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## Neighborhood Balance Sheets Assess Local Economies

by Kenneth A. Meter, President, Crossroads Resource Center

Frustrated with four years of negative responses from developers, a south Minneapolis business association turned to a new tool in economic analysis, the "Neighborhood Income Statement and Balance Sheet" study produced by Crossroads Resource Center. The Balance Sheet showed merchants their low-income neighbors held more spending power than they had believed. Moreover, the vast majority of these consumer dollars flowed away from the neighborhood.

Reviewing these findings, the business leaders began to see that the most fruitful development of their commercial intersection might involve making better use of existing community resources, and learning to cooperate better, neither of which required an outside investor. Further, the investment they did solicit served their goal of building a stronger community. Within two years, the association had constructed a new "Latino Mercado" in an underutilized commercial block. This indoor marketplace created business ownership for Southside residents, a destination draw for regional consumers, and a more positive image for the entire commercial district, all at once.

The study that opened the merchant's eyes to these possibilities, the Neighborhood Income and Balance Sheet, appears to be the first in the nation to provide such thorough economic analysis of neighborhoods. Its premise is that neighborhoods must perform their own accounting of local economic conditions if they are to achieve neighborhood goals. In this respect, a community is no different from a family that must balance its checkbook and review its portfolio to learn if it is gaining or losing ground.[1]

[1] Kenneth A. Meter, ***Phillips Neighborhood Income Statement and Balance Sheet***. Minneapolis: Crossroads Resource Center (1993); ***Frogtown Neighborhood Income Statement and Balance Sheet*** (1994); ***Powderhorn Neighborhood Income Statement and Balance Sheet*** (1995); ***Dayton's Bluff***

In any given development project, each investor performs its own calculation of risk and income, and each municipality projects tax revenues. Each producer and consumer using the development engages in its own accounting. Neighborhoods, however, typically neglect to measure their own economic assets, and neglect to set goals for strengthening their local economy. Unless they do so, especially in a competitive environment, economic and social impacts on the neighborhood are more likely to be negative.

To address this opportunity, Crossroads Resource Center has produced five studies of low- and moderate-income areas of Minneapolis and St. Paul since 1993. The Balance Sheet studies show that these areas endure staggering losses of resources each year -- and suggest that the most effective community development strategies involve reversing this loss through recycling existing income, strengthening existing economic assets, building new social linkages, and creating new paths that allow wealth to take root in a given community.

When combined with training and consultation appropriate to local conditions, Neighborhood Balance Sheet studies have been highly useful in shifting the tenor of neighborhood-based planning away from a narrow focus on construction of a given piece of real estate toward a more long-term view of building the economy of an entire locale. Crossroads' studies have encouraged business leaders to take a fresh look at their role in building the surrounding community, have led to innovative, resident-inspired community planning, and have allowed residents to negotiate more effectively with investors.

**Findings of the Balance Sheet studies**

The studies completed to date cover a total of 13 Twin City neighborhoods. Each has been produced in close cooperation with a local resident organization, drawing upon resident volunteers to assist in framing questions and performing research. In each locale, at least five different economic "sectors" have been identified: residential, commercial/industrial, non-profit, medical providers, and informal. Data are of course not as precise as a specific organization could collect for an internal accounting. Some desired data are unavailable, and there is some overlap among sectors. Nevertheless, the studies offer reliable and useful summaries of economic activity in each locale.

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***Neighborhood Income Statement and Balance Sheet*** (1995); ***Camden Community Income Statement and Balance Sheet*** (1995). See also ***St. Paul District Five (Payne-Phalen) Local Economy Data Book*** (1998). For a review of the Phillips study, ***see*** Chris Tilly, "Measuring a Neighborhood's Economy," ***Dollars and Sense,*** November/December, 1994, p. 34.

The beginning point of each study is to define what is already strong in each locale. Each begins with an historical sketch showing the core events and issues that create the prevailing context, and define the local character of the neighborhood as residents view it. Each lists existing civic organizations, non-profit institutions, public agencies and businesses.

Next, the Balance Sheet studies measure existing economic assets, which are substantial. Each neighborhood studied, for example, earns three of every four dollars of household income from wages and salaries -- the same ratio as for all residents city-wide -- despite the outside perception that these communities are "welfare dependent." In fact, each neighborhood pays more taxes each year than it receives in welfare benefits, paying a total of $91 million more in taxes than is received as public assistance income. Welfare income ranges only from one to ten percent of aggregate household income. One startling finding was that the Phillips neighborhood, one of the poorer neighborhoods in the city, and one often viewed negatively by civic officials, pays $12 million each year in property taxes -- making it the second-highest tax contributor of Minneapolis' 84 residential neighborhoods.

These five studies also show that there is sufficient income in each of these low- and moderate-income locales to cover essential goods and services for neighborhood residents. All told, more than $3 billion of commercial and personal revenue flows each year through these 13 neighborhoods, an average of $40,000 per man, woman and child. The combined population of 85,000 residents spent a total of $879 million in 1989 -- well over $10,000 per capita.

However, very little of this income helps to build wealth in the locale. Three of every four consumer dollars, a total of $645 million ***each year***, are spent purchasing life essentials that are not available from community vendors. Such an outflow would not be destructive if a compensating inward flow of revenue were present, but no such offsetting flow exists.

By far the largest stream of money away from these neighborhoods is devoted to housing costs totaling $240 million, or 27 percent of all expenditures. Most of this money, once spent, never returns.

Rent, of course, is a primary drain of financial resources. For example, in the Phillips neighborhood, 86 percent of all housing is renter-occupied, despite the fact that aggregate resident housing expenditures amount to one-sixth the value of ***all neighborhood residential property*** each year. Most rent payments are made to absentee landowners who do little to reinvest in the community. Compounding the issue, Minnesota property tax laws charge higher tax rates for non-homesteaded property, meaning that tenants of absentee owners pay a double tax burden, often with no sense their investment in taxes is returned by adequate, prompt or respectful city services.

Whether home ***purchases*** actually help build a stronger community economy is open to question. Clearly, buying a home is one of the few routes available to residents wishing to build equity. In a rising market, a buyer may gain handsomely, especially middle-income buyers who can take advantage of tax deductions that subsidize their purchase. Home ownership also promotes a different quality of personal investment in the community. However, in a market where home prices are low and/or falling the financial mechanisms through which low-income residents actually make home purchases often weakens the financial strength of the community as a whole.

This happens because most home purchasers make mortgage and interest payments to the secondary market. Since few of these secondary lenders reinvest in low-income communities, most of these mortgage payments leave these neighborhoods for good. Lenders argue that the secondary market makes it possible for local lenders to reinvest in low-income communities, but such reinvestment does not appear to be happening. The historic link that lenders once offered, recycling interest payments to help build the surrounding community, has been broken. More money flows out as interest payments than builds resident-owned equity.

A ten-year review of Home Mortgage Disclosure Act (HMDA) lending in Phillips showed that despite the Community Reinvestment Act, total lending remained constant at about $5 million per year from 1980 through 1989, while the cost of living rose 78 percent. Simultaneously, the number of lenders declined drastically -- from 22 banks to four -- due to mergers. Local borrowers lost substantial ground.[2]

In addition to housing costs, day to day purchases take a toll. Low-income consumers in these communities buy a total of $123 million of food each year, the vast majority of which is purchased from outside vendors. As families with small food budgets turn more frequently to fast food purchases, this erosion deepens. An additional $157 million per year, or one of each five dollars earned, pays for transportation costs. Virtually all of this leaves the community,

[2] Kenneth A. Meter, "Behind the Red Line," a special section of ***The Alley*** (Phillips neighborhood newspaper -- April, 1990), plus "How much do local banks lend in Phillips?" (May, 1990) and "New data shows lenders still avoiding Phillips" (June, 1990). This data covers only banks, and excludes mortgage lenders, since expanded data was not offered for these years. In addition, many neighborhood home are purchased through contracts for deed, frequently unrecorded.

suggesting that reducing travel costs could be an effective way to free up local consumer dollars for use as investment in the locale. Developing walkable workplaces, fostering home-based businesses, opening better transit access, and creating resident-owned, low-cost livery services are all steps a neighborhood could take to reduce the need for cars -- which in turn could reduce other costs for fuel, public infrastructure, insurance, and perhaps public safety and health care.

Each study has also identified internal structural concerns in each neighborhood economy. Over 6,000 ***households*** in these five neighborhoods earn less than $10,000 per year. Vast disparities in income exist, with highest wage earners bringing in well over 20 times as much as the lowest. Real income plummeted 15 percent from 1980 to 1990 due to increased costs of living. White residents earn a disproportionate share of neighborhood income, and control more wealth, than people of color.[3]

Commercial activity is stronger than expected, with a total of more than 1,200 businesses operating. Still, there is often more purchasing power in residential households than in the commercial sector. In many neighborhoods, a once-thriving industrial sector had eroded. Moreover, in most neighborhoods, the only gains in the workforce came from self-employment -- an opportunity often neglected in community planning. Ironically, the Camden study demonstrated that it was precisely those locales surrounding industrial firms where unemployment was the highest. This again suggests that building new linkages within the community could play a strong role in community development.

Non-profit sectors also play key roles in building the local economy. In Frogtown and Dayton's Bluff, some nonprofits have strong financial reserves, and many build the capacities of local residents, helping to create stability in each locale. Community planning efforts in Camden were somewhat limited by a relative lack of citizens' organizations with experience in constituency-building and negotiation.

On the other hand, the Phillips study raised the question of the extent to which neighborhood non-profits actually benefit community residents. Home to 74 non-profit corporations running more than 130 different programs, Phillips may have more than its share. Certain non-profits have established considerable reputations for serving poor people -- in fact several have sought significant capital donations to expand their facilities due to the deepening of poverty in recent

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[3] ***See also*** Melvin L. Oliver and Thomas M. Shapiro, ***Black Wealth, White Wealth: A New Perspective on Racial Inequality.*** Routledge (1997).

years. However, few of these institutions can demonstrate a clear positive financial impact on the neighborhood. In many cases, professional staff who live elsewhere collect salaries, while residents receive specific services but few lasting resources. The Balance Sheet studies propose that funders ask non-profits to document the extent to which they build capacities among community residents.

Balance Sheet studies also focus on informal sector transactions. While of course precise data are not available, Crossroads' studies estimate barter activity by gauging the number of hours that neighbors spend trading skills and services with each other. These conservative estimates indicate that a total of $253 million in informal activity is generated each year, from minimal investment. Such barter activity turns out to be the most fruitful way for each locale to build new wealth at the present time. Drug trafficking, an informal sector activity that is often viewed by outsiders as central to these inner-city economies, is shown to be of relatively low financial import, on the scale of a few million dollars for all five locales combined. Black market sales are still lower in value.

**Analysis of findings**

In effect, low-income consumer spending reinforces economic relationships that drain financial resources away from their communities, widening income and wealth gaps. These flows of money are far larger than any program of compensating public transfer payments that can be imagined. Often, thoughtless new development, by saddling local homeowners and businesses with even greater debts, merely deepens these losses, and creates conditions in which long-term local residents are placed at a disadvantage, or even are forced to move away.[4]

A more defensible strategy would be to develop in ways that do not rely totally upon outside investment. Building new links of cooperation among neighbors, for instance, can recycle existing dollars and strengthen the community fabric, making a positive impact both socially and economically. Developing new community businesses that allow more residents to make a living exchanging goods and services with each other does not require significant new sources of income. Rather, it requires targeted investment that builds strong local marketing options.

Ultimately, beneficial development could be undertaken that actually reverses these financial drains. While external investment may be required to prime new financial pumps or to create alternative financial structures (such as revolving loan pools that would keep mortgage

[4] ***See also*** Christopher Gunn and Hazel Dayton Gunn, ***Reclaiming Capital: Democratic Initiatives and Community Development,*** Cornell (1991).

payments cycling within a given community, public incentives that promote community reinvestment, targeted investments to generate local investment and increase local multipliers, external support of Individual Development Accounts, and so forth), ***the main purpose would be to re-direct the flow of income already present within the community.*** Developing marketing structures that recycle this money within the locale and promote the building of local wealth will do more to advance such communities than would transfer payments, that might tend to promote dependency.

For example, one Phillips hospital spends more than $31 million per year buying supplies, nearly all of this outside the neighborhood. This amounts to nearly one-third of the aggregate revenues of all of the other 275 smaller businesses operating in the community. If this hospital were, for example, to invite retired executives to assist young neighborhood entrepreneurs to establish businesses that sell supplies to the hospital, this could have a significant impact on neighborhood income. If even ten percent of these purchases were devoted to neighborhood vendors, total neighborhood business revenue could rise three percent.

**Principles of community wealth creation**

To build paths for money to recycle in these communities, and to take root as locally-owned wealth, requires solid, locally-defined strategies suited to each particular locale. Necessarily, such planning must both reflect the wisdom and inspire the investment of local residents. Crossroads has identified a series of principles for neighborhood commercial and industrial development that offer hope for building stable communities in the long term.[5] These principles include:

1. **Build community capacities as part of the planning process.** Engaging local residents fruitfully not only allows their expertise regarding local conditions to be incorporated into development, it also increases their buy-in to the ultimate project.[6]
2. **Strengthen existing economic assets and build new ones.** We find that examining assets ***first*** leads to more optimism, and more locally-appropriate solutions, than if needs are assessed first. Existing assets should be enhanced, not undermined, by new development.

[5] ***See also*** Kenneth A. Meter, "Neighborhood Commercial Development for the Long Term," a policy proposal. Crossroads Resource Center, January, 1998.
[6] ***See*** John P. Kretzmann and John L. McKnight, ***building Communities from the Inside Out: A Path Toward Finding and Mobilizing A Community's Assets.*** ACTA Publications, 1993.

3. **Foster new investment and ownership opportunities for local residents**. If residents are to become more effective ***citizens*** rather than simply more efficient ***consumers***, they must have a stake in the productive economy. Building ***livelihoods*** (business ownership) for local residents gets closer to this goals than does a narrow focus on job creation. Targeted entrepreneurship training for local residents may be useful.
4. **Build structures that allow money to recycle within the community.** Each of the neighborhoods studied has a history of prosperity, typically dismantled by mobility and by public incentives that promoted development elsewhere. Increasing the economic multiplier also builds community social networks.
5. **Cluster compatible (or mutually dependent) businesses in each locale** to increase loyalty to place. This strategy has been highly effective for regions in Europe, for example.[7]
6. **Consumers must also commit to buy from local businesses.** Development is a two-way street. If new or renewed local businesses are to thrive, consumers must support them. This is more likely if residents feel their vision and needs have been addressed. This is another good reason to engage local residents and business owners as stakeholders with a ***bona fide*** role in planning. As neighborly relationships are built offering information exchange, mutual assistance, and accountability, new community cohesion is built, aiding in local hiring and purchasing.[8]
7. **Ongoing community organizing and public education campaigns** help to increase cooperation among various stakeholders. Such education efforts have been used successfully by Seward Redesign, a community development corporation in Minneapolis which holds a solid 15-year track record in community-based development.[9]
8. **Local efforts are limited by global economic trends, but globalization also increases the need to strengthen local economies.** Some would argue that increased globalization makes local planning useless. In fact, globalization creates new opportunities, but also new competitive pressures that require strong public action at a local level.

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[7] Christopher Harvie, ***The Rise of Regional Europe,*** Routledge, 1994.
[8] Tom Dewar and David Scheie of Rainbow Research, ***Promoting Job Opportunities: Toward a Better Future for Low-Income Children and Families,*** Published by Annie E. Casey Foundation, 1995.
[9] David Fey, Executive Director of Seward Redesign, in comments at Economic Development Roundtable, Minneapolis Center for Neighborhoods, 1997.

The proper role of external private and public investment in these processes is to strengthen economic structures that promote recycling of money in each locale, and that lead to community wealth creation. Investment that merely operates as a short-term cash flow is more likely to produce inequality or dependence. Examples of appropriate investments include support of Individual Development Accounts, and investments that increase local ownership of homes and businesses or foster other reinvestment in the community.

Note that this is not a call for support of blindly "free" market relationships. Low-income communities are wounded by decades of public policies that incented the mobility of capital. It would be naive to expect that the impact of these subsidies could be reversed simply by market mechanisms. Rather, this reversal will require conscious public policy, and will demand that local communities erect solid but permeable borders to protect local assets and resources. In turn, these local boundaries have to be respected by regional and global institutions.

Conversely, neither is this an argument that such neighborhoods should cut themselves off from other locales in an effort to be entirely self-contained. Clearly, any local economy has much to gain from regional and global partnerships -- as long as the community does not lose in the exchange. Low- and moderate- income neighborhoods do have the potential to offer useful products and services globally.[10]

**Implementation**

Neighborhood Balance Sheet studies have fostered effective action in each locale. One solid example is the business association mentioned at the beginning of this working paper, which used the Powderhorn and Phillips Neighborhood Balance Sheet studies for innovative planning at their commercial node (Bloomington Avenue and Lake Street, bordering both neighborhoods). Outside developers saw too little potential for investing in the community, citing their opinion that disposable income was too low, and fearing that suburban shoppers would not come into the neighborhood due to their perceptions of crime. This is perhaps an accurate assessment from the point of view of developers whose livelihoods depend upon creating new extractive flows from the community.

After being introduced to the Balance Sheet studies, the business group launched a new economic development effort aimed at developing existing community assets, rather than

[10] ***See also*** Michael E. Porter, "The Competitive Advantage of the Inner City," in Harvard Business Review, May-June, 1995, pp. 55-71.

focusing first upon attracting outside money. If there was not enough disposable income to convince an outside investor there were profits to be made, perhaps there was enough income in the community to help local residents earn a better livelihood.

The first steps involved better cooperation among the businesses themselves -- itself a type of community wealth. Knowing the neighborhood is safer than outsiders view it, the merchants took steps to reduce risks, adopting a lighting plan, an "eyes on the street" design approach to assure that street activity was seen by local shopkeepers, and coordinating more effective police enforcement. The merchants rapidly adopted a unified set of voluntary architectural design standards for new and redeveloped properties. With input from the community, the group adopted a master plan with a focus of "arts, culture, ethnicity and retail" for their corner. A 75-year old ethnic business decided to expand, as did a local bakery. A new cultural wellness center was developed, a new gas station/convenience store, and several new ethnic businesses opened. A respected regional theatre company, long-established drug store and branch bank office made substantial new investments.

Soon, when a group of 22 Latino entrepreneurs graduated from a business training program, looking for a space in which they could cluster together in a culturally interesting enclave, they found that Bloom Lake had both an underutilized property and a focus on ethnicity and culture that would make a perfect fit. The resulting $1.5 million project, the "Latino Mercado," will open this fall.

Importantly, this approach to the creation of community wealth arose from exceptional voluntary cooperation, not out of a funded program. An energetic community vision attracted both private and public dollars. The result is a strengthened core of businesses with a lasting and newly reinvigorated stake in community sustainability -- far more committed to the long-term viability of the community than outside investors would have been.

Further, the Phillips study helped the neighborhood association negotiate with officials of the Minneapolis Neighborhood Revitalization Program for an allocation of $18 million in public investment. The negotiation turned when community leaders pointed out that the previous offer of $12 million over five years merely replaced the property tax payments the neighborhood makes in a single year. Prompted by the same study, one hospital hired the national accounting firm Arthur Anderson to assess the hospital's economic impact on the neighborhood, then invested in housing redevelopment, and launched a jobs training program for local residents. Similarly, the Dayton's Bluff neighborhood study added substantial credibility to an exceptional resident-written small area plan. The East Side Neighborhood Development Corporation in St. Paul's Payne-Phalen area is using Crossroads' "Local Economy Data Book" (a related study) as the economic core of a $400,000 commercial redevelopment.

**Methodology**

Especially useful for urban neighborhoods, the Balance Sheet model should also be highly adaptable to suburban and rural communities, including watersheds or other ecological zones. Essentially the model adapts accounting principles for use by a neighborhood, relying strongly on the experience of local residents. It differs from a classic input/output study in that it does not attempt to be predictive. It has also been described as "a study of a micro-economy using macro-economic principles," although certainly it is not formally in this tradition.[11]

Crossroads' Balance Sheet studies make use of all available data coded at a neighborhood level or smaller. Key to each study is Federal Census data from 1980 and 1990. Many residents now view these data as outdated, due to recent immigration and economic changes. Nevertheless, these historic numbers serve as useful baseline and trend reports, and are often the most reliable local data available. Census data has been graphed, or mapped using Geographic Information Systems (GIS) software, to provide visual displays which have been used with great success in interactive community meetings where as many as 150 people have met together to cooperate in analyzing neighborhood trends and issues.

Other data sources include city and county tax records, state tax data, regional government transportation studies, federal studies of consumer spending patterns, federal and state tax reports of non-profit financial data, visual surveys of local businesses including home-based businesses, historical city directories to show the change in the local business context, county welfare payments data, police department crime data, day care providers' network information on day care slots, and Home Mortgage Disclosure Act (HMDA) mortgage lending data. Original resident or business surveys have also been performed as needed. As the studies have become more known, public agencies have increasingly begun to code and report data on a neighborhood level, facilitating more extensive analysis.

[11] The "macro-economic" metaphor comes from Larry Soderholm, City of St. Paul Planning and Economic Development, private communication.

**Conclusion**

Neighborhood Balance Sheet studies have effectively helped shift the approach to community development for many in the Twin Cities toward one that is more about building community and less narrowly limited to investment in a particular piece of property. By recognizing the assets that low and moderate income communities already have, Balance Sheet studies have paved the way for more positive and less destructive development that offers greater returns, and allow needs to be addressed from a position of strength rather than despair. Studies have also brought together stakeholders in new ways, and have fostered more constructive planning. By doing so, they have laid the groundwork for innovative efforts in reversing the drainage of money these studies have identified.

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