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Financial well-being: At the convergence of people and place – reflections from a Chicago conversation

The when, what and where of consumer debt: The view from Cook County

Universal CSAs in Illinois: Addressing the racial wealth gap

Tax-time savings: An antidote to financial insecurity

The roadmap to financial resilience is about the journey

ALSO IN THIS ISSUE

Investing in healthy rural communities – lessons learned and future directions

Participatory budgeting: Enhancing community reinvestment through public engagement
In the third edition of 2016, we invited speakers from a June event to provide their perspectives on conditions affecting populations they serve. The event centered on What It’s Worth: Strengthening the Financial Future of Families, Communities, and the Nation, a volume compiled by the Federal Reserve Bank of San Francisco and Corporation for Enterprise Development. The collection of essays, introduced (and assembled) by senior business economist Susan Longworth, includes longer-term observations on consumer credit markets by Fed economists Leslie McGranahan, also a speaker at the event, and Gene Amromin. Also in this issue, Michigan community development director Desiree Hatcher provides a brief on participatory budgeting and its role in promoting community engagement. Finally, Wisconsin community development director, Steve Kuehl (with co-authors), provides highlights from one in a series of health and community development focused convenings, this one in Platteville, Wisconsin, on the challenges faced in rural communities.

The Federal Reserve Bank of Chicago and its branch in Detroit serve the Seventh Federal Reserve District, which encompasses southern Wisconsin, Iowa, northern Illinois, northern Indiana, and southern Michigan. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising banks and bank holding companies, and providing check processing and other services to depository institutions.
Financial well-being:
At the convergence of people and place – reflections from a Chicago conversation

by Susan Longworth

This brief collection of writings is based on a convening, hosted by the Federal Reserve Bank of Chicago, to have a local conversation about financial well-being. This gathering was motivated by “What It’s Worth,” a joint publication of the Corporation for Enterprise Development (CFED) and the Federal Reserve Bank of San Francisco, collecting insights from thought leaders across the country on the topic of financial capacity for families and communities.1

As our “chapters” illustrate, financial well-being is often about making optimal choices at critical moments. One’s stage of life (factors that impact financial well-being begin at birth) determines the kinds of financial decisions that arise. For many, seasonal variations in income and expenses – such as school supplies, winter heating bills – make for difficult trade-offs. Tax season is also a pivotal time – for many, the Earned Income Tax Credit (EITC) is a significant boost to family income, which brings opportunities, but also sometimes difficult choices. Finally, even ‘normal’ economic cycles lead to fluctuations in credit access that can vary widely across communities; the Great Recession and policy implemented in its aftermath have led to unprecedented changes in the financial landscape for lower-wealth households.

The Chicago discussion made the connection between people and place stressing that interventions depend largely on residents’ adoption of options, but also that they are intrinsically rooted in a place. The data presented by Chicago Federal Reserve economists, Gene Amromin and Leslie McGranahan, and summarized in The When, What and Where of Consumer Debt: The View from Cook County, illustrate that economic conditions of households tend to aggregate in places. It is intuitive, unfortunately, that poor people live in (resource, amenity) poor neighborhoods. However, the impact of this condition is multi-faceted and nuanced, and pathways to change are complex. Overarching these community-based nuances are national trends illustrating the shifts in types of non-mortgage debt that occur across economic cycles. Where this debt exists, and for whom, introduces challenging policy questions.

Lucy Mullany, senior project manager, Financial Empowerment Policy, Heartland Alliance, in writing about Universal CSAs in Illinois: Addressing the racial wealth gap, stresses that the financial journey is life-long and that early (at birth) investments can yield life-long returns. Even small amounts saved can alter perceptions and expectations about what can be achieved. As the leader of the Illinois Asset Building Group, a project of Heartland Alliance, she shares concrete examples of the practice and impact of Childhood Savings Accounts (CSAs) and makes the case for universal adoption of this
tool. Practitioners and policymakers working to break a cycle of poverty or chronic financial instability struggle to identify a single point of intervention that will make an impact, particularly on the racial wealth gap. CSAs make the case that birth is as good a time as any to set a different path.

The essay contributed by David Marzahl, president and CEO of the Center for Economic Progress (CEP), *Tax-time savings: An antidote to financial insecurity*, illustrates that across annual cycles, there are key moments of opportunity to engage individuals and families in financial decision making. For CEP, that moment is at tax time when many of their constituents receive a significant financial infusion in the form of EITC. Marzahl writes about efforts to motivate savings at this critical time of the year. His essay also captures a theme running through all contributions: that many factors influence financial conditions, decisions, and outcomes, and interventions require consistent evaluation and assessment.

Maria Kim, CEO of The Cara Program, in *The roadmap to financial resilience is about the journey*, focuses the discussion on the individuals her organization assists as they navigate their way from poverty (and the issues/conditions that led them there) to a better financial future. As the destination is a moving target—financial decisions and goals will shift depending on circumstances—managing the journey becomes essential. Kim illustrates this journey in the context of one year: the amount of time it generally takes for an individual to stabilize in a job and begin to reap the benefits of consistent employment. Surrounded by an intricate network of supports, an individual can move seamlessly from season to season on their journey to financial stability.

At the opening of the Chicago gathering, Alicia Williams, vice president of the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago, set the tone for the discussion by referring to Federal Reserve Chair Janet Yellen’s forward to *What It’s Worth*, which describes the extreme financial vulnerability faced by many American families every day. Williams echoed the Chair’s call to the Federal Reserve Banks, as both conveners and researchers, to promote ideas that can ultimately “encourage families to take small steps that over time can lead to the accumulation of considerable assets.” We hope these essays contribute to the discussion.

Notes


Biography

**Susan Longworth** is a senior business economist in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.
The when, what and where of consumer debt: The view from Cook County

by Gene Amromin and Leslie McGranahan

Consumer debt grew rapidly in the years leading up to the Great Recession, and contracted sharply in its immediate aftermath. This credit cycle played out unevenly among households with different financial means and in different parts of the country. While much attention has been paid to mortgages, other debt categories, such as automobile and student, play an important role in household finances. Consequently, we analyze trends in both mortgage and non-mortgage debt across income groups during the period surrounding the Great Recession.

In an article in 2015, we explored household debt patterns in places of different income levels and across different types of consumer credit. In particular, we divided US zip codes into population weighted income quintiles based on the average income reported on tax returns from addresses in each zip code in 2001. In addition to mortgages, we explored debt patterns for revolving home equity loans, auto debt, and student loans. For the 2015 article, we focused on the period since the Great Recession.

We found that debt patterns differed across income quintiles and types of consumer credit. In particular, we noted that mortgage balances consistently fell from 2008:Q3 through 2014:Q3 (the end of the sample used for the 2015 paper) in low-income quintile zip codes, while there was a modest recovery in 2013 and 2014 in the top two quintiles. For auto loans, we noted higher pro-cyclicality in consumer debt in low-income locales: greater declines in low-income areas during the recession and more rapid credit expansion during the recovery. We found that student loans rapidly increased in zip codes across all income categories with higher growth rates in the lowest income places, albeit from a much lower base.

For the Federal Reserve’s “What It’s Worth” conference, we focused this analysis to investigate how these patterns played out in Cook County, Illinois, and extended our analysis through 2015:Q4. Cook County is the second most populous county in the United States with over 5 million people, and contains the entire city of Chicago and many surrounding communities. The county is economically diverse with wealthy suburbs and city neighborhoods as well as numerous poor urban and suburban areas. While the county is relatively rich with 45 percent of the population in top income quintile zip codes, the city itself is relatively poor with over a third of its population living in bottom income quintile zip codes (map 1).

The debt patterns for Cook County were broadly similar to those for the nation as a whole, albeit with several notable differences. In chart 1, we show the level of aggregate real mortgage debt relative to 2008:Q4 by income quintile for Cook County zip codes and for all US zip codes. We choose to do our calculations relative to 2008:Q4 because that is the quarter during which national total real consumer debt peaked. During the post-recession recovery, there is greater disparity amongst the income quintiles in Cook County than in the nation as a whole. In Cook County, mortgage debt in low-income zip codes has experienced greater declines in both absolute (compared to 2008:Q4) and relative terms (compared to the top quintile zip codes), when compared to the nation as whole. In addition, while there was
Map 1 shows differences in income, by zip code, across Cook County. Viewers can observe concentrations of poverty (lowest income quintile) on the west side of Chicago and in the southern suburbs. In contrast, pockets of wealth (highest income quintile) can be found in the far northern and southwestern regions of the county.

Source: 2001 IRS Statistics of Income (SOI) dataset.
modest growth in overall mortgage debt in the US since 2013, overall mortgage debt is flat or down across all five income quintiles in Cook County.

The pattern for auto debt in Cook County closely mirrors the national pattern with pro-cyclicality among all zip code income quintiles that is more pronounced in lower-income geographies.

For student loan debt, the overall pattern of rapid growth independent of macroeconomic conditions holds for Cook County as well. We show the pattern for the level of student loan debt relative to 2008:Q4 in chart 2. Debt grew at a similar pace prior to 2008:Q4 in all zip code groups. Since then, the pace of student loan debt growth has diverged across income quintiles in both the US as a whole and in Cook County with faster growth in the lowest income quintiles. This trend is slightly more pronounced in Cook County than nationwide.

Given the dramatic rise in student loan debt, we are interested in how student loan debt levels compare to the levels of other types of debt. Since mortgage debt is by far the largest debt category, accounting for approximately two-thirds of all consumer debt, we omit it from the analysis. For the remaining non-mortgage debt categories, we look across the zip codes in Cook County to ask which type of debt represents the highest share of non-mortgage debt. There are five types of debt under consideration: home equity, auto, credit cards, student, and ‘other,’ which includes consumer finance and retail debt (such as store and gas credit cards). Results for Cook County zip codes as of 2003:Q1 (the start of the sample presented in charts 1 and 2) are presented in map 2 on page 10.

We see that in the majority of zip codes, credit card debt is the largest source of non-mortgage debt at the beginning of 2003. This is followed by auto debt, which dominates in the southern part of the County. The third

most prevalent type of non-mortgage debt, in 2003:Q1, is student loans, particularly in the zip codes with universities and areas with a high percentage of recent college graduates (e.g., Hyde Park and Lincoln Park). Home equity debt is prevalent in the wealthy northern suburbs.

Map 3 reflects the mid-point of our sample, 2009:Q2, which shows an increased prevalence of student debt. At this point, student debt is the highest form of non-mortgage debt in two-thirds of the zip codes in the city and a quarter of the zip codes outside the city. Home equity debt is also increasing and credit card debt is the third highest level of debt when measured by number of zip codes.

Finally, in map 4, we move to the last quarter of our sample, 2015:Q4. At this point, student loan debt dominates in 82 percent of zip codes in the county. The principal exception is the wealthy northern suburbs, which continue to have high levels of home equity debt. This figure shows how universal the spread of student loan debt has been across the county. Even when looking across zip codes with vastly different socioeconomic characteristics, student loan debt represents the largest source of non-mortgage debt.

The goal of this note has been to document changes in the pattern of consumer credit over time by income group and loan category in Cook County overall, and as compared to the nation. We find that patterns in Cook County largely parallel the national narrative with some modest differences. We further observe that student loan debt growth has occurred across all income groups and areas of the county. Student loans represent the single largest type of non-mortgage debt in nearly every zip code within the county independent of zip code income, or location.
Maps 2-4. Highest type of non-mortgage debt, Cook County, Illinois

Maps 2-4 show the transition in non-mortgage debt that occurred leading up to, through, and following the Great Recession. Whereas prior to the recession, non-mortgage debt was split between auto and credit card (Map 2), by 2015 student loan debt is almost uniformly the primary type of non-mortgage debt (Map 4).

Sources: Federal Reserve Bank of New York (FRBNY) Equifax Consumer Credit Panel (CCP).
Notes


3. According to the Census Bureau, in most of these zip codes, individuals are more likely to drive to work than in the remainder of Cook County.

Biographies

Gene Amromin is a senior financial economist and research advisor at the Federal Reserve Bank of Chicago.

Leslie McGranahan is a senior economist and research advisor in the regional analysis team of the Economic Research Department of the Federal Reserve Bank of Chicago.

What do you know about borrowing money from a bank?

Check out the new touchscreen display in the Money Museum! It’s all about borrowing money and the work of Community Development and Policy Studies (CDPS). The display provokes visitors to ask questions about challenging and relevant topics in banking like race, fair access to credit, and redlining. The content and design were developed by CDPS staff members.

The Money Museum is located on the first floor of the Federal Reserve Bank of Chicago building, 230 South LaSalle Street • Chicago, IL 60604. It is free and open to the public year-round. For more information, visit www.chicagofed.org/education/money-museum/index.
Universal CSAs in Illinois: Addressing the racial wealth gap

by Lucy Mullany

The Financial Empowerment Policy Project at Heartland Alliance advocates for policies that close the racial wealth gap, expand access to the tools families need to build long-term financial security, and protect consumers from predatory financial products. The Project also coordinates the Illinois Asset Building Group (IABG), a state-wide coalition with the complementary objectives of addressing the expanding racial wealth gap and high levels of asset poverty by building awareness, promoting best practices, and advocating for policy changes that support a permanent path toward economic stability for families in Illinois.

In Angela Glover Blackwell’s essay in What It’s Worth,1 she talks about her childhood and how she was fortunate to have access to community assets that provide “ladders for success.” While these assets created a pathway to financial security that included college for many in her community, she acknowledges that similar “communities of opportunity” are not the reality for many families of color.

In Illinois, there are significant disparities in opportunity between majority white communities and communities of color. According to the 2016 Illinois Poverty Report,2 poverty rates are two to three times higher for Illinoisans of color. Black children in Illinois are nearly four times more likely to live below the poverty line than white children. When we look beyond income to wealth, we see even more disparity. While about 16 percent of white households are asset poor, almost half of all black households and 40 percent of all Hispanic households live in asset poverty.3 Families experiencing asset poverty don’t have enough emergency savings to meet an unexpected expense or long-term savings to build financial security. Without assets and the financial footing that comes with them, financially vulnerable families and communities are missing rungs in the crucial “ladders for success” that Blackwell writes about.

But what if every child began accumulating assets at birth? What if low-income families were provided with a larger seed deposit and match savings incentives that provide a ladder for success via a Children’s Savings Account (CSA)? A universal CSA program has the potential to provide such a ladder out of poverty and towards long-term financial security – especially in communities of color.

Evidence shows that a child who knows someone is saving for their future is more likely to believe in themselves and their dreams. The Center for Social Development is conducting a rigorous test of CSAs through the SEED for Oklahoma Kids Program. Their research found that a modest amount of college savings improves low-income children’s early social-emotional development, increases a mother’s expectations for her child’s future education, and reduces maternal depressive symptoms.4 In fact, even just a small amount of savings can have a significant impact. Low- and moderate-income children with $500 or less in savings were three times more likely to enroll in college than children with no savings, and more than four times more likely to graduate from college5 (see Figure 1).

Heartland Alliance believes that CSAs should be a key tool to help families succeed and address racial inequity. To this end, Heartland Alliance, through its Financial Empowerment Policy Unit and as the leader of the Illinois Asset Building Group (IABG), is working to advance a universal CSA program6 in Illinois. The initiative includes workshops for parents around the state. During these workshops, we ask parents what their hopes and dreams are for their children. The answer is always the same: parents want their children to have a better – less stressful – life.
than they’ve had. They want to see their children happy and financially and emotionally stable. Many parents see college as the pathway out of poverty for their children.

A college degree is an important asset that will help people build wealth across their lifetime though higher wages. A college graduate has median weekly earnings that are 64 percent higher than those of high school graduates. Furthermore, college graduates are much more likely than high school graduates to have jobs that provide access to other wealth generating tools such as health insurance, retirement savings accounts, paid time off, and other benefits.7

While a number of CSA programs exist around the country at the school, city, or county level, a handful of states have launched or are launching statewide CSA programs that give all families the support they need to save for their child’s future. In the last few years, state treasurers across the country have begun exploring ways to increase access to their state’s 529 programs as a means to lift families out of poverty and make college more accessible to all young people. Most recently, Nevada, Maine, Rhode Island, Vermont, New Hampshire, Massachusetts, Connecticut, and Indiana have initiated statewide or pilot programs that aim to expand enrollment in 529 college savings programs. These states are automatically opening 529 accounts at birth or at the time of enrollment in kindergarten. Not all CSAs are structured as 529 accounts, but for statewide coverage, they are the vehicle most commonly used. (Some local CSAs are structured as traditional bank accounts.)

These programs include an initial seed investment, matched savings incentives for low-income families, and financial education for the whole family.8

Heartland Alliance, through the Illinois Asset Building Group, is watching these programs closely to determine what could work in Illinois, and what structure would have the biggest impact on closing racial gaps in both educational attainment and wealth building.

### Notes


8. Some examples include: Through Maine’s Harold Alfond College Challenge, every child born in the state receives a $500 seed deposit and low-income families have access to match savings funds. (See https://www.500forbaby.org.) Nevada’s College Kick Start Program opens a 529 college savings account for every public school kindergartner in the state. Each account is seeded with $50 and low-income families have the opportunity to take advantage of a match savings incentive. See http://collegekickstart.nv.gov.) Connecticut’s Baby Scholars Program deposits $100 into a Connecticut Higher Education Trust (CHET) 529 account for all Connecticut children whose parents open an account within the child’s first year. (See https://www.aboutchet.com/buzz/baby.shtml.) Rhode Island’s CollegeBoundBaby Program asks parents to check a box on their child’s birth certificate form to receive an automatic $100 initial deposit into a 529 college savings account. Low-income parents can then participate in a match savings program. (See https://www.collegeboundsaver.com/cbb.html.)

### Figure 1. College savings account impact

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<th>$500</th>
<th>A child with at least $500 in a College Savings Account is:</th>
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<tr>
<td>3X</td>
<td>More likely to Go to College</td>
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<tr>
<td>4X</td>
<td>More likely to Graduate from College</td>
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### Biography

Lucy Mullany is senior project manager of Financial Empowerment Policy at Heartland Alliance.
Tax-time savings:
An antidote to financial insecurity

by David Marzahl

The Center for Economic Progress (CEP) helps low-income, working families as a trusted provider of tax and financial services. CEP’s mission comes to life through its three core service areas: tax preparation, tax legal clinic and asset building program. The thousands of families served by CEP each year lack assets and often face difficulties making ends meet. They typically report a lack of savings and are often challenged by debt. Residing in communities where affordable and accessible financial services are scarce, CEP’s programs and more than 1,000 volunteers work to measurably improve their financial health and well-being.

The value proposition of ‘What It’s Worth’ is the opportunity, working collaboratively between the public, nonprofit and private sectors, to address the growing economic insecurity and financial stability plaguing a growing number of Americans. The results of countless polls and surveys evidence the financial uncertainty facing the least advantaged in our economy. The aftermath of the Great Recession and the loss of assets for many, combined with reduced job security, downward pressure on wages, and higher out-of-pocket health expenses are some of the drivers behind this insecurity.

At the Center for Economic Progress (CEP),1 a local and national leader in providing free tax and financial services for low-income families, we are committed to both macro-level policy changes and implementing incremental changes that could effect positive change for our constituents. With a front-line presence in 15 Chicago area communities, and central Illinois, CEP reaches more than 20,000 families each year. From this broad base, we are able to leverage our services to influence change whether through the Illinois and Federal Earned Income Tax Credit (EITC) programs, advocating for increased regulation of paid tax preparers, or by simplifying access to income support programs.

CEP is Illinois’ leading provider of no-cost, high-quality tax, and financial services, leveraging the power of 1,000 volunteers to measurably impact the financial health and well-being of the families we serve. We have more than two decades of experience providing tax preparation assistance to low-income working families, and have generated more than $600 million in refunds, while helping our clients save millions of dollars in fees and expenses. Partnering with banks, credit unions, and pre-paid card providers, CEP has also tripled the direct deposit rate of previously unbanked or underbanked clients over the past decade so that in 2016, almost four out of five chose to electronically deposit their tax refund rather than accept a paper check.

CEP is increasingly focusing on improving our clients’ financial capability through all of our programs – tax preparation, financial coaching, and legal representation and advice. With the typical CEP taxpayer receiving a refund of $2,000, compared to $2,700 for all US taxpayers, we have increasingly focused on new and creative ways to leverage the “tax-time money moment” to benefit our clients. This approach is especially relevant given growing evidence of month-to-month income and expense volatility as a driver of financial uncertainty for many Americans. At CEP, we believe that using a tax refund to smooth income and expenses presents an ideal opportunity to help consumers address some of the income and expense shocks they experience each year.

Over the past three years, we’ve operated a tax-time savings initiative called ‘Life Happens; Save for It.’ Applying lessons we’ve learned, and coupled with colleagues at Doorways to Dreams (D2D)2 and America Saves,3 which operates a nationwide prize-linked savings campaign,
SaveYourRefund,4 and researchers at the Center for Social Development at Washington University through their Refund to Savings (R2S)5 campaign, we've dramatically increased the number of people electing to save all or a portion of their refund at our community tax sites. Starting with 140 tax-time savers in 2014, we increased that number to 470 savers in 2015 and to 789 savers in 2016 – an almost six-fold increase in three years (see Figure 1). This increase required training of both staff and volunteers, rolling out a customer-focused marketing campaign, rethinking the layout of our community sites to maximize visibility, introducing savings products from both financial institutions, as well as Treasury’s new “myRA”6 and integrating weekly prize drawings to stimulate participant interest. The initiative has involved many moving parts and had to overcome countless challenges, but the data we’ve generated and many positive anecdotes clients have shared, underscore the importance of future expansion and partnering with both government and the private sector to increase our current 10 percent take-up rate and inform other tax-time efforts taking place across the country.

While the initial commitment to savings is important, we also wanted to know what clients actually did with their refunds over time, to help us document the full impact of the initiative. We surveyed all 789 participants four months after the initial commitment to save at tax time. Twenty percent of our savers responded to the survey, yielding the following information:

- 82 percent of our tax-time savers either save occasionally or regularly during the year;
- 54 percent of tax-time savers indicated their reason for savings was to shield against future emergencies;
- Surprisingly, just over 50 percent of savers were able to maintain their savings balance 120 days after depositing their refund, longer than we had expected; and
- 34 percent of savers had reduced their overall savings balance, primarily to pay bills.

So what does this mean for the work and mission of CEP? We are expanding our commitment to tax-time savings and have decided to fully integrate our financial capability efforts into each of our tax sites over the next two years. We intend to rigorously evaluate our initiative this coming year, in conjunction with Prepare + Prosper,7 a Minnesota-based peer organization, and have received a grant from the MetLife Foundation to further test our assumptions and understand the respective roles of staff, volunteers, and perceptions of our clients. Given the enduring financial uncertainty faced by many American families, we hope to better understand how increased emergency savings can improve their financial health and well-being.

Notes


Biography

David Marzahl is CEO of the Center for Economic Progress.
The roadmap to financial resilience is about the journey

by Maria Kim

Since 1991, Cara has helped men and women affected by poverty (and often the interrelated challenges of recovery, domestic violence, episodic homelessness and incarceration) to get and keep good jobs, and more importantly rebuild hope, self-esteem, and opportunity for themselves and their families in the process. Cara produces hundreds of jobs each year, at retention rates over 20 percentage points higher than national averages, and with over 80 percent of employed participants moving onto permanent housing in which their families can thrive.

Twelve months is more than a year – particularly in Chicago. Twelve months is winter – often with a relentlessly capital W, spring, summer, and fall. It’s lazy summer days to school days to skyrocketing heating bills. It’s the seasonality of work intertwined with the seasonality of life, not just in terms of changes in temperature, but in terms of expenses that ebb and flow over the course of time.

For all these reasons, discussions about capacity – whether employment or financial – must be in the context of an entire year, because we believe that timeline to be the best proxy for the practice it will take to get a job (or accumulate some assets) and sustain them over the long term. A look at the roadmap of that year for Cara would unveil the following core ingredients.

A stage for co-active coaching: Each student, once employed, will walk the next year with a dedicated coach, an individual they likely met in their second week of training. (And, since individuals are often with us for more than four months prior to employment, the average duration of a relationship is closer to a year and a half.) When they get on the job, students transition from an on-site training experience to real world employment. This adjustment is formalized by both parties signing a coaching agreement. Of particular note in this agreement is permission for us to challenge the student personally and professionally, request that he or she take action towards specified goals, and be held accountable. It sets the tone for this important relationship that evolves over the next year.

A reliable cadence of at least ten one-on-one visits over the first 12 months on the job. These visits have a structure, but not a script. Each coach works to evaluate and assist in three key areas:

- Situational stability - ensuring housing is safe and secure, relationships and support systems are healthy, recovery plans are intact, finances are used as tools for investment in self and in the household, redundancies exist to develop reliable child care plans, etc.;
- Employment stability - assessing that relationships with boss and team are stable to good – both from the student’s and, where available, the supervisor’s perspective; and that constructive criticism is not only delivered and received, but clear plans are in place to correct, as appropriate; and
- Sense of next step - orienting the student towards the next milestone in employment, whether purely job retention or career advancement.

A translation of workplace norms that might be or feel new: For some of our students, the job they secure may be their first professional placement in some time. Workplace norms are ever-evolving, and we want to make sure that our
students are informed of their rights and responsibilities as a new employee of a firm. This includes everything from demystifying the employee handbook, progressive discipline policies, and paystubs.

**A safe platform to build, reach, and rebuild new incremental goals:** We celebrate incremental gains (or “next steps”) as fiercely as we celebrate big milestones. A student doesn’t technically “graduate” from Cara until they reach their first year on the job. We want our students’ perspective on goals to be expansive, but in the context of the small steps along the way so as not to be overwhelmed.

**A basic framework for a personalized profit and loss statement:** We help create a baseline budget, with every student before and after they get a job. We start before they get a job, because even though there is no employment income (yet), there are income sources (e.g., subsidy supports), and most certainly there are expenses. Additionally, regardless of their capacity to pay against them, we help our students to become fully aware of their overall debt and liabilities. Once gainful employment is secured, we help open savings accounts for first-time savers, and we rebuild budgets with the new inputs of their employment income, and use this as a guiding framework in future meetings to promote and support ongoing financial health. Through awareness of one’s own personal profit and loss, we take the first pivot from day-to-day survival to financial capacity.

**A “connecting of the dots” between every life or work goal and its financial counterpart:** In our panel discussion at the Federal Reserve Bank of Chicago, we pointed out that financial goals do not exist unto themselves; they are levers to pull in order to achieve a larger life or work goal. For example, if a student wants to buy a car, then we evaluate current (public) transportation costs versus costs for the car (including the premium one may pay if their credit history is not strong), plus gas, maintenance, insurance, and parking. As a result, the purchase is put into a greater perspective, and the individual can choose which option provides the greatest value for herself and the household. This “connecting of the dots” between a financial commitment and a life investment makes conversations about financial capacity more relevant; and when relevance increases so too does one’s capacity to achieve.

**An understanding that opportunity (and life) happens:** The frameworks we allude to above are clearly not a “one and done” model. On the one hand, as a household gains its financial footing, it naturally aspires towards more “next steps” – a safer neighborhood, a new or better apartment, a vehicle, college tuition, advanced training, etc. Each of these steps contributes to expenses and places pressure on both the profit and loss side of the income statement. On the other hand, the unanticipated nature of life can also happen: a family member needs assistance, an elderly parent needs care, or a child has a newborn. As an individual becomes more resourced, those around her may rely on her differently to contribute. All of these incidents create variables in the financial portrait that illustrate that the pathway out of poverty is not a straight line. The iterative nature of this practice drives healthier financial habits and buoys long-term financial capacity and resilience.

It’s helpful to have a coach to navigate through crises and opportunities, to provide a neutral third-party perspective. Consistent coaching through vulnerability points (when one’s recovery or housing is at risk, when emergency or rental assistance may be needed, or when engagement in mental health services are strongly needed to heal from a past or present trauma) can leverage resources to support an individual before an incident evolves into a disaster.

By the end of the first year of employment, the intent is that each individual will move from transitional housing to permanent, piecing together the insights they’ve secured along the way (in budgeting, in sustaining employment, and preparing for advancement), and leveraging those new skills within substantive life and financial goals. The greatest joy we have at Cara is to see a mom or dad come back to our offices dangling a precious set of keys – the keys to their apartment, where their kids feel safe, can study and play, and where the family paints a future together, one step at a time.

**Biography**

*Maria Kim* is president and CEO of The Cara Program.
Investing in healthy rural communities – lessons learned and future directions

by Steve Kuehl, Karen Timberlake, Kayla Brenner Peissig, and Lexi Handrick

The views expressed in this article do not necessarily represent the views of the Federal Reserve Bank of Chicago, UW Population Health Institute, Fort Healthcare, Forward Community Investments, MadREP, Robert Wood Johnson Foundation, Rural Wisconsin Health Cooperative, Southwestern Wisconsin Community Action Program, or the Wisconsin Partnership Program.

The Federal Reserve System and the Robert Wood Johnson Foundation (RWJF) created the Healthy Communities Initiative1 to enrich the debate on how cross-sector and place-based approaches might revitalize neighborhoods and communities, while improving health and well-being for residents.

A large body of research and evidence demonstrates inextricable linkages between economic success and physical and mental well-being. People who live in economically challenged areas endure more stress, are more likely to report their own physical and mental health as being just “fair” or “poor,” are more prone to earlier onset of disease, and live shorter lives, irrespective of genetic predispositions. While the relationship between community conditions and the health and well-being of residents is well established, opportunities for interdisciplinary discussions, with a focus on advancing rural community vitality and health, have been few.

Building off of conferences held in Chicago in 2013 and Milwaukee in 2014, the Federal Reserve Bank of Chicago co-hosted a conference on building healthy and sustainable rural communities on July 1, 2015, at the University of Wisconsin–Platteville. The goal of the conference was to consider more deeply the common interests in resilient, thriving, healthy rural communities shared by economic development and community health focused organizations, and how to advance these interests in the largely rural tri-state area covered by southwestern Wisconsin, northeastern Iowa, and northwestern Illinois.

The event provided an opportunity to explore what is working to build health, prosperity, and resilience in rural communities. It featured national speakers and local leaders in community and economic development and community health improvement work who shared examples of successful community integration between the disciplines from the perspectives of policy, practice, and financing.

Health happens in neighborhoods

David J. Erickson, director, Center for Community Development Investments,2 Federal Reserve Bank of San Francisco, highlighted the relationship between health, education, income, and geography. Health is largely shaped by social and physical environments (e.g., neighborhood schools, jobs, parks/playgrounds, grocery stores, housing, and transportation), and much research indicates that where one lives has a greater impact on health than their DNA. Erickson addressed the need for a business model to end multi-generational poverty, create economic opportunities, and improve health at a local level. The community development sector works
to improve health by coordinating investment into low-income communities using cross-sector and place-based services and facilities, he noted.

Successful community interventions must have these common elements:

- Trust and buy-in (from local community)
- Cross-sectoral partners
- Place-based focus
- Data driven analysis
- Anchor organizations to coordinate partners and sustain the work

While the contributions made by factors beyond clinical care to the health of individuals and communities are increasingly well understood, more work is needed to transform communities’ access to the data and financing needed to support their efforts.

Erickson referred to a study by J. Michael McGinnis, which found that many conditions driving the need for medical treatment are preventable, and the findings of this and much other research ought to draw attention to policy opportunities for promoting health. As Chart 1 indicates, the study found that of the determinants of population health – environmental exposure, behavioral patterns, genetic predisposition, social circumstances, and health care – (lack of) access to health care was only linked to 10 percent of premature deaths. Factors such as environmental (toxin) exposure, behavioral patterns, and social circumstances had much more impact. Erickson pointed out that these social determinants play out in neighborhoods. For example, it’s difficult to eat well if you live in a food desert and to exercise outdoors if your neighborhood is unsafe. Further, the genetic predisposition component is heavily influenced by environmental factors and we have learned through epigenetics (the study of external factors that alter gene activity) that exposure to sources of stress and harmful environmental factors can trigger genetic switches that open pathways to disease and worse health outcomes. Erickson suggested increasing attention and resource commitment to the nonmedical determinants of population health and encouraged conference participants to look at ways to alter public policy to encourage disease prevention and health promotion.

### Realizing a population health vision

David Kindig emeritus professor of population health sciences at UW–Madison, underscored Erickson’s premise that population health improvement will not be achieved without appropriate financial incentives. Currently, the United States overinvests in medical care and underinvests in education, job training, and income supports, which all impact health. Despite spending by far the most on health care, the US trails other industrial nations in health outcomes. The Institute of Medicine (IOM) Roundtable on Population Health Improvement set a 2030 vision, with targets including health adjusted life expectancy (morbidity and mortality measures) and per capita health care spending, that are intended to engage actors in the health system to achieve parity in health outcomes with other industrialized nations. This vision is necessary to guide the work of rural, as well as more urban communities in population health improvement.

Kindig asserted that the United States is spending more on health care than the nation is receiving back in value. To get more benefit, Kindig urged financial support for

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**Chart 1. Contributions to premature death**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioral Patterns</td>
<td>40%</td>
</tr>
<tr>
<td>Social Circumstances</td>
<td>15%</td>
</tr>
<tr>
<td>Genetic Predisposition</td>
<td>30%</td>
</tr>
<tr>
<td>Environmental Exposure</td>
<td>5%</td>
</tr>
<tr>
<td>Health Care</td>
<td>10%</td>
</tr>
</tbody>
</table>

resources to improve population health. These increased resources can come from savings: Community Benefit Reform, which refers to renewed/revised focus on preventive care by hospitals (the vast majority) that must prepare and address the results of community health needs assessments; and the Affordable Care Act Shared Savings Program, which was created to serve certain Medicare recipients, coordinate care among providers, and reduce duplicative services or otherwise wasteful expense. Further (long-term) savings can be realized by informed investment in other sectors, such as education, agriculture, and transportation. Businesses, especially large employers, have a role and interest that transcends corporate responsibility; for their own benefit, places where they do business must have healthy and educated workers.

Kindig stressed the need for a Pay-for-Population Health Performance System backed by solid partnerships and real resources. He offered that a “quarterback” or coordinating organization is needed to align financial resources and incentives efficiently to improve the social determinants of health across populations. Such a need could be addressed by a coordinating organization like a super-integrator or a medical outcomes trust (an entity designed to provide precise outcome measurement) to guide policy across multiple sectors (e.g., employers and community organizations, government and schools, healthcare organizations) as shown in Chart 2.

Building a culture of health

Hilary Heishman, program officer at RWJF, encouraged communities to build healthier places by working in the four “action areas” of the culture of health operational framework, including:

- Making health a shared value
- Fostering cross-sector collaboration to improve well-being
- Creating healthier, more equitable communities
- Strengthening integration of health services

Promoting health and well-being in rural communities requires anchor institutions, other local organizations, and residents to focus their efforts in each of these four areas. The outcome is improved population health and well-being. Heishman stated that these four “action areas” guide RWJF’s thinking in building a culture of health, and to improving capacities to do so. (see Chart 3). Characteristics and examples of successful rural health improvement efforts include:

- Deliberate collaboration – this is forward-looking collaboration where goals are built by consensus across different organizations and sectors
- Building goals and pooling resources across multiple sectors – this enables the community to collectively accomplish more together than they could separately
- Celebrating success – when communities are used to thinking of themselves as the underdog (as many rural places do), celebrating success is very important for any successful change to flourish
- Building on local values – this is focusing upon what is important to local people, such as valuing independence so that older people can age in place
- Creating space to realize opportunities for healthy change – examples include creating space for exercise or healthy eating
- Encouraging and supporting new innovations – creating space for business development innovation will help to create a culture of local entrepreneurship

Chart 2. A super-integrator

![Chart 2](http://www.improvingpopulationhealth.org/blog/2010/09/super_integrator.html)

• Using local assets – tapping into local know how and resident expertise to foster organic growth in the community and offset the lack of outside investment – especially important in rural communities

The RWJF also invests in the County Health Rankings & Roadmaps, which offers coaching to build a culture of health and to improving capacities for stronger and healthier rural communities. The Rankings have tracked the relative health of Wisconsin’s counties every year since 2003.

Pollinating healthy rural communities: A new approach to economic development

Michael Shuman, an economist and author, focused on the idea of pollinating healthy rural communities through an expanded vision of what it means to do "economic development." Shuman argued for approaching economic development through the lens of pollinators – those who support the creation and growth of locally owned businesses. While smaller, more locally owned businesses tend to pay lower wages, it is also the case that locally owned businesses are more common in communities with higher per capita income and employment growth, and reductions in poverty. Shuman cited a 2013 Federal Reserve study that found which local entrepreneurship matters for local economic performance and smaller local businesses are more important than larger local businesses for local economic performance.

Shuman examined five possible explanations for this non-intuitive finding:

1. Local businesses have huge economic multiplier effects. According to Shuman, when communities buy from locally owned businesses, more money stays in the local economy and multiplies 2-4 times.

2. Smaller local businesses eventually become bigger, higher paying businesses, and larger businesses that are locally owned tend to stay put.

3. Local businesses are all about relationships, between customers, owners, investors, suppliers, etc.

4. Locally owned businesses contribute to healthier community conditions. They tend to be better actors in their environmental practices; for example, local grocers and restaurants often produce or process locally sourced, healthier foods.

5. Local businesses often boost their local economy through ‘import substitution’ – making for themselves what they (or others) used to import.

Shuman also highlighted the features of a local “entrepreneurial ecosystem,” targeted actions that support and foster the growth of healthy, thriving rural communities:

• Planning - Identifying all the ‘leaks,’ meaning all the places where people are unnecessarily buying outside goods and services

• People - Support entrepreneurs

• Partners - Compete through collaboration – build teams of local businesses who are more competitive working together than alone

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**Chart 3. Four action areas of the culture of health operational framework**

**ACTION AREA 1**
Making health a shared value

**ACTION AREA 2**
Fostering cross-section collaboration to improve well-being

**ACTION AREA 3**
Creating healthier, more equitable communities

**ACTION AREA 4**
Strengthening integration of health services and systems

**OUTCOME**
Improved population health, well-being, and equity

• Purse - Harness savings locally, placing short-term savings in local banks, longer-term savings in pension and investments funds, and put them to work in local businesses

• Purchasing - Spearhead “Local First” campaigns

• Policymaking - Remove (or decrease) anti-local business biases, such as tax incentives for large national retailers

Shuman closed by stating that the current approach taken by most local economic development authorities offer big incentives to attract one large business at a time. This process is very slow and uncertain. However, if the approach shifts to investing in pollinators, and to ensuring that pollinators are actively working in a local community, then local economic development authorities have the ability to generate many businesses simultaneously.

Toward profound advancements in health, well-being, and prosperity in rural communities

At the end of the conference, all participants and speakers identified “one idea that, if implemented, can lead to the most profound advancements in health, well-being, and prosperity in rural communities” on an index card. Conference participants then scored each idea.

The ten highest scoring ideas that emerged included:

1. Ensure that accessible, affordable broadband connections are available for all people statewide.

2. A collective action collaborative that includes area business leaders, health care organizations, and other community stakeholders that are invested in addressing common health care issues.

3. Free college courses for high school students who are in the workforce.

4. Growing and investing in the local economy and local entrepreneurs which would cultivate a culture of community investments and provide economic opportunities instead of trying so hard to attract outside businesses.

5. Form a local purchasing program that will coordinate local purchasers of products with local suppliers of products.

6. Create a place within the community that supports entrepreneurial ideas/concepts and activities from local people (the idea/concept) supported by local mentors, financial groups, etc. (the concept of pollination).


8. For local economic development proposals under consideration by local government for possible implementation, include metrics that quantify the impact on the local economy and health outcomes.

9. Focus on local businesses to get them to stay in and help the local community grow.

10. Reduce siloes by engaging all community stakeholders at least annually.

Conference participants were then asked to respond to the following question: “If you were giving advice to organizers, what is going to be the first and most powerful step you can take to advance this initiative?” Participants provided the following five responses:

1. Statewide broadband Internet access
   • Work as a state to support local cooperatives in expanding broadband in rural areas.

2. Collective action collaborative
   • Build on the successful examples such as UNITE10 in Platteville, Wisconsin. Create an inventory of these efforts so that we can learn from them.
   • Backbone organizations create opportunities to make progressive change. Develop a ‘collective action learning collaborative’ with a dedicated convener to pull people together.
   • Start with an ‘assets vs. needs assessment’ because most communities do not know what they need until they know what they have.

3. Free college courses for high school students in the workforce
• Contact leadership of the technical colleges and the technical college system.

• Some pilot programs exist – e.g., Southwestern Wisconsin Community Action Program$^{11}$ can help low-income individuals working 20 hours or more to continue their education. These programs need more local business support.

4. Growing and investing in the local economy

• Growing and investing in the local economy and local entrepreneurs will cultivate a culture of community investments and provide economic opportunities rather than focusing on attracting outside businesses.

• Start an entrepreneur after-hours program that meets once a month. This would be a drop-in opportunity for any entrepreneur.

• When local governments procure goods and services, they should include requirements that the winning bidder will invest in the local community and procure locally. Include metrics that quantify the impact of the local economy and health outcomes.

• Establish local purchasing programs, such as those in Ashland and Bayfield counties, which connect local manufacturers and purchasers with local suppliers, thus helping businesses to source locally.

• Engage local businesses in discussions on how best to support health and help local communities grow.

5. Dairy Grazing Apprenticeship

• This program strives to train the next generation of dairy farmers to be successful. It is off to a strong start with 55 farms approved in the state and 17 apprentices. Interest is growing in other states as well, including Minnesota, Maine, New York, and Missouri.

Conference materials and video

All materials pertinent to the conference, including the agenda and speaker slide decks, are available on the conference web page at https://www.chicagofed.org/events/2015/investing-in-healthy-rural-communities.

Further, a video of all plenary presentations has been made available on the Rural Wisconsin Health Cooperative web page at http://mediasite.rwhc.com/Mediasite/Play/9c6d25cbb9944c4190bbee364255e5db1d.

Next steps

Investing in Healthy Communities: Ideas to Action for Healthy People, Places and Planet

Presenters and participants in the Platteville event highlighted many strategies that can be pursued to advance health, well-being, and economic development in rural communities. The energy and commitment to investing in healthier rural communities demonstrated in Platteville led the Federal Reserve Bank of Chicago to develop another Investing in Healthy Rural Communities conference that will be held at the Mead Hotel in Wisconsin Rapids on Wednesday, December 7, 2016. For more information and to register, visit the conference web page in the above link.

Broadband Boot Camp 2016: Talk to Action

In Platteville, the single idea that garnered the most votes with regard to the “one idea” with the most likelihood to advance health, wellbeing and prosperity in rural communities was expanding access to broadband throughout rural Wisconsin. Following up on this identification, the University of Wisconsin – Extension is hosting a conference titled “Broadband Boot Camp 2016: Talk to Action,” which will explore issues related to access, adoption, and utilization for statewide broadband. This broadband conference is being held on Tuesday, December 6, 2016, at the Mead Hotel in Wisconsin Rapids. The following day, at the same venue, is the next Investing in Healthy Rural Communities conference. We hope you can join us!

Notes


Biographies

Steven W. Kuehl is the economic development and Wisconsin state director for the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

Karen Timberlake is a senior advisor at Michael Best Strategies where she focuses on shared value business opportunities and healthy community investment and development.

Kayla Brenner Peissig is a senior safety specialist at Spectrum Health, focusing on health care system improvement.

Lexi Handrick is a graduate project assistant at the University of Wisconsin Population Health Institute, pursuing a Master of Public Health degree.

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ECONOMIC DEVELOPMENT FORUM


This forum will provide updates from two key departments at the Federal Reserve Bank of Chicago, Economic Research and Supervision & Regulation. This working lunch will feature William Testa, vice president and director of regional programs, who will provide an update on the current state of the economy, with a focus on how Wisconsin is performing, and Keshia King, risk management specialist, who will provide an update on the TILA-RESPA Integrated Disclosure Rule Implementation commonly known as the TRID rule. Ms. King will provide a brief overview of the TRID Rule from the perspective of a bank regulator and provide audience members an opportunity to ask questions regarding the Rule's implementation. Her presentation will be tailored toward bankers.

Monday, November 21, 2016 • 11:30am - 1:00pm CST
Fluno Center • 601 University Avenue • Madison, Wisconsin

General admission is $20. Register today at www.cvent.com/d/6vq0j5.
Participatory budgeting: Enhancing community reinvestment through public engagement

by Desiree Hatcher

Community engagement is not an easy task. This is especially true in communities with historically underrepresented and underserved populations who do not feel connected to the planning process. However, some municipalities across the country are finding success through the use of participatory budgeting.

Participatory budgeting

Participatory budgeting (PB) is a different way to manage public money, and to engage residents. It is a democratic process in which community members directly decide how to spend part of a public budget. It enables taxpayers to work with government to make the budget decisions that affect their lives. According to the organization Participatory Budgeting Project, people value PB for different reasons, but these six aspects attract the most interest:

- Deeper democracy - Ordinary people have a real say—and they get to make real political decisions. As a result, PB tends to engage many people who are otherwise cynical about government. Politicians build closer relationships with their constituents, and community members develop greater trust in government.
- Transparency and accountability - Budgets reflect policy without the rhetoric—what a government actually does. When community members decide spending through a public process, the (intended) result is less corruption, waste, and, among voters, less discontent.
- Public education - Participants become more active and informed citizens. They gain a deeper understanding of complex political issues and community needs.
- More informed decisions - Budget decisions are better when they draw on residents’ local knowledge and oversight. Once they are invested in the process, people make sure that money is spent wisely.
- Fairer spending - When people spend months discussing project ideas and related spending, they prioritize by consensus to meet the greatest community needs.
- Community building - Through regular meetings and assemblies, people get to know their neighbors and feel more connected to their city. Local organizations spend less time lobbying and more time deciding on policies. Budget assemblies connect community groups and help them recruit members.
Origin of PB

PB started in Porto Alegre, Brazil, in 1989, as a way to reintroduce democracy to a country that had been under military rule for many years. Over the past 20 years, “participatory institutions” have spread around the world. Participatory institutions delegate decision-making authority directly to citizens, often in local politics, and have attracted widespread support. International organizations, such as the World Bank and USAID, promote citizen participation in hopes of creating more accountable governments, stronger social networks, improved public services, and informed voters. Elected officials often support citizen participation because it provides them the legitimacy necessary to alter spending patterns, develop new programs, mobilize citizens, or open murky policymaking processes to greater public scrutiny. Civil society organizations and citizens support participating institutions because they get unprecedented access to policymaking venues, public budgets, and government officials. Since 1989, PB has spread to over 1,500 cities in Latin America, North America, Asia, Africa, and Europe. In the US and Canada, PB has been used in Toronto, Montreal, Guelph (Ontario), Chicago, New York City, and Vallejo (California).

What needs to be in place for PB to work?

According to the Participatory Budgeting Program website, for the process to work there must be political will from above and community support from below. There must be someone with control over budget money (an elected official, agency head, department director, etc.) to agree to let the public decide how to spend part of the budget. Community organizations, in particular those working with marginalized communities, must engage people and push the process forward.

Participatory budgeting in the Seventh District

The first “participatory budgeting” experiment in the United States occurred in Chicago’s 49th Ward. This diverse community is home to over 60,000 people and over 80 languages are spoken within less than two square miles. In 2007, the alderman at the time, Joe Moore, sought a way to engage the community residents in his ward more effectively.

Alderman Moore discovered the concept of participatory budgeting at a US Social Forum session on the topic. Moore started by setting aside the $1.3 million discretionary budget that each alderman receives for capital infrastructure projects. In April 2009, with guidance from the Participatory Budgeting Project, Moore invited leaders of all the ward’s community organizations and institutions to form a steering committee, which decided the timeline and structure of the process. Beginning in November, a series of meetings were held to brainstorm budget proposals and select neighborhood representatives. The neighborhood representatives, along with the steering committee, split into six groups and spent four months meeting with experts, conducting research, and developing budget proposals.

In April of 2010, all 49th Ward residents age 16 and over, regardless of voter registration or citizenship status, were invited to vote on the 36 budget proposals developed by the community. Though additional Spanish-language assemblies, materials, and outreach were made available, distrust of government and immigration concerns led to low Latino turnout. However, a total of 1,652 residents turned out to vote, far exceeding expectations, considering the brand-new process, lack of media coverage, and absence of any other elections or ballot measures to inspire turnout.

In the end, $1.3 million was enough to fund the 14 most popular projects. The proposal to fix sidewalks received the most votes. Other funded projects included bike lanes, community gardens, murals, traffic signals, and street lighting. Every committee had at least one proposal funded.

CDPS Participatory Budgeting Roundtable

On May 9, 2016, the Federal Reserve Bank of Chicago’s Community Development and Policy Studies (CDPS) Division and the Financial Institutions Community Development Conference (FICON) convened a Participatory Budgeting Roundtable. The purpose of the meeting was to bring together: city officials; CRA/ community development officers representing Detroit area financial institutions; and community development
representatives to gain a better understanding of the PB process and the feasibility of implementing this model in the city of Detroit. The featured speaker was Maria Hadden, project manager, Midwest & South, Participatory Budgeting Project.

During the discussion, Hadden spoke of challenges in implementing a PB, including: community buy-in, plan implementation, ‘institutionalization,’ and ensuring equity and inclusion. Hadden emphasized the need for equity and inclusion, and indicated that for it to occur, you need:

- Money that matters (funding for projects that matter most to the community)
- Grassroots leadership of neighborhoods and organizations inspiring people to work together to improve the community
- A process that includes an “inclusive design” that encourages participation by the entire community – especially those who are often excluded from the political process, who face obstacles to participating, or who may feel disillusioned with politics
- Targeted outreach to ensure that those who should be at the table are at the table
- Equity criteria, both in the distribution of funds to the areas of most need as well as in the participation of community members

In response to questions regarding funding sources for use in PB programs, Hadden noted that every community is different and that funding sources differ as well. She indicated that not every community has discretionary income like the wards in the city of Chicago, but communities are finding funding opportunities where discretionary funds are not available.

In 2012, Vallejo (CA) City Council approved the first citywide PB process in the US, as part of the city’s return to fiscal stability and accountability after bankruptcy. The city of Vallejo contracted the Participatory Budgeting Project to implement the process. The funds for PB came from a 1 percent sales tax approved by voters in 2011. Residents decided how to spend 30 percent of this revenue – over $3 million in 2013. Winning projects included street repairs, parks improvements, equipment and improvements for school libraries, small business grants, improvements to a senior center, and security cameras/enhanced street lighting.\(^1\) Per Hadden, 20 percent of those who participated in the city of Vallejo PB process were ineligible to vote in regular elections.

Hadden also indicated that there may be opportunity for local governments to use the PB process to develop funding priorities and criteria for selecting projects, thus meeting the citizen participation requirement for Community Development Block Grant and other funds administered by the US Department of Housing and Urban Development. Furthermore, crowdfunding is increasingly becoming a popular source of funding for PB programs.

**Conclusion**

Public and private investors engaged in community development want assurance that their loans, investments, and services are meeting the needs of local residents and businesses; commitment to community engagement ensures that residents have a voice. However, many city officials struggle with how to engage low-income residents, minorities, (prisoner) re-entries, and other socially disadvantaged members of the community. Often times, the larger, more established groups with the most power dominate the process. The low-level or nonexistent participation of specific demographics makes it less likely that information received adequately reflects the needs of underserved populations. As previously indicated, the participatory budgeting process includes an “inclusive design” that encourages participation by the entire community – especially those who are often excluded from the political process, who face obstacles to participating, or who may feel disillusioned with politics. The PB process offers opportunities to learn what issues are most important to often overlooked populations, and create programs that more effectively address the needs of the community.

**Notes**


7. Ibid.

8. Ibid.

9. Ibid.

10. Ibid.


Biography

Desiree Hatcher is the community development and Michigan state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.