Federal Reserve Bank of Boston

Communities & Banking

volume 16, number 3 Summer 2005

Also Inside:

Immigrant Entrepreneurs

Low Income Housing Tax Credits

First Person: Laurie LaChance

Straight A's?

Evaluating the Success of Community/University Development Partnerships

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 within New England.

Editor
Mamie Marcuss

Graphic Design
Heidi Furse

Production Coordinator
Ann Eggleston

Editorial Board
Patricia Allouise
Marques Benton
Carrie Conaway
Ann Eggleston
Jane Katz
Matt Quigley
Bob Tannenwald

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

The views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System. Information about upcoming events and organizations is strictly informational and not an endorsement of these activities.

Articles may be reprinted if *Communities & Banking* and the author are credited and the above disclaimer is used. Please send copies to:

E. Matthew Quigley
Communities & Banking
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(617) 973-3959

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

Cover image: Digital Vision/Getty Images

Contents

3 Straight A's? Evaluating the Success of Community/University Development Partnerships

Partnerships between institutions of higher education and their communities come in all shapes and sizes. Cornell University Professor Kenneth M. Reardon considers which elements of these partnerships contribute to successful collaborations.

Digital Vision/Getty Images

11 Mapping New England: Changes in Median Home Prices in Cities and Towns in Southern New England, 2000 to 2004

12 Low Income Housing Tax Credits—Strategies for Year 15

As the Low Income Housing Tax Credit 15-year compliance period begins to expire on affordable housing projects across the country, the Wyndham Financial Group's William S. Hettinger examines how organizations are addressing this issue and offers strategies for success.

20 Immigrant Entrepreneurs: A Key to Boston's Neighborhood Revitalization

Marcia Drew Hohn from the Immigrant Learning Center shares highlights of a recent study on the impact of immigrant entrepreneurs in three Boston neighborhoods: Allston Village, East Boston, and Fields Corner.

28 Demographic Shifts Impact Maine's Communities: First Person with Laurie LaChance

Laurie LaChance, president of the Maine Development Foundation, shares her perspective on the critical issues affecting the long term economic health of the state of Maine.

Photos: Kenneth Reardon, pages 4, 8, and 9; Mamie Marcuss, pages 28, 30, and 31.

by Kenneth M. Reardon

Straight A's?

Evaluating the Success of Community/University Development Partnerships

Digital Vision/Getty Images

In the last several decades, deindustrialization, suburbanization, and disinvestment have combined to undermine the economic and fiscal health of many of the nation's communities. State and local government officials have undertaken numerous strategies to reverse this trend, attempting to revitalize local economies through social services, affordable housing, and job training programs. However, as they continue to confront serious budgetary shortfalls, municipal officials recognize they cannot do it alone.

University of Pennsylvania

The University of Pennsylvania is the oldest comprehensive university in the United States. While the school has a long and distinguished history of community service, it intensified its outreach activities in the mid 1980s, when conditions in its neighborhood in West Philadelphia began to deteriorate. The effort began when Ira Harkavy and Lee Bensen, two history professors, offered an Honors Seminar designed to engage students and faculty in a systematic analysis of West Philadelphia's decline and the ways in which the community could be turned around. The course attracted campus and community attention alike, especially when the newly appointed Penn president, Sheldon Hackney, agreed to participate in the class.

At the completion of the seminar, the participants proposed the establishment of the West Philadelphia Improvement Corps (WEPIC). WEPIC's mission would be "to help transform the traditional West Philadelphia public school system into a revolutionary new system of university-assisted, community-centered, neighborhood-based, problem-solving schools." Beginning with a university course in which Penn students helped to introduce West Philadelphia youth to basic building-renovation and landscape-design skills, the proposed Corps became a reality. Since then, it has recruited dozens of Penn faculty members, who have taught a variety of courses, all of which enable Penn students to acquire knowledge while serving the community.

Inspired by his experience in the seminar, President Hackney formed the Penn Center for Community Partnerships in 1992. Part of the President's Office, the Center has four goals:

- increase participation in and enhance coordination among existing Penn service programs;
- initiate new and more effective partnerships between the community and Penn;
- promote the development of new and innovative community development programs involving local organizations and Penn; and
- strengthen regional, national, and international networks of institutions and organizations committed to constructive engagement in their community.

During the past 13 years, the Center has developed a comprehensive set of programs and supported new initiatives throughout the university to achieve these goals, from academically based service activities to community development initiatives.

Among these is Penn's housing initiative. Since 1996, Penn has offered free homeownership classes to West Philadelphia residents. Topics covered include house hunting, basic and alternative mortgage products, and application procedures, and classes help first-time home buyers navigate the credit system. In addition, the Penn Board of Trustees encourages faculty and staff to move into West Philadelphia by offering employee mortgages of up to 120 percent of a home's purchase price. These mortgages do not require down payments or mortgage insurance, and the extra 20 percent helps cover closing costs and needed home improvements.

Penn, at the suggestion of the Center, has also developed an aggressive economic inclusion program with two key elements: (1) For Penn projects costing more than $5 million, contractors must draw a minimum of 25 percent of their workforce from women, under-represented minorities, and/or disadvantaged populations in the West Philadelphia or Greater Philadelphia region; (2) minority contractors from the area are encouraged to bid on projects, and Penn provides technical assistance to aid these contractors with the bidding process. Dr. Leroy David Nunnery II, Penn's vice president of business services, often works directly with small minority contractors to help them meet the university's bidding requirements and occasionally partners small contractors with larger, more experienced firms to help them gain expertise. Additionally, firms that need assistance in preparing business plans and securing competitive bids are referred to the Small Business Development Center at Penn's Wharton School of Business, which offers no-cost business development assistance.

Turning to the private and nonprofit sectors for help, a number of communities are finding partners in local colleges and universities. In small towns, mid-sized cities, and large metropolitan areas across the country, academic institutions are increasingly engaging in local economic development efforts.

A number of compelling factors are driving the increased involvement of university presidents, provosts, and trustees:

• First, the contributions of colleges and universities to local development and regional economic competitiveness are emerging as an increasingly important rationale for public and private investment in higher education.

• Second, in the competition for talented students, faculty, and staff, campus leaders realize that the vitality, attractiveness, and safety of the local community play a critical role in an individual's decision to come to a particular school.

• Third, the pressures to expand a campus' physical boundaries necessitate improving town/gown relationships in order to gain community support for expansion plans.

• And finally, growing awareness of the impacts that a college or university can have on a community through its real estate development decisions, hiring and purchasing practices, and contracting policies has put pressure on higher education officials to be responsible stewards of the local economy.

Support for community/university development partnerships has skyrocketed in the past 20 years. However, researchers Richard Schramm and Nancy Nye have revealed that not all campus/community partnerships are created equal. In 1999, Schramm and Nye undertook an examination of 59 community/university partnership projects. The sample represented the first set of projects to be funded by the U.S. Department of Housing and Urban Development's Community Out-

reach Partnership Program (COPC), a five-year demonstration project designed to help foster university involvement in distressed communities. Their study indicated that community/university partnerships typically fall into one of three categories:

- *Paternalistic/Theory-Testing Partnerships.* Campuses use local communities as laboratories to test hypotheses regarding the operation of the local economy.
- *Professional-Expertise Partnerships.* Campuses are committed to solving problems identified by the local community, but their solutions involve little community participation and generate few skill-building opportunities for local residents.
- *Empowerment/Capacity-Building Partnerships.* Campuses involve local leaders as equal partners in each step of the revitalization process, from problem identification to project implementation to program evaluation. Typically, participatory action research, or "learning by doing," methods serve as the foundation for this approach. These methods promote strategies that encourage outside investment while enhancing the internal capacity of community-based organizations.

Of the three, Schramm and Nye concluded that "Empowerment/Capacity-Building Partnerships" were the most effective in achieving community development goals. Moreover, these partnerships best met the needs of the participating organizations and helped to nurture positive institutional change.

Digital Vision/Getty Images

A New Study

In 2001, I began an investigation of the types of community/university development partnerships that fell into Schramm and Nye's "Empowerment/Capacity-Building" category. My aim was to identify several principles of good practice that could provide guidance to policy makers and program developers. I began by surveying colleges and universities that were operating public service programs that focused on low-income communities. I drew my list from the members of Campus Compact, a coalition of 950 institutions of higher education committed to civic involvement. Approximately 135 campuses responded to my invitation to complete a short web-based survey. Using five selection criteria—(1) operated for more than five years, (2) pursued resident-identified development goals, (3) produced significant new investment in low-income areas, (4) influenced municipal development priorities, and (5) enhanced the organizational capacity of participating community-based organizations—I selected a group of highly effective community/university development partnerships for further study. I pared this group down to ten partnerships that represented involvement by each of the distinct types of higher educational institutions (see table on pages 6 and 7). For each of these partnerships, detailed case studies were completed, examining the origins, evolution, accomplishments, and limitations of the partnerships' efforts. This article presents the general themes that emerged from the study and offers three detailed case studies. The full set of research findings will appear in *Promoting Community/University Development Partnerships that Work: News from the Community Service-Learning Front*, a book scheduled to be published in the spring 2006.

Findings from the Field

The ten case studies revealed several important findings about community/university development partnerships. First, colleges and universities are capable of making significant contributions to community-based revitalization efforts in severely distressed communities. A school's research capacity, financial resources, land assets, management expertise, and political legitimacy can all advance redevelopment efforts in low- and moderate-income neighborhoods. Additionally, while past research has emphasized the role of universities in

Table I

Ten Model Community/University Development Partnerships

Name	Type of Institution	Location	Project Name
1. Trinity College	Private, 4-year liberal arts college	Hartford, CT	The Learning Corridor
2. University of Pennsylvania	Private, Ivy League, Research I institution	Philadelphia, PA	West Philadelphia Project
3. University of South Florida	Public, urban metropolitan university	Tampa, FL	Jim Walter Partnership Center
4. University of Illinois at Urbana-Champaign	Public, land grant, Research I institution	East St. Louis, IL	East St. Louis Action Research Project
5. Texas Southern University	Public, historically black college/university	Houston, TX	
6. Salish Kootenai College	Tribal, 2-year college with select 4-year academic programs	Pablo, MT	
7. Elizabeth City State University	Public, historically black college/university, 4-year teachers college	Elizabeth City, NC	Community Development Program
8. California State University at Fullerton, Santa Ana College, University of California at Irvine	Consortium involving 2-year community college serving Hispanics; public, 4-year teachers college; and public, 4-year Research I institution	Santa Ana, CA	Santa Ana Consortium
9. St. Lawrence University, State University of New York at Potsdam	Consortium involving private, 4-year liberal arts institution; and public, 4-year technology institution	Canton, NY	The Canton Initiative
10. University of California at Berkeley, San Francisco State University, Stanford University	Consortium involving public, Research I university; public, metropolitan university; and private, Research I university	Greater San Francisco Bay Area, CA	Joint Community Development Initiative

Source: The Engaged Scholarship Project, 2005. Cornell University and the Campus Compact.

Strategy	Outcomes
Comprehensive strategy emphasizing housing and commercial development, youth services, public school reform, and access to primary health care.	Generated approximately $168 million in new development in Hartford's distressed Frog Hollow neighborhood.
Economic development through university investment in housing and commercial projects and involvement in public school reform efforts.	Improved residential vacancy rates, increased commercial development, improved school attendance and performance, and increased support for minority-owned businesses.
Targeted development assistance to low-income immigrant communities.	Created one-stop training centers for business planning, micro-lending, workforce development, and college preparation assistance.
A bottom-up, bottom-sideways approach emphasizing resident leadership, project implementation, and local capacity-building.	Produced 8 community plans, created a new CDC, completed a $24 million mixed-use development, and established a charter high school.
Created a small business development center to encourage entrepreneurship among poor and working-class African Americans.	Fostered the establishment of several new minority businesses, created stronger commercial areas, and expanded access to business education for minority youth.
A long-term approach to strengthening the economic health of the Salish Kootenai people through vocational education, small business assistance, design public school reform, community health programs, and the promotion of Native American-designed and manufactured goods.	Reduced reservation unemployment, fostered the sustainable use of natural resources (timber, cattle), involved local business in the of voc-ed programs, developed a tribal-owned information technology business, and provided technical assistance for firms producing Native-designed products.
A comprehensive approach emphasizing homeownership, affordable housing, fair housing, community-based drug prevention, economic development, technical assistance, and community-service learning.	Completed home repairs and provided home counseling for low-income individuals. Created a network of community-based computer facilities to provide access to web-based economic and community development resources.
Created a targeted small business assistance center, providing a range of business services to predominantly immigrant-owned start-up firms and developed a comprehensive program to encourage Latino youth to pursue higher education.	Established a $2 million endowment offering scholarships to Latino students, opened workforce development centers, and initiated several neighborhood renewal projects.
A comprehensive approach to strengthening the economy in New York's North Country region, emphasizing import substitution, sustainable manufacturing processes, regional branding, and heritage and eco-tourism.	Developed several Main Street businesses, acquired land in support of a heritage tourism strategy, and established a venture capital fund for the possible purchase of a local dairy plant and the development of a diesel fuel facility.
A cooperative effort to promote sustainable development and enhance the capacity of community-based organizations serving poor and working-class neighborhoods in the Bay Area.	Completed numerous community revitalization plans, increased public and private investment in targeted neighborhoods, and provided technical assistance to several community-based organizations.

University of Illinois at Urbana-Champaign

The University of Illinois at Urbana-Champaign (UIUC) is a large land-grant university located in the heart of central Illinois. In the mid 1980s, State Representative Wyvetter Younge (D-East St. Louis) challenged UIUC's then-president, Stanley O. Ikenberry, to demonstrate his commitment to the school's public service mission by establishing an urban research and outreach program in East St. Louis. Dr. Ikenberry responded to the challenge by allocating $100,000 per year in university funds to launch the Urban Extension and Minority Access Project. The project was designed to expand employment and entrepreneurial opportunities for the city's unemployed workers, improve access to higher education for East St. Louis residents, and promote a more equitable pattern of metropolitan development.

For the first three years, the project supported numerous UIUC student and faculty research studies that focused on various economic, fiscal, social, and environmental problems facing the city. However, the project waned as few residents, civic leaders, and municipal officials expressed interest in these academic studies. Thus, in 1990, the participating faculty decided to shift the focus and concentrate their efforts on the economic revitalization of a single residential neighborhood in East St. Louis—Emerson Park. With the encouragement of local leaders, UIUC made a commitment to support the economic and community development efforts of the recently established Emerson Park Development Corporation (EPDC). As this partnership was being formed, community leaders shared frustrations regarding the past outreach efforts of the campus. As a result, UIUC and the community agreed to the following guidelines and renamed the initiative the East St. Louis Action Research Project:

- Local residents, not the university or its funding agencies, should determine the issues to be examined.
- Community residents should be involved as equal partners with university-trained researchers at every step of the planning and research process.
- Given the severity of the problems confronting Emerson Park, the university should make a minimum five-year commitment to working with the community.
- Resources raised to support the partnership should be equally distributed between the university and the community.
- The university should assist EPDC in developing the organizational capacity required to plan and implement significant economic and community development projects.

Eager to demonstrate their ability to assist EPDC in this last goal, the participating faculty agreed to prepare a comprehensive development plan for the area using participatory action research methods. During the fall and winter of 1990, a small group of UIUC students and faculty worked together with more than 200 Emerson Park residents to formulate a five-year stabilization plan. The resulting Emerson Park Neighborhood Improvement Plan was given the 1991 "Best Student Project" award by the American Institute of Certified Planners. However, community and campus commitment to the plan was tested in the spring of 1991, when dozens of local and regional agencies refused to fund even the least costly of the plan's 52 specific revitalization projects. Neighborhood leaders, students, and faculty responded to this setback by spearheading a series of "self-help" projects to address the most significant environmental problems confronting the community. Over the next two years, EPDC and the University mobilized hundreds of community residents and university volunteers to complete a lengthy list of open space improvements and housing repair projects.

EPDC's success with these efforts attracted the attention of a number of federal agencies. Soon, newly submitted proposals resulted in several grants. One, from the U.S. Department of Agriculture, established a shade tree farm and a pumpkin patch to teach Emerson Park youth about the environment, and a second grant from the U.S. Department of Housing and Urban Development funded the rehabilitation of the homes of seven low- and moderate-income families.

The organization's effectiveness in managing these projects placed it in a position to convince local and regional transportation officials to re-route a light rail line that was being planned between St. Louis International Airport in Missouri and Scott Air Force Base in southwestern Illinois. The new route resulted in the construction of a major commuter rail station in Emerson Park. Developer interest in the community subsequently soared. Leveraging its ownership of several strategically located parcels, EPDC entered into an agreement with developer McCormack-Baron Associates to construct the mixed-use, mixed-income Parsons Place development, featuring 250 new housing units, a professionally designed park, and a Montessori school. Through the collaboration of the developer, the local carpenters' union, and UIUC, EPDC secured a $900,000 YouthBuild Grant, and during construction, Parsons Place became a training site for unemployed workers to learn construction trades. After the project was completed, EPDC established a YouthBuild Charter School nearby, dedicated to helping students at risk of dropping out of school.

The effectiveness of the Emerson Park community/university development partnership encouraged several other East St. Louis neighborhoods to initiate similar projects in cooperation with the University of Illinois. The success of these efforts in turning around a severely-distressed area has encouraged communities throughout the country to embrace the East St. Louis model. This model of "empowerment planning" integrates the principles and methods of participatory action research, direct action organizing, and public education to achieve community transformation. The East St. Louis model is currently being applied in communities across the nation, including Cleveland, Ohio; Rochester, New York; and Honolulu, Hawaii.

the redevelopment of inner-city neighborhoods, the case studies demonstrated that community/university development partnerships are also making contributions in suburban and rural communities. The research also found that most partnerships emerge in response to a crisis that affects both the community and the campus, such as a violent crime or a plant closing.

The case studies also demonstrated the wide variety of activities being undertaken by higher educational institutions to support local economic and community-building efforts. For example, the University of South Florida works with new immigrant communities, offering a comprehensive set of educational, vocational, and entrepreneurial programs through a network of social service centers. The University of Pennsylvania, on the other hand, has focused its attention on minority- and women-owned small businesses in West Philadelphia and requires that 25 percent of campus construction work be undertaken by such firms.

Despite the range of strategies, the studied partnerships shared some commonalities. They tended to concentrate on efforts to expand employment, entrepreneurial, and investment opportunities, and they focused on a broader spectrum of stakeholders than most traditional economic development partnerships. For example, many

Salish Kootenai College

Located in Pablo, Montana, Salish Kootenai College was established in 1974 to meet the higher educational and economic development needs of the Flathead Indian Reservation, a community of 26,172 persons that had long struggled with high rates of unemployment and poverty. When it opened, the community college began working with the area's industry leaders to develop vocationally oriented training programs to help residents secure jobs in the timber, cattle, transportation, education, construction, and health care sectors. The programs were a success, and the college decided to expand its involvement in the local economy of the Salish- Kootenai tribe. Over the next 30 years, a number of partnership initiatives emerged.

First, the college began working with tribal leaders to establish native-owned businesses that could take advantage of the federal government's minority set-aside programs, which ensure access to federal contracts for qualified minority vendors. With the college's assistance, the tribe established an electronics firm and an information technology firm. Soon, both firms secured a number of federal contracts and began recruiting and training a new crop of workers, supervisors, and managers. Today, the electronics firm employs approximately 110 workers and last year generated $10 million in sales, while the information technology firm employs 350 workers and saw sales reach $60 million last year.

In the mid 1980s, the college established a Small Business Information Center to support the entrepreneurial efforts of reservation residents. The Center offers a series of courses to assist fledgling businesspersons through the planning, start-up, marketing, merchandising, and operations phases of their ventures. The Center also provides ongoing technical assistance to entrepreneurs to help them establish, maintain, and grow their businesses. Among the Center's most successful ventures is Grey Wolf Tradition Company, specializing in the design and construction of teepees. With the Center's assistance, this small start-up expanded its business to the Internet and helped to trademark, produce, and popularize crafts boasting the native-inspired designs of local artists.

The success of the college's vocation-education programs, its support of native-owned enterprises, and its small business assistance efforts have all helped to boost enrollment at Salish Kootenai College and to enhance its standing among other tribal and community colleges. While proud of the college's accomplishments, administrators are now turning their focus towards breaking down the barriers that prevent some reservation residents from taking advantage of the college's programs. In cooperation with senior tribal officials, the school has established a regional bus system to provide access for those living in remote areas of the reservation. The college is also assisting area secondary schools, helping them to provide more culturally appropriate and pedagogically advanced instruction and better prepare their students for college. Aware of the adverse impact that substance abuse is having on Native-American individuals and their families, the college is working to establish the first Master of Social Work Program to be based on traditional Salish Kootenai values. This degree program will focus on substance abuse prevention, intervention, and treatment strategies.

The combined initiatives of Salish Kootenai College and its Tribal Council partners have dramatically improved living conditions on the Flathead Indian Reservation. Their efforts have built a healthier economic base, strengthened the political leadership, and fostered the tribe's traditional ways and values. Moreover, they have encouraged the reservation community to resist the "quick-fix" plans promoted by outside interests, such as industrial timbering, commercial cattle-raising and farming, casino gaming, and tourism. For example, believing it would lead to environmental degradation and unwanted sprawl, local leaders, with the assistance of Salish Kootenai-trained ecologists, foresters, and business professionals, recently opposed the widening of the main highway through the reservation. These leaders are now working together to promote regional development plans that emphasize their goals of environmental protection and social equity.

of these efforts gave explicit attention to small businesses, women and minority entrepreneurs, organized labor, and both younger and older workers. Additionally, the partnerships tended to prefer "buy local" and "import substitution" strategies over business recruitment strategies. This choice suggests a greater interest in enhancing the capacity of local businesses that are committed to the community, rather than recruiting larger firms that may be motivated primarily by tax abatements.

In all of the case studies, the community/university partnerships initially encountered significant institutional and community obstacles. Often, the partnerships involved scholars from a number of academic disciplines that had worked infrequently together. These academics then had to collaborate with community leaders whose past relationships with the university had been fraught with conflict. Together, the two parties tried to undertake challenging development efforts. Moreover, the "system of city trenches" described by scholar Ira Katznelson, which makes cooperation among communities and institutions difficult, had to be navigated, and all of the case studies revealed that significant racial, class, and cultural barriers had to be overcome.

Additionally, the case studies illustrated the deep skepticism that many community residents maintain regarding an institution's commitment to resident-led revitalization. Frequently, the community's attitudes required university faculty to initiate outreach efforts to first earn the trust of their community partners. Trust was then sustained when the institution competently and enthusiastically completed the work to which it had committed, and when it supported resident-driven planning and development processes. Many of the studied partnerships thus started small, such as university faculty participating in small business assistance efforts. This first level of involvement enabled the institutions to build relationships with community leaders, laying the foundation for more ambitious forms of cooperative development.

Elements of Success

While the challenges faced by the studied community/university development partnerships were often great, their case studies identify several elements that seem to contribute to the success of a community/university development partnership. The following are the most striking:

1. Partnerships that do not allow both parties to achieve their institutional self-interests do not survive. Both the community and the campus must be clear about their respective institutional self-interests, and comparable benefits for both the academic and the community partners must be gained.

2. Successful partnerships require significant executive leadership and often visible support from the university president, the mayor, the Chamber of Commerce director, respected members of the labor community, and elders from the community's major religious denominations.

3. Skilled staff who can understand both the nature of higher education politics and the fundamentals of community organizing are critical. "Organ-izational boundary-crossers," in particular, seem to play a pivotal role. These individuals occupy key leadership positions within their own organizations but also understand the history, culture, structure, and operation of their partnering organizations.

4. Successful partnerships develop slowly, and significant time is required to move from the initial relationship-building stage to the program implementation stage, often five to ten years. The case studies confirmed the wisdom of Henry Mintzberg's "ready, fire, aim" approach to organizational change, which stresses the importance of small victories in building the momentum required to sustain systemic reform efforts.

5. Finally, the willingness of both community and campus leaders to reflect upon, learn from, and adjust to challenges and mistakes appears to be a central requirement of a successful partnership.

The case studies highlight the significant contributions that colleges and universities are making to the economic recovery of many communities. The variations in the history, structure, policies, and programs of the community/university development partnerships also illustrate that there is no uniform approach to success. Instead, the study suggests that a flexible partnership—one that can respond to the unique history and nature of the community and the collaborating organizations, as well as the specific economic challenges and the political landscape of the region—will be the most successful.

References

Adanri, Adebayo et al. 1990. *The Emerson Park Neighborhood Improvement Plan.* Champaign, IL: East St. Louis Action Research Project.

Katznelson, Ira. 1981. *City Trenches: Urban Politics and the Patterning of Class in the United States.* Chicago, IL: The University of Chicago Press.

Mintzberg, Henry. 2005. *The Rise and Fall of Strategic Planning.* Englewood Cliffs, NJ: Prentice Hall.

Schon, Donald. 1983. *The Reflective Practitioner: How Professionals Think in Action.* New York, NY: Basic Books, Inc., pp. 128-167.

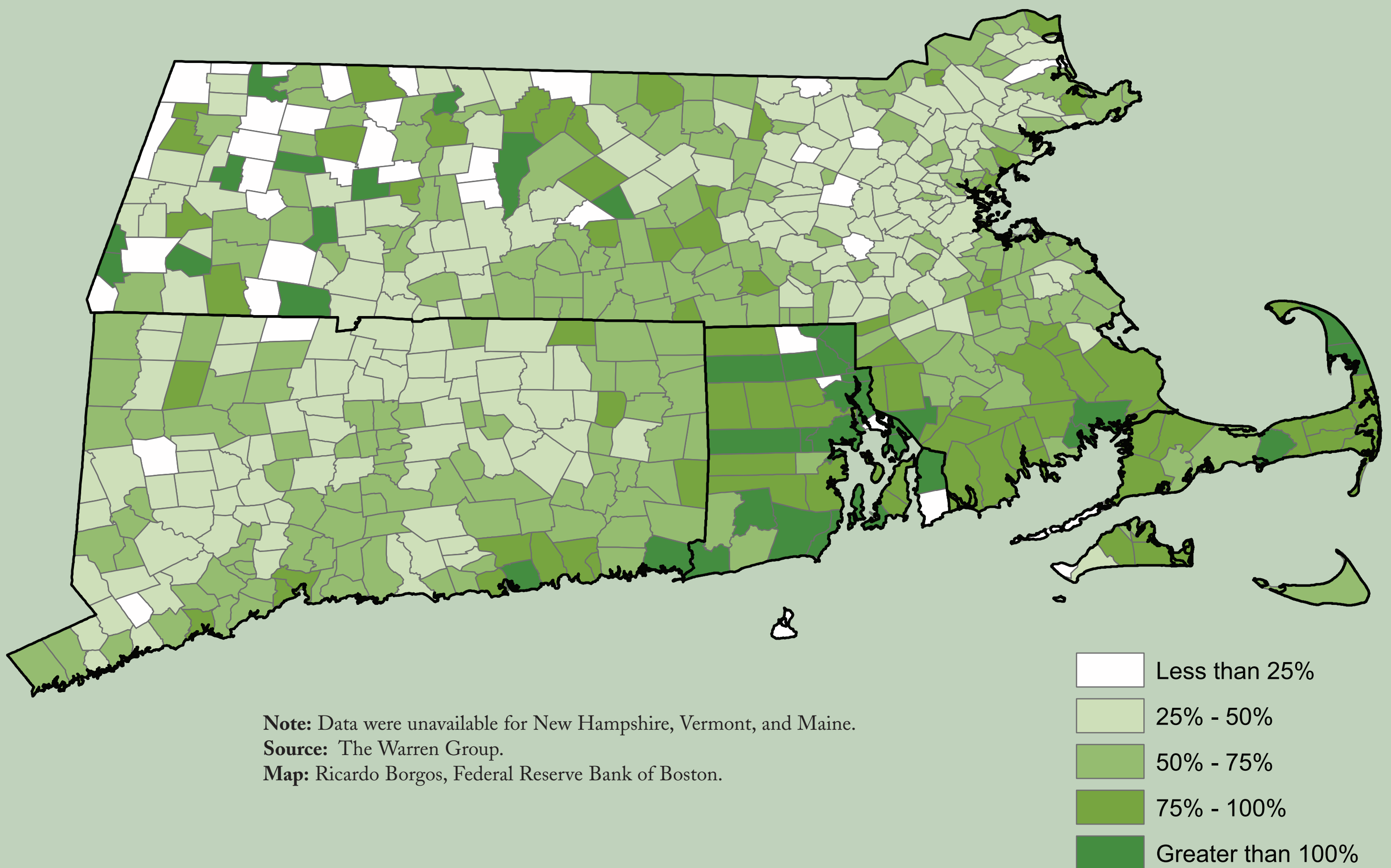
Schramm, Richard and Nancy Nye. 1999. *Building Higher Education/Community Development Corporation Partnerships.* Washington, DC: U.S. Government Printing Office.

Kenneth M. Reardon *is Associate Professor at Cornell University, and he chairs Cornell's Department of City and Regional Planning.*

Mapping New England

Changes in Southern New England's Median Home Prices, 2000 to 2004

In recent years, housing prices across the country have soared. Southern New England has been no exception. The map shows the percent change in median sales prices for single-family homes for each city and town in Massachusetts, Connecticut, and Rhode Island between 2000 and 2004.



Note: Data were unavailable for New Hampshire, Vermont, and Maine.
Source: The Warren Group.
Map: Ricardo Borgos, Federal Reserve Bank of Boston.

Low Income Housing Tax Credits

Strategies for Year 15

by William S. Hettinger

Low Income Housing Tax Credits (LIHTCs) are the primary source of public funding for affordable rental housing development in the United States. This federal program offers private investors a break on federal income taxes in exchange for investment in affordable housing developments. Since 1987, it has helped to create more than 1.6 million affordable units. To ensure these new units remain affordable, the tax credits come with strict guidelines that keep projects affordable for a 15-year compliance period. But what happens at the end of the compliance period?

The time limits are just beginning to expire on the first LIHTC transactions in New England and throughout United States, and many organizations are wrestling with the new and growing problem of what happens next. In most cases, the investors expect to terminate their participation without adverse tax consequences and possibly with capital gains. Typically, the ownership of the property needs to be restructured. And sometimes, there is pressure to convert to market rate housing. Community development organizations are struggling with tough questions. How can they restructure the ownership of the property? How can they keep the units affordable? How can they pay off the investors?

To better understand how organizations are dealing with this issue, Wyndham Financial Group conducted interviews in the spring of 2005 with several nonprofit and for-profit LIHTC project sponsors, tax credit syndicators, housing finance organizations, and affordable housing organizations. This article summarizes the results of those interviews. It discusses the specific issues faced by project sponsors and describes the strategies that organizations are using to transfer the ownership of LIHTC properties. It also presents lessons learned from those who have gone through the process, and offers a roadmap for organizations that will be facing these questions in the near future.

LIHTC Basics

Enacted by Congress as part of the Tax Reform Act of 1986, LIHTCs finance an estimated 1,300 projects and 90,000 units each year. Like other tax credit programs, LIHTCs are an indirect subsidy. Rather than allocate government dollars directly to affordable housing developments, they engage the private market, ideally enabling affordable housing dollars to be allocated more efficiently.

The tax credits are distributed to each state, based on population. Indexed to inflation, the allocation rate for 2005 was $1.85 per capita. Massachusetts, with a population of 6.3 million, received an allocation of approximately $11 million. The states distribute the credits to eligible affordable housing developments. The legislation requires that 10 percent be set aside for nonprofit developers, who tend to keep all units affordable, unlike for-profit developers, who mix market rate and affordable units in the same project. In fact, HUD statistics reveal that more than 30 percent of LIHTC units have been created by nonprofit community development organizations.

Boris Lyubner/Getty Images

Developers that receive the credits then sell them to investors, who, in exchange for providing cash now, receive a dollar for dollar reduction in their federal income taxes over the next ten years. Consider a basic tax credit deal. A developer receives a tax credit allocation of $1 million from the state. This is an annual amount, totaling $10 million over ten years. An investor purchases the credits at a price equal to the present value of the 15-year stream of tax benefits—the 10-year reduction plus minor tax benefits stemming from any operating losses on the property. In this case, the investor would pay between $6 million and $8 million for the credits, providing the developer with needed equity for the project.

Often, the process of selling tax credits involves the use of a tax credit syndicator, who matches developers who have tax credits with for-profit investors who are seeking to reduce their taxes. Typically, syndicators pool money from several investors and use the funds to purchase tax credits from different affordable housing developers. The syndicator acts as an underwriter for the investor, assuring that projects meet agreed upon standards and remain in compliance with tax credit regulations. Most syndicators are for-profit with a chief aim of providing a return for their investors. However, there are also a number of socially responsible syndicators who are equally interested in supporting community development and affordable housing initiatives.

Once the tax credits are sold, the investors, syndicator, and developer must agree on the terms of ownership and operation of the property. Typically, a limited partnership is formed. The investors become limited partners, owning 99 percent of the property, while a general partner, typically a special purpose subsidiary of the developer or nonprofit sponsor, owns the remainder. The general partner has responsibility for the day-to-day operation of the property and may be contractually responsible for any operating losses. This ownership structure benefits investors, allowing them to receive the tax advantages of real estate ownership, but frees them from having to play an active role in the operation of the property.

Under the tax code, the partnership must agree to operate the property as affordable housing for 15 years. Forty percent of all units must have rents that are no more than 30 percent of household income for households earning less than 60 percent of the area's median income. Alternatively, 20 percent of the units must have rents that are affordable to households earning less than 50 percent of area median income. Tenant qualification, income verification, financial reporting, and other operating requirements specified in the LIHTC regulations must be followed. In 1989, a Congressional amendment extended the affordability requirement to 30 years, although the limited partners are required to maintain their investment only for the first 15 years.[1]

In its early years, the LIHTC program saw limited use. The program was complicated to learn, the transactions were expensive to structure, and other public funding for affordable housing was available. As a result, only a small number of tax credit projects date from before 1990. However, the program gained favor over time as it became better understood and better funded at a time when other sources of money were drying up. This timing means that the first major wave of LIHTC transactions is just now reaching the end of the 15-year compliance period, and many organizations are asking themselves, "What do we do at the end of year 15?"

The detailed interviews conducted by Wyndham Financial Group in the spring of 2005 focused on just this question. The 15 respondents included affordable housing developers, tax credit syndicators, state housing finance authorities, and representatives from affordable housing organizations. The properties, most within New England, ranged from developments in depressed inner city areas to suburban properties in hot real estate markets. Some properties had the 15-year affordability restriction, while others had 30 or more years of affordability restrictions, but their investors wanted to leave the partnership at year 15. The interviewees were asked a series of questions regarding the specific nature of the issues faced at the end of the compliance period, the strategies used to address these issues, and the lessons they learned through the process. Their responses can help to shed light on this complicated issue and provide guidance for those whose compliance periods have yet to expire.

The Issues

As the interviews made clear, three primary issues face most organizations at the end of the compliance period:

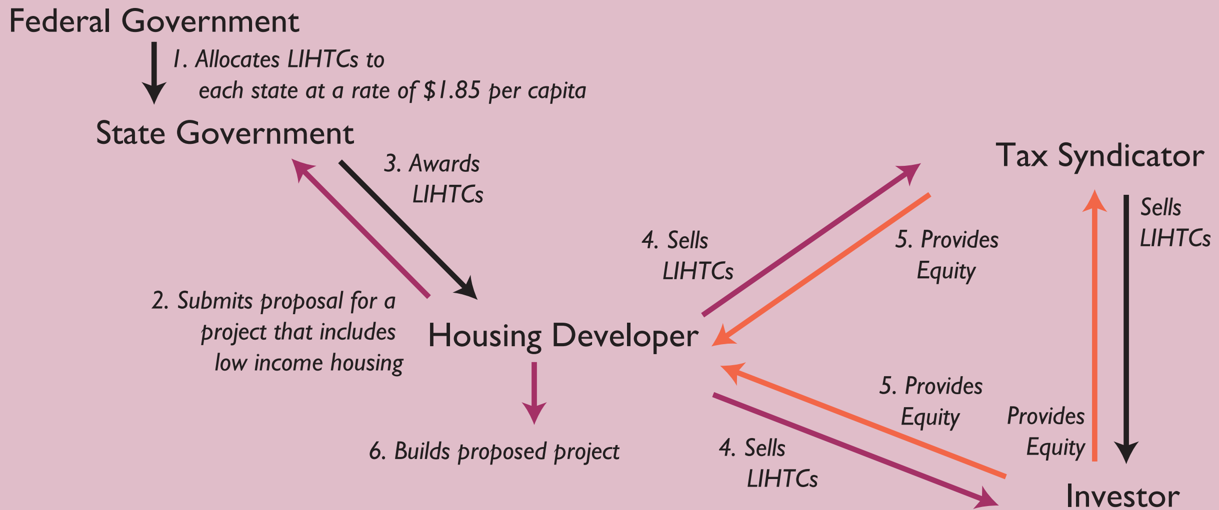
1. the payment of exit taxes resulting from a large negative capital account,
2. refinancing or restructuring existing debt on the property, and
3. funding needed repairs to aging housing units.

The interviews also identified number of secondary issues related to the specific nature of the contract, the original structure of the deal, and the parties involved.

1. Exit Taxes

"We were surprised by the size of the negative capital account. We had projected it to be $20,000 to $25,000 per unit, but it was much larger because rents did not grow as expected."

At the end of 15 years, many affordable housing developments that were financed using LIHTCs have a negative capital account, resulting from rents that did not grow as expected, higher operating expenses than originally forecast, or high interest rates on primary and secondary debt. Throughout the life of the partnership, these operating losses provided tax benefits to the limited partners, who could write off losses against owed taxes. However, upon dissolution of the partnership, tax law requires that these losses be



recaptured, creating a tax liability for the limited partners. To protect themselves against this common occurrence, syndicators and investors typically include a provision in the original partnership agreement that requires that these tax liabilities be paid either from the assets of the partnership or by the general partner. As a result, the general partner or partnership must pay an "exit tax" to cover these tax liabilities in order to dissolve the partnership. Depending on the magnitude of a property's operating losses, these exit taxes can be considerable.

The interviewed sponsors used a variety of techniques to address exit taxes. Several properties were in hot housing markets, and these proved to be the simplest to resolve. Sponsors were able to sell all or a percentage of the units at current market rates and use the proceeds to pay the exit taxes, as well as any outstanding debt. In most instances, the units were converted to condominiums and sold to individuals. Occasionally, the entire property was sold and converted to market rate rentals.

The conversion to market rate units was not a viable technique for properties under 30-year affordability restrictions or where the economics of the property made its conversion to market rate unlikely. In addition, some organizations' missions precluded converting the units to market rate housing. In these cases, the nonprofit sponsors tried to negotiate a reduced exit tax with the investors and tax credit syndicators. Investors appeared to be more willing to negotiate exit taxes when the property clearly did not have the financial ability to pay the full amount of the taxes or in instances where the syndication fund was nearing the end of its term. Moreover, "socially responsible" syndicators and their investors demonstrated a greater willingness than their for-profit counterparts to negotiate exit taxes and to restructure transactions in ways that preserved affordability. Finally, rather than negotiate, several nonprofits had success in generating income through the forgiveness or significant modification of the partnership's debt. The income reduced the negative capital account and in turn, the exit taxes owed.

2. Restructuring Debt

In addition to the investors' equity, LIHTC projects are also financed through one or more mortgages. Most projects have amortizing first mortgages from banks or state housing finance agencies, and many also have "soft second," or interest-only, deferred-payment, mortgages from housing finance agencies or other state and local government entities. At the end of the compliance period, most of the combined mortgage debt remains outstanding and in some cases, may actually exceed the initial debt. In order to dissolve the limited partnership and transfer ownership of the property, these mortgages must be paid, renegotiated, or forgiven.

For those interviewed, the renegotiation of mortgage debt proved difficult, particularly when public funds had been used to finance part of the LIHTC property. Many state and local government agencies, given their own current budget constraints, were reluctant to forgive debt, particularly on soft second mortgages on which large amounts of interest had accrued. While public lenders were not necessarily looking to be repaid in cash, they were not willing or

Kowal House: Restructuring an Early Tax Credit Deal

In 1987, West Side Federation for Senior and Supportive Housing, Inc. (WSFSSH) developed Kowal House on the upper west side of Manhattan. The 72-unit housing development was designed to serve elderly adults with a history of homelessness, providing them with not only a permanent shelter, but also needed supportive services. The project was one of the first in the nation to be financed using low income housing tax credits. Development costs for the project were just over $2.9 million. Of this amount, $2 million was obtained through loans from private banks and the city, while LIHTCs provided the remaining funds.

Once the project opened, Kowal House befell a fate common to many low income housing projects: operating revenue did not meet initial projections. WSFSSH had counted on Section 8 rental subsidies to cover a sizable portion of tenants' rent, but federal spending on Section 8 did not rise as expected. Rental income fell short and was not enough to cover both operating expenses and loan payments. Choosing to continue operating the complex, WSFSSH allowed the initial construction loan to go unpaid.

By the end of the LIHTC 15-year compliance period in 2002, the situation was serious. The lenders were unhappy that the cash flow from the property was insufficient to make full loan payments and frustrated that their short term construction loan had now been outstanding for almost 15 years. They wanted to be repaid. In addition, the 15-year tax credit compliance period was expiring, and the deal was structured such that the limited partnership would be closed out after 15 years. WSFSSH needed to restructure the ownership of the property and negotiate with the tax syndicator, National Equity Fund (NEF), over the payment of exit taxes from the project's substantial losses. To complicate the matter, the property needed improvements. Wheelchair accessibility changes, energy conservation measures, and the installation of a commercial kitchen to support a meals program were all required if WSFSSH wanted to continue to effectively serve its target residents.

To address these issues, WSFSSH began negotiating with its lenders and with NEF. "We had to demonstrate why Kowal House was in trouble and what had to happen to fix it. Then, we had to tie this to our mission and build an argument for solving the problem," says Laura Tavormina, the organization's housing director.

Despite the financial issues, the parties involved valued the services Kowal House was providing to New York's elderly and shared WSFSSH's wish to maintain the mission of the property. "Everyone could see the vision," says Tavormina. "The city was committed to preservation, recognizing that it was cheaper to preserve than to build another building. NEF shared our social mission. They were all willing to work with us, and it gave us an opportunity to restructure and work it out better."

After almost two years of work, in April 2004, WSFSSH had finally negotiated a restructured transaction. A new $2.5 million loan for the property was obtained from the city's department of housing preservation and development. With a reduced interest rate, the loan was structured around payments that the property could more realistically afford. The money provided sufficient funds to pay off existing lenders and to make the needed improvements to the property. Additionally, WSFSSH was able to negotiate substantially reduced exit taxes with NEF.

able to forgive debt on the properties outright, especially since forgiving a mortgage decreases exit taxes, generating a capital gain for the private investors. However, in many cases, they were willing to renegotiate the terms of the debt in order to facilitate the restructuring of the property and the preservation of affordable units. These public debt renegotiations typically included the imposition of additional affordability restrictions or the extension of existing restrictions.

Debt forgiveness from private lenders and the nonprofit sponsor was a viable alternative for some organizations. In one situation, the nonprofit sponsor controlled a part of the subordinated debt on the property and was willing to forgive this debt, generating enough income to wipe out the negative capital account and the exit taxes. In another case, the sponsor was still owed a part of its developer's fee, had structured the fee as a loan to the partnership, and was in a position to forgive this debt.

3. Repair Funding

As might be expected of 15-year-old residential properties, all of the projects in the study needed a cash injection for repairs and rehabilitation at the end of the compliance period. Some properties needed only modest repairs, while others required extensive rehabilitation. On average, the typical unit needed between $6,000 and $7,000 in repairs. Finding this money was a challenge.

Sponsors had mixed results in obtaining repair and rehabilitation funds from state housing finance agencies. In general, these agencies had limited funds and were perceived to have insufficient focus on the preservation of tax credit units, orienting themselves more toward the production of new units. Moreover, agencies were reluctant to commit additional public money to a property if a portion of the funds was going to be used to pay exit taxes to private investors.

"They do not want to refinance it if it puts money in the pocket of the limited partner or others."

Thus, these agencies offered a viable funding source only in limited instances.

On the other hand, nonprofit sponsors had success in finding funds to repair or rehabilitate units, as well as pay exit taxes and pay off debt, from tax-exempt bond issuances and the resyndication of properties with new tax credits. Tax-

exempt bonds were a popular source of funds for many of the interviewed parties, particularly those who were involved in larger transactions, in the $3 million to $4 million range, where the bonds could be issued cost effectively. In some instances, tax-exempt bond financing was combined with new tax credit allocations, and properties were resyndicated into a new limited partnership. Some nonprofit sponsors combined several smaller properties into a larger project to obtain the critical size necessary for the issuance of tax-exempt bonds or the resyndication of the properties.

Other Issues

When LIHTC programs began, there was a general expectation that the partnership would exist for the 15-year compliance period, and then the limited partners would be paid off and the transaction restructured. Likewise, it was also generally understood that the nonprofit sponsor, general partner, or tenants would be the successor owners of the property, continuing to operate it as affordable housing. Unfortunately, in early deals, this understanding was not spelled out clearly in the partnership documents. As a result, there was no mechanism to force the dissolution of the partnership or the restructuring of the property in year 15. This ambiguity negatively affected investors who had planned on exiting in year 15, tax credit syndicators who had operated funds assuming a 15-year horizon, and nonprofit sponsors who wanted to restructure the ownership of the property to fit their affordable housing and community development mission. New details of dissolution had to be negotiated, requiring staff, resources, time, and energy. In the worst cases, an agreement was not reached, and the operation of the property continued under the existing partnership. Fortunately, this issue will subside over time, as partnership documents have become more specific regarding the methods and options for dissolving the partnership at the end of the compliance period. Current deals now contain a tenant or sponsor purchase option or an option for the investor to "put" the property, requiring the general partner, tenants, or others to purchase it.[2]

Another issue identified among the interviewees was the dissolution of the original sponsoring nonprofit entity. In several instances, the nonprofit sponsor failed in the 15 years between the development of the property and the end of the compliance period. In these cases, another nonprofit had stepped into the role of sponsor and was responsible for restructuring the transaction. However, this successor lacked the historical knowledge of the property and the original transaction, information that was seen as necessary to effectively restructure the project. Thus, the loss of the original sponsor created another level of complexity and confusion.

Finally, restructuring the ownership of the properties at the end of the compliance period was found to be a complicated and time consuming process. Dissolving the partnership and converting the property to new ownership took almost as much time as the original LIHTC transaction. Most of the interviewed organizations began working on the transition 18 to 24 months before the expiration of the compliance period. Many noted that they should have started sooner, finding that 18 months did not give them enough time to complete the transaction. The transition also required a significant commitment of the organization's resources and strained capacity, staff, and budgets. Most organizations relied heavily on the executive director to manage the process, leaving development staff to focus on new work and the finance team to maintain the organization's operations. Many organizations hired the expertise of outside consultants, in addition to the partnership's accountants and attorneys.

Keys to Success

While the interviews revealed that each LIHTC transaction is unique—in its markets, financial structures, and partnership documents—collectively, their experiences uncovered a number of common steps that any organization can take to improve the success of restructuring an LIHTC property at the end of the 15-year compliance period:

1. Start early.

Restructuring an LIHTC deal takes time and planning. It is not a task that can be left to the last minute. Sponsors with tax credit projects created 10 to 12 years ago should begin to plan for the restructuring now. Sponsors with projects that are only a few years old should monitor the capital account and seek ways to minimize exit taxes in the future.

2. Acquire or hire expertise.

Restructuring an LIHTC transaction is a complicated task that requires expertise, staff resources, and money, and organizations should start to build capacity on all fronts. One way to build internal expertise is to attend a tax credit partnership transition seminar sponsored by the National Equity Fund, LISC, or another affordable housing development umbrella organization. By networking with local housing consultants, attorneys, and accountants, organizations can identify outside expertise that can assist them as they move through the process. Importantly, if an organization is contemplating using external resources, potential sources of funding for these resources should be considered.

3. Understand the deal.

One of the most important steps an organization can take before restructuring an LIHTC transaction is to develop a solid understanding of the original deal. This transaction was completed more than a dozen years ago, and by this time, the original staff may have left, or if still there, may have forgotten the details of the transaction. Refreshing this knowledge involves rereading the legal and loan documents, as well as understanding how the financial conditions of the project and value of the property may have changed.

Legal documents. Dig out the transaction's legal documents and review them to determine what rights and

The Impact of Year 15 on One Community

Andover, Massachusetts, an affluent suburban community north of Boston, has seen tremendous growth in housing values in the last several decades. Today, houses selling for a half-million dollars are the norm, and the rising prices are increasingly causing concern among housing advocates and local government officials. As such, the town of Andover is committed to ensuring a stock of affordable housing, and currently 11.6 percent of all housing units in the town are affordable.

However, the community is faced with losing many of its 1,331 affordable units as affordability restrictions expire. Of particular concern are two developments, Andover Commons and Riverview Commons, which, by the end of 2006, may lose a total of 222 affordable units. Given the hot housing market, community leaders are concerned that most of the units will be converted to condos or other market rate projects.

The properties are owned by private developers, and the community has no control over the preservation of the affordable units. "There are no hooks in the documents to keep them affordable," says Susan Stott of the Andover Housing Partnership. "We may lose affordable housing units, and there is nothing we can do."

However, the community is working to do what it can. Recently, another development, Brookside Apartments, reached the end of its affordability restrictions and was set to restructure as market rate housing. Mass Housing Partnership became involved in the restructuring and helped to mitigate the loss to only 14 units. The remaining 28 were preserved as affordable units. Mass Housing also helped to structure the transaction so that tenants were not displaced when the 14 units were converted to condos and sold. Without the involvement of this public agency as the lender, all of the affordable units might have been lost.

Unfortunately, Andover may not be so lucky with its other expiring properties. In one case, the affordability restrictions on the property were already extended for five more years during a 2001 restructuring, and it is questionable whether they will be extended again. In the other case, affordable units are already being transformed into market rate condos as the affordability restrictions expire in phases through the end of 2006. The community worries that with the loss of these properties, the town's affordable housing stock will drop below 10 percent, the number at which developers can override local zoning ordinances under the state's affordable housing laws. They are also concerned about displacing long time Andover residents who are struggling to keep up in the increasingly wealthy community. As more and more properties reach their expiration dates, the community must grapple with how it will replenish its supply.

requirements exist at the end of the compliance period. Are there extended use requirements? Do the investors have the right to "put" the property to the sponsor or general partner? Do the tenants have a purchase option? Does the sponsor or general partner have a purchase option? How are exit taxes calculated? Are the investors entitled to a return of their capital? Can the partnership be continued indefinitely if a restructuring is not worked out?

Loan documents. Review the loan documents. Are the loans fully amortizing, or is there a balloon payment due in year 15? In the event the property is transferred from the partnership, are the loans due and payable? Or, can they be transferred to the succeeding entity?

Financial condition. Develop a complete financial picture of the property at the end of the compliance period. Compute the current capital account and its projected value through year 15. If it is projected to be negative in year 15, identify any operational changes that can be implemented now to increase income and decrease the size of the negative capital account. Project loan balances for the end of year 15 and the amounts expected to be in the operating and replacement reserves.

Property value. Determine the current market value of the property. If the affordability restrictions expire at the end of the compliance period, compute the value of the property both with and without the restrictions. If the restrictions continue, the computation should reflect them. If the property is in a neighborhood where values differ substantially from the surrounding area, make sure the computed value differentiates the property. Knowing the property's value and how it compares with the overall market gives an organization an advantage when negotiating with the limited partners, who generally are familiar only with the larger market.

4. Understand the investors' requirements.

Talk to the tax credit syndicator or the limited partners to determine what their expectations are for the end of the compliance period. Are they interested in a specific internal rate of return? Are they expecting a return of capital? Are exit taxes their primary concern? Are they willing and able to negotiate exit taxes? Do they perceive the property's value to be substantially different from the organization's projections?

5. Understand the lender's requirements.

Talk to each of the lenders. Determine their requirements and expectations regarding the repayment of loans. Are the first mortgage lenders willing to be flexible regarding the assumption of the debt by a successor owner, or are they going to enforce the due-on-sale provisions? Are the subordinate lenders expecting to be repaid in full at the end of the compliance period? Are they willing and able to forgive some or all of the debt? Or, are they willing to negotiate the terms of the debt to preserve the affordable housing units?

6. Create a plan.

To effectively restructure the ownership of an LIHTC property at the end of the compliance period, the nonprofit sponsor must first understand its goals for the property and then determine a plan to meet those goals. The goal setting should occur at the highest level of the organization, including the executive director and the board, and to the extent possible, should reflect the tenants' goals for the property. Once goals are established, an action plan should be created, accounting for all of the tasks and steps that must be pursued

to make the transition a success. The plan should be continually monitored and adjusted with mid-course corrections throughout the process.

7. Negotiate from strength.

In following the first six steps—starting early, acquiring expertise, understanding the deal, understanding the investor's requirements, understanding the lender's requirements, and developing a workable implementation plan—an organization has made itself an expert in the transaction. This expertise should be used to the organization's advantage throughout the negotiation process, making certain for example, that all parties fully understand the value and condition of the property.

8. Be proactive.

The sponsoring organization should take the lead in restructuring the transaction rather than waiting for the limited partners or lenders to act. By being proactive, the sponsor will be able to control the pace of the restructuring and will be better able to direct the focus of the other parties on the issues and on finding their solutions.

These steps suggest a roadmap for for-profit and nonprofit community development organizations to follow as they wrestle with the issues associated with the end of the LIHTC compliance period. Above all, as organizations struggle to restructure property ownership and preserve affordable housing, they should remember that a willingness to be creative and explore "outside the box" alternatives is essential to success.

[1] Additionally, any time after the end of year 14, owners may seek a "qualified contract" offer from the state agency that originally allocated the tax credits to buy the property. If the agency fails to offer such a contract, which calculates the property price based on a standard formula, the additional 15-year restriction is dissolved.

[2] A 1990 Congressional amendment gives nonprofit general partners, tenant organizations, and government agencies the right of first refusal to buy the property at a price equal to the value of the total outstanding secured debt and all taxes generated by the sale, even if this amount is less than fair market value.

References

"About the Low-Income Housing Tax Credit." Affordable Housing Resource Center. Novogradac & Company LLP. Available at http://www.novoco.com/Facts_Figures/About_LIHTC.shtml (retrieved April 21, 2005).

Hobbs, C. "Strong Investor Interest in Tax Credits Continues to Support Production of Affordable Housing." *Multi-Housing News*, vol. 29, no. 11 (2004).

"Low-Income Housing Tax Credits." U.S. Department of Housing and Urban Development. Available at http://www.huduser.org.datasets/lihtc.html (retrieved April 21, 2005).

Nolden, S. et al. "Updating the Low-Income Housing Tax Credit Database." Abt Associates, Inc. Cambridge, MA (2003).

William S. Hettinger, Ph.D., *is president of the Wyndham Financial Group, a community and economic development consulting group. He is the author of* Living and Working in Paradise: Why Housing Is Too Expensive and What Communities Can Do About It.

Rob Casey/Getty Images

IMMIGRANT entrepreneurs

A Key to Boston's Neighborhood Revitalization

By Marcia Hohn

Immigrant-owned businesses have been anecdotally linked to the revival of a number of depressed areas in Massachusetts and across the country. Yet, few studies have examined the nature of immigrant businesses and the role they play in a community's turnaround. In 2003, the Immigrant Learning Center (ILC), Inc., a nonprofit organization located in Malden, Massachusetts, that provides English language training for immigrant adults, launched a public education program to raise the visibility of immigrants as valuable contributors to America's economic, social, and cultural vibrancy.

As part of this campaign, the ILC commissioned two University of Massachusetts-Boston research teams to carry out a study investigating the impact of immigrant-owned businesses on neighborhood revitalization.[1] The study focused on three Boston neighborhoods—Allston Village, East Boston, and Fields Corner—all home to large immigrant populations and immigrant-owned businesses. The resulting report, "Immigrant Entrepreneurs and Neighborhood Revitalization," will be released this fall. This article summarizes key findings of the study.

Main Findings

The study revealed several important findings about immigrant-owned businesses in Boston:

- There is a disconnect between immigrant entrepreneurs and the economic and community development services available to small businesses.
- All of the businesses were self- or family-financed. Traditional sources of credit and financial support were typically not available to or utilized by the entrepreneurs in the study.
- Most businesses are in the retail and service sectors, and many were started to provide goods and services to particular ethnic groups.
- Today, these businesses do not solely serve their own ethnic groups but draw a range of customers from both within and outside of the neighborhood.
- Collectively, the businesses bestow a distinctive character on the neighborhood business areas, attracting new customers and expanding economic activity in the neighborhood.
- Over time, the three neighborhoods have become cleaner, brighter, and safer in part because of the enhanced stability provided by the immigrant-owned businesses.
- In some cases, immigrant-owned businesses have created significant employment opportunities for neighborhood residents.[2]
- Most immigrant-owned businesses do not exist only for family survival and employment. Rather, the immigrant business owners in the study expressed ambitions for expansion and demonstrated entrepreneurial drive.

Saul Parella

Saul Perlera, Perlera Real Estate

Saul Perlera never wanted to start his own business. The second son of restaurant owners, Perlera knew what it meant to be a small business owner—long hours and hard work. But he could not escape his entrepreneurial roots, and today, he owns the top real estate office in East Boston.

At 16 years of age, Perlera left El Salvador for the United States, arriving at his uncle's house in East Boston. Within a few weeks, he was working three jobs—a full time factory job and two part time cleaning positions. "I didn't know a word of English when I got here," says Perlera. "But working with Italians at the factory and learning English along the way, I was soon able to speak Italian, English, and Spanish."

With East Boston's predominantly Italian landlords and largely Latino tenants, the value of Perlera's language skills was recognized by the real estate agent who rented him his first apartment. The agent offered him a job on the spot. Over the next ten years, Perlera worked in the agent's office, learning the ropes of the real estate business, eventually getting his license, and becoming the top agent in the office. Two years ago, Perlera decided to break out on his own. "I had a vision of creating a space where brokers would want to work," says Perlera. "I wanted an office that was equipped with the tools brokers need to function well in this industry and one that showed a commitment to professionalism."

He started small, hiring three people, working out of in his living room, and financing the operation with equity from his own personal investment properties. Soon, he found office space in the Meridian Street business district. He hired a designer and completely renovated the office, creating an aesthetically appealing space. Perlera's strategy worked. Brokers came knocking, wanting to work in the stylish atmosphere with its high-tech infrastructure. Today, Perlera Real Estate employs 14 agents, as well as a full support staff. Many of the employees are young immigrants. "I like to hire young friends of mine," says Perlera. "I want to give young people the opportunity that I was once given."

In the past two years, Perlera's business has become the top real estate firm in the East Boston area. Encouraged by this success, Perlera is now taking his vision to the neighborhood at large. He is developing several mixed-use properties, employing a professional design team and high quality materials. He is promoting the East Boston Main Streets façade-improvement program, helping other small business owners to enhance the look of their storefronts, and he is involved in several other organizations that are working to improve the image of Meridian Street and East Boston's other commercial districts. "Someone has to raise the standards of housing, business façades, and signage in the neighborhood," says Perlera. "Someone has to take the lead in creating a neighborhood that people want to be in."

Methodology

The study focused on the perceptions that immigrant business owners have about their impact on their neighborhoods. Ten to fifteen interviews were conducted with a sample of immigrant entrepreneurs in each of the three neighborhoods. There were three criteria for a business' participation in the study: the owner must be foreign born; the business must be a storefront enterprise that has been in operation for at least three years; and the business cannot be a franchise or a branch of a parent company located outside of the neighborhood. The interviews were augmented by discussions with key neighborhood observers, including staff from community-based organizations, police officers, and local officials.

In Allston Village and Fields Corner, businesses were selected randomly and were administered a questionnaire that covered four areas: business operation, neighborhood relations, use of public services and policies, and future plans. The hour-long interviews were face to face, given under the condition of anonymity, and often conducted in the owner's native language.

In East Boston, the process was slightly different. Interviews were conducted with 12 immigrant entrepreneurs and 16 key observers. The business owners were all Latino, selected from referrals from various sources: the Main Streets Program of East Boston, local leaders, and members of the Latino business community. As in the other two neighborhoods, interviews were one hour, anonymous, and often conducted in the native language. A similar questionnaire was used, covering business history, business relations, customers and community, problems and barriers, and future plans.

The Neighborhoods

Allston Village

Allston Village is a triangular-shaped commercial area in the Allston-Brighton neighborhood of Boston. At mid-

century, the area was a middle class shopping district featuring butcher shops and family restaurants. However, in the following decades, the area fell into decline. As property values dropped, three neighboring universities—Boston College, Boston University, and Harvard University—began to buy up land, and a large student population moved into the neighborhood. Bars and nightclubs replaced traditional businesses to cater to this younger population, and the neighborhood became increasingly transient.

The area's low rents also began attracting a sizable immigrant population as early as the 1960s, and today, of the neighborhood's 21,000 residents, 35 percent are foreign born, compared with 26 percent citywide. The immigrant population is diverse. Asian immigrants compose 41 percent of the foreign-born population. Latinos make up another 40 percent, while Russians, Middle Easterners, and Eastern Europeans also have significant numbers in the community.

Allston's mix of businesses has tracked these demographic shifts. Of the 276 businesses in Allston Village, at least 104 are immigrant-owned, and the ethnic diversity of these storefronts has become one of the neighborhood's unique features. Nearly half of these businesses are in the food services sector, prompting the *Boston Globe* to call the area the city's "premier bazaar of cheap and ethnic eats." Other businesses include hair salons, gift shops, a grocery store, a video-rental store, an herbal shop, and a jewelry store.

Fields Corner

The Fields Corner commercial district is located at the intersection of Adams Street and Dorchester Avenue in the Dorchester area of Boston. Once a working class neighborhood, Fields Corner deteriorated following the Boston busing crisis in the 1970s. By the 1980s, the neighborhood was in bad shape, with landlords suspected of burning down their properties, and police considering the area a high crime locale.

Around this time, Vietnamese immigrants began to arrive in Dorchester through a refugee resettlement effort. The population grew steadily, and today, there are nearly 6,500 Vietnamese-born residents living in Dorchester, accounting for one-fifth of the area's foreign-born population. Starting in the late 1980s, the Vietnamese immigrants began establishing businesses in Dorchester, primarily in Fields Corner, the area's largest business district. Over time, the Vietnamese business community expanded, and by 1993, Fields Corner was considered to have been revitalized by these Vietnamese entrepreneurs.

Today, 126 of the 225 businesses in Fields Corners are owned and operated by Vietnamese business people. The businesses reflect a diverse neighborhood economy. One-third of the Vietnamese businesses are in the retail trade sector, largely restaurants and other food businesses. Half are service-oriented businesses, including professional services such as lawyers, doctors, and architects, as well as personal beauty establishments and auto services shops. Still another 10 percent are businesses providing financial, insurance, and real estate services.

East Boston

East Boston is a unique neighborhood. It has large areas of waterfront but is hemmed in by three major transportation elements: Logan International Airport; the Sumner and Callahan Tunnels; and the inner Boston Harbor Maritime infrastructure. All three have generated negative side effects on the quality of life in East Boston, and over time, the neighborhood has been one of the more depressed areas of the city.

In recent decades, East Boston has come to have the largest concentration of Latinos in Boston, with Latinos making up close to 50 percent of the neighborhood's population. Most are young, and the majority are from Central America, with large populations from El Salvador and Colombia. Originally settling around Maverick and Central Squares, the Latino population is steadily spreading to East Boston's other neighborhoods, as older Italian and Irish residents move out. The growing Latino population has sparked a Latino-owned business community, which largely supplies Latino-oriented goods and services in a range of industries—food, real estate, insurance, tax service, laundry service, beauty salons, and sporting goods.

Common Characteristics

Across all three neighborhoods, immigrant entrepreneurs experienced similar paths to business ownership. Most had been in the United States for at least five years before starting their businesses, and all attested to having to work hard to establish their businesses, with most owners reporting that they still worked long hours—averaging 60 to 70 hours per week and often well over 80 hours.

The motivations for starting a business fell into several broad categories. Many owners were inspired by past business experience in their home countries, while a number of entrepreneurs were simply following a desire to open a certain type of business. In Fields Corner, many Vietnamese refugees started enterprises to provide a means of survival and employment for their families. Others established businesses to serve the Vietnamese community. In East Boston, mentorship played an important role. Often, immigrant business owners first worked for 10 to 12 years for someone else, gaining practical experience, learning "the inner workings of the business," and nurturing entrepreneurial ideas. In this time, they also attracted the attention of supervisors. These individuals, sometimes immigrants themselves who understood the struggle of being new in this country, became mentors and often provided opportunities to the fledging entrepreneurs.

Disconnect with Public and Financial Services

In all three neighborhoods, not a single business owner in the study received outside assistance in starting up their business. Not one relied on government programs designed to help small businesses. No one received any kind of business development advising. No one accessed traditional sources of financing. Instead, owners told stories of working two to three

jobs, saving every penny, and turning to employers and family members to raise the needed funds to start the enterprise.

The business owners also reported limited involvement in neighborhood organizations such as Boards of Trade, Chambers of Commerce, and community development corporations. However, the desire to interact with other business people was evident. In Fields Corner, Vietnamese merchants started their own organization, and in East Boston, some entrepreneurs belonged to an El Salvadoran business group.

Language barriers, cultural attitudes towards the use of credit, an independent nature, and a perceived lack of need undoubtedly all played a role in the disconnect with public groups and services. A lack of knowledge also contributed. One business owner related that when applying to a bank for a loan, she had no idea what a business plan looked like and was confused by requests for business projections and other data.

Cleaner, Brighter, Safer Neighborhoods

Most observers acknowledge that by deciding to invest in locales that were in decline, the immigrant businesses in these three neighborhoods revived commerce and generated a new and distinct community life. The immigrant entrepreneurs in the study recognized their role in neighborhood turnaround and were proud of it. In Fields Corner, almost all the business owners attributed to Vietnamese merchants the transformation of an abandoned, declining area into a thriving one. They saw themselves as the providers of important services and products, which filled the commercial gaps in the neighborhood.

In East Boston, the business owners believed that the considerable concentration of Latino businesses in Maverick Square, Day Square, and Central Square had revitalized life in each of these commercial districts. They credited the increased human activity with dispelling criminal and gang activity, a notion that was affirmed by the local police. They also cited the vast improvement in the physical appearance of these areas. In Allston Village, the business owners believed that they had helped to generate a new reputation for the area as a multi-ethnic cluster, helping to overcome the perception of the area as one simply of bars and clubs. The business owners observed that the area had become cleaner, more active, and more upscale over the years.

Expanding Customer Bases and Increasing Economic Activity

It is commonly believed that immigrant-owned businesses serve only their own ethnic niche. The study found that while many of the businesses may have started out with this goal in mind, their customer bases have significantly expanded. For instance, most of the Fields Corner businesses were built around the needs of the local Vietnamese customer base. Over time, Vietnamese from outside of the neighborhood and non-Vietnamese have learned of the stores' products and services and become patrons.

The immigrant-owned businesses have also introduced the non-Vietnamese residents of Fields Corner to different products and to a different culture and language. They have lent the distinctive character of a Vietnamese enclave to the area, a so-called "Little Saigon." From the vantage point of commerce, this character attracts more people into Fields Corner for Vietnamese food, products, and services.

In Allston Village, a small number of the owners were looking for a site with a specific ethnic population, but most were drawn to the area by its large student population. As a result, a cluster of diverse businesses was created, meeting the needs of the neighborhood and developing a reputation as a multi-ethnic area. The diversity attracts outside customers into the neighborhood, and Allston has developed a reputation as a destination for ethnic food.

East Boston's businesses are more ethnically focused, with all of the interviewed business owners emphasizing their expertise at catering to the Latino community. While their customers were drawn predominantly from the local area, most business owners reported that their markets also included customers from other Latino communities in the Greater Boston area. For example, the Brazilian owner of a sporting goods store said that many of his customers come from Framingham, Malden, and Somerville, Massachusetts—all cities with significant concentrations of Brazilians.

Characteristics of Immigrant-Owned Businesses in the Sample

	Allston Village	Fields Corner	East Boston
Average Number of Years in the United States Before Starting the Business	5	10	11
Average Number of Years of Operation	12	11	8
Median Number of Hours of Operation	69	60	70
Median Number of Employees	4	2	9

Some Job Creation

Most of the immigrant-owned businesses in the study employed several workers, but the average contribution to job counts

Cecilia Maya

Maya Insurance Agency

Cecilia Maya started Maya Insurance to provide insurance products to the underserved Latino community in Boston. Emigrating from Colombia when she was just four years old, Maya grew up in the Jamaica Plain area of the city. After high school, she took a job with an insurance agent and fell in love with the work. "It felt so good to help people and to make a difference in their lives," recalls Maya.

The office served a number of Latino clients, many of whom did not speak English. These customers gravitated to Maya, who would routinely take extra time to translate and explain insurance forms and policies in detail. "It takes more time to service these clients because of the thorough explanation they require," says Maya. "Many Hispanic people want their interaction with their agent to be more than a business relationship. They want to get to know you."

Looking around at the city's insurance market, Maya realized that there were few agencies that had the bilingual capacity to service the growing Latino community. "At that moment, I decided to go into business for myself," recalls Maya. "The Hispanic community needed someone that was fully bilingual to serve them in the insurance market."

With little knowledge of what it took to run a small business, Maya set out. She investigated funding options at several banks, but found herself befuddled by requests for business plans and revenue projects. "I did not even know how to complete a financial statement," says Maya. "I thought I would just rent a space and say, 'Here I am!'" With traditional financing options closed, Maya turned to her family. "I have a large family, and I borrowed $1,000 here, $2,000 there."

Soon, she had scraped together enough to open two storefronts—the first in Jamaica Plain in January 1991 and the second in East Boston in March. She hired a bilingual staff and started selling home, auto, and business insurance to residents of these two communities. At first, business was slow, and it was three years before Maya could draw a steady salary. "There were weeks when I couldn't even afford to buy a gallon of milk," recalls Maya.

She built the business primarily by targeting the Latino immigrant community. She advertised on the Spanish-language radio stations that much of Boston's Latino community depends on for news and other information, and she ran occasional ads on Hispanic television channels. However, she depended largely on work of mouth. "Boston's Latino community is very family oriented. When people would come to buy an insurance policy from me, they would often bring their brother along for support. In time, the brother would decide to purchase a policy for himself, and family member by family member, the business has grown," says Maya.

Today, Maya Insurance employs nine people in its two offices, and the business turns a healthy profit for its owner. Though Maya would like to expand, particularly so she could offer employment opportunities to other immigrants, she has her hands full with the current business and her family life. And she is satisfied. She says, "I love what I do. I get to meet people every day and help them."

varied by neighborhood. Fields Corner's businesses undoubtedly created the fewest jobs beyond family employment, in part because many of the businesses were established as a survival tool for refugee families. East Boston's businesses created the most jobs, although this is likely a result of the sample selection methodology, which chose well-established, well-connected businesses. Employees in the East Boston businesses numbered between 2 and 25, with an average of 9 jobs in any one business. Most of those employed were Latinos. In Allston Village, the median number of people employed in the immigrant-owned businesses was 4, and these workers were less ethnically specific.

Not Mom and Pop – Future Plans and Entrepreneurial Spirit

The vast majority of the immigrant businesses in the study expressed a desire for expansion and new ventures. In Allston Village, most of the immigrant owners intended to expand their business within the next five years, either by adding services and related businesses or by creating branches. Some had already done so. The owner of a video rental business had already established two others in the neighborhood. Another small business owner had opened a healing arts center to accompany his herbal store. There were similar stories in Fields Corner. Here, one merchant owned a bookstore, a flower shop, and a food distribution business.

B.J. Wang

E. Shan Tang Herbs, Inc.

In 1982, B.J. Wang came to the United States searching for garlic. He was a young buyer for an import/ export business in Japan and an expert on plants and herbs after having trained in his family's herbal remedy store in Korea. However, in the midst of his garlic expedition, he found a new calling—sushi. Deciding not to return to Japan, he began training as a sushi chef in California, a career that would take him to Chicago and eventually to Boston. Attracted to the ethnic enclave of Boston's Allston Village, Wang found a job at a sushi restaurant on Harvard Avenue in the heart of the neighborhood.

A few years later, Wang's father came to live with him after selling the family business in Korea. "He was so bored at my house," recalls Wang. "I would leave every day for the restaurant, and he would have nothing to do. He asked me if I would start an herbal shop with him to give him something to occupy his time."

Wang agreed and found a space near the restaurant—one that would allow him to manage the new business and continue working at the restaurant. The first year, juggling two jobs was easy as the newly opened E. Shan Tang Herbs, Inc., saw few customers. In fact, when an opportunity arose to open his own sushi restaurant across the street, Wang jumped at it. However, when a *Boston Globe* reporter stopped in one day, searching for an herbal tea that he had previously found only in California, the future of E. Shan Tang Herbs was forever changed. The shop was written up in the paper, and customer volume began to soar. Business became so busy that when a fire caused damage to his restaurant, Wang decided to close it and dedicate himself to the next generation of his family's business.

Sixteen years later, people from all parts of the country come to Allston Village to shop in E. Shan Tang Herbs, Inc. Wang is not merely the proprietor; he is also the store's doctor and often the main reason for people to visit. Trained in acupuncture, pulse reading, herbs, and other traditional healing methods, Wang's customers come to him, seeking remedy from their illnesses. "I see all kinds of people—white, black, yellow, brown. We all speak broken English to each other," says Wang. "My philosophy is to treat each customer like a god. If you are good to people and love them, they feel better faster."

The success of Wang's herbal store has prompted him to expand the business. He now fills prescription orders for 40 to 50 doctors around the country. He has bought a small farm south of Boston to experiment with growing locally many of the herbs he currently imports. He has also opened the Asian Healing Arts and Learning Center next door to E. Shan Tang Herbs, Inc. Here, Wang and other teachers share with students their knowledge of the healing arts. The building also houses several acupuncturists, whose revenues help to support the Center's free nutrition and therapeutic classes for individuals suffering from cancer, AIDS, and other maladies. Neighborhood groups also use the space for meetings and other functions. Supporting the community and serving people in this way is important to Wang. "The business has had the chance to be really big. I've had offers to franchise it and to sell herbs over the Internet. But I don't want to be really big. I would rather do what I can here," says Wang.

Another had bought numerous properties in the area and was interested in moving into commercial real estate. East Boston entrepreneurs also had plans to grow. One business owner was assessing the feasibility of acquiring a Chinese restaurant to complement his Latino restaurants, and two other restaurant owners were also looking to expand their businesses. Two separate real estate firms had major plans—one hoped to become a national franchise, while the other was positioning itself to develop property along the East Boston waterfront.

Most of the businesses appeared to have outlined their expansion plans, and several entrepreneurs were developing relationships with traditional banking and legal institutions to help them achieve their desired growth. However, the majority of the business owners in the study did not intend to seek business assistance for expansion, and many did not seem to know how they will access the capital and legal services they will need. Moreover, involvement in local business networking organizations was low.

Left Out of City Plans?

Immigrant business owners in Fields Corner and East Boston were concerned that their interests were being over-

looked in Boston's redevelopment plans. In Fields Corner, the city is planning a multi-million dollar initiative to improve Dorchester Avenue. Although the city's planning agency has made substantial outreach efforts by working with several Vietnamese organizations, advertising its plans in Vietnamese newspapers, and holding neighborhood meetings, the interviewed business owners conveyed the belief that the needs of the immigrant community have not been adequately addressed in planning process. Some merchants expressed fear that the distinctive identity that they had worked to bring to the neighborhood would be lost. Others feared that they would be priced out of the neighborhood.

In East Boston, the city is also planning improvements, including waterfront parks, greenways, public transportation enhancements, and the development of several large parcels of land along the waterfront. Although these reconstruction and revitalization efforts will make East Boston a more attractive area, business owners in the study expressed concern that the impacts on the Latino community and its businesses have not been explored. Merchants fear that these plans may lead to rising rents and taxes, which may erode the Latino customer base.

Possible Policy Recommendations

The study added to the current knowledge of the links between immigrant entrepreneurs and neighborhood revitalization. It also uncovered several ways in which this connection could be enhanced, benefiting both immigrant small business owners and neighborhoods. For example, the immigrant entrepreneurs in the study are not currently connected to the city's business support programs and traditional channels of capital. Building stronger connections could help to enhance the sophistication and longevity of Boston's immigrant-owned businesses, in turn benefiting the city's neighborhoods by creating a more stable business base. To this end, program providers could try a number of creative strategies, such as combining elements of English language learning into technology and business development classes; collaborating with existing ethnic-specific business groups; providing mentorship programs; or clustering activities around community events.

Additionally, the study showed that immigrant business owners feel left out of the city's planning processes, despite outreach attempts. Finding new ways to incorporate immigrant entrepreneurs in city planning will help ensure that their needs are addressed and that the city's neighborhood commercial districts remain vibrant. For instance, city planning officials could hold discussions at ethnic organizations, outreach through trusted ethnic representatives to promote attendance, or use inclusive processes at meetings.

Regardless of the strategies employed, policy makers must recognize that immigrant entrepreneurs are vital economic and social contributors to their neighborhoods and to the city of Boston. To ensure that these populations and their neighborhoods continue to thrive, the critical sectors of economic, political, and social life in Boston must respond in kind.

[1] One teams was from the Institute for Asian-American Studies, and the other, from the Gaston Institute.

[2] This figure is likely affected by the non-random sample selection process used in East Boston.

Marcia Drew Hohn is the Director of Public Education at the Immigrant Learning Center in Malden, Massachusetts. The full report, "Immigrant Entrepreneurs and Neighborhood Revitalization," will be available from the Immigrant Learning Center in the fall.

first person

Laurie LaChance

Demographic Shifts Impact Maine's Communities

Born and raised in Dover-Foxcroft, Maine, economist Laurie LaChance has been monitoring the state's economy for more than 20 years. This past fall, the former chief economist for the state took over the leadership of the Maine Development Foundation (MDF), a nonprofit organization promoting economic development in the state. Communities & Banking *sat down with LaChance to learn more about MDF and the issues that are affecting the economic health of Maine's communities.*

C&B: What is the Maine Development Foundation?

LL: MDF was established by state statute to pursue long term economic development in Maine in partnership with state government and the business community. It is a nonpartisan, apolitical organization that is trusted to provide objective information for policy making, and it also often acts as a catalyst for change in the state. Its most important role, however, is as a convener. MDF has the ability to bring together the private, public, and nonprofit sectors to work through major public policy issues and find common ground.

C&B: Why has MDF been successful in this role?

LL: Two reasons. One, as a creature of statute, MDF has standing to play this role. Two, under years of strong leadership, MDF has stuck to it. The organization has not been allowed to get political, one way or another. This is really central to me, and I hope to continue MDF's nonpartisan tradition, keeping our place as a trusted source of objective information.

C&B: As someone who has studied Maine for two decades, what do you see as the major issues affecting the long term health of Maine's communities?

LL: Many of the issues are demographic. Several significant, long term population changes are shaping the economy and putting stress on virtually every institution, level of government, and system in the state. For one, our population is growing slowly. While many Mainers would just as soon it stay that way, we are growing much more slowly than the U.S. average.

C&B: Why is slow population growth a problem for the state?

LL: Maine's per capita income is currently 8 percent below the U.S. average, and we want to improve this measure of economic well-being. Slow population growth makes it difficult to close this gap, because our workforce isn't growing. The workforce we have today is the same one we will have for the next decade. So, to close the gap, we have to help every Maine worker reach his or her greatest potential and focus on raising the level of post-secondary education in the state.

C&B: What work is MDF doing in this area?

LL: Education is more important than ever, not just because of the slow population growth, but because the state is shifting from a manufacturing to a knowledge-based economy, one which demands higher levels of educational attainment. We are working with the Maine Community Foundation on the Compact for Higher Education in an effort to increase degree attainment in the state. Maine has one of the highest high school graduation rates in the nation, but below average college attainment. Many parents never went to college, and it is a big step for students to get over the "first generation" hurdle. The Compact helps them to realize that they can do it, giving them access to college experiences, such as lectures and campus visits, and helping them with applications and financial aid. We are also focusing on training the workforce that is currently in place. MDF is working with employers to help them encourage their employees to invest in education—by giving them time off to take courses, paying them upfront for classes, and allowing them to seek a degree in a field that is not necessarily central to their job.

C&B: What are the other demographic trends besides slow population growth?

LL: A second important trend is that we are growing older. Maine is the oldest state in the nation as measured by median age of the population. The issues associated with the country's aging population are affecting Maine sooner and a bit harder than the rest of the nation. They are putting pressure on our health care system, and we are just beginning to see the pressure that is going to be put on our school systems. Right now, K-12 education is the biggest budget item at the state and local levels, but as the population ages, budget priorities must become more focused on the needs of the older population. Communities are starting to feel the pressure of this shift.

C&B: What is driving the aging of the population?

LL: There are a couple of things. Our natural rate of increase has slowed. There have been fewer babies born in Maine in recent years than ever before in our history. Additionally, we had a net out-migration of young working-age adults in the 1980s and 1990s, and we had a net in-migration of retirees.

C&B: How are these incoming retirees viewed by Maine's communities? Are they seen as boosting population growth or compounding the problem of an aging population?

LL: Both. Studies show that the people who choose to move to Maine include a lot of pre-retirees. They tend to be wealthy and healthy, and they are also active. They get engaged in the arts community, they volunteer or teach, and they frequently start another business or work a second career. In fact, retirees have been quite an economic force, particularly around the midcoast area, but because their impact is dispersed, people tend not to see it. On the other hand, a lot of people say, "These retirees are driving up our property values." And it is true, they are.

C&B: Are there additional demographic trends?

LL: Yes. Another trend is that we are growing unevenly as a state. If you look at Maine's 16 counties, you see absolute

declines in population in the northern and eastern parts of the state, but fairly rapid growth in the southern coastal counties and on the New Hampshire border. People can get a lot more house for their money in Maine than in New Hampshire or Boston, and southern New Englanders are moving into southern Maine. This trend is changing the dynamics of the state.

The transition out of manufacturing is also differentially affecting the two regions. In 1950, one out of every two jobs was in manufacturing—in labor intensive industries such as leather, textiles, and forest products. Many of these industries grew up on rivers in rural Maine. Today, manufacturing is only about 12 percent of our job base, and the shift has been painful for rural areas. When a mill closes, it really undermines the economic fabric of these communities.

C&B: How are the communities surviving the transition?

LL: A lot of communities turn to tourism, particularly eco-tourism or heritage-based tourism, which leverages rural Maine's beautiful landscape. There are also efforts to encourage entrepreneurial ventures and to better link small businesses with the support they need. The idea is to build on the strengths and the heritage of these communities. For instance, people in rural Maine have a better feel for wood fiber than anybody else. We are trying to find new ways to use that fiber, whether as fuel sources, medicinal extracts, or composites.

C&B: That is a great theme—building on the heritage strengths.

LL: When you are talking about fishing, when you are talking about forestry, when you are talking about farming, you are talking about Maine. We have always had a great interaction with the land, the water, and our natural resource base. This is where our strength is, and when we build on that knowledge, it gives us tremendous opportunity.

C&B: Are the population shifts and economic changes causing a disconnect between the two regions of the state?

LL: It is creating some pressure. It can be hard to understand the issues of living in a mill town where the mill is closing, when you live in coastal Maine, and you are worried about your property tax rate skyrocketing because of rapid development. And vice versa. These are huge differences, and at the political level, it is challenging to create policies that serve all of Maine.

MDF is working to address this divide through our Leadership Maine program. Each year a class of 40 to 45 leaders from around the state takes part in a nine-month program focused on the Maine economy. The participants are diverse, representing the 16 counties and high-level professionals from all sectors. In each session, the group tours a part of the state and sees the issues first hand. They also spend a day doing a mock legislative session, playing roles that are unfamiliar to them. So far, the program has created 490 engaged, energized, and networked leaders. I went through it, and it was life changing for me. It took me out of my comfortable environment and threw me in with people who had completely different views of the state. It also gave me the sense that Maine is a small community, where anybody can make a difference.

MDF also runs something called the Policy Leaders Academy. We take new legislators on an economic tour of the state. Same kind of experience—put them on a bus, put them together, and take them out to see places in Maine that they may have never seen before. These people are making important decisions about the state, and some may have never been north of Augusta.

C&B: Has the Policy Leaders Academy had an effect on Maine's law makers?

LL: It is hard to measure, but people say they see a difference in the committee discussions. The Policy Leaders experience is informing the debate. Legislators now say, "Wait a minute, that's not what's really going on. I saw this facility when we were touring." The program has the potential to move mountains… if we can only

get more legislators to go.

C&B: ***You mentioned that there were several demographic trends. Are there others that we haven't covered?***

LL: Yes. Another trend—number four, I believe—is that we are moving from our urban hubs into suburbia. We consumed as much of our land base in the last 20 years as we did in all of our prior history. It is sprawl, and it is putting tremendous pressures on our communities, especially fiscal pressures. It is becoming extremely costly to deliver services because we are spreading out. School costs and busing costs have grown, as has the cost of road maintenance. There is an environmental impact, and there is also a community impact. People are spending more time on the road and are less involved in their communities.

And finally, trend number five: demographically speaking, Maine is the most homogeneous state in the nation. We are 98 percent Caucasian. Our lack of diversity is making it difficult to attract new people. Minorities and immigrant populations feel outnumbered, and they cannot always obtain the goods and services they desire. It has become harder and harder for our colleges to recruit diverse populations. Yet, in a knowledge-based economy, a pool of diverse talent will be a major strength.

C&B: ***What sort of work is MDF doing on these fronts?***

LL: One way we are addressing these issues is through our Maine Downtown Center program. This effort is working with communities across the state to revitalize their downtown areas. Vital downtowns help to attract youth. They help to attract diverse populations, and they attract retirees back into Maine. The program is also helping to combat sprawl. If you can live and work in your downtown area, it lessens the need to spread out and move elsewhere.

C&B: ***MDF publishes a yearly report card, "Measures of Growth," on the health of the state's economy, communities, and environment. How did Maine do this year?***

LL: In some areas, we are doing incredibly well. Our income and employment growth have outpaced both regional and national performance in recent years. Maine's workforce is highly respected, and our quality of life is high. In health care, our number of uninsured is below the U.S. average, and we've been able to reduce teen smoking and pregnancy. We also have high voter turnout and civic participation—some of the highest in the nation.

But, we have some red flags, too, mostly related to the cost of doing business in Maine. Our taxes have gotten out of line. Our health care costs are above the U.S. average. Our energy costs, though improved, are still relatively high. When you put all of these together, they can make it difficult to attract needed business investment. Much of my focus as the head of MDF will be on these red flags and what we can do about them.

C&B: ***What do you see as the biggest challenge for the state in the next ten years?***

LL: In the face of all the demographic and economic shifts, our biggest challenge is to acknowledge that we have control over our future and take that control. We have to lay the foundation for a more modern, higher-value-added, "building-on-our-heritage" economy. There are some fundamentals that we must address. We need to get our spending under control, bring tax rates down, and create an environment in which people want to invest in Maine. These are hard things to do, but once we start down the path of working more collaboratively, I think we will be well positioned for the future. Overtime, Maine has proven that our work ethic is unsurpassed, our companies are innovative, our government is engaged, and our quality of life is unparalleled. We have every reason to believe that Maine's future will be bright.

New from Community Affairs

http://www.bos.frb.org/commdev/index.htm

Data Resources...

- Community Development Indicators
- Statistical Profile of New England's Low- and Moderate-Income Areas

Publications...

- International Remittances: Information for New England Financial Institutions
- Campus/Community Partnerships for Economic Development: The Community Perspective

Inside this issue: **Low Income Housing Tax Credit — Strategies for Year 15**

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.

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