s saw a rapid growth in public school enrollment. But, was it the direct result of new housing development? It is natural to assume that when houses are being built and enrollment is increasing rapidly, a cause and effect relationship exists. However, Thibeault found that two-thirds of the enrollment growth in the 1990s was attributable to the children of existing residents entering school rather than the product of new growth. His results suggest that even if no new housing development had occurred, there still would have been a significant increase in enrollment. Thus, the effect of new development on school enrollment is substantially smaller than the conventional wisdom would have it. Rather than new people moving in, the enrollment surge was the result of the "baby boom echo" generation, the children of the large baby boom cohort, matriculating into the school system. In both New Hampshire and the country as a whole, schools have been under stress ever since this population "bubble" reached school age.

In the last decade, school enrollment has increased twice as fast as the total population. This exceptional growth has stressed classroom capacity and school resources in many communities, forcing some to raise property taxes.

But the numbers are tapering. The "baby boom echo" is now exiting local schools, and the era of rapid growth in the school-aged population is ending. In fact, New Hampshire's projected demographics show school enrollment peaking in 2005 and subsequently beginning to decline.

While the aging of the baby boom echo population will relieve pressure on the schools, it will complicate problems in the housing market. As high school students graduate, they will enter the housing market, adding more demand, particularly for rental housing. Given the lack of rental housing production in the state, it is possible that many of the state's young people will face a lack of affordable housing options. Municipalities will have to consider these

Average School Enrollment Per Unit
by Number of Bedrooms, 2000



Source: U.S. Census Bureau, 2000 Decennial Census, Public Use Microdata Sample.

demographic shifts and their impact on local finances.

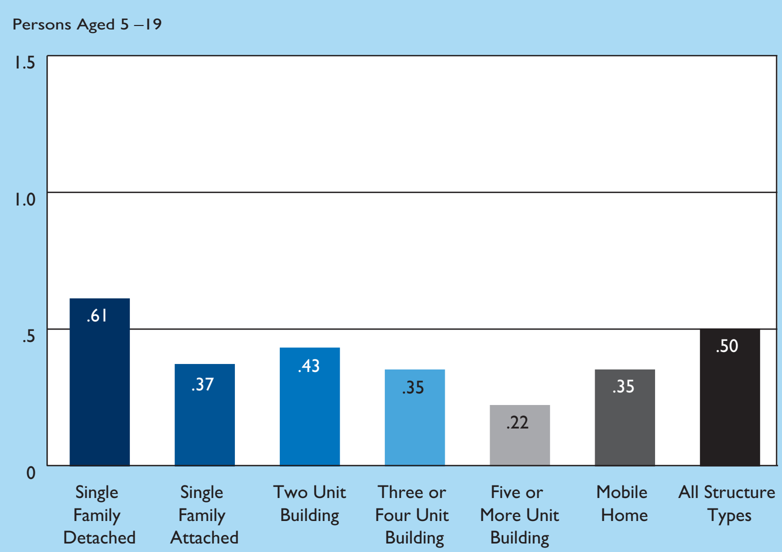
In the midst of statewide population trends, individual municipalities will experience a variety of demographic shifts in the coming years. Some cities and towns will indeed continue to see their school-aged populations increase—with or without new development. For others, in the absence of new residential development, school enrollment will decline in the next decade, perhaps forcing the closure or consolidation of schools. According to the Town of Sandwich's master-plan committee, the housing market is already having this effect: "Enrollment in our schools continues to decline as young families, unable to find land or homes within their financial reach, opt to settle elsewhere."

Myth 2
"Each house we permit adds two children to our schools!"

Perhaps drawn from the standard image of family, two kids per household is the rule of thumb used by most towns in their financial impact analyses. Using this number generally shows that housing is a losing proposition for most towns. As shown in the table on page 7, the average new housing unit in New Hampshire generates $7,500 in property tax revenue. If you assume the household includes two school children and per-pupil spending on education is $10,000, then the schooling costs of the new household are $20,000. The difference between the expected costs and revenue indicate that housing development is a big loser for any municipality. Even without considering the costs of other municipal services, annual property taxes do not come close to covering school costs.

However, the assumption that the average new housing unit generates two students is problematic in several ways. First, even if most households have two children, students age over time and leave the school system. Similarly, households move and are replaced by a variety of family and non-family households that may make less extensive use of schooling and municipal services. As a result of this fluidity, there are times when a housing unit will yield substantial net income to a municipality. Secondly, the two-child rule of thumb may not be an accurate measure. Thibeault tested this rule by looking at a statewide snapshot of the number of students currently generated per unit of housing. He found that school enroll-

Average School Enrollment Per Unit
by Housing Type, 2000



Source: U.S. Census Bureau, 2000 Decennial Census, Public Use Microdata Sample.

Fiscal Impact Assessment of a New Single Family Home

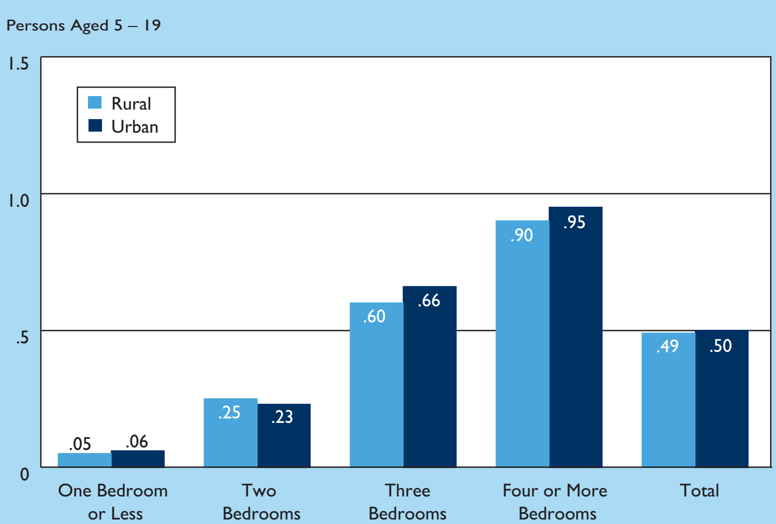
"Two Child Rule of Thumb"		versus "Revised Student Enrollment"	
Annual Revenues			
Per Pupil Expenditures	($10,000)	Per Pupil Expenditures	($10,000)
x Students Generated	2	x Students Generated	0.7
Total Costs	($20,000)	Total Costs	($7,000)
Annual Costs			
Average New Home Value	$375,000	Average New Home Value	$375,000
x Property Tax Rate	2.0%	x Property Tax Rate	2.0%
Property Tax Revenue	$7,500	Property Tax Revenue	$7,500
Annual Impact	($12,500)		$500

ment per housing unit is not two students, but rather, the average housing unit produces only 0.5 of a school-aged child.

Thibeault's analysis also revealed that the type of housing most frequently permitted for construction in New Hampshire—large single family detached units with three or more bedrooms—has significantly higher school enrollment per unit than rental apartments, multi-family housing, and small starter homes. Single family homes generate 0.6 students on average, while larger apartment buildings, those having 5 or more apartments, house only 0.2 students per unit. Similarly, the number of students per housing unit goes up with the number of bedrooms. Homes with four or more bedrooms generate one student on average; the state's one-bedroom housing units rarely have a school-age child living in them.

Finally, the study also found that state's newest housing stock is more likely to generate students. Housing units that were built between 1995 and 2000 housed an average of 0.7 students, with new single family homes generating slightly more (0.75 students per unit). Newly built four-bedroom units generated the highest number of students across all housing types in the state, an average of 1.3 students per housing unit, still less than the two-child rule of thumb.

Average School Enrollment Per Unit
by Number of Bedrooms, 2000
Rural versus Urban

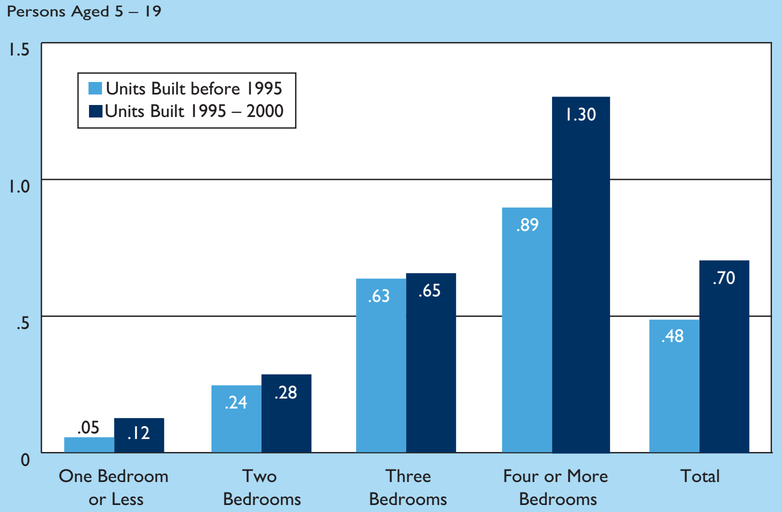


Source: U.S. Census Bureau, 2000 Decennial Census, Public Use Microdata Sample.

Myth 3
"Rural areas are different—we always get more students."

When hearing statewide statistics, there is a tendency for people in rural municipalities to claim, "The numbers are not true for our town." In many cases, they are right. The economic conditions, development patterns, public facilities, and population densities are vastly different between the rural

Average School Enrollment Per Unit by Number of Bedrooms, 2000 Old Housing Stock versus New



Source: U.S. Census Bureau, 2000 Decennial Census, Public Use Microdata Sample.

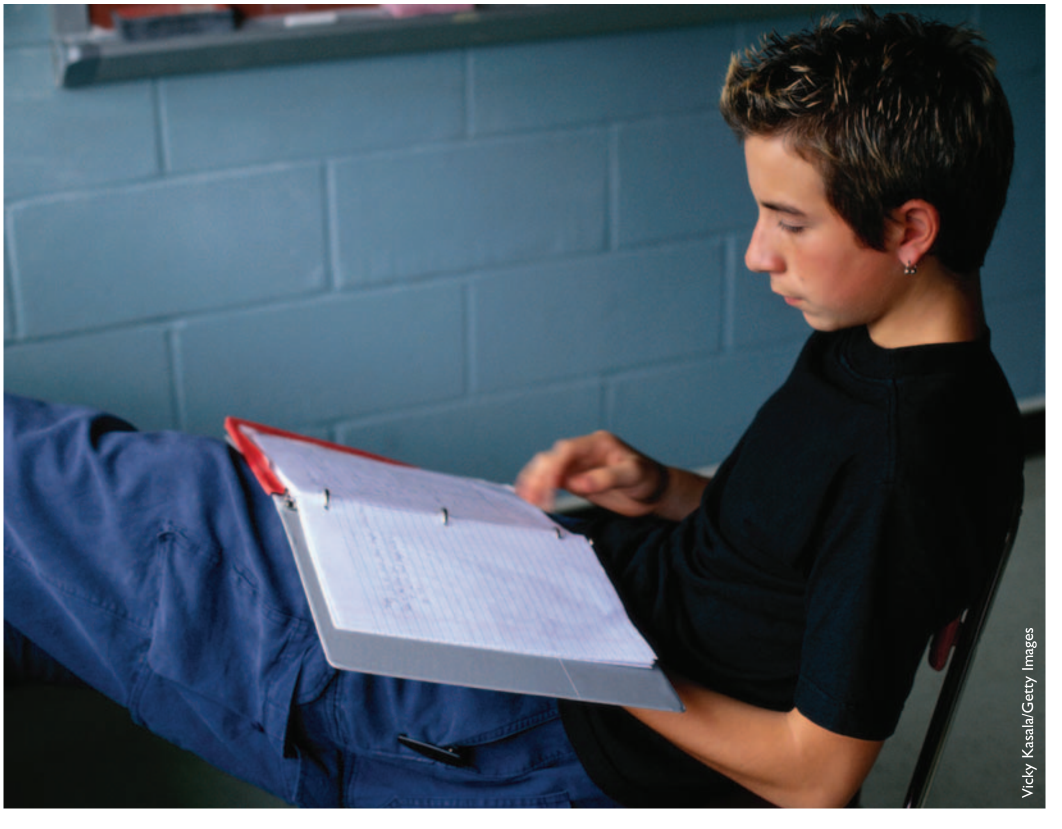
north and the urbanized south. However, when Applied Economic Research analyzed New Hampshire's housing and enrollment data by geographic region, little difference was found between the state's urban and rural areas.

Decisions without the Myths

Applying the new enrollment-per-unit numbers to the simple impact calculation used before makes it clear that housing development is not as big a drain on municipal budgets as commonly thought. Once the actual number of students generated by the average single family home, 0.7, is replaced for the mythical two students, the property tax revenues from new housing are enough to cancel out the costs of education (See the table on page 7.) Importantly, these estimates are simple back-of-the-envelope calculations. They by no means capture all of the factors related to the fiscal impact of new housing on a community—factors that will vary widely from municipality to municipality, project to project, and even over time. However, the results of Thibeault's analysis do suggest that in the state overall, new residential development is not as costly as the public and many planning boards believe.

The argument that new development escalates school costs and ratchets up property tax bills has been one of the clarion calls of those opposed to new housing and affordable rental housing. By calling this claim into question, NHHFA hopes that the analysis by Applied Economic Research will encourage localities to make decisions about housing projects that are based more on reality and less on common mythology.

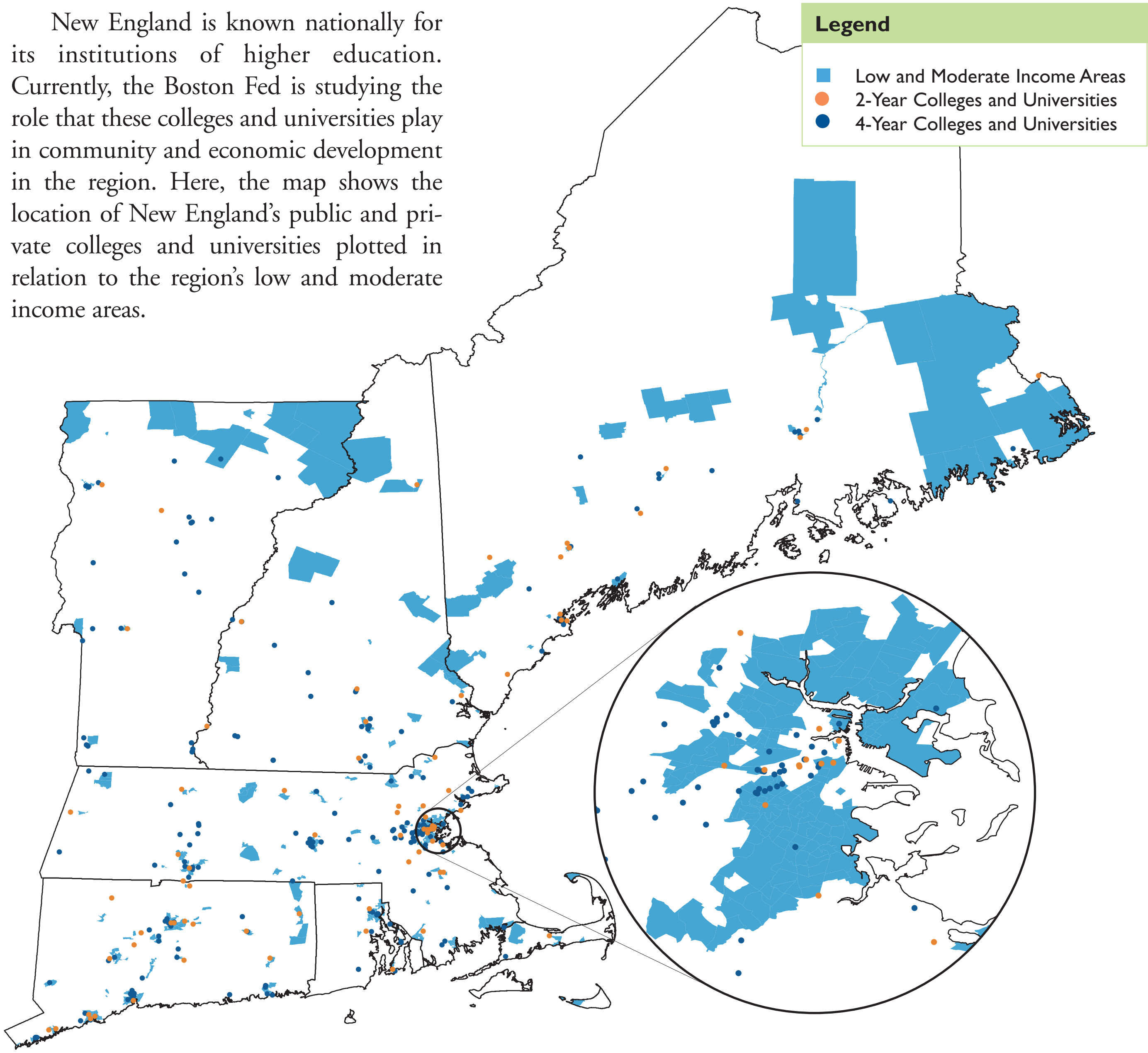
William Ray *is Director of Planning and Policy at the New Hampshire Housing Finance Authority. For more information on NHHFA, please visit www.nhhfa.org.*



Mapping New England

The Region's Colleges and Universities

New England is known nationally for its institutions of higher education. Currently, the Boston Fed is studying the role that these colleges and universities play in community and economic development in the region. Here, the map shows the location of New England's public and private colleges and universities plotted in relation to the region's low and moderate income areas.



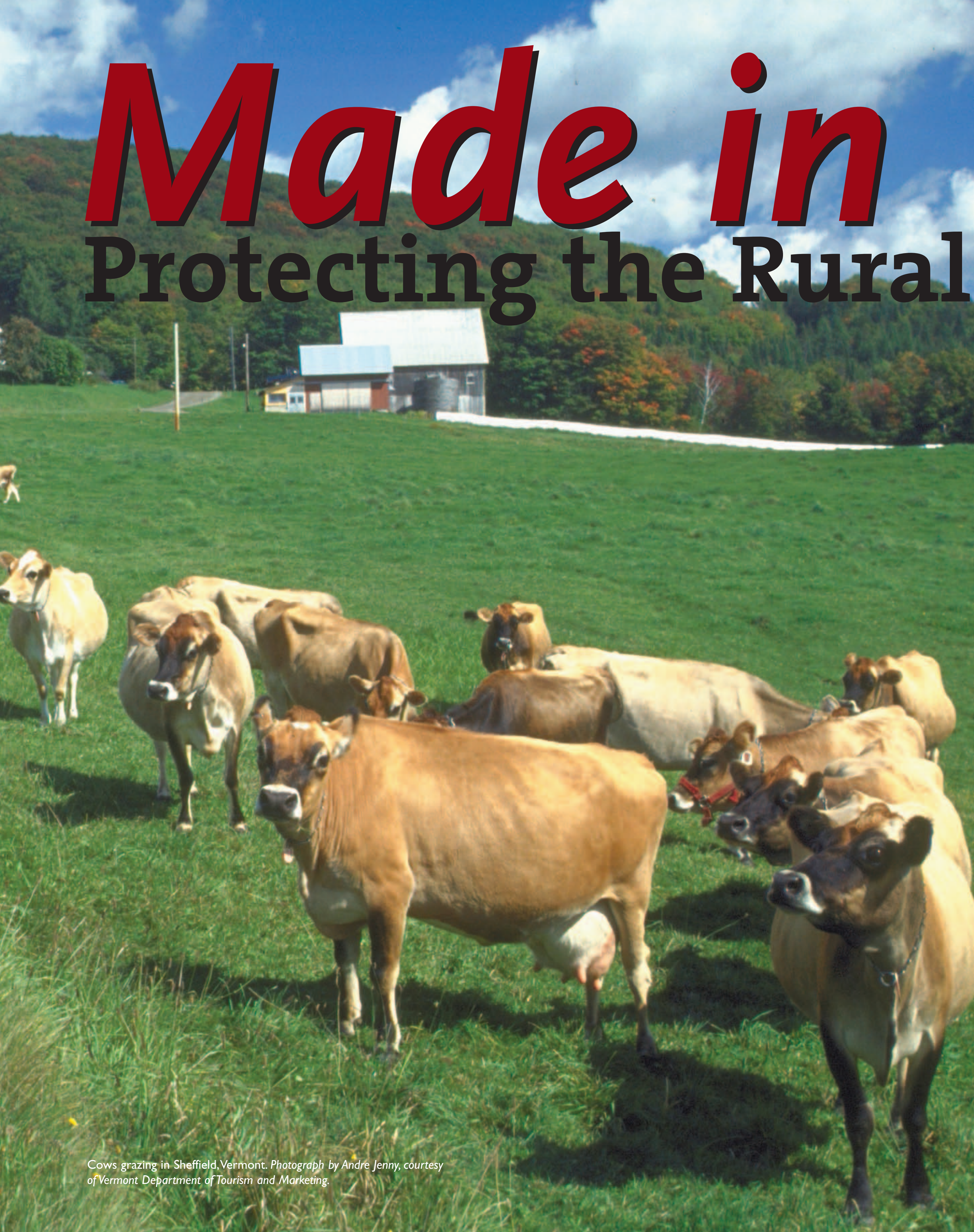
Note: Using 2000 U.S. Census data, a census tract is designated as a low or moderate income area if its median family income is less than 80 percent of the median family income of the metropolitan area. For tracts outside of a metropolitan area, median family income of the state's non-metropolitan areas is used for comparison.

Map: Ricardo Borgos, Federal Reserve Bank of Boston.

Sources: Federal Financial Institutions Examination Council; National Center of Education Statistics; U.S. Census Bureau.

Made in

Protecting the Rural



Cows grazing in Sheffield, Vermont. *Photograph by Andre Jenny, courtesy of Vermont Department of Tourism and Marketing.*

Vermont: Working Landscape

by Mamie Marcuss
Federal Reserve Bank of Boston

One has only to drive up Interstate 89 to understand that agriculture is an integral part of Vermont. Rolling fields, dairy cows, and red-roofed barns seem to stretch for miles outside the car window, interrupted only by mountains and the occasional village. Some 6,500 farms cover one-fifth of the Green Mountain state's land area, and directly or indirectly, they generate one out of every six jobs in Vermont. While these figures may pale in comparison with the likes of Iowa and North Dakota, where nearly 90 percent of the land is in farming, more Vermonters live in rural areas relative to any other state in the nation. Agriculture is a vital part of Vermont's identity and its economic viability.

Vermont's farms give the state its unique character—its green pastures dotted with black and white Holstein cows; its sugar shacks nestled in maple groves; its hillsides of apple orchards. The term "rural working landscape" is used frequently to describe this distinctive scenery, referring to the mixture of productive forests, farms, and fields that agriculture has imprinted on the land. For decades, this pastoral beauty and the quality of life it symbolizes are what have drawn people and dollars to the state, luring tourists and convincing people to permanently settle.

"There is no doubt about it. People like living in Vermont because of the beautiful land," says Steve Justis, of the Vermont Agency of Agriculture, Food, and Markets. "When you look out your window, you see rolling hills and green fields."

Beth Kennett, owner of Liberty Hill Farm, agrees, "Vermont is so beautiful. When you live here, you become connected with the land. It becomes a part of who you are."

Today, however, Vermont's landscape is changing. Agriculture has become a global industry, and the state's farmers face increasing competition from both domestic and foreign farms. The challenging climate has taken a toll on many farmers, most notably in Vermont's largest agricultural sector, the dairy industry. More generally, since 1982 the state has seen a 20 percent reduction in its farmland, and as of 2002, more than 50 percent of farms were losing money. As the industry struggles, Vermonters are concerned that the state is losing one of its best assets—its working farmland.

To preserve Vermont's rural identity, residents are employing a variety of strategies from agritourism to conservation. While Vermonters disagree on which efforts are the most appropriate and effective, there is widespread agreement that preserving the state's "rural working landscape" is a must.

Conservation Easements

According to some Vermonters, the best way to preserve the state's rural working landscape is by restricting the land's use to farming, forestry, or open space. To this end, several private, nonprofit land trusts are working with farmers to voluntarily conserve the state's agricultural lands through a legal tool known as a conservation easement.

A relatively new instrument, conservation easements are being employed around the country for a variety of land preservation purposes, including forestry, open space, and recreation. Typically, a landowner confers a conservation easement on his property to a land trust or a government agency. These entities acquire the development rights to the land and through the easement, dictate its future use. In Vermont, "working landscape" conservation easements are ensuring that farmland remains in farming for perpetuity, with farmers agreeing to restrict the use of their land to agricultural purposes—a condition that applies to all future owners of the land.

Looking at the statistics, conservation easements are having a substantial impact in the effort to protect Vermont's rural working landscape. According to the Vermont Land Trust, the state's largest land trust, conservation easements have been applied to 150,000 acres of farmland, or 12 percent of the state's total land in farming. Close to 20 percent of the state's dairy farms have been conserved with this tool.

The easements are also indirectly helping to preserve Vermont's rural working landscape by assisting farmers in a number of ways. First, farmers financially benefit when they transfer a conservation easement to a land trust. They are compensated for the value of the easement either in the form of proceeds if it is sold to the land trust or in tax deductions if it is donated. Depending on the deal, the remuneration can be hefty as the easement is typically valued as the difference between the current fair market price of the land and the estimated value of the land once the easement is attached. For example, a particular farm would currently sell for $500,000 on the market. Once the use of the farm and its land is restricted solely to farming, the price drops to $350,000. The difference, $150,000, is the value of the conservation easement.

The revenue generated by conservation easements is keeping many of the state's farmers afloat. According to a recent Vermont Land Trust survey of participating farmers, nearly two-thirds used the resulting funds to pay down debt. Additionally, farmers used the capital to purchase more land, make needed infrastructure improvements, and finance their retirements. "Since they do not plan to use their land for anything but farming, many farmers view a conservation easement as a nonperforming asset," says Alex Wylie, agricultural director of the Vermont Land Trust. "They realize they could use the funds for other purposes, so they cash in their development rights."

According to the Vermont Land Trust, conservation easements have been applied to 150,000 acres of farmland, or 12 percent of the state's total land in farming. Close to 20 percent of the state's dairy farms have been conserved with this tool.

Beth Kennett at Liberty Hill Farm in Rochester, Vermont. *Photograph by Dennis Curran, courtesy of Vermont Department of Tourism and Marketing.*

Vermont produce for sale at a farmstand. *Photograph by Kindra Klineff, courtesy of Vermont Department of Tourism and Marketing.*

Conservation easements also allow farmers to continue to own and operate their farm as before. As such, easements are helping to maintain the farming economy in some communities, potentially multiplying the effect on landscape preservation. For example, in several towns, the Vermont Land Trust has conserved between 7,000 and 8,000 acres of contiguous farmland. This scale of conservation creates a critical mass of farms to support an agricultural economy. "When a town loses its farms, it also loses the jobs that service the farms—the veterinarians, the machinery retailers, the feed suppliers. But, if a town can maintain a cluster of farms, it can continue to support all of these jobs," says Wylie.

Finally, some think that conservation easements have made farmland more affordable for new farmers. By limiting land use to agricultural purposes in perpetuity, the easements have, in many cases, eliminated competition from developers over conserved parcels. With less demand, the price of conserved farmland has fallen. "The conservation effort has allowed more people to get into farming," says Wylie. Moreover, by providing a mechanism to keep family farms within families, Wylie adds, conservation easements have "opened the door for the next generation of farmers."

Despite the many channels through which conservation easements are working to preserve the state's rural working landscape, critics point to several problems with their use. Questions have been raised about the financial and organizational capacity of land trusts to monitor and enforce their conservation easements, both now and in the future. Surveys conducted by the Land Trust Alliance found that one-third of northern New England's land trusts do not perform documented monitoring on their properties, and nationwide, 80 percent of land trusts believe that some of their land holdings will not be conserved in 100 years because of enforcement issues. Additionally, with most conservation easements being less than two decades old, some worry that they will not be able to weather future changes in landownership, evolving community land-use needs, and inevitable legal challenges. Moreover, it is unclear what will happen to easements if the land trust that holds them dissolves.

The valuation of conservation easements has also raised concerns. An inherently complex and subjective process, the appraisal of conservation easements is open to a myriad of abuses. For example, landowners may overvalue their easements to maximize their tax deductions or the profits from the easement's sale. Most commonly, the current value of the land is estimated at its highest and best usage price—the price it would draw if the land were subdivided and sold to several developers. But in many cases, there is little demand for this land use, particularly in remote areas, and the value of the easement is overstated. Sometimes, landowners are paid for conservation easements with little to no value—easements on land that would have remained preserved without them, such as a flood plain, steep hillside, or property subject to restrictive zoning regulations. Occasionally, profits are made from easements that actually increase the value of the land, with real estate agents advertising them as an asset. While the majority of conservation easements are valued appropriately, abuses are common and costly enough that the IRS has issued a public notice threatening fines, excise taxes, and even loss of nonprofit status for landowners and land trusts who exploit the system.

These concerns have many wondering whether conservation easements are the most cost-effective way to protect the state's rural working landscape. Still, conservation easements may work better in Vermont than in other states thanks to a strong organizational infrastructure. Specifically, the state has established the Vermont Housing and Conservation Board, a unique agency charged with overseeing land conservation and affordable housing in the state. VHCB provides financial support and oversight on many conservation easement deals, and it applies rigorous standards to all of its projects—standards it hopes will protect against both abuses

Carrie Chalmers at her farmstand in Weston, Vermont. *Photograph by Peter Miller, courtesy of Vermont Department of Tourism and Marketing.*

and future uncertainty. The VHCB and the Vermont Land Trust work closely together, and both have taken steps to ensure the perpetuity of their conservation easements. Both organizations have established back-up plans to protect their holdings in the case of dissolution. They have set up systems to annually monitor each of their properties, and the Vermont Land Trust also aids smaller land trusts with enforcement issues. Finally, both organizations focus on the quality of the land they conserve. According to Alex Wylie, "when conserving land, it is vital to make sure that easements will not infringe on future plans for development. We are not interested in impeding development; we are interested in conserving farmland for farming. We want to conserve the land whose best use is agriculture."

Promoting Vermont's Agricultural Products

Instead of focusing on land-use preservation, some Vermonters are working to protect the state's rural working landscape by supporting the economic viability of the state's farmers. "The best way to save Vermont's farmland is by keeping farmers farming," says Beth Kennett, owner of Liberty Hill Farm.

As global competition drives down prices for standard agricultural commodities, some believe specialty and gourmet farm products are the key to preserving Vermont's farms. Thus, many farms are shifting their focus. Some are scaling down to concentrate on high-end foods like artisan cheeses. Others are going the organic route, while still others are creating value-added Vermont products like homemade salsa and natural salad dressing. The success of these enterprises relies in part on maintaining the state's fame for specialty foods, such as maple syrup, cheddar cheese, and apple cider.

The Vermont Agency of Agriculture, Food, and Markets is lending its hand in this arena, developing several programs that market the high quality and unique nature of Vermont's agricultural products. For example, the

"The best way to save Vermont's farmland is by keeping farmers farming," says Beth Kennett.

Vermont Seal of Quality program recognizes agricultural products that have met certain standards of excellence. Recipients display the seal on their product, helping consumers correlate quality with Vermont. Originally created in the 1970s to help McDonald's identify those Vermont farmers who were producing USDA-quality eggs, the program now covers nearly a dozen categories of products, and over 600 producers have been awarded the Seal of Quality. Today, maple syrup is the most common product to carry the Seal; Cow Power™ is the most unusual. Aptly named, CowPower™ is energy produced from cow manure from Vermont's dairy farms. Last year, Central Vermont Public Service applied for and received the Commissioner's Choice Seal of Quality for its unique energy product, a designation reserved solely for high-quality farm products that are 100 percent produced and processed in Vermont.

Cow Power's™ Seal of Quality illustrates the extension of the program to a wider set of farm products in a conscious effort to market the Vermont brand to a larger audience. By allowing consumers to identify a greater range of products that are made in Vermont, the Agency of Agriculture, Food, and Markets hopes the program will generate higher profit margins for the state's farmers. "Research indicates that consumers want to buy local

A Vermont Farm Vacation

Beth and Bob Kennett are the owners of Liberty Hill Farm just outside of Rochester, Vermont. They were among the first Vermont farmers to enter the agritourism business when, in 1984, they opened their dairy farm to tourists. The decision was a matter of survival. "In the early 1980s, the price of milk had taken a nose dive," recounts Beth. "We quickly realized that we needed to diversify our income. We looked around at our assets and decided to turn this big old farm house into a bed and breakfast." The B&B enterprise was fairly successful, but the Kennetts noticed that visitors were coming to Liberty Hill Farm not just for lodging, but because they wanted a first hand farm experience. Seeing a profitable market niche, they decided to expand their inn into a full-scale farm vacation destination.

Today, Liberty Hill Farm is both an active dairy farm and an agricultural vacation spot. Overnight guests can spend the day with the Kennetts in the barn, where they can feed baby calves, try their hand milking Rosie the cow, or simply watch Beth, Bob, and their sons in action. The farm also provides a launching ground for other quintessential Vermont activities, including hiking, mountain biking, and antique shopping in nearby Rochester. Guests tend to wander back to the farmhouse for dinner around 6:00 p.m. where they partake of a home-made feast of New England fare featuring ingredients fresh from the farm.

In addition to supporting their livelihood, the Kennetts hope their farm vacations will promote Vermont's farms on a larger scale. By exposing their guests to one set of Vermont products and experiences, they believe they will encourage them to try others. "In essence, much of agritourism is direct marketing of farm products," says Beth. "It combines Vermont products with a Vermont experience, whether it's pick-your-own apples, hay rides, a pie being prepared right in front of you, or a close-up encounter with the cows that supplied the milk for your cheese."

The Kennetts believe that agritourism can benefit the entire farming community, including those not directly involved—especially if farmers cross-market their goods with those of other farms. Beth and Bob highlight the fact that the milk from Liberty Hill Farm is used in the production of Cabot and Grafton cheeses. They hope that greater brand awareness among their guests will increase purchases of these cheeses, in turn, supporting all of the dairy farms that supply these creameries.

Liberty Hill Farm in Rochester, Vermont. *Photograph by Dennis Curran. Courtesy of Vermont Department of Tourism and Marketing.*

Vermont products, and they are willing to pay significantly more for them," says Steve Justis, the state's coordinator for the program.

While the Seal of Quality program is seeking to extend the Vermont brand name, other state officials are working to protect it. Aware of the currency carried by the Vermont name, numerous companies both inside and outside of Vermont have incorporated the state's name in their products' packaging, labeling, and advertisements. "Vermont has a very strong brand identity. In the private sector, companies pay millions to create an image as strong the one that Vermont already has," says Jason Aldous, communications specialist for the state's Department of Travel and Tourism.

Worried that overuse of the Vermont name will dilute the reputation of the state's agricultural products, in 2003, the state's attorney general proposed tighter regulations for labeling products as Vermont-made. The changes were intended to protect consumers from deceptive marketing and to uphold the

Saving Farms at the Grocery Store?

Three summers ago, after studying food consumption statistics, the Agency of Agriculture, Food, and Markets found that if all Vermonters shifted 10 percent of their food purchases to Vermont products, over $100 million would be generated for the state's agricultural economy—a major boost for a sector's whose sales are less than $500 million a year. "We were shocked by this figure," says Jennifer Grahovac, one of the state's agricultural development coordinators.

To make these numbers an economic reality, the Agency launched the "Buy Local—The 10% Difference" campaign. The state developed promotional materials and distributed them at no cost to farmers, grocers, and other retailers who wanted to highlight their locally grown products. The campaign specifically targeted fruits and vegetables—a food group generally lacking indicators of origin.

So far, support for the Buy Local campaign has been positive. Governor Douglas has made a number of public service announcements about the program. Several restaurants are using the campaign logo to highlight farm fresh ingredients in their dishes, and each year more retailers are joining the effort. The increased attention on locally grown products seems to be benefiting farmers. A recent survey of participating farmers said that they have seen an increase in sales since the campaign began three years ago. Grahovac believes the simplicity of the program is the key to its success. "Most people in Vermont want to support the local farms, but it seems so complicated. The 'Buy Local' campaign creates a framework that folks can easily wrap their mind around and say, 'I can do that.'"

Some feel, however, that the program is only the tip of the iceberg. "Buying local is extremely important, but we need to do more to market this concept," says Beth Kennett, a Vermont farmer. "We need to educate consumers about the impacts their choices at the grocery store have on farmers."

Sorbet, made in Vermont, displayed on a grocery store shelf. *Photograph by Mamie Marcuss, Federal Reserve Bank of Boston.*

regard of Vermont's farm products. In particular, regulators were concerned that the out-of-state use of the Vermont name on inferior products would tarnish the state's reputation for high-quality specialty foods. Lawmakers were especially concerned about the state's heritage products such as milk, maple syrup, and apple cider—products consumers have come to expect to be of high quality and of local origin.

The proposed regulation is not without controversy. While some of Vermont's farmers and food producers have lauded the effort to end fraud, others feel that lawmakers have not considered all of the implications of limiting the use of the Vermont name. In particular, the changes will require all component materials of certain products to be wholly of Vermont origin, standing to prohibit a number of established Vermont companies from labeling their products with the Vermont name. For example, Cold Hollow Cider Mill in Waterbury, Vermont, imports out-of-state apples for its on-site cider production because the state's apple crop is insufficient to meet the company's needs. Under the proposed regulation, Cold Hollow would no longer be able to claim it produces Vermont cider.

Businesses groups throughout the state have cautioned that the proposed regulation will impose significant costs to "value-added," or food processing, companies like Cold Hollow—companies that are increasingly intertwined with the economic well-being of the state's farmers. "Value-added processing is essential to the survival of New England agriculture," says Justis. He adds that in 2004, value-added companies contributed $1 billion to the agricultural economy—nearly twice as much as farming operations. The proposed rule remains under debate, and government officials agree that the concerns of the value-added sector must be addressed as the state works to preserve its rural working landscape.

Agritourism

In a recent study, the Vermont Department of Travel and Tourism found that tourists generated $1.5 billion in direct spending for the state in 2003, accounting for nearly 10 percent of all economic activity for the year. Tourism is a major component of Vermont's economy and, according to Jason Aldous, director of communications for the department, one that intersects naturally with Vermont's rural working landscape. In fact, agriculture is one of five main themes that tourism officials use to market the state to visitors, and Vermont's farms differentiate it from other vacation spots. "In terms of a tourism destination, Vermont's authentic working farms represent our biggest advantage over the rest of New England. People come for the authenticity," says Aldous.

Historically, farmers' biggest contribution to tourism was the scenic backdrop that they provided. But increasingly, the farms themselves are becoming vacation destinations. More and more farmers are opening their doors to tourists, offering them everything from cheese tours to nature walks, from hay rides to overnight stays. Collectively, activities that provide visitors with an agricultural experience are known as agritourism, a cottage industry that some hope will help to preserve the rural working landscape by helping farmers increase and diversity their income.

According to the latest survey, an estimated 2,200 Vermont farms, one third of all Vermont farms, participate in the agritourism industry. The decision to establish an agritourism enterprise is a function of economic survival for most of these farmers. A survey conducted in neighboring New York revealed that as many as 82 percent of farmers who are engaged in agritourism entered the business to increase the economic prosperity of their farm. For Vermont farmers, an agritourism business brings in on average an extra $8,900 a year—a significant contribution considering total annual income from farming operations averages just under $15,500. In addition to supplementing income, sales to tourists help diversify a farm's revenue streams. This income heterogeneity is critical for many of the state's single-commodity producing establishments, especially the state's dairy farms whose economic welfare is otherwise tied to the fluctuating price of milk. "There is no doubt that agritourism saved our farm," believes Beth Kennett, owner of Liberty Hill Farm. "Twenty years ago, there were 11 dairy farms in our valley. Today, we are the only one left. Agritourism allowed us to successfully weather the ups and downs of dairy prices."

Agriculture is one of five main themes that tourism officials use to market the state to visitors.

As more farmers enter the agritourism business, its statewide impact has grown. Between 2000 and 2002, total agritourism income in the state rose an astounding 86 percent, reaching $19.5 million, and today, the concept is being touted as a larger strategy for rural economic development and farmland preservation. "There are three factors that uniquely position Vermont to have a successful agritourism industry," says Kennett, who is also the president of Vermont Farms! Association, a nonprofit organization committed to preserving the rural working landscape through agritourism. "One, there are enough operational farms to create a working landscape. Two, Vermont has a wide variety of farms, allowing visitors to have an array of agricultural experiences in one trip. Three, Vermont has several niche products that intrigue tourists, including maple syrup."

Despite the state's natural strengths in agritourism, the industry is not a panacea for saving Vermont's farms. Like starting any small business, the costs of entry are high. Initial investments in planning, infrastructure, and marketing may be substantial, especially for those farms interested in larger agritourism enterprises such as bed and breakfasts. Additionally, expensive liability and business insurance must be purchased, and a range of regulatory issues must be addressed, covering everything from public health and safety to zoning, licensing, and taxes. Moreover, the risks of an

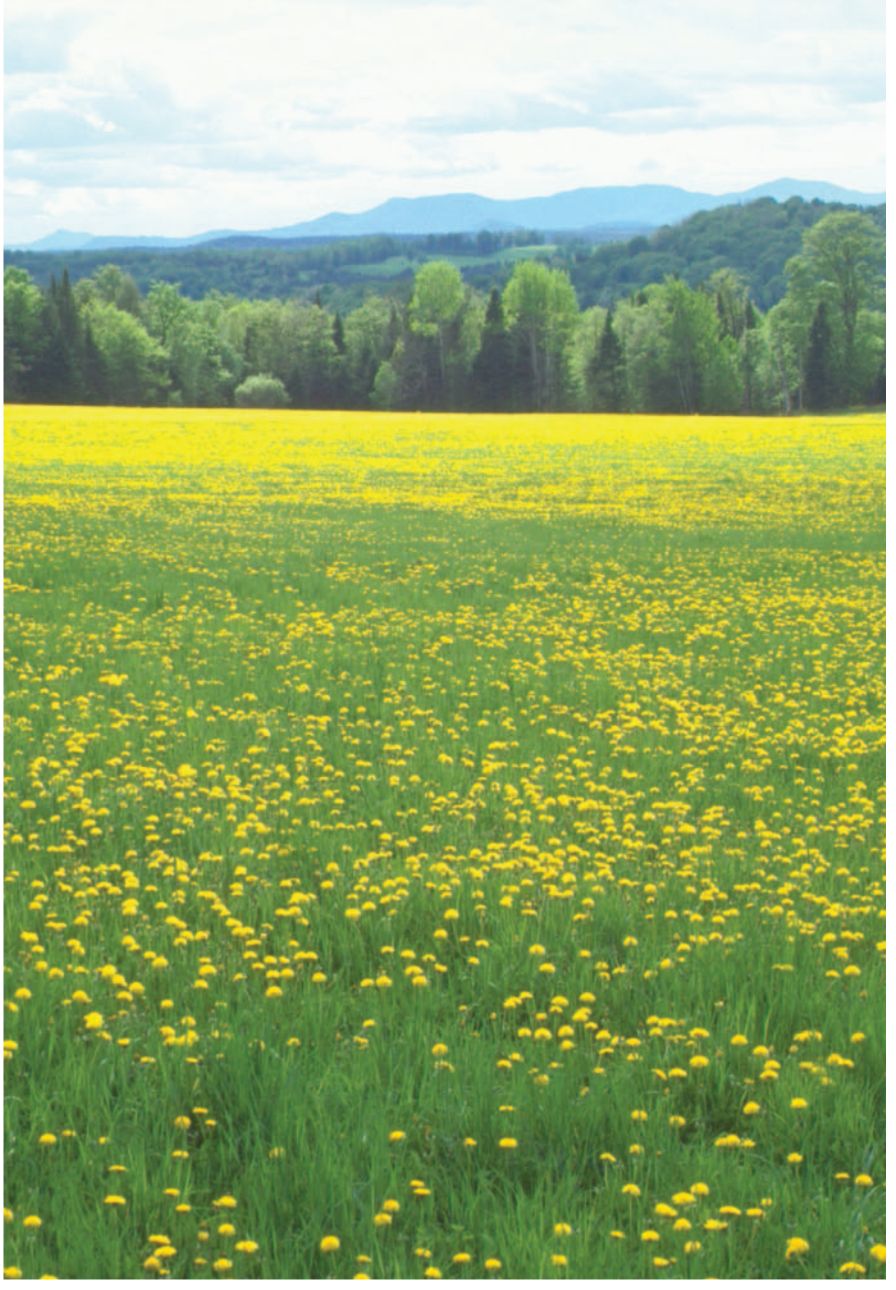
Home grown produce in East Burke, Vermont. *Photograph by Dennis Curran. Courtesy of Vermont Department of Tourism and Marketing.*

agritourism business are great. In neighboring New York, 25 percent of agritourism farmers reported net losses in a 2000 survey, and 7 percent were considering going out of business. Agritourism enterprises also have the potential to interfere with farming operations, result in a loss of privacy, or require a considerable time commitment.

Researchers have also raised questions about how much agritourism can actually help sustain the rural identity of a community. A rise in tourism may be accompanied by an increase in unsightly signage, traffic congestion, or a strain on public services. Housing and land prices may be pushed up by second home purchases, in turn, creating strong incentives to sell farmland for housing development. Further, tourist activities may create stress on the land and lead to environmental degradation. Finally, agritourism is simply not a feasible solution for parts of the state where tourist visits are infrequent, such as the far northern counties of Orleans and Essex.

Vermont Spirit

While none of the above solutions is without its flaws and caveats, each contributes to the protection of Vermont's "rural working landscape." Taken together, Vermonters hope these and other strategies will be enough to slow the tide against the eroding agricultural economy. If not, the state's residents will surely find new ways to preserve the spirit of rural Vermont. "Once we lose our farmland, we will never get it back," says Jennifer Grahovac of the Vermont Agency for Agriculture, Food, and Markets. "We have to make sure Vermont stays how it is—its beauty is what attracts all of us here."



Field of dandelions in Cabot, Vermont. *Photograph by Dennis Curran, courtesy of Vermont Department of Tourism and Marketing.*

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New HMDA Data:
Intent, Interpretation, and Implications

By Anna Afshar
Federal Reserve Bank of Boston

Digital Vision/Getty Images

On March 31, 2005, the first round of data reflecting the most recent revisions to the Home Mortgage Disclosure Act (HMDA) became publicly accessible. Containing previously unavailable information on loan pricing, lien status, and loan type, the new statistics have captured the attention of the financial community. Mortgage companies, banks, community development organizations, and consumer groups alike are eager to see what the new data tell us about the workings of the home mortgage market, especially the fast-growing segment of subprime lending. Questions are rapidly surfacing about how to interpret the information and how much it can reveal about equity and efficiency in the market. To address these concerns, the Federal Reserve System, in partnership with other regulatory agencies, is working to increase overall understanding of both the intent behind HMDA and the strengths and limitations of the new data.

HMDA • HMDA • HM

Digital Vision/Getty Images

HMDA's Purpose and the Intent of the Most Recent Changes

The Home Mortgage Disclosure Act was enacted by Congress in 1975 to ensure fair and equal access to credit in the housing market. Originally, the law was intended to address concerns that banks and thrifts were "redlining" low- and moderate-income areas, uniformly rejecting all loan applications from these poorer neighborhoods. HMDA sought to end this discriminatory practice by requiring banks to make publicly available data on where their mortgage loans were made. The dataset provided a mechanism to monitor whether financial institutions were adequately supplying housing credit in the geographic areas they served.

Since then, the law has been revised several times to reflect the evolution of the mortgage market. In the late 1970s, concerns surfaced that some lenders were discriminating based on the race and income of a borrower. In response, HMDA was revised in 1980 to require lenders to report each loan applicant's income and race. In 1988, HMDA was expanded to cover mortgage lending subsidiaries of bank holding companies, a move prompted by the growing number of financial institutions moving their mortgage operations into such entities. In 1989, HMDA was further amended to require data collection on loan applications, not simply on loans that were approved and originated. This change was intended to allow for the identification of differing denial rates by race, gender, or income.

The most recent revisions to HMDA have once again updated the law to address emerging trends in the mortgage market. Over the last decade, the development of credit scoring technology and risk-based pricing models has allowed lenders to better determine the risk profile of borrowers. This has led to a proliferation of loan products and prices, the most notable being subprime loans—higher-priced loans associated with higher-risk borrowing. According to the Federal Reserve Bank of St. Louis, subprime loans accounted for 18.7 percent of all mortgages in 2002, up from only 1.4 percent in 1994.

The growth of the subprime market has generally been a positive development, affording mortgage credit to a new population of previously unqualified borrowers and contributing to record levels of homeownership—69 percent of U.S. households were homeowners in 2004, up from 64 percent a decade before. However, subprime lending has led to an increasingly complex mortgage market, prompting concern among consumer groups that borrowers may have difficulty obtaining the best-priced loan for their needs. Concerns center around four broad themes:

First, borrowers in the subprime market are seemingly less likely to comparison shop for mortgages than borrowers in the prime market.

Second, there is a significant amount of aggressive marketing in the subprime market.

Third, some question whether consumers in the subprime market are equipped with enough knowledge to protect themselves from unfair or deceptive lending practices.

Fourth, there is concern that price variation in the subprime market may reflect discrimination against borrowers by race, ethnicity, income, or gender, not legitimate risk-based pricing.

In response to these concerns, HMDA was amended in 2002 to require mortgage lenders to report data related to the pricing of loans. These changes, which went into effect in January of 2004, were intended to enhance the capacity of regulators to monitor subprime lending and continue to ensure equity and efficiency in the mortgage market as a whole.

The New Reporting Requirements

Among the 2002 HMDA changes are four new reporting requirements. Garnering the most attention is a lender's obligation to report "the spread" of each originated high-cost loan. Calculated as the difference between the interest rate on the mortgage loan and that on a U.S. Treasury security of comparable maturity, the spread captures the "price of the loan" vis-à-vis what other borrowers are paying. The relative nature of this measure enables comparisons over time, regardless of changes in the level of interest rates. Because the spread on prime loans is relatively small, this reporting requirement pertains only to "higher-cost mortgage loans." For first-lien mortgage loans, lenders must report the spread if it is 3 percentage points or more. For second mortgages, or subordinate-lien loans, which typically have higher interest rates, the cut off is 5 percentage points. The definition of "higher-cost mortgage loans" is based solely on the interest rate spread and does not take into account points or other fees associated with the loan.

Subprime lending has led to an increasingly complex mortgage market, prompting concern among consumer groups that borrowers may have difficulty obtaining the best-priced loan for their needs.

The remaining new reporting requirements are also focused on understanding price differentials in the mortgage market. For all mortgage loan applications and originations, lenders must now report lien status, a significant determinant of loan price. A lien gives a lender ownership rights to an asset in case of default, and home loans secured by a lien generally have lower interest rates. Moreover, first-lien loans tend to have lower rates than subordinate-lien loans, as the first-lien lender has the initial rights to the asset, while the lender of a subordinate-lien loan has rights only to what is not claimed by the first lien. By requiring lenders to indicate whether a loan is secured by a first- or subordinate-lien, regulators can determine how much price variability is explained by the lien status of a loan.

For similar reasons, lenders must also identify whether a loan application involves a manufactured home. Compared with site-built homes, factory-built homes are perceived to be riskier by financial institutions, in part because they can be owned separately from the land on which they are located. Thus, the market for manufactured homes is characterized by higher interest rates and a greater frequency of denials. In 2002, while the denial rate on all home purchase loan applications was just under 14 percent, an estimated 60 percent of manufactured home applications were rejected. HMDA data will now identify loan applications associated with manufactured homes, allowing regulators to examine this market separately and take into account its unique characteristics.

Finally, financial institutions are now required to flag whether a loan exceeds the price thresholds of the Home Ownership and Equity Protection Act (HOEPA). Part of the Truth in Lending Act, HOEPA seeks to protect consumers from deceptive and unfair practices in home lending. It imposes additional restrictions and requirements on first-lien loans with spreads exceeding 8 percentage points, subordinate-lien loans with spreads exceeding 10 percentage points, and all loans with points or certain fees in excess of the larger of $510 or 8 percent of the loan. Lenders now must clearly label any loans that trigger HOEPA restrictions, permitting more explicit monitoring of these high-priced loans.

What the Data Can and Cannot Reveal

Today, HMDA statistics are collected to assist with three broad goals: (1) Provide an indication of whether or not financial institutions are serving communities' housing needs; (2) Enable public officials to target public-sector dollars in order to attract private investment to areas where it is needed; (3) Identify potential discriminatory lending practices. Of these, the third goal draws the most public attention.

Until recently, differences in denial rates across various groups provided the best available indication of potential discrimination in the mortgage market. However, with the emergence of new loan products, this limited measure has become less relevant as discrimination is increasingly possible in the pricing of credit, not solely in its denial. By providing new information on loan prices, the 2004 HMDA data present the first opportunity to test for potential discrimination via pricing differentials. However, it is crucial to understand precisely what can and cannot be determined about discrimination from the new information.

The new HMDA data may indicate whether discrimination is occurring through price differentiation, but the data cannot offer definitive proof.

In general, the new HMDA information may provide an indication of whether discrimination is occurring through price differentiation, but it cannot offer definitive proof. There are numerous factors that determine the price of a home loan. While HMDA reporting requirements capture some of these factors, such as the lien status of the property, many more are not identified. For example, some of the most pertinent measures of a borrower's credit risk are not reported under HMDA, including a borrower's credit score and debt-to-income ratio. Additionally, many important factors related to the property are omitted—the ratio of the loan amount to the value of the property and whether home prices in the neighborhood are rising or falling. Further, HMDA does not include information about the lender's costs. While it would be helpful for regulators and the public to have access to these and other pricing factors, when the Federal Reserve Board crafted the HMDA changes in 2002, it had to carefully weigh the benefit of such information with the burden its collection would place on lenders.

Without these additional pricing factors, it is impossible to determine from the HMDA data alone whether lenders are engaged in any type of abusive or discriminatory activity. For example, suppose two borrowers want to buy in the same census tract and have the same approximate level of income, but Borrower A is black and Borrower B is white. Borrower A receives a home

Highlights of the New HMDA Reporting Requirements

	Reporting Requirement →	Applies To
Loan Price	Report the difference, or spread, between the interest rate on the loan and that on a U.S. Treasury security of comparable maturity.	• First-lien loans with a spread of 3 percentage points or more. • Subordinate-lien loans with a spread of 5 percentage points or more.
Lien Status	Indicate whether there is a lien on the loan, and if so, whether it is a first- or subordinate-lien.	• All loans
Type of Structure	Indicate whether the home is • a single family home, • a multi-family home, or • a manufactured home.	• All loans
HOEPA Status	Indicate that the loan is subject to the requirements of the Home Ownership and Equity Protection Act.	• First-liens loans with a spread of 8 percentage points or more. • Subordinate-lien loans with a spread of 10 percentage points or more. • Loans with points or certain fees in excess of the larger of $510 or 8 percent of the loan amount.

Other HMDA Changes

In addition to the new disclosure requirements, a number of methodological changes to HMDA reporting will impact year-to-year data comparisons. For example, there are new categories for race and ethnicity, and the definitions for metropolitan and micropolitan areas have been amended to conform with those of the U.S. Office of Management and Budget. For a complete description of the changes that affect the 2004 HMDA data, please visit the Federal Reserve System's web site at **www.federalreserve.gov.**

purchase loan with less favorable terms than Borrower B, that is, the spread reported for Borrower A is larger. Using HMDA data, a comparison of these two borrowers might suggest that racial discrimination is responsible for the difference in the price of their home loans. However, further examination reveals that Borrower A has a lower credit score and a higher debt-to-income ratio than Borrower B and wants to buy a home in a portion of the census tract where prices are falling. With this new information, the lender's decision looks rational, not discriminatory.

Notwithstanding the limitations, the data do provide an initial screening mechanism for the presence of discrimination in the mortgage market. When a particular pattern of pricing differences shows up in the HMDA data for particular lenders, loan products, or geographic regions, regulators can decide if the matter warrants further investigation. If so, they can review actual loan applications, which include many of the pricing factors discussed above, to try to determine the cause of the price differential. More generally, the new data enable regulators to monitor overall trends in loan pricing within the subprime market.

In September, the Federal Reserve Board of Governors will release its first report on the new HMDA data. The report will summarize loan activity for every mortgage lender in each metropolitan area in which the lender does business. Separately, the report will provide an aggregate profile of lending in each metropolitan area. Finally, the data will be totaled by lender, race, and ethnicity for the nation as a whole. The report will provide the first comprehensive picture of mortgage lending in the nation using the new data and will permit comparisons both within and between geographic regions. In addition, the Board plans to undertake an extensive analysis of the new pricing data, intended to raise questions and considerations that may lead to further research, changes in the regulation, or public policy initiatives.

Implications for the Mortgage Industry

Overall, the public disclosure of home loan pricing data has the potential to impact the mortgage industry in the following ways:

1. Improve oversight by regulators.

Regulatory agencies can now more easily detect and analyze patterns of price differentials for different lenders, product types, geographic areas, and racial and ethnic groups. Equipped with this screening mechanism, regulators can rule out discrimination in some instances and efficiently target their resources toward cases of potential discrimination, thereby aiding the overall enforcement of fair-lending laws.

2. Increase accountability for lenders.

Public access to pricing data on subprime loans gives lenders an added incentive to strengthen their internal review process in order to detect any potential price discrimination. Moreover, if an organization's HMDA data suggest potential problems, the institution will want to investigate and correct any problems in order to avoid bad publicity.

3. Enhance understanding of communities' credit needs.

Consumer advocacy groups may confront various lenders about particular pricing patterns revealed in the data, requiring institutions to respond in greater detail about how lending decisions are made. Discussions about particular credit risks associated with a population or geographic area may ensue, helping both consumer groups and lending institutions to better understand the barriers to credit availability in certain neighborhoods.

4. Encourage competition in the subprime market.

By identifying areas with a high concentration of high-cost loans, the new data may entice lenders to enter these markets. Enhanced competition in these areas may increase the availability of credit and weed out overpriced loans.

Responsive Regulation

The 2002 changes to HMDA reflect regulators' latest response to the public's ever evolving concerns about equity and efficiency in the market for housing credit. The new data will enhance understanding of the nation's mortgage lending industry and offer a first look at pricing practices in the subprime market. It will still not be possible to answer all questions about the presence of discrimination in the mortgage market, but the new data will offer a starting point to identify pricing patterns that deserve further scrutiny. In the coming months and years, analysis of the new data will raise questions, invite conversation, inspire research, and shape public policy that will further the goal of fair and equal access to credit for housing.

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John Bassett

President, Clark University

Campus and Community Collaboration

Photographs by Mamie Marcuss, Federal Reserve Bank of Boston.

In the 1980s, Clark University in Worcester, Massachusetts, had a choice. It could turn its geographic focus toward Park Avenue, expanding its campus westward toward Worcester's more prosperous neighborhoods, or it could continue to invest its future in the distressed Main South community. Clark chose the latter and joined the neighborhood in a substantial revitalization effort. The resulting University Park Partnership is today a national model of successful university/community collaboration. Communities & Banking *talked with Clark's president, John Bassett, about the project.*

C&B: President Bassett, what drew you to Clark University in 2000?

Bassett: Clark is a small, rather unusual, university. Though much like a liberal arts college, it has nine Ph.D.

programs and was originally a graduate research university. I was attracted to this reputation, the school's history, and the chemistry of the campus. Secondly, having lived most of my life in cities, I was interested in Clark's work in the inner-city neighborhood of Main South.

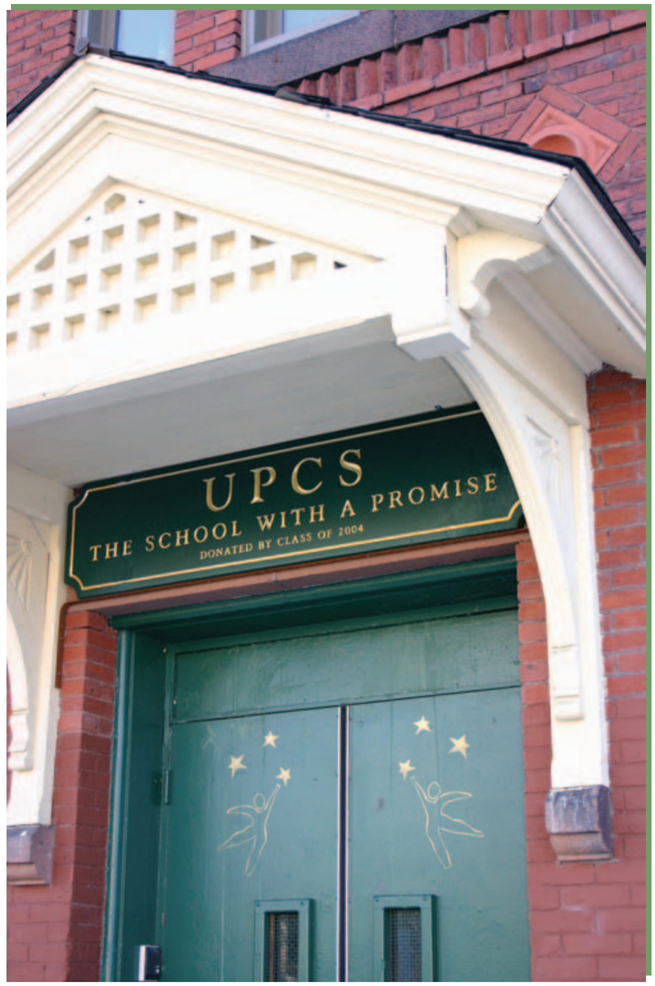
C&B: What is the Main South community like?

Bassett: Main South was at one time a middle- to upper-middle-class neighborhood. But, after World War II, like many of New England's mill towns, Worcester began to deteriorate. Families moved to the suburbs. Companies sold out. Jobs left the city. By the 1980s, Main South was in pretty bad shape. Its old industrial sites had become brown fields, and the community was a center of crime in the city, with rampant drug activity and prostitution. Its residents were among the city's poorest, and unemployment was widespread.

C&B: I imagine that the University's location in a marginally safe neighborhood created tension for students, faculty, and school staff.

Bassett: Absolutely, and Clark knew it had to do something about it. In the early 1980s, most urban universities were handling similar situations by building bigger fences to keep "those people out." Clark became one of the first to try something new. Dick Traina, president at that time, was approached by SeedCo, an organization that was trying to build partnerships between institutions and neighborhoods. SeedCo asked Clark, "How would you like to partner with the neighbors and rebuild the community together?" We agreed to try, and the University Park Partnership was born.

C&B: How has the partnership tackled reviving the neighborhood?



Bassett: We started by rebuilding the University Park neighborhood, just across Main Street from our campus. The Main South Community Development Corporation was formed, and Clark provided unsecured loans for new housing construction and rehabilitation. So far, we've created 220 new housing units in University Park, and we are adding 80 more units just to the north in the new Kilby-Gardner project. Clark has also offered subsidized down payments to its faculty and staff members to encourage them to move into Main South, and we have brought the president's house back into the neighborhood.

C&B: Where has the funding for the effort come from? Has the university put up all of the money?

Bassett: The university has contributed $8 to $10 million towards the effort. For the bulk of the funding, however, Clark has used its financial expertise to help leverage $75 million in federal, state, local, and private dollars.

C&B: One of Clark's mottos is "Challenge convention and change the world." Is Clark's decision to work with the community related to the school's mission?

Bassett: Yes, it is directly linked to what I call our philosophy of engagement—we want our students and faculty to make a difference in people's lives whether through research, service to others, or work in the community. But beyond our philosophy of engagement, our relationship with the community has become part of our identity, and we have begun to ask ourselves, "How does Clark enfold this work within its curriculum?" We want people to start thinking about Clark as a premier place to study community planning, urban development, and inner-city education.

C&B: Can you give an example of how this is happening?

Bassett: Sure. The Jacob Hiatt Center for Urban Education integrates our education curriculum and faculty research with our work in Main South. Focused on the problems of public education in American cities, the Center provides professional development for

teachers, involves educators in research, and will soon run an urban education institute using the University Park Campus School as a demonstration laboratory.

C&B: The University Park Campus School is the public school that Clark helped to establish in Main South.

Bassett: Yes. It is really an amazing story. UPCS is one of the only places that has taken an at-risk population and shown that it can succeed.

C&B: How did Clark get into the secondary school business?

Bassett: In the mid 1990s, the Superintendent of Worcester Public Schools got together with President Traina, and they started brainstorming. What if we could start a high school from scratch with the principles that we believe are important for education: a small school, high academic expectations, professional development for teachers, and family involvement? They started to lay things out and eventually got buy-in from the teachers union, the city, and Clark's faculty and administration. They renovated a tumble down elementary school on Freeland Street and opened the UPCS in September of 1996.

"Challenge convention and change the world" is a Clark University motto.

C&B: Today, the school is viewed as an exemplary model of urban education, and as you mentioned, will soon be used as a demonstration laboratory. What makes the UPCS stand out?

Bassett: You walk in, and it's just electric. This is what learning is supposed to be. Seventy percent of the kids are eligible for free lunch. Sixty percent of them do not speak English at home. Fifty percent enter the seventh grade with a third grade reading level. Yet, nobody has ever failed the English part of the MCAS (Massachusetts Comprehensive Assessment System) exam. One key to this success is intense literacy training in seventh and eighth grade and by ninth grade, a curriculum as rigorous as anything you would find at Exeter or Andover. Normally, two-thirds of the kids in this neighborhood drop out of high school, but every UPCS graduate has been accepted to college. One had a full scholarship to Brown, others to Tufts, Boston College, and Georgetown. Clark has admitted four each year.

C&B: I can see why Clark would be an attractive option for these students, given the University's commitment to providing full tuition scholarships to admitted neighborhood kids. I've read that Clark is the only university in the country with this type of financial aid program. Is this true?

Bassett: I'm not sure. The only thing I know is that when I speak at another college about our neighborhood program and I mention the scholarships, the hosting president starts squirming in his seat. All kidding aside, the scholarships apply not just to our UPCS students but to all neighborhood kids as long as they grow up in Main South and are admitted to the school on merit. Over the last decade, 25 to 30 students have attended Clark with these scholarships. In combination with a graduate scholarship program for Worcester teachers, Clark has offered about $5 million in scholarship aid to residents of Worcester and the community.

C&B: That's a major investment in human capital. Back to the UPCS for a moment, some critics have said that the school is only successful because a major university has contributed money and resources to it. How valid is this claim?

Bassett: That's a great question. On the one hand, it is not fair to say that we have poured money into the school. While the project received some start-up funding, UPCS is a public school funded by the city's public school budget. The school's per pupil spending ratio is no different from that of the rest of the city. On the other hand, the college has been involved with the school in numerous ways. We have made our library and gym accessible to UPCS students. Clark's students and faculty have given volunteer time. Plus, I have to think that some of the students' new ambition is inspired by walking through the Clark campus everyday to get to school. In general, I think the criticisms suggest a need for more experimentation. The UPCS will be a long term success only if we learn things from it that can be replicated elsewhere.

C&B: From the UPCS to the new Kilby-Gardner project, the University Park Partnership has been running experiments in Main South for nearly two decades. In this time, has the Main South community improved?

Bassett: The neighborhood has definitely improved and continues to improve. The new challenge is to find that fine line between deterioration and gentrification. We want to make the neighborhood nice, but we also want to make sure that the people who live here can afford to stay here. It is a very hard line to walk.

C&B: How has Clark benefited from the changes in the neighborhood?

Bassett: From a self-interested point of view, the greatest benefit to Clark has been the stabilization of a neighborhood that had been a negative factor in recruiting. We have turned that negative, at the very least, into a neutral. The second benefit has been the positive visibility that Clark has gained from the projects. But visibility can be ephemeral; you need to keep it going.

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C&B: It certainly seems as if it has been a win-win for both the university and the neighborhood. Were there any challenges along the way?

Bassett: Collaborations and partnerships are not always easy things, and there were some glitches. The biggest problems revolved around building trust with the neighbors. The community did not trust Clark at first, and it did not help when the newspapers printed the headline: "Clark's Plan to Rebuild Main South." We had to work to defend ourselves against the image of an imperialist university and really reach out to the neighbors. Additionally, there were times when funding for a project arrived more slowly than we wanted it to.

C&B: Given these challenges, as well as the partnership's successes, what words of advice would you give to a university that was thinking about partnering with its community?

Bassett: I would say to make sure that it is a partnership and not a paternalistic relationship. That way, you build better trust with your neighbors. Secondly, use the expertise that you have at the university and leverage your resources. Thirdly, the point person on the community partnership project must have direct access to the president to prevent holdups in communication.

C&B: How about the community? What would you say to a neighborhood that is looking to build a better relationship with its resident university?

Bassett: First, I would say, remember that the university is not a cash cow. It is a nonprofit organization that has to make its books balance. Universities are willing to use resources to improve their communities, but all funding cannot come out of the college's pocket. I would also remind the community that making sure its college or university continues to be excellent will help the community more than anything else. You will attract more positive attention for your city if you are the home of an excellent school than if you are the home of a weak school.

C&B: Good advice for both camps. As for Clark and Main South, what do the next 20 years look like?

Bassett: Main South is still a work in progress, and we are committed to finishing it. With the partnership moving along so well, however, I can turn some of my attention to the city of Worcester. I believe Worcester has more assets than any other city of its size in the Northeast, but its public image is weak and good jobs are scarce. Recently, Clark joined the city's nine other colleges and universities, the business community, and the city government to create the Worcester University Partnership to improve economic development in the city. This new work will impact Main South. If there are not good jobs in Worcester for Main South residents, the neighborhood will deteriorate again. Over the next 20 years, Clark will continue to be a partner in the rebuilding of our neighborhood, but we will also take a larger interest in creating a healthy Worcester.

Inside this issue:

Made in Vermont: Protecting the Rural Working Landscape

Cheesemakers at Thistle Hill Farm in North Pomfret, Vermont.
Photograph by Kindra Klineff, courtesy of Vermont Department of Tourism and Marketing.

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