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Building
Sustainable
Communities
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An Education Database Helps Policymakers
Immigrant Skin Color and Pay
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Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

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Cover illustration: Kirk Lyttle

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Building *Sustainable* Communities

by Joe Vaughan
Local Initiatives Support Corporation

Illustration: Kirk Lyttle

Looking out from the steps of the Hope Street Family Resource Center in Woonsocket, Rhode Island, you see a bustling playground, well-maintained homes, and neighborhood youth painting a mural or on their way to after-school tutoring. The building behind you, a stately old schoolhouse, has been renovated to house Connecting for Children and Families and 110 affordable child-care slots.

The old schoolhouse in this mill town has witnessed many changes over the years: manufacturing that came and went, buildings that were abandoned, rising crime, pervasive hopelessness.[1] Today the Hope Street Family Resource Center is the literal and figurative crown jewel of a community's revitalization.

Travel 20 minutes to Providence's Olneyville neighborhood, and the story is the same. Here a bike path winds along the Woonasquatucket River and over the gentle hills of a new park. Not long ago the land was strewn with trash, a haven for prostitution and drug use, a place children were sternly warned to avoid. Today it is lined with brightly painted apartments and homes built by Olneyville Housing Corporation (OHC). The playground is full—while residents work in the community garden and youth leaders teach neighborhood children about bike and canoe safety.

Woonsocket and Olneyville have much in common, including strong community development corporations (CDCs) with established track records of successfully implementing a comprehensive community development agenda. With each success, that agenda grows to include a broader array of strategies for tackling persistent poverty, poor educational outcomes, and lack of economic opportunity.

Each CDC has a history of leadership in collaborating and partnering with residents and community organizations, making them ideal candidates for a Local Initiatives Support Corporation (LISC) initiative called Sustainable Communities.

A New Model for Comprehensive Community Development

Since 1991, the Rhode Island LISC office has helped community organizations such

A bike ride in the Olneyville section of Providence. Photograph: Olneyville Housing Corporation

as these to develop stable neighborhoods. At first, the efforts focused on supporting CDCs as they worked to stem neighborhood disinvestment and physical decline through construction of affordable housing.

Over time, Rhode Island CDCs, like CDCs nationwide, began to address other issues—deteriorated commercial areas, high crime levels, and a lack of high-quality child-care facilities. They found themselves doing more activities and taking a holistic approach to supporting communities. To the core business of affordable housing development, they added youth programs, child care, commercial revitalization, and more. But as programs grew, so did stresses on resources and staff.

As Jim Capraro of Chicago's Greater Southwest Development Corporation says, "CDCs were becoming a one-man band … Sure, all the notes get played, but it doesn't always sound too good." What was needed was a new approach, one that marshaled a community's resources behind a common vision and got everyone playing together.

Students enjoy the art center in Woonsocket, Rhode Island. Photograph: Woonsocket Neighborhood Development Corporation

Sustainable Communities, modeled on Chicago's New Communities Program, is one successful strategy. Starting in 1999, Chicago LISC and the John D. and Catherine T. MacArthur Foundation built a comprehensive revitalization initiative using resident-led, planning-based projects and programs to improve the quality of life in targeted neighborhoods.[2]

Then in 2007, Rhode Island LISC was identified as one of 10 LISC sites where conditions looked ripe for replication of the New Communities model. While still responsible for raising funds locally, the 10 sites now receive technical support and some implementation grants. Five core program objectives define the goals:

- Expanding investment in housing and other real estate—In Rhode Island that means continuing to invest in the revitalization projects of Olneyville Housing Corporation and NeighborWorks Blackstone River Valley (NBRV);
- Increasing family income and wealth—ensuring that the efforts result in improved quality of life;
- Stimulating economic activity, locally and regionally—connecting targeted neighborhoods and their residents to the regional economy and beyond;
- Improving residents' access to education, training, and family services—including health care and lifelong learning opportunities; and
- Fostering livable, safe, and healthy environments—including safe streets, recreational amenities, community art programs, and environmentally sound buildings.

Rhode Island LISC selected Olneyville and Woonsocket as pilot sites on the basis of their significant track records. Representatives of the groups traveled to Chicago to study the program there.

The visit helped leaders identify core activities: investing in an anchor agency and in a community-driven, comprehensive quality-of-life plan (a *community contract*); giving financial support to a relatively easy *early action project* to build momentum and garner community buy-in;

making a multiyear commitment to support the projects and programs that the community identifies as priorities; emphasizing outcomes and awarding investment capital on a competitive basis; providing communications support so as to spread the local story and thus attract more resources; and building on lessons learned.

When groups like OHC and NBRV agree to act as lead agencies for a program like that, they understand that they are committing to a process that will profoundly affect their organizations and communities. For its part, LISC recognizes that other regions will differ from Chicago and that local conditions will require the organization to be flexible. LISC's role is mainly to be supportive and to provide financial and technical assistance.

Implementation

The Rhode Island groups worked together to mold the Chicago model into a comprehensive community development initiative tailored to local needs.

In Olneyville and Woonsocket, the process started with the hiring of two full-time Sustainable Communities coordinators (employees of the lead agencies) whose primary responsibility was to build neighborhood coalitions and advance the process. After they assembled a core group of committed residents and neighborhood stakeholders, LISC provided trainings and helped people to identify approximately 100 leaders in each community. These leaders included directors of nonprofits, school principals, business people, clergymen, and activists. They will be interviewed to identify the community's SWOT (strengths, weaknesses, opportunities, and threats).

The first goal of the interviews will be to ensure that the lead agency has a deep understanding of neighborhood issues. But equally important, engaging a diverse group of leaders and listening to their concerns ensures that the process will reflect the real needs and wants of the community. That in turn should trigger a cascading effect as enlightened self-interest motivates key stakeholders to enlist their own constituencies and resources.

Once the interviews are complete, CDC staff and a LISC planning consultant will collate the data and report back to the community. When Chicago's Greater Southwest Development Corporation made its report, it invited the 100 community leaders to a neighborhood meeting. As many as 140 people responded to the invitation, and more than 250 attended. The 100 community leaders had brought others in, moving the process moved forward.

Olneyville Housing Corporation's Riverside Gateway. Photograph: Olneyville Housing Corporation

Attendees in Rhode Island are now forming working groups to find solutions to the problems identified. Community residents and leaders will work together to forge a community contract. The contract will differ from a traditional planning document in enumerating solutions only if there is a group or agency that agrees to be held accountable for implementation. The community contract is explicitly not a wish list but an agreement between committed parties to follow through on achievable and practical programs for the common good. The active outreach will mean that the organizations and individuals with the capacity to make those commitments will already be involved.

Looking Forward

Rhode Island LISC is making a multiyear commitment to provide financial and technical support for the implementation of the projects and programs identified in each community contract. With its sophisticated "community ask," the community contract presents a powerful case to donors and will help LISC in its efforts to attract additional support.

In the short term, the organization is committing a pool of money to provide fast and responsive support to small-scale projects or programs identified early on. The lead agencies will distribute early-action grants on a competitive basis to projects identified by the community, thus demonstrating a financial commitment that should build excitement for the process.

Adopting the Sustainable Communities strategy challenges LISC and its partners to evolve their approach to community development. They will need to expand their networks, forge new partnerships, and harness the power of communities to work together. Intentionally and strategically building positive connections and focusing the available resources will make neighborhoods stronger and more resilient, trigger large-scale improvements, and create safe, healthy, and sustainable communities.

Joe Vaughan *is the communications and development coordinator for the Providence office of Local Initiatives Support Corporation, a national nonprofit that helps community residents transform distressed neighborhoods.*

Endnotes

[1] See "Thinking Holistically: Woonsocket Neighborhood Development Corporation," *Communities & Banking* 16, no. 4 (fall 2005): 14-17, http://www.bos.frb.org/commdev/c&b/2005/fall/woonsocket.pdf.

[2] See http://www.newcommunities.org.

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Using Financial Innovation to Support Savers:

From Coercion to Excitement

by Peter Tufano, Harvard Business School,
and Daniel Schneider, Princeton University

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American families today are finding it hard to save, and it is no surprise that household saving is low.[1] Between 2005 and 2008, the personal savings rate hovered below 1 percent, a 50-year nadir.[2] Although the rate rose in the first quarters of 2008—and experts debate the proper way to measure that rate—it is clear that many Americans have saved little. In 2004, for example, 10 percent of households had less than $100 in financial assets.[3]

The Power of Innovations

Some observers are pessimistic about the potential to address this problem. To them it seems as though limited profit opportunities will restrain private entities from helping people save and high costs will restrain government action. But such concerns do not close the book on policy options. The recent economic crisis has prompted households to revisit savings behavior, at least temporarily, and we cast a wide net to identify savings innovations that work, laying out a range of options currently offered by stakeholders in the United States and abroad. These solutions can be distinguished as either *process* or *product* innovations.

Process Innovations

Process innovations change the ability or motivation to save. At one extreme are measures that take away the savings decision, either through outright transfers or through government-mandated savings. One could say, for example, that by mandating payroll tax deductions and contributions, Social Security coerces individual savings.

The United Kingdom's Child Trust Fund (CTF) is an involuntary program with a different approach in that it gives rather than mandates savings. Since 2005, every British child has received a grant of at least £250 at birth and will receive subsequent grants at age 7.[4] U.S. advocates hope Congress will create a similar system under ASPIRE (America Saving for Personal Investment Retirement and Education) Act.

Other process innovations leave the savings decision in consumers' hands but change the process with respect to the time and place of savings. One such set of strategies attempts to make it hard *not* to save. For example, employers may encourage retirement savings by having participation be the default setting for new employees' 401(k) enrollment. Those who do not wish to save must opt out.

A related strategy bundles saving with something consumers already do, such as shopping, using a credit or debit card, or borrowing. The North Carolina State Employees Credit Union (NCSECU), for example, offers an affordable payday-loan alternative called the Salary Advance Loan (SALO). In exchange for a low interest rate, borrowers are required to deposit 5 percent of each loan into a savings account. The bundling of lending and saving meets customers' short-term needs while helping them to accumulate sufficient savings to break the payday loan cycle.[5] Products like UPromise and Bank of America's Keep the Change are also examples of bundling.[6]

Other innovations require a conscious, unbundled savings decision but reduce impediments and make it easier to save—for example, by making savings products available when and where people can save, and by opening up convenient distribution channels like workplaces and retail stores. Tax preparation providers are also good distribution channels and help people save some of the more than $129 billion in tax refunds distributed by the Internal Revenue Service annually to families with adjusted gross incomes (AGI) of less than $40,000.[7]

Since 2005, every British child has received a grant of at least £250 at birth and will receive subsequent grants at age 7.

Spurred by small pilot programs at Volunteer Income Tax Assistance (VITA) sites and H&R Block offices, the IRS in 2007 introduced Form 8888 allowing filers to make a direct deposit of refunds into more than one account. The seemingly minor change allows filers to both mentally and financially split their refunds between spending and saving purposes.

However, because some low-income refund recipients lack a bank account, a simple savings option with a low minimum initial deposit is also needed. U.S. Savings Bonds fit that bill: they have no fees, are low-risk, earn competitive inflation-indexed rates, have no credit- or debit-check requirement, and cost as little as $25. As recently as the 1960s they were easily available at tax time, and making them available once again on the tax form would help people save.[8] Experiments conducted by the nonprofit D2D Fund Inc., H&R Block, and VITA sites show substantial promise for offering U.S. Savings Bonds again.[9]

Product Innovations

Product innovations reengineer the cost-benefit calculation of saving by adding financial, social, or psychological incentives. Many of the ways in which U.S. policy provides financial incentives for investing are familiar, including the mortgage-interest tax deduction, "529" plans that support education, and 401(k) and IRA accounts.

Additionally, individual development accounts (IDAs) encourage savings among the poor by providing grants that match what the savers deposit in bank accounts (so long as the funds are used for home ownership, education, or business development). IDAs, however, have had mixed success. Most participants accumulate only modest savings, and the programs remain small, leading to high per-account administration costs. More efficient ways to administer IDAs, such as the OnLine IDA developed by D2D Fund and Sungard, show potential. Other efficient models would likely emerge if large-scale funding were available.

Financial mutuals are products that leverage the social power of groups to support saving. They take different forms but share a fundamental behavioral logic featuring peer pressure and peer support. Although the most prominent form is the microfinance lending circle popularized by Muhammad Yunus, the rotating savings and credit associations (ROSCAs) operate on similar principles around the world. Members meet regularly, and each member contributes funds that are then aggregated and presented to one member. The meetings continue until everyone has been awarded the pooled sums. Social bonds encourage participation and keep defaults down. In developed countries, mutuals are seen among immigrant entrepreneurs.

Finally, prize-linked investment products manipulate psychological incentives to increase saving. First introduced in the United Kingdom in 1694, prize-linked savings products have now settled on a fairly simple construction. Investors purchase a savings product with no risk of losing the principal; they either forfeit interest payments or accept reduced ones in exchange for the chance to win large prizes allocated randomly among account holders. Prize-linked savings products have been offered in

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many countries. In Britain, the "Premium Bond" is available in denominations of £1 with a minimum purchase of £100. Each bond represents a chance to win a prize, with drawings held monthly and roughly 1.2 million prizes distributed at each drawing (including two grand prizes of £1 million). Ownership of the bonds is widespread, with £31.1 billion outstanding held by one-quarter of British households.[10]

From Ideas to Action

All too often, we focus on one type of savings (usually long-horizon goals like retirement or education) or one type of program (such as tax credits or a default scheme) without acknowledging the breadth of families' savings goals or the range of available mechanisms. A consideration of the alternatives quickly leads to the observation that some solutions are best suited to government action (savings bonds at tax time), others to the private sector (bundled or point-of-sale savings), and others to social groups or nongovernmental organizations (social network savings). Additionally, some solutions might appeal to "analytic types" (inflation-indexed savings bonds) and others to savers with different preferences (prize-linked savings.) Some might require government subsidies, while others create profitable private-sector activities.

Virtually all the examples cited here are being used today. Although many are not fully scaled up, they could be. Companies that have not previously served low- and moderate-income families may lack basic information about that demographic, and many financial services firms may be better positioned for delivery than for innovation. However, companies can effectively tackle such problems through partnerships. The Center for Financial Services Innovation (an affiliate of Chicago-based ShoreBank) and D2D Fund are among the groups that work on new-product development and also partner with for-profit entities.

Government initiatives need not cost billions. Important innovations like refund splitting, default 401(k) enrollment, or offering savings bonds at tax time require only minor changes to existing regulations and laws. The only surprise is that many of the newest savings innovations are already tried and true.

Peter Tufano *is Sylvan C. Coleman Professor of Financial Management and the senior associate dean for planning and university affairs at Harvard Business School.* **Daniel Schneider** *is a graduate student in sociology at Princeton University.*

Endnotes

[1] A longer version of this article was commissioned and funded by The National Poverty Center, with funding from the Office of the Assistant Secretary for Planning and Evaluation (ASPE) and the Ford Foundation. See *Insufficient Funds: Savings, Assets, Credit, and Banking Among Low-Income Households*, Rebecca Blank and Michael Barr, eds. (New York: Russell Sage Foundation, 2009).

[2] "Personal Saving Rate," Bureau of Economic Analysis, 2008.

[3] Authors' calculations from the 2004 Survey of Consumer Finances.

[4] Lisa Mensah, Rachel Schneider, and Magda Aboulfadi, *The Child Trust Fund: A Universal Long-Term Saving Policy* (New York: The Aspen Institute Initiative on Financial Security, 2004).

[5] *North Carolina State Employees Credit Union Annual Report*, 2006.

[6] See http://www.upromise.com and http://www.bankofamerica.com/promos/jump/ktc/index.cfm?&statecheck=MA.

[7] Internal Revenue Service, "Table 3.3 All Returns: Tax Liability, Tax Credits, and Tax Payments, by Size of Adjusted Gross Income, Tax Year 2006," 2008.

[8] Peter Tufano and Daniel Schneider, "Reinventing Savings Bonds," *Tax Notes* (October 31, 2005): 1-20.

[9] See Peter Tufano, "Just Keep My Money! Supporting Tax Time Savings with US Savings Bonds" (working paper, Harvard Business School, Boston, 2008); and Jeff Zinsmeyer, "The Nest Egg: Tax-Time Savings for Lower-Income Households," *Communities & Banking* 20, number 1 (winter 2009): 3-4. D2D Fund Inc., formerly Doorways to Dreams, was founded by Peter Tufano to test and promote savings innovations for lower-income consumers.

[10] Peter Tufano, "Saving Whilst Gambling: An Empirical Analysis of U.K. Premium Bonds," *The American Economic Review* 98, no. 2 (2008): 321-326.

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MicroCredit-NH Boosts North Country Economy

by Tara Bishop
New Hampshire Community Loan Fund

Coös County Entrepreneurial Program participant Kristina von Dohrmann, owner of Otokahe Farm in Jefferson, New Hampshire. Photograph: Geoff Forester

Coös County, the northernmost of New Hampshire's 10 counties, covers 20 percent of the state but has the lowest population of any New Hampshire county.

Once a booming center of paper mills, Coös has lost most of that industry because of technological advances and the shifting of jobs overseas.[1] Additionally, average hourly wages across all occupations are significantly lower than in neighboring counties, and employment growth is projected to be the lowest among the

“Interacting with other entrepreneurs in Coös County was such a mind-opener,” DeLalla says. “It gave me a lot of confidence … I feel more prepared and wouldn’t have known anything was missing in my business if I hadn’t gone through CCEP.”

state’s counties through 2014.[2] This puts Coös County residents at a disadvantage for employment opportunities.

Concerned, New Hampshire’s business, community, and government leaders are taking an interest in creating solutions for the North Country economy, and MicroCredit-NH, a statewide business development program of the nonprofit New Hampshire Community Loan Fund, has launched an initiative targeting self-employment. The Coös County Entrepreneurial Program (CCEP) strengthens microbusinesses and enhances the quality of jobs in the area.[3]

Self-Employment Solutions

Behind CCEP is MicroCredit-NH, which works to increase the income and economic stability of microbusinesses statewide by providing business education, loans of up to $15,000 (smaller than most banks offer) and networking opportunities. The program serves both start-up and existing businesses.

In times of economic distress, self-employment is often the answer. When the Groveton Paperboard mill closed in 2006, MicroCredit-NH’s North Country manager, Joyce Presby, partnered with New Hampshire Workforce Assistance to provide self-employment counseling. Seven former mill employees formed a local MicroCredit-NH business group and started their own companies, including a real estate agency, a home-design business, a variety store, and a plumbing service.

The success of that group, coupled with Coös County’s strong self-employment sector, gave MicroCredit-NH confidence that the CCEP would meet a need.[4]

The CCEP is free to 12 different entrepreneurs annually who have been in business for at least six months and are dedicated to growing. The class meets one full day per month. Participants must reside in or have a business in Coös County—or an immediately neighboring New Hampshire community. Applications include outlines of business strengths and challenges, 12 months of financial data, business profiles, cover letters outlining the expected benefits of participation, and existing business plans, if available. Applicants who are not selected receive opportunities to access other MicroCredit-NH services and are given feedback on how to improve their plans and reapply the next year.[5]

The CCEP has strengthened MicroCredit-NH’s work and has filled a void in direct services available to area microbusiness owners, since most economic development programs assist larger businesses.

Participants and Curriculum

The 2008 CCEP class consisted of MicroCredit-NH members, including a realtor, an author, a bookkeeper, a weaving shop owner, a pet trainer, a quilter, a house painter, a web designer, a used furniture dealer, a seller of New England products, a beef farmer, and a retail farmer. An aggressive public relations and marketing campaign is recruiting a mixture of MicroCredit-NH members and nonmembers for future classes.

Participants must create and implement strategic business plans for growth by program completion. The curriculum includes both role-model entrepreneurs and business professionals to provide business and leadership skills; stipends of up to $3,000 per business; peer support and feedback; and insight on integrating mission and vision into all business operations. Participants also receive access to loans of up to $15,000 through the general MicroCredit-NH program. Additionally, they may set up income-based *individual development accounts*, or IDAs, which use both federal funds and donated funds from private and charitable organizations to match what individuals save—up to $2,000.

Teaching Approach

Adult group learning methods and interactive team exercises help CCEP participants improve their business skills. Specific lessons include budgeting, cash flow, financial analysis, developing financial goals, strategic business planning, conducting primary- and secondary-market research, developing marketing strategies and tactical plans, aligning personal values and vision with businesses, understanding and applying SWOT analysis (Strengths, Weaknesses, Opportunities, Threats), and assessing operational and future-staffing needs.

David Hamel, MicroCredit-NH director, says that as the 2008 CCEP progressed, there were significant changes in the participants’ analytical and critical thinking skills, especially with regard to business opportunity assessment and future planning. And he adds, “We saw many participants engage in projects that at the beginning of the program had been out of their comfort zones. These included market research (calling the Boston Public Library for industry data,

Coös County Entrepreneurial Program participants engage in a group learning activity.
Photograph: MicroCredit-NH

for instance), customer surveys, repricing, tracking sales sources, and developing more precise budgets."

Lessons Learned

The 2008 CCEP class enjoyed interactive conversations with Brian Emerson, owner of Emerson's Outdoor Outfitters in Groveton, New Hampshire; David Eyler, owner of Miller's Café and Bakery in Littleton; and Kevin Johnson, owner of the Gale River Motel in Franconia. They welcomed these successful local entrepreneurs' advice about growing to scale, paying attention to financials, and finding effective marketing techniques. Additional speakers are scheduled for the 2009 class.

One lesson learned in 2008 related to helping participants with writing strategic business plans. The class took time off in July and August to focus on the task and to prepare their presentations for the September and October meetings. Subsequent feedback revealed that participants would have preferred to meet during the summer months for peer feedback and assistance on their plans, so the 2009 class will meet throughout the summer. Participants also suggested revisiting various topics once or twice over the duration of the course to deepen their understanding.

Another insight involved the $3,000 stipends. CCEP applications require an explanation of how the money will be utilized, and the class of 2008 received their stipend halfway through the program. But although they spent it on useful purchases like inventory, marketing collateral, equipment, and trade-show travel, MicroCredit-NH determined that participants would benefit more from receiving money at program completion when their ideas about implementing business plans would be clearer.

Overall, participants have been enthusiastic. Vicki DeLalla, owner of CNW Creations and Weaving Studio LLC in North Stratford, was delighted that she could redesign the layout of her shop, implement a marketing schedule for her customer mailings and newspaper advertisements, and obtain a state tourism road sign. She had not known about the signs until guest speaker Emerson mentioned them. She used a portion of her stipend to pay for her application and her IDA matched savings to purchase the sign itself.

"Interacting with other entrepreneurs in Coös County was such a mind-opener," DeLalla says. "It gave me a lot of confidence … I feel more prepared and wouldn't have known anything was missing in my business if I hadn't gone through CCEP."

The first Coös County Entrepreneurial Program class. Photograph: MicroCredit-NH

Similarly, Kristina von Dohrmann, owner of Otokahe Farm in Jefferson, realized through her participation that she could add two new revenue streams by selling her cattle stock for breeding and by adding a beef jerky product. Another participant, Cindy Grassi, who owns the Kwiltin' Nook in Colebrook, learned how she could expand her business regionally. The marketing research she completed introduced her to Maine and Rhode Island markets for her quilted products. She also discovered she could sell quilting kits for extra revenue.

The 2008 CCEP class intends to continue meeting. "It has been great to watch these business owners grow," says Joyce Presby. "They have developed a strong bond, and their ideas and thought processes have matured. They are recognizing possibilities they never dreamt of before."

Tara Bishop *is the New Hampshire Community Loan Fund communications and marketing manager. She is based in Concord.*

Endnotes

[1] The first major mill closing occurred in 2001 when American Tissue shut down in Berlin and Gorham. Although 600 of the 850 lost jobs were restored when Fraser Papers bought the mill in 2002, the trend continued. In 2006, the Groveton Paperboard mill closed, along with Fraser Paper's Burgess mill in Berlin, removing 358 jobs from Coös County. In Groveton, 303 jobs were lost with the closing of the Wausau Paper mill. The closings decreased demand for logging and related work. Each Wausau job lost resulted in the loss of 0.977 jobs in related New Hampshire industries. See *County Perspectives: The Groveton Mill Closures* (December 2007), http://www.nh.gov/nhes/elmi/pdfzip/specialpub/CoosCounty3.pdf.

[2] See *New Hampshire Occupational Employment & Wages 2008*, http://www.nh.gov/nhes/elmi/200702oesHTML/Counties/TOC000.htm. For 2004 to 2014 Coös County projections, see *In Brief Employment Projections by Industry and Occupation*, http://www.nh.gov/nhes/elmi/pdfzip/econstat/projections/InBrief/inbrief0414-Coos.pdf.

[3] Microbusinesses, by definition, have no more than five full-time employees. Most banks don't lend the small amounts that microbusinesses seek. MicroCredit-NH lends in amounts from $250 to $15,000. Some banks offer loans as low as $2,500, but applicants must have very good credit. MicroCredit-NH doesn't require credit checks or collateral for loans under $5,000 and instead works to help clients build credit. See http://www.microcreditnh.org.

[4] Currently, more than 3,177 Coös County businesses (88 percent) are microbusinesses. They provide 21 percent of employment. See http://www.microenterpriseworks.org.

[5] The Neil and Louise Tillotson Fund, a New Hampshire Charitable Foundation advised donor fund, funded CCEP for three years. The first group of microbusiness owners finished the course in October 2008; the second began in January 2009. New funding will be sought to continue the program after the three years.

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In Good Times and Bad

Monica Landrum works at the business she and Todd Warfield started with a loan from ACCION USA. Photograph: Rohanna Mertens

Yankee Ingenuity Keeps Microfinance Strong

Credit has been called the grease for the gears of the economy, the oxygen of free enterprise, or as Federal Reserve Chairman Bernanke puts it, the lifeblood of our financial system. But for businesses with five or fewer employees, accessing credit can be difficult. Whether it's because lenders don't handle small loan requests or because borrowers have less-than-perfect credit scores, many of the 22 million microentrepreneurs in America cannot access capital from banks or get appropriate forms of financial training.[1]

by Gina Harman and Matthew Royles
ACCION USA

Fortunately, microenterprise development programs, now entering their third decade, have been able to be both lender and mentor to these smallest of businesses. Their support is especially important today because microenterprises create jobs in bad times as well as good. Consider that in 2002, when the unemployment rate reached an eight-year high, microenterprises created nearly 1 million new jobs.[2] And in 2005, microenterprises represented more than 60 percent of the total number of businesses.

Tweaking the Model

Massachusetts microenterprise development got off the ground in 1990 with Cambridge-based Working Capital Inc. Low- and moderate-income microentrepreneurs were offered Working Capital's technical assistance and microloans of up to $5,000 under the peer-group group model (small groups of individuals assume shared responsibility for one another's loan repayments).[3]

In 1991, ACCION International launched a microenterprise pilot program in Brooklyn, New York, that would become the U.S. ACCION Network. Now operating in 18 cities, it has disbursed nearly a quarter of a billion dollars in microloans, primarily to low- and moderate-income microentrepreneurs. Like Working Capital, ACCION New York began by making microloans to groups. But it ultimately determined that an individual-lending model was better suited to U.S. borrowers, who often resisted peer collateralization, the sharing of sensitive information, and the perceived inequities in loan amounts. The individual model was also seen as doing a better job of preparing borrowers to enter the traditional credit system.

Working Capital arrived at a similar conclusion. It found that peer group networking and mutual support were beneficial, but that participants often resisted the responsibility of managing the loan repayments of others, frequently strangers.[4] By the time Working Capital merged with ACCION USA in 2001, it had already switched to the individual-lending model. The New England program has since disbursed $10 million, which (according to an internal study by The Social Compact and ACCION USA) has supported the employment of 1,467 people and has had a historical repayment rate of better than 91 percent.

Microenterprise loans range in size from $500 to $25,000 and are priced between prime and subprime sources of credit. Interest rates start at 12.5 percent and are capped at 17.5 percent. The higher rates offset the significant costs—including write-offs—associated with even very small loans. For a microlender, a $2,000 loan costs roughly the same to disburse and service as a $50,000 loan. Microlending is also time-intensive because of the diligence required to ensure that loans help and not burden clients. Loan officers spend extra time with each client to ensure payments are manageable and that principal amounts are appropriate. In many cases, loan officers also provide free technical assistance, such as credit-repair advice, to clients and nonclients alike. Even at the above interest rates, no U.S. microenterprise development lender has yet achieved 100 percent self-sufficiency.

That is why innovation and economies of scale are so valued. To control costs, portfolio risk needs to be carefully managed, and it is important to have a flexible but comprehensive underwriting process that includes collecting documentation on clients' cash flow and ability to repay the loan. And to help clients build strong credit and eventually move into prime-rate loans from mainstream institutions, microlenders should report loan repayment to the three major credit-reporting agencies.

Innovations: Striving for Self-Sufficiency

Because the costs associated with operating a microfinance program are so high, a recurring theme among practitioners is the need to find savings through technological innovation. To that end, in 2006 ACCION USA piloted a character- and credit-scoring model. The model facilitated a rapid response by segmenting potential borrowers into three categories, each one associated with a range of interest rates, a maximum loan amount, and the associated documentation needed.

Another innovation to build scale and sustainability was an Internet microlending platform. After ACCION USA launched the first one in 2005, microentrepreneurs anywhere in the United States could apply online, execute promissory notes through an electronic signing system, and receive loan disbursements via an Automated Clearing House (ACH) deposit. The system dramatically reduced the time spent on loan renewals. Since ACCION USA made the first Internet microloan to an East Boston bodega owner in 2005, it has lent money in 45 states and Puerto Rico. Although Internet lending means working remotely, delinquency and write-offs remain in line with the overall portfolio.

Partnerships are a good way to reduce marketing costs and expand a lending footprint. Microlenders may partner with banks to get customer referrals, financial support, or loan capital. Some choose to collaborate with municipalities. Contracting with microenterprise development programs has helped community and economic development departments in cities such as Boston, Somerville, and Lawrence, Massachusetts, to tap federal grant funding for microenterprise development. Community-based groups that work with business owners, women, and immigrants also connect clients with microlenders.

Consider that in 2002, when the unemployment rate reached an eight-year high, microenterprises created nearly 1 million new jobs.

Additionally, large corporations understand the challenge of running a business and may be willing to add economic and community development to their portfolios of socially responsibility investments. In one example, ACCION USA launched a loan fund in partnership with the Boston Beer Company to support New England microentrepreneurs in the food and hospitality industries. Microentrepreneurs who receive loans from the "Samuel Adams Brewing the American Dream Micro-Loan Fund" also receive counseling and mentoring through a financial education program.

Current Challenges

Although, like much of the country, low- and moderate-income microentrepreneurs have struggled in the recession, nonprofits lending to these borrowers generally escape the widespread charge-offs (the value of loans removed from the books and charged against loss reserves) that many subprime lenders have seen. Careful management of risk helps with weathering financial downturns. ACCION USA, for example, maintains a prudent debt-to-net assets ratio of roughly 4:1, and although it saw delinquency grow in 2008, the rate did not exceed manageable levels.

In fact, for ACCION USA, the most visible impact of today's economy has been a decline in loan disbursements from 2007 levels. Prospective borrowers may hold mortgages that are adjustable and subprime or may carry too much credit card debt. A lack of available collateral and reduced cash flow may also make lending to microentrepreneurs problematic.

As a result, technical assistance, coupled with microloans when appropriate, has become increasingly important. In one case, ACCION USA assisted a Boston-area entrepreneur whose business had recently grown from four to 12 employees. With her money tied up in receivables, she was having trouble getting paid, which hurt her cash flow. ACCION USA provided a loan to make payroll and also linked her to pro bono legal help provided by Greater Boston Legal Services.

Countering the Credit Crunch

Federal intervention into the U.S. banking system is helping to relieve the pressure on banks resulting from bad debt. However, in light of the continued challenges facing both banks and borrowers, a resurgence of widely available credit is not a given. Alternative sources of credit, including microlenders, community development financial institutions (CDFIs), and peer-to-peer lenders are likely to play an increasingly important role in financing small businesses both today and in the long term.

Gina Harman *is president and CEO of ACCION USA in Boston, Massachusetts, where* **Matthew Royles** *is associate director of resource development.*

Endnotes

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Store owners Leonardo Clavijo and Leticia Mantilla were able to begin their business with a loan from ACCION USA when no traditional bank would give them a loan. Photograph: Rohanna Mertens

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by Margaret Boasberg and
Barbara Christiansen
The Bridgespan Group

A Nonprofit Chooses a Path to Expansion

When nonprofit leaders ask themselves, "Should we grow?" they open the flood-gates to a host of questions with no easy answers: "Should we add programs, sites, or both?" "What would growth entail for our staff, systems, and existing structure?" "How much new funding would it take to grow, and how could we acquire the funds?"

In 2006, the leadership team at Brockton, Massachusetts-based MY TURN was grappling with questions like those. The approach the team took in choosing a route to increase the organization's impact may be instructive.

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MY TURN Programs at a Glance

- Reconnecting Out-of-School Youth is a program targeting young high-school dropouts, helping them complete their education or find a job through job readiness training, workplace learning, occupational training, or school.
- Connecting to Work focuses on career-bound high school students, helping them build professional and interpersonal skills and providing them with opportunities to explore different careers through partnerships with employers in industries including food service and retail.
- Connecting to College serves in-school students and provides, among other benefits, SAT test preparation, college tours, and workshops on financial aid.

Founded in 1984 to help non-college-bound Brockton High School students make the transition to employment, MY TURN started out in a high school office. Helping seniors learn interview skills and search for jobs were three full-time career specialists and one part-time executive director.

Up until 2006, the organization had grown by *branching*—opening new sites on its own.

The organization's early success fueled growth. MY TURN opened new locations in other small, urban communities with high poverty and high unemployment rates, poor educational outcomes, and numerous youth who lacked work experience and were either not in school or struggling in school. By 2003, the nonprofit was serving more than 1,100 youth annually, ages 14 to 21, in eight small Massachusetts cities, through three program areas. (See "MY TURN Programs at a Glance.")

Repeated successes earned the attention of the Edna McConnell Clark Foundation, which focuses on advancing opportunities for low-income youth (ages 9 to 24) in the United States. In late 2003, EMCF began to work with MY TURN on strategic planning that resulted in a three-year growth plan and a long-term vision. The growth plan called for expanding into six new communities by 2007. It called for new management capacity, set new performance metrics, mapped out ways to improve program quality and assess program effectiveness, and identified the necessary investments. To fund the expansion, MY TURN received $3.1 million (from EMCF, other area foundations, and government) and doubled its annual operating budget to $2.6 million.

By 2006, the organization had achieved all the growth objectives the team had laid out in 2003. It was time to chart the next growth phase. As co-founder and then-executive director Barb Duffy has said, "We needed to reflect on how we had grown, whether anything was lost in that growth, and how we wanted to invest our time, energies, and resources going forward."

Envisioning the Next Stage of Growth

The long-term vision called for MY TURN to be serving 2,500 youth annually by 2010 and thousands more by 2018. But how would it get there? Should it focus on existing locations? Should it expand within Massachusetts or look at neighboring states? Could it pursue several growth trajectories at once? A new planning team worked to understand the effect each choice would have on MY TURN's ability to attract funding, leverage existing assets and stakeholder relationships, advocate for beneficiaries, and recruit managerial talent.

Assessing Where to Grow

Growing locally seemed best. If MY TURN chose a local growth path, it could increase access to local funding. It also could strengthen existing relationships with vendors and schools and reduce costs. For example, costs associated with launching new sites—such as finding space, recruiting staff, and attracting youth—would be lower. It would also be easier to leverage certain fixed costs by, say, sharing instructors across sites.

There was one important caveat. In 2006 more than half of MY TURN's funding came from site contracts with Workforce Investment Boards (WIBs), which grant Workforce Investment Act dollars. Each WIB covers one primary city along with several nearby communities. When MY TURN grows to the extent that it has approximately three case managers in any given WIB area, the WIB often will not grant additional funding—even if only a small fraction of the community has been helped. Expanding locally would probably mean not getting funding for more than three case managers in any WIB area, so the idea felt limiting.

Statewide growth was another option. WIB directors within states communicate regularly. If MY TURN had a strong reputation in multiple WIB areas across Massachusetts, then expanding statewide might lead to increased funding from other WIBs. It also might boost MY TURN's ability to attract talent and to be an advocate for impoverished and unemployed youth on a state government level.

After weighing the risks and benefits, the organization decided to focus mainly on Massachusetts. Between 2007 and 2009 it would a) grow in communities where programs existed, b) then expand to full scale in the six regions where it was already operating, and c) move into one new region.

Assessing How to Grow

The first step in executing a statewide strategy was to identify existing sites/locales that could accommodate an additional case manager without going over the WIB limit.

Next, MY TURN leaders selected potential target communities in regions where the organization already had a presence, and it evaluated them for demographic fit, potential for geographic clustering, and availability of funding. They also assessed communities' interest in MY TURN and the presence of potential partners—career centers, educational and employment outlets, and day-care providers.

Finally, the team considered which model for replication would be best. Up until 2006, the organization had grown by *branching*—opening new sites on its own. That had worked well, enabling the leadership to keep control and to collect performance data. But now the team wondered whether to entrust site opening to others to speed up growth.

Besides the branching model of replication, the team considered the *licensing* and *affiliate* models. The first of those would involve identifying pre-existing 501(c)(3)s to act as

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partners and run all or part of a MY TURN-designed program. The second, replication through affiliating, would mean identifying individuals or organizations that would open new sites under the group's brand but would operate under separate 501(c)(3) status. Ultimately, the team decided that opening branches was still the most compatible model. This approach, the team members believed, would afford rapid-enough growth while allowing MY TURN to control program quality.

Implementation Decisions

Next came implementation. What would be a reasonable expectation for growth over the next three years? The team answered such questions iteratively, first determining ideal growth goals in terms of number of new case managers, programs, communities, and regions; next using a financial model to cost out the goals; and finally making revisions on the basis of the cost information and expected revenues. They settled on increasing the number of case managers from 22 in fiscal year 2006 to 36 in fiscal year 2009.

They also considered the need for additional senior talent to support the growth goals. Additionally, they created a deputy director position and decided to hire an expansion manager and two development personnel. And because the growth goals would require the people in charge of regions to take on more responsibility, the team chose to develop a program to boost these coordinators' management, communication, and leadership skills.

In addition to the branching model of replication, the team considered the *licensing* and *affiliate* models.

The cost of expansion was also important. Approximately $12.7 million would be needed over the next three years (the total cost of running the organization, including the planned expansion). Workforce Investment Act dollars plus previously committed funding were expected to cover $6.6 million. How would MY TURN fill the $6.1 million gap? Given its focus on communities, it decided to work on bringing in additional local and regional funds rather than emphasize national foundation money.

Progress Report

Within the first year, MY TURN was again ahead of schedule. It had received significant new grants from a variety of sources. It also had opened up offices in Rhode Island through a Greater Rhode Island Workforce Partnership grant.

By summer 2008, Barb Duffy, who had led MY TURN through the 2003 and 2006 planning efforts, retired, and Stephen Pratt had been named the executive director.

Reflecting on past growth and looking ahead, Pratt says, "We are focusing on learning from the first stage of growth experiences to determine what a sustainable economic model looks like before continuing to expand. We have consolidated regional operations into four districts, each headed by a regional executive director who will be primarily responsible for raising funds from private foundations and individuals as well as building regional boards. We're confident that in the next year to 18 months, we will have refined this operating model to a point where we can consider new growth opportunities."

Margaret Boasberg *is a partner at Boston-based Bridgespan Group where* **Barbara Christiansen** *is a consultant. Bridgespan is a nonprofit organization helping nonprofits and philanthropy reach their goals.*

Young people gather for MY TURN's Annual Youth College and Career Development Conference. Photograph: MY TURN

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by Joni Hersch
Vanderbilt University

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Immigrant Experience
The Relation between Skin Color and Pay

Prior to the Immigration Act of 1965, immigrants to the United States were primarily from northern and western Europe. Post-1965 immigrants, however, are more often from Asia and Latin America. Most of these more recent immigrants have darker skin color than white U.S. natives and are on average shorter.

To some people, these recent immigrants may look "different" or even "illegal." Indeed, a 1990 U.S. General Accounting Office study found that 5 percent of employers "began a practice, as a result of IRCA (Immigration Control and Reform Act of 1986), not to hire job applicants whose foreign appearance or accent led them to suspect that they might be unauthorized aliens."[1] There is considerable evidence of discriminatory treatment of immigrants in employment and access to housing, and appearance may be a factor that influences how immigrants are treated.

Skin Color and Height Issues

My recent research considers whether some of the most visible aspects of appearance—particularly skin color and height—affect economic outcomes among new legal immigrants to the United States.[2] Using data from the New Immigrant Survey 2003, I find strong evidence that gradation of skin color and height affect wages.

Evidence

The New Immigrant Survey provides a nationally representative sample of 8,573 adult respondents admitted to lawful permanent residence status in 2003. The data are drawn from electronic files compiled by the U.S. government. The survey reports extensive information on individual characteristics that influence individual pay. In addition, it provides interviewer observations of skin color on a detailed scale. The color scale used by the interviewers shows a series of 10 hands with color increasing in darkness.

My research shows that immigrants with darker skin color have lower wages than comparable immigrants with lighter skin color, even when a wide array of personal and work-related characteristics are taken into account—for example, English language proficiency, education, occupation before migrating to the United States, and family background. The analysis also takes into account ethnicity, race, and country of origin, which are themselves highly correlated with skin color. Skin color is not merely capturing the effects of ethnicity, race, or country of birth. Instead, skin color has an independent effect on wages. Immigrants with the lightest skin color earn on average 17 percent more than comparable immigrants with the darkest skin color.

Skin color has an independent effect on wages even when current labor market factors that may be influenced by discrimination are considered. After current job characteristics such as occupation, outdoor work, job seniority, self-employment, and full-time work status are taken into account, immigrants with the lightest skin color earn on average 11 percent more than comparable immigrants with the darkest skin color.

I also find that height has an independent effect on wages, with each extra inch of height above the U.S. average associated with a 2 percent increase in wages. In contrast to skin color and height, body weight has no effect on wages.

Implications

Do the results imply that immigrant workers in the United States face discrimination based on their skin color? Although discrimination is one possibility, it is necessary to rule out other nondiscriminatory explanations before drawing this conclusion.

One possible explanation for the skin color effect in the United States may be that people were already treated differently on the basis of skin color in their originating country. There is considerable evidence of a preference for lighter skin among people in India, Asia, Africa, and Central and South America. Those who are darker relative to their own country averages may end up with inferior labor market characteristics as a result of discrimination in their home countries.

My analysis takes into account characteristics acquired before migration to the

United States, including education in the home country, family background, father's education, and previous occupation in home country. Those who experienced discrimination or preferential treatment in their home country will have characteristics that reflect such treatment. However, those characteristics do not explain why immigrants with darker skin color receive lower wages in the jobs they hold within the United States.

Consider an immigrant from Brazil who has light skin relative to other Brazilians. There is wide evidence that he or she could have experienced preferential treatment when living in Brazil. But the same person could have darker skin relative to the native U.S. population and is likely to earn less than comparable immigrant workers who have lighter skin color. This means that discriminatory treatment on the basis of skin color is occurring within the U.S. labor market and is not just a result of past treatment in the originating country.

Litigation

Although skin color discrimination claims still comprise a small share of the 85,000 charges filed annually with the Equal Employment Opportunity Commission, the EEOC reports that allegations of skin color discrimination have been rising. Just 413 cases were reported in 1994, and 1,382 such charges were filed in 2002.[3] In recognition of ongoing concerns about race and color discrimination, the EEOC launched the E-RACE (Eradicating Racism and Colorism from Employment) Initiative in 2007.

My empirical research suggests that observed opposition to immigrants arises in part from attitudes toward outward appearance, and shows that immigrants who have lighter skin color fare better than their counterparts who are darker, even after accounting for ethnicity, race, and country of origin.

Projected population trends in the United States indicate that the country is becoming less white. The non-Hispanic, single-race white population comprised 66 percent of the total population in 2008. By 2050, this share is projected to drop to 46 percent of the population.[4] Given that trend, the workforce will become increasingly diverse, and color discrimination claims may increase.

Within the context of such litigation, there will be a debate as to whether observed differences in pay reflect labor market discrimination or are reflective of legitimate productivity differences. My research shows higher pay for immigrants with lighter skin color that cannot be accounted for by differences in labor market productivity. Discrimination may underlie the pay differences. Employers should be aware of possible implicit biases in hiring and pay decisions.

Joni Hersch *is professor of law and economics at Vanderbilt University in Tennessee and is co-director of the Ph.D. program in law and economics.*

Endnotes

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[4] See http://www.census.gov/Press-Release/www/releases/archives/population/012496.html.

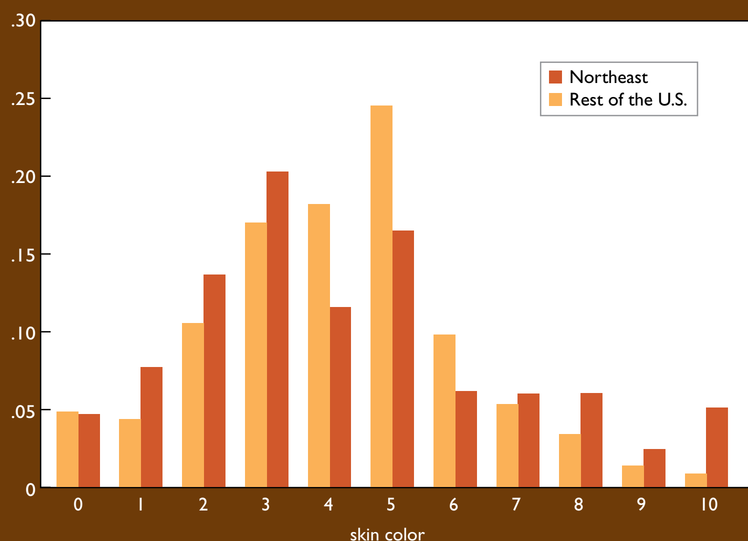
Regional Variation: Northeast

There is regional variation in the nationality, race, and ethnicity of immigrants. Relative to the rest of the United States, the Northeast has a smaller share of new legal immigrants of Hispanic ethnicity and a larger share of new legal immigrants who are black or white. Also relative to the rest of the nation, the Northeast has a larger share of immigrants with very dark skin color (ratings of 9 and 10 on the scale) as well as a larger share with lighter skin color.

Distribution of Immigrants by Ethnicity or Race

Ethnicity or race	Northeast	Rest of the U.S.
Hispanic	24.76	43.28
Asian	29.29	27.76
Black	17.90	7.76
White	24.77	17.79
All other	3.28	3.41
Total	**100%**	**100%**

Source: Author's calculations from the New Immigrant Survey 2003.



Source: Author's calculations from the New Immigrant Survey 2003. The skin color scale increases in darkness from 0 to 10, with 0 representing the lightest skin color and 10 the darkest skin color. The vertical bars report the proportion of the sample with each skin color.

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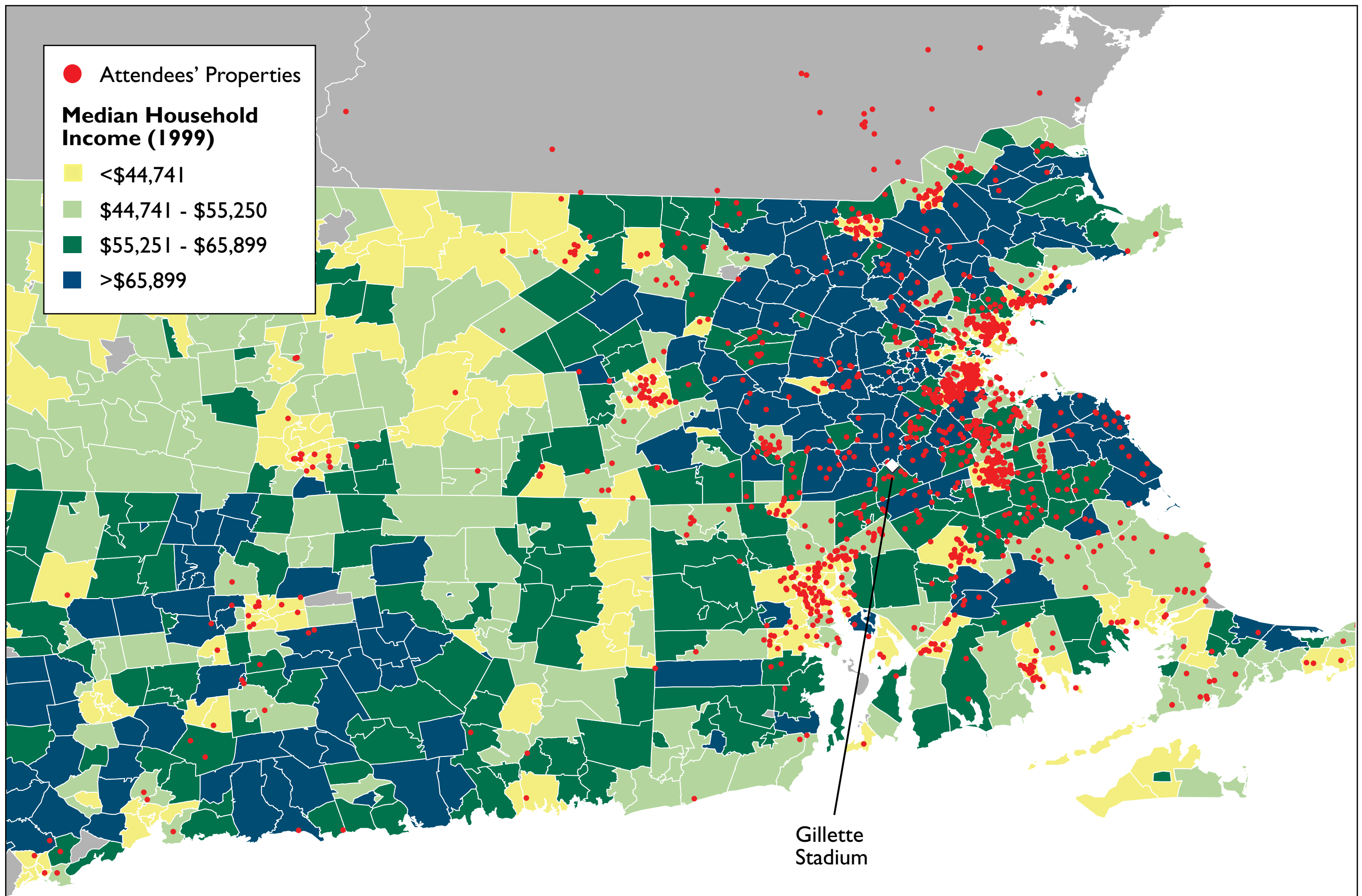
Mapping New England

As part of ongoing efforts to alleviate the foreclosure crisis unfolding in New England, the Federal Reserve Bank of Boston partnered with the Kraft Foundation, Hope Now, NeighborWorks America, and others on a August 12, 2008, foreclosure prevention workshop at Gillette Stadium in Foxborough, Massachusetts. The workshop helped connect at-risk borrowers with their mortgage servicers and with counselors for mortgage assistance. More than 2,000 people attended, representing more than 1,500 households.

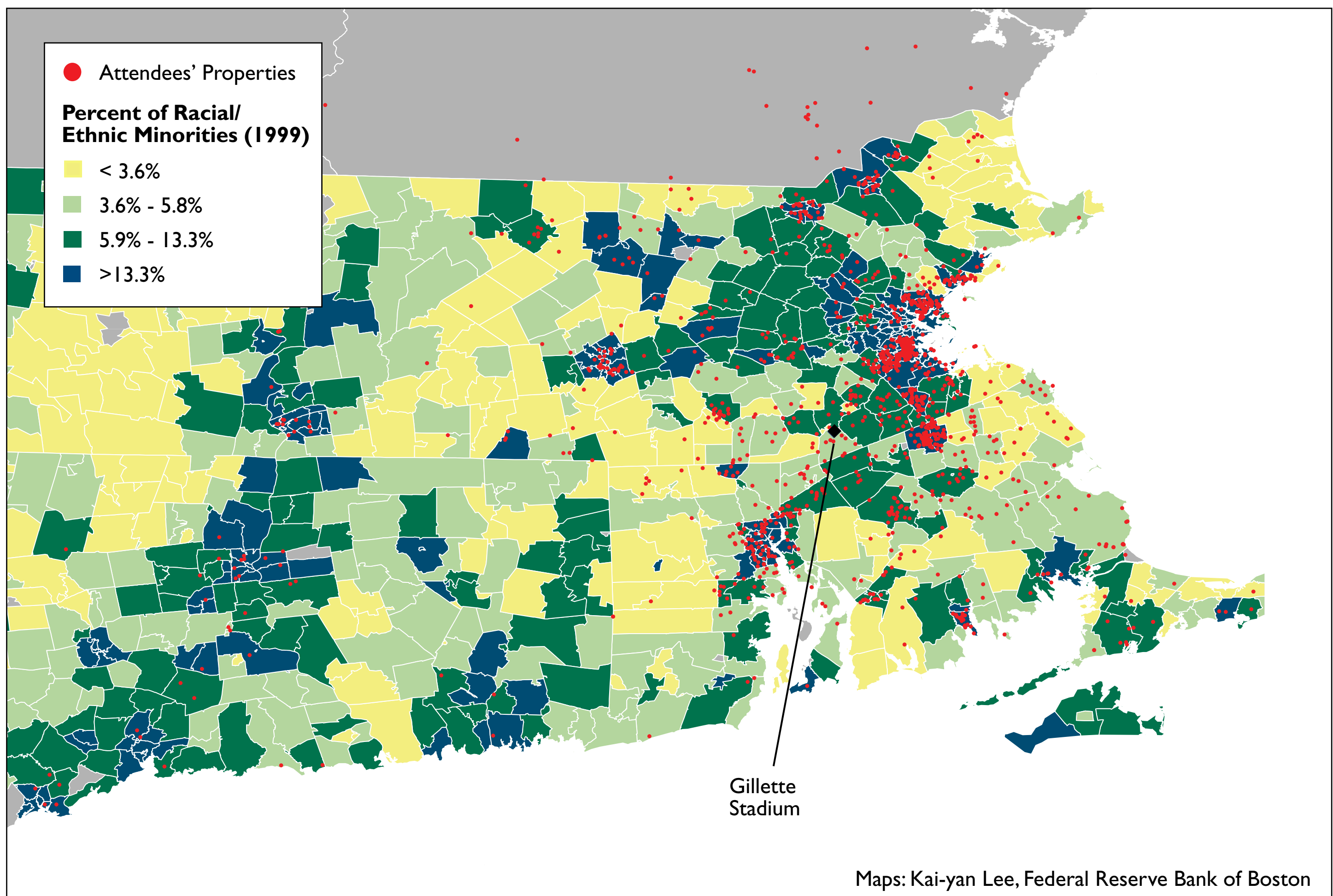
"Mapping Attendees by Household Income" indicates that about half the households came from ZIP codes featuring the lowest median household income quartile of the southern New England states, and about three-quarters came from the ZIP codes below the median household income level. "Mapping Attendees by Race and Ethnicity" illustrates that more than half of the households came from the ZIP codes with the highest concentration of racial and ethnic minorities.

Mapping Attendees by Household Income



Foreclosure Prevention Event: *Where People Came From*

Mapping Attendees by Race and Ethnicity



The findings corroborate studies suggesting that foreclosures tend to concentrate in racial and ethnic minority neighborhoods, and in low- to moderate-income neighborhoods. Because foreclosures may have bigger and longer impacts on such neighborhoods, the workshop provided a mitigation opportunity for the most vulnerable borrowers. The event was the first in a series that the Bank is spearheading.

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Making Affordable Housing Greener

by Edward F. Connelly
and Jessica Miller, New Ecology Inc.

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In the past several years, the green building movement has moved from the fringes of development practice to the mainstream. Today numerous developers are pursuing sustainable strategies. It started with long-term, institutional property owners like governments, universities, and hospitals and moved to mission-driven building owners in corporate headquarters, community-based nonprofits, and the like. More recently, green design has penetrated the mainstream housing and commercial development sectors.

Tackling the Myths

Despite those trends, many affordable housing developers have been uncertain as to whether incorporating greening in their mission is appropriate and effective. So in November 2007, Maryland-based Enterprise Community Partners convened affordable-housing developers to assess what was working and what was not. Two dominant fears were expressed: that green affordable housing was too costly and that the green development process was too complex.

Despite those concerns, the consensus was that green affordable housing is better affordable housing. That view is shared by national housing advocates such as Local Initiatives Support Corporation (LISC), housing financers such as Boston Community Capital and Mass Housing Partnership, and developers working in New England such as Homeowner's Rehab, Urban Edge, New Atlantic Development, Viet Aid, Rogerson Communities, Beacon Communities, Winn Development, and Chelsea Neighborhood Developers.

One reason is that the work of making a project greener leads to a building that is better planned, better built, more durable, better for health, and less expensive to operate. In the experience of Boston-based nonprofit New Ecology Inc., which promotes sustainable development in cities, making affordable housing greener has not detracted from community-based developers' mission.[1] Community developers are finding that greening actually advances the cause of equity. After all, a tool that can simultaneously address housing challenges, energy prices, and global warming should not be dismissed.[2]

Despite the field's growth, however, there is no standard definition of what green affordable housing is. Two well-know national rating systems, Enterprise Community Partners' Green Communities standard (www.greencommunitiesonline.org) and the U.S. Green Building Council's LEED for Homes standard (www.usgbc.org), require developers to tackle both onsite and offsite environmental issues.[3] These rating systems focus on reducing energy and water consumption, improving indoor air quality, increasing durability, using recycled and less-toxic materials, recycling waste, reducing the size of units, and making units accessible to transportation and community amenities.

In the authors' experience, four categories of potential benefits receive the most attention from developers: reducing energy consumption, reducing water consumption, increasing durability, and improving health. (See "Defining Green.")

Defining Green

An affordable housing project is not green unless it is dropping the cost of ownership through aggressive pursuit of the following:

- reducing electrical and fossil fuel use (through Energy Star certification and green approaches to heat, hot water, appliances, lighting, air conditioning, or onsite renewable energy);
- reducing water consumption (with reliable low-flow fixtures);
- improving health outcomes for asthma-prone residents (improved ventilation, fewer toxins in materials, cleaning and pest-control improvements, easily cleaned surfaces); and
- making the structure less costly to maintain and operate (reducing or eliminating materials that wear out, such as carpeting; making landscaping easier to maintain; improving water and moisture control).

Green affordable housing is no longer exotic, experimental, or costly. Indeed, a 2005 study to measure cost increases in 16 projects found that achieving green goals cost less than 5 percent of up-front construction budgets whether the units were urban or rural, single family or multifamily, new or rehabilitated.[4] That cost premium has been confirmed in numerous projects and is consistent with studies of many types of buildings. Enterprise Community Partners, for example, reports that of 27 new multifamily affordable housing projects that met its Green Communities standard, all had a lower than 4 percent increase in total development costs attributable to greening, and 11 reported increases of lower than one percent.[5] Similarly, in a study by Davis Langdon, green building premiums fell within the "noise level" of normal fluctuations in construction costs, and there was no statistically significant difference between the costs of green construction and more traditional building.[6]

Operational Savings

The challenge that most affordable housing developers face is balancing any increase in first costs against the promise of long-term savings. Thus it is imperative that funding organizations rework policies and procedures to account for life-cycle cost estimates and net present value analysis, rather than merely up-front cost projections. The data from *The Costs and Benefits of Green Affordable Housing* reveal that most developers with a long-term interest in their properties, such as developers of rental housing, reap financial benefits from lower operating costs. Utility rebates also enable many developers with short-term interests to do the same. There is growing consensus that greening costs are similar to costs of many other design decisions. Where there is a longer-term perspective, greening is more likely to be included in the budget.

Regarding complexity: The process for designing and building green affordable housing is different from the traditional process. It involves more careful study of issues, more coordination between design professionals and the trades, targeted project meetings, more-detailed plans and specifications, plus training of contractors and their subcontractors. Those who have gone through it a few times find that it improves the end result and that it gets easier over time. In the short term, committed stakeholders have accepted a more complex process in order to deliver a superior product.

New Ecology has shepherded dozens of affordable housing projects through the process. Massachusetts examples include Lena Park's and New Boston's Olmsted Green, the Visiting Nurses Association of Somerville's Alewife Assisted Living, Viet Aid's 1460 Dorchester Avenue in Boston, Beverly Affordable Housing Coalition's

Homeowner's ReHab in Cambridge, Chelsea Neighborhood Developers Armory/113 Spencer project, Beacon Properties' Wilber School in Sharon, Action for Boston Community Development's 30 Rockland Street project, the Lynn Home for Women's rehab, Rogerson Communities' Hong Lok House in Boston, and Lazarus House Ministries' transitional housing in Lawrence. An example in Pawtucket, Rhode Island, is Citizens Development Callaghan Gardens.

Each lesson learned makes green efforts easier for future initiatives to meld greening with community development. (See "Going Green: The Voice of Experience.")

Data that support greening are increasing every year.[7] Stories like Somerville Community Corporation's Linden Street apartments—which use only one-third of the energy to heat, compared with a comparable nearby affordable-housing building—speak volumes. And as energy costs inevitably rise, greening will become increasingly attractive.

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Going Green: The Voice of Experience

Through a growing number of projects, New Ecology has gained insights on applying green principles to building affordable housing.

- Choose your team wisely. The architects and engineers are essential to success. Make sure they understand greening, what you want to accomplish, and how to manage an integrated process.
- Use an integrated design process. Discuss the greening goals with all project stakeholders early on, and make sure everyone starts on the same page. Assign one person to manage the process. Ensure that issues are vetted by the team and that each team member is involved in the process.
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Endnotes

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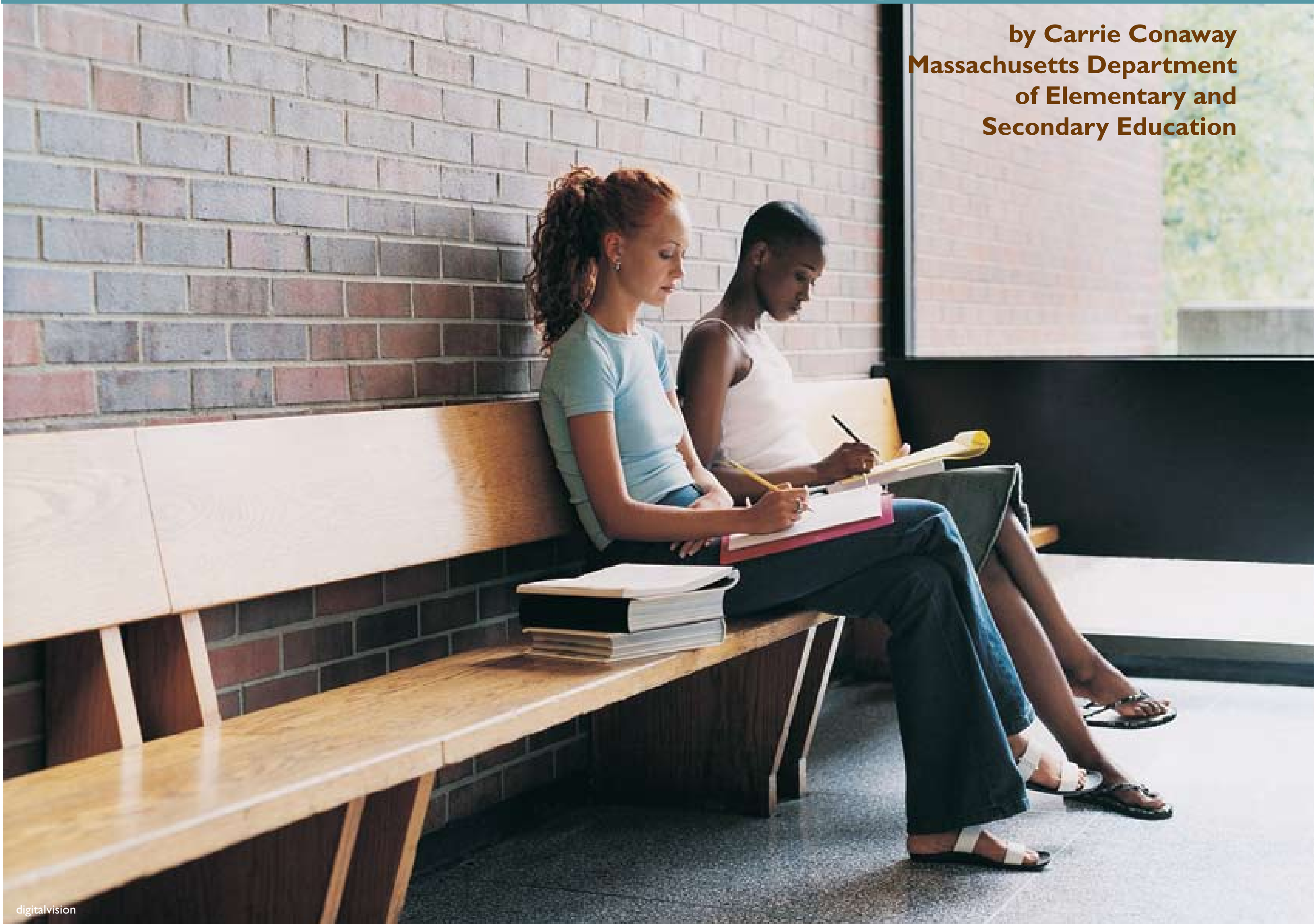
College Readiness: *Massachusetts Compiles the Data*

by Carrie Conaway
Massachusetts Department of Elementary and Secondary Education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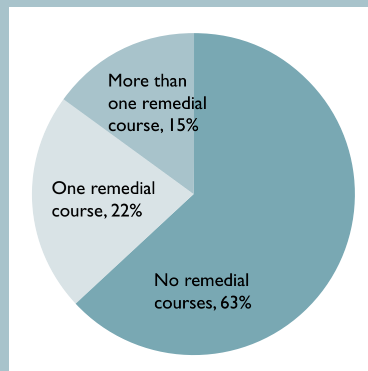
After years of observing this sobering pattern, high schools and colleges increasingly agree that they share responsibility for ensuring that students leave the K-12 system prepared to be successful in college. However, they often lack information on the nature and magnitude of the problem, particularly how it affects the students actually enrolled in their institutions.

First-Semester Remedial Enrollment

Massachusetts Public High School Graduates at Massachusetts Public Colleges, Class of 2005



To that end, the Department of Elementary and Secondary Education and the Department of Higher Education have collaborated to develop a school-to-college database that collects information on Massachusetts public high school graduates who enroll in Massachusetts public postsecondary institutions—both two-year and four-year colleges. The database has already demonstrated that it is a powerful tool for policymaking and for helping students to make the leap from high school to college.

The High School Class of 2005

The first report from the database answered a critical question, one that Massachusetts had never been able to answer before: How many Massachusetts public high school graduates enroll in Massachusetts public colleges?

As it turns out, about 19,500 public high school graduates—33 percent of the graduating class—enrolled in a Massachusetts public college in the fall after their high school graduation. A few hundred more enrolled after taking some time off, but the lion's share of those who enrolled in college within five years of high school graduation do so immediately after high school. Of those 19,500 students, approximately 5,900 enrolled at a University of Massachusetts campus; 4,900 at a state college; and 8,700 at a community college. All but 2 percent of state university and state college students enrolled as full-time degree-seeking candidates; at community colleges, the rate was 80 percent.

The most powerful statistics in the report, however, are on remediation rates. (See "First-Semester Remedial Enrollment.") Students were placed into remedial courses if they score poorly on a placement exam when they arrived on campus; some also elected to enroll in them voluntarily. The report showed that 37 percent of the class of 2005 who went on to public colleges in Massachusetts enrolled in at least one remedial subject during their first semester in college; 15 percent enrolled in at least two. This means that more than one-third of Massachusetts public high school graduates arrived at the state's public colleges and universities not ready to take college-credit-bearing coursework in at least one subject area.

Remediation rates were substantially higher for community college enrollees, at 65 percent. But the problem is not confined to two-year schools: 22 percent of state college enrollees and 8 percent of state university enrollees took at least one remedial subject in their first semester, too. Mathematics was the most problematic subject; 29 percent of public high school graduates took a remedial course in mathematics, versus 15 percent in writing and 11 percent in reading. Importantly, students who had achieved proficiency on the grade 10 MCAS tests were far less likely to require remediation than those who had scored at Needs Improvement, suggesting that attaining proficiency in high school is an important step toward college readiness.

Access and Success

Another key policy concern in Massachusetts is whether traditionally disadvantaged students, such as those from low-income families or with limited English proficiency, experience equal access to and success in college.

The demographic characteristics of the state's public college enrollees who had attended public high schools were nearly identical to the state's public high school graduating class as a whole. Differences emerged, however, in remediation and reenrollment rates. For instance, nearly 60 percent of African Americans and Hispanics, and more than half of low-income students, who graduated from Massachusetts public high schools enrolled in at least one remedial course in their first semester, as compared with 37 percent of the total cohort. Similarly, while 81 percent of public high school graduates overall reenrolled for a second year, only 71 percent of low-income students did. (See "Remediation and Reenrollment Rates.")

This suggests that high schools are doing well in setting an expectation of college for their graduates but it raises concerns about whether these students have access to a high school curriculum that prepares them adequately to succeed once they arrive on campus.

Remediation and Reenrollment Rates, High School Class of 2005

Group (status in high school)	Percent enrolled in at least one remedial course, first semester in college	Percent reenrolled for a second year in fall 2006
Overall	37	81
African American	59	74
Asian or Pacific Islander	33	83
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Digging Deeper

After establishing the statewide patterns of college enrollment and readiness, the state next issued reports to each of 296 Massachusetts high schools that sent 10 or more of their graduates on to Massachusetts postsecondary institutions in fall 2005. These reports offered superintendents and principals their first opportunity to observe the patterns of college enrollment and success for their own schools' students and should serve as a benchmark against which to compare future performance and outcomes.

The reports revealed a wide range of outcomes by high school. For instance, 44 high schools sent fewer than 20 percent of their graduates on to public higher education, while 20 sent 50 percent or more. Similarly, though the average remediation rate was 37 percent statewide, one-fifth of high schools saw 50 percent or more of their graduates taking at least one remedial course in their first semester.

The public colleges also have found uses for the database, requesting reports to improve their understanding of the student bodies from which they draw enrollees. For example, the database allowed them for the first time to know what share of their entering students had taken at least one Advanced Placement course in high school. Previously, they had known only who had taken the AP tests but not how many had been exposed to college-level work without actually taking the test. The database also allowed the colleges to learn how many of their enrolling students had been placed in special education programs in high school, as well as which high schools send a large share of their graduates to the college and thus might be potential partners for college readiness programs.

Next Steps

Massachusetts education policymakers are already using the information from the database to drive change throughout the educational system. The governor featured the remediation rate in his education policy agenda as a call to action and a key benchmark against which K-12 system performance can be measured. The findings have also spurred the state to define a recommended high school program of studies for college readiness and to invest more heavily in programs that, for example, expose high school students to college-level work through Advanced Placement and encourage simultaneous enrollment in college courses while still in high school.

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Schools and districts are putting the findings to work at the local level as well. Representatives from the state educational agencies are working with schools and districts to help them understand their reports and translate the results into school programs and activities. And districts are developing more partnerships with local public colleges and universities to ease the transition from high school to college. For example, the Berkshire Compact—a Berkshire County partnership uniting local public schools, public colleges, and businesses—enables every sixth grader to visit a local college and gives high school students increased opportunities to enroll in college courses free of charge.

Even with all this activity, Massachusetts has only begun to tap the potential of the School-to-College database. The state expects to continue to issue reports to high schools and colleges each year as well as to expand the information available in the database so that it can answer more-sophisticated questions about college preparation and success for Massachusetts public high school graduates. Fall 2009, for instance, will be the first opportunity to learn how many students from the high school class of 2005 graduated on time from four-year schools. With information like that in hand, the database will continue to contribute important information to the educational policy debate in Massachusetts for years to come.

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Boston-area residents in a park maintained by Allston Brighton Community Development Corporation. Photograph: Allston Brighton Community Development Corporation

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Communities & Banking

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Boston, MA 02210

Change Service Requested

In the past several years, the green building movement has moved from the fringes of development practice to the mainstream. Today numerous developers are pursuing sustainable strategies. It started with long-term, institutional property owners like governments, universities, and hospitals and moved to mission-driven building owners in corporate headquarters, community-based nonprofits, and the like. More recently, green design has penetrated the mainstream housing and commercial development sectors.

Tackling the Myths

Despite those trends, many affordable housing developers have been uncertain as to whether incorporating greening in their mission is appropriate and effective. So in November 2007, Maryland-based Enterprise Community Partners convened affordable-housing developers to assess what was working and what was not. Two dominant fears were expressed: that green affordable housing was too costly and that the green development process was too complex.

Despite those concerns, the consensus was that green affordable housing is better affordable housing. That view is shared by national housing advocates such as Local Initiatives Support Corporation (LISC), housing financers such as Boston Community Capital and Mass Housing Partnership, and developers working in New England such as Homeowner's Rehab, Urban Edge, New Atlantic Development, Viet Aid, Rogerson Communities, Beacon Communities, Winn Development, and Chelsea Neighborhood Developers.

One reason is that the work of making a project greener leads to a building that is better planned, better built, more durable, better for health, and less expensive to operate. In the experience of Boston-based nonprofit New Ecology Inc., which promotes sustainable development in cities, making affordable housing greener has not detracted from community-based developers' mission.[1] Community developers are finding that greening actually advances the cause of equity. After all, a tool that can simultaneously address housing challenges, energy prices, and global warming should not be dismissed.[2]

Despite the field's growth, however, there is no standard definition of what green affordable housing is. Two well-know national rating systems, Enterprise Community Partners' Green Communities standard (www.greencommunitiesonline.org) and the U.S. Green Building Council's LEED for Homes standard (www.usgbc.org), require developers to tackle both onsite and offsite environmental issues.[3] These rating systems focus on reducing energy and water consumption, improving indoor air quality, increasing durability, using recycled and less-toxic materials, recycling waste, reducing the size of units, and making units accessible to transportation and community amenities.

In the authors' experience, four categories of potential benefits receive the most attention from developers: reducing energy consumption, reducing water consumption, increasing durability, and improving health. (See "Defining Green.")

Defining Green

An affordable housing project is not green unless it is dropping the cost of ownership through aggressive pursuit of the following:

- reducing electrical and fossil fuel use (through Energy Star certification and green approaches to heat, hot water, appliances, lighting, air conditioning, or onsite renewable energy);
- reducing water consumption (with reliable low-flow fixtures);
- improving health outcomes for asthma-prone residents (improved ventilation, fewer toxins in materials, cleaning and pest-control improvements, easily cleaned surfaces); and
- making the structure less costly to maintain and operate (reducing or eliminating materials that wear out, such as carpeting; making landscaping easier to maintain; improving water and moisture control).

Green affordable housing is no longer exotic, experimental, or costly. Indeed, a 2005 study to measure cost increases in 16 projects found that achieving green goals cost less than 5 percent of up-front construction budgets whether the units were urban or rural, single family or multifamily, new or rehabilitated.[4] That cost premium has been confirmed in numerous projects and is consistent with studies of many types of buildings. Enterprise Community Partners, for example, reports that of 27 new multifamily affordable housing projects that met its Green Communities standard, all had a lower than 4 percent increase in total development costs attributable to greening, and 11 reported increases of lower than one percent.[5] Similarly, in a study by Davis Langdon, green building premiums fell within the "noise level" of normal fluctuations in construction costs, and there was no statistically significant difference between the costs of green construction and more traditional building.[6]

Operational Savings

The challenge that most affordable housing developers face is balancing any increase in first costs against the promise of long-term savings. Thus it is imperative that funding organizations rework policies and procedures to account for life-cycle cost estimates and net present value analysis, rather than merely up-front cost projections. The data from *The Costs and Benefits of Green Affordable Housing* reveal that most developers with a long-term interest in their properties, such as developers of rental housing, reap financial benefits from lower operating costs. Utility rebates also enable many developers with short-term interests to do the same. There is growing consensus that greening costs are similar to costs of many other design decisions. Where there is a longer-term perspective, greening is more likely to be included in the budget.

Regarding complexity: The process for designing and building green affordable housing is different from the traditional process. It involves more careful study of issues, more coordination between design professionals and the trades, targeted project meetings, more-detailed plans and specifications, plus training of contractors and their subcontractors. Those who have gone through it a few times find that it improves the end result and that it gets easier over time. In the short term, committed stakeholders have accepted a more complex process in order to deliver a superior product.

New Ecology has shepherded dozens of affordable housing projects through the process. Massachusetts examples include Lena Park's and New Boston's Olmsted Green, the Visiting Nurses Association of Somerville's Alewife Assisted Living, Viet Aid's 1460 Dorchester Avenue in Boston, Beverly Affordable Housing Coalition's

Homeowner's ReHab in Cambridge, Chelsea Neighborhood Developers Armory/113 Spencer project, Beacon Properties' Wilber School in Sharon, Action for Boston Community Development's 30 Rockland Street project, the Lynn Home for Women's rehab, Rogerson Communities' Hong Lok House in Boston, and Lazarus House Ministries' transitional housing in Lawrence. An example in Pawtucket, Rhode Island, is Citizens Development Callaghan Gardens.

Each lesson learned makes green efforts easier for future initiatives to meld greening with community development. (See "Going Green: The Voice of Experience.")

Data that support greening are increasing every year.[7] Stories like Somerville Community Corporation's Linden Street apartments—which use only one-third of the energy to heat, compared with a comparable nearby affordable-housing building—speak volumes. And as energy costs inevitably rise, greening will become increasingly attractive.

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Going Green: The Voice of Experience

Through a growing number of projects, New Ecology has gained insights on applying green principles to building affordable housing.

- Choose your team wisely. The architects and engineers are essential to success. Make sure they understand greening, what you want to accomplish, and how to manage an integrated process.
- Use an integrated design process. Discuss the greening goals with all project stakeholders early on, and make sure everyone starts on the same page. Assign one person to manage the process. Ensure that issues are vetted by the team and that each team member is involved in the process.
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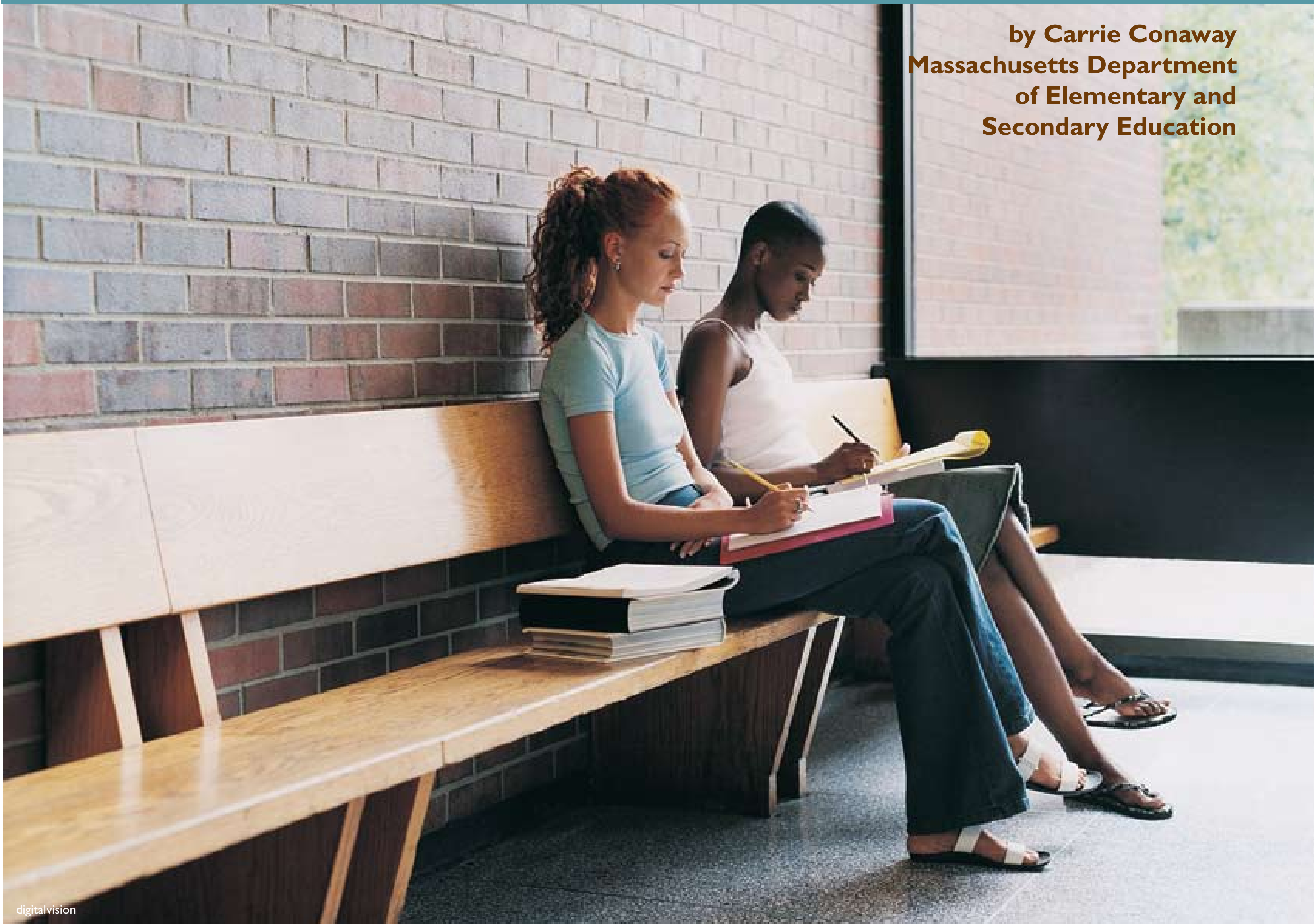
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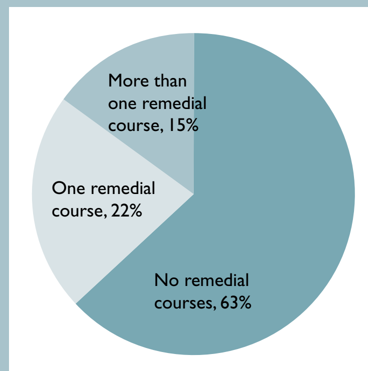

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Access and Success

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