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Tools (lessons and strategies) Toward Market Restoration: A conference summary

Workforce 2020: Is it time for disruptive innovation?

An analysis of African American interstate migration to Iowa

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In the final edition of 2015, we feature summaries of two 2015 conferences. Senior Business Economist Susan Longworth and Michael Berry, director of Policy Studies, prepared the summary of "Tools Toward Market Restoration," which explored methods and strategies to revitalize places struggling economically following the Great Recession. Longstanding conditions of low employment and educational attainment levels, economic and social isolation, and general disinvestment affected these areas for decades before the recession, which was also a topic discussed. "Future Focus: Preparing for Workforce 2020," explored the so-called worker 'skills gap,' why employers are having difficulty filling open jobs, and ways that workforce development efforts must evolve to meet changing needs, among other areas. The Fed's Jason Keller, economic development director for Illinois, with Norman Walzer and Diana Robinson of the Center for Governmental Studies at Northern Illinois University, provide, in addition to the summary, supplemental demographic data and information on emerging employment trends in an article entitled "Workforce 2020: Is it time for disruptive innovation?". Finally, Marva Williams, economic development director for Iowa, explores black migration to Iowa, and misconceptions about public assistance as the prime motivation for people moving to the state.

Please note that due to its size, this edition of *ProfitWise News and Views* will be issued as an online publication only.

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Tools (lessons and strategies) Toward Market Restoration: A conference summary

By Susan Longworth and Michael Berry

Community development post-recession takes place in an environment that is greatly changed in terms of both demand for and capacity to deliver services. While no community was immune, the places that were most deeply affected by the Great Recession – and continue to feel its effects – are often those places that had suffered from disinvestment for decades leading up to it. The tools and strategies that have been developed and relied on by investors, practitioners, and advocates – in some cases for decades – need to be adapted to the changes, while continuing to meet ever growing demand.

The Federal Reserve Bank of Chicago, in partnership with IFF and the American Bankers Association, convened a conference to discuss tools available and needed in order to restore market vitality to the many communities that continue to be affected by lack of investment and low-functioning financial service and credit markets, among other challenges. "Tools Toward Market Restoration: The Role of Community Capital" explored the different types of 'capital' that must exist to create an 'enabling environment' for investment.

This article summarizes the conference panels, focusing on specific initiatives and lessons learned. In particular, two tools are highlighted for their broad applicability in assessing both the value and capacity of challenging markets. Contributions from Robin Hacke at the Kresge Foundation and Ira Goldstein at The Reinvestment Fund (TRF) are featured as sidebars. Other panels are described sequentially in the pages that follow.

Welcoming remarks were shared by: Alicia Williams, vice president, Community Development and Policy Studies, Federal Reserve Bank of Chicago; Joe Neri, CEO, IFF; and Rob Rowe, vice president and associate chief counsel, Regulatory Compliance, American Bankers Association. Williams highlighted some challenges faced by the Midwestern region as a whole: population and job loss; outdated infrastructure; and an unprepared workforce. She also quoted a warning from the OECD: "social exclusion and spatial segregation both reflect and reinforce labor market issues. The concentration of significant populations with very low skills and little labor force attachment represents both a drag on future growth as well as aggravates shortages in medium-skilled occupations in the labor market." This assessment has ramifications for the entire region, not just for the populations in question, and requires multiple layers and types of interventions, policy reforms, and investment. A key component of private investment is regulated financial institutions fulfilling obligations under the Community Reinvestment Act (CRA), but the private sector also must take part in connecting workers, businesses, and communities to the mainstream economy, in part through strategies involving anchor institutions in otherwise diminished local economies. Isolation depletes social and economic potential. Community Development Financial Institutions (CDFI) have nuanced local market knowledge and can augment physical, economic, and social assets, she concluded.

However, Joe Neri cautioned against 'reinventing the wheel' by reminding the audience that a conference goal was to identify strategies that can be replicated. Because of the urgency faced by many communities, there is a need to lower the learning curve, he stressed. Rowe added the perspective of financial institutions, explaining that the ABA looks at new regulations through an 'inclusion' lens, in an effort to understand how changes to the regulatory environment affect vulnerable populations.

Eric Belsky, director, Division of Consumer and Community Affairs at the Federal Reserve Board of Governors, and the conference keynote, set the stage by parsing the meaning of the conference title as it applies to both people and places. The concept of 'markets,' he opened, can be understood in the abstract, as a situation where supply and demand come together and, in a healthy market, are moving to some kind of equilibrium. It can also be understood from a concrete, place-based perspective – as places where people live and work. Belsky took both interpretations into account when considering the concept of "market restoration."

Restoration implies returning something to its original state or place – where quantities of supply and demand are aligned. Today we are in a position of undersupply in some areas – too little capital, too few (government) services, too few jobs, or not enough affordable housing.

One must also consider that for some places, equilibrium has not existed for many years, sometimes decades, if ever. In these cases, recovery is more challenging given that perceived risks are higher than actual, and no individual entity prepared to take the 'lead' risk. The credit constrained environment post-Great Recession adds more headwind. Even if capital is willing to deploy in these places, it seeks a high rate of return to compensate. Often market participants in these areas can't support the high cost of capital (through rents paid or revenues/incomes generated). So capital moves elsewhere, creating further disparity. Community advocates are hard pressed to identify natural sources of demand in places that have been 'out of equilibrium' for 20 or 30 years, and government subsidy to fill equity (or income) gaps in quality housing or other investments is by definition scarce. Removing and/or repurposing existing buildings – houses or institutional – comes with significant financial, social, and political costs, but in the most economically troubled communities, there are too many vacant structures, which drives down rents and property values.

Belsky stressed that the development of human capital – another form of capital – is very challenging because it doesn't produce immediate revenues, cost recovery is long-term (and difficult to measure), and there isn't sufficient government funding to support large-scale quality programs. The successful development and deployment of human capital also requires some investments in physical capital: from investments in safe and effective child care centers to investments in the transportation systems needed to connect workers with jobs.

The term "healthy communities" has gained currency across the Fed System to describe places that thrive economically and score well on key health metrics. Belsky noted the utility of the phrase as a guiding metaphor to describe areas "where investments are continually made in the people and the place."

Finally, Belsky took time to explain the concept of community capital (and the related elements for its successful deployment). At the most obvious level, it is money – which is difficult to attract to places with depressed demand and (sometimes) declining population. Fixing market failures and mitigating negative externalities requires some form of government intervention as the market will not generate redevelopment on its own. Tools such as tax incentives, (social) investments, and other subsidies can help close the gap between what low wage earners can afford and what it actually costs to produce improvements. Ultimately, however, successful redevelopment requires a multi-sectorial civic infrastructure – an 'enabling environment' – to absorb, manage, and deploy capital to achieve desired outcomes.

Opening panel: Spatial segregation

While it is a variously defined term, a core tenet of 'community capital' is socio-economic mobility for people traditionally shut out of mainstream capital markets – minorities, immigrants, and other marginalized populations. However, increasing evidence and discourse indicate that many communities remain chronically racially and socially isolated from opportunities – residential, educational, and entrepreneurial. The opening panel discussed the ramifications of spatial segregation, why it exists, and what can be done to address it (moderated by Niala Boodhoo, host, Afternoon Shift, WBEZ-Chicago Public Radio).

Mario Small, Grafstein family professor of sociology, Harvard University, opened the panel by taking the conversation from the city-level down to the neighborhood-level, as spatial segregation manifests itself in neighborhoods. However, his research shows that low-income neighborhoods differ dramatically from city to city, particularly in their density.[1] In some cities, the poor neighborhoods are the most depopulated of the city – for example density in Chicago's Woodlawn is 12,000 people per square mile. In New York, Harlem has about 80,000 people per square mile – some census tracts as much as 130,000. Detroit averages 6,000 people per square mile.

However, 30 years ago, Woodlawn had 22,000 people per square mile and was a very different kind of neighborhood. In New York, poor neighborhoods were a little less populated, but overall there has been more population stability. In other places, for example in the southwest, the trend is one of population growth.

Population density is tied to organizational density, but the relationship is not linear. As expected, more neighborhood vitality is associated with population density. However, the more depopulated a neighborhood is, the more likely it is to be disproportionately underserved relative to its capacity. At the same time, density can bring its own problems, such as air-, ground-, and water-born pollution that carry health and other risks for residents. So it's not a question of whether a place is "better or worse," but rather that different kinds of development are needed in different places.

Small's research also shows that there are additional nuances to poor, segregated neighborhoods: higher concentration of black residents usually means lower commercial density; higher proportions of immigrants usually mean higher commercial density. "So it's important to think about racial differences explicitly," he concluded.

Building on Small's caveats regarding neighborhood-level nuances, Alan Berube, senior fellow and deputy director, Metropolitan Policy Program, The Brookings Institution, provided an illustration of the changing profile of poverty and segregation.[2]

Presently, 55 percent of low-income people living in large metropolitan areas reside outside major cities. To a certain extent, this trend was driven by public policy that sought to open up communities to low-income/minority populations. But poverty doesn't distribute evenly. Brookings' research shows that poverty emerges in the suburbs in concentrated ways that mirror inner cities, resulting in distinct areas of prosperity and distress.

The challenge of this shift is that community development practices were designed for poverty concentrated in urban areas predominantly. Suburban places lack the 'infrastructure for community development' and don't have the native organizations that have an 'enabling environment' for capital absorption capacity.

However, neither time nor money exists to recreate 'community development for suburbia.' In the end, the amalgam of people, organizations, and agencies that engage in and deliver community development will disregard 'economically artificial' municipal boundaries, in order to create scale and capture efficiencies.

James Carr, senior fellow at the Center for American Progress,[3] expanded on the points of the earlier panelists, but with a particular focus on blacks, reminding the audience that for many blacks the challenge is not that of market restoration, but market creation. The challenges of creating demand within these markets are significant and pre-date the recession. For example, during the Great Recession the unemployment rate for non-Hispanic whites never reached the level that it was for blacks in the ten years leading up to the recession.

Carr also reminded the audience that hyper-segregation – severe disadvantage, poverty, and racial wealth gaps –

are not the work of markets. These are the direct (long-term) result of policies and programs, beginning with the Federal Housing Act of 1934, that were actually designed to create and build wealth in America through home ownership, but prohibited, explicitly, blacks and many immigrant groups from obtaining competitive mortgage financing, or from living in newly built homes and neighborhoods.[4] Disinvestment in housing led to low investment in schools and other neighborhood assets, perpetuating the poverty cycle.

The geography of poverty and the geography of race are changing, but the color has not changed. Segregated communities don't function in the same way and therefore traditional market tools do not work in the same way. Segregation is a combination of racial and economic disparity that results in a wealth gap of as much as 20:1 that inhibits markets from functioning as would otherwise be expected. Carr posited that home ownership rates must be leveled between whites and blacks; this would begin to address the 'segregation tax,' which depresses property values in black neighborhoods, and would potentially begin to narrow the wealth gap.

Achieving this result will require changes to the housing finance system. "The housing finance system from before the Great Recession cannot be the same housing finance system after the Great Recession, because it didn't work," said Carr. However, he cautioned that alternative underwriting standards do not mean looser standards. He suggested standards that take into account the risk mitigating effects of (competent) borrower counseling, for example.

Carr reminded the audience that 50 years ago, marginalizing people of color economically and socially had less overall effect as they were then a true minority of the U.S. population. But since 2000, the population share of blacks and Latinos has expanded by 50 percent; today the majority of births are people of color. Carr stressed the dire consequences of having a rapidly growing population that remains poor and segregated.

During the discussion period, other panelists joined Carr in acknowledging that our low-income populations face significant barriers to employment. In particular, for many black males employment prospects are extremely limited, as so many cannot participate in the labor force due to a criminal record.

Alan Berube stressed that undocumented people and ex-felons are distinct populations that face significant barriers to employment. "An ex-felon is a U.S. citizen who has a right to work; they've paid their debt to society," he advocated. "Checking the box" (to indicate a felony conviction on an employment application) is part of the problem.

Small asked, "What does this problem look like if we think about it holistically – in terms of the kind of establishments that are needed to sustain the community and education levels needed for people to get…mortgages and [stay] out of the criminal justice system?" Human capital development is part of the community investment solution, where skill development and job creation enables wealth building on a sustainable level. Equity in the suburban context is very challenging to achieve because of the municipal fragmentation that exists. Berube suggested that gaining a better understanding of the limited financial capacity of smaller municipalities would clarify the relationship between fragmentation of government and (impediments to) economic progress, economic growth, and economic inclusion. And, Carr again challenged the audience: "New community investment results in seriously building the American economy of the future – not just building a neighborhood."

In closing the panel, Moderator Niala Boodhoo, looked ahead to 2042 when the U.S. is predicted to become a 'majority minority' country. Given the challenges the panel had raised, she posed a fundamental question, "Who is going to pay the bills?"

The Capital Absorption Capacity interactive session explored the political, social, cultural, and financial elements that create capacity for the effective deployment of investment capital in underserved communities. Through the interactive exercise, participants had the opportunity to deepen their understanding of how communities deploy investment and create an environment that puts dollars to work on behalf of low-income people. Participants examined a variety of places, sectors, and approaches that seek to understand what actions can be taken – by public, philanthropic, nonprofit, and private sector leaders – to facilitate the flow and maximize the impact of community investment dollars. (Excerpted from "The Capital Absorption Capacity of Places: A Research Agenda and Framework Working Paper.")

Strengthening community investment systems: An introduction

The Kresge Foundation, together with the John D. and Catherine T. MacArthur Foundation, has launched a project designed to improve the ability of cities to attract and deploy private investment for public purpose. The project, which builds on work begun at Living Cities, recognizes that mainstream financial markets do not serve the specialized and multifaceted needs of low-income communities (where public investment is also lacking), and that harnessing public, private, and philanthropic capital effectively to achieve important social and environmental goals requires a disciplined approach.

Robin Hacke from The Kresge Foundation presented a newly released paper, *"Community Investment: Focusing on the System"* (available at http://kresge.org/library/community-investment-focusing-system), that she co-authored with David Wood of the Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University and Marian Urquilla of Strategy Lift.

The paper considers how practitioners can develop a more coordinated, strategic approach to organizing demand for capital that generates both financial and social returns. It offers a set of tools for assessing and strengthening *capital absorption capacity,* defined as "the ability…to make effective use of different forms of capital to provide needed goods and services to underserved communities."[5] This definition takes a broad view of capital, including philanthropic grants and public funds, bank loans, bonds, and other forms of debt and equity investments.

Making the system visible

Community investment takes place through a complex network of actors, the composition of which differs from place to place. These individuals tend to view themselves not as having defined roles in a coherent system, but rather as participants in transactions that use community investment tools to do things that otherwise do not get done. Making the implicit system more visible can provide insight into those areas that function well and those that constrain the capacity and effectiveness of investment.

One way to promote visibility is to analyze two or three transactions that exemplify what can occur. Working backwards from those deals allows stakeholders to identify the features of the community investment system in context. By considering the actors who participated in deals (as well as those who might have participated but did not), the resources used and the relationships across existing actors, communities can (theoretically) identify the real and potential boundaries of the system.

Community investment as a set of functions

Kresge Foundation research suggests that effective community investment systems are characterized by the performance of three critical functions—activities that can be undertaken by different people or institutions in different places. By concentrating on actions rather than institutions, community leaders can appreciate the full range of actors – regardless of identity or credentials in the traditional community investment system or whether they are local, regional or national actors – who contribute to the community investment process.

At the conference, participants had an opportunity to think about and share how their communities handled the three key functions of capital absorption:

- **Setting strategic priorities:** ensuring a coherent, community-endorsed vision to shape investments
- **Creating a pipeline:** generating feasible deals and projects that lead to the realization of a community's strategic priorities
- **Shaping the enabling environment:** building the policies, processes, mechanisms, and incentives that facilitate community investment

Community investment as a set of functions

Strategic Priorities	Pipeline	Enabling Environment
Ensure there is a coherent, community-endorsed vision to shape investments.	Generate deals and projects that together add up to the realization of the community's strategic priorities.	Build the policies, processes, mechanisms and incentives that facilitate community investment.

Articulating a clear, specific, and legitimate set of priorities that reflect the needs and involvement of communities can help concentrate scarce resources and attention, but also smooth the path for transactions that move priorities to realization. Comparing those priorities to the pipeline helps stakeholders think about the collective value of actual and potential deals as well as the resources necessary to complete them. It can help identify gaps in the pipeline, those priorities that will not be achieved given the activities currently underway. It also helps stakeholders think how they can build on or leverage deals to achieve multiple benefits. A supportive enabling environment for capital absorption promotes the execution of deal pipelines through formal means, such as policies, regulations, and resource flows as well through informal relationships, institutional practices and skills, behavioral norms, and the availability of data.

Strengthening the community investment system

Communities can attract more investment and make it more effective in a number of ways, including:

- Forming a multi-sector team to assess the capacity of the existing system (i.e., financing/development network, infrastructure) and identifying the changes that would enhance its sufficiency, efficiency, and impact
- Expanding the boundaries of the system by integrating strong regional or national actors, and/or local stakeholders new to community investment
- Identifying new or existing resources (grants and subsidies, guarantees, publicly owned land, etc.) that can be leveraged to advance community investment priorities
- Aligning attention across government agencies, jurisdictions, and sectors to address common goals
- Advocating for supportive policies
- Creating opportunities for ongoing reflection and learning to help practitioners build on their experience

These interventions can help produce a more robust set of investable opportunities that deliver community benefits, and also reduce the development cycle and costs of transactions. By making the community investment system visible and committing to improving its performance, stakeholders can help to address the important social and environmental needs that the conventional finance system leaves unserved.[6]

Managing housing

Municipalities are faced with significant inventories of vacant residences, which contribute to neighborhood blight and depressed market values. Devising a strategy to address these properties requires a fundamental understanding of market dynamics. Panelists discussed strategies for recalibrating supply and demand, restoring neighborhood stability in a manner that is equitable and inclusive, as well as innovative options for spurring homeownership in challenging markets (moderator: Joe Neri, chief executive officer, IFF).

Mike Loftin, executive director of Homewise, shared that in his opinion, 'homeownership' must be linked to 'building financial security' for people, for households, and for communities. Building financial security through homeownership requires addressing both supply and demand. Too many housing programs focus solely on supply – how to add to it, how to improve it, and how to make it more affordable – without stimulating demand, he contended.

Building demand, Loftin continued, requires an understanding that wages represent the primary source of capital for borrowers. Homebuyer counseling (for low-income borrowers) should extend to overall household financial management to ensure wages are spent in a manner conducive to entering the housing market. Accordingly, prospective borrowers must be reached when they are still trying to decide if homeownership is right for them. At that stage, counselors can assess readiness, purchasing power, and other determinants that enable a buyer to qualify for a conventional mortgage product. Homebuyer education is a fundamental component of demand creation if the goal is neighborhood stabilization. The process starts with the assumption that most (but not all) people can buy a home—eventually. 'Pipeline development' – in this case a pipeline of borrowers – is an essential component of demand creation, preparing potential borrowers for the concept of homeownership, perhaps before they have toured a single home.

The outcome of this hands-on, early engagement process is tangible. Loftin described the impact of Homewise training: an average 60 point increase in credit scores; $108 monthly debt decrease; and a $4,000 increase in savings.

However, the work doesn't end with pre-purchase counseling, he cautioned. All mortgages are serviced – i.e., the borrower receives a monthly invoice, and the servicer must credit their account (upon receipt of payments) accordingly – but borrowers stretching to afford a mortgage payment often need more active servicing, where the servicer takes active measures to avert default. Once a buyer has closed and moved in, the servicer needs to ensure borrowers do not fall behind, and intervene early if default looks imminent. A foreclosure is a personal tragedy, but in an economically struggling community, its effect on housing demand and neighborhood security and stability can be much greater than in middle- and upper-income places. Loftin acknowledged, however, that in many of these communities there is a gap between the value of the home and its post-renovation costs. Loftin suggested a solution in the form of a forgivable (over time) second lien: the first mortgage covers the actual value; the soft second covers the appraisal gap. Over a specified period and on a declining scale, the second lien is forgiven.

Bethany Sanchez, executive director, Take Root Milwaukee (Milwaukee Homeownership Consortium), a group that facilitates communication and collaboration across city housing groups, described the importance of ensuring that homeownership preservation efforts are "credible, aligned, and legitimate." Take Root Milwaukee's philosophy is "Buy a home or keep a home." Its 50 members include homeownership counseling agencies, financial institutions, the city government, real estate agents, neighborhood organizations, and other community partners working together to promote diverse and sustainable neighborhoods by encouraging and maintaining homeownership. The initiative consists of three work groups focusing on education and capacity building, foreclosure prevention, and marketing. The impact of Take Root Milwaukee has also been tangible: beyond reaching thousands of Milwaukeeans, its foreclosure prevention efforts have preserved an estimated $11.5 million in tax revenue and $21 million in local housing value each year.

Kate Monter Durban, associate director of the Cleveland Housing Network (CHN) next described how her organization has been developing affordable single-family rental and for sale housing in an struggling inefficient market for many years, and introduced the audience to CHN's 15-year lease-purchase model that is financed by LIHTC, as there is strong interest in scattered site rental to homeownership models. CHN is the largest LIHTC single-family affordable housing developer in the nation – more than 2,800 units. Durban explained that disinvestment in Cleveland started long before the most recent housing crisis and that CHN's lease purchase model was started in 1981, and taken to scale in 1987 with the advent of the LIHTC.[7]

With this deep experience, Monter Durban shared some of the lessons that CHN has learned over the years:

- Good asset management is essential, beginning with a comprehensive property rehab (although the group also builds on vacant land), and including annual rent increases to manage expense increases.

- CHN retains all property management services in house, in order to establish homeownership expectations at move-in and to maintain control over messaging and interactions with residents.

- Lease terms are for 15 years. Homeownership preparation begins in year ten, when CHN structures six-month leases, with mandatory financial counseling sessions at each lease renewal. It's important to make the counseling mandatory, stressed Monter Durban.

- The larger economic environment presents challenges for this program. Monter Durban stated that before the financial crisis, 80 percent of their lease-purchase customers were bankable and 20 percent were not. Today that ratio is inverted and requires CHN to think creatively about financing sources, even in its, by most standards, affordable niche.

CHN observes changes in financial behaviors after two counseling sessions: reductions in derogatory debt, increased savings, and improved credit scores. Across the communities they serve, CHN has developed 2,800 homes, with an average monthly rent of $550. To date they have sold almost 900 of these homes, which is an approximately 85 percent transition rate to homeownership at the end of the 15 year rental (and tax credit) period. The median sale price of a CHN home is a little under $20,000, and the organization still has about 1,500 homes under management.

Kate Ansorge, director of Housing Consulting at IFF, presented the West Cook County Housing Collaborative's single family rehab program. The West Cook County Housing Collaborative (WCCHC) includes five suburbs extending west from Chicago: Oak Park, Berwyn, Forest Park, Maywood, and Bellwood. All are connected to downtown by public rail transit. The communities vary greatly in terms of resources for staff and training, as well as terms of incomes and homeownership rates. In 2010, there were over 2,000 foreclosures spread unevenly across the five communities and WCCHC was formed to focus on housing issues. With an intra-governmental agreement, the communities were able to apply in partnership for Neighborhood Stabilization Program and other funding (to address foreclosures) that they could not have accessed individually. As a result of the partnership, the WCCHC has secured $14 million in public and private funds and over $400,000 in philanthropic funds. Over time, the collaborative has evolved to address emerging issues, such as the West Cook Advantage Program designed to address the need for single family rehabs. Under this program, the Illinois Department of Commerce and Economic Opportunity granted $4.2 million in emergency relief funds to do single family rehab in three collaborative member communities that were flooded by Hurricane Ike (Maywood, Bellwood, and Forest Park). The funds were structured as a revolving loan fund and the program is coordinated by IFF. Under its terms, IFF provides financing to developers to buy and rehab targeted homes. Upon sale of the homes to families who are at 80 percent of AMI, the money is returned to the fund. At that point, the fund is 'evergreen' and can be used in any of the five WCCHC communities. IFF expects 100 homes to be completed with the West Cook Advantage Program. More recently, the Collaborative received $3 million from the atttorney general from the National Foreclosure Settlement Awards. These funds are used to develop housing for borrowers up to 120 percent HUD area median income or AMI, an important feature as many of these predominantly lower-income communities would like to attract a greater diversity of incomes.

Like her fellow panelists, Ansorge relayed some lessons learned.

- Despite the collaborative structure, different communities contribute different things and have different expectations; levels of community engagement vary.
- Local developers familiar with the market are key.
- Developers must have money 'in the game,' which they recoup (with profit) when the house sells.
- Homeownership counseling must be provided at the right moment. IFF makes counseling available immediately over the phone to facilitate homeownership in challenged markets.
- A revolving loan fund offers flexibility and expands the impact of capital.
- Homes for sale must be affordable for a lower-income buyer, but also attractive and competitive with other homes available in the market.

Accommodating vacant land

For many communities, market instability is a major headwind to land reuse and redevelopment (strategies). Some communities, in partnership with community groups and financial institutions, use land banking to hold properties and land until a viable strategy emerges. Nonetheless, community conversations about vacant land can be challenging and painful. This panel addressed both the quantitative and qualitative aspects of establishing a land use strategy that is fiscally sound and works for the community (moderator: Daniel Davis, senior manager, Community Development, Federal Reserve Bank of St. Louis).

Ira Goldstein, president, Policy Solutions, The Reinvestment Fund presented Market Value Analysis as a tool for assessing value and measuring impact in disinvested neighborhoods. A description of this approach is on page 14.

Jim Rokakis, vice president, Western Reserve Land Conservancy and director of the Thriving Communities Institute, followed the MVA presentation by saying that land banks are an essential tool in working with distressed and abandoned properties in any urban area. Establishing the land bank isn't enough, however, a reliable source of funding must be established, beyond Community Development Block Grants (CDBG) or philanthropic dollars. Land bank management needs to be able to act quickly on vacant properties. Nevertheless, land banks still have to make their case, which necessitates research and reliable data, to improve the odds of garnering funding opportunities as they arise.

Even with funding, land banks must prioritize tasks. There may be 20,000 properties to be demolished, but the land bank may only have the capacity to do 4,000. Rokakis recommended aggregating and targeting demolitions so that the effects of even limited demolitions will be felt.

Maggie DeSantis is president of the Warren/Conner Development Coalition, which represents the east side of Detroit: 25 percent of the city's geographic footprint but only 7 percent of the population. Sixty percent of properties are vacant, and most of those are publically owned or ownership is unclear. After consulting with community residents, it was clear, however, that "shutting down" the neighborhood was not an option, but residents did acknowledge that any repopulation in their community would be very gradual. This condition involved an area large enough that it was also affected by larger, systemic issues facing the city as a whole. Therefore, solutions had to be coordinated within a larger city plan, even if residents felt removed from larger, city planning processes.

To address their situation, the organization needed to be realistic about growth potential. First, any prospects for housing redevelopment had to be balanced with potential alternative uses. Further, density – a common measure of success in economic development – is no longer a valid measure in depopulated areas of Detroit. DeSantis recommends using the term "active" instead of "dense" to reflect desired market conditions. Residents understand that their neighborhood will remain sparsely populated for the foreseeable future. Counter to other common approaches, DeSantis advocated for focusing on the blight and surrounding vacant land, comparing it to a 'cancer' that needed to be eradicated. To make the task manageable, the community was divided into sub-neighborhoods, with leading community development organizations in each area, given the large geographic scope of the LEAP project.

Given the dire situation in Detroit and very scarce resources, DeSantis had the following advice:

- Invite your competitors to the table and find a way to work together;
- Look for 'tent-pole' projects that can anchor or support other projects; and
- Align neighborhood plans with city plans.

When engaging with residents who acknowledge their community is forever changed, DeSantis had additional advice. Residents, she found, are well aware of their environment – population and business loss, city service deterioration, blight, etc. – and they are willing to help reach realistic solutions, as long as they are involved. This ensures that planning is driven by current conditions. However, getting residents involved and building trust and relationships is essential, but requires a significant upfront investment of time and energy. Further, while she fully supports the need for data and quantifiable research, DeSantis recommends a balance between resident 'insight' and technical data. And, while consultants and other external experts are needed to expand the capacity of any redevelopment effort, to ensure engagement and accountability, the input of residents must never be treated as less important than that of outside groups.

Repurposing institutional properties

Population declines and demographic shifts have led to changes in needs for services particularly in the realm of educational, and to a certain extent, medical and community facilities. What is the future of these often large, older, single-purpose buildings? How are these properties valued? How can the politics surrounding the repurposing of these legacy community institutions be managed for meaningful, sustainable outcomes? Panelists discussed their varied experiences with the public buildings and the layered collaborations required to return them to their highest and best use (moderator: William Dana, Jr., president and CEO, Central Bank of Kansas City, Missouri).

Robin Schabes, vice president of Community Strategies at IFF, shared their approach to working and engaging with the community around ideas for repurposing closed school buildings. In Chicago, closed schools represent 43 properties, 2.9 million square feet of space, dispersed across 20 different community areas. Through community strategies, IFF leverages resources beyond developer equity and loan financing.

The driving question in school repurposing, reported Schabes, is how to get from a vacant building to a 'renewed' building that retains (actually reestablishes) its status as a community asset. For IFF, the first step in the process is to analyze properties in terms of location, size, land/building value (in some cases, too high for a nonprofit/community purpose), zoning, and any available incentives. Further, it is important to take into account any existing community plans, visions, or strategic priorities.

In Chicago, IFF is working in four different communities, with four different types of community organizations. Although each community is different, a common process was followed. The first step was to establish a strong relationship with the community partner and from there add the technical expertise, including architects and construction professionals. Next, the team evaluated the feasibility of the project: could the project generate rents that would sustain the building? Was the proposed purpose a good fit for the building? Potential uses ranged from housing, to health care, to early childhood care, and other educational uses.

Schabes acknowledged that repurposing is an extremely complex process, but one that must advance steadily to maintain momentum. Audience members questioned the impact of the project if it does not generate tax revenue. Schabes stressed that even non-tax generating/paying institutions bring people and jobs into the neighborhood and surrounding businesses. Fellow panelist, Shannon Jaax, noted that until buildings are transferred, they remain school district property, accumulating maintenance and utility costs, and using resources that could be going to students. Both experts stressed that repurposing these buildings returns them to active use, removing a potential source of blight and sometimes even reinvigorating surrounding homes and businesses.

Shannon Jaax, who is director of School Repurposing for the Kansas City (MO) Public Schools, opened her remarks by sharing that school closings are the biggest economic development issue for Kansas City, which has lost 55 percent of its population since 1950. The most significant wave of closures occurred in 2010, when the District closed 21 schools. Jaax was working initially with 30 sites totaling 1.8 million square feet. The KCPS

Enhancing impact through Market Value Analysis

By Ira Goldstein

The market value approach

Over the last several decades, cities have had to become more strategic in determining both where and how to invest their increasingly limited resources to revitalize neighborhoods. Data-based approaches to understanding market conditions and determining appropriate investments have become critical to helping cities create municipal and neighborhood improvement. In particular, data analysis tools can be instrumental in helping land banks develop effective strategies for guiding the management of underused and abandoned properties throughout their cities. The Reinvestment Fund's Market Value Analysis (MVA) approach, which provides an accurate, accessible, and in-depth portrayal of market data in urban areas, is one tool cities and land banks are using to help make decisions about resource allocation, set priorities for service delivery, and tailor intervention strategies for specific market types.

Land banks are often confronted with difficult strategic questions. For example, how can land banks manage the acquisition and disposition processes in a way that is both fiscally sound and impactful? Which areas should a city prioritize for cleaning up vacant lots, removing abandoned cars, or intensive code enforcement? The MVA helps make objective, rigorously analyzed, contemporary market data available to help answer these questions and inform decisions. It starts by assembling a substantial amount of data for an entire city. It then uses a statistical procedure to sort a city's census block groups into categories based on their housing market conditions and offers guidance on the mix of public actions appropriate for each market type. Ultimately, the MVA provides an analytic basis for allocating resources and prioritizing steps toward positive change.

Foundations of The Reinvestment Fund's MVA

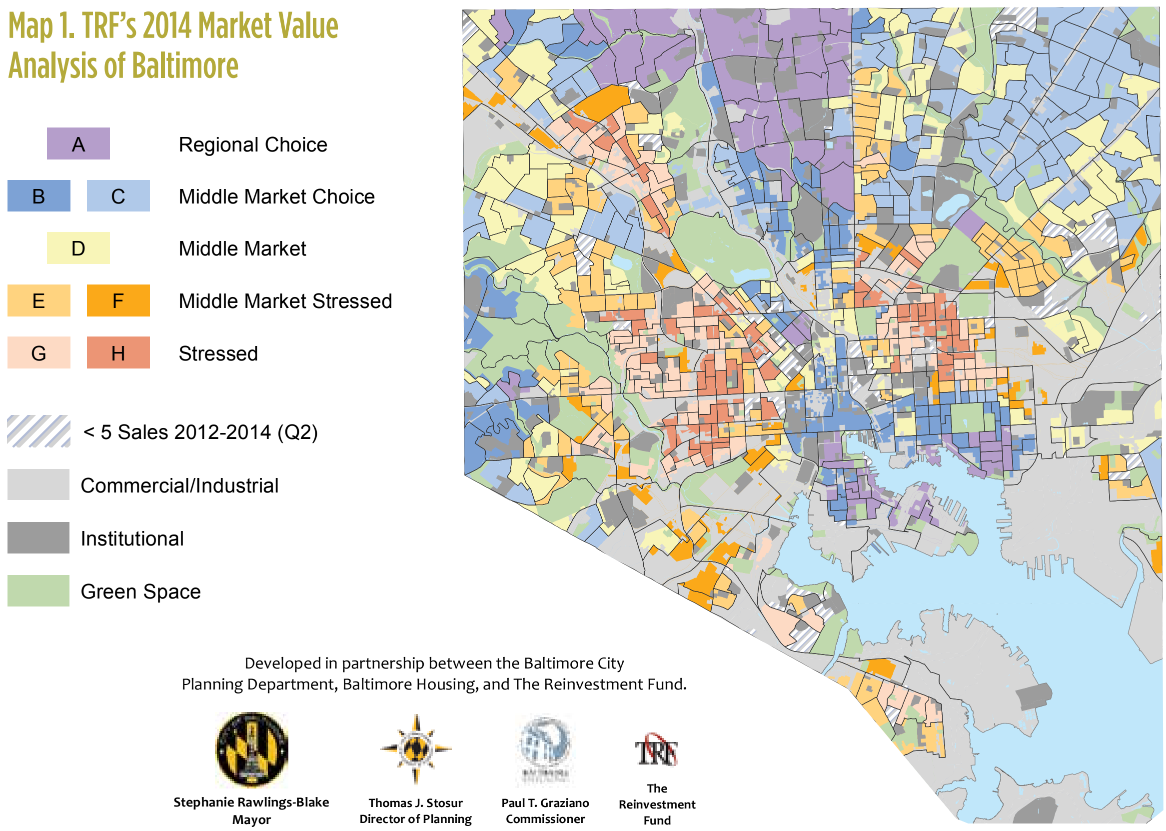
Since 2001, The Reinvestment Fund (TRF) has completed more than 30 MVAs in cities across the country. The cities are on different growth trajectories (growing cities such as San Antonio or contracting cities such as Detroit), or are striving to reinvent themselves from their industrial past (e.g., Philadelphia, Baltimore, or St. Louis). For each MVA, there are five underlying assumptions:

1. Public subsidy is scarce and should be treated as a resource to catalyze a market or clear a path for private investment.
2. "Build from strength" – in distressed markets, investments built on nodes of strength are most likely to be successful.
3. All parts of a city and its residents are "customers" for its services and resources, and the challenge is to customize investments to the particular needs and capacities that vary across neighborhoods.
4. Decisions to invest public, private, or philanthropic funds should be based on objective and rigorous analysis of market data – as should evaluation of the impact of those investments.
5. MVAs should rely on market data that reflect actual market activity (e.g., residential sales, mortgage foreclosures, new units permitted).

Typically, the MVA relies on a set of indicators obtained from local jurisdictions (i.e., administrative data). For example, the indicators used to create the Baltimore MVA in map 1 included median sale price, foreclosures as a percentage of housing units, and vacant lots. There may be variability from city to city, but generally a common set of indicators reflects the conditions that any developer might observe when evaluating areas for investment (or intervention).

Most of these indicators are acquired at an individual address level and then aggregated to the census block group. Generally, the census block group is the most appropriate level for this analysis. It is large enough to ensure that the data are reasonably stable yet small enough to ensure that the 'mosaic' of a place is revealed.

Map 1. TRF's 2014 Market Value Analysis of Baltimore



Source: City of Baltimore. Map available at http://archive.baltimorecity.gov/portals/0/agencies/planning/public downloads/typology/FINAL_HMT2014_letter.pdf.

Once the MVA is complete, TRF works with local stakeholders to identify a subset of indicators to update on a regular basis to understand how an area is changing along these critical dimensions. City governments (or others) seeking to evaluate broad market changes related to investment or programmatic activity may need the MVA to be completely reconstructed periodically to accurately capture impacts via new data. For example, Baltimore has commissioned multiple MVAs on a cycle of approximately three years.

Examples of MVAs in practice

A variety of organizations has funded MVAs. Typically, the MVA is commissioned to guide key decisions about allocations of programs and resources. Baltimore, Philadelphia, and St. Louis have used the MVA to inform consolidated and comprehensive planning efforts, while Milwaukee used theirs to coordinate funding from government and philanthropic sources. Philadelphia is using the MVA to inform the acquisition/disposition strategies for its newly created land bank. St Louis recently used its MVA to inform a Notice of Funding Availability for acquisition and development of Land Redevelopment Authority vacant parcels. Detroit used its MVA many ways but uniquely to inform the distribution of proceeds from a fair housing settlement. The state of Delaware used its MVA to target funds for redevelopment of areas throughout the state. Finally, TRF uses the MVA on an ongoing basis in cities where we both invest in and develop affordable housing to target our efforts and assess change.

Data-based analytical tools, such as the MVA, have applications beyond simply measuring the real estate market to prioritize housing investment. As interest in middle markets grows, the MVA can identify a city's middle-market places and help understand their conditions. Because the MVA incorporates several social determinant measures, it can help drive investment to enhance physical environments and improve the prospects for healthy communities.

currently operates 37 schools, so the large number of schools closed generated very negative responses from affected communities. Jaax cautioned, "There is emotion involved in school closures. Don't try to ignore it." The challenge she faced was moving forward (with repurposing) in an environment charged with mistrust. She shared the following lessons with the audience:

- Make the decision-making process clear and transparent: hold public site tours, invite everyone, share market assessments, and make sure the community is included in the decision-making process.
- Have the community involved up front to communicate needs and wants to developers, and allow missteps to be addressed early and directly. This additional effort needs to be built into the time line, but will save time and money in the future.
- Don't delay. The repurposing process can run parallel to the closure process. Real estate markets change quickly and a few months can make a difference.
- Clearly define policy guidelines.
- Never underestimate the ever-changing politics: buy-in and understanding are constantly shifting.
- Finally, consider using claw-backs and deed restrictions in order to address situations where the developer doesn't proceed as promised. This ensures that the school district and the community have recourse.

Howard Snyder is executive director of the Northwest Side Community Development Corporation in Milwaukee, a CDFI whose mission is to improve business conditions on the Northwest side of Milwaukee. While not focusing on any one initiative, he reminded the audience of the stories and individuals behind the bricks and mortar. He described broad community efforts to save and upgrade a library in a neighborhood with few after-school options. He also described his organization's 'grand family' initiative to provide housing and other services to grandparents raising small children.[8] And, looking forward, he described his vision of a full and busy cafeteria with 'no empty seats' in a former tool manufacturing building that used to employ 15,000 people. "Today there are 500 jobs…two years ago there were none. Hopefully, we're moving in the right direction," he concluded.

In closing out the day, Moderator Bill Dana, president and CEO of the Central Bank of Kansas City, a CDFI bank, was able to bring the discussions back to the importance and impact of the Community Reinvestment Act (CRA). While acknowledging that it is sometimes challenging to choose from a crowd of requests – "you have to have a pretty good story" – he nevertheless advocates for persistence. In describing several projects his institution has been involved with – repurposing an abandoned church to provide social services, rehabilitating a factory to house a legacy candy manufacturer to deliver more than 200 jobs to a LMI neighborhood – he demonstrated that financial institutions do have "the capacity to drive redevelopment."

Keynote address – Cliff Kellogg

Cliff Kellogg, executive director of the Detroit Federal Working Group and past director of the State Small Business Credit Initiative (SSBCI), spoke about both initiatives in his keynote remarks. According to Kellogg, SSBCI was an opportunity to learn about what it takes to restore markets for small business lending and investing. Also, because of the flexibility that allowed individual states to design their own initiatives, it turned out to be an innovation incubator. Originally created to mitigate risk associated with lending to small businesses and to offset declining collateral values, SSBCI awarded $1.5 billion to the states, allocated by population and severity of job losses. In return, the states were required to increase leverage ratios throughout the duration of the program. However, beyond the leverage requirement, states were given latitude to design programs that would respond to their local economic conditions. Ultimately, SSBCI initiatives fell into five basic types of programs:

- Capital Access Programs: each institution builds up a funded loan loss reserve that grows as loans originated increase. Both borrower and public sector contribute to the reserve. If losses exceed reserve amount, then the institution must cover the remainder.
- Loan Participation Programs: states might purchase fractions of loans (sometimes subordinate to other debt).
- Collateral Support Programs: support an equity gap, provided by government, in areas experiencing reduced residential property values.

- Loan Guarantee Programs: to provide protection for financial institutions in case of default.

- Venture Capital Programs: wherein the state either invests directly or through a limited partnership in a fund that is privately managed.

To date, the program has resulted in more than $4 billion supported in loans and investments. Average loan size is $475,000 and range from $60,000 to $1 million for loan participation or venture capital programs. Over half the loans were to young firms (less than 5 years old). Eighty percent of loans went to firms with fewer than ten employees and more than 40 percent of loans went to firms located in LMI neighborhoods.

Lessons learned:

- Offer partial protection – not full protection – to investors. Everyone must have some 'skin in the game.'

- SSBCI encouraged states to think of their program as an evergreen fund – not as a one-time program. Financing was tracked over the life of the program into recycled loans and into subsequent financing. The full impact of the program continues to evolve.

- Program administrators learned that programs needed to be actively marketed to banks and other lenders, in order to be accepted into the private sector.

- The purpose of the credit enhancement was to make sure that lenders were complying with their own credit policies, not to encourage high-risk lending.

- Venture capital (VC) programs did not primarily set out to restore markets – but the lack of an equity market was a pre-existing condition. These VC programs sought to bring forth private equity that did not previously exist, which required acquiring both the talent and the capital.

- Looking across the states, it became evident that no single strategy, partnership, or product feature could ensure that a small business loan program reached LMI or underserved markets. What worked in one market might not work in another.

- However, states that were most effective at reaching underserved markets were the same states that had the most effective overall programs.

- Program administrators were careful to not ask institutions to enter into new business lines or markets.

- At the same time, by allowing flexibility in design and implementation program, administrators ensured that state-level programs would not be narrowly targeted or marginalized.

Kellogg then turned to the Detroit Federal Working Group (DFWG), whose purpose he described as what Washington and the federal government can offer to the priorities that have been established by native Detroiters and the organizations that work there. Stressing that the recovery of Detroit is an administration priority, the DFWG is an example of a place focused effort by the federal government to work collaboratively with local leadership and across federal agencies, thereby increasing capacity of local leaders to do their work. Local priorities need to be defined first in order to leverage federal resources. Examples of priorities for Detroit (from the mayor):

1. Restart the single-family mortgage market.

2. Find additional funding for anti-blight efforts to demolish abandoned, foreclosed homes.

3. Support workforce initiatives in the city of Detroit.

4. Address the high cost of auto insurance.

What the DFWG contributes:

1. Secure expertise – outside groups have helped upgrade IT systems and (lay the groundwork to) install high-efficiency LED streetlamps.

2. Procurement support – new, modern buses have restored the city's public transportation services.

3. Repurposing/prioritizing funding – $50 million of 'hardest hit' funding moved from mortgage foreclosure relief to demolition.

Kellogg focused in particular on the first mayoral goal, asking for specific guidance from the audience on how to restart a mortgage market in an environment that is 90 percent cash transactions, where distressed sales greatly distort the market. He invited creative solutions building on what he had heard so far – home buyer counseling to create a pipeline of demand, shared appreciation models, forgivable soft second loans, and home rehab loans or grants. However, the challenge remains establishing values in a market defined by instability and no functioning mortgage finance infrastructure.

Neri added that any market development strategy must start with the current residents of a neighborhood, stressing that it is "easier to retain (residents) than to attract (new ones)." However, any retention strategy must take into account insurances costs, taxes, safety and security, and a variety of other factors. A single-family strategy needs to be 'encircled' by these other considerations. But for the lack of financing opportunities stemming mostly from collateral gaps, a cohort of people and families paying $800 or $900 in rent have the capacity, perhaps even the credit history to get financing.

Appraised value of homes is a real challenge and dilemma. Detroit's problems don't lend themselves to immediate market rate solutions.

Dan Nissenbaum from Bank of America relayed his experiences following Hurricane Katrina in New Orleans. There, the rehab/construction housing market was stalled because there were no end-loan take outs, as no lender was willing to provide that forward commitment. The Enterprise Fund established a 'take out' fund in the event there was no buyer so construction financing could continue to flow. By the time it was operative, the market had recovered to a degree and it was never used, but the goal remains the same: to reinvigorate the market to the point that conventional products and services come into play.

Small business panel: Connecting people to the economy

Asset building and job creation have traditionally been key motivations for community capital initiatives, and requires multi-faceted, multi-sectorial strategies to connect with difficult to reach populations. Promoting small business ownership and entrepreneurship (which address both job and wealth creation) is an integral part of many market redevelopment strategies. Panelists explored this topic, the complex inputs required for success, as well as strategies and tools for tracking outcomes (moderator: Matt Roth, chief operating officer, IFF).

Jonathan Brereton, CEO of Accion Chicago, introduced his organization to the audience. As the leading microlender in the city of Chicago, Accion serves primarily young, very small businesses that, with average credit scores and revenues of 630 and $175,000, respectively, often do not meet the underwriting criteria of traditional financial institutions. Accion serves a diverse client base: 75 percent of its businesses are located in LMI areas; 70 percent of borrowers are minority; and 45 percent are women. Its activities are high-impact: Accion's lending created 2,400 jobs in 2014.

Brereton highlighted that these accomplishments took place within a changing small business lending landscape: since 2007, the average Illinois SBA loan size has grown from $100,000 to $350,000, meaning that SBA lending may be out of reach for businesses seeking smaller amounts of capital. In addition, there are new, web-based entrants into the small business lending market; Brereton questioned some of their practices including low (or no) documentation (of underwriting criteria – a practice identified post financial crisis as a trigger of the mortgage 'meltdown') and transparency, and very high interest rates.

Vicky Stein, director of Relationship Management at the Community Reinvestment Fund (CRF), described the evolution of their business model from a CDFI that primarily bought and (then) sold loans into the secondary market, to an SBA 7(a) lender, a New Markets Tax Credits (NMTC) allocatee, a provider of permanent affordable housing financing, and a participant in the CDFI bond guarantee program. This shift from being an intermediary lender to being a direct lender has helped CRF to focus at the community level. CRF's 7(a) lending program targets minority- and women-owned businesses. Recently CRF passed a milestone of lending more than $100 million to more than 200 businesses. Their loans range in size from $50,000 to $4 million. CRF's geographic footprint has expanded as well: they now, with support from Chase, target three specific cities in the Midwest – Chicago, Detroit, and Milwaukee – to deploy their 7(a) program. Geographic specialization allows the organization to build deep collaborative relationships with lenders.

Dan Nissenbaum, director of the Urban Investment Group at Goldman Sachs, introduced the audience to their 10,000 Small Businesses Program, to which Goldman has committed $500 million. This comprehensive program includes three elements essential to small business success: education, business support services, and capital. Again, following a model that combines geographic targeting and working with local partners, Goldman Sachs identifies a local community college to deliver a uniform curriculum. Nissenbaum stressed that the education and support components are just as important as financing. “Access to capital is critical, but it’s not always the answer for companies.” Of participants in the 10,000 Small Businesses Program, 63 percent of businesses increase revenues after six months and 50 percent have added jobs.

Although all three organizations target different segments of the small business market, the three panelists acknowledged that communities that have faced historic discrimination haven’t had the asset building opportunities available elsewhere and have persistent barriers to capital. Loans in amounts between $100,000 and $300,000 are critical for small businesses, and yet, as shown by SBA trends, this segment of the credit market is rarely targeted by mainstream financial institutions. CDFIs demonstrate their importance as a counter-cyclical source of capital by making loans that mainstream institutions, for a variety of reasons, eschew.

Nonetheless, small business lending is one area in which CDFIs often compete with mainstream lenders. In the small business lending arena, CDFIs represent a stepping stone to mainstream financing and credit; to accomplish this goal, their organizations need to be able to scale, especially with the proliferation of online lenders that leverage technology platforms to extend credit broadly and aggressively. Although some CDFIs are starting to introduce their own efficiencies through technology, CDFIs currently have to rely on innovative partnerships and collaborations to reach target borrowers.

Revitalizing commercial corridors

Bringing businesses and services back to a community is an integral part of neighborhood stabilization. However, repopulating a vacant commercial corridor with vibrant businesses requires attention to both the buildings and prospective tenants. Understanding existing market dynamics and adapting as they change is a challenge for property and business owners. This panel, leveraging multiple facets of community capital, explored innovative partnerships that combine “bricks and mortar” support with small business technical assistance and financing (moderator: Michael Grover, assistant vice president, Community Development, Federal Reserve Bank of Kansas City).

Eric Robertson, executive director of LIFT, a CDC and CDFI working at the neighborhood level in Memphis, described how LIFT was created out of a city-wide planning process, which demonstrated that Memphis did not have city-wide, comprehensive community development organizations focused on community development at the neighborhood level. The process also demonstrated that “neighborhoods need tool kits” that include incentives and enhancements often restricted to downtown development, but targeted to the community level.

Working in the Broad Street Corridor of Memphis, Robertson illustrated several of the projects that have revitalized the area – from a microbrewery to a guitar shop – making use of façade improvement programs, as well as mentoring and training programs available from LIFT board members.

Moving from a vision for the street to an executable plan took a cross-section of partners (i.e., merchants, representatives from the mayor’s office, government, and funders) and time. In the interim, the organization used place-making tools, such as placing temporary ‘pop-up’ shops in vacant retail spaces or turning vacant loading dock into a stage, while maintaining the character and orientation of the area. However, Robertson cautioned that the managers of a neighborhood commercial corridor (program) must be sensitive to existing residents and ensure that they can take advantage of the transformation.

Isabel Chanslor, director, NDC Business Lab, Minneapolis, described an ambitious transit-oriented development project that greatly impacted one of their target communities. The University Avenue project was an 11-mile, light rail transit project, which was going to run to a diverse, small business corridor that had experienced 30 years of disinvestment, within a community divided by an expressway project in the mid-1960s.

Chanslor described how this 11-mile project – where there were to be 16 stops, plus three more that the community deemed were missing – took five years, three of which were ongoing periods of construction. Lining this corridor were 1,500 businesses, 500 of which have revenues under $2 million. The NDC goal was not to lose a single business as a result of construction disruptions. To demonstrate what a community-led, community-owned, transit-oriented development could look like, NDC had a pilot TOD project up and running before construction even started – with commitments to the community regarding local representation in leasing and hiring practices.

NDC counted businesses in order to put resources where they were needed most, and developed a forgivable loan program. They also worked with business owners and property owners to ensure business façade 'aesthetics' and visual harmony with surroundings. Nevertheless, businesses along the corridor lost roughly half of their sales during the nine-month construction season, which was further complicated by the recession and a pre-existing disinvested community. Following the completion of the light rail line, property values and taxes are increasing, pricing smaller, lower-revenue businesses out of the neighborhood.

Benjamin Kennedy, deputy director for Community Development-Detroit with The Kresge Foundation, turned the audience's attention back to Detroit with his description of the Woodward Avenue Corridor, which he contended illustrates the concentration, stacking, and aligning of strategies and resources. He described the M-1 light rail transit system – currently inclusive of 12 stops and 3.4 miles – which is expected to be not just a circulator, but the beginning of a regional system. Kennedy detailed for the audience a few of the key steps the steering committee took in order to maximize investment return along the corridor.

They developed the New Economy Initiative, a partnership with nine other foundations, to unlock latent demand along the corridor using a variety of strategies, including anchor institution engagement, high-growth business development through early stage funding, technical assistance, and the creation of incubator space. They currently have a $100 million fund under management.

The organizations created Midtown Detroit, through the merger of two smaller CDCs, to create an entity with the "heft and sophistication" to engage large anchor institutions, but also with small businesses and local institutions. The New Economy Initiative also works to engage the private sector. Most are familiar with Quicken Loans and the investments its founder and CEO, Dan Gilbert, has made in Detroit. However, there are many other, although smaller, examples of private companies moving their employees from the suburbs to downtown locations.

The Kresge Foundation is focused on park space, public space, and streetscapes – the things that help incentivize big employers to relocate to a re-emerging commercial corridor. The Foundation has invested in quality of space, quality of life, including the Eastern Market, which is destined to be the center of the local food economy.

And, Kennedy believes, it takes some luck. For example, the Detroit Red Wings have opted to build their new arena between midtown and downtown. Representatives of the New Economy Initiative are working with the developer to ensure the arena 'nests' within the larger vision for the corridor. In the case of midtown, Whole Foods was a silver bullet. However, Kennedy stressed, silver bullets aren't always in the form of national chains – sometimes a local coffee shop or brewery can catalyze further growth.

However, the reality remains that the risk levels in Detroit are still intolerable for many mainstream lenders. The partners have worked together to find some middle ground where banks could participate to deliver capital on a scale that CDFIs and the philanthropic community can't. To date, this middle ground exists on a project-by-project basis: "We know what we have to do to get the next project done," Kennedy stated, but a systemic solution has yet to emerge.

Re-envisioning the anchor

As much as communities may be overwhelmed by lists of what is missing or not working, they must also take time to inventory their assets, often in the form of key anchor institutions. Various types of organizations can serve as anchors. This panel focused on leveraging extant anchor institutions, attracting various funding to serve multiple community needs, and how to engage a reluctant anchor (moderator: Michael Berry, director of Policy Studies, Community Development and Policy Studies, Federal Reserve Bank of Chicago).

Tools Toward Market Recovery was certainly not the first conference to explore the roles and impacts of anchor institutions in economically frail or recovering communities, but what constitutes an anchor institution may now include more than the traditional "eds and meds" that employ local residents and consume local services.

Michelle Hoereth of IFF, a CDFI that serves much of the Midwest with financing, development services, and community needs assessments, discussed an early stage partnership with Ingalls Hospital in Harvey, Illinois, a city about 20 miles south of Chicago's Loop, which is struggling economically in most ways. Notably, Ingalls has committed to stay in Harvey despite its economic woes, and has further engaged IFF to think about ways to bring tangible, enduring assets to Harvey.

Approximately one-third of Harvey households have income below the poverty line, roughly $24,000 for a household of four. IFF had already financed two federally qualified health centers, commonly referred to as FQHCs, day care centers, and provided lines of credit to other service providers. Addressing the concern that Harvey is a "food desert," and building on the asset base that it has helped establish, IFF is working with Ingalls to build on its work in Harvey by developing a fresh food/grocery store. Hoereth noted that IFF's relationships with Ingalls and with the city of Harvey are not isolated to this effort, and that IFF is interested in fomenting further, sustainable and impactful development of daycare, housing, and assisted living facilities, among other possibilities. A possible extension of redevelopment and community engagement efforts is a longer term strategy with Ingalls to relocate its procurement services (closer by). She also mentioned that, while numerous studies explore relationships between large medical and educational facilities in economically struggling urban settings, she has not found a similar study looking at this relationship in suburban communities. Even among the extant urban case studies, similarities are few. In short, while there are some opportunities to learn from other redevelopment efforts, an impactful strategy must take into account both Harvey's assets, such as proximity to major interstate routes and rail (freight and passenger), and challenges, including low educational attainment, high unemployment, low property values, and generally few advantages.

A 30-year plan, or even a ten-year year plan, was not appropriate in the context of Harvey where the needs are more immediate. Therefore, the team used the strategy of "planning while doing." An example of a high-impact project revolved around employer-assisted housing. The hospital wanted to address the fact that very few of the hospital's professional staff actually lived in Harvey. Harvey has a rich transportation system and a supply of affordable housing – although many units are in need of upgrades. IFF, being a CDFI, has flexible capital to deploy, in addition to strategic, capacity-enhancing assistance. IFF also has the capacity to address other gaps, such as shortages in supportive services, and senior and assisted living housing.

Will Towns, assistant vice president, Neighborhood Initiatives, Office of Civic Engagement at the University of Chicago, introduced the university as one of the world's greatest research institutions – but one that is surrounded by poverty and poor school structures. When the school was established in 1890, it was surrounded by farmland. Today, "How can the assets that are on campus strengthen and broaden the neighborhoods?," he asked. The university has established that this can occur in four ways:

1. As an educator
2. As a research institution
3. As a center for innovation and entrepreneurship
4. As an anchor institution

However, large anchor institutions are often very complex and siloed. Using the example of the University of Chicago, Towns cited its 147 departments, with more than 200 concurrent initiatives, in addition to individual faculty research agendas. However, even such a large organization can't do everything alone and, thus, the next question is, "Who can we partner with?"

Current initiatives include working along a primary commercial corridor in the neighborhood to demonstrate that density and demand exists for additional development, including re-opening a movie theatre that had been closed for more than a decade. At the same time, the school recognizes that it is competing against other top institutions for high caliber students and faculty who demand community amenities that blur boundaries between school and neighborhood, including addressing persistent security perceptions.

McLean Wilson is a principal of Kemmons Wilson, the lead developer for the Sears redevelopment project in Memphis, Tennessee. The building in question was a Sears distribution center, home to the Sears executive offices for the southeastern region, and a retail store. At its peak, 2,500 people worked in one of those functions across 1.5 million square feet. When the building was built, it was a suburban location, but a neighborhood grew around it and today the neighborhood is in what is considered the city center. Things began to change in 1983, when Sears closed all of its distribution centers. In 1993, Sears closed its Memphis offices and the retail store as well. The building was empty for over 20 years.

Fortunately, in this case, models and strategies to follow and emulate could be found in the experiences of other redeveloped distribution centers in Minneapolis, Seattle, Boston, and Atlanta. At the same time, the design needed to be right for Memphis. However, the timing was as challenging as in 2010, dollars for speculative real estate development were scarce. The planning team knew that Memphis excelled at arts, education, and health care, and therefore wanted those elements to be reflected in the building's usage. Further, because of the structure's legacy as a community anchor, it helped to think about the building as a neighborhood to be populated – not as a building to be filled. So rather than questions about what tenants could occupy the building, questions focused around what makes a healthy, vibrant neighborhood? In the end, eight organizations came together to occupy 500,000 square feet, equivalent to the amount of space generally occupied by a big box tenant or a national retailer. With those commitments in place, the developers were able to enter into conversations with financial institutions.

Wilson stressed that tenant mix is important; for the Crosstown project, they focused on organizations that are more effective when in proximity to one another. At the same time, the development team didn't want the sustainability of the building dependent on retail sales. To manage costs and engage investors, historic tax credits were used, which limited what could be done to the façade of the building, but left flexibility to adapt and modernize the interior. In the end, there were 30 layers of financing totaling $200 million; $80 million of which is in senior debt. The project involves 1,000 construction jobs and will yield 850 (net) new jobs.

Conclusion

The conference concluded by engaging the audience in a discussion to highlight key learnings. Participants noted that although the conference started from the abstract notion of 'markets,' discussions were grounded in both people and place. With an emphasis on Midwestern conditions, panelists explored the nuances surrounding race and ethnicity (people), suburban vs. urban (place), and wondered whether there were enough similarities across people and place to build replicable scale.

Nevertheless, commonalities were identified in terms of needing to build resilience and capacity, and address human capital development needs in addition to those of the built environment. Audience members hoped to find a balance between standardization and customization.

However, frequent comments reflected that risk – perceived or real – needed to be addressed if financial capital is expected to flow. Different sectors – public, private, nonprofit, governmental – have different roles to play in mitigating risk. The bankers in the audience discussed their role, and how that role may change depending on the size of the bank and the size of markets served. It was also stressed that nonprofit groups and others outside of the financial sector need to understand the Community Reinvestment Act, its role, its intent, and how banks perceive its impact on their work. At the same time, many banks, especially the smaller banks, are integral parts of their communities and are dependent on the 'markets' in those communities for their own solvency. For many larger banks, community development is a department, just part of a much larger institution.

Audience members were encouraged to use the Federal Reserve and its convening power. Reserve Banks are located in urban areas, and many of these are older, urban areas so these are familiar issues. Dialogue is important, especially across geographies, and the Reserve Banks, as part of a larger system, can facilitate that dialogue.

Notes

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Workforce 2020: Is it time for disruptive innovation?

By Diana Robinson, Norman Walzer, and Jason Keller

Introduction

Whether framed as a gap, a shortage, or a mismatch, skill problems drive discussions around workforce and education policy today.[1] Employers say they are not getting qualified candidates from educational institutions; unions and workforce advocates say that if employers looked harder and offered increased wages and improved benefits, qualified workers could be found. At the same time, community colleges and vocational training centers say that rapid changes in technology make it cost-prohibitive to buy the latest machines and training tools. Aspiring workers say they are unaware of the resources available to them or unable to navigate an overly bureaucratic system.

Since the 1970s, workforce programs have tried to match educational programs and training opportunities with employers' needs for skilled workers. However, these have been described as a "series of piecemeal attempts to improve services in specific locations, meet some targeted employer needs, and remove barriers facing working adults in certain locations who want to pursue education and training."[2] The challenges of streamlining services, addressing local and regional demands, and removing barriers to employment are significant. Nevertheless, for the national economy to reach its full potential, the demand for workers must be met by workers with the right skills at the right times.

To explore this topic further and to better understand the current workforce challenges in Illinois, Indiana, and Wisconsin, the Community Development and Policy Studies (CDPS) Division at the Federal Reserve Bank of Chicago partnered with the Center for Governmental Studies at Northern Illinois University (CGS) to host a conference entitled, *Future Focus: Preparing for Workforce 2020*, in February 2015. CGS has a long history of working with local governments and businesses on workforce issues.[3] CDPS examines regional workforce development trends under the Federal Reserve's dual mandate, as well as opportunities for regulated financial institutions to receive credit for funding workforce development programming under the Community Reinvestment Act (CRA).

At the conference, against the backdrop of the new Workforce Innovation and Opportunities Act: Investing in America's Competitiveness (WIOA),[4] participants learned about current and proposed practices for attracting and retaining talent, upgrading the skills of the underqualified, and overcoming barriers to employment.

This article first examines current regional (Illinois, Indiana, and Wisconsin) demographic, economic, and occupational trends and how they affect the ability of employers to meet workforce demands during a period of economic expansion. Next, a variety of practices designed to equip workers with the skills to participate in the labor market, are considered. The authors conclude that these practices, while promising, are insufficient to deliver the large-scale change needed, and contend that the workforce development field requires 'catalytic innovation'[5] to respond to current and future challenges. The WIOA provides an opportunity for new leadership and innovation in this endeavor.

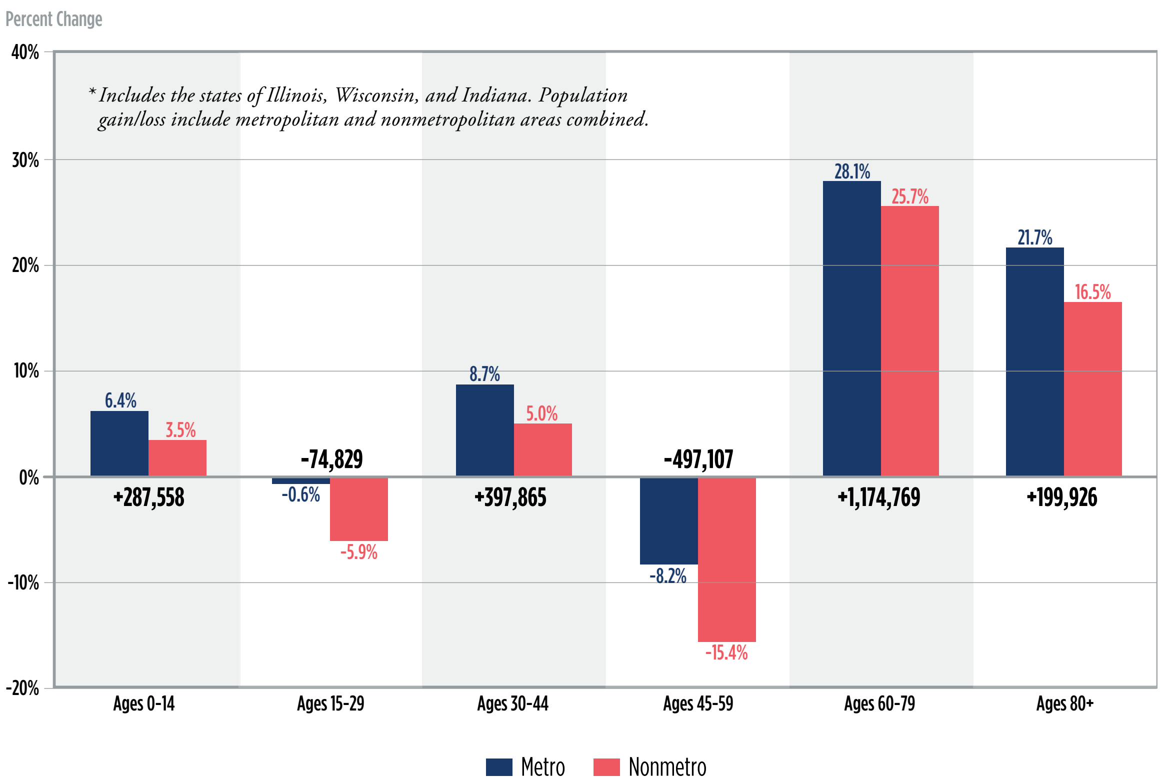
Trends shaping the region's workforce

Nationwide, many demographic, economic, and workplace factors, including increasing median age of workers (and population generally) and migration from rural to metro areas, hold true in the Chicago region. Further, the continued bifurcation of the labor market toward well-paying jobs requiring technical skills and low-wage, low-skill jobs dominating the service sector resonates in the tri-state region as well.

The aging of the population points to challenges in the coming decade. First, the cohort over the age of 60 will increase by 1.3 million (chart 1). However the prime working age population cohort, between the ages of 30 and 59, is expected to increase by only approximately 50,000.

An equally important implication involves differences between nonmetropolitan and metropolitan areas. Increases in 60 year and older cohorts are roughly similar in both metro and nonmetropolitan areas. However, while metro areas will see a slight gain in their population ages 30-59 (9,072), nonmetro areas will lose over 100,000 people in the vital 30-59 working-age cohort between 2015 and 2025.

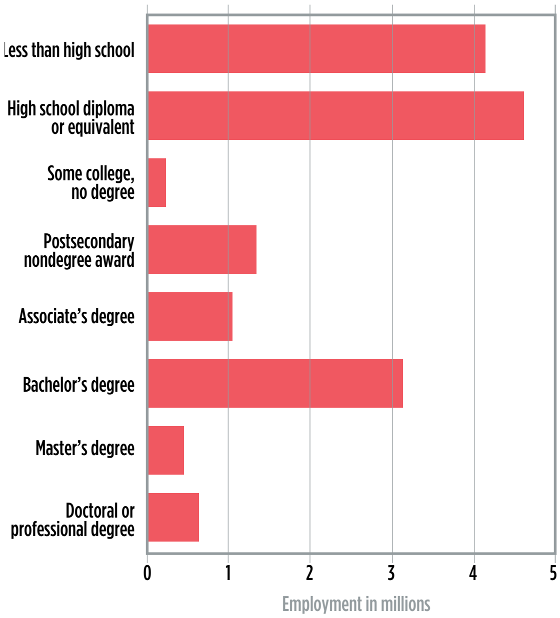
Chart 1. Projected population changes by age group/tri-state region, 2015-2025*



Source: Woods & Poole Economics, Inc., 2015.

Likewise, there is a common perception that most future jobs will require higher levels of education. According to the Bureau of Labor Statistics (BLS), however, the largest number of jobs projected to 2022 (4.6 million) will require only a high school diploma or equivalent (chart 2) followed by those that require even less than a high school diploma (4.2 million jobs). By comparison, an associate's degree accounts for 1.0 million and bachelor's degree represents 3.1 million of projected jobs (chart 2).[6]

Chart 2. Where the jobs are: Projected national employment change by education level, 2012-2022

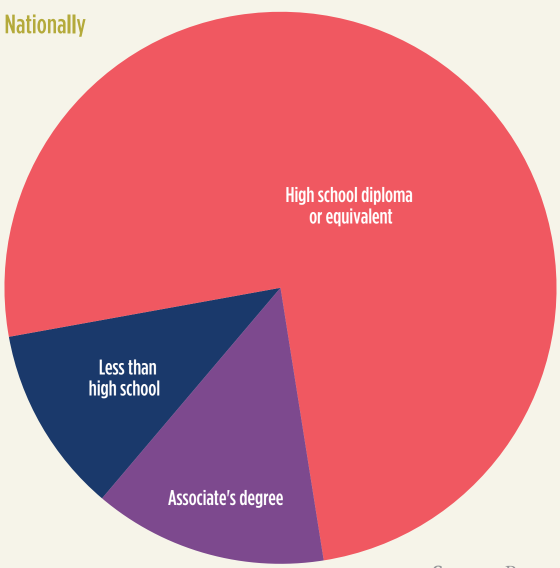


According to the Bureau of Labor Statistics, the largest number of jobs projected to 2022 will require only a high school diploma or equivalent followed by those that require even less than a high school diploma.

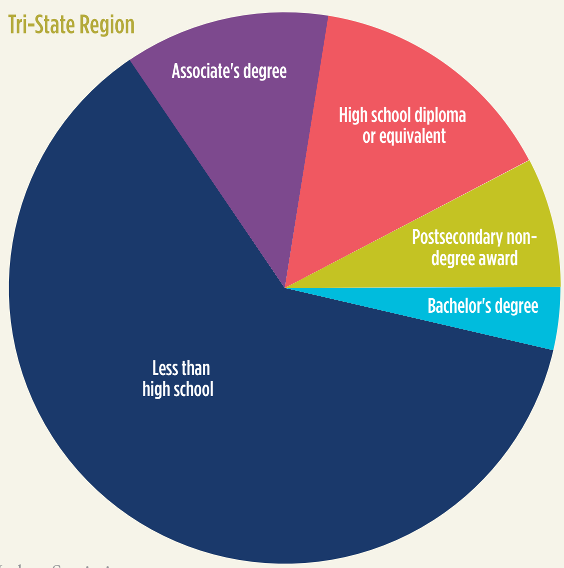
Source: Bureau of Labor Statistics.

Chart 3. Typical education needed for ten fastest growing occupations, 2012-2022

Nationally



Tri-State Region



Source: Bureau of Labor Statistics.

Chart 3 illustrates this phenomenon graphically, at both the national and the regional level, indicating that the demand for workers with less than a high school degree is particularly dominant in the tri-state region.

Table 1. Twenty fastest-growing occupations by number of projected new jobs, 2012-2022

Occupation	Projected New Jobs Nationally, 2012-2022	2014 Median Annual Pay	Education Level Required
Personal care aides	580,800	$20,440	High school diploma
Registered nurses	526,800	$66,640	Vocational school, on-the-job training, associate's degree
Retail salespersons	434,700	$21,390	High school diploma
Home health aides	424,200	$21,380	High school diploma
Combined food preparation and serving workers, including fast food	421,900	$18,410	Little or no preparation, high school diploma or GED
Nursing assistants	312,200	$25,100	High school diploma
Secretaries and administrative assistants, except legal, medical, and executive	307,800	$33,240	Vocational school, on-the-job training, associate's degree
Customer service representatives	298,700	$31,200	High school diploma
Janitors and cleaners, except maids and housekeeping cleaners	280,000	$22,840	High school diploma
Construction laborers	259,800	$31,090	High school diploma
General and operations managers	244,100	$97,270	Vocational school, on-the-job training, associate's degree
Laborers and freight, stock, and material movers, hand	241,900	$24,430	High school diploma
Carpenters	218,200	$40,820	High school diploma
Bookkeeping, accounting, and auditing clerks	204,600	$36,430	Vocational school, on-the-job training, associate's degree
Heavy and tractor-trailer truck drivers	192,600	$39,520	High school diploma
Medical secretaries	189,200,	$32,240	Vocational school, on-the-job training, associate's degree
Office clerks, general	184,100	$28,670	High school diploma
Childcare workers	184,100	$19,730	High school diploma
Maids and housekeeping cleaners	183,400	$20,120	High school diploma
Licensed practical and licensed vocational nurses	182,900	$42,490	Vocational school, on-the-job training, associate's degree

Source: Bureau of Labor Statistics.

A closer examination of job projections further illustrates the increase in jobs at the low end of the skills spectrum, but with added implications of low pay. Table 1, which compares the 20 occupations with the highest projected numeric change in employment, shows that 14 of these jobs do not *require* education beyond high school. Retail salespersons (434,000), combined food preparation and serving workers including fast food (412,000), and secretaries/administrative assistants (307,800) are examples of growing occupations requiring low educational attainment.[7]

Also true, however, is that these occupations are relatively low wage, with 16 of the 20 occupations paying an average annual wage below what the Massachusetts Institute of Technology calculates as a living wage for one adult and one child.[8] While these jobs play a key role in our economy, it is important that the workers filling them are able to acquire additional skills. The advantages of doing this are evident in the remaining occupations in table 1, all of which are middle-skill and command, with few exceptions, higher salaries.

However, when broadening the definitions of 'skills' to include years of experience and on-the-job-training, as well as other intangibles, the National Skills Coalition estimates that as many as 25 million, or 47 percent, of all new job openings from 2010 to 2020 in the U.S. will fall into the middle-skills range.[9]

According to a state-by-state analysis, in Illinois for example, middle-skill jobs represented 54 percent of the Illinois labor market in 2012, but only 43 percent of the state's workers were trained to the middle-skill level. Similar trends were noted in Indiana and Wisconsin.

The context of workforce planning

Peter Cappelli, the George W. Taylor Research Professor of Management at the Wharton School for Human Resources, helped frame the environment in which workforce planning must occur during the 2015 conference.

Cappelli stated that globalization of the economy with increased competition from other countries, advances in technology, fluctuations in productivity, and other changes have reduced the ability of employers to accurately forecast operations beyond 12-18 months, thereby complicating planning activities for many companies. Plans are now revised at short-term intervals and can involve substantial changes in workforce needs as businesses try to address shifting markets. These changes have disrupted the traditional employer-employee relationship of long-term employment with one employer.

This fundamental shift requires challenging some commonly-held assumptions about the roles and responsibilities of both employers and employees. Historically, employers were the primary source of employee training. Formalized internships and apprenticeships, or extended on-the-job training, provided employers with workers trained to a certain set of skills within a specific corporate culture. Today, rapid advances in technology require a sophisticated set of technical skills that may change with each customer or contract. In turn, globalization places pressure on profitability and diminishes employers' ability and willingness to provide in-depth training that may be quickly obsolete or enable mobile employees to trade their skills elsewhere.

Further, Cappelli continued, our educational system, which encourages a four-year college degree as a measure of qualification, is out of synch in an environment that increasingly requires life-long learning. While most employers agree that some post-secondary training or credential is necessary, Cappelli challenged common aspirations for a bachelor's degree.

Today, there is preference for employees with work experience, as indicated by the National Skills Coalition (NSC) data, but few opportunities to gain such know-how prior to entering the job market. These factors contribute to the perceived difficulties that employers have recently reported in finding employees well-suited to available job openings. Employer needs are complex and ever-changing and workforce development professionals must respond to this fast pace without full information or data.

Cappelli concluded that little evidence exists to indicate a skills gap. Rather, employers are unable to effectively plan for the long term in a rapidly changing economic environment, but seek experienced workers when their employment needs change. Instead of devoting resources to internal training programs, they tend to rely on external agencies, such as educational institutions, to provide workers with the appropriate skills. Educational institutions, on the other hand, have neither sufficient information about future work force needs nor the support from employers to provide students with on-the-job exposure to work and skill development.

What have we learned?

In many ways, local agencies involved in workforce planning are caught in the middle between the needs of employers and the ability of schools and training providers to deliver qualified candidates suited for immediate employment. Effective planning for future workforce needs is vital for overall regional economic prosperity. However, compiling and analyzing data can be difficult for workforce agencies, especially those with limited staff and resources.

Years of experience in designing education and training efforts have yielded many examples of effective or promising approaches to address both short- and long-term workforce needs. Examples of four of the strategies shared at *Future Focus: Preparing for Workforce 2020* are highlighted below. Many others are operating at the local, regional, and state levels, and are being adopted or adapted by workforce systems seeking to improve their outcomes.

Using data for workforce planning and policy

Data tools are available to help policymakers use information to better align workforce and education programs with employer skill needs. The NSC is addressing this need through its State Workforce and Education Alignment Project.[10] Known as *SWEAP*, the program uses data to inform state and local leaders about how individuals can advance to higher-paying employment. The NSC has also launched a 'Skills2Compete' campaign that connects employers with community colleges, state agencies, labor, and training advocates to promote middle-skill job opportunities through a two-year targeted curriculum.[11] Funded by the Joyce Foundation, campaigns in several states, including Indiana, have been supported through this initiative.

Another approach is found in states that use data to identify industry clusters of strategic economic importance and target workforce development resources to those high-growth areas. The Michigan Workforce Development Agency uses this approach in agriculture, energy, health care, information technology, and manufacturing.[12]

Developing educational models

Integrating academic and workforce preparation can prepare high school students with a range of skills needed in high performance work places. Brooklyn's Pathways in Technology Early College High School is a six-year, jobs-focused public high school that combines secondary and postsecondary education with business training.[13] Organizations, such as the Wisconsin Regional Training Partnership (WRTP) that provides apprentice opportunities to become Industrial Manufacturing Technicians, are another example.[14] In addition to more effective coordination between employers and workers, WRTP's strategies have increased participation from both minorities and women in the skilled trades. Although apprenticeship models have a long and successful history in Europe, they have enjoyed resurgence in the U.S. aided in part by the U.S. Department of Labor's $100 million investment in high quality registered apprenticeship programs.[15]

Accelerating preparation for low-skilled adult workers

Many adult learners who need to move quickly through school and into jobs that provide income find success in programs integrating basic education with skills training. Washington State's Integrated Basic Education and Skills Training pairs a professional/technical with a basic skills instructor in the classroom to provide highly contextualized education that is relevant to adult learners.[16] In a similar vein, bridge programs help adult learners without a high school diploma move from adult education to postsecondary education, training, and employment. Bridge programs, such as the five-state 'Shifting Gears' initiative, combine contextualized instruction with career awareness and career development, as well as transition services such as financial, academic, or personal support.[17]

Assisting the chronically unemployed

As labor markets continue to tighten, workforce agencies see non-traditional pools of potential workers as part of the solution. Nonprofit workforce partners like the National Transitional Jobs Network are developing strategies to connect populations with multiple barriers to employment, such as the homeless and ex-offenders, to meaningful work.[18] Operating under the Heartland Alliance, the organization defines transitional jobs as those that offer time-limited, subsidized jobs in supportive settings. Recent research has shown that such initiatives can succeed in moving people into the workforce, and for every dollar invested, nearly $4 are returned in benefits to the community and taxpayers.[19]

Conclusion

Four broad themes emerged from the February 2015 *Future Focus: Preparing for Workforce 2020* conference, which suggest policymakers and other parties seeking to develop and scale their workforce efforts should:

- Take to heart the WIOA requirement to engage local workforce boards in understanding and translating local workforce information. Although available data are imperfect, when used thoughtfully to frame constructive conversations between employers and education and training providers, they can improve the effectiveness with which scarce workforce resources are deployed.

- Look outside one's region for ideas and models of what is working to strengthen workforce systems. This one-day conference was only one of many opportunities to learn about promising and effective practices offered by the workforce development community. Countless other practices are being used throughout the U.S., and in mature economies in other countries.

- Expand the pool of workers by targeting populations that have been historically underrepresented in workforce development efforts. Structural skills gaps may be addressed in part by removing barriers to employment and identifying untapped talent.

- Involve financial institutions in funding workforce development programs. Funding such programs, especially those that target low- and moderate-income residents and other underserved populations, is encouraged under the Community Reinvestment Act. Examples may be found in small business development, financial education, partnerships with intermediaries, and other activities that impact job creation or employability.

Yet, the authors question whether these actions are enough to meet our nation's varied and ever-changing workforce needs. With U.S. employers worried about losing our competitive advantage and workers desperate for access to living wage jobs, we must consider fundamental changes in workforce systems that do not yet (fully) meet the needs of employers and workers.

To this end, Clayton Christensen's concept of "disruptive innovation" remains a powerful and relevant approach for reinventing workforce development policy and practice.[20] Disruptive innovation is a process by which a simpler, "good enough" solution is introduced into a market and succeeds, eventually to the point of displacing its competitors.

In the context of creating social change, Christensen also offers a variation of his disruptive innovation model. "*Catalytic* innovation" provides low cost, simple, but useful services for people who are overlooked by traditional social sector organizations. Christensen and his colleagues describe five qualities of catalytic innovators:

1. They create systemic social change through scaling and replication.

2. They meet a need that is either over-served (as a result of overly complex existing solutions) or not served at all.

3. They offer simpler and less costly products and services that are considered 'good enough.'

4. They generate financial human, or intellectual resources that are initially unattractive to competitors.

5. Their business model may be considered unprofitable or unattractive by existing players.

This concept may be reframed as a challenge to workforce leaders willing to transform their local, regional, or state workforce system by significantly improving performance while reducing the cost of outcomes through scalable and financially sustainable inventions.

In their report "Managing the Talent Pipeline: A New Approach to Closing the Skills Gap," the U.S. Chamber of Commerce Foundation suggests a disruptive innovation approach. By positioning employers as end-users (the customers) in the talent supply chain, new partnerships with education and workforce providers will be needed that could represent game-changing workforce results.[21] This is one example of the innovation and rethinking needed to complement effective but incremental approaches to developing cost-effective and adaptive workforce systems.

The new federal Workforce Innovation and Opportunities Act sets the stage for workforce boards to assume or delegate the role of catalytic innovator.[22] Among the provisions of this legislation is strengthening the governing bodies that establish state, regional, and local workforce investment priorities. Workforce boards, which continue to be led by a majority of private sector representatives, are mandated to oversee workforce planning that:

- Uses economic and labor market information to ensure local strategies are based on knowledge of economic opportunities and the workforce needs of the region.

- Analyzes workforce development activities in the region, including the strengths and weaknesses of services needed.

- Strategizes to improve access to services that lead to a recognized post-secondary credential.

- Facilitates the development of career pathways.

- Coordinates local workforce activities with regional economic development activities.

- Promotes entrepreneurial skills training and microenterprise services.

- Ensures continuous improvement of eligible training providers.

By embracing the concept of catalytic innovation and a relentless focus on what has proven effective, the U.S. will be better prepared to meet the workforce challenges of 2020.

Workforce resources from around the Federal Reserve System

Below is a sampling of research and discussions on the topic of workforce development that are taking place around the Federal Reserve System. These and more can be found by using the search function at www.FedCommunities.org.

From the Chicago Fed

Community Colleges and Industry: How Partnerships Address the Skills Gap provides an overview of Seventh District collaborative program. Available at: https://www.chicagofed.org/publications/profitwise-news-and-views/2013/pnv-nov2013

From Classroom to Career: An Overview of Current Workforce Development Trends, Issues, and Initiatives explores factors affecting the connection between school and work. Available at: https://www.chicagofed.org/publications/profitwise-news-and-views/2014/pnv-fall2014

Seventh District Workforce Development Programs that Serve Marginalized and Disadvantaged Populations discusses workforce development programs within the Seventh District with special attention paid to those programs targeting underserved populations. Available at: https://www.chicagofed.org/publications/profitwise-news-and-views/2015/pnv-issue2-workforce-development-programs

From the Cleveland Fed

Demystifying the Workforce Innovation and Opportunity Act (WIOA) for Community and Economic Developers: A Primer Effective July 1, 2015, provisions of the Workforce Innovation and Opportunity Act, or WIOA, went into effect. What changes has this legislation prompted, and how might they help improve outcomes for workers, employers, and communities alike? In this primer, Senior Policy Analyst Joseph Ott highlights key reforms of the WIOA along with implications for policymakers and practitioners. Available at: https://www.clevelandfed.org/newsroom%20and%20events/publications/special%20reports/sr%2020150902%20workforce%20innovation%20and%20opportunity%20act.

From the Federal Reserves of Atlanta and Kansas City

Transforming U.S. Workforce Development Policies for the 21st Century explores how new policies and practices can meet the changing needs of workers, businesses, and their communities. Produced in partnership by the Federal Reserve Banks of Atlanta and Kansas City, and the John J. Heldrich Center for Workforce Development at Rutgers University, this edited volume presents contributions from more than 65 leading scholars and practitioners engaged in workforce development. Download Transforming U.S. Workforce Development Policies for the 21st Century. Available at: https://www.kansascityfed.org/~/media/files/publicat/community/workforce/transformingworkforcedevelopment/book/transformingworkforcedevelopmentpolicies.pdf

View related resources from the Transforming U.S. Workforce Development Policies for the 21st Century Conference. Available at: https://www.kansascityfed.org/publications/community/transformworkforce/resources

From the Richmond Fed

Education, Innovation and Economic Growth. A speech by Jeffrey M. Lacker, president, Federal Reserve Bank of Richmond. Available at: https://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2015/lacker_speech_20150210

From the Minneapolis Fed

From preschool to high school, programs aim to close Minnesota's STEM achievement gap. Hands-on educational experiences are exposing low-income students in Minnesota to the concepts and opportunities found in the science, technology, engineering, and mathematics fields. Available at: https://www.minneapolisfed.org/publications/community-dividend/from-preschool-to-high-school-programs-aim-to-close-minnesotas-stem-achievement-gap

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Biographies

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An analysis of African American interstate migration to Iowa

By Marva Williams

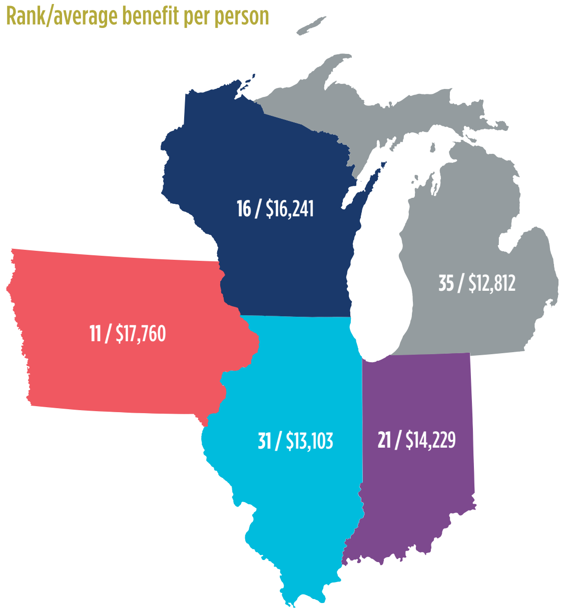
There are many motivations for family moves to other states. New jobs, lower crime rates, and better schools are a few. A common rumor in Iowa is that many low-income blacks are relocating to the state from communities in Illinois, Wisconsin, and elsewhere, to take advantage of the state's generous welfare benefits. This article attempts to explore that assumption by clarifying who is moving to Iowa and why. The conclusion, based on census data and a brief review of the literature, is that although perception belies reality, the reality is more nuanced than one might expect.

Demographic and economic trends show contrast between Iowa and the rest of the country. First, it is much less diverse. Whites make up over 90 percent of the population, blacks are only 3.4 percent, and Latinos are less than 6 percent. Second, Iowa also appears to be doing better economically. It has a smaller percentage of families with incomes below the poverty line and a lower unemployment rate. Third, the population of Iowa is growing much more slowly than the population of the country. From 1970 to 2010 population growth was 7.86 percent compared to a national rate of 51.93 percent.

Within this context of relative economic prosperity shadowed by population loss and lack of diversity, Iowa offers higher welfare and other benefits than nearby states.

Chart 1. Average state benefits

Rank/average benefit per person

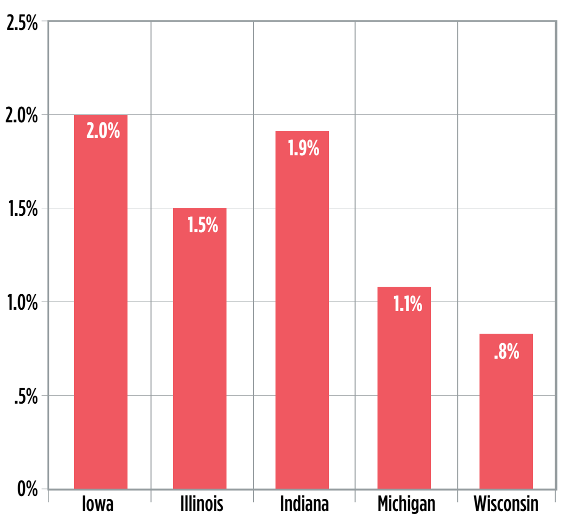


Source: Berman, Jacob, 2014, "Differences in State Safety Net Spending," *Midwest Economy,* Federal Reserve Bank of Chicago, blog, April 21, available at http://midwest.chicagofedblogs.org/archives/2014/04/jacobs_blog.html.

According to a recent Federal Reserve Bank of Chicago study, Iowa ranks 11th of 50 states for average benefit per person. It ranks higher than Illinois, Indiana, Michigan, and Wisconsin – the other states in the Federal Reserve's Seventh District (see chart 1). The relevant programs include Medicaid, Supplemental Security Income (SSI), Unemployment Insurance, Temporary Assistance for Needy Families (TANF), and other programs in which states have some discretion over the distribution of benefits (Berman, 2014).

However, research on whether households migrate to states with more generous social programs is inconclusive, due in part to the complexity of studying migration, identifying suitable data, or isolating comparable control groups – e.g., see Gelbach (2004) and McKinnish (2005) – and at times contradictory; see Meyers (2000) and Zimmerman (1999). Other studies, including Allard and Danziger (2000); Levine and Zimmerman (1999); Schram, Nitz, and Krueger (1998); and Frey, Kiaw, Xie, and Carlson (1996), found that higher levels of welfare payments had little or no impact on interstate migration. Bailey (2005) documented that welfare benefits do impact where people choose to live; however, other factors, like family ties, have a stronger relationship to housing location decisions.

Chart 2. Percent of migrants from U.S. to Seventh District states, 2007-2011



Source: 2007-2011 American Community Survey.

To determine the extent to which lower-income blacks are, in fact, migrating to Iowa, we analyzed the U.S. Census Bureau's American Community Survey (ACS) data collected from 2007 to 2011. ACS data is designed to ensure good geographic representation and therefore is an accurate reflection of local population trends. Using this data, which included almost 155,000 records, migrants were compared from other states to the general population in Iowa. Then, because Iowa has a significant number of migrating college and graduate school students, the analysis was extended to non-student migrants, and finally to the demographics of non-student black migrants to Iowa.

Domestic migration to Iowa

Iowa has the smallest population of the five states in the Seventh District. With a population of 3,046,857 in 2010, Iowa is half the size of the next smallest state, Wisconsin, and one-quarter the size of the District's most populous state, Illinois. However, the rate of migration to Iowa of people from other parts of the United States was higher than the rates of domestic migration to other states in the Seventh District (see chart 2). From 2007 to 2011, 2 percent of new residents moved to Iowa from other parts of the United States, compared to rates of 1.9 percent to 0.8 percent to other Seventh District States. However, the remaining Seventh District states had larger numbers of new arrivals from other states (2014 American Community Survey).

Table 1 compares migrants to Iowa with Iowa's general population. Migrants to the state tended to be U.S. citizens, younger and much more diverse than its general population: over 17 percent of migrants were Latino and almost 5.8 percent were black, compared to 3.3 and 1.6 percent, respectively, in the general population. However, following the notion of migration to opportunity, the unemployment rate among migrants was double that of the general population and the annual income of migrants was much lower than the general population. The educational attainment between migrants and residents is fairly similar.

The major difference between the general population and migrants was whether they were enrolled in college or not. As documented in table 2, migrants were three and a half times more likely to be current college or graduate school students than the general population. The relatively large proportion of college and graduate students that migrated to Iowa makes it useful to analyze the characteristics of those migrants that are not students.

Table 1. Demographics of general population and migrants to Iowa, 2007-2011

		General Population	All Migrants
Number		154,878	3,113
Citizenship	Citizen	98.3%	95.5%
	Not a citizen	1.7%	4.5%
Age	Under 18	22.5%	20.4%
	18-24	8.2%	31.3%
	25-44	22.2%	29.5%
	45-65	29.5%	13.9%
	Age 66+	17.5%	5.0%
Race	White	94.6%	84.9%
	Black	1.6%	5.8%
Ethnicity	Latino	3.3%	17.1%
Marital status	Married	47.2%	27.1%
	Widowed	6.5%	2.3%
	Divorced	7.9%	8.4%
	Separated	0.8%	2.2%
	Never married	37.6%	60.1%
Children under age 18 living in household	Yes	23.4%	30.7%
	No	73.7%	69.8%
Educational attainment (individuals 25 and over)	Grade 6 and below	1.7%	2.0%
	Grades 7-9	3.8%	4.0%
	Grades 10-12	3.4%	5.0%
	High school diploma	36.8%	31.1%
	Some college	21.3%	23.1%
	College and graduate school	32.2%	33.3%
Current students	College or graduate school	7.9%	27.9%
Employment	Employed	95.1%	85.9%
	Unemployed	4.7%	13.4%
	Not in the labor force	0.1%	0.7%
Adult personal income	Median income	$24,000	$11,000

Source: 2007-2011 American Community Survey.

Table 2. Demographics of general population, migrants and non-student migrants to Iowa, 2007-2011

		Iowa's General Population	All Migrants	Non-student Migrants
Number		154,878	3,113	2,332
Citizenship	Citizen	98.3%	95.5%	95.1%
	Not a citizen	1.7%	4.5%	4.9%
Age	Under 18	22.5%	20.4%	26.7%
	18-24	8.2%	31.3%	14.2%
	25-44	22.2%	29.5%	34.4%
	45-65	29.5%	13.9%	18.0%
	Age 66+	17.5%	5.0%	6.7%
Race	White	94.6%	84.9%	84.8%
	Black	1.6%	5.8%	5.7%
Ethnicity	Latino	3.3%	17.0%	9.0%
Marital status	Married	47.2%	27.1%	32.8%
	Widowed	6.5%	2.3%	3.0%
	Divorced	7.9%	8.4%	10.6%
	Separated	0.8%	2.2%	2.7%
	Never married	37.6%	60.1	50.9%
Children under age 18 living in household	Yes	23.3%	30.3%	32.4%
	No	73.7%	69.7%	67.6%
Adult educational attainment (individuals 25 and over)	Grade 6 and below	1.3%	2.0%	3.5%
	Grades 7-9	3.7%	4.0%	5.5%
	Grades 10-12	3.4%	5.0%	8.8%
	High school graduate	36.8%	31.1%	30.7%
	Some college	21.3%	23.1%	25.9%
	College and graduate school	32.2%	33.3%	22.7%
Current university students	College or graduate school	7.9%	27.9%	0.00%
Adult employment	Employed	95.1%	85.9%	86.9%
	Unemployed	4.7%	13.4%	12.3%
	Not in the labor force	0.1%	0.7%	0.6%
Adult personal income	Median income	$24,000	$11,000	$16,100

Source: 2007-2011 American Community Survey.

Table 3. Demographics of black non-students migrants in Iowa, 2007-2011

		General Population	All Non-student Migrants	Black Non-student Migrants
Number		154,878	2,332	131
Citizenship	Citizen	98.3%	95.1%	92.4%
	Not a citizen	1.7%	4.9%	7.4%
Age	Under 18	22.5%	26.7%	42.8%
	18-24	8.2%	14.2%	17.6%
	25-44	22.2%	34.4%	25.2%
	45-65	29.5%	18.0%	13.7%
	Age 66+	17.5%	6.7%	0.8%
Race	White	94.6%	84.8%	0.0%
	Black	1.6%	5.7%	100.0%
Ethnicity	Latino	3.3%	9.0%	0.0%
Marital status	Married	47.2%	32.8%	26.7%
	Widowed	6.5%	3.0%	1.3%
	Divorced	7.9%	10.6%	14.7%
	Separated	0.8%	2.7%	6.7%
	Never married	37.6%	50.9%	50.7%
Children under age 18 living in household	Yes	23.3%	32.4%	51.7%
	No	73.7%	67.6%	48.3%
Adult educational attainment (individuals 25 and over)	Grade 6 and below	1.3%	3.5%	4.9%
	Grades 7-9	3.7%	5.5%	6.4%
	Grades 10-12	4.7%	11.7%	16.6%
	High school graduate	36.8%	30.7%	30.0%
	Some college	21.3%	25.9%	25.9%
	College and graduate school	32.2%	22.7%	16.0%
Current students	College or graduate school	7.9%	0.0%	0.0%
Adult employment	Employed	95.1%	86.9%	56.8%
	Unemployed	4.7%	12.3%	12.2%
	Not in the labor force	0.1%	0.6%	31.1%
Adult personal income	Median income	$24,000	$16,100	$7,200

Source: 2007-2011 American Community Survey.

Non-student migrants to Iowa

There were 2,332 migrants to Iowa between 2007 and 2011 who were not college students. Table 2 shows an overwhelming majority of this group were U.S. citizens (95 percent). The non-student migrants are older than migrants in aggregate, but still younger than Iowa's general population. Non-student migrants were more racially and ethnically diverse than Iowa residents as a whole. Further, non-student migrants have a lower percentage of adults who are married. The percent of households with children under age 18 is highest for non-student migrants than for the general population. Non-student migrants have a lower percentage of college graduates than the other groups, and their median income is about 70 percent of the median income of the general population.

Black non-student migrants to Iowa

Table 3 provides the demographic characteristics of black non-student migrants to Iowa. There were 131 black non-student migrants included in the survey data. Most were born in the United States or were naturalized citizens. Over 40 percent of black non-student migrants were under age 18 and about 25 percent were adults between the ages of 25 and 44. About half of the adults had no children and their college graduation rate is half of the rate of the general population. The personal incomes of this group were also fairly low: half had personal incomes below $7,200, which is one-third of the median income of all Iowans. About a third of non-student black migrants were not in the labor force, and over 12 percent were unemployed. Although these percentages are much higher than what is found in the general population, the actual numbers of people represented is very small. Ultimately, the number of adults who are black non-students, and also not participating in the labor force, is approximately 25.

In addition to having lower incomes, black migrants to Iowa who were not college students also had higher rates of participation in Temporary Assistance to Needy Families (TANF). The participation rate of non-student black migrants was seven times that of the general public and almost three times the rate of non-student migrants (see table 4). However, this calculates to approximately 12 people out of 131 total non-student black migrants.

Table 4. TANF usage by Iowa residents and migrants, 2007-2011

	TANF Recipients
General Population	1.3%
Non-student Migrants	3.2%
Non-student Black Migrants	9.3%

Source: 2007-2011 American Community Survey

Table 5. Migrating black non-students to Iowa: State of origin, 2007-2011

	Percent	Number
Ilinois	19.1%	25
Nebraska	11.5%	15
Georgia	6.1%	8
North Dakota	6.1%	8
Missouri	5.3%	7
North Carolina	4.6%	6
Indiana	3.8%	5
Michigan	3.8%	5
Minnesota	3.8%	5
Mississippi	3.8%	5
Ohio	3.8%	5
Other	28.3%	37

Source: 2007-2011 American Community data.

Table 5 shows the states from which non-student blacks migrated. Although Illinois had the highest percentage of non-student black migrants to Iowa, it accounted for less than 20 percent of the migrants from this group. The second highest state with non-student black migrants was Nebraska, followed by several southern states. In total, Seventh District states, including Wisconsin, provided only 28 percent of all black non-student migrants to Iowa. Again, when these percentages are converted to numbers, the impact of these trends is minimal.

Conclusion

It appears that lower-income blacks are moving to Iowa in very small numbers. Less than 6 percent of all migrants to Iowa from 2007 to 2011 were black and only 0.4 percent of migrants were non-student blacks. These new residents demonstrated economic and domestic challenges typical of migrants seeking better opportunities for their families: lower personal incomes; lower educational attainment levels and higher levels of single parents. This would appear to also drive higher levels of welfare (TANF) participation and lower levels of labor force participation.

Like many of its neighboring states, in-migration to Iowa is vital to its economic future providing a much needed workforce to fuel business attraction and other aspects of economic growth. Although very small in number, the economic participation rates (as indicated by labor force participation) are concerning from a policy standpoint. Ensuring that all new arrivals – regardless of origin or profile – are able to engage in opportunities for economic advancement will truly fulfill the intent and promise of migration.

Biography

Marva Williams is the economic development and Iowa state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

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