

Community Investments Volume 17, Issue 1 CI Notebook

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Nine diverse states. Nearly one and a half million square miles of land mass. More than 55 million people. The Federal Reserve's Twelfth District has a dizzying array of community development issues and an equally-overwhelming number of players in the industry. How does a community development professional charged with addressing the needs in even a portion of this territory set priorities?

This is the ongoing challenge we at the Federal Reserve Bank of San Francisco have faced for many years. Given the vast and ever-changing needs in low- and moderate-income communities, we decided we needed to be much more methodical in our approach to understanding the issues and setting our priorities. This led to the production of individual "environmental assessments" for each of our nine district states.

For each state, we have conducted an environmental scan by looking at the demographic, economic, governmental, and financial context through the community development lens. In addition, each report provides detail on the specific needs and resources in each state for four important community development areas: affordable housing, small business, poverty and asset accumulation, and issues specifically affecting native people and immigrants.

We are pleased to publish all nine environmental assessments in conjunction with this issue of Community Investments, which itself contains both an overview article on the information gathered and a separate pull-out section containing two-page summaries of the major findings for each state. Please take the time to go to our website and print out the individual reports for the states you're interested in.

We hope you find these reports useful, and look forward to working together to address the many community development needs of our district that are detailed in these reports.

All the best to you and your families in this New Year.

Community Investments Volume 17, Issue 1

Foreword

Author(s): Scott Turner, Community Affairs Department, Federal Reserve Bank of San Francisco; with contributions from Anne McDonough-Hughes and Ethan Jennings
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In order to build a foundation for our community development work, the Community Affairs Department has produced a set of new reports entitled "environmental assessments" for each of the nine states in the Twelfth Federal Reserve District. We approached this project with many questions, most of them focused around whether the community development challenges in our district differed significantly from those faced by our colleagues across the country. For example, does our district's rapid growth shield us from the economic problems faced by "rust belt" states? Do the vast amounts of land in our district prevent the affordable housing problems experienced along much of the Eastern Seaboard? Do small businesses thrive here, given the traditional entrepreneurial spirit of the West? How do we compare to other areas in levels of poverty and asset accumulation? And, what special community development issues do the district's sizeable native and immigrant populations face?

In the process of seeking answers to these questions, we gathered an enormous amount of data and information and learned a great deal about our nine states, although in the end we may still be left with more questions than answers. In particular, the reports themselves only begin to touch on these issues on a local rather than a statewide level. Nevertheless, we believe that these reports represent a starting point, providing the information necessary to dig deeper into the issues and help find those

answers. Specifically, we believe that what we have learned will force us to rethink our current priorities and find ways to help make the banking industry more responsive, non-profit capacity stronger, government programs more effective, and foundation activity more focused on essential community development activities. This year, we hope to build on this knowledge, probe these questions, and work with each of you in our vast district to improve the low- and moderate-income communities we serve.

A broad overview of the major conclusions of these environmental assessments is provided in this article, and brief two-page summaries for each state are included in the special supplemental insert to the magazine. The complete environmental assessments can be accessed from our website. We encourage you to read them and look forward to hearing your feedback.

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Overall Community Development Environment

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Demographics

Despite the division of the United States into 12 relatively-equal Federal Reserve districts in 1913, the country's relentless move west has raised the Twelfth District's share of the nation's population to more than one fifth. Moreover, the district continues to lead the nation in population growth. Nevada and Arizona were first and second in the nation, respectively, in population growth between 2000 and 2003, and all nine district states were in the top twenty in the nation in population growth over the same period.¹

In terms of race and ethnicity, the Twelfth District is distinct from the country as a whole. The district has lower proportions than the nation of White residents (66.8% in the district vs. 75.1% nationally) and Black/African American residents (5.2% vs. 12.3% nationally). At the same time, the district has roughly double the population shares of Asian residents (8.8% versus 3.6% nationally) and Hispanic/Latino residents (24.8% versus 12.5% nationally). Hawaii and Idaho particularly stand out for their racial and ethnic compositions. Only 24% of Hawaii's population identify as White, while 42% identify as Asian. In contrast, 91% of Idaho's population identify as White. California and Arizona are also notable in that more than one quarter of their populations is of Hispanic or Latino origin.²

In terms of educational attainment, the district is on par with the U.S. on high school completion (of the nine states, only California is below average on this measure, while Alaska, Utah, and Washington are well above average). However, Twelfth District residents overall are slightly more likely to have a college degree (25.9% versus 24.4%), though the opposite is true in a number of states, including Idaho, Nevada, and Arizona.³

Economy

The Twelfth District also generates a disproportionate share of the nation's economy, and is specifically responsible for 20.9% of the nation's 2003 total gross state product (GSP),⁴ 20.5% of total personal income, and 22.5% of total manufactured exports.⁵ (California alone represents over 13% of the nation's total GSP.) The economic structure of the Twelfth District economy is not too dissimilar from that of the nation, with a somewhat smaller employment share in manufacturing (9.9% vs. 11.5% outside the district) and larger employment shares in certain service categories (13.5% vs. 12.0% outside the district in professional and business services, and 10.7% vs. 9.0% outside the district in leisure and hospitality services).⁶ There are more dramatic differences on the individual state level, such as Nevada's leisure and hospitality services sector, which supplies a full 28.0% of the jobs in the state,⁷ and Oregon's forest products manufacturing industry, which accounts for 21% of all manufacturing employment in the state as a whole.⁸ In contrast, Utah and Alaska exhibit high dependence on extractive and natural resource industries such as oil and mining. Utah is in fact becoming less dependent on technology companies while Washington and California continue to derive value from the information technology sector.⁹ California and Washington are also highly dependent on international trade, both being among the top five exporting states.¹⁰

In economic performance, the district's economy has been growing in line with the nation. Job growth in district states has lagged that of the nation in the past couple of years, but recent data has shown an increase in jobs in the district.¹¹ Currently, seven of the nine district states are adding jobs, and unemployment in the district is virtually the same as for the nation (5.6% vs. 5.5% nationally in October, 2004). Of special importance to the district, after several years of sharp declines, employment in information technology is finally growing at a solid pace. Overall, the economic outlook for the district appears to be improving, with sizable shares of district businesses surveyed by the Federal Reserve Bank of San Francisco indicating that they already have, or will soon, increase their capital spending.¹²

On a local level, there are pockets of true dynamism in the district, with the nine states containing roughly a third of the top-20 best performing cities in the nation, including the Las Vegas, NV metropolitan area (2nd ranked) and the Phoenix, AZ area (3rd ranked).¹³ At the same time, however, there are pockets of real economic weakness in our district, such as 35 counties with resource extraction-based economies in Idaho,¹⁴ or parts of California's

Central Valley, where unemployment reaches as high as 18.9% (Colusa County)¹⁵ and poverty as high as 23.9% (Tulare County).¹⁶

Government and Financial Sectors

The individual environmental assessments contain useful information on the structure and overall finances of the governments of each state and the specific agencies charged with the different facets of community development. District states exhibit a wide variety of ways in which they organize and finance their state and local governments. Hawaii, for example, has an extremely centralized system consisting of only two levels of government -- the state and four county governments -- with the counties providing most of the services usually associated with cities and towns.¹⁷ In Alaska, nearly two thirds of the state's land is unincorporated and there is a high level of autonomy for the few city governments that exist.¹⁸ Nevada has a very limited tax base and one of the lowest levels of state government employment in the nation,¹⁹ while Oregon stands out for its dependence on personal income taxes as a source of revenue (no other state is as dependent on a single source of tax revenue).²⁰

The banking systems in district states range from extensive (329 separately-chartered insured depository institutions in California) to limited (only ten institutions in Hawaii).²¹ In virtually every state, there has been significant consolidation of banking institutions in recent years, with a notable concentration of assets in just a few institutions in many states.²² For example, in Arizona, just three banks controlled more than two thirds of FDIC-insured deposits as of June 2004.²³ At the same time, contrary to expectations just a few years ago, there has been an explosion of branching in many of the states in recent years (Nevada in particular).²⁴ Industrial banks in Utah are a unique type of financial organization wielding formidable financial resources, representing more than 50% of Utah's banking assets in 2004.²⁵ Credit unions are also an important source of financial services in states such as Idaho and Oregon, where they control one third of the combined bank/credit union assets versus 6.5% nationally.²⁶

Finally, while specific information on nonprofit organizations in each state was sometimes difficult to find, it is clear that the capacity of the not-for-profit community development sector is straining to keep up with the districts rapid growth. In one key nonprofit sector, there are nearly 130 Community Development Financial Institutions in the district²⁷ that, as of the end of FY 2002, had more than \$677 million in critical community development finance outstanding to more than 67,000 customers.²⁸

¹ U.S. Census Bureau, Statistical Abstract of the United States: 2003, <http://www.census.gov/statab/www/ranks.html>.

² U.S. Census Bureau, Census 2000 Data.

³ Ibid.

⁴ Bureau of Economic Analysis (BEA), 2003 Gross State Product, <http://www.bea.doc.gov/bea/regional/data.htm>.

⁵ Federal Reserve Bank of San Francisco (FRBSF), Annual Profile of the Twelfth District, 2004, June 2004.

⁶ Ibid.

⁷ Economy.com, Nevada State Profile, October 2004.

⁸ The Oregon Blue Book, Manufacturing, <http://bluebook.state.or.us/facts/economy/economy09.htm>.

⁹ Robert Atkinson, Progressive Policy Institute, The 2002 State New Economy Index, June 2002, and BEA, Regional Economic Accounts, <http://www.bea.doc.gov/bea/regional/gsp/default.cfm>.

¹⁰ U.S. Census Bureau, Origin of Movement, http://ita.doc.gov/td/industry/otea/state/state_dollar_value_03.html.

¹¹ FRBSF, Twelfth Federal Reserve District, Regional Economic Briefing, November 2004. For ongoing information about the Twelfth Districts economic performance, visit the FRBSFs Economic Research Departments website at: <http://www.frbsf.org/economics>

¹² Ibid.

¹³ Milken Institute, Best Performing Cities: 2004, <http://bestcities.milkeninstitute.org/>.

¹⁴ Governor's Task Force on Rural Development, Idaho Department of Commerce, Findings and Recommendations, September 2000, p. 2

¹⁵ California Employment Development Department, Monthly Labor Force Data for Counties, 2003 Average, <http://www.calmis.ca.gov/file/lfhist/03aacou.txt>.

¹⁶ U.S. Census Bureau, Census 2000 Data.

¹⁷ Department of Business, Economic Development, and Tourism (DBEDT), State of Hawaii, Facts and Figures - State of Hawaii, p. 3.

¹⁸ Alaska Department of Community and Economic Development, Local Government in Alaska, http://www.dced.state.ak.us/dca/lbc/pubs/Local_Gov_AK.pdf and University of Alaska Justice Center, Alaska Local and Borough Government, http://justice.uaa.alaska.edu/rlinks/government/ak_local.html.

¹⁹ U.S. Census Bureau, Statistical Abstract of the United States: 2003.

²⁰ Oregon Legislative Revenue Office, 2003 Oregon Public Finance: Basic Facts, p. A2.

²¹ FDIC, State Profiles, Fall 2004, <http://www.fdic.gov/bank/analytical/stateprofile/index.html>.

²² Ibid.

²³ FDIC, Deposit Market Share Report: Arizona, June 2004.

²⁴ American Banker, Nevada Branch Showdown: As Taxes Kick In Banks Threaten Pullback, June 16, 2004.

²⁵ FDIC, Utah State Profile Fall 2004. More information on industrial banks is available from the Utah Department of Financial Institutions, <http://dfi.utah.gov>.

²⁶ Oregon Credit Union League, Credit Union Fact Sheet, http://www.cuna.org/download/oregon_fs.pdf; and Idaho Credit Union League, Credit Union Fact Sheet, http://www.cuna.org/download/idaho_fs.pdf.

²⁷ CDFI Fund, U.S. Department of the Treasury, Certified CDFIs Alphabetical by State and County, November 2004.

²⁸ CDFI Coalition, 2004 CDFI State Profiles, <http://www.cdfi.org/stateprof.asp>.

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Community Development Needs and Resources

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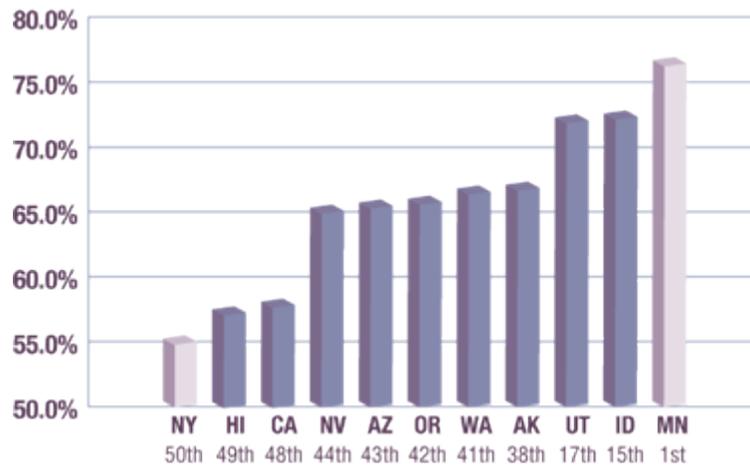
Affordable Housing

Providing affordable rental housing as well as opportunities for homeownership for low- and moderate-income people in the Twelfth District is a huge and increasing challenge. Homeownership is the single largest source of equity for Americans,²⁹ and low interest rates have helped boost homeownership rates significantly across the country in recent years. The overall homeownership rate for the district has risen as well, climbing from 60.5% in 2000 to 61.7% in 2002.³⁰ Overall, however, the district significantly lags the rest of the nation in homeownership, with its 61.7% homeownership rate still falling well below the national rate of 67.9%. On an individual state basis, six district states are among the ten states with the lowest rates of homeownership in the nation, led by Hawaii (2nd lowest, with a homeownership rate of only 57.4%) and California (3rd lowest, with a rate of 58.0%).³¹ (See Chart 1 for each of the nine district states homeownership rankings. In this and all other charts, the top- and bottom-ranked states in the country are also included for comparison.)

Chart 1

Percentage of Households That Own Their Own Home

(national rank indicated below)



Moreover, rapid home price appreciation in the district, while boosting the overall net worth of homeowners, is increasingly pricing first-time homebuyers out of the market.

Three of the districts states -- California, Hawaii, and Washington -- are among the top 10 states nationwide in terms of the median value of a mortgaged home.³² In some markets, these price increases are outstripping incomes and only a very small percentage of residents are able to afford the median-priced home. For example, in California, only 19% of households were able to afford the median-priced home in September 2004, compared to 55% of households in the U.S. In Santa Barbara County, California's least affordable region, only 6% of households could afford the median-priced home.³³ Homeownership in Oregon has also become increasingly out of reach -- between 1990 and 2000, the median household income increased by 50.2% while the median value of owner-occupied homes increased by 126.7%.³⁴

On the rental side, five district states are among the worst 10 in the nation in terms of the severity of the affordable rental housing problem. Specifically, the entire West Coast (Washington, Oregon, and California), plus Arizona and Hawaii, face some of the most difficult rental housing markets in the nation, with well over one fifth -- and in the case of Oregon and California, more than one quarter -- of their renter households severely cost burdened, meaning that they spend more than 50% of their income on rent.³⁵ (See Chart 2.)

Chart 2
Percentage of Renter Households Spending More Than 50% of Income on Rent
 (national rank indicated below)



Not surprisingly, nine out of the ten most expensive cities for renters are in the Twelfth District, including Seattle, Honolulu, Anchorage, and six cities in California (three in the San Francisco Bay Area).³⁶ Even in some of the better-ranked states, such as Alaska and Idaho, there are still areas with similar difficulties. For example, Alaska’s non-metropolitan areas rank among the top three least affordable non-metropolitan areas, and even in Idaho’s Pocatello MSA, 48% of renters are unable to afford the two-bedroom

fair market rent.³⁷ Many district states can be credited with programs to build and preserve affordable rental housing and port homeownership,³⁸ but finding new and innovative ways to affordably house the districts rapidly-growing population is a paramount concern.

Small Business

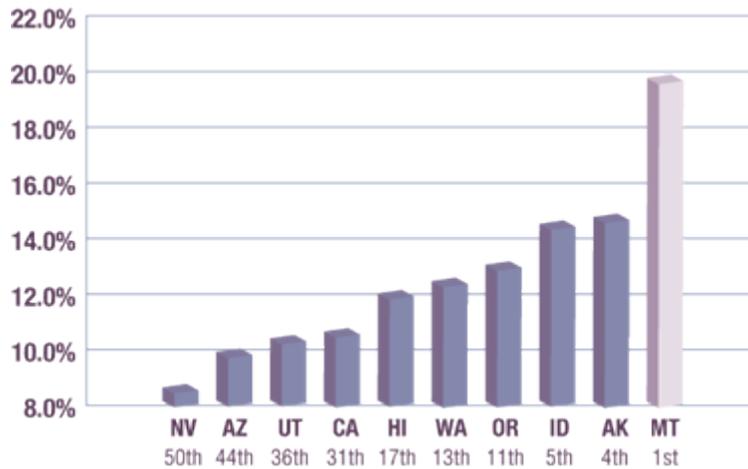
Entrepreneurs and small businesses are not only critical components of the overall economy, but also provide important opportunities for advancement for low- and moderate-income people. They are the second most important source of total household wealth, and are a traditional route into the middle class for many people, including immigrants.³⁹ For these reasons, supporting existing small businesses and entrepreneurs, especially with financial resources, and fostering the establishment of small businesses where they are less prevalent, are essential community development activities. Looking at the Twelfth District, this sector is quite pronounced in the majority of the nine states, and is very small in a few others.

On one measure, comparing the importance of small business in each state (defined for the purpose of these reports as the share of total employment accounted for by firms with fewer than 10 employees), Chart 3 shows that five district states are in the top 20 in the nation, with Alaska (fourth highest, with a 14.9% share of employment in very small firms) and Idaho (fifth, with a 14.6% share) leading the way. In contrast, based on this measure, Nevada has the least significant small business sector in the country (only an 8.5% share), with Arizona not far behind (44th, with a 9.8% share).⁴⁰

Chart 3

Percentage of Total Employment Attributable to Firms with Fewer than Ten Employees

(national rank indicated below)

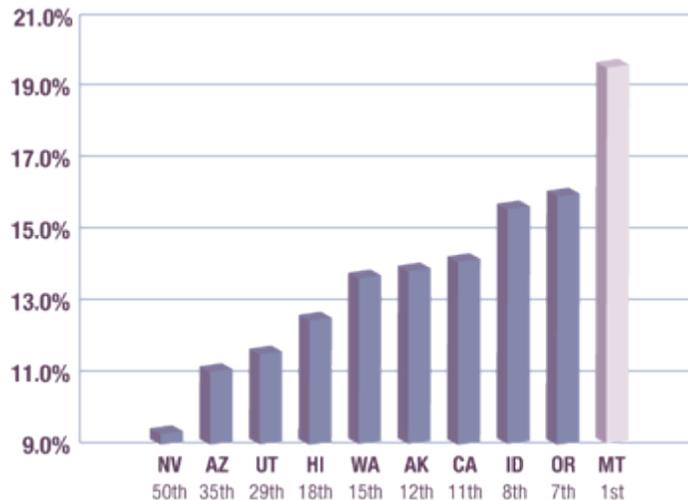


Another measure yields a similar result. Comparing the rate of entrepreneurship (the percentage of the labor force that owns their own firm), Chart 4 shows that six district states are in the top 20 in the nation, with especially high entrepreneurship rates in Oregon (seventh highest, with 16.2% owning their own firm) and Idaho (eighth, with 15.8%). Once again, Nevada ranks at the bottom in the nation in its level of entrepreneurship (only 9.3% of the state's labor force owns their own firm).⁴¹

Chart 4

Percentage of Labor Force That Owns Employer and Non-Employer Firms

(national rank indicated below)



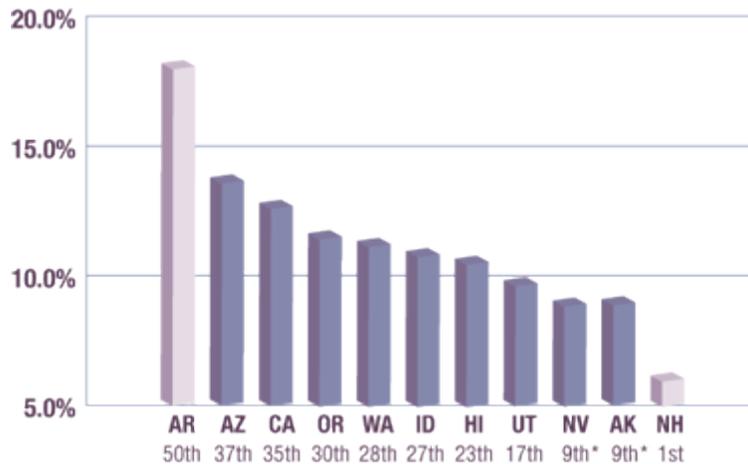
There is evidence in many of the districts states of difficulties faced by entrepreneurs and small businesses in accessing the capital necessary to grow and prosper, and of other obstacles faced by this sector. There is also an array of supportive programs available that attempt to assist those in the sector, but helping existing small businesses and creating an environment conducive to the establishment of new ones are key ongoing community development challenges in the district.

Poverty and Asset Accumulation

The environmental assessments also explore specific issues of poverty and financial stress and provide information on asset accumulation and preservation programs in each state. As exhibited in Chart 5, none of the district states are in the bottom quintile in terms of the share of their residents falling below the poverty level (based on a three-year average from 2001-2003), and only two, Arizona (37th, with a 13.9% poverty rate) and California (35th, with a 12.9% poverty rate) are in the next-to-last quintile. At the other end of the rankings, Nevada and Alaska, with poverty

rates of only 9.0%, are tied for having the ninth-lowest percentage of their populations in poverty in the nation.⁴²

Chart 5
Percentage of People in Poverty
(national rank indicated below)



Some argue that a more accurate measure of poverty is to double the official federal poverty levels. Measuring the near-poor in this way still shows similar results. Among the district states, Alaska fares the best, with only 31% of its population living below twice the poverty levels, and Washington, Oregon, and Utah are also better than the national average. The worst-ranking state is California, with 39% of its population living below twice the poverty rate, ranking the state 43rd nationally.⁴³

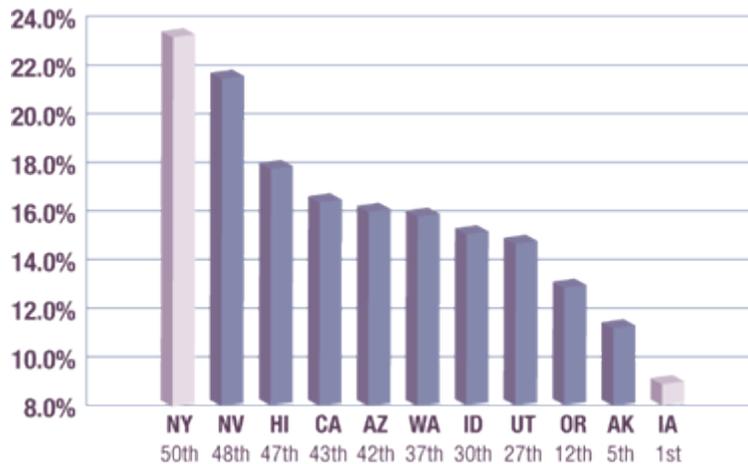
One of CFEDs chief contributions to the analysis of asset accumulation in the U.S. is to generate estimates of levels of net worth. An examination of this data shown in Chart 6 reveals that about half of district states have serious deficiencies in terms of the percentage of households with zero or negative net worth, with four states in the bottom quintile in this measure: Nevada (48th worst level, with 22.0% of households with zero or negative net worth), Hawaii (47th, with 18.1%), California, (43rd, with 16.7%), and Arizona (42nd, with 16.3%). Only Alaska enjoys a high ranking on this

measure (5th, with only 11.3% of households with zero or negative net worth), though Oregon is not far behind (12th, with only 13.0%).⁴⁴

Chart 6

Percentage of Households With Zero or Negative Net Worth

(national rank indicated below)

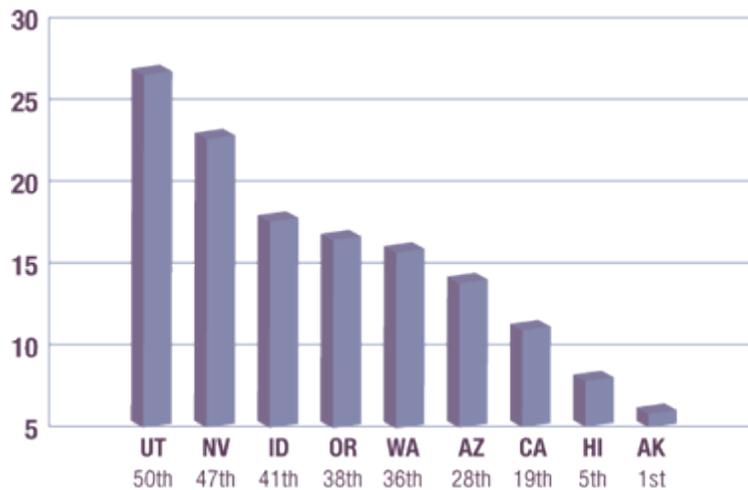


A final telling measure of personal financial stress is the rate of personal bankruptcy filings. On this measure, the district encompasses both the best and the worst states in the nation. In fact, as seen in Chart 7, not only does Utah have the highest rate of personal bankruptcy filings in the national rate that is almost five times that of the best ranked state -- but Nevada is not far behind at 47th. In contrast, Alaska is first in the county in having the best (lowest) rate of filings, followed not far behind by Hawaii (5th).⁴⁵

Chart 7

Personal Bankruptcy Filings per 1000 Households

(national rank indicated below)



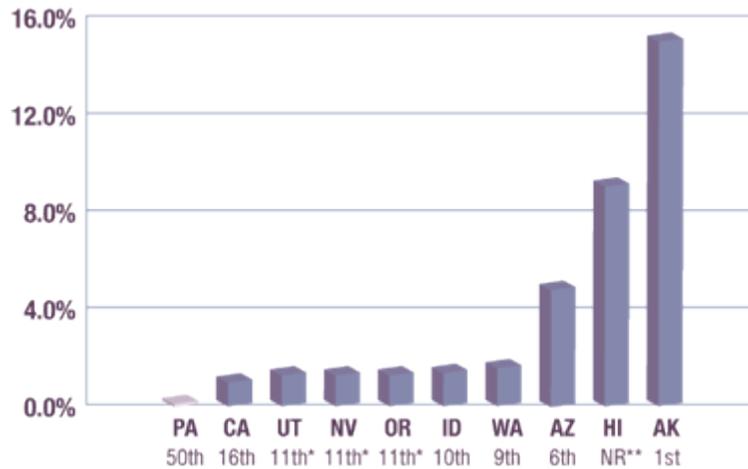
Native People and Immigrants

The final topic addressed in the environmental assessments is a specific focus on two groups of special concern to community development practitioners in the West, native people (defined in the reports as American Indian or Alaska Natives, or AIAN, for all states except Hawaii, and as Native Hawaiians/Other Pacific Islander in Hawaii) and immigrants. In total, AIAN individuals and Native Hawaiians make up 2.1% of the total district population, compared to 1.1% overall in the U.S. Chart 8 clearly shows that Alaska leads the way in AIAN share of the population, with AIAN residents accounting for 15.6% of the state's population, trailed by 6th-ranked Arizona, with a 5% share. However, the other five mainland states still have notable AIAN populations, with all eight states ranking in the top two quintiles in this measure. In absolute terms, the AIAN population in California is the nation's largest and Arizona ranks third. Similarly, Hawaii's Native Hawaiian/Other Pacific Islander population represents 9.4% of the state's population, which would rank it near the top in the nation on a combined measure of the concentration of native people.⁴⁶

Chart 8

Percentage of Population That Is American Indian or Alaska Native (AIAN)

(national rank indicated below)



*tied

**Hawaii's AIAN population accounts for 0.3% of total state population; data used in this chart reflects Native Hawaiian/Other Pacific Islander population

The native population faces a number of community development challenges, including a poverty rate twice the national average, far lower educational achievement, higher unemployment, and more serious housing issues.⁴⁷ While a number of programs and services are specifically targeted to these populations in each state, the disparities are stark and warrant special attention.

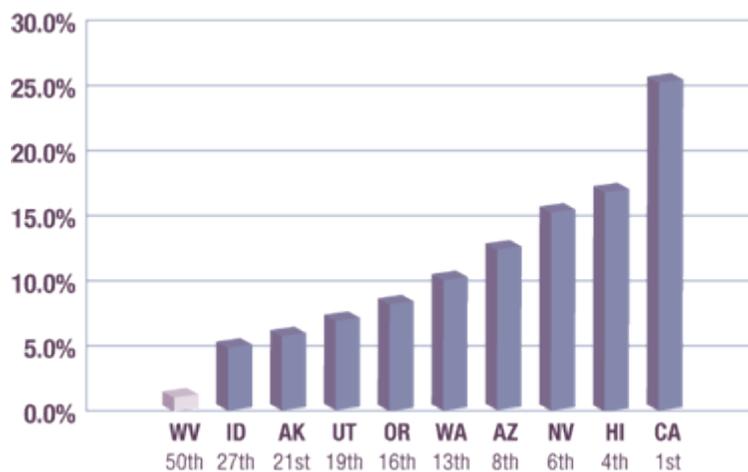
As with other areas of the country, portions of the Twelfth District are also magnets for immigrants. Twenty percent of Twelfth District residents are foreign born, and in total, they account for 36% of the total foreign-born population in the nation. As illustrated in Chart 9, California is the clear frontrunner of all the states in immigrant population share, with more than a quarter of its population foreign born. However, three other states -- Hawaii (fourth-largest concentration, with an immigrant share of 17.5%), Nevada

(sixth, with 15.8%) and Arizona (eighth, with 12.8%) are not far behind. Even Washington, Oregon, and Utah are in the top half of the country in terms of the concentration of immigrants, with foreign-born people comprising between 7% and 10% of their total populations.⁴⁸

Chart 9

Percentage of Population That Is Foreign Born

(national rank indicated below)



Like Native Americans and Native Hawaiians, the foreign born are more likely to live in poverty and face a number of obstacles, including cultural and linguistic barriers, which hinder their ability to start businesses and find affordable housing. Additional programs for these groups would be especially helpful.

Concluding Thoughts

These environmental assessments highlight the challenges facing the community development field in the Twelfth District: exploding population growth; pockets of economic weakness; increasingly limited homeownership opportunities for low- and moderate-income people; severe shortages of affordable rental housing in many states; unmet demand for capital and other support for entrepreneurs and small business; a huge unfilled need for

asset accumulation and preservation strategies for the districts poor; and very specific community development needs for two especially-important groups in the district, the native population and the immigrant population. While daunting, these challenges are not insurmountable. With continued dedication and hard work, together we can make a real difference in the districts low- and moderate-income communities.

²⁹ CFED, State Asset Development Report Card (SADRC), 2002, p. 92.

³⁰ U.S. Census Bureau, Census 2000 and American Community Survey Data.

³¹ U.S. Census Bureau, Statistical Abstract of the United States: 2003.

³² U.S. Census Bureau, 2003 American Community Survey Data,
<http://www.census.gov/acs/www/>.

³³ California Association of Realtors, California's Housing Affordability Index at 19% in September, Down Five Points from Year Ago, November 2004.

³⁴ Oregon Housing and Community Services, Setting the Standard: 2003-2005 Strategic Plan, p. 12.

³⁵ National Low Income Housing Coalition, Up Against A Wall, November 2004.

³⁶ U.S. Census Bureau, 2003 American Community Survey Data.

³⁷ National Low Income Housing Coalition (NLIHC), Out of Reach 2003,
<http://nlihc.org/oor2003/>.

³⁸ CFED, SADRC, pp. 129-132.

³⁹ Ibid, p. 106.

⁴⁰ U.S. Census Bureau, County Business Patterns 2001.

⁴¹ CFED, SADRC, p. 107.

⁴² U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2003, p. 23; poverty rates are calculated using a 3-year average, 2001 to 2003.

⁴³ Henry J. Kaiser Family Foundation. Distribution of Total Population by Federal Poverty Level State Data 2002-2003, U.S. 2003, <http://www.statehealthfacts.kff.org>.

⁴⁴ CFED, SADRC, p.91.

⁴⁵ American Bankruptcy Institute, Households Per Filing, Rank During the 12-Month Period Ended March 31, 2004, <http://www.abiworld.org/statcharts/HouseRank.htm>.

⁴⁶ U.S. Census Bureau, Census 2000 Data.

⁴⁷ Ibid.

⁴⁸ Ibid.