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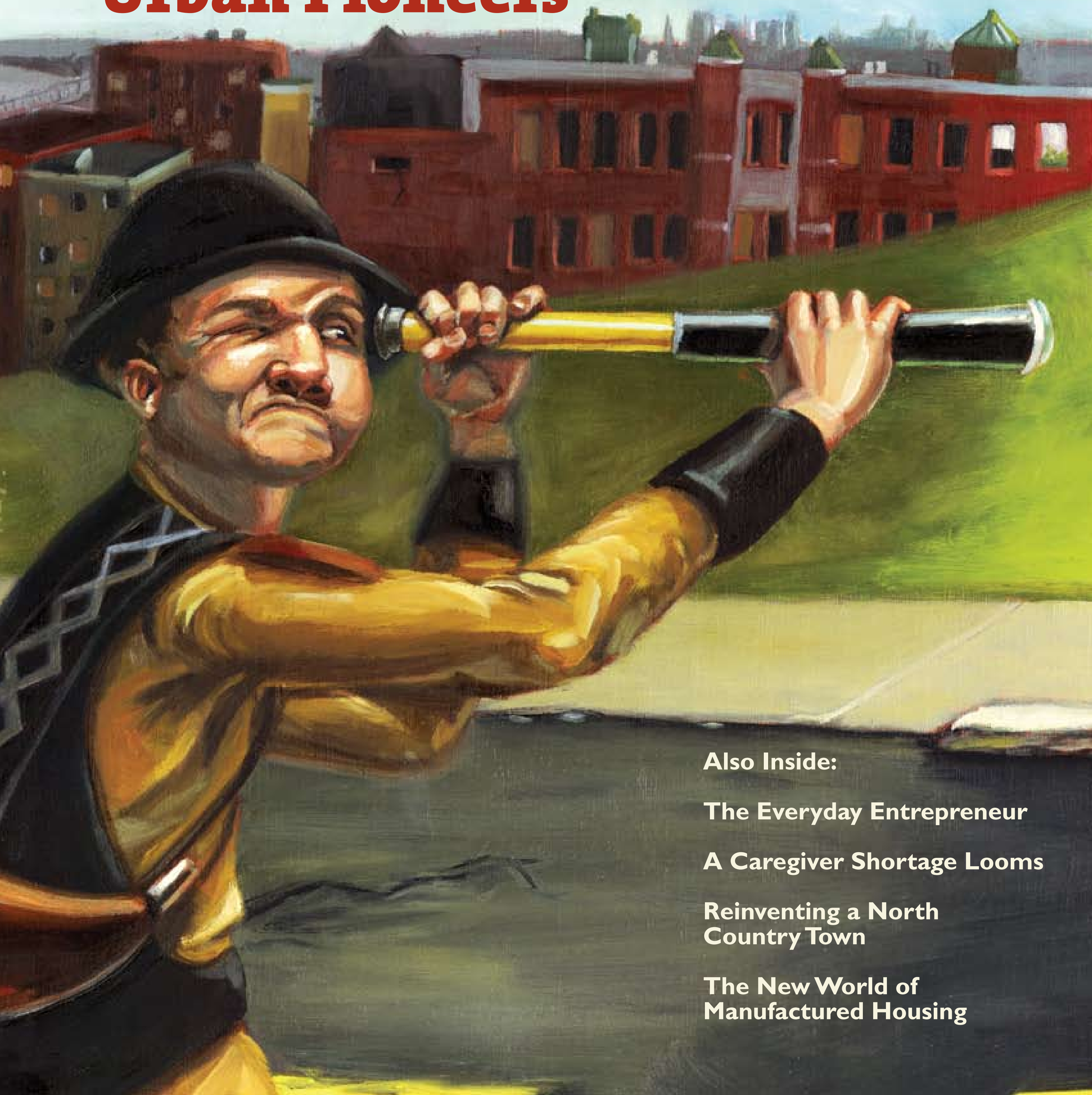
Incentive$ for Urban Pioneers



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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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Incentive$ for Urban Pioneers

In Housing Policy, One Size Does Not Fit All

by Peter Gagliardi, HAP, Inc.

Massachusetts housing policy generally works as intended in the Greater Boston area but has inadvertently become an obstacle to the revitalization of the Commonwealth's smaller cities. Tools that provide affordability in well-off areas do not create the incentives necessary to attract investment to blighted sections of secondary cities. And preventing homeowners from reselling at a price near a market rate reduces the likelihood that families can create wealth and move out of poverty.

Forgotten Cities

The plight of smaller Massachusetts cities has recently received significant attention. *The State of the Cities: Revitalization Strategies for Smaller Cities in Massachusetts*—written by Karen Sunnarborg for Citizens Housing and Planning Association and the Massachusetts Association of Community Development Corporations (CHAPA/MACDC) and released in December 2006—takes a broad look at several such cities. The Pioneer Institute, meanwhile, launched an effort in 2005 to promote the revitalization of what it calls "middle" cities, with support from the Shelby Cullom Davis and State Street Bank Foundations. At a February 2007 conference, "Revitalizing Middle Cities: New Ideas and Policy Tools to Improve the Business Climate," Pioneer unveiled a report recommending a coordinated approach to the rejuvenation of 14 middle cities.

The CHAPA/MACDC study asserts that "many of Massachusetts' smaller cities offer an interesting opportunity to apply the best current thinking about smart growth development to the pressing need for more housing of all types. Yet, these very cities have often been overlooked in policy formulations geared toward the thriving Boston metropolitan market and expanding suburban market."

Regardless of the label—middle city, secondary city, smaller city, weak market city—we are talking about a metropolis with 25,000 to 175,000 people, one that did not enjoy the benefits of the boom recent real estate boom times.

The conclusions of both reports are strikingly similar: public policy has shifted away from revitalization of neighborhoods and downtowns in smaller cities, further isolating communities that have more than 40 percent of the state's population, including "a disproportionate share of the poorest residents of the Commonwealth," as the MACDC/CHAPA study puts it.

Tools in Need of Polishing

As part of the Pioneer Institute's initiative, I recently authored a white paper, *Housing Programs in Weak Market Neighborhoods: Developing the Right Tools for Urban Revitalization*, exploring the suitability of today's policies in the face of decay and abandonment in our smaller cities.[1] On the basis of 30 years of experience in the field—the last 15 directing HAP, a regional housing partnership based in Springfield—I conclude that the current tools are not appropriate to the task of revitalization.

Admittedly, affordable housing is in great demand and short supply in Massachusetts. Even if the overheated housing market has cooled somewhat, the reductions have not been sufficient to address the competitive disadvantage created by having higher housing costs than other states. So it is understandable that affordability has driven public policy for housing and community development since the boom years of the middle to late 1980s.

Because many lower-income households continue to struggle with housing costs that exceed their income, the state and many municipalities have focused on creating affordable housing and making sure it stays affordable for years to come. Meanwhile, neighborhoods in cities such as Worcester, Fitchburg, Lawrence, New Bedford, and Pittsfield are more in need of ways to handle vacant properties, abandoned buildings, aging infrastructure, high crime rates, and concentrated poverty. They need a middle class—either outsiders moving in or city dwellers moving up through asset creation.

Consider Springfield

In Springfield, for example, four neighborhoods have been targeted for revitalization by local and state government. Unfortunately, bringing in new homebuyers and economic diversity as part of a comprehensive revitalization strategy has not been a high priority for state government. Public policy continues to focus almost exclusively upon affordable housing, resulting in rules that impede revitalization in Springfield and other weak market cities. One size does not fit all.

A case in point is Springfield's Old Hill, a neighborhood of 4,700 people led by dedicated, long-term residents such as Omega Johnson, president of the Old Hill Neighborhood Council. For more than 30 years, Johnson has lived in the neighborhood, raising children who have gone on to complete college. Leaders like Johnson struggle against daunting odds. In the 12-month period ending in September 2006, the Multiple Listing Service reported only 22 sales of residential properties in Old Hill, where nearly 10 percent of all parcels (134) are vacant or boarded-up. The average sale price was $86,000.

Weak market neighborhoods like Old Hill challenge every level of government. Abandoned parcels and reduced property values mean lost municipal taxes, losses to lenders, and the loss of equity for remaining residents. For city government, those losses are compounded by the cost of demolishing derelict buildings and clearing debris from vacant lots. One Springfield official notes that the city spent $2 million in a one-year period beginning in summer 2005 to demolish derelict buildings. It spends several hundred thousand dollars annually to maintain vacant parcels, which attract dumping. For the state's financial control board, which currently oversees Springfield, struggling neighborhoods represent a barrier to successfully restoring Springfield to long-term health.

Thinking It Through

As my organization, HAP Inc., has worked with our partners in the Old Hill and Six Corners neighborhoods of Springfield, we have discovered a difficult truth. The Commonwealth's current housing programs address the need for affordability in booming markets but do not to encourage revitalization of weak market neighborhoods. Current programs stipulate that housing assisted by state funds must have deed restrictions to keep the property "affordable" for 30 or even 50 years. These restrictions mean that houses can be sold only to income-eligible first-time homebuyers at a price that severely limits the seller's share of any appreciation.

Hap, Inc., courtesy photograph

People considering buying a home in a troubled neighborhood may need incentives other than price.

For small cities, excessive deed restrictions on the resale of properties and restrictive home-buyer eligibility run counter to the goal of revitalization.

For small cities, excessive deed restrictions on the resale of properties and restrictive homebuyer eligibility run counter to the goal of revitalization. While such restrictions are appropriate in a super-heated housing market, they hinder revitalization in weak market neighborhoods.

A person given the opportunity to own a $700,000 home for $250,000 in Weston might see the inability to resell at market rate as a fair trade. But in Old Hill, we are asking a new generation of homeowners to be pioneers, buying a home for $110,000 in a market where the average sale price is $86,000 and the highest comparable in the neighborhood is $118,000. If the Weston buyer were able to resell the affordable house at market rate, he or she would receive a huge gift of equity. But in Old Hill, the new owner is buying at the market price with no immediate prospect of personal gain and a significant risk of continued price stagnation or even decline.

For a revitalization strategy to succeed, we must create incentives to attract a new generation of homeowners to the Old Hills of weak market cities across New England. Policies should not create a disincentive and discourage potential buyers.

The failure of current Massachusetts housing programs to include a strategy to revitalize older industrial cities is a failure to capitalize on their opportunities for growth. Our objective should be to create incentives to bring new investment and new homeowners into the struggling neighborhoods of smaller cities.

Government should not promote gentrification that would force people out of their homes, nor should it aim to build enclaves of only the poorest of the poor. It should have policies that fit the situation. For Omega Johnson and her neighbors, attracting new homebuyers into the neighborhood is the key to restoring the community to its former status as a decent place to live and raise a family.

Peter Gagliardi *is the executive director of HAP Inc., a regional housing partnership based in Springfield, Massachusetts. He serves on the Federal Reserve Bank of Boston's Community Development Advisory Council.*

Endnote

[1] See http://www.pioneerinstitute.org/publications/publications_all.cfm.

Photo: istockphoto.com

Family Caregiver: BALANCING Home and Work

by Terry Lochhead
Northern New England LEADS Institute

Jean Holt engages in a daily balancing act: She not only has a job as a health-care professional but also is her mother's primary caregiver. Holt lives in Hollis, New Hampshire, not far from her mother, Edith, and two sisters who also help out. The person who makes it possible for Jean to continue working is Jennifer Craigue, a licensed nursing assistant, or LNA.

According to the Center on an Aging Society, one in three American workers cares for an elderly relative. Typically, caregivers are middle-aged adults who rely on paraprofessional direct-care workers to help them balance their jobs with their caregiving.

As Baby Boomers move into these dual roles, they and their employers face a gap in support. The elderly population is growing; the supply of direct-care workers is not.

Workforce Shortage

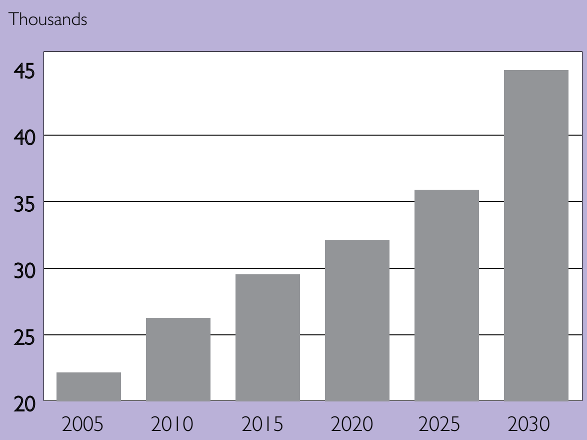
The coming challenge is especially clear in New Hampshire, where the senior population is growing faster than most other states. In 2006, N.H. Employment Security (www.nhes.state.nh.us) predicted that between 2004 and 2014 demand will grow faster for home health aides than for any other occupation in the state. If nothing is done to attract more people to direct-care work, NHES foresees a workforce shortage that could hurt employers as much as employees.

Aging Population

The people most likely to need care are frail seniors 85 years and older. By 2030, New Hampshire expects to have twice as many frail elderly as it did in 2000. (See the exhibits "Individuals 85 and Older" and "Supply and Demand.")

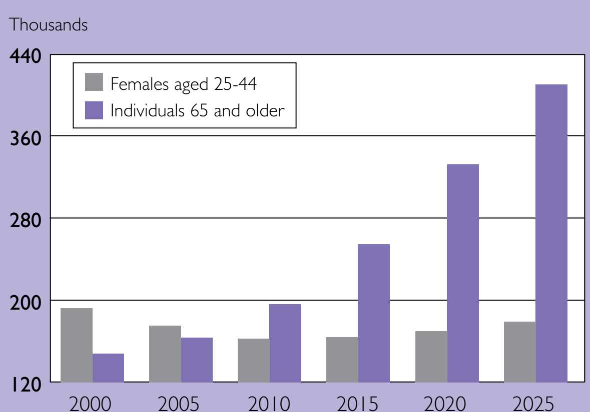
Unfortunately, the number of people who normally care for the elderly—25-to-44-year-old women—is heading in the other direction. New Hampshire's Office of Planning and Energy expects this group to shrink by about 6 percent between 2000 and 2025 if trends continue. Without LNAs, homemakers, and personal care assistants, long-term care services will be in short supply. Nursing homes, hospitals,

Individuals 85 and Older
New Hampshire



Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

Supply and Demand
Direct-Care Workers—New Hampshire*



*Workforce Shortage—New Hampshire
Change in 65+ = 177%
Change in females 25-44 = -6.7%.

Source: New Hampshire Office of State Planning Population Projections, September 2004.

home care, and personal support services rely on these workers, who provide eight out of every 10 hours of care and support services to the elderly and people with disabilities. Some workers provide medically related services to clients who have been discharged from the hospital; others provide nonmedical services, such as transportation, light housekeeping, and companionship.

Direct care is physically demanding work, often involving lifting and transferring clients from bed to chair or bath. According to the Service Employees International Union, nursing facility workers are injured at almost three times the rate of coal miners. Strong, young workers are needed in the field, but supply is not responding to demand.

Wages and Benefits

The opportunity to make a difference in the life of an elderly person attracts some young people, who call it *heart* work. Others just call it *hard* work—and underappreciated work at that. The field is characterized by low wages, meager benefits, and few if any career options. Supervision techniques rooted in the past are common, and hours of work are seldom steady. The conditions can make fast food jobs look good. A national study conducted by BDO Seidman in 2002 found that wages for fast-food workers were growing more rapidly than wages for personal and home-care aides—and benefits were worth 3.5 times more. (See "Percentage Increase in Hourly Wages, 1992-2000.")

As of this writing, the average entry-level wage for personal and home-care aides in New Hampshire is $7.40 per hour. LNAs begin at $9.04 per hour. That is low. Consider that a 2006 study by the University of New Hampshire and the North Country Council found that a single person in New Hampshire needs a wage of $10.42 per hour just to live from paycheck to paycheck. If two parents with a child both work, they each need slightly less to get by: $10.10 an hour, about a dollar more than an entry-level LNA receives. No wonder that Michael Hill, president of the New Hampshire Hospital Association, calls New Hampshire's living wage a "survival" wage. It doesn't let people save for a rainy day or access education that could advance their family's earning capacity.

Quality Jobs and Quality Care

To attract more young people and retain experienced workers that can mentor newcomers, stability is needed. As every family caregiver knows, when an elderly parent has to deal with one stranger after another, havoc is likely. Ninety-four-year-old Edith, for example, finds it exhausting to tell new workers repeatedly where the broom is and where the clean towels go.

As daughter Jean says, "We need someone who will take the initiative to look around and see what needs to be done.… It works better when it's the same person every time." She says Edith would rather stay alone than have strangers come to help her.

Elderly clients commonly refuse to allow newly hired direct-care workers into their homes. When one shows up, the elderly person may telephone the adult offspring at work and describe the new hire as a stranger breaking into the home. Or the call may be from a distressed home-care worker trying to talk to the adult child over the noise of a screaming parent in the background.

In response to the problem, one home-care employer, Quality Care Partners in Manchester, New Hampshire, has begun to provide "the same person every time." QCP guarantees a consistent team of direct-care workers. For example, it sends LNA Craigue to visit Edith four days a week and supplements her visits with just one other caregiver, someone Edith has met. But can QCP fulfill this guarantee if a workforce shortage materializes?

In other sectors, market demand alone might be enough to drive up wages so that experienced employees would stay on, but in long-term care, low government reimbursements form the primary revenue stream for most providers. Currently, private insurance and family savings supplement Medicare and Medicaid, and the influence of the consumer has yet be felt in the labor market.

Care jobs do not have to remain low-wage and low-opportunity. As patient care has changed over the years, nurses have assumed higher levels of responsibility and so have direct-care workers—but wages haven't risen in tandem. Meanwhile, elderly patients are being discharged from the hospital with more serious care needs. Direct-care workers require increased support in the field. To meet the need, New Hampshire could consider offering direct-care workers training in peer mentoring and in clinical specialties they are likely to encounter in the elderly—chronic obstructive

Adult children who want to continue participating in the outside workforce rely on home-health aides to make it possible.

Photograph by Geoff Forester

pulmonary disease, diabetes, dementia, and congestive heart failure, among others.

The Future

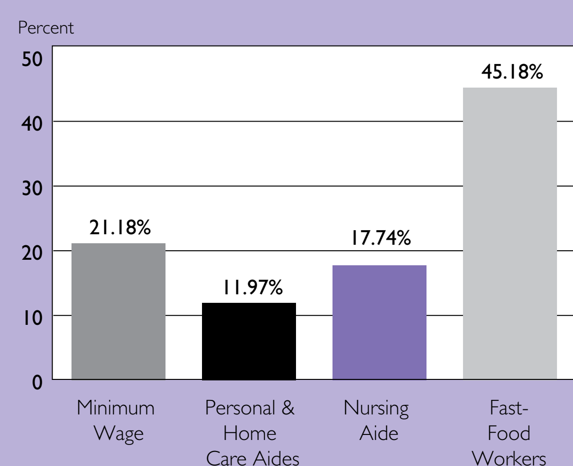
Staff retention is an even bigger problem in nursing facilities than in home care. Pay is low and turnover is high—about 80 percent annually in New Hampshire. It is difficult to avoid routine, impersonal care when inadequate staffing saddles the remaining employees with heavy workloads.

Genesis HealthCare is one organization that is attacking turnover head-on. Based in Pennsylvania but with facilities throughout New England, the company has a dual corporate goal: become employer of choice and offer elderly residents facilities where they can be sure of quality care. Genesis recognizes that the path to quality care is paved with quality jobs.

Managers in the 22 New England facilities are trying out new forms of supervision. They are learning to move beyond discipline-focused management and instead to coach workers to become problem solvers. This high-energy approach requires tackling workplace culture from top to bottom. Managers must let go of strategies they have used their entire careers and embrace a more supportive, collaborative, and problem-solving model of supervision.

The state of New Hampshire will also need a high-energy approach if it wants to develop a workforce capable of providing a

Percentage Increase in Hourly Wages from 1992-2000



U.S. Bureau of Labor Statistics: The term "Nursing Aides" refers to LNAs who work in nursing facilities. The term "Personal and Home Care Aides" refers to PCSPs and home companions, as well as many other job titles.

Source: On the growing crisis in recruiting and retaining the direct support workforce, ANCOR and BDO Seidman, LLP, 2002.

range of quality, long-term care services. To stabilize and build the workforce needed, it will have to ensure that direct-care workers have good benefits and reasonable wages as well as a clear career path. When Jean Holt leaves for work in the morning, she and her employer need to be assured that 94-year-old Edith will recognize the direct-care worker who visits that day. They also need to know that the direct-care worker is well-qualified and well-supervised—and that the service is affordable, so that Jean can continue to be an active participant in New Hampshire's economy.

Terry Lochhead *is the program coordinator for the Direct Care Workforce Initiative at the New Hampshire Community Loan Fund in Concord. The Loan Fund is a state partner in the Paraprofessional Healthcare Institute's Northern New England LEADS (Leadership, Education, and Advocacy for Direct Care and Support) Institute, a demonstration project.*

Mapping New England

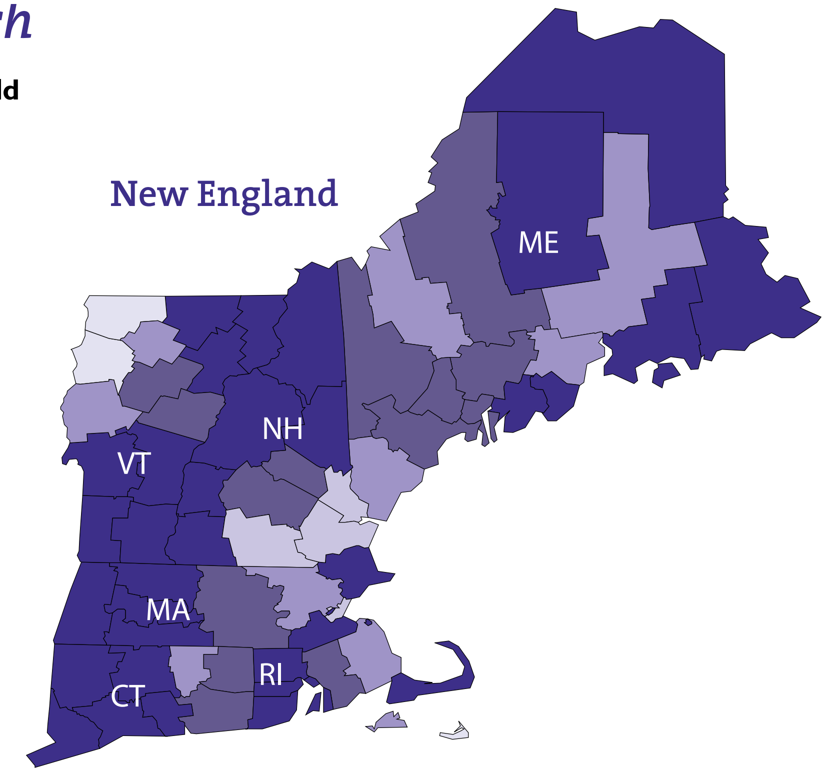
The Caregiver Crunch

Number of People over 85 Years Old per Each Woman Aged 25-44

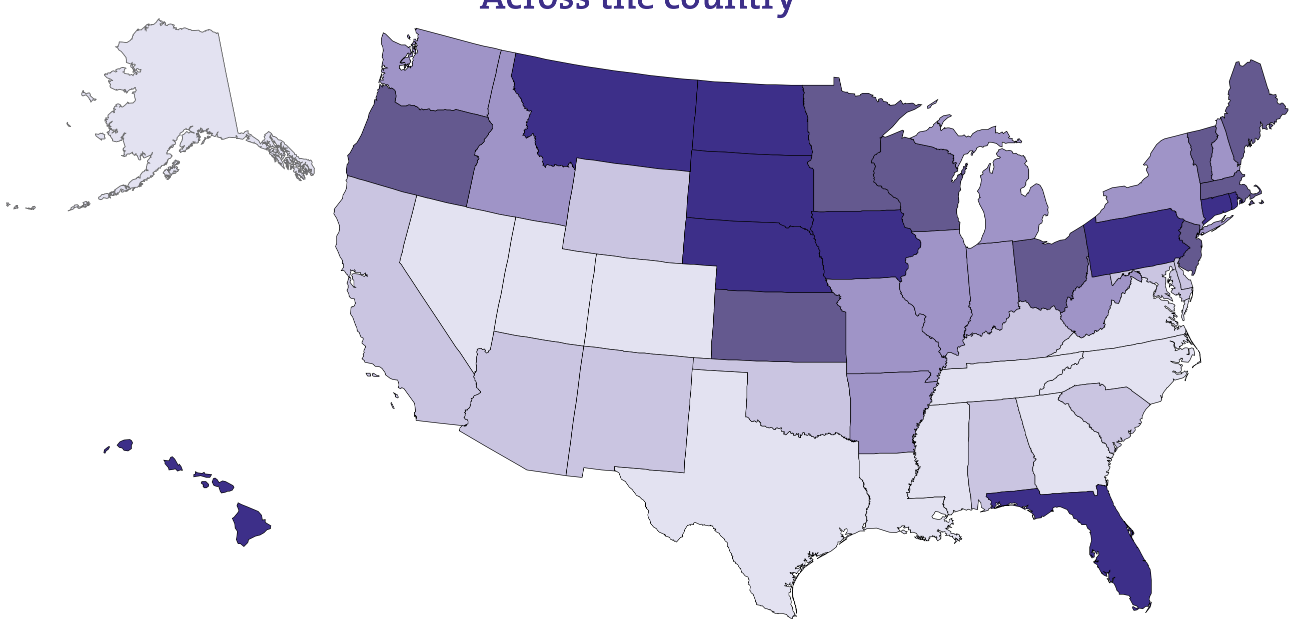
First Quintile	0.07-0.10
Second Quintile	0.10-0.12
Third Quintile	0.12-0.14
Fourth Quintile	0.14-0.16
Fifth Quintile	0.16-0.31

The typical caregiver for people over 85, a growing cohort, is a woman between the ages of 25 and 44. Because the numbers in the first group are growing faster than the numbers in the second, there may be a shortage of caregivers, particularly in the areas with the darkest colors on the maps.

New England



Across the country



Census Estimates, 2005
Map: Julia Reade, Federal Reserve Bank of Boston

PROTECTING Coastal Communities: Managing Change

by Zenia Kotval, Michigan State University, and
John Mullin, University of Massachusetts

Photograph: iStockphoto

Many New England coastal communities have long been protected from large-scale development. Marked by poor accessibility, stiff land-use and zoning restrictions, and a resistance to municipal water and sewer infrastructure, they have been able to control the pace and type of development. Today, however, technology has made the coast and islands more accessible. At the same time, fishing and fishing-related endeavors such as boat building that for hundreds of years supported communities' economic vitality have ceded to industries such as tourism and the construction of vacation homes.

Over the past 30 years the authors have had an active research interest in the evolution of coastal communities and have seen them undergoing a transformation more dramatic than any of the last century. The changes threaten the character, environment, identity, and quality of life of coastal residents, with low- and moderate-income people often hit hardest. Whereas in times past there was room for teachers, firefighters, police, and service workers in these communities, the exorbitant increase in housing prices is forcing them to live inland. To see this impact, just note who is commuting on the Hyannis-Nantucket air service each morning: They are the plumbers, roofers, repair people, and service workers that make Nantucket Island function.

When unplanned growth occurs, higher real estate prices cause fishermen and other laborers to seek homes elsewhere. The coastline starts to look like a monotonous stretch of built structures, and the picturesque working harbors that tourists crave begin to disappear. Fortunately, with careful planning, states and communities can diversify coastal areas to keep the traditional character. They do not need to put a moratorium on all change, but they should protect, nurture, and enhance what they most value.

Trends

Five broad trends are pressuring New England's coastal communities: new ways to connect people, changing demographics, real estate speculation, increased tourism (and recreational boating), and infrastructure expansion.

Connectedness

Coastal communities are no longer set apart from the urban core as much as they once were. Even where physical access is limited, technology and telecommunications provide a form of geographic freedom.

Telecommunicating, the Internet, and videoconferencing are having an impact on business. For example, an employee can work from an island home and only go to the city for essential meetings. The ability to connect this way has real advantages, but the feeling of getting away from it all is eroded. Access to more television stations, daily newspapers, and daily mail delivery (including United Parcel Service and FedEx) also affect a coastal community's sense of being a place apart. Although such connectedness is not negative, it highlights the need for residents to decide if and how they want to protect their locale's unique character and small-town ambience.

Changing Demographics

Established residents of coastal communities are ageing, and their children are finding it harder to stay. Demand for housing by upper-income retirees and vacationers is pushing up land and housing prices, making lodging difficult for the elderly, young people, and the new service workers—often immigrants—who come in to support tourism and construction.

The question is not how to arrest change but how to deal with it in an optimal way. Individuals and policymakers at all levels need to decide whether it is acceptable to let islands and coastal communities become upper-class havens or whether they want to seek a more balanced, sustainable pattern of growth.

Speculation

Increased development of elaborate vacation homes leads to increased real estate prices and taxes. If traditional residents and workers cannot afford to pay the taxes, they often sell their properties to developers who turn them into more expensive houses or condos, exacerbating the affordable-housing problem.

Fortunately, communities have access to tools that can help them slow the growth of development in areas they want to preserve and protect. They can do so through sophisticated zoning techniques that limit retail activity, enable planned unit and cluster development, and tighten septic requirements. Above all—as seen in Nantucket and Martha's Vineyard in Massachusetts, and Block Island in Rhode Island—they can use land banking, the purchase of development rights, and protective conservation easements to ensure that the character of the community remains intact.

If communities are to manage change without turning into no-growth outdoor museums, they must plan ahead.

The Quandary

Virtually every harbor in New England is facing the coming conflict between the fishing industry and tourism. Many fishermen will continue to face restrictions on where they work, what they can catch, and when they can operate. As a result, one can expect fewer fishermen working in local harbors. As their numbers have declined, there has been a steady rise in activities and facilities dedicated to recreational boating, day trippers, and sunset cruises. Fishing and tourism are rarely compatible. Here is the quandary: How do communities plan for the long-term revival of the fishing industry in the context of increased tourism demand? Gloucester and New Bedford in Massachusetts and numerous other communities around New England are facing those issues.

Infrastructure Stresses

Increased use and activity burden existing infrastructure. Coastal and island communities need to plan to protect their fragile ecosystems and find ways to handle increases in traffic, congestion, and stresses on water and sewer systems.

The first step is for residents to define what kind of community and values they collectively support. Some towns engage in public decision-making exercises to answer key questions: What is important to the people that live here? Should we embrace the inconvenience and charm of a narrow, winding road, or should we accommodate the growing traffic with wider, straighter roads? Should we expand the sewer and accept the new restaurants that spring up along the line, or does quality of life mean staying small?

Managing Change

If communities are to manage change without turning into no-growth outdoor museums, they must plan ahead. The following techniques are recommended:

- Encourage residents to come together to create a balanced and sustainable vision for the community. Chappaquiddick, Massachusetts, for one, implemented a yearlong visioning process to determine "Chappy values." Gloucester did something similar for its harbor master plan.

- Define the fundamental character and purpose of the community and agree on what needs to be protected. Gloucester, for example, has long prioritized its fishing industry. And Provincetown, Massachusetts, spurred on by the National Park Service, is starting to define what it values, too.

- Create a master plan with subsequent zoning regulations that will protect community character. Portland in Maine; Portsmouth in New Hampshire; and Fairhaven and New Bedford in Massachusetts are all working on this.

- Create regulations that protect the ecosystem and environment—a hot-button issue in towns like Fall River, Massachusetts.

- Define sustainable limits to growth.

- Determine what water-dependent uses are permissible, and place them in the zoning regulation. Bridgeport, Connecticut's efforts to enable a shopping center on its waterfront is an example of what can go wrong.

- Broaden the shoulders of the tourist season or create year-round activities to supplement the economy—coordinating the efforts in a way that doesn't let tourism become the only game in town.

- Plan on diversification in order to balance fishing, boating, retail, and residential activities.

- Stimulate housing that is affordable for workers, seniors, and other low- and moderate-income people.

- Plan for both a working and a recreational harbor.

Change *Will* Occur

Change will occur. The challenge is to balance multiple needs. Different uses of the waterfront could complement each other if carefully planned. A working harbor and a recreational harbor are not mutually exclusive. Increased building and growth in infrastructure do not always harm the environment. The key is to plan for change and understand it while protecting community character.

A long-term vision, a sound capital budget, and careful environmental stewardship can prevent unwanted consequences of unmonitored market forces. The character of New England has always been defined largely by its coastline, and communities owe it to posterity not to let the coastline develop haphazardly.

Zenia Kotval *is an associate professor of urban and regional planning at the School of Planning Design and Construction, Michigan State University, East Lansing.* **John Mullin** *is dean of the graduate school at the University of Massachusetts at Amherst.*

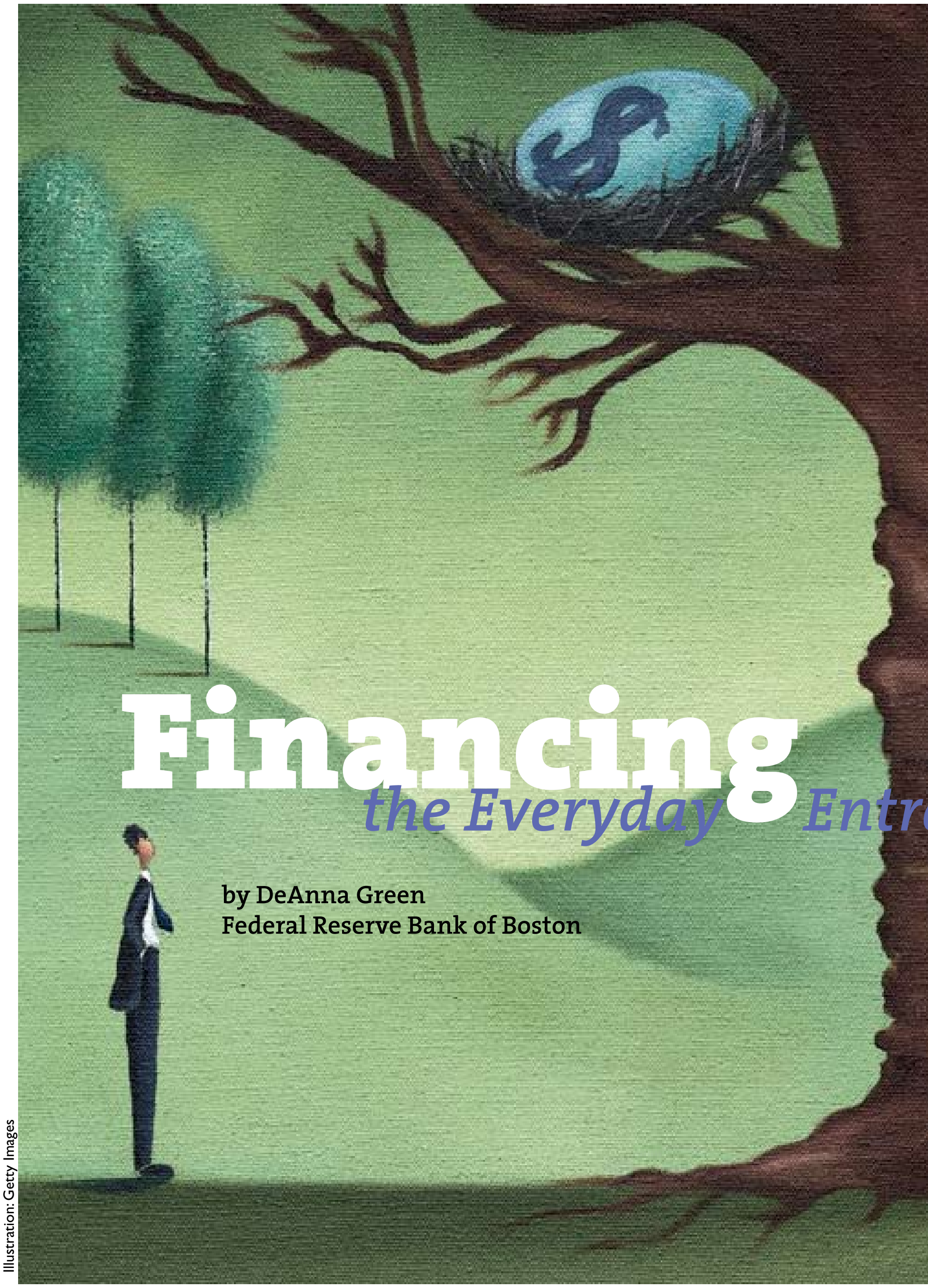


Illustration: Getty Images

Financing the Everyday Entrepreneur

by DeAnna Green
Federal Reserve Bank of Boston

It is not news that some small businesses face struggles when seeking financing. Small business lending can be a risky venture for several reasons, including the fact that every business is unique and each case different. This is especially true for what might be called the *everyday* small business.

The everyday sector is a small business subsector that has often fallen into a crack. It is composed of people who may lack the skills and knowledge needed to own and operate a business. They may be immigrants or families with low incomes without the resources to let them take a chance and not look back. But they all share a goal of turning an idea into an income and improving their lives. Every day, several everyday entrepreneurs are likely to seek help from one of the many programs offered across New England.

Trying to Go It Alone

Few everyday entrepreneurs know how the financing system works, and many start out by going it alone. The first step is usually to approach a bank. However, access to bank financing can be difficult for everyday entrepreneurs. Bank criteria are sometimes hard to meet, especially for very small businesses, businesses in early stages, and businesses owned by entrepreneurs without an established credit history or a poor one.

That is not to say banks are not willing, but an everyday entrepreneur may need to take several steps before qualifying for a bank loan. Sometimes that means establishing a credit history and gaining experience for the business, two things that are hard to do without financing.

Many types of loan funds have been created to address the needs of this subsector. Although they may not use the term everyday entrepreneur, municipalities, state agencies, and especially community-based organizations now operate loan funds specifically to create the bridge to help these small businesses eventually access mainstream capital. They share the goal of supporting entrepreneurship in communities and have realized the need for new tools and resources.

Traditional Loan Funds

New England is home to many nonbank lenders that support entrepreneurship at various stages and scales. The Massachusetts Association of Community Development Corporations reports, for example, that in 2005 Massachusetts CDCs lent more than $1.17 million to small businesses, with an average loan size running around $40,000.

Since certain funders (Franklin County CDC in Greenfield, Massachusetts, for example) require that business owners first be turned down by a bank before being eligible to receive financing through their programs, it is safe to say that those community-based lenders are financing businesses that otherwise would have had nowhere to turn.

Over time, some community-based lenders have become more sophisticated both through expanding the geography they cover and by collaborating with one another and with traditional financial institutions such as banks. Some nonprofits, including Community Capital of Vermont and MicroCredit in New Hampshire, cover a whole state.

An Imported Tool

In addition to providing financing through traditional loans, lenders are always thinking about ways to offer other products. An example is a product meant specifically for growth-oriented businesses—a subset of the everyday subset.

These are existing businesses that have acquired enough experience and credit history to access financing but need to augment their cash flow in order to allow for a planned growth. They may want to add a product to the business, expand into a new market, or shift the business focus as a result of changing markets. What this specific niche of everyday small businesses needs most is *patient capital*—inexpensive capital that gives a growth-seeking business the time needed for sales to take off. Instead of requiring specified monthly amounts, patient capital ties repayments to a percentage of sales, allowing the business to operate without being bogged down in too much debt too soon.

The Western Massachusetts Enterprise Fund has done several patient-capital loans. As executive director Chris Sikes explains, patient capital acts as both debt and equity. Frequently, the businesses receiving these loans, he says, have experienced a change in the market and need capital in order to redevelop the line of business. Their financial projections show potential for growth, but only over time. If sales don't meet projections, the lender doesn't get the anticipated payment, and the risk is no less than one associated with a traditional loan.

Sikes explains that patient capital is not a new concept. Often referred to as *mezzanine financing*, it is familiar in the business-lending world. State agencies and quasipublic groups such as the Massachusetts Community Development Finance Corporation also do some patient-capital lending. "The implementation of this product is similar to venture capital in that both are patient, i.e., the business is not immediately paying back the principal," says Sikes. He adds that the approach has been a welcome innovation across the Western part of Massachusetts.

Collaborations are equally important. As Sikes points out, they allow banks to get involved in deals they might not otherwise have been able to touch. Other business assistance organizations are critical, too—both for the capital they provide through their loan programs and for technical assistance such as helping entrepreneurs develop financial statements, marketing plans, and business plans.

Ideas for Future Innovation

In looking ahead, some lenders with experience and strong portfolios are thinking about how they can do more with their resources. They realize that the everyday entrepreneur represents a demand that is not being entirely met, and they feel a need to develop greater lending capacity.

Photograph by Don Treeger, Springfield Union News

Gary Weiss, owner of The Smokin' Hippo, is grateful for a business loan from the Franklin County Community Development Corporation in Greenfield, Massachusetts.

Will Armitage, executive director of the Biddeford Saco Area Economic Development Corporation, is interested in seeing a secondary market for small business loans similar to that for residence-secured credit products. The idea would be for nonprofits to sell off their business loans and recycle the proceeds back into the community.

However, there are hurdles to overcome in creating a secondary market. First, on a practical level, there are challenges related to loan documentation. Different organizations use different documents for their lending agreements, which means that bundling the loans to make them large enough for resale on the secondary market is complicated. An interested buyer would have to sift through different documents from each organization in order to ensure it had the necessary collateral and the security clauses generally required by an investor. That would take time.

Second, it is not clear that investors would receive the returns they require to foster sufficient demand. That is partly because community development lending is not yet well understood in other markets.

Until such issues are addressed, Armitage says, "Many organizations are facing limited resources, and we are asking ourselves, "How do we as an industry use our resources to the best of our ability and then turn them around rapidly enough so that we can continue to finance the businesses and communities we serve?"

As the industry moves forward and tries to reach out to more of the everyday entrepreneurs, additional solutions will be needed. But judging from New England's history of collaboration and innovation in this arena, the solutions will be found.

DeAnna Green *is the senior community affairs analyst at the Federal Reserve Bank of Boston.*

Photograph: Getty Images

Historic PRESERVATION meets community development

by Kennedy Lawson Smith
The Community Land Use and Economics Group

While taking a cruise down the Potomac River in 1853, Louise Cunningham was aghast to see that Mt. Vernon, George Washington's stately home, was nearly in ruins. The owner, one of Washington's great-great-nephews, could not maintain it, and neither the federal nor state governments were willing. When Louise wrote her daughter about it, Ann Pamela Cunningham organized the Mt. Vernon Ladies' Association, inviting women from each of the then-30 states to be board members, and raising enough money to buy and rehabilitate the estate.

The Mt. Vernon Ladies' Association (still the owner and operator) was the first U.S. historic preservation organization, and for more than 100 years the national preservation movement followed its example, focusing exclusively on preserving landmark properties through local nonprofit organizations staffed largely by volunteers. Today's approach involves more stakeholders and aims to preserve history while achieving other community goals simultaneously.

Suburbanization

Although the federal government enacted some legislation to protect historic places over the years (notably the Antiquities Act of 1906, protecting prehistoric Native American sites and artifacts on federal lands), it remained largely absent from the historic preservation movement until the 1960s. After a committee report on preservation practices throughout the world, *With Heritage So Rich,* generated momentum, Congress passed the National Historic Preservation Act of 1966, creating the National Register of Historic Places, a network of state historic preservation offices, the federal Advisory Council on Historic Preservation, and a historic preservation fund.

At the time, communities were undergoing a profound transformation. The GI Bill (1944) had fueled construction of suburban housing subdivisions, and the Interstate Highway Act (1956) had spawned a sprawling network—now almost 50,000 miles.[1] Although originally intended to separate homes and schools from noxious industries, Euclidean zoning (named after Euclid, Ohio) made it difficult to integrate the mix of uses—housing, shopping, offices, entertainment—that cities once enjoyed and that provide economic balance. Also, the accelerated depreciation tax benefit (1954) was attracting millions of dollars to the development of shopping malls.

The preservation movement's expertise in reusing existing buildings and the community development movement's capital and real estate experience offer synergies.

These events shifted economic lifeblood from cities to suburbs. The percentage of Americans living in suburbs grew from 23 percent in 1950 to 50 percent in 2000.[2] Fifty-five percent of the nation's housing units are now suburban.[3] And between 1960 and 2003, the amount of U.S. retail space grew from four to 39 square feet *per capita*, as new shopping centers, malls, and discount stores sprouted up in the suburbs, surpassing the amount of retail space Americans' buying power can support.[4] As businesses moved to the suburbs, downtown vacancies triggered a downward spiral of decay and disinvestment. When civic leaders stopped believing their downtowns could recapture economic viability, they started demolishing buildings. No exact count exists of historic buildings torn down between 1960 and 2000 (many using federal urban renewal funds), but hundreds of thousands were probably lost, including scores of New England mills and thousands of houses and commercial buildings in the downtowns of cities like Hartford, Providence, and Springfield.

Preservation and Community Development

The preservation movement responded by, for example, lending support to two laws that have been instrumental in broadening the scope from individual buildings to entire neighborhoods and commercial centers. In 1976 Congress created a program offering tax credits to developers and property owners who rehabilitate historic income-producing buildings. And in 1977 the nonprofit National Trust for Historic Preservation launched the National Main Street Center to help revitalize historic downtowns and neighborhood commercial corridors.

Meanwhile, those concerned about affordable housing were responding to parallel challenges and, like preservationists, were advocating for programs and resources to help solve problems caused or exacerbated by the same forces threatening historic neighborhoods and commercial centers. Three major housing finance intermediaries all appeared around the same time—Neighborhood Reinvestment Corporation in 1978, Local Initiatives Support Corporation in 1979, and the Enterprise Foundation in 1982. The low-income housing tax credit was created by the Tax Reform Act of 1986.[5] And the handful of community development corporations (CDCs) seen in the 1960s had grown to almost 2,000 by 1991.[6]

Despite all that community development groups have in common with local Main Street programs, the two movements have had few points of interaction. But the potential is enormous. Consider the following:

- Historic downtowns and neighborhood commercial corridors offer compact development, walkability, jobs, public services, and community gathering places.

- The older houses in inner cities are closer to work, schools, public transportation, and shopping than comparable new houses in suburbs.

- Older and historic houses offer a tangible solution to some affordable housing needs. According to real estate expert Donovan Rypkema, Americans demolish an average of 577 houses over 50 years old every day—more than 6.3 million houses over the past 30 years. Yet, 28 million American households are struggling to find quality affordable housing. One-third of the nation's poorest households already live in older and historic homes, and half of all tenant-occupied older and historic homes rent for less than $500 per month, less than most newly constructed "affordable" units.[7]

- Downtowns and older neighborhoods are already served by fire and police protection, ambulance service, and utilities, and represent public and private investment that, if fully utilized, would not need to be replicated for new shopping centers and neighborhoods.

- The preservation-based national Main Street program generates jobs. Using a common-sense framework for organizing revitalization activities, participating communities have cumulatively experienced more than $31.5 billion in new investment and have generated net gains of more than 72,000 new businesses and 331,000 new jobs.[8]

- Existing buildings use energy resources already spent for construction.

- And from the point of view of preservationists, the budget for construction of new affordable housing surpasses the incentives available for rehabilitating historic buildings for affordable housing.

Time for Collaboration

After 30 years of parallel development, it's time for these movements to join forces. The preservation movement's expertise in reusing existing buildings and the community development movement's capital and real estate experience offer synergies. Already the Providence Preservation Society Revolving Fund partners with local CDCs, and East Carson Main Street in Pittsburgh collaborates with South Side Local Development Corporation, suggesting that a new model might be possible—one that melds skills and resources into a single, cohesive entity with a preservation-based focus on community development.

Groups working to create new housing or to bring supermarkets to inner-city neighborhoods, for example, could increase their use of existing buildings. Preservation groups could increasingly consider the issues that drive community development and seek ways to make historic neighborhoods and commercial corridors easy places for development to occur.

Historic preservation should not be an afterthought but the central value guiding community development practice. Historic places exist because, in every generation, someone has made a decision to keep them in good repair and pass them along. The buildings speak volumes about the people who built them and about their values, dreams, and skills.

America's municipalities can become more environmentally sensitive, culturally rich, economically sound, and reflective of diverse histories if community development helps preserve historic places, augmenting them with new buildings and public spaces representing the best urban design practices of the era in which they are created.

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Endnotes

1 See Federal Highway Administration, http://www.fhwa.dot.gov/programadmin/interstate.html.

2 U.S. Census Bureau, "Demographic Trends in the 20th Century," *Census 2000 Special Reports* (Washington, D.C.: Government Printing Office, 2002).

3 U.S. Census Bureau and U.S. Department of Housing and Urban Development, *American Housing Survey for the United States: 2005* (Washington, D.C.: Government Printing Office, 2006).

4 Reported widely by the International Council of Shopping Centers and Bear Stearns. According to the U.S. Energy Information Administration's 2003 survey of commercial buildings in the United States, there were 11,192 million square feet of retail space in the nation in 2003. According to the U.S. Census Bureau, the country had 287,985,000 residents that year—38.9 square feet of retail space per capita in 2003. Of this, roughly half was in shopping centers and shopping malls. See also http://www.deadmalls.com.

5 The same legislation trimmed the historic rehabilitation tax credit from 25 percent to 20 percent and imposed passive-activity restrictions that made the credit difficult to use.

6 Ronald F. Ferguson and William T. Dickens, editors, *Urban Problems and Community Development* (Washington, D.C.: The Brookings Institution, 1999).

7 Donovan Rypkema, *Historic Preservation and Affordable Housing: The Missed Connection* (Washington, D.C.: National Trust for Historic Preservation, 2002), http://www.nationaltrust.org/issues/housing/Missed_Connection.pdf.

8 National Main Street Center, http://www.mainstreet.org/content.aspx?page=7966&section=16. See also Mamie Marcuss, "Reviving Main Street: Two New England Case Studies," *Communities & Banking* (winter 2005).


Newton Community Service Center courtesy photograph

Josephine McNeil

Creating Housing Opportunities

Josephine McNeil, executive director of Citizens for Affordable Housing in Newton Development Organization (CAN-DO), came to housing activism by way of her passion for education. While working as a teacher's assistant in an upstate New York city, she was shocked at how limited the educational opportunities were compared with what her own children enjoyed in a nearby suburban district. In 1984, she moved to Greater Boston for law school and chose to live in Newton so her teenagers could continue to access a quality education. It troubled her, though, that other families were shut out of towns like Newton by high housing costs. That is why today she dedicates herself to creating opportunities for families—educational and otherwise—through affordable housing.

Describe how your background has influenced you.

JMcN: I grew up on Long Island prior to government-supported student loans. So although I started at Hunter College after high school, I had to leave and get a job. I worked as a clerk for the U.S. Air Force Procurement Office in Manhattan, where I met my husband. After children came along, we moved to Wappinger's Falls, New York, where I became active in the schools and was elected to the school board. When my youngest went to school full-time, I became a teacher's assistant in Poughkeepsie. That was an awakening. Urban children didn't have anything like the educational opportunity of children in Wappinger's Falls. The inequality was shocking.

When my oldest went to college, I entered Vassar College's Returning Students Program, getting an education degree in 1984. But I kept thinking about the inequities I'd witnessed and decided I might have more impact if I became a lawyer.

Were you planning to use the law degree to promote equal education?

JMcN: Originally. But then I became interested in the connection between affordable housing and access to education. At Boston College Law School, I took a course in which I had to identify a piece of legislation and follow it through the Massachusetts legislature. I chose a housing bill. That was my introduction to housing.

After graduation, I worked first at the Massachusetts Appeals Court and then as an associate in Brown Rudnick's affordable housing group. I was there until 1993.

Real estate lawyers saw a lot of foreclosures in the early 1990s.

JMcN: Yes, the market tanked. But one of the first matters I worked on had to do with the expiration of affordability protection for an older HUD-subsidized housing development.

In the 1970s, the federal government provided low-interest loans to developers to produce affordable housing. Developers could prepay their loan after 20 years and end the affordability restrictions before the 30- to 40-year mortgage term ended. At Castle Square in the South End, the owner made a deal to sell to another developer. Although there was no requirement to notify tenants then, the tenants found out and inserted themselves into the process. The state's Community Economic Development Corporation (CEDAC, a quasipublic agency that provides technical assistance and funding to nonprofits) advised the tenants, and Brown Rudnick provided legal representation.

How did you like representing tenants?

JMcN: It was wonderful. The tenants really stood up for themselves. I continued doing outreach with tenant organizations with a for-profit developer after I left Brown Rudnick. While working for the developer (1994 to 1997), I learned useful skills like how to put deals together, how to work with professionals.

One thing I noticed: Many people were interested in providing affordable housing, but there was little focus on helping tenants better their economic circumstances so they wouldn't always be relying on subsidy. In 1997, I started a consulting business to fill that gap, but at the time developers couldn't see the value of helping tenants reach independence. Today everyone sees it.

How did CAN-DO come to be?

JMcN: CAN-DO (Citizens for Affordable Housing in Newton Development Organization) was incorporated in 1994. At the time, I was on the board of Newton Community Development Foundation (NCDF). Newton wanted to establish an entity to help it meet the federal HOME program's stipulation that jurisdictions receiving money allocate a portion to a community housing development organization

(CHDO). CHDOs are meant to empower lower-income people by requiring that one-third of the board be people eligible for the housing being created. They don't have to be residents, but they must be in the same income range.

Newton contacted NCDF for help creating a CHDO. With two other NCDF board members and residents of the foundation's properties, the first CAN-DO board was formed. I was elected as the first president, and in 1999, I became executive director.

Describe CAN-DO's housing.

JMcN: We develop both rental and for-sale housing. To date we have created 38 units, 31 of which are deed-restricted to preserve their affordability. We just completed two condominium projects, both in Newton Upper Falls. For the five-unit Linden Green Homes, we purchased an early 19th Century Greek Revival house that was in great distress. We created a one-bedroom unit and two units with two bedrooms in the existing building. We also constructed a duplex of two three-bedroom units. Three Linden Green units are affordable and two are market rate.

The Newton Zoning Board of Appeals granted a comprehensive permit in 2004 under the state's affordable-housing statute, 40B. The neighbors filed an appeal, but settled in 2005. They also tried to have our request for Community Preservation Act funding rejected.[1] The neighborhood resistance delayed construction.

How did the lawsuit make you feel?

JMcN: It was frustrating. The neighbors wanted four units instead of five. They couldn't accept that being able to sell a fifth unit at market rate was necessary to subsidize the affordable units. I finally said, "I don't understand how it is going to impact your life on a daily basis if one more family is able to live at this location." A neighbor replied, "We gave at the office, Josephine." The delays added time, and time is money. If we'd been able to list the market-rate units a year ago, I think they would have sold as quickly as our affordable ones.

Who is eligible for the housing?

JMcN: Linden Green's affordable condos are priced by the Massachusetts Department of Housing and Community Development for families with incomes below 80 percent of area median income, adjusted for family size. The price for our one-bedroom unit is $160,000, the two-bedroom unit is $165,000, and the three-bedroom unit is $185,000. Our market-rate units are priced at $429,000 for the two-bedroom unit and $599,000 for the three-bedroom one.

At another recent project, Millhouse Commons, we opted for modular (prefabricated) units to reduce costs. Our architect specified the units, though, so we have clapboard siding instead of vinyl, and we added porches. Of the six units, two are market rate, and one of those is a historic renovation. Among the affordable units there are two levels of affordability—one for those whose family income is below 80 percent of median income and one for those who are at 80 percent to 100 percent of median income.

In both projects, we had 124 applicants in the lottery for the units affordable to families below 80 percent.

Is the lottery only for Newton residents?

JMcN: No, in fact the state's Local Initiative Program requires outreach to ensure that all ethnic and racial groups have an opportunity to purchase affordable homes. We advertised in *Sampan*, *El Mundo Boston,* and *The Boston Bay State Banner.*

Where does CAN-DO get funding?

JMcN: Well, most foundations focus on cities, which is good, although it may be to the detriment of the hidden poor in suburbs.[2] The city of Newton has been supportive in providing Community Preservation Act funds. CAN-DO couldn't have managed otherwise. We do apply directly to the state for affordable-housing funds, but state programs favor towns with a lower cost per unit. Newton doesn't have land to donate, so CAN-DO must buy property on the open market.

What concerns you most today—housing and otherwise?

JMcN: I'm concerned that America has neglected urban schools and has failed to educate everyone. For years, nobody cared what was happening to minority children in cities, and now we lack an educated workforce.

Similarly, I'm concerned about the lack of housing for low- and moderate-income families. Communities need to accept greater density at certain locations and increase their funding. Housing should be a human right. If more families can live in safe places and send their children to good schools, the children are more likely to grow up economically independent and give back.

We need to stop accepting homelessness as a fact of life. It's a national scandal that so many children are homeless. The message we send children who live in shelters is, "You are not important." And we expect those children to grow up and conform to societal norms? It's not rational. If you have said to them all along, "It's not important where you live, it's not important what quality of education you get," why should they adhere to the norms most of us live by? The priority should be housing, not shelters.

Endnotes

[1] The 2000 Massachusetts law permits municipalities to assess a property tax surcharge of up to 3 percent to meet needs such as affordable housing. The state provides a matching grant.

[2] Alan Berube and Elizabeth Kneebone, in a December 2006 Brookings Institution report, say poverty in suburbia is rising. See http://www.brook.edu/metro/pubs/20061205_citysuburban.htm.

Building Vermonters' Credit

by Jim White
Champlain Valley Office
of Economic Opportunity, Inc.

Government agencies and community action groups have long recognized the need for low- and moderate-income people to build up their assets, especially people trying to rise out of poverty.

In 2003, to help Vermont address that need, a local representative of the U.S. Internal Revenue Service tapped the Champlain Valley Office of Economic Opportunity (CVOEO)—and many individuals, businesses, nonprofits, and federal and state agencies—to form a Vermont version of the CASH (Creating Assets, Savings, and Hope) Coalition.

History of a Movement

CASH is part of the National Coalition Campaign, which was started in 2001 by the U.S. Internal Revenue Service, the Annie E. Casey Foundation, and other national organizations. In 2002 a group in central Vermont called Vermonters Growing Assets (made up of IRS representatives, Central Vermont Community Action Council, Casey Family Services, and what is now Opportunities Credit Union) sought to implement the concept in Vermont. Although that attempt failed to gather momentum, in 2003 Christine Curtis, a local IRS representative, tried again—this time in the Burlington area.

Curtis wanted to get the word out about the Earned Income Tax Credit (EITC), a federal benefit that returns tax money to people earning low wages. But because her IRS office was facing staff cuts, a decision was made to partner with community groups interested in promoting programs to help low- and moderate-income people. Curtis got on the phone and a coalition was formed. Although CASH has no legal identity, it thrives through networking among those who feel strongly about asset building.

The Vermont version of the CASH Coalition includes CVOEO's Micro Business Development and Chittenden Community Action Programs, Vermont Legal Aid, Neighborkeepers, Vermont Student Assistance Corporation, Northfield Savings Bank, the CPA firm of Grippin, Donlan & Roche, the city of Burlington's Community and Economic Development Office, representatives of the U.S. Department of Housing and Urban Development (HUD), the Internal Revenue Service, Casey Family Services, U.S. Department of Agriculture Rural Development, United Way of Chittenden County, Direct Foundation, and Opportunities Credit Union. Staff from the Vermont Economic Services Division and the Vermont Student Assistance Corporation attend meetings regularly, as do representatives from other banks and credit unions, nonprofits, and business owners.

Expanding CASH

In the first two years, the coalition's priority was to create publicity for the federal Earned Income Tax Credit—for example, by placing signs on area buses. The idea was that encouraging eligible people to use EITC could foster savings and assets.

The EITC focus soon expanded to setting up locations where people could have their taxes prepared for free. Free tax-preparation sites target those who are likely to be candidates for EITC, and they allow more people to be screened for eligibility.[1]

For the previous 27 years, CVOEO was the sole provider of free tax services, but in 2004 Casey Family Services set up a Winooski site. The city of Burlington added a site at City Hall in 2005.

CASH meetings became the perfect venue for sharing resources, and for planning and coordinating publicity and volunteer training. As a result, the number of volunteer tax preparers increased by one-third, the sites processed hundreds of additional returns, and approximately $249,758 in additional EITC refunds were distributed in tax year 2005 over the total in tax year 2003.

CASH courtesy photograph

Lori Belding of Northfield Savings Bank (left), Robyn Bahar of Casey Family Services, and Mayor Bob Kiss at the opening of the Second Free Credit Report Day in September 2006.

In late 2004, concerned about the credit and debt issues of low-income households and interested in expanding beyond EITC, the CASH Coalition staged a public presentation regarding asset-development services available in the community. Coalition members surveyed and mapped existing countywide financial-education and credit-assistance services, and produced both a brochure and web site. They also established a standing committee, whose task was to explore strategies for community financial education.

Free Credit Review Report Day

The coalition's activities include Free Credit Report Review days, during which participants receive, for example, free credit scores, paid for by Northfield Savings Bank and the City of Burlington. Many organizations pitch in at these events. Casey Family Services staff field registration calls. Opportunities Credit Union, New England Federal Credit Union, and the Homeownership Center provide credit counselors. Northfield Savings Bank offers funding and technical

Illustration: Getty Images

staff, and the City of Burlington provides financial backing.

On these occasions, low- and moderate-income people are able to obtain their credit report and score—and sit down with a professional who knows how to interpret what the report says and can suggest options.

At the most recent event, a representative of the Casey Family Services welcomed each participant, handed out intake forms, and gave a quick overview of the day's program. Ben & Jerry's provided ice cream coupons. Children were entertained with coloring books, crayons, and plastic binoculars. Beverages and snacks were available.

Participants were offered short seminars on topics such as budgeting, saving, identity theft, and credit repair. They could also get the latest information on topics such as the Earned Income Tax Credit, where to get taxes prepared for free, how to open an individual development account (IDA)—which offers matching money to help people build assets for a specific purpose—and where to find financial education classes.

The Future of CASH

CASH's goals for 2007 include an expanded effort to collect data concerning debt, savings, and bank use; development of a more rigorous marketing plan; an investigation of refund-anticipation loans and their potential abuse; development of a debt-reduction IDA program; and implementation of financial education classes for high school and younger age groups.

CASH seems to generate new projects and linkages the way the nucleus of an atom spins off protons and electrons. In 2006, the City of Burlington got a National League of Cities grant offering technical assistance for devising economic development strategies with several other CASH partners. Opportunities Credit Union obtained a grant to hire an appointment scheduler for the three free tax sites. The scheduler will be working through Vermont 211, thus freeing tax site coordinators for other activities. (When people dial 211, they reach a confidential information and referral service provided by United Way, which is also a CASH member.) In addition, Vermont's community action agencies got a grant to replicate CASH in other areas of the state. Meanwhile, CASH is applying to Leadership Champlain and Champlain College for assistance from businesspeople and student teams on specialized projects.

When those who know the coalition well are asked what lies ahead, their answers tend to highlight CASH's unique combination of passion and practicality.

Robyn Bahar, Casey Family Services community liaison, says, "I see the group moving forward to become a watchdog for and champion of Vermont's low-to-moderate income population. We are becoming more action-oriented, and I think the group will evolve to become an agent of change."

Margaret Bozik, representing the City of Burlington, imagines CASH becoming an influential voice at the legislative level, "Eventually we will be in a position to help create policies that positively and specifically impact the financial situation of low- and moderate-income Vermont households."

And Christine Curtis adds, "CASH brings together sectors of the community that haven't worked this closely before, and the result is an important resource for those we serve. … In another three years, I can picture CASH becoming its own organization. I'll be retired by then and would gladly work there. Being involved with CASH has been the best part of my IRS career."

Jim White, *director of the microbusiness, individual development accounts, and financial education programs at the Champlain Valley Office of Economic Opportunity Inc. in Burlington, Vermont, chairs the financial education committee of the CASH Coalition.*

Endnote

1 For tax year 2006, eligibility requires that household income be less than $39,000.

Manufactured Housing Comes of Age

A Support Network for Resident-Owned Communities

by Cheryl A. Sessions
New Hampshire Community Loan Fund

New Hampshire Community Loan Fund courtesy photograph

One morning in 1987, Florence Quast arrived home from night duty as an obstetrical nurse in Nashua, New Hampshire, and was surprised to see her neighbors assembled by the mailboxes of her manufactured-home community.

"We're going to have to move," the residents said anxiously. "They're going to sell the park to a developer." Alarmed, Quast and the other 56 families in the Milford neighborhood contributed $10 each to retain a lawyer. With the help of the New Hampshire Community Loan Fund, New Hampshire Legal Assistance (a low-income, legal-services organization), and other nonprofits, they made their own offer for the park and ultimately launched the Souhegan Valley Manufactured Housing Cooperative.

"Not only did we do it," says Quast, "but 20 years later the co-op is still working."

A Growing Trend, Rooted in New Hampshire

Today the trend for owners of manufactured housing to purchase their communities (no longer called trailer parks) has accelerated, as has the quality and resale value of the homes themselves, providing a viable alternative in costly housing markets.

When the Loan Fund organized and made its first loan to the Meredith Village Cooperative in 1984, a new movement began. Though slow to start, the movement to preserve manufactured-housing communities by converting them to resident ownership has been picking up steam.

The Loan Fund converted 57 parks by 2002.[1] Since then, the number of resident-owned communities (ROCs) of manufactured homes in New Hampshire has increased from 57 to 82—and the number of households in ROCs went from 2,803 to 4,143.At the same time, resident-owned communities as a share of the total number of manufactured-housing communities in New Hampshire rose from 12 percent to nearly 18 percent. The change is due in part to lenders' positive repayment experience, which has increased their comfort with the creditworthiness of ROCs.

As Claira Monier, executive director of New Hampshire Housing (NHH), the state's housing finance authority, says, "We were able to show that lending to cooperatives was a good investment, that it made financial sense for conventional banks to participate." Since the early 1990s, the debt packages that have financed most of the homeowner-led community purchases in New Hampshire have come not only from nonprofits such as the New Hampshire Community Loan Fund, but also from private banks.[2]

Two-Tiered Approach

In 2003, the Loan Fund and NHH also started doing single-family financing for manufactured homes in ROCs. By the end of 2005, in a real sign of progress, 42 percent of homebuyers who financed their home purchase in a ROC were able to obtain a mortgage equal to one for a site-built home on an individually owned lot.

Owning the land plus obtaining single-family financing for manufactured homes is fairly new. This two-layered, market-based approach has resulted in significant economic benefits for low- and moderate-income people.

In 2005, the University of New Hampshire's Carsey Institute studied data on manufactured homes in eight New Hampshire towns. The Institute took sales data from investor-owned communities (communities where the residents owned only their unit and not the land or the community infrastructure) and compared them with sales data from resident-owned communities.

Since the early 1990s, the debt packages that have financed most homeowner-led community purchases in New Hampshire have come not only from nonprofits but also from private banks.

In the one-year period between September 2004 and September 2005, homes in the ROCs sold more quickly, taking 60 days to sell on average instead of the 83 days in investor-owned communities—and for more per square foot ($6.50, or 12 percent more). The study also found that, after 10 years of being part-owners of the community, homeowners who paid carrying charges for their lots in ROCs were able to pay an average of $40 per month less than homeowners who rented in traditional, investor-owned communities.

Today the Loan Fund's two-layered approach is becoming the basis for a national effort to support owners of manufactured homes who want to control their land rents, improve their neighborhood, and build a secure homeownership asset.

A multifaceted system of support is important. According to Jerry Rioux, who has been converting manufactured-home communities to cooperatives in California for 25 years, New Hampshire is unique. "What New Hampshire has done, unlike any other state where there are resident-ownership conversion services, is create a support system of leadership development, training, and home financing."

Across New England

To support the ownership movement, the Loan Fund established ROC USA in 2006. The Meredith Institute, ROC USA's training division, was launched in 2005 to accommodate groups and individuals interested in the New Hampshire system, By November 2006, 34 people from 17 states were converging on the institute to gain knowledge of successful manufactured-housing community conversions. Among states that have sent representatives to trainings are Massachusetts, Rhode Island, Maine, and Vermont.

Rhode Island

Rhode Island has shown strong interest in resident-owned communities. The Statewide Planning Council, for example, in its 2006 Five-Year Strategic Housing Plan, called for technical assistance and fund-raising for infrastructure improvements and for organizing homeowners to purchase their communities.[3] The homeowners have a statute granting them a right of first refusal that creates the opportunity for purchase, but only if the current owner plans to sell or lease the land to someone who will change the use of the land from a manufactured-home community.

Rhode Island has 46 licensed manufactured-home communities, 10 of which are resident-owned. Support has been critical. ROCs in Newport and Newport County, for example, were assisted by two groups. One was the Community Development Consortium, an East Greenwich-based partnership among smaller community development block grant communities that collaborate on housing and community development in Washington County. The other was Church Community Housing Corporation, a Newport-based, countywide housing agency.

New Hampshire Community Loan Fund courtesy photograph

Owners of manufactured homes in resident-owned communities generally enjoy increased security and higher resale value than homeowners in investor-owned parks.

Maine

In Maine, interest in resident-owned communities has increased significantly of late. Requests for more information have come from those who specialize in cooperatives, as well as from municipal officials, community development lenders (such as the Damariscotta-based Genesis Community Loan Fund), and community development corporations.

At a September 2006 conference on cooperative enterprise held in Bangor, Terry Lewis, vice president of the National Co-op Bank and former executive director of the National Association of Housing Cooperatives, generated interest with a description of the New Hampshire model. Also, the Genesis Community Loan Fund began working with the town of Fort Kent to help residents convert a 16-unit manufactured-home park under threat of closure to resident ownership. And it is advising legislators on amending Maine statutes to require that owners of manufactured-home parks notify the state housing finance agency of intent to sell—a small but important step to make the market more transparent.

Vermont

In Vermont, there are a few resident-owned communities, although the primary method of preserving manufactured-home communities has been nonprofit ownership. The nonprofits welcome homeowner associations' input but manage the communities themselves; individuals have a landlord-tenant, leased-land relationship. Dawn Moskowitz of Opportunities Credit Union reports that homeowners in Vermont's investor-owned manufactured-home communities are starting to express interest in resident ownership.

In April 2006, the Vermont Governor's Commission on Manufactured Housing released a report that included recommendations supporting resident ownership. In the 2006 legislative session, a statute was passed to make it easier for residents to pursue cooperative ownership.

Massachusetts

In Massachusetts, Gardner-based RCAP Solutions Inc. has been concerned that owners of manufactured-home parks face pressure to sell to change-of-use developers. The pressure has come as land values, the cost of upkeep, and environmental enforcement have increased. So the nonprofit is developing a manufactured-housing-park program for "sustaining and increasing the inventory of affordable housing" and "maximizing local neighborhood excellence through neighborhood revitalization."[4] Its goal is to protect assets and create wealth among low- and moderate-income state residents who live in the parks.

RCAP has relevant experience improving rural and environmental infrastructure, and helping homeowners acquire the financing and know-how they need to make land improvements once they have gained ownership. The Meredith Institute and its partner "I'm Home" (a program of Washington-based nonprofit CFED) are currently working with RCAP to make the investment necessary for a thriving market-based ROC program.[5]

As RCAP Vice President of Real Estate Services Paul Teixeira observes, "Lenders and others need to get away from the stigma surrounding manufactured housing and see that there is an opportunity to create real homeownership opportunities and get away from subsidized rental situations." RCAP Director of Communications Skip Moskey, adds, "This is not just a social good, but a business opportunity."

Manufactured housing is one of the largest sources of unsubsidized affordable housing anywhere. The giant steps that have been taken to improve the quality of that housing while protecting and enhancing the homeownership asset of low-income families through their own sweat equity is only the beginning.

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Endnotes

1 See Paul Bradley, *Communities & Banking*, fall 2002, http://www.bos.frb.org/commdev/c&b/c&b back.htm.

2 In addition, public agencies—primarily HUD and the U.S. Department of Agriculture—have provided substantial sums to rehabilitate communities that were experiencing health and safety risks as a result of failing infrastructure.

3 See http://www.planning.ri.gov/housing/shp06.pdf.

4 See http://www.rcapsolutions.org manufactured _housing.htm.

5 See http://www.cfed.org/focus.m?parentid=314&site id=317&id=317.

Berlin, New Hampshire

The NEW Bangalore?

by Katie Delahaye Paine
KDPaine & Partners

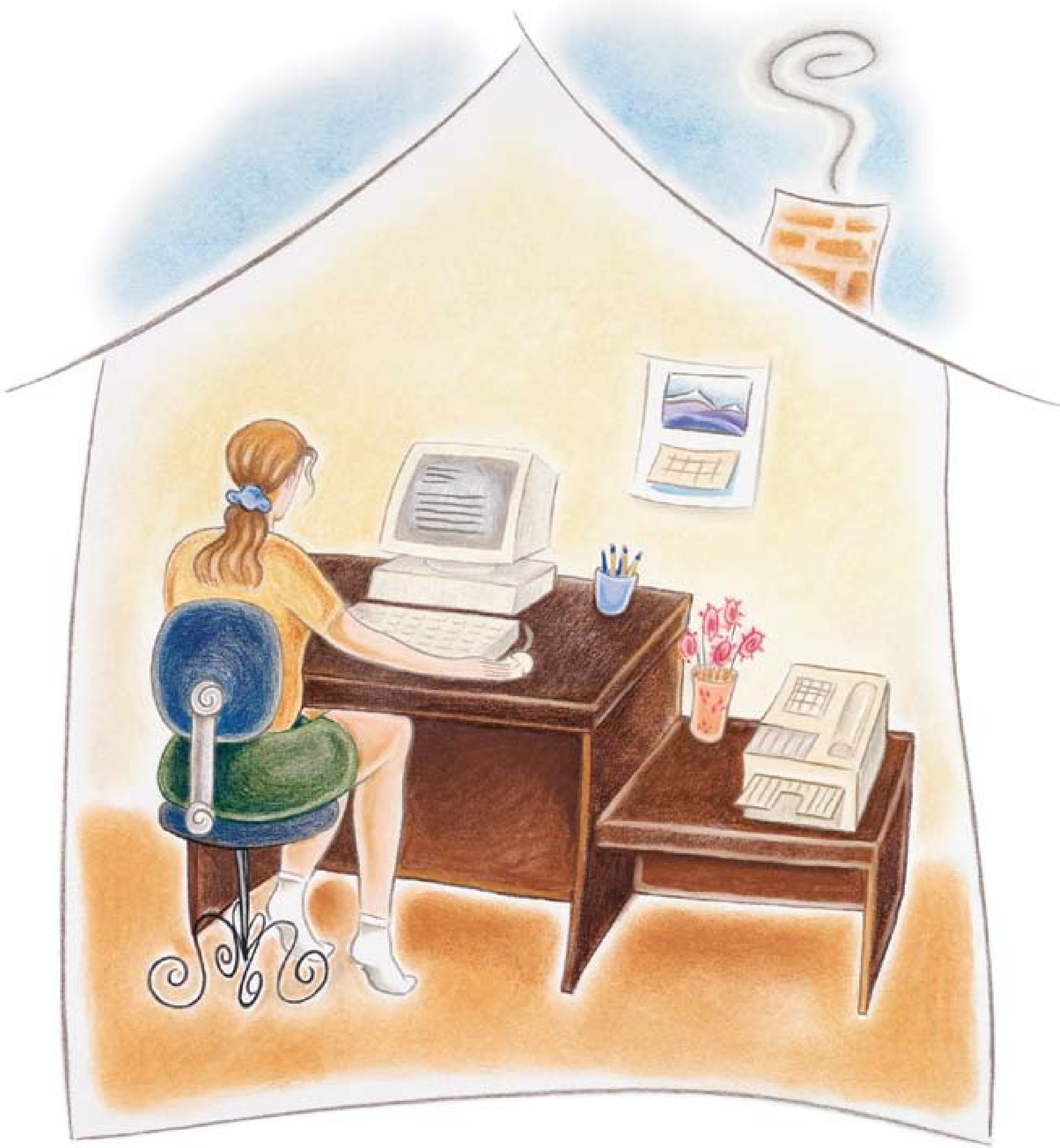

Illustration: Getty Images

To say that Berlin, New Hampshire, has had a tumultuous economic history would be a major understatement. Founded in 1781 by Massachusetts farmers, Berlin by the 1890s was one of the fastest growing cities in New England. Abundant timber from the Great North Woods led to the construction of numerous mills, not to mention a railway line that also brought skiers who formed the nation's first ski club. Less than two decades later, though, the largest employer, Brown Paper Company, was struggling and needed federal help.

By 1930, Berlin was booming again, with more than 20,000 French, Italian, Irish, and Russian immigrants drawn to the factories and mills. The city grew to the second most populous in the state. Then the Depression wiped out many of those factories, and by the end of the 20th century Berlin had the state's highest unemployment rate and a shrinking population. In 2006 the final blow fell when Canada's Fraser Papers Inc. closed the pulp mill and laid off its last 250 workers.

That final act may have been a blessing in disguise.

Winds of Change

Berlin is one of the last true company towns—communities in which young people go through school knowing they have a job waiting for them and town fathers believe that the tax revenues from their largest employer will always pay the bills. Company towns have a long history in northern New England. Dozens grew up around mills, which relied upon readily available natural resources and a native population of hard-working and pragmatic employees. But over time, under pressure from overseas competition, unions, rising transportation costs, and wage and benefit hikes, the conglomerates that owned those mills began to retreat.

Most towns were slow to understand what was happening. Hooked on high corporate taxes that kept budgets in the black, they failed to tighten their belts fast enough. Lacking alternative economic stimuli, residents moved south while local governments scrambled to find ways to keep them. Berlin's latest hope, for example, has been the prison industry. A state prison opened in 2002 and a federal prison is expected to begin construction in 2008.

Berlin's painful decline was prolonged by pressures to keep the mill open. In 2001,

The Reverse of Outsourcing

by Caroline Ellis, Federal Reserve Bank of Boston

New England companies that have found drawbacks to outsourcing overseas are looking for business-friendly environments closer to home. New York-based clothier Joseph Abboud is one example.

American Companies Try Insourcing

In 2006, according to an article in *The Boston Globe*, Joseph Abboud zeroed in on two critical needs: highly skilled workers and proximity to customers.[1] In a contrarian move, the company decided to expand its New Bedford, Massachusetts, factory and increase its local workforce 20 percent.

With the prospect of new jobs, the union got on board, agreeing to management's push for lean manufacturing, a Toyota-originated approach that eliminates waste in production processes through multitasking and small batches made to order. With lean manufacturing, the company expects to make up for not using lower-cost workers abroad. Made-to-order batches also mean Abboud can avoid hidden costs like foreign suppliers' demands for minimum orders. Moreover, suits that once took about five weeks to make, now take about one week.[2]

Other companies, too, are finding that New England workers have the quality they need. In Maine, Sitel Corporation expanded its call center at the former Loring Air Force base, and NotifyMD Inc. put a call center in Franklin County. Both are bucking the trend of sending call center jobs abroad, where training is sometimes a burden and quality can be disappointing.

Foreign Companies Come Here

While some American companies are expanding New England operations, foreign companies are insourcing to America, too.[3] In Enfield, Connecticut, Eppendorf Inc., a German manufacturer, is upgrading its vacant complex and creating more than 100 new jobs. Boehringer Ingelheim Pharmaceuticals Inc. is expanding facilities on its Ridgefield campus and aiming to create hundreds of jobs over the next few years.

Meanwhile, in Massachusetts, pharmaceutical giant AstraZeneca is expanding in Waltham, and Swiss drug company Novartis has located its research and development operation in Cambridge. Schlumberger Technology Corporation and Schering Plough Corporation have also leased new research space in Cambridge. Philips Medical Systems, part of Netherlands-based Royal Philips Electronics, has moved its global headquarters to Andover. Straumann, a Swiss-based medical device manufacturer, put its first U.S. manufacturing plant in Andover, creating about 300 new jobs in manufacturing high-precision implants for tooth replacement.

As KDPaine found in Berlin, New Hampshire, the right kinds of workers can make areas of New England look better to employers than overseas alternatives.

Endnotes

1 Jenn Abelson, *The Boston Globe*, January 7, 2007.
2 See http://www.lean.org for more on the lean process.
3 See Organization for International Investment, http://www.ofii.org/insourcing.

KDPaine & Partners courtesy photograph

With office space often at less than $2.50 per square foot, Berlin, New Hampshire, is a tempting location for insourcing.

the then owner, American Tissue, filed for bankruptcy, leaving millions in unpaid taxes. In a bid to salvage something, officials encouraged Fraser Papers to take over. Nevertheless, five years later the plant closed for good. That final hiccup delayed Berlin's entry into the 21st century economy. After all the previous bailouts, many residents were convinced the powers that be would find another mill. However, other factors were at work.

Even before it closed, some visionary local leaders and entrepreneurs were already seeing beyond mills. Carol Miller at North Country Internet Access had the vision to start a business that brought high-speed Internet access to the area. Political leaders in Concord, New Hampshire, and Washington, D.C., put in place economic and tax incentives for prospective employers.

At the same time, companies in New England were running out of workers and land they could afford, and other businesses were finding that outsourcing work processes to low-income countries had drawbacks. For them training and transportation costs were erasing some of the advantages. In southern New Hampshire, business owners began to ask themselves, "Why not outsource instate and move work to Berlin?"

Outsourcing In-State

KDPaine & Partners asked that question. A media research company that hires analysts to read media stories about clients, the company relies on readers who can scan hundreds (sometimes thousands) of electronic files of newspaper, print, blog, and online news sources. The analysts code those articles for information about the client and its competitors to determine the efficacy of its public relations programs and to demonstrate the impact that the media is having on its corporate reputation. The work is labor intensive and requires a high degree of training and attention to detail.

Up until 2006, the company was located

entirely in Durham, New Hampshire, a small college town on the seacoast. But with a 51 percent growth rate, it was having trouble finding qualified local staff and was loath to draw new workers to an area where the average house price was still climbing at double-digit rates. Competitors were moving work to India, but that seemed like too big of a quality-assurance risk.

Meanwhile, two hours north, there were workers who needed jobs. A quick tour in summer 2006 showed that all the ingredients for success were in Berlin. The area is ideal for a headquarters, with stunning views of mountains in all directions and 13 miles of beautiful, clean, navigable riverfront just begging for a kayak or a rowing shell in leisure time. Moreover, after a century of mills and foul air, the sky today is clean and clear. A large, dedicated, and educated workforce is eager to use its skills, and a good Internet infrastructure is in place.

The firm had the office up and running in a month. It believes that whatever additional talent is needed will likely be supplied in part by two local colleges—New Hampshire Community Technical College and Granite State College—both of which are geared to the trades and professions that 21st century employers need.

Besides workers, a small business needs space. Berlin offers considerable choice, and the company selected an older building on Main Street with beautiful views from the third floor, easy access to municipal parking, and room for expansion. The cost was less than $2.50 per square foot.

Berlin benefited KDPaine & Partners not only with lower production costs (within two months those costs went down by about 80 percent), but with enthusiastic employees who infused the company with a new spirit of excitement.

Still to Come

The one thing lacking in the Berlin area is incubator space. There are many big buildings that can be purchased for a reasonable price, but comparatively few small offices for rent. That situation may improve in the near future because local economic development organizations such as the Business Enterprise Development Corporation (BEDCO) and the Northern Community Investment Corporation (NCIC) are working to make space available. Alternatively, a business small enough to fit into a house could tap the current oversupply of housing.

Financial incentives have helped, too, with the state of New Hampshire offering up to $20,000 in tax credits for each job created. The formula is based on the pay scale of each full-time job relative to minimum wage. Also available are training grants through the Work Force Opportunity Council and low-interest loan programs through Citizen's Bank.[1] The tax incentives are in place indefinitely, and the low-interest loans are available until the funding runs out.

Clearly, the solution for a town like Berlin is not finding one more large corporate godfather, but rather attracting a large number of entrepreneurs to create jobs in a variety of industries that will diversify the economic base and provide a permanent foundation for the town's future.

Katie Delahaye Paine, *chief executive officer of KDPaine & Partners, is based in Berlin, New Hampshire.*

Endnote

[1] See http://www.nhworks.org/employers.cfm?page_number=44 and http://www.egov.nh.gov/jobbank/info/about.htm.

Inside this issue:
Combining Historic Preservation and Community Development

Madison Park Development Corporation courtesy photograph

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