



Coming Up *with the* Money

Five Principles for Launching a Successful
Community Development Initiative



Welcome

Greetings on behalf of the Community Development department of the Federal Reserve Bank of St. Louis. At the St. Louis Fed and in Fed offices across the country, Community Development staff members are dedicated to promoting community and economic development, as well as fair and equal access to credit across their respective communities. We work to strengthen the effectiveness of community development practitioners by promoting collaboration and good financial decision-making.

Today's community development projects are coming together thanks to the leadership efforts and financing partnerships among numerous private and public sources. Financing from banks, government agencies, the private sector and others often can be combined successfully to develop an array of community development initiatives—from housing for low- and moderate-income (LMI) individuals to small businesses, as well as other community development needs, such as grocery stores and charter schools.

What are the characteristics of successful partnerships? What factors make some initiatives more effective than others? These are questions we set out to evaluate and share in this guide, *Coming up with the Money: Five Principles for Launching a Successful Community Development Initiative*.

Designed especially for those new to the field of community development, this guide also serves as a refresher and resource for those who don't engage in financing projects regularly or those who would like to consider new partners or new tools for upcoming projects.

We hope you'll value this material and can apply its content to your community development work so you, too, can come up with the money for your next initiative.



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Coming Up with the Money: Five Principles for Launching a Successful Community Development Initiative is an interactive publication designed to highlight resources and ideas that facilitate community development finance. Online resources are available via hyperlinks, shown in blue type. If referencing a printed copy, simply search the indicated term in a web browser to access the resource.

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An Overview of Community Development

The Federal Reserve Bank of St. Louis is one of 12 Reserve banks that, along with the Federal Reserve Board of Governors, comprise the nation’s central banking system. As the central bank, the Federal Reserve has three primary responsibilities—conducting monetary policy, providing financial services to banks and the U.S. government, and regulating and supervising financial institutions. These three activities all work toward a common goal—fostering a strong and healthy economy.

Community Development departments within the Federal Reserve help promote economic growth and financial stability in communities across the country, especially those in low- and moderate-income (LMI) areas. We do this by bringing together financial institutions, the private sector, nonprofits, public officials, government agencies, researchers and practitioners to identify and address challenges that confront LMI communities and collaborate on community and economic development initiatives.

Through our roles as conveners, researchers and information brokers, community development staff ultimately seek to promote community and economic development in LMI communities, ensure fair and impartial access to credit in underserved markets and assist financial institutions in understanding their responsibilities under the federal Community Reinvestment Act (CRA). This convening power of the Fed is also leveraged to help community development organizations access the technical and financial resources needed to explore new and emerging sources of capital to finance community development initiatives.

Numerous resources, like this guide, are available from local Reserve banks and from the Federal Reserve Community Development web portal, www.fedcommunities.org.

Understanding “Community Development”

The definition of “community development” can vary. Some equate the term to neighborhood beautification projects or affordable housing efforts. Others consider broader definitions, such as initiatives that promote job creation, small-business development and supporting small farms; and any project that revitalizes or stabilizes LMI neighborhoods, such as supermarkets or day care centers.

Community development can be all of these things and more, but typically requires four elements:

- Attention to the needs and desires of the people involved and to the areas where they live and work
- Control by community members, who become active participants
- The concept of self-help, which is vitally important to the community development process
- A holistic view of the community, in which groups take into account one another's goals and actions as opposed to operating as if each were in a vacuum

As we'll unpack throughout this guide, these elements are important because they undergird an "inside-out" community-based approach in which community members not only have a stake, but become engaged and invested in the process of making changes that will ultimately benefit their community and its future.

The Evolution of Community Development Finance: Some History and Trends

Essentially, community development finance involves economic growth in which people come together and make decisions to organize and pool assets and resources for the purpose of addressing unmet needs and opportunities.

It wasn't always the case that financing community development projects involved a true people-centered approach. In its earliest days, dating back to the Progressive Era and the New Deal, civil progress and community improvement projects were typically classified as top-down, government-led administrative efforts that did not include community members in early funding decisions. It wasn't until the antipoverty movement of the 1960s and the subsequent proliferation of community development organizations—such as community development corporations (CDCs) and community action agencies—along with philanthropic organizations and financial intermediaries such as community development financial institutions (CDFIs), that the era of community-centered initiatives and community development funding options we see layered today were ushered in.

Other shifts were happening over recent decades as well. As business sophistication and technologies emerged, innovation has paved the way for new lending platforms and increased opportunities for data collection and measurement. Finally, traditional place-based community development strategies are being supplemented by people-based strategies as a way to build healthier communities beyond bricks and mortar.

Current trends in community development include:

Shifts in the role of government funding. Traditionally, money for community development has come primarily from government sources, which has accounted for up to half of all nonprofits' revenue. Today, not only has the proportion of funding from government dwindled, but government aid has also shifted to reflect changing priorities. What's more, government agencies, like other funders, are raising their expectations for those who receive assistance. What are some of the implications of these changes? Most levels of government are allowing community developers to tap into more than one government program for money for the same project; such layering was not usually allowed in the past. Meanwhile, private contributions are increasing, but not at a rate that can replace ever-diminishing government funding.

Shifts in the number of funding sources. Money rarely comes from a single funding source for today's projects; instead, funding typically involves multiple sources and entities, both public and private. This may have begun in its simplest form, with the requirement for matched funding. It is quite common for seven or more sources to fund just one community development project.

Shifts to more holistic approaches for meeting community needs. The early piecemeal approach of addressing community needs is moving toward coordinated and collective action as community developers and funding sources are becoming more concerned about how a project fits in with and benefits from other projects at work in the same community. As similar mission-minded organizations work together to address common goals, coordinate activities and collect data, these "collective impact" approaches are beginning to translate into measurable and sustaining results in various communities.

Shifts to data-driven, outcome-based expectations. If ever there were funding handouts with no strings attached or simply given because the community need was deemed a good one overall, such handouts have gone the way of the dinosaur. As subsidies have declined, community development projects have increasingly relied on debt financing (loans) and equity financing (the sale of stakes in the project). As a result, investors have raised their expectations for a return, whether in the form of dollars or social benefits. And the return must be measurable—not just a promise, hope or expectation. For example, funders will expect data on the outcome of your project, such as: What is the specific benefit of your project to the community? Who exactly will be impacted by your project? How will this impact be measured? When and how will the return on investment be captured?

Given these trends, some might say that community development finance has become more complex than in years past but has also presented new opportunities for collaboration

and creativity. As such, our approach in this guide is to prepare community development professionals with the basics of community development finance and core principles that are essential to getting projects off the ground. Among those whom we expect to benefit from this guide are members of community-based organizations, development groups, state and local governments, and financial institutions.

Components of a Community Development Project

If you have a community development project in mind, would you know how to pull the project together? What's the road map to secure financing for the initiative? Explore your options as we probe deeper into the components of a community development project. In Unit 1, we'll discuss the PEOPLE component—how connecting the right partners makes a difference in the ability to bring together your community's best assets. In Unit 2, we'll talk about the role and importance of the PLAN—why business plans are so important and what funders are looking for. In Unit 3, we'll provide an overview of the PROCESS for securing funds, including resources for innovative tools that can be layered to make your project work. Finally, we'll introduce you to two case studies that reveal how these components have come together to produce successful PROJECTS. Scattered throughout these units, you'll find insights, resources and examples of how others have successfully brought together these three elements to finance community development projects in their communities.

The overall takeaway from this guide is simple:

PEOPLE + PLAN + PROCESS = SUCCESSFUL PROJECT



Five Core Principles That Help a Community Development Project Succeed

As you read through the units that discuss the PEOPLE, PLAN and PROCESS that lead to community development PROJECTS, you'll notice five core principles that are key to successful initiatives:



Community Engagement → For any community development project to succeed, a project must have the support of its community, right from the start. How do you gauge this? How do you put this into action?



Leadership → Not only must each initiative have community buy-in, it must also have one or more leaders—those who champion the effort from day to day and whose job it is to make sure it succeeds. Who makes ideal leaders for your project? How can you become a leader yourself?



Collaboration → A successful community development project isn't the work of a single individual or even a handful of people; it takes a village to bring a project to fruition. Knowing how to collaborate and with whom to network to build a successful team is a critical part of any community development project. Which organizations are the best collaborative partners for your initiative?



Evaluation → How do you build a strong project plan that clearly articulates your intended goals and outcomes? What are funders looking for before choosing to invest? Find out more about today's data-driven decision-making environment and tools, and its impact on your business planning.



Adaptability → What tools are available to get your project financed? What happens when funding gaps exist? As any veteran of this work knows, projects rarely go as planned. People move, missions change and funding sources dry up. But that doesn't mean good initiatives need to be canceled or put on hold. Find out how flexibility and resilience are often the answer to the question, "How did this community development project finally get off the ground?"

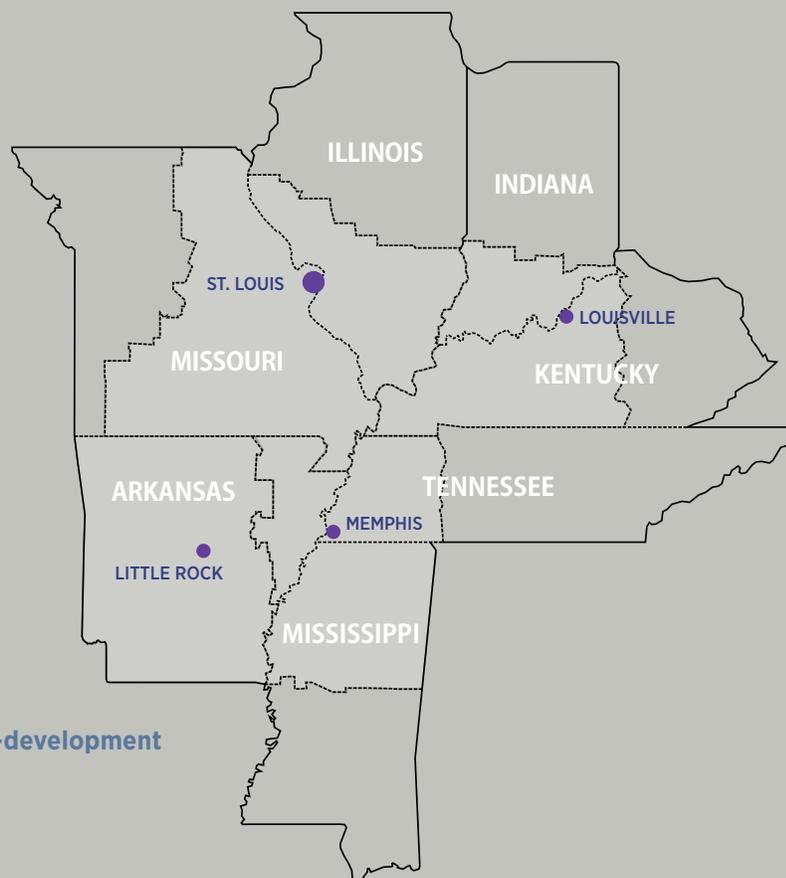
Goals of this Guide

Coming up with the Money is intended to help you:

- Understand factors that affect community needs
- Identify and employ five core principles that lead to successful community development projects
- Navigate through the process of putting together community development projects
- Identify market forces that could strengthen or weaken community development projects
- Strengthen your ability to participate as a community partner or leader in a successful community development project
- Identify potential sources for coming up with the money for your community development project

The St. Louis Fed has offices in Little Rock, Louisville and Memphis, in addition to its main office in St. Louis. Learn more about our activities or connect with our staff through our website at

stlouisfed.org/community-development





UNIT 1

People

Building the right team and relationships

Building communities takes more than simply assembling bricks and mortar, understanding the market and being able to read a financial statement. PEOPLE play a key role in developing a successful community development project and/or initiative. Residents and community groups who understand their neighborhood’s needs and have a stake in its success are an indispensable requirement for neighborhood transformation. Community developers should seek to build relationships and expand their network with other organizations outside of their sectors. Today, funders are increasingly seeking to invest in projects with cross-sector collaborations using a holistic approach toward community development. In this unit, we will examine the first three of the core principles of successful community development finance—community engagement, leadership and collaboration. Keep in mind that there is no right order for these three principles to occur and there are resources available to help strengthen skills in these areas.

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Community Engagement

An important element of community development begins with defining the unmet needs of a community. But it is at least equally important to engage residents and other community stakeholders in defining those unmet needs and developing solutions. Community engagement is a strong value and fundamental practice of neighborhood revitalization. The importance of engaging the community is grounded in the belief that the public has a right to participate and to articulate what their needs are. It is believed that by using our “collective intelligence” and working together, we will more accurately identify problems and develop more pragmatic and effective solutions. Community engagement is a type of public participation that involves people in problem-solving or decision-making processes. It is a multifaceted, ongoing process. When community stakeholders are engaged in the process of redevelopment or planning in the early stages of a project, it tends to result in a higher likelihood of community buy-in. Does your neighborhood have organizations that need capacity building in community engagement? Organizations such as [NeighborWorks America](#), a national community development intermediary, offer training and certifications in this area.

Just as there is no right order for the core principles of community engagement, leadership and collaboration to occur, there is also more than one way to apply these principles. Let’s examine a couple of different approaches to community engagement.

Asset-based community development (ABCD), introduced by John McKnight and John Kretzmann, is a strategy used to discover a community’s capacities and assets, and to mobilize those assets for community improvement. It is a strategy often deployed during the community engagement process. The ABCD process focuses on identifying the strengths of a community and on how to bring those strengths to bear in community improvement activities. ABCD upends the traditional process of community development by starting from the neighborhood’s assets—including resident skills and local institutional strengths—rather than its needs. The process then supports those assets to create a more sustainable and community-driven path to neighborhood change.

Remember, assets exist elsewhere in your community or are available to your community in many different forms. What are some examples of assets in your community?

Using the ABCD process with the specific intention to amplify a neighborhood's strengths rather than focus on its deficits leads to more sustainable improvement because:

- Community stakeholders are invested from the outset
- Capacity is built within the community for current and future endeavors
- Local interest provides momentum; local assets and abilities provide the fuel for sustained change and initiatives are more likely to take root

The nonprofit **Rebuild Foundation** in Chicago is one organization that employs intentional community engagement. With a mission to rebuild the cultural foundations of underinvested neighborhoods and incite movements of community revitalization that are culture-based, artist-led and neighborhood-driven, the foundation provides opportunities and spaces for neighbors to come together and engage in meaningful exchanges that spark collaborative action.

Deliberative Polling® (DP) is another approach to building community engagement. It was developed in 1988 by Professor James Fishkin of Stanford University as a way to use public opinion research in a new and constructive way, presenting polling results with a human face. The approach is often applied to civic engagement initiatives requiring the participation of informed, “ordinary” residents in the discussion of important issues; it has been conducted face-to-face and online in the U.S. and numerous countries around the world. DP is especially appropriate for issues where the public may have little knowledge or information, or where the public may have failed to confront the trade-offs applying to public policy.

The process begins by administering a questionnaire on specific issues to a random, representative sample of the

“One of our strategies for successful initiatives is to build strong partnerships with key stakeholders and collaborate with other agencies whenever possible. It is absolutely necessary to stay connected with the needs of people and engage everyone in the process of finding solutions. Teamwork is the key, and each person plays a significant role that is important to the development and improvement of our communities.”

– *Rasheedah Jackson*
Development Director
Memorial Community
Development Corp.
Evansville, Ind.

community. After this initial poll, a sample of questionnaire respondents is invited to participate in the DP by attending a meeting to discuss these issues. Prior to the meeting, participants receive balanced briefing materials on the topics that will be discussed. At the gathering, they are assigned to small groups with trained moderators. Participants pose questions—chosen by the small groups—to experts and policymakers during plenary sessions. The meeting concludes with a final questionnaire capturing participants' considered opinions. Results are analyzed and released to the media soon after the event.

For an example of DP at work, consider the Hard Times, Hard Choices program, a By the People civic engagement initiative launched by MacNeil/Lehrer Productions, working in partnership with the **Center for Deliberative Democracy (CDD)** at Stanford University. In November 2009, a random, representative sample of over 300 Michigan residents engaged in a face-to-face statewide Deliberative Poll around critical issues related to the state's economy and budget choices leading up to the 2010 election. The resulting changes of opinion revealed in the final survey offer some dramatic recommendations for both policymakers and the public.

These are just two examples of community engagement approaches. Which style of stakeholder participation would work best for your community initiative?



Leadership

Leadership is a critical element in garnering support for a community development project and is another core principle in successful community development finance. A strong leader is essential for seeing a project through to the end. In addition, when projects encounter challenges—as many inevitably do—those that successfully overcome them tend to have adaptive leaders who possess the appropriate skillset to address the challenges. A visionary who serves as the champion of a cause has the capacity to leverage interests across sectors. This individual does not necessarily have to be the leader of an organization and can represent any of these sectors—grassroots, faith-based, civic, politics or business. During challenging times, an effective leader provides motivation, commitment and tenacity to other stakeholders who may be discouraged due to setbacks. Effective leaders will provide the skills to motivate stakeholders to remain committed and focused. Before you look for partners for your specific initiative, be sure of what you bring to the table, know who you are and where you are going.

Is there a need to develop local leadership in your community? Most cities offer civic programs and have universities that will help develop local leadership. A good starting point for identifying these programs is to check with your local chamber of commerce.



Collaboration

In today's world, resources—time, energy and money—are limited, valuable and carefully allocated. Addressing complex community development problems requires adaptive leadership, cross-sector problem-solving and, ultimately, strategic collaboration. That's why collaboration is the third principle comprising the “people” component of successful community development team building.

As any community development veteran can affirm, you may encounter barriers to effective collaboration. However, these barriers can be overcome with effective strategies, proper

Leadership Resources

- NeighborWorks America's **Community Leadership Institute (CLI)** is an invitation-only, three-day event that aims to strengthen the voices and skills of community, resident and volunteer leaders. Participants from around the country attend in small teams from communities served by NeighborWorks Network organizations and their partners. They attend a full range of courses and each participating team creates an action plan for making positive change in their community. Many CLI projects are eligible for \$2000 grants from NeighborWorks America.
- The **Rockwood Leadership Institute** was founded in 2000 to provide individuals, organizations and networks in the social benefit sector with powerful and effective training in leadership and collaboration.
- Louisville's Center for Neighborhoods offers **The Neighborhood Institute**, a 12-week course that helps grassroots leaders learn how to build sustainable and attractive neighborhoods through engaged, informed and committed neighbors.
- Cities often offer leadership development programs, such as those offered by the city of St. Louis (**Focus St. Louis**) and the branch cities of the Eighth Federal Reserve District (**Leadership Memphis, Leadership Greater Little Rock** and **Leadership Louisville**). Graduates of the programs include CEOs and other corporate senior-level executives, business owners, state senators and representatives, mayors, school superintendents, attorneys, principals and nonprofit executive directors.

“It is amazing how often a community development corporation can serve as the matchmaker, or broker, to line up a community change opportunity with a worth-the-effort resource. This is why devoting as much time as one can to technical capacities and relationship building pays off in the long run. A recent example of this came under challenging circumstances. Federal recovery funding suddenly appeared after the Great Recession. We quickened our work to really understand the hastily written grant compliance (rules often changed ‘midstream’) and then to invest quick-silver money into already framed neighborhood plans by using our program capacities. It worked! The neighborhoods that got focused investment were those that were ready to seize the opportunity. It was an honor to help them accelerate capital progress using unusual resources.”

– **Lisa Thompson**

Chief Operating Officer
New Directions Housing Corporation
Louisville, Ky.

planning and adaptability. Revitalization collaborations that combine an effective strategy with the efficient use of resources will be the most successful and most supported.

In recent years, new experimental and innovative strategies have emerged from the community development field to reduce persistent poverty and increase economic opportunity in LMI communities. The term “community quarterback” was introduced in *Investing in What Works for America’s Communities: Essays on People, Purpose, and Place*, a publication resulting from the partnership between the Low Income Investment Fund (LIIF), supported by the Citi Foundation, and the Federal Reserve Bank of San Francisco. The role of community quarterback is to identify the organizations and individuals working in a particular community and bring them together to align objectives and coordinate efforts, creating a strong neighborhood and paths to economic opportunity.

To fulfill this complex role, the community quarterback must:

- Build a collaborative of cross-sector partners to support integration, coordination and ongoing communication
- Facilitate the creation of a shared vision of significant improvement in key outcomes for residents
- Develop a comprehensive strategy that integrates people- and place-based approaches
- Build the necessary infrastructure and processes to provide the collaborative with timely, useful data to guide continuous assessment and improvement

With more than 50,000 copies of the book distributed, the overwhelming response to this concept encouraged the Citi Foundation and LIIF to address the challenge described in the publication and launch **Partners in Progress**, an initiative that funds community quarterbacks across the country.

Types of Collaborations

- **Funder Collaboratives** are groups of funders interested in supporting the same issue who pool their resources. Generally, participants do not adopt an overarching evidence-based plan of action or a shared measurement system, nor do they engage in differentiated activities beyond check writing or engage stakeholders from other sectors.
- **Public-Private Partnerships** are partnerships formed between government and private sector organizations to deliver specific services or benefits. They are often targeted narrowly (e.g., developing a particular drug to fight a single disease) and usually don't engage the full set of stakeholders that affect the issue (e.g., the potential drug's distribution system).
- **Multi-Stakeholder Initiatives** are voluntary activities by stakeholders from different sectors around a common theme. Typically, these initiatives lack any shared measurement of impact and the supporting infrastructure to forge any true alignment of efforts or accountability for results.
- **Social Sector Networks** are groups of individuals or organizations fluidly connected through purposeful relationships, whether formal or informal. Collaboration is generally ad hoc; most often the emphasis is placed on information sharing and targeted short-term actions rather than on a sustained and structured initiative.
- **Collective Impact Initiatives** are long-term commitments by a group of important actors from different sectors to a common agenda for solving a specific social problem. Their actions are supported by a shared measurement system, mutually reinforcing activities and ongoing communication, and are staffed by an independent backbone organization.

“The mission of the McLean Institute for Public Service and Community Engagement is to fight poverty through education in Mississippi. We cannot be successful in this work unless we collaborate with others, so we are continually developing a network of partners on campus—students, faculty, staff and administrators—and in the community at the local, statewide, regional and national levels. Our child savings program—Lafayette-Oxford-University Saves—is supported by campus philanthropy, local donors and technical assistance from national experts. Building this broad coalition has allowed us to implement best practices and to gather momentum among those who can provide resources to sustain our work.”

– **Laura Martin**

Assistant Director

*McLean Institute for Public Service and
Community Engagement*

*The University of Mississippi
Oxford, Miss.*

Another key takeaway from *Investing in What Works for America's Communities* is that, because intergenerational poverty has complex roots that span multiple sectors, efforts to fight poverty must be integrated across sectors. Today, it takes more than a single approach to affordable housing, high-quality education or access to health care and jobs to move families and communities out of poverty; it takes all of these factors, and they must be coordinated around shared goals. In addition, anti-poverty strategies now include people-based efforts (e.g., education, health care, workforce development) as well as place-based efforts (e.g., housing, transportation, community safety). By working together across sectors to achieve a common goal, partners are more effective than they would be separately—a concept known as collective impact.

As a model of cross-sector collaboration through a structured approach to defining a system, its networks and defined outcome metrics, the collective impact framework has delivered extraordinary early results to address a wide range of social changes, from education and health to homelessness and carbon emissions reduction. As the community development field recognizes the need to adopt a more comprehensive approach to tackle the complex and multifaceted nature of poverty, the collective impact framework and its principles may be an important method.

Two examples of successful (people-based and place-based) collective impact models include:

- **Opportunity Chicago** (the Initiative) was a pioneering attempt to help 5,000 public housing residents prepare for and find employment over five years. Founded in 2006 through the collaborative efforts of The Partnership for New Communities, the Chicago Housing Authority (CHA) and the Department of Family and Support Services, the Initiative was

launched in response to the Plan for Transformation (the Plan). Adopted by CHA in 2000, the Plan was a nationally unprecedented overhaul of Chicago’s public housing. The Initiative was designed as a cross-sector collaboration that strategically convened and leveraged resources. You can learn more about this initiative by searching the web for “Opportunity Chicago, Chicago Jobs Council.”

- **Purpose Built Communities** helps struggling communities implement a proven model to end poverty, substandard education, unemployment, health disparities and other challenges threatening urban neighborhoods. The Purpose Built model for holistic community revitalization was crafted from the successful transformation in the mid-1990s of a poverty-stricken, crime-ridden, failed public housing development in Atlanta, Ga. In its place now stands a thriving community with quality mixed-income housing, a top-rated charter school, 95 percent reduction in crime rates, and substantial investments in commercial and residential developments. The model is a three-pronged approach to change, all guided by the “community quarterback”: high-quality mixed-income housing, a cradle-to-college education pipeline and community wellness programs.



Summing it Up

People Play an Integral Role in Successful Projects

Successful community development initiatives start with a foundation of strong teams, and those teams are built on the foundation of three core principles—community engagement, leadership and collaboration. Community engagement is important because it allows stakeholders to participate in identifying unmet needs and engage in finding potential solutions. Equally important is the need for leaders who serve both as champions of an initiative and as those who leverage ongoing support. Finally, we discussed the growing role of collaboration among sectors, especially as the number and complexity of strategic partners grows.





UNIT 2

Plan

Using evaluation and data to develop your community development finance plan

You are probably intimately aware of your community’s strengths and weaknesses and how your particular community development project can be an asset to your neighborhood. But to secure funding, you will need to document your specific issue and the projected outcomes of your initiative. In addition, there are critical pieces of data your lenders and/or investors will want to evaluate to help them determine whether to finance your project. All of this information will be part of your community development finance PLAN. This unit will focus on the fourth key principle of successful community development finance—evaluation. We will introduce the types of data you will use for the evaluation process and the data you will need to provide to your lenders and/or investors that will provide the basis for their investment decisions. The data generally falls into three categories: environmental context, business plan and financial information.

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Environmental Context

The environmental context documents the external factors outside your organization that might affect your project and should be identified and evaluated to understand the context in which you are working. For example, if property values are low in the area where you are planning a development, the appraised value of your project will be impacted. This may make it more difficult to finance the development. The environmental context will include both macro and micro environmental factors.

Macro Environmental Factors

Macro environmental factors are those conditions impacting your community over which you or your organization have little, if any, control. Nonetheless, you still must pay attention to them in deciding how to proceed. General categories of macro factors to evaluate include:

Economy — Effects of inflation, business cycles, employment trends, retail and commercial activity, construction activity and availability of capital. Questions to consider:

- What is the general economic condition in the labor and housing markets?
- Is there a skilled labor shortage?
- What activity is there in the retail construction sectors?
- Are there areas of the economy that are lagging behind?
- What is the availability of capital, credit and financial services?
- What types of financial institutions serve the area?

Demographics — Effects or trends in family size, age distribution, education, diversity, income and geographic distribution of the population. Questions to consider:

- What are the typical educational attainment levels of the area?
- How do age and social class affect the community?
- Does the number of low-income households suggest a need for specific community services?
- Does the number of non-English-speaking people suggest a need for specific community services?

Social and Cultural Factors — Changes in consumer values and lifestyles affecting purchasing behavior. Questions to consider:

- How does being a homeowner vs. a renter affect community attitudes?
- What value is placed on tourism, the arts and historic preservation?
- Are lifestyle patterns changing?

Politics — Effects of regulation and legislation. Questions to consider:

- Has there been a shift of programs from the federal to the state level that has altered the availability of money?
- What is the legal status of development organizations that have an impact on the project?
- What influences and pressures are at work in the community?

Technology — Changes in technology affecting products and services and their delivery. Questions to consider:

- How accessible are computers and mobile devices with internet access in the area?
- Are there resources that provide access to technology in your community?
- How is technology impacting lifestyle, work and commuting patterns?

Natural Environment — Ecological or other natural concerns (e.g., flooding, earthquakes, tornadoes, pollution, etc.) that may affect your organization's markets or operations. Questions to consider:

- Are there ecological concerns with industry, farming or economic development?
- Is the area likely to be affected by natural disasters?
- What is the quality of air and water?

Micro Environmental Factors

These are smaller considerations in the immediate area that you may have some control over yet still affect your organization's ability to make community development finance decisions. Sometimes, the micros may make a project possible that the macros would seem to rule out. For example, after looking at macro factors, a housing developer might think that, based on the population decline in the area, there is no market for additional housing. But after considering micro factors, the developer might decide that there is a demand for homes with more bathrooms and fewer bedrooms, or might realize that there is not much competition in building assisted living for senior citizens. General categories of micro factors to evaluate include:

Markets — Profile those user markets that you plan to target in your project. Pay close attention to the size, growth and geographic distribution of the market, the profitability of current markets and what segments of the market are available. In addition, be aware of other entities that are also developing projects for this same user group. Will your project meet a unique need? Will it have competition in the marketplace?

Questions to consider about your end users, including their needs, buying behavior and attitudes toward the project and your organization:

- Who are they?
- Is there a user demand to support the project?
- Will your users change or remain the same?
- Do you have profiles of buying behavior?

Questions to consider about other entities that share the marketplace for your project:

- What are their strengths and weaknesses, along with the sizes of and trends in their market share?
- Are scarce resources or funding already allocated to similar entities? Are there any competitors for resources or financing?
- Are there opportunities for collaboration?
- How can you differentiate yourself from those offering similar services?

Public Perceptions — You should be aware of both the environment for community development finance and your own reputation in the public arena. If the people you are trying to serve have doubts about your organization or proposed project, your objectives might be difficult to achieve. Questions to consider:

- How does the community plan and pursue its community development objectives?
- What public concerns have an impact on community development finance?
- How many nonprofit organizations work in community development in your area?
- What is your organization's track record?
- Is the community pleased with the impact you have made?
- Are you looked upon favorably by your area's philanthropic, financial and governmental sectors?



Business Plan

Now that you have surveyed and documented the environmental context in which you are operating, you can begin to build a business plan for your community development project. The plan will help your partners evaluate the merits of the project and provide lenders and investors with information they need to decide whether to provide funding. The plan will serve as a road map for the beginning years of the community development project. Business plans generally project three to five years ahead and outline the route to take to reach yearly milestones, including revenue projections. Keep in mind that it is a living document that you will need to constantly review and evaluate. Business plans are important because they:

- Build commitment
- Clarify why people are working together

“A business plan is important to a commercial banker or credit underwriter because it provides the details, future direction of a business/industry and the strategy of the business owner. This allows the lender to understand the business owner's model and how difficult it may or may not be to execute the strategy. This helps the lender to make a decision when it comes to getting the applicant the financing they requested.”

- *Katherine S. Pleasant*
Vice President in Commercial &
SBA Lending
MainSource Bank
Louisville, Ky.

“I like for my small-business clients to think of a business plan as the Constitution of their prospective business. This means it is the supreme law of the business but also a living, breathing document that can and should be amended from time to time in order to facilitate growth, opportunity or a changing business environment. A business plan is essential if you are seeking capital, and is the first place investors or lenders will look for repayment ability, competencies and commitment. How will you cover startup costs, establish profitability and maintain cash flows? Whether you need funding or not, developing a business plan forces you to look at every aspect of your business and not just play to your strengths.”

– **Jarrod Norwood**

*Business Consultant
Arkansas Small Business
and Technology Center
College of Business
University of Arkansas at Little Rock
Little Rock, Ark.*

- Uncover expectations, aspirations and potential pitfalls
- Assign responsibilities to each partner involved in the project
- Outline goals and benchmarks
- Serve as a road map for the early years of the community development project
- Inform decision-making on a regular basis

Finance planning includes making a business case for your project. Key elements of a business case for a community development finance plan are:

- *Business context.* What is happening, internally and externally, to the community or organization that merits attention and is driving the need for the community development project and finance plan? What evidence do you have to document the need?
- *Problems or opportunities.* What aspect of the current situation calls for action? What is the market demand for the project? What assets are either available *within* the community or *to* the community?
- *Implications of ignoring.* What are the consequences of not addressing the problem or opportunity?
- *Desired outcomes.* What are the desired outcomes of the community development project?
- *Benefits.* What are the specific advantages or gains that will result from achieving the desired outcomes?

As an example, consider a community that is operating in a *business context* where the number of adults aged 25-44 has been declining every year. The *problem* could be that the trend toward fewer young adults has led to weakening job growth. Creating an environment that will retain and attract educated and skilled young adults is an *opportunity* for the community. *Ignoring the problem* could result in current businesses moving to an area where they can find young adults in the labor force, as well as businesses that require

educated and skilled employees not opening, expanding or moving to the community. Ignoring the problem could lead to a decline in the housing market, school enrollment and retail business. The *desired outcome* is a strong labor pool of young adults for current and new businesses. This will *benefit* the community by boosting the housing market, retail businesses, job creation, etc. Rising household income levels, tax base and bank deposits may be additional benefits.

The U.S. Small Business Administration's **business plan tool** provides step-by-step guidance to develop your business plan. Although not specifically designed for community development projects, the tool provides the core elements of any business plan. The **SBA's Small Business Development Center** provide technical assistance to small-business owners and entrepreneurs throughout the country, as well as provide sample business plans.



Financial Information

In addition to the business plan, a lender or investor will request more information about the project and your organization to determine whether to finance your community development project and to evaluate its sustainability.

Your ability to supply the requested information makes a statement about your organization's capacity. A lender or investor typically may request:

Basics about applicant

- Structure of your organization (nonprofit or for-profit corporation, limited liability corporation, sole proprietorship, etc.)
- History/experience
- Financial statement
- Self-analysis—information about your current situation

Three Characteristics of Weak Business Plans? They:

1. Are long, superfluous and cumbersome, having complicated narrative documents.
2. Overstate the founding team's expertise or experience in a certain business segment. A plan shouldn't feel like a sales pitch, but rather present like a well-thought-out plan.
3. Overcomplicate the financial model. I think it's important to be able to look at a simple model, and quickly and easily assess the break-even point, the profitability over time and stressing of the model, such as what happens if you only hit 75 percent of your projection.

Three Characteristics of Good Business Plans? They:

1. Concisely and clearly describe the business, market demand, business model and the plan for the biggest risk.
2. Distill a business plan down to 5 pages or less to force owners to communicate the most important and salient parts of the plan.
3. Are very conservative in any financial projections made.

- **David Desai-Ramirez**

Executive Director — Southern Region
IFF

St. Louis, Mo.

“Here are items I like to see but generally don’t get at the first meeting. It can make a positive impression if the borrower shows up with a packet of the following:

- Company five-year budget projections
- Company mission statement
- Company business plan
- Company marketing plan
- Copy of incorporation with by-laws
- Copy of business license
- Company balance sheet and income statements for three years
- Company income taxes for three years
- Individuals’ personal financial statement
- Individuals’ tax returns for three years
- Contact information on their accountant/CPA with permission to speak to them

“I have found that most of the time we get financials but have to extract the additional information in the interview. Projections should be reasonable based on prior experience. If the borrower is a startup business type, historical financial information can be found with research on most related businesses.”

- **William E. Stemmler**

*Vice President, Business Development
Officer, CRA Liaison
IBERIABANK
Memphis, Tenn.*

and performance (e.g., an annual report, the board of directors’ strategic assessment and plans, current operating statistics)

Budget

- Copy of proposed lease or purchase agreement for buildings, land, etc.
- Estimated operating expenses for the proposed project
- Plans and specifications—very specific plans on each phase of the project prepared up-front
- Substantiating amounts—actual estimates from contractors, suppliers, etc.
- Amount of investment/equity from the developer for the project

Management

- Capacity and credibility of the management of your organization and the manager of the proposed project (e.g., adequate staff, experience/credentials of staff, history with similar projects)
- Experience of property manager overseeing the ongoing operations when the project is finished (e.g., for rental properties)

Financial capacity

- Ability to cover cost overruns
- Ability to pay loans if there are cash flow problems
- Ability to make interest payments if sales are not brisk
- Secondary sources of funds
- Cash flow projections and other financial indicators
- Ongoing operating expenses of the organization and funding sources designated to cover them
- For rental housing:
 - Vacancy rate consistent with the current market or at least 10 percent

- Projected rental income consistent with the current market conditions
- Operating and replacement reserves

Appraisal

- An appraised value of land, buildings or equipment that supports the lender's investment in the project

Quality of design

- Adequate security and parking, as well as logical and efficient floor plans (for building projects)
- Elements of good design—Builders design a blueprint before constructing a house and athletic teams draw up a game plan before going out on the field. For the same reasons, community development players also need to create a design to finance their projects. This pre-development work is often the key to a successful project. Some of the elements that you should keep in mind when designing a financial package include:
 - Collaboration and community involvement—Public and private partnerships increase the probability that the project will reach its intended goal.
 - Mitigation—Subsidies and enhancements may be available to diminish risk.
 - Customization—Services and products are customized to take into account the community's characteristics, such as predominant lifestyle, income range, amenities and housing.
 - Flexibility—The community development finance plan must be elastic so that it can be changed to accommodate growth and/or changing conditions.
 - Recognition and use of cycles—Timing is critical to community development, as every community development project is a small part of a larger cycle. Entering a market with a project at the wrong time can spell disaster.

Additional or less information may be requested depending on whether your community development initiative is a brick-and-mortar project.

Show Me the Data

While much of the groundwork for bringing a community development project together involves people—community engagement, leadership and collaboration (the core principles discussed in Unit 1)—the financial decisions will be very much driven, measured and evaluated by data. Where can you locate this data?

To help complete your environmental context, business plan and financial information, look to resources in your own neighborhood and local sources. Local libraries, chambers of commerce, local colleges and universities all have resources that can help you complete this task. In addition, you can seek information from property assessor offices, local planning and development agencies, state housing finance agencies, state and local community and economic development agencies and the **SBA's Small Business Development Center**. Finally, there are a host of web-based resources that can aid in your quest for data. Some of those include:

- **Community Commons**
- **Corporation for Enterprise Development (CFED)**
- **FedCommunities.org: Federal Reserve Community Development Resources**
- **Federal Reserve Bank of St. Louis Center for Household Financial Stability**
- **Federal Reserve Bank of St. Louis Community Development Outlook Survey (CDOS)**
- **Federal Reserve Bank of St. Louis Economic Data (FRED)**
- **Federal Reserve Bank of St. Louis Geographical Economic Data (GEOFRED)**
- **National Neighborhood Indicators Partnership**
- **Opportunity Index**
- **Policy Map**
- **United States Census Bureau**

Of course, this is not an exhaustive list. A focused internet search specific to your community and project will likely help you identify numerous sources of information and data for your business planning needs.





Summing it Up

You Must Have a Plan

In this unit, we discussed numerous types and sources of data that investors are looking for as they evaluate the funding potential of your community development initiative. As you understand the role and importance of the *evaluation* principle in these initiatives, you will gain confidence in shaping a solid project plan that includes such data as the environmental context, business plan and financial information that articulate your project's intended outcomes. Today, supportive data for such financial decisions can be found in numerous sources—from local community resources down the street to the vast number of web-based resources.

With the *people* in place to work on your community development initiative and the elements of your finance *plan* coming together, we are ready to move on to Unit 3, which will explore the *process* and tools for coming up with the money for your project.



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UNIT 3

Process

Sourcing Financial Resources for Community Development Initiatives

Now that you've had an opportunity to evaluate the macro and micro environmental factors that affect your community development initiative, developed your plan and brought together the relevant partners to execute your business plan, it's time to match the money with the idea. In this section, we'll discuss the different types of capital that can be deployed in community development initiatives, how to increase your chances to access that capital and the current trends that are taking place in community development finance. Throughout this section, we will focus on the fifth key principle of assembling successful community development projects—adaptability.

Financing community development can be complex and often requires both patience and adaptability. Why? Funding sources initially conceived may not come to fruition, while other funding that hadn't been considered in the planning process might prove necessary to ensure a project is fully capitalized.





Types of Capital or Financing for Community Development Initiatives

As mentioned previously in this guide, the community development field is broad and encompasses many aspects of creating opportunities for individuals living in LMI areas, from investing in a variety of commercial real estate developments to investing in people, infrastructure and more. The financing sources that support this work are no less varied. It is quite common to finance community development initiatives with multiple sources of funding—private capital; philanthropic grants; incentives offered by local utilities; local, state and federal government grants and subsidies; and more. In some instances, community development corporations use their operating funds to help support a new initiative, in the form of either debt or equity. While government grants and subsidies could continue to decline over time, there are a number of private enterprises and individuals who are more engaged than ever in community development finance, which some refer to as “impact investing.” Let’s walk through some specific examples of the types of debt, equity and grants that are available to community development practitioners.

Debt

Financing community development initiatives through debt is a fairly common approach. Unlike traditional capital markets, there are unique forms of debt that are advantageous for community development practitioners. The advantages typically include less stringent underwriting requirements and/or below-market interest rates. Which entities typically offer loan products specifically designed for community development practitioners?

Community Development Financial Institutions

Financial institutions do not always have the capacity to spend the required time to source and carefully underwrite community development initiatives. As a result, an increasing number of them are investing in community development financial institutions (CDFIs). CDFIs, which aggregate capital from banks, foundations and individuals, have developed the expertise to prudently lend for different types of activities—commercial development, residential development, small business, community health care centers, charter schools and others. CDFIs operate in both urban and rural areas, and each one is certified by the U.S. Department of the Treasury. To put the CDFI field into perspective, there are more than 1,000 CDFIs across the country with assets totaling well over \$25 billion. The Reinvestment Fund, IFF and the Low Income Investment Fund are all examples of established CDFIs. To find which CDFIs operate in your area, visit the U.S. Treasury’s [Community Development Financial Institutions Fund](#) website.

Foundations

Foundations are often thought of solely in terms of entities that give a portion of their money away each year to nonprofit organizations while investing the remaining amount in capital markets. While foundations are largely centered on grant-making, which is an important source of capital that will be discussed later, it is becoming increasingly common for foundations to invest a portion of their assets (non-grant-making funds) in what is known as program-related investments (PRIs). PRIs complement the social impact derived by grant-making while also generating a modest return on investment. PRIs come in the following forms of financing:

- Interest-free or below-market-rate loans to a nonprofit organization
- Purchase of a promissory note of a nonprofit organization
- Purchase of a participation in loan to a nonprofit organization
- Low-interest-rate deposit with a bank or other financial institution linked to lending for a charitable purpose
- Equity investment in a for-profit entity

The primary purpose of these investments must be to accomplish charitable or other tax-exempt purposes, excluding political lobbying efforts. The Gates Foundation and F.B. Huron Foundation are pioneers in making PRIs.

Investment Firms

Investment firms are often thought of as institutions whose sole purpose is to maximize profits for their clients. With the advent of donor-advised funds (DAF), investment firms such as Vanguard, Charles Schwab, Fidelity and others, in addition to community foundations, provide their clients an investment vehicle to make charitable contributions. These funds are becoming increasingly popular because they give individuals immediate tax benefits for future charitable

“In 2009, our organization was all set to break ground on the first grocery store to be located in Pagedale, Mo., an inner-ring suburb of St. Louis that was incorporated in 1965. The financing package included a mix of New Markets Tax Credit equity, grants and private as well as public loans. Just before the deal was about to close, we learned that \$1.2 million in funding from the Department of Housing and Urban Development (HUD) would be delayed, putting the project in jeopardy due to a tight timeline that needed to be met. Given that our work requires us to constantly adapt, we were in a good position to successfully plug the financing gap—which we did with a loan made by IFF, a community development financial institution (CDFI). As a result, the residents of Pagedale, about 30 percent of whom live below the poverty level, no longer have to travel outside their community to obtain fresh meat and produce.”

- **Chris Krehmeyer**
President and CEO
Beyond Housing
St. Louis, Mo.

“A suboptimal housing stock created a need to increase the quality of housing for seniors in Ozark, Ark. Our company planned to rehab a 45-unit affordable housing development for seniors in this small town. After finalizing the renovation plans and lining up the operational and financial partners, we were set to close on financing and begin renovations. Shortly before closing, we realized a Mortgage Settlement Funds loan awarded by the Arkansas Development Finance Authority as part of the financing package—which also consisted of low-income housing tax credit equity and owner equity—could no longer be included. The USDA Rural Development loan that was to be assumed had requirements prohibiting the inclusion of any additional hard debt under our particular scenario. Our ability to adapt to the situation was critical to our success in filling the \$450,000 gap. By reducing project costs, deferring our own fees and renegotiating the tax credit price with our investor—IBC Bank—we were able to plug the financing gap. As a result, seniors living in Ozark now have more opportunities to live in high-quality, affordable housing.”

- **Shawn Smith**

President

Belmont Development Co. LLC

Oklahoma City, Okla.

contributions. In addition to securing billions of dollars in charitable contributions, investment firms are also looking at ways their institutions can leverage this investment vehicle. One example of how an investment firm has worked with their clients to further community development involves Charles Schwab and the Grameen Foundation. Schwab has used DAF assets as a guarantee to secure cheaper debt financing for Grameen, which focuses on microfinance opportunities for LMI populations in several countries, including the U.S.

Individuals via Crowdfunding

Given the advent of online crowdfunding (also referred to as peer-to-peer platforms), individuals are playing an increasingly important role in community development finance. A host of websites now make it easy to understand the opportunities to finance community development initiatives and what the particular capital needs might be, whether that is debt, equity or credit enhancements (grants, loan guarantees, etc.). Some of the more commonly used platforms that individuals can use to specifically fund community development initiatives include Kiva Zip, Causes and ioby. (For more on crowdfunding, search “ioby” on FedCommunities.org.)

Equity

You might be familiar with private equity firms that invest in startup companies like Pandora, Twitter, Tesla and a host of others. Since 1986, the same idea has been applied to the social sector as well in the form of tax credit investments. The idea behind tax credits is that developers sell them to individuals or corporations that have a tax liability; in return, the buyer receives an equity stake in the real estate development.

Both individuals and corporations have invested in thousands of community development projects throughout the country. As co-owners, these investors tend to take a more active role in the operations of the project than do lenders. Typically,

investors remain owners in community development projects during the time in which tax credits are at risk, meaning that if a project falls out of compliance (e.g., approving an ineligible person to live in an affordable housing development), the tax credits are not eligible for redemption by the investor. Once the tax credit compliance period ends, ownership interest in the real estate development is typically sold or donated to the co-owner of the development or a third-party investor. The following illustrate two of the more popular tax credit vehicles in which investors have an equity stake in community development initiatives.

Low Income Housing Tax Credit (LIHTC)

This national tax credit program, which passed in 1986 and provides nearly \$1 billion per year to affordable housing developers, is overseen at the national level by the IRS and administered locally by state housing finance agencies. Tax credits are awarded to states based on population. In 2015, the federal LIHTC was equal to \$2.30 for every resident in a given state. Housing developers who plan on building or rehabbing affordable rental housing units, which have to maintain affordable rents for at least 15 years, apply to a state housing finance agency for credits. If awarded, developers will sell the credits to an investor to raise funds for the construction/rehab of affordable rental housing units. Investors fall into two categories—direct investors and syndicators. Direct investors are typically entities that have 1) a tax liability, 2) a CRA need and 3) capacity to source and underwrite affordable housing investment opportunities. Syndicators play a role similar to that of a CDFI, sourcing and underwriting affordable housing investment opportunities as well as raising capital from investors.

In addition to the federal credit, some states (16 as of 2015) have passed their own tax credit to complement the federal credit. This provides additional subsidy for an affordable rental housing project. The LIHTC compliance period is 15 years, at which point ownership interest is often given to the co-owner and developer of the project, generally referred to as the General Partner.

Who are the major investors of LIHTC in your area? Unfortunately, the IRS does not maintain a comprehensive listing of equity investors per MSA, state or region. However, it would be worthwhile to contact your state housing finance agency to get this information.

New Markets Tax Credit (NMTC)

Signed into law in 2000, the NMTC program, administered by the U.S. Department of the Treasury (Treasury), finances real estate development in LMI communities. Unlike LIHTC, which finances residential real estate development, NMTC finances commercial real estate development. NMTCs are allocated on a competitive basis to community development entities (CDE), which are intermediaries designed to aggregate funding for community development

initiatives. All CDEs are certified by Treasury. Since the program's inception, more than \$40 billion in tax credits have been allocated to CDEs, which has supported the construction of charter schools, community health centers, child care centers, grocery stores and more. The NMTC compliance period is seven years. You can find more information about CDEs, including eligibility and benefits of certification, as well as information on New Markets Tax Credits, on the U.S. Treasury's [CDFI Fund](#) website.

Grants

While debt and equity capital are important finance tools for any community development practitioner, the life blood for any nonprofit is grants. In 2014, an estimated \$358 billion was donated to charity. There are four primary sources of philanthropic giving:

- Individuals
- Corporations
- Foundations
- Bequests

It is important to remember that individuals provide substantially more funding to charity than corporations and foundations. Of the total amount given to social causes, just over 70 percent comes from individuals.

For more information on grants and philanthropy, check out the following resources:

- [The Foundation Center](#)
- [Giving USA](#)

Minimizing Risk through Credit Enhancements

In order to offset the inherent risks associated with LMI areas, credit enhancements are often necessary to spur investment. Credit enhancements take many forms, including loan guarantees (as we saw in the previous Charles Schwab example), letters of credit provided by a financial institution, property tax abatements that make it easier for debt service payments to be made, and more. These are examples of reducing or minimizing a community development project's financial risk. There's also operational risk. The best way to minimize that risk is to work with partners with strong track records of success. Often, this includes working with partners who have a history of using data to continually inform decisions while also possessing the ability to adapt and adjust tactics when necessary.

Emerging Approaches in Community Development

Until recently, the focus in community development has been on real estate development. This is largely because the financing vehicles for real estate have been well established as there are clearly identifiable sources of income by which a loan, for example, can be repaid. As a result, we have seen many units of affordable rental housing built, commercial enterprises located in historic buildings in LMI areas renovated, community health centers built and so on. A shift is taking place in the minds of community development funders who are creating vehicles to target capital (other than grants) toward “human capital” community development initiatives. In other words, how can more funding be invested in people instead of just buildings? Until very recently, there was no vehicle to invest in or lend to human capital projects. This is changing with the advent of social impact bonds (SIBs or Pay for Success), which are part of a larger movement to not only invest in people but to specifically invest in interventions that have been proven, through rigorous evaluations, to have positive social impact. The assumption behind SIBs is that certain societal challenges cost the government much more than what it would cost to provide services for prevention or early intervention. For more information on SIBs/Pay for Success, visit Nonprofit Finance Fund's [Pay for Success Learning Hub](#).

In addition to SIBs/Pay for Success, we are likely to see a continuing trend of collaboration among organizations, in some cases working across sectors. This is due to a number of factors, such as the federal government strongly encouraging or requiring collaboration as part of the procurement process. Two examples of this are the Promise Neighborhoods Initiative, administered by the U.S. Department of Education, and Choice Neighborhoods, administered by

the U.S. Department of Housing and Urban Development. These efforts bring together a variety of social service providers, administrators in K-12 and higher education, real estate developers, hospitals and others to undertake comprehensive community development. Like the federal government, many philanthropic funders are either encouraging or requiring organizations to collaborate on various initiatives. Examples of philanthropic-led collaborations that have spread across the country include **StriveTogether** and **Ready by 21**.

As organizations collaborate, we will likely see changes to traditional financing, which has almost exclusively been sourced through personal relationships developed between nonprofit developers and lenders, investors and government agencies. With the passage of the Jobs Act of 2012, the limitations on crowdfunding as an equity investment were reduced. As a result, we will probably see the continuing emergence of online platforms that match community development projects with the needed funding (debt, equity, credit enhancements). **CapNexus** is an example of this particular platform; there are likely to be several more in the future that serve as clearinghouses for matching community development investment with opportunity.

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Summing it Up

Source, Layer and Adapt

Coming up with the money isn't always a straightforward process. While funding sources to support community development initiatives can be found at the local, state and federal levels, it often takes a combination of several types of funding to fully capitalize a project, and the sources are not always immediately apparent. Further complicating the process, funding sources tend to be in constant flux. As a result, it is not only necessary to be resilient and determined to successfully complete your project, it is also critical to adapt to the circumstances as necessary. Adaptability, therefore, is a key core principle, and becomes especially important as we understand that the sources of funding that successfully capitalized one initiative are likely to be different from those that capitalize the next project.



UNIT 4

Project

A Look at Two Successful Community Development Efforts

As we've seen throughout this guide, building strong communities and launching new initiatives takes, well, a village. Behind every successful community development project we see today likely stands a vast number of partnerships and layers of investments—both personal and financial—often from a number of community sources. Community organizations, funders, local and regional government, academics, philanthropists and more are working strategically and collaboratively to identify and meet the needs of their communities. What makes community development initiatives successful? Building the right team, including community stakeholders, leaders and collaborators. Using evaluation and data to develop your funding plan. And *remaining flexible and adaptable* when your process is challenged.

Want inspiration? Check out the brief case studies that follow, where you'll learn firsthand about two community development initiatives that are making a difference in their communities. We hope you'll find each story and short video informative so you, too, will be inspired to come up with the money for your next project.

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Kelly Garrett
EXECUTIVE DIRECTOR
KIPP: ST. LOUIS

Community Collaboration Spurs KIPP: St. Louis

A grassroots effort to find alternatives for high-quality education in St. Louis led to the 2009 opening of KIPP Inspire Academy, a charter middle-school in St. Louis. KIPP (Knowledge Is Power Program) is a national network of free, open-enrollment college-preparatory public charter schools with a track record of preparing underserved students in communities.

Executive Director Kelly Garrett shares that it was the local business community that initiated the launch of KIPP in St. Louis. Describing what he calls “an extraordinary amount of community investment from the very beginning,” Garrett shares how a team of business and community leaders, along with an academic sponsor, formed a leadership board appropriately called SUTAK—St. Louisans United to Attract KIPP. Committed to raise both the interest and capital needed to bring the proven model to town, SUTAK garnered community support, selected a school site and served on the inaugural KIPP St. Louis Board.

Garrett credits one of KIPP’s five pillars—the power to lead—as one of the key components of its success, both for its high-performing schools and KIPP regions alike. Leadership is also critical for getting people to invest in the KIPP model, he says. “We are very careful to talk about investing in KIPP: St. Louis.... We do expect that there will be a significant return on investment for the monies that are contributed.”

Learn more about KIPP: St. Louis, the role of business and community leaders in launching this initiative, and how it defines and measures success, in a brief video, available at stlouisfed.org/CD/KIPPvideo.

Memphis Organization Lifts Voices of Community

In late 2008-09, two of Memphis' largest foundations and the area's community development corporation (CDC) industry created a comprehensive public/private strategy to address community deterioration, poverty and often disjointed approaches to problem-solving. The resulting plan created a local economic and community development intermediary to work with institutions—the government, philanthropic and faith-based communities—as well as business owners and residents to channel resources and build capacity. That intermediary, Community LIFT (Leveraging Investments for Transformation), along with its CDFI affiliate, River City Capital Investment, seeks to convert Memphis' geography of poverty to a “geography of opportunity.” Eric Robertson is president of both organizations.

The very nature of Community LIFT as an intermediary conveys the importance of partnerships, Robertson says. The organization builds relationships with key leaders and ensures that neighborhood coalitions “lift up the voices of the community.” He gives an important nod to the leadership roles of the city's mayor and convening roles of the local Reserve Bank and FDIC in the formation and support of the organization's work.

Data and an evidence-based decision-making approach drive investment and lending decisions, specifically around market conditions and identifying neighborhood assets and opportunities. But coming up with the money hasn't been fast or easy: Robertson hints at challenges during which the Community LIFT board and its partners needed to be persistent. “We knew we could not stop short until we reached our goal of seeding the fund and getting it launched.”

Listen to an interview with Robertson on the work of Community LIFT at stlouisfed.org/CD/LIFTvideo.



Eric Robertson
PRESIDENT
Community LIFT
and River City Capital Investment

Coming up with the Money: Five Principles for Launching a Successful Community Development Initiative is produced by the Community Development department of the Federal Reserve Bank of St. Louis. This guide serves as an introductory resource to community development finance and provides a framework for working across multiple sectors, including funding, nonprofit, legislative, academic and more.

To learn more about community development initiatives and programming in the Eighth Federal Reserve District, visit our website at stlouisfed.org/community-development. For community development resources across the entire Federal Reserve System, including all 12 Federal Reserve Banks and the Federal Reserve Board of Governors, visit www.fedcommunities.org.

stlouisfed.org/community-development

