Federal Reserve Bank of Boston
Communities & Banking
volume 16, number 4 fall 2005

Stormy Times

Staying Afloat after a Natural Disaster

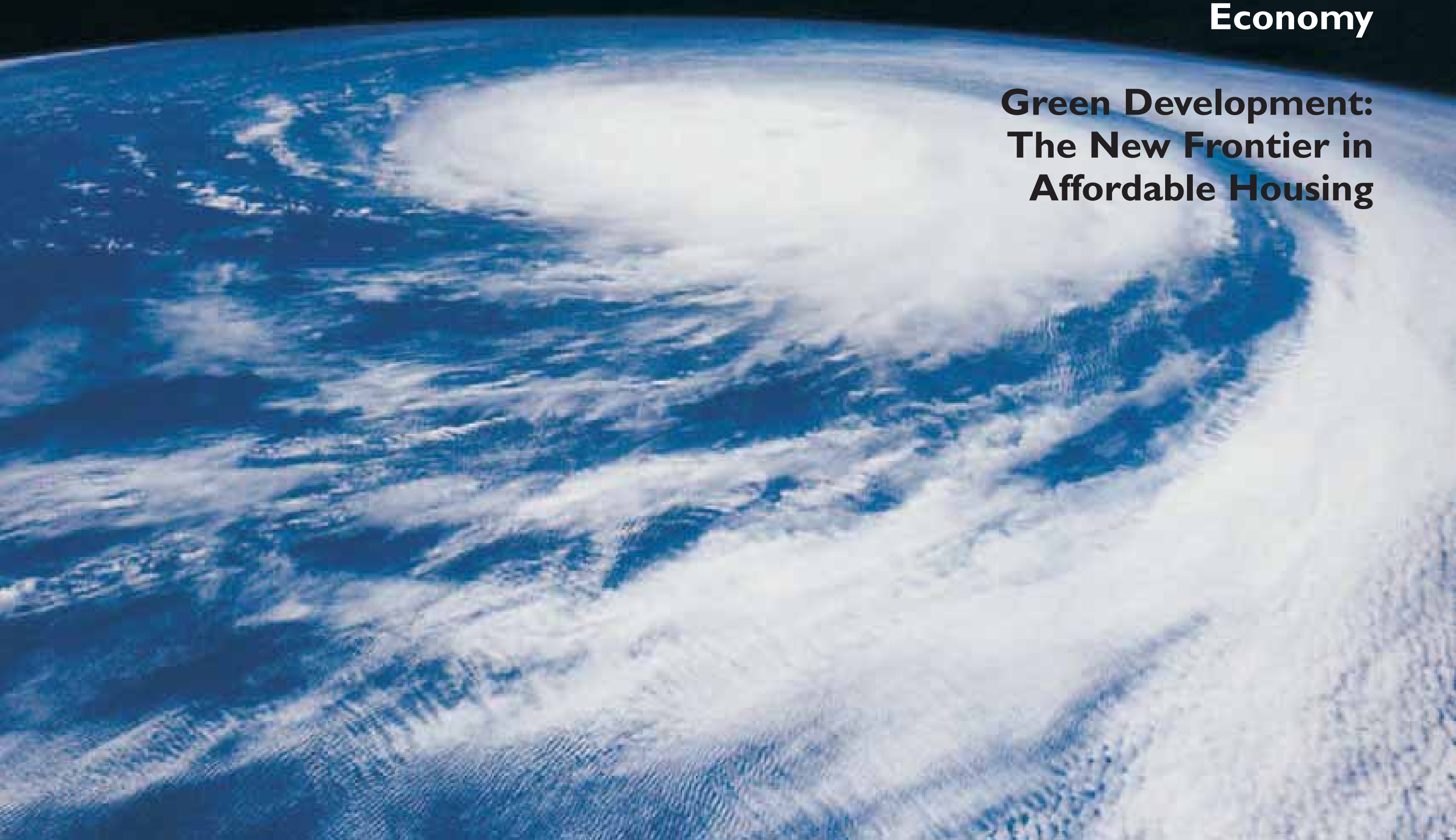
Also Inside:

An Umbrella for Nonprofits

Municipalities at Risk

The Nonmonetary Economy

Green Development: The New Frontier in Affordable Housing



Contents

Cover Photo: Satellite image of hurricane/Digital Vision.

Communities & Banking seeks to offer insightful articles on topics in community development and fair access to credit, with a focus on innovative research and effective programs and partnerships in New England.

If you would like to submit an article for a future issue of *Communities & Banking*, please contact the editor.

Caroline Ellis
Editor, *Communities & Banking*
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(617) 973-3187
caroline.ellis@bos.frb.org

For free subscriptions, contact:
Public and Community Affairs
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(800) 409-1333
bostonfed.publications@bos.frb.org

Available on the web at
www.bos.frb.org/commdev/c&b/index.htm

FEDERAL RESERVE BANK OF BOSTON™

September 2005 flooding in Wayland, Massachusetts. *Photographs in this article by Julie Weinstein.*

natural disasters and bankruptcy

A PERSPECTIVE

by Elizabeth Warren
Harvard Law School

After the water has receded, after much of the physical devastation is repaired, countless families face a hurricane's most lasting legacy: financial disaster. The car may be gone, the house may be gone, and the credit card bills may have been washed away, but the obligation to pay for all of them remains. The financial stress on families is easy to predict as many people go weeks or even months without a paycheck.

When there is a series of major disruptions like the 2005 hurricane season, hundreds of thousands of middle class families may deplete their savings and turn to credit cards to supplement the aid they receive from charities and the government. Additionally, victims of natural disasters often return home to find that they have lost substantial assets. Insurance may cover some of the damage, but insurance companies' liability is often limited.[1] Every aspect of a family's financial circumstances is exposed to the effects of a natural disaster.

Filing for Bankruptcy

Many disaster victims eventually turn to bankruptcy. (See the sidebar "Personal Bankruptcy Options.") It is possible to analyze bankruptcy filing data following hurricanes of the past 25 years, but limitations in the data make the tools blunt. The filings can be compared only year by year, not quarter by quarter. More important, the long-term data are available only on a state-by-state basis.

To Robert Lawless, a professor at the University of Nevada at Las Vegas, that seemed problematic. A hurricane that hit Houston, for example, might have no effect on families and small businesses in El Paso, Dallas, or Austin. In order to detect a difference statistically, the regional effects would have to be large enough to change the bankruptcy filing numbers for the entire state. As a result, when Lawless decided to analyze the data, he expected to find no statistical correlations. Even if there were important effects following a hurricane, he thought, the rough data would reveal only powerful ones.

In fact, Professor Lawless discovered that in the three years following a hurricane, the growth in bankruptcy filings is about 50 percent higher in states that have suffered a direct hit.[2] In the same time period, the growth in nearby states is about 20 percent higher.

The data show that the location of the disaster also is significant. When the damage occurs in regions where there are many low-cost homes, FEMA payments are lower, and there is a corresponding increase in bankruptcy rates. The highest increase in bankruptcy filings in the past 25 years occurred when Hurricane Elena hit Mississippi in 1985, resulting in a 71.8 percent bankruptcy-filing increase in the following three years.

Changes to the Code

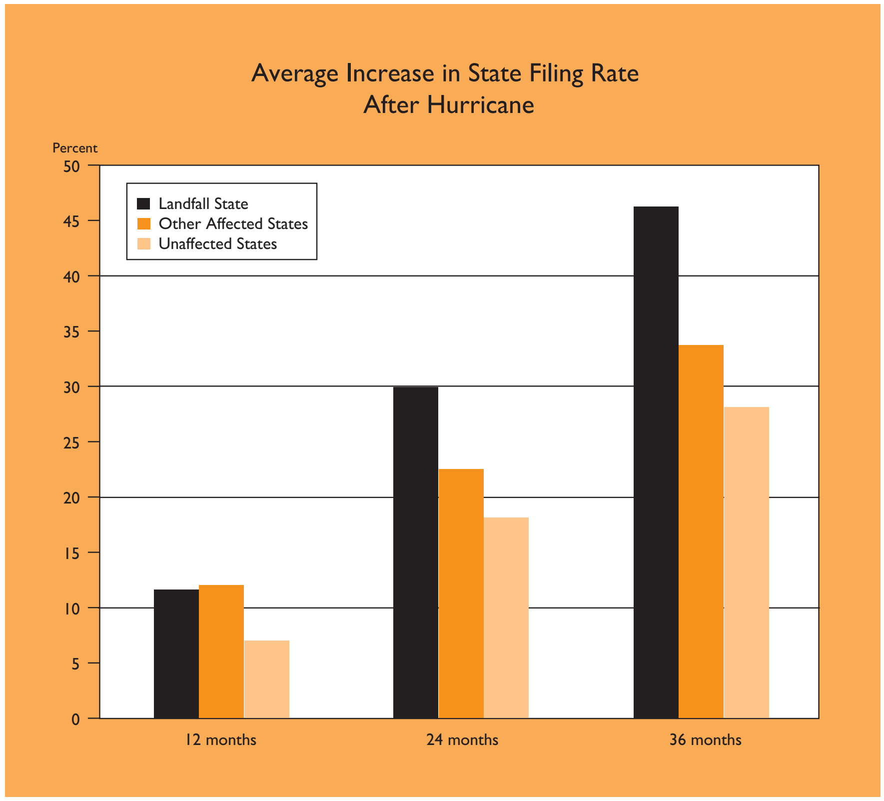
At the same time that victims are digging out from the recent hurricanes, the legal landscape is changing. The 2005 amendments to the Bankruptcy Code went into effect on October 17, about the time the lights were scheduled to go back on in New Orleans. The amendments to the law, more than 400 pages of new procedures, are designed to reduce bankruptcy filings through three principal mechanisms:

- **Paperwork.** The new law requires more documentation of a debtor's financial circumstances, such as six months of paycheck stubs, tax returns, and a full accounting of the monthly budget down to utility payments and insurance bills.[3] The obligations are not limited to those who have high incomes or who have no good reason for filing; they apply across the board.
- **Screening.** Through the application of a complex formula, debtors who have incomes above the median for family size and whose allowable expenses are small enough to leave them with $100 or more of "excess income" each month will be denied access to Chapter 7 and debt liquidation.[4] In addition, no debtor may file for bankruptcy without consulting an approved credit counselor, and no debtor will receive a discharge without attending financial education classes.[5]

• **Reduced Protection.** Tenants who could not be evicted from their apartments under the old laws—so long as they remained current on their post-bankruptcy rent payments—now can be dispossessed.[6] In addition, people filing for bankruptcy will not get relief from as much credit card debt as would have been the case before October 17, 2005.[7]

The new law means that natural-disaster victims, like anyone else, must meet a higher standard if they seek relief through a bankruptcy filing.

Along the Gulf of Mexico right now are other challenges that those planning for disasters elsewhere should note. The legal system in Louisiana was disrupted, so the state bar urged postponement of the effective date of the new laws in the disaster areas.[8] The bar described a "widespread paralysis" of the legal community and difficulty in communicating with clients. Moreover, courts and lawyers scrambling to relocate faced a shortage of office space and adequate infrastructure.



In the three years following a hurricane, the growth in bankruptcy filings is about 50 percent higher in states that have suffered a direct hit.

The new statute has ambiguities that, in time, litigation will clarify, but disaster victims seldom have that kind of time. Additionally, there is uncertainty about whether judges will have the ability to waive some statute requirements for the hurricane victims. Past provisions of the Bankruptcy Code permitted a judge to consider all the facts and circumstances in determining whether a particular bankruptcy petition constituted an "abuse" of the bankruptcy system, but the amended law gives judges less discretion.[9] So, for example, when Mississippi bankruptcy judge Edward Ellington was asked whether debtors whose paperwork was buried in mud could be excused from producing pay stubs and old bills showing regular household expenses, he replied, "I can't grant the waiver on the front end because I just don't have the authority to do it."[10]

In recognition of the difficulties facing victims of natural disasters, on the eve of implementation of the new law, the Justice Department issued special guidelines to the court-appointed officials (trustees) who administer a filer's "bankruptcy estate." The guidelines said trustees would certify that credit counseling was unavailable (thereby waiving the requirement that a debtor be counseled before filing) and that the trustee would not object if the debtor did not produce necessary paperwork, meet statutory deadlines, and so on.[11] Although debtors' attorneys hailed the acknowledgment of the problem, they pointed out that creditors may object whenever debtors violate the law—in short, it is not within the power of the trustees to waive statutory requirements.[12] Also, many debtors' attorneys worry that the coverage is too narrow, leaving out many Mississippi, Alabama, and Texas families that were flooded. It is also unclear how long such waivers will remain in place.

In spite of such challenges, many people are likely to seek bankruptcy relief in the wake of the hurricanes. Some may just put it off. Indeed, Lawless's data show that the largest effects from past hurricanes are felt in the third year after storms hit, suggesting that many families will recover as best they can, and then confront their overall financial condition.

More research on natural disasters' effect on bankruptcy filing needs to be done and new techniques discovered for ferreting out the details. If enough Katrina victims, for example, remain in the places where they have taken refuge, the filing rates may show less relative increase. A diaspora could present a new challenge to studying the effects of natural disasters on bankruptcy filings.

Elizabeth Warren *is the Leo Gottlieb Professor of Law at the Harvard Law School in Cambridge, Massachusetts.*

Personal Bankruptcy Options

Until recently, individuals filing for bankruptcy had considerable leeway in choosing whether to liquidate their debts (under Chapter 7 of the U.S. Bankruptcy Code) or reorganize them and keep paying creditors over a period of three to five years (Chapter 13). Even though they had to give up their property—except for necessities like the tools of their trade, clothing, vehicles up to a certain value, furnishings, appliances, and the like—most people chose Chapter 7.

On October 17, most provisions of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 went into effect. Designed to curb abuses of the U.S. Bankruptcy Code, the act established a needs-based system for qualifying for protection.

The new guidelines include a means test to determine if debtors with annual income above the state median qualify under Chapter 7. Debtors who can pay unsecured creditors such as credit card companies at least $100 per month over five years will be redirected (provided that the amount is sufficient to pay 25 percent of the debt) to Chapter 13. Those able to pay more than $166.66 per month will be assumed to be abusing the system and automatically denied Chapter 7.

The law continues to protect those who face hardships such as serious medical conditions, so long as the extenuating circumstances are supported by documentation.

Calculations of income, expenses, and the like will no longer be based on actual income and expenses but on specified calculations and Internal Revenue Service guidelines for reasonable living expenses "for the support and maintenance of the debtor or the debtor's dependents." Another change is that creditors will be able to recover a larger portion of the property that does not fall into that definition.

The new law was written to require that, before filing, debtors receive credit counseling approved by the court-appointed bankruptcy administrator, or trustee. It also mandates financial management training before debts can be discharged. The court can make exceptions if counseling is not available or if, for example, debtors are incapacitated or on active military duty.

Most of the revisions to the bankruptcy code went into effect on October 17. The law curbs abuses by limiting the possibilities for manipulating the system to protect amassed wealth while charging off accrued debt. It also protects individuals who, because of financial or other hardships, have a genuine need for bankruptcy protection. It does not address abuses by any creditors that use mass marketing and lax underwriting to lure consumers into debt.

The full version of the article "Bankruptcy Reform Legislation," by Lisa Easterwood, appeared in Partners*, the community-development magazine of the Federal Reserve Bank of Atlanta,* www.atl.frb.org.

Digital Vision

Endnotes

[1] Most of those with modest incomes have no flood insurance, which must be paid for separately. FEMA will provide some insurance for some of those who can afford the insurance, but the amount is capped.

2 Robert Lawless, "Bankruptcy Filing Rates after a Major Hurricane," *Nevada Law Journal* (2005).

[3] 11 U.S.C. 707(b)(22).

[4] 11 U.S.C. 707(b)(2)(ii).

[5] 11 U.S.C. 521(b).

[6] 11 U.S.C. 362(b)(2).

[7] Use of a credit card to obtain cash advances totaling more that $750 obtained within 70 days of the bankruptcy filing will be presumed fraudulent and nondischargeable. 11 U.S.C. §523(a)(2)(C)(II). This provision is amended to be more favorable to creditors than its previous version.

[8] Louisiana State Bar Association, et al., *An Open Letter to the United States Congress from Louisiana with Respect to Relief from Certain Provisions of the New Bankruptcy Amendments for Victims of Hurricane Katrina* (September 14, 2005).

[9] The fact that the amendments create specific exceptions for military personnel who are away on active duty or for the disabled suggests that Congress did not believe it had left general discretion with the courts to waive specific requirements. 11 U.S.C. 109(h)(4); 707(b)(2)(D).

[10] Brian Tumulty, "Hurricanes Force More People into Bankruptcy," TheJournalNews.com (September 16, 2005). The new amendments state that a court shall not grant a discharge to any debtor that does not produce his or her tax returns. The specific language of the statute allows no room for exception in extreme circumstances. Section 1228 of Pub. L. No. 109-8.

[11] Office of Legislative Affairs, Department of Justice, letter to Chairman Sensenbrenner (October 5, 2005).

[12] Statement of the National Association of Consumer Bankruptcy Attorneys (October 5, 2005).

Massachusetts Communities *at Risk*

A Report from the Municipal Finance Task Force

by John Hamill
Chairman, Sovereign Bank New England

For the past nine months, I have been privileged to be chairman of the Municipal Finance Task Force, a group of Massachusetts leaders from the business sector, the nonprofit community, unions, municipal government, state government, and academia. We were charged with analyzing municipal revenues, municipal expenditures, and local aid, focusing on the period from 1981 to 2005.

Framingham Town Memorial and Municipal Offices, Framingham, Massachusetts. *Photographs for this article by Julie Weinstein.*

The study, facilitated by the Metropolitan Area Planning Council, came about because Massachusetts cities and towns saw that local aid was increasingly restricted and unpredictable and were concerned about a long-term financial crunch for delivering core municipal services (non-school services).

Residents and taxpayers across the state—regardless of whether they live in cities, towns, or rural hamlets—have had a common experience with local government over the past five years. Their property tax bill has increased dramatically, and they are now paying fees for many services that used to be covered by general revenue.

All residents are affected, and perhaps none more so than those with low and moderate incomes. Strikingly, the largest cuts in municipal budgets have come in the "Health & Welfare" line item.

As a result of the long-term fiscal trends, Somerville, for example, has 16 fewer police officers, 13 fewer firefighters, and 34 fewer public works employees. In western Massachusetts, after a failed override vote, Hampden shut down its senior center and recreation department, and even turned off its streetlights to save money.

The Municipal Finance Task Force wanted, first, to understand long-term trends in municipal finances and their impact on local budgets and services; second, to help municipalities develop strategies and policies to better navigate the trends; and, finally, to provide recommendations for political leaders at the local and state levels. This fall, we released a comprehensive report distilling what we learned.

We are hopeful that our work will shine a light on the current, imperfect system for financing local government and will prompt a public debate.

The Findings

The research findings cover budget growth, health-insurance issues, core services, property taxes, and more.

Municipal Budget Growth

Despite stereotypes to the contrary, municipal budgets have seen only modest real increases over the past 25 years. Since 1981, per capita annual growth for municipal budgets has averaged only 1.1 percent after adjustments for inflation. The anecdotal stories about municipalities' profligacy with tax dollars might be true in specific cases, but overall the facts do not support the argument that municipal budgets are out of control.

Likewise, there is a misperception about union contracts. The task force found that municipal wages grew at only 0.7 percent in inflation-adjusted terms between 1994 and 2003, compared with 1.8 percent for the private sector and 1.0 percent for state employees.

Beyond that, municipal governments in Massachusetts have been shedding employees more steeply than any other state in the nation. The Massachusetts Taxpayers Foundation reported last year that Massachusetts cities and towns cut 14,200 jobs, or 5.2 percent of municipal employees, between February 2002 and August 2004.

Municipal Health Insurance Crisis

Like other employers, municipalities are struggling with soaring health-care costs. The Massachusetts Taxpayers Foundation recently surveyed a representative sample of Massachusetts cities and towns and found that local health-insurance costs have skyrocketed more than 60 percent since 2001.

The foundation's report also shows that many municipalities are now spending more than 10 percent of their total municipal budgets on health-insurance premiums. In addition, 80 percent of the 2½ percent annual growth in property tax levies—allowed by the state ballot initiative called Proposition 2½—is absorbed by that one line item. The rate of growth in health-insurance premiums for municipalities is nearly double the pace of premium increases for state employees.

Support for Core Local Government Services

Some people argue that cities and towns benefited from enormous increases in local aid from state government through the 1990s. It is true that there has been a significant increase in education aid to cities and towns—although the growth in that aid has varied greatly by community.

At the same time, non-school aid has been stagnant or declining for more than 15 years. Most dramatically, non-school aid known as "Additional Assistance," which formerly was distributed to all Massachusetts cities and towns, now serves fewer than half of our municipalities and has diminished by more than $430 million since 1988.

Increasing Property Taxes

Massachusetts cities and towns have long cherished their partnership with the Commonwealth in delivering public services such as local and state police protection, roads, and a range of educational services.

But despite the best intentions and sustained efforts of state policymakers, local aid, which was 20 percent of total state expenditures in fiscal 1988, stood at 16.4 percent in 2004. That decline has hurt the ability of the municipal side of partnership to deliver services.

Since 1987, per capita expenditures by cities and towns for core municipal services (excluding employee health insurance, schools, and some fixed costs) have declined by an average of 0.3 percent annually.

The cuts to local aid, in combination with a lack of other local revenue sources, have resulted in municipalities' increased dependence on property taxes. Whereas in 1988, property taxes accounted for 46.1 percent of all municipal revenues, by 2004, that had increased to 52.9 percent. In addition, stagnant commercial property values have increased the residential share of property taxes. Residential property now pays 72 percent of all property taxes, up from 68 percent in 2000. Excluding 11 communities with residential tax exemptions, the average single-family property tax bill increased $910 from FY2000 to FY2005.

Diminishing Core Municipal Services

All of these trends combined has put enormous pressure on core municipal budgets. Possibly the most remarkable statistic in the report is that since 1987, per capita expenditures by cities and towns for core municipal services (excluding employee health insurance, schools, and some fixed costs) have declined by an average of 0.3 percent annually in real terms.

As an example of what that means, the task force highlighted that spending on public works declined from 15 percent of municipal expenditures in fiscal 1987 to 9 percent in 2004. Ultimately, these long-term trends mean that we have fewer employees filling potholes, picking up trash, or plowing snow—basic quality-of-life services that all citizens expect their communities to provide. We see the results of such trends in shortened library hours, fewer health and human services, closed fire stations, and fewer police patrols in neighborhoods. In addition, soaring health-insurance costs make it more expensive to deliver the services that remain.

A Blueprint for Reform

The Municipal Finance Task Force has proposed a comprehensive set of recommendations to stabilize municipal finances and strengthen the partnership between the Commonwealth and its communities. There are no easy answers, but the viability of local government must be a central concern for all policymakers and will require sustained commitment. Future policies should ensure that state assistance is sufficient and predictable. In addition, communities should be given both flexibility to utilize revenues other than property taxes and the tools to control long-term costs.

We hope that the task force's recommendations will help shape the future through positive actions and improve residents' experience with local government in Massachusetts.

John Hamill *is the chairman of Sovereign Bank New England and served as chairman of the Municipal Finance Task Force. A full copy of the report and its recommendations is available at www.mapc.org.*

The Taste of Place

Local and Regional Foods Transform the Northeast

by Roger Doiron
Northeast Sustainable Agriculture Working Group

"We must all hang together, or assuredly we shall all hang separately." Those words, spoken by Benjamin Franklin at the signing of the Declaration of Independence more than 200 years ago, could very well be the modern-day motto of the Northeast farm sector and its supporters as they look toward the future. Despite the common misperception that the Northeast is a marginal agricultural region, Northeast farmers—and consumers—are finding new ways to hang together to keep the region's agriculture literally on the map.

The challenges are formidable. Farms and farmers continue to disappear from the Northeast landscape at an alarming rate. According to the U.S. Department of Agriculture's last Census of Agriculture, the Northeast—defined as New England, New York, New Jersey, Pennsylvania, Maryland, Delaware, and West Virginia—lost 4.9 percent of its farms between 1997 and 2002.

When farms disappear, so do precious resources, both natural and human. During this same census period, the Northeast saw its total farm acres decrease by 6 percent, much of it gobbled up by suburban sprawl. At least as worrisome is the loss of expertise as farmers quit the business or retire without a successor.

In many ways, the challenges facing Northeast agriculture are not unique to our region. Communities across the nation are grappling with many of the same issues. What is unique to the Northeast are the solutions that are currently being put in place and the opportunities for the future.

Small Is Beautiful

It was Earl Butz, former U.S. Secretary of Agriculture, who famously offered his own success formula to farmers back in the 1970s: Get big or get out. For many farmers in the Northeast, however, getting big is simply not possible, given land values and the nature of the landscape. So farmers are developing alternatives to getting out.

A growing number of farmers in the Northeast have done well for themselves by taking Butz's advice and turning it on its head. Rather than trying to get big, many have succeeded by purposely staying small—in scale, in production methods, and in how they market their products to customers.

Similarly, rather than getting out of agriculture, many farmers from the region have gone into their communities to restore the farm to its rightful place at the center of a healthy society. For example, the Northeast leads the way in the growth of community-supported agriculture (CSA). With CSA, a farm and a community of supporters create a partnership of mutual commitment. In the CSA model, farm supporters share both the benefits and the risks of the farm's operations by agreeing at the start of the growing season to buy a certain quantity of farm products per year.

When in 2004, a CSA farmer in New York was awarded a prestigious MacArthur Foundation fellowship for her work on the development of local food systems, Cheryl Rogowski contended that it validated everyone in the CSA movement. "Farmers are often the economic engines for their communities," she said. "They provide a quality of life to the community by retaining the open spaces and rural character that so many people are seeking."

While Rogowski and her CSA colleagues have been redefining what a farm can be, Tod Murphy of Barre, Vermont, has been working to sustain local agriculture by reinventing the restaurant. Murphy is the founder, owner, and operator of the Farmers Diner, a 60-seat eatery that has attracted national attention by doing something unusual for a restaurant: It makes local and organic foods not only delicious but democratic.

No foie gras or truffles are mentioned anywhere on the menu, which instead features ordinary foods like omelets and milkshakes made from local organic eggs and milk, pancakes, bread and pastries made with local grains, and meats raised and cured in Vermont. Murphy wants the diner ultimately to source 100 percent of its ingredients from farms located within 50 miles of Barre. That's an ambitious goal. According to the WorldWatch Institute, the ingredients that most restaurants use travel on average 1,500 miles from field to fork.

Murphy enjoys seeing the steady flow of satisfied customers passing through his restaurant's doors, but his favorite part of the job is writing checks to farmers. He writes a lot of them. By 2003, the diner was buying $15,000 per month from local farmers and spurring local economic development and innovation. Murphy wants the diner to be the catalyst for farmers and food businesses to take chances with new products. "There's a lot of support in the community when the community understands that this is about the people they know and the places they drive by on the way to work in the morning," he says.

The success of private initiatives like the Farmers Diner is inspiring other food-serving establishments—schools, colleges, hospitals—to follow suit. In New England, colleges such as Bates, Middlebury, Yale, and Hampshire have attracted notice for their farm-to-cafeteria programs. A growing number of these programs use produce grown by the students themselves on educational farms that serve as training grounds for the next generation of farmers.

The momentum of the Northeast's

The Northeast Sustainable Agriculture Working Group

The Northeast Sustainable Agriculture Working Group (NESAWG) is a network of organizations and individuals representing farm, environmental, consumer, food-security, government, education, and other constituencies.

The organization believes that building a food and agriculture system that is regionally focused—and truly sustainable and secure—calls for a systems approach. The members work toward food-system transformation through dialogue, mutual learning, and shared initiatives that link many sectors and stakeholders.

The Northeast Sustainable Agriculture Working Group, www.nesawg.org, focuses on the six New England states, plus New York, Pennsylvania, New Jersey, Maryland, Delaware, West Virginia, and the District of Columbia. It partners with the National Campaign for Sustainable Agriculture and other organizations on specific initiatives.

Photographs in this article are of Hanson's Farm in Framingham, Massachusetts. *Julie Weinstein, photographer.*

local food sector is unmistakable, whether it's measured in the growing number of farmers' markets, CSA farms, or "buy local" campaigns. Such energy is essential for powering the region's diverse agricultural base in the face of growing national and international competition—but is it sufficient?

Ongoing Food-Supply Challenges

Food and agricultural professionals and advocates recognize that ensuring the long-term health of the Northeast's agricultural sector requires stronger regionally scaled cooperation among all the main actors in the food chain—producers, processors, distributors, retailers, and consumers—as well as support by policymakers.

Consider the beef sector. Telling the region's cattle farmers to think small and local may work for a few well-situated farms, but not most. Like other commodity farmers in the Northeast, beef producers are seeing their margins squeezed by larger farms from outside the region that have lower production costs. Some of the largest Midwestern feedlots have as many as 50,000 cattle each, more than all of Maine's beef farms combined.

Rather than racing Midwestern megafarms to the bottom through lower costs, more and more farmers in the Northeast are looking at new ways of rising to the top by offering premium products and by participating in innovative cooperative arrangements that give them better bargaining power with wholesale buyers. One example of the latter is Wolfe's Neck Farm in Freeport, Maine. Wolfe's Neck Farm built a natural beef business from a single herd to 60 different family farms cooperatively selling beef to retail outlets across the region. The assets were transferred to Pineland Farms Natural Meats Inc. of New Gloucester in June, and the endeavor has continued to flourish under the new auspices.

Whether new forms of cooperation like this emerge will depend in part on the changing food policy landscape. There are still many state and federal regulatory barriers hindering the development of regional-scale agriculture and food enterprises. Regional policy networks like the Northeast States Association for Agricultural Stewardship are working to examine such barriers and create a regional identity among state-level lawmakers.

Similarly, members of the U.S. Congress from the Northeast have started thinking regionally through an informal policy coordination group known as the "Eggplant Caucus." The caucus has a big task ahead of it with a new federal farm bill expected in 2007. Historically, the Northeast has been more of a policy taker than a policy *maker* at the national level.

A rising tide of pressure is coming from farmers in the region to make federal policy more relevant for their farms. One way this pressure is exerting itself is through a louder and more concerted push for reducing the size of government payments to the very largest farms, few of which are located in the Northeast. A new policy approach that rewards farmers for how they farm, not what or how much they farm, would be a transforming advantage for Northeast farmers.

Intelligent policies and new forms of regional cooperation can help ensure the future vitality of Northeast agriculture. In the end, though, the type and scale of our food system will depend at least as much on consumer choices. If there are enough eaters voting with their forks in support of locally and regionally based farms, then those farms will not only survive but thrive.

We are well on the way to developing a sense of Northeast "food citizenship." Many eaters express loyalty to locally grown products, and "eating regionally" is emerging as a highly marketable concept. With Cape Cod cranberries, Northeast beef, and restaurants that feature local produce, hanging together has never been so easy.

Roger Doiron *is regional organizer for the Northeast Sustainable Agriculture Working Group. He is based in Scarborough, Maine.*

Mapping New England

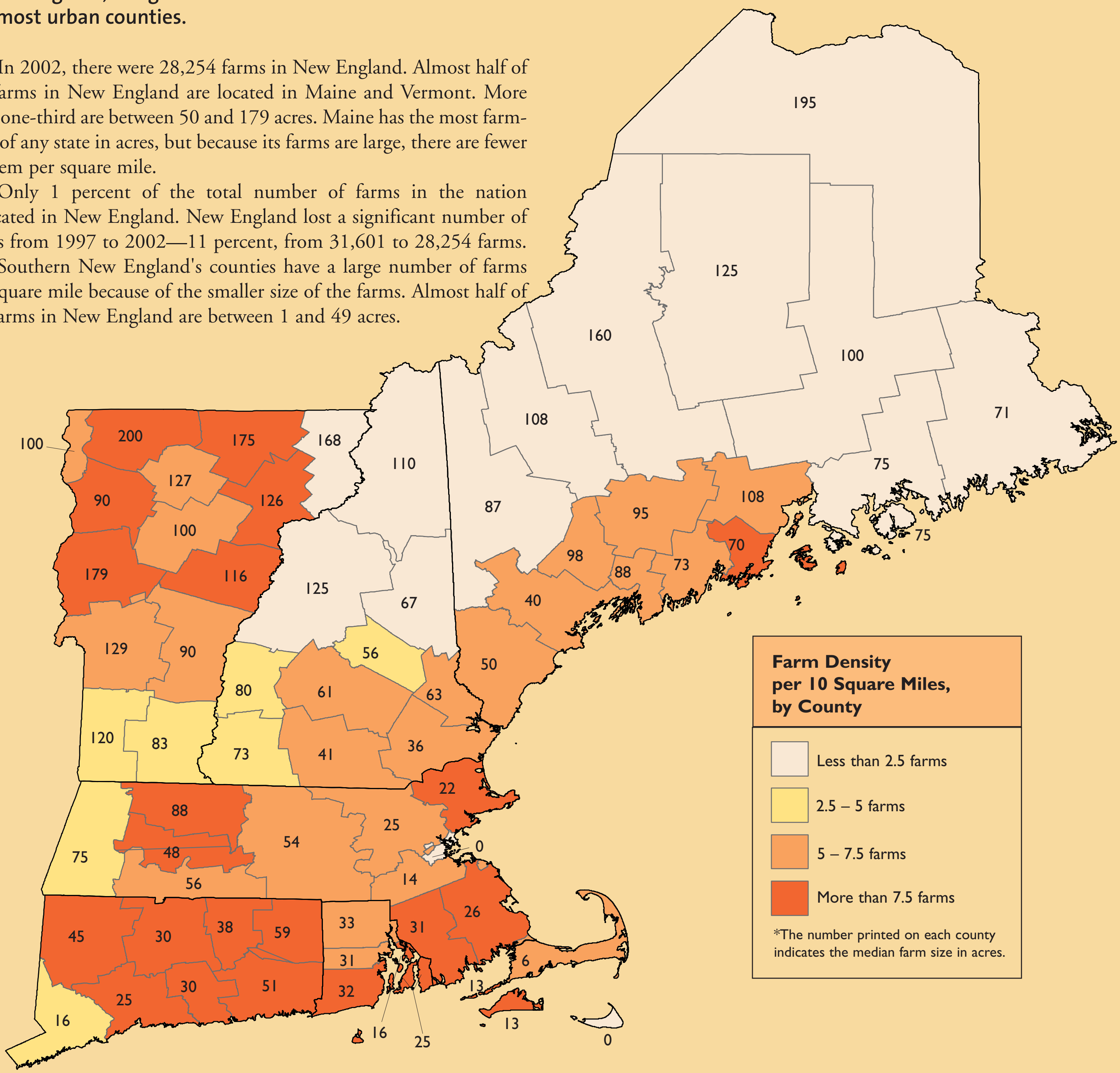
Farm Concentration

In New England, the greatest concentration of farms is often in the most urban counties.

In 2002, there were 28,254 farms in New England. Almost half of the farms in New England are located in Maine and Vermont. More than one-third are between 50 and 179 acres. Maine has the most farmland of any state in acres, but because its farms are large, there are fewer of them per square mile.

Only 1 percent of the total number of farms in the nation is located in New England. New England lost a significant number of farms from 1997 to 2002—11 percent, from 31,601 to 28,254 farms.

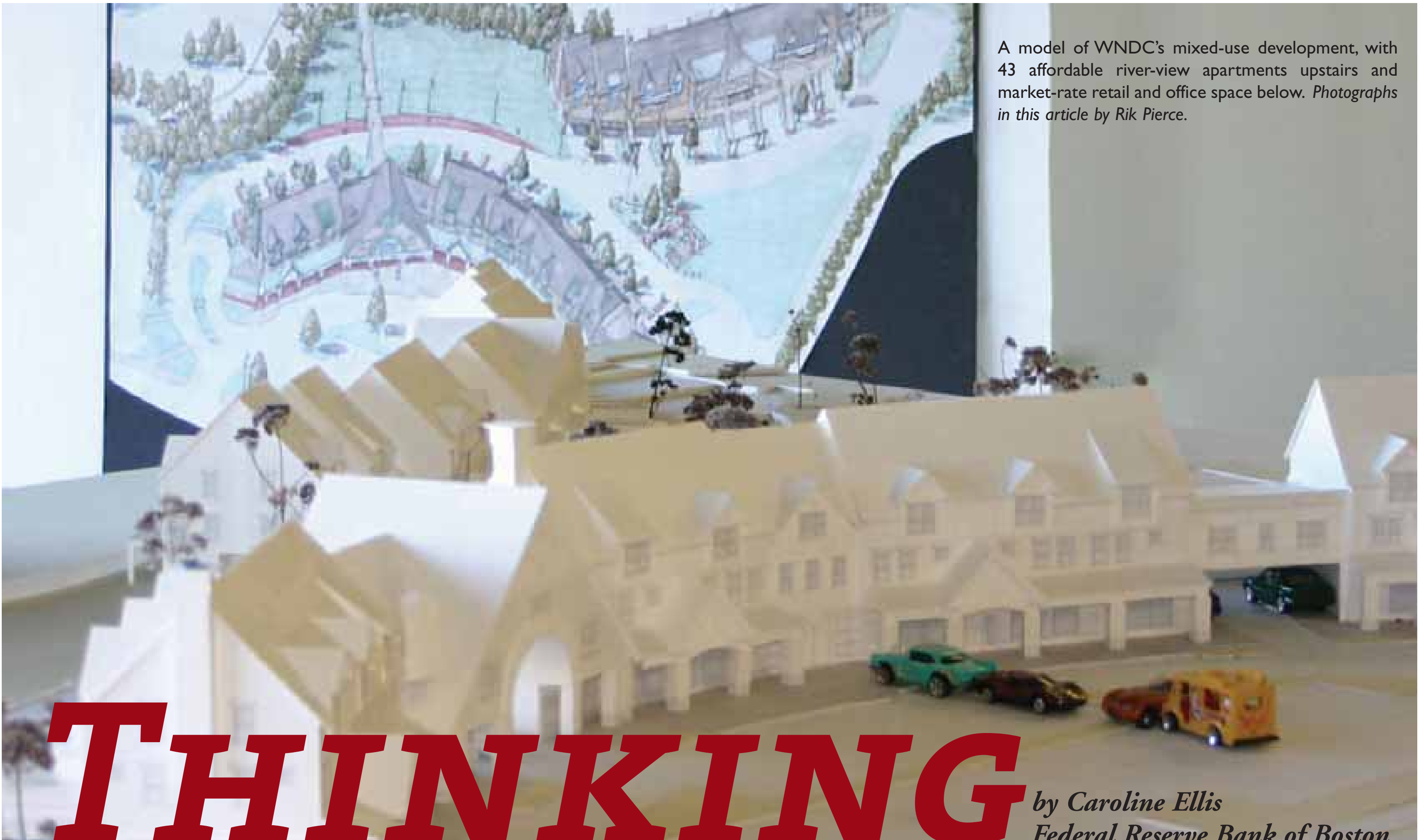
Southern New England's counties have a large number of farms per square mile because of the smaller size of the farms. Almost half of the farms in New England are between 1 and 49 acres.



Note: For the purpose of the Census of Agriculture, a farm is any place from which an amount of $1,000 or more of agricultural products was produced and sold, or normally would have been sold, during the census year. The $1,000 value is not adjusted for inflation.

Map: Ricardo Borgos, Federal Reserve Bank of Boston.

Source: 2002 Census of Agriculture.



A model of WNDC's mixed-use development, with 43 affordable river-view apartments upstairs and market-rate retail and office space below. *Photographs in this article by Rik Pierce.*

Thinking Holistically

Woonsocket Neighborhood Development Corporation

by Caroline Ellis
Federal Reserve Bank of Boston

On one level, this is about a new idea in affordable housing—rental units specially designed for in-home day care so that low-income providers may get licensed to work at home and low-income neighbors may have safe child care while they are at work.

On another level, it is about how four particular day-care units built by the Woonsocket Neighborhood Development Corporation in Rhode Island exemplify the power of holistic thinking in rescuing a city from decline. There is still work to be done, but with holistic thinking and critical financial assistance—from Local Initiatives Support Corporation, low-income tax credits, NeighborWorks America, Rhode Island Housing, the U.S. Dept. of Housing and Urban Development (HUD), the Rhode Island Housing Commission, and others—a remarkable transformation has begun. It didn't happen overnight.

"In the early 1990s," WNDC executive director Joe Garlick recalls, "this Blackstone River town suffered numerous hits. The departure of mill business, the recession, and a major Rhode Island credit union bust had a cascading effect. Massive housing abandonment was the result, and institutions like the FDIC were stuck with unwanted properties."

Around this time, Woonsocket Neighborhood Development Corporation, which had been working since 1988 to create affordable housing for families all around Woonsocket, started to focus on Constitution Hill. In this once pleasant neighborhood, absentee ownership, boarded-up buildings, crime, drugs, and prostitution were making life for the remaining residents a struggle. Garlick believes that property owners "had pretty much given up on the neighborhood."

Fortunately, two-thirds of the board of WNDC lived in and around the area and still cared. They remembered better days and longed to restore the neighborhood, impossible as that seemed.

Stan Eason, now 39 and a WNDC construction supervisor, recalls the neighborly Constitution Hill of his childhood. He also remembers that when things turned bad, the community heard many empty promises about improvements. "All we ever got were trees," Eason says.

So when WNDC turned its attention to Constitution Hill revitalization in 1994, he understood why the remaining neighbors were skeptical that it would ever improve. Nevertheless, Eason and a few others decided to give WNDC a chance.

"Even an old car that hasn't been maintained can come back if you give it some oil and start to take care of it," he told people. "You need to be a voice for your neighborhood. Even if things are beyond your control, you need to get on the phone and call."

Joe Garlick believes that the decision of the Woonsocket police to open a substation for Constitution Hill was "a timely piece that helped" but that having people who cared about the neighborhood was the most critical element in the eventual turnaround.

Through grants and loans, WNDC began to buy unwanted neighborhood property and keep a close eye on it. Until the group had the funds and permits to start renovating, it made sure that buildings were securely boarded to discourage crime. "We cut the grass, we put strategic lights in, and once we started construction, there were no longer any places to hide."

Financial Fitness Classes

All WNDC tenants are supposed to attend a financial fitness class. In addition, if they think they may want to buy a home, they may take a $35 eight-week home-buyer education class, which provides certification for two years. The class helps first-time home buyers learn about such matters as saving, budgets, and getting their credit in order so they can get a mortgage. With the certification, they can get help with a down payment and closing costs.

The Child-Care Units

The idea for child-care units didn't surface until 2002, during the third phase of the affordable-housing development on Constitution Hill. It grew out of a series of community meetings held as part of a neighborhood-revitalization planning effort that was funded by Rhode Island Housing and Mortgage Finance Corporation.

One of the meetings was with Connecting for Children and Families, Inc. (CCF), and with members of CCF's home child-care support network. Through the network, set up to improve and sustain the supply of affordable child-care slots in Woonsocket, CCF provided ongoing training and technical assistance to providers.

The initial focus of the 2002 meeting was to solicit ideas and suggestions on projects that would improve targeted neighborhoods. As the meeting drew to a close, the conversation turned to the difficulty of starting a home child-care business if the provider was a renter. Landlords were not interested in having more children around or in making the modifications needed for securing a license from the R.I. Department of Children, Youth, and Families. Play yards, extra exits, smoke detectors, and the like were unwanted expenses.

At this point in the meeting, WNDC came up with some holistic and creative thinking about addressing the child-care need in its current affordable-housing project.

With help from HUD's Low Income Housing Tax-Credit (LIHTC) program, WNDC was well into the planning phase of a 19-unit project that was part of its ten-year Constitution Hill initiative. Once this third phase was complete, 109 apartments in 33 buildings would be substantially rehabilitated and no abandoned houses would remain. With the neighborhood safe, what better time to incorporate apartments for in-home child-care providers?

Several questions needed to be answered first:

- What additional building-code and state-licensing requirements would the child-care units be required to meet;
- Were there any restrictions in the LIHTC program that would prohibit incorporating the provider units in the project; and
- Were there any prohibitions under the Federal Fair Housing Act or the Americans with Disabilities Act?

Local Initiatives Support Corporation (a national organization whose Rhode Island office has over time invested close to $20 million in WNDC through loans and grants) provided $7,000 to research the issues. WNDC's architect, John O'Hearne of O'Hearne Associates in North Smithfield, Rhode Island, did the necessary code research, and Kristin DeKuiper and Christopher

Brenda Flores, home child-care provider, with Kiara T. "WNDC gives you an opportunity to progress," Flores says.

Stan Eason, WNDC construction supervisor, says, "People's spirit has been rekindled."

B. Hanback of Holland & Knight, LLC, addressed other legal and regulatory issues. The research showed that the idea could work.

Getting Legal Advice

When Garlick questioned WNDC's attorneys in July 2002, a set-aside for in-home child-care units, as far as he knew, had never been attempted in an affordable-housing project. In a letter, he described the plan for phase three on Constitution Hill, which called for senior housing, child-care, and other units.

Units for in-home child care would have a finished basement that included a sink, a half bath, and cabinets. The letter explained that although none of the finished basements were handicapped accessible and none of the phase-three units for families were handicapped accessible, two of the senior-citizen units were. Since Rhode Island Housing required that, overall, 5 percent of units in a project be handicapped accessible and two out of the 19 in phase three qualified, he believed that the plan exceeded the regulations.

Continuing to look at the initiative holistically, Garlick emphasized the need for child care in Woonsocket: "The latest RI KidsCount analysis estimates that there is a shortage of 800 slots in the city. Renters hoping to start a licensed home child-care business are at a great disadvantage. This is unfortunate since, in addition to alleviating a community shortage of licensed slots, it is also a good way for very low-income women to supplement their income. Licensed providers are also eligible to receive state health-care coverage."

Hanback's detailed response included some reassuring language: "Both the IRS and the Treasury Department have taken the position that low-income housing projects may give preference to certain classes of tenants as long as those preferences do not violate HUD nondiscrimination policies. . . .We can think of no valid reason that setting aside units for tenants who desire to operate home daycare businesses would violate HUD's nondiscrimination policies or the federal Fair Housing Act."

And ultimately, because the Americans with Disabilities Act is less stringent about renovated buildings than about new construction, the main modifications were additional exits, smoke detectors, and bathrooms. Their cost amounted to $15,000 to $20,000 per unit. The Rhode Island Housing Resources Commission, through its Building Better Communities program, and the Neighborhood Reinvestment Corporation (now called NeighborWorks America) provided the funding to complete the child-care units as a part of the 19-unit project.

Today four home child-care business are flourishing on Constitution Hill.

Woonsocket Neighborhood Development Corporation's director of community building and organizing, Margaux Morisseau, left, with Liz Burch, family home provider consultant for Connecting for Children and Families.

Mill Town on the Upswing

Margaux Morisseau is the director of community building and organizing for the Woonsocket Neighborhood Development Corporation. There is nothing she would rather talk about than the improvements in Woonsocket since WNDC and other neighborhood groups began collaborating 17 years ago. The granddaughter of French Canadian mill workers who tell stories of dyes turning the Blackstone River different colors every day, she is as excited as they are about the cleaner water and the plans for the abandoned mills.

Her tour of Woonsocket, which may include taking reporters to a Constitution Hill child-care unit or two, is comprehensive. One of the neighborhood highlights is the Child Care Center belonging to Connecting for Children and Families. Morisseau and Liz Burch, family home provider consultant for CCF, like to reminisce about the building's former life as the worst bar in Woonsocket.

"The people in the neighborhood," says Morisseau, "knew that nothing would improve until the bar was gone. Joe Garlick negotiated for the building with the bartender—passing a paper plate back and forth over the counter until they had a deal."

On her way to the Community Art Center, Morisseau points out the white picket fences of the 100-year-old and older mill-worker houses that WNDC renovated on Constitution Hill. Nearby is a house where the owner-residents "caught the sprucing-up bug" after seeing the neighborhood improve. A yellow house has the distinction of renovation help from Bob Vila, host of the television show "This Old House." The broad parking space behind the homes, says Morisseau as she drives by the community garden and playground, tends to generate neighborly cookouts.

At the Community Art Center, performance artist Michaelle Saintil, a member of the Providence Black Repertory Theater, is the latest artist-in-residence. She gets free rent for a three-bedroom unit with a yard and deck. In exchange, she provides 12 hours a week of after-school classes to Woonsocket students from first grade through twelfth, keeping them busy with poetry, the spoken word, acting, photography, and writing. The center has a full kitchen, with food provided by the local food bank.

Morisseau says that WNDC, having successfully tested the teacher-in-residence model for six years, intends to renovate a boarded-up mill to create a learning center with apartments for six new teachers. Like the artist-in-residence, the teachers will pay utilities but no rent. They will have a one-year contract, renewable each year for three years.

Morisseau gives Garlick much credit for the creative approach that has involved WNDC in both big innovations like the child-care units and small ones like using origami to teach young children fractions ("first you fold the paper in half; then you fold it in quarters"). But in the end, she adds, the secret of success is "the people themselves". . . the people and nonprofits of Woonsocket collaborating to solve problems and build economic sustainability in an old Rhode Island mill town.

The exterior decoration of the Community Art Center was created by neighborhood children and an artist-in-residence.

Digital Vision/Getty Images

Giving and Receiving
in the Nonmonetary Economy: Time Banks

by Anna Afshar
Federal Reserve
Bank of Boston

A 2001 article by Sue Halpern in *Mother Jones* magazine tells the story of an Ivory Coast immigrant who assimilated faster than others because of his involvement in a form of exchange called *time banking*.

By night, Issouf Coulibaly worked as a machine operator in a Portland, Maine, rotor factory. By day, he swept the floor of the Portland Ballet, did babysitting, or translated correspondence into French. The work was voluntary, but it was not volunteer work. Coulibaly was a member of East End Time Bank, a collection of about 700 people in Portland from all walks of life who exchange hours of labor.

The bank connects Portland residents with one another and with services. In exchange for his hours, Coulibaly bought a computer, saw his first ballet, and took driving lessons. He also built friendships through the time bank and decided to stay in Maine rather than join fellow Ivorians in Philadelphia.

Time banking is big in New England. Of the 65 time banks across the country, 11 are in Massachusetts, Maine, and New Hampshire. And the New England Time Banks network, headquartered in Portland, is the clearinghouse for the national network of time banks, Time Banks USA (http://www.timedollar.org).

What Is Time Banking and How Does It Work?

Time banking is an economic and social exchange. Its currency is time, and the unit of measure, the hour. Time bank members contribute hours of labor—gardening, tax preparation, wallpapering, medical services, and more—in return for *Time Dollars*, which they can then redeem for services from other members. According to Time Banks USA, the exchanges provide concrete economic benefits for communities and the organizations sponsoring them. They also help build the social networks that all communities need.

Time banking was founded in 1987 by Edgar S. Cahn, a former civil rights litigator, who believed that all community residents—senior citizens, young people, professionals, the disabled, immigrants, and others—are important in implementing change for the better.

Cahn maintains that the social welfare system defines certain people as recipients, neglecting the strengths, resources, and talents that they have to offer. In his book *No More Throw Away People*, Cahn coined the phrase *co-production* to describe the process by which individuals work with professionals and social service agencies to produce benefits for their community. The use of Time Dollars is one way to promote co-production. When an individual "spends" the currency for a service from another member, the recipient then has an obligation to contribute to someone else.

There are two main types of time bank structure. The first and most popular structure is *neighbor to neighbor*. Neighbor-to-neighbor time banks involve individuals in a defined neighborhood. East End Time Bank is an example. It began in Munjoy Hill in 1996, when long-time residents were aging or leaving and immigrants were moving in. It was so successful at bridging cultures and providing benefits that additional communities signed on.

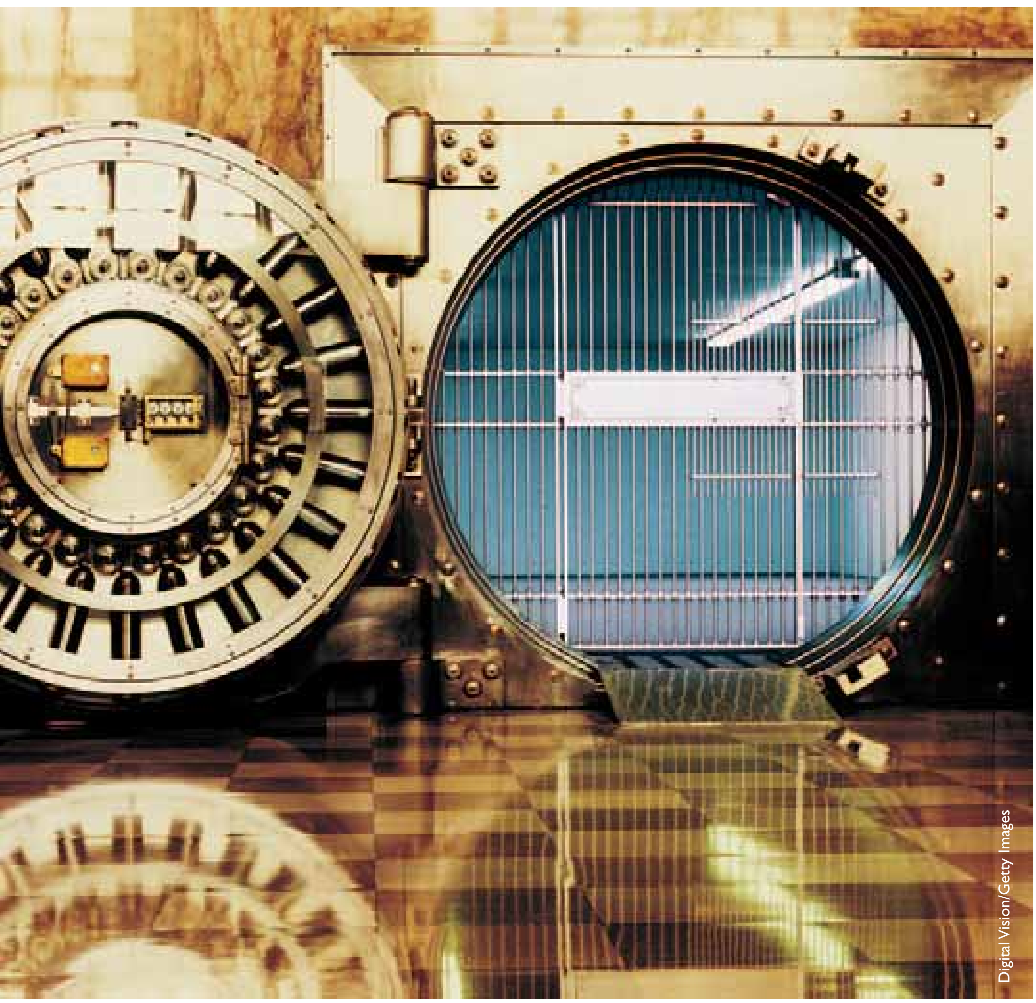
The second structure is *specialized*. Specialized time banks either limit membership—say, to members of a health-maintenance organization (HMO) or to

Time Banks: Current Uses

- Connecting refugees with local residents and resources in Portland, Maine
- Mobilizing youth for peer tutoring in Chicago, Illinois
- Providing the elderly with practical help and companionship in Brooklyn, New York
- Providing support to families of children with severe developmental and emotional problems in Boston, Massachusetts
- Providing an alternative juvenile justice system in Washington, D.C.

students in a school district—or else choose a limited scope of activities, such as tutoring.

An innovative example of a specialized time bank is the Time Dollar Youth Court in Washington, D.C. It cooperates with the juvenile justice system to handle youthful offenders, who appear before a jury of peers and receive sentences of community service, life-skills training, and mandatory jury duty in Youth Court. The intervention makes young people part of the solution while tapping community organizations for youth support services.



Digital Vision/Getty Images

What Are the Benefits?

Time banks can provide individuals with services that they might not otherwise access and can make up for gaps in social services. Seventy medical practitioners at East End Time Bank, for example, provide services to members, many of whom have no health insurance. Although providers of professional services may receive less in return than they would in a monetary transaction, most participate because they want to contribute to their community.

Time banks recognize and promote the value of work in the nonmonetary economy. Participants have been known to use Time Dollars to finance midwife services, a wedding, or a bequest. The Internal Revenue Service's rules for time banking, unlike its rules for the barter system, consider Time Dollars tax-exempt.

Time banks also may provide savings to sponsor organizations. The Sentara group of hospitals in Richmond, Virginia, for example, saw a one-year savings of $80,000 after it instituted a call-in system that paid trained volunteers in Time Dollars for assessing the condition of asthma patients, offering help when possible, and referring serious cases to the disease-management team.

Another example is Elderplan, Metropolitan Jewish Health System's Social HMO, located in Brooklyn, New York. In its Member-to-Member (M2M) program, participants help one another with errands, transportation to medical appointments, minor home repairs, language translation, social visits, and other services.

A multiyear evaluation of the M2M program released by Elderplan in 2003 showed that time banks could help HMOs deliver long-term care effectively to many elderly patients while postponing their move to nursing facilities. Although the sample size of the M2M evaluation was too small for statistically significant results, the time bank also appeared to improve members' mental health and to decrease loneliness.

Time Banks USA sees time banking as a vehicle for social change. First, the initiative redefines the value of individuals and the work they do, with all services valued at the same rate. Second, time banking fosters reciprocity. Third, it builds social capital through relationships, trust, and support networks. Fourth, it enables a broad spectrum of people to meet. According to Auta Main, director of New England Time Banks, time banking is "a way of bringing together diverse populations of people that may not have met otherwise. We are changing the face of communities." That said, time banks are often set up to reach traditionally disadvantaged groups. The East End Time Bank's membership, for example, is 75 percent low-income, 30 percent seniors, 15 percent disabled, and 15 percent single parents.

Steps to Start a Time Bank

1. Consider how a time bank can help your organization further its mission.
2. Become familiar with time banking: visit a time bank in your area or attend a time-banking introductory workshop. Consider running a "mock" time bank.
3. Find a fiscal sponsor or obtain 501(c)(3) status. Raise funds for the annual membership and start-up training fees.
4. Complete the two-day start-up training.
5. Start your time bank

Who Is Getting Involved?

Although East End Time Bank was the result of a group of dedicated individuals getting together, often an established local organization sponsors a time bank. United Way and the Annie E. Casey Foundation have sponsored time banks, as have municipal governments. East End Time Bank is currently working to extend its reach through a partnership with Catholic Charities. Catholic Charities will make use of its community knowledge to identify immigrants and refugees when they move into a neighborhood, and it will invite them to join the East End network.

Time banking is expanding at a steady pace. In the Gulf Coast region, the first time bank set up in response to a natural disaster will help victims of Hurricane Katrina. There are currently 300 banks in 21 countries, including 65 in the United States. The United Kingdom is investigating formally incorporating time banks into its national health system.

Recent examples of New England time banking include both government and social service initiatives:

• The mayor of Somerville, Massachusetts, Joseph Curtatone, has put his weight behind a city program that promotes mutual assistance among seniors and is coordinated by the city's Council on Aging. Several city agencies will participate, and nearby Cambridge College has already conducted a training course for staff.

• The Brazilian Immigration Center, the largest Brazilian social service agency in the region, is working with New England Time Banks network to establish a time bank in Allston, Massachusetts, for the local Portuguese-speaking community.

• In Lynn, Massachusetts, three social service agencies have pooled funds to create an experimental model to help families of mentally retarded children connect with and help one another.

Starting a Time Bank

Key elements in starting a time bank are dedicated individuals, assessment of the potential, and some start-up capital. The capital is for launching a database for tracking hours, providing training, paying the annual membership fee to the national time-bank network (which provides access to regional meetings, national conferences, and advanced training), and paying a coordinator.

A coordinator, even if only part-time, is needed for the first three years to enlist community partners, recruit and engage members, and coordinate and track the service exchanges. After a while, as members learn the system and contribute time to running the time bank, it can become self-managing.

Anna Afshar *is a senior research associate at the Federal Reserve Bank of Boston.*

When an individual "spends" the currency for a service from another member, the recipient then has an obligation to contribute to someone else.

How Fiscal Sponsorship Nurtures Nonprofits

by Jonathan Spack
Third Sector New England

When Tracy Hewitt founded Resource Generation in 1998 to help wealthy young people reach out to the disadvantaged and promote social justice, she realized that her new group lacked the administrative capacity to support its programmatic efforts. So she decided to leave the back-office details to a fiscal sponsor and focus her organization's efforts on its mission.

The sponsorship mechanism enables groups to organize around societal concerns without having to incorporate. It provides an infrastructure that nurtures new leadership, and it can help start-ups organize to challenge conventional practices and approaches to addressing unmet societal needs. It also offers a way to manage specialized responses to cultural communities. In other words, fiscal sponsorships can be a real boon to the fluidity, innovative capacity, and diversity of the community-development and nonprofit sector.

How Does Fiscal Sponsorship Work?

Fiscal sponsors are 501(c)(3) charitable corporations that give unincorporated groups whose missions are aligned with their own a tax-exempt home. Although sponsored programs are not completely independent—they are legally part of the sponsor organization—they nevertheless retain programmatic autonomy and often have separate advisory boards making their strategic decisions. They are responsible for their own fund-raising, and they absorb any shortfall and retain any surplus.

Typically, the sponsor provides accounting, human resources, and other back-office services, with its cost covered by an administrative charge applied to the revenues or expenses of the sponsored program. Third Sector New England has been sponsoring client organizations since its inception, with the typical group staying for several years. Lately, more of them have been asking for help with building their organizational capacity. So TSNE has begun to offer program assessment, information-technology consultation, and strategic-planning guidance.

Who Does Fiscal Sponsorship?

The kinds of groups offering fiscal-sponsorship services are varied. At one end of the spectrum might be might be a church, community foundation, or agency helping an emerging organization on an occasional basis because the sponsor recognizes a mission overlap. At the other end are a handful of groups organized specifically to provide such services. Often these professional fiscal sponsors serve a particular field.

Earth Island Institute in San Francisco, for example, incubates groups involved in environmental activism. TSNE and the Tides Center (San Francisco) provide support mainly to social justice groups. PHFE Management Solutions in Los Angeles works mostly with federally funded projects.

The level of service provided by fiscal sponsors also varies, depending on the sophistication of sponsors' financial and human-resource systems, the availability of shared office space, and the sponsors' capacity to provide mentoring, grant writing, technology support, and organizational development.

Who Uses Fiscal Sponsors?

The groups that seek out sponsors are even more diverse. They may be new groups exploring their viability in terms of attracting members, raising funds, and tackling the host of challenges involved in long-term survival. Such groups often consist of marginalized populations or people passionate about social issues that are not yet recognized by mainstream groups.

Or the client organizations may be well-established and well-funded but aware that their expertise is programmatic, not administrative. Such groups are nearly always unincorporated but have evolved to scale under the comfort and security of fiscal sponsorship and have no incentive to change. In both kinds of groups are a few that want to remain fiscally sponsored projects indefinitely. One sponsored project has actually been with TSNE for 23 years. Such groups do not intend to institutionalize their operations ever, opting to do their community work with as few bureaucratic headaches as possible.

If any sponsored group decides it is not going to be viable in the long term, the fiscal partnership allows for a natural, relatively painless phasing out, especially compared with winding down an incorporation with its potential liability issues and the paperwork for government agencies.

What Are the Risks?

As good as fiscal sponsorship sounds, there are significant risks on both sides of the relationship. On one side, fiscal sponsors are legally responsible for all of the activities of the groups they house. They must therefore screen those organizations carefully before agreeing to partner and must engage in diligent oversight. Sponsoring a nonprofit that has shaky finances or disarrayed leadership and governance is asking for trouble.

On the other side, the group that gets sponsored is dependent on the competence of its sponsor's staff and the reliability of its systems. Due diligence is in order when groups choose a sponsor so that they do not find themselves switching to another organization under chaotic circumstances. A prospective sponsor should have the following:

- A mission and vision similar to that of the group seeking sponsorship;
- Sufficient financial resources to ensure continuous, uninterrupted operation;
- Strong systems plus internal protocols and controls that are based on generally accepted financial and accounting principles and regulations;
- Written policies and procedures for administration and risk management;
- A long-term organizational commitment to fiscal sponsorship;
- Sufficient staff to fulfill the agreed-upon services; and
- Staff people trained to see their role as primarily customer service.

Achieving Goals Together

Good fiscal sponsorships provide a win-win for everyone. The families and communities served through the partnerships are benefited. The unincorporated groups, projects, and grassroots coalitions that have strong, experienced fiscal sponsors can focus their attention on their mission and programs. And the sponsors themselves are able to achieve their own missions more broadly. After all, helping partners achieve their mission is the raison d'être of fiscal sponsorship. And alignment between sponsor and sponsored program, required by IRS rules and regulations, results in more resources getting directed toward the high-level, shared mission.

"At least 15 percent of the time that I would have had to spend on administrative work is put into fund-raising, management, programming, and other critical activities."

Because fiscal sponsorship is by definition a behind-the-scenes service, it is often under the public and philanthropic radar. Both sides to potential partnerships have nowhere to go for reliable information on the pros and cons, the criteria to weigh in advance, or appropriate partnership behavior. There is no organized network to connect up fiscal sponsors with organizations seeking sponsors.

According to TSNE's research and experience, the absence of information has several consequences:

• Many groups cannot find fiscal sponsors at all, which means that they either die on the vine or incorporate independently and devote a disproportionate amount of time and resources to administration. That is an especially critical issue for grassroots groups and those in low-income or minority communities, where the infrastructure support is less developed.

• The quality of fiscal sponsorship varies greatly, and there is no easy way for sponsored groups to evaluate the type and quality of service they are getting.

• Community-based fiscal sponsors that take on groups aligned with their mission sometimes jeopardize their own organization because they do not understand the legal and financial risks.

Recently, a handful of fiscal sponsorship organizations, including TSNE, have joined forces to form the National Network of Fiscal Sponsors. The goal is to build the field in a systematic way, transforming it from a poorly understood, high-risk endeavor to one that is widely accessible, credible, and well-supported. The first collective product of the national organization will be a set of standards. Nearly completed, it will be followed in short order by a handbook for fiscal sponsors.

Fiscal sponsorship is an idea whose time has come. As the current director of Resource Generation, Hez Norton, says of TSNE's help, "At least 15 percent of the time that I would have had to spend on administrative work [without a fiscal sponsor] is put into fund-raising, management, programming, and other critical activities that a director needs to do."

In addition to building the capacities of fledgling groups and helping them achieve sustainability, fiscal sponsorship promotes more practical thinking among everyone in nonprofit world about the viability of longer-term, shared administrative models.

Jonathan Spack *is executive director of Third Sector New England, a regional nonprofit management resource center headquartered in Boston.*

by DeWitt Jones
Boston Community Capital

Green Development:

Improving the Health of Residents and Neighborhoods

David Shipler, author of *The Working Poor: Invisible in America*, recounts a New England story. The mother of an eight-year-old asthmatic boy took him to Boston Medical Center, where doctors gave him inhalers and steroids and urged that environmental changes be made to his home. But the mother ended up bringing the boy back often, missing work and risking her job. The situation didn't turn around until a hospital attorney reinforced the mother's demands that the landlord fix her apartment's mold-producing leaky pipe and discard the carpet full of dust mites.

It doesn't need to be that way. The "green" movement—designing buildings for indoor air quality, energy efficiency, water conservation, and the like—is starting to take hold. The Erie-Ellington homes that Codman Square Neighborhood Development Corporation helped build in 2000, for example, provided 50 green rental units that reduced asthma and other common problems. Cambridge, Mass.-based GreenVillage, a participant in the U.S. Department of Energy Building America Program, designed the development. When GreenVillage's research affiliate, Hickory Consortium, conducted subsequent interviews, it found that 100 percent of the residents who had asthma prior to moving in, had seen improvement.

Community-development financial intermediary Boston Community Capital, which finances projects similar to Erie-Ellington, is one group taking a green approach to funding. BCC's mission is to invest in projects that provide affordable housing, good jobs, needed goods and services, and new opportunities for people who have been locked out of the economic mainstream. Green approaches can boost all four goals.

Energy efficient homes on Ellington Street in the Erie-Ellington area of Dorchester built in 2000. *Photographs in this article are from the Heart of the City database, www.heartofcity.info.*

Erie-Ellington Playground on Erie Street in Dorchester.

Energy efficient homes on Ellington Street.

But what about cost? Considering the cost to society and property owners of cheaply constructed or run-down housing, some added expense on the front end would seem reasonable. But the remarkable fact is that green design doesn't have to be much more expensive. Once green standards are refined, comparisons of green building and conventional building will be more precise, but credible research that included Erie-Ellington showed that total development costs for the projects in the study were on average only 2 percent higher than conventional development costs.[1]

Why Green?

Organizations serving low-income communities do not have to be experts in environmental, engineering, technology, regulatory, or energy issues to be aware of the consequences of not using green principles. Poor environmental, public-health, and design policies have clearly placed an extra burden on low-income individuals. Fortunately, good design can address not just the poor ventilation, mold, and moisture that cause respiratory disease, but other concerns as well.

For example, design that places safe, well-maintained playgrounds and parks in convenient walking distance of homes and schools can improve a community's quality of life while diminishing the obesity epidemic among young people.

Similarly, business construction that limits the exposure of workers and neighborhoods to toxic materials can reduce future societal costs. Jobs in nail salons, floor refinishing, and car painting are often entry points into the economy for immigrants, and design can make them safer.

BCC and its partners in the Green Building Production Network (New Ecology, Tellus Institute, Massachusetts Association of Community Development Corporations, and Local Initiatives Support Corporation) want to help community-development corporations benefit from green trends. Increasingly accepted as standard in the market, green practices can reduce chronic poor health and the absenteeism that undermine advancement in school and work. They can also save energy and heating costs for low-income people.

Many sustainable technologies have proved effective and economical, and policymakers are catching on. For example, Massachusetts now uses sustainable-development principles to evaluate projects it funds. Even developers not funded by the state must meet higher standards for energy efficiency and "healthy" homes. And Boston is asking all major projects to meet the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) standards.

Boston Community Capital also sees potential economic benefits in green development, construction, and renovation. More workers will be needed to fill specialized jobs, and if low-income people get to work on green projects in their communities (where there will be entry-level positions with opportunities for training and promotion), their knowledge is likely to be in demand elsewhere.

One Way to Go Green

Any funding group that chooses to go green should develop its own definitions. For BCC, there are six aspects to a green focus:

First, to be green, BCC-financed development must benefit both the people who live in the new spaces and the borrowers who build the developments.

Second, BCC should focus on areas where it knows it can make a difference—indoor air quality, energy costs, and siting of projects, as opposed to, say, global warming.

Third, the green elements sought for a given project must be appropriate. For example, the renovation of a leased child-care facility could improve indoor air quality and upgrade lighting fixtures, whereas heating systems, windows, and building-orientation issues, which would be beyond the facility's control, would not be required.

Fourth, BCC will encourage green elements but not insist on specific standards or benchmarks until it gains more experience. It will align its funding, information, and technical assistance to help borrowers get the expertise to make the projects as green as possible.

Fifth, BCC will take into account tight budget constraints of community-development borrowers and not require projects to absorb the costs of experimental technologies. However, in looking at cost effectiveness, BCC will consider life-cycle costs, not just initial costs for design, appliances, and building systems. For example, some insulation may cost more but be tighter and more healthful.

Finally, because green technology, regulations, standards, costs, and pricing are evolving quickly, BCC's framework, policies, and requirements will be dynamic.

Other funding organizations interested in taking a green approach to community development should check the LEED standards and also the Enterprise Foundation and the National Resources Defense Council's Green Communities criteria. Their standards define green elements including siting, solar orientation, natural lighting, use of materials, indoor air quality, energy, water-efficient appliances, use of renewable energy or distributed generation capacity, and recycling of building materials.

What Has Been Learned

Boston Community Capital's experiences with early-stage financing and technical assistance to borrowers, combined with its observations of others' community-based green initiatives, have informed its commitment to green standards. Five major lessons have been learned so far:

• The most effective and least costly way to incorporate green features into a project is to consider greening opportunities at the earliest stages of the development process—especially through an integrated design approach.

• Borrowers are interested in embracing the principals of sustainable development, but many do not believe they have the knowledge to make appropriate choices about including green elements in projects.

• Although green development practices have advantages such as enhancing the asset value of buildings, and lowering operating and maintenance costs, those benefits generally are not recognized or captured in the market or in the financing system—particularly when it comes to housing. Gaining recognition is complicated because the life-cycle benefits of lower operating costs often accrue to new owners or lessees rather than project developers. Also, regulations often inhibit the use of innovative technologies and materials and may have requirements that would be redundant in green construction.

• The strategies that lower the costs, speed up innovation, and limit the risks of adopting new technologies require a level of collaboration and aggregation that is unfamiliar in the disaggregated field of community development.

• Few financing tools are available to nonprofit organizations at the critical early stages of development. Moreover, those resources that are available are not easily accessed and provide no incentives for funding the early-stage costs of green development.

Initial Steps

The Green Building Production Network is focusing on three areas: developing financing products to support green development; aligning borrowers and projects with resources, public approval procedures, incentives, and innovation from other fields; and capturing and sharing information, data, and best practices on green development.

Because start-up funding is the hardest financing for community-development groups to acquire, Boston Community Capital is expanding its financing products to cover the early-stage costs for integrated and green development. It will also consider financing specific first-cost investments that generate savings in utilities or operating costs. Where applicable, it will work with borrowers to arrange alternative financing, such as leasing or contracts with energy-service companies, and it will explore financing-aggregation strategies that can capture underutilized financial and tax benefits.

Home in the process of renovation on Hewins Street in Erie-Ellington area of Dorchester.

Despite widespread interest in green development, the financing, permitting, and policy systems are rarely aligned to support it. For example, agencies that encourage green development as public policy may shy away from approving higher-density projects, may have funding requirements that limit capital or first-cost expenses, or may have permitting policies that do not accept new technologies.

Additionally, the finance system for community development is fragmented and loosely coordinated, requiring many sources of funding, separate approval procedures and timetables, and multiple or even competing views of green development and technology.

The Green Building Production Network is working on models for aligning community-development systems and green policy goals. Future discussions among the network's development teams and public agencies should lead to a more efficient and streamlined process for public review and approval. The process needs to include early involvement of regulatory staff, common staff across all green projects, and concurrent—not sequential—review.

The network also will explore customized relationships with green product manufacturers, distributors, and utility companies, offering them an urban test market or R&D laboratory for new products and the chance to develop long-term customer relationships.

Boston Community Capital plans to create financing incentives that encourage borrowers to share specialized green expertise. It also envisions a web-based green checklist linking to best practices, development of common measures for tracking a building's long-term performance, and research on the best ways to market green properties.

DeWitt Jones *is Loan Fund President and COO of Boston Community Capital, which provides debt and equity financing throughout the Northeast.*

Endnote

[1]"The Costs and Benefits of Green Affordable Housing" (Cambridge, Massachusetts: New Ecology, 2005), http://www.newecology.org.

Phishing and Pharming:
Helping Consumers Avoid Internet Fraud

by Dawn Hicks
Federal Reserve Bank of Boston

Photodisc/Getty Images

Gone are the days when consumers had to step outside to purchase groceries, book flights and vacations, rent or purchase cars, or just transfer money between bank accounts. Today, they can simply grab their checkbooks, debit cards, or credit cards, sit down at a computer in the comfort and safety of their homes and complete such transactions with passwords and personal identification numbers, or PINs. Thanks to advances in technology, the types of transactions they can now complete online are seemingly endless.

Unfortunately, the increase in online transactions has been accompanied by an increase in online identity theft. Moreover, fraudulent access to personal information over the Internet is increasingly sophisticated. Two forms of identity theft, *phishing* and *pharming*, are at the forefront of this Internet piracy.

The Crimes

Phishing lures consumers into divulging their personal financial information to fraudulent web sites, also known as spoofed web sites. The phisher may send an unsuspecting victim an e-mail with a link to a fraudulent bank site. The e-mail instructs the recipient to click on the supposed bank's link to confirm personal account information. Often the message sounds plausible, describing a problem that feels serious to victims. To straighten out, say, a purported overdraft, trusting customers provide PIN numbers or passwords. The phisher can then use that personal data to clean out bank accounts or commit other identity theft

Pharming is more sophisticated. Pharmers also send e-mails. However, the consumer can be duped by the pharmer without clicking on a link or opening an attachment. Simply opening the e-mail message does the damage. The pharming e-mail message contains viruses, or Trojan horses, that install small software programs on the user's computer—a good reason to advise everyone to get antivirus software. The pharming e-mail installs the stealth application so that whenever the consumer tries to visit the official web site of an organization, the program redirects the browser to the pharmer's fake web site.[1] Thus, instead of going phishing for personal data by luring victims through a web link, the pharmer harvests information that the oblivious victim enters into the counterfeit web site.

And that's not all. The latest form of pharming doesn't even require e-mail. The Anti-Phishing Working Group (APWG) reports that password-stealing Trojan horses can attack through Microsoft Messenger using something called *keyloggers*. Keyloggers are viruses that track a user's keystrokes on legitimate sites and steal passwords.[2] Victims who use the same password on many sites thus expose themselves to multiple frauds.

The Impact

The APWG estimates that phishing attacks grew by an average of 36 percent between July 2004 and October 2004. Between August 2004 and October 2004, the number of new and unique phishing e-mail messages more than tripled from 2,158 to 6,597.[3] The APWG also reports that the leading geographic location for phishers is the United States, with 32 percent of the world's phishing sites.[4]

As much as 81 percent of all phishing attempts made by January 2005 were targeted at customers of large financial institutions, although phishers prey on others as well.[5] Recent trends reveal that phishers also are targeting smaller financial institutions, such as community banks and credit unions. The smaller financial institutions tend to be more vulnerable to attacks because they have fewer resources to employ large security teams or implement effective security systems.

The financial loss to consumers and institutions can be tremendous. Gartner, Inc., a Stamford, Connecticut-based research and advisory firm, conducted a survey on phishing and identity theft in May 2005. The study revealed that 1.2 million Americans lost a total of $929 million in the previous year because of phishing.[6] And in his study "Phishing: A Growing Threat to Financial Institutions and E-Commerce," Frederick W. Stakelbeck, Jr., of Philadelphia's Federal Reserve Bank determined that a typical phishing attack can cost a financial institution between $50 and $60 per account compromised, or $50,000 per attack.[7] Those figures do not even cover the cost of time spent disabling the phishing sites, resetting legitimate user passwords, and installing software patches.

Photodisc/Getty Images

In advising consumers, advocates should be careful that their warnings do not cause anyone to overreact and give up online transactions. Exaggerated perceptions of threats can undermine customer convenience, as well as being damaging to financial organizations. A Forrester Research study reveals, for example, that 26 percent of consumers have elected not to apply for a financial product online; 20 percent decided not to open e-mail from their financial providers; and 19 percent would not enroll in online banking or bill payment.[8]

The Solution

Institutions are taking steps to protect customers from phishers and pharmers. In June 2005, Bank of America, for example, initiated SiteKey, a web site authentication service. The software makes it easier for users to determine when they are on the authentic Bank of America site.[9] Bank of America also implemented a personal digital-image system. The customer chooses a "secret image" for logging on to the web site, and if the secret image does not appear when he or she goes to an apparently authentic Bank of America site, it is a fake site.

Frederick Stakelbeck of the Federal Reserve Bank of Philadelphia determined that a typical phishing attack can cost a financial institution between $50 and $60 per account compromised, or $50,000 per attack.

Software companies also are taking steps to prevent Internet piracy. Microsoft recently announced that it is creating an "antiphishing" feature for Windows Internet Explorer 7, the next version of its browser. Users will be interrupted and warned if they attempt to visit a known phishing site.[10] In addition, antiphishing developers have new software that can collect and encrypt personal data and store it safely on the user's hard drive. When the user enters personal information in response to an unknown e-mailer or a mysterious pop-up box, the software will display an alert.[11]

Netcraft, www.netcraft.com, offers an antiphishing toolbar that also works for pharming. The software alerts users to the geographical location of the site they are accessing. Then if users attempt to visit their U.S. bank's web site and the software reveals that the site is actually originating from Ukraine, for example, they know they should contact the institution through recognized channels before divulging personal financial information.[12]

The U.S. Congress also is taking steps to protect Internet users. In his February 2005 introduction to the Anti-Phishing Act of 2005, Vermont Senator

Patrick Leahy said that the act would add two new laws to the U.S. Code. The first law would "prohibit the creation or procurement of a web site that represents itself to be that of a legitimate business, and that attempts to induce the victim to divulge personal information, with the intent to commit a crime of fraud or identity theft."[13] The second would prohibit "the creation or procurement of an e-mail that represents itself to be that of a legitimate business, and that attempts to induce the victim to divulge personal information, with the intent to commit a crime of fraud or identity theft."

The fraudulent e-mail itself would be sufficient for prosecution, whereas under current law, phishers can be prosecuted only if the crime has taken place and been reported. Unfortunately, by that point, the thieves have already packed up their fake sites and moved on. The proposed legislation would help law enforcement entities to intervene sooner.

In the meantime, awareness is key. Consumer advocates might recommend the preventive measures listed on the APWG web site:

- Be suspicious of any e-mail with urgent requests for personal financial information;
- Do not use the links in an e-mail to get to any web page;
- Avoid completing forms in e-mail messages that ask for personal financial information;
- Be sure to use a secure web site when submitting credit card or other sensitive information via the web browser;
- Consider installing a web browser tool bar for protection from known phishing fraud web sites
- Regularly log on to online accounts;
- Regularly check bank, credit, and debit card statements to ensure all transactions are legitimate;
- Make sure the browser is up-to-date and security patches are applied.[14]

Advocates also might tell consumers that if they believe they are being targeted by phishing or pharming, they should notify the Internet Fraud Complaint Center of the FBI by filing a complaint at www.ifccfbi.gov. Alternatively, they may forward the entire suspect e-mail to one or more of these:

- reportphishing@antiphishing.com
- the Federal Trade Commission at spam@uce.gov
- the company that has been mis represented (for example, an e-mail purporting to be from eBay, should be forwarded to spoof@ebay.com)


Photodisc/Getty Images

Dawn Hicks *is a member of the Federal Reserve Bank of Boston's Consumer Regulation Outreach Group.*

Endnotes

[1] US Netizen, "A New Security Threat – Pharming" (2005), http://www.usnetizen.com/articles/pharming.html.

[2] Jane Larson, " 'Pharmers' hit online bank users with fraud scam," *The Arizona Republic*, April 26, 2005.

[3] John Leyden, "Phishers tapping botnets to automate attacks," *The Register*, November 2004, http://www.theregister.co.uk/2004/11/26/anti-phishing_report.

[4] Other top countries are China, 13 percent; Korea, 10 percent; Japan, 3.1 percent; Germany, 2.7 percent; Brazil, 2.7 percent; Romania, 2.2 percent; Canada, 2.1 percent; France, 2.7 percent; and Australia, 2.1 percent.

[5] See NW3C: National White Collar Crime Center, http://www.nw3c.org/.

[6] Gregg Keizer, "Phishing costs nearly $1 billion," *TechWeb News*, June 24, 2005.

[7] Frederick W. Stakelbeck, Jr., "Phishing: A growing threat to financial institutions and e-commerce," *SRC Insights*, fall 2004.

[8] Paul Gibler, "Phishing, pharming, spimming, and spoofing," *Credit Union Executive Newsletter*, April 18, 2005, p. 7.

[9] Cameron Sturdevant, "Spam tools take on anti-fraud chores," *eWeek*, June 20, 2005, http://www.eweek.com.

[10] Ina Fried, "Microsoft MSN offers scam-site detector," *ZDNet News*, August 25, 2005, http://news.zdnet.com/2100-1009_22-5843325.html.

[11] Paul L. Kerstein, "How can we stop phishing and pharming scams?" *CSO Update*, July 19, 2005, http://www.csoonline.com/talkback/071905.html.

[12] Amanda C. Kooser, "Pharm's way: Learn how to protect yourself from the latest Internet attack," *Entrepreneur*, July 2005, p. 22.

13 Patrick Leahy, "Statement of Senator Patrick Leahy: Introduction of the anti-phishing act of 2005," February 28, 2005.

14 For more information, visit www.antiphishing.org/consumer_recs.html.

Photograph by Rik Pierce.

To be notified when the latest issue of *Communities & Banking* and other Federal Reserve Bank of Boston publications are available on the web, sign up for the Bank's free E-Mail Alert! service at www.bos.frb.org/genpubs/email/index.htm.

FEDERAL RESERVE BANK OF BOSTON™

Communities & Banking

Public and Community Affairs
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210

Change Service Requested

FIRST CLASS
U.S. Postage Paid
Boston, MA
Permit No.
59702