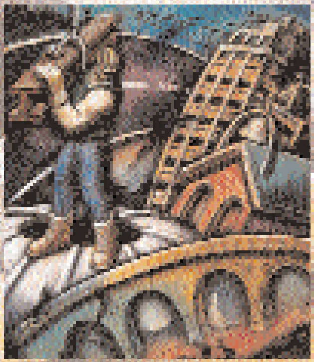
Community Development in the 1990s



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Community Development in the 1990s

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Preface

NCDI's founders articulated two primary goals: (i) assist the development and maturation of CDCs and local systems that support community development, and (ii) increase the availability of usable long-term financing for CDC-developed projects. The Preface outlines NCDI's goals and implementation strategies.

In 1991, seven foundations and one corporation started what will be a 10-year effort involving 18 public and private funders to accelerate the growth, scale, and impact of community development corporations (CDCs) and their activities in 23 cities around the country. This effort is known as the National Community Development Initiative, or NCDI.

NCDI began as an effort to increase the capital available to CDCs by aggregating more funding than any one philanthropic or private sector source could be expected to provide.[1] Its originators felt that, because CDCs had grown markedly over the past decade and because they appeared to be working to improve conditions in the neighborhoods in which they were operating, targeting significant funds for a long-term effort to strengthen institutions and institutional links would give a big boost to this effort.

Over the course of discussions between 1989 and 1991, NCDI's backers articulated two major goals: (i) assist the development and maturation of local systems that support community development—a goal that came to be labeled "system change"—and (ii) increase the availability of usable long-term financing for CDC-developed projects.[2] In turn, the first of these goals included a dual focus on (i) strengthening the capacity of CDCs, and (ii) attracting funding to them and their community development projects—including funding from new supporters and existing funders who could act in more streamlined, effective ways. These goals imply assistance to CDCs that is systemic—helping to improve the funding and political environment in which CDCs operate—as opposed to merely assistance for projects. Projects were important, of course, to demonstrate growth, but NCDI was focused on more than projects.

NCDI's funders did not have the capacity on their own staffs to administer a large-scale national program, nor did they have the desire to establish a new entity just for that purpose. So they decided to work with existing organizations whose experience could be used to translate their goals into programs and resources at both the national and local levels. They chose the Enterprise Foundation and the Local Initiatives Support Corporation (LISC) to be partners/agents for NCDI. These two intermediaries, each with a track record of more than 10 years, were the largest such organizations in the community development field and were already assisting scores of CDCs in cities across the country.

Working with the intermediaries enabled NCDI to maintain a modest administrative structure, composed only of a small program secretariat. The funders also designed a collaborative governance arrangement whereby decisions would be made by consensus among the funders. The funders themselves all meet twice a year, usually represented by the chief executive officer or another high-ranking official who can help make decisions and review progress. Each funder has one vote in all significant decisions, regardless of the amount of its financial contribution to the program. The group is chaired by one of the funders' representatives, and elections are held annually. In practice, the chair and the program secretary have worked closely throughout the program, consulting on all decisions. The semiannual meetings have proved to be valuable in enabling the funders and the intermediary-partners to discuss the evolution of the community development field and to address common concerns. Smaller groups of the funders and the intermediaries meet periodically to address specific issue areas such as communication, human capital, and assessments.

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[1] *The Ford Foundation, the one exception and the longest-running philanthropic supporter of the field, has provided millions of dollars to CDCs since the 1960s and continues to be the largest national funder of CDCs across the country.*

[2] *This second goal was the impetus for NCDI to provide funding for the Local Initiatives Support Corporation (LISC) to work with Freddie Mac on a new secondary mortgage program for multi-family projects, and for Enterprise to work with Fannie Mae to create a new mortgage lender that would also specialize in multi-family projects. Neither of these programs is included in the scope of this assessment. See Jean Cummings and Denise DiPasquale, "Developing a Secondary Market for Affordable Rental Housing: Lessons from the LIMAC/Freddie Mac and EMI/Fannie Mae Programs"* (Cityscape, *Summer 1998, forthcoming).*

The Initial Record: Round I of NCDI Funding

With the basic program structure developed, by early 1991 eight private funders committed $62.86 million for a three-year first phase of NCDI. NCDI Round I covered July 1991 to June 1994.

NCDI Funders

Initial Funders

William and Flora Hewlett Foundation*
John S. and James L. Knight Foundation
Lilly Endowment**
John D. and Catherine T. MacArthur Foundation
Pew Charitable Trusts
Prudential Insurance Co. of America
Rockefeller Foundation
Surdna Foundation

Additional Round II Funders

Annie E. Casey Foundation
McKnight Foundation
Metropolitan Life Foundation
J.P. Morgan & Co.
U.S. Department of Housing and Urban Development

Additional Round III Funders

Bankers Trust Co.
Chase Manhattan Bank
Robert Wood Johnson Foundation
W.K. Kellogg Foundation
NationsBank

* The Hewlett Foundation did not invest new funds for Round III.
** The Lilly Endowment did not participate with new funds after Round I.
Source: Urban Institute, 1998.

Of the initial $62.86 million raised, $20.36 million was in the form of grants and $42.5 million in below-market loans, which were passed on to the intermediaries. The rate for the loans was established by each funder, but blended to create a package of 5.6 percent loans to the intermediaries; the intermediaries, in turn, reloaned this capital—usually at rates of about 6 percent—to CDCs for housing and other community development projects.

These loans and about $15 million in grants went to the intermediaries to support NCDI's "system change" goal at the local level and to provide "fund balances" for the intermediaries' loanmaking activity. The remaining NCDI funds were set aside for secondary market demonstrations, administration, assessment, documentation, and policy development by the intermediaries.

The funders established basic principles for the use of their funds and for aggregate funding levels to each intermediary, but left most decisions about specific sites and programs to the intermediaries. The funders retained review responsibilities. Enterprise and LISC recommended 21 localities for funding in this first phase. Enterprise worked with 9 programs and LISC with 14; both organizations worked in two of the localities, New York and Washington, D.C..

Round I NCDI Programs

ENTERPRISE LOCALITIES	LISC LOCALITIES
Atlanta	Boston
Baltimore	Chicago
Cleveland	Indiana (statewide—later consolidated with Indianapolis)
Columbus	Indianapolis
Denver	Kansas City (MO)
New York	Los Angeles
Portland (OR)	Miami
San Antonio	Newark
Washington, D.C.	New York
	Philadelphia
	San Francisco Bay Area
	Seattle
	St. Paul
	Washington, D.C.

Additional Programs Added in Rounds II and III

Dallas	Detroit
	Phoenix

Source: Urban Institute, 1998.

To govern their work and ensure that they were furthering the common NCDI goals, the intermediaries developed three-year workplans for each NCDI local program. Working with CDCs, supporters, and governments, the intermediaries assessed local CDC capacity and identified gaps that, if filled, could greatly increase capacity and productivity. The NCDI funders reviewed and approved the workplans before releasing any funding.

The workplans for the first phase of NCDI generally included a mix of programs. Enterprise, for example, chose cities for the program that tended to be younger and to have less experienced community development environments and organizations—and therefore included significant emphasis on CDC capacity-building efforts. Many LISC cities, by contrast, had more experienced CDCs, and LISC's workplans included special efforts to increase production or to enable CDCs to begin new programs. Examples of the variety of workplan programs are provided throughout the Executive Summary of this report. Generally the plans also included goals around the raising of new funds for community development, including funds from new sources. Although NCDI did not impose local "matching requirements," it strongly encouraged the intermediaries to seek new money.

Each workplan also included the definition of a local partnership through which programming would be carried out. These partnerships were expected to include key local support providers in the field—especially city governments, lenders, foundations, and corporations—which, working together in collaboration with LISC and Enterprise, and with the stimulus of NCDI's outside funding, could find new ways of doing business, resulting in long-term growth of community development in the city.

Round II of NCDI Funding

Upon seeing the progress made by the CDCs and local support systems in the initial phase, NCDI's funders decided to extend the effort for a second three-year phase. They raised $87.85 million in new money for Round II, a span from July 1994 through June 1997. While one of the initial funders—the Lilly Endowment—dropped out because of a shift in internal priorities, five new funders joined. One was the U.S. Department of Housing and Urban Development, the first (and only) public participant in NCDI.[3]

The new money raised for NCDI Round II consisted of $55 million in loans and $32.9 million in grants. Three new cities were added—and the Indiana and Indianapolis programs were consolidated—to bring the total program to 23 cities. In Round II, $80 million went to the intermediaries (including the $55 million in below-market interest rate loans): $70 million for local programs, $5 million for two LISC economic development programs, and $5 million to enable the intermediaries to establish financial management capacity-building programs. Additionally, NCDI used $4 million to create an $8 million partnership with the Ford Foundation to launch a Human Capital Development Initiative managed by the National Congress for Community Economic Development. The remaining funds were allocated to administration, assessments, communications, and contingencies.

Growth in Local Results

The $120 million channeled to the 23 local programs through NCDI Rounds I and II, largely in support of capacity-building efforts and physical development production programs, helped produce visible growth in the local systems. The remaining chapters of this report describe that growth and attribute it to factors in

Table P.1
NCDI Funding by Round
(in Millions)

	Loans	Grants	Total
Round I (1991–1994)	$ 42.5	$ 20.4	$ 62.9
Round II (1994–1997)	$ 55.0	$ 32.9	$ 87.9
Round III (1997–2001)	$ 55.0	$ 48.0	$103.0
TOTAL	$152.5	$101.3	$253.8

Source: Urban Institute, 1998.

[3] *HUD's participation in NCDI was a significant move for the federal government, because HUD pledged to act as an equal to the other funders—not imposing its own criteria for selecting cities or CDCs, and instead tailoring its regulatory requirements where possible. HUD has indicated comfort with this arrangement—in fact, continuing its participation in NCDI's third round—because it had both a common set of goals with the other funders and confidence in the two national intermediaries involved in administering and monitoring the public money.*

Table P.2
Amount of NCDI Rounds I and II Funding Allocated to City Programs

City/Program	NCDI Loans Allocated	NCDI Grants Allocated
ENTERPRISE		
Atlanta	$2,200,000	$1,650,000
Baltimore	$2,835,000	$1,675,000
Cleveland	$3,450,000	$1,640,000
Columbus	$3,085,000	$1,575,000
Dallas	$1,200,000	$1,000,000
Denver	$2,200,000	$1,490,000
New York	$1,450,000	$1,475,000
Portland	$2,000,000	$1,450,000
San Antonio	$2,100,000	$1,450,000
Washington, D.C.	$1,980,000	$850,000
LISC		
Boston	$3,855,000	$314,000
Chicago	$6,305,000	$834,000
Detroit	$1,600,000	$1,150,000
Indianapolis (includes Indiana)	$4,855,000	$1,414,000
Kansas City	$4,569,000	$844,000
Los Angeles	$5,082,000	$604,000
Miami	$6,832,000	$1,366,000
Newark	$2,541,000	$1,054,000
New York	$4,241,000	$710,000
Philadelphia	$8,232,000	$1,144,000
Phoenix	$2,500,000	$1,020,000
San Francisco Bay Area	$4,782,000	$314,000
Seattle	$3,441,000	$364,000
St. Paul	$4,055,000	$634,000
Washington, D.C.	$6,760,000	$854,000
Total	$92,150,000	$26,875,000

Source: Urban Institute, 1998.

the local systems. Tables P.2, P.3 and P.4 show the amount of NCDI money devoted to the local programs during the first two rounds, as well as some key measurable results, including units of housing produced and numbers of CDCs that received capacity-building assistance.

Housing production is not the only measure of the impact of NCDI's investment. In every city, NCDI money was used to strengthen local system-building efforts, among them drawing in new funding resources and streamlining ways of doing the business of community development. In some cities, NCDI funding went to programs that helped CDCs develop new types of products. In New York, for example, both Enterprise and LISC worked with CDCs to develop child care centers, and in Los Angeles, LISC helped CDCs address health care opportunities and needs in neighborhoods. Kansas City CDCs, with NCDI assistance, were able to hire community organizers to identify a new generation of neighborhood leadership and address broader issues such as crime prevention and elder care. Some cities (including St. Paul, Seattle, Kansas City, and Boston) used NCDI funding as a catalyst to encourage CDCs to develop ownership housing, a different product for some groups that had previously emphasized rental housing.

Table P.3
CDC Housing Unit Production, July 1991–June 1997
(Number of Units)

	Total Estimated CDC Housing Production	NCDI-Assisted Housing Production
LISC		
Boston	4,404	231
Chicago	5,895	1,629
Detroit	759	759
Indianapolis	1,358	785
Kansas City	1,729	596
Los Angeles	4,343	409*
Miami	2,007	653
New York	16,300**	309*
Newark	577	341
Philadelphia	2,232	884
Phoenix	862	129
San Francisco Bay Area	9,455	653
Seattle	2,642	724
St. Paul	728	230
Washington, D.C.	2,128	555
Total LISC	55,419	8,887
ENTERPRISE		
Atlanta	1,094	988
Baltimore	2,154	604
Cleveland	1,646	1,492
Columbus	687	687
Dallas	1,164	724
Denver	3,525	60
New York	21,595**	1,621*
Portland	1,483	304
San Antonio	1,077	86
Washington, D.C.	1,337	1,337
Total ENTERPRISE	35,762	7,903
Grand Total	91,181	16,790

* Los Angeles and New York NCDI workplans focused on non-housing programs, specifically health care in Los Angeles and child care in New York.
** The numbers for CDC Housing Production in New York may include some double counting because some of the groups LISC and Enterprise work with overlap.

Source: Urban Institute, 1998.
Note: Data reported by LISC and Enterprise.

Table P.4
Number of CDCs Assisted and Funds Generated by NCDI-Supported Capacity-Building Programs (Dollars "Committed" as of June 30, 1997)

	Assisted CDCs	Non-NCDI Funds Generated
LISC		
Boston	25	$3,269,300
Chicago	19	$849,257
Detroit	16	$10,735,000
Indianapolis	20	$4,851,774
Kansas City	11	$1,990,000
Los Angeles*	14	$9,948,968
Miami	8	$734,800
New York*	2	$410,000
Newark	13	$1,004,113
Philadelphia	14	$5,200,000
Phoenix	12	$1,400,000
San Francisco Bay Area	9	$1,369,549
Seattle	9	$2,900,000
St. Paul	9	$3,569,000
Washington, D.C.	9	$3,700,000
Total LISC	190	$51,931,761
ENTERPRISE		
Atlanta	12	$6,300,000
Baltimore	17	$20,725,385
Cleveland	21	$3,219,500
Columbus	14	$3,806,000
Dallas	10	$3,761,771
Denver	15	$2,382,975
Portland	8	$4,500,000
San Antonio	14	$1,476,883
Total ENTERPRISE	111	$46,172,514
Grand Total	301	$98,104,275

* NCDI Workplans and program activity focused on non-housing programs, specifically health care facilities in Los Angeles and child care facilities in New York.

Source: Urban Institute, 1998.
Notes: Data reported by LISC and Enterprise. Incomplete information was generated by some cities (including Enterprise's New York and Washington, D.C. programs), particularly on amount of funds generated. Nonproduction funds reported by LISC and Enterprise were considered "capacity-building."

NCDI is now in its third round. New funding of $103 million—including $55 million in loans and $48 million in grants—has been assembled for this four-year round, to run through June 2001. The additional funding is an indication of how the program has been received, as is the presence of five new funders. About $95 million of the new funding has been budgeted for continued local activity in support of CDCs, including the local programs, and for additional help on organizational development and local ongoing communications efforts.

Executive Summary

The National Community Development Initiative (NCDI) has invested more than $150 million in community development corporations (CDCs) and related community development activities in 23 cities. Our conclusions about NCDI's impact on CDCs and the local systems that support them are highlighted in the Executive Summary.

There are signs of rebirth in America's inner city. For a generation after the riots in Watts sounded the alarm on the crisis in urban America, poor neighborhoods hemorrhaged investment, jobs, and residents. For the people who remained, indicators of social health worsened—crime rates, teen pregnancies, infant deaths, and drug and alcohol use rose sharply. Trends seem to be improving; most dramatically, urban crime rates have dropped to levels not seen since the early 1970s. Banks, retailers, and others have turned serious attention to the untapped potential of inner-city markets; property values appear to be on an upward curve.

Seizing the new urban opportunities will require hard work, but there are assets to build on in helping further community change. Although some traditional community institutions—businesses, churches, voluntary associations—have lost considerable strength over the past 30 years, community-based entrepreneurs have created new organizations to keep the work of community renewal going. We believe that these community development corporations (CDCs), acting in concert with neighborhood and city leaders, have helped to create the conditions for sustained positive change.

CDCs in many cities are now the most productive developers of affordable housing for low-income residents, outstripping private developers and public housing agencies. In the cities examined as part of this report, CDCs have developed more than 90,000 units of housing since 1991. CDCs have also been active developers of commercial, office, and industrial space in neighborhoods that have seen jobs flee to suburban areas and low-wage countries; CDCs developed more than 23 million square feet of this space through 1993, according to one estimate.

CDCs are self-help organizations, governed by residents, businesspeople, and other leaders of the communities they serve. They plan improvements to solve local problems, building on neighborhood assets. The number of CDCs has grown steadily over the past 20 years, and CDCs are now located in every large and medium-sized city in the country. With support from private and public sources, CDCs have increasingly become involved in providing—or working with others to provide—an array of community-building activities such as job training and linkage, child care, youth counseling and programming, cultural arts projects, and community advocacy and organizing.

How was NCDI money used in the 23 cities? **In each city, the national intermediary worked with local partners to define an NCDI workplan that reflected local resources and needs. Cities in less-experienced community development environments, for example, usually placed greater emphasis on programs directed at building the capacity of young CDCs, while cities with more experienced CDCs used NCDI resources to develop new models of collaboration or expanded types of CDC projects. Throughout this summary are examples of workplans from selected cities.**

This report documents the rapidly expanding capabilities of CDCs in the 23 U.S. cities included in the National Community Development Initiative (NCDI), a consortium begun in 1991 by leading national foundations and corporations, joined later by the U.S. Department of Housing and Urban Development (HUD). NCDI has provided an unprecedented amount of funding to boost the ability of CDCs to effect community improvement and thereby demonstrate the promise of these groups. This report assesses how CDCs are doing today compared with how they were doing in 1991. It focuses on the changes in community development support systems in NCDI-assisted cities during that time.

Our findings reveal a surge in CDC capability. We attribute that progress to the rapid spread of new capacity-building programs, an influx of public and private money into community development, and the start-up and expansion of local collaborations among business, foundation, and city government leaders to promote community development and CDCs.

Over the next four years, NCDI will continue the work it began in 1991. As this report shows, NCDI has demonstrated that national funders, working through strong intermediaries, can build community capacity through increased coordination among local public and private institutions.

We reached these conclusions after an impartial look at CDCs' successes and shortcomings. To the greatest extent possible, we have used quantifiable measures to make our judgments and specific examples to highlight our conclusions.

The National Community Development Initiative

The National Community Development Initiative began in 1991 as an effort to increase the capital available to community development corporations by pooling more funding than any one philanthropic or private sector source could be expected to provide. The Ford Foundation, the one exception and the longest-running philanthropic supporter of the field, has provided millions of dollars to CDCs since the 1960s and continues to be the largest national funder of CDCs across the country.

The founders wanted to take the CDC mechanism, which appeared to be working, and give it a big boost.

NCDI's founders believed that, while CDCs had grown in the 1980s, progress in the 1990s would require significantly more capital and a long-term effort to strengthen these organizations and their ties to other community and citywide institutions. The founders wanted to take the CDC mechanism, which appeared to be working, and give it a big boost.

Since 1991, NCDI has invested more than $150 million in two funding rounds to support CDCs and their projects and programs in 23 cities. This money was provided in grants and below-market interest rate loans. A third NCDI round, which began in July 1997, will bring total NCDI funding to more than $250 million when this round reaches completion in 2001.

The foundations and corporations listed below, joined in 1994 by HUD, formed NCDI because they believed CDCs offer a promising approach for reclaiming low-income areas.[1] By expanding CDC efforts and demonstrating their effectiveness, NCDI's funders felt they could help the community development field achieve greater scale and national impact. They also could help address some of the chronic weaknesses of the field—the lack of ongoing operating funding, staff expertise, and management systems that plagued organizations working in tough environments on projects that generate little financial return.

[1] *HUD's participation in NCDI was a significant move for the federal government because HUD pledged to act as an equal to the other funders—not imposing its own criteria for selecting cities or CDCs, but instead tailoring its regulatory requirements where possible. HUD has indicated comfort with this arrangement—in fact, continuing its participation in NCDI's third round—because it felt a common set of goals with the other funders and confidence in the two national intermediaries involved in administering and monitoring the public money.*

NCDI Funders:
Rounds I (1991–94) and II (1994–97)

Foundations

Annie E. Casey *
William and Flora Hewlett **
John S. and James L. Knight
Lilly Endowment **
John D. & Catherine T. MacArthur
McKnight *
Pew Charitable Trusts
Rockefeller
Surdna

Corporations

Metropolitan Life *
J.P. Morgan & Co. *
Prudential Insurance Co. of America

Government

U.S. Department of Housing and Urban Development *

** Did not participate in Round I ** Not participating in Round III*

Additional Funders:
Round III (1997–2001)

Foundations

Robert Wood Johnson
W.K. Kellogg

Corporations

Bankers Trust Co.
Chase Manhattan Bank
NationsBank

NCDI's funders did not have the capacity on their own staffs to administer a large national program, nor did they have the desire to establish a new entity for that purpose. Therefore, they enlisted two major national community development intermediaries—the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation—to translate national goals and funding into locally adopted plans.

Portland, Oregon, is a city without a long history of CDC activity, unlike some other NCDI cities. In 1991, it had one quite successful CDC and a number of emerging groups or neighborhood associations. So the Enterprise Foundation developed an NCDI workplan that supported the activities of the one leading group and reinforced work just beginning to build the capacity of the nascent CDCs. Enterprise worked closely with the local community foundation and the city to support the young CDCs with training, core operating money, and predevelopment funding to undertake housing projects. As a result, nine CDCs were developing projects at the end of NCDI Round II, and the city had created a $30 million Housing Investment Fund.

To forge local solutions to community development problems, LISC and Enterprise have worked with local partnerships in the 23 cities and localities listed below to invest NCDI funds. These partnerships are an important development of the 1990s. Whether formal organizations or less formal cooperative relationships, these alliances of business, government, and private philanthropy have become an essential part of the community development infrastructure in American cities. Building these alliances is the core strategy of NCDI.

In Washington, D.C., Enterprise worked in a concentrated fashion in the Southeast section of the city to help tenant-based organizations purchase and rehabilitate large multi-family apartment complexes. The neighborhood's viability was clearly threatened by the existence of dilapidated or deteriorating apartment complexes in financial trouble, many of which had been returned to HUD, their guarantor. Enterprise organized tenants and CDCs to buy more than 1,300 units of such housing, rehabilitate them, and use the renovated complexes to create positive centers of community life and activity.

Key to NCDI Cities
(with NCDI city abbreviation in parentheses)

Atlanta (Atl)
Baltimore (Bal)
Boston (Bos)
Chicago (Chi)
Cleveland (Cle)
Columbus (Col)
Dallas * (Dal)
Denver (Den)
Detroit * (Det)
Indianapolis ** (Ind)
Kansas City, MO (KC)
Los Angeles (Los)
Miami, including Dade Co. (Mia)
New York (NYC)
Newark (Nwk)
Philadelphia (Phi)
Phoenix * (Phx)
Portland, OR (Por)
San Antonio (San)
San Francisco Bay Area, mainly Oakland (Oak)
Seattle (Sea)
St. Paul (StP)
Washington, D.C. (DC)

** Added for Round II*
*** Indiana and Indianapolis had separate programs in Round I but were combined for Round II*

NCDI commissioned the Urban Institute and Weinheimer & Associates to assess Round II. We used an approach that enabled us to judge local community development systems against one another and across time.

Methodology

We engaged experienced development practitioners and researchers to conduct field research in each NCDI city during 1996 and 1997. These teams worked closely with local community development experts, using a standard set of "system performance indicators" to measure capacity in 1997 and assess progress made since 1991. In addition to conducting field interviews, the assessment teams reviewed reports from community development intermediary organizations and financial and demographic data from public agencies and other sources.

Major Findings

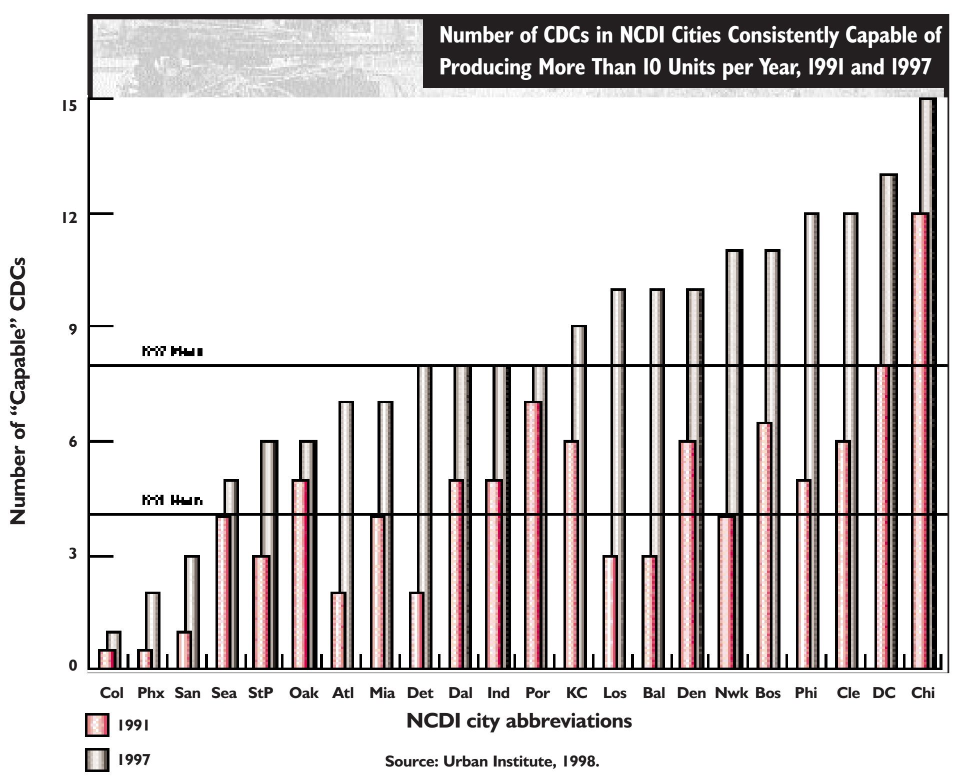
1. CDCs in NCDI cities have made substantial gains since 1991, nearly doubling the number of "capable" groups, increasing operating budgets by 63 percent, and expanding the number of "top-tier" groups by 45 percent.

Most NCDI-supported activities are designed, in one way or another, to increase the number of strong CDCs in NCDI cities. In some communities, this has meant programs to boost the productive capacity of existing CDCs. In others, the focus has been on creating new CDCs. In all communities, the goal is improved CDC management systems, better-trained board members and staff, and strengthened relationships with other organizations and neighborhood residents.

CDCs are successfully running more programs and producing more projects for low-income neighborhoods than six years ago. They are garnering increased local support—particularly from city governments, foundations, lenders, corporations, intermediaries, and technical assistance providers — all of whom are collaborating in new and promising ways.

By at least three measures of capacity, CDCs have registered impressive growth in the 1990s:

- The number of CDCs capable of producing more than 10 housing units per year grew from 104 groups in 1991 to 184 groups in 1997 (as illustrated in the chart below)—an increase of 77 percent.
- IRS data show that average annual expenditures by CDCs per NCDI city grew from $10 million to $16 million between 1991 and 1994—an increase of 63 percent.



Source: Urban Institute, 1998.
Note: Excludes New York City (50 CDCs in both years).

- The number of "top-tier" groups—those with consistent production records, strong internal management and governance, and diverse funding sources—rose 45 percent, from an average 4 groups per city to 5.5 groups per city.

Gains in CDC performance have not occurred evenly across all 23 cities. Nor are even the best systems yet firmly rooted for the long term. But many of the local systems have improved because more money is flowing to the field, local leaders are stepping up to help CDCs by formulating neighborhood strategies and collaborations, and the need to build CDC capacities is finally receiving serious attention.

CDC capacity grew most in cities that did not have a long history of CDC activism. When the four largest cities in terms of CDC operating budgets—New York, Chicago, Philadelphia, and Newark—are excluded, CDC operating budgets increased by 80 percent in four years.

During the past six years, the newer community development systems—in NCDI cities without a long track record of CDC activism—started catching up with the more mature CDC environments. The primary reasons are the formation of local cooperative funding arrangements for capacity-building and project development and increased support from local governments.

In the past, there was little relationship between a community's funding for affordable housing and the number of capable CDCs it had. By 1997, the policies, strategies, and programs of the least- and most-advanced cities had begun to converge. Now, the flow of federal funds for community development, and how the local government invests the funds, are the best predictors of CDC strength.[2]

In our analysis of change over time and across cities, we found that at the beginning of NCDI, cities with the same amounts of housing funding flowing into their communities from HUD's HOME and Community Development Block Grant (CDBG) programs had very different numbers of capable CDCs active in poor neighborhoods. This is because cities make different policy choices regarding the role of CDCs in community development—some explicitly favoring CDCs, others not. These choices affect the size and strength of the programs they had created to build CDC capacity and the differing local production systems that were designed to move housing money and projects through the pipeline smoothly.

Because CDCs are rapidly gaining in overall capacity, many cities are relying on them to take on broader, nonphysical development activities, often labeled community-building and including such endeavors as public safety, job training, child care, health programs, and community advocacy. But to be successful at community-building, CDCs must be able to forge collaborations and encourage broad participation of residents and neighborhood businesses. Such work takes time and money.

[2] *By "federal funds" we are referring to HUD's HOME program, Community Development Block Grant (CDBG) program, and the Low-Income Housing Tax Credit, which are allocated to state and local governments by formulas. HUD's contribution to NCDI itself is separate from these programs.*

In our examination, we saw CDCs increasingly becoming involved in forms of community-building, including such activities as comprehensive planning; development of facilities for child, health, and human service programs; service delivery; and community organizing. These programs build on the CDCs' store of "social capital," often acquired through the sponsorship of successful physical development projects. But we also noted that such work often depends on the energy of individual CDCs and is not usually supported with consistent funding streams made available in a systematic way.

2. CDC capacity has grown because of the inflow of new money, expertise, and leadership to the community development field. Formation of new local collaborations among business, private philanthropies, and city government has been a powerful catalyst for bringing these new resource commitments.

New local collaborations to supply project funding and core operating support are the institutional revolution of the 1990s for CDCs.

New local collaborations to supply project funding and core operating support are the institutional revolution of the 1990s for CDCs. These alliances attract new funders, provide a more coordinated approach to decisionmaking, stabilize potentially fickle public policies, help to introduce better practice, and raise the visibility of the community development field.

Much of the improvement in community development capacity since 1991 is the result of more money being channeled to CDCs and their projects. Federal funds available to local governments for affordable housing almost doubled between 1991 and 1994. In one-half of the NCDI cities, local experts judged that private development capital had become significantly easier to obtain since 1991.

Since 1991, CDCs have gained access to more money than before, particularly the type of funding needed to increase capacity and program output. Public money is vital to this field, because the cost of CDC-developed housing and other projects often cannot be recaptured in the sale or rental price without some form of subsidy. The growth in federal support for affordable housing is an important element of CDC expansion. The introduction of the federal HOME program in 1992, by one estimate, doubled the amount of subsidy funding available for investment at the local level, helping the affordable housing industry to partially recover from the deep cuts of the early 1980s. Even while localities were absorbing this new resource, the percentage of all federal housing dollars devoted to nonprofit housing groups grew from 16 to 37 percent between 1990 and 1995.

In Los Angeles, **LISC took a two-pronged approach to helping CDCs make a difference in their neighborhoods. In NCDI Round I, LISC worked with a number of local funders to create a multi-year core operating support program for selected CDCs. NCDI loan funds became available to CDCs that received grants from this collaboration, enabling the groups to undertake more and larger projects than they had previously accomplished. In NCDI Round II, seeing that state housing money was less available (and that land costs were making the development of housing harder than ever), LISC chose a strategy that funded a small number of high-performing CDCs to become involved in health care issues. One CDC developed a health care training program; three others worked with local providers to develop more extensive health care programs in their communities.**

In Philadelphia, **CDCs had been active for many years but had not yet achieved the levels of productivity and support their backers expected. To provide visibility and to meet a pressing need on the part of low-income residents for affordable housing, LISC reasoned, CDCs needed to show they could produce housing units at greater volume than before. So LISC drafted an NCDI workplan that stressed rental housing—particularly because it could be done at volume, even in a city dominated by rowhouses. LISC worked with CDCs, the city, and the state to streamline the approval process for rental projects, enabling CDCs to develop almost 500 rental units in the first three years. LISC used NCDI loan funds to front predevelopment and construction costs to the CDCs, which later received permanent loans from the city, the state, and private lenders. At the same time, LISC used its NCDI grant funds to help local foundations create a new program to fund CDC operating costs.**

Increased availability of financing from private lenders is another major community development story of the 1990s. Many lenders—especially banks—became more supportive of CDC projects. The Community Reinvestment Act (CRA) is partly responsible. But increased bank activity is also the result of banks' growing positive experience with CDCs and their products, as well as the new public subsidies that have boosted the supply of bankable projects. As they gain expertise in affordable housing and economic development, lenders are becoming more comfortable with CDCs. Intermediary organizations and local collaborations have likewise helped CDCs gain access to more resources, including early project risk capital and predevelopment loan funding.

The proliferation of core operating support programs has been of enormous significance to the field. These multi-year, multi-funder programs provide funding for CDC operations, allowing CDC directors to plan better for the future, devote more time to project development, and pursue a variety of community improvement efforts. By 1997, 18 of the 23 NCDI cities had such programs, more than double the number in 1991.

Thanks to the new collaborations, a great deal more attention is being paid to developing talent among CDCs and building organizational infrastructure. CDCs usually limit their activities to tough neighborhoods and build projects that do not generate large financial return or development fees. Their accumulated project inventories usually do not yield management fees in large amounts. In addition, almost all groups are called upon to engage in uncompensated community planning and advocacy, among other activities.

Under this stress, CDCs traditionally had not developed solid strategic plans, good management systems, technically expert staff, asset management policies and systems, board and staff development programs, and other features of organizational proficiency.

Resources from NCDI and other funders have fueled a variety of capacity-building efforts during the past six years to help overcome these weaknesses. Multi-year core operating support programs are a major advance of the 1990s. Now active in most NCDI cities, these programs promote a more sustained and diverse commitment to community-based organizations. Core support programs can also encourage greater accountability among recipient CDCs. At the national level, NCDI resources also went to capacity-building efforts of its two partner intermediaries. In NCDI Round II, $5 million in grant funding was devoted to the creation of programs at LISC and Enterprise to help CDCs review and improve financial management activities. In Round III, $5 million is going to new organizational development programs run by the intermediaries.

The best operating support programs have set a new standard of excellence for the field. These programs demand that CDCs meet tough performance tests in return for support, but also diagnose organizational problems and provide the right technical help, so that groups can meet these tests.

Our research shows that good capacity-building programs make a difference. We found that cities with core operating support programs possessed larger numbers of "capable" CDCs, and that cities where programs demand that CDCs meet performance standards often have more top-tier CDCs.

More civic and business leaders are stepping forward to help CDCs by forging collaborations and articulating neighborhood strategies that give CDCs a meaningful role.

The number of corporate, lender, philanthropic, government, and other community development supporters has expanded significantly since NCDI began. We saw meaningful growth in collaborative arrangements to promote CDC capacity-building, program delivery, and planning. In addition to new and expanded multi-year operating support programs, new project financing relationships also developed—providing resources more efficiently and enabling CDCs to form stronger relationships with a broader group of funders. City governments, too, placed a greater emphasis on CDCs during the 1990s. Although most local governments had not crafted concerted neighborhood revitalization strategies by 1997, most cities were far more likely than before to work with CDCs to further CDC agendas.

Challenges Ahead

How can CDC supporters ensure that CDC progress endures? Troublesome signs suggest that hard work will be needed to keep CDC advances intact.

CDC supporters—including the federal government—must keep capital flowing to CDC projects. Some state governments have undermined support for CDCs by abrupt shifts in the allocation of Low-Income Housing Tax Credits.

The single best predictor of the number of capable CDCs in a city is the amount of federal funding channeled by that city government to neighborhood revitalization. Continued housing and community development funding will be critical to sustaining CDC efforts. Even if federal funding remains constant, the demand exerted locally by the increasing number of capable groups may outstrip the supply of subsidies to fuel projects. Furthermore, even though housing tax credits have been vitally important for many CDCs, several states have made it harder for urban CDCs to compete for the credits by applying allocation formulas that favor lower-cost jurisdictions and thinly capitalized projects.

Even where local governments work well with CDCs—and this does not always happen—local governments often cannot deliver community development programs effectively.

Cities play a critical role in community development—they deliver capital, dispense vacant and surplus property, participate in capacity-building collaboratives, and perform myriad other functions. We found that cities that worked most closely with CDCs showed the greatest community development gains. But changes in political leadership and policies can unsettle stable working relationships. At worst, electoral change can bring in mayors who are unsympathetic to CDCs. Major shifts from rental to for-sale housing production can disrupt predicted flows of project support and require CDCs to learn entirely new production, financial, and marketing tasks.

One of the most troubling findings of our field research was the disappointing performance of many city agencies in delivering basic community development services.

Even though mayors and top city leadership can be supportive of CDC agendas, too often these policies are not implemented in supportive ways. One of the most troubling findings of our field research was the disappointing performance of many city agencies in delivering basic community development services. Especially damaging was city governments' inability to transfer abandoned or tax-foreclosed properties to productive use.

Continuing financial and managerial vulnerabilities of CDCs means that the capacity-building programs that have proven so effective must be sustained. But many of these programs are coming to the end of their term, and it is important to continue them or similar efforts.

Even as CDC production totals grow, several large CDCs have collapsed or downsized. Their problems include a failure to strengthen internally to match production growth, a reliance on inconsistent funding, thinness in staff capacity, and difficulties with project management. Especially worrisome are signs that the financial health of some CDC-owned real estate is in jeopardy; such property normally serves a low-income clientele and is often operated on a thin margin, making it financially risky.

The operating support programs for CDCs in NCDI cities are a major factor in local CDC system improvement. All of these programs expire within the next four years, and renewal is not certain. Most programs are new, and it is not clear that the initial funders' commitments will be sustained over the long haul—or that local funders and CDCs are looking at other options for permanent support.

CDC practitioners still are not linked closely enough with one another and to sources of information about best practices.

Facing a daunting array of tasks, CDC leaders and staff have too little time to network—particularly with their counterparts in other cities. Few have sufficient time to stay abreast of state-of-the-art programs and project development techniques.

Recommendations for the Field

As NCDI enters its next round, supporters of community development should strive to achieve even better results and to sustain the impressive gains made over the past six years.

Specific efforts should be made to retain the hard-won system gains of the past six years.

Although most NCDI-supported cities have seen improvements in their community development systems—some quite substantial—these systems are typically still fragile. We urge continued funding for the operating support programs that have proven effective and for the project financing partnerships—some of them still informal—that have increased CDC production.

The role of intermediaries in community development should be sustained and strengthened.

In this report, we emphasize the formation of new local collaborations to channel money and expertise to the community development sector. The two NCDI intermediaries—LISC and Enterprise—have been critical to the creation and strengthening of these institutions. For this reason, we conclude that the NCDI founders were right to use intermediaries as a way to build sector capacity.

Intermediaries must continue to play a vital role in community development. LISC and Enterprise—along with the Neighborhood Reinvestment Corporation, the Housing Assistance Council, and others—will act as important supporters of CDCs. Therefore, we encourage national foundations, as well as federal, state, and local governments, to sustain their finding of intermediary activities. For example, HUD has made grants to intermediaries to continue their system- and capacity-building activities.

New York City's LISC workplan in Round I of NCDI reflected the city's sophisticated CDC network and track record. The plan provided grant and loan money for up to 12 CDCs to develop child care / Head Start centers in, or associated with, housing projects the groups were developing. While affordable and convenient child care was identified as a need in most New York neighborhoods, few centers were being planned or established, and nonprofit organizations had been excluded from developing centers by a cumbersome city development system. LISC hoped to simplify that system, using its housing work as a precedent. Unfortunately, the city's system proved even harder to break into than expected, and LISC and its partners did not develop as many child care centers as expected—although LISC was able to apply the lessons learned in New York to a new national effort in child care development.

Funding resources for community development should be solidified and expanded.

Federal money—put to work with private capital—has generated large increases in CDC housing production. Private money has driven the creation and expansion of local capacity-building programs. We urge the administration and Congress to expand federal programs that channel money into neighborhoods—including Community Development Block Grants, the HOME program, and Low-Income Housing Tax Credits. We call on financial institutions and community advocates to work together to sustain and increase the flow of credit to community development programs.

Dallas was another "new" CDC environment. Enterprise developed an NCDI workplan that emphasized building local capacity and an efficient system of delivering project-development financing for the young CDCs. The result was that more than $1 million in NCDI grant funding went to nine CDCs. Enterprise became administrator of the city's HOME-funded CDC capacity-building program and worked with local lenders, the city, and the state to make project financing more available to the CDCs. Enterprise brought new resources to the CDCs and encouraged joint venture development and collaboration as development tools. One of the successes of this approach has been the partnerships of a large bank and several CDCs in South Dallas.

And we urge philanthropic institutions (and other funders, as well) to continue funding community development, nationally and locally, and to emulate, where possible, the outstanding collaborative funding arrangements we found so effective.

Community development practitioners and their allies need to find more effective ways of positively engaging local and state governments.

Poor or mediocre public sector community development programs are the most serious roadblock to CDC system progress. At the city level, poor delivery slows projects, encourages haphazard project planning, and chokes the money flow away from qualified groups and projects.
At the state level, resource allocation formulas discourage development in many inner-city communities and encourage undercapitalization of housing projects. We call on CDCs and their supporters—including national foundations and agencies—to engage local and state officials in frank discussions about the field and its promise. Local funding collaborations offer one model. We also urge HUD to take steps to more aggressively monitor cities' capacity to carry out the community development programs it funds (understanding that this may take congressional support). Other steps might include periodic report cards to mayors and governors evaluating the effectiveness of their programs or highlighting successful agency reforms.

NCDI's funders should take advantage of NCDI's national stature to promote the field nationally and locally.

NCDI, the largest ongoing collaboration of its type in the field, is unprecedented in philanthropy and community development. NCDI funders have a platform from which to speak to others. At the local and state levels, NCDI funders can make an impact by undertaking targeted conversations about community development with political leaders, agency directors, corporate and philanthropic representatives, and lenders. At the national level, NCDI funders can share the field's accomplishments and promise with congressional and executive branch leaders to encourage their greater participation. Among the stories that should be told is HUD's valuable participation as a partner with the private sector in NCDI. NCDI funders also can provide a platform for sharing best practices.

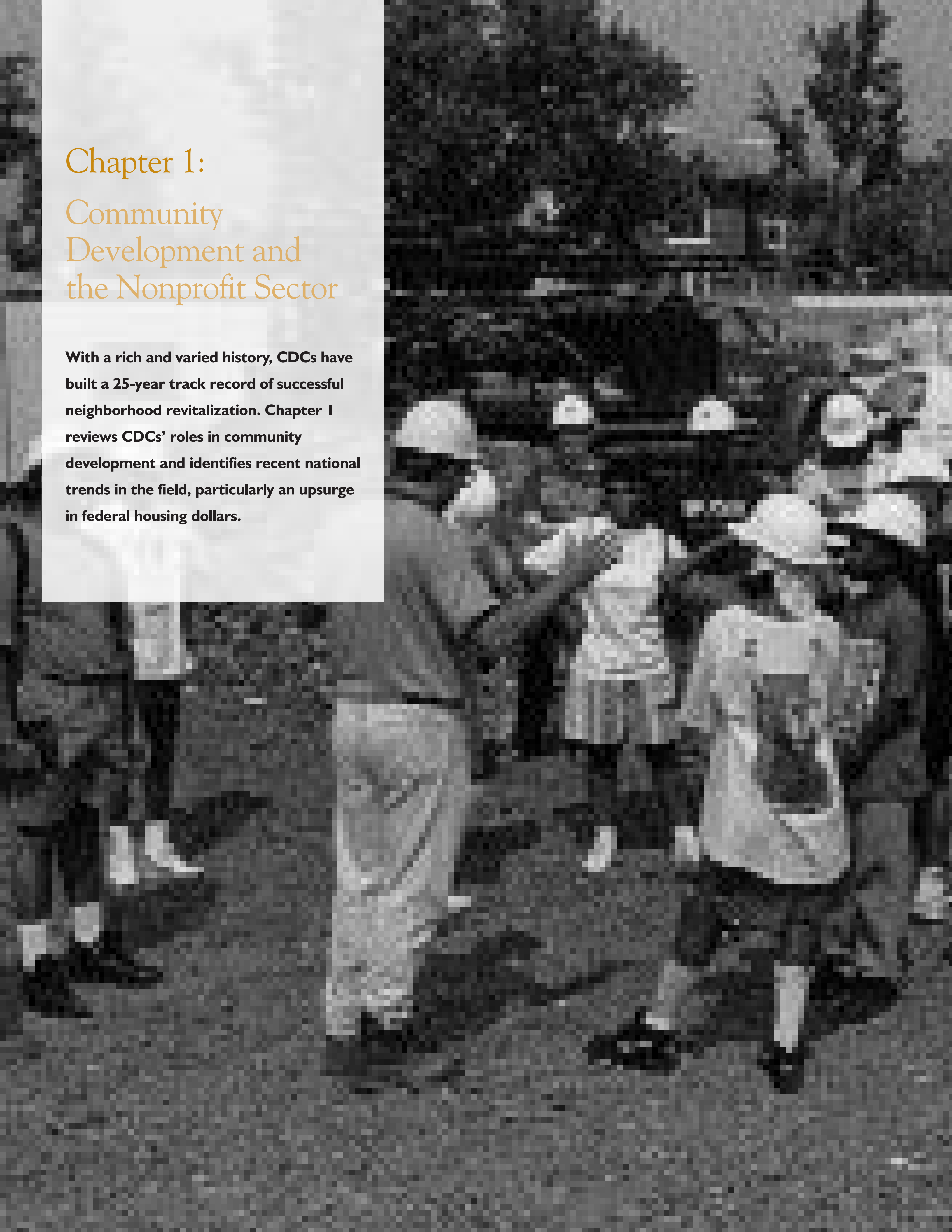
Expanding CDC agendas into community-building should continue, but cautiously—such as when long-term flexible money and other support for expansion can be secured.

CDCs have the desire and the basic tools with which to expand work into nonphysical development areas, including the child care, job training, economic development, school reform, and anti-crime efforts that are often referred to collectively as community-building activities. But pushing CDCs to expand activities too fast can cause harm. CDCs as a group are still small and fragile organizations. Engaging in community-building is a complex undertaking for most. Practitioners and funders alike recognize the need to encourage CDCs to play a role, either directly or in partnership, in broader agendas. To expand activities into community-building, CDCs will require a steady infusion of outside funding. Cities have not yet secured long-term, systematic funding for community development programs beyond bricks and mortar development. We therefore urge caution in making big leaps into community-building—even while we encourage the CDC field to seek long-term and flexible money for local systemwide engagement in this area.

Pushing CDCs to expand activities too fast can cause harm.

Basic CDC operations still need considerable attention.

Growth of the community development field cannot be sustained if CDCs' organizational needs are not addressed. Despite the generalized gains in most NCDI cities, CDCs are still relatively small, relying on outside money and facing growing demands to expand their activities. We urge public and private funders to extend the successful local operating support programs that have developed in recent years, including an expansion of the technical support that is linked to carrying out performance-based standards. We also encourage CDCs and their allies to examine ways to help CDCs make do with limited funding—through joint ventures among CDCs and others, intelligent downsizing and specialization, and a search for new resources.



Chapter 1:

Community Development and the Nonprofit Sector

With a rich and varied history, CDCs have built a 25-year track record of successful neighborhood revitalization. Chapter 1 reviews CDCs' roles in community development and identifies recent national trends in the field, particularly an upsurge in federal housing dollars.

Summary

This chapter examines the rich history of CDCs and their current focus. We review the forces that have made housing the predominant focus of CDC activities—in particular, the rising tide of federal funds for these projects. We discuss some of the challenges these organizations face in trying to bring about neighborhood change—and how NCDI has tried to address those challenges by investing in local partnerships to channel money and expertise to the CDC sector.

This chapter highlights the central role of federal housing funds in sustaining the CDC industry nationally and in the 23 NCDI cities. Charts and tables provide a graphic overview.

CDCs' history is rich and varied, with a 25-year track record of successful community revitalization. The most advanced organizations have moved beyond developing individual projects and are coordinating fragmented programs, implementing strategic redevelopment activities, and mobilizing residents. At the other end of the spectrum are hundreds of CDCs that have only recently begun to take on development tasks. Questions about organizational effectiveness and scale have long plagued the CDC sector.

NCDI was created to help build the local institutions that will support CDC capacity, forge new production systems, and encourage community involvement in neighborhood change. The idea was to establish or reinforce local systems capable of consolidating community development gains to lay the groundwork for future growth and to allow the experience of the best CDCs to become the norm for the rest of the sector.

In launching NCDI, its founders hypothesized that:

- An effective way to revitalize poor communities is to support CDCs. These nonprofits are uniquely positioned to help plan and coordinate investments by major public and private actors, implement strategic development projects, and promote new forms of resident participation in community decisionmaking.
- Effective community development requires that national funders devolve decisionmaking to local communities, supported by the technical, financial, and organizational strength of the national intermediaries.
- Investments in local community development should leverage "systems change"—that is, they should create new and sustainable institutions, funding streams, leaderships, and relationships among private and public sectors to support community development.

Housing development has been the mainstay of the community development sector almost since the outset. One reason: that is where the money is. Contrary to popular perception, our research shows that funds flowing into private sector housing production from the U.S. Department of Housing and Urban Development (HUD), while not equaling 1970 levels, have increased substantially in the 1990s compared with 1980s levels. And the share going to CDCs and other nonprofit housing developers has likewise grown significantly. Of the $6.4 billion in HUD funding for housing in 1995, CDCs and other nonprofits used $2.4 billion.

The importance of these inflows of new federal housing funding cannot be overstated. Coupled with nonprofits' increasing use of housing tax credits, they are largely responsible for the growth in the CDC sector since 1991.

Growth in the sector is also reflected in the rise in the operating budgets of CDCs and housing nonprofits since 1990. In the 21 NCDI cities for which we have information, CDC operating budgets increased from about $200 million in 1990 to $325 million in 1994 (the last year for which operating budget figures are available)—a 63 percent increase.

Community Development and the Nonprofit Sector

Many definitions of community development have been put forth over the years, and we will not labor to construct a new one. For this report, we define community development as a concerted effort by public and private actors to stimulate financial, social, and human capital investment in low-income neighborhoods.

CDCs' history is rich and varied.

Successful community development requires the involvement of a large cast of characters—public and private. The public sector participants include federal, state, and local agencies. Private sector players span an even wider gamut, from nonprofit organizations and religious institutions to for-profit developers, property owners, realtors, financial institutions, retailers, banks, investors—and more. Much of what community development strives for on the financial investment side is to stimulate local real estate markets or to change how local retail, labor, and credit markets function. Similarly, on the human capital side, achieving community development objectives requires the direct involvement of the private sector—especially private employers.

In this report, we focus on one type of community developer—the nonprofit community development corporation. Over the past quarter century, CDCs have been developing affordable housing and commercial space, crafting economic development programs, and sponsoring an array of community-building activities. Most CDCs also help to broker and coordinate the delivery of social services by other groups to neighborhood residents. CDCs are controlled by residents and located in the neighborhoods they serve. Their multifaceted approach to self-help has begun to show success in energizing community residents and revitalizing local markets.

Community development corporations did not spring forth full-grown like Athena from the head of Zeus. They have a rich and varied history. Importantly, the sector is not monolithic. For example, although CDCs have the reputation for being small, some are quite large. New Communities Corporation in Newark employs over 1,000 persons.

CDC origins are also diverse. The flagship, well-capitalized CDCs funded by the Title VII program in the 1960s—and the bank-sponsored CDCs of the 1970s—bear little resemblance to the faith-based and grassroots organizations that also emerged. The diversity of origins may have important implications for the sector's ability to respond to new community development challenges. Some have argued that CDCs established in the 1980s and 1990s lack the strong tie to communities that marked an earlier generation of organizations, formed during the confrontational 1960s.

Housing development has been the mainstay of the community development sector almost from the outset. Urban policies since the 1950s have stressed physical renewal of neighborhoods. While funding streams changed throughout the 1960s and 1970s, the underlying rationale for physical development did not. Avis C. Vidal, in a 1997 article, "Can Community Development Reinvent Itself?" explains the philosophy. CDCs took on housing, she writes, in the belief that "replacing housing would stabilize the population, restore the functioning of the housing market, and reestablish the market for commercial activity that would, in turn, support new businesses to fill vacant lots and boarded-up storefronts."[1]

Housing development has been the mainstay of the community development sector almost from the outset.

Some CDCs took on the difficult task of fostering economic development through commercial revitalization and business assistance programs. Most did not, however, because few cities supported these initiatives systematically with community development dollars, and for-profit developers crowded out nonprofits in the competition for the limited federal funds available. Although cities often contracted with nonprofits for social services, these tended to be highly specialized organizations; most cities never considered them agents of neighborhood change.

The federal government is also responsible for CDCs' heavy focus on housing. Federal programs enticed CDCs into housing development to the virtual exclusion of other activities. Importantly, however, housing was also a strategic choice for many CDCs. Housing investments had direct payoff. Unlike investments in social services, housing activities produced visible change that CDCs believed would help build a community's confidence to confront other issues. Housing development also built a track record that impressed funders.

Questions about CDCs' organizational strength and scale have plagued the field.

If community development's history is firmly rooted, so, too, are the challenges facing the field. Problems of coordination, for example, have plagued community development since the 1960s. The Model Cities program in 1965—and the Community Development Block Grant program that followed in 1974—sought to address the problem of fragmented and categorical efforts to spur community change. Today's calls for comprehensive or "holistic" approaches to neighborhood change echo these earlier efforts.

Questions about the effectiveness of CDCs have also been around for years. The results achieved by community developers during the 1970s and 1980s were not that prodigious when measured against the backdrop of rising neighborhood deterioration.

[1] *Avis C. Vidal, "Can Community Development Reinvent Itself?"* Journal of the American Planning Association, *Autumn 1997 (63:4), pp. 429–38.*

But even though many of the challenges faced by community developers are endemic, much has changed since the early days. Today, low-income neighborhoods have a complement of community corporations that did not previously exist. Indeed, through our analysis of the best available evidence, we conclude that not only have CDCs made considerable strides nationally, and in most NCDI cities, but the new systems that have been established to support their work have become the best starting point for new, and potentially more successful, community development initiatives in the future.

NCDI's objective is to help bring CDCs to scale by building and nurturing local community development support systems.

By the 1990s, the number of CDCs had grown rapidly from the few dozen or so in the 1970s to more than 2,000. Despite the rapid expansion, however, most of the sector, as shown by several studies, remained incapable of producing more than a few housing units per year—and certainly nowhere near the scale needed to change neighborhoods. Policymakers easily discounted CDCs—even strong groups—when considering how to address neighborhood problems.

Today, low-income neighborhoods have a complement of community corporations that did not previously exist.

NCDI was launched as a concerted initiative to help bring the CDC movement to scale. NCDI's founders agreed to channel their funds through two major national intermediaries—the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation—to overcome the chronic problems of undercapitalization and limited resources that had long plagued the field. NCDI's strategy—to invest in the creation of new local partnerships that would channel money and expertise—deliberately sought to raise the technical and financial capacity of CDCs. The idea was to create local systems that could consolidate community development gains and lay the groundwork for future growth.

NCDI's founders hypothesized that:

- An effective way to revitalize poor communities is to support CDCs. These nonprofits are uniquely positioned to help plan and coordinate investments by major public and private actors, implement strategic development projects, and promote new forms of resident participation in community decisionmaking.
- Effective community development requires that national funders devolve decisionmaking to local communities, supported by the technical, financial, and organizational strength of the national intermediaries.
- Investments in local community development should leverage "systems change"—that is, such investments should create sustainable institutions, funding streams, leadership, and relationships among private and public sectors to support community development.

Importantly, NCDI also seeks to expand our knowledge about the community development field. To date, most of what we have learned about the size, finances, and other characteristics of the community development sector has been cobbled together. The National Congress for Community Economic Development, for example, has conducted three census studies of the field—most recently in 1995—but these data have not been made available to researchers, and the quality of the census has never been verified. Nevertheless, we do have a fairly good understanding of some elements of the sector, confirmed by recent data.

Federal housing dollars drive the nonprofit housing sector.

Much—perhaps most—public funding for nonprofit community developers is federal. In the past, HUD funded the construction and rehabilitation of affordable housing through programs such as Section 8 and Section 221(d)(4). These programs ended in the early 1980s, sharply reducing the flow of federal funds for housing. Nevertheless, nonprofit housing production expanded in the late 1980s, funded primarily by local governments using federal Community Development Block Grant (CDBG) dollars. A number of smaller programs of the 1980s also supported nonprofit housing development.

The proportion of federal housing dollars that flow to CDCs and other nonprofit housing developers has been rising in the 1990s, according to research from the Urban Institute.[2]

In 1990...
Nonprofit housing projects accounted for about 16 percent of federal housing dollars, excluding Low-Income Housing Tax Credits.

In 1995...
Nonprofit housing projects accounted for about 37 percent of federal housing dollars, excluding Low-Income Housing Tax Credits.

Moreover, during the 1990s—contrary to popular perceptions—the volume of federal dollars flowing into private sector housing production has increased dramatically compared with amounts spent in the late 1980s. By one estimate, the creation of the HOME program in 1992 approximately doubled the amount of housing subsidies available for investment by local governments.[3]

The importance to community development of these inflows of new federal housing funding cannot be overstated. Coupled with nonprofits' increasing use of housing tax credits, they are primarily responsible for the growth in the CDC sector since 1991.

[2] *Christopher Walker, "The Status and Prospects of the Nonprofit Housing Development Sector," in* Housing Policy Debate *(1995, Vol. 2).*

[3] *The Urban Institute,* Implementing Block Grants for Housing: An Evaluation of the First Year of HOME *(Washington, D.C.: U.S. Department of Housing and Urban Development, January 1996).*

Table 1.1
Nonprofit Share of Federal Housing Subsidies, 1995
(Dollars in millions)

	Total Outlays	Amount to Nonprofits	Nonprofit Percent of Total
Homeownership Programs			
CDGB Owner-Occupied	$733.1	$64.5	8.8
HOME For-Sale Housing	$197.3	$32.2	16.3
HOME Owner-Occupied	$292.9	$0.0	0.0
Section 515 RTHA	$572.0	$29.0	5.1
Section 502 RTHA	$1,199.0	$36.0	3.0
Subtotal	$2,994.3	$161.7	5.4
Rental Housing Programs			
Section 202 Elderly	$1,297.0	$1,297.0	100.0
Section 811 Handicapped	$387.0	$387.0	100.0
CDGB Rental	$599.8	$173.9	29.0
HOME Rental Rehabilitation	$677.8	$275.2	40.6
Housing Tax Credits	$494.9	$133.6	27.0
Subtotal	$3,438	$2,249	65.4
Subtotal Less 202/811	$1,772	$583	32.9
Total Federal Programs	$6,433	$2,410	37.5

Source: Urban Institute, 1998.

Table 1.1 illustrates the sources of federal funding for housing production and shows the amount and share of that funding spent by CDCs and other nonprofit developers in 1995. The numbers are production figures only; they do not include capacity-building dollars, social service money, or other support that is not allocated to specific housing projects.

Of the $6.4 billion in federal funding for housing in 1995, CDCs and other nonprofits spent $2.4 billion.

Using the figures from table 1.1, we can estimate the share of federal housing funds available for CDCs and other housing nonprofits in urban areas.

More than $600 million in 1995 federal housing funds went to urban CDCs and other housing nonprofits …

To arrive at this estimate, we made the following calculations and assumptions:

1. We began with the $2.4 billion in federal housing spending flowing to the nonprofit sector in 1995.

2. We subtracted the rural production programs operated by the Farmers' Home Administration because these funds do not go to cities.

3. We subtracted the CDBG owner-occupied rehabilitation program spending total, because that money goes primarily to programs in which nonprofits act as pass-throughs, or program managers.

4. We subtracted the Section 202 elderly program dollars and the Section 811 handicapped program funds that, for the most part, fund single-purpose (and often single-project) nonprofits.

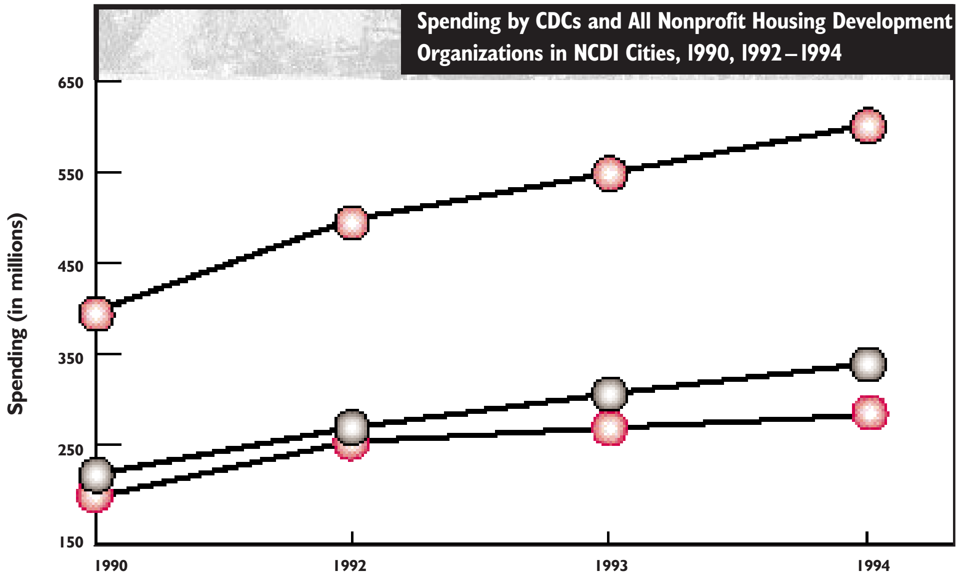
5. The remainder—$583 million in rental housing production funding and $32.2 million in HOME for-sale housing production funding—totalled more than $600 million in 1995 funding for urban CDCs and nonprofits. About one-third of federal funding for rental housing production is allocated to nonprofit projects.

Spending by CDCs and other housing nonprofits has been rising in NCDI cities.

Next, we examined trends in spending by CDCs and nonprofits in the 23 NCDI cities. We looked at the larger universe of both CDCs and nonprofit housing developers that are not CDCs because local community development systems, in fact, comprise many more organizations than CDCs alone.

To determine spending patterns, we used the Urban Institute's National Center for Charitable Statistics database, which contains the IRS Form 990 tax filings for the tax years 1990, 1992, 1993, and 1994 for all nonprofit organizations in the country that are required to file a tax return (those with incomes over $25,000). While conducting field investigations for this project, we compiled a list of nonprofit housing organizations for each city, then asked local LISC or Enterprise staff to distinguish between nonprofit developers, CDCs, and nonprofits that are not engaged in development. We then linked information from 1990, 1992, 1993, and 1994 to measure trends in spending in the 23 NCDI cities.

CHART 1.1



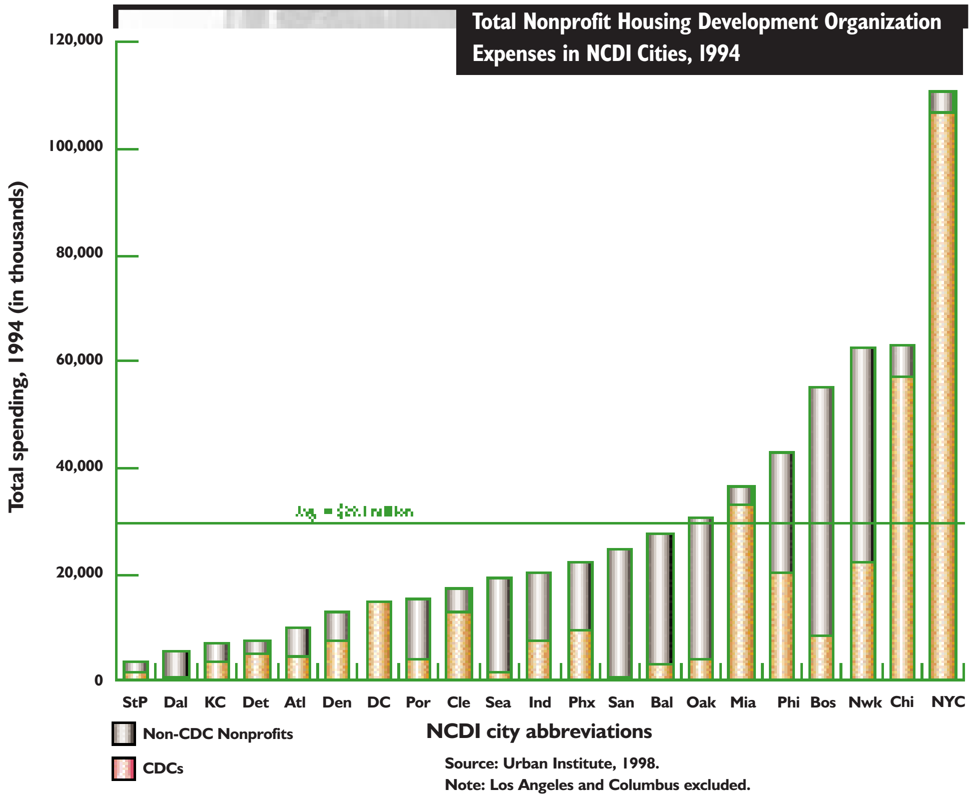
Source: Urban Institute, National Center on Charitable Statistics database, 1998.

Chart 1.1 shows the results.

- In the 21 NCDI cities for which we have information, spending by nonprofit development organizations rose between 1990 and 1994 from $375 million to about $575 million, a 53 percent increase. This corresponds to a compound annual increase of about 11 percent.[4]
- CDC spending in these cities increased from about $200 million to $325 million between 1990 and 1994, a 63 percent increase. This corresponds to a compound annual increase of about 13 percent.
- CDC and non-CDC nonprofit spending totals were roughly comparable in 1990, but after that, CDC spending rose faster. In 1994, CDC spending accounted for 57 percent of the spending in the sector as a whole.

[4] *We used spending, not revenues, because some organizations report multi-year grants as income for a single reporting year, thus distorting estimates of change over time.*

CHART 1.2

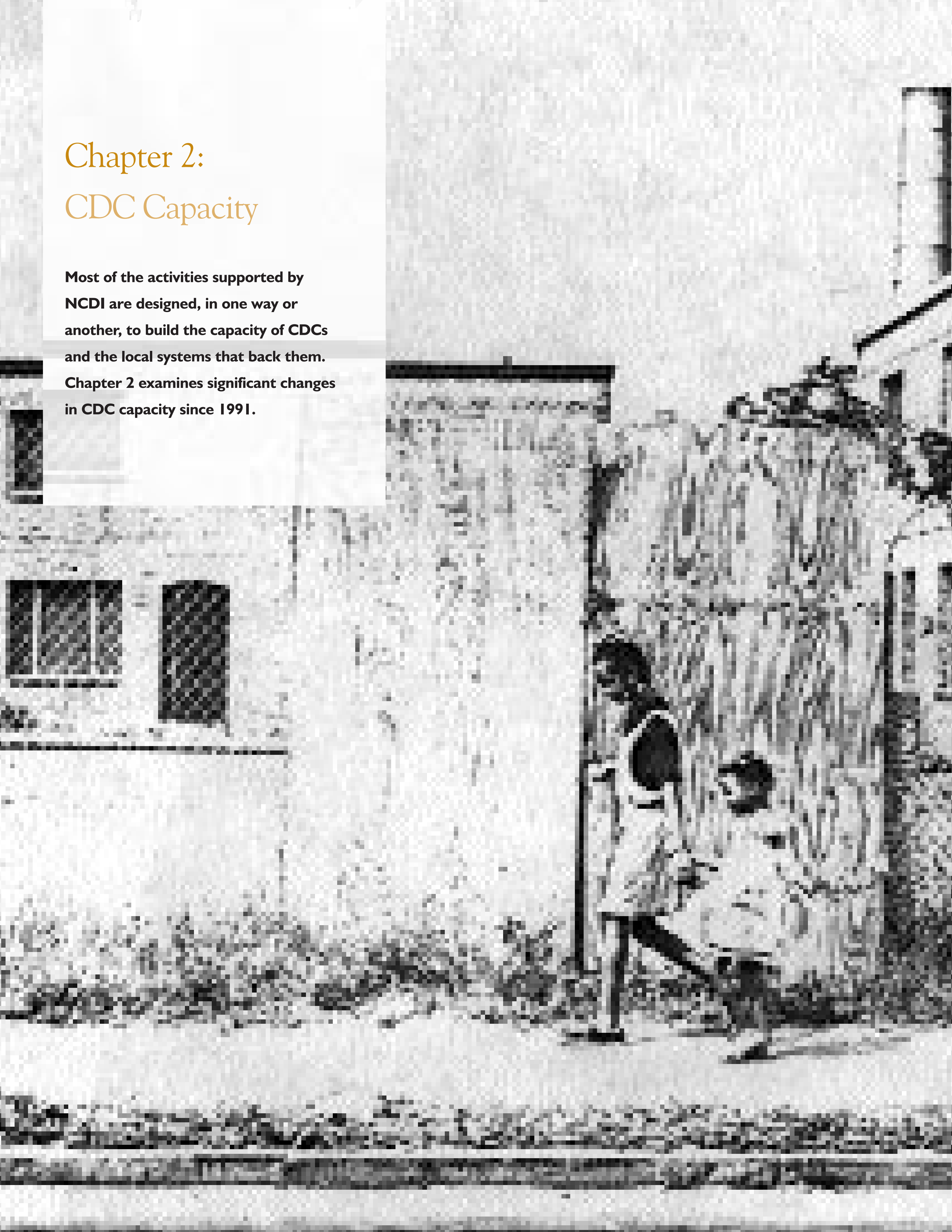


Nonprofit sector housing spending varies across NCDI cities—as does the proportion accounted for by CDCs.

Chart 1.2 illustrates overall spending by the nonprofit housing sector in NCDI cities in 1994—and the percentage of that spending accounted for by CDCs. We see that in some cities where CDC spending is relatively low, the rest of the nonprofit sector accounts for a fairly large amount of total expenses. For example, CDC spending in Boston, Baltimore, and Oakland (used because it has the highest concentration of CDCs within the San Francisco Bay Area NCDI program) is quite modest—but these same cities are about average, or above-average, in total nonprofit sector spending. Overall, the average spending by the nonprofit housing sector in 21 NCDI cities in 1994 was $29.1 million. We look again at CDC spending levels when we assess the organizational capacity of CDCs across NCDI cities, which is the subject of the next chapter.

Chapter 2:
CDC Capacity

Most of the activities supported by NCDI are designed, in one way or another, to build the capacity of CDCs and the local systems that back them. Chapter 2 examines significant changes in CDC capacity since 1991.



Summary

Most NCDI-supported activities are designed, in one way or another, to increase the number of strong CDCs in NCDI cities. In some communities, this has meant programs to boost the productive capacity of existing CDCs. In others, the focus has been on creating new CDCs. In every community, the goal is improved CDC management systems, better-trained board members and staff, and strengthened relationships with other local organizations and neighborhoods residents. CDCs registered solid gains in capacity between 1991 and 1997.

Three CDC capacity measures were used in this assessment:

- The number of CDCs rated by local experts as "consistently capable" of producing at least 10 housing units per year.
- The number of top-tier CDCs—i.e., those that produce 10 units or more annually *and* are considered to have solid local reputations for effective management, governance, and ties to neighborhood.
- The size and change in CDC operating budgets between 1990 and 1994—a reasonable proxy for organizational capacity to undertake community development activities.

How do cities compare in CDC capacity?

To assess differences in capacity among NCDI cities, we compared the numbers of capable and top tier CDCs in cities that had roughly similar amounts of housing dollars to spend. We also examined changes in these factors between 1991 and 1997.

CDC capacity in NCDI cities.

Mature Cities: Mature community development systems. Already above average in capacity and thus, as expected, did not register high rates of capacity change.	**Boston Cleveland Chicago New York Miami Washington, D.C.**	**New Arrivals in the Top Tier: Above-average CDC capacity. Above-average increases in capacity and capacity distribution since 1991.**	**St. Paul Detroit Philadelphia Denver Baltimore**
Gaining Strength: Capacity growing. Not yet in the ranks of cities with the strongest community development sectors.	**Columbus Oakland Indianapolis Seattle**	**Slow Growers: Slow rates of change in overall capacity since 1991.**	**Atlanta Los Angeles Portland Dallas Phoenix Newark Kansas City San Antonio**

Four factors account for differences in capacity.

- The quality of CDC production and capacity-building programs was the single most important factor explaining the difference between the actual number of CDCs in a city—and the number that same city "should" have based on the housing funds it receives.
- Cities with the strongest capacity-building programs in place in 1991 registered the largest percent changes in the percentage of groups in the top tier of CDCs.
- Cities with the farthest to go in terms of capacity registered the highest gains for most capacity indicators used in this assessment.
- In 1991, the amount of federal housing funding flowing to NCDI cities bore little relationship to the number of capable CDCs in the city. By 1997, that flow was the single best predictor of system capacity.

The number of capable CDCs nearly doubled between 1991 and 1997. And while capacity is not always broadly distributed, our evidence shows that it is becoming more evenly spread among cities. On the spending side, total CDC operating budgets for NCDI cities, taken as a group, rose 30 percent between 1992 and 1994. Cities with large CDC sectors in terms of total operating expenses—New York City, Chicago, Philadelphia, and Newark—tended to grow more slowly than the national average during that period. But overall, CDCs in NCDI cities registered an average growth in operating expenses of 42 percent between 1991 and 1994.

The number of capable CDCs nearly doubled between 1991 and 1997.

Housing production in NCDI cities has also gone up since NCDI began, fueled by the inflow of new federal housing dollars and by increased familiarity with Low-Income Housing Tax Credits. Capacity-building efforts, including those funded by NCDI, have improved CDCs' capacity to plan and implement housing and other development projects.

Among NCDI cities, the institutional profiles of the weakest and strongest community development systems have converged. Today, money has become a significant determinant of system capacity. This implies that large capacity gains in the future will not be achieved simply by reordering the relationship among key players in a local system or even by getting new players to participate. Rather, gains will increasingly be tied to the inflow of new housing funding.

CDC Capacity

To explore differences in CDC capacity among NCDI communities, we constructed two types of capacity measures. The first measures pertain to the *amount* of capacity in a community. The second reflect the *distribution* of that capacity.

METHODOLOGY: CDC Capacity Measures

AMOUNT of Capacity

We used three statistical measures to determine the amount of CDC capacity in a community.

1. Consistently Capable Producers. We asked local experts in each NCDI city to report the number of CDCs in that city that were consistently capable of producing at least 10 housing units per year. We asked them to do so for 1997 and, retrospectively, for 1991, and then we calculated the percentage change over that six-year period. We use this measure to distinguish "capable" CDCs from the potentially large number of CDCs that exist in name only or that produce at such low volumes that collectively they add little to overall sector capability. We selected 10 units as our dividing point because it approximates the median annual number of units in the sector. When possible, we asked a number of local experts to make a list and used those lists to arrive at a consensus estimate.

2. Top-Tier CDCs. We asked the same local experts to tell us which organizations could be considered top-tier CDCs. These are groups that, in addition to producing 10 units or more annually, could be considered to have solid local reputations for effective management, governance, and ties to the neighborhood. Top-tier CDCs have strong boards and staffs, strong internal management systems, and diverse funding bases. We asked the experts to rate top-tier CDCs for 1997 and, retrospectively, for 1991. We then calculated the percentage change over that six-year period.

3. Changes in CDC Operating Budgets. Using data from the U.S. Internal Revenue Service, we examined changes in the operating budgets of CDCs between 1990 and 1994. These figures are indicative of the monies flowing through the sector, which should translate into increased capacity to conduct community development activities. The last year for which operating budget figures are available is 1994. (We recognize that the period for which we have IRS data corresponds to NCDI Round I. In the future, the lag time between the current year and the latest year of IRS data should narrow substantially.)

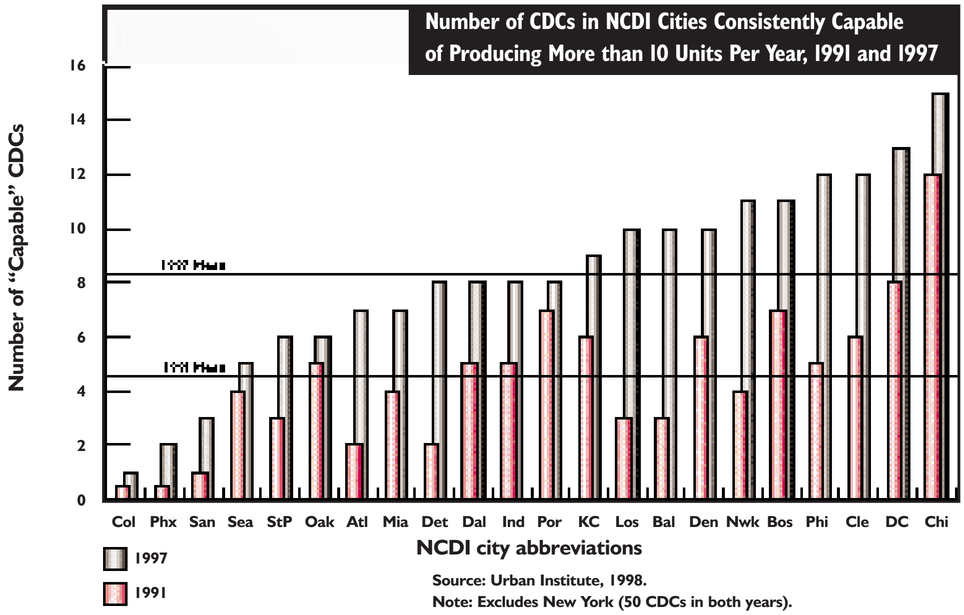
DISTRIBUTION of Capacity

The second group of measures—capacity distribution—refers to how evenly CDC capacity is distributed throughout the group of CDCs in the community. Is capacity highly concentrated in only a few CDCs or distributed more widely among a large number? Our capacity distribution measures include:

1. The percentage of all "capable" CDCs in 1997 that are top-tier groups, and the change in that percentage between 1991 and 1997.

2. The percentage of total CDC operating expenses in 1994 accounted for by the three CDCs with the highest spending, and the percentage change between 1990 and 1994.

CHART 2.1



How do NCDI cities compare on capacity measures?

1. Consistently Capable Producers

Chart 2.1 arrays each NCDI city by the number of CDCs that are consistently capable of producing 10 units per year. The bars show the number of capable CDCs in both 1991 and 1997. CDC strength in NCDI cities is growing—and differences among cities are narrowing.

- The top five cities in terms of numbers of capable CDCs are New York, Chicago, Cleveland, Philadelphia, and Washington. Cities with few capable CDCs are Columbus, Phoenix, San Antonio, Seattle, St. Paul, and Oakland, although several of these have very strong non-CDC nonprofit sectors (see chapter 1).
- As a group, the number of capable CDCs in NCDI cities almost doubled between 1991 and 1997—growing from an average 4.5 CDCs per city in 1991 to 8.3 per city in 1997. This average does not include New York, which had 50 capable CDCs in both years.
- Cities with the strongest gains are Newark, Baltimore, and Los Angeles, each of which went from below-average to above-average numbers of CDCs. Others with strong percentage gains are Philadelphia, Detroit, Atlanta, and San Antonio.

What is most important about the change in the number of capable CDCs is not whether individual cities are gaining more rapidly than others. Rather, it is how broadly the gains are distributed in terms of region, as well as the level of community development distress, the competence of city government, and other factors. The list of strong gainers is fairly well proportioned regionally and includes three cities in the Northeast (Baltimore, Newark, and Philadelphia), one in the Midwest (Detroit), one in the South (Atlanta), and two in the Southwest (San Antonio and Los Angeles).

We should note that gains were not uniform *within* cities. Not all of the capable CDCs in 1991 retained that title in 1997. In other words, even though the aggregate figures indicate broad gains, some groups weakened over the period. Some of this instability is inevitable. However, it is also disadvantageous. The decline of individual groups distracts from the gains of the sector as a whole.

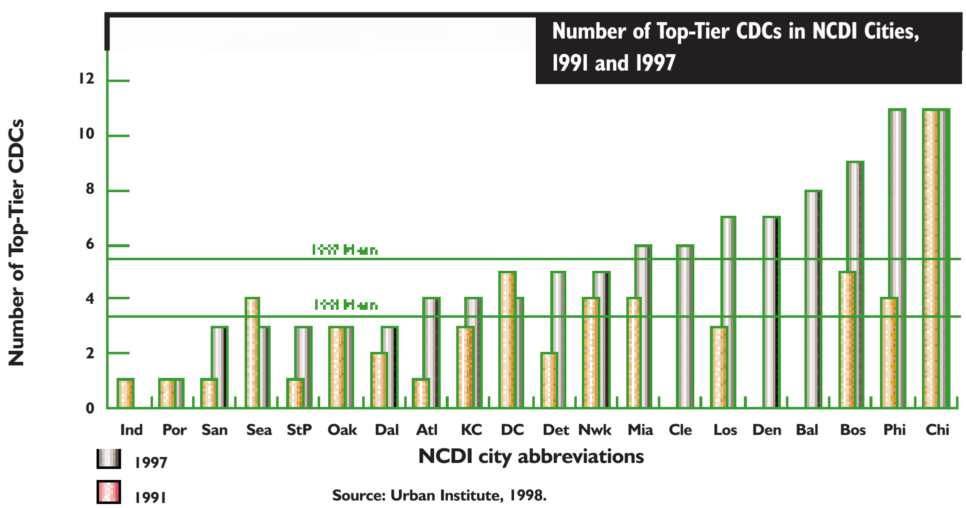
We expect that the increasing strength of formal operating support collaboratives and other capacity-building programs will reduce this instability.

2. Top-Tier CDCs

Not all capable CDCs have equal organizational strength. To distinguish between capable CDCs and those that appear to have solved basic management issues, we asked local community development experts to name the top-tier organizations in their cities.

The resulting group of top-tier organizations may be thought of as the leading edge of the CDC sector. Several words of caution: We did not ask about other nonprofits that may also be strong but are not CDCs. These organizations can be important contributors to the productive capacity of the sector and its reputation. In addition, we emphasize that the top-tier group may contain organizations that are not among the strongest producers or those with the largest budgets. Conversely, a number of the largest producers in NCDI cities did not make our top tier. Finally, we recognize that an expert's consensus is a less satisfactory measure of top-tier status than a CDC-by-CDC inquiry. The solid consensus we found in most cities, however, gave us confidence that we arrived at the correct list.

CHART 2.2



Source: Urban Institute, 1998.
Note: Excludes New York (with15 to 20 top-tier CDCs in each year).
No 1991 estimate for Baltimore, Cleveland, or Denver.

Chart 2.2 shows the number of top-tier organizations in each of the NCDI cities.

- The total number of top-tier groups increased in NCDI cities between 1991 and 1997, rising from an average 3.8 organizations per city in 1991 to 5.5 in 1997. Cities with the most dramatic gains are Philadelphia, Baltimore, Los Angeles, Detroit, Atlanta, St. Paul, and San Antonio. Three cities—Indianapolis, Washington, and Seattle—showed net declines in top-tier groups.
- The list of five cities with the most top-tier groups overlaps the list of cities with the largest numbers of capable CDCs, but not completely. New York, Chicago, and Philadelphia appear on both lists. Baltimore and Boston appear in the top five on the top-tier list, but not on the total capable CDC list. Cleveland and Washington, D.C. appear on the capable CDC list, but not on the top-tier list.

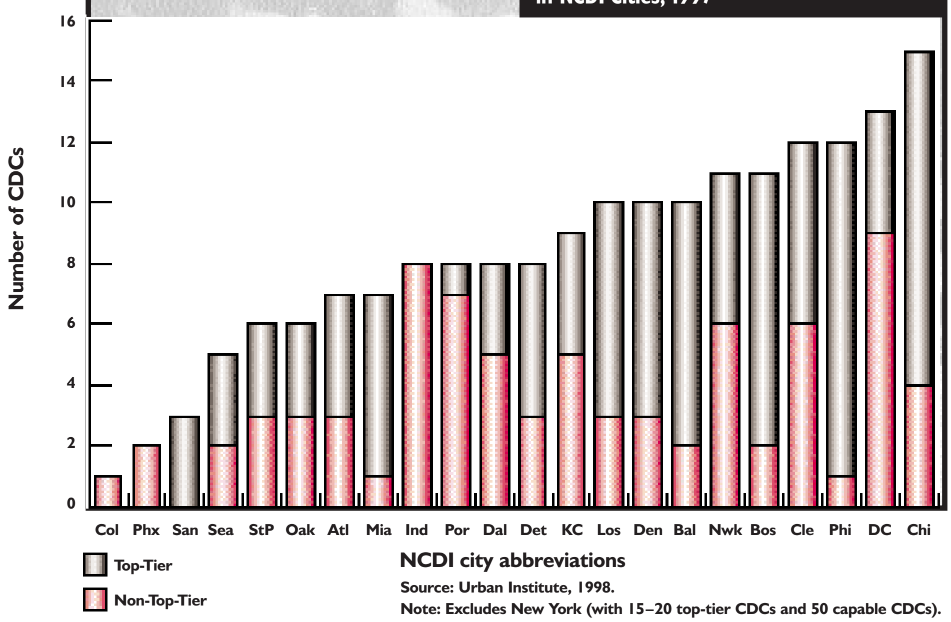
Not all of the groups in the top tier in 1991 retained that status in 1997. In other words, although a city may have shown a net gain in the number of top-tier CDCs, there were entries and exits over the period. In almost all cases, groups that disappeared from the 1991 list did so because they encountered serious management problems, were thinly staffed and could not accommodate staff and leadership changes, or went out of business altogether. In some instances, groups dropped from the top tier because they deemphasized production in favor of housing management or social service provision.

The depth of the top tier—the percentage of all capable CDCs that can be considered top-tier groups—is very different across cities. And in any given community, this percentage may have gone up or down between 1991 and 1997. Taking all 23 NCDI cities together, the percentage of CDCs we rated as top tier remained relatively stable over the six-year period. The percentage of top-tier groups is one indicator of how broadly capacity is distributed throughout the group of capable CDCs. Ideally, all capable CDCs would have the characteristics of top-tier groups.

As chart 2.3 illustrates, the percentage of capable CDCs in the top tier varies considerably across NCDI cities. The bars in the chart are ordered according to the total number of capable CDCs in each system in 1997. Note that the percentage of CDCs in the top tier appears unrelated to this total number. In other words, larger systems with many capable CDCs are just as apt to have concentrated capacity as systems with only a few groups. Among larger cities, in Chicago, Philadelphia, and Boston, 50 percent or more of all capable CDCs were considered top tier. Among smaller communities, San Antonio, Seattle, and Miami have high proportions of top-tier groups.

CHART 2.3

Number of Top-Tier and Non-Top-Tier CDCs in NCDI Cities, 1997



Source: Urban Institute, 1998.
Note: Excludes New York (with 15–20 top-tier CDCs and 50 capable CDCs).

Capacity is more concentrated in the remaining communities, where smaller percentages of all CDCs qualify as top-tier. Although these cities may have substantial numbers of capable CDCs, a lower-than-average percentage of CDCs meets the organizational tests for top-tier groups. Capacity is not broadly distributed in Washington, Cleveland, and Newark among larger communities, and Columbus, Phoenix, Indianapolis, and Portland among smaller ones.

One effect of expansion in the number of capable CDCs in some NCDI cities is increasing concentration of capacity. The number of capable CDCs expanded more rapidly than did the top tier. In six cities, capacity as measured by top-tier status became more broadly distributed. Baltimore, in particular, showed dramatic gains, but the percentage also increased in St. Paul, Atlanta, Boston, and Philadelphia (not shown on any chart). All of this gain is accounted for by increases in the number of top-tier groups; no cities suffered net losses in the number of capable CDCs over the period.

3. Changes in CDC Operating Budgets

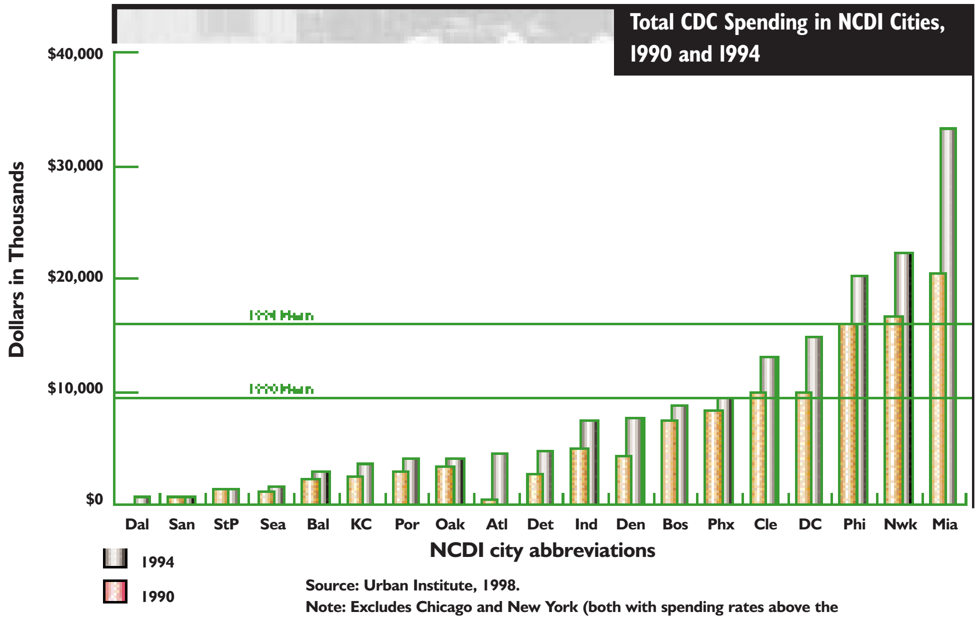
For the first time ever, reliable information has become available on the operating expenses of nonprofit community development organizations, including CDCs. As mentioned in chapter 1, the National Center for Nonprofit Statistics, housed at the Urban Institute, has created a longitudinal database of the IRS Form 990 tax filings of all nonprofit groups in the country with incomes over $25,000 for the tax years 1990, 1992, 1993, and 1994.[1] As part of our research, we generated lists of nonprofits in the categories most likely to include community development organizations, and modified and supplemented the lists based on field research conducted in the summer of 1997. Although we attempted to include as many non-housing developers as possible on the list, among them some CDCs that concentrate primarily on economic development, we suspect our figures may underrepresent CDCs that do not produce housing. We expect that the net effect of these differences on the comparisons made here is slight.

The aggregated operating expense data presented here are intended to illustrate general patterns of variation across cities and change over time. They certainly do not stand alone as indicators of how well cities are "performing." Many factors can influence CDC funding as shown by organizational budgets—especially the strength of the local nonprofit sector as a whole. Some cities historically have relied on citywide nonprofits, and less on neighborhood-based CDCs. Moreover, the 1990–1994 time frame here is not long. Short-term fluctuations in sector funding can distort comparisons. However, we do find that the national pattern shown by these figures supports evidence from other comparisons made in this chapter and gives us confidence in the overall value of the numbers.

[1] *Figures for 1991 are unavailable.*

CHART 2.4

Total CDC Spending in NCDI Cities, 1990 and 1994

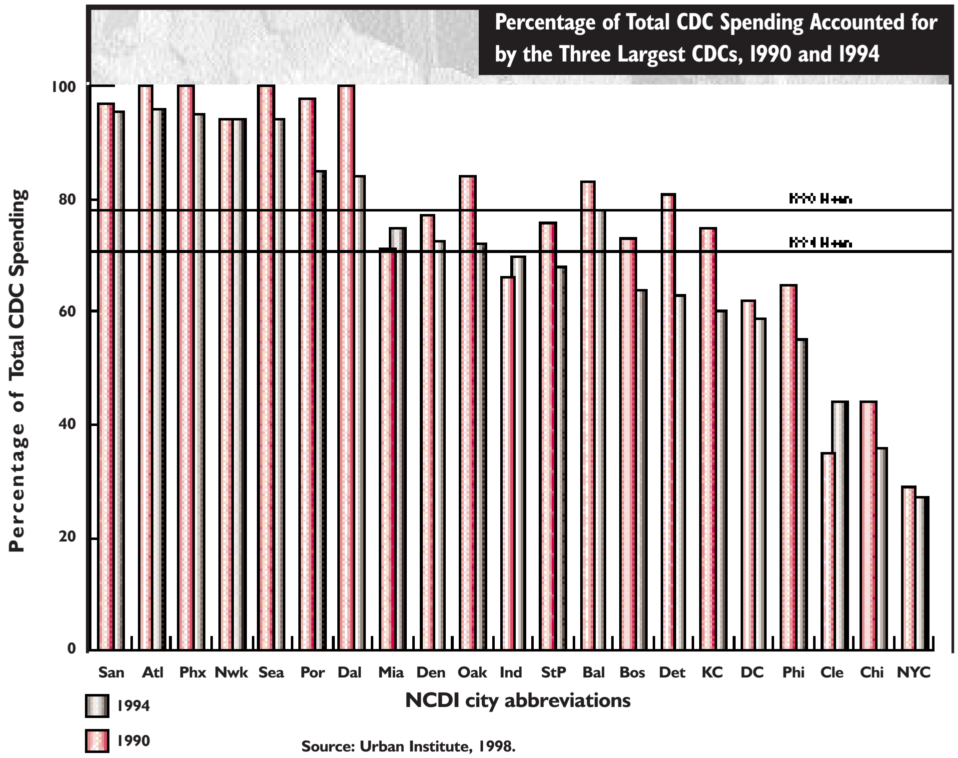


Source: Urban Institute, 1998.
Note: Excludes Chicago and New York (both with spending rates above the scale) and Los Angeles and Columbus (which did not provide data).

Findings from this research confirm the general broadening of CDC strength as measured by changes in numbers of organizations. In every NCDI city, operating budgets for CDCs as a group increased between 1990 and 1994, sometimes substantially. Chart 2.4 shows that:

- Average CDC operating expenses in NCDI cities rose between 1990 and 1994 from just under $10 million to $16 million per city per year. In some cities, the growth exceeded 100 percent—Newark, Washington, Denver, Indianapolis, Atlanta, and Portland.
- Even the largest cities in terms of total CDC spending—Miami, Newark, Philadelphia, and Washington, D.C.—increased the amounts spent by CDCs between 1990 and 1994.

CHART 2.5



Source: Urban Institute, 1998.
Note: Chart excludes Columbus and Los Angeles (which did not provide data).

Just as cities differ in their concentration of organizational capacity, they vary in the concentration of spending. Chart 2.5 shows the percentage of total CDC spending in each NCDI city in 1994 contributed by the three largest CDCs in terms of total spending.[2] As we expected, concentration is modestly related to the number of capable CDCs in the city—the more capable CDCs there are, the less spending is concentrated in only a few. There are exceptions. Comparing concentration ratios across cities, the chart shows that:

- On average, the top three CDCs in terms of spending accounted for 71 percent of all CDC spending in 1994 in each NCDI city. The corresponding figure for 1990 was 77 percent, indicating a very slight broadening of CDC capacity over the period, as shown by a reduction in our concentration ratio.
- Cities with the largest number of capable CDCs also are those where concentration ratios are lowest; the five cities with the most CDCs—New York, Chicago, Washington, Cleveland, and Philadelphia—have concentration ratios below 60 percent.
- Because we selected the three largest CDCs to indicate concentration, cities with the fewest CDCs have the most concentrated spending; Phoenix, San Antonio, and Seattle, with the fewest CDCs, have concentration ratios above 90 percent.

[2] *We selected the three largest CDCs as a measure of concentration somewhat arbitrarily. One reviewer suggested a Gini Coefficient—a standard measure of inequality—but the small number of groups in most cities made calculation of the measure not terribly meaningful. Selecting the top 20 percent or some other percentage would have produced the same result.*

As with top-tier CDCs, the composition of the top three spenders also changed between 1990 and 1994 in most NCDI cities. In 13 of the 21 cities for which we have information, one or more CDCs dropped off the list between 1990 and 1994. This is because of declining spending by CDCs on the 1990 list and because smaller CDCs in 1990 increased their spending sharply over the period. Finally, just as total spending tends to be concentrated in the top three CDCs, growth in spending tends to be concentrated as well. Across all cities, upwards of 80 percent of the gain, on average, is contributed by the three CDCs with the largest increase (not shown on any chart). Again, relative concentration across cities reflects, in part, the numbers of CDCs in each city at the beginning of the period.

How does capacity compare across cities?

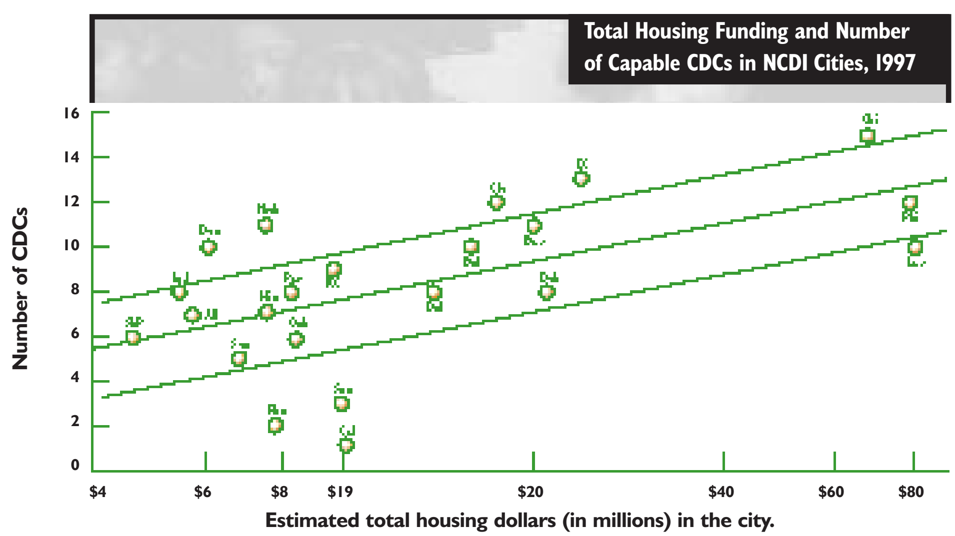
To assess how NCDI cities differ in CDC capacity, we return to the capacity *amount* and *distribution* measures outlined at the beginning of this chapter.

METHODOLOGY: Comparing Capacity among Cities

We looked at how NCDI cities fare on each dimension of our measures of amount and distribution of capacity. We then assessed how the city's ratings had changed between 1991 and 1997 (or, in the case of operating expenses, between 1990 and 1994).

We made a few adjustments in the measures. The numbers of capable CDCs and top-tier CDCs—two key measures of the amount of capacity—were adjusted to take into account the amounts of housing funding in the system. That is because when thinking about aggregate capacity, community development researchers and practitioners mentally discount differences in the numbers of CDCs across communities by differences in the resources available to fund them. In other words, cities with large inflows of housing subsidy *should* have larger numbers of competent CDCs compared with cities with fewer housing dollars. To apply the discount, we estimated the total amount of local funding available to finance affordable housing development from HOME and Community Development Block Grants, and then tied this figure to the number of CDCs in each system.

CHART 2.6



Source: Urban Institute, 1998.
Note: Chart excludes New York, which would be above the band.

Chart 2.6 illustrates the overall relationship between money and CDC numbers across systems. As the amount of funding increases, so does the number of CDCs. In fact, a fair amount of the difference in the numbers of CDCs across systems is "explained" by the amount of money each system has to spend. The relationship is not necessarily direct: CDC strength can only be sustained through a flow of project funding, but CDC strength helps attract that funding in the first place. CDCs, after all, do compete for scarce dollars with other nonprofits, with for-profit developers, and with non-housing uses.

Furthermore, differences in the level and quality of support given to CDCs influence the numbers of capable CDCs and their top-tier status. Nevertheless, very large differences in the amounts of funding available to fuel the sector have obvious implications for how many CDCs can be supported in a given community; Chicago's very large CDC sector would be inconceivable in a city with an allocation of federal housing development funding that is only one-fifth as large.

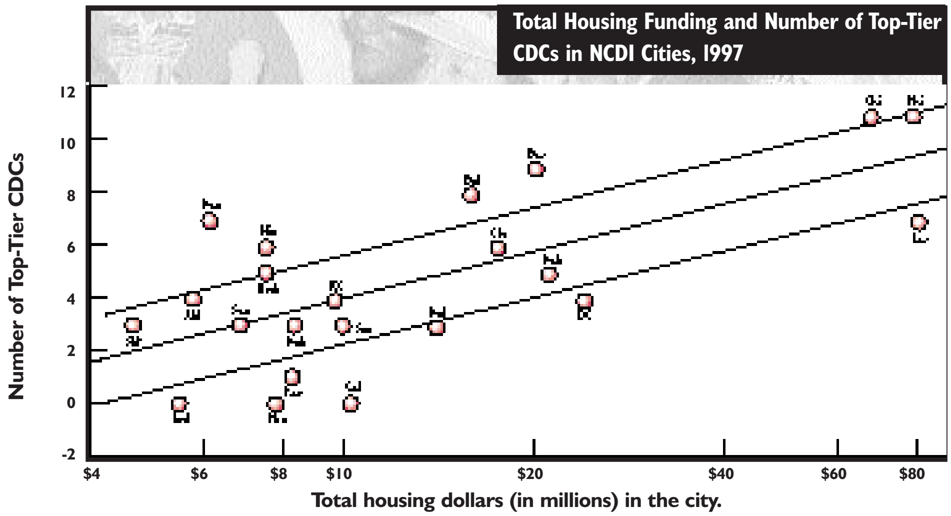
To estimate comparative standing on capacity levels, we created a statistically expected number of CDCs in each system based on the overall relationship between each system's number of CDCs and amount of housing subsidy dollars. This is the middle line shown on the chart. For example, the chart shows that Miami has about the expected number of CDCs, given the amount of money it has to spend; Newark has five more; Phoenix has five fewer.

We created a band around the middle line, as shown by the upper and lower lines on chart 2.6, to account for differences in housing policy, errors in our estimate of system dollars, and other factors that might affect the simple relationship between money and numbers of CDCs.[3] We can say with some confidence that cities falling below the band significantly underperform the group, while cities above the line outperform. Regardless of where the middle line is drawn and the width of the upper and lower bound of "expected" performance, the chart can be used to assess any NCDI city against any other NCDI city with a comparable funding amount.

- Community development systems that significantly outperform the group are those in Chicago, Washington, Cleveland, New York, Newark, and Denver. Other cities that perform well, but fall just within our range of "expected" performance, are Boston, Baltimore, Kansas City, and Indianapolis.
- Systems that significantly underperform the group are Phoenix, San Antonio, Columbus, and Los Angeles. Other cities that barely fall within the range of expected performance are Seattle and Detroit.

[3] *The middle line is a best-fit linear regression line; the upper and lower bands are the boundaries of the 50 percent confidence interval.*

CHART 2.7



Source: Urban Institute, 1998.
Note: Chart excludes New York.

Chart 2.7 shows the relationship between the number of top-tier CDCs and total housing funding.

- Systems that significantly outperform the group are Chicago, Boston, Baltimore, Miami, Newark, and Denver. Other cities that perform well are Atlanta, Philadelphia, and St. Paul.
- Systems that significantly underperform the group are Indianapolis, Phoenix, Portland, Columbus, Washington, and Los Angeles.

To summarize performance on our capacity indicators, we divided cities into three groups based on whether they fell into the top third, middle third, or lower third of systems. Measures of capacity expansion consist of the relative rates of change across NCDI cities in the numbers of competent CDCs, total spending by CDCs, and numbers of top-tier CDCs. To compare cities on capacity expansion and changes in the distribution of capacity between 1991 and 1997 (or between 1991 and 1994), we used five indicators:

- percent change in the number of capable CDCs;
- percent change in total spending by CDCs;
- percent change in the number of top-tier CDCs;
- change in the percent of CDCs in the top-tier; and
- change in the percent of CDC spending accounted for by the largest CDCs (decreases in the share are taken as positive).

We followed a similar procedure to rate change in capacity distribution—the percentage of capable groups in the top-tier and the amounts of funding accounted for by the top three groups. The results of these comparisons are shown in tables 2.1 and 2.2. We emphasize that these comparisons examine the capacity of CDCs taken as a group. They are not measures of the overall performance of production or capacity-building systems.

Among the findings from the comparisons in the tables, we learn that:

- Philadelphia, Denver, and Baltimore are above average in current CDC capacity and also have above-average increases in capacity and capacity distribution in the 1990s. These cities are, in effect, the new arrivals to the top-tier of CDC systems. Up-and-comers are St. Paul and Detroit.
- A group of relatively mature systems are above average in current capacity, but have not registered high rates of change, as would be expected from already well-developed cities. This group includes Boston, Cleveland, Chicago, New York, and Miami, and possibly Washington, D.C..
- Atlanta and Los Angeles have not yet arrived in the ranks of cities with the strongest sectors, but they have gained strength in the 1990s.
- The final group includes cities that have shown relatively slow rates of change in overall capacity in the 1990s—Columbus, Indianapolis, and the San Francisco Bay Area.

Table 2.1
NCDI City Ratings in 1997

	Capacity		Capacity Distribution	
City	**Number of CDCs**	**Number of Top-Tier CDCs**	**Percent in Top-Tier**	**Percent Spending by Top three CDCs**
Chicago	+	+	+	+
Denver	+	+	+	0
Cleveland	+	0	0	+
New York	+	+	-	+
Baltimore	0	+	+	0
Boston	0	+	+	0
Miami	0	+	+	0
Philadelphia	0	+	+	+
Newark	+	+	0	-
Kansas City	0	0	0	+
Washington, D.C.	+	-	-	+
San Francisco Bay Area	0	0	0	0
St. Paul	0	0	0	0
Detroit	0	0	0	0
Atlanta	0	0	0	-
Seattle	0	0	0	-
San Antonio	-	0	+	-
Portland	0	0	-	-
Indianapolis	0	-	-	0
Los Angeles	-	-	+	
Dallas	0	-	-	-
Columbus	-	-	-	
Phoenix	-	-	-	-

Source: Urban Institute, 1998.
Note: "+" = higher third, "0" = middle third, "-" = lower third
"Number of CDCs" and "Number of Top-Tier CDCs" are relative to funding levels; see chart 2.6.

Table 2.2
Change in CDC Capacity and Capacity Distribution, 1991–1997.

	Capacity			Capacity Distribution	
	Comparative Increase in			Increase in	Decrease in
City	Number of Capable CDCs	CDC Expenses	Number of Top-Tier Groups	Percent of CDCs in Top-Tier	Pct of Total Expenses by Top Three CDCs
Baltimore	+	0	+	+	+
Atlanta	+	+	+	+	0
Philadelphia	+	0	+	+	0
Detroit	+	0	+	-	+
Dallas	0	+	0	0	+
Denver	0	+			0
St. Paul	0	-	+	+	0
Los Angeles	+		+	-	
Newark	+	+	0	-	-
San Antonio	+	-	+	0	-
Kansas City	-	0	0	0	+
Portland	-	+	-	0	+
Phoenix	+	0	-	0	0
Boston	0	-	0	+	0
Cleveland	0	0			-
New York	-	0	0	+	-
Washington, D.C.	0	+	-	-	0
Columbus	0		-	0	
Miami	0	0	0	-	-
Indianapolis	0	+	-	-	-
San Francisco Bay Area	-	-	-	0	+
Seattle	-	0	-	-	0
Chicago	-	-	-	-	0

Source: Urban Institute, 1998.
Note: "+" = higher third, "0" = middle third, "-" = lower third.
Please note that a "-" does not signify decline; almost all cities gained on all categories over the time period.
Note also that expense categories refer to the period 1990–1994.

Why Does Performance Vary?

Throughout the remainder of this report, we explain differences in performance among cities and the reasons performance has changed. The bottom line: there are no simple explanations for why cities differ from one another in community development system capacity—and why they change at different rates—although we can explain some changes more easily than others. Moreover, no single measure of strength explains it all. Cities can do well on one measure but not well on others. That said, here are some of the major explanations for differences in system performance and change that we explore:

- Most of the difference between the number of CDCs in a city and the number it "should" have on the basis of its amount of housing funding can be explained by the quality of its production and capacity-building programs.
- In 1991, there was little relationship between a system's housing funding and its numbers of capable CDCs. By 1997 housing funding is the best predictor of the number of capable CDCs. We think that a revolution in local institutions, described in the following chapters, has brought about a closing of the gaps among systems.

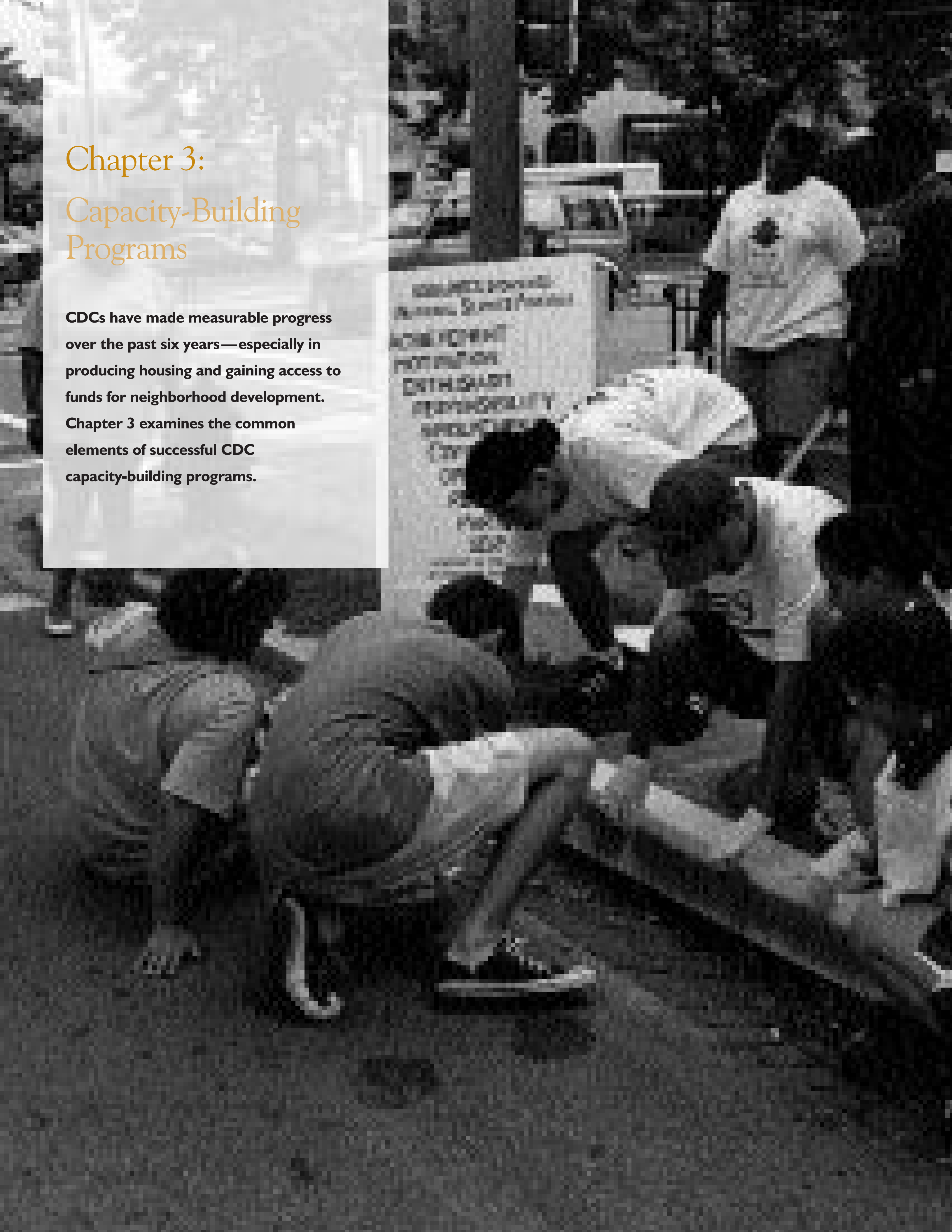
Both percentage increases in a city's capable CDCs and total CDC spending were related to the influx of new housing funding (statistically), but relationships were not strong; changes in the numbers of CDCs also were related to creation or improvement of capacity-building programs.

- No structural relationships clearly explain the number of top-tier CDCs in 1997 or the percent change in the number of top-tier groups between 1991 and 1997, although in some cities a case could again be made for targeted capacity-building programs.
- Cities with the strongest capacity-building programs in 1991 also showed the largest percent changes in the percentage of groups in the top-tier between 1991 and 1997. In other words, sustained capacity-building tended to produce broadening of CDC capacity throughout systems.
- For most change indicators, the cities with the farthest to go registered the highest gains—that is, the greater the percent change in the number of capable CDCs between 1991 and 1997, the lower the baseline number of competent CDCs in 1991.

Chapter 3:

Capacity-Building Programs

CDCs have made measurable progress over the past six years—especially in producing housing and gaining access to funds for neighborhood development. Chapter 3 examines the common elements of successful CDC capacity-building programs.



Summary

Over the past six years, CDCs have made measurable progress in building their capacity to undertake community development, especially to produce housing and gain access to funds. This is important because, as a group, CDCs historically have performed unevenly in developing and managing real estate, planning for neighborhood change, and managing their organizations. Scarce and highly uncertain financial support was the major reason for this.

The recent advances are the outcome of CDC capacity-building programs initiated or supported by the national intermediaries and their local partners. This chapter examines these programs. We define CDC capacity and capacity-building, judge the efforts undertaken to date to boost CDC capacity, and highlight successful capacity-building activities.

Capacity is not simply the ability to produce more and more housing units. Capable CDCs can successfully carry out each of the functions below. Programs to build this capacity can include core operating support, training, grants to individual CDCs, project-related technical assistance, and the use and promotion of local CDC associations.

Five components of capacity are most important to CDC performance:

Planning,
Resource development,
Internal operations and governance,
Program delivery, and
Networking.

The number of CDC capacity-building programs in NCDI cities has increased substantially since 1991. By 1997, 18 of the 23 NCDI cities had formal, multi-year CDC operating support programs, more than double the number in 1991. NCDI monies—particularly grants—have been helpful in forming or expanding local capacity-building programs, and in attracting other, local funds. Almost 300 CDCs received some assistance from NCDI-supported capacity-building programs.

Comprehensive operating support programs are most valuable.

Of all types of capacity-building programs, the new generation of comprehensive operating support programs has been especially important. Comprehensive programs supply core operating funds to CDCs, link that money to training and technical assistance, and set performance standards that CDCs must meet if they are to receive continued support. Earlier operating support programs did not always tie funding to technical help or hold CDCs accountable.

Characteristics of the strongest CDC capacity-building programs:

Provide multi-year funding from multiple funding sources.
Incorporate performance measures.
Encourage strategic planning.
Formally assess the needs of recipients.
Link needs assessment to technical help.

The best operating support programs strengthen local community development systems by involving a range of local resources and leaders, broadening knowledge of community development's potential and needs. Our data show that:

- Cities with core operating support programs have more capable CDCs than cities without such programs.
- Cities where performance standards are included in core support programs often have more top-tier CDCs than cities that do not establish standards.

Other factors contributing to CDC capacity include good working relationships among the institutions that support community development, cooperative local governments, and leaders who can attract the support of a broad array of local institutions.

Most capacity-building programs pay careful attention to CDC financial management and reporting. Many also have components specifically addressing other internal management and operational needs. While capacity-building programs primarily attend to the five key components of CDC capacity, the best programs also provide an opportunity to build a more prominent and permanent place for CDCs within the city's local funding and political environment.

Capacity-Building Programs

Since 1991, NCDI financial investment in CDC capacity-building has been significant. The Local Initiatives Support Corporation (LISC) and the Enterprise Foundation have used more than $11 million of funding from NCDI Round II—and as much as $38 million in combined Round I and II funds—to support capacity-building activities in NCDI cities. An additional $9 million in Round II funds supported national capacity-building programs. These included intermediary-run management support programs to assess CDC capacity and recommend improvements to financial management, board, staffing, and other organizational systems. They also included a human capital development initiative (funded jointly with the Ford Foundation) to work with local partnerships to improve CDC staffing and attract new, diverse talent to the field.

The best programs provide an opportunity to build a more prominent and permanent place for CDCs within the city's local funding and political environment.

Their size alone warrants a look at these programs and initiatives. But more important, NCDI also provides lessons that can help inform the field about the state of current practice and its impact on CDCs. We have seen measurable progress in CDC capacity-building. These efforts explain much of the increase in the numbers of capable and top-tier CDCs, as reported in Chapter 2. CDCs' growing capacity has also been important in attracting new funding to the sector, as we review in Chapter 4.

Capacity is not just the ability to undertake more housing projects.

For many observers of the community development field—even for some within the industry—CDC capacity means more production. This view assumes that the more physical outputs, the better. If a CDC can produce 10 housing units this year, the reasoning goes, in a few years it should consistently produce 50 to 100 units annually.

This view of capacity, while widespread, focuses narrowly on only one aspect of CDC activity, and is misleading. In fact, the field recently has seen the demise or downsizing of several highly "capable" CDCs—able to develop large numbers of housing units—even though they had achieved large scale. Moreover, many in the industry, including NCDI funders, believe CDCs should do more than physical development and are encouraging a wider community-building focus, as we discuss in Chapter 5. If defining capacity solely in terms of real estate development misses the broader point of most CDCs, then how should capacity be defined? For this assessment, we assume capacity includes at least five major components.[1]

Components of CDC Capacity

1. Ability to plan effectively. Strong CDCs have a good handle on community assets and needs and develop a vision for what revitalization activities fit the neighborhood dynamic. Community planning should include opportunities for the CDC to gather input from the residents and neighborhood businesses and build those stakeholders into the vision-setting process. A CDC must plan internally also, matching its own assets, programs, partnerships, and skills with its vision for the neighborhood.

2. Ability to secure resources. CDCs need a great deal of external support—including grants, loans, contracts, and technical help—to accomplish their objectives. A capable CDC can assemble adequate resources from a variety of places, including the "profits" of the projects it develops. Its funding base should be relatively stable, without wide annual fluctuations.

3. Strong internal management and governance. CDCs must be able to manage their resources effectively and account for funds and programs. As some of the recent troubles at several large, older CDCs attest, an ability to develop projects does not automatically translate into capable management of internal operations. CDCs need internal systems that reflect sound business principles of accountability and can support multiple CDC programs. CDC boards must represent their communities, govern competently, and interact well with staff.

4. Program delivery capacity. A CDC must develop programs effectively, including the planning, packaging, development, marketing, and ongoing management of its assets. CDCs should be able to estimate program outcomes reliably and meet those expectations. Increasingly, CDC programs include the "softer" human service components in addition to physical development.

5. Ability to network with other entities. To carry out its multiple roles, a CDC must be able to find and work well with other organizations. A capable CDC can interact with a variety of public and private entities to accomplish revitalization goals. Potential CDC partners range from local and state governments and private sector funders to technical assistance providers, other neighborhood organizations, private developers, and human service deliverers. Also important, CDCs must maintain sound relations with neighborhood residents and businesses, whose involvement and support of community revitalization is necessary, and who are often touched by a CDC's outreach and organizing work.

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[1] *Norman Glickman and Lisa Servon, in "More than Bricks and Sticks: What Is Community Development 'Capacity'?" (Center for Urban Policy Research, Rutgers University, 1997), also include five components of CDC capacity. However, they do not address a CDC's planning needs. They also separate the networking component into two capacities.*

Our assessment reveals that locally developed and operated capacity-building programs vary, depending in part on the environment in which CDCs operate and the level of maturity of the CDCs. Not all capacity-building programs look alike.

Five types of capacity-building programs are represented in NCDI's cities.

1. Core operating support programs

These multi-year, multi-funder programs provide significant money to CDCs, which are selected based on criteria developed by participating funders. These programs fund more than one group at a time and can be linked to other types of capacity-building, such as training. (Because of the importance of these programs, we discuss them at some length later in this chapter.)

2. Training

A number of NCDI cities have developed CDC training programs as major capacity-building elements. Several are comprehensive, addressing all of the components of CDC capacity, while others concentrate on only one or two.

- Cleveland's local community development intermediary—Cleveland's Neighborhood Progress Inc. (NPI)—has created Quantum Leap, a multi-year training and technical assistance program addressing project and organizational issues. NPI selects CDCs based on formal proposals submitted by the groups. The proposal describes the CDC's organizational status and needs and commits the board and staff to attend training. Training is offered in group and individual sessions, depending on subject matter, with follow-up monitoring and assistance provided by NPI.
- In San Antonio, the local Enterprise Foundation office sponsors a two-year training program featuring monthly sessions on a variety of organizational and project development topics. Local experts and national practitioners serve as trainers. Enterprise staff monitor specific follow-up tasks.
- Many observers link the large growth of CDC capacity in Indianapolis to project development training sponsored by LISC in cooperation with the local community development intermediary and LISC's Detroit office. Funded with NCDI grants, the months-long program dealt with many project development issues and enabled CDC executive directors to request and get expert follow-up help on specific projects.

3. Grants to individual CDCs

Some cities have made grants to individual CDCs to build capacity. In some cases, the grants supplemented the multi-year operating support already given to enable a CDC to respond to a specific concern. (In other cases, grants substituted for the core operating programs.)

- The Kansas City LISC office created a three-year capacity-building grant program to help CDCs create homeownership programs. The grants allow CDCs to hire staff to handle the special development and financing issues that pertain to development of for-sale housing. The sponsors expected that the three-year time frame would enable most CDCs to begin earning project fees sufficient to replace LISC capacity-building grants. (In practice, however, few CDCs could do that.)
- In some cities, intermediaries have used NCDI funds to create "mini-operating support programs" when funding partners were not available or had not yet committed their support. In Dallas, for example, the Enterprise Foundation used NCDI funds to make grants to nine CDCs, supporting the same activities that multi-funder programs support in other cities. Enterprise chose the recipients based on competence and potential and monitored the CDCs' progress. Their strategy was to demonstrate the effectiveness of

such an effort and attract other funders into a larger program. The strategy worked. Enterprise went on to secure funding from the city's HOME program to complement NCDI-supported grants.

4. *Learning by doing*

One of the oldest forms of capacity-building in the field is assistance for projects. By developing projects, the theory goes, CDCs gain credibility, a track record, confidence, and the connections with funders they need to undertake other functions—including community-building. Learn-by-doing programs remind us that CDC capacity has to be related to delivering a product. Capacity is not an end unto itself. The work of intermediaries in most cities reflects a belief in this approach.

- In Miami, the local LISC office used NCDI funds to help selected CDCs plan and develop larger-scale projects than the groups had previously developed. LISC felt that the experience gained by doing more complex projects would lend credibility and contacts to the CDCs, which, in turn, would need less technical aid in later deals. Because of the complex nature of the local funding community, Miami's experience has been mixed.

5. *Use and promotion of local CDC associations*

Some NCDI localities have promoted and used state or local CDC associations as part of their capacity-building programs. These associations can help deliver training to CDCs and coordinate industry advocacy and promotion. They also can be a place where CDC leaders meet to exchange views, learn from one another, and form networks.

- Enterprise used a CDC association to deliver training in Washington, D.C., as did LISC in Newark. As a result, Washington's association became more focused on the delivery of training on a variety of topics, and New Jersey's statewide association focused more on the needs of Newark's emerging CDCs.

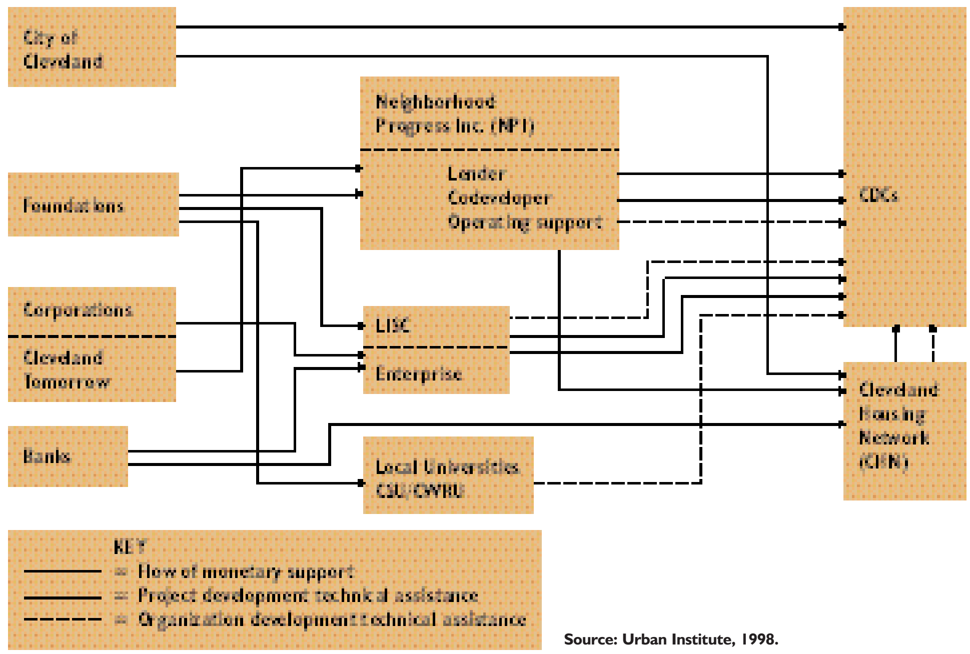
NCDI capacity-building programs reflect common themes.

While NCDI cities use different combinations of these techniques to build CDC capacity, similar concerns or themes underlie them all. One theme is attention to financial management and reporting. Programs in most NCDI cities have components directly related to increasing CDCs' ability to track, account for, and maximize the use of diverse funding resources. Elements include training sessions on accounting and understanding financial statements and cash flow, funds to buy and install computer hardware and more sophisticated accounting software, and training on use of the software. Attention to financial management acknowledges the complexity of CDCs' resource bases, as well as the need to demonstrate credibility to public and private funders.

Many local programs also have components specifically addressing other internal management and operational needs—including establishment of personnel and purchasing procedures, development of business plans, and instruction of CDC board members on their governance and fiduciary responsibilities. Components include training, individual technical assistance, mentoring for young groups, and written examples of policies, procedures, and documents.

A number of local capacity-building programs include training sessions and grants to encourage CDCs to form alliances with other community-based entities. Quite a few local programs also help participating CDCs develop and maintain more, larger, and more diverse programs and projects. We have already cited Kansas City's program to help CDCs develop ownership housing at scale for the first time. More recently, some cities have begun to address CDC asset management needs. These include training and one-on-one technical assistance programs targeted to help CDCs

EXHIBIT 3.1 - CLEVELAND CAPACITY-BUILDING SYSTEM



Source: Urban Institute, 1998.

manage large numbers of rental housing units developed under the tax credit program. Philadelphia, Indianapolis, and Cleveland have such programs.

Clearly, capacity-building programs primarily attend to the key elements of CDC capacity. But these programs also provide an opportunity to build a more prominent and permanent place for CDCs within the city's local funding and political environment. The best programs build awareness of the multiple goals of community development, the competing demands placed on CDCs, the competition for resources, and the fragility and small size of most of the CDCs as organizations.

Capacity-building programs must fit the local environment.

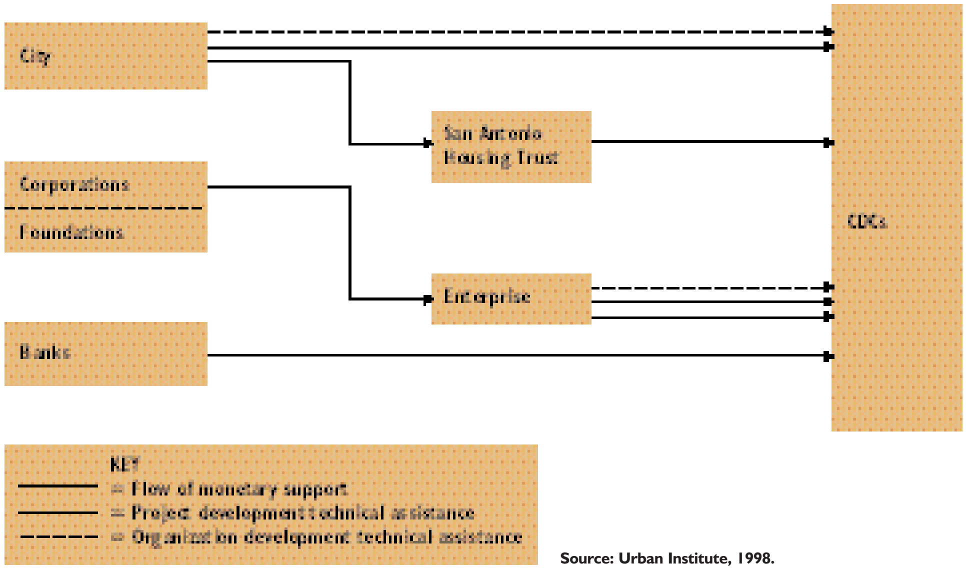
While national models can be helpful, local capacity-building programs need to reflect the funding, resource, and leadership relationships that exist in a city.

Cleveland: Capacity-building in a mature CDC environment

Cleveland's multi-layered arrangement for capacity-building reflects that city's long-term involvement in community development and the presence of several sophisticated entities that can help CDCs.

We illustrate Cleveland's formal, multi-year operating support program in the context of the city's community development environment in exhibit 3.1. It shows how the partners in that very sophisticated system allocate funds to CDCs for organization-building and project-related technical assistance. Foundations, corporations (acting through Cleveland Tomorrow), and banks contribute funds to LISC and Enterprise to provide the technical support. Private funding is also allocated to Neighborhood Progress Inc. (NPI), a local intermediary organization, which in turn provides CDC operating support through the Cleveland Neighborhood Partnership Program (CNPP) and training through Quantum Leap. NPI subsidiaries provide project-related technical assistance and development financing for CDCs.

EXHIBIT 3.2 - SAN ANTONIO CAPACITY-BUILDING SYSTEM



Source: Urban Institute, 1998.

The Cleveland Housing Network centralizes some development functions for its member CDCs on specific types of programs, and also provides technical and financial aid for the functions the CDCs retain separately. Finally, the city supplies operating support to CDCs through the Department of Community Development and individual council members. Universities offer programs in nonprofit management.

Because selected CDCs can draw on NPI funds, they do not need to approach foundations, corporations, and banks individually—a time-consuming process. Further, the allocation of operating support by a private nonprofit ensures minimal political influence on the CDC. Recipient CDCs must meet fairly rigorous tests of performance and planning. NPI money is awarded on a multi-year basis, allowing CDCs to plan organizational development more strategically.

San Antonio: Capacity-building at ground zero

San Antonio's community development environment is much younger than Cleveland's and lacks many of the organizations that can deliver assistance to CDCs. The capacity-building program there, as illustrated in exhibit 3.2, has fewer elements, and centers around Enterprise's role and relationships. Until quite recently, the city had no CDCs with notable development capacity. It now has two, engaged in a variety of projects and programs, and a handful of emerging organizations.

City government, lenders, and the relatively few corporate and philanthropic partners available locally all fund CDCs to undertake projects. A housing trust supported by the city also dispenses project-related financing to CDCs and others. To date, local leaders have not embraced sustained programs to enhance CDC capacity. The city provides core operating grants to CDCs—but does not always relate its grants to CDC performance or need. Until recently, no one provided training or technical assistance. Noting this gap, Enterprise has used NCDI funds to support an ongoing grant program to provide basic support money to selected CDCs, which, in turn, must meet performance standards. Enterprise has also developed monthly training programs for CDC directors and board members to acquaint them with program, project, and funding opportunities and to discuss organizational issues.

Intermediaries have made a big difference in boosting CDC capacity.

Building all of the elements of capacity requires multiple strategies—and a patient timetable. As many commentators on community development have noted, national and local intermediaries now play a valuable role in understanding CDC capacity needs and developing responsive programs. Avis C. Vidal expresses the consensus view of the need for "enhanced organizational capacity to increase the [CDCs'] level of activity." She suggests that this may come about through local support systems that coordinate "financial, technical, and political resources."[2] A study of nonprofit housing developers, funded by the U.S. Department of Housing and Urban Development (HUD), also concluded that CDCs would benefit from "strengthening the flexible nongovernmental intermediary networks" that can offer an array of national supports to the development community while remaining flexible and responsive to local needs and opportunities. Moreover, HUD's study concluded, such capacity-building support should be awarded to CDCs "that achieve some basic performance threshold."[3]

Intermediary organizations provide access to a broad array of resources and local leadership, and they understand the needs of community development organizations.

The intermediary organizations and partnership arrangements described in these and other studies have staying power. They provide access to a broad array of resources and local leadership, and they understand the needs of community development organizations, partly by virtue of their specialization in the field. Finally, they can attract a network of support for CDC projects and organizational needs, including capacity-building.

Core operating programs appear to have the biggest impact on CDC capacity.

Formal operating support programs that are multi-year, with multiple funders, appear to be the most comprehensive and long-lasting—potentially yielding the biggest impact on CDCs. These programs represent a significant advance over earlier programs, which provided funding for one year only and often were supported only by single funders or city governments that did not always make funding decisions based on merit or support activities with the best results.

What characteristics define a formal core operating program?

To meet our definition of formal core operating support, a local program must satisfy the following criteria:

Multi-year: The program must be multi-year in duration, providing sustained assistance. By contrast, some cities award capacity-building funds to CDCs on a one-time basis, often aimed at helping a CDC achieve progress on an individual project or address a particular issue. The magnitude and effects of these one-time grants—some of which are more project-oriented than capacity-related—are smaller than sustained, formal programs.

Target CDCs: The program must target CDCs for support—as opposed to all nonprofits, or even all housing-related groups—thus providing a high degree of specialization in the types and variety of assistance provided. The formal multi-year operating support programs are typically administered by staff who are knowledgeable about CDCs and community development and who are charged with helping CDCs achieve their goals.

Multiple funders: The program must have more than one funder, reflecting a broad and concerted local vision that CDCs are important and worthy of sustained support. Because they are also multi-year programs, core support funders often can become better acquainted with recipient CDCs and better able to advocate for their causes.

Flexible: The programs must be flexibly administered, with a vision of local priorities and needs. While program models may be similar, each local program must be free to choose how large it wants to be, how many CDCs it will fund and for how long, what standards it will enforce, and how it will be administered.

Nongovernmental: The program must be administered outside of government influence; decisions should be made solely on merit and need and not because of political influence. A handful of formal programs receive funding from local governments or coordinate decision making closely with city agencies—Boston, Dallas, Portland, and Seattle, for example—but maintain independence from political influence. Most assemble funds solely from private sources—including foundations, corporations, and lending institutions—enabling the program to bypass problems of preference.

Formal CDC core operating support programs are growing in number.

The creation of formal core operating support programs is one of the most significant changes in city community development systems during the past six years. Between 1991 and 1997, most NCDI cities created such programs, and in many cases NCDI money was a catalyst—as in Dallas and San Antonio, for example—or at least a helpful ingredient to supplement local resources—as it was in Detroit, Philadelphia, Los Angeles, and Washington, D.C.. Only 8 cities among the 23 had formal operating support programs before NCDI. In addition:

- By mid-1997, 18 NCDI cities had formal multi-year, multi-funder CDC operating support programs. The only cities without such programs were Chicago, Columbus, Kansas City, New York, and Phoenix.
- Most operating support programs generate funds from several local sources, ranging from only a few sources in Indianapolis to 30 funders in Washington, D.C..
- Two of the five NCDI cities without core support programs had them earlier in the NCDI effort. Chicago's program expired. Enterprise and local leaders are reviewing a potential program in Columbus. New York funders have recently announced the formation of a new program. Kansas City funders are beginning to discuss a similar effort. Phoenix is using NCDI grant funds to make capacity-building awards, but the funding is not supplemented with local dollars.

The better core programs tie funding to technical help and performance standards.

While local operating support programs are primarily established to supply operating grants to CDCs, some programs also offer technical assistance and training. Quite often, this assistance addresses needs uncovered by the programs, which may thoroughly assess the needs of recipient CDCs. Programs also may demand that CDCs demonstrate concrete progress against a set of production or organizational performance objectives.

Our research examined whether operating support programs in NCDI cities were linked with technical assistance and training opportunities, and whether they maintained and enforced performance standards. We asked local community development experts and practitioners to help us gauge the strength of these linkages. Table 3.1 illustrates the results. The table combines ratings on three dimensions for 1991 and 1997: the presence of a formal program, linkage to technical assistance, and the use of performance standards. In this way, the table reflects the current status of each city's program and the changes since 1991.

- Nine cities scored in the high ranking category. They had core operating support programs that were closely linked to technical assistance and that used performance standards in judging whether CDCs qualified for continued funding. Only five cities met these criteria in 1991.
- Six cities had operating support programs in the medium-ranking range. Their linkages to technical assistance were weaker than those in the high-ranking cities or they did not use performance standards.
- Eight cities ranked in the lowest category. They either had no core operating support programs or their linkages to technical assistance or enforcement of performance standards were weak. In 1991, 14 cities fell into this category.

Table 3.1
Strength of City Capacity-Building Programs, 1997 and 1991

Ranking	1997	1991
High	Atlanta Baltimore Boston Cleveland Newark Philadelphia Portland St. Paul Washington, D.C.	Boston Cleveland Philadelphia Portland St. Paul
Medium	Denver Detroit Los Angeles Phoenix San Antonio Seattle	Atlanta Baltimore Chicago Dallas
Low	Chicago Columbus Dallas Indianapolis Kansas City Miami New York San Francisco Bay Area	Columbus Denver Detroit Indianapolis Kansas City Los Angeles Miami Newark New York San Francisco Bay Area Phoenix San Antonio Seattle Washington, D.C.

Source: Urban Institute, 1998.

Do core operating support programs make a difference in CDC production?

While many factors influence CDC production levels, we conclude that the presence of formal multi-year operating support programs linked to technical assistance and using performance standards does benefit CDCs and helps contribute to increased outputs.

- All of the cities ranking high in table 3.1 also did well in system CDC capacity (shown in chart 2.6). Each of these cities also had higher-than-expected numbers of capable CDCs (except Philadelphia, which falls slightly below the midline on chart 2.6).
- The record for the operating support programs ranking medium and low is mixed. Of the six mid-ranked core support programs, five cities fall below the midline of expected system performers. Only Denver is above the line. Among the eight low-ranking CDC support programs, three cities are above the line, three are below, and Miami is on the line. New York is not included in the chart 2.6 analysis.
- There is a favorable correlation between the high-ranking CDC support programs and the cities showing the most growth among capable CDCs (as shown in chart 2.1). Of the nine cities with high-ranking CDC support programs, all except Portland registered at least a 70 percent growth in the number of capable CDCs. By contrast, of the eight cities with low-ranking CDC support programs, only one had a capable CDC growth rate above 70 percent. Nine cities have doubled their number of capable CDCs since 1991. Of these, six have high-ranking CDC support programs and three have medium-ranking programs.

Cleveland and Indianapolis: Different approaches to CDC capacity-building.

Not all operating support programs target the same types of CDCs for assistance. Some seek to boost the number of local CDCs by funding all legitimate groups. Others—usually in more mature CDC environments—fund the "more qualified" groups, which tend to be larger or older organizations. By selecting the most promising CDCs for support, these programs concentrate resources into organizations that might use the funding more quickly and effectively.

Cleveland targets the most promising CDCs for support

Cleveland targets its capacity-building resources to the most promising CDCs. When the program began, the local intermediary—Neighborhood Progress Inc. (NPI)—made operating support grants to selected CDCs in two-year cycles through the Cleveland Neighborhood Partnership Program (CNPP). The number of CDCs receiving funding varied in the four initial funding cycles, with as many as 17 CDCs receiving funding in some rounds. Only four groups received funding in all four cycles. In making these grants, NPI emphasized housing production. By 1995, Cleveland CDCs were developing several hundred units a year. The high-scale production volume, however, was not enough to improve the conditions of most neighborhoods, so NPI changed its funding focus.

CNPP makes fewer awards, but they are larger. CDCs are encouraged to examine their organizational needs and to take on projects beyond just housing. The partnership now funds no more than 6 CDCs—out of 40 citywide—with three-year grants of up to $100,000 annually. To qualify, CDCs must demonstrate a successful track record—supported by a favorable organizational assessment. A CDC must also convince NPI that it can make a significant neighborhood impact. NPI recommends that CDCs focus their attention on small but significant sections of their neighborhoods. The CDCs must craft a plan for these target areas, including physical and nonphysical development needs.

NPI also created a training program—Quantum Leap—that works with CNPP recipients and other Cleveland CDCs to provide organizational and project assistance. Each participating CDC must develop a training plan, describing its needs and how training will help the CDC meet overall goals. Quantum Leap receives NCDI assistance as part of the Human Capital Development Initiative.

Indianapolis forgoes performance standards—until CDC progress slowed

CDC capacity in Indianapolis reflects the effects of not developing performance standards. In the late 1980s, the Lilly Endowment and the Indianapolis corporate and public sectors created the Indianapolis Neighborhood Housing Partnership (INHP) to build the capacity of local CDCs, among other tasks. As part of its mission, INHP created a capacity-building program—the Indianapolis Neighborhood Development Initiative (INDI).

Since it began in 1991, INDI has awarded about $1 million annually in operating support grants to 13 or 14 local CDCs. With these grants, several groups have grown to become major housing producers.

Program constraints, however, have limited INDI's effectiveness. In its first year, the program relied on informal performance expectations in making grant awards. These linked directly to project development training sponsored by LISC. Both the expectations and the training eventually dissipated, however, and many in the Indianapolis community development support network began categorizing INDI as an entitlement program. Practically every city CDC received money, and no group, not even nonperformers, had its funding cut off. At the same time, the noticeable progress made by community development in Indianapolis in the early 1990s began to level off.

More recently, INHP has taken steps to cure the situation. Last year, it negotiated performance standards with the CDCs and completed independent assessments of each recipient group. These assessments will lead to individual CDC performance plans and the development of an overall technical assistance and training plan for INHP.

How do performance standards measure up?

In our assessment, we looked to see if there is a relationship between core support programs with high ratings for their use of performance standards and NCDI cities' CDC capacity. While some correlations do exist, they are not as clear as the correlations between the presence of formal core operating support programs and CDC growth and production.

About half of the operating support programs—11 of 23—rated quite well in their use of performance standards. Local experts reported that the programs were good at articulating performance criteria and enforcing their use among CDCs receiving funding. Some programs—Boston and Philadelphia—have taken away funding from nonperforming CDCs, while others—Cleveland and Seattle—have articulated specific criteria for admission to the programs that eliminate many local groups.

Of the 11 NCDI cities with strong ratings for performance standards, seven were also among cities with the highest number of top tier CDCs or with the highest growth rate among top tier groups. This suggests that programs that target funding may be effective in generating CDCs that are productive housing producers and strong in internal systems, board performance, and diversity of funding.

Of the seven cities with the highest growth rates among top-tier CDCs from 1991 to 1997 (chart 2.2), five were also among the cities with the best use of performance standards in their operating support programs.

Measuring the impact of capacity-building must be ongoing.

While CDC capacity-building programs appear to be generating positive results, other issues emerge from this analysis.

First, it is important to restate that many factors influence the ability of community development systems to expand and CDCs to grow. Money is clearly one factor, which we explore in some detail in the next chapter. Other influences include the ability of key entities to cooperate and form networks, the level of cooperation among institutions, the desire to work in a quicker and more coordinated fashion, the flexibility within systems, and the ability of the local government to act cooperatively and effectively. In other words, while we see growth among all of the cities in the NCDI network, we do not attribute that growth to any single cause.

Second, building capacity among nonprofit groups—just as in the for-profit business sector—takes time. Projects require time to package and develop. Issues unrelated to CDCs or their support programs can affect timing and CDC growth. The six-year time span in this assessment is marked by significant change and growth in the community development industry as a whole. More time is needed to assess the full effects of CDC capacity-building.

NCDI Round III—which stretches until 2001—provides the opportunity to look longer and farther at the effectiveness of CDC capacity-building efforts. This is particularly important because a number of the capacity-building programs are new or have recently changed.

Among the issues for further study are:

- Will the capacity-building programs that use performance standards result over time in fewer overall CDCs—as CDCs are "selected out"—but also stronger ones?
- Is there a long-term difference in the impact of capacity-building programs in younger environments—such as Phoenix and San Antonio—compared with more mature cities—such as Boston, Cleveland, and Philadelphia?
- Can the large number of relatively new capacity-building programs sustain themselves over time?

The collaboration among funders and CDCs that lies at the heart of many capacity-building programs reflects and reinforces the ability of the local community to coalesce around issues and means for achieving progress. The nature of local collaboration and leadership is explored in greater depth later in this report.

Chapter 4:
Production Systems

NCDI cities have made considerable gains in delivering affordable housing to low-income neighborhoods. Chapter 4 examines those advances, with a special look at the revolution in housing finance that is fueling increased CDC production.

Summary

Over the past six years, NCDI cities have made considerable gains in establishing production systems that effectively deliver low-income housing to neighborhoods.

What do we mean by housing production systems? An effective production system transfers properties relatively easily to entities capable of improving them, provides financing with little hassle and without excessive transaction costs, extends subsidies swiftly and without major investments of developer and public staff effort, links project development to local plans without cumbersome reviews and approvals, and monitors projects effectively without burdening property owners with unnecessary reporting requirements. The better it handles these functions, the more smoothly the system works.

While not all local systems can perform all of these functions well, overall improvements are happening across NCDI cities.

Housing finance systems have improved significantly.

Our assessment finds major improvement in NCDI cities in rental housing finance systems. These improvements are primarily the result of new funding from private and quasi-public lenders—stimulated by increases in public funding, changes in the banking industry, pressure from the Community Reinvestment Act (CRA), and a genuine revolution in local housing finance institutions.

New predevelopment funding streams have been especially helpful.

An important factor underlying the noteworthy gains in CDC housing production systems is new funding streams for acquisition and predevelopment. Historically, nonprofits have found this type of capital particularly hard to get. Its availability now enables CDCs to compete on equal footing with for-profits in seizing development opportunities. NCDI funds constitute a large portion of predevelopment money in some cities and have contributed to the creation of more solid production systems.

Private lenders provide more construction and permanent finance.

The increased availability of construction funds and permanent finance from private lenders is a major community development story of the 1990s. In about half of the NCDI cities, private capital has become significantly easier to obtain since 1991.

Private lenders provide more capital for CDC housing production because. . .

Banks are becoming attracted again to lending for multifamily projects as urban markets improve.

A new wave of bank mergers and acquisitions has triggered heightened attention to Community Reinvestment Act performance.

Dramatic increases in the amounts of subsidy dollars available to state and local governments have fueled demand for affordable housing loans.

New development capacity in the nonprofit sector has attracted capital by increasing the sector's attractiveness as a development partner.

A revolution in local institutions—new lending and operating support collaboratives—has helped create opportunities for lenders, increase efficiencies, and discourage abrupt and disruptive policy shifts by local governments.

We do not expect the same rapid growth over the next four years. New federal support for affordable housing development appears unlikely. The pace of bank consolidations will slow. And mortgage companies and other lenders exempt from CRA are taking ever-larger shares of the mortgage market.

Local government inefficiencies mar financing progress.

Despite gains on the financing side, serious inefficiencies remain in local system performance that not only deter investors, but have fairness implications as well. Local governments are still not very efficient at performing key development tasks under their control, including property and land disposition, procurement and contracting, and project underwriting. Although our field research shows at least some improvement, too often bureaucratic gridlock makes political string-pulling a necessary project funding strategy. In general, the burden of overly bureaucratic systems falls disproportionately on smaller, less capable developers and their neighborhoods. And unpredictable subsidy allocations make affordable housing policy inherently volatile.

Financial health of properties remains an ongoing concern.

We detected considerable worry over the financial health of properties, confirming earlier findings based on review of property financial records. The Local Initiatives Support Corporation (LISC) and the Enterprise Foundation have moved aggressively to shore up local capacity to evaluate asset quality and respond to financial weakness, but everyone agrees the sector has far to go. If state and local governments continue to squeeze per-unit subsidies, and Congress continues to freeze rental assistance at current levels, future rental developments will become less affordable, or more financially vulnerable—or both.

Even if subsidy levels remain stable, shifting priorities for the use of those subsidies by local governments can challenge even the best CDCs. One shift already apparent is the movement away from rental housing and toward homeownership programs in some jurisdictions. While CDC leaders welcomed this shift in some respects, for-sale housing construction is more difficult and time-consuming than rental housing development, and thus creation of for-sale production systems has not been universally successful. Even the successful systems can reduce funding for rental housing, undermining the strength of this prong of the production system.

Despite the remaining challenges, our research shows gradual improvements in removing administrative roadblocks to housing production.

Production Systems

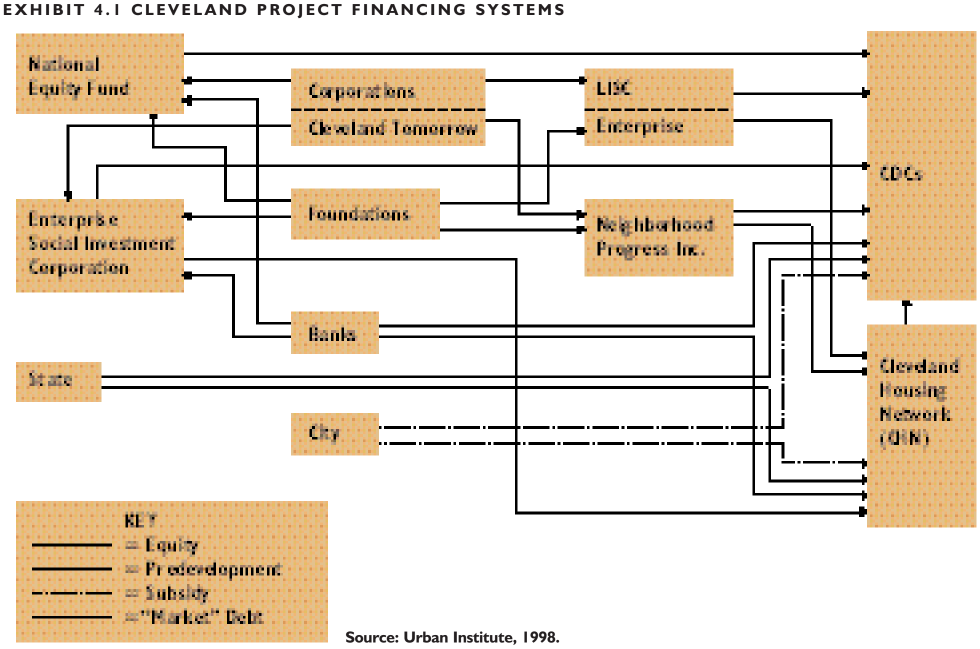
Understanding how the low-income housing production system works is helpful for interpreting the significance of the ratings we give local housing production systems later in this chapter.

Components of the low-income housing production system

Capital	Equity Debt = predevelopment loans, construction loans, bridge finance, and permanent loans
Capital providers	Banks and other financial institutions = loans at market rates Federal, state, and local governments and philanthropies = subsidies to write down costs
Developers	Public agencies, for-profit or nonprofit developers
Owners	Developers; public, for-profit, or nonprofit entities; low-income purchasers
Housing	Single family or multifamily, occupied by renters or owners
Payment type	Rent, mortgage payments made by purchaser, subsidized rents paid by public agencies

In exhibit 4.1, the lefthand portion of the chart shows the primary resource providers; intermediary organizations are in the center, and CDCs are on the right.

EXHIBIT 4.1 CLEVELAND PROJECT FINANCING SYSTEMS



Source: Urban Institute, 1998.

We can look at the dynamics of a production system in exhibit 4.1 which illustrates the operation of Cleveland's affordable housing financing system. This system, while by no means simple, is among the most effective of all the systems in NCDI cities. It features streamlined ways to pool corporate and foundation contributions. It efficiently allocates equity and predevelopment money to CDC projects and generates substantial amounts of national capital for those projects.

The system draws in project equity from the national equity pools established by LISC and Enterprise. Corporations, foundations, and banks purchase credits through the national pools. Predevelopment funding comes to CDCs from LISC and Enterprise directly, as well as from Neighborhood Progress Inc. (NPI), the local intermediary. NPI also channels predevelopment money from multiple foundations and corporations (the corporations have their own intermediary, Cleveland Tomorrow). Predevelopment funding is also provided by NCDI, through Enterprise. Intermediary funding lessens the need for CDCs to approach banks and corporations for funding one-by-one, or to rely upon self-financed predevelopment. Banks provide mortgage credit, and the city allocates subsidies. Finally, the Cleveland Housing Network (CHN) channels predevelopment debt and equity funding to its member CDCs for certain projects.

Production systems have certain major functions.

A housing production system has certain key functions it needs to perform. The better it handles these core functions, the more efficient, effective, and fair the system will be.

> **A strong housing production system. . .**
>
> Transfers private and publicly owned vacant or substandard properties from owners with no interest or capacity to redevelop them to developers willing to place these properties back into productive use. It also enforces building codes, exercises tax liens, deters speculative holding of vacant properties, and encourages private redevelopment.
>
> Sustains flows of easy-to-obtain acquisition, predevelopment, construction, and permanent financing from public and private lenders to capable developers. The system fully mobilizes its resources, producing high numbers of units relative to the actual resources invested. It institutionalizes ways to share risks, enhance credit, and increase liquidity.
>
> Mobilizes equity and efficiently allocates development subsidies from private and federal, state, and local government sources to write down rents or purchase price. It also develops new revenue sources and successfully competes for discretionary funding.
>
> Underwrites, develops, and manages properties and property portfolios to ensure good physical quality, affordability for low-income residents, and financial viability with community development payoffs.
>
> Ensures that system participants, particularly developers, can acquire property, funding, and other support on the basis of their contributions to effective and efficient system performance—not political or other connections.

Property disposition and land acquisition: reform is slow going.

We explored aspects of the production process that improved since 1991 or that remain as barriers to more effective and efficient production. We also reviewed LISC and Enterprise workplans and annual reports for information on these issues. Based on this research, we conclude that public land acquisition and property disposition has been the single production system issue most resistant to reform.

In nearly every NCDI city, local community developers complain about inefficient and overly bureaucratic procedures that discourage acquisition and transfers of tax-delinquent properties. Public housing authorities often are the worst offenders, holding large numbers of vacant, boarded-up properties. These authorities are often even less amenable to reform than city governments.

Some NCDI cities have successful land acquisition and disposition programs—Cleveland, for example. Other cities that have made progress in acquisition and disposition—notably Philadelphia and Seattle—still retain highly inefficient features of their old procedures. Poor acquisition and disposition can deter homeownership developments, which are typically built to lower densities than rental units and often necessitate the purchase of city-owned properties. That is the case in Detroit, where the city performs land disposition tasks one step at a time—when the tasks could easily be done concurrently. In other cities, state laws intended to protect private property rights unnecessarily delay public taking of tax-foreclosed property.

Public land acquisition and property disposition has been the single production system issue most resistant to reform.

Several years ago, New York embarked on an ambitious program to return all city-owned properties to productive use. Working with the national intermediaries, the city has developed thousands of units. Some neighborhoods have few vacant units left. Cleveland's land-banking program took off once the Ohio legislature reformed decades-old legislation covering public property acquisition. Pennsylvania recently enacted changes that may help to improve the Philadelphia land acquisition process. In Baltimore, Enterprise supported creation of a land development intermediary—The Neighborhood Development Center—that takes on land acquisition and disposition tasks in the Sandtown-Winchester neighborhood. Even some public housing authorities have registered acquisition and disposition improvements. In Washington, the public housing authority is turning over a large number of vacant, scattered site units for redevelopment by a consortium of nonprofit developers.

By and large, however, failure to reform acquisition and disposition procedures is depriving nonprofits of a major community development asset. The presence of large numbers of vacant, tax-delinquent properties acts as a serious brake on redevelopment sponsored by nonprofits and private developers alike. Frozen parcels may become an even more serious problem as CDCs take on comprehensive approaches to community change.

New financing streams revolutionize property acquisition and predevelopment.

The inability to generate internal capital to seize market opportunities has long been the fundamental financial stumbling block to nonprofit sector performance. Developers need working capital—funds sufficient to cover the costs of property feasibility analysis, environmental assessments, acquisition, and financial packaging. For-profit developers typically cover some of these expenses through retained earnings and lines of credit from commercial banks. Nonprofits have had difficulty tapping these sources of predevelopment support.

Income generated by developers' fees remains a small and vulnerable source of opportunity capital for nonprofit developers. In some cases, the public sector limits such fees. Nonprofits typically apply them to property rehabilitation if those costs rise or anticipated funding falls short. In recent years, national intermediaries and other nonprofit supporters have effectively made the case permitting nonprofits to get fees from projects—and more public agencies are allowing nonprofits to take market-rate fees on their deals. But while growing reliance on fee income has been a welcome change in the sector, it also leaves nonprofit developers more vulnerable to policy shifts that reduce the flow of housing subsidies to projects generating fee income. In Los Angeles, for example, CDCs typically generate two-thirds of their income from development fees on rental projects, and state and local fiscal and subsidy policy changes have cut the number of rental projects dramatically.

Nonprofits also use predevelopment loans to cover working capital costs. These loans historically were in short supply, constrained by uncertainty about nonprofits' development capacity and by conservatism and lack of knowledge about nonprofit sector development. Predevelopment loans are hard to come by when the public sector is unpredictable or is unwilling to allocate permanent subsidies to particular projects, jeopardizing loan repayment. In the early 1990s, even for-profit developers had difficulty gaining access to predevelopment funds from commercial banks because of new risk-based capital standards imposed by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA).

The emergence of volume predevelopment lending in the 1990s is one of the major successes of the community development industry and NCDI.

The emergence of volume predevelopment lending in the 1990s is one of the major successes of the community development industry and NCDI. Both LISC and Enterprise have become active predevelopment lenders, providing project-based loans for acquisition and other predevelopment activities based on initial reviews of project feasibility. Large amounts of NCDI Round I funds, and some NCDI Round II funding, went for this purpose. In cities without nonprofit track records or strong city support, NCDI funding comprised the bulk of predevelopment funding available in the system.

In recent years, project-based predevelopment lending has begun to give way to commercial-like lines-of-credit. These lines of credit are available from the national intermediaries to strong CDCs that pass financial performance tests and have strong production track records. This form of intermediary-to-CDC lending closely emulates the bank-to-developer relationships for predevelopment lending in the private sector. In Boston, Cleveland, Chicago, and Washington, among other cities, this form of lending has dramatically increased CDCs' ability to seize market opportunities and negotiate effectively with sellers. In other cities—Seattle, for example—NCDI funds have been used as credit enhancements to guarantee lines of credit provided by commercial banks, or to follow first-in public funding into predevelopment activities.

New predevelopment lending programs have been particularly consequential in forging more efficient and effective production systems. HomeSight in Seattle is a prime example—and a major NCDI success story.

Seattle's HomeSight

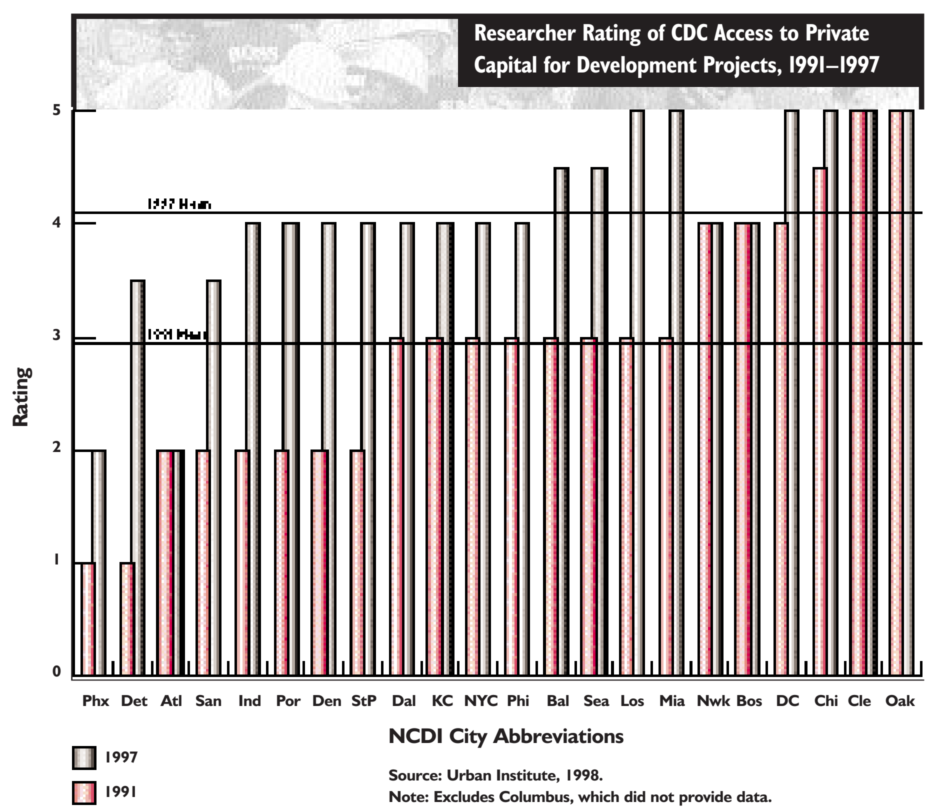
In Seattle, LISC used NCDI Round I funding to capitalize a guaranteed line of credit from U.S. Bank to HomeSight, a consortium of three CDC developers. HomeSight handles community participation, design review, project monitoring, marketing, and sales. Private developers undertake project design, permitting, and construction. Permanent financing comes from Nehemiah Housing Opportunity Funds, City of Seattle downpayment assistance funds, local lenders, and the state. To support the HomeSight neighborhoods, LISC used NCDI Round II funding for site acquisition, predevelopment, construction, and bridge financing for CDC-sponsored multifamily, mixed-use, and commercial projects within the HomeSight target area.

Construction and permanent finance become more readily available.

Since 1991, banks and thrifts in all 23 NCDI cities have become more active lenders to community development projects—most notably for development of for-sale housing, but also for rental housing development.

Chart 4.1 shows the increase in ratings for funds mobilization between 1991 and 1997 for the 22 NCDI cities reporting (Columbus did not complete a data request). We rated systems on a scale of 5 to 1. A score of 5 meant private capital was very easily accessible. In cities receiving a score of 1, private capital for development projects could be found only with extreme difficulty.

CHART 4.1



Source: Urban Institute, 1998.
Note: Excludes Columbus, which did not provide data.

As the chart shows, access to capital scores for all 22 cities rose or remained constant. Half of the cities showed significant system improvement in generating increased private sector lending, with scores increasing by two points or more.

Why is private capital for development projects so much easier to come by?

1. Changes in the banking industry. The multifamily lending market collapsed in the late 1980s under structural strains. Housing markets suffered a glut of multifamily properties, thrift institutions withdrew from multifamily lending, and with the thrift bailout, new risk-adjusted capital standards imposed on banks and thrifts by FIRREA placed multifamily mortgages at a competitive disadvantage. Multifamily lending finally recovered in the mid-1990s. The volume of originations rebounded from an eight-year low of $25.5 billion in 1991 to $47.1 billion in 1996, nearly equaling the historic 1986 peak.[1] Renewed attention among banks to multifamily lending overall has increased their receptivity to lending on affordable multifamily properties as well.

Meanwhile, major U.S. banks moved aggressively to buy other banks and consolidate. The Community Reinvestment Act and the Home Mortgage Disclosure Act gave community activists powerful tools to challenge those consolidations based on the neighborhood lending performance of banks and thrifts. To gain entry to new markets, out-of-town banks made very large dollar commitments to affordable housing lending. Other banks, to increase their attractiveness as takeover targets, boosted their affordable lending to ensure good CRA performance. The National Community Reinvestment Coalition estimates that annual CRA commitments have risen from $630 million throughout the 1980s to $34 billion in the 1990s.[2]

2. Growing attractiveness of inner-city markets. Our field interviews suggest new signs of strength in inner-city real estate markets. In some, urban lending has become quite competitive. CRA requirements may be driving some of this lending, but banks also appear to be finding more profitable urban deals.

3. Creation of a solid nonprofit housing delivery system. The rising capacity of nonprofit developers to generate bankable projects—moved along by new capacity-building programs in NCDI cities—has built the credibility of the sector and won banks' confidence.

4. Increased flows of affordable housing subsidies. Dramatic increases in subsidy flows in the 1990s, fueled by new federal dollars and increased efficiencies in the use of the low-income housing tax credit, have drawn more lending into nonprofit housing development.

5. Institutional changes to increase efficiencies and pool risk. Lending pools and other new funding collaborations have encouraged an inflow of capital to nonprofit housing by cutting costs through centralized underwriting and risk-pooling. A prime example is Homes for South Florida, with a long history of collaborative lending on multifamily apartment buildings. Lender collaborations also mobilize capital in the long run, as lenders participating initially in a collaborative go on to establish one-on-one relationships with nonprofit developers. Collaboratives need not be long-lived. Participants in a multifamily lending pool in Indianapolis, for example, quickly discovered they could lend profitably on their own; most of their activities now take place outside the pool. And because collaboratives adopt common underwriting standards, loans can be attractive to investors, thereby attracting new capital. Efforts by LISC and Enterprise to reduce risks have helped. Detroit lenders increased their lending on for-sale construction projects from 50 percent to 80 percent of appraised value when NCDI funds stepped in to limit loan losses.

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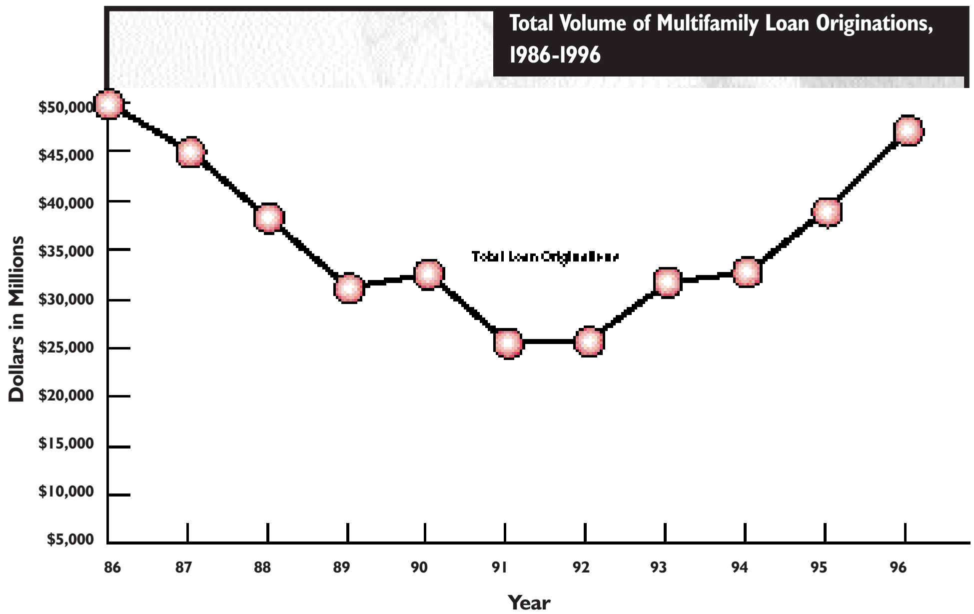
1 *U.S. Department of Housing and Urban Development, Survey of Mortgage Lending Activity, various years.*

2 *See "NCRC Celebrates CRA's 20th Birthday: CRA Will Remain the Hope for Neighborhood Renewal Only If It Evolves,"* Reinvestment Works: A Publication of the National Community Reinvestment Coalition, *Winter 1998.*

CHART 4.2



Source: Urban Institute, 1998.

The capital momentum may be difficult to sustain.

Despite the generally positive environment for capital availability—reflected in chart 4.2—worrisome signs suggest that the momentum in most NCDI cities may not be easily sustained. The wave of bank mergers and acquisitions spawning CRA activity will eventually reach natural limits. More important, the percentage of multifamily loans originated by mortgage companies and other lenders exempt from CRA is rising. In contrast to their trivial shares of total originations in the early 1990s, non-CRA lenders accounted for 26 percent of the market in 1996.[3]

Another concern is that the large infusion of development subsidy from the federal HOME program will not likely be repeated. Indeed, the flow of housing subsidies from combined Community Development Block Grant (CDBG) and HOME funding may have peaked in most NCDI cities.

Cummings and DiPasquale highlight the daunting underwriting, pricing, and informational requirements that have stymied attempts to create secondary markets for affordable housing loans. Such markets, if they could be created, would likely increase the flow of capital to affordable housing and lower its cost.[4] The most optimistic scenario for inner-city lending is that banks will continue to make affordable housing loans profitably and that inner-city markets will be strong enough to protect these loans.

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[3] *See U.S. Department of Housing and Urban Development, Quarterly Survey of Mortgage Lending Activity, Annual 1996, and subsequent quarterly reports..*

[4] *Jean Cummings and Denise DiPasquale, "Developing a Secondary Market for Affordable Rental Housing: Lessons from the LIMAC/Freddie Mac and EMI/Fannie Mae Programs"* (Cityscape, *Summer 1998, forthcoming).*

Subsidy allocations have grown dramatically.

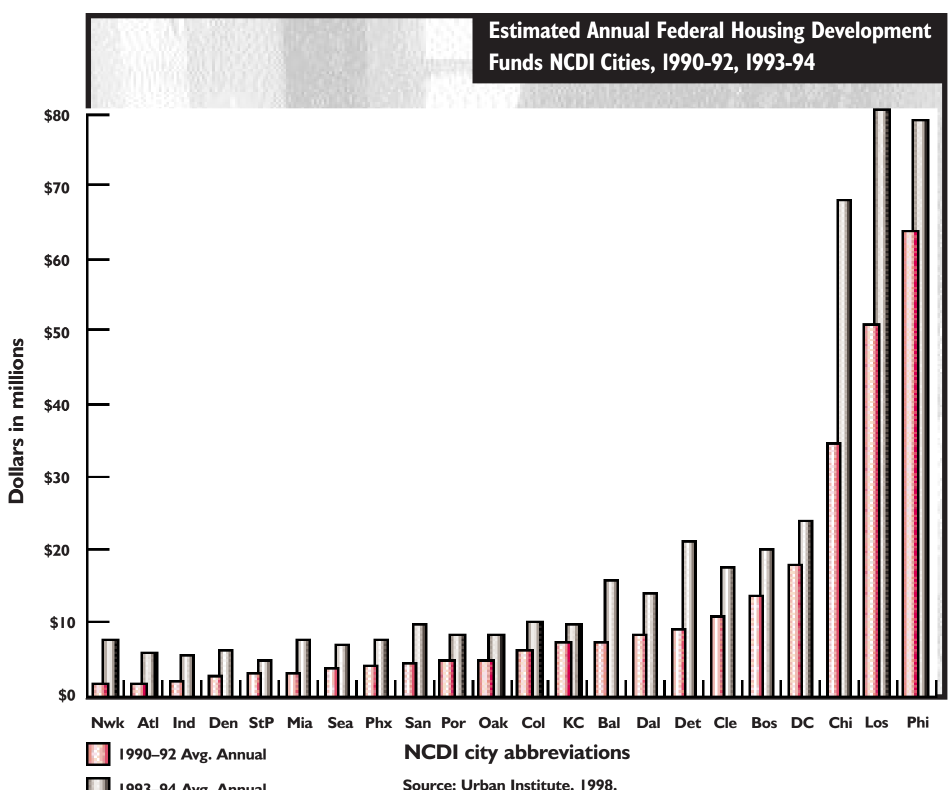
The affordable housing production system runs on subsidies. Even modest acquisition and rehabilitation costs are more than most poor renters or homebuyers can afford on their own. Although the flow of private debt capital to projects can be increased without new subsidies, there is an upper limit to the amounts projects can support. Moreover, as nonprofits gain capacity to produce housing and commercial units, the demand for subsidies grows. In response, decisionmakers can either increase subsidies—or ration them among groups.

In most cities, the only stable source of subsidy is the federal HOME program, which uses a national formula to allocate funds to participating jurisdictions—enabling NCDI cities to estimate their share of dollars in any year. All other sources of funding are variable. Unlike HOME, funds from CDBGs may be used for nonhousing purposes. States allocate the Low-Income Housing Tax Credit, and projects in an NCDI city must compete for funding with all other projects in the state. Increasingly, state and local governments have established housing trust funds or other dedicated means to raise local tax revenue for housing, but these funds typically are small. One final category of subsidy—special appropriations for federally declared disasters—has been important in two NCDI communities—Miami and Los Angeles.

As chart 4.3 illustrates, between 1991 and 1997, the volume of subsidy available to NCDI local governments has grown dramatically (although it remains much lower than in the 1970s).

- The HOME program introduced substantial new flows of funding into local housing production systems for rental and for-sale housing production, as well as for assistance to renters and

CHART 4.3



Source: Urban Institute, 1998.
Note: 1990-92 is average CDBG funds for housing, 1993-94 is HOME and CDBG.
New York (excluded) is $188 in 1990-92, $288 in 1993-94.

first-time homebuyers. By one estimate, the initial inflow of HOME dollars immediately doubled the amounts spent locally for affordable housing projects.[5]

- The affordable rental housing development industry has become much more efficient in using Low-Income Housing Tax Credits (LIHTCs). DiPasquale and Cummings and others show that since the early 1990s, the share of tax credits going to housing (as opposed to fees or investor returns) has risen substantially.[6]
- Some NCDI cities became more competitive in the statewide competition for tax credits when LISC and Enterprise started generating tax credit deals and helped raise CDC capacity generally to develop fundable projects.

New mechanisms to channel subsidy and credit have boosted CDC production. During the 1970s and 1980s, CDCs pieced together housing deals individually. In most NCDI cities, CDCs had to approach their tasks as a series of bilateral negotiations—with city agencies for subsidy and banks for credit. The institutional revolution of the 1990s created new, more efficient ways to accomplish development tasks. As a result, production systems have squeezed more units out of existing flows of subsidy and credit—and also attracted new funding.

Shifting subsidy priorities challenge CDCs.

Although the amount of subsidy for housing development has increased as a whole, reallocations within and across housing programs can produce sharp declines in funding for certain purposes. These shifts can pose serious challenges to nonprofit developers—even when they support the policies causing the changes.

- Subsidy providers appear to be shifting their attention to production of for-sale housing. Over time, local jurisdictions participating in the HOME program are moving funds out of rental housing development and into housing for homeownership. In our field research, local officials and others say this trend almost certainly will continue, with implications for CDC management, fundraising, and networking capacity.
- Some states have changed their tax credit allocation policies in ways that disadvantage central city projects. California's Tax Credit Allocating Committee, for example, gives priority to projects with low per-unit costs, which favors rural and suburban projects over city developments. Nonprofits that relied heavily on tax credit projects for development fees—in Los Angeles, for example—will need to find new sources quickly.
- The rising competence of nonprofit developers attracts new money to the sector—but also heightens competition for funds. For example, Indianapolis's success in building CDC capacity generated more state tax credit projects for the city. But new local competition for projects meant the city's traditional nonprofit sponsors, which relied on tax credits for operating revenue, could no longer count on earlier levels of support. One result: severe financial problems for the city's flagship CDC, Eastside Community Investments.

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[5] *Among all U.S. jurisdictions entitled to both CDBG and HOME funding, the estimated amounts of housing funding rose from $950 million in CDBG funding for housing in 1991 to $2.1 billion in combined HOME/CDBG funding in 1992. See the Urban Institute,* Implementing Block Grants for Housing (U.S. Department of Housing and Urban Development, March 1995).

[6] See Jean Cummings and Denise DiPasquale, "Building Affordable Rental Housing: An Analysis of the Low-Income Housing Tax Credit" (City Research*, February 1988).*

- Some cities ration their CDBG and HOME subsidy money by limiting project size or cost. Philadelphia, for example, limits project size—by capping the total amount of subsidy for a project. Some cities are also doling out subsidies on only one project at a time to CDCs.

Nonprofits sometimes welcome shifts in subsidy priorities. Many CDC directors applaud public support for homeownership and value the broadened CDC capacity. But policy shifts that are abrupt or extreme—a sudden, massive shift of local housing subsidies away from rental housing—leave no time to forge adjustment strategies and deprive CDCs (and neighborhoods) of the chance to develop diverse portfolios.

Subsidy policies are inherently volatile, subject to changes in political leadership and community development strategies. The new collaboratives have helped make policy more stable.

For-sale production is more difficult than rental.

The creation of production systems for affordable homeownership housing in the 1990s should help sustain new flows of bank credit for community development. Construction, rehabilitation, and purchase programs have been initiated by NCDI city officials, CDC directors, neighborhood residents, and others to boost the number of neighborhood homeowners.

The best of these programs—Seattle's HomeSight—was highlighted earlier in this chapter. The Cleveland Housing Network is another noteworthy example. Centralization is a key feature. A central organization provides design, financial packaging, construction management, and marketing support to member CDCs, depending on their capacity. Other cities, including Los Angeles and Chicago, are encouraging joint ventures involving strong nonprofits (or for-profits) and less-experienced groups to construct for-sale housing.

Success in crafting reasonably streamlined production systems should not obscure basic difficulties. In some respects, for-sale housing construction is both riskier and more complicated than rental housing development. Because of this complexity, creation of for-sale production systems has not been universally successful. And even the successful systems can reduce funding for rental housing, undermining the strength of this prong of the production system.

Attempts to organize for-sale production systems in Kansas City, St. Paul, and Detroit have had disappointing results. In Kansas City, unsupportive city policies undermined the efforts of the Affordable Housing Partnership to achieve high-volume production, although individually CDCs have been successful for-sale housing producers. In St. Paul, city leadership changes inhibited progress, along with departmental reorganization, unpredictable subsidy policies, inefficiencies in city land acquisition and disposition, and staff changes at several CDCs. In a pattern that has become familiar, Detroit's city bureaucracy sank an otherwise promising initiative.

Why does the shift to for-sale housing production challenge CDCs?

1. Subsidy requirements. For-sale housing developments often require subsidies for both developers and purchasers. Property and mortgage insurers and bankers all require protection from potential default on mortgage loans. The traditional protection is the value of the property. But in many, if not most, low-income housing markets, the appraised or "market" value of property will not cover its development costs. Public sector subsidy covers this difference. For their part, most buyers cannot afford even the market price. They need subsidies to make the homes affordable—and the public pays this cost, too, often by helping buyers with down payments or mortgage closing costs. Successful homeownership development requires coordination of these types of subsidies.

2. *Homeowner responsibilities.* For-sale housing is also riskier because the low-income homebuyer accepts many more responsibilities than a renter. Increasingly, homeownership development programs arrange for budgeting and home-maintenance counseling to prospective buyers. Such programs have been shown to reduce default rates. This adds one more moving part in the for-sale production equation.

3. *Lower densities.* For-sale housing tends to be constructed to lower densities, requiring more land. As often as not, some of this land is owned by public agencies, which are not always the most efficient partners.

4. *Marketing.* A more intensive marketing effort is required for homeownership housing. Each home must find a buyer with an incentive to purchase a unit in that neighborhood; each transaction is individual, requiring its own price negotiation and timetable to close.

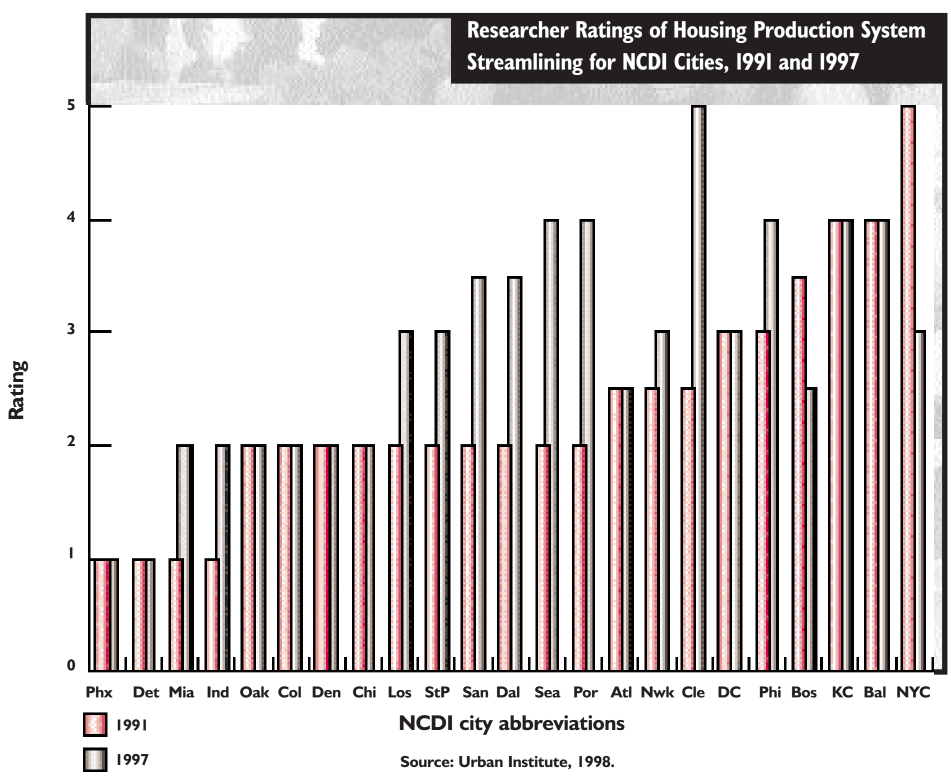
There is gradual reduction of administrative roadblocks to housing production.

Some aspects of city administration not directly tied to the housing production system can create serious problems for developers. Even when top administrators champion reforms to make CDC production easier, city policies often continue to be relatively inflexible and procedures overly bureaucratic. This has changed slowly across NCDI cities since 1991.

Chart 4.4 illustrates what we call our streamlining rating. It reflects how closely each local system matches a series of statements about the delivery of housing finance.

CHART 4.4

Researcher Ratings of Housing Production System Streamlining for NCDI Cities, 1991 and 1997



Source: Urban Institute, 1998.

A rating of 5 means that state and local, public and private sources of finance—permanent, construction, and predevelopment—are efficiently supplied to developers of for-sale and rental housing. Relatively inexperienced developers can get both for-sale and rental deals done without extensive hand-holding. A score of 1 means that financing sources are very difficult to combine, even for developers with prior experience. The appendix at the end of this report includes definitions of each rating.

Only one city, Cleveland, scored 5 in 1997. The accomplishments of Cleveland's system are documented throughout this report. Fifteen of 23 cities scored 3 or below. Two cities (Detroit and Phoenix) received a score of 1. Six cities (Chicago, Columbus, Denver, Indianapolis, Miami, and the San Francisco Bay Area) received a score of 2, and seven cities scored 2.5 or 3 (Atlanta, Boston, Dallas, Washington, New York, Newark, Los Angeles, and St. Paul). In cities such as Chicago, where City Hall has not historically welcomed or encouraged CDC participation in revitalizing city neighborhoods, bureaucratic obstacles make the transaction costs (including time) associated with affordable housing deals high. In St. Paul, delays in paperwork processing time for land and building acquisition were signs that the former support for community development was eroding (after the new mayor took office) and the system was becoming less streamlined. It is worth noting that the low scores on streamlining may be the result of exaggerated perceptions of how poorly the city bureaucracy performs. Finally, streamlining scores in New York and Boston declined; in New York because of a shift toward more complex housing programs.

Seven cities received scores of 3.5 or 4 in 1997 (Baltimore, Kansas City, Philadelphia, Portland, San Antonio, Dallas, and Seattle). All of these cities also experienced a big improvement in streamlining their systems between 1991 and 1997. These systems are at various stages in their maturity and receive substantially different amounts of funding for community development. The most important common factor is that the city administration supports community development and has translated this support into getting deals done efficiently. Even here, evaluators heard complaints of bureaucratic slowness and policy inconsistencies. Philadelphia, for example, is chronically slow on disposing of publicly held land for development. This city is improving its system, however, and CDCs have noted some reduction in the disposition time. Even while making this improvement, the city has instituted a policy that limits CDCs to one large project at a time.

How well are NCDI housing production systems performing core tasks?

Given the status of local production systems, how well are CDCs able to perform on three aspects of housing quality—location, affordability, and financial performance? We did not collect our own data on unit production as part of this assessment. Our analysis relies instead on previous studies or national databases.

Location, location, location. To examine property locations, we analyzed information from a U.S. Department of Housing and Urban Development (HUD) database with high/quality data for the 23 NCDI cities.[7] We found that:

- Housing units produced by local governments with federal funds are typically found in neighborhoods that are somewhat better than public housing.[8]
- We also found that the same types of neighborhoods contain both rental and for-sale properties—including neighborhoods with the highest poverty rates. In other words, if for-sale housing is appropriately subsidized and marketed, developers can attract working class buyers to the most deteriorated neighborhoods. Developers do not have to sacrifice redevelopment objectives and choose to build in less distressed neighborhoods as communities move toward policies that promote homeownership.

Influence of developer capacity on location. The location of units is driven largely by developer capacity and cost—not by local government attempts to target particular neighborhoods. Few NCDI cities had geographic targeting policies that they pursued consistently. Cities rarely give preferences to one community or another to achieve redevelopment goals.

The location of units is driven largely by developer capacity and cost.

More often, capable developers who target certain neighborhoods tend to attract more development subsidies than their less capable counterparts. This includes almost all CDCs and some for-profit and citywide nonprofit developers.

Some of the CDC targeting policies of LISC, Enterprise, and city governments increase the likelihood that developer capacity will influence where affordable housing units get built. Local partnerships that target a select group of CDCs for assistance tend to create a leading edge of superior producers. New policies to extend lines of credit to only the most capable organizations will reinforce this effect. Over time, these policies should lead to more concentration of subsidized affordable housing in particular neighborhoods. But according to data we reviewed, we still cannot conclude that a consistently pursued policy of targeted capacity-building will distribute affordable housing units in neighborhoods that are better off or worse off than they are now. This requires more tracking over time, as more units are produced.

Another factor influencing housing location is government limits on per-unit subsidies or project selection methods that favor lower-cost projects. Heightened competition for development subsidies in a growing number of NCDI cities and states is prompting some governments to limit the amount of subsidy allocated to a given project. This may drive projects out of highly distressed neighborhoods and into modestly distressed areas, where the combination of costs, existing unit quality, and rents allows shallow subsidies to work well.

Affordability. We used the same HUD database to examine the level of housing affordability for poor renters. (Information is not available for homebuyers.) To qualify as affordable, the units must rent for less than prevailing market rates, or renters must receive assistance to help pay rent, or both. In our assessment, we found that:

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7 *This database is HUD's Cash/Management Information System (C/MIS), which contains information on all HOME-assisted properties and units. The Urban Institute added census tract information to C/MIS data. Because of the use of HOME in a wide variety of projects—LIHTC, CDBG, and others—we believe HOME funding fairly represents the characteristics of all affordable housing projects.*

8 *The Urban Institute,* Block Grants for Housing: An Evaluation of the HOME Investment Partnership Program *(U.S. Department of Housing and Urban Development, forthcoming, September 1998).*

Table 4.1
Tenant-Paid Rents as a Percentage of Tenant Incomes and HUD Fair Market Rents for HOME Projects, by Ownership Type, for Households with Incomes Below 30 Percent of Median for the 23 NCDI Cities (Unassisted Households Only)

Owner Type	Total Households	Percent with Rental Assistance	Tenant-Paid Rents as a Percent of: Tenant Income	Fair Market Rent
For-Profit	268	59%	51%	57%
Nonprofits	321	56%	47%	48%
Public Agencies	65	70%	40%	40%

Source: Compilation of the Urban Institute/HOME C/MIS data, 1998.
Notes: Tenant-paid rent includes utilities. Rental assistance includes Section 8 vouchers, HOME Tenant-Based Rental Assistance, and other subsidies paid directly to tenants.

- Affordable units in NCDI cities rent for a substantial discount below market. Even so, very low-income residents without rental assistance pay high proportions of their income to rent this housing. Large numbers of residents receive some form of rental assistance. The U.S. General Accounting Office, supporting this finding, estimated that 39 percent of households in tax credit properties received some rental assistance from 1992 to 1994.[9]
- Evidence suggests that nonprofit developers discount rents more steeply than for-profit developers. Table 4.1 shows that low-income households receiving no housing assistance paid about 48 percent of the fair market rent to nonprofit owners, compared with 57 percent to for-profit owners.

Table 4.1 suggests that if local and state governments continue a trend toward squeezing subsidies for new housing units in NCDI cities and others, units may become less affordable to low-income residents. Similarly, if Congress continues to freeze Section 8 certificates and vouchers at current levels, future rental projects will either become less affordable or require larger amounts of up-front subsidy to remain at their present rent levels. We do not expect local governments to compensate for the loss of federal assistance.

Financial performance. We have no quantitative data on the financial performance of housing projects in NCDI cities—but our field interviews confirm concerns raised in earlier studies. The Community Development Research Center (CDRC) found troubling evidence of financial weakness in nonprofit-owned properties. A solid majority of the projects surveyed by CDRC were in a "dangerous position" on capital reserves; most had no operating reserves. About half of the projects expended more than they earned, and for most of these the deficit amounted to more than 10 percent of operating expenditures.[10] The study's authors note that the estimate may be biased because it includes properties from the early years of the Low-Income Housing Tax Credit program. Somewhat more positively, Cummings and DiPasquale found that in 26 percent of projects in their study sample, operating expenses exceeded revenues by more than 5 percent.[11]

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9 *Cited in Jean Cummings and Denise DiPasquale, "Building Affordable Rental Housing, the Low-Income Tax Credit Program" (draft manuscript, October 1997), p. 21.*

10 *Rachel G. Bratt, Langley C. Keyes, Alex Schwartz, and Avis C. Vidal, Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector (Community Development Research Center, New School for Social Research, 1994).*

11 *Cummings and DiPasquale, "Building Affordable Rental Housing…," p. 29.*

The authors of the CDRC study attributed the properties' financial weaknesses primarily to poor initial underwriting. To get deals done, nonprofit developers and local governments may have taken shortcuts by squeezing the amount of capital and operating reserves, or investing just enough to bring the property to code, but not replacing major systems that had only a few years of useful life remaining. The subsequent downstream costs can seriously threaten projects' financial viability. Furthermore, already weakly capitalized projects may be located in distressed neighborhoods, requiring security and maintenance expenditures not incurred in other types of development. We have no information on the financial health of properties owned by for-profit entities, although we suspect that the substantial number of properties owned by small, individual owners are also financially shaky.

LISC and Enterprise have devoted considerable attention to the financial stability of nonprofit-owned properties, particularly those owned by CDCs. Both intermediaries have initiated asset management programs to build CDC capacity to assess the financial health of their real estate portfolio and respond to signs of financial trouble. NCDI has been an important supporter of these efforts. The new attention to properties' financial status was prompted by the need to ensure the financial stability of tax credit properties, in which both LISC and Enterprise are heavily invested, to satisfy the financial management requirements of the federal government as an NCDI funder and, most important, to maintain the nonprofit sector's credibility.

Local stakeholders have joined these monitoring efforts in some NCDI communities. In others, they are contemplating ways to ensure the financial health of the nonprofit-owned portfolio. The issue gained new urgency in NCDI cities when a few large CDCs began to encounter serious financial problems as a result of the thin capitalization of their assets. The most ambitious response came from the Twin Cities Interagency Stabilization Group, which includes all of the major housing-related institutions in metropolitan Minneapolis-St. Paul. The group meets weekly to develop stabilization plans for properties in financial distress. Members have agreed to common underwriting and other procedures to structure workouts.[12] The Chicago Housing Partnership is also forming the Property Stabilization Fund—with contributions from the city, the state, LISC, and the National Equity Fund—to provide grants to troubled tax credit properties.

Few issues are more critical today to the nonprofit sector than financial performance of CDC housing. Even limited numbers of project failures can destabilize already fragile local industries. Much of the nonprofit sector's progress in recent years is attributable to local stakeholders' beliefs that nonprofits have gained strength. This commitment of corporate and philanthropic entities and some elected officials to nonprofit development is not rock-solid; it can easily be eroded if nonprofit real estate values collapse.

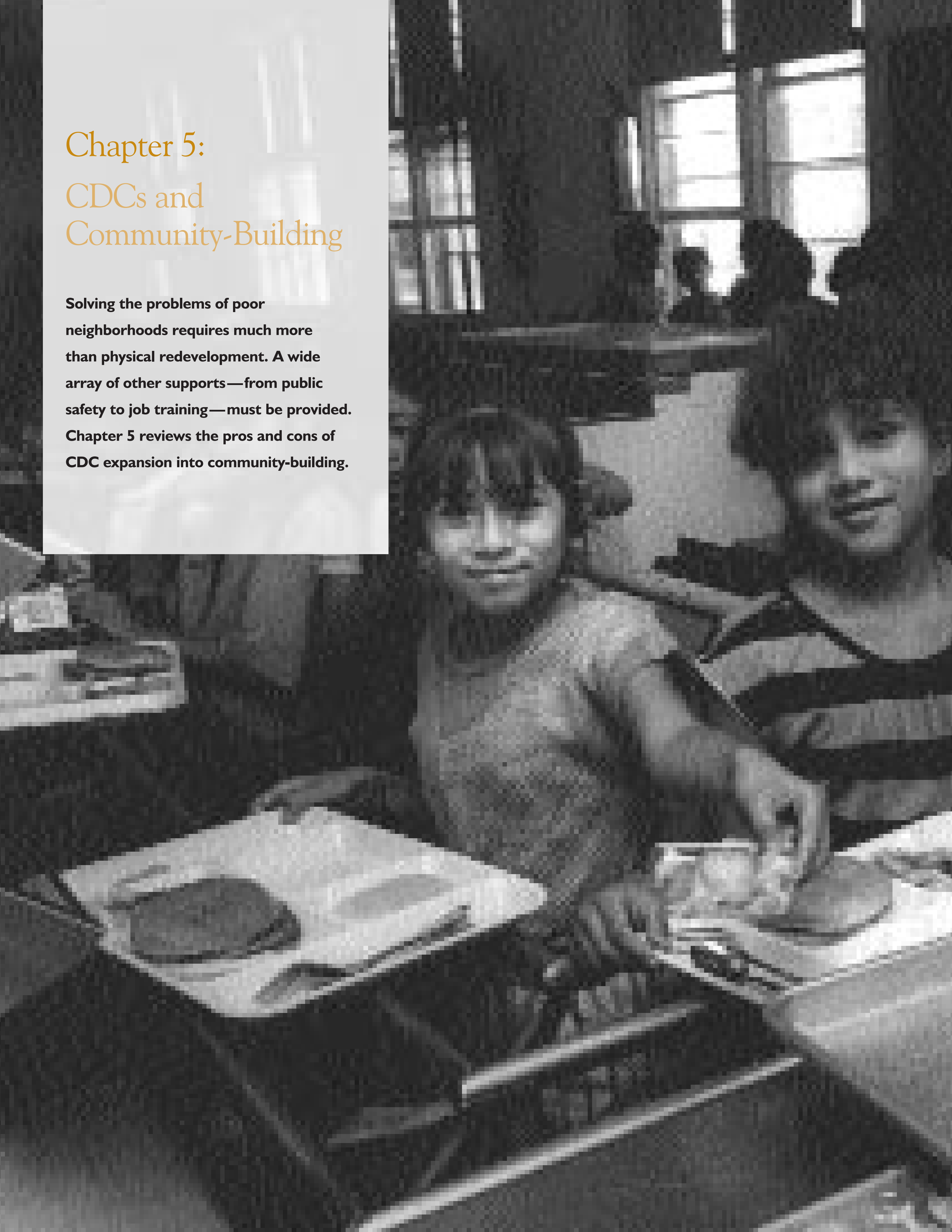
In this chapter, we have stressed the importance of efficient production and financing methods as a means of attracting additional capital for nonprofit development. Moving public sector systems toward reform, however, remains elusive. A revolution in local institutions—epitomized in the creation of new partnerships and collaboratives—has changed the number and types of players with a stake in the production system's performance. Can this be the starting point for local assaults on dysfunctional public agencies? We turn our attention to this issue in chapter 6.

[12] *Langley C. Keyes, Alex Schwartz, Avis C. Vidal, and Rachel G. Bratt, "Networks and Nonprofits: Opportunities and Challenges in an Era of Federal Devolution," in Housing Policy Debate (7:2, 1997), pp. 201-29*

Chapter 5:

CDCs and Community-Building

Solving the problems of poor neighborhoods requires much more than physical redevelopment. A wide array of other supports—from public safety to job training—must be provided. Chapter 5 reviews the pros and cons of CDC expansion into community-building.



Summary

Community development practitioners have long recognized that the problems of poor neighborhoods are too complex to be solved by physical redevelopment alone. A wide array of other supports—from public safety to job training—must be provided if communities are to improve.

Virtually all CDCs are under pressure to take on a multitude of activities beyond physical development—including economic development, human services, leadership development, and community organizing. They also are asked to involve residents in helping to solve community problems. This constellation of initiatives has come to be known as community-building—the belief that neighborhood residents, acting with community-based institutions, can expand individual opportunities by forging strong community ties.

But can CDCs take on these challenges when so many organizations struggle to perform their core development tasks well? We found considerable skepticism. Community-building is difficult work. It requires CDCs to make a substantial commitment of already-strained organizational resources. Few can do it for long without external aid. Unlike housing production, we found no citywide "systems" to mobilize money, expertise, and leadership to support community-building. That said, however, under the right circumstances CDCs can make major contributions to community-centered efforts to bring about more than just physical change.

The level of collaboration required for successful community-building is difficult to sustain.

No single agency or group can pursue the multiple activities needed to solve community problems. But collaboration is difficult, time-consuming, and expensive—especially if community residents and businesses are active participants. Few poor communities are blessed with the money, talent, and leadership to make collaboration work well. Because CDCs are rapidly gaining in overall capacity, many groups are being asked to take on community-building activities.

To be successful as community-builders, however, CDCs must be able to forge collaborations and encourage participation of neighborhood residents and businesses in problem-solving. Our research confirms that CDCs are well-prepared to take on some types of community-building tasks—but not others.

The most important asset CDCs bring to community-building is the network of relationships they have established inside and outside their neighborhood. (This is sometimes referred to as "social capital.") In this chapter, we argue that CDCs are best suited for the kinds of community-building activities that draw most heavily on these relationships.

How well do the skills that CDCs have match what is needed for effective community-building?

We saw the CDCs in the 23 NCDI cities engaged in five types of CDC community-building activities. We analyzed the organizational skills required to perform those activities effectively, and how well those requirements match up with the resources, skills, and social capital that CDCs routinely have.

Community-building activity	Skills and resources required to perform the activity well	Do CDCs have the required skills and social capital?
Comprehensive community planning	Must be able to negotiate with other community organizations and with city agencies to reach mutually acceptable positions on land use, city spending, and a wide range of other issues.	CDC relationships with residents and businesses and with developers, bankers, and city agencies enable strong CDCs to broker solutions.
Community facilities development	Must have strong development skills and be able to forge links with funders, constituents, and providers of family services, health care, employment, and recreation.	CDCs have relatively few ties with support services providers, but most can draw on established links with bankers, agency officials, and foundations to get facilities built.
Community-building linked to housing development	Must have strong ties with building residents and neighborhood businesses and residents. Must be trusted by community, city government, and providers of services.	CDCs have natural links to residents of CDC-owned and managed buildings, although not all CDCs can count on residents' support.
Community organizing	Must have strong ties with local businesses and residents. Must be viewed by the community as able to represent its interests and as carrying clout with city powers. Must be seen by city powers as a true community representative.	Community organizing requires neighborhood social capital that some CDCs have in large amount.
Comprehensive community-building	Must be part of collaboratives that can mount sustained attacks on community problems. Must have strong ties with residents and other social service organizations.	CDCs are strong in development, but most do not have extensive experience addressing multiple problems comprehensively.

System supports for CDC community-building efforts are relatively weak.

Without consistent funding streams to support community-building, CDC involvement has been ad hoc and only episodically supported by local funders. However, we did find elements of a rudimentary system in some cities to support community planning, facilities development, and organizing. Sixteen NCDI cities fund CDCs to develop neighborhood strategies—although only six cities do so on a regular basis, and only five explicitly link public funding for projects with neighborhood strategies. Several state and local governments have embarked on facilities funding programs for day care, health care, and other community facilities. And in five NCDI cities, public and foundation support for leadership development in low-income neighborhoods is laying the foundation for community organizing and other forms of resident participation.

Community-building initiatives have been increasing, but defining a CDC role will take time.

Figuring out how to support community-building generally is a new topic of conversation among public, foundation, religious, and other leaders at the citywide and neighborhood levels. Our field interviews suggest that supplying sustained support will be difficult. First of all, well-functioning systems for housing and commercial development—which could be examples for community-building systems—are relatively new. Second, unlike the field of housing development, which has an established set of participants and goals, those active in community-building do not agree on what that field really involves. Compared with housing, community-building involves more diverse actors, and potential conflicts among groups are more severe. Finally, ongoing funding streams for affordable housing have created a spine to support collaboration; no such mechanism exists for community-building.

Those active in community-building do not agree on what that field really involves.

Establishing systems to finance and produce affordable housing took more than two decades. Our assessment reveals that it may be some time before community-building activities are similarly institutionalized.

CDCs and Community-Building

Community-building is rooted in the belief that neighborhood residents, acting with community-based institutions, can expand individual opportunities by forging strong community ties. This approach emphasizes the mobilization of community values, ideas, and skills. It is considered superior to the otherwise fragmented and ineffective approaches of major bureaucratic systems—public health, education, public safety, youth and family services, public housing. Because community-building emphasizes the link between individual and community action, it overlaps considerably with the concept of "social capital"—the notion that relationships between individuals or groups make action possible.

High-performing CDCs acquire substantial amounts of social capital in their development activities. In pursuing community-building activities, CDCs draw on these sources and work to raise the social capital of their neighborhoods. Most capable CDCs reasonably should take on expanded roles in community planning, community facilities development, and most forms of community organizing—so long as external funding is sufficient to support them. However, these activities make sense only if executive directors integrate them sensibly into their core missions, have enough organizational "slack" to plan for them effectively, and can find enough skilled organizers in their communities. They also make sense only if there are no other potential collaborators doing the same work in the same communities.

Far more complex is comprehensive community-building. It requires serious resident participation and the collaboration of institutions both inside and outside the neighborhood across a variety of program specialties. Few CDCs, we suspect, will become anchor institutions in this process, although some NCDI-supported CDCs are effectively coordinating youth and family services initiatives and activities that focus on welfare-to-work. The demands on CDCs' capacity to act—principally including their ability to draw on customary sources of social capital—are simply too vast to make comprehensive community-building an attractive option for most. Except in special circumstances—national initiatives, primarily—funders are usually unwilling to put up the kind of money needed to support the demanding tasks of network formation.

Nevertheless, there remains a rich field for CDC involvement in community-building tasks. Some NCDI cities have established the groundwork for systemic shifts in CDC participation into these activities. They are providing funding for planning, programmatic linkages between project funding and established neighborhood plans, and money for neighborhood leadership development. These activities can represent opportunities for CDCs to build their own, and neighborhood, social capital—and in the process boost the community's capacity to bring about change.

Community-building draws on social capital.

Evidence is mounting that social fabric and community connections matter when it comes to finding workable solutions to community problems. Lisbeth Schorr, for example, finds that successful neighborhood initiatives—the ones that really work to solve problems—bear little resemblance to the agency-oriented approach of large public institutions and their mammoth bureaucracies for health care, education, youth and family services, public safety, and public housing.[1] Rather, Schorr finds, successful efforts are flexible, comprehensive, and simple. They are distinguished by staff commitment and a holistic, integrated view of children in the context of families and families in the context of neighborhood.

Successful neighborhood initiatives—the ones that really work to solve problems–are flexible, comprehensive, and simple.

The active participation of community residents, we have learned, is also critical in successfully addressing neighborhood problems. Kretzmann and McKnight have stressed the importance of an approach to community problem-solving that actively engages the ideas, values, and skills of residents.[2] A rising body of experience underscores the validity of this approach.

These two strains come together in community-building. Critical to community-building is the link between individual prospects and community vitality. Poorly functioning communities constrain residents' access to opportunities; community-based solutions can expand them systematically. That is not to say that some individuals cannot seize opportunities despite the barriers posed by the neighborhood, or that public agencies always fail to help people. Community-building aims for improved structural access to opportunity for *all* members of the community. It has been aptly described more as a way of doing things than as a set of prescribed activities. Joan Walsh, in her review of stories of renewal in urban America, suggests that "community-building is not a model that can be replicated...but a set of values and principles that must be nurtured and encouraged."[3] Although community-building is not a programmatic approach, activities that often embrace elements of community-building include resident goal-setting, asset-mapping, comprehensive planning, local leadership development, partnership formation, and reinforcement of community values.[4] Because community-building emphasizes the relationship between individual prospects and community characteristics, we think about community-building in terms of social capital.

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1 *Lisbeth Schorr (with Daniel Schorr),* Within Our Reach: Breaking the Cycle of Disadvantage *(New York: Anchor Press Doubleday, 1988).*

2 *Joan P. Kretzmann and John L. McKnight,* Building Communities from the Inside Out: A Patch Toward Finding and Mobilizing Community Assets *(Evansville, IL: Center for Urban Affairs and Policy Research, 1993).*

3 *Joan Walsh,* Stories of Renewal: Community-Building and the Future of Urban America *(New York: The Rockefeller Foundation, January 1997).*

4 *Arthur J. Naparstek, Dennis Dooley, and Robin Smith,* Community-Building in Public Housing: Ties that Bind People and Their Communities *(Washington, DC: The Urban Institute and Aspen Systems Corporation, April 1997).*

Forms of social capital

In *Foundations of Social Theory*, James S. Coleman describes four forms of social capital. He believes that "social capital is created when relations among persons change in ways that facilitate action."[5] This concept may be useful in thinking about the role of CDCs in community-building.

Mutual obligation: This is the expectation that persons or organizations will be "obliged" to act in certain ways because of an agreement to do so. Organizations may have signed a partnership agreement; individuals may have pledged to exchange favors.

Information: This form of social capital is the knowledge of opportunities and how to take advantage of them. In a persuasive paper, William Dickens argues that the highest barriers to employment among low-income neighborhood residents are poorly functioning personal networks, which fail to communicate information about opportunities and employer expectations.[6]

Norms: Values that constrain behaviors that otherwise would inhibit effective action are another form of social capital. Sampson, Raudenbush, and Earls have shown how the level of crime in a neighborhood (which in itself deters the formation of relationships that constitute social capital) is linked to whether residents recognize common norms and maintain effective social controls.[7]

Authority relations: This is the degree to which the power to act has been vested in a particular person or organization. Better thought of as leadership, it reflects the support available to a person or organization that chooses to represent, or act for, the community.

Are CDCs the strongest agency to undertake community-building?

As CDCs gain strong reputations for successful physical renovation, they are increasingly being drawn into broader initiatives to repair neighborhoods' torn social fabric. CDCs have been made the centerpiece of a number of foundation-sponsored community-building activities. Combined with the successful track record of individual CDCs, these initiatives may be creating expectations that CDCs are the strongest agencies to tackle broad economic and social neighborhood concerns. But are they?

To answer, we look first at the capabilities that top-tier CDCs have acquired through their traditional housing development activities. There is no question that CDCs have built up a wealth of social capital. Can social capital acquired in one sphere—in this case, physical development—translate into a capacity to act effectively in another? Many observers believe it can.

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5 *James S. Coleman,* Foundations of Social Theory *(Cambridge, MA: Belknap Press of Harvard University, 1990), p. 304.*

6 *William T. Dickens, "Rebuilding Urban Labor Markets: What Community Development Can Accomplish." The Brookings Institution, unpublished manuscript, November 1997.*

7 *Robert J. Sampson, Stephen Raudenbush, and Felton Earls, "Neighborhoods and Violent Crime: A Multilevel Study of Collective Efficacy."* Science *(277), August 15, 1997.*

Assets acquired by CDCs through traditional CDC activities

Entrepreneurship. Good CDC directors are adept at pulling together players, dollars, and organizations to get deals done. Most have established a strong network of relationships within the development community.

Community credibility. As producers, CDCs generate track records for tangible success that can inspire confidence to tackle other areas. As planners, CDCs have organized members of the community to think about the development future of the neighborhood; they may even have put in place a local forum for continuing discussion of planning issues. In some neighborhoods, the public sector may have no credibility in either of these areas.

Organizational infrastructure. CDCs own financial assets, unlike most nonprofit service providers. This gives CDCs a "presence" in communities that others lack; as holders of property, they have a considerable amount of information about neighborhood conditions and opportunities, a measure of influence over tenants, and support from homebuyers.

External networks. To do deals, CDCs must establish working relationships outside the neighborhood. In doing so, they possess information about the policies, programs, and ways of behaving that are typical of bankers, bureaucrats, politicians, and foundation funders who are active in bricks-and-mortar community development. They also may have obligations to cash in in return for past favors.

We can now turn to the types of community-building activities supported under NCDI and some other examples. We start with activities that align very well with the traditional strengths of CDCs. In rough order of "goodness-of-fit," we then proceed through other activities. These examples focus on individual CDCs or intermediary programs. Later in this chapter, we discuss system supports for community-building in the 23 NCDI cities.

NCDI has supported community-building activities.

1. *Comprehensive Neighborhood Planning*

Neighborhood planning is by no means new to CDCs; indeed, it may be thought of as a core function. Nevertheless, we include planning initiatives here because they can be important means to build the community's capacity to act. Planning activities create social capital by forging relationships among residents and institutions that allow them to think about community problems during the planning process and later cooperate on solutions. This implies that neighborhood leaders and other relevant actors participate in planning, and that the resulting plan has some reasonable connection to subsequent events. Unfortunately, this second condition is not always met. Therefore, we consider planning, by itself, to be a relatively weak component of community-building.

A number of NCDI cities have underway planning initiatives that are components of community-building.

- Two neighborhoods in Newark are engaged in collaborative, comprehensive, community planning initiatives led by partnerships among CDCs. The North Ward Collaborative includes the St. James CDC and La Casa CDC in an effort to transform the Broadway section of North Newark. The Central Ward redevelopment process involves a team of Corinthian CDC, New Community, the International Youth Organization, the Greater Newark Merchants Association, and the Rutgers Center for Urban Policy Research.

- Cleveland's Neighborhood Progress Inc. sponsors the Cleveland Neighborhood Partnership Program, which funds selected CDCs to engage in a strategic, comprehensive, and participatory planning process for neighborhoods. CDCs must meet criteria to qualify for funding, which should substantially improve the odds that the planning process will be taken seriously—and implemented.
- In Denver, Enterprise and two CDCs have launched an asset-based community planning effort that involves grassroots mobilization of residents, community organizations, voluntary associations, and others to map community assets. This map is expected to lead to a comprehensive revitalization strategy.

These examples illustrate the competitive advantages of CDCs in the planning process. Because much of planning turns on the physical and financial assets of communities, CDC networks can contribute important information to the planning group. Furthermore, few other community-based organizations have the institutional strength to sustain a process over time. Finally, CDCs have the community credibility to increase the likelihood that the plan, once developed, will have acceptance in the neighborhoods.

2. Community Facilities Development

This is another weak form of community-building, and we include it primarily for its potential role in establishing the groundwork for future, more ambitious efforts—and because the development of facilities can lead a CDC to form close, lasting relations with other neighborhood institutions. In particular, the construction and management of community facilities links CDCs to actors in networks formed around purposes that are very different from real estate development, but that are critical to the healthy functioning of communities. Creation of community facilities is a particularly strong emphasis in the larger LISC cities.

- In Chicago, Philadelphia, Washington, D.C., and Miami, CDCs supported by LISC construction loans have built day care, health care, youth services, and community centers, funded from a variety of federal, state, local, and philanthropic sources that are not typical funders of housing and commercial development.
- In New York, the Child Care Facilities Development Program supported by NCDI Round I built several child care facilities; the initiative foundered because of an intractable city bureaucracy and a policy change to support informal child care providers. The energy invested in trying to make the program work, however, paid off in the creation of a national initiative to provide facilities planning assistance.
- In Los Angeles, facilities development comes closest to the pure intent of community-building. The Drew CDC, affiliated with the Drew University Medical Center, has established satellite centers in public housing developments to provide primary care for low-income families. The Little Tokyo Service Center also serves as the lead agency in the Asian Pacific Health Care Ventures Consortium, which, among other things, seeks to increase health care employment opportunities for area Asians.

These initiatives build directly on traditional CDC strengths in real estate development, including local land use permitting, predevelopment and design, financial packaging, and construction and property management. CDCs can usually draw on the network of contacts established through housing development activities to ease the facilities development process. They also can build new networks with an expanded set of funding and approval actors.

3. Community-Building Linked to Housing Developments

Almost all CDCs own properties. While quite a few CDC-owned units are single family rentals, most CDC-owned properties are probably multi-family. These apartment buildings are natural places to provide services. CDC missions typically encourage these groups to devote attention to the social and economic health of families. There may also be financial incentives for CDCs to become involved in service delivery. According to Bratt et al., resident social and employment services can reinforce the financial viability of nonprofit-owned properties.[8] Some CDCs have gone so far as to implement family self-sufficiency programs like those now widespread in public housing. These programs offer an array of supports to whole families that implement a self-improvement program. Figures from the CDC census by the National Congress for Community Economic Development show that CDC provision of (or arrangements to provide) social services is fairly common. We suspect this means services linked to building management, not provided to the community as a whole.

Resident social and employment services can reinforce the financial viability of nonprofit-owned properties.

Providing services to building residents would not usually be considered community-building—unless residents have some say in the types of services provided and who provides them. This goes for building management services as well. Bratt et al. found that "resident empowerment" was a surprisingly infrequent theme in nonprofit management among the properties they studied, and resident organizations were few. Rather, nonprofit directors and building managers tend to rely on the shared vision of resident/management cooperation.

In NCDI cities, we found that some CDCs were beginning to provide services in a sustained way, primarily to residents of buildings they own. In New York, for example, CDCs in neighborhoods that literally have run out of stock to rehabilitate have begun to diversify into service provision. This is noteworthy because it represents a choice to become providers as a core part of the organizational mission, not as incidental to the ownership of property. New York and some other places—including Boston, Los Angeles, and Pennsylvania's housing finance agency—allow developers to capitalize social services costs. They provide enough up-front subsidy to free up funding that otherwise would go to debt repayment, thus allowing some of operating revenues to be used for services.

Jubilee Enterprise: Community-Building in Washington, D.C.

The NCDI-backed Jubilee Enterprise program in Washington, D.C. is a most ambitious CDC-sponsored effort to organize nonprofit project residents and link them to community institutions in ways that enable action. In other words, community-building and social capital formation are explicit objectives. Several years ago, Jubilee Enterprise created resident corporations in large multi-family properties to establish community norms for behavior, encourage mutual support among residents, and participate in building management and design of supportive services. Jubilee Enterprise's newest initiative is its Community Management Model, which develops leadership within the resident corporations and links the resident leaders to a network of community leaders to design and implement community safety and education initiatives.

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[8] *Rachel G. Bratt, Langley C. Keyes, Alex Schwartz, and Avis C. Vidal,* Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector *(New York: Community Development Research Center, New School for Social Research, 1994).*

The Community Management Model builds off of traditional CDC strengths. Ownership and management of properties places CDCs in contact with residents in ways that can build a sense of mutual obligation, instill norms of community behavior, convey information about resident issues and CDC expectations, and allow CDCs to speak in the community and outside on behalf of building residents. In other words, all four forms of social capital are present in the relationship between residents and CDC owners. In the Jubilee Enterprise initiative, the CDC builds on this store of social capital to help extend resident corporation networks into the broader community. External funding is needed to sustain this initiative; building rents cannot be used.

4. Community Organizing

A number of NCDI cities have begun community organizing efforts that are not limited to nonprofit-owned properties but, like the Community Management Model, are intended to support broader community change. NCDI funding has paid for community organizers hired by CDCs to identify community leadership, establish voluntary associations of residents and business, and connect the associations to asset-holders outside the neighborhood.

- The Local Initiatives Support Corporation's (LISC's) Kansas City Building Blocks program supports community organizers employed by four CDCs and trained by the Consensus Organizing Institute. The organizers identify block leaders, give them leadership training, and support their efforts to form block associations that will take on specific neighborhood problems, such as trashed vacant lots, drug use, and the need for more community safety.
- A number of NCDI-supported CDCs in St. Paul are part of a three-year demonstration program to organize neighborhoods to take on community problems. The program has reconnected CDCs to neighborhood residents and strengthened working relationships with the city's district planning councils.
- In Baltimore, Cleveland, Portland, and other cities, Enterprise has initiated Communities Organized for Public Safety (COPS). Neighborhood residents and public safety agencies collaborate to prevent crime; Americorps volunteers have been instrumental in these organizing efforts.
- Miami-Dade Neighborhood Housing Services convened an "empowerment conference" to gather neighborhood stakeholders, block associations, and others to think about neighborhood needs and solutions. The conference has informed organizing work linked to existing and newly created block associations.

Some CDCs have taken on the task of organizing businesses, public services agencies, and other neighborhood institutions in ways that may or may not involve residents directly.

- The Development Corporation of Columbia Heights in Washington, D.C., helped to create a business association and has organized informal networks among managers of major multi-family properties; in Miami, the Little Haiti Housing Association organized a coalition of organizations providing public services to the community.
- In Baltimore, the Coppin Heights CDC, in partnership with Coppin State University, has collaborated with other community institutions, churches, small businesses, and residents to create the West North Avenue Alliance, dedicated to comprehensive community planning and safety efforts.

Under the best circumstances, CDCs have built on their community credibility, entrepreneurial initiative, and external networks to help make community collaborations possible. The neighborhood scale of these collaborations—and the considerable overlap between new participants and the networks already established by CDCs through development activities—make these collaborations a natural extension of CDC planning and development activities.

That said, not all CDCs have found that an organizing role among residents or neighborhood institutions fits well with their organizational strengths. Some found that the kind of social capital they could bring to bear could not sustain efforts over time. For example, one Chicago CDC went through three community organizers in just a few months; it is a particularly difficult position to fill, generally. An Indianapolis CDC hired a neighborhood organizer who enabled the CDC to reconnect with a hostile neighborhood association and help residents with minor concerns. But the CDC could not create the wider network of community actors it had originally envisioned.

Some CDCs have clear social capital gaps. They may have stressed development—not community betterment—and thus may have little reservoir of resident support for a leadership role. Other groups have promoted low-income rental housing that violates community norms favoring middle-income homeownership.

5. *Comprehensive Community-Building*

The least-well-understood aspect of CDC participation in community-building involves a new generation of comprehensive community-building initiatives. These initiatives stress community participation in decisionmaking at the same time that major neighborhood *and* external actors are engaged in change initiatives. These initiatives can be quite complex: they depend heavily on all four forms of social capital. There are mutual obligations among multiple neighborhood and city-wide partners. Information flows across policy and program networks—each with its own technical language. Emerging new norms of family-centered services and client and resident participation are not shared equally among the parties. And multiple centers of leadership sometimes compete for potential resources.

Many comprehensive community-building initiatives have little to do with CDCs. For example, most of the listings in a recent "comprehensive" compendium of community-building initiatives centered on youth and family services.[9] The listed initiatives involved problems, actors, agencies, institutions, funding streams, and even vocabularies quite different from the world of development. At the same time, it is worth mentioning that many of the 1960s-era CDCs began as comprehensive community change organizations before federal funding for these initiatives dried up.

Some community-building initiatives have a nexus between physical and human capital development that can offer CDCs a point of entry based on their traditional strengths. Several well-known community-building efforts are anchored by CDCs or CDC networks—including the South Bronx Comprehensive Community Revitalization Program, the Annie E. Casey Foundation's Rebuilding Communities Initiative, and the Neighborhood Transformation Initiative in Baltimore.

[9] *Cheryl D. Hayes, Elise Lipoff, and Anna E. Danegger, "Compendium of Comprehensive, Community-Based Initiatives: A Look at Costs, Benefits, and Financing Strategies," prepared for the Finance Project, Washington, DC, July 1995.*

Some community-building efforts supported by NCDI and anchored by CDCs are not in areas of traditional CDC strength.

- In Brooklyn (New York), the Williamsburg Family Support Program is organizing residents to set the agenda and catalyzing broader institutional responses to community priorities for strengthening families and providing positive options for youth. As part of the initiative, the St. Nicholas Development Corporation is collaborating with voluntary, professional, and government organizations to develop a network of family support services.
- In the Los Angeles Health Sector Initiative, CDCs are creating and expanding physical health care facilities in cooperation with traditional care providers. They are also providing job training to neighborhood residents wishing to enter the health care professions. CDC communities thus will be better served by health resources and will also benefit from a health-related job infrastructure and integrated development plan.

In both initiatives, CDCs are linking neighborhood residents and community-based institutions to broader public and private support networks. It is fair to say that only the strongest CDCs can perform tasks of this magnitude. The institutional capacities and social networks built by CDCs differ considerably from those needed to make these other initiatives work well. To be effective in the youth and family services or health arenas, CDCs must master new technologies and new sets of relationships that can force changes in the way CDCs pursue their core mission. Moreover, like all major systems, youth and family services and health care are undergoing rapid shifts in policy, programs, and funding levels.

CDC involvement in comprehensive change activities will continue to build slowly.

The elements that underlie the successful development of the Williamsburg Family Support program are outlined by LISC: an executive director committed to integrating community-building into core programs of the organization; a carefully thought-out planning process; assistance from the CDC support system (including LISC staff) on strategies, programs, and partnerships; and use of skilled organizing staff to mobilize residents and link programs.

How transferable are these elements to other community-building activities? Not all executive directors can effectively integrate community-building into core programs. CDCs rarely have the luxury of a careful planning process. Members of the support system may not uniformly agree to commit the kind of funding needed to carry out demanding organizing tasks. And organizing staff that can both mobilize residents and forge cooperative agreements among neighborhood and city agencies are hard to come by. For these reasons, we suspect CDC involvement in comprehensive change activities will continue to build slowly.

System supports for community-building are embryonic.

For this assessment, however, we thought about the kinds of programs and policies in NCDI cities that can help CDCs lay the groundwork for community-building efforts.

Today, most cities do not have support systems to address community-building. Most of the CDC community-building initiatives cited earlier in this chapter were undertaken by individual CDCs or organizations working together, often as special initiatives or funded by specially dedicated funding sources—and not as a result of a comprehensive citywide strategy embraced by multiple agencies and institutions.

> **Why are there no strong local support systems for community-building?**
>
> We can surmise several reasons for the lack of local system development in the community-building area:
>
> 1. Many cities are still grappling to establish coherent systems to support housing development.
>
> 2. The lack of a commonly understood definition of community-building hinders the ability to draw people and institutions together. Everyone knows what housing is and most people can understand their roles in its delivery. We cannot say the same for community-building.
>
> 3. The number and variety of actors involved in a community-building system is likely to be larger and more varied than for housing and physical development systems. These actors may have conflicting goals, funding streams, and ways of doing business.
>
> 4. Community-building implies changes in the delivery of services that are typically the province of public agencies. Consequently, it may take longer to persuade them to change behaviors, act in concert with others over a long term, or cede responsibility and authority to newer, community-oriented organizations.
>
> 5. Unlike housing, which carries with it a funding stream (albeit usually not enough to pay for all costs), most human services programs have no funding payback to the provider. Thus, community-building networks will always need to be fed with new money—something that funders, including private foundations, may resist, unless redirections of public money to community-based delivery systems become apparent.
>
> 6. System development cannot easily be imposed from outside. There must be a demand—a market—to justify doing the hard work implied in forming complex collaborative arrangements. Community-building, in its current incarnation, may still be too new a concept in most cities to have generated such demand. For example, most cities took many years to recognize the need for housing and develop system supports for it.

But even while community-building supports remain embryonic, some cities have begun to act in ways that may eventually produce more comprehensive systems to support community-building.

What can local systems do to promote community-building?

What can cities do to move toward more comprehensive support for community-building? We have identified three potential areas of involvement.

- Fund neighborhood strategy development.
- Link project funding decisions to neighborhood strategies.
- Foster indigenous leadership in low-income neighborhoods.

Table 5.1
Availability of Public Funding in Current System for Neighborhood Strategy Development, 1991–1997

Funds Available	Inconsistent Funding	Little or No Funding
Philadelphia+	Indianapolis+	San Francisco Bay Area
Atlanta+	Washington+	Chicago
Seattle+	Boston	San Antonio
Baltimore	Los Angeles	Phoenix
Portland	New York	Miami
Dallas	Kansas City	Detroit
	Cleveland	Newark
	Columbus	
	Denver	
	St. Paul	

Source: Urban Institute, 1998.
Note: Cities are not grouped by rating within category.
The "+" indicates large gains.

Fund neighborhood strategy development. A community can encourage strategic thinking about comprehensive approaches to neighborhood problems by funding neighborhood planning. Not all neighborhood plans are comprehensive or meaningful, of course. But funding neighborhood planning allows CDCs to think strategically about neighborhood change and involve others in the process. This is more difficult where the system does not support such planning.

We asked our local experts to indicate whether the local system funds neighborhood planning that involves community residents in a meaningful way. Table 5.1 shows the results.

- Sixteen NCDI cities provide some funding for neighborhood strategy development. Six fund planning on a regular basis.
- Five cities—Philadelphia, Atlanta, Seattle, Indianapolis, and Washington—show significant gains in available planning support between 1991 and 1997.

Link public funding of projects to neighborhood strategies. Systems that link project funding to neighborhood planning are more likely to take strategic planning seriously—and, consequently, could be fertile ground for community-building. Table 5.2 illustrates the relationship between neighborhood plans and public funding for development projects in NCDI cities. The table shows how often the local community development system gives funding priority to projects that grow out of neighborhood strategies.

- Five systems—Baltimore, Philadelphia, Indianapolis, Portland, and Boston—formally tie project funding to neighborhood strategies, while seven—Chicago, San Antonio, Phoenix, Miami, Washington, Detroit, and Newark—have little or no connection between project funding and community plans.
- These linkages are recent: four of the five cities that rate in the highest category registered major gains over the past six years, as did one city in the middle category.

Table 5.2
Types of Public Funding Links between CDC Projects and Neighborhood Strategies, 1991–1997

Types of Funding Links between CDC Projects and Neighborhood Strategies Are:		
Often and Explicit	**Sometimes and Informal**	**Almost Never**
Baltimore+	Atlanta+	Chicago
Philadelphia+	Los Angeles	San Antonio
Indianapolis+	Seattle	Phoenix
Portland+	New York	Miami
Boston	Dallas	Washington
	Kansas City	Detroit
	San Francisco Bay Area	Newark
	Cleveland	
	St. Paul	
	Columbus	
	Denver	

Source: Urban Institute, 1998.
Note: Cities are not grouped by rating within category.
The "+" indicates large gains.

Foster indigenous leadership. Systems that consistently support the nurturing of neighborhood leaders probably also understand the need for comprehensive community development. Leadership development and resident goal-setting and involvement are among the activities normally associated with community-building. Table 5.3 ranks cities by the level of system support provided for building leadership capacity in low-income neighborhoods.

- Five cities allocate money and attention to leadership development; four of these cities registered major gains in such programs since 1991.
- Fifteen NCDI cities support leadership programs but not often, or such programs are not a prominent feature of local programs.
- Only three systems—Newark, Columbus, and Phoenix—offer little or no support for leadership development of residents in low-income communities.
- Two communities with the lowest ratings category in 1991—Atlanta and Los Angeles—moved to the highest category in 1997. These two are among six cities that saw major increases in funding for leadership development programs.

Community-building often grows incrementally.

Community-building is often accomplished through strategic incrementalism—that is, learning from success and failure and readjusting as you go.[10] Mature systems may have opportunities to encourage community-building through trial and error, as Baltimore did with significant

Table 5.3
Level of Public and Private Support for the Development of Leadership Capacity, 1991–1997

Allocate Attention and Money	Support Available But Not Prominent	Little or No Support
Atlanta+	Indianapolis+	Newark
Los Angeles+	Washington+	Columbus
Kansas City+	Portland	Phoenix
Baltimore+	Seattle	
San Francisco Bay Area	Dallas	
	Chicago	
	Boston	
	St. Paul	
	New York	
	Cleveland	
	Denver	
	Philadelphia	
	San Antonio	
	Miami	
	Detroit	

Source: Urban Institute, 1998.
Note: Cities are not grouped by rating within category.
The "+" indicates large gains.

experience stemming in part from the Sandtown-Winchester model. More evolving systems may make sudden and deliberate system additions or corrections to foster community-building.

Many CDCs undertaking community-building activities appear to be doing so only recently. It will be instructive to watch how well CDCs maintain these activities and build on an apparently promising start. It also remains to be seen if CDCs can mount comprehensive community-building programming in diverse settings and in cities not ranked as high-performing.

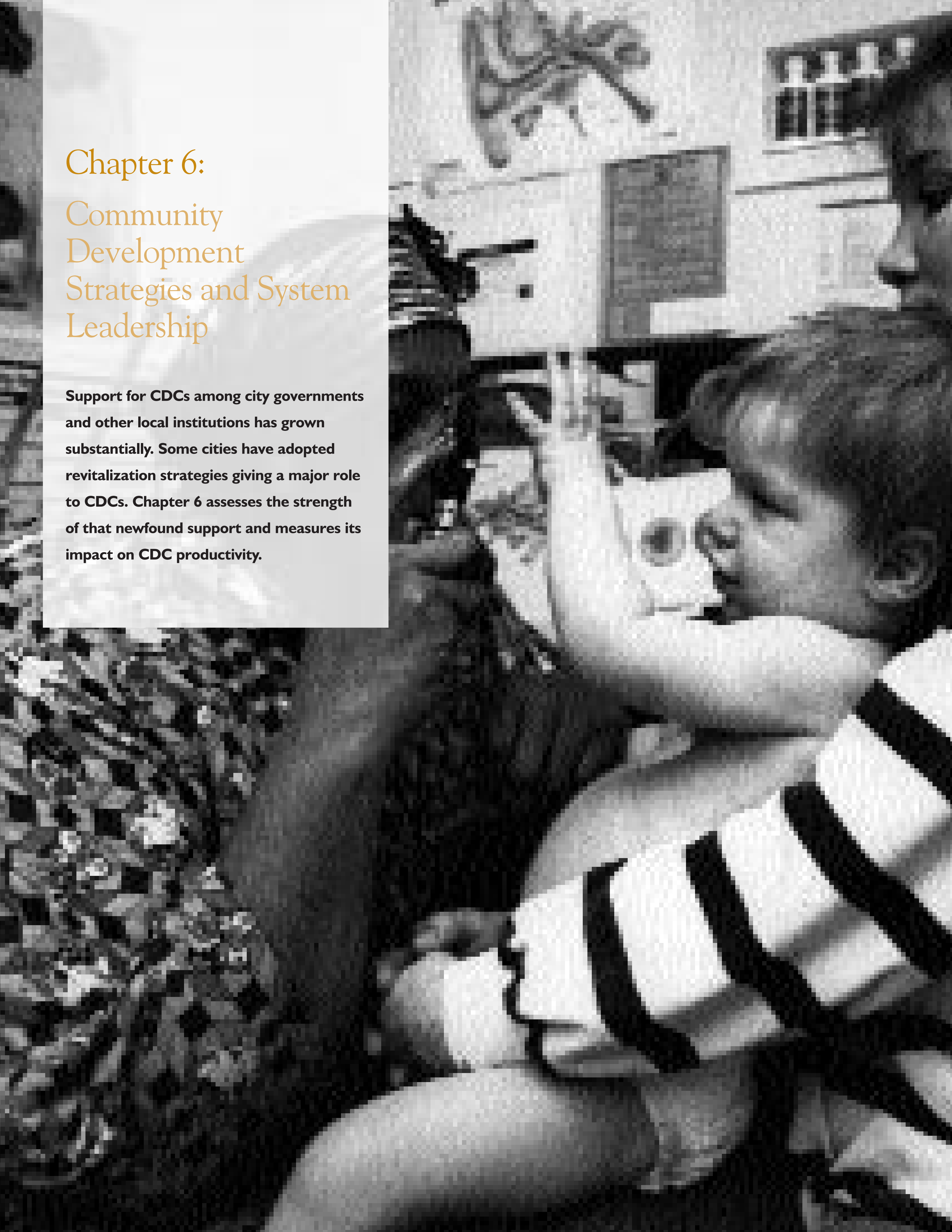
Receptivity by public and private funders appears to be a determinant of increased community-building. Indeed, local governments and key foundations supported a broadening of CDC agendas in Kansas City, Baltimore, and Indianapolis. Such support is important because these funders play a key role in sustaining CDCs generally through operating support and other programs.

Where funders want to support only housing development, CDCs will find it difficult to devote resources to community-building or any other activity. Our assessment did not gauge local funder support for community-building. This pivotal juncture of funder interest—and the stability of community-building efforts—will make for a provocative and important area for exploration in future evaluations.

Chapter 6:

Community Development Strategies and System Leadership

Support for CDCs among city governments and other local institutions has grown substantially. Some cities have adopted revitalization strategies giving a major role to CDCs. Chapter 6 assesses the strength of that newfound support and measures its impact on CDC productivity.



Summary

During the 1990s, NCDI cities have experienced rapid growth in collaborations providing operating support and technical assistance to CDCs. These have done much more than simply attract resources to CDCs. The collaborations have also enlisted the participation of influential business and civic leaders in community development's ranks.

Our research found convincing evidence that CDC programs are heavily influenced by the level of support offered by public and private leaders. Such support tends to be strongest in cities where local leaders have articulated a clear and central role for CDCs in city development strategies.

In this chapter, we examine three questions in assessing local leadership support for CDCs and the strength of community development strategies.

- Have local leaders articulated a formal strategy for revitalization of low-income communities that guides city agencies in planning and investment decisions?
- Do the public, corporate, banking, philanthropic, and nonprofit sectors agree on strategies for city and neighborhood revitalization?
- Do public agency funding and policy decisions give CDCs a central role in the delivery of government programs in low-income neighborhoods?

We found that while few NCDI cities had articulated clear strategies for community change, public sector support for CDCs is widespread and growing. In many NCDI cities, CDCs are the city's neighborhood policy.

We found clear evidence that strong "yes" answers to all three questions above relate directly to the improved capacity of CDCs. To be effective, however, these strategies must also rest on solid fundamentals—sound capacity-building and production programs.

We conclude that having clear, inclusive, and CDC-supportive strategies is important to overall system performance. With one exception, all of the NCDI systems that scored "above average" on our summary measure of current performance had at least one superior feature in their community development strategy package.

The evaluation of NCDI Round I stressed the importance of community leadership in galvanizing support for CDCs and community development. We revisited this issue in our current assessment.

We found that although no guarantee, the surest way to sustain community development system gains is by fostering cross-sector collaborations. In such environments, leaders find it difficult to retreat from previously supportive policies and programs. This is particularly important in holding public agencies accountable for their commitments during times of political or senior agency leadership change.

Building interim strategies around public support for CDCs can be a first step toward more complete strategies for public investments generally. Similarly, developing leadership within sectors can be a solid foundation for developing collaborations across sectors. Finally, creating cross-sector collaborations can influence the development of clear strategies for change.

Community Development Strategies and System Leadership

Community development embraces many objectives and organizations. But linchpins of the system are the political leaders from whom others take direction. Ideally, the conditions for private investment and market regeneration are set by clear public strategies guiding spending on housing, economic development, and infrastructure, while human services spending helps residents capitalize on new market opportunities. Unfortunately, political leaders do not always articulate a clear strategy for neighborhood renewal that informs the daily decisions of city agencies. As a result, public sector investments too often fail to complement one another in ways that generate a market payoff.

In the best situations, major private actors support public strategies for change. Banks, foundations, and corporations can be important partners in neighborhood revitalization, as can public institutions not typically engaged in direct investments in neighborhoods, especially universities. The growth of public-private partnerships to support CDC projects is widespread. But private institutions still pursue agendas that, if not inimical to neighborhood interests, do not substantially further them. Many corporate leadership groups, for example, have devoted their energies to major downtown development projects with highly uncertain payoffs in neighborhoods. These groups need to be shown that their interests are served by direct investments in neighborhoods.

Political leaders do not always articulate a clear strategy for neighborhood renewal that informs the daily decisions of city agencies

If CDCs are central to a community's capacity to bring about positive change—and city agencies are the primary motors of new public investment—then the alignment between these two forces is critical to a system's success. In some cities, the public sector has expressly committed to use CDCs as the primary delivery mechanism for community development programs. In others, CDCs have been regarded as mostly marginal. In still other systems, the public strategy for neighborhoods may contradict what CDCs try to do.

As part of our assessment of community development systems—and how they have changed since NCDI began—we rated each city based on three factors of local support. We refer to these factors collectively as a "strategy package."

- Clear public strategies: Have local leaders articulated a formal strategy for revitalization of low-income communities that guides city agencies in planning and investment decisions?
- Public-private strategies: Do the public, corporate, banking, philanthropic, and nonprofit sectors agree on strategies for city and neighborhood revitalization?
- Public support for CDC strategies: Do public agency funding and policy decisions give CDCs a central role in the delivery of government programs in low-income neighborhoods?

How do NCDI cities rate on their strategy packages of local support of CDCs?

Systems with clear and congruent strategies across the board:

Indianapolis, Baltimore, and Cleveland.

Political leaders in these cities have articulated clear priorities for change. These priorities have attracted significant private sector support. And the priorities are linked to CDC priorities for neighborhoods.

Systems with most, but not all, elements of sound community development strategies in place:

Portland and New York—which lack only a strong public strategy.

Atlanta—which has not fully committed to the CDC agenda.

Seattle—which lacks consistent private sector support for city and CDC priorities.

Systems demonstrating superior performance in at least one dimension of community development strategy:

Chicago—very strong private sector backing for public and CDC investments.

Denver—with clear public priorities, but less solid buy-in.

Boston, Philadelphia, Washington, D.C., Kansas City, and Newark—marked by very strong public support for CDC agendas but little in the way of clear public and private support for strategic approaches to neighborhoods.

Remaining cities may or may not have solid prospects for attaining superior performance on one or more of these dimensions of community development strategy.

Table 6.1 shows the results of our assessment in NCDI cities. A plus sign in a column indicates that the system scored particularly high on that item—a 4 or 5 on our 5-point scale. A triangle (or delta) indicates that the system's performance increased substantially between 1991 and 1997 (even if the system did not achieve a high score in 1997).

Table 6.1
Researcher Ratings of Current System Performance on Community Development Strategies and Performance Change, 1991–1997

	Above–Average Performance on:		
City	Clear Public Strategies	Public–Private Strategies	Public Support for CDC Strategies
Indianapolis	+ ▲	+	+ ▲
Baltimore	+ ▲	+	+
Cleveland	+	+	+
Portland		+	+ ▲
New York		+	+
Atlanta	+	+	
Seattle	+		+ ▲
Denver	+		
Chicago	▲	+	
Boston			+
Philadelphia			+ ▲
Washington			+
Newark			+ ▲
Kansas City			+
Phoenix	▲		
San Francisco Bay Area			
Dallas			
St. Paul			
Miami			
San Antonio		▲	▲
Los Angeles			▲
Detroit		▲	▲
Columbus			▲

▲ = biggest improvements, 1991–1997.
Source: Urban Institute, 1998.
Note: Cities are grouped by the number of "+" signs.

Baltimore: Solid performance. Baltimore has recently acquired a new status as a top community development performer. In the last few years, Mayor Kurt Schmoke has articulated new strategies to target more city spending in neighborhoods, reform municipal service delivery at neighborhood-based city offices, demolish and reconstruct public housing complexes, and create special initiatives in comprehensive neighborhood development, embracing both physical and human capital investments. Private corporations, banks, foundations, and universities have become engaged in neighborhood initiatives in new ways, building on the city's strong tradition of public-private development partnerships. The city has moved aggressively to support CDCs as community-based and minority developers. Behind this support is the recognition that CDCs can be effective neighborhood system-builders. Baltimore's political leaders view bottom-up planning—and its role in targeting neighborhood resources better—as an important system adaptation to shrinking municipal resources.

Washington: Strong public support—but no clear strategy. Several systems are marked by strong public sector support for CDCs and the work they do in neighborhoods—but this is not matched by a clear public strategy for change. Nor does the private sector show strong signs of leadership in neighborhood change initiatives. In these systems, the public sector "strategy" is to support whatever CDCs do, without much political articulation of a strategic direction for change. Washington, D.C., is a prime example. City agencies offer funding for housing and economic development. But there is little relationship among programs. Programs are not targeted to particular neighborhoods. And a fragmented political leadership in the city has become incapable of establishing clear policies that would attract sustained private support.

How much does local support affect overall CDC system performance?

After rating each city's strategy package of local support, we looked at the relationship between these strategy dimensions and the overall performance of CDCs in production and capacity. We used the system performance measures employed in chapter 2 as our overall performance measure. We conclude that:

- Having clear, inclusive, and CDC-supportive strategies is important to overall system performance. Except for Miami, all of the systems rated as "above average" on our summary measure of current performance had at least one superior feature in their community development strategy package.
- Superior performance on strategies does not automatically translate directly into superior overall system performance. Indianapolis is the best example of this disconnect. Although its strategies are sound, the production system does not channel large amounts of money into the system, and the capacity-building system has major flaws.
- Public support for CDC agendas has a significant impact on CDC performance. But some cities can perform well overall without high ratings for their local support packages. Boston and Philadelphia perform well despite gaps in public and private sector support. And Washington, D.C., Newark, and Kansas City are at least average performers despite relatively uncoordinated and unimaginative public policies.

How much has local support for CDCs changed since 1991?

The triangles in table 6.1 denote the cities with the biggest improvements since NCDI began on the three elements of a local strategy package. Overall, we conclude that:

- The most important change in community development strategies in the 1990s is increased public sector support for CDC agendas. Nine of the 23 NCDI cities registered large gains in public support, including five cities now showing superior performance on this dimension—Indianapolis, Portland, Seattle, Philadelphia, and Newark.
- Among cities that have only average, or below average, performance on any one strategy dimension, four have nonetheless registered substantial improvements in public support for CDC priorities—Los Angeles, San Antonio, Detroit, and Columbus.

- Cities with substantially improved public strategies since 1991 include Indianapolis and Baltimore (among the best in 1997 performance), as well as Chicago and Phoenix. San Antonio and Detroit have gained significant private sector support for neighborhood investments over that period.
- Unlike the clear relationship between current system performance and performance on the community development strategies, the effect of dramatically increased performance on strategies and overall system change is unclear.
- Several systems with the biggest increases in overall system performance—Philadelphia, Baltimore, Detroit, and Los Angeles—also registered increases in the quality of their local strategy packages. Some systems that have performed poorly overall in the past, but showed strong signs of change—San Antonio, Phoenix, and Portland—saw some elements of strategy improvement as well.
- Four systems saw big changes in overall system performance—Denver, St. Paul, Atlanta, and Dallas—without clear signs that public strategies, private commitment to public strategies, or public backing of CDCs had increased dramatically. Denver and Atlanta did show strong strategy elements in place in 1991, however.

Some cities may benefit by pursuing incremental strategy-building.

If the public sector is to be brought along as a more creative and purposeful player in community development, one effective first step may be to get the city and its political leadership to commit to CDCs as delivery organizations. This avoids, in the short term, the difficult task of moving public agencies toward agreement on broader community development strategy. The idea is to enlist agencies at least to tailor their programs to allow community organizations easy access to subsidies. This has been the approach preferred by the national intermediaries in a number of NCDI cities.

The involvement of the LISC and the Enterprise Foundation in local partnership formation made a substantial difference in most systems we examined.

New forms of leadership and collaboration have evolved.

Consistent with earlier NCDI reports, we found considerable evidence that new forms of collaboration and new sources of community development leadership have emerged since 1991. No single set of factors produced this broadening of cooperation. In some cases, long-standing patterns of civic cooperation on other issues established fertile ground for collaboration around affordable housing and community development—in Boston and Baltimore, for example. Other partnerships are newer, created as a result of a system crisis or a major leadership change. Denver and Indianapolis fit this category. The involvement of the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation in local partnership formation—through advisory boards, partnership membership, and informal relationship-building—made a substantial difference in most systems we examined.

What is behind the formation of all these new collaborations and partnerships?

Even though the structure and the origin of community development collaborations and partnerships vary, four factors appear frequently as reasons for their formation.

Low-income housing tax credits. Tax credits and the resulting emphasis on rental housing production have created both the opportunity and the necessity to collaborate. Banks, state tax credit and bond issuing agencies, city subsidy providers, foundations, and others engaged in funding any single tax credit deal have an incentive to establish a mechanism for continuing collaboration around issues that affect all tax credit deals, and other system tasks as well.

Foundations. Increases in a system's ability to mobilize philanthropic funding for community development are both a cause and a consequence of partnership creation.

New funding and new players. In some cities, new outside actors and funding energized leadership in the community development system. Through the national intermediaries, NCDI played a direct role in the formation of some partnerships, most notably in San Antonio, Dallas, Portland, and Detroit.

Other cities' experience at collaborating. In some systems, the demonstrated track record of collaboration elsewhere helped legitimize community development generally and the partnerships approach in particular.

Formal collaborations have helped systems stabilize funding support for nonprofits and other projects, channel technical aid, and expand and solidify the network of relationships that are critical to effective community development programs.

To assess leadership and collaboration in NCDI cities, we looked at three dimensions:

- Leadership in multiple sectors able to mobilize the support of others within each sector for the pursuit of community development goals.
- Collaboration *within* sectors to accomplish community development goals.
- Collaboration *across* sectors to accomplish community development goals.

Table 6.2
Researcher Ratings of Current System Performance on Leadership and Cooperation and Performance Change, 1991–1997

	Above-Average Performance on:		
City	Collaboration Within Sectors	Collaboration Across Sectors	Leadership
Seattle	+	+ ▲	+
Boston	+	+	+
New York	+	+	+
Portland	+ ▲	+ ▲	+
Cleveland	+ ▲	+	
Indianapolis	+ ▲	▲	▲
St. Paul	+ ▲		
Kansas City			+ ▲
Dallas			+
Baltimore			+
San Antonio		▲	+ ▲
Phoenix			
Washington			▲
Newark			
Miami	▲		
San Francisco Bay Area			
Atlanta	▲		
Denver			
Detroit			
Los Angeles		▲	
Chicago			
Columbus			
Philadelphia			

▲ = biggest improvements, 1991–1997.
Source: Urban Institute, 1998.
Note: Cities are grouped by the number of "+" signs.

Table 6.2 shows the results, which are summarized below.

Strong leadership within multiple sectors and superior performance in collaboration within and across sectors: Seattle, Boston, New York, Portland, and Cleveland.

These systems have established the most promising basis for sustained community development improvement. Boston, New York, and Cleveland have CDC system performance in the top rank among NCDI cities. Seattle and Portland have average or sub-par current performance, but both have superior, and recently emerged, public support for CDCs. They are also now demonstrating other strategy elements that match, and in part resulted from, strong forms of collaboration.

All five cities have solid mechanisms for collaboration within individual sectors, including formal collaborations within the philanthropic, banking, and CDC communities. Cross-sector collaborations include Cleveland's Neighborhood Progress Inc., which bridges the banking, corporate, public, and nonprofit sectors. The Seattle Community Development Partnership, a new example, has already established a multi-funder, multi-year, multi-million-dollar capacity-building program.

Strong collaboration within sectors, but not strong between sectors and not particularly strong leadership: Indianapolis and St. Paul.

These two cities have created effective banking and CDC collaborations. Major system participants share a view of the CDC industry that has promoted supportive city policies. However, relationships across sectors have displayed a certain fragility, and not all sectors in Indianapolis (corporate) and St. Paul (political) have effective leaders committed to community development.

Both systems are vulnerable to the loss of recently acquired gains. The Indianapolis Neighborhood Housing Partnership has been effective in growing new CDCs within the system, but it has not been able to forestall erosion of some already built capacity. In St. Paul, new political leadership has not continued the supportive policies of the past.

Strong leadership within sectors, but not a strong record of within-sector or across-sector collaborations: Kansas City, Dallas, Baltimore, and San Antonio.

These cities have the necessary conditions for strong cross-sector collaborations in support of community development. In Dallas, leadership in the nonprofit, corporate, banking, and philanthropic sectors has emerged to support the work of CDCs, but these have not yet come together to effect systems change through formal collaboration.

Baltimore, in contrast, has historically been a major player and a strong partner in community revitalization efforts. Indigenous institutions are involved and are taking leadership in shaping and implementing revitalization plans for their communities, including neighborhood associations, churches, schools, businesses, and residents. However, Baltimore lacks a strong coalition of CDCs. A funders collaboration has emerged only recently.

Similarly, leadership in San Antonio is beginning to create cross-sector forms of collaboration. The San Antonio Affordable Housing Association, which represents the nonprofit sector, may emerge as the first step in the development of an independent and united CDC voice. In Kansas City, local community development leadership falls to the private sector. Although discussions are emerging among foundations, cooperation both within and across sectors is rare, and there is no funder collaboration on behalf of CDCs.

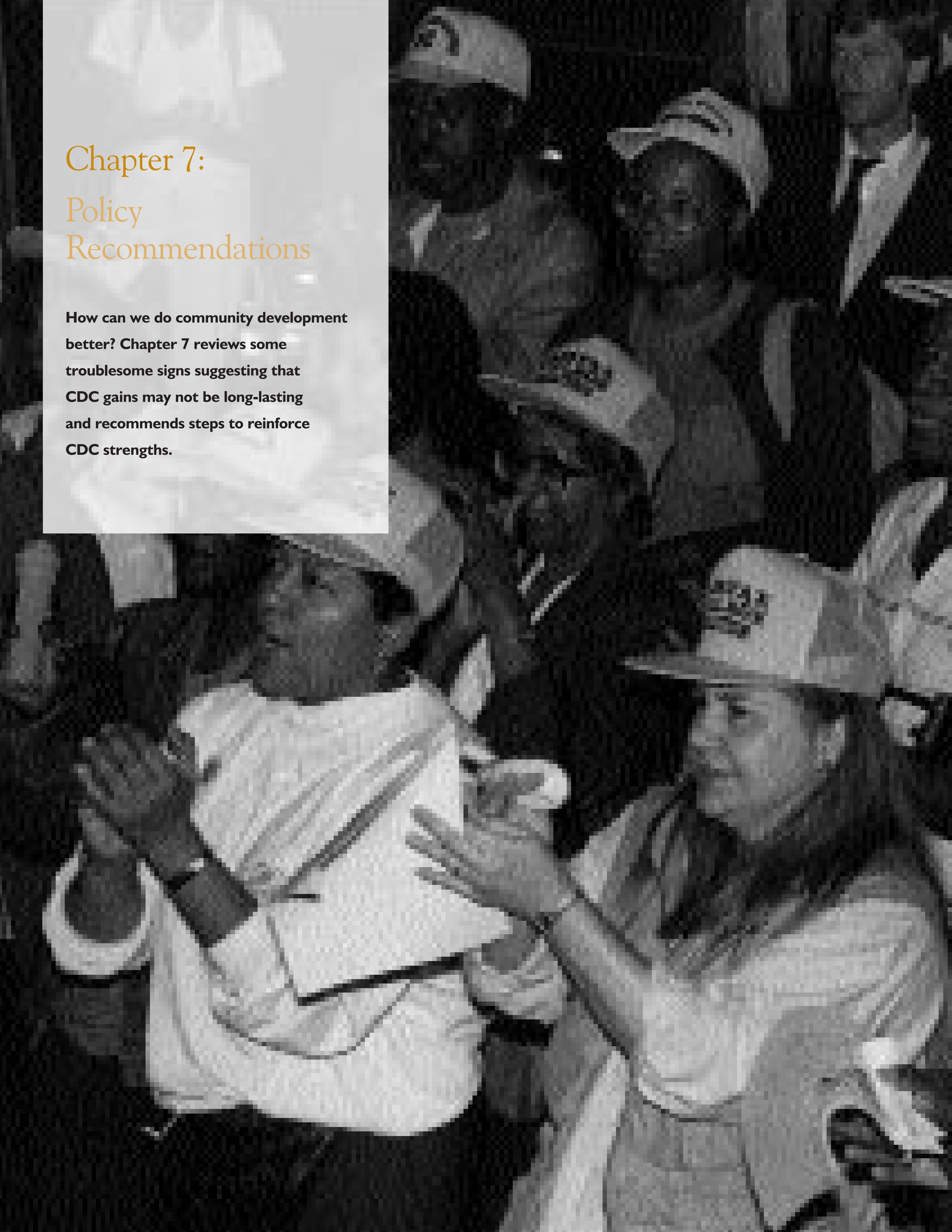
No signs of superior performance on any indicator. Some of these systems may have solid, but not exceptional, performance in multiple indicators.

The emergence of leadership within sectors can lay the foundations for durable forms of collaboration. We believe these are needed to sustain the gains that community development systems make. Otherwise, systems are vulnerable to changes in leadership within particular sectors. The extent of cross-sector collaboration can be an important factor influencing the development of coherent community development strategies and the growth of production and capacity-building programs.

Chapter 7:

Policy Recommendations

How can we do community development better? Chapter 7 reviews some troublesome signs suggesting that CDC gains may not be long-lasting and recommends steps to reinforce CDC strengths.



Summary

In this report, we have shown that prospects for renewal of low-income urban neighborhoods have brightened considerably in the 1990s, in no small part because the capacity of community development corporations has improved dramatically. For example, the number of capable CDCs in the 23 NCDI cities has nearly doubled as a result of the flow of new money, expertise, and leadership to community development. Cities without strong traditions of support for CDCs have made rapid progress; other cities with more established sectors have solidified earlier gains, setting the stage for further evolution of the community development industry.

NCDI's premise has been validated by our research: investments in local institutions that support community development corporations can yield substantial returns in the form of neighborhood-based development capacity. We found that foundations, corporations, and governments have blended their efforts to confront successfully some of the enduring challenges of the nonprofit sector—uncertain operational funding, scarce credit, weak development capacity, and unsupportive private and public leadership.

While much has changed, though, much remains to be done. Not all NCDI cities have made solid progress, and even in the strongest cities, community development corporations as a group display areas of fragility that could undermine the gains of recent years. Among the challenges facing CDCs are these:

- The supply of capital has expanded in recent years, fueling the growth of CDCs, but increased CDC capacity will hike demand for capital still further.
- Local governments have become more supportive of CDCs in the past six years, but this momentum sometimes stalls when local political leadership changes.
- Even where political leadership is supportive, local governments often cannot deliver community development programs efficiently and effectively.
- CDCs are being hurt by changes in state policies affecting the allocation of Low-Income Housing Tax Credits.
- Although progress has been made, CDCs remain vulnerable to financial and management crises, particularly in view of the financial weaknesses of the properties they own.
- Core operating support programs for CDCs have contributed greatly to improved CDC capacity, but some programs are soon to expire, and in some cities, local funders have not yet made firm commitments to continue them.
- Creation of local community development collaborations has put CDCs in closer touch with each other and with industry leaders, but CDC practitioners still must develop better ties to one another and to best practice.

We expect that continued pursuit of the basic NCDI strategy will help sustain the momentum built throughout the 1990s. We also recognize that extraordinary effort will be needed to retain hard-won gains. To further ensure future progress, we make these recommendations:

- The role of intermediaries in community development should be sustained and strengthened.
- The flow of money and technical support to the community development sector must be solidified and expanded.
- Community development practitioners and their allies need to find more effective ways to positively engage local and state governments.
- NCDI's funders should take advantage of NCDI's national stature to promote the field nationally and locally.
- CDC agendas should continue to expand into community-building—activities that involve neighborhood residents in taking on community problems—but this expansion should be supported cautiously and only when long-term flexible money and other support can be secured.
- Considerable attention must still be given to basic CDC operations.

Policy Recommendations

Much of this report has discussed the gains made by CDCs and the local institutions that support them. Today, CDCs are producing more programs and projects for low-income neighborhoods than they did before local leaders began to work together more actively to make change. They are garnering increased local support, particularly from city governments, foundations, lenders, corporations, intermediaries, and technical assistance providers—all of whom are collaborating in new and effective ways.

Despite the gains we have noted over the past six years and the increasing sophistication those gains suggest, community development has not solved all the critical challenges faced by the sector.

Gains in CDC performance have not occurred evenly across all 23 cities. Nor are even the best "systems" of local policies, programs, and institutions yet firmly rooted for the long term. But CDCs and their supporters in many cities have improved performance because more money is flowing to the field, local leaders are stepping up to help CDCs by formulating neighborhood strategies and collaborations, and the longer-term capacity-building needs of CDCs are finally receiving serious attention.

Today, CDCs are the largest affordable housing producers in many of the NCDI-supported cities. This performance record has helped the industry to achieve more recognition. CDCs are now considered important providers or brokers of a variety of community services, especially as national and local leaders increasingly recognize the need to treat neighborhood ills comprehensively. And CDCs are more often forming partnerships with other institutions working in their communities.

Many of the performance gains we document in this assessment are related to the presence of national and local intermediaries. These institutions are uniquely positioned to focus attention of community leadership on the roles CDCs can play in lower-income neighborhoods. Intermediaries develop programs that support the capacity and production needs of CDCs.

Yet, despite the gains we have noted over the past six years and the increasing sophistication those gains suggest, community development has not solved all of the critical challenges faced by the sector.

Very hard work will be needed to solidify CDC advances, and to take on the unmet challenges that remain.

CDC supporters must keep the supply of capital flowing to fuel continued CDC growth. Particularly important is the supply of public sector money that funds CDC projects and operations. We have found that the flow of Community Development Block Grant (CDBG) and HOME dollars to a community has become the best indicator of the strength of its CDC industry. But local competition for these funds from other worthwhile claimants, from job developers to homeless shelter providers, poses a continual threat to the funding that has fueled CDC growth.

Other policy changes, each of which can be viewed in a positive or negative context, may affect the future of the field.

- ***Public housing policies.*** New public housing policies support demolition and reconstruction of the worst units and encourage a more market-responsive system for managing and funding public housing. Theoretically, CDCs stand to gain if they become involved in public housing redevelopment, especially if these units can be developed in ways that support neighborhood revitalization. But so far, CDCs are working closely with the local housing authorities in only a handful of NCDI cities—Indianapolis, Seattle, and Washington. With more than 1.5 million units of public housing in the nation's stock, CDCs must help to ensure that these units contribute to neighborhood change, not retard it.
- ***Welfare reform.*** Major changes in the nation's welfare program may hit some neighborhood economies especially hard by reducing the amounts residents have to spend at local stores and for rent. But devolution of welfare also presents an opportunity to CDCs, as state and local governments gain flexibility to innovate, freed from the strictures of federal policy. CDCs will need to learn how to work with the new programs and networks that will spring up at the local level. In some cities, that will require a new set of skills. CDCs have already begun to forge alliances with broader welfare-related and job-development institutions. Kansas City's Building Blocks program, for example, has attracted the interest of the state welfare department, which is trying to find effective ways to build, support, and sustain community-based human service institutions.

- ***Metropolitanism.*** New efforts to devise regional solutions to urban problems may affect both the policy context and the flow of funds to neighborhood-oriented programs. There is the risk that more money will go to inner-ring suburbs, where decline is just beginning, or to regional priorities that demand skills that CDCs lack. But CDCs may be able to develop alliances with new institutions to help solve employment, education, housing, child care, and other problems.

Local government support for CDCs needs to be sustained throughout local leadership changes. Cities play a critical role in the growth of community development systems and CDCs. They have the authority to deliver capital, dispense vacant and surplus property, participate closely in capacity-building collaboration, and perform myriad other functions related to community development. We found that cities that worked most closely with CDCs showed the greatest community development gains. Conversely, cities can also be the biggest barrier to community development growth.

Poor city government performance in community development can be attributed to several factors. In some cases, changes in political leadership have brought into office mayors less sympathetic to CDCs than their predecessors. At a minimum, this has required that CDC allies educate new mayors to the goals, possibilities, and institutions of community development. In some cases, the mayor may never be fully supportive of CDCs. The absence of a neighborhood revitalization strategy can hinder community development performance.

Local government support for CDCs needs to be sustained throughout local leadership changes.

Local governments often cannot deliver community development programs effectively. Even when mayors do support community development, line agencies have not always gotten the message. They hold up contracts or payments, delay land dispositions, or refuse to issue permits in a timely fashion. Unfortunately, we have also seen localities where key city agencies do not understand development finance or market forces, and thus do not engage effectively with lenders, CDCs, and others in development. One of the most troubling findings of our field research was the disappointing performance of many city line agencies in delivering basic community development services. Especially damaging was city governments' inability to transfer abandoned or tax-foreclosed properties into productive use.

CDCs are being hurt by changes in state policies affecting the allocation of Low-Income Housing Tax Credits. Tax credits have been a vital source of funding for CDC-developed rental housing. Nevertheless, several states have made it harder for urban CDCs to compete for credits by applying allocation formulas that favor lower-cost jurisdictions and thinly capitalized projects.

This means that fewer urban projects got funded. It could also force CDCs to underfinance projects in order to compete. If a state looks at only the least costly projects, CDCs might be tempted to reduce their fees and reserves or gamble irresponsibly on future increases in rents to overcome near-term shortfalls.

The core operating support programs that proved so important to improved CDC importance must be sustained, but several will soon end unless local commitments are secured. Support collaborations help build CDC capacity and are important means of getting local community development leaders to pursue a cohesive agenda. Despite the importance of these institutions, all of the collaborations in NCDI cities are time-limited, with expiration dates approaching over the next four years. Prospects for renewal are uncertain, and some programs are already scheduled to expire or to be reduced in size. In view of the continued limits on CDCs' ability to raise revenues, we see no better, or feasible, alternative to continued local funding of operating support programs.

CDCs continue to be financially and managerially vulnerable, especially in view of the financial weaknesses of CDC-owned real estate. Even as CDC production and capacity grow, several large CDCs have effectively gone out of business or substantially downsized. Reports from the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation indicate that important local CDCs in several NCDI cities have experienced severe management trouble and have collapsed or might soon. Problems managing housing projects are sometimes the culprit, particularly as CDCs have expanded their development of tax credit projects. In other cases, projects were too thinly capitalized in order to compete for state tax credit allocations. Other CDCs were not managed by capable or experienced staffs. Still others relied too heavily on project developer fees or other ephemeral sources that did not materialize. Some CDCs did not have the internal management capabilities or systems to accommodate growth.

Despite considerable progress, CDC practitioners still need to develop better ties to one another and to best practices. Facing a daunting array of tasks, CDC leaders have too little time to network, particularly with CDC practitioners from other cities. Few have sufficient time to stay abreast of state-of-the-art programs and project development techniques. The same is often true of other participants in the community development system. City officials, business leaders, and other CDC allies seldom have a good handle on ideas or programs being developed successfully in other cities. This leads to an inevitable reinventing of the wheel, as leaders within the field fail to maximize their learning opportunities.

Recommendations

Retaining the hard-won system gains of the past six years requires a special effort. Although most NCDI-supported cities have seen improvements in their community development industries—some quite substantial—these actors and institutions typically remain fragile, even in some of the most advanced cities. Several major funders have left the field, and others may do so in the future. Banks could consolidate, losing staff with considerable expertise in local community development. Mayors often change, as do local political priorities. Special attention needs to be devoted to consolidating the gains in NCDI cities and to sharing those gains with other communities.

We urge CDC funders and supporters to sustain their commitment to neighborhood development, including backing for core operating support programs. National and local intermediaries also need to continue their critical work in building CDC management capacity. The operating support programs created in the 1990s have paid off. Capacity has been broadened beyond a handful of CDCs. There is a clear linkage between the quality of operating support programs and the growth in CDC numbers, spending, and production.

The core operating support programs with the longest histories provide the following lessons:

- Take time to study the support program's progress and make adjustments where needed.
- Be frank about gains, losses, and problems, including enforcement of standards on recipients.
- Offer substantive roles for the funders and lenders that inspire them to stay involved.
- Provide opportunities for CDCs and funders to become acquainted, enabling new relationships to grow beyond the operating support program.
- Experiment with new ideas.

The partnerships that have developed around CDCs can offer useful models for partnerships in other areas. CDC operating support partners are often involved in other issues too. For example, they can help to create collaborations around child care, as in Boston, or job development, as in Cleveland.

In some cities that have registered the greatest growth, practitioners have changed positions in ways that encourage effective collaborations. City officials have gone to banks, for example, in Cleveland, Indianapolis, and New York. CDC practitioners have frequently moved into positions in city government. These movements spread practical knowledge of community development throughout different institutions, and break down barriers of mistrust and misperception. Encouraging such movement appears to be a positive attribute, as long as leadership is not unduly drained from resource-poor CDCs.

The role of intermediaries in community development should be sustained and strengthened. Throughout this report, we have emphasized the formation of new local collaborations to channel money and expertise to the community development sector. The two NCDI intermediaries, LISC and Enterprise, have been critical to the creation and strengthening of these institutions. For this reason, we have concluded that the NCDI founders were right to use intermediaries as a means of building sector capacity.

Intermediaries must continue to play a vital role in community development. LISC and Enterprise, along with the Neighborhood Reinvestment Corporation, the Housing Assistance Council, and others, will act as important supporters of CDCs. Therefore, we encourage national foundations, as well as federal, state, and local governments, to sustain their finding of intermediary activities. For example, the U.S. Department of Housing and Urban Development (HUD) has made grants to intermediaries to continue their system-and capacity-building activities.

We cannot overemphasize the importance of money in the growth of community development systems.

Funding resources for community development need to be solidified and expanded. We cannot overemphasize the importance of money in the growth of community development systems. On the private sector front, the lion's share of funding for core operating support programs comes from locally based private foundations, corporations, and banks. National collaborations such as NCDI rely on national foundations, corporations, and banks. Every effort should be made to retain the interest and involvement of the private sector in community development. This may be accomplished in part by increasing publicity for NCDI and the field as a whole. (NCDI Round III already includes a funding component for community relations.) Other helpful activities might include one-on-one meetings between private sector supporters and CDC leaders, and thoughtful articles about system growth placed in key journals.

This assessment also underscores the importance of federal money to CDCs. We encourage the retention and expansion of major federal programs such as CDBG, HOME, and Low-Income Housing Tax Credits, which have been used well at the local level. Each of these programs has proven effective in leveraging other funding and resources to serve the poor. They are good investments and deserve to be expanded. The administration and Congress should also use the investment lessons of these housing-oriented programs and develop larger economic development programs.

Given that increases in federal support are unlikely, even as demand for funds increases, CDCs may have to learn to make do with less both for projects and for core operating support. This suggests the need for CDCs to develop other resources. Some CDCs have linked up with local institutions to provide fees for services or to link their joint revitalization agendas more directly. Others appear to be re-cementing relations with community residents, businesses, and institutions in a strategy to bolster their standing in any political fight for money. Additional avenues to broaden CDC funding need to be explored.

Specific recommendations on the funding front include the following:

- ***Continue to have federal programs put money into neighborhoods and, where possible, expand this funding.*** The CDBG and HOME programs, in particular, have helped CDCs develop track records in housing development. In recent years, CDBG appropriations have been constant; HOME money has declined slightly.
- ***Continue the Low-Income Housing Tax Credit.*** The tax credit program not only provides project capital for most of the affordable rental housing being developed by CDCs; it also brings corporations and lenders into a lasting partnership with community development organizations. In 1993, Congress made the housing tax credits permanent. However, the program has never been increased.
- ***Continue the system-building around project financing that has worked well in the past.*** The community development industry has evolved new financing tools that have worked well to increase the competitive advantage of CDCs. Examples include lines of credit, construction and take-out financing with credit enhancement, and pooled funding that reduces risk and makes project finance more efficient. The field should aggressively promote wider use of these techniques.
- ***Sustain and increase the flow of credit to community development programs through partnerships between financial institutions and community advocates.*** CRA, for example, is one reason for the increase in bank commitments to CDCs in the 1990s. Not only are bankers lending more money to CDCs; they are also emerging as system leaders in many NCDI cities. Bank loans for community development have helped banks become more familiar with CDCs and their products. For example, more banks now participate in local capacity-building partnerships with other corporations, foundations, and city governments.

- ***HUD's role in NCDI should inform other federal departments.*** Unlike government-dominated partnerships, HUD is on equal footing with its private sector partners in NCDI. This has worked quite successfully and could be a model for other federal agencies in forming collaborations for such areas as economic development, jobs, child care, community health, crime prevention, and school improvement.
- ***Local funders must continue to play active roles in community development.*** The growth of collaborative funding and financing arrangements relies at least as much on local participation as on the availability of federal government and other national funds.
- ***Foundations must continue to be active funders of the field.*** The leadership role of the philanthropic community is very important to community development. Because so many needs cry out for their attention, foundations often shift priorities. We have already seen episodic losses of local and national foundation funding for CDCs. This is unfortunate. Foundation money is often the most flexible capital available for community development—able to be used effectively for capacity-building, program expansion, experimentation, and projects. If reduced foundation interest in community development continues, this would be a dangerous trend for the field.

Community development practitioners and their allies need to find more effective ways of positively engaging local and state governments.

Local governments. As the NCDI experience has shown, poor or mediocre performance of the public sector remains the most serious bottleneck to progress in community development. Even with poorly performing local governments, however, substantial gains can be achieved when public agencies commit to using CDCs as a delivery mechanism.

Acting alone, CDCs cannot always get and sustain the attention of a mayor or an agency director. A coalition of funders, by contrast, may make a stronger case. This happened in Philadelphia, for example, when NCDI funders met with the mayor and secured his commitment to work cooperatively with CDCs. Similarly, local coalitions in St. Paul and other cities have helped win the cooperation of new mayors, including some who had not placed CDCs high on their agenda.

Sometimes the problem of sustaining city support lies deep in a city's bureaucracy. Agencies act slowly or refuse to support community development programs. Holding agencies accountable over the long term is especially difficult. We encourage NCDI funders, working with the intermediaries and local funders, to meet periodically with the mayors of cities that have not progressed very far. In these meetings, funders can engage local officials in a frank discussion of roadblocks and potential solutions. They can also provide annual updates on the field's progress.

Some newer CDC operating support collaborations include city officials in governance or oversight, promising to engage local governments more effectively than they had been in the past. City involvement heightens public officials' exposure to CDCs and their programs and needs. In some cities, including Dallas, San Antonio, and Seattle, local governments have substantially increased their programmatic cooperation because of their involvement in support collaboration.

Another solution might be to publicize municipal reforms that have strengthened community development policies and institutions, and encourage their replication elsewhere. For example, other cities could learn a lot from the efforts of Cleveland's mayor to secure more commitments from local lenders. There are also good lessons from the innovative and effective housing production partnership in New York, recently highlighted in a journal of the National Academy of Public Administration's Alliance for Redesigning Government.

Direct engagement with state officials makes a difference. More needs to be learned about the effective engagement of state agencies.

State governments. State agencies will become more important to community development as the effects of welfare reform and devolution are felt in coming years. State agencies already control the allocation of Low-Income Housing Tax Credits and some HOME and small-city CDBG funding. Some state housing agencies, as we have seen, have adopted credit allocation policies that put urban CDCs at a disadvantage. Some CDCs and city governments have fought these new state formulas successfully.

Direct engagement with state officials makes a difference. Not only should funders engage city officials in discussions on community development, but state officials should be engaged as well. CDCs and their allies must expand their networks at the state level—not just among housing agencies, but also among those involved in welfare, economic development, transportation, and education. Funders can help by talking about their investment in CDC support institutions and the resulting payoff. Discussions can include new ways of leveraging state investments with private money. One local program that has proven effective in keeping state interest in inner-city housing is Philadelphia's rental housing bridge loan program. Using a reduced-interest mix of public and private funds, including funds from the Pew Charitable Trust, the program has increased the effective leveraging of housing tax credits in CDC projects developed within the city.

More needs to be learned about the effective engagement of state agencies, particularly those falling outside of CDCs' existing housing and development networks. We will examine ways to promote such engagement during NCDI Round III.

NCDI's funders should take advantage of NCDI's national stature to promote the field nationally and locally. NCDI's national prominence can be important leverage in furthering reform in local systems. At the very least, the national initiative can provide a platform for sharing the best practices. We have already recommended that NCDI's funders engage in local conversations about improving and monitoring the performance of city agencies. More generally, all industry participants can benefit from more flow of information about effective programs, techniques, and initiatives. This flow can also help overcome isolation among CDC directors.

Targeted conversations between national and local funders and program staff can also promote a national awareness of recent improvements in the community development industry. They can reinforce the funders' roles in supporting change. Using the NCDI's bully-pulpit in this fashion may help convince local foundations and corporations to become more involved in community development at a time when some foundations are switching to other domains.

Finally, the debate should be broadened to include a discussion of how the federal government, particularly HUD, can support local community development. How can HUD use the lessons of this assessment and others to encourage more municipal involvement in local community development systems? Perhaps HUD could provide benefits to cities that perform particularly well, similar to the extra benefits for cities designated to participate in HUD's Empowerment Zone/Enterprise Community program. Or HUD representatives might be able to speak to colleagues in other federal agencies about the benefits of engaging in collaboration such as NCDI.

Expanding CDC agendas into community-building should continue—but cautiously, and only when long-term flexible money and other support can be secured. Some cities appear to have the necessary conditions for CDCs to move more generally into community-building. There, CDCs already are participating significantly in nonphysical development activities, cities are supporting neighborhood planning, and local policies or funding encourage development of indigenous leadership in low-income neighborhoods. But as we argued in our last report, initiatives that simply fund CDCs to engage in community-building activities, without setting the stage for continuing involvement, are not likely to have much long-term system-building payoff.

NCDI's experience in fostering collaboration can contribute directly to the hard work of broadening the community-building agenda. On the housing front, injection of flexible capital from funders outside of the traditional community development networks established a basis for cooperation. Housing tax credits, in particular, brought corporations and lenders into partnership with community development organizations on projects, and these alliances eventually grew more enduring. Although we have no simple analogues on the community-building side, programs promoting the transition from welfare to work may fuel collaborations in the human services arena.

That said, however, we also urge considerable caution. Greatly heightening expectations for CDCs as a group is fraught with danger. Most CDCs are still small and fragile organizations that depend on outside funding in addition to funding generated by project development. CDCs will require a steady infusion of money from new sources to engage meaningfully, over the long term, in nonphysical development activities. Many practitioners and funders understand that CDCs could be better served by forming partnerships with other human services and job training agencies, rather than engaging directly in the delivery of nonphysical development services. But even here, CDCs need money and time to develop solid relationships with these other institutions.

Basic CDC operations still need considerable attention. Many of the gains highlighted throughout this assessment will be lost without a continued and concerted focus on CDCs' organizational capacity. This means helping CDCs reform, improve, and expand their financial, personnel, information management, and other systems. It implies offering some funding stability to organizations attempting to broaden their agendas into areas without immediate financial pay-offs, such as community organizing, human service delivery partnerships, and community planning. And it requires helping to develop local leadership to manage and govern CDCs effectively.

Greatly heightening expectations for CDCs as a group is fraught with danger. Most CDCs are still small and fragile organizations.

If we are right in presuming that some existing funding sources might disappear, CDCs will need help in making do with less money. That might mean helping CDCs find new sources of support or develop joint ventures or engage in intelligent downsizing or consolidation. Some operating support programs—Boston, for example—are experimenting with more flexible ways to capitalize organizations. This could be promising, but it will take more time to assess the results.

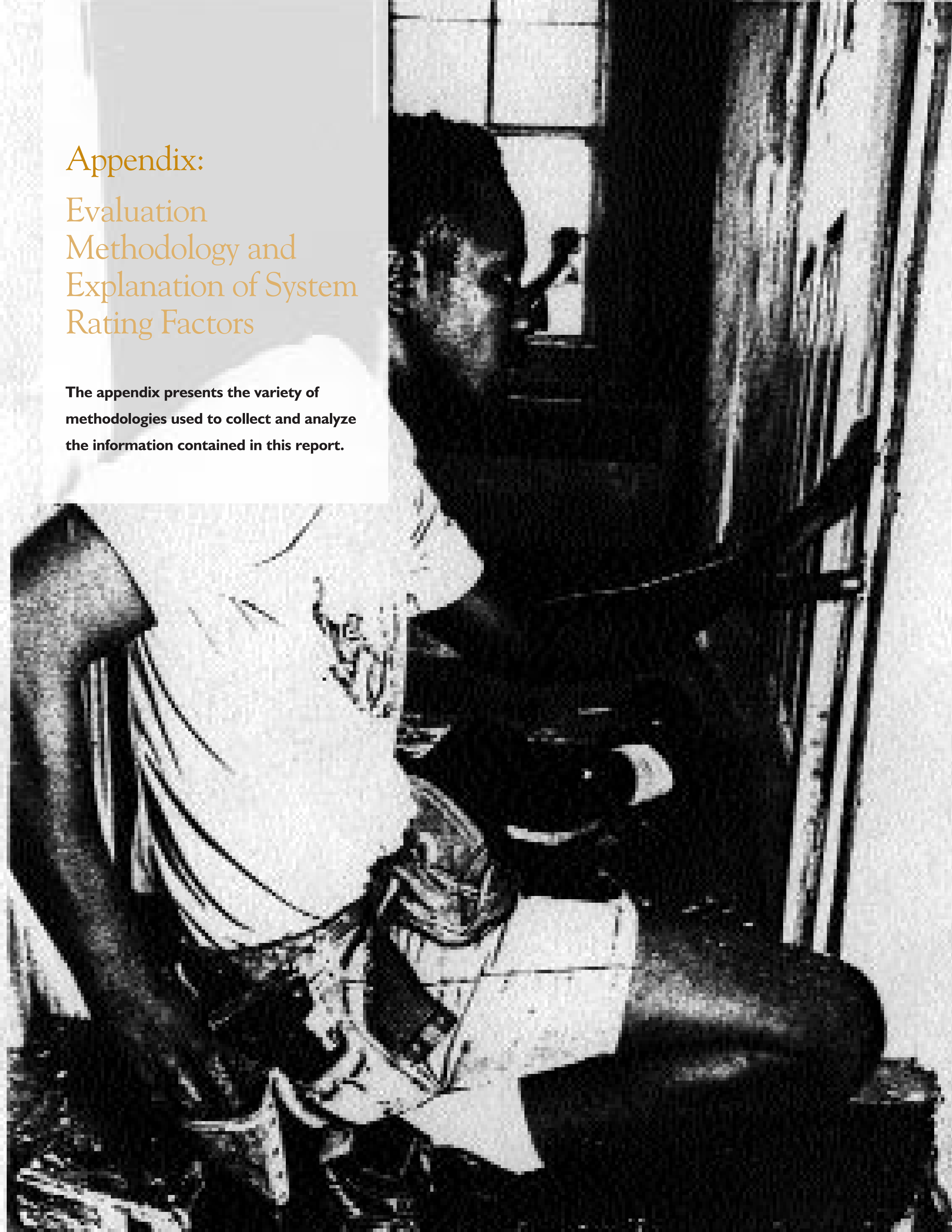
Finally, asset and property management need attending to. Particularly as newer CDCs develop complex tax credit deals, help is needed to assure the long-term viability of projects. LISC and Enterprise have developed responses to this problem, but more help is needed to help CDCs face property management problems.

Over the next several years, the examination of NCDI's progress will continue. We hope that future assessments and allied research can be structured to support the policy issues and recommendations we have raised here.

Appendix:

Evaluation Methodology and Explanation of System Rating Factors

The appendix presents the variety of methodologies used to collect and analyze the information contained in this report.



National Community Development Initiative Evaluation Methodology

This Round II Final Report on the National Community Development Initiative (NCDI) was prepared by the Urban Institute and Weinheimer & Associates. It builds on the Round I evaluation conducted by OMG, Inc., and the Round II interim report. In addition to updating NCDI-funded activities, the final Round II assessment examined the evolution of local community development "systems" in some depth, relying on field investigations conducted by the research team. This appendix summarizes our research methodology.

Research Methods. The overall evaluation relied on a blend of quantitative and qualitative research methods that, together, helped us form judgments about system performance and the factors that explain how well individual systems work.

Qualitative Research. As should be clear from the report, we relied heavily on interview data to reach conclusions drawn at the final stage of our research. We devised one main form that was used by the researchers to report the results of field investigations. We constructed the Community Development System Performance Summary Rating Sheet to capture researchers' summary judgments on a number of performance dimensions. The form divides performance into a number of dimensions: (a) system production, (b) community-building, (c) community development capacity-building, (d) funds mobilization, (e) community development program delivery, (f) community development strategies, and (g) leadership development strategies. Researchers submitted completed rating sheets to the project director upon completion of field research. An explanation of System Rating Factors is attached.

The interim report summarized our initial findings from last summer's field research and rated each community development system on seven dimensions. This Round II final report sought to reconfirm our initial judgments based on clearer definitions of what the rating scales meant for each category, to verify existing information on tax credit use and the size of the nonprofit community development sector, to better ground the ratings of capacity and production, and to update our information on system status.

For each factor there was a response for 1997 and 1991, the first year of NCDI. Most items were scored 5-4-3-2-1, based on the ordinal rank implied by each question (with 5 being the highest). Note that the rating factors sometimes include descriptions for only items 5, 3, and 1, but interpolation for 2 and 4 responses was used if needed.

In constructing the Rating Sheet, we strove to impart as much rigor as possible into a characterization of systems and how well they worked to further community development (understood primarily as CDC participation in community development activities). We recognized the inherent limitations of this approach, insofar as each of the dimensions of performance we defined is ambiguous: none of these are subject to rigorous definition and precise measurement (at least within the project's budget limits). Nevertheless, we believed that the research team *would* be called upon to make evaluative statements about systems. Furthermore, major actors in community development systems, both nationally and locally, make judgments about systems all the time using far less rigorous methods. Therefore, we feel confident that despite the flaws in our method, we are able to make judgments, based on comparative analysis of 23 cities, that are much more firmly grounded than those routinely made by others.

Quantitative Research. Most of the findings presented in this report rely on qualitative research, primarily interviews with a broad range of local actors. In addition to this source, we made extensive use of quantitative information to support our judgments about system performance. One key source was information from the U.S. Internal Revenue Service on nonprofit income and expenses, generated using the 1992 U.S. IRS Form 990, required for organizations with incomes over $25,000, and assembled in the database of the Urban Institute's National Center for Charitable Statistics. Researchers were provided with a list of all nonprofit organizations from the database. They then verified with staff of the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation the nonprofit housing and CDC organizations on the list. This information for 1992 for each organization was then linked to corresponding data for later years that include nonprofits' expenditures. Other sources of data include:

- Reports filed by the national intermediaries on unit production and other assistance provided through NCDI.
- Information from management information systems maintained by the U.S. Department of Housing and Urban Development (HUD) on the Community Development Block Grant (CDBG) and HOME programs.
- Data on the Low-Income Housing Tax Credit Program collected by Abt Associates under contract to HUD, and NCDI-supported research by Denise DiPasquale and Jean Cummings on the tax credit program.
- Census and other information on concentrations of poverty and other socioeconomic and demographic indicators of urban distress.
- Local data provided by city governments, local offices of national intermediaries, and other actors on housing unit production levels and funding flows.
- Information from the U.S. Internal Revenue Service on nonprofit income and expenses, assembled as part of the nonprofit sector project conducted by the Urban Institute.

Assessment Team. Because this research relies on the expert judgment of our researchers, this subsection outlines the qualifications of the research team.

The Urban Institute. This assessment was directed by the Director of the Urban Institute's Community and Economic Development Program, **Christopher Walker,** a specialist in housing and community development program and policy analysis. Mr. Walker's primary research focus is low-income community development, emphasizing neighborhood stabilization and revitalization, community development corporations, and housing rehabilitation. He is the principal investigator of the Urban Institute's two-year national evaluation of the HOME Investment Partnerships Program, and he has recently completed a national evaluation of the Community Development Block Grant program.

Mr. Walker was joined by other Urban Institute senior staff, including **George Galster** (now the Clarence Hilberry Professor of Urban Affairs at Wayne State University), in developing and conducting major project elements. Dr. Galster's work in neighborhood indicators provides the conceptual underpinnings of the neighborhood change component. He has developed a substantial body of theoretical and empirical work on neighborhood indicators and the patterns, causes, and consequences of neighborhood change.

Dr. Galster has put this work into practice through consultancies with several cities to assist them in measuring, understanding, and effecting neighborhood changes in their communities. Other staff included **Roberto Quercia**, **Patrick Boxall**, **Maria Jackson**, and **Robin Smith**, all researchers with strong backgrounds in housing and community development research.

Weinheimer & Associates. The Urban Institute has teamed with a panel of community development professionals at Weinheimer & Associates. The consultant team was directed by **Mark Weinheimer**, who brings 20 years of experience in community development along with his managerial abilities. He was a key participant in the first assessment of NCDI and offers relevant insights specific to the project and individual sites. The consultant team draws together noted experts in community-building, neighborhood assessment, and system change to root this project firmly in the most timely and relevant work in these fields.

Jackie Copeland Carson contributes her longstanding interest in the field (including experience as Associate Director of the Philadelphia Foundation) and experience in community development evaluation. **Langley Keyes**, a Ford Professor of City and Regional Planning in the Department of Urban Studies and Planning at MIT, offers his knowledge of community dynamics and low-income housing. **Neil Mayer** provides a valued perspective honed from years of experience in evaluation, technical assistance, and implementation of community and economic development initiatives. **Lamar Wilson** brings experience in neighborhood development, housing provision, and community planning. This collection offers direct links to NCDI communities and grounds the proposed work in the lessons of previous assessments.

Explanation of System Rating Factors

1. Development Capacity—CDC Production Capacity

Compared to other cities of comparable size and amount of public community development and housing funding, there are (many <—> few or no) competent CDCs doing more than 10 units per year, on average.

Please estimate the number of CDC affordable housing developers who are *consistently capable* of producing 10 housing units (or commercial equivalent) per year and maintaining a pipeline of units (e.g., multiple projects in predevelopment and construction simultaneously).

____________ developers

To help answer this question, please refer to the list of HOME-funded rental and developer-for-sale units, and the nonprofit housing developer listings we asked you to correct.

2. Development Capacity—CDC Organizational Capacity

Please estimate the number of CDCs that could be regarded as "top-tier" organizations; i.e., in addition to being consistently able to produce 10 units a year and maintain a pipeline of projects, these CDCs have: (a) effective, efficient internal systems, (b) diverse funding bases, and (c) strong boards and staffs.

____________ top-tier organizations

Please attach a list of these organizations.

3. Funds Mobilization—Private Lending

CDCs in the city can find private capital for development projects:

5—Very easily—most bankable projects can get funded on “competitive” terms.

4—Somewhat easily—most bankable projects get funded, but the terms may not be the best, and transaction costs (in time and money) are higher than on typical commercial lending deals.

3—With some difficulty—most bankable projects get funded, but the terms are not particularly attractive and transaction costs are relatively high.

2—With considerable difficulty—some bankable projects don’t get funded, the terms are unattractive, and transaction costs are quite high.

1—With extreme difficulty—many bankable projects don’t get funded, the terms are onerous, and transaction costs are very high.

4. Community Development Program Delivery—Streamlining

Public and private funders of development projects have created (very <—> not at all) streamlined ways of delivering development project funding (i.e., the money is or is not easy for developers to access).

Project permanent finance

5—State and local, and public and private, sources of permanent finance are efficiently “retailed” to developers of for-sale and rental housing. Relatively inexperienced developers can get both rental and for-sale deals done without extensive hand-holding.

4—State and local governments, and public and private funding sources, deliver permanent finance reasonably well. *Both* rental and for-sale housing development financial packaging methods have become well-enough streamlined that developers with modest experience can get deals done without extensive hand-holding.

3—State and local governments, and public and private funding sources, deliver permanent finance reasonably well. *Either* rental or for-sale housing development financial packaging methods have become well-enough streamlined that developers with modest experience can get deals done without extensive hand-holding.

2—“Disconnects” between state and local government, and public and private sectors, are chronic, but ultimately manageable. Neither rental nor homeowner housing project financing is particularly easy to package, especially for developers with only modest experience.

1—State and local governments, and public and private sources, offer funding in ways that make sources very difficult to combine, for both rental and sale housing developments. Finance is particularly difficult for affordable housing developers to access, even those with prior experience.

5. Community Development Program Delivery—CDC Capacity-Building Program Strength

The system has developed (strong <—> weak) programs (funding and technical support) to increase capacity among most nonprofit development organizations.

a. Operating support in the system is provided by:

5—A consistently operated formal collaboration with multiple funders, who delegate decision-making to a board or advisory committee able to make decisions on merit.

4—A formal collaboration with multiple funders, but the collaboration (or similar efforts) has not been sustained over time or is inconsistently funded. Some funding continues to come from outside the collaboration.

3—An informal collaboration of funders who coordinate their giving and do so in a reasonably sustained way. A substantial share of funding may come from outside the collaboration.

2—An informal collaboration of funders who coordinate their giving, but do so haphazardly or at fluctuating levels of support. Most funding for individual CDCs comes from outside the collaboration.

1—No formal or informal program to fund CDC operating costs.

b. Operating support from the collaboration/program is:

—Single-year for all.

—Multi-year for all.

—Single-year for some, multi-year for some.

c. Links between operating support from the collaboration/program and the provision of training or technical assistance are:

5—Strong and direct: training and t.a. needs are identified throughout the operating support funding process, and the collaboration/program provides funding to ensure that at least some of these needs are met.

4—Modest and direct: training and t.a. needs are identified at some stage in the funding process, needs are incorporated in CDC workplans, and training or t.a. is offered but not required.

3—Modest and indirect: training and t.a. needs are identified at some stage in the funding process (e.g., through an organizational assessment) and some of these needs are incorporated in CDC workplans.

2—Weak and indirect: training and t.a. needs are not identified, although at some point in the process, training or t.a. may be offered.

1—Nonexistent: training and t.a. needs are not identified and there are no workplan requirements that would encourage organizations to self-finance organizational improvements.

6. Community Development Program Delivery—CDC Capacity-Building Program Performance Testing

The system's allocation of funding and technical support for organizational capacity-building (strongly <—> weakly) rewards performance of recipient organizations.

5—The operating support collaboration/program articulates clear standards of CDC performance, which are used annually to review the organizational performance of all CDCs funded by the program.

4—The operating support collaboration/program articulates clear standards of CDC performance, and these are more or less consistently applied when making funding decisions.

3—The operating support collaboration/program has developed a set of informal expectations on CDC performance, and these are more or less consistently applied when making funding decisions.

2—The operating support collaboration/program has developed a set of informal expectations on CDC performance, but these are not consistently applied in annual funding decisions.

1—The system has not agreed on performance standards, and informed/neutral observers feel that CDCs are funded regardless of their performance.

7. Community Development Strategies—Public Strategy Development

(Most <—> few) community development decisions made by politicians and agency staff reflect a deliberate community development strategy.

Strategy coverage/scope

5—Local political leadership has articulated a formal strategy for preservation or upgrade of low-income communities that guides planning and investment decisions by infrastructure, housing, parks and recreation, economic development, and public safety agencies.

4—Local political leadership has established clear priorities for community development that cover multiple agencies.

3—Local political leadership has adopted some strategic "directions" or "priorities" that housing and community development agencies follow in program decisionmaking.

2—Local political leadership has adopted some strategies for certain aspects of housing and community development agency spending, but not for others. Other city departments' actions are not included in any strategy.

1—There are no strategic priorities of consequence articulated by local political leadership.

8. Community Development Strategies—*Public and CDC Agendas*

Community development decisions made by politicians and agency staff are (mostly <—> rarely) consistent with the goals or agendas of community development corporations.

5—Nonprofit developers and their advocacy organizations more or less completely agree with elected leadership's strategies for city and neighborhood revitalization.

4—Most influential actors within the nonprofit development sector agree with elected leadership's strategies for city and neighborhood revitalization, although some disagree.

3—Some influential actors within the nonprofit development sector agree with elected leadership's strategies for city and neighborhood revitalization, but others are neutral or silently opposed.

2—Some influential actors within the nonprofit development sector agree with elected leadership's strategies, and others are actively opposed (or pursue contradictory strategies).

1—Most influential actors within the nonprofit development sector clearly disagree with elected leadership's strategies for city and neighborhood revitalization, and they generally pursue contradictory strategies.

9. Community Development Strategies—*Indigenous Strategies*

The system of public and private funding and technical support (strongly <—> weakly) rewards community developers who pursue indigenous strategies accepted by neighborhood stakeholders.

The system for awarding project and organizational funding accords priority to projects and activities sponsored by developers (nonprofit, CDC, and for-profit) that act according to neighborhood "strategies":

5—Almost all of the time, and as an explicit part of the project review and decisionmaking process. Project and organizational funding requests must conform to community-accepted neighborhood strategies.

3—Sometimes, through informal demonstrations of community support (including support from elected leadership) or project linkages to "accepted" neighborhood strategies.

1—Almost never; developers almost always get funding for projects that respond to opportunity only, without having to show any links to accepted neighborhood strategies.

10. CD Leadership—System Collaboration

The community development system encourages major system participants to establish (strong <—> weak) networks to coordinate strategies and decisions in the field.

a. Collaboration *within* sectors can be described as:

5—Routine within each of public, corporate, philanthropic, and nonprofit community development sectors. There are established venues for collective decisionmaking (associations, task forces, working groups, etc.) within which sector leaders adopt a common position on major community development issues.

4—Routine in some sectors and episodic in others. Leaders within sectors often adopt a common position on issues, but it depends on the issue (or sector). There need not be established venues for decisionmaking in all sectors, but those that exist are "meaningful" vehicles for encouraging collaboration.

3—Routine in some sectors and episodic in others. Leaders within sectors typically adopt a common position on issues only when major issues arise. More than one sector has an established venue for decisionmaking, but some of these may have little practical import.

2—Episodic, for the most part. One or two of public, corporate, philanthropic, and nonprofit delivery sectors episodically collaborate on community development policies, but there are few, if any, established venues to promote collective decisionmaking.

1—None of public, corporate, philanthropic, and nonprofit delivery organizations appear ever to collaborate on policy affecting community development decisionmaking.

b. Collaboration *across* sectors can be described as:

5—Routine across all of public, corporate, philanthropic, and nonprofit community development sectors. There are established venues for collective decisionmaking (advisory boards, task forces, working groups, etc.) that encourage sector representatives to address major community development issues collaboratively. **(Note:** They need not agree on positions.)

4—Routine across some sectors and episodic across others. Leaders across sectors often meet to discuss community development issues, but it depends on the issue (or sector). There need not be established venues for decisionmaking that include all sectors, but those that exist are "meaningful" vehicles for encouraging collaborative decisionmaking.

3—Routine across some sectors and episodic across others. Leaders across sectors meet to review/debate community development policy only when major issues arise. More than one sector collaborates routinely in an established venue for decisionmaking, but this may not result in decisions of major import.

2—Episodic across sectors. One or two of public, corporate, philanthropic, and nonprofit delivery sectors may meet to discuss community development policies, but there are few, if any, established venues to promote collective decisionmaking.

1—None of public, corporate, philanthropic, and nonprofit delivery organizations appear ever to collaborate with one another on policy affecting community development decisionmaking.

11. CD Leadership—System Leadership

The community development system (strongly <—> weakly) encourages exercise of leadership (from public, private, or community sectors) that builds and maintains wide interest in community development.

5—Each of public, corporate, philanthropic, and nonprofit community development sectors has an identified leader or leadership group that publicly and forcefully advocates for community commitments to neighborhoods *and* has the stature/clout to secure those commitments.

4—Most of public, corporate, philanthropic, and nonprofit community development sectors have an identified leader or leadership group that publicly and forcefully advocates for community commitments to neighborhoods *and* has the stature/clout to secure those commitments.

3—At least two of public, corporate, philanthropic, and nonprofit community development sectors have an identified leader or leadership group that publicly and forcefully advocates for community commitments to neighborhoods *and* has the stature/clout to secure those commitments.

2—One of public, corporate, philanthropic, and nonprofit community development sectors has an identified leader or leadership group that publicly and forcefully advocates for community commitments to neighborhoods *and* has the stature/clout to secure those commitments.

1—None of the public, corporate, philanthropic, and nonprofit community development sectors are led by individuals with the interest or capacity to secure commitments of support from within the sector.

12. Leadership—Indigenous Leadership

The city's community development system (actively encourages <—> stifles) the growth of community leadership (including new organizational staffing) within its lower-income neighborhoods.

5—Public, foundation, and other funders in the community development system allocate considerable attention/money to building leadership capacity within low-income communities.

3—Some local funders support leadership capacity-building in low-income communities, but it is not an especially prominent feature of local policy/grant-making.

1—Nobody within the system pays attention to leadership development within low-income neighborhoods.

(**Note:** Leadership-building efforts can include funding for nonprofit board development, leadership training to CD directors, leadership training or community organizing for neighborhood residents/neighborhood association members, and so on.)

For additional information on the rating system used in this report, please contact the authors.

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Walker/Weinheimer Community Development in the 1990s

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