

# Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries

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## **ABSTRACT**

*Fuel Lines for the Urban Revival Engine: Neighborhoods, Community Development Corporations, and Financial Intermediaries* examines CDCs and their relationships to financial intermediaries. The study includes a history and analysis of the community development system and three case studies of rental housing development projects carried out by CDCs in Washington, DC; Boston; and Miami in concert with the financial intermediary Local Initiatives Support Corporation.

The findings include the following: local circumstances and the degree to which CDCs consult neighborhood residents shape the short- and long-term strategies that CDCs adopt; financial intermediaries offer crucial assistance to CDCs by providing financing, technical assistance, and strategic advice and by lobbying and raising public support for community development; and the institutional and political environment of the city or region can greatly help or hinder CDCs and institutions such as financial intermediaries that support them.

## **Introduction**

Despite the prosperity of the past 20 years, poverty, inferior housing, crime, drugs, lack of retail stores, and inadequate governmental services have continued to plague inner-city neighborhoods in the United States. To revive troubled neighborhoods, civic and government leaders have adopted a set of programs and institutions known collectively as the community development system. Unlike the policy of urban renewal that it replaced, community development is a decentralized system that relies on private citizens' groups as much as it does on government.

The primary agents of the community development system are community development corporations (CDCs), independent organizations that strive to improve adverse physical, social, and economic conditions in which poor people live. A CDC is a nonprofit entity—usually authorized as a 501(c)(3) organization—with a board of directors, executive director, and staff members. Often operating out of a storefront or converted dwelling, typically CDCs serve and carry out programs within a defined territory (Vidal 1992).

Many CDCs originated or evolved from antipoverty community organizations of the 1960s or community groups organized to ward off a threat—such as a government land clearance scheme. Unlike earlier antipoverty groups that carried out government social service programs, CDCs from the first conducted operations aimed at generating revenue. Hence, in the 1970s the organizations attempted to start and run businesses and were often called economic development corporations (Ackerson, Sharf, and Hager 1970; Zdenek 1990). Frequently the businesses failed, however, and in the 1990s the great majority of these groups—now usually called community development corporations—shifted to building and rehabilitating dwellings for low-income people. Besides developing housing, many CDCs undertake other activities aimed at helping people escape poverty, for example, making loans to small businesses, providing child care, and offering job training classes (Vidal 1992).

Community development enjoys certain advantages over previous efforts at urban revival. Because CDCs are usually located in the neighborhoods that they are trying to improve, their directors can tailor their programs to local conditions and residents' desires more readily than can government officials located in City Hall, a state capital, or Washington, DC. As small, autonomous organizations, CDCs can experiment and learn through trial and error more easily than large bureaucratic organizations such as government agencies. When CDCs effectively fulfill local aspirations, they can become important local institutions that inspire the inhabitants of heretofore depressed and ignored communities.

CDCs face obstacles, however, in their work of reviving neighborhoods. As locally based organizations, they must develop programs to deal with diverse local conditions. Most are small organizations and lack sufficient money to run their operations. They pursue risky, expensive projects that governments and commercial companies have chosen not to attempt. To obtain funds for those projects, typically CDCs must apply to several sources, a complicated and time-consuming process. To carry out their programs, they need expert personnel, but are unable to pay their staffs high salaries.

Obviously CDCs need assistance if they are to survive and tackle the large social and economic problems that plague their districts. Since the late 1970s, supporters of community development have created a network of national and local institutions—primarily government agencies and foundations—to provide financial and technical support to CDCs and help expand the scale and scope of community development activities.

Among the most important private institutions that support community development are nonprofit philanthropic and banking organizations known as financial intermediaries (Liou and Stroh 1998; Stoutland 1999; Walker 1993). The leading national financial intermediaries—the Local Initiatives Support Corporation (LISC), The Enterprise Foundation, and the Neighborhood Reinvestment Corporation (NRC)—collect and distribute large sums of money for community development organizations and projects and provide training and advice to community development practitioners. These large financial intermediaries operate through local branches that tap local as well as national sources of funds.

My original purpose in writing *Fuel Lines for the Urban Revival Engine* was to examine the CDCs' operations and the influence that financial intermediaries have on them.

Specifically, I was interested in discovering the reasons CDC staff select particular community development projects, the ways in which intermediaries affect CDCs and their projects, and what other factors might influence the choice and success of community development projects.

The research soon made clear to me that the local institutional and political environment had a profound influence on CDCs and local offices of financial intermediaries, affecting not only their relationships but also the scope and direction of their activities. These environments vary enormously across the nation, but the impact of the differences, it seems to me, have not been sufficiently recognized by scholars and practitioners. Therefore, I have attempted in writing this report to illuminate the influence of the environment and the financial intermediary in the community development system.

For that purpose, I prepared three detailed case studies of rental housing development projects carried out by CDCs in Washington, DC; Boston; and Miami in concert with the financial intermediary LISC. (See table 1 for a summary of projects.)

Although all the financial intermediaries—not to mention other large sources of community development funds—are worthy of research, I chose to examine LISC for a number of reasons. LISC is the best known and most praised and criticized of the three national intermediaries (Stoecker 1997). Although it ranks behind NRC in size of assets, revenues, and expenses and in number of branch offices and affiliated organizations, it could be argued that LISC has the widest impact on community nonprofit organizations. Of the CDCs that reported receiving \$50,000 or more from financial intermediaries, by far the most, 22 percent, obtained funds from LISC, compared with less than 9 percent from NRC and 6.4 percent from The Enterprise Foundation (Steinbach 1999). Also, the consistency of LISC's internal program transaction process and its relationships with affiliated CDCs made comparing projects easier. Last but not least, in analyzing LISC's practices I was able to build on my previous studies of the organization (von Hoffman 1997a, 1997b).

Because the form of the report limits the amount of time and text that can be devoted to a topic, I chose to examine the most common type of project undertaken by CDCs—the development and management of low-income rental housing—rather than the full range of community development activities. For similar reasons, when considering the role played by the financial intermediary, I concentrated on the financial support LISC provided for the housing development projects. Within the community development system, LISC has many other functions, including programs that provide technical assistance to and strengthen the organizational capacity of CDCs. I refer to these programs at the points in the narratives at which they apply to the cases in question. To illuminate the strategies of CDC and intermediary officers, I chose the cases from a large group of projects that LISC program officers deemed to carry a significant degree of risk. From this group of risky projects, I selected three that reflected diverse types of CDCs, neighborhoods, problems CDCs face, and relationships between CDC and LISC officers, and that also showed the varying degrees of support for community development in the cities. After various obstacles were overcome, in each of these cases the projects were completed as planned. In two of the cases the projects strengthened or sustained the relationship between the CDC and LISC, but in the third case, in Miami, stresses related to the project helped estrange the parties from one another.

Table 1. Summary of Case Study Projects

	<b>Development Corporation of Columbia Heights</b> 1200 Irving St.	<b>Allston Brighton Community Development Corp.</b> Brighton Allston Apts.	<b>Tacolcy Economic Development Corp.</b> Edison Gardens
Type	Rental rehab	Rental rehab	Rental new construction
Year completed	1998	1998	1989
Number of buildings	1	3	2
Total number of units	8	60	50
Number of units by size	1 one-bedroom, 7 two-bedroom	17 one-bedroom, 42 two-bedroom, 1 three-bedroom	50 two-bedroom
Rents/income of residents	Below market	22 < 60%, 31 < 50%, 7 < 40% median income	38 < 50% median income, 12 = market
Total development cost (\$)	959,000	4,376,000	3,700,00
Cost per unit (\$)	125,000	72,933	74,000
Financing	Loans	Loans, grants, fees, tax credit equity	Loans, recoverable grant, tax credit equity
Number of financial sources	3	7	4
LISC project support (\$)	27,845 received grant 400,000 received loan	25,000 received grant 225,000 received loan	85,000 received grant 310,639 received loan

## MAJOR FINDINGS

While taking care not to overgeneralize from a limited number of observations that focus on one national intermediary and a particular type of community development activity, I have considered all the case studies separately and together and drawn the following conclusions about the way community development works:

1. The communities in which CDCs operate differ by history, character, and conditions, and these various circumstances influence the short- and long-term strategies that CDCs adopt. The institutions that support community development should take that diversity of needs and goals into account in their programs.
2. As part of the democratic ethos of the community development movement, CDCs consult neighborhood residents to various degrees in setting their agendas. However, the participation of local residents in a CDC's affairs can create problems.
3. Financial intermediaries assist community development groups in crucial ways. They provide financing, technical assistance, and strategic advice; they also promote public and governmental support for community development and occasionally even help to organize CDCs.
4. Despite criticisms that intermediaries such as LISC influence CDCs to follow the intermediary's agenda, in the three cases presented here the officers of community development organizations and financial intermediaries usually had the same goals.
5. Simplifying methods for acquiring funding and changing local government's policies and administrative methods would improve the cumbersome process of carrying out community development projects.
6. The political environment of the city or region greatly influences the success of a CDC and local community development support institutions. Therefore, officers of funding institutions, scholars, and practitioners should develop ways to institute nonprofit community development as public policy in areas where it has little support and further strengthen policies in areas where it is well established.

The report begins with a discussion of research and issues pertinent to this study, an account of the evolution of the contemporary community development system, and a survey of the role of intermediaries in community development. The three case studies then follow. Each case is composed of an introduction, a description of the community development system in that city, the salient demographic and economic facts about the neighborhood in which the CDC operates, a brief history and description of the CDC, a narrative of the CDC's project, and an analysis of the LISC program officer's attitudes and actions in regard to the project and the CDC. A final section presents the conclusions and suggestions for further research.

## RESEARCH AND ISSUES IN COMMUNITY DEVELOPMENT

Proponents of community development assert that, unlike the government housing and renewal programs of the 1950s and 1960s, the community development system is a viable place-based urban social policy. They maintain that CDCs are effective because they combine social goals with sound business methods and financial management. In contrast to the hierarchical administration of previous government programs, community development advocates maintain, CDCs reflect the will of the community because they are located in neighborhoods and controlled by local residents. Advocates argue that the residential

and retail properties developed by CDCs provide high-quality, affordable homes to low-income people and stimulate pride and investment in the neighborhoods. Often, the most successful and largest CDCs also offer social services, organize neighborhood residents, and lobby for local interests. Proponents of community development believe that financial intermediaries are crucial to the community development system because they help train new practitioners and help CDCs carry out worthy projects (Grogan 1996; Harvey 1996; National Congress for Community Economic Development 1991; Peirce and Steinbach 1987; Perry 1987; Steinbach 1995; Sullivan 1993).

Other observers, however, question whether the community development efforts are in the best interests of community residents and the poor. Some say that funders subvert the community development mission by emphasizing the maximum production of housing versus goals such as empowering local residents or building the strength of the organization (Rubin 1995). Others argue that government and local citizens' groups, dominated by property owners, have diverted CDC leaders from their goals of producing low-income housing (Goetz and Sidney 1994). In a thoroughgoing critique of the community development movement, Stoecker (1997) states that CDCs are underfunded, unproductive, and unable to reverse neighborhood decline. He maintains that communities want to preserve space as a "use value for the service of community members" as opposed to capital, which wants to convert space into "exchange values that can be speculated upon for a profit" (Stoecker 1997, 5).

A few critics point to the shortcomings of intermediaries in the community development system. Stoecker (1997) charges that elites who view redevelopment from an exchange value perspective control the philanthropic funders—such as the local branches of the intermediary LISC—and cause them to divert CDCs from an authentic agenda for their communities. Others charge that local LISC officers prevent CDCs from making their own contacts with funders outside communities and allow investors to dictate the agenda to local community groups (Gittell et al. 1999). Directors of some nonprofit organizations in New York assert that the New York Equity Fund, a joint entity of LISC and The Enterprise Foundation, exercises a monopoly power over the syndication of low-income housing tax credits (described below) that CDCs use for developing housing. According to that argument, some CDCs therefore must pay more for the valuable credits than they might be charged on the open market (McGowan 2000).

Empirical studies of community development have not shed much light on those issues, mainly because the study of community development is relatively young. Most studies have described best practices, offered little detail or narrative, or inquired into subjects other than the process of community development itself. The works of authors such as Peirce and Steinbach (1987) and the Committee for Economic Development (1995), for example, promote the community development system and highlight its successes. Authors such as Vidal (1992), Briggs, Mueller, and Sullivan (1997), and Walker (1993) employed statistical and survey analysis, an approach that provides an overview of a field, but does not usually reveal precise motivations or methods of operations. Other researchers took up subjects such as housing (Goetz 1993) or community organizing (Rooney 1995), which are related to but different from community development. In a recent review of the literature, Sara E. Stoutland concluded that most research on CDCs lacked "the breadth and

specificity necessary for answering the questions that authors wish to address” and that researchers tended to study a few well-known successful CDCs and ignore “smaller, younger, struggling, or failed organizations” (Stoutland 1999, 201).

Scholars have succeeded, however, in mapping the overall terrain of the field, identifying major policies and problems, and gauging the responses of some community residents. Vidal’s study of CDCs (1992) remains the most comprehensive survey of the characteristics, activities, sources of financial support, and accomplishments of community development corporations to date. I have drawn on that work to sketch the structures and functions of community development organizations. Bratt and colleagues (1995) pushed the research of community development beyond the subject of housing development and identified the human and economic problems CDCs faced in managing their low-income residential properties; an example is presented in this report’s third case study.

Ferguson and Stoutland (1999) have produced the most complete theoretical description of the structure of the community development field. They group all organizations active in community development in four levels. At level zero are groups without paid staff, such as block clubs and tenant associations. Level one is composed of local neighborhood or front-line organizations, including nonreligious, nonprofit groups. Level-two organizations provide support at the local level; they include local government departments, funders, and branch offices of national intermediaries. At level three are state, regional, and national support entities, including state and federal government agencies and government-sponsored enterprises such as Fannie Mae and Freddie Mac.

This report will shine a spotlight on level-one and level-two CDCs and local intermediaries to observe the elements of the structure in action. Although intermediaries are recognized as “the most important story of the nonprofit development sector” (Walker 1993, 393) and “critical to the continued growth of community-based organizations” (Liou and Stroh 1998, 590), little research has been done on them, at either level two (local) or three (state and national).

The cases presented in this report affirm the importance of trust in dealings between CDCs and intermediaries. Drawing on theories of social capital and business networks, Keyes and colleagues (1996) observed that long-term relationships of trust and reciprocity, shared vision, mutual interest, and financial nexus characterized the interactions between institutions and the nonprofit organizations they sponsored. Ferguson and Stoutland (1999) emphasized trust in the alliances between levels one and two in the community development system.

Briggs, Mueller, and Sullivan (1997) tackled the thorny issue of the effects of CDCs on people and neighborhoods in Boston, Minneapolis, and Newark. The authors conducted resident surveys and field research related to housing development, neighborhood safety, and community building efforts and obtained mixed results. Residents usually liked CDC housing, for example, but were not greatly impressed by the management of the properties. The CDCs negotiated effectively on behalf of neighborhoods, according to Briggs, Mueller, and Sullivan, but only the residents of the Boston and Minneapolis CDC housing developments (as opposed to all neighborhood residents) formed more social ties than they

would have had they lived elsewhere. Local situations, such as demographic trends, the degree of financial support for CDCs, and government policies, as well as CDC strategies, such as community organizing, influenced the results of CDC efforts. Ultimately, the authors discovered the difficulty of isolating the programs' influence on neighborhoods from other factors.

Briggs, Mueller, and Sullivan found that the prevailing conditions in a city and neighborhood affect the nature and success of local community development efforts. The authors began each of their sections on CDCs with a general discussion of the city and neighborhood context—primarily statistics pertaining to the size and wealth (or lack of it) of the population—and the history of the CDC, including the major programs that the organization adopted in response to the surrounding conditions. They note, for example, that a shift in the housing market in Boston, from declining real estate values to rapid appreciation, induced the Urban Edge Housing Corporation to move east from its original territory in Jamaica Plain to the subarea of Egleston Square in the search for properties to renovate and lots to build on. Because Briggs, Mueller, and Sullivan were interested primarily in the effects on neighborhoods and residents, they do not examine the thinking and operations of the CDC staff in detail.

Indeed, virtually all students of community development take some notice, however tacit or brief, of the influence of the context in which CDCs must operate. A fundamental assumption of community development, after all, is that these organizations must respond to local conditions. A number of authors (Vidal 1992; Zdenek 1990, for example) have made the point that CDCs depend on the financial and technical support provided by nonprofit or government agencies, which are for the most part located in their cities.

Of the students of community development, Weir (1999) has focused most directly on the environments in which community development organizations exist and the local political forces with which they must contend. Weir categorized three types of cities by prevailing political attitudes. The inclusive type of city—exemplified in this report by Boston—has many vital CDCs, a well-developed network of supporting institutions, and a government that actively works with community development groups. Miami, at the other extreme, fits Weir's category of the elite-dominated city, which lacks a tradition of neighborhood mobilization or political power. Weir's third category, the patronage city, in which politicians try to control resources of community organizations, is not represented in the case studies. On the other hand, Washington, DC, the subject of one of this report's case studies, belongs to a category I call the bureaucratic city and is not included in Weir's typology. In the bureaucratic city, there may be a strong tradition of neighborhood mobilization, but government agencies, as opposed to local partisan politicians, exert a strong influence on the direction of community development.

In *Fuel Lines*, I have attempted to examine CDC operations more closely than scholars have done thus far. In particular, I have looked at the ways local circumstances—availability of funds as well as demographic conditions—affect the choices CDC staff members make concerning community development projects. As we will see, for example, the offer of a free building, access to people who set the rules for procuring low-income housing tax credits, or the possibility of earning housing development fees can influence the CDCs'



strategies. The result of examining those factors, I hope, is a better understanding of the way the community development system operates and the influence the surrounding environment has on it.