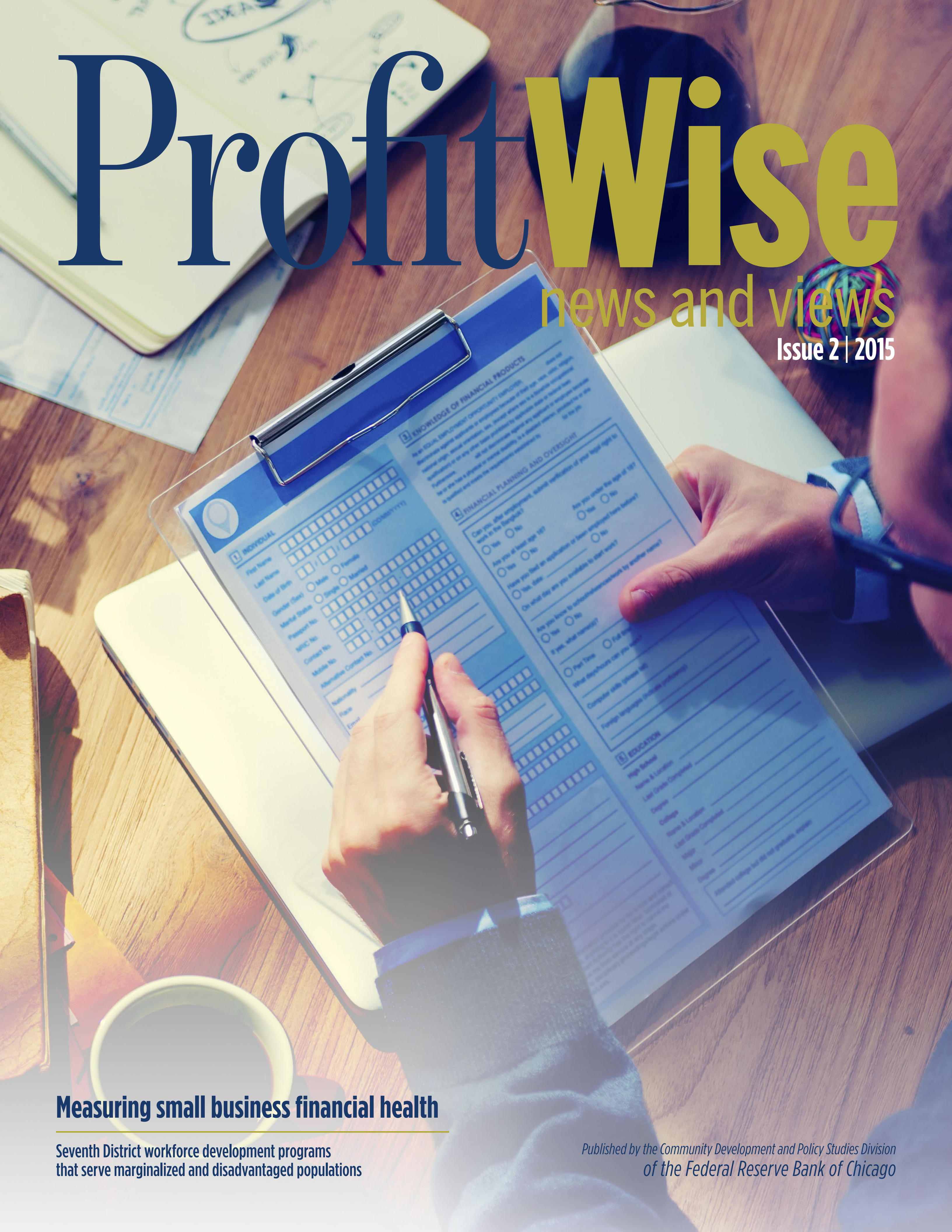

ProfitWise news and views

Issue 2 | 2015

Measuring small business financial health

Seventh District workforce development programs that serve marginalized and disadvantaged populations

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In this second edition of 2015, our contributors include Fed senior business economists Robin Newberger and Susan Longworth, Craig Everett of Pepperdine University, and Chinwe Onyeagoro of the small business advisory firm FundWell, who provide a summary of findings of a groundbreaking survey project exploring indicators of small business financial health, and business economist Emily Engel, who documented Seventh District worker training programs aimed at some of the most difficult to employ populations, including formerly incarcerated individuals.

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Measuring small business financial health

by Robin Newberger, Susan Longworth, Craig Everett and Chinwe Onyeagoro

Introduction

Throughout the Great Recession and continuing into the recovery, small businesses have played an important role in creating jobs and stabilizing communities. Stories of small business owners overcoming obstacles to provide valuable services and employment are highlighted regularly by pundits, politicians, and policymakers alike. However, little attention has focused on the question of what drives the financial health of these often young, often very small businesses.

Most examinations of small businesses tend to focus on business characteristics or owner perceptions of external factors, such as the availability of capital or confidence in the economy. Few studies attempt to identify the factors behind resiliency. In 2013 and 2014, a team of investigators, including staff from the Federal Reserve Banks of Chicago and San Francisco, the business consultancy FundWell, and Pepperdine University's Private Capital Markets Project, set out to identify key drivers that are associated with businesses in a state of strong or weak financial health. The objective was to create a set of

Box 1. The Financial Health Survey

The survey consisted of 50 questions with multiple possible responses. The survey questions were developed through input from an advisory group comprised of lenders, small business technical assistance providers, and researchers in Illinois and California. Advisory group members were asked to share their ideas about what practices and experiences they associate with small business financial health.

The survey was sent to more than 19,000 businesses between September 2013 and February 2014. Businesses were randomly sampled from among privately-held, for-profit, non-subsidiary, U.S.-based ventures in the LexisNexis Business Database. The survey panel included an oversampling of minority- and women-owned businesses due to lower response rates among those groups. The sampling objective was to assemble a set of respondents that would broadly represent the distribution of businesses in the actual U.S. population. About 5 percent of the businesses (940) answered the survey.

measures for small business financial health that could be used to assess individual small businesses.

The results presented in this article represent a first step towards identifying attributes of financially healthy and resilient businesses. They are based on a financial health survey and a factor analysis – which groups correlated variables into a more manageable set of derived variables – that was applied to the responses (see box 1 for an overview of the survey). The almost 200 variables (possible responses) included in the survey, relating to planning, credit management, budgeting, and other aspects of running a business, covered a range of potential indicators that members of business advisory groups in Illinois and California suggested might capture the financial strength of a business. The factor analysis then determined how correlations between the answers to the survey questions naturally clustered together. (See box 2 for an explanation of the factor analysis methodology.) The clustering focused attention on a smaller number of potentially related variables, revealing unobserved "latent" factors. This method allowed us to consider what these variables had in common, and thereby identify the underlying financial health characteristic represented by that cluster.

Based on this method, we determined the elements most associated with strong financial health to be the owners': 1) knowledge about financing products; 2) credit experiences; and 3) experience with and implementation of financial oversight practices.

In addition to identifying the factors that emerged as the most influential, we created a financial health index, and calculated a financial health score for each respondent, to evaluate the relative financial health of the businesses that participated in the survey. Scores were divided into quintile categories. "Average financial health" reflected the sample mean. Businesses in excellent health were those with scores in the top quintile; businesses with

Box 2. Factor analysis methodology

The methodology used in this study is called factor analysis, which is an investigative data analysis technique that can uncover underlying relationships between large groups of variables; the technique is commonly used in the creation of economic indices for this reason. Factor analysis allows researchers to discover otherwise unobserved dependent variables "hiding" in a set of observations. In this case, we sought unobserved dependent variables that reflect small business financial health.

The factor analysis determines how the correlations between the answers of all the survey questions naturally cluster together. In short, the computer finds the groups of variables in the data set that naturally seem to move together and calls each of these groups a "factor."

The statistical software can find the factors, but cannot interpret their business meaning. Accordingly, the next step in the process is to look at each factor and identify common concepts underlying each cluster of variables. In our study, three factors emerged from the survey data. The common concept for the Factor 1 variables clearly represented "knowledge." Factor 2 appeared to be related to the company's "experience" with various credit types. Factor 3 appeared to be clustered around the questions related to "business practices."

The next step in our process was to narrow down the list of variables in each factor to a shorter list of questions that could be fairly easily answered by a small business owner. To do so, we sorted the factor list in ascending order by uniqueness and took the top variables in each factor that were controllable by the business owner and that were not close in meaning to any of the other top variables. This left us with a list of 21 variables (questions) with which to assess financial health.

The calculation of the small business financial health index values was done by taking the sample means for each of these variables, multiplying it by the factor loading coefficient for each factor, and then summing the results. The raw scores for the three factors were then summed to arrive at an overall raw financial health score, which was then scaled between 0 and 100 in order to facilitate intuitive interpretation.[1]

above average health were those in the next highest quintile; businesses with below average health were those with scores in the second lowest quintile; and businesses in poor health were those with scores in the lowest quintile.[2]

Variables that matter for small business financial health

Knowledge about financing products

The survey asked respondents to evaluate their knowledge of various types of financing, including whether they understood eligibility criteria for these products and where a business might go to obtain this type of financing.

The first set of variables that we determined contribute most to small business financial health, that is, those with the highest factor loadings (coefficients) with the first latent factor, have to do with knowing about financial products. These include knowledge of accounts receivable, commercial banking, contract, equipment lease, inventory management, nonbank and trade credit financing. (See Appendix A for factor loadings)

While many of the businesses grouped in the poor financial health category were knowledgeable about these financing methods, and many of the businesses in the excellent category reported that they did not know about them, overall, far more businesses than not in the highest quintile reported that they were familiar with these products (see table 1). For example, just about 5 percent of businesses in the highest quintile said they had little or no knowledge about equipment lease financing, compared to about one-third of businesses in the lowest quintile of financial health.

In addition, when we look at the correlations between characteristics of businesses and these knowledge variables, we see a positive relationship between knowledge and size of business. That is, the higher the revenues, the greater the association with knowledge about these financing products (the exception is knowledge of loans from friends and family), and the older the business, the greater knowledge about these products as well. In contrast, women and minority ownership of businesses tend to be negatively correlated with these knowledge variables. From this analysis, it is not clear whether this negative correlation is related to the fact that women- and minority-owned businesses also tend to be correlated with lower revenues and fewer years of operation.

Credit experiences of business owners

The set of variables determining the second main driver of financial health were those related to obtaining financing. The salient variables included receiving credit through business credit cards, bank loans, personal credit cards, vendors, equipment leases, and trade credit.

Business owners with the highest overall financial health scores were not just those who had knowledge of various financing options, but also those who had actually received credit. As table 2 shows, long-term bank financing, credit card financing (both personal and business), and equipment loans/leases were the types of credit most used by respondents in excellent health. Respondents were also asked about the types of lenders that had given them credit. More than three quarters of the businesses that scored highly in terms of their financial health reported that they received financing through a bank lender; another 12 percent used vendor financing with trade credit terms (not shown in the table). In contrast, few businesses that were not in excellent (or above-average) financial health answered that they had received financing from any source, let alone a bank.

As with knowledge variables, greater revenue was positively correlated with receiving credit, though the correlations between business age and types of financing were more mixed. More years in business was positively associated with getting funding from a bank loan, but (weakly) negatively correlated with getting funding from vendors, for example. Both women- and minority-owned businesses were negatively correlated with getting funding through a bank loan but positively correlated with getting a loan from a nonbank organization. These types of businesses were also negatively correlated with credit card and vendor lending.

Table 1. Knowledge of financial products: Percent of businesses with the following responses (n = 688)[3]

	Poor financial health	Excellent financial health
Inventory management		
Never heard of	23.53	5.19
Limited knowledge	19.85	22.22
Very knowledgeable	11.03	19.26
Extremely knowledgeable	5.15	14.07
Accounts receivable		
Never heard of	19.85	3.7
Limited knowledge	27.94	17.04
Very knowledgeable	9.56	20.74
Extremely knowledgeable	7.35	14.81
Equipment leases		
Never heard of	11.76	0.74
Limited knowledge	22.79	4.44
Very knowledgeable	16.91	42.22
Extremely knowledgeable	8.82	23.7
Trade credit		
Never heard of	22.06	8.89
Limited knowledge	24.26	17.04
Very knowledgeable	13.97	27.41
Extremely knowledgeable	8.82	18.52
Contract financing		
Never heard of	27.94	6.67
Limited knowledge	21.32	21.48
Very knowledgeable	11.76	14.81
Extremely knowledgeable	6.62	12.59
Nonbank business loans		
Never heard of	7.25	1.46
Limited knowledge	31.16	19.71
Very knowledgeable	14.49	18.98
Extremely knowledgeable	10.87	11.68

Note: Percentages do not add up to 100% because not all possible answers are reported here. Respondents could also answer whether they had "some knowledge" and "moderate knowledge" of these financing products.

Financial planning and management

The variables driving the third main indicator of financial health were a more mixed group. They included variables relating to number of employees, management experience, amount of available credit on a credit card, existence of a separate bank account for payroll, regular review of profitability, and use of a budget. Overall, these variables suggested that healthier businesses exercise a greater degree of financial planning and oversight.

Table 2. Please specify which type(s) of financing have you raised (please check all that apply) (n = 688)

	Poor financial health	Excellent financial health
Personal credit cards	0.72	26.28
Business credit cards	0.00	45.26
Home equity line of credit	1.45	19.71
Business loan that has to be repaid in the next 12 months from an organization that is not a bank	0.0	2.92
Business loan that does not need to be repaid in the next 12 months	0.0	57.66
Purchase order/contract financing	0.0	2.92
Receivables financing/factor	0.0	2.92
Inventory financing	0.0	2.19
Trade credit vendors/suppliers – 30 day	0.0	18.98
Trade credit vendors/suppliers – 60 day	0.0	10.22
Trade credit vendors/suppliers – 90 day	0.0	3.65
Trade credit vendors/suppliers – 120 day	0.0	2.19
Trade credit vendors/suppliers – 180 day	0.0	0.73
Trade credit vendors/suppliers – 180+ day	0.0	0.73
Equipment loan	0.0	21.90
Equipment lease	0.0	21.90
Personal loan from an individual/friend/family/colleague	0.0	3.65
Mezzanine loan	0.0	3.65
Merchant cash advance	0.0	0.0
Payday loan	0.0	0.0
Other – please specify	1.45	1.45
I don't know	0.0	1.45

Nearly every business in excellent health reported that they review profit and loss statements either always or most of the time, compared to fewer than 60 percent of businesses in poor financial health. More than 70 percent of businesses in excellent health always or mostly develop a budget, compared to fewer than 30 percent in the poor health category. In addition, about half of businesses in poor financial health reported charges for overdrafts in their business account at least one time per year.

Correlation tables show generally positive relationships between business revenues and financial oversight practices. These include positive correlations between revenue and reviewing sales, profit/losses, payroll, and developing a budget. Correlations tend to be more mixed among women- and minority-owned businesses. Among minority-owned businesses, correlations are negative with respect to reviewing sales, profitability, and incurring overdraft fees; and among women-owned businesses, correlations are negative with respect to reviewing sales and budgeting, among other activities.

Summary and implications

Three characteristics emerged from the study as being the most consequential for the financial health of small businesses. These were: 1) having knowledge of financing products; 2) receiving credit through

Table 3. Financial planning and oversight – selected questions (n=688)

	Poor financial health	Excellent financial health
How many full-time employees do you have?		
0	40.58	0.73
1-2	44.2	0.73
3-10	14.49	12.41
10-100	0.72	51.83
More than 100	0	34.31
Please provide some additional basic information about yourself:		
Years of management experience (weighted avg)	11.2	13.9
Have you worked in management role in this industry before becoming owner (yes)	53.62	62.04
Have you worked in non-management role in this industry before becoming owner (yes)	59.42	51.01
How often do you typically review the following types of financial information?		
Profits and loss information		
Never	6.52	0.0
Rarely	12.32	0.0
Sometimes	23.91	0.0
Most of the time	23.19	10.95
Always	34.06	89.05
In 2012, for your business bank account, were you charged any overdraft/insufficient funds fees?		
Once a week	2.90	0.0
Once a month	13.77	1.46
Every other month	7.25	0.0
Three times a year	21.74	8.76
Once a year	10.87	1.46
Never	43.48	88.32
I don't know	NA	NA

Continued on page 7.

either banks, vendors, or other methods; and 3) operating with more size, experience, and planning.

Regarding the first factor of knowledge, the results underscore the importance and challenge of small business owners familiarizing themselves with bank and nonbank products. The marketplace of financial products is both large and dynamic, with different financing sources and products becoming available as economic conditions and technologies evolve. The focus on knowledge becomes even more relevant as online lenders, whose terms and costs are often opaque, increasingly market to small business owners. While many business owners learn about financial products through the process of seeking financing themselves, the results of our analysis suggest that it is beneficial for small business owners to understand the costs and benefits of financing options before the need for cash becomes acute. The need for knowledge about financial products signals a potential training opportunity for business consultants and other experts to educate small business owners.

The second factor, which relates financial health to credit experiences, highlights the importance of addressing access to credit issues. To be sure, what

Table 3. Financial planning and oversight – selected questions (n=688) (continued from page 6)

	Poor financial health	Excellent financial health
Which of the following financial activities is regularly done for your business?		
Develop Budget		
Never	18.84	3.65
Rarely	26.36	5.11
Sometimes	23.19	17.52
Most of the time	20.29	12.41
Always	8.70	60.58
I don't know	3.62	0.73
In 2012, did you have available credit/loan money to cover bills that were difficult to pay with your own cash?		
Always	31.88	70.8
Most of the time	14.49	11.68
Sometimes	17.39	5.84
Rarely	8.7	3.65
Never	20.29	5.11
I don't know	2.9	1.46
N/A	4.35	1.46
Did you have any of the following bank accounts: payroll account?		
Yes	2.9	60.58
No	97.1	39.42

access means varies with the type of credit one seeks. For example, our analysis indicates that being bankable is relevant to financial health. By the same token, vendor credit and equipment leases are also relevant to financial health, although these types of financing tend to be easier to qualify for than bank financing. These results speak to the need for business owners to understand the elements that impact their creditworthiness, and to seek financing from entities that are the best match for their financial profiles. This finding also helps make the case for why it is important to address the financial, educational, networking, and other conditions that impact whether and how small businesses get financing. Thus consultants and technical assistance providers may see additional reasons for helping small business owners take steps to improve both their access to credit and creditworthiness.

In terms of the third factor driving financial health, the implication from this finding is that a direct connection exists between financial management and small business financial health. The practices that emerge as important in our analysis include reviewing profit and loss statements, budgeting regularly, maintaining a level of unused credit, and setting aside funds for payroll and other non-deferrable expenses – actions which may help owners avoid devastating cash crunches. The salience of these particular practices offers both business owners and advisors concrete information about the type of oversight and operational practices that might be most beneficial to small businesses. Further, tools and programs that track these selected aspects of financial management may provide consultants and advocates with insights for benchmarking and evaluating small business performance over time. To this end, FundWell plans to develop a web-based, financial health monitoring tool for small business owners based on the findings of this study. The site will enable owners to assess the current health of their business and explain how to make their business financially healthy.

In addition to identifying factors related to small business financial health, our analysis finds that businesses with above-average or excellent financial health scores tend to be larger and with more years in operation. An overwhelming share of businesses in the excellent health quintile – more than 90 percent – report revenues of more than $1 million. (About half of the entire sample reported at least $1 million in annual revenue.) Similarly, nearly 88 percent of businesses in the poorest financial health report revenues of less than $1 million, and over a third of the businesses in this category report revenues of under $100,000. Of course, this does not mean that larger companies are necessarily the most financially healthy. About a fifth of businesses with above-average financial health (quintile 4) had less than $1 million in revenues, while almost 30 percent of businesses with below-average health (quintile 2) reported more than $1 million in revenues.

We also find that businesses with above-average or excellent financial health scores tend not to be owned by women or minorities. Overall, almost 80 percent of businesses in excellent health are owned by men, compared to about half of the businesses in poor health. (Men made up two-thirds of the entire sample.) Women- and minority-owned businesses (who answered all survey questions) scored markedly lower than their peers in terms of credit experiences, thereby lowering their overall financial health scores. This was true of nearly all types of funding. Minority-owned businesses scored as well as the full set of respondents in terms of using a budget and setting up a separate account for payroll, but not as well in terms of having credit available on a credit card or reviewing profitability. Women-owned businesses more generally tended to underperform with respect to financial oversight practices.

Overall, many of the findings of this study confirm existing assumptions about financial health. That is, having more revenue, more employees, and more experience is associated with greater financial health; and receiving financing from a bank is also associated with better financial health. The usefulness of this exercise comes largely from its increasing transparency around the particular characteristics and practices that contribute to financial stability. Ideally, these specifics allow for a more robust discussion on what small business owners can do to improve their health, as well as what contributions can be made by consultants, trainers, and even policymakers to help small business owners succeed. By oversampling minority- and women-owned businesses, this study also offers some insights on the ways in which these businesses both match their peers in aspects of financial health and ways that they do not. Importantly, financial health scores are closer to national averages for larger minority-owned businesses (though this is less the case for large women-owned businesses), suggesting that the issues and factors that contribute to financial health differences between minority and non-minority businesses may be accentuated when minority-owned businesses are smaller, and to a lesser extent, younger.

Appendix A. Factor loadings

Variable		Factor 1	Factor 2	Factor 3	Uniqueness
knowledgee~e	Kn. Equipe.Leases Fin	0.798	0.0577	0.1193	0.3456
Knowledgear	Kn. Acc. Receivable Fin	0.7948	-0.0183	0.066	0.3635
knowledgee~n	Kn. Equip. Loan	0.7811	0.1078	0.1024	0.3678
Knowledgeinv	Kn. Inv. Manage Fin	0.776	0.0306	0.0479	0.3946
knowledgeb~k	Kn. Comm Banking Loan	0.7362	0.1031	0.1535	0.4238
knowledgec~t	Kn. Contract Fin.	0.7284	0	0.0135	0.4693
knowledgen~k	Kn. Non-Bank Loans	0.7189	0.0135	-0.0558	0.4798
knowledgeb~c	Kn. Biz Credit Card	0.7135	-0.0476	-0.0145	0.4884
knowledget~t	Kn. Trade Credit	0.7096	0.0605	0.0543	0.4899
creditty~zcc	Recvd Funding thru Bus CC	0.0542	0.695	0.105	0.503
knowledgep~c	Kn. Personal CC	0.7	-0.0467	-0.0447	0.5059
knowledgeh~c	Kn. Home Equity LOC	0.6935	-0.0411	0.0207	0.517
gotloa~mbank	Recvd Funding thru Bank Ln	0.0801	0.6275	0.2857	0.5183
knowledgef~n	Kn. Friends & Family Loan	0.6684	0.0388	-0.1427	0.5313
empft	No. FTE	0.213	0.3577	0.5409	0.534
knowledgepo	Kn. Purchase Order Fin	0.6287	-0.1237	-0.012	0.5892
knowledge~7a	Kn. 7a SBA Loan	0.6067	0.0703	-0.0472	0.6247
knowledg~504	Kn. 504 SBA Loan	0.5923	0.1146	-0.0418	0.6342
cr~ltbizloan	Recvd Funding thru Short Term Bus Ln	0.1155	0.5179	0.2426	0.6596
revenues	Business Revenue	0.1507	0.236	0.4812	0.69
creditty~lcc	Recvd Funding thru Personal CC	0.0182	0.5454	0.1016	0.6919
gotloanf~dor	Recvd Funding thru Vendor	0.0239	0.5424	-0.0145	0.705
ccavailcre~t	Available Credit on CC	0.1094	0.1984	0.4805	0.7178
knowledgem~z	Kn. Mezzanine Lending	0.5052	0.1213	0.0872	0.7225
credittyp~se	Recvd Funding thru Equip Lease	0.094	0.509	0.0475	0.7298
credittyp~30	Recvd Funding thru 30-day Trade Cr	0.088	0.5097	0.0328	0.7314
bizage2014	Age of Business	0.0996	0.095	0.4915	0.7395
ccbalance	Biz CC Balance	0.0664	0.2787	0.42	0.7415
credittyp~90	Rcvd $ thru 90 day Trade Credit	0.039	0.5015	-0.0624	0.7431
creditty~120	Rcvd $ thru120 day Trade Credit	0.0344	0.4871	-0.0898	0.7535
credittyp~60	Rcvd $ thru 60 day Trade Credit	0.0703	0.4836	0.0154	0.7609
freqreview~t	How Freq Revw Prftblty?	0.2592	0.0543	0.4109	0.761
knowledgeu~a	Kn. USDA loans	0.4651	0.0549	-0.0869	0.7731
credit~ploan	Rcvd $ thru Equip Ln	0.1029	0.4344	0.1556	0.7765
bizownreti~t	Does Biz Have Retirmnt Plan?	0.0618	0.0593	0.4603	0.7808
appliedfor~n	Applied for Bank Ln	0.0183	0.4506	0.0804	0.7902
gotloanfro~c	Got Funding from CC	0.0557	0.4221	-0.0035	0.8187
creditty~180	Rcvd $ thru 180 day Trade Credit	-0.0191	0.4082	-0.1125	0.8204
credittype~s	Rcvd $ thru 180+ day Trade Credit	-0.0191	0.4082	-0.1125	0.8204
credittyp~oc	Rcvd $ thru Home Equity LOC	-0.0193	0.4082	0.0898	0.825
howoftennsf	How Freq NSF Fees?	0.0387	-0.0264	0.4051	0.8337
bizownlife~e	Does Biz Provide Life Ins.?	0.0664	0.0948	0.3885	0.8356
bizowncomm~l	Biz Owns Commercial Real Estate	0.1331	0.1613	0.3351	0.844
empppt	Part time employees	0.0644	0.3692	0.11	0.8474
activityde~t	Using a Budget	0.282	0.1072	0.2449	0.849
havepayrol~t	Bk Acct for Payroll?	0.0902	0.101	0.3445	0.863
nufcreditt~s	Enough credit to pay bills	0.0229	-0.1056	-0.3514	0.8648
bizownsecu~s	Biz owns financial securities	0.0451	-0.0571	0.3539	0.8695
plantoappl~n	Plans to apply for loan	0.0302	0.3522	-0.0562	0.8719
yearsowned	# of years owning the business	0.0196	-0.0227	0.3541	0.8737

Appendix A. Factor loadings (continued)

Variable		Factor 1	Factor 2	Factor 3	Uniqueness
numcust12	Number of customers in 2012	0.0554	0.3414	0.0628	0.8764
filedta~2011	Filed tax return in 2011	-0.0011	0.021	0.3507	0.8765
vendorterms	Terms your vendors require from you	0.141	0.0655	0.3096	0.88
expmgmt	Years of experience in mgmt	0.1385	-0.0199	0.313	0.8825
ownerships~s	How many owners?	0.1211	0.176	0.2678	0.8826
expind	Years of experience in this industry	-0.0087	-0.1288	0.3121	0.8859
paybookkee~r	Do you pay a bookkeeper?	-0.1314	0.143	0.2693	0.8898
filedta~2012	Filed tax return in 2012	-0.0651	0.0708	0.3145	0.8919
cr~stbizloan	Rcvd $ thru short term biz loan	0.0123	0.3071	-0.088	0.8978
freqreview~h	How freq revw cash?	0.2015	0.0405	0.241	0.8997
activityre~r	Do you record other expenses & pymts?	0.1283	0.0226	0.2852	0.9017
credit~oloan	Rcvd $ thru purch order loan	0.0568	0.2989	-0.053	0.9046
filedta~2010	Filed tax return in 2010	0.018	0.0234	0.3049	0.9062
activ~rtrans	Do you record vendor transactions?	0.1525	0.0135	0.2644	0.9067
bizownvehi~s	Biz owns vehicles	0.0139	0.1162	0.2748	0.9108
freqrevi~les	How freq revw sales?	0.1957	0.0952	0.1923	0.9156
empfamily	How many family members you employ?	0.0442	0.1787	0.2198	0.9178
credit~floan	Rcvd $ thru friends and family ln	0.0008	0.2751	-0.0679	0.9197
origfundpe~c	Original funding through CC	-0.0848	0.1217	-0.2382	0.9212
ltgoalpaym~e	Long term goal to pay self more	-0.1329	-0.0422	-0.2416	0.9222
howoftenre~w	How often do you pay NSF fees?	-0.2384	-0.1016	-0.0975	0.9234
filedext2012	Filed tax extension in 2012	0.0819	-0.0948	-0.2457	0.9239
bizownsing~y	Biz owns single family residence	-0.0775	0.044	0.2611	0.9239
gotloanfro~n	Got loan from person	0.0005	0.2656	-0.0492	0.927
activitypr~s	Do you prepare your own taxes?	0.0867	0.0456	0.2492	0.9283
ltgoaltran~y	Long term goal to trans biz to family	0.0092	0.0236	0.264	0.9297
bizownnone	Biz owns none of the listed assets	-0.011	-0.0715	-0.2532	0.9307
halfrevcus~s	Half of rev. from how many customers?	0.0076	0.2595	-0.0082	0.9325
bizownequi~t	Biz owns equipment	0.0881	0.1856	0.1572	0.9331
freqrevi~ces	How freq are revw invoices?	0.1247	-0.0726	0.2031	0.9379
entity_llc	Is the business an LLC?	0.0121	0.0668	-0.2372	0.9391
activ~ttrans	Do you record customer transactions?	0.1331	0.0436	0.2004	0.9402
howdetfun~ts	Do you calc funding needs by capital budgeting research costs?	0.1662	0.1514	0.0789	0.9432
entity_ccorp	Is the business a C Corp?	0.1553	0.0279	0.1775	0.9436
ltgoalpayo~t	Long term goal to pay off debt	-0.0086	0.0797	-0.2229	0.9439
freqreview~l	How frequently do you review payroll?	0.1584	0.0568	0.1621	0.9454
ownerage2014	What is the owner's age?	0.0175	-0.0159	0.2321	0.9456
entity_sole	Is the business a sole proprietorship?	-0.055	-0.1301	-0.1844	0.946
origfundot~z	Was this business originally funded by another business?	0.0209	0.2225	0.06	0.9465
bizowndont~w	Don't know what assets the business owns	-0.0676	-0.0225	-0.2149	0.9487
howoftenu~ls	How often do you update your books?	-0.1542	0.0498	0.1552	0.9497
howdetfun~re	Do you cal funding needs by estimating future activity?	0.0722	0.1883	0.0966	0.95
origfundsa~s	Was this business originally funded from savings?	-0.0175	-0.1059	-0.1951	0.9504
previndye~gr	How many years have you previously worked as a manager in this industry?	0.1017	-0.075	0.1752	0.9533
bizownsing~d	Is the owner's residence owned by the business?	-0.1092	0.0023	0.1857	0.9536
paidtax~2012	Did you pay business taxes in 2012?	0.021	0.0575	0.2056	0.954

Appendix A. Factor loadings (continued)

Variable		Factor 1	Factor 2	Factor 3	Uniqueness
willclosei~n	Business will close if unable to get loan.	-0.0689	0.1565	-0.1292	0.9541
credittyp~ce	Rcvd $ thru cash advance	0.0044	0.206	-0.049	0.9552
freqrevie~ns	How often do you review tax returns?	0.1056	-0.0787	0.1652	0.9554
personalcr~e	Personal credit score	0.0931	0.0373	0.1825	0.9566
gotloanfro~e	Got cash advance	0.022	0.1749	-0.1048	0.9579
haveperssa~s	Do you have personal savings account?	-0.0443	-0.0236	0.1988	0.958
origfundre~e	Original funding from retirement savings	0.0623	0.0351	-0.1871	0.9599
previndmgr	Have you previously worked as a manager in this industry?	0.067	-0.141	0.1204	0.9611
credit~rloan	Rcvd $ thru A/R loan	0.0141	0.1766	0.0721	0.9634
bizownmult~s	Business owns multi-family (5+) residence	0.0103	0.1685	0.0813	0.9649
ltgoalgetl~d	Long term goal to get loan to expand	0.0706	0.0875	-0.1441	0.9666
havepersch~g	Do you have personal checking account?	-0.0577	0.0646	0.1595	0.967
havebizsav~s	Do you have business savings account?	0.0157	-0.0223	0.1794	0.9671
revgrow~1112	Revenue growth from 2011 to 2012	-0.1015	-0.1315	-0.0717	0.9673
credittype~z	Rcvd $ thru Mezz loan	-0.0045	0.1516	0.0601	0.9734
origfundff~n	Original funding from friends & fam loan	0.0132	0.1329	-0.092	0.9737
previndy~ner	Number of years in industry as an owner	-0.0659	0.0592	0.1349	0.9739
entity_scorp	Is this business an S-Corp?	-0.0997	-0.0416	0.1183	0.9743
owetaxes2012	Did this business owe taxes in 2012?	-0.0028	-0.0407	-0.1493	0.976
freqreview~k	How often do you review bank statements?	0.058	-0.1226	-0.0685	0.9769
gotloa~nbank	Got loan from Bank	0.0279	0.1409	0.0362	0.9781
howdetfun~rs	Do you dtermne funding needs by copying competitors?	0.0648	0.1019	-0.0803	0.979
ltgoalcont~e	Long term goal to continue in business	-0.053	-0.0438	0.1272	0.9791
origfundou~y	Original funding from outside equity	0.0492	0.127	-0.0459	0.9793
origfundmo~e	Original funding from mortgage	-0.0811	0.1126	-0.0262	0.9801
origfundot~r	Original funding from other source	0.0145	-0.0107	0.1399	0.9801
ltgoalsell~z	Long term goal of selling the business?	0.0288	0.0789	0.1124	0.9803
howdet~rends	Do you dtermne funding needs by researching trends?	0.0795	0.1088	0.0397	0.9803
origfundba~n	Original funding from bank loan	0.025	0.1182	0.0685	0.9807
howdetfun~pa	Do you detrmne funding needs by consulting cpa?	-0.063	0.1208	-0.0257	0.9808
howdet~iends	Do you dtermne funding needs by consulting friends?	0.0091	0.1295	-0.0394	0.9816
entity_par~r	Is this a business partnership?	-0.0427	0.0932	0.085	0.9823
education	What is your education level?	0.0615	-0.0476	0.1036	0.9832
previndowner	Have you previously owned a business in this industry?	-0.0983	0.0648	0.0543	0.9832
credit~vloan	Rcvd $ thru inventory loan	0.0381	0.1231	0.0083	0.9833
ltgoaldont~w	Long term goal (don't know)	0.0022	-0.0635	-0.1095	0.984
origfundpe~s	Original funding from personal assets	0.0457	0.0774	-0.0858	0.9846
ltgoalgetl~s	Long-term goal to get loan to pay bills	-0.0019	-0.0361	-0.1094	0.9867
bizownmult~l	Business owns multi-family small residence	-0.043	0.1059	-0.0133	0.9868
ltgoalretire	Long term goal to retire	-0.0779	-0.0021	-0.0836	0.9869
freqrevie~ls	How often do you review your bills?	0.0844	-0.0379	0.0644	0.9873
origfundpr~s	Original funding from presales	0.0491	-0.0292	-0.0951	0.9877
origfundff~t	Original funding from friends & fam gift	-0.0984	0.0467	-0.0064	0.9881
pctcustpay~e	What percentage of your customers pay late?	0.0842	-0.0558	0.036	0.9885

Appendix A. Factor loadings (continued)

Variable		Factor 1	Factor 2	Factor 3	Uniqueness
howdetfun~ce	Do you dtermne funding needs by using your own experience?	-0.0031	0.1003	-0.0275	0.9892
ltgoalincr~w	Long-term goal to increase cash flow	0.0294	0.0839	-0.0461	0.99
previndwor~r	Have you previously been a worker in this industry?	-0.0648	-0.0406	-0.062	0.9903
empcont	How many employees do you have?	0.0818	0.0091	0.0489	0.9908
howdetfun~or	Do you dtermne funding needs by consulting an advisor?	-0.0197	0.076	-0.049	0.9914
gotloanfro~w	Don't know where loan was from	-0.0351	0.0312	-0.078	0.9917
gotloanfro~z	Got mezzanine loan	0.0546	0.0582	0.0194	0.9932
gotloanfr~er	Got loan from other source	0.0095	0.0768	-0.0203	0.9936
howdetfun~ss	Do you dtermne funding needs by guessing?	-0.0224	-0.0268	-0.0704	0.9938
haveother~nt	Do you have other type of bank account?	0.0162	-0.0572	0.052	0.9938
previndy~ker	How many years have you previously spent in this industry as a worker?	-0.0505	-0.0534	-0.0242	0.994
timetocoll~t	How much time does it typically take to collect payment from customers?	-0.0333	-0.0325	-0.0067	0.9978
credittype~w	Rcvd $ thru (don't know)	-0.0335	0.01	0.0255	0.9981
howdetfun~er	Do you dtermne funding needs by some other way?	0.0264	-0.0282	-0.0143	0.9983
havebizche~g	Do you have business checking account?	-0.0033	0.0004	0.0267	0.9993
credittype~r	Rcvd $ thru other source	0.0001	-0.0038	-0.0033	1

Notes

1. Everett, Craig R., Chinwe Onyeagoro, and Alex J. Davidson, 2014, "Small Business Financial Health Analysis," August 15, available at SSRN: http://ssrn.com/abstract=2492308 or http://dx.doi.org/10.2139/ssrn.2492308.

2. To arrive at the score, the factor analysis was rerun using the 21 most relevant variables within each cluster. Using the factor loadings of each variable (that made up the cluster around each factor), we calculated the mean index value by multiplying the average sample response for each question (based on an ordinal survey response value) times the factor coefficient for that question. We then calculated a financial health score for each respondent based on a given respondent's answers to the survey and the factor coefficient for each question/variable, scaling the financial health scores between 0 and 100 in order to facilitate interpretation.

3. Respondents were also asked about knowledge of personal credit cards, business credit cards, home equity lines of credit, bank business loans, SBA 7(a) and 504 loans, USDA loans, purchase orders, mezzanine loans, and personal loans from friends and family.

Biographies

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Seventh District workforce development programs that serve marginalized and disadvantaged populations

by Emily Engel

In 2011, the Community Development and Policy Studies (CDPS) division of the Federal Reserve Bank of Chicago launched the Industrial Cities Initiative (ICI) to take a close look at ten former industrial/manufacturing hubs and their economic evolution over the last 50 years.

In conjunction with the ICI, CDPS collected information that suggests a skills/education shortage may play a significant role in employment rates across the Seventh District, a role that the recession likely intensified but did not cause. The ICI focused particular attention on the labor force in these cities and the steps taken by workforce development groups to meet demand for vocational and technical training required by major employers nearby. With that information in mind, in *ProfitWise News and Views,* "Community colleges and industry: How partnerships address the skills gap,"[1] CDPS examined what some community colleges in the Seventh District are doing to close this perceived skills gap.

In 2014, CDPS released its findings in published profiles of ten midwestern cities that experienced significant manufacturing job loss in recent decades. The report features a quantitative assessment of these "industrial cities" augmented by more than 175 interviews with city leaders. The report explores whether – and to what extent – these cities have been able to withstand a decline in manufacturing employment since the 1960s. Workforce development was the most common and the most vexing issue identified by leaders in virtually every ICI city profiled in the report.

CDPS furthered its investigation of workforce development in the 2014 Fall edition of *ProfitWise News and Views,* "From classroom to career: An overview of current workforce development trends, issues, and initiatives."[2] One article in *ProfitWise News and Views* highlighted the Cara Program, a Chicago-based community organization that provides a challenging yet highly supportive environment where individuals whose backgrounds create barriers to employment can cultivate the soft skills necessary to navigate the modern workplace. A second article detailed a smaller Cara program that focuses on formerly incarcerated individuals since the barriers to employment for this group are often extremely high.

Workforce development remains a high priority for CDPS. This article will highlight workforce development programs in each state in the Seventh (Chicago) Federal Reserve District, with particular attention to those that serve marginalized or disadvantaged populations.

Wisconsin: The Wisconsin Regional Training Partnership

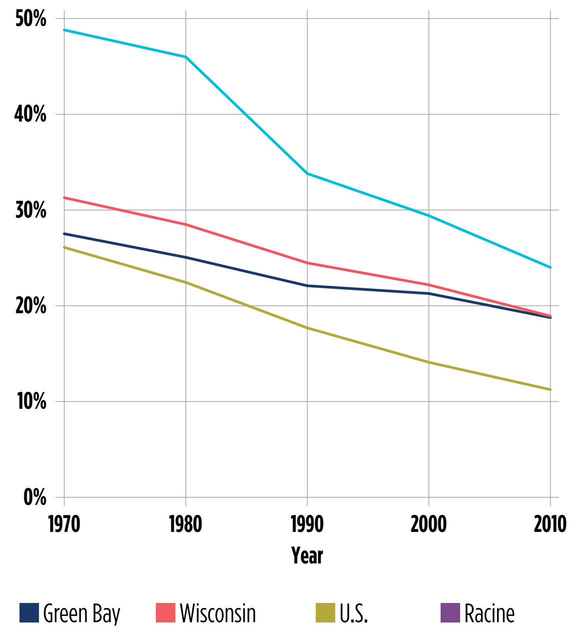
From the ICI, CDPS learned that both of the Wisconsin cities that were profiled, Green Bay and Racine, experienced a decline in manufacturing employment, but both cities still had a significantly higher percentage of people employed in manufacturing relative to the entire U.S. As of 2010, 11 percent of all U.S. workers were employed in manufacturing compared to 19 percent in Green Bay and 24 percent in Racine.[3]

While Milwaukee was not profiled in the ICI, many cities in Wisconsin have the same industrial base and worker programs have to shift away from manufacturing. For example, in Milwaukee, the Wisconsin Regional Training Partnership (WRTP) was created in the 1990s to help renew the city's industrial base.

WRTP created a model of pre-employment for people looking for jobs that "support families with a living wage." Instead of following the traditional workforce development model providing training without a link to an actual job, WRTP contacts manufacturers seeking workers, and then reaches into its employee network to find Milwaukee central city residents (with the required skills) to fill the open position. WRTP/BIG STEP's[4] Center of Excellence "is a clearinghouse for the assessment, preparation, and placement of job-ready candidates for careers in manufacturing, construction, and emerging sectors of the economy."[5] Their program is industry and employer driven and works differently than the typical model since they start by identifying demand among employers, primarily manufacturers. From there WRTP tries to find out as much as possible about the companies in the region learning about plant closings, additional training needs, and new technology that organizations hope/plan to use in the future.

WRTP recruits candidates from some of the most impoverished areas, and helps candidates create work plans to fill the available jobs. If the candidate requires training, WRTP arranges it through on-the-job training, apprenticeships, and/or classroom courses. This individualized approach ensures a high success rate for the individual and reinforces the organization's partnership with WRTP. WRTP also helps clients find work though short-term, pre-employment training programs created through partnerships with companies looking to hire.

Chart 1. Percent employed in manufacturing: Green Bay, Racine, and comparison areas, 1970-2010



Source: U.S. Census Bureau.

WRTP focuses on advancement and adaptation, as the skills people need to succeed continually change and evolve. Since 2005, WRTP/BIG STEP has facilitated more than 3,000 job placements at an average wage of $16.43/hour.[6] In 2013 alone, WRTP served 1,943 individuals: 939 individuals trained; 888 placed in employment at an average wage of $16.92/hour; 301 employers; 260 apprenticeships; and 331 youth served. Notably 73 percent of WRTP participants were people of color and 13 percent of participants were women.[7] In preliminary data for 2014, 17 percent of individuals WRTP served were ages 18-24, 12.64 percent were female, and 73.14 percent were people of color.

Illinois and Iowa: Safer Foundation

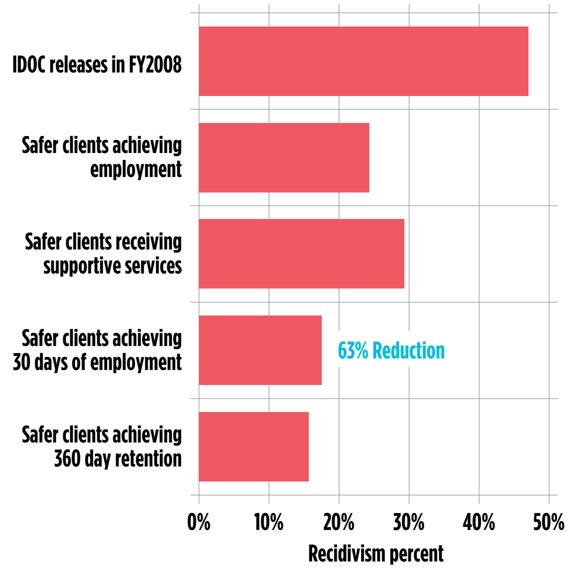
People with criminal records face additional hurdles to employment. According to data included in *Collateral Costs: Incarceration's Effect on Economic Mobility*, "past incarceration reduced subsequent wages by 11 percent, cut annual employment by nine weeks, and reduced yearly earnings by 40 percent."[8] Re-entry programs that focus on the formerly incarcerated (instead of the larger unemployed population) reintegrate one of the (historically) least employable cohorts into society and benefit the broader community by reducing recidivism and/or dependence on public assistance and other public resources.

The Safer Foundation (Safer) has been helping serve the formerly incarcerated for over 42 years. Safer, which operates in Illinois and Eastern Iowa, has a "triple bottom line" mission: help businesses find workers; help people with criminal records secure a job; and reduce unemployment among the most difficult to employ. Safer's "average client is male, around the age of 30, single, with at least one child, and no post-secondary education; typically they have multiple convictions."[9]

Safer's approach involves more than employment training because clients must often embrace lifestyle changes to secure lasting employment. Safer helps with all employment and related services, including job preparedness, placement, and retention, offering assistance with GED and other Adult Basic Education programs including financial counseling. Safer also helps clients find housing. The organization runs a ten-unit apartment complex for clients who enter the program homeless. It also offers assistance with other life issues, such as substance abuse.

In addition to the hands-on program for formerly incarcerated, Safer also operates two Adult Transitional Centers (ATCs) in Illinois on behalf of the Illinois Department of Corrections (IDOC). Safer is the only nonprofit private organization to manage ATCs for IDOC. These community-based, work release facilities cater to men who have been convicted of non-violent offenses and have less than two years remaining on their sentences by helping them transition into post-incarceration life gradually. Residents are provided access to demand-

Chart 2. Recidivism results



Clients tracked for three years (FY2008-FY2011) for recidivism results.

Source: Safer Foundation FY2011 Recidivism Study.

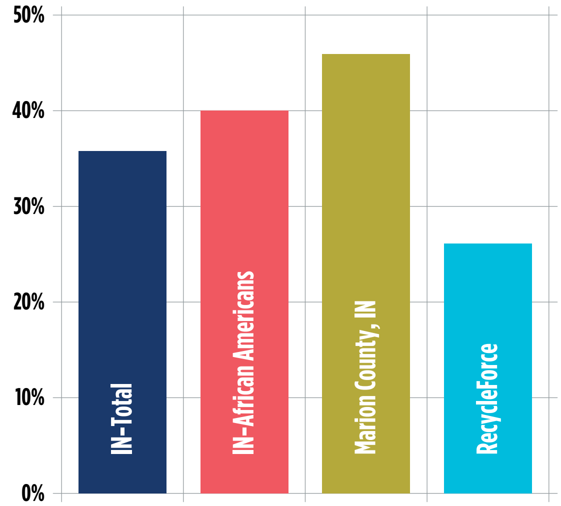
skills training in computer numerical control, commercial driver's licensing, welding, forklift operation, Microsoft digital literacy, culinary arts, and food service management. The centers also have a mentoring program that research has shown is an important part of the re-entry process.

Residents at the Crossroads and North Lawndale ATCs participate in the first three steps of Safer's Retention Services Model (RSM): intake/assessment, intensive case management, and job preparedness training. All ATC residents must participate in at least 35 hours of in-house programming each week, including outside transitional employment, substance abuse treatment, anger management, cognitive training, family counseling, financial management, vocational skills training, job readiness, mental health services, and educational interventions. Residents exiting the ATCs continue to receive services as they transition into Safer's RSM re-entry and retention program: job placement assistance, job development and employer assistance, retention services, and financial education. Safer also works closely with a network of referral partners to address housing, health, family, and legal needs.

In the fiscal year 2014, Safer served 8,600 clients and helped 4,200 secure employment. While these data speak to the organization's success, a 2011 study by Loyola University on reduced recidivism reinforced the program's effectiveness.

As indicated in the chart above, in fiscal year 2008, the three-year recidivism rate for people released from Illinois Department of Corrections was 47.0 percent.[10] Safer clients who achieved employment had a recidivism rate of 24.3 percent, meaning that one in four clients returned to prison within three years versus (slightly less than) half of formerly incarcerated who are not enrolled in Safer. Other results underscore the organization's effectiveness further: of Safer clients who achieved 30-day employment, recidivism was 17.5 percent; among those who achieved 360-day job retention only 15.7 percent recidivated during the same measurement period.

Chart 3. Return to prison rates



Source: RecycleForce.

Indiana: RecycleForce

RecycleForce in Indiana is another group that focuses on the formerly incarcerated population. Their organization combines innovative recycling services while providing workforce training to former inmates. During RecycleForce's four-to-eight-month training program, each individual receives OSHA training, mentoring, child support, and healthcare assistance. After the job training program, trainees start an outside job, or assume a temporary or permanent job at RecycleForce. They focus on electronic recyclables donated by residents of the area, corporate partners, academic institutions, and government entities. The workers deconstruct these items to facilitate proper recycling. This process provides the dual benefit of keeping hazardous materials out of landfills, and producing materials for sale to help pay for the organization's job training programs. "In the past year, RecycleForce collected over 12 million pounds of electronic waste, keeping it out of landfills and in turn processing 1.7 million pounds of steel, 3 million pounds of plastic, and 864,000 pounds of copper."[11]

By bringing together transitional employment, skills training, peer mentoring, recycling, and job placement, RecycleForce: reduces recidivism (as can be seen on the chart 3), creates jobs, and promotes recycling. By employing among the most difficult to employ (historically), the organization saves taxpayer dollars that would otherwise be spent on incarceration, (unpaid) child support, public assistance programs, and longer term, potentially, environmental remediation.

Any criminal justice agency may refer candidates to RecycleForce. The best candidates for RecycleForce are extremely needy and at "high risk" to reenter the criminal justice system. Participants begin the RecycleForce program by clocking in to ensure awareness that they are "on the clock." RecycleForce orientation emphasizes "'Work Responsibility Reward' – participants perform at work, demonstrate responsibility, and receive rewards." RecycleForce teaches participants during orientation that although mistakes happen, RecycleForce will advocate on their behalf provided they "do the right thing" and take responsibility for mistakes while in the program. However, participants also understand that the biometric clock they use notifies parole officers and work-release case managers in real time if a participant fails to clock into work or arrives late. Following orientation, an Employee Assistance Representative (EAR) works with the participant to create a plan for gaining permanent employment. The EAR performs an assessment of a participant's strengths, weaknesses, and personal issues (including addiction and mental health), and assists in finding health insurance.

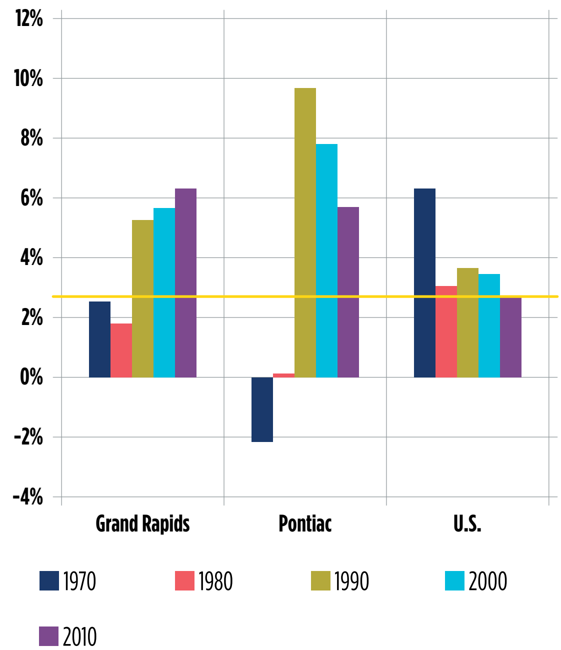
After ensuring that participants satisfy child support obligations, they report to a "factory floor" with protection equipment and a toolbox where they begin a two-to-four-week "Phase Training" program that includes OSHA certification. Peer mentoring is an important part of the program where ex-offenders who have succeeded in the program help newer participants acclimate. Mentors discuss personal issues that newer participants are experiencing and teach them to take responsibility for their problems by encouraging them to "think differently" – i.e., considering the consequences of their actions before they act. This peer-to-peer mentoring program usually lasts four months and has had excellent results; newer participants can identify with their more seasoned role models. Once completed, participants are equipped with the hard and soft skills necessary for mainstream employment.

Michigan: Earn + Learn

CDPS also learned that low-income/poverty can significantly impact a population that is trying to find living wage employment. As can be seen in the chart below, the poverty rate is increasing faster than the unemployment rate in both Michigan cities that were profiled in the ICI, Grand Rapids and Pontiac. This means that while people may be working, newer jobs are largely service-related and low-paying, so the net effect is more working poor whose jobs may not lift them out of poverty. A program in Michigan, Earn + Learn, focuses on individuals who face significant barriers to employment. Clients include the formerly incarcerated; the chronically unemployed; those without a high school diploma; and all have the common condition that they are low-income.

Earn + Learn is run by two large nonprofit organizations: Southwest Economic Solutions (SWES) and Focus: HOPE (and Access[12] during the first stage). SWES's mission is "to provide opportunities for individuals and families to achieve greater economic success." SWES has many services to meet their mission of helping families, including:

Chart 4. Difference between the poverty and unemployment rate: Grand Rapids, Pontiac, and U.S., 1970-2010



Source: U.S. Census Bureau.

- Foreclosure intervention counseling
- Center for Working Families
- Partnership. Accountability. Training. Hope. (a Michigan program that supports an employment program for people applying for public assistance)
- Homeless Veterans' Reintegration Program
- Adult Learning Lab
- Earn + Learn
- eHome Money
- ProsperUS Detroit[13]

Focus: HOPE is a Southeast Michigan based organization that focuses on finding real world solutions to the problems of "hunger, economic disparity, inadequate education, and racial divisiveness."[14] Over the past 45 years Focus: HOPE has worked to bridge the divide in their community through: food programs, career training programs, and the HOPE Village Initiative. These organizations at times compete for funding, but collaborated to implement Earn + Learn.

Earn + Learn was a pilot program from 2011 to 2013, and in 2015 it is back serving the community after receiving additional grants. Earn + Learn focuses on Detroit and two cities within Detroit's borders (Highland Park and Hamtramck), with special emphasis on three populations: minority males 18-24 years old; former inmates; and chronically unemployed adults. Earn + Learn offers a four-week work readiness program that puts participants into a structured environment to prepare them for success once they find a job. The readiness program looks at the whole person and what they need to be successful, from a physical exam to appropriate work clothing to stipends during training. The Earn + Learn program has three main goals: barrier removal, education and training, and workplace integration.

Statistics from the pilot phase include:

Who we serve: Participants of Earn + Learn are the hardest to employ.

- 19 percent were formerly incarcerated and another 24 percent were chronically unemployed
- 29 percent had not completed high school and 4 percent had not finished middle school.
- 57 percent were 18-24 years old, and 14 percent of these disconnected youth were incarcerated
- 100 percent were low-income and met Workforce Investment Act of 1998 (WIA) eligibility requirements.

Why we serve: Participants demonstrate measurable outcomes and employers benefit.

- **Completion:** 874 participants completed the four-week training and earned all four of the following credentials: International Business Training Association's Certified Business Professional (CBP) certificate, a Michigan Occupational Safety Hazard Administration (MI-OSHA) certificate, and First Aid and CPR certification.
- **Participation in occupational/vocational training:** 719 participants received additional occupational and vocational training, and while 82 participants remain in training to date, there is an 83 percent completion rate among those who were enrolled in education and training courses.
- **Job placement:** 642 subsidized and 420 unsubsidized job placements were secured for Earn + Learn participants with 48 percent of participants who completed Work Readiness currently placed in unsubsidized employment.
- **Job retention:** 53 percent of participants placed in unsubsidized jobs have retained employment for more than 180 days.[15]

Earn + Learn successfully serves clients by helping with credentials, knowledge skills, and job placement. Over half of the participants placed in unsubsidized jobs during the initial phase of the program were still employed six months later. Earn + Learn, like other programs discussed here, not only helps the employees and their families, but the broader community.

One thing all these organizations have in common is that they focus on a subset of the unemployed population opposed to the problem of unemployment generally. By working with a small group of the unemployed, each organization can focus on the specific needs of a group. As the various programs summarized above demonstrate, it takes a multifaceted yet focused approach to address otherwise intractable problems like chronic unemployment and recidivism. As measured by the positive results of each organization, this focused approach is effective. CDPS will continue to explore and document more programs and organizations that offer a path to a living wage.

Notes

1. *ProfitWise News and Views,* "Community colleges and industry: How partnerships address the skills gap," available at http://www.chicagofed.org/digital_assets/publications/profitwise_news_and_views/2013/PNVNov2013_FINAL.pdf.

2. *ProfitWise News and Views*, "From classroom to career: An overview of current workforce development trends, issues, and initiatives," available at https://chicagofed.org/publications/profitwise-news-and-views/2014/pnv-fall2014.

3. Industrial Cities Initiative, full report, available at https://www.chicagofed.org/region/community-development/community-economic-development/ici/index.

4. Building Industry Group Skilled Trades Employment Program (BIG STEP) is a pre-apprenticeship coaching program that helps residents prepare for apprenticeships in the construction trades. BIG STEP partnered with the WRTP to form the Center for Excellence. Available at http://bigstepinc.org/.

5. WRTP, Center of Excellence, available at http://www.wrtp.org/documents/COEflyer.pdf.

6. WRTP, available at http://wrtp.org/documents/COEflyer.pdf.

7. WRTP Annual Report & Performance Review 2013.

8. Collateral Costs: Incarceration's Effect on Economic Mobility, available at http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2010/CollateralCosts1pdf.pdf.

9. Safer Foundation Highlights, available at http://www.saferfoundation.org/files/documents/FINAL-SAFER-HIGHLIGHTS-7-29-14.pdf.

10. Recidivism percent (47.0%) based on the IDOC FY2011 recidivism percent for inmates released in FY2008 from IDOC and re-incarcerated within three years of release.

11. RecycleForce, "Electronics Recycling Achieves Impact on Environmental, Social, and Economic Goals."

12. ACCESS (Arab Community Center for Economic and Social Services) is the largest nonprofit Arab American human services organization in the United States. It was founded in 1971 to help transition the Arab immigrants to their new life in the United States and has bloomed into an agency that offers social, economic, health and educational help to those in need.

13. Southwest Solutions, available at http://www.swsol.org/hoc.

14. Focus:HOPE, available at http://www.focushope.edu/page.aspx?content_id=1&content_type=level1.

15. From Earn + Learn.

Biography

Emily Engel is a business economist in the Community Development and Policy Studies division at the Federal Reserve Bank of Chicago.

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