FEDERAL RESERVE BANK of ST. LOUIS

How Might Transforming Highways Impact Community Wealth?

November 17, 2022

By Jeffrey P. Cohen, Lowell R. Ricketts

Economic development in a community involves investments in growing the economy and enhancing the quality of life and prosperity of residents. Infrastructure (e.g., the system of roads) is one such investment. In particular, federal, state and local governments have devoted significant funds to establishing and maintaining the interstate highway system in communities across the U.S.

Today, the highway system can be viewed as a double-edged sword. On one hand, highways have led to economic activity that likely would not have occurred otherwise. This development has been associated, in some cities, with increased homeowner wealth from higher house values. At the same time, highways were not located at random; the interests of influential residents likely played a role—a phenomenon colloquially known as NIMBYism ("not in my backyard"). In the end, some residents were displaced—many of whom identified as Black or Latino—and elevated highways in some cities are eyesores that have divided communities.

As the highway system ages and requires a significant reinvestment, communities are taking this opportunity to reimagine what it might look like. Specifically, should sections of highway be removed or redesigned? How might this impact the wealth of residents within communities that opt to make these modifications? Changes in wealth could be from changes in home equity (the difference between the value of a home and any debt secured by it) among residents near the highway. Alternatively, changes in wealth could stem from more affordable housing being built in the highway's former location and lower housing costs for potential homeowners and/or renters. First, some history may offer context for these questions and demonstrate the importance of racial equity when considering them.

Redlining Practices Set the Foundation for Lasting Inequities in Economic Development

In the late 1930s, shortly before highway planning began, many U.S. cities and the federal government developed "redlining" maps, on which desirable and "safe" (from a lending perspective) neighborhoods were distinguished from less secure neighborhoods using a color scheme. Red-labeled neighborhoods were the least secure (i.e., they were where more minority residents lived), and green-labeled ones were the most secure (i.e., they were where more white residents lived), with several other color codes in between. Neighborhoods deemed risky suffered substantial disinvestment and a lack of economic development that lasted for decades. There isn't a clear causal relationship between the locations of redlined neighborhoods and the placement of interstate highways. However, a careful look at these maps points to some possible correlations.

Planning for the U.S. interstate highway system began in the 1940s and 1950s, after General (and later President) Dwight Eisenhower personally observed how easily Germany moved troops and military equipment during World War II via its highway system. The idea was attractive during a period in which the U.S. sought postwar economic development.

The Arrival of the Interstate Highway System Brought Benefits, but to Whom?

It took 20 years from the beginning of the interstate highway system's construction to when most highways were completed in the late 1970s. These highways tracked very near or through the homes of over 1 million Americans who were forced to relocate, many of whom were residents of color. Residents were often promised better access to job opportunities, but such benefits were not necessarily universally realized. Noise and air pollution pervaded areas nearest to the highways, while the economic benefits of access primarily went to residents who were close (e.g., within one mile) but not too close (e.g., within a quarter-mile) to the highways.

For homeowners who remained nearby a highway but not "too close," wealth accumulated through higher house values over time. But these housing wealth gains accrued inequitably, mainly to white residents rather than Black residents. For instance, one study shows that in 1940, less than 0.5% of homeowners near I-84 in Hartford, Conn., were Black (the history of redlining is relevant here, as is the displacement mentioned above). As highways generated wealth for the homeowners in majority-white neighborhoods, Black residents in Hartford missed out on these opportunities to achieve housing wealth gains.

"Freeways Without Futures": A Growing Trend toward Highway Removal and Redesign

Some U.S. cities—including several in the Eighth Federal Reserve District—have been considering the benefits of removing and/or relocating some highways.[1] While many such plans are in the proposal stages and may not be actualized, collectively they represent a growing trend toward "freeways without futures." Efforts in other cities to transform certain freeways—such as moving an elevated highway underground in Boston—have been successful in creating green space, reducing pollution and noise, and possibly also raising housing wealth among residents. Another example is the removal of the I-81 overpass in Syracuse, N.Y., where the city is developing an "equitable" plan for reconstruction. Some Eighth District cities with current or past highway removal plans include:

- Little Rock, Ark.: The state transportation agency is removing several elevated ramps to I-30 in the downtown area, and a citizen group is sourcing ideas for what might take shape on the 20 acres of space on which they sit.
- St. Louis: Officials considered removing an elevated portion of I-70 in the downtown area near the Gateway Arch in 2012 as a possible approach to connect the Arch grounds with the rest of the city center that was bisected by the highway. Although a pedestrian park over a depressed section of the highway was completed soon thereafter, this proposed boulevard project ultimately did not move forward.
- Louisville, Ky.: Advocacy groups have called for the demolition of the elevated I-64 highway downtown, possibly to be replaced by a pedestrian-friendly street to connect with the waterfront.

While some of these Eighth District highway removal projects potentially sound attractive, three key questions remain unanswered.

- First, how will these projects impact residential or commercial real estate values?
- Second, if highway modifications are accompanied by additional affordable housing nearby, how might this impact the financial well-being of renters who often miss out on the housing wealth that many homeowners gain?
- Third, how might these effects differ for Black, Latino and white residents?

Clearly, further research is warranted to address these questions and further our understanding of the potential effects on equity of proposed highway removal and redesign projects across U.S. communities.

The authors would like to thank Samantha Evans for her helpful comments.

Notes and References

1. The Eighth Federal Reserve District contains parts of six states—Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee—and all of Arkansas.

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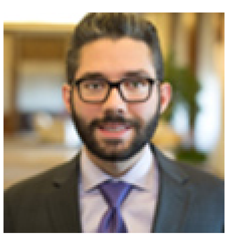

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Read more about Lowell's research.

Key Facts on the Economic Impact of Child Care in Arkansas

November 17, 2022

By Sam Evans, Ana Hernández Kent

It is important for Eighth Federal Reserve District communities to have easy access to key facts about child care and the role it plays in the economy. To that end, we, along with colleagues Charles Gascon and Ngân Trân, created child care fact sheets for Eighth District states: Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

While today we will focus on the economics of child care in Arkansas, each Eighth District state has a similar story that can be told through five main points:

- Child care is a key support for the workforce.
- Young parenthood boosts men's labor force participation but depresses women's labor force participation.
- Access to child care is especially critical for Black mothers.
- High child care costs challenge families with young children.
- The child care industry is struggling with a decrease in its workforce.

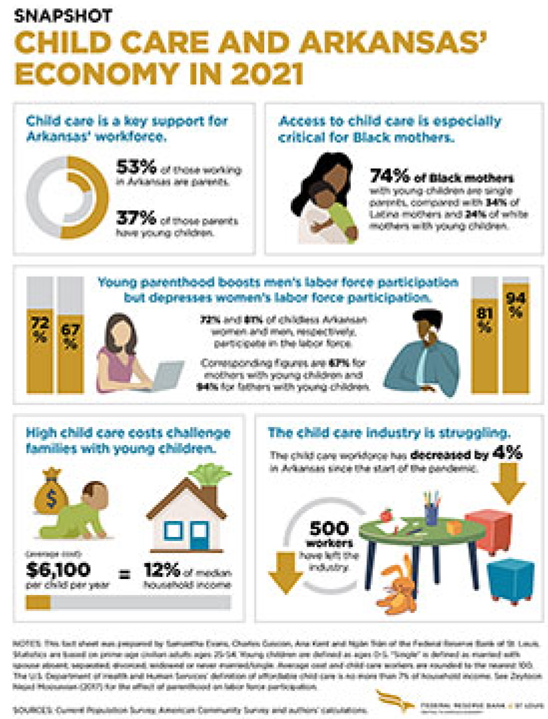
Child Care Facts in Arkansas

We presented our child care fact sheet for Arkansas at a September roundtable that brought together community and business leaders from across the state. Its goal was to continue building momentum around quality early childhood education and its connection to economic development as part of our shared economic prosperity.

"Ensuring community leaders, businesses and economic developers have access to reliable data, presented in a digestible manner, is vital in assisting us in improving social mobility and addressing wealth, health, education and gender inequities in our region," said Charity Hallman, senior vice president of community and economic development for Hope Enterprise Corp. and a 2022 LISC community fellow.

Child care is a critical support for much of the workforce. Mothers and fathers rely on others to care for their children while they are at work. For Arkansas, we found that over half (53%) of working adults ages 25-54 were parents. Of those parents, 37% had children under 6. This means that in 2021, a sizable chunk of the workforce needed child care during work hours. For some, this might mean a nonworking parent or other family member. However, in most married households with children, both parents work. For these parents and for single parents, affordable child care is necessary for their participation in the workforce.

However, if a parent does step out of the labor force when their child is young, it is much more likely to be the mother than the father. In Arkansas, 67% of mothers with young children are employed or actively looking for work, compared with 72% of women without children. For men, the pattern flips. Almost all fathers with young children (94%) are employed or looking for work, while a smaller majority (81%) of childless men participate in the labor force.



Enlarge image

Single Mothers Struggle with Child Care Costs

One participant in the roundtable commented: "When I had my first child, I was working part time and didn't have access to benefits. My employer was gracious enough to allow me to work remotely, so I didn't have to worry about child care. However, after having my second child and moving to a full-time position, child care was a challenge."

Having two children under 3 and paying $1,400 a month for child care was especially challenging for her because she is a single mother and considered asset-limited, income-constrained and employed. It was not until after she moved her oldest child into a publicly funded preschool program that she achieved some financial stability; she was able to afford the out-of-pocket costs associated with participating in a down payment assistance program and bought her first home.

The U.S. Department of Health and Human Services defines affordable child care as no more than 7% of household income. In Arkansas, the average cost per child per year is about $6,100. That's 12% of median household income, so largely unaffordable for most households.

Single mothers especially struggle with child care costs. They have slim financial cushions, and the vast majority (97% in 2019) find the average cost of child care unaffordable. Yet, they need to work to provide for their families. Child care access and affordability also have equity implications; Black mothers with children under 6 are more likely to be single parents than are white mothers with children in that age group. In Arkansas, 59% of Black mothers with young children are single parents, compared with 33% of Latina mothers with young children and 22% of white mothers with young children.

Child Care's Importance for Businesses

Garrett Dolan, Tyson Foods' senior manager of corporate social responsibility, who served as a roundtable panelist, talked about the importance of child care from a business perspective and how his organization is working to pilot an on-site child care and learning facility in 2023.

"In the manufacturing sector, we see a high employee turnover rate," he said. "One of the leading reasons is the lack of affordable child care. It is especially difficult for single-income families and females. We are also a shift-based company that works nontraditional hours, so we often have to create custom solutions."

Dolan recognized the importance of available and affordable child care for many of Tyson Foods' workers. Research has shown that offering benefits like helping employees pay for child care helps the company as well. Workers are more productive, are more likely to show up to work, are happier and are more likely to stay with the company. Partners like government and nonprofits can help share the cost of building up child care infrastructure to better serve parents and workers.

Having Fewer Child Care Workers Is a Challenge, but Opportunities Remain

While availability and affordability challenges in the child care industry are not new, the COVID-19 pandemic exacerbated these issues. The child care workforce has decreased since the start of the pandemic, making the availability of child care slots a bigger problem than it already was. In Arkansas, the child care workforce decreased by 500 workers, or 4%, between February 2020 and December 2021. Other Eighth District states faced drops in the child care workforce of 8%-14%. This makes it difficult for child care centers to hire staff and for parents to find openings for their children. Jill Wilson, executive director of Open Arms Learning Center and Noah's Ark Preschool in rural Arkansas, said staffing is the biggest challenge she faces as an operator.

"Despite demand being high, staffing is hard," she said. "We have staff with varying levels of education and experience. It takes time to train somebody, even [someone] who has an education degree. These actions have an impact on the children and families."

Wilson also talked about the importance of state and federal funding in allowing her center to be more competitive in the job market: "We have been able to utilize funding to provide job-based benefits, including participating in a retirement savings plan with immediate match."

Community leaders and employers can work together to expand child care. Benefits include fostering worker productivity and economic growth, and also educating the next generation of the workforce. Understanding what critical investments are needed and available while improving child care access is important to this effort. In Arkansas, participants at the roundtable walked away with a greater understanding of how combinations of employer- and government-funded solutions and community resources can help build a robust child care system and get parents back in the workforce.

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Read more about Sam's work.

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How Is COVID-19 Impacting Eighth District LMI Communities? An Update

November 17, 2022

By Violeta Gutkowski, Nishesh Chalise

Using the 2022 Community Impact Survey (CIS), we found that low- to moderate-income (LMI) communities within the Eighth District continued recovering from the COVID-19 pandemic over the past year and experienced fewer disruptions. Respondents reported that inflation and labor shortages continued to create barriers to an inclusive recovery.

About the Survey

CIS is a national initiative of the Federal Reserve System to monitor the impact of the pandemic in LMI communities and on the organizations serving them. The evidence for this analysis relies on 226 observations from entities headquartered within the seven Eighth District states.[1] The survey was administered between Aug. 2 and Aug. 31, 2022 (referred to as the survey period). Responses were collected through a convenience sampling method that relied on contact databases to identify representatives of nonprofit organizations, financial institutions, government agencies and other community organizations. These representatives were invited to participate in the survey via email, newsletters and social media posts.

Eighth District Communities: More than Halfway Recovered

On average, respondents noted, the communities they serve had recovered more than halfway to pre-pandemic conditions. Furthermore, respondents expected continued recovery, with half reporting that they anticipated their communities to be almost three-fourths recovered by next year.

The picture looks a bit different when we focus only on communities that are almost or fully recovered, which is defined as 80% to 100% recovered relative to pre-pandemic conditions. During the survey period, less than 20% of respondents from the Eighth District reported being almost or fully recovered. When asked about 2023, however, almost 45% of respondents expected their communities to be almost or fully recovered. These numbers closely align with sentiment from the CIS at the national level and highlight the challenges that communities continue to face.

Fewer Disruptions than in 2021 across the Economy

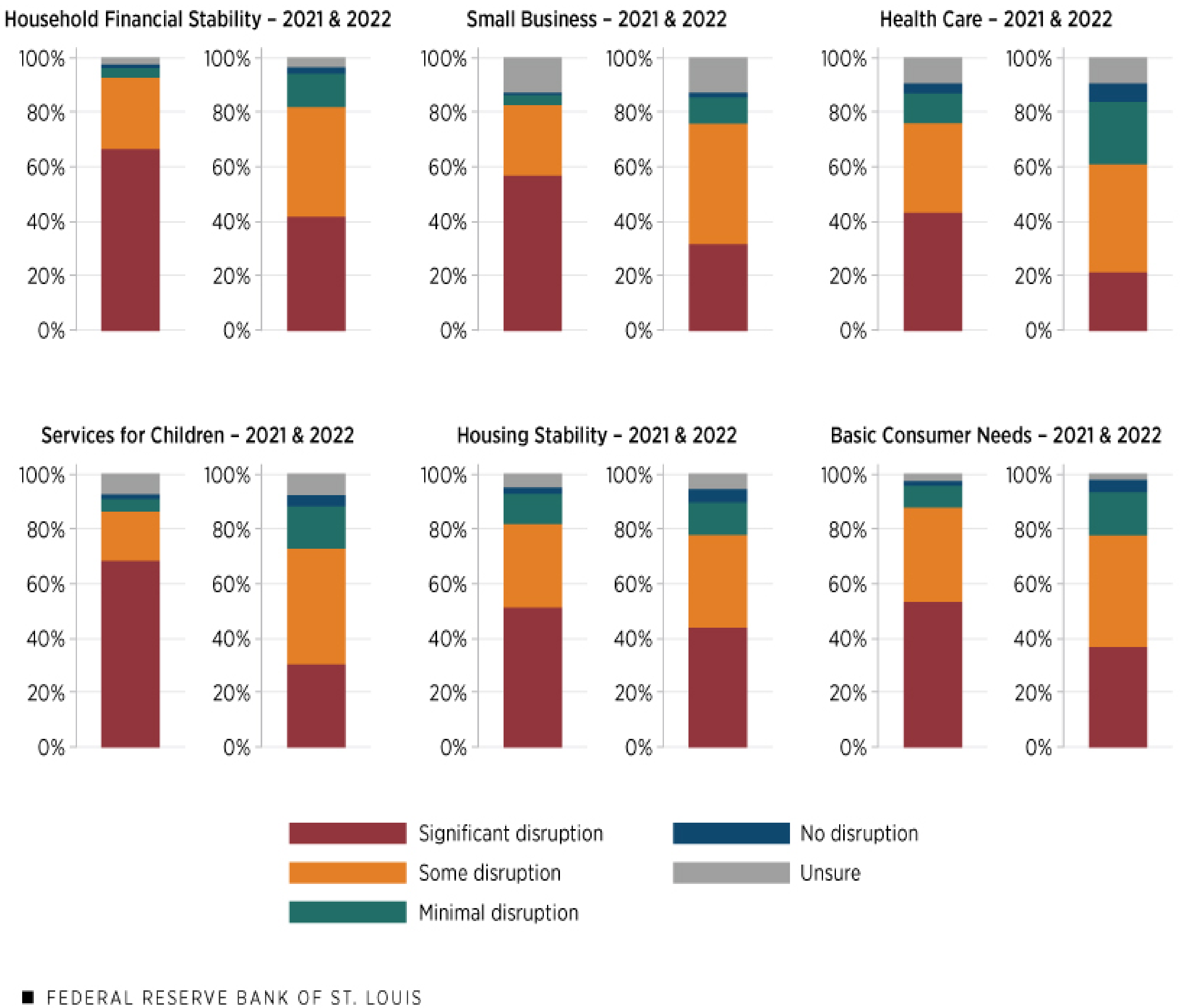
To learn how community conditions have changed over the past year, we asked respondents to note disruption levels in their communities during the survey period and for 2021 across six different segments of the economy: household financial stability, small business, access to health care, services for children, housing stability and basic consumer needs. Relative to 2021, the share of respondents reporting significant disruptions in their communities fell between 35% and 55% across the board, except for housing. Inflation and labor shortages seem to be at the core of these disruptions. In the following section, we provide an outlook for community conditions across various segments of the economy that are vital for LMI communities to thrive.

Household Financial Stability

There was a 37% decline in the share of respondents reporting significant disruption to household financial stability,[2] which includes income loss, income instability, increasing costs and debt. At the time of the survey, 42% of organizations still noted significant disruption, while 15% reported either minimal or no disruption.

Top challenges in this area were related to inflation: increases in prices of consumer goods (32%) and increases in housing prices (22%), followed by the expiration of government relief (16%) and issues with employment (14%). Similar to CIS results at the national level, lack of child care, including day care center closures and reduced hours, was the primary barrier for employment.

Disruption Levels across Segments of the Economy



SOURCE: 2022 Community Impact Survey.

NOTE: The survey asked the following questions to obtain the data in this figure: During 2021, what level of disruption (on average) did COVID-19 have on household financial stability, small business, health care, services for children, housing stability and basic consumer needs in the community(ies) your entity serves? Currently, what level of disruption is COVID-19 having on household financial stability, small business, health care, services for children, housing stability and basic consumer needs in the community(ies) your entity serves?

Small Business

Relative to 2021, there was a 44% decrease in respondents indicating severe disruption to small businesses, which includes short- and/or long-term closure, supply chain disruptions and reduced demand. Almost a third (32%) of organizations still noted significant disruption in August 2022; 11% reported either minimal or no disruption. Labor shortages (43%) and increases in the prices of goods (25%) were noted as primary sources of disruptions for small businesses, followed by supply chain disruptions (11%).

Access to Health Care

Survey results showed considerably lower disruption than in the previous year to access to health care, which includes access to health insurance and mental health services. The number of respondents noting significant disruption declined by half relative to 2021. Slightly more than one-fifth (22%) did note significant disruption in 2022, while 30% reported either minimal or no disruption. Lack of access to mental health services (32%), a shortage of health care staff (28%) and lack of access to health insurance (19%) were the primary sources of disruptions.

Services for Children

This segment—which includes availability of early child care and education, access to child welfare services and access to K-12 education—showed the greatest improvement, with a relative reduction of 56% in organizations reporting significant disruption, going from 69% in 2021 to 30% in 2022. Another 20% reported either minimal or no disruption. Staff shortages (31%), difficulties with virtual schooling (29%) and lack of available child care (25%) were the primary reasons cited for disruptions.

Housing Stability

In comparison to other segments, housing stability shows little signs of improvement. In August 2022, 44% of respondents indicated significant disruption to housing stability, which includes evictions, back rent, foreclosures and homelessness. This is only a 15% decrease from 2021. Another 17% of organizations reported either minimal or no disruption. According to respondents, the lack of availability of affordable housing (46%) and high housing costs (40%) were the two primary challenges driving household instability. Housing costs include rent, mortgages and utilities.

Basic Consumer Needs

In the survey, 37% of respondents indicated significant disruption to basic consumer needs, including food, household essentials and other personal needs. The number of respondents indicating significant disruption, however, did decrease by 31% relative to 2021. Inflation seems to be at the core of challenges relative to the availability of goods, with the increased cost of food (45%) followed by the increased cost of household goods and services (29%) contributing the most toward disruptions.

Housing Stability and Child Care Remain Priority Needs in LMI Communities

The impacts of the COVID-19 pandemic continue to be felt in LMI communities. Although these communities are in a better place than they were at the peak of pandemic-related distress, there are some communities whose needs have not been fully addressed. Results from the Fed's 2022 CIS suggest that enhancing housing stability and increasing the availability of child care to help people participate in the economy could be areas in which to focus attention in 2023. Also, organizations serving communities in need can benefit from resources to further their work of fostering inclusivity and economic resiliency.

Notes and References

1. The seven states are Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.
2. All changes from 2021 to 2022 are expressed as the percent change between the two years—that is, the relative change—not the difference in percentage points.

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FEDERAL RESERVE BANK of ST. LOUIS

Arkansas CDFIs Poised to Scale Small-Business Lending

November 17, 2022

By Michael Eggleston

Small businesses in Arkansas that struggle to attract loans from traditional banks stand to benefit from the inclusion of community development financial institutions (CDFIs) in the latest iteration of the State Small Business Credit Initiative (SSBCI 2.0). A federal program reauthorized through the American Rescue Plan Act of 2021, SSBCI 2.0 will provide a combined $10 billion nationally to expand access to capital for small businesses emerging from the pandemic. In addition to providing credit and investment programs for small businesses, the legislation provided money for technical assistance to small businesses applying for SSBCI funding.

As mission-driven lenders, CDFIs are uniquely designed to meet the needs of borrowers who have been unable to obtain financing from mainstream lenders. The mission focus of CDFIs is critical to the successful implementation of SSBCI 2.0 because the reauthorized legislation (unlike that for SSBCI 1.0, which passed in 2010) allocates funding for under-resourced small businesses.

For example, SSBCI 2.0 allocates $1.5 billion for businesses owned and controlled by what the legislation terms “socially and economically disadvantaged individuals,” or SEDI-owned businesses. Furthermore, $1 billion in additional funding has been set aside for states and territories that effectively deliver support to SEDI-owned businesses. According to Arlo Washington, president of the Arkansas-based CDFI People Trust Community Loan Fund, SSBCI 2.0 is “a second chance at opportunity for economically disadvantaged small businesses in Arkansas.”

In Arkansas, CDFIs have been meeting regularly as they prepare to work with the state to implement SSBCI 2.0. The Arkansas Development Finance Authority (ADFA) is the state agency overseeing the program. Over the last several months, CDFIs have cultivated a relationship with ADFA, serving as a resource for the agency as it seeks to meet the program’s goals, particularly regarding financing for SEDI-owned businesses. According to Deborah Temple, a retired CDFI executive who is now consulting with CDFIs making small-business loans in Arkansas, ADFA was initially unsure about engaging with CDFIs. As Temple explains, “The numbers have made a difference in how ADFA views CDFIs as a valuable partner.”

What Are the Numbers, and Who Are the CDFIs?

CDFIs engaged in small-business lending in Arkansas said that they provided $440 million in financing to small businesses in the state in 2021. This financing led to the creation or retention of 16,739 jobs.

These CDFIs are a combination of banks, credit unions and nonprofit loan funds (see the list below). They are headquartered in Arkansas, except for Hope Credit Union and Local Initiatives Support Corp. (LISC), which have their headquarters in Jackson, Miss., and New York City, respectively.

- Alliance for Rural Impact
- Arkansas Capital Corp.
- Arkansas Small Business and Technology Development Center
- Communities Unlimited
- Diamond Lakes Federal Credit Union
- FNBC Bank
- FORGE Inc.
- Hope Credit Union
- LISC
- People Trust Community Loan Fund
- Southern Bancorp

CDFI collaboration in Arkansas is nothing new. For years, CDFIs have been referring clients to one another, working together to coordinate training and professional development, and coordinating efforts around public policy work. Nevertheless, SSBCI 2.0 has presented a concrete opportunity for them to take advantage of federal dollars flowing to Arkansas to support small businesses. According to Philip Adams, executive director of FORGE Inc., SSBCI 2.0 "has elevated the ways in which CDFIs across the state of Arkansas work together."

CDFI Impact during SSBCI 1.0

Initially passed in response to the Great Recession, SSBCI 1.0 authorized $1.5 billion to support small businesses. In addition to authorizing a much smaller amount of funding compared to SSBCI 2.0, SSBCI 1.0 offered no incentives to lend to disadvantaged small businesses. Nevertheless, CDFIs across the country loaned and invested $630 million under SSBCI 1.0, though fund amounts varied across states. In Georgia, for example, CDFIs had a key role in financing small businesses, collectively lending more than $80 million. In Arkansas, however, CDFIs played a more limited role, lending less than $2 million to small businesses. FORGE Inc. and Communities Unlimited (then known as alt.Consulting) were the main Arkansas CDFI lenders during SSBCI 1.0.

ADFA Plans for SSBCI 2.0

Each state can choose to implement some or all of the following types of financing programs under SSBCI 2.0:

- **Venture capital programs:** Jurisdictions may set up public-private partnerships for equity investing or invest in venture capital funds. These investments focus on providing capital to underserved startups and democratizing venture capital across geography and to diverse founders.
- **Loan participation programs:** Under these programs, states, the District of Columbia, territories and tribal governments lend directly to small businesses alongside private lenders or buy an interest in loans made by private lenders.
- **Loan guarantee programs:** States, the District of Columbia, territories and tribal governments use SSBCI 2.0 funds to provide an assurance to lenders that they will be partially repaid in the event of default, after the lender makes every reasonable effort to collect, helping small businesses secure loans that may have otherwise been inaccessible or prohibitively expensive.
- **Collateral support programs:** These programs set aside funds as collateral for new loans, enabling startups to borrow with the assistance of SSBCI 2.0 capital to help their businesses grow.
- **Capital access programs:** These programs provide portfolio insurance in the form of a loan loss reserve fund. Lender and borrower contributions to it are supplemented with SSBCI 2.0 funds.

In Arkansas, ADFA has proposed implementing six programs as part of SSBCI 2.0: two venture capital programs, one loan participation program, two loan guarantee programs and one capital access program. The agency did not propose a collateral support program.

What's Next?

The U.S. Treasury Department is still reviewing several states' SSBCI 2.0 plans, including Arkansas' plan. More details about which CDFIs will participate as lenders through the program will become available once these plans are approved.

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Read more about Mike's work.