

Community Development System

EVOLUTION OF COMMUNITY DEVELOPMENT POLICY

Since the late 19th century Americans have attempted to revitalize urban neighborhoods, but not until the 1950s, with the passage of the federal housing acts of 1949 and 1954, did community development become part of the nation's public policy. The chief instruments of urban redevelopment were the urban renewal and public housing programs. Urban renewal encompassed taking the sites of blighted or slum buildings and developing new structures on them; the public housing program built and maintained homes for low-income households that were usually in the form of apartment buildings. The organization of the two programs was somewhat similar. The funding that made them viable came from the national government in Washington, DC. The administration of both was top-down: The federal government imposed requirements on local authorities for the way they spent its money. These local authorities, in turn, dictated to residents how the programs would be carried out (exceptions to this procedure occurred in public housing when middle- and working-class people, usually white, opposed the siting of public housing projects in their neighborhoods) (Halpern 1995).

During the 1960s the urban renewal and public housing programs that were supposed to revitalize declining U.S. cities came under increasing criticism. The postwar urban renewal program created glittery downtown projects, but critics from the political left and the right attacked it for giving valuable land and tax breaks to private real estate developers and uprooting tens of thousands of poor and working-class city dwellers in the name of slum clearance. Large urban public housing projects, beset by the rising number of crimes and falling revenues, began to deteriorate. The demolition in 1973 of Pruitt-Igoe, a massive high-rise housing project in St. Louis, symbolized the despair that surrounded the public housing program.

Inspired by the civil rights movement and the community organizing field, the Great Society programs devised in the 1960s were more decentralized and democratic than their predecessors. President Lyndon Johnson's War on Poverty provided funds to many programs that were carried out in local communities, including Head Start, Upward Bound, legal aid, and community health centers. It also created local community action agencies, which prescribed "maximum feasible participation" of poor people to encourage them to take a role in determining policies and programs that affected them. The Model Cities program was originally conceived as an experiment to be carried out in a few cities in which social service agencies, government departments, and institutions such as schools would coordinate their efforts and invent new ways to improve troubled neighborhoods and lift their residents out of poverty (Haar 1975).

By the 1970s many of the Great Society government programs for aiding low-income, urban neighborhoods had come under attack. The helter-skelter quality of the War on

Poverty provided many targets for critics. The community action program proved especially controversial; activists interpreted it as a call to organize low-income neighborhood residents to fight local political leaders. The Model Cities program was never executed as originally planned; it was spread over many more cities and lacked the means to foster the interinstitutional coordination on which it depended.

At the same time, inspired by the grassroots political vision of the 1960s, residents of inner-city neighborhoods formed organizations to protect their neighborhoods from deterioration, urban renewal schemes, or an influx of affluent newcomers whose arrival could price them out of their homes. Out of many of these groups emerged CDCs whose aim was to improve local economic and social conditions through economic development projects. Unlike some community action groups spawned by the War on Poverty, most CDCs took a nonadversarial approach to their relationships with local governments and businesses. Foundations and governments began to underwrite the CDCs. The Ford Foundation, for example, provided technical and financial assistance to organizations such as the Bedford-Stuyvesant Restoration Corporation, a Brooklyn group founded with help from Robert Kennedy; the Watts Labor Community Action Committee in Los Angeles; and the South East Community Organization in Baltimore. Although at first housing advocates and community organizers viewed CDCs with suspicion, during the 1980s, CDCs improved their ability to carry out programs—especially related to housing—and came to be accepted as responsible agents for social programs (Ackerson, Sharf, and Hager 1970; Berndt 1977; Garn, Tevis, and Snead 1976; Urban Planning Aid 1973).

A shift in the federal government's urban policy played a crucial role in encouraging CDCs. Starting in the 1970s the federal government stopped promoting centrally administered programs and adopted programs that delivered funds to other administrative bodies. Passed as a part of President Richard Nixon's new federalism policy, the Housing and Community Development Act of 1974 replaced categorical programs such as urban renewal and model cities with community development block grants (CDBGs), which gave considerable discretion to local governments to administer the resources as they saw fit. Some municipalities found it more convenient to let CDCs rather than their own agencies carry out redevelopment schemes. In 1977 the Urban Development Action Grant (UDAG) program, established by the administration of Jimmy Carter, made more federal funds available to local governments, and through them CDCs, to help areas in extreme economic distress (Hays 1995).

City, state, and federal government departments began to support the social service and housing projects of the community groups by distributing funds through programs such as CDBG and UDAG. Ironically, the drastic cuts in domestic social spending under President Ronald Reagan may have energized supporters of nonprofit community development projects to seek out additional local and private support.

During the 1980s and 1990s the amount of money and technical expertise available to CDCs increased dramatically (Vidal 1996). Of crucial importance was the emergence (described in detail below) of the national financial intermediaries—the quasi-governmental agency NRC and the two private, nonprofit organizations LISC and The Enterprise Foundation. The intermediaries provided the staffs of community groups with funds and

training to help them carry out projects and manage their increasingly complex organizations. The private intermediaries developed and expanded systematic methods of raising funds from foundations and corporations, including creating subsidiary organizations that pooled and sold community development loans and offered equity partnerships in housing development projects. A primary goal of the intermediaries was to increase CDCs' ability to carry out more and larger projects, which entailed imparting professional skills to CDCs' staff members. Through these professional development activities, the intermediaries unintentionally helped to create a career track in community development that could lead from a CDC job to a program director position at an intermediary or foundation.

In the cities where they thrived, CDCs received funds to pay for core operating expenses, such as rent, salaries, supplies, and equipment, from government agencies, foundations, intermediaries, or a combination of some or all of the above. State and local government agencies played a very important part. In Massachusetts, for example, the state government created the Community Enterprise Economic Development Program, which in the early 1980s provided financial assistance to more than 50 CDCs for administrative purposes (Bratt 1989). A survey of 124 cities and 48 states showed that about 60 percent of the cities provided operating support—primarily from CDBG funds—and just under half the states distributed administrative support from state appropriations, bonds, and housing trust funds (Goetz 1993).

Buttressed by increasing support, the number of CDCs increased, and as that growth took place, CDCs shifted their approach to community development. In the early years, when the community groups were often called economic development corporations, they sought to reverse the problems of low-income neighborhoods by reversing industrial and economic decline. The community groups started new businesses and invested in existing firms in the hope of creating new jobs and stimulating further investments. Many of the ventures that CDCs sponsored or undertook in the late 1970s and early 1980s failed, however, and CDCs increasingly moved away from business activity and toward real estate development, focusing particularly on housing for people of modest income (Vidal, Howitt, and Foster 1986). New housing developments, the reasoning went, would improve the tenor of neighborhood life and thereby help attract economic investment. Perhaps just as important, real estate development was more predictable, easier to finance, and generally more successful than business enterprise.

Federal policies in the 1980s and 1990s provided a powerful motive for pursuing real estate development. The increased enforcement and observance of the Community Reinvestment Act (CRA), for example, made more moneys available for housing development in low-income neighborhoods. Congress passed CRA in 1977 to combat the banking practice of "redlining"—denying loan applications, particularly mortgage loans, to inner-city residents. CRA gave federal regulators authority to examine the records of financial institutions in regard to lending in low- and moderate-income neighborhoods and to take these records into account when considering applications for new branches, federal charters, deposit insurance, or mergers. The law had relatively little effect for several years until community advocacy groups and federal regulators—assisted in the late 1980s and early 1990s by a spate of newspaper articles, government reports, and new specific mortgage lending data—put pressure on financial institutions to increase the number of loans in

low- and moderate-income neighborhoods (Evanoff and Siegal 1996). Bank officers became willing—and even eager in cases in which they felt government CRA regulators might prevent them from engaging in bank mergers—to finance the kind of housing development projects that CDCs carried out (Belsky, Lambert, and von Hoffman 2000). By 1997 banks had negotiated with advocacy groups and voluntarily entered into more than 300 agreements to lend and invest \$353 billion in low- and moderate-income communities (Schwartz 1998).

The federal tax reform law of 1986 gave CDCs another rich source of funds for housing development. In place of the rapid depreciation tax shelter that had encouraged individuals in high income tax brackets to invest in low-income housing rehabilitation projects, the 1986 law created the Low-Income Housing Tax Credit. The tax credit allows developers to reduce their federal tax liability for 10 years by investing in a newly constructed or rehabilitated low-income rental housing project (Hays 1995; Jacobs et al. 1986). The law requires the developer to ensure for a period of 15 to 30 years that (1) at least 20 percent of the units have limited rents (determined by the U.S. Department of Housing and Urban Development [HUD]) and are occupied by tenants whose incomes are 50 percent or less of the metropolitan area median gross income or (2) at least 40 percent of the units have restricted rent levels and are occupied by tenants with incomes 60 percent or less of the area median income (Cummings and DiPasquale 1998).

Since the law's passage the federal government has allocated tax credits to state governments on a per capita basis, and state agencies in turn have distributed the tax credits to housing developers. The developers could claim the tax credits for themselves, but usually have sold them to investors for cash to place immediately into the project. (As nonprofit organizations exempt from income taxes, CDCs always sell their tax credits.) Frequently syndicators act as brokers between developer and investor, typically pooling several projects into a single tax-credit equity fund, then marketing the credits to investors who invest in the fund. Soon after the creation of the Low-Income Housing Tax Credit, LISC and The Enterprise Foundation formed syndication corporations, each of which by 1998 had raised \$2 billion in equity for CDC and other nonprofit housing developers (Cummings and DiPasquale 1998).

From 1987 to 1996 approximately 600,000 units of low-income housing were built using financing raised through tax credits. Nonprofit organizations, either by themselves or with for-profit partners, developed about 30 percent of the Low-Income Housing Tax Credit housing projects, and the great majority of these nonprofit projects and units were located in central cities (Cummings and DiPasquale 1998). Although the Low-Income Housing Tax Credit has become the principal federal subsidy for the development of low-income housing, at times it has posed problems for CDCs. According to one study (Cummings and DiPasquale 1998), nonprofit developers incur higher development costs than do for-profit developers, and this may be the result of the complex financing packages they must arrange (Walker 1993). In the second and third case studies in this report, the limited number of tax credit allocations and the requirements of the law hindered CDCs from carrying out their projects efficiently.

In 1990 Congress passed the Low-Income Housing Preservation and Resident Homeownership Act, which made more moneys available for developing housing. The law established the HOME program, which appropriated funds in the form of block grants to local governments for tenant-based rental assistance and the acquisition, rehabilitation, and new construction of rental dwelling units. The HOME program targeted low-income families by specifying that the projects must serve households with incomes below 60 percent of the median income in an area, with the additional proviso that 20 percent of units be occupied by very low income tenants who pay either 30 percent of their incomes or the restricted rents allowed under the Low-Income Housing Tax Credit program. Reflecting the growing recognition of CDCs in the nation's housing policy, the HOME program required that 15 percent of the allotments for housing development be distributed to nonprofit community housing development organizations (U.S. Public Law 101-625).

CDCs IN THE 1990s

During the 1990s the community development system grew into a prominent and complex part of the nation's public policy. CDCs proliferated, the range of their activities widened, and they increasingly attracted people with expertise to work for them. The national press celebrated the accomplishments of community development, and in 1997 President Clinton visited the South Bronx, perhaps the best known example of an inner-city area revitalized through community development, and praised it as a model for the nation (Yardley 1997).

According to a survey conducted for the National Congress for Community Economic Development (NCCED), by 1998 the number of CDCs had grown to 3,600, a figure 64 percent higher than that of four years earlier and about twice as large as a decade before (NCCED 1989; Steinbach 1995, 1999). Although a few of the better-known CDCs, such as the New Community Corporation in Newark, are impressively large, most CDCs are still small organizations. In Vidal's sample of 130 CDCs, for example, the median group employed a full-time staff of 7 people (5 professionals and 2 clerical workers), and the average staff size was 19. The median total annual budget of these organizations was just over \$700,000, and the average was about \$2.4 million. Vidal's sample, moreover, was skewed toward larger organizations and budgets (Vidal 1992). The 1998 NCCED survey found that the median staff size of the organizations was 6 (Steinbach 1999).

The great majority of CDCs aim to serve residents of geographically defined territories, although a minority of CDCs (perhaps 15 percent) serve a particular population group such as Mexican Americans, women, or the elderly. Most CDCs are located in urban neighborhoods, although recently CDCs have also been organized in rural areas. Some CDCs operate within a small territory, sometimes only a few blocks; larger CDCs act on behalf of several neighborhoods or even an entire city (Steinbach 1999; Vidal 1992).

By far the most important activity undertaken by CDCs has been the development of low-income housing. Community development advocates assert that well-built, well-managed housing raises the morale and aspirations of residents and their neighbors and encourages others to invest in depressed neighborhoods (von Hoffman 1997c). The staff of almost 90 percent of the CDCs Vidal (1992) surveyed reported that they developed housing and

considered it an activity of major importance. More than 80 percent of CDCs responding to the 1998 NCCED survey reported having developed housing. The community groups have produced an ever-increasing number of housing units per year—more than 20,000 units of housing in the late 1980s, about 40,000 dwelling units in the early 1990s, and more than 60,000 units between 1994 and 1997. With 42 percent of all CDC housing development, the northeastern region is the most productive area; the rest of CDC housing is about evenly divided between the south, north central, and west regions (NCCED 1989; Steinbach 1995, 1999).

CDCs develop homes in a number of ways, most frequently through rehabilitation of existing dwellings and construction of new ones. About 70 percent of the CDCs responding to the 1998 NCCED survey engaged in major rehabilitation projects (costing more than \$10,000 per unit) that added to the available low-income housing stock. Another 35 percent carried out home repair projects (that cost less than \$10,000 per unit), usually on occupied dwellings. Almost 60 percent of responding CDCs reported that they built completely new homes. The NCCED survey found that new construction or substantially rehabilitated units made up 79 percent of the total 550,000 units that CDCs reported having built. (Two of the three case studies presented involve the complete or “gut” rehabilitation of apartment buildings; the other describes a new construction project.) In addition, a majority of CDCs—60 percent in the NCCED survey—acquired existing housing (Steinbach 1999; see also Vidal 1992).

Most CDCs develop rental apartments—partly because of the need that low-income families have for them and partly because funds for their development are available through government programs such as the Low-Income Housing Tax Credit. CDCs have also built and helped households purchase single-family houses. About 60 percent of CDCs in the 1998 survey reported counseling prospective home buyers, and about 40 percent of the CDCs provided financing for home purchases (Steinbach 1999).

Well over half of CDCs manage the rental units they produce; the rest hire a private or nonprofit firm to manage their apartments for them. Like many of the nation’s large public housing authorities, CDCs have found that managing the assets they have produced can be a knotty problem. Too many vacant apartments or tardy rents can undercut the ability to maintain a property adequately. The original financing of a project may not have established an adequate capital reserve to cover repairs, improvements, and unforeseen income or revenue problems. When those types of problems occur, the project’s cash flow becomes negative and the CDC owner is forced to look elsewhere to make up the difference before the project defaults (Bratt et al. 1995). The last of the three case studies presented highlights the difficulties a CDC can encounter in property management.

Although economic development was integral to the original concept of community development, in the 1980s most CDCs shied away from business enterprises (Vidal, Howitt, and Foster 1986). In recent years, however, CDCs have returned to economic development, but more frequently as small-business lenders or providers of technical assistance rather than proprietors of businesses unrelated to housing development and management. By the late 1990s about 30 percent of CDCs had begun to develop industrial parks, offices, and retail space (Steinbach 1999).

Perhaps half of all CDCs have served the residents of their communities through various kinds of service and community activities. These include employment training, tutoring and related youth projects, anticrime programs, and social services such as child care and drug treatment and prevention (Steinbach 1999; Vidal 1992). A few of the larger CDCs sponsor or helped start health clinics. Two leading groups in the South Bronx, the Mid-Bronx Desperadoes and Banana Kelly Improvement Association, run a large number of social programs including job training programs, health clinics, baseball little leagues, and family counselors. The New Community Corporation operates a chain of child care centers across the city of Newark. A small number of CDCs, such as Boston's Urban Edge, send community organizers to mobilize local residents, but most function as real estate developers and service providers.

CDC ORGANIZATIONAL STRUCTURE

Although CDCs serve local communities, they are not purely indigenous and democratic institutions. Instead, they are organizations dominated by technical experts and local elites. CDCs offer opportunities for local residents to participate in making decisions, but these opportunities are limited.

Typically, CDCs adopt a corporate structure that includes a board of directors, which is supposed to hire staff and set the policy priorities for the organization. Boards are made up partly or completely of residents of the CDCs' neighborhoods, but often the boards include representatives of other community organizations, neighborhood clergy, local bankers, or businesspeople. Sometimes local government officials and representatives of funding organizations from outside the CDC neighborhood also serve on CDC boards. The opportunities for ordinary residents of a neighborhood to serve on a CDC board, however, vary considerably; in general, local leaders are likely to have more say than other residents in the CDC's affairs. Furthermore, although most boards of directors set policies and hire employees, frequently the CDC's staff, expert consultants, and funding organizations influence its decisions (Briggs, Mueller, and Sullivan 1997; Gittell, Gross, and Newman 1994; Vidal 1992).

In CDCs, as in many kinds of organizations, the officers, especially the executive director, run the organization as well as shape, and sometimes even dictate, policy. The CDC officers' ability to influence policy flows from the great responsibilities they have in the organization. CDC officers must acquire funds for their organization by maneuvering through a thicket of government and philanthropic agencies, guide real estate development projects to fruition, supervise the management of the organization's properties, and, of course, manage the office.

The high level of expertise and education required of the top CDC professionals separates them in certain respects from the low-income residents whom they serve. Often, officers of CDCs have not been raised or do not reside in the impoverished CDC neighborhoods in which they work. Nonetheless, Vidal's study (1992) indicates that African Americans, Hispanics, and, to a lesser extent, women are well represented among the senior staff of CDCs—in greater proportions than those groups are in the professional and managerial class and in the same proportions as in the poverty population. The study also found that

the race and ethnicity of CDC executive directors matched that of the CDCs' area populations in a majority of cases.

SOURCES OF COMMUNITY DEVELOPMENT FUNDS

The principal reason the community development field has flourished is the growing availability of funds. These funds come from diverse and sundry institutions, each of which has its own criteria and processes for distributing funds. A CDC can easily tap a dozen or more sources of financing for a low-income housing development. Obtaining funds continues to be a complex and time-consuming process that if extended for too long threatens the viability of a project (Vidal 1992; von Hoffman 1997a; Zdenek 1990).

Although often community development is thought of as an alternative to governmental programs, government has been the major source of money for CDCs. Vidal (1992) found, for example, that more than 50 percent of the unearned income of CDCs in her sample was received from federal, state, and local governments. As mentioned previously, the federal government carries out a number of programs (e.g., the Low-Income Housing Tax Credit and HOME) that provide development funds to CDCs. City governments' community development departments have supported CDCs' activities by channeling funds from federal CDBGs, by making low-interest loans to housing developers and home buyers, and by giving land or property that has come into the government's hands. In addition, state governments' housing finance agencies distribute loans and grants. The NCCED survey gives an idea of the relative importance of the different levels of government to CDCs; of CDCs receiving more than \$50,000 in grants, investments, or loans in 1998, 90 percent received their financial aid from the federal government, 46 percent from state governments, and 31 percent from local governments (Steinbach 1999).

In addition, private commercial lenders, especially banks, have furnished loans to CDCs for their real estate projects. Some banks have made these loans to meet the requirements of CRA for lending in local low- and moderate-income communities or simply to make a profit on investments. Other banks, such as the South Shore Bank of Chicago, have made it a point to lend to community organizations out of a sense of social obligation to the greater society. Banks were a source of financing for about half of the CDCs that received more than \$50,000 in grants, investments, or loans in 1995 and 1998 (Peirce and Steinbach 1987; Steinbach 1999).

In the devolved administrative system of community development, philanthropic foundations provide a large share of income to CDCs—14 percent of CDCs' revenues in Vidal's sample (1992). From the early years of the community development movement, the Ford Foundation has taken an interest in community development. Many of the most prominent national philanthropies—including the Pew Charitable Trusts, the Annie E. Casey Foundation, the Rockefeller Foundation, the James D. and Catherine T. MacArthur Foundation, the Lilly Endowment, and the W. K. Kellogg Foundation—have given and lent money to CDCs, and so too have the philanthropic wings of corporations such as the Prudential Insurance Company and J. P. Morgan. Quasi-public enterprises, such as Freddie Mac, Fannie Mae, and its philanthropic offspring, the Fannie Mae Foundation, have also

contributed to community development programs. In addition, local philanthropic foundations, such as the Boston Foundation, have supported CDCs. Almost half of CDCs that received large amounts of financing in 1995 and 1998 obtained funds from foundations (Steinbach 1999).

During the 1990s supporters of community development organized a powerful funding drive, the National Community Development Initiative (NCDI), to strengthen support systems for community development programs. From 1991 to 1994 the collaboration of seven foundations and a corporation pooled \$62.5 million in funds, which The Enterprise Foundation and LISC distributed in the form of low-interest loans and grants to CDCs in 20 cities. In the second phase of fundraising from 1994 to 1997, NCDI—now including 11 foundations and HUD—pledged to raise \$88 million for community development efforts in 23 cities. NCDI funds were used to attract additional local funds so that the first and second phases yielded an impressive sum of \$1.4 billion. The foundations (now numbering 15) and government agencies composing the NCDI coalition committed to continue working together to finance community development at least until 2001 (NCDI 2000).

Consortiums of private and public institutions have been organized in several cities to match private and public capital and coordinate a low-income housing campaign with the state and city governments. David Rockefeller, then an officer of the Chase Manhattan Bank, first introduced the idea of such “housing partnerships” in New York City in 1982. One of the best known and most accomplished is the Metropolitan Boston Housing Partnership, a nonprofit organization whose members include representatives of banks, insurance companies, utilities, the City of Boston, the Massachusetts Housing Finance Agency, universities, and local nonprofit community development organizations. After conducting several large-scale housing programs across the city of Boston, the partnership has shifted from housing development to housing management (Orlebeke 1997; Vidal 1992). One of the nation’s oldest housing organizations is ACTION-Housing in Pittsburgh, which has developed or improved 25,000 units of affordable housing in its 45-year history.

Finding a source for funds to cover operating expenses, in particular, salaries for staff and the costs of running an office, is a crucial and not easily solved problem for CDCs. Generally, the funding CDCs receive to carry out projects such as the development of low-income housing is restricted for use on those projects only. In general, the projects have a low profit margin. In addition, the program officers of intermediaries and foundations prefer to make loans, rather than grants, to CDCs. This forces the CDC staff to look for other ways to pay for operating expenses. Some groups can charge fees for their development and management services, and the fees can then be used for their overhead costs; others earn income through for-profit subsidiary companies. Sometimes running a social service or other kind of government program will provide some income that can be used to pay overhead. Most of the unearned income that CDCs receive comes from governments and foundations, but often CDCs need to apply to more than one program to keep their organization running (Vidal 1992).

One result of the difficulties in acquiring moneys for operating expenses is that CDC staff salaries tend to be low. The median salary of the executive directors of 94 CDCs sampled by Vidal (1992) was \$37,000; the mean salary was \$40,000. Salaries for professional staff

below the level of executive director are significantly lower. (The median salary of the second-highest paid professionals in the CDCs of Vidal's sample was \$30,900.) In addition, Vidal found that the salaries of executive directors do not vary much over time. CDCs attract dedicated individuals to fill their staff positions, but because of low salaries, have difficulty retaining them—which is the case in the Washington, DC, organization described in this report.

INTERMEDIARIES IN THE COMMUNITY DEVELOPMENT SYSTEM

The community development system has also produced a special kind of nonprofit philanthropic and banking organization known as a financial intermediary. Its primary function is to raise funds and distribute them in the form of loans and grants to local nonprofit housing and community development organizations.

The concept of the financial intermediary emerged during the late 1960s when the Ford Foundation and interested corporations devised the technique of the program-related investment. Established in the federal tax code in 1969, program-related investments allow organizations and companies to create a revolving fund for circulating recoverable loans to community development organizations (Liou and Stroh 1998).

As the federal government budgets for housing and urban development were slashed during the 1980s, financial intermediaries emerged as a mainstay of the community development system. Together with the development of intermediaries in some cities and regions, the growth of the three large national intermediaries, NRC, The Enterprise Foundation, and LISC, signaled the maturity of the community development system (Rasey 1993).

Although financial intermediaries furnish a relatively small share of direct contributions to CDC budgets, the national organizations play crucial roles in the community development system. They help raise substantial funds for projects by organizing business capital pools for rental housing projects and secondary markets for the sale of community development loans. Acting like a credit rating service, intermediaries monitor CDCs and their projects, giving philanthropies, corporations, and banks the confidence to invest in the CDCs with which the intermediaries do business. At the local level, intermediary field officers raise funds for community development from local businesses and foundations. At the national level, the intermediaries proclaim the achievements of CDCs to corporations, foundations, and political officials and lobby the federal government to enact and maintain programs, such as the Low-Income Housing Tax Credit, that aid community development (von Hoffman 1997a; Walker 1993). The intermediaries also have provided seed money in the form of grants or loans that enable CDCs to obtain other financing for their projects. Intermediaries will aid an organization directly, unlike most government grants, by providing technical expertise or giving funds so that CDCs can hire experts such as a project manager (who oversees a development project) or an accountant (Vidal, Howitt, and Foster 1986; Walker 1993).

NRC

NRC is the oldest of the national intermediaries. Its roots lie in the creation of Neighborhood Housing Services (NHS), the model of which was developed in Pittsburgh's Central Northside district during the 1960s and early 1970s. NHS organizations are locally funded nonprofits formed by neighborhood residents, private lenders, and local government departments to revitalize deteriorated areas, primarily or at least initially through the rehabilitation of houses by their owners. The government helps with systematic housing inspection and code enforcement, lenders make home-improvement loans under their usual terms, and NHS administers a revolving high-risk loan fund for owners who do not qualify for conventional financing.

Enthusiastic about the approach to neighborhood renewal taken in Pittsburgh, the Federal Home Loan Bank and HUD formed the Urban Reinvestment Task Force in 1974 to encourage the formation and viability of NHS organizations. The task force helped organize Neighborhood Housing Services of America to operate a secondary market for NHS high-risk loan funds and to provide technical assistance to the individual NHS organizations.

In 1978 with 60 NHS organizations operating around the country, Congress established NRC to make the task force into an independent entity to support and strengthen the NHS system (Urban Systems Research 1980). Not surprisingly, given its origins in the federal government, NRC has its national headquarters in Washington, DC.

By 1998, NRC and Neighborhood Housing Services of America served 184 affiliated NHS organizations (now called NeighborWorks), which are defined as partnerships of neighborhood residents, businesspeople, and local government officials. The revenues of NRC have grown steadily since its inception, reaching \$65.1 million in 1998. In the same year the corporation provided \$41.9 million in grants to its member organizations. In 1998 Neighborhood Housing Services of America originated 1,080 loans and purchased \$42.8 million worth of mortgages, a significant rise from the 1996 figures of 653 and \$17.7 million, respectively. In 1998, according to NRC calculations, the total investment in areas with NeighborWorks organizations climbed to \$819.3 million, up \$266 million from 1997 (NRC 1996, 1998).

NRC is distinguished from other intermediaries by its emphasis on strengthening its affiliated community development organizations. Unlike LISC and The Enterprise Foundation, whose financial aid and technical assistance are chiefly (although not always) linked to projects, NRC principally aims to spur the creation of and help increase the capabilities of NeighborWorks organizations. For that purpose, it requires organizations applying for affiliation to undergo a formal chartering procedure and program assessment. For established NeighborWorks groups, NRC provides program reviews, organizational assistance, and an array of practical training workshops and classes (NRC 1993, 1998).

The core work of NRC is to promote housing rehabilitation. In 1998 it helped finance the rehabilitation or production of 13,769 dwelling units, some of which were in multifamily buildings, but most of which were single-family houses. In addition, the affiliated organizations offer services such as home weatherizing and counseling of home buyers, home

insurance purchasers, and small business managers. Reflected in the change of name, NeighborWorks organizations also engage in nonhousing activities to help residents (food banks and leadership training) and to improve neighborhoods (clean-up drives and neighborhood festivals) (NRC 1996, 1998).

The Enterprise Foundation

The Enterprise Foundation was incorporated in 1981 and began operation in 1982. The real estate developer James Rouse and his wife Patricia started The Enterprise Foundation after their experiences in helping two women from a church in Washington, DC, salvage two badly run-down apartment buildings in the Adams-Morgan neighborhood. As part of this effort, Jubilee Housing was formed to renovate deteriorated properties and preserve housing for poor people in Adams-Morgan. Using grants from the Eli Lilly Foundation and HUD, Jubilee acquired and repaired six apartment buildings containing more than 200 units and inspired the Rouses to expand their work to a national scale.

Of the three large intermediaries, The Enterprise Foundation takes perhaps the most wide-ranging approach to the way it carries out its mission. Its fundamental goal is to revive neighborhoods and help low-income people by developing fit and affordable housing. It has its national headquarters in Columbia, MD, and works through a network of non-profit community-based organizations, which grew from 6 groups in 6 locations in 1982 to more than 1,500 groups in 550 locations in 1999. The Enterprise Foundation, however, works not only with nonprofit community groups, but also with municipal governments and local foundations, to research the necessity for low-income housing and, if needed, help develop it. Enterprise also establishes Neighborhood Development Centers—the first was established in Miami in 1985—to launch local housing developers. In 1991 The Enterprise Foundation began an extraordinary campaign to resurrect the Sandtown-Winchester neighborhood in Baltimore by working with residents in simultaneous efforts to produce housing, develop businesses, train and place those seeking work, establish health clinics, eradicate crime, and create college preparatory schools (Enterprise 1993, 1999; Liou and Stroh 1998).

Enterprise pursues its goals primarily through two types of programs. The first type consists of programs, sometimes experimental in nature, to help affiliated groups carry out their projects. The most successful of these have been practical tools such as *Cost Cuts*, a manual for building and repairing houses at the lowest possible cost, and Enterprise On-Line, a database of efficient practices and sample documents for community groups to use (Enterprise 1993, 1997; Liou and Stroh 1998).

The second type comprises programs carried out by Enterprise itself. The largest of these are equity and loan financing, which are offered by The Enterprise Foundation's subsidiaries, the Enterprise Social Investment Corporation and Enterprise Housing Financial Services. The foundation also gives grants to help organizations in the network start or expand their housing and community development activities. Among its services, Enterprise offers housing loans at below-market interest rates, predevelopment and acquisition financing, advice and training to help groups finance and develop projects and manage their properties and assets, and assistance with linking services to people in housing

developments. In an effort to transform communities in other ways besides improved housing, The Enterprise Foundation runs programs for crime prevention, collaborative problem solving, job training and placement, and child care (Enterprise 1993, 1999).

Since 1982 The Enterprise Foundation has contributed to the development of 107,000 new and renovated homes by distributing more than \$3 billion in loans, grants, and equity investments. Its employment program has placed 31,000 people in permanent, full-time jobs. Since 1991 the foundation has committed more than \$63 million in grants to 91 non-profit organizations (Enterprise 1999).

In 1999 Enterprise committed more than \$30 million in short-term loans, and its equity subsidiary raised \$390 million worth of equity to finance development of approximately 14,000 dwelling units. In 1999 Enterprise operated programs directly in 16 “concentration cities.” That year it provided training and job placement services for more than 1,500 individuals (Enterprise 1999).

LISC

Unlike the other two intermediaries, whose initial goal was housing production, LISC from the start was committed to a broad concept of community development. In the late 1970s Mitchell Sviridoff, a vice president of the Ford Foundation, became convinced that locally based, nonprofit community development corporations could become a catalyst for the economic and social revival of U.S. inner-city neighborhoods if they learned to operate efficiently and expand the number and scope of their projects. If the CDCs received a limited amount of technical and financial assistance, he believed, they could execute larger and more complex housing, commercial development, and human service projects. Sviridoff liked the idea of funding projects, rather than the organizations, because the investment resulted in tangible results and the process enlarged the local organizations’ capacity to take on new enterprises. Mindful of the pitfalls posed by the community action program, Sviridoff preferred groups that collaborated with, rather than confronted, local political leaders (Sviridoff 1979).

In 1980 Sviridoff obtained a grant of \$9.3 million from the Ford Foundation and six major corporations to establish LISC as a nonprofit vehicle for funding CDCs. Under Sviridoff, the first president of the new organization, LISC’s assets grew quickly. By 1984 LISC had obtained capital resources of more than \$70 million from more than 250 corporations and foundations and three federal agencies. It had developed a national network of 31 local areas of concentration, city or regional districts in which organizations raised their own funds from local corporate and philanthropic sources, which LISC then matched from its general capital fund (Vidal, Howitt, and Foster 1986).

In each of LISC’s local areas of concentration, a program director raised local funds and obtained financial aid for development projects and CDCs. Each area also had a local advisory committee composed of officers of local corporate or foundation contributors to assist the program director with policy and program matters (Vidal, Howitt, and Foster 1986).

As LISC expanded its assets, institutional infrastructure, and the number and scale of projects and organizations it supported, its organizational structure became more complex. By the early 1980s LISC had established a national headquarters in New York staffed by about 35 people, including the president, executive vice president, and treasurer. The national office raised funds, monitored the disbursements, and, with the board of directors, decided LISC's policies and strategies. Today more than 300 people work at LISC's New York headquarters.

Like The Enterprise Foundation, LISC has spawned several subsidiary organizations. In 1986 LISC started the Local Initiatives Managed Assets corporation as a secondary market for housing and economic development loans to its affiliated groups. Created in 1987, LISC's National Equity Fund (NEF) organizes limited partnerships to purchase equity in housing developments that qualify investors for the Low-Income Housing Tax Credit. The Retail Initiative, begun in 1992, manages a commercial equity fund and helps CDCs plan large-scale retail developments.

And like Enterprise, LISC has developed programs that go beyond real estate development in attempting to revive neighborhoods. The Community Building Initiative, for example, supports block clubs, youth development programs, antidrug efforts, and health care plans. As of 1997 LISC had committed significant funds to the Community Building Initiative—\$4.25 million in grants and \$2.24 million in loans. Within the past few years LISC also started the Jobs and Income program to help people find work, the Community Security Initiative to promote anticrime collaborations with local police, and a National Child Care Initiative to foster home and neighborhood child care centers (LISC 1997).

Today LISC operates local program areas (or areas of concentration) in 38 cities and 66 rural communities. (In 1995 LISC began a special program called Rural LISC, which by 1999 was active in 37 states.) Since 1980 LISC has raised more than \$3 billion for CDCs. In 1997 it distributed more than \$106 million to CDCs; in 1998 it worked with more than 800 CDCs. Its equity fund, NEF, has raised approximately \$2.9 billion from nearly 150 corporations helping to build 44,000 rental units in nearly 900 developments. In 1997 NEF paid \$15 million in fees to CDC sponsors of Low-Income Housing Tax Credits. The same year LISC had assets of more than \$140 million and revenue of more than \$108 million (LISC 1997, 1998; NEF 2000).

The case studies that follow focus on the local program officers within three areas of concentration. As a matter of national policy, local program officers seek stable community groups, cultivate project ideas, offer technical assistance to CDCs, and, if necessary, connect CDC officials with government and foundation officials who can give them additional or different kinds of financing beyond LISC's aid. Once a LISC program officer has decided to assist a CDC project, she or he chooses an appropriate financial device. Typically, LISC offers a CDC a loan, a recoverable grant (loan that requires repayment only if the project earns revenue), a grant, or, occasionally, a line of credit or loan guarantee. Local program officers obtain financial aid for community development projects by preparing a formal application known as a request for program action and submitting it for approval to the local advisory committee and senior officers at LISC's headquarters in New York (von Hoffman 1997b).

Case Studies

A Burdensome Gift: 1200 Irving Street and the Development Corporation of Columbia Heights, Washington, DC

INTRODUCTION

When Citibank of Washington, DC, offered the Development Corporation of Columbia Heights (DCCH) a two-story 12-unit apartment building as a gift, it seemed like a great opportunity to improve Washington's Columbia Heights neighborhood. Renovating the building at 1200 Irving Street would provide decent, affordable housing to the low-income residents of the neighborhood and eliminate a nuisance created by the prostitutes who worked there (see figure 1 for a map of the area). The members of the staff enthusiastically accepted the bank's gift in spring 1994 and adopted a plan to relocate the building's seven remaining tenants and turn it into an eight-unit limited-equity cooperative.

Soon, however, DCCH's staff members wondered whether the building was worth it even at no cost. William Bush, the director of Housing and Commercial Development for DCCH in the mid-1990s, considered 1200 Irving Street to be a "dog." Many times during the project he thought that if a for-profit developer would take the property off his hands, he would be delighted to sell it. Robert L. Moore, DCCH's executive director, recently said that 1200 Irving was the worst building he had ever worked on in his career. At a cost of close to a million dollars to renovate the property, it would have been cheaper, Moore concluded, to demolish the building and construct a new one (Bush 1997; Moore 1997).

The 1200 Irving Street project appears to give plenty of ammunition to critics of the community development system. It was exorbitantly expensive. It was a housing development that removed low-income tenants and reduced the number of inexpensive units in the building. And property owners influenced DCCH to develop the building for moderate-income, rather than very low income, households.

A close examination of DCCH and the development of 1200 Irving Street, however, reveals a more complex and ambiguous reality than might at first be supposed by either critics or supporters of the community development system. The project arose in large part out of the historic mission of DCCH to revitalize Columbia Heights, the goals that the resident board and executive director set for the organization, and the circumstances related to the property, including the opinions of Columbia Heights residents and the availability of financing. Neither philanthropic funders nor LISC forced this housing development venture on DCCH. In fact, the local LISC program officer was sympathetic to DCCH's agenda and provided crucial financing even though a commercial bank turned the CDC down. The organization's long-standing plan to make the building a limited-equity cooperative could