

# COMMUNITY OUTLOOK SURVEY

COMMUNITY DEVELOPMENT STUDIES AND EDUCATION DEPARTMENT

## Service Providers Constrained by Economic Conditions

### About the Community Outlook Survey

The Federal Reserve Bank of Philadelphia’s Community Outlook Survey monitors the economic factors affecting low- and moderate-income (LMI) households in the Third Federal Reserve District, which includes Delaware, southern New Jersey, and eastern Pennsylvania.

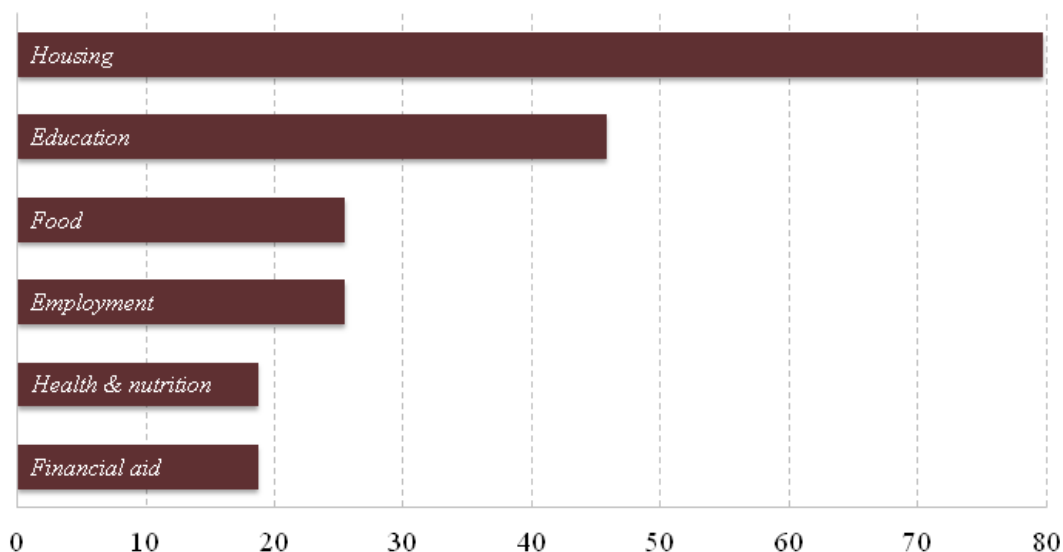
Respondents represent a variety of organizations providing services to LMI populations throughout the District, and the survey is sent to one representative per organization. The survey contains questions about the financial well-being of LMI populations, as well as service providers’ capacity to meet their clients’ needs. Respondents are asked how selected conditions compare with those in the previous quarter, as well as expectations for the next quarter. The data collected help the Philadelphia Fed further assess the general status of LMI households and assist the Bank in its efforts to encourage community and economic development and promote fair and impartial access to credit. There is some variation in respondents from quarter to quarter, and the data collected represent the opinions of those organizations that responded, not the opinions of all service providers to LMI populations in the Third Federal Reserve District.

### First Quarter 2012 Survey Results

In April 2012, the Federal Reserve Bank of Philadelphia polled 63 service providers to evaluate changes in factors affecting LMI populations from the fourth quarter 2011 to the first quarter of 2012. Figure 1 displays the breakdown of the services provided by the organizations surveyed as a percentage of those that responded to the question.

Of the organizations that responded, four out of five provided housing services, while slightly less than 50 percent offered some degree of educational assistance.<sup>1</sup>

Figure 1: Types of Services Provided (Percentage of Respondents)



Note: Percentages may not add up to 100 due to rounding  
 Source: Federal Reserve Bank of Philadelphia

<sup>1</sup> Respondents were asked to select any services that applied to their organizations. Many selected more than one category.

The survey elicited respondents' opinions of how conditions of both the households they serve and their organizations changed in the first quarter of 2012 relative to the fourth quarter of 2011, as well as their expectations for those same indicators in the second quarter of 2012. More specifically, respondents were asked to answer multiple-choice questions regarding the availability of jobs, availability of affordable housing, financial well-being, and access to credit for LMI populations in addition to the demand for their organizations' services, their organizations' capacity to serve their clients, and the adequacy of their funding. The aggregated responses are displayed in Figure 2.

As with previous surveys, a diffusion index<sup>2</sup> was used to measure the dispersion of change in each indicator during the first quarter of 2012. Indexes above 50 signify an overall improvement, while those below 50 represent an overall decline. Likewise, an index of 50 indicates that conditions did not change from one quarter to the next. Figure 3 displays the indexes.

**Figure 2: Survey Responses (Percentages)**

	1st Qtr 2012 vs. 4th Qtr 2011			Expectation for 2nd Qtr 2012		
	Increase	No Change	Decrease	Increase	No Change	Decrease
<b>Household Indicators</b>						
Job availability	23	60	17	44	41	15
Availability of affordable housing	5	71	24	9	72	19
Financial well-being	9	51	40	17	50	33
Access to credit	4	61	35	17	57	26
<b>Organization Indicators</b>						
Demand for services	76	20	3	69	29	2
Organization capacity	15	57	28	23	55	21
Organization funding	2	41	58	13	43	45

*Note: Percentages may not add up to 100 due to rounding*

*Source: Federal Reserve Bank of Philadelphia*

## General Findings

The diffusion indexes in the first quarter of 2012 signal a deterioration in the overall circumstances of LMI households and the organizations that serve them. Conditions have declined in each quarter since the survey's inception. Subdividing the indexes into household (job availability, availability of affordable housing, financial well-being, and access to credit) and organizational (demand for services, organization capacity, and organization funding) groupings reveals that although household indicators continue their descent, the decline in organizational conditions is far more troubling. All three organizational indicators are more negative in the first quarter of 2012 than in the fourth quarter of 2011.

The job availability index provides a glimmer of hope for the LMI population as it climbed to 53.3 in the first quarter of 2012, up from 51.5 in the previous quarter. In both the first quarter of 2012 and the fourth quarter of 2011, 23 percent of respondents reported an increase in job availability, but a three-percentage-point drop

in the number of those reporting a decrease (from 20 percent of respondents in the fourth quarter of 2011 [see previous survey] to 17 percent in the first quarter of 2012, as in Figure 2 of the current survey) gave rise to a slight boost in the index. As with the fourth quarter survey, the job availability index is the only indicator that signals an improvement during the quarter. Respondents remain optimistic that more jobs will become available to LMI households in the second quarter, as illustrated by an expected job availability index of 64.8, its strongest reading since the start of the survey. Forty-four percent of respondents expect job availability to improve in the second quarter of 2012 compared with 15 percent who anticipate that it will worsen.

The improvement in the job availability index in each of the last two quarters coincides with a drop in the unemployment rates in the United States and the Third District states during the same period. Figure 4 displays the drop in unemployment rates in recent quarters.

<sup>2</sup>The diffusion indexes were calculated by aggregating the percentage of respondents who indicated an increase in a specific indicator with half the percentage of respondents who indicated no change, and then multiplying by 100.


While the remaining three household conditions continued to decline in the first quarter of 2012, only the affordable housing index fell below its level in the fourth quarter of 2011. It slipped 1.7 points, to 40.5, in the first quarter of 2012, mostly due to a six-percentage-point drop in the number of those who reported an increase in affordable housing, since 11 percent of respondents in the fourth quarter of 2011 observed an increase (see the previous survey), but only 5 percent did so in the first quarter of 2012 (see Figure 2). Likewise, the expected affordable housing index fell beneath its fourth-quarter level, albeit slightly. The financial well-being and access to credit indexes showed nominal gains but remained in the 30s, which suggests that these conditions will not show any dramatic improvement any time soon. Respondents' expectations support this hypothesis, as the expected indexes for both of these indicators remained below 50.

The rate at which conditions affecting LMI service providers declined in the first quarter accelerated across

the board, most notably for organizational funding. The organization funding index fell significantly, from 36.8 to 22.0, in the first quarter of 2012, which suggests that service providers will face an uphill battle when trying to meet demand in future quarters. There is a stark contrast between those who reported an increase in funding during the period (2 percent) and those who reported a decrease (58 percent), and respondents' expectations suggest that the second quarter will be no different. Furthermore, a 5.2 point slide in the organization capacity index in the first quarter of 2012 indicates that organizations are already having more difficulty meeting clients' needs, so any cuts in funding will likely further exacerbate the situation. Finally, the demand for services index continues to hover in the upper 80s as demand remains high. In spite of cost-cutting measures, if LMI service providers continue to be confronted with budget cuts and increased demand for their services, it will become exceedingly more difficult for them to maintain their current level of operation.

**Figure 3: Diffusion Indexes for Low- and Moderate-Income Indicators**

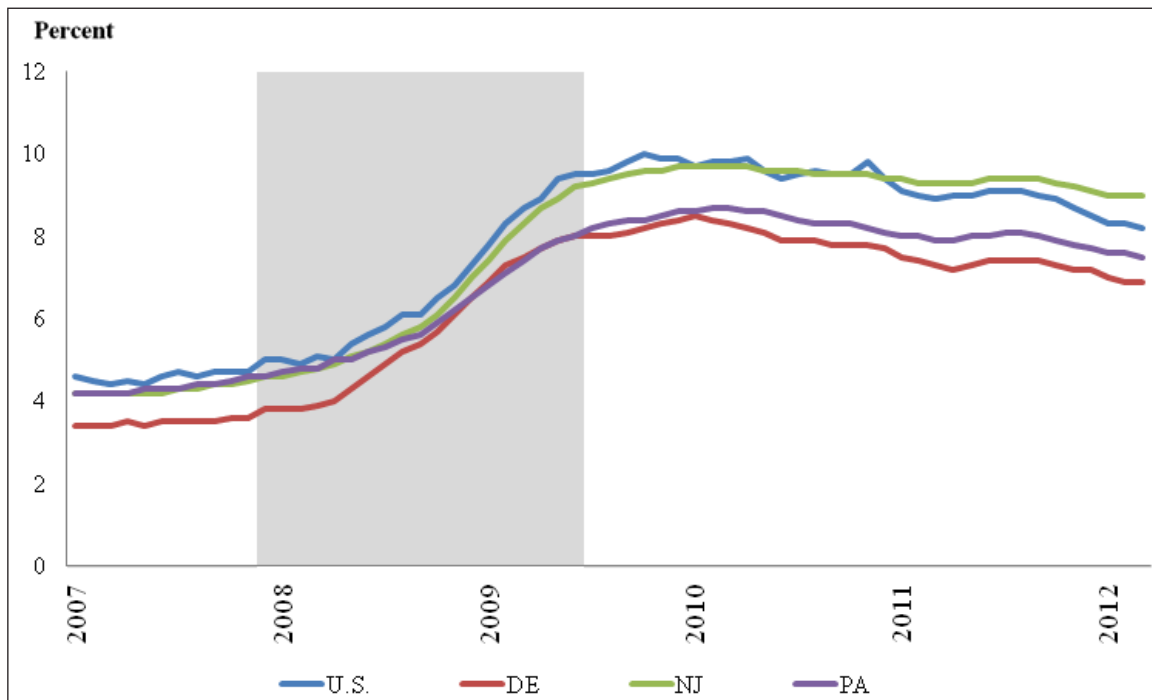
	1st Quarter 2012	4th Quarter 2011	3rd Quarter 2011	2nd Quarter 2011	1st Quarter 2011	4th Quarter 2010
<b>Current conditions relative to previous quarter</b>						
Job availability	53.3	51.5	33.1	42.8	47.2	40.1
Availability of affordable housing	<b>40.5</b>	42.2	38.8	42.0	38.2	39.4
Financial well-being	34.2	32.8	22.3	31.2	21.3	23.4
Access to credit	34.3	33.3	28.2	35.2	22.5	28.1
Demand for services	<b>86.4</b>	86.0	89.1	88.7	87.3	83.9
Organization capacity	<b>43.3</b>	48.5	42.9	42.6	44.8	51.6
Organization funding	<b>22.0</b>	36.8	25.4	25.0	30.5	38.4
	2nd Quarter 2012	1st Quarter 2012	4th Quarter 2011	3rd Quarter 2011	2nd Quarter 2011	1st Quarter 2011
<b>Expectation for conditions over the next quarter</b>						
Job availability	64.8	61.1	51.8	51.5	64.1	60.0
Availability of affordable housing	<b>45.4</b>	46.0	46.4	47.0	50.0	48.3
Financial well-being	<b>42.3</b>	49.3	34.7	36.5	40.7	42.4
Access to credit	45.3	44.5	40.0	38.6	39.1	43.3
Demand for services	<b>83.6</b>	81.1	89.1	79.5	83.8	87.8
Organization capacity	50.9	47.8	46.8	41.0	36.7	54.8
Organization funding	<b>33.9</b>	38.2	35.7	31.3	27.9	38.2

**Decline**  **Improvement**

Note: Numbers in bold italics indicate that conditions are worse than in previous quarter.

Source: Federal Reserve Bank of Philadelphia

**Figure 4: U.S. and Third District States Unemployment Rates (Seasonally Adjusted)**



Source: U.S. Bureau of Labor Statistics

### LMI Household and Organization Challenges

In each survey, respondents are asked to identify the main challenges affecting LMI households' access to credit, the availability of affordable housing in the community, and their organizations' financial sustainability. Respondents are permitted to select more than one category for each question. Figure 5 displays the rankings across all surveys, and categories were ranked based on the percentage of respondents who selected each one. For example, in the first quarter of 2012, 77 percent of respondents identified lack of government funding as a key challenge affecting their organizations' financial sustainability and 72, 28, and 10 percent selected lack of grant funding, market conditions/lack of earned income, and lack of bank financing, respectively.

It becomes clear from the rankings that the challenges hindering LMI households and service providers exhibit minimal variation from quarter to quarter. In fact, although the position of the top three challenges changes somewhat from one survey to the next, the top three factors from the first quarter of 2012 have placed in the top three in every survey. The findings suggest that while challenges facing LMI communities may be easily recognizable, solutions for these problems are not as straightforward and likely difficult to execute.

**Figure 5: Comparison of Challenges Over Time\***

	Rank Q1 2012	Rank Q4 2011	Rank Q3 2011	Rank Q2 2011	Rank Q1 2011	Rank Q4 2010
<b>Challenges affecting LMI households' access to credit</b>						
Lack of financial knowledge	1	1	3	t1	t1	2
Underwriting standards/credit ratings	2	t2	t1	t1	t1	1
Lack of cash flow	3	t2	t1	t1	3	3
Lack of trust in banks	4	4	4	5	5	5
Interest rates and other lending costs	5	5	5	4	4	4
Regulatory issues	6	6	6	6	6	6
<b>Challenges affecting the availability of affordable housing in community</b>						
Lack of capital	1	1	1	1	1	1
Development costs**	2	3	3	t2	3	2
Competition for grant/subsidy funding	3	2	2	t2	2	3
Community opposition	t4	4	5	t4	5	4
Organizational capacity	t4	5	4	t4	4	5
Regulatory issues	6	6	6	6	6	6
Lack of demand	7	7	7	7	7	7
<b>Challenges affecting the organization's financial sustainability</b>						
Lack of government funding	1	1	1	1	1	2
Lack of grant funding	2	2	2	2	2	1
Market conditions/lack of earned income	3	3	3	3	3	3
Lack of bank financing	4	4	4	4	4	4

\*Ranks preceded by a t indicate ties.

\*\*Prior to Q3 2011, the "development costs" category was listed as "costs."

Source: Federal Reserve Bank of Philadelphia

## Recent Challenges in Providing Services

In the first quarter of 2012, we asked respondents to share a recent challenge that their organization had encountered in providing services to LMI households and to identify the steps taken to resolve it. The vast majority of responses cited budget cuts as the principal obstacle threatening their organizations' effectiveness. Respondents explained that additional cuts to their organizations' already constricted budgets have forced them to shut down some existing programs, cut staff, decrease the number of clients admitted to their programs, and reduce the scope of services provided to their clients. In order to counteract the detrimental effects of these funding cuts, many organizations have begun to seek out alternative funding sources, rely more on volunteers, and shift their business model from being dependent on government funding to relying more on private donations.

## Selected Comments

Some selected comments from survey responses are included below. The comments have been edited for publication.

“Government cutbacks in safety net programs, e.g., food stamps, are severely affecting our clients, increasing the need for our services and encouraging LMI households to divest themselves of their small savings, which runs counter to our efforts to help clients save money to move into a sustainable living situation.”

“More emphasis needs to be placed on reducing energy usage for low income households. In order to do so, home repair is essential. So many low income people live in homes that are in very poor condition. There is a direct correlation between low income, poor condition, and high energy usage. These are the households at greatest risk of utility termination, homelessness, fire, etc. More policy focus needs to be placed on housing preservation and energy conservation.”

“Affordable housing, transportation and, jobs are the key issues we have to address so that these groups will be able to be self-sufficient in the future.”

“The Commonwealth of PA needs to understand that decreasing support to these families only increases the amount it will need to spend on jails.”

“We need to help people better understand that their future demands a change in mindset as well as financial ability.”

“[LMI households] lack true clean access to the very systems created to help them. These systems act more like barriers than assistance.”

“Many LMI households do not have access to the Internet and most rental ads appear online. Newspaper rental ads are expensive and becoming antiquated, so many landlords use electronic mediums, including Craigslist, to post their rental ads.”

“Our clients express fear of losing their jobs.”

“Literacy and education are needed.”

“Philadelphia now has the highest poverty and crime rates of the 10 largest U.S. cities—making services to LMI households all the more critical and in demand.”

“Public pressure is required for those in power to understand the challenges families face and the need to augment literacy and training for long term success.”

“More jobs would take people off the streets with nothing to do, thereby decreasing the amount of loitering and individuals turning to illegal ways of making money. LMI housing development needs subsidy dollars, grants, deferred mortgages, and tax credits to make it work.”



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Any questions, concerns, or comments about the Community Outlook Survey should be addressed to Daniel Hochberg at [Phil.COSurvey@phil.frb.org](mailto:Phil.COSurvey@phil.frb.org)