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Editor's Note: This publication is posted on a rolling bi-monthly schedule.

January/February 2012

Updated February 29, 2012

Articles

Southeast Mortgage Performance Continued to Improve in the Fourth Quarter

2/29/2012 - In the Southeast, overall mortgage delinquency and foreclosure trends in the fourth quarter of 2011 improved year over year. However, only Georgia and Tennessee improved on a state level in every category, and Mississippi continues to struggle with mortgage delinquencies.

September 19–20: Save the Date for National Workforce Development Conference

2/29/2012 - The National Conference on Workforce Development will be held September 19–20 in Kansas City. The conference will focus on topics, such as employment trends, shifts in worker demographics, and workforce training programs.

Harnessing Many Financing Sources to Benefit a Community

2/29/2012 - Two community development finance professionals discuss their strategies to support the expansion of a community health care center in a low-income neighborhood in New Orleans.

June 20–22: Mark your calendars for the Reclaiming Vacant Properties conference

2/29/2012 - The Reclaiming Vacant Properties conference will be held June 20–22 in New Orleans. The conference will bring together community and government leaders, bankers, and local residents to explore revitalization efforts.

Tax Relief? An Innovative Proposal to Nurture New Entrepreneurs

2/21/2012 - Bob Friedman of the Corporation for Enterprise Development discusses how federal tax preparation assistance for new businesses and the self-employed could facilitate job creation.

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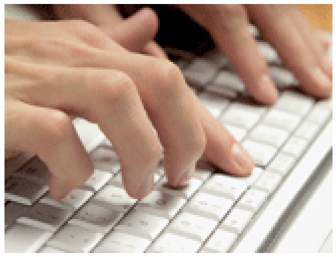

[Crowdsourcing for the Common Good: A Community Development Approach](#)
2/3/2012 - Crowdsourcing—engaging web users in a particular project—may prove to be a valuable tool for decision making among government and nonprofit entities. A crowdsourcing technique that promotes engagement and creative problem solving can empower citizens and maximize benefits to a community.

[Retrofitting Institutions: Feeding Job Growth with Energy Hogs](#)
1/25/2012 - Satya Rhodes-Conway and James Irwin, senior associates at the Center on Wisconsin Strategy, discuss how retrofitting public and institutional buildings spurs job creation in the real estate sector while reducing building operating costs.

[Trash to Treasure: Turning Waste into Jobs](#)
1/25/2012 - Instead of sending waste to landfills, a municipal approach that prioritizes the reuse, recycling, and remanufacture of materials can provide a range of new jobs. Georgia Tech's Nancey Green Leigh discusses how to create jobs from the waste diversion process.

[Fed Gov. Speaks on Community Bank Examination and Supervision](#)
1/18/2012 - Fed Governor Sarah Bloom Raskin discussed how the Federal Reserve's approach to community bank examination and regulation aims to avoid stifling of lending in a recovering economy.

[May 9–11: Plan to Attend the Community Development Conference on the Changing Role of Cities](#)
1/18/2012 - The Reinventing Older Communities: Building Resilient Cities conference will be held May 9–11, 2012, in Philadelphia. Shaun Donovan, secretary of the U.S. Department of Housing and Urban Development, will deliver a keynote address at the conference.

[The Board Issues White Paper on National Housing Market](#)
1/6/2012 - The Federal Reserve Board recently published a white paper on current conditions in the U.S. housing market. The paper provides a framework for thinking about some of the key housing policy issues and discusses options that policymakers might consider.

[Call for Papers: Feb. 15 Deadline for the Cleveland Fed's 10th Policy Summit](#)
1/6/2012 - The Cleveland Fed invites submissions of papers by February 15 for its 10th annual Policy Summit, which will be held June 28–29 in Cleveland. An extended abstract or draft of the research paper should be sent to [policysummit@clev.frb.org](#).

Register Now for the March 25–28 National Interagency Community Reinvestment Conference

1/6/2012 - Don't miss the 2012 National Interagency Community Reinvestment Conference, which will be held March 25–28, 2012, in Seattle, Washington.

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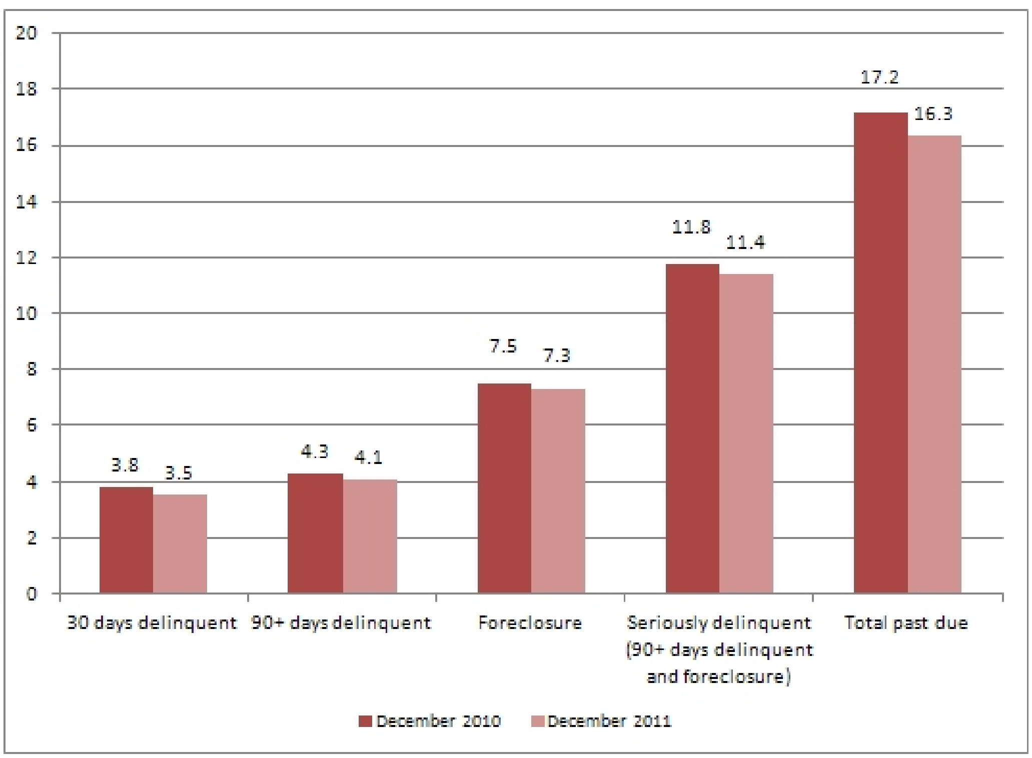
Southeast Mortgage Performance Continued to Improve in the Fourth Quarter

The Southeast improved over the past year in every major mortgage delinquency and foreclosure category. Recently released LPS Applied Analytics data for fourth quarter 2011 revealed that Sixth District states (Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee) built upon the collective progress made during the third quarter.

Total past due first mortgages in the region, for example, fell from 17.2 percent in December 2010 to 16.3 percent in December 2011. More notably, seriously delinquent loans—which include first mortgages in foreclosure and 90-plus-days delinquent—decreased from 11.8 percent in December 2010 to 11.4 percent in December 2011. Foreclosure rates dropped from 7.5 percent to 7.3 percent on a year-over-year basis.

Among delinquent mortgages, 30-day rates showed the most improvement since December 2010, falling from 3.8 percent to 3.5 percent in December 2011. Ninety-plus-day rates, however, were not far behind (see chart). The nation as a whole followed a similar pattern, with rates year over year also falling in every category.

Comparing Sixth District Mortgage Performance, Fourth Quarter 2010 to Fourth Quarter 2011



Source: Staff calculations based on data provided by LPS Applied Analytics

Despite the District's overall positive trends as compared to the fourth quarter of 2010, only Georgia and Tennessee improved on the individual state level in every category tracked. Louisiana experienced a slight uptick in 30-day delinquency rates, rising from 4.5 percent in

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2010 to 4.6 percent in 2011. Alabama saw an increase in 90-plus-day delinquencies (3.7 percent in 2010 compared to 3.9 percent in 2011) while Florida saw an increase in foreclosures (12.5 percent in 2010 versus 12.6 percent in 2011). Mississippi, meanwhile, continued to experience increases in every category other than 60-day delinquencies.

Mississippi Struggles with Mortgage Delinquencies, Foreclosure Rates Increase
Amid a gradually improving housing market, Mississippi stands out in the region as a state that continues to struggle with mortgage delinquencies. The following table compares Mississippi's delinquency rates to both the Sixth District and the U.S. average, as of December 2011:

Comparing Mississippi Trends to the Sixth District and the United States, December 2011

	Mississippi	Sixth District	United States
30 days	5.9%	3.5%	3.0%
60 days	2.2%	1.4%	1.2%
90+ days	5.3%	4.1%	3.3%
Foreclosure	3.4%	7.3%	3.7%

As of December, Mississippi was second in the nation, after Florida, for the rate of mortgages past due at 16.7 percent. Mississippi led the nation with a 30-day delinquency rate of 5.9 percent in December 2011, and the state's 90-plus-day delinquency rate of 5.3 percent is second only to Nevada (6.7 percent). Mississippi has produced relatively high delinquency rates for an extended period of time. In early 2011, Mortgage Bankers Association (MBA) chief economist Jay Brinkman said, “If you go back to 2005, the pre-Katrina period, Mississippi ranked among the highest delinquency rate.” Despite that long-standing problem, analysts have struggled to pinpoint the primary factors. “We don't have any clear explanation for what is going on,” acknowledged Mike Fratantoni, the MBA's vice president for single-family research.

According to the Associated Press, in December Mississippi claimed the fourth-highest unemployment rate in the United States, to which many observers often attribute the delinquency problem. While the nationwide unemployment rate fell from 8.7 percent last November to 8.5 percent in December, the rate in Mississippi fell only from 10.5 percent in November to 10.4 percent in December. Worse yet, economists attributed the decrease to Mississippi residents who simply left the labor force.

Still, the state's high delinquency rates are not matched by the foreclosure rates. As of December 2011, Mississippi ranked 14th in the nation for foreclosures at 3.4 percent.

Seth Shannon, an attorney at the Mississippi Center for Justice, posited reasons for how the state has avoided high foreclosure rates despite delinquency trends. First, he suggested that the brevity of the Mississippi foreclosure process, which requires only three weeks notice before a foreclosure sale is conducted, may account for the discrepancy between the delinquency and foreclosure rates. The short process likely keeps the statewide foreclosure rate low relative to states with longer processes.

Shannon's assertion is supported by the data. According to the Mortgage Bankers Association's National Delinquency Survey, Mississippi's foreclosure starts rate of 1.2 percent exceeds the nation's (around 1 percent) and is not far below that of more well-publicized foreclosure-ridden states like Nevada (1.4 percent) and Florida (1.7 percent).

Shannon also noted that Mississippi has relatively low property values compared to other states in the region, which he suggests may delay servicer actions to begin the foreclosure process, as they continue to manage loans and foreclosures in other states. Still, foreclosure rates in Mississippi have steadily increased since mid-2008.

By Kevin Mahoney, research assistant, Federal Reserve Bank of Atlanta's community and economic development department.

Note: Unless otherwise noted, all data is from LPS Applied Analytics.

Articles

September 19–20: Save the Date for National Workforce Development Conference

The National Conference on Workforce Development will be held September 19–20 in Kansas City. The Kansas City Fed, in partnership with the Atlanta Fed, will cohost the conference.

The conference will address topics such as employment trends, workforce training programs, fiscal constraints affecting traditional state and federal funding sources, and shifts in worker demographics, with a particular emphasis on how these issues affect low- and moderate-income communities and the long-term unemployed.

Registration and other conference information will be posted on the Kansas City Fed's website soon.

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Harnessing Many Financing Sources to Benefit a Community

After Hurricane Katrina disrupted a New Orleans health care center's services, the development team responded by integrating many community development financing tools to meet acute community needs. Post-Katrina, the team faced a community development challenge that required creativity: a low-income neighborhood within a rebuilding city was in desperate need of increased health care services, and an historic building stood abandoned nearby. The project concept started to take shape when Knox Clark of AMCREF Community Capital learned that his next-door neighbors, both health care professionals, were trying to increase access to primary care for New Orleans residents. They discussed various funding programs that could help jump-start the clinic's growth. The result is the expanded St. Thomas Community Health Center. (*Before and after photos courtesy of AMCREF Community Capital LLC.*)

The $8 million project uses many of the tools available in community development finance, including community development block grants, new markets and historic tax credits, philanthropic dollars, and a loan from a parent nonprofit. The renovation of the 19th-century building into a primary health care center recently was recognized by the *Novogradac Journal of Tax Credits* as a "Development of Distinction." Once completed, the facility will increase its square footage by 85 percent, serve an anticipated 45,000 people annually over the next seven years, and provide jobs for 60 new employees, mostly residents of the surrounding neighborhood.

Nancy Montoya, senior regional community development manager in the Atlanta Fed's New Orleans branch, spoke with two of the principals to learn more about the project.

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Brad Calloway is executive vice president for First NBC Bank, and Knox Clark is principal of AMCREF Community Capital.

Nancy Montoya: *What aspects make this project unique, and why was it appealing to your company?*

Knox Clark: All new markets tax credit (NMTC) projects strive to provide community benefits. This project yields community benefits on many levels—more job opportunities for the surrounding residents, greater health care access for the low income and uninsured, and an improvement to the neighborhood aesthetics by rebuilding an historic building and neighborhood eyesore.

Brad Calloway: St. Thomas Community Health Center provides very high-quality health care service through physicians who practice in major private and public hospitals in the community, and the patients and residents who visit St. Thomas benefit from this high level of
care.

Montoya: *This was a complicated deal: new markets and historic tax credits, state community development block grants, foundation funding, and a one-day bridge loan. What factors contributed to the successful completion of the financing?*

Clark: A patient and very knowledgeable deal team was paramount to complete this complicated deal. The deal team included financial advisers, health care consultants, lawyers, the NMTC community development entity, tax credit investors, and the St. Thomas team. The transaction took more than one year from start to finish and it was a very fluid process—project specifics and costs were always changing, funding sources had to be worked and reworked in addition to finding new sources of funding, and construction deadlines always had to be considered every step of the way.

Calloway: Verification of the ultimate sources of repayment for the bridge financing (block grants, foundation funds, tax credit purchases, etc.) was necessary to find comfort in completing the financing.

Montoya: *What were the main obstacles with this project as it progressed through the financing and construction phases?*

Clark: Syncing all the funding sources to come together at closing and providing the needed capital to complete the project by the required deadlines was an enormous task. Many obstacles were encountered along the way, including the need for day loans and bridge loans to provide the required cash for the NMTC transaction, completing the different stages of historic tax credit approval, and keeping everyone in the loop as we moved down several financing paths all at once.

Calloway: Once the new markets and historic modeling was complete (in order to maximize the funds that could be generated to aid the project), the vast paperwork for deal closing presented some small challenges. Actual construction went very smoothly, as the contractor did a great job of managing the process from beginning to end. First NBC and Capital Link (our CDE partner) utilized a third-party inspector to verify all construction draws and work, and no problems were encountered throughout the construction period.

Montoya: *What do you consider is the greatest successes of this project?*

Clark: The greatest success of this project will be the community benefits provided now and well into the future. New Orleans is a better place thanks to St. Thomas.

Calloway: Being a part of a project that will likely double the availability of high-quality health care into the community is by far the greatest success of the project. Also, the fact that the nonprofit clinic has no long-term debt to repay is a major success. The various funding sources (foundations, grants, etc.) funneled through a new markets structure allowed the generation of the tax credits which, when coupled together, provided the funds necessary to complete the entire project with no long-term debt.

Montoya: *What aspects of your model would be applicable to other project teams?*

Clark: More and more community investments are utilizing multiple public and private funding sources, and it takes a patient and knowledgeable team with a desire to succeed in order to close the transaction.

Calloway: Project teams can explore what sources of funds are available within communities and neighborhoods. Many sites qualify for historic and new market credits financing, which can bring additional equity into financing various projects. Likewise, bridge financing with a complex structure is not difficult as long as the lender can verify and place reliance on the sources of repayment for the bridge funding necessary.

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June 20–22: Mark Your Calendars for the Reclaiming Vacant Properties Conference

The Reclaiming Vacant Properties conference will be held June 20–22 in New Orleans. The Center for Community Progress and various cosponsors will host the event. Educational sessions will focus on the challenges and opportunities of foreclosed, abandoned, and blighted properties in the context of the economic recovery and reinvention of the country's cities and towns.

The conference will be held at the Hyatt Regency New Orleans. The Hyatt is reopening this year for the first time since it was damaged by Hurricane Katrina in 2005.

View conference details on the Center for Community Progress's website. Registration begins soon.

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Tax Relief? An Innovative Proposal to Nurture New Entrepreneurs

February 2012

John Olson: *Welcome to the Federal Reserve Bank of Atlanta's* Economic Development *podcast series. I'm John Olson with the Federal Reserve Bank of San Francisco.*

Today I'm speaking with Bob Friedman, the founder and board chair of the Corporation for Enterprise Development, or CFED. CFED has proposed the idea that local and state governments can facilitate job creation by providing federal tax preparation assistance to new businesses and the self-employed. CFED proposed this idea as part of the "Big Ideas for Job Creation" project, which was sponsored by the Institute for Research on Labor and Employment at the University of California at Berkeley and supported by the Annie E. Casey Foundation. The project was a call to academics and economic development practitioners to design jobs programs for cities and states that would lead to net new job creation in one to three years. CFED's idea, entitled "Tax Benefits for Entrepreneurs," is one of five winning ideas from the Big Ideas for Job Creation project we are featuring in this podcast series.

Bob, thank you for speaking with us today.

Bob Friedman: Thank you so much for providing the opportunity.

Olson: *Bob, it's not immediately obvious how tax preparation assistance could result in more jobs. Tell us more about the "tax benefits for entrepreneurs" idea and how it would work.*

Friedman: It's a great question and I have to confirm your hypothesis that a connection is not obvious. I think the two facts you need to know are: one, that most new jobs, in fact, all the net new jobs being created in this economy over the last 30 years, have come from new businesses under four years old, and mostly under one year old, and most of those are self-employed. Combine that with the fact that the tax system through Schedule C (self-employment taxes) reaches 22 million self-employed each year, including two million new filers each year, and compare that to the U.S. microenterprise industry, which right now reaches 250,000 low-income entrepreneurs each year and only a tenth of them, or 25,000, with microenterprise services.

So, Schedule C preparation could be a window into reaching the 22 million self-employed businesses and two million new ones each year. We impose a lot of burdens on those businesses tax-wise, and right now publicly supported tax

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assistance sites like the Volunteer Income Tax Assistance, or VITA programs, are not allowed to provide Schedule C tax preparation for low-income entrepreneurs.

Olson: *And what's the magnitude of the impact of your proposal? How many jobs do you expect it would create? And what would be the cost of administering this program?*

Friedman: Without doing anything to actual tax burdens and benefits right now, if we simply allowed both public- and private-service tax preparers to prepare self-employment returns, the cost is negligible. In fact, if we simply allow VITA sites to serve the self-employed, there would be no net new funding. There might need to be some preparation. And in pilots, we were able to reach already tens of thousands of entrepreneurs at the earliest stages of setting up their business with substantial benefits.

Right now, if you are self-employed you have to pay employer and employee share of FICA, that is payroll taxes, which can amount to 13 percent to 15 percent of your earnings in the first year; that's more a matter for the federal government. But if there were some kind of introductory rate, or for the first year, businesses wouldn't have to pay taxes up to, say, $25,000 in income, there might be a cost of $1,500 per tax return, but we think you could get as many as a million businesses starting or starting better.

Olson: *What action are you calling for from policymakers and practitioners to overcome those barriers to implementing this type of program?*

Friedman: The first and easiest step would be to allow VITA sites, tax prep sites, to serve the self-employed and prepare Schedule C. We have piloted this, we think it really costs virtually nothing, and the results will be felt on tens of thousands of businesses; it already in fact has.
By allowing Schedule C to be prepared by preparers, it brings a number of existing tax benefits, which are there in the tax code, into the purview of the self-employed. For example, there are several tax benefits that you can only get access to if you file the return, and those rebates could be available, and are available, to businesses that file.

Olson: *In your paper, you described the Self-Employment Tax Initiative as a successful example of this idea. Tell us about that program and the results so far. And, are there any other programs that have been implemented that have had promising results?*

Friedman: We initiated the Self-Employment Tax Initiative pilot in 2008 with 16 microenterprise and tax prep providers. They reached 30,000 self-employed businesses and recouped $30 million in benefits, or an average of about $1,000 per filing business. Fifty-two percent of those businesses were start-ups (first-time businesses), and we think that's just the beginning of what's possible.

And then you asked about other programs. As we all know we've been reading about the reduction in payroll taxes for the next two months, and then maybe for the next year. Among those that would be eligible for those reduced rates would be new businesses and the self-employed. We think the impact of that could be on the millions. New businesses over the last 30 years have generated between 2.2 million and 3.6 million new jobs each year. We are now at the low ebb of that, at about 2.2 million jobs per year. A new self-employment tax credit, we think, could move us up closer to the historic high; that is, we could add a million jobs a year at the cost of a few billion dollars, which would more than be made up for by the eventual taxes those businesses pay as they grow.

Olson: *Well, Bob, those certainly are promising results. So thank you for sharing that, and thank you for joining us today.*

Friedman: Thank you so much. I really appreciate and would welcome inquiries and suggestions.

Olson: *Well, this concludes our podcast. We've been speaking today with Bob Friedman, CFED's founder and chairman of the board. CFED is online at www.cfed.org.*

For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. Finally, if you have any comments or questions about this podcast, please e-mail podcast@frbatlanta.org. Thanks for listening.

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Crowdsourcing for the Common Good: A Community Development Approach

The advent of the Internet allowed individuals separated by geography and by cultural differences to form robust communities online. Virtual societies now form around nearly any issue, and people with common interests have been able to exchange information and forge unlikely social ties in ways previously unimaginable. Innovations such as Wikipedia and Facebook further opened up the Internet to users wishing to exchange knowledge and opinions with a broader community. And now, spurred by more participatory, user-oriented web 2.0 applications, the phenomenon of "crowdsourcing," or engaging the web community in a particular project or problem, has become a popular means of online interaction.

Essentially, crowdsourcing describes the phenomenon of harnessing the collective knowledge of everyday Internet users for a purpose that would otherwise be left to experts. One example of successful crowdsourcing is Threadless, an online apparel company specializing in hip T-shirts. Threadless cultivated a community of registered users who may upload original shirt designs, vote on user-supplied designs, and ultimately purchase the winning designs. Threadless has amassed a talented and eager crowd to source from, resulting in a profitable business model that manages to maintain an "indie" allure.

Crowdsourcing can be used to mine established or original data and solutions, solicit feedback, improve organizational transparency and build consensus through a more interactive process, or even harness the labor of the crowd (for example, Amazon's Mechanical Turk). While crowdsourcing has been used by creative businesses such as Threadless and 99designs, how can this strategy translate to the community development sector, including government and nonprofits?

There have been several successful attempts to employ crowdsourcing in a community development context. For example, local governments in San Francisco and Portland use a system called ParkScan to monitor and manage public space. The site allows users to post issues, which park department employees address in public responses. Interested citizens can also use the map-based application to locate and view detailed information about their neighborhood parks. Concerned citizens in the Broadmoor neighborhood in New Orleans created a tool on ning.com to crowdsource ideas for rebuilding after Hurricane Katrina. While activity on the site has waned over time, the 136 members offered useful input on neighborhood needs and preferences in the site's online forums. In New York City, the site Change by Us NYC collects resident ideas, such as infrastructure improvements and tree planting, and encourages users to create and promote project teams. The site also provides links to funding and other resources. A developer in Bristol, Connecticut, used the crowdsourcing concept to solicit ideas and even votes from citizens living or working within an hour radius on the preferred type of redevelopment for a 17-acre site of a former shopping mall. The Bristol Rising initiative used an online community platform with a voting tool to facilitate idea sharing with a strong visual component.

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Crowdsourcing has also been used by academics and nonprofits for disaster response after the 2010 earthquake in Haiti. Sites like CrisisCommons, OpenStreetMap, Ushahidi, and GeoCommons collected on-the-ground information on survivors, shelters, and structural damage. In addition, nonprofits have used crowdsourcing during and after the 2011 Egyptian revolution through mapping geo-referenced, real-time Twitter feeds (HyperCities Egypt) and by creating an "interactive documentary" of user-uploaded content (18 Days in Egypt).

Crowdsourcing has many potential benefits. First, it derives creative solutions from a community—which may not have been conceived of by experts—virtually free of cost. It promotes communication within the community and with decision makers in an interactive and transparent manner. It also makes information and discourse constantly and conveniently available, unlike traditional, prescheduled public meetings. Crowdsourcing allows differing levels of participation based on individuals' levels of interest or engagement. Finally, crowdsourcing can increase buy-in through interactive commentary and voting.

There are drawbacks with crowdsourcing, however. Most for-profit crowdsourcing uses payment to increase participation, which may not be feasible for government and nonprofit organizations. The fidelity of information may be poor if the crowd is not sufficiently large and representative. It also may be difficult to attract enough people to have an impact on a project with a small geographic scope. Participants may also self-select. In particular, because of the "digital divide" that limits access to the Internet among poor, minority, and other disenfranchised populations, the crowd may not correspond to the demographic profile of the actual community and may trend more affluent and less diverse. Finally, technical expertise is needed to create an online interface for crowdsourcing and to interpret the feedback.

Clearly, there are strengths and weaknesses inherent in a crowdsourcing approach to community development. However, the innovations of the private sector and the communities noted should not be discounted. Crowdsourcing may prove to be a valuable tool for decision making among cash-strapped government and nonprofit entities. A crowdsourcing technique that promotes engagement and creative problem solving can empower citizens and maximize benefits to the community.

By Ann Carpenter, research associate, Federal Reserve Bank of Atlanta's community and economic development department.

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Retrofitting Institutions: Feeding Job Growth with Energy Hogs

January 2012

Jere Boyle: *Welcome to the Federal Reserve Bank of Atlanta's* Economic Development *podcast series. I'm Jere Boyle with the Federal Reserve Bank of Chicago.*

Retrofitting public and institutional buildings like universities, hospitals, and government buildings can create jobs in the real estate sector while reducing energy costs for building owners. The Center on Wisconsin Strategy proposed this idea on retrofitting institutions as part of the "Big Ideas for Job Creation" project. The project, sponsored by the Institute for Research on Labor and Employment at the University of California at Berkeley, and supported by the Annie E. Casey Foundation, was a call to academics and economic development practitioners to design job programs for cities and states that would lead to net new job creation in one to three years. The center's idea, entitled "Retrofitting Institutions," is one of five winning ideas we are featuring in this podcast series.

Today I'm speaking with Satya Rhodes-Conway and James Irwin, both senior associates at the Center on Wisconsin Strategy. Satya and James, thank you for speaking with us today.

Satya Rhodes-Conway: Thank you for the opportunity.

James Irwin: We're glad to be here.

Boyle: *The need to retrofit buildings for sustainability purposes has certainly been an important topic of the last decade, as well as ideas around "green jobs." Tell us about your big idea regarding "Retrofitting Institutions" and what issues you address with it?*

Rhodes-Conway: Nearly all of our buildings waste energy through heating, cooling, and possibly inefficient management. This costs us all a lot of money, and the concept that we're working with here is that, instead of wasting that money on energy bills, we should take that money, use it to improve our buildings, and avoid the extra costs on our energy bills in the future. When you do that you create jobs, you reduce greenhouse gas emissions, and you save money. So, in this paper we focused on municipalities, universities, schools, and hospitals, or what's known as the MUSH sector. Basically, it's institutional buildings.

Irwin: So, this isn't a new idea, retrofitting buildings and paying for the costs with the savings. And many municipalities have done some work in this space, but very

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few governmental institutions have comprehensively addressed their building stock by tracking exactly where energy is being wasted, addressing the building as a system, and then fixing everything from the drafts and leaks around windows to replacing old boilers and adding smart thermostats, and doing this for all of the buildings that the municipality or university, school, or hospital controls.

There is a tremendous potential for scale here, and that's why we're really excited about this idea. There are at least 140,000 institutional and governmental building owners in the United States. Each of these entities presumably controls at least one building, and many big cities control multiple, in some instances hundreds of buildings, and that's not including any of the almost 10,000 buildings the federal government controls. Municipalities spend up to 10 percent of their budget on energy costs, though many are entirely unaware of this as they don't actually calculate energy costs separately. Total municipal energy bills countrywide add up to over $12 billion every year.

The [U.S.] Department of Energy estimates that governments control 24 percent of total commercial floor space in this country and this square footage uses about 3.87 quadrillion BTUs, which is a British thermal unit per year, at a cost of about $40.7 billion. Savings from energy-efficiency upgrades are historically around 20 percent of the utility bill baseline. So, while higher savings are certainly possible if strategies for deepening retrofit work are implemented, but even if the 20 percent was achieved in the MUSH sector by conducting retrofits of the entire building stock, that savings would mean $8.1 billion per year additionally saved. The other nice thing about this sector is that you can move fairly quickly: There are established companies to do the energy assessments and retrofit work, there are multiple ways to finance these projects, and the workforce is there, and, for the most part, trained and ready to go.

Boyle: *How does this idea of retrofitting institutions create jobs? And, if you can, could you please tell us how many and what types of jobs you believe it could create and what would be the cost?*

Rhodes-Conway: Essentially, this is construction work. So, what we're recommending is that a municipality, a government, a hospital, a school look at the buildings they own, do an assessment of their energy use and where energy is being wasted, and then hire people to fix that. All of the money spent on that is going into the construction sector and creating jobs there. We estimate that between 4.3 and seven full-time-equivalent jobs are created for every $1 million spent on energy-efficiency projects in this sector. This includes the salary for the people doing the work, the overhead, and it also includes materials.

We also estimate that this sector spent between $12 [billion] and $16 billion on energy-efficiency improvements between 1990 and 2003, and that the MUSH market activity in any given year (the numbers we have are for 2002) was between $0.8 [billion] and $1 billion. So, even if this sector only kept investing that much money each year, it should create somewhere between 3,000 and 7,000 full-time-equivalent jobs per year. If we look at the entire potential here, based on the total square footage, we could expect it to cost somewhere between $38.3 billion and $61.2 billion to upgrade the entire sector. That investment would have the potential to create somewhere between 164,000 and 428,000 full-time-equivalent jobs.

Irwin: Another good thing is that these tend to be "high-road" jobs—good jobs with benefits that pay decent wages—and the deeper you go into a building retrofit, the greater the savings you're going to have financially, and the higher the skill of the work to do that retrofit. This creates jobs for skilled workers in the construction sector—workers who have some of the highest unemployment rates in the country—and it also can create opportunities for newly trained apprentices.

Rhodes-Conway: The other type of job creation that we haven't estimated is what happens when you spend money on materials, which is clearly needed in work like this, that money creates jobs in the companies that provide those materials. We haven't estimated that indirect job creation, but it does exist.

Boyle: *What are the main barriers to this type of a program, and how can those barriers be overcome?*

Rhodes-Conway: There're actually a number of barriers, but luckily we have ideas about how to overcome all of them. We'll each go through a few here.

One obvious barrier is the up-front capital cost. While it's absolutely true that once you retrofit a building for energy efficiency you will be saving money, some governments, institutions, hospitals might have trouble making the initial investment—they may not have that available in their budget. We think that can be overcome with smart planning and proper budgeting. There are a number of ways that, particularly government entities, can use to cover that up-front cost, whether that's through regular budgeting, or through bonding, or other mechanisms.

Some places may either not be able to borrow money or may have limits on how much money they can borrow to pay that up-front cost. So that's another barrier. There are ways around that. One option is to structure the payment as a municipal lease. Like many, the government entities pay for equipment—photocopiers, school buses—the municipal lease is a common structure in local government.

Another issue is the diffuse control of the buildings and the often poor knowledge of how much energy they use. So, you may have multiple people who are responsible for various buildings and the management and upkeep of them. And there may not be any one person who knows what it is costing the city or state or hospital to use energy in all of their buildings. So, organizing that—assembling the building managers, getting clear lines of communications, putting one person in charge—can be very helpful to just know how much you're spending on energy in your buildings and what is needed in them. The other thing that we recommend that folks do is to enter the information about their buildings into a software program, like the Energy Star Portfolio Manager that's available through the EPA, so that you can actually track on a computer all of your energy use and how much you could be saving.

Irwin: Another barrier faced in this work is simply a lack of knowledge about how this work is done, lack of confidence that it's a good investment, lack of time to do all of the work necessary to make this happen, and little knowledge of how to work with the companies and contractors in this field. This can be overcome through education, working with the elected leaders or decision makers who are in charge of these buildings to make sure that they know how everything works, what the financing options are, and that they have some hard data about savings and job creation numbers. It's also a very good idea to hire an owner's agent who will work with the building owners to negotiate these contracts so that you're getting what you want out of these deals.

A very major final barrier we'll discuss here is the lack of political will and leadership. The benefits of comprehensive retrofits extend well beyond the average political life span, and so it can be sort of tricky to get people to pay attention to this. This can be overcome through going about how you get anything done in government, assembling coalitions and educating the elected leaders. We've found coalitions between labor unions, community groups, local business, contractors' associations, and some of the energy services companies. You get those folks in a room and they're a very powerful coalition to help make this work happen.

Boyle: *In your paper, you mention a successful real-world application of this idea in Reno, Nevada. Can you describe that program and the results to date?*

Rhodes-Conway: Sure. Starting in 2008, the city of Reno, Nevada, launched their Energy Efficiency & Renewable Energy Initiative. They were looking to reduce their carbon footprint and lower their energy bills, so the city contracted with what's known as an energy services company to audit the electric and natural gas and water use in all of the city facilities. Based on that audit the city approved a series of projects, which included energy-efficiency measures such as lighting retrofits and heating, ventilation, and air-conditioning upgrades, as well as some investments in renewable energy. The energy services company hired local contractors to do the work, and the contract was subject to Reno's prevailing wage law, so the jobs created through the work were good paying jobs. And, even though the project isn't yet complete, it's expected to save the city half a million dollars in 2011, which is a 12 percent cost reduction in just one year. At the end of the project they expect that the energy-efficiency portion of the project alone will save the city $1.1 million a year, and that's a reduction in energy costs of more than 25 percent.

The project was financed primarily through bonds, as well as some grants and rebates, and the total project cost was $16 million. As of early last year it had created or retained 191 jobs, and we expect that number will go up at full build-out.

Irwin: There are a lot of other cities also considering similar projects. We've encouraged them to work to maximize job creation in addition to the financial savings from this work. It's easy to get the low hanging fruit changing the lights, and you'll save a lot of money by doing that, but a more ambitious approach to reducing energy use, really taking a systems-wide approach, can pay much bigger dividends, both financially and in terms of rapid job creation.

Boyle: *Satya and James, thank you for joining us today.*

Rhodes-Conway: It's been a pleasure, thank you.

Irwin: Thanks a lot.

Boyle: *This concludes our podcast. We've been speaking with Satya Rhodes-Conway and James Irwin, at the Center for Wisconsin Strategy. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.*

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Trash to Treasure: Turning Waste into Jobs

January 2012

Emily Mitchell: *Welcome to the Federal Reserve Bank of Atlanta's* Economic Development *podcast series. I'm Emily Mitchell with the Federal Reserve Bank of Atlanta.*

Job creation is a critical issue today, particularly since many sectors have suffered job losses in the recent recession. In November 2011, the Institute for Research on Labor and Employment at the University of California at Berkeley, and supported by the Annie E. Casey Foundation, released a group of papers highlighting proposals for policies and programs to spur job creation. The papers represent the winners of their "Big Ideas for Job Creation" project—a call to academics and economic development practitioners to design jobs programs for cities and states that would lead to net new job creation in one to three years. In this podcast series we will feature five of those ideas.

Today I'm speaking with Nancey Green Leigh, a professor of city and regional planning at the Georgia Institute of Technology since 1994. Nancey's idea, entitled "Turning Waste into Jobs," was one of the 13 "big ideas" selected.

Nancey, thank you for speaking with us today.

Nancey Green Leigh: Thanks for the opportunity.

Mitchell: *Tell us about your "big idea," and what issue you are working to address with it?*

Leigh: My idea focuses on how we can create jobs from waste diversion. Rather than throwing away the waste that we create into landfills, we can take this material and treat it as a locally produced resource used to create new, local jobs. My research examines reusing materials, and recycling and remanufacturing products from these materials in various industries, and I call these the R3 industries—the R3 standing for *reuse*, *recycling*, and *remanufacture*.

Recycling activity can create over 10 times more jobs than disposal in landfills, and in most states recycling workers receive higher wages than landfill workers. The number of jobs generated by the R3 industry has been increasing, but with the right policy environment, many more could be created. More jobs are generated by recycling material than disposing it into the landfills because once material has been collected, hauled, and placed into the landfill its value becomes zero. But, in contrast, if we reuse, recycle, and remanufacture that material, we provide a range of opportunities to create value and jobs. These opportunities come from further material handling, sorting, processing, manufacture, distribution, research and

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development, marketing, sales, and related administrative and support activities. So, the jobs are not only in lower-skill industrial occupations, they can be in much higher-level occupations, and they can also be in activities like industrial and furniture design and architecture.

So, right now, with waste, we create only one-tenth of one job for every 1,000 tons of waste that we throw away and put into landfills. If we process recycled materials we create one to two jobs, and if we manufacture using recycled materials we create four to 10 jobs for every 1,000 tons of waste.

Mitchell: *Nancey, how many jobs do you believe this idea could create, and what would be the cost?*

Leigh: There are estimates that if the current landfill diversion rate of 33 percent from municipal solid waste and construction and demolition debris were increased to 75 percent by the year 2030, we could create 1.5 million new jobs.

Our efforts to nail down the costs of creating R3 jobs are hampered by a lack of robust data. Our best estimates that are based on case studies are that costs would range from between $5,000 and $116,000 for jobs created, and that for every $1 billion of investments in the R3 industries, over 16,500 jobs would be created. Jobs can be created in the private sector, the public sector, and nonprofit businesses, and it costs significantly less to create jobs in the R3 industry in a nonprofit business.

Mitchell: *What are the main barriers to waste diversion programs, and how can they be overcome?*

Leigh: When there is a low cost of disposing waste in landfills, or throwing away our trash, which is the case for a good part of the U.S. these days, *and* there's an absence of waste diversion policies, then firms that are engaged in the R3 industry (in reuse, recycling, and remanufacturing) have a harder time competing in the market.

Also, the lack of comprehensive publicly available data on the R3 industry makes it difficult to motivate state and local government policymakers to take advantage of this economic development potential. But cities with mandatory waste diversion goals, or "pay-as-you-throw" policies, have been shown to spur successful R3 job creation. The pay-as-you-throw policies are those that charge per bag of trash being thrown away and motivate consumers to decrease what they are throwing away and recycle.

There are three key ways to stimulate the R3 industry at this point in time and to overcome barriers to waste diversion programs.

The first is through legal mandates that can be adopted at the local level or the state level, and that require general waste diversion from landfills. Included among specific product-focused waste diversion policies can be those such as mandated electronics recycling, and this is the area where half the states have actually created legislation to require electronics recycling. So, we've made some of our greatest progress in the recycling area, although we have a long way to go. San Jose, California, just became the first city in the U.S. to ban disposal in landfills or export e-waste so that it will create businesses and jobs from the requirement to process the e-waste responsibly. So, that's a major move forward at the local level. Other specific materials that have been banned from landfills are focused on construction and demolition waste and carpet waste.

Second, the industry can voluntarily choose to engage in R3 activity because it wishes to be more sustainable, or wishes to avoid regulation, or it sees that there is a potential for profits. The Carpet America Recovery Effort, which goes by the acronym CARE, by the major U.S. carpet manufacturers was driven, in part, by sustainability objectives, and, in part, by a desire to avoid regulation. The growth of the remanufactured medical devices industry is an example of a very profitable market base development that occurred on its own because of the profits to be made.

The third way that the R3 industry will grow is by increasing market demand for the recovery of valuable and/or rare materials, such as certain metals and chemicals. These are materials that are increasingly expensive to mine from the earth, for example, or to produce. And, it's becoming more cost-effective to recycle and extract these materials and reuse them. There are traditional economic development programs and incentives that can help to make this industry grow faster.

Mitchell: *Can you point to real-world applications of this idea? Where has this idea worked, and what are the results to date?*

Leigh: I want to focus here on a nonprofit example that has been quite successful. St. Vincent de Paul, which is a national charitable organization, has an operation in Eugene, Oregon, that began operating in the 1980s. And it has focused on reuse, recycling, and remanufacture of goods as a way to generate income from its secondhand stores, and it has used profits from that to provide other needed social services in its community.

From the 1980s it has grown to a place today where it employs over 300 local residents and diverted more than 19 million pounds of materials from landfills in the year 2010 alone. Its primary activities are used clothes retailing, mattress recycling, and craft glass manufacturing. But it also refurbishes appliances, sells them, and sends out technicians to homes to repair them, and guarantees their work, among other things that it is doing. In total, the employees of St. Vincent de Paul in Eugene are engaged in 10 major waste-to-profit activities, using a range of employees and job skills. The wages that they earn are above minimum wage and they come with benefits. The majority of the revenues that St. Vincent de Paul collects come from its retail sales of recycled and refurbished or remanufactured material; some of those sales are now even at the national level. And they use the profits that they receive to support affordable housing construction in the area to meet the needs of the low-income population in Eugene. So, it's really a robust nonprofit entity using R3 activities in order to support larger goals of providing improved quality of life and affordable housing for residents in Eugene.

Mitchell: *Nancey, thank you for joining us today.*

Leigh: Thank you for allowing me to talk with you today. I appreciate the opportunity to discuss this important idea for jobs and sustainable economic development that can come from growing the R3 industry.

Mitchell: *This concludes our podcast. We've been speaking with Nancey Green Leigh, professor of city and regional planning at Georgia Tech. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.*

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Community Development

Partners Update

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Articles

Fed Gov. Speaks on Community Bank Examination and Supervision

Fed Governor Sarah Bloom Raskin discussed how the Federal Reserve's approach to community bank examination and regulation aims to avoid stifling of lending in a recovering economy. She addressed the Maryland Bankers Association First Friday Economic Outlook Forum in Baltimore on January 6.

Raskin highlighted the importance of examiners understanding their local economic conditions in order to assess a community bank's decisions. She also expressed the need for clear and regular communication between examiners and community banks, particularly given that examiners may be on site only periodically.

Raskin drew a distinction between the supervision of the larger, more complex banks compared with community banks. "Notably, our supervision of large banks reflects the scope and complexity of their activities as well as their interactions with other firms and possible effects on financial markets, and incorporates systemic risk considerations that could arise from the failure of these banks," she said. Specifically, she pointed to capital planning and stress tests as critical aspects of supervision for these types of financial institutions.

Raskin said the Federal Reserve is working to ensure the supervisory program is appropriate for the varying sizes and types of financial institutions. As an example, she noted her participation on a Board subcommittee charged with reviewing the appropriateness of specific policies for community banks and the potential effects these policies could have on the availability of credit for sound borrowers.

View the full speech on the Board of Governors website.

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May 9–11: Plan to Attend the Community Development Conference on the Changing Role of Cities

The Reinventing Older Communities: Building Resilient Cities conference will be held May 9–11 in Philadelphia. Shaun Donovan, secretary of the U.S. Department of Housing and Urban Development, will deliver a keynote address at the conference. The Federal Reserve Bank of Philadelphia and its cosponsors will host the conference.

View conference details on the Philadelphia Fed's website.

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The Board issues white paper on national housing market

The Federal Reserve Board has published a white paper on current conditions in the U.S. housing market. The January 4, 2012, paper, titled "The U.S. Housing Market: Current Conditions and Policy Considerations,"provides a framework for thinking about some of the key housing policy issues and discusses options that policymakers might consider in addressing foreclosed properties, credit access and pricing, homeowners at risk of default or foreclosure, and mortgage servicing. View the white paper on the Board's public website.

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Cleveland Fed issues call for papers for 10th Policy Summit

The community development and research departments of the Cleveland Fed invite submissions of papers by February 15 for its 10th annual Policy Summit. The summit will be held June 28–29, 2012, in Cleveland.

The Cleveland Fed encourages the submission of papers in the areas of education, poverty, labor markets, housing, and program evaluation. Specific topics of interest include financial and human capital asset building, education policy, long-term unemployment, workforce development, entrepreneurship, labor and housing issues in older industrial cities, low-income housing, loss-mitigation strategies for borrowers, and issues in program implementation, evaluation, and scalability. Particularly appropriate are analyses of programs and policies focused on current conditions in labor and housing markets, as well as issues related to reduced local government and community development budgets. Policy-related research and submissions applicable to the Federal Reserve's Fourth District and the Great Lakes region are also encouraged.

The conference brings together several hundred researchers, practitioners, and policymakers interested in economic policy and development in low- and moderate-income communities. This year's conference focuses on program and policy evaluation.

An extended abstract or draft of the research paper should be sent to policysummit@clev.frb.org by the February 15 deadline. Conference papers will be due June 1. Questions about the call for papers or the Policy Summit can be directed to Tim Dunne at tim.dunne@clev.frb.org or Francisca G. Richter at francisca.g.richter@clev.frb.org.

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Register Now for the March 25–28 National Interagency Community Reinvestment Conference

The 2012 National Interagency Community Reinvestment Conference will be held March 25–28, 2012, in Seattle, Washington. The conference is the premier training and networking event for community development professionals, including Community Reinvestment Act officers, community development lenders and investors, as well as representatives of community development financial institutions, foundations, and nonprofits. The conference is sponsored by the Federal Deposit Insurance Corporation, the Federal Reserve Bank of San Francisco, the Office of the Comptroller of the Currency, and the U.S. Department of the Treasury's Community Development Financial Institutions Fund.

View conference details and register on the San Francisco Fed's website.

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