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Farm to school movement connects kids and healthy foods

ILLUSTRATIONS BY STU FJELLANGER

By Jacob Wascalus

In July 2011, on the first day of her new job, Jenny Montague embarked on a mission. As the new food service director for Kalispell Public Schools, she was now in charge of buying food and setting lunch menus for 6,000-plus students in this corner of northwestern Montana. Her goal—one she established for herself while applying for the position—was to introduce as much local, healthy, tasty food into the cafeterias as she could.

She started out by giving students a small taste of things to come. Kalispell is situated roughly seven miles north of Flathead Lake in a valley that is well suited for growing a variety of fruits and vegetables, including sweet cherries that Montague suspected would be a hit with the elementary school kids.

As the beginning of the school year approached, Montague contacted a local cherry growers cooperative and purchased 500 pounds of Lambert cherries, a dark-red variety known for its intense sweetness. The day before school started, when the stone fruits arrived, she and her staff got to work apportioning five cherries for every

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Making surety bonds a surer thing for Native contractors

By Ahna Minge and Andrew Twite

Although the overall rate of business ownership is low among the nation's American Indians and Alaska Natives, construction firms are relatively popular business ventures for Native entrepreneurs.[1] Success in the construction business is thus significant to the American Indian business community, in general and in specific places like the Leech Lake Ojibwe reservation in northern Minnesota, where contractor and Leech Lake tribal member Irving Seelye has operated for over 20 years. But Seelye's ability to fully capitalize on construction business opportunities has been limited by difficulties in obtaining insurance instruments known as *surety bonds*, to the point where he often avoids bidding on projects that require them.

A surety bond is a form of insurance in which a third party (a surety company) guarantees fulfillment of a contract between a construction project owner and a contractor. That is, the surety company agrees to compensate the project owner if the contractor fails to perform as agreed. In such cases, the project owner is protected and the surety company subsequently seeks to recoup its expenses from the defaulting contractor. The contractor's obligation to

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How did community land trusts survive the housing crash?

By Harshada Karnik

PHOTOS COURTESY OF CITY OF LAKES COMMUNITY LAND TRUST

A formerly vacant home in North Minneapolis, shown before (left) and after (right) a 2013 rehab led by City of Lakes Community Land Trust, one of the organizations that participated in a recent survey of community land trusts in Minnesota.

The recent housing market crash contributed to the decline or demise of many entities that deal with real estate and homeownership. Yet a particular type of real-estate-related, homeownership-centered organization called a *community land trust* (CLT) appears to have weathered the crash relatively well. How could that be, when housing prices in the U.S. fell by one-third from 2006 to 2010 and the foreclosure rate rose from less than 0.5 percent to nearly 4.0 percent over roughly the same period?[1] A survey of the majority of CLTs in Minnesota, the state that's home to 9 of the 19 CLTs in the Ninth Federal Reserve District, provides some possible answers.

Keeping homes affordable

A CLT is a nonprofit organization that aims to provide long-term affordable homeownership opportunities by following a *shared equity* model. That is, a CLT retains ownership of residential land while providing subsidies to help low- to moderate-income families buy the homes sited on the land. If a family later sells a home that was purchased through a CLT, the sales price is typically set by a market-based appraisal. The selling family shares a portion of any increases (or decreases) in the appraised market value with the CLT, according to terms specified in the initial purchase contract. The CLT then sets the new asking price by adding the share paid to the homeowner onto the old sales price. By retaining land title and limiting price appreciation, CLTs aim to keep homes affordable across generations. (For more on how CLTs work, see "Community land trusts strive for permanent housing affordability," *Community Dividend* Issue 3, 2007, at www.minneapolisfed.org.)

Given that land and properties are central to the activities of CLTs and make up a significant part of CLTs' assets, one might expect the housing market bust to have adversely affected them. However, the results of a survey of six of the nine CLTs in Minnesota conducted on behalf of the Federal Reserve Bank of Minneapolis in the summer of 2013 shows that most Minnesota land trusts weathered the bust relatively well.[2] Three factors appear to explain this: accounting practices, adaptations to decreases in grant revenue, and the services CLTs provide to their clients.

A matter of accounting

Although they were exposed to the sharp fall in housing prices after 2006, most Minnesota CLTs maintained a strong asset base and some even managed to grow. According to Jeff Washburne, executive director of City of Lakes Community Land Trust in Minneapolis, the general stability of CLT assets was partly due to accounting practices.

"Most CLTs do not mark their real estate assets to market, on the grounds that they plan to hold the asset permanently," he says. In other words, for accounting purposes, they treat their real estate assets as long-term holdings and do not factor market fluctuations into calculations of net worth. Thus, falling land prices do not have a significant direct effect on CLTs' balance sheets. Instead, their finances are mainly affected by fluctuating revenue streams.

Grants and volatility

Typically, sustaining the revenue needed for day-to-day operations is a CLT's biggest challenge. For most of the Minnesota CLTs surveyed, over 80 percent of revenues during most financial years have come from grants, mainly government grants.[3] Other grant sources include foundations, philanthropic organizations, and individual donations.

Grant revenues are inherently volatile but were especially so during the housing crash, when several major CLT donor organizations rolled back their funding. Some CLTs adapted by trimming their administrative and salary expenses. For instance, Rondo Community Land Trust in St. Paul and Two Rivers Community Land Trust in the eastern Twin Cities suburb of Woodbury moved to less expensive office spaces. The scale of operations of some CLTs was also directly affected. Lower revenues meant that many program activities contracted; for example, according to Greg Finzell, executive director of Rondo Community Land Trust, "The number of homes Rondo developed every year fell from five or six or even ten during certain years pre-recession to about three or four a year more recently."

Fortunately, few grant providers curtailed their funding entirely and most Minnesota CLTs were able to adjust and survive. One exception was Chaska Community Land Trust, located in a southern suburb of Minneapolis, which did not receive enough grant money to fund its executive director position and was then taken over by Carver County.

Client services minimize issues

During the housing crash, CLT clients contributed to the relative stability of CLTs by outperforming other homeowners. By the end of 2010, the general mortgage market was experiencing a national delinquency rate of 8.8 percent while the comparable figure for CLT homeowners was 1.3 percent. Similarly, while only about 0.5 percent of mortgage loans of CLT home buyers nationwide were in foreclosure proceedings, 4.6 percent of other mortgages were in foreclosure proceedings.[4]

CLT leaders attribute the exceptional performance to client screening performed upfront and client supports offered post-purchase. Most CLTs require prospective buyers to complete homeownership classes, have a preapproved mortgage from a lender that lends for CLT homes, and go through a one-on-one counseling session or orientation with a CLT representative. Some also pay for clients to visit a legal professional who will walk them through the legalities of owning a CLT home.

Once a client purchases a CLT property, the CLT provides homeownership supports, such as timely referrals for personal finance help if clients get behind on their payments; information on contractors, if clients wish to do any upgrades or repair work on their homes; assistance with paperwork and processes related to property taxes; and social outings and home maintenance workshops where clients can connect with other CLT homeowners.

Facing new realities

Although the market bust did not severely affect most Minnesota CLTs, it has changed the lending environment their clients face. CLT leaders observe that the minimum credit score to qualify for a mortgage has gone up, credit histories are being checked more diligently, and documentation has become more detailed. However, there is a lack of consensus on whether these changes will restrict aspiring CLT homeowners' ability to access housing finance. Says one CLT director, "Tighter lending standards aren't significant for families that are really ready for homeownership."

CLT leaders in Minnesota expect one longstanding challenge—maintaining revenue streams—to intensify in the coming years. For example, Kathryn Paulson, executive director of Two Rivers Community Land Trust, expresses concern that affordable housing may no longer be a priority in the philanthropic world. And according to Jeff Washburne, funds from foundations are starting to decline due to the way grant funding formulas work.

"Foundations award grants on the basis of the returns on their investments on a five-year rolling average, so going into the recession, our revenues held up because the foundations funding them had made good returns on their investments during the previous five years," he says. "However, the last five years were the down years for foundation investments so funding is now beginning to dry up gradually."

The new decreases in revenue will likely further test the adaptability CLTs demonstrated during the housing market crash. It remains to be seen how else the new post-recession realities will affect CLTs' ability to pursue their mission of keeping homes affordable across generations.

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[1] Federal Reserve Bank of Minneapolis staff calculations based on Home Price Index data provided by Core Logic. For more information, see www.minneapolisfed.org/community_education/housing.
[2] The six CLTs surveyed were Chaska Community Land Trust, City of Lakes Community Land Trust (Minneapolis), First Homes Community Land Trust (Rochester), Northern Community Land Trust (Duluth), Rondo Community Land Trust (St. Paul), and Two Rivers Community Land Trust (Woodbury). The three remaining CLTs in Minnesota either opted not to participate or could not be reached.
[3] From the surveyed CLTs' Internal Revenue Service Form 990 filings for 2002–2011.
[4] CLT foreclosure rates are from Emily Thaden, *Stable Homeownership in a Troubled Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts*, Lincoln Institute of Land Policy, 2011. Marketwide foreclosure rates are from the Mortgage Bankers Association.

Returning to the mortgage market post-default: The neighborhood effect

By Michael Grover

The number of consumers who experienced a default during the housing market's recent boom and bust and the Great Recession that followed was unprecedentedly large. In the Ninth Federal Reserve District alone, an estimated 160,000 consumers experienced a default that resulted in the termination of their mortgage (either as a charge-off, which is when a lender deems a mortgage uncollectible, or as a foreclosure) between 2002 and 2009.[1] That prompts the question, How many of the consumers who went through a mortgage default have returned to the mortgage market?

In 2012, a nationwide study by economists at the Federal Reserve Bank of San Francisco found that only a small number (about 10 percent) of consumers reentered the mortgage market after defaulting on their original mortgage. The economists also found that consumers who experienced a mortgage default in the early 2000s (prior to the housing market's boom and bust) or whose initial credit scores were fairly high (greater than 650) returned to the mortgage market at a higher rate when compared to those who defaulted after the early 2000s or had lower credit scores.[2]

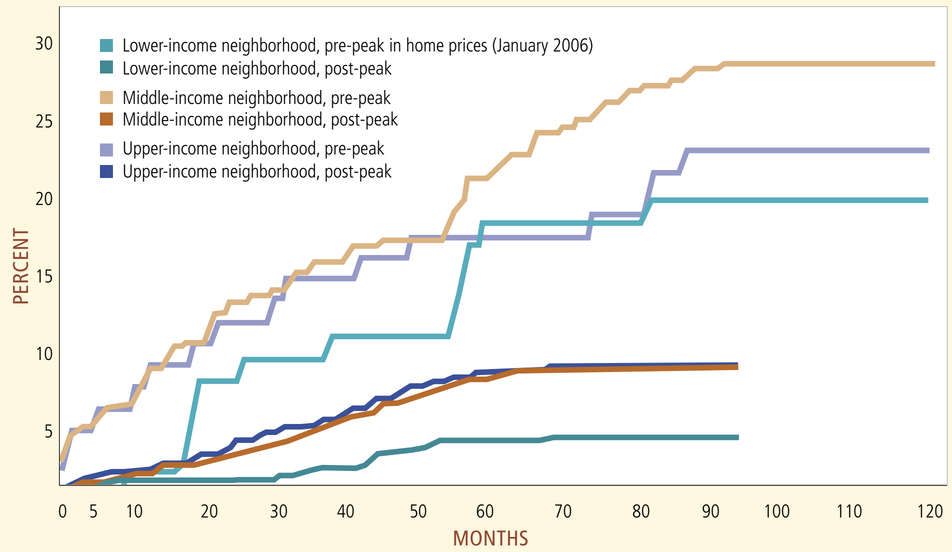
In other words, timing and credit scores matter. But what about geography? Specifically, do consumers' post-default returns to the mortgage market differ based on whether they live in lower-, middle-, or upper-income areas? That question is likely to be pertinent to practitioners and policymakers, especially those concerned with homeownership in lower-income neighborhoods.

A recent analysis by the Federal Reserve Bank of Minneapolis suggests that yes, geography does matter, and that consumers in middle- or upper-income neighborhoods returned to the mortgage market twice as fast as those in lower-income neighborhoods.

Measuring defaults and returns

The Minneapolis Fed's analysis used a proprietary dataset from Equifax containing a sample of credit files for roughly 5 percent of all consumers with an active credit file in the Ninth District. In order to determine which consumers experienced a mortgage default between 2002 and 2009, analysts used mortgage account information—also known as *tradeline data*—from each credit file to identify if a mortgage was past due and its balance was zero or missing for a specific quarter of a given year. (Here, *past due* refers to those mortgages identified as being more than 120 days in default. A zero or missing balance indicates that a mortgage has been terminated in a credit file.) Using an Equifax consumer identification code, those consumers who had a default followed by a zero or missing balance were matched to all future tradeline data (through the last quarter of 2012) to determine if they subsequently acquired a new mortgage.[3] If a new mortgage was acquired by the consumer, analysts calculated a duration difference, in months, between the end of the quarter of the original default and the date of the new mortgage origination. Overall, only a small number (about 13 percent) of consumers in the Ninth District reentered the mortgage market after defaulting on their original mortgage[4]—a finding consistent with the work of the San Francisco Fed economists mentioned previously.

Cumulative Rate of Return to the Mortgage Market by Neighborhood Type and Time Period for the Ninth Federal Reserve District



Data source: Author's calculations using data from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel.

Next, the analysts examined whether geographic differences existed. Previous research by the Minneapolis Fed and others has demonstrated that credit scores tend to correlate strongly with the average household income of a neighborhood.[5] Given that, and because income data are more readily available to the general public than credit data, the analysts decided to use neighborhood-level measures of household income as a substitute for credit scores. They coded each consumer credit file according to the census tract where the consumer resided at the time of the default. These census tracts were, in turn, identified as lower-, middle-, or upper-income based on the median income for each tract compared to that of its respective metropolitan median or non-metropolitan state median, as calculated in the U.S. Census Bureau's 2009 American Community Survey. Finally, consumers were divided into two groups—those who experienced a default before the January 2006 peak in home prices and those who experienced a default after, during the decline—in order to gauge the effect these two periods may have had on the mortgage market outcomes of post-default consumers.

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Farm to school movement connects kids and healthy foods

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K-6 student and placing them in individual baggies. The process was time-consuming and tedious, but the payoff—jubilant, sticky-fingered kids—was well worth the effort.

Montague is part of a nationwide wave of school food buyers who have sought to stock their school kitchens with healthy foods from local and regional farms and businesses. Called the "farm to school" movement, this effort seeks to improve student health through nutritious meals; educate children about nutrition, agriculture, and food systems; and support the development of local and regional economies.[1] As evidence of the relationship between healthy diets and positive social outcomes mounts, Montague and other like-minded food directors are using their purchasing power to change the relationship students and school systems have with food.

The school-health connection

The connection between children's diets and their long-term health is well established. For instance, children who adopt poor eating habits, particularly diets that contribute to obesity, increase their risks of developing serious health problems, such as cardiovascular disease, high blood pressure, or type 2 diabetes.[2] High-calorie, low-nutrient diets have contributed to a sharp rise in childhood obesity in recent decades.

Between 1980 and 2010, the rate of obesity among children between the ages of 6 and 11 more than doubled, from 7 percent to 18 percent, while the obesity rate for adolescents between the ages of 12 and 19 more than tripled, from 5 percent to 18 percent.[3] In total, 16.9 percent of school-age kids in the U.S. were obese in 2010.[4] Perhaps not surprisingly, only 25 percent of kids between the ages of 9 and 18 eat an average of five or more half-cup servings of produce each day.[5]

Along with home, schools serve as one of two primary eating environments for children, whose diets are heavily shaped by the foods that are available in their immediate settings. Because kids consume anywhere from one-quarter to one-half of their daily calories there, schools offer ripe opportunities to influence children's eating habits for the better. And for many kids, school lunches may be the only daily source of fresh, nutritious food. Evidence shows that children from low-income families are less likely to have a healthful diet.[6] In Kalispell alone, 42 percent of students have family incomes low enough to qualify for the federal government's free and reduced-price lunch program, wherein the U.S. Department of Agriculture (USDA) reimburses schools for the full or partial cost of a meal.[7]

A seasonal strategy

The farm to school movement has grown rapidly over the past 15 years from a handful of programs in the late 1990s to thousands today.[8] According to the USDA, which released its first-ever Farm to School Census for the 2011–2012 school year, more than 38,000 schools, spanning all 50 states and serving a total of approximately 21 million students, purchased and served local food.[9]

In Montana, farm to school initiatives have taken root in 153 schools with a collective student body of nearly 40,000.[10] The challenge for food directors at these schools is that they have limited budgets but must create tasty, healthy lunch options that meet the serving size and nutrition requirements established by the USDA. Montague chooses to view this challenge as an opportunity: She bases her menu on food that is in season, a strategy that makes her farm to school goals both financially feasible and systemically realistic.

"You have to be creative," she says. "There isn't one specific way to source local foods, but it has to be a priority."

Working within the seasonality of foods is a strategy echoed by Aubree Roth, a child nutrition education coordinator for the Montana Team Nutrition Program at the Montana Office of Public Instruction. Roth acknowledges that local foods can cost more than non-local foods, especially when purchased at a farmers market or local grocery store. But she says the large quantities that schools purchase foods in can help lower the products' overall prices, especially when a farmer avoids the costs associated with processing and storing food for preservation and broader distribution.

"A farmer can literally drop off hundreds of pounds of produce to a school and save a lot of hassle," Roth says, noting that produce retains its flavor and nutrients better when the time between picking the food and eating it is reduced. "Getting kids to eat healthy, tasty meals during lunch will likely positively affect the rest of their day. And they can even take those habits and food preferences home with them."

Montague says carrots are a good example of a seasonal vegetable she buys, explaining that she purchases them from a farmers cooperative called the Western Montana Growers Cooperative. "I'll order 400, maybe 600 pounds of carrots from them, and they'll work with four or five different farmers to fill my order. I'll buy them at a competitive price and they'll be fresh."

Finding deals during the summer, when students are on break but when some food service staff members are still working, is a particular thrill for Montague. This past summer she bought tomatoes for pizza sauce and soup, and some squash varieties for baking and as ingredients in casseroles. She also purchased 400 pounds of basil because it was in peak form and available at a reasonable cost.

"We now have a lot of pesto ranch that we can put on different meals," she says. "We wouldn't normally be able to afford an herb like that during the school year, but because we bought it in bulk, while it was in season, we were able to."

Purchasing foods that are available year-round is another way to source local food. Roth notes that cattle ranches are numerous across Montana, and therefore local beef is available to many schools. As a case in point, Montague buys meat from a local cattle processor, who in turn has contracts with several nearby ranchers. Last year alone she spent more than $30,000 buying thousands of pounds of beef patties.

"And to make our meals more healthy, we'll often mix in lentils," she adds, noting that Montana grows more of the low-fat, high-fiber legume than any other state in the country. "We put them in casseroles, tacos, sloppy joes—anything that has ground beef. They're a good, inexpensive filler."

Keeping food dollars local

For Montague and other food buyers who have embraced the farm to school movement, spending money locally is the positive corollary of their purchasing decisions. Most of the food

The differing definitions of "local"

PHOTO COURTESY OF KALISPELL PUBLIC SCHOOLS

A growing number of school districts in Montana and elsewhere are embracing the farm to school movement.

The farm to school movement centers on local foods, but what does *local* mean, exactly? Turns out, there's no one, standard definition in use among farm to school proponents. Instead, the meaning of the word varies depending on the geography and climate of a given area, as well as the seasonality of foods. For school food directors, local food can mean food grown or produced within a specific distance from a school, such as 50 miles, or it can mean food grown or produced within a specific area, such as five contiguous counties. Local can also encompass larger regions, such as an entire state or even a group of states.

A corps at the core of farm to school

The recent growth of the farm to school movement may be partly due to the work of FoodCorps, a national nonprofit organization founded in 2009 that places young leaders in communities to help educate kids about healthy foods, build and tend school gardens, and bring local food into school cafeterias. A part of the AmeriCorps Service Network, FoodCorps currently has 125 service members placed at 108 sites in 15 states, including 10 service members in communities across Montana. For more on the organization's work, visit www.foodcorps.org.

currently served in schools comes from national or regional food distributors whose suppliers vary in size and location. Farm to school purchasing involves a more direct relationship between a school and its suppliers, which are typically small operations located in or near the school's district. By directing their food dollars to small-scale, nearby farms and processors, schools can create more market opportunities for an array of food businesses, some of which might not have contracts with the big distribution companies. Schools' demand for local food could also foster business creation, as entrepreneurs may start food-oriented businesses that can supply the local market.

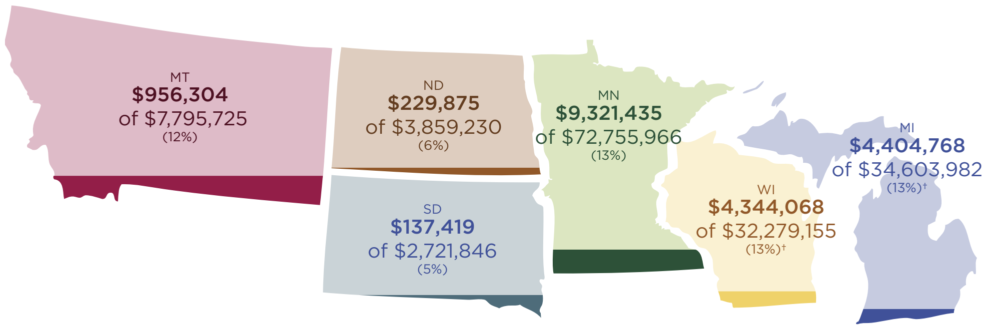
The USDA Farm to School Census estimates that nationally, schools that purchased local food spent more than $354 million on local products in the 2011–2012 school year, or nearly 14 percent of the more than $2.5 billion total they spent on food. In Montana, local food purchasing by schools that participated in the census came in at just under $1 million, or about 12 percent of the $8 million total those schools spent on food.

"These efforts have had a positive impact on the local economy by generating more revenue for local producers," says Sadie Mele, a senior program specialist in the Child Nutrition Programs section of the USDA.

With more than 29,000 farms in Montana, 76 percent of which are owned by an individual or a family, food service directors have ample opportunities to make a local food connection.[11] Montague spends about 10 percent of her budget—around $75,000 a year—on food grown locally, which she defines as within 50 miles of Kalispell. (For more on definitions of "local," see the sidebar on page 4.) Another 15 percent of the budget is spent on food grown in-state but more than 50 miles away. She works with a dozen or so individual farms and with businesses and organizations that in turn work with other local producers. Montague views these connections as integral to the farm to school movement.

"When people saw the economic impact of working with local producers, the community unified behind our goals of buying and serving local foods," she says.

Amount Spent by Schools on Local Food During the 2011–2012 School Year



† Figure reflects the whole state and not just the portion that lies in the Ninth Federal Reserve District.
Source: USDA 2011–2012 Farm to School Census. From the USDA web site: "Total food expenditure and expenditure directed locally refer only to districts that participated in farm to school activities in the 2011–2012 school year. National and state totals are not weighted for non-response and are subject to revision."

Getting kids' hands dirty

Serving food that is largely sourced from local or regional farms is a point of pride for Patti Armbrister, the agriculture education teacher at Hinsdale Public School, a K-12 school in a rural part of northeastern Montana that has a student body of 73. Armbrister says that just about everything served in the cafeteria, particularly in the fall and spring, comes from nearby producers, but she's most proud of the fact that some of the food served at her school traveled a mere 300 feet to reach students' plates.

The distance is short because she and her students grow the food themselves in a 12' x 18' greenhouse that's the physical centerpiece of the school's agriculture education curriculum. Salad greens, tomatoes, cucumbers, carrots, onions—Armbrister and her students grow a bounty of produce that registers zero "food miles."

"The students themselves built our school's greenhouse," she says, noting that the "outdoor classroom," constructed in 2008, does not use electricity. "The kids are absolutely crazy about it. They love getting outside and learning about growing food."

Armbrister explains that every student gets his or her hands dirty growing food at some point, including the kindergartners, who plant carrots from seed and then tend, harvest, and eat them.

Agriculture education—as well as food and nutrition education—is a core component of the farm to school movement. Roth, of the Montana Office of Public Instruction, notes that without understanding the connection between nutrition and food, children might not make informed, health-oriented choices as they mature and form lifelong eating habits.

"That's why it's important to offer food, nutrition, and agriculture education in schools," she says, "so that students can bring this knowledge back with them to the cafe-teria and to their homes."

School gardens (or greenhouses, as in the case of Hinsdale) offer a hands-on means of teaching kids about food and agriculture. According to the USDA, 15 Montana schools had created "edible" gardens as of 2011–2012; Roth indicates the number is now much higher. Schools in Montana are also taking student field trips to farms and holding taste tests and demonstrations of locally produced foods.

To help promote farm to school, Roth organizes an annual, statewide event dubbed "Montana Crunch Time," in which every student bites into a locally or regionally grown apple simultaneously. Much like serving local cherries to elementary school students, the apple event is a way to teach kids about the origins of a fruit that they might not have known was grown so close to their homes.

The Kalispell school district is a proud Montana Crunch Time participant. And Montague spends at least an hour every year with each 8th grade health class to explain the relationship between nutrition and healthy food choices.

"I teach them how they can vote with their forks," she says.

At Hinsdale, students have classroom instruction in addition to hands-on greenhouse experience, to explore food-related topics more in-depth. This year, for instance, the 7th graders are conducting a class research project about mason bees, which pollinate some food crops, and will present their findings to the elementary school kids. But it's the tactile projects—the hands-on, dirt-under-the-fingernails endeavors—that really get kids motivated.

"Next year we're going to build a root cellar to store apples and pears," Armbrister says. "And we're going to eat them throughout the winter."

A transformation, one meal at a time

More than half of the Montana school districts that bought local food in 2011–2012 plan to increase the amount of local food they purchase in the future. Montague counts herself among those numbers. In Kalispell, in just two years, she was responsible for upping the amount of local food purchased from zero to 10 percent. From her perspective, there's little reason to believe that number couldn't grow to 25 percent or more.

"I came into this job with a mission of transforming the food service practice at these schools into one that was based on farm to school," she says. "And I want people to know just how easy it is." cd

Online extra: *What Is Farm to School?*

In this web-only video, hear from farm to school proponents and take a peek behind the scenes in a school kitchen as seasonal dishes are prepared. Available in the *Community Dividend* section at www.minneapolisfed.org/publications_papers or on the Minneapolis Fed's YouTube channel at www.youtube.com/user/MinneapolisFed.

For more information

Resources for further reading about farm to school initiatives, such as how to start a program or how to buy local foods.

USDA Farm to School Program
www.fns.usda.gov/farmtoschool/farm-school

National Farm to School Network
www.farmtoschool.org

Montana Office of Public Instruction Farm to School web page
www.opi.mt.gov/Farm2School

1 Adapted from a fact sheet issued by the National Farm to School Network.
2 The Centers for Disease Control and Prevention, *Childhood Obesity Facts*, available at www.cdc.gov/healthyyouth/obesity/facts.htm.
3 Ibid.
4 Cynthia L. Ogden, Margaret D. Carroll, Brian K. Kit, and Katherine M. Flegal, "Prevalence of Obesity and Trends in Body Mass Index Among US Children and Adolescents, 1999–2010," *JAMA* Vol. 307, No. 5, February 1, 2012.
5 Mary Story, *The Third School Nutrition Dietary Assessment Study: Findings and Policy Implications for Improving the Health of US Children*, American Dietetic Association, 2009.
6 Ibid.
7 According to the USDA, to be eligible for a free lunch, a child's family income must be at or below 130 percent of the federal poverty level. To be eligible for a reduced-price lunch, a child's family income must be between 130 percent and 185 percent of the poverty level. For a family of four in the 2012–2013 school year, 130 percent of the poverty level was $29,965 and 185 percent of the poverty level was $42,643.
8 The National Farm to School Network and the USDA.
9 The 2011–2012 Farm to School Census, available at www.fns.usda.gov/farmtoschool/census/#. The USDA established a farm to school program in 2010 with the passage of the Healthy Hunger-Free Kids Act, which authorizes the USDA to provide funds and technical assistance to projects that initiate or expand farm to school activities.
10 Ibid.
11 From the Montana findings of the USDA's 2007 Census of Agriculture.

Surety bonds

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PHOTO COURTESY OF FRONTIER CONSTRUCTION

Irving Seelye, owner and president of Frontier Construction Company in Deer River, Minn.

repay those expenses means that surety bonds resemble contingent lines of credit and are thus underwritten like loans. All federal construction contracts of over $150,000 require surety bonds, as do many state-, county-, and municipally-financed construction projects. Private construction projects also frequently require them.

Irving Seelye's problems in obtaining surety bonds are not unique. Many small or new contracting firms lack the track record and financial depth to qualify for surety coverage or can only buy it at expensive rates. Contractors located or operating on American Indian reservations may face special historical and legal barriers as well.[2]

Federal policymakers have not ignored the difficulties Seelye and other small or disadvantaged contractors face. Since 1971, the Small Business Administration (SBA) has operated the Surety Bond Guarantee Program (SBGP), which guarantees substantial repayment of surety bonds for qualifying small business projects. Use of the program was widespread initially but declined dramatically after the late 1970s due to a combination of factors (discussed below). However, the program recently underwent changes that may position it for wide use again, both in general and in Native communities.

Impediments in Indian Country

According to industry experts interviewed for this article, lack of experience, credit, and capital impede American Indian contractors' access to surety bonds.[3] Experience matters for all contractors because surety companies weigh their work histories and past performance on similar projects when deciding whether to issue a bond and what to charge for it. But having prior experience with surety bonds and the financial system can be particularly helpful because it builds business relationships and teaches contractors how to navigate the bonding process. The history of limited financial services on reservations and within the American Indian community means American Indian contractors may be at a disadvantage in that regard.

As for credit and capital, having limited access to either or both can also impede access to surety bonds, even for experienced American Indian contractors. From the perspective of the bonding companies, a contractor with limited access to operating credit is more likely to have problems completing a project on time, thus raising the odds that the bonding company will have to compensate the project owner. And when the contractor lacks significant assets (capital), the bonding company is less confident that it can recoup from the contractor any compensation it may have to pay to the project owner.

Many American Indian contracting firms are small and have little capital and limited access to credit, particularly if they are located on reservations. This partly reflects a history of low incomes in reservation communities. Credit access can also be limited by lenders' lack of certainty about or familiarity with the legal jurisdiction and process governing loans made to businesses located on reservations.[4] Capital in the form of real estate is limited on reservations by the large share of land held in trust (for the tribe or its members) by the federal government, since using trust land as collateral is often problematic. The Native American Contractors Association cites "trust-land issues, jurisdictional disputes, and cultural misunderstandings" as barriers to accessing private credit and capital on reservations. And since surety bonds resemble lines of credit, these factors can also directly limit the supply of surety bonds there.

A long, steep drop

Under the Surety Bond Guarantee Program, the SBA guarantees up to 90 percent of the surety's loss in the event of a default.[5] In exchange, the SBA charges the contractor a percentage of the total contract value and the surety a percentage of its premium.[6] Currently, these fees are 0.72 percent and 26 percent, respectively. Peter Gibbs, deputy director of the Office of Surety Guarantees, estimates that on a typical $500,000 contract, a contractor will pay $19,000 for a performance bond guaranteed by the SBGP.

In the program's early years, demand exceeded expectations. As shown in the graph on the opposite page, participation rose dramatically throughout the 1970s, peaked in 1979, and then dropped back to low levels over the next 30 years.

Why the huge drop? A previous study indicated that burdensome paperwork required of both contractors and surety companies was a leading cause of the decline.[7] More recently, industry experts interviewed for this article identified three additional factors: program fee increases, a declining real contract value limit, and growth in the supply of non-guaranteed surety bonds designed for higher-risk contractors.

At its inception, the SBGP charged surety companies 10 percent of their premium, charged contractors 0.2 percent of the total contract value, and had a size limit of $2 million on bonds eligible for SBGP guarantees. When the fee rates proved insufficient to cover the program's expenses, they were increased in stages to their current levels. And from 1971 to early 2013, the contract value limit stayed the same; had it been indexed to inflation, it would have been roughly $11.5 million in 2013.[8]

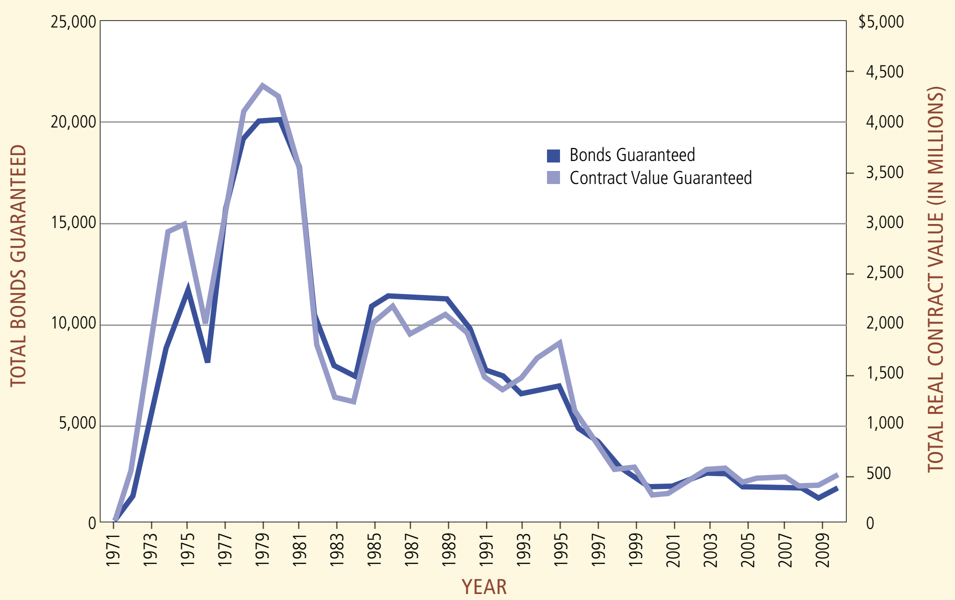
Changes in the surety bonding industry also reduced usage of the SBGP. Surety industry participants say that the industry is more competitive today, which increases the

From the perspective of the bonding companies, a contractor with limited access to operating credit is more likely to have problems completing a project on time, thus raising the odds that the bonding company will have to compensate the project owner.


PHOTO COURTESY OF FRONTIER CONSTRUCTION

A Frontier Construction project site. The company is one of many Native-owned contracting firms that have had difficulties in obtaining surety bonds.

Bonds and Real Contract Value (2011 Dollars) Guaranteed Through the SBA's Surety Bond Guarantee Program, Fiscal Years 1971–2010



Figures only include performance and payment bonds, not bid bonds. Source: *SBA Surety Bond Guarantee Program*, Congressional Research Service, 2011.

likelihood that a contractor will find a willing bonder even without a guarantee. In addition, as noted by the Congressional Research Service, more surety companies have emerged that specialize in underwriting the higher-risk, and thus higher-priced, bonds that often would have required a guarantee a generation ago.[9] It should be noted that while the growth in this segment of the industry surely helped some American Indian contractors acquire bonds, higher premiums make it difficult for them to compete against larger, well-established firms.

When viewed together, there were two main forces that drove the decline in participation in the SBGP: changes in the surety industry made it easier for contractors to get bonds without the SBGP, albeit sometimes at a premium; and at the same time, for more and more contractors, the increasing fees and stuck-in-time bond-size limit made the SBGP an unworkable option. And as program participation flagged, awareness of the SBGP may have declined within the contracting community.

New changes, unknown effects

Recent changes to the SBGP's bond-size limit and documentation process could make it attractive to contractors and sureties again. Most of the program's forms can now be completed online, thus reducing the paperwork and the lag between filing and approval. And, in February of 2013, the SBA addressed the SBGP size limit, boosting it to $6.5 million generally and up to $10 million with a federal contracting officer's approval.

Thanks to the recent changes, contractors looking for a way to access surety bonding now have an improved option. But because the changes are so new, data on whether usage of the program is up, either in general or by American Indian contractors, are not yet available. At this stage, industry experts differ in their assessments of how significant the program will become over time.

For example, one official with a surety company that specializes in the higher-risk end of the market reported that his firm's overall usage of the SBGP was up about 30 percent in 2013 and that other firms that had previously avoided the program were becoming more interested in it. However, he had not yet seen increased usage on Indian reservations. He viewed the SBGP as helpful for American Indian contractors and speculated that its current low usage on reservations might be due to a need for more awareness of the program and its recent changes.

By contrast, other industry experts see less potential for the SBGP to increase the availability of surety bonds for American Indian contractors. The business model of some large surety companies is based on long-term relationships with well-managed, financially strong contracting firms that generally do not need guarantees to obtain low-cost bonds. Experts in this segment of the market don't see this business model changing, even with the new SBGP features. Nor are they confident that the SBGP will significantly expand access to surety bonds on Indian reservations. From their perspective, that will only happen if real or perceived difficulties in writing and enforcing contracts with reservation-based contractors can be overcome enough so that surety companies are generally confident of the business law environment on reservations.

Only time will tell if the recent SBGP changes, a growing comfort level with tribal business law environments, or other factors will expand access to surety bonds for Irving Seelye and other American Indian contractors. Based on the range of views expressed by industry participants, the safest approach for now may be to promote both awareness of the revised SBGP and confidence in reservation legal environments.

Ahna Minge and Andrew Twite recently completed master's degrees in public policy at the University of Minnesota's Humphrey School of Public Affairs. Minge currently serves as a health economist at the Minnesota Department of Health and Twite is a rates analyst at the Minnesota Public Utilities Commission. cd

[1] The most recent U.S. Census Bureau Survey of Business Owners (2007) finds that only 0.9 percent of American Indians and Alaska Natives owned a business. Almost 16 percent of Native entrepreneurs were in the construction sector, making it one of the most common types of Native-owned business, and American Indians and Alaska Natives owned 1.1 percent of the nation's construction firms.
[2] The limited availability of surety bonds for American Indian contractors was raised as a policy issue at the Growing Economies in Indian Country summit held at the Board of Governors of the Federal Reserve System in Washington, D.C., in May 2012. For more on the event, visit www.federalreserve.gov/newsevents/conferences/growing-economies-indian-country.htm.
[3] For further details and source citations, see *The Impact of Surety Bonding on American Indian and Tribally Owned Contractors*, a Federal Reserve Bank of Minneapolis Community Development Paper, available at www.minneapolisfed.org. The report also discusses tribes' status as sovereign nations and how that affects access to surety bonds for tribally owned contracting firms. This article focuses on contracting firms owned by individual American Indians; sovereignty is not relevant to these firms.
[4] See www.minneapolisfed.org/indiancountry/#articles for a list of articles touching on these issues.
[5] The 90 percent limit applies to SBA's Prior Approval channel, in which the SBA individually reviews each bond before guaranteeing it. Under the SBA's Preferred channel, SBA-approved surety companies can issue guaranteed bonds without SBA review, but the guarantee is limited to 70 percent.
[6] There are three main types of surety bonds: bid bonds, which guarantee that the bidder will enter into the contract if it is awarded; payment bonds, which guarantee that all suppliers and subcontractors will be paid for their work; and performance bonds, which guarantee that the principal will perform as stated in the contract. SBGP fees only apply to performance and payment bonds. Currently, the SBA does not charge a fee to guarantee bid bonds.
[7] Sahar Angadjivand, Elyse Bailey, Jennifer Bendewald, Nicole Mickelson, Ahna Minge, Robert Pickering, and Andrew Twite, *Risky Business? The Complex Case of Surety Bonding in American Indian Country*, master's thesis, Humphrey School of Public Affairs, University of Minnesota, 2012.
[8] Calculated using the Consumer Price Index Inflation Calculator from the U.S. Bureau of Labor Statistics.
[9] According to the Congressional Research Service (CRS), "Specialty sureties typically required the contractor to provide collateral for the projects they bonded, and, in most cases, charged higher premiums than standard sureties." From the CRS report *SBA Surety Bond Guarantee Program*, October 6, 2011.

Mortgage market

Continued from page 3

Neighborhood variations

The graph on page 3 depicts the cumulative rate of return to the mortgage market for consumers who lived in either lower-, middle-, or upper-income neighborhoods by whether the date of their mortgage default occurred prior to or after the peak in home prices. It shows that consumers in middle- or upper-income neighborhoods returned to the mortgage market at rates higher than those of consumers in lower-income neighborhoods, both before and after the peak.

Prior to the peak in home prices, when fewer defaults occurred overall, consumers in middle-income neighborhoods had the highest return rate, with roughly one-quarter obtaining a mortgage over time (up to ten years after a default) compared to one-fifth of those living in upper-income and one-sixth of those living in lower-income neighborhoods. After the peak in home prices, consumers in all neighborhoods returned much more slowly to the mortgage market, if at all. The slowness was especially pronounced for consumers from lower-income neighborhoods, whose post-default rate of returning to the market was almost 15 percentage points less after the peak than before—a rate roughly half as fast as that of consumers in middle- and upper-income neighborhoods.

Future implications

Overall, recent evidence reveals that the vast majority of consumers who have experienced mortgage defaults did not return quickly to the mortgage market afterward, especially during and following the recent recession. As the analysis described here indicates, this is especially true of post-default consumers from lower-income neighborhoods. For policymakers and practitioners seeking to expand homeownership in those neighborhoods, the findings suggest that a wider array of affordable housing solutions for families, beyond homeownership, may be needed in the future. cd

[1] Author's calculations using data from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel.
[2] William Hedberg and John Krainer, "Credit Access Following a Mortgage Default," *Federal Reserve Bank of San Francisco Economic Letter*, October 29, 2012.
[3] This analysis does not make distinctions for consumers who may have held multiple mortgages, or who are investors or homeowners or both. It also does not account for the influence that Chapter 13 bankruptcy may have had in holding off a mortgage default.
[4] Author's calculations using data from the Federal Reserve Bank of New York/Equifax Consumer Credit Panel.
[5] For example, see *Report to the Congress on Credit Scoring and its Effects on the Availability and Affordability of Credit*, Board of Governors of the Federal Reserve System, 2007, available at www.federalreserve.gov.

News and Notes

CDFI Fund announces $17 million in Bank Enterprise Awards

The U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund has announced that it will grant a total of approximately $17 million to 85 banks in recognition of their service to economically distressed communities. The grants will be awarded through the fiscal year 2013 round of the CDFI Fund's Bank Enterprise Awards (BEA) Program, which provides capital to FDIC-insured depository institutions serving census tracts where at least 30 percent of the population lives at or below the national poverty level and the unemployment rate is at least 1.5 times the national average. Collectively, the 85 recipients increased their loans, investments, and financial services in economically distressed communities by nearly $428 million during the BEA Program's one-year assessment period and increased their loans, deposits, and technical assistance to CDFIs by more than $48 million. The CDFI Fund selected the 2013 grant recipients from a pool of 98 applicants, the largest since fiscal year 2002.

One institution in the Ninth Federal Reserve District, Sunrise Banks in St. Paul, Minn., made the awardee list. Sunrise will receive $323,000—the largest of the award amounts in the 2013 round of funding—for providing commercial real estate loans and project investments in distressed communities in Minneapolis and St. Paul.

Minneapolis Fed releases Housing Market Index

A new Community Development Paper from the Federal Reserve Bank of Minneapolis uses locally produced, parcel-level data to provide a block-by-block picture of the housing market in North Minneapolis, the portion of the Ninth Federal Reserve District that was hit hardest by the recent foreclosure crisis. *Housing Market Index: A Block-Level Analysis of the Housing Market in North Minneapolis* evaluates each residential block in the 12 neighborhoods of North Minneapolis through a combination of four variables: value retention, owner occupancy, physical condition, and long-term vacancy. The results are expressed in maps and summaries that may serve as useful tools for practitioners and policymakers engaged in developing long-term housing-stabilization strategies for distressed neighborhoods. To download the report, visit the Community Development Papers section of the Publications & Papers tab at www.minneapolisfed.org.

Mitchell, S.D., named a Smart21 Community

For the second year in a row, the Intelligent Community Forum has named Mitchell, S.D., one of its Smart21 Communities. The designation honors 21 cities, counties, or regions from around the world that are using innovative ideas and technology to improve local economic and social conditions. The 2014 Smart21 Communities list includes honorees from eight different countries on six continents. They range in size from Mitchell, with a population of approximately 15,000, to Rio de Janeiro, with a population of over 6.3 million. Mitchell is a repeat honoree for transforming its local economy through digital literacy, broadband connectedness, precision farming, and an expanding high-tech sector.

The Intelligent Community Forum is a nonprofit organization that studies and promotes best practices communities use to adapt to the demands and opportunities presented by information and communications technology. For more on its Smart21 Communities list, visit www.intelligentcommunity.org.

Healthy food access does indeed matter, report on recent research says

Having access to nutritious food has positive and measurable effects on individual and community health, according to the bulk of the research featured in a new report from PolicyLink and The Food Trust. *Access to Healthy Food and Why It Matters: A Review of the Research* summarizes the findings of more than 170 studies released in the past three years that examine healthy food access and its effects. The report is a follow up to a 2010 PolicyLink-The Food Trust joint release titled *The Grocery Gap: Who Has Access to Healthy Food and Why It Matters*, which reviewed the previous two decades of food-access research.

According to the new report, the majority of the recent evidence on food access supports three main findings. First, despite improvements in some communities, accessing healthy foods is still a challenge for many families. For example, two national studies found that 25 to 30 million Americans, or about 9 percent of the population, live in communities that do not have adequate access to healthy food retailers. Other studies found that access is particularly limited in low-income urban neighborhoods, communities of color, and rural areas, including American Indian reservations. Second, living close to healthy food retail is one of the factors associated with decreased risk of obesity and diet-related diseases. And third, healthy food retailers stimulate economic activity. For example, one study found that 24 jobs are created for every 10,000 square feet of new grocery space, while another found that home values increased by 4 to 7 percent after a grocery store opened nearby.

In addition to a research review, the report contains a discussion of implications for policymakers, an appendix of all referenced studies, and a list of suggested topics for further research. To download the new report and its 2010 predecessor, visit the Publications tab at www.policylink.org.

Calendar

Foundations in Financing Community Health Centers Workshops

January 23–24, San Francisco; March 5–6, Atlanta; May 1–2, Boston; May 21–22, Chicago

As part of an ongoing initiative to build the capacity of community development financial institutions (CDFIs), the U.S. Department of the Treasury's CDFI Fund is partnering with Opportunity Finance Network to offer this series of free, two-day training workshops on financing and providing services to community health centers in underserved communities. **www.cdfifund.gov/cbi**

2014 National Interagency Community Reinvestment Conference

March 30–April 2, Chicago

A training and networking event for community development professionals, including Community Reinvestment Act officers, community development lenders and investors, and representatives of CDFIs, foundations, and nonprofits. Sponsored by the Federal Deposit Insurance Corporation, the Federal Reserve Banks of Chicago and San Francisco, the Office of the Comptroller of the Currency, and the U.S. Department of the Treasury's CDFI Fund. **www.frbsf.org/community-development/events**

Montana Financial Education Coalition 2014 Conference and Resource Fair: Financial Security for a Lifetime!

April 28–29, Helena, Mont.

Choose from a broad range of workshops on the latest issues and programs in financial education, such as retiring with dignity, preventing fraud and abuse, and empowering low- and moderate-income households. Featuring a keynote presentation by noted financial author and journalist Jean Chatzky. **www.mtmfec.org**

Reinventing Older Communities: Bridging Growth and Opportunity

May 12–14, 2014, Philadelphia

Connect with peers and thought leaders at the sixth biennial Reinventing Older Communities conference, which will examine strategies communities are using to promote economic growth in ways that benefit all residents. Learn about funding and financing innovations, the role of entrepreneurs and artists in urban renewal, demographic changes and their impact on cities, and much more.

Sponsored by the Annie E. Casey Foundation; Federal Home Loan Bank of Pittsburgh; and the Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, New York, Richmond, and St. Louis. Registration and additional information available via the Events link at **www.philadelphiafed.org/community-development.**